



20 September 2006

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

Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
Level 6, 20 Bridge Street
Sydney NSW 2000
AUSTRALIA
ARBN 088 481 234 Incorporated in New Zealand

Dear Sir/Madam

TOWER Lodges Scheme Book with ASIC

**Proposal to Separate the New Zealand and Australian businesses of TOWER Limited and
Offers of Shares and Entitlements in TOWER Australia Group**

TOWER has lodged its Scheme Book with the Australian Securities and Investment Commission (ASIC) today. The Scheme Book comprises:

- An Explanatory Memorandum for the proposal to separate TOWER's Australian and New Zealand businesses (the Separation);
- A Prospectus under the Australian Corporations Act and Investment Statement under the New Zealand law providing details for both the TOWER Australia Group Limited (TAL) shares to be transferred to TOWER shareholders by TOWER and the Entitlements Offer by TAL to raise A\$160 million (the Offers); and
- Information regarding the proposed reconstruction of existing options in TOWER held by employees (the Option Reconstruction) and the proposed grant by TAL of new options to Mr Minto.

TOWER has entered into an underwriting agreement with Guinness Peat Group plc (GPG), to underwrite TOWER Australia Group Limited's (a subsidiary of TOWER proposed Entitlements Offer. The underwriting arrangements with GPG, a substantial shareholder in TOWER, are subject to shareholder approval. The principal terms of the underwriting agreement and the resolution to be put to shareholders in this respect, are set out in the Scheme Book which is attached to this announcement.

A special meeting of TOWER shareholders is scheduled for Monday 6 November 2006 to consider and approve the resolutions addressing:

- The Proposal to separate TOWER's New Zealand and Australian businesses (by special resolution requiring 75% of votes cast by shareholders voting, either in person or by proxy);

- The Option Reconstruction for options issued under the TOWER Senior Executive Option Scheme (by ordinary resolution requiring 50% of votes cast by shareholders voting, either in person or by proxy); and
- The GPG underwriting agreement (by ordinary resolution requiring 50% of votes cast by shareholders voting, either in person or by proxy, on which GPG or associates will not be able to vote).

TOWER will not implement the Proposal unless all three of these Resolutions are approved.

Shareholders will also be asked to vote on the proposal for TAL to grant new options to Mr Minto (by ordinary resolution requiring 50% of votes cast by shareholders voting, either in person or by proxy). Approval of this Resolution is not a requirement for the implementation of the Proposal.

Subject to gaining the required approvals. TAL is expected to list on the Australian Stock Exchange (ASX) on 21 November 2006.

TOWER commissioned Lonergan Edwards to prepare an Independent Expert Report, to assist shareholders in evaluating the implications of the Separation, the Underwriting Agreement and the Option Reconstruction. This report is included in the Scheme Book. In the Lonergan Edwards' opinion the Separation is in the best interests of TOWER shareholders, the proposed Option Reconstruction as part of the Proposal is fair and equitable, and the terms and conditions of the underwriting agreement are fair to TOWER shareholders not associated with GPG.

TOWER Chairman, Keith Barton, said "TOWER's Board unanimously recommends the Proposal and encourages all shareholders to vote to approve it. Those TOWER Board members independent of GPG also recommend that shareholders vote to approve the entry into the underwriting agreement with GPG."

All of TOWER's directors support the Proposal and will vote in favour of each resolution that they are entitled to. Shareholders are encouraged to vote to approve all of the resolutions.

"Geographically separated Australian and New Zealand operations are expected to grow faster with focused strategies, simpler and easier to value businesses and stronger balance sheets."

"Shareholders will be able to choose whether to invest directly in either or both companies based on the investment characteristics that best meet their objectives."

Summary of Proposal

Separation

Subject to shareholder approval and a New Zealand Court approved Scheme of Arrangement:

- TOWER will transfer 0.6511 TAL shares to TOWER shareholders for every TOWER share held.
- In return for that transfer, TOWER will acquire and cancel 0.4760 TOWER shares for every TOWER share held.

Entitlements Offer

TAL will offer shareholders, who are on the TAL register on 27 November 2006, entitlements to buy further TAL shares at A\$1.60 per share, through a A\$160 million renounceable Entitlements Offer, underwritten by GPG.

Shareholders will receive 0.4269 entitlements for every TAL share held. The entitlements are renounceable, allowing shareholders to sell their entitlements in the event they do not wish to subscribe for further TAL shares.

Following the Entitlements Offer, TAL will have 334.3 million shares on issue.

New Zealand resident shareholders with fewer than 1,500 entitlements will be given the opportunity to pay for their entitlements in either Australian or New Zealand dollars.

Illustration of a Theoretical Holding

As an example, a TOWER shareholder holding 1,000 TOWER shares at the record date of 17 November 2006, would subsequently hold 524 TOWER shares and 651 TAL shares after the separation and, if they remained on the TAL register on 27 November 2006, would receive entitlements to subscribe for a further 278 TAL shares under the Entitlements Offer.

Timeline

Following approval by ASIC, TOWER expects the Scheme Book will be sent to shareholders in mid/late October 2006. A shareholders' meeting to approve the separation proposal will be held on 6 November 2006.

Key dates are:

Mid/late October 2006	Scheme documentation sent to shareholders
Monday, 6 November 2006	Shareholders' meeting – Wellington NZ
Friday, 10 November 2006	Final Court hearing to approve the Separation
Friday, 17 November 2006	Record Date for calculation of TAL shares to be transferred to TOWER shareholders
Tuesday, 21 November 2006	TAL lists on Australian Stock Exchange
Monday, 27 November 2006	Record Date for calculation of Entitlements
Thursday, 7 December 2006	Entitlements cease trading on ASX
Thursday, 14 December 2006	Entitlements Offer closes
Tuesday, 19 December 2006	Allotment of new TAL Shares under Entitlements Offer

Shareholder Enquiries

A TOWER Shareholder Information Line is available on 0800 104 124 (New Zealand), 1800 309 428 (Australia) and +61 2 9415 4325 (Overseas callers).

The offer of TAL Shares and Entitlements will be made in, or accompanied by, a copy of the disclosure document (the Scheme Book, which includes an Investment Statement for New Zealand shareholders and a Prospectus for Australian shareholders) lodged with the Australian and Securities Commission. Application forms for the entitlements offer will be mailed on or about 30 November 2006. No money is currently being sought.

Market Briefing

TOWER is holding a market briefing today and a copy of the briefing presentation is attached. The briefing is being webcast and can be viewed on the TOWER website www.towerlimited.com.

The market announcement, Scheme Book and presentation slides will also be posted on TOWER's website prior to the commencement of the briefing.

For more information contact:

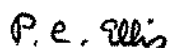
Mr Jim Minto

61-2-9448-9217

Media, Rod Metcalfe

61-2-9448-9761 – 61-402-470-307

Yours faithfully



Philippa Ellis

General Manager, Investor Relations & Corporate Services
TOWER Limited



Proposal to separate the New Zealand and Australian Businesses of TOWER Limited

AND

Offers of Shares and Entitlements in TOWER Australia Group



Why was this
document sent
to you?

This document was sent to you because you are a TOWER Shareholder. You should read it carefully.



You can use the
information in
this document:

- to help you decide how to vote in relation to the proposed separation of the New Zealand and Australian Businesses of TOWER Limited (ARBN 088 481 234) (TOWER), the reconstruction of the employee options and the grant of new options to Mr Minto;
- to help you decide how to vote in relation to the proposed GPG Underwriting Agreement;
- to help you decide what to do with your Entitlements to buy additional shares in Andric Pty Limited (ACN 003 401 698) to be renamed TOWER Australia Group Limited (TAL). If you do nothing, your Entitlements will lapse – you should consider whether it is best for you to exercise or sell your Entitlements.

All of TOWER's Directors support the Separation and recommend that you vote in favour of it.

All of TOWER's Directors (other than Mr Minto) consider the reconstruction of the employee options and the grant of the new options to Mr Minto fair and recommend that you vote in favour of both.

All of TOWER's Directors that are independent of GPG recommend that you also vote to approve the Underwriting Agreement with GPG.

This is an important document and you should keep it to help you decide whether to exercise or sell your Entitlements when you receive the Entitlement and Acceptance Form.

This document does not constitute investment advice. You should seek your own investment, financial, taxation or other professional advice regarding the Proposal.



If you have any
questions:

If you have questions, call the TOWER Shareholder information line:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers).



Important information for New Zealand Investors

(The information in this section is required under the New Zealand Securities Act 1978 for New Zealand shareholders.)

Investment decisions are very important. They often have long term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.



Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

Page	
79	WHAT SORT OF INVESTMENT IS THIS?
80	WHO IS INVOLVED IN PROVIDING IT FOR ME?
80	HOW MUCH DO I PAY?
81	WHAT ARE THE CHARGES?
81	WHAT RETURNS WILL I GET?
82	WHAT ARE MY RISKS?
82	CAN THE INVESTMENT BE ALTERED?
82	HOW DO I CASH IN MY INVESTMENT?
82	WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?
82	IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?
82	WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?



Choosing an Investment adviser

You have the right to request from any investment adviser a written disclosure statement stating his or her experience and qualifications to give advice. That document will tell you:

- whether the adviser gives advice only about particular types of investments; and
- whether the advice is limited to the investments offered by one or more particular financial organisations; and
- whether the adviser will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment adviser commits an offence if he or she does not provide you with a written disclosure statement within 5 working days of your request. You must make the request at the time the advice is given or within one month of receiving the advice.

In addition:

- if an investment adviser has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing; and
- if an investment adviser receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes.

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This document is dated 20 September 2006.
A copy of this document was lodged with ASIC
on that date.

REGULATORY NOTICE

Neither ASIC, NZX nor ASX or any of their
officers take any responsibility for the contents
of this document or the merits of the investment
to which it relates.

What this document covers

This document combines:

- an Explanatory Memorandum for the proposal to separate the Australian and New Zealand Businesses of TOWER (the **Separation**);
- information regarding the proposed reconstruction of existing options in TOWER held by employees (the Option Reconstruction) and the proposed grant by TAL of new options to Mr Minto;
- an Investment Statement under New Zealand law, and a Prospectus under the Australian Corporations Act, for Shareholders in respect of the TAL Shares to be transferred by TOWER, and the Entitlements and the TAL Shares issued under those Entitlements to be issued by TAL (the **Offers**).

You can use the information in this document to help you to decide:

- as a Shareholder of TOWER whether to vote 'yes' or 'no' for the Separation;
- whether to vote 'yes' or 'no' to the Option Reconstruction and the grant by TAL of new options to Mr Minto;
- whether to vote 'yes' or 'no' for the proposed underwriting of the Entitlements Offer by Guinness Peat Group plc (**GPG**);
- what to do with the Entitlements issued to TAL shareholders to buy additional TAL Shares. You should consider whether it is best for you to exercise or sell your Entitlements.

With this document you also received:

- the Notice of Meeting; and
- your attendance record card and Proxy Form.

TOWER Limited is the current parent of the Group and owns both the New Zealand and Australian Businesses. We refer to it prior to Separation as **TOWER**.

TOWER Australia Group will become the new listed parent of the Australian Business. We refer to it as **TAL**.

After the Separation TOWER will continue as TOWER Limited. We refer to it after the Separation as **TOWER NZ**.

The Separation, the Offers, the Option Reconstruction, the grant by TAL of new options to Mr Minto and the proposed underwriting of the Entitlements Offer are together called the **Proposal**.

The meaning of other words and phrases are set out in the glossary on page 163.

Independent report

The Independent Expert, Lonergan Edwards, has concluded that the Separation is in the best interests of TOWER Shareholders and that the proposed Option Reconstruction for employees is fair and equitable to TOWER Shareholders. It also considers the terms and conditions of the Underwriting Agreement are fair to TOWER Shareholders not associated with GPG. Their report starts on page 91.

Other questions

If you have questions, please call the TOWER Shareholder Information Line 0800 104 124 (New Zealand) or 1800 309 428 (Australia) or +61 2 9 415 4325 (overseas callers).

This document does not constitute investment advice. You should seek your own investment, financial, taxation or other professional advice regarding the Proposal.



Letter from TOWER's Board



20 September 2006

Dear Shareholder

The separation of the Australian & New Zealand Businesses of TOWER

Following our very successful spin-off of AWM, we have been looking at how we can further enhance Shareholder value. Your Board believes it can do that by separating our Australian and New Zealand Businesses and at the same time raising new equity (the Proposal).

Our reasons for doing this and more detail about the Proposal are included in this document. Our businesses are quite different in each country and we gain few synergies between them. We believe a separation will provide more longer term value than remaining as is.

TOWER Limited will continue to own our current New Zealand and Pacific Islands Businesses. It will remain listed on both the New Zealand and Australian Stock Exchanges.

Our Australian Business will be called TOWER Australia Group (**TAL**) and will be listed on the Australian Stock Exchange. To separate the businesses we will transfer all of TOWER's shares in TAL to existing TOWER Shareholders. In return we will cancel a portion of your existing TOWER Shares. TOWER NZ and TAL will then be separate listed companies but initially owned by existing TOWER Shareholders.

As part of the Proposal TAL will raise A\$160million of new equity as an Entitlements Offer to all initial TAL shareholders. Subject to Shareholder approval Guinness Peat Group plc (**GPG**) will underwrite the offer. GPG intends to take up all its Entitlements. Options currently issued to employees will be reconstructed and TAL intends to issue to Mr Minto new options as part of the Proposal.

A meeting of Shareholders to consider the Proposal will be held in Wellington, New Zealand on 6 November 2006. If approved by Shareholders and the Court, we will implement the Separation on 20 November 2006 but **you will need to be a TOWER Shareholder on 17 November 2006 to take part.** The Entitlements Offer will then follow immediately.

Your Board believes this Proposal is in the best interests of all Shareholders. The Independent Expert also believes that the Separation is in the best interests of Shareholders, that the proposed Option Reconstruction for employees is fair and equitable to Shareholders and that the Underwriting Agreement is fair to TOWER Shareholders not associated with GPG.

All of TOWER's Directors support the Proposal and will vote in favour of each resolution that they are entitled to. We recommend you attend the meeting or lodge a proxy to vote in favour of each resolution. The material following, including the Independent Expert Report, gives full information to help you to decide. I urge you to look at it and to take part in the vote.

If you have any questions, please call the TOWER Shareholder Information Line which is 0800 104 124 (in New Zealand) or 1800 309 428 (in Australia) or +61 2 9 415 4325 for overseas callers.

Yours sincerely

Dr Keith Barton
Chairman

Summary of the Proposal

What is the nature of the Proposal?

TOWER's Board conducted a strategic review to identify the optimal configuration for TOWER's businesses to maximise value for Shareholders. It concluded that a separation of TOWER's businesses into separate listed companies comprising only the Australian Business and focused on the Australian market, and a separate listed company comprising only the New Zealand Business and focused on the New Zealand and Pacific Island markets, is likely to enhance Shareholder value over the long term.

TOWER's Board commissioned Caliburn Partnership Pty Limited to assist the Board's evaluation. As a result of the review, the Board believes the Proposal is in the best interests of Shareholders.

If the Proposal is implemented, TOWER's Australian Business will be consolidated under TAL and TAL will be listed on ASX. TAL will not be listed on NZX. TOWER's New Zealand Business will continue to be owned by TOWER NZ which will remain listed on ASX and NZX.

TOWER will effect the Separation by:

- transferring all of its 234.3 million shares in TAL to TOWER Shareholders on a pro-rata basis of 0.6511 TAL Shares for every TOWER Share held; and
- in return for that transfer, cancel 0.4760 TOWER Shares for every TOWER Share held as a capital reduction.

Shareholders will then hold both TAL Shares and a reduced number of TOWER NZ Shares.

TAL will then issue TAL shareholders Entitlements to buy further TAL Shares at A\$1.60 each. TAL shareholders will receive 0.4269 Entitlements for every TAL Share held. An additional 100 million TAL Shares will be issued pursuant to the Entitlements Offer to raise A\$160 million for TAL.

The Entitlements Offer is fully underwritten by GPG and GPG intends to exercise all of the Entitlements it receives on its TAL Shares.

The TOWER Group currently has external borrowings in Australia of A\$100 million and NZ\$200 million of Bonds and Notes in New Zealand. In addition, various inter-company advances exist between TOWER's Australian and New Zealand Businesses and TOWER's New Zealand Life Business provides funding to the New Zealand Business.

As part of the Proposal, TAL will separately borrow new external bank debt of A\$150 million (of which only A\$135 million will initially be drawn down), and TOWER NZ will borrow new external bank debt of NZ\$85 million. The proceeds of this new capital and

debt will be used to repay all of TOWER's current external debt, to repay all inter-company advances between the Australian and New Zealand Businesses, to reduce the Life Business funding in New Zealand and to provide capital to support the future growth and new business development of both TAL and TOWER NZ.

Options in TOWER held by employees will be reconstructed on a basis considered fair by TOWER's board and TAL proposes to issue new options to Mr Minto.

What are the benefits of the Proposal?

TOWER's Board believes the benefits of the Proposal include the following:

Focused Strategy

- The Australian and New Zealand Businesses have different characteristics, operations and strategies and don't gain natural operational synergies from working together. The Separation enables each to focus on its own strategies for growth without the distraction of the other.
- Each will have direct access to funding and capital markets as needed.

Investor Choice

- The Separation will give investors the ability to choose whether to invest directly in either or both companies based on the investment characteristics that best meet their own objectives.

Simplified Structure

- Improved business transparency and simplicity will allow investors to more easily understand and evaluate the performance and potential of each company with the aim to achieve a more accurate valuation of the true worth of each.

The Board considered the potential disadvantages, the costs of the Proposal, the risks, and a separation along product lines. The Board concluded that the Proposal was the best option available for Shareholders and that the benefits of the Proposal outweigh the risks and potential disadvantages. An outline of the disadvantages and risks, is set out on page 26.

Whose approval is required for the Proposal to proceed?

For the Proposal to proceed, TOWER Shareholders must approve:

- the Separation by Special Resolution requiring approval of 75% or more of the votes cast by Shareholders voting (either in person or by proxy) at the Special Meeting;
- the Option Reconstructions by ordinary Resolution requiring approval of 50% or more of the votes cast by Shareholders voting (either in person or by proxy) at the Special Meeting; and
- the GPG Underwriting Agreement by ordinary Resolution requiring approval of 50% or more of the votes cast by Shareholders voting (either in person

or by proxy) at the Special Meeting. GPG and its associates cannot vote on this Resolution.

The Proposal will then be implemented after approval by the Court. Initial Court Orders have been made specifying the process TOWER must follow. The orders are reproduced from page 157.

Shareholders must also vote on the proposal for TAL to grant new options to Mr Minto but the approval of that Resolution is not a requirement for the implementation of the Proposal.

Who will receive TAL Shares under the Separation?

If the Proposal is approved and if you are recorded in TOWER's register of shareholders at the close of business on **17 November 2006** with an address in New Zealand or Australia, then you will receive TAL Shares. Special arrangements will be made for Foreign Shareholders (see page 15).

Who will receive Entitlements?

If the Proposal is approved, then TAL will offer Entitlements to those TAL shareholders who are recorded in TAL's register of shareholders at the close of business on **27 November 2006** with an address in New Zealand or Australia. Special arrangements will be made for Foreign Shareholders (see page 15).

What are the Entitlements that TAL will offer to its shareholders?

Each Entitlement enables (but does not oblige) its holder to subscribe for one new TAL Share at an issue price of A\$1.60 each. The Entitlements Offer will raise A\$160 million.

You will not have to exercise your Entitlements – you can sell them privately or on ASX. Entitlements will not be listed on NZX.

GPG is the Underwriter and will subscribe for any shortfall where Entitlements are not exercised.

GPG intends to exercise all of the Entitlements in respect of the TAL Shares it will receive on the Separation.

What will a TOWER Shareholder get?

Example

If you hold 1,000 TOWER Shares at the close of business on 17 November 2006, then:

TOWER will transfer 651 TAL Shares to you.

In return, 476 of your TOWER Shares will be cancelled by TOWER.

Your 651 TAL Shares will entitle you to 278 Entitlements. Each Entitlement allows you to subscribe for one new TAL Share at a price of A\$1.60 per TAL Share.

If you pay the full subscription price of A\$444.80 for the TAL Shares, then you will acquire 278 TAL Shares.

You will then hold 524 TOWER NZ Shares and 929 TAL Shares in total.

If you sell your Entitlements, you will get the price you are able to sell them for on ASX or privately, and will be left with 524 TOWER NZ Shares and 651 TAL Shares.

If you let your Entitlements lapse you will get nothing for them, and will be left with 524 TOWER NZ Shares and 651 TAL Shares.

When will Shareholders be told about their holding in TAL?

If the Proposal is approved and implemented, then on 20 November 2006 the Registrar will mail TOWER Shareholders confirmation of:

- their new shareholding in TAL;
- their reduced shareholding in TOWER NZ; and
- more information on the Entitlements Offer.

On 30 November 2006 the Registrar will mail to TAL shareholders, who are registered as owners at the close of business on 27 November 2006, confirmation of the number of Entitlements they will receive.

On 19 December 2006 the Registrar will mail confirmation of the number of new TAL Shares allotted to applicants who have subscribed for TAL Shares under the Entitlements Offer.

Will TAL Shares and the Entitlements be tradeable on ASX?

TOWER expects that you will be able to offer to buy and sell TAL Shares and the Entitlements on ASX. In addition, you will be able to trade your TAL Shares and Entitlements privately.

TOWER has arranged for an application to be made to ASX for TAL to be admitted to the official list of ASX, and for the quotation:

- of TAL Shares (under the symbol TAL); and
- of Entitlements (under the symbol TALR).

TAL Shares and Entitlements are expected to list and commence trading on ASX on 21 November 2006. TAL Shares issued under Entitlements are expected to commence trading on ASX on a deferred settlement basis on 8 December 2006. TAL Shares and Entitlements will not be listed on NZX.

If you wish to sell TAL Shares or Entitlements on ASX before you receive your Shareholder Statement or Entitlement and Acceptance Form you should call the TOWER Shareholder Information Line to confirm the number allocated to you. See page 9.

What are the tax considerations in relation to the Proposal?

The Proposal has taxation implications for TOWER, for TAL, for TOWER Shareholders and for TAL shareholders. You should consider these implications before the Special Meeting.

You can read a guide to the general tax implications on page 77. However, that guide does not take into account your personal circumstances. You should seek professional advice on your own tax considerations in relation to the Proposal.

Is the performance of TAL Shares and the Entitlements guaranteed?

No person, including TOWER, TAL, GPG or their respective directors or officers, or advisers to any of these parties, guarantees the performance of TAL Shares or Entitlements.

What will happen to the Bonds and Notes issued by TOWER Finance Limited?

If the Proposal is approved and implemented, then TOWER Finance will repay for cash the Bonds and Notes in full on 19 December 2006. TOWER Finance will pay 102% of the issue price of each Bond and Note. This is the amount TOWER Finance is required to pay if it repays the Notes early. Holders of Bonds have agreed to the early redemption or repurchase of the Bonds in return for the same payment. TOWER Finance will also pay all accrued interest on the same day that it repays or acquires the Bonds and Notes.

What did the Independent Expert conclude about the Proposal?

The Separation, the Option Reconstruction and the Underwriting Agreement have been reviewed independently by Lonergan Edwards. Lonergan Edwards' Report concludes that the Separation is in the best interests of TOWER Shareholders, that the proposed Option Reconstruction as part of the Proposal is fair and equitable to TOWER Shareholders, and that the terms and conditions of the Underwriting Agreement are fair to TOWER Shareholders not associated with GPG. Lonergan Edwards' Report starts on page 91.

What is the Board's recommendation on how to vote?

TOWER's Board unanimously recommends the Separation and encourages all Shareholders to vote in person or by proxy to approve the Resolution at the Special Meeting to implement the Separation.

TOWER's Board (excluding Mr Minto) considers both the Option Reconstruction and proposed grant by TAL of new options to Mr Minto fair, and recommends that Shareholders vote in person or by proxy to approve both Resolutions.

Those members of TOWER's Board independent of GPG recommend that Shareholders vote in person or by proxy to approve entry into the Underwriting Agreement.

GPG, TOWER's major shareholder, has advised TOWER's Board that it supports the Proposal. It intends to vote in favour of its implementation, and to exercise all Entitlements it receives in respect of TAL Shares allocated to it under the Proposal.

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Timetable

SATURDAY, 4 NOVEMBER 2006	Proxy Forms for the Special Meeting must be received by TOWER
MONDAY, 6 NOVEMBER 2006	Special Meeting of TOWER Shareholders to be held in Wellington, New Zealand
FRIDAY, 10 NOVEMBER 2006	Final Court hearing to approve the Separation
MONDAY, 13 NOVEMBER 2006	TOWER Shares trade on NZX (under the code TWRZ) and ASX (under the code TWRDA on a deferred settlement basis) from this date with no entitlement to TAL Shares, and after the capital reduction
FRIDAY, 17 NOVEMBER 2006	Record Date for calculation of number of TAL Shares to be transferred under the Separation to TOWER Shareholders
MONDAY, 20 NOVEMBER 2006	Transfer of TAL Shares to TOWER Shareholders and mailing of Shareholding Statements showing new shareholdings in TOWER NZ and TAL
TUESDAY, 21 NOVEMBER 2006	TAL Shares listed on ASX and commence trading without the right to Entitlements. Entitlements commence trading on ASX. TOWER Shares resume normal trading on NZX and ASX
MONDAY, 27 NOVEMBER 2006	Record Date for calculation of number of Entitlements
THURSDAY, 30 NOVEMBER 2006	Mailing of Entitlement and Acceptance Forms to TAL shareholders
THURSDAY, 7 DECEMBER 2006	Entitlements cease trading on ASX
FRIDAY, 8 DECEMBER 2006	New TAL Shares under Entitlements Offer commence trading on ASX on a deferred settlement basis
THURSDAY, 14 DECEMBER 2006	Closing Date for receipt of Entitlements acceptances/renunciations
TUESDAY, 19 DECEMBER 2006	Allotment of new TAL Shares under Entitlements Offer and mailing of Shareholder Statements showing new shareholding in TAL

All implementation dates referred to in this document are based on this timetable.

TOWER and TAL reserve the right to vary any of the dates or times included in this document, subject to any approval required by NZX and ASX, or the Court.

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Voting

What Shareholder approvals are required?

At the Special Meeting on 6 November 2006, Shareholders will be asked to vote on:

- the Resolution to approve the Separation.
This Resolution must be approved by 75% or more of the votes cast by Shareholders voting;
- the Option Reconstruction for options issued under the TOWER Senior Executive Option Scheme as set out on page 60 of this document. This Resolution must be approved by 50% or more of the votes cast by Shareholders voting; and
- the Resolution to approve TAL and TOWER entering into the Underwriting Agreement with GPG. This Resolution must be approved by 50% or more of the votes cast by Shareholders voting. GPG and its associates can not vote on this Resolution.

TOWER will not implement the Proposal unless all three of these Resolutions are approved.

Shareholders will also be asked to vote on the proposal for TAL to grant new options to Mr Minto as set out on page 24 of this document. This Resolution must be approved by 50% or more of the votes cast by Shareholders voting. Approval of this Resolution is not a requirement for the implementation of the Proposal.

All of TOWER's Directors support the Separation and recommend that you vote in favour of it.

All of TOWER's Directors (excluding Mr Minto) consider both the Option Reconstruction and proposed grant by TAL of new options to Mr Minto fair, and recommend that Shareholders vote in person or by proxy to approve both Resolutions.

All of TOWER's Directors that are independent of GPG recommend that you also vote to approve the Underwriting Agreement with GPG.

Why should Shareholders vote?

Shareholders do not have to vote, but TOWER's Board believes that the Proposal is important to all Shareholders, and encourages you to vote.

If the Proposal is implemented, you will receive TAL Shares and a proportion of your TOWER Shares will be cancelled. This will happen even if you do not vote, or if you vote not to approve either of the Resolutions.

Who is entitled to vote?

If you are recorded as a Shareholder on TOWER's register of Shareholders at 5pm on 3 November 2006, then you will be entitled to attend and vote at the Special Meeting. You can also vote by proxy.

How to vote

Accompanying this document is the Notice of Meeting, together with your attendance record card and Proxy Form.

If you are entitled to vote, then you may either attend the Special Meeting and vote in person, or appoint a proxy to attend and vote on your behalf. If you wish to appoint a proxy to attend and vote at the Special Meeting on your behalf, then you must send your completed Proxy Form:

In New Zealand:

- by mail to:
TOWER Limited
Freepost 2888
Computershare Investor Services Limited
Private Bag 92119
Auckland 1020
- by facsimile to +64 9 488 8787.

In Australia:

- by mail to:
TOWER Limited
GPO 7043
Computershare Investor Services Pty Limited
Sydney NSW 2001
- by facsimile to +61 2 8235 8025.

Your completed Proxy Form must be received by 10am on 4 November 2006.

→

What to do with your Entitlements?

When will you find out about your Entitlements?

If the Proposal is implemented, you will find out how many Entitlements you are entitled to when you receive your 'Entitlement and Acceptance Form'. **This Scheme Book is an important document and you should keep it to help you decide whether to exercise or to sell Entitlements when you receive the Entitlement and Acceptance Form.** TOWER expects the Form will be mailed to you on 30 November 2006. However, to confirm your

Entitlements earlier, particularly if you wish to sell your Entitlements on ASX from Tuesday 21 November 2006 (when Entitlements will be tradeable), you can contact the TOWER Shareholder Information Line on:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers).

You will only be able to seek to sell your Entitlements on ASX from 21 November 2006 to 7 December 2006.

You must act quickly if you wish to sell them.

While Entitlements will be quoted on ASX, there will be no established market for them and no assurance can be given about the level of demand or the price at which they may sell.

What can you do with your Entitlements?

You may take one of the following actions in relation to your Entitlements:

- exercise your Entitlements in full;
- sell your Entitlements in full;
- sell part of your Entitlements and exercise the balance or allow the balance to lapse; or
- do nothing.

If you do nothing, your Entitlements will lapse, you will not receive anything for them and the proportion of your shareholding in TAL will be diluted. If you will receive a small parcel of Entitlements and consider it will be uneconomical to sell them, an option may be to sell your TOWER Shares before 13 November 2006 on NZX or ASX. For assistance, you should seek your own investment, financial, taxation or other professional advice.

Actions required

The following instructions tell you how to take the actions set out above.

To exercise your Entitlements in full

You must:

- complete the Entitlement and Acceptance Form. The Entitlement and Acceptance Form will be mailed to you on or about 30 November 2006. Follow the instructions on the back of that Form;
- pay in Australian dollars at A\$1.60 per TAL Share. If you are a shareholder entitled to 1,500 Entitlements or fewer and are recorded in TAL's register of shareholders at the close of business on 27 November 2006 as having an address in New Zealand, you may pay in New Zealand dollars. The New Zealand dollar amount will be calculated by TAL at the Australian dollar/New Zealand dollar exchange rate quoted by TAL's bank immediately prior to printing your Entitlement and Acceptance Form, and will be set out on that form;

- attach your cheque or bank draft (in New Zealand or Australian currency, as appropriate) for the amount required to be paid. Make your cheque payable to 'TOWER Australia Group Limited' and crossed 'Not Transferable'; and
- using the reply paid envelope, send your completed Entitlement and Acceptance Form and your cheque or bank draft to:

In New Zealand:

TOWER Australia Group Limited
Freepost 2888
Computershare Investor Services Limited
Private Bag 92119
Auckland 1020

In Australia:

TOWER Australia Group Limited
GPO 7043
Computershare Investor Services Pty Limited
Sydney NSW 2001

in time to be received by the Registrar (in either New Zealand or Australia) by 5pm Australian Eastern summer time (7pm New Zealand standard time) on 14 December 2006.

For your application to be valid the relevant documents, properly completed with payment which must be honoured, must be received by the Registrar (in either New Zealand or Australia) by no later than 5pm Australian Eastern summer time (7pm New Zealand standard time) on 14 December 2006. The Underwriter will subscribe, or procure subscription for any TAL Shares not subscribed for under the Entitlements Offer by this time. Post-dated cheques will not be accepted. You cannot revoke or withdraw your application.

To sell your Entitlements in full

To sell (or renounce) all of your Entitlements, you should instruct any NZX firm or ASX broker to sell your Entitlements during the trading period. Alternatively, if you wish to sell privately, you should contact your investment adviser or broker for the necessary transfer forms.

If you wish to sell your Entitlements on ASX, then you must do so on or before 7 December 2006.

To sell some of your Entitlements and exercise the balance

You may sell (or renounce) some of your Entitlements and exercise the balance. To do so, you will need to do the following:

- instruct any NZX firm or ASX broker to sell the number of Entitlements which you wish to sell (or renounce). Alternatively, if you wish to sell privately, you should contact your investment adviser or broker for the necessary forms. You will only be able to sell your Entitlements on ASX until 7 December 2006;

- complete the Entitlement and Acceptance Form for the number of Entitlement Shares you wish to accept. Follow the instructions on the back of that Form;
- pay in Australian dollars at A\$1.60 per TAL Share. If you are a shareholder entitled to 1,500 Entitlements or fewer and are recorded in TAL's register of shareholders at the close of business on 27 November 2006 as having an address in New Zealand, you may pay in New Zealand dollars. The New Zealand dollar amount will be calculated by TAL at the Australian dollar/New Zealand dollar exchange rate quoted by TAL's bank immediately prior to printing your Entitlement and Acceptance Form, and will be set out on that form;
- attach your cheque or bank draft (in New Zealand or Australian currency as appropriate) for the amount required to be paid for the number of TAL Shares applied for. Make your cheque payable to 'TOWER Australia Group Limited' and crossed 'Not Transferable'; or
- if you are selling part of your entitlement privately, send the completed Entitlement and Acceptance Form, together with the necessary transfer forms, and your (and your buyer's) cheque or bank draft, to the Registrar in the reply paid envelope provided.

If you wish to sell some of your Entitlements on ASX, then you must do so before trading ceases on 7 December 2006. Post-dated cheques will not be accepted. You cannot withdraw or revoke an application.

To do nothing

If you do not exercise your Entitlements and allow them to lapse, you will receive no value for your Entitlements and your holding in TAL will be diluted.

How can you acquire more Entitlements?

If you wish to acquire more Entitlements, then you may seek to buy them privately, or on ASX from 21 November 2006 to 7 December 2006. To acquire Entitlements on ASX, you will need to contact a NZX firm or ASX broker. You should obtain from the party selling, the appropriate Entitlement and Acceptance Form for the Entitlements you have purchased. If you do not get them you should contact the Shareholder Information Line to get replacements.

Shareholder Information Line

Call the TOWER Shareholder Information Line with questions on any matter in this document, on:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers).



Details of the Proposal

Background

TOWER's Australian Business comprises the following principal businesses:

- **Retail Life** which provides term life, disability, income protection and trauma products for the retail or personal market.
- **Alliances & Group Life** which provides term life, disability, income protection and trauma products for the corporate and groups markets.
- **Investments** which provides superannuation based investment products based around TOWER's existing life distribution capability.

TOWER's New Zealand Business comprises the following principal businesses:

- **General Insurance & Direct** which provides home, contents, motor vehicle and travel insurance predominantly for the personal and group market in New Zealand and the Pacific Islands.
- **Health & Life** which provides health insurance and life insurance products for the retail, individual and group markets.
- **Investments** which operates in wholesale and retail funds management.

The Proposal will separate TOWER's Australian and New Zealand Businesses into two separately listed entities being:

- **TAL** which will comprise the Australian Business.
- **TOWER NZ** which will comprise only the New Zealand Business.

Initially both TAL and TOWER NZ will be owned by existing TOWER Shareholders.

TOWER's Board believes that the Proposal provides a better opportunity for the value of each of TAL and TOWER NZ to be more clearly illustrated to the market and will provide a more effective platform for each to pursue focused strategies to enhance shareholder value.

The key factors that led to the Proposal include:

- focused strategy;
- investor choice;
- simplified structure.

Did TOWER's Board consider alternatives?

TOWER's Board and its advisors initially considered a range of alternatives. Separation along product lines and geographic separation were identified as the best alternatives as the Australian and New Zealand Businesses do not have natural operational synergies. Maintaining the existing TOWER structure was not

considered optimal.

TOWER's Board evaluated these two alternatives against a number of criteria, including:

- ability to maximise Shareholder value;
- ability of each separated entity to achieve its strategies and sustain itself as a separate entity; and
- certainty of execution and implementation timeframe.

Based on the above criteria, a separation of TOWER into two geographically focused listed entities was determined as the best structure to enhance value for TOWER Shareholders.

Benefits of the Proposal

Creation of two separately focused companies

The current TOWER structure contains six operating businesses across two main geographic markets. The TOWER Board, and senior management are responsible for managing the operations across all these businesses. The combination of Australia and New Zealand has not provided significant operational synergies.

The Proposal will result in TAL and TOWER NZ becoming separate independent listed companies. TAL will focus on its life insurance and investment businesses and will operate in Australia. TOWER NZ will focus on its insurance and investment businesses operating in New Zealand and the Pacific Islands.

TOWER's Board believes the Separation will enable each company to better pursue independent focused strategies that are consistent with its strengths and capabilities. Management will be able to apply much greater focus on market opportunities and operational issues as they specifically relate to their individual businesses.

As a result of this separate focus on core activities and with clearer strategic objectives, TOWER's Board believes that the Proposal provides the best structure for both TAL and TOWER NZ to enhance shareholder value over time.

Independent financial policies

Following the Proposal TAL and TOWER NZ will each adopt a capital structure and dividend policy based on their individual business and strategic objectives. They will be able to manage their capital resources more effectively than within a combined group.

In addition, both companies will have direct access to the equity and debt capital markets by virtue of their separate listings. This will allow the operations of each to be funded more efficiently.

Improved investor choice

Implementation of the Proposal will improve investment choices available to investors who will now be able to direct and weight their investment and own:

- TOWER NZ Shares which will provide exposure to the New Zealand insurance and related investment sectors; or
- TAL Shares which will provide exposure to the Australian life insurance and investment markets; or
- Both TOWER NZ Shares and TAL Shares in any proportion.

Simpler corporate structure, improved transparency and increased investor understanding

TAL and TOWER NZ will have simpler and more transparent corporate structures with no cross ownership or funding arrangements.

This will help to increase the visibility of both companies within the financial community. When they are separate reporting entities, investors will be better able to evaluate and understand the financial performance, operations and strategy of each. It is likely to be easier to value each company than is currently possible under the single group structure.

TOWER's Board believes this may attract investors to each company on the basis that they have a better understanding of that company.

Improved ability to pursue growth opportunities

TOWER's Board believes the Proposal, through the creation of separately listed sector focussed companies, will provide opportunities for shareholders to benefit from further industry consolidation.

Both companies will have flexibility to offer their own shares for potential merger or acquisition opportunities.

Improve each company's ability to reward employees in line with individual business performance and shareholders' interests

As separate companies, TOWER NZ and TAL will be able to implement employee remuneration plans that are more closely aligned to the performance of the relevant businesses, and ultimately shareholders' interests.

Disadvantages of the Proposal

Transaction costs

Transaction costs relating to the Proposal are estimated at approximately NZ\$18.5 million net of tax (including GST, where applicable). These costs include expenses incurred in the Separation; communication and printing costs; debt break fees, loan establishment charges and underwriting fees; stamp duty; legal, financial, accounting and other advisory and experts' fees; and management incentives incurred in respect of the Proposal.

More information on fees paid to professional advisers is contained under 'Interests of professional advisers to TOWER and TAL' on page 88. Information on fees payable to the Underwriter is contained in the section 'GPG Underwriting Agreement' on page 17.

TOWER's Board expects that at the time of the Special Meeting, approximately 25% of these costs (NZ\$4.6 million after tax), will have been either incurred, or committed to be incurred, even if the Proposal does not proceed.

Impact on potential earnings

As two separate entities, there will be additional corporate level costs such as listing costs, Board costs and senior management costs. The total additional costs across TAL and TOWER NZ relative to the current structure is expected to be NZ\$5.6 million per annum after tax.

The loss of benefits of scale may also result in other increased operational costs for TAL and TOWER NZ.

Failure to exercise Entitlements

If the Proposal is implemented, TAL will proceed with the Entitlements Offer. **TOWER's Board considers that the Entitlements should have value and that shareholders should either exercise their Entitlements, or sell them.** Shareholders who receive small parcels of Entitlements may find it uneconomical to sell them. For those shareholders, an option may be to sell their TOWER Shares before 13 November 2006 on NZX or ASX. TAL shareholders who for any reason (including oversight or inadvertence) fail to either exercise or sell their Entitlements will lose the value of their Entitlements. As Underwriter of the Entitlements Offer GPG are likely to increase their likely shareholding in TAL above 20% at a discount to the value of TAL.

Reduction of potential diversification benefits

If the Proposal is implemented, then both TOWER NZ and TAL will be smaller and more geographically concentrated than TOWER is under the current structure. This may reduce the potential for diversification benefits and would concentrate the risks of any adverse event. For example the happening of an adverse event in New Zealand or the incurring of an unexpected liability in New Zealand after the Proposal would be borne solely by the shareholders of TOWER NZ. The same would apply for such an event in Australia, which would be solely borne by the shareholders in TAL. This also means that the impact on TOWER NZ and TAL individually of events after the Proposal may be greater than the impact of the same event on TOWER in its current form.

TOWER Shareholders will however be able to continue to benefit from diversification if they retain shareholdings in both TOWER NZ and TAL.

Rebranding and renaming costs for TAL

TOWER has granted rights to TAL to use the TOWER name, brand and TOWER's Australian intellectual property in Australia for five years. TAL will need to rename and rebrand the TAL Group and certain of its products prior to the expiry of that term. TAL will incur costs to do this, and additional costs to promote and establish its new brand and product names.

Risks of the Proposal

The following risks are specific to the Proposal. That is, they are separate from the other risks associated with the existing TOWER businesses that will continue after implementation of the Proposal. Those risks particularly relevant to the TAL business are separately covered in the section 'Risk Factors of the Offers' on page 26.

Decrease in the combined market value of TOWER NZ and TAL

There is a risk that the combined market value of TOWER NZ Shares and TAL Shares immediately after the implementation of the Separation (but before the capital raising under the Entitlements Offer) will be lower than the market value of TOWER Shares before the Separation.

The market price of TOWER NZ Shares and TAL Shares after implementation cannot be predicted with certainty.

Share prices are impacted by a range of factors, including economic and investment market conditions, trading and operating conditions and changes in monetary, legislative and regulatory regimes.

TOWER's Board believes that in addition to these general factors, the market price of TOWER NZ Shares and TAL Shares after implementation may be influenced by:

- TOWER NZ shareholders and TAL shareholders seeking to rebalance their investment portfolio by adjusting their shareholdings in TOWER NZ and TAL;
- investor expectations in relation to earnings, dividends and growth prospects;
- the risk factors for TAL set out in the section 'Risk Factors of the Offers' on page 26; and
- the lack of an established trading market for TAL Shares.

There will be no public trading market in TAL Shares until after the Separation is implemented and TAL Shares are quoted on ASX. There can be no assurance that an active trading market will develop or, if one does develop, that it will be maintained.

TOWER's Board believes however that over time, the combined value of TAL and TOWER NZ is likely to be enhanced as a result of the Proposal.

Taxation risk

The Australian tax consolidation provisions may require a reduction of the tax cost of certain assets held by TAL and its subsidiaries on implementation of the Separation, and therefore an increased tax liability on eventual disposal of those assets.

The Australian Treasury has indicated that a resetting of the cost of TAL's assets in these circumstances is not intended, and legislation may be introduced to confirm that no cost resetting would be required. It is expected that the Australian Government will make an announcement in this regard in due course. In

the event that no such announcement or legislative change is made, TAL may be required to reset the tax cost of any affected assets on hand at the date of the implementation of the Separation, and to recognise any additional deferred tax liability as a result of any such reset.

Lower individual index weightings than combined TOWER

If the Proposal is implemented, TOWER NZ and TAL will have a lower individual market capitalisation and index weighting than TOWER currently has. There is a risk that this may result in a lower level of institutional investor interest in each company, depending on the final index weightings of TOWER NZ and TAL.

Re-branding risk for TAL Group

The TAL Group must rename and rebrand itself and certain of its products within five years of TAL listing. There is a risk TAL will be unable to establish brands of the same strength as the TOWER brands it previously used, or that the costs of achieving a successful re-branding are greater than expected.

The Proposal

The Proposal is being made under Part XV of the New Zealand Companies Act, and if approved by TOWER Shareholders at the Special Meeting, will occur under a Court order.

The Court has made initial orders specifying how TOWER is to proceed with the Proposal. A copy of the application for those orders is included in the section 'Court Orders' on page 157.

TOWER Shareholders will vote on the Resolutions at the Special Meeting. If the Resolutions are approved, TOWER will apply to the Court to approve the Separation under the Final Orders.

If the Separation is approved by the Court, then TOWER Shareholders will receive TAL Shares and some of their TOWER Shares will be cancelled. TAL will also offer Entitlements to those TAL shareholders who are recorded in TAL's register of shareholders at the close of business on 27 November 2006 with an address in New Zealand or Australia.

Implementation of the Proposal

If the Proposal is approved, implementation will proceed in four stages.

Stage 1 – Consolidation of the Australian Business

All of TOWER's Australian Business will be consolidated under TAL. It has 234.3 million shares on issue. A Board of Directors has been appointed and TAL will be managed and governed from Australia. Appropriate transitional arrangements will be made between TAL and TOWER NZ for the short term joint use of common services, names, intellectual property and facilities pending both companies making independent long term arrangements. These arrangements are described in more detail on page 15.

Stage 2 – Separation of the Australian and New Zealand Businesses

TOWER will transfer all of the 234.3 million shares in TAL to TOWER Shareholders on a pro-rata basis of 0.6511 TAL Shares for every TOWER Share held. This will effect the separation of TAL from TOWER, and TAL will then be owned directly by TOWER Shareholders. In return for that transfer of TAL Shares, TOWER will cancel 0.4760 TOWER Shares for every TOWER Share held as a capital reduction. TAL will then be listed on ASX.

Fractional amounts of TAL Shares being transferred and TOWER Shares being cancelled will be rounded to the nearest whole number, with 0.5 being rounded up.

The transfer of TAL Shares will apply to all Shareholders on TOWER's register of Shareholders at the close of business on 17 November 2006, other than Foreign Shareholders as referred to under 'Foreign Shareholders' on page 15.

If you buy TOWER Shares from 13 November 2006 on NZX or ASX those TOWER Shares will not qualify for TAL Shares under the Separation.

If you sell TOWER Shares between 13 November and 17 November 2006 on NZX or ASX you will still receive TAL Shares under the Separation unless you are a Foreign Shareholder, or you bought those shares on NZX or ASX from 13 November 2006.

TOWER Shares traded on NZX or ASX from 13 November 2006 will be traded on the basis that the cancellation of a proportion of those TOWER Shares, under the Proposal, has occurred. This means that you will only be able to sell a proportionately reduced number of TOWER Shares. During this period, TOWER Shares will trade on ASX under the symbol TWRDA.

When the Separation is approved by the Court, TOWER Shareholders will not be required to apply to receive their TAL Shares. Under the Separation each TOWER Shareholder irrevocably appoints TOWER as their agent and attorney with authority to sign any necessary document to receive their TAL Shares.

TAL shareholders will be bound by TAL's Constitution, the provisions of which are summarised under 'TAL's Constitution' on page 85.

Stage 3 – Entitlements Offer

If the Proposal is approved, TAL will offer Entitlements to TAL shareholders on the basis of 0.4269 Entitlements for every TAL Share held. Fractional amounts will be rounded to the nearest whole number with 0.5 being rounded up. Each Entitlement will give the holder the right to subscribe for one TAL Share at an issue price of A\$1.60. This compares with TOWER's assessed value of A\$2.00 for each TAL Share. The Entitlements Offer will raise capital of A\$160 million for TAL. The Entitlements Offer is fully underwritten by GPG. Full details of the Entitlements Offer are set out from page 17.

Stage 4 – Refinance of TOWER's current debt and working capital

TOWER currently has external bank debt of A\$100 million. TOWER has issued Bonds of NZ\$125 million and Notes of NZ\$75 million in New Zealand. In addition, TOWER has an overdraft of \$3m in a trading subsidiary, funding of NZ\$51 million provided by its New Zealand life business and free cash assets of \$61m.

TAL has now arranged separate committed bank facilities of A\$150 million, of which it intends to initially draw down A\$135 million. TOWER NZ has committed bank facilities of NZ\$85 million which it intends to fully draw down. Both facilities are subject to the Proposal being implemented. Together with the proceeds of the capital raised under the Entitlements offer, the proceeds will be used;

- to repay all of TAL's existing A\$100 million external bank debt;
- to redeem or repurchase the NZ\$125 million Bonds and NZ\$75 million Notes in full for cash;
- to extinguish all inter-company liabilities between TAL companies and TOWER NZ companies (A\$160 million) so that they will be independently financed in future;
- to reduce the funding in New Zealand provided by the New Zealand life business from NZ\$51 million to NZ\$26 million;
- to meet the costs of the Proposal (A10.4 million before tax in Australia and NZ\$10.8 million before tax in New Zealand); and
- an additional A\$60 million will be retained to provide free cash funding for the standalone businesses. The Director's believe the appropriate free cash reserves for each of the businesses is A\$60 million for TAL and NZ\$50 million for TOWER NZ, to fund the separate businesses, future growth and for TAL to commence the recapture of reinsurance treaties.

On a proforma basis, the net debt position is expected to be post separation, settlement of the rights issue and repayment of inter-company debt:

	<i>TAL Proforma</i>	<i>TOWER NZ Proforma</i>
	A\$m	NZ\$m
Debt	(135.0)	(114.0)
Free Cash Assets	60.0	50.0
Net Debt	(75.0)	(64.0)

This represents a further strengthening of the businesses capital positions and financial strength.

Assessed value of TAL

For the purposes of determining the number of TOWER Shares to be cancelled, and for ascertaining a notional value for each TAL Share for the purposes of determining an appropriate issue price for the Entitlements Offer, TOWER's Board has assessed the equity value of TAL at A\$469 million prior to the Entitlements Offer, or A\$2.00 for each TAL Share.

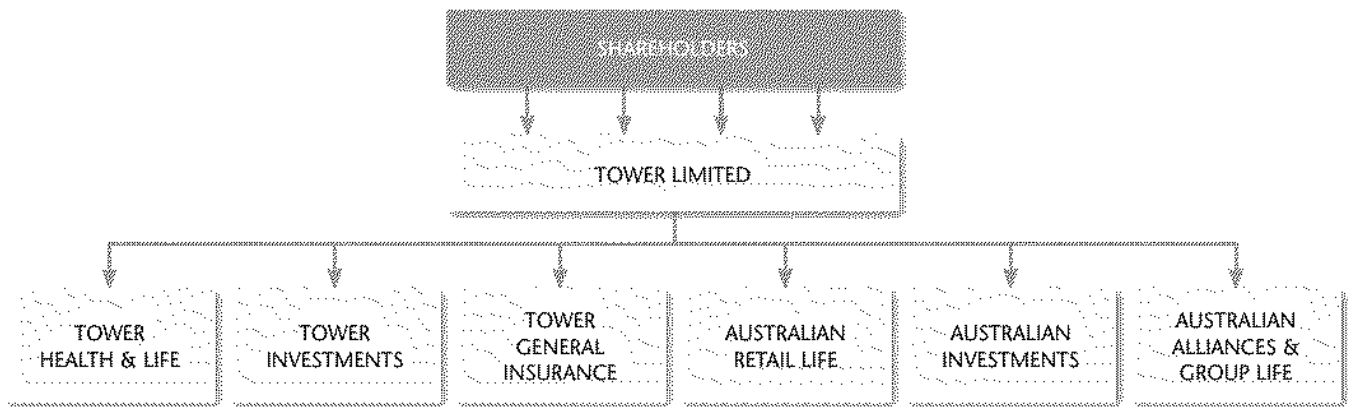
This figure has been determined as a midpoint in a range of potentially appropriate values. The value has been assessed as at 14 September 2006 when the conditional Underwriting Agreement was signed. The value was determined taking into account the impacts of the restructuring and refinancing necessary to implement the Proposal, including the additional ongoing corporate costs of TAL, but excluding receipt of the new A\$160 million capital from the Entitlements Offer and prior to the refinancing of the existing debt obligations. TOWER's Board believes this is TAL's fair market value. In forming that view, TOWER's Board considered external advice. However, the market price of TAL Shares after implementation of the Proposal cannot be predicted with certainty. TAL Shares are expected to trade on the ASX from Tuesday 21 November 2006 but that trading price could be impacted by a range of factors and thus may not initially be a fair reflection of the longer term normal value of TAL Shares.

In assessing the number of TOWER Shares to cancel as a capital reduction in return for the transfer to Shareholders of the TAL Shares, TOWER's Board adopted a value per share of NZ\$3.31. This was determined as the average TOWER Share price on NZX for the one month period immediately preceding TOWER's public announcement on 8 August 2006 of its intention to recommend the Proposal to Shareholders.

Structural effect on TOWER

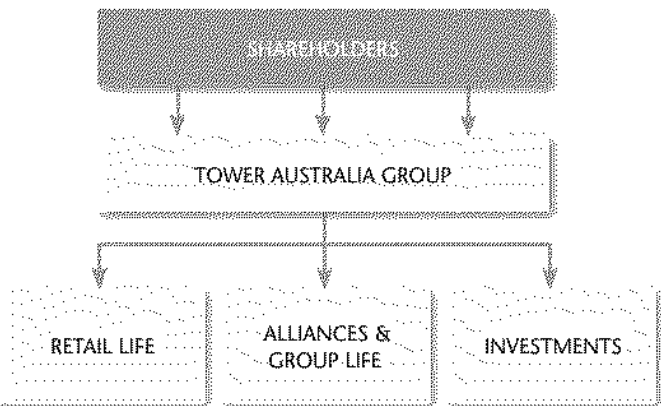
The following diagrams set out the structural effect of the Proposal on TOWER. These are simplified diagrams designed to show the structure of the major operating entities currently and after the separated TAL and TOWER NZ. Not all entities are shown.

The current structure of TOWER is:

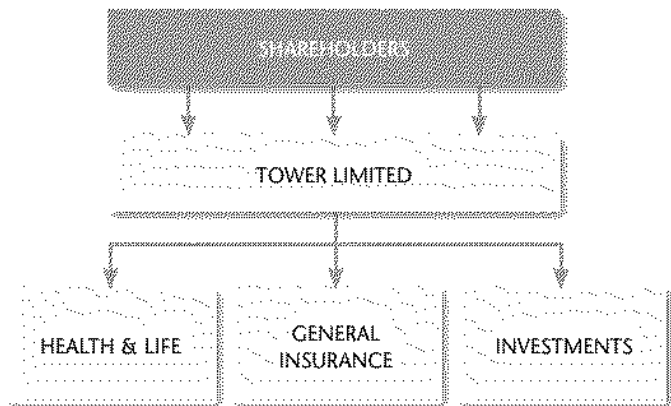


The structure after separation will be:

TAL:



TOWER NZ:



Transitional Arrangements

TOWER (and subsequent to the Separation, TOWER NZ) owns the New Zealand and Australian rights to the 'TOWER' name, brand, logo and intellectual property.

TOWER NZ has agreed that TAL may use the 'TOWER' name, brand, logo and the intellectual property registered to TOWER in Australia only, for five years from the date TAL lists on ASX. TOWER NZ cannot resume using these assets in Australia within three years from TAL ceasing to use them.

TOWER NZ and TAL have agreed that they will not, for a period of one year from the date TAL lists, solicit employees of the other.

TOWER NZ and TAL have agreed on the continued provision of various transitional services in respect of technology and support services on a cost recovery basis. These arrangements are fairly limited and largely formalise practices currently in place.

Effect of the Proposal on holders of Bonds and Notes

The Bonds and Notes which have been issued in New Zealand are convertible into TOWER Shares in certain limited circumstances. The separation of the Australian and New Zealand Businesses under the Proposal will mean TOWER NZ Shares in the future will reflect only the assets and business of the New Zealand Business. This is a smaller business than the current TOWER Group.

If the Proposal is implemented, TOWER Finance will repay the Notes in cash on 19 December 2006 in accordance with the terms of the Trust Deed for the Notes. The amount repaid will be 102% of the issue price of each Note (NZ\$1.00), plus all interest accrued and unpaid to the date of repayment.

While the Bonds are perpetual, because of the significant change in the proposed size and scope of TOWER NZ relative to the existing size and diversification of the TOWER Group, TOWER believes that it is in the best interests of Bondholders and Shareholders for the Bonds to be redeemed for cash. TOWER has obtained the approval of Bondholders to redeem or to repurchase the Bonds for cash on 19 December 2006 for an amount equal to 102% of the issue price (NZ\$1.00) of each Bond plus all accrued interest if the Proposal is approved.

If approved, the Separation is intended to be implemented on 20 November 2006. As from that date the Australian Business under TAL will no longer form part of TOWER NZ. The repayment or repurchase of both the Bonds and the Notes is proposed to occur on 19 December 2006. Accordingly so as to ensure that neither the Bondholders or Noteholders are disadvantaged during that interim period, TAL will guarantee repayment or repurchase of the Bonds and Notes and accrued and unpaid interest on 19 December 2006. The guarantee will take effect from when TAL separates from TOWER, and will be released

when the Bonds and Notes are repaid. This guarantee will be in addition to the covenants given by TOWER Finance and TOWER NZ to the holders of the Bonds and Notes and to the Trustee.

If the Proposal is not approved or implemented before 1 April 2007, the Notes and Bonds will not be redeemed or repurchased as part of the Proposal but will continue on their current terms.

Foreign Shareholders

Because of securities laws applying to overseas jurisdictions and the cost and complexity of complying with those laws, if you are a Shareholder whose address on TOWER's Share Register at the close of business on 17 November 2006 is not in New Zealand or Australia (**a Foreign Shareholder**) TOWER will not transfer any TAL Shares to you under the Proposal. The TAL Shares which you would have received will be transferred to a nominee (on your behalf). That nominee will endeavour to sell those TAL Shares and account to you for the proceeds. TOWER will still cancel 0.4760 TOWER Shares for every TOWER Share held by each Foreign Shareholder.

NZX has granted a waiver, to the extent necessary, from the requirements of NZX Listing Rule 7.6.6 which would otherwise require separate approval by Foreign Shareholders to the cancellation of TOWER Shares under the Proposal.

If there are any TAL shareholders with an address on TAL's register of shareholders at the close of business on 27 November 2006 which is not in New Zealand or Australia, TAL will transfer the Entitlements which such shareholders would have received to a nominee. The nominee will endeavour to sell those Entitlements and will account to those shareholders for the proceeds of any sale that is achieved.

Neither the offer of TAL Shares nor of the Entitlements has been or will be registered under the United States Securities Act 1933, as amended, and subscription may not be made by any person who is a resident of the United States of America.

No person may offer, sell or deliver TAL Shares or Entitlements or distribute this document or any copy or extract of this document to any person in any country other than in compliance with that country's applicable laws and regulation. This document has not been registered or lodged with any regulatory body in any country except New Zealand and Australia.

Can Shareholders object to the Proposal?

If Shareholders approve the Proposal, but you still object, then you have the right to appear and be heard at the final Court hearing which is expected to be held on 10 November 2006. You must give the Court prior notice of your wish to be heard. More details can be found at paragraph 27 of the application for the Initial Court Orders – see 'Court Orders' on page 157.

Minority rights for Shareholders who object

Implementation of the Separation by the transfer of the TAL Shares to Shareholders is in substance equivalent to a Major Transaction for TOWER as it involves the disposal of assets with a value exceeding 50% of the value of TOWER's total assets. Shareholders will approve that Major Transaction if the Resolution to approve the Separation is passed by 75% or more of the votes cast in person or by proxy at the Special Meeting.

Ordinarily shareholders who vote against a Major Transaction that is approved can request the company to purchase, or to procure the purchase of their shares, unless the Court orders that it is not reasonable to require the company to do so.

On this occasion, where the asset being disposed (the shares in TAL) are being transferred to Shareholders such that the Shareholders still directly own that asset, TOWER does not consider that it is appropriate or reasonable for Shareholders who vote against the Separation to be able to exercise the usual minority buy out rights. As a consequence, TOWER has obtained as part of the Initial Court Orders, confirmation from the Court that minority buy out rights will not be available.

Implications if the Proposal does not proceed

If the Proposal is not implemented and the Australian Business continues to be part of TOWER, then the benefits identified by TOWER's Board will not be realised. In particular:

- Shareholders will retain all of their TOWER Shares and they will not receive TAL Shares;
- TOWER's businesses will continue to be managed under a single group structure;
- TOWER will continue to own and operate the Australian Business;
- TOWER's assets and brands may be affected by the uncertainty caused by the Proposal not proceeding;
- the TOWER Share price may decrease if Shareholders had perceived greater value through implementation of the Proposal and sell their shares;
- the Bonds and Notes will not be repaid but will continue on their current terms;
- no Entitlements Offer will occur; and
- TOWER will have incurred costs, currently expected to be NZ\$4.6 million (after tax), without receiving any of the benefits of the Proposal.

Apart from those consequences, TOWER and its businesses would continue as they exist at the date of this document.

TOWER's Board's recommendation

TOWER's Board believes that the Proposal is in the best interests of TOWER and TOWER Shareholders, and that it will not prejudice TOWER's ability to pay its creditors.

The Board unanimously recommends the Separation and encourages all TOWER Shareholders to vote in person or by proxy to approve the Resolution at the Special Meeting.

TOWER's Board (other than Mr Minto) support the Option Reconstruction and the proposed grant by TAL of new options to Mr Minto and recommends all TOWER Shareholders to vote in person or by proxy to approve both Resolutions at the Special Meeting.

Those members of TOWER's Board independent of GPG recommend that Shareholders vote in person or by proxy to approve entry into the Underwriting Agreement.

All members of TOWER's Board intend exercising the Entitlements they will hold if the Proposal is implemented.

GPG has advised TOWER's Board that it supports the Proposal and that it intends to exercise all Entitlements it receives in respect of TAL Shares allocated to it under the Proposal.



Details of the Entitlements Offer

If Shareholders and the Court approve the Proposal, then TAL will offer Entitlements on a renounceable basis to those TAL shareholders who are recorded in TAL's register of shareholders at the close of business on 27 November 2006 with an address in New Zealand or Australia.

A total of 100 million Entitlements will be issued. Each Entitlement gives the holder the right to subscribe for one TAL Share at an issue price of A\$1.60. This is a discount to the assessed value of TAL Shares made by TOWER's Directors of A\$2.00 per share.

Entitlements will be allocated to TAL shareholders on the basis of 0.4269 Entitlements for every TAL Share held. Fractional Entitlements will be rounded to the nearest whole number, with 0.5 rounded up.

If the Proposal is implemented, you will find out how many Entitlements you will be entitled to when you receive the 'Entitlements and Acceptance Form' which TOWER expects will be mailed to you on 30 November 2006. However, to confirm your Entitlement, particularly if you wish to sell your Entitlements on ASX from 21 November 2006 (when Entitlements will be tradeable), you can contact the TOWER Shareholder

Information Line after 20 November 2006 on:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers).

Any TAL Shares purchased after 27 November 2006 will not qualify for Entitlements.

Purpose of Offer

A\$160 million will be raised by the Entitlements Offer. The proceeds, together with the new external debt, will be used to refinance the current external debt of TOWER both in Australia and New Zealand, repay inter-company liabilities between the Australian and New Zealand Businesses, meet the costs of the Proposal, reduce the funding provided by the New Zealand life business and to provide appropriate capital to fund the business development opportunities of TAL. This is set out in more detail on page 13.

Acceptance of the Offer or sale of Entitlements

For information about exercising or selling your Entitlements, see the section 'What to do with your Entitlements' on page 7. To exercise Entitlements, a properly completed Entitlement and Acceptance Form together with payment of the issue price of A\$1.60 per TAL Share must be received by the Registrar no later than 5pm Australian Eastern summer time (7pm New Zealand standard time) on 14 December 2006.

New Zealand shareholders of TAL entitled to 1,500 or fewer Entitlements may pay in New Zealand currency. The New Zealand dollar amount will be calculated by TAL at the Australian dollar/New Zealand dollar exchange rate quoted by TAL's bank immediately prior to printing your Entitlement and Acceptance Form, and will be set out on that form.

TAL shareholders may not apply for any new TAL Shares in excess of the number printed on their Entitlement and Acceptance Form. However, they may acquire additional TAL Shares by purchasing Entitlements privately or on ASX and exercising rights pursuant to those Entitlements.

There is no minimum subscription.

Cheques and bank drafts will be banked upon receipt by TAL but will be held by TAL for the benefit of applicants according to their respective rights pending allotment of the TAL Shares.

Underwriting

The offer of TAL Shares under the Entitlements Offer is underwritten by GPG for the full amount. See 'GPG Underwriting Agreement' on page 17 for more details.

Neither GPG, its directors, principals or agents, any advisor or any other person, guarantees the performance of Entitlements or TAL Shares, or that a shareholder will receive back the money they invest.

Entitlements trading

Entitlements may be renounced (sold) in whole or in part in favour of any person.

Quotation and trading of Entitlements on ASX is expected to commence on 21 November 2006. If you wish to sell Entitlements privately or on ASX before you receive your Entitlement and Acceptance Form, you should call the TOWER Shareholder information line to confirm the number allocated to you. See page 9. Trading of Entitlements on ASX will cease at close of business on 7 December 2006.

Dividends and voting

TAL Shares issued under the Entitlements Offer will rank equally in all respects, including as to dividends and voting, with other TAL Shares.

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GPG Underwriting Agreement

Background

GPG (through its nominee Ithaca (Custodians) Limited and Guinness Peat Group Shares Limited) has a 19.80% shareholding in TOWER. If the Proposal is implemented, GPG will have the same shareholding in TAL, and will exercise all Entitlements allocated to it in full to maintain that shareholding.

The offer of TAL Shares under the Entitlements Offer is underwritten by GPG for the full amount.

TAL Shares not subscribed for under the Entitlements Offer in accordance with the terms of this document will be subscribed for by GPG. If the Underwriting Agreement does not become unconditional, it may be terminated, and in that case TOWER and TAL will not proceed with the Proposal.

Any TAL Shares for which GPG subscribes under the Underwriting Agreement will increase GPG's shareholding over 19.80%. If no Entitlements were exercised by shareholders other than GPG, GPG would hold approximately 43.8% of TAL Shares following completion of the Entitlements Offer (approximately 146.4 million TAL Shares out of a total of 334.3 million TAL Shares). GPG is entitled to retain those Shares. Accordingly GPG may significantly increase its voting power in TAL through the Underwriting Agreement.

Neither GPG, its directors, principals or agents, any advisor or any other person, guarantees the performance of Entitlements or TAL Shares, or that a shareholder will receive back the money they invest.

The terms of the Underwriting Agreement were determined for TAL and TOWER by members of those Boards independent of GPG.

Terms of the Underwriting Agreement

GPG will subscribe (or procure subscription) at the issue price of A\$1.60 per TAL Share for all TAL Shares not subscribed for under the Entitlements Offer. In addition GPG must also subscribe for all Entitlements it receives in respect of the TAL Shares it will own as a result of the Separation.

If the Underwriting Agreement proceeds, TAL must pay GPG an underwriting fee of A\$2.8million being 1.75% of the total number of TAL Shares to be issued under the Entitlements Offer multiplied by the issue price of A\$1.60 (**Underwriting Fee**).

If the Underwriting Agreement is terminated because:

- through no fault of TAL or TOWER any condition is not met (including Shareholder approval to either the Separation or the underwrite), TAL must pay a fee of A\$220,000 to GPG;
- of a breach of any obligation of TAL or TOWER (including relating to the contents of this document), TAL must pay a fee of A\$500,000 to GPG; or
- TAL elects not to proceed with the Entitlements Offer (other than because of the default of GPG), TAL must pay a fee of A\$750,000 to GPG. In addition GPG has the first right to underwrite any other offer of securities by TAL for the following 12 months.

TAL has agreed to indemnify GPG and persons acting for them in connection with the underwrite against losses relating to any breach by TAL of its obligations under the Underwriting Agreement.

TAL will reimburse GPG for all reasonable out of pocket expenses, legal expenses and third party disbursements properly incurred by GPG in connection with the Entitlements Offer, to a maximum of A\$300,000. All payments for the Underwriting Fee and expenses are plus GST.

The Underwriting Agreement is conditional upon a number of conditions, the principal ones being:

- approval by Shareholders at the Special Meeting of both the Separation and the entry into the Underwriting Agreement;
- GPG being satisfied that there has not been a Material Adverse Event. That includes an event, series of events, a matter or information which, in GPG's reasonable opinion has, or will have, a material adverse impact on the financial position or business of TAL, the Entitlements Offer, the ability of TAL to issue TAL Shares under the Entitlements Offer, this document, or a material adverse change of TAL or the TAL Group;
- TAL or TOWER not breaching any of their obligations under the Underwriting Agreement including any warranty given by TAL or TOWER which in GPG's reasonable opinion, has or is likely to have a Material Adverse Effect on the issue;
- there not being a decline in the ASX200 Index of 15% or more for five continuous days at any time between 5pm on 14 September 2006 and the closing date of the Entitlements Offer or such decline

occurring within five business days of the closing date and thereafter continuing until the closing date;

- there not being an increase of 3% or more in the yield of the 90 day bank bill swap rate or an increase of 2% or more in the ten year Commonwealth Bond rate over the same period;
- all necessary regulatory approvals being obtained.

TOWER has provided a guarantee of TAL's obligations under the Underwriting Agreement.

The Underwriting Agreement provides that TAL may not, without the prior approval of GPG (such approval not to be unreasonably withheld), from the date of the Underwriting Agreement until the earlier of six months after the closing date of the Entitlements Offer and the date GPG disposes of all TAL Shares acquired under the Underwriting Agreement, offer any further equity securities in TAL, issue any option entitling the holder to equity securities in TAL, create any debt or other obligation convertible into equity securities in TAL or enter into any agreement to do so. This will not apply to the senior executive option scheme referred to on page 60 or any dividend reinvestment plan implemented by TAL.

Warranties given by TAL and TOWER in the Underwriting Agreement include warranties relating to the content of this document, compliance by TAL and TOWER and their subsidiaries with relevant laws, the existence of no Material Adverse Event, and the valid issue and allotment of TAL Shares to be issued under the Entitlements Offer. TOWER agrees that it will not seek or consider any alternative underwriting arrangement for the Entitlements Offer until TOWER Shareholders have voted at the Special Meeting and the entry into the Underwriting Agreement is not approved.

As the Underwriting Agreement constitutes a material transaction with a related party of TOWER for the purposes of the NZX Listing Rules, TOWER is required to obtain an appraisal report on whether the terms of the Underwriting Agreement are fair to TOWER Shareholders not associated with GPG. That report is contained in the section 'Independent Expert's Report' on page 91 and concludes that the terms of the Underwriting Agreement are fair to TOWER Shareholders not associated with GPG.



Overview of TOWER Australia Group after Separation

TOWER entered the Australian life insurance market in 1990 through the acquisition of Adriatic Life. Since then TOWER has acquired three other life insurance companies - Friends Provident in 1993, FAI Life in 1999 and PrefSure Life in 2006. In late 2002 TOWER redefined its strategic focus in Australia and began building a more competitive business in the life insurance sector. Following the acquisition of PrefSure Life in March 2006 TOWER became the third largest life insurer based on life premium in-force and is one of the fastest growing life insurance companies in Australia. In mid 2006, TOWER was awarded the Money Management/DEXX&R Risk Company of the Year 2006.

The current TOWER Australia Group comprises three businesses:

Retail Life which provides term life, disability, income protection and critical illness/trauma products for the retail individual market.

Alliances & Group Life which provides term life, disability, income protection and critical illness/trauma products for the corporate and groups markets.

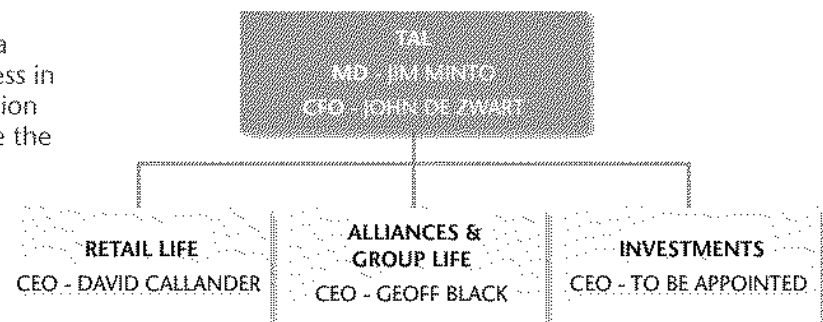
Investments which is a niche business providing primarily superannuation related investment products based around TOWER's existing life insurance distribution capability.

The "New" TOWER Australia Group (TAL)

TAL intends to continue developing its three businesses and improving their competitive market positions. TAL will have a strong balance sheet post the Separation and be well placed to support the continued growth in the business.

TAL Group – Operational Structure

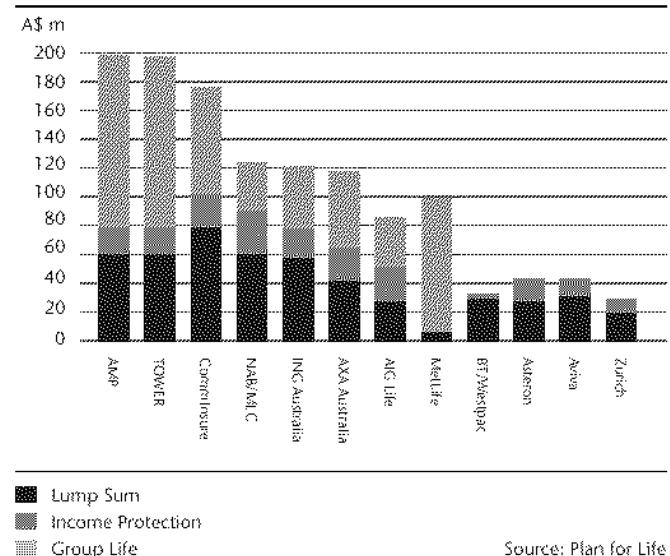
TAL will operate principally in Australia. Its operating structure will be as follows:



TAL - Strategic Positioning in the Australian Market

TAL is today a competitive life insurance business delivering good growth and improving returns. The acquisition of PrefSure and its merger into TOWER Australia creates a significant life insurance business that has a strong strategic footprint across a number of market segments in Australia.

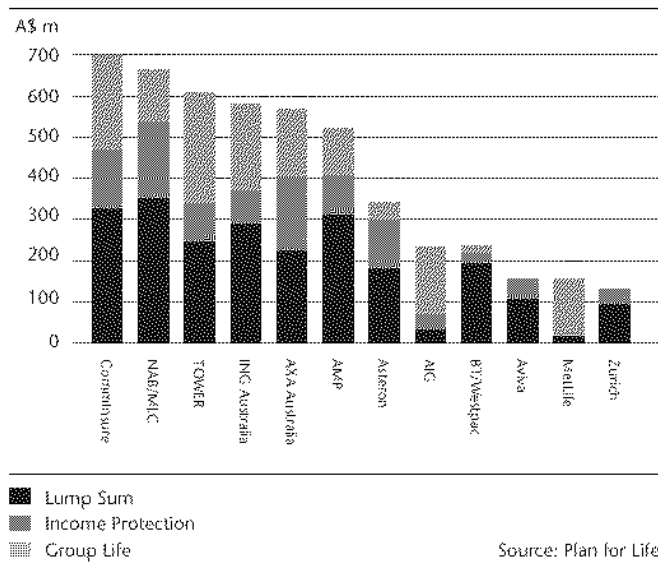
AUSTRALIAN LIFE INSURANCE RISK MARKET
Total New Business Sales year ended 31 March 2006



Source: Plan for Life

AUSTRALIAN LIFE INSURANCE RISK MARKET

Total Life Insurance Risk Premium Inflows as at 31 March 2006



TAL has a broad, diversified life insurance distribution capability in the Australian market spread across Independent Financial Advisers, Mastertrusts, Corporate Funds, Banks, Mortgage Brokers, Direct Distribution and Alliances.

Key Strengths

As a separately listed entity on ASX, TAL's key strengths will include its:

- Strategic positioning as a focussed life insurance specialist
- Broadly based growth strategy covering a number of existing and emerging channels
- Strong market presence and distribution capability
- Business partnership model and relationship management capabilities with dealerships, advisers and reinsurers
- Risk management processes with underwriting and claims management as the keys to driving quality planned margins from new business written
- Strategic focus on and partnership based market position in the Independent Financial Adviser market
- Dedicated alliance strategy with an expanding client portfolio and skills in managing and growing alliance relationships
- Product innovation capability to support all business channels and competitive service levels from both internal and outsourced external service providers
- Niche investment business with \$3 billion funds under management and effective outsourced service and Investment Management arrangements in place

Industry Overview and Trends

Life Insurance

The Australian life insurance risk market increased by 13.1% in 2005 to A\$5.1 billion in premium inflows

(Source: Plan for Life). The prior five years saw growth levels in excess of 11% and strong growth is expected to continue. Approximately 71% of total premiums relate to the retail or individual life insurance policies and 29% of premiums relate to group life policies.

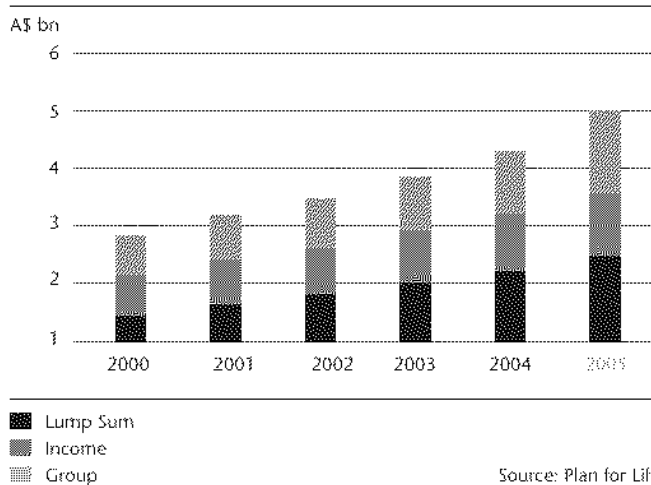
Life Insurance risk market growth rates have been underpinned by market demand for insurance. Market demand has been driven by a number of factors including Australia's continuing strong economic growth, increasing debt and income levels, increasing consumer need for insurance cover, increasing personal wealth and the growth of personal superannuation savings with associated life insurance coverage.

A significant issue in the market remains the sizeable underinsurance gap. The gap is represented by the difference between the life insurance cover held by Australians, and the likely cover that would be required to protect them against financial risk. Industry research released in August 2005 showed the level of underinsurance purely for Term Life insurance in Australian families to be in the order of A\$1.3 trillion. Further industry research in August 2006 showed significant levels of underinsurance relating to Income Protection insurance. Closing the protection gap is expected to result in continuing future growth across the market.

A trend towards further consolidation within the life insurance risk market is expected. The top five companies' combined market share is 65% with the top ten players controlling 95% of the market. Market consolidation has in earlier years helped to deliver economies of scale and to support acceptable returns on business written. Publicly available information reflects continuing improvements in profits and returns to shareholders from life insurers.

TAL believes that the Australian life insurance risk market is an attractive growth market and provides unique opportunities for TAL to build shareholder value by leveraging its expertise and market leading position.

AUSTRALIAN LIFE INSURANCE RISK ANNUAL PREMIUM INFLOWS for December year end

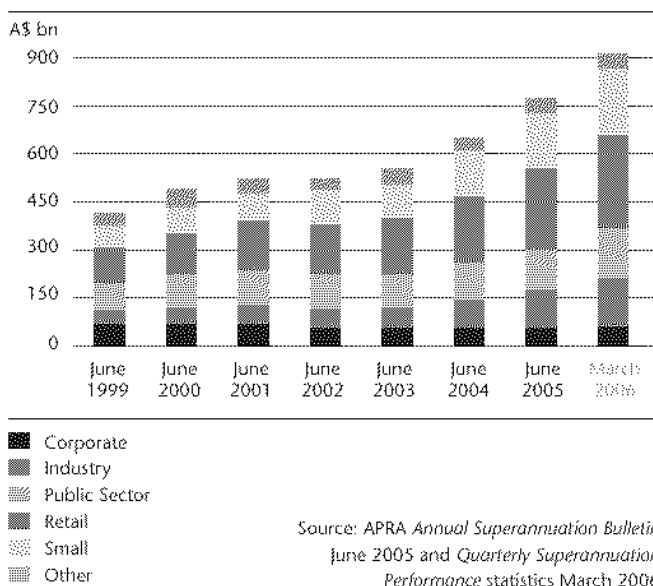


Superannuation

The superannuation market in Australia grew by 24% to A\$905.4 billion in the year to 31 March 2006 as reported by APRA in the *Quarterly Superannuation Performance* statistics March 2006. It is expected the superannuation market will continue to see strong growth, driven by the 9% Compulsory Superannuation Guarantee contributions, the tax advantages of salary sacrifice and the aging population demographics. The 2006 Federal Budget has put a focus back on superannuation, making it simpler and more attractive.

The stronger impact of consumerism on financial services is breaking past paradigms - consumers are becoming more financially aware, which manifests in a discerning view of products and services. Choice, driven by consumers and Financial Services Reform will continue to create opportunities for specialist product providers. Increasing competition and developments in technology will assist distribution efforts in the expanding markets.

SUPERANNUATION ASSETS UNDER MANAGEMENT



TAL – Businesses

TAL is a specialist life insurance provider and niche superannuation and investment supplier, distributing products and services to independent financial advisers, aligned advisers and alliance partners.

In life insurance, TAL focuses on the retail individual, alliances and group sectors. It has a strategy of partnership with distributors aiming to be the preferred provider for its business partners. The major competitive strength of TAL's life insurance businesses is the diversity of its distribution channels combined with its focus as an independent life insurance product provider.

TAL's service proposition continues to strengthen, and this has been recognised by the Customer Service

Institute of Australia (CSIA). In the recent CSIA Australian Service Excellence Awards, TAL received a Highly Commended Award in the NSW State finals and was a National Finalist in the Medium Business category.

In superannuation and investments, TAL is a niche provider offering unique or complementary wealth solutions predominantly to the same advisers and alliance partners distributing its life insurance products.

Life Insurance

Retail Life

Over the past three years TAL has rebuilt its position in the Independent Financial Adviser (IFA) market through its dealership partner strategy and, with the acquisition of PrefSure, it is now in the "Top Tier" of providers to the IFA market in terms of both in-force premium and new business sales. TAL plans to continue its strategy of growing its share of the traditional life insurance market through relationships with IFA's. It has a parallel strategy of endeavouring to grow the overall market and TAL's share of it through alternative distribution channels developed with alliance partners.

Positive progress has been made in the integration of the PrefSure and TAL retail life insurance businesses. The merged business is expected to provide cost synergies and a more diverse and robust retail life insurance distribution model and also strengthen TAL's position in the group life insurance marketplace.

Milestones achieved by the TAL Retail Life Insurance business (excluding PrefSure) in the first half of 2006 included:

- Individual life insurance new business sales of A\$31.8 million growing 16% compared with the same period the previous year
- Individual lump sum life insurance in-force premium increasing 22% to A\$162.3 million
- Lapse rates reducing to 13%, which is in-line with market rates.

The key areas of focus in the Retail Life Insurance business are maintaining sales growth, reducing lapses and ongoing productivity improvements.

Alliances

Building relationships with companies that want to distribute life insurance products are a core part of TAL's strategy.

TAL has a key alliance and strong business relationship with InsuranceLine, which sells simplified insurance policies direct to customers. It also has an equity interest in InsuranceLine and the investment is part of a wider agenda to broaden access for customers to TAL's products and services.

Alliance relationships with other groups such as mortgage brokers (AFG) and private health insurers (Medibank) are building momentum and will continue to be developed to underpin TAL's business model and growth.

TAL has a dedicated alliance team with a broad skills base and strong relationship management capability. The team is focused on diversifying revenue channels and maintaining a consistent pipeline of new initiatives.

Group Life

The merger of PrefSure has significantly boosted TAL's presence in the group life insurance market where the combined business is now the market leader with a 17.2% share of premiums inflows (Source: Plan for Life).

PrefSure is a major player in the combined master trust and group life insurance market and its relationship management model, claims management capability and experienced executive team are well regarded by master trusts and trustees. TAL believes that insurance is seen by master trusts and industry fund trustees as an important component of their product offering. Superannuation will be a significant driver of insurance growth. As an independent life insurance provider TAL believes its merged business is well positioned to benefit from this.

Superannuation and Investments

Investments

TAL participates in the Australian investment markets primarily as a provider of superannuation products and also has non-superannuation investments available through its subsidiary Beacon. The Investments business includes both individual and corporate superannuation schemes, mainly sold and serviced through advisers. It also has a mature investment book which includes life bonds and annuities that are not actively sold today. TAL currently has A\$3 billion in total funds under management.

TAL Investments has an outsourced investment management structure. In 2002 TAL began to remedy a number of system and compliance issues around its Investment business. The company has not had a strategic focus on growth while this remediation occurred. Investment Management has been outsourced to improve the likelihood of competitive returns as have some investment processes to improve service. The strategy for the business has been renewed with a niche focus. The Investment business is launching simple, packaged investment products and solutions which will be aligned with TAL's life insurance distribution channels and overall strategy.

Part of the TAL Investments business is the wholly owned company, Beacon. This company provides products to advisers using outsourced Investment Management and administration. Both superannuation and non superannuation funds are offered with a mix of Masterfund and Wrap account business. It has approximately A\$700m under management.

The Beacon business has won product awards in 2005 and 2006 including The Australian Financial Review Smart Investor Blue Ribbon Award for best non superannuation platform in 2006.

TAL – Vision and Strategy

TAL's vision is to be the leading specialist life insurance business in Australia, offering complementary investment products sold through chosen distribution partners. The vision will be driven through TAL's strategic objectives:

- Enhancing the quality of earnings by developing the most diversified distribution channels in the life insurance market
- Increasing the scale of TAL's earnings by securing major new business and distribution relationships
- Delivering product leadership across all lines and service leadership through both internal and outsourced service platforms
- Strict financial control to manage costs and the capital structure
- Building a credible and profitable investment proposition
- Creating a high performance culture and team.

TAL Board Structure

A stand-alone corporate structure will be in place following implementation of the Proposal. This will involve maintaining an independent Board of Directors and additional resources being applied to maintain TAL's status as a listed entity.

TAL will have a Board of Directors of not less than three nor more than ten Directors and will comprise a majority of independent Directors in accordance with ASX principles of good corporate governance and best practice recommendations (ASX Guidelines). The constitution of TAL authorises a maximum sum of A\$900,000 per annum as remuneration to be paid to the non-executive Directors for services rendered as Directors of TAL and its child entities.

The current TAL Board comprises the existing TOWER Board, RK Barton, WJ Falconer, AI Gibbs, JR Minto, JL Spencer, SA Staley, GH Weiss and DM Wood, together with ML Jefferies. Dr Keith Barton, currently the Chairman of TOWER, will continue as the Chairman of TAL.

It is intended to appoint two new independent Directors based in Australia with local skills and experience. When that occurs, WJ Falconer, AI Gibbs, JL Spencer, SA Staley and DM Wood will retire.

A brief profile of TAL's current Board follows:

Dr Keith Barton

**BSc (Hons, Class 1), PhD (University of NSW)
Independent non-executive director**

Dr Barton joined TOWER's Board in late 2001 and served as Chairman of the Group Audit and Compliance Committee for most of 2003. He has served on public company Boards since 1990 and is currently a director of Air Liquide Australia Limited, Amcor Limited and Coles Myer Limited. He is also on the Board of Vision Australia a not for profit company providing services to the blind and vision impaired.

Dr Barton was previously Chairman of Goodman Fielder Limited, non-executive director of Colonial Limited and Keycorp Limited, and executive director of James Hardie Industries Limited, F.H. Faulding Limited and CSR Limited. Prior to retiring from full-time employment in 1999, he had a long career in a variety of manufacturing industries (BHP, GD Searle, CSR, James Hardie) in Australia and overseas. For the last seven years until retirement he was Chief Executive Officer and Managing Director of James Hardie Industries Limited. He is resident in Sydney, Australia.

Bill Falconer

LLB, CNZM

Independent non-executive director

Mr Falconer joined TOWER's Board in December 2003. He has had a successful career as a public servant, lawyer and company director. He is currently the Chairman of Hellaby Holdings Limited, Kiwifruit International Limited, Oyster Bay Marlborough Vineyards Limited and Restaurant Brands New Zealand Limited, and a director of Westfield Trust (NZ) Limited. He is also a Board member of the New Zealand Symphony Orchestra. Mr Falconer is Chairman of the Meat Industry Association. He is resident in Cambridge, New Zealand.

Tony Gibbs

Non-executive director

Mr Gibbs was elected to TOWER's board in 2003 and brings a 25-year history of a diverse range of management and directorship experience to the Board covering mergers, acquisitions, divestments and restructuring. He is Chairman of Turners & Growers Limited and Staveley Inc, and a director of the following companies: Coats plc, Coats Holdings Limited, Guinness Peat Group plc, Guinness Peat Group NZ Limited, GPG Forests Limited, GPG Shares Limited, Turners & Growers Fresh Limited, Ithaca Custodians Limited, Ezypeel Mandarins Limited, Aeneid Seventeen Limited and Vector Limited. Mr Gibbs was previously chairman of a number of companies including AGB McNair Limited, Tyndall Life NZ Limited, Turners Auctions Limited, Tenon Limited and the New Zealand Guardian Trust Co Limited (deputy chairman). He is a former director of companies including The Colonial Motor Company Limited, Tyndall Australia Limited, Wrightson Limited, Enza Limited, Staveley Industries plc and Rubicon Limited. He is resident in Auckland, New Zealand.

Jim Minto

CA

CEO and Managing Director

Jim Minto joined TOWER in 1988 when he was appointed Managing Director of Trustees Executors, the New Zealand Trust Company then owned by TOWER and later renamed TOWER Trust.

Through to November 2002, Mr Minto held, at various times, the position of Managing Director TOWER Trust, Managing Director TOWER Managed Funds, Managing Director TOWER Health & Life and Chief Executive TOWER New Zealand.

In November 2002, Mr Minto was appointed Chief Executive of TOWER Australia to turn that business around following the loss announcement at that time. He led that business through till early 2005. The competitive position had been restored, restructuring and rebuilding of the competitive position achieved and the business rebuilt to profitability and strong levels of growth.

Mr Minto was appointed TOWER Group Chief Executive Officer with effect from 1 March 2005 and Group Managing Director from October 2005.

Mr Minto has been a member of a number of Boards ranging from school to financial and charitable Boards. He is a director of TOWER Group companies and also a director of AFG in Australia. He will be resident in Sydney, Australia.

John Spencer

BCom, FCA

Independent non-executive director

Mr Spencer joined TOWER's Board in October 2003 and was appointed Chairman of the Group Audit and Compliance Committee on 1 December 2003. He brings to the Board significant financial and commercial expertise gained over many years from senior management positions he has held with a number of major companies in New Zealand and overseas. Prior to the formation of Fonterra, he was the Chief Executive Officer of New Zealand Dairy Group. Mr Spencer is Chairman of Tainui Group Holdings Limited and Telfer Young Limited, Deputy Chairman of the National Institute for Water and Atmospheric Research (NIWA), Solid Energy New Zealand Limited and the Accounting Standards Review Board, and a director of WEL Networks Limited and Waikato Regional Airport Limited. He is a past director of the Institute of Chartered Accountants, receiving the 'Valued Contribution to the Profession' award in 2002. Mr Spencer is resident in Wellington, New Zealand.

Susie Staley

LLB (Otago)

Independent non-executive director

Ms Staley was elected to TOWER's Board in 1996. She served on several due diligence committees for the Group and was Chairman of the capital raising programme in 2003.

A property and business lawyer, Susie Staley has a background in strategic management and brings a wide range of business and corporate experience to the Board. She is currently Chairman of Maritime New Zealand, a director of PGC Wrightson Limited, and Global Technologies (NZ) Limited and a Trustee of University of Otago Foundation Trust. She was formerly the Chairman of Ngai Tahu Property

Management Limited and a director of Dunedin International Airport.

Susie is an Accredited Director and a Fellow of the New Zealand Institute of Directors as well as a Fellow of the NZ Institute of Management. She is resident in Dunedin, New Zealand.

Gary Weiss

**LLB (Hons), LLM (Distinction), JSD
(Cornell University, New York)
Non-executive director**

Dr Weiss was elected to TOWER's Board in 2003, and has considerable international business experience and is a highly respected commercial lawyer in Australia and New Zealand. Presently the executive director of Guinness Peat Group plc, he is Chairman of Ariadne Australia Limited, MEM Group Limited and Coats plc (UK), and is a director of Guinness Peat Group plc (UK), Canberra Investment Corporation Limited, Capral Aluminium Limited, Premier Investments Limited, Tag Pacific Limited, Westfield Management Limited, Westfield Holdings Limited and Westfield America Management Limited. He was formerly a director of Allgas Energy Limited, ASC Limited, Australis Media Limited, The Colonial Motor Company Limited, Metals Exploration Limited, Pacific Sports Entertainment Limited, Physicians Insurance Company of Ohio, Rubicon Limited and Major Events Board (Premier's Department NSW). Dr Weiss was also formerly a director of Industrial Equity Limited and Industrial Equity (Pacific) Limited (until October 1988), and the Australian and international arms of Brierley Investments Limited Group (BIL). He is resident in Sydney, Australia.

Denis Wood

**MA (Hons) Economics
Independent non-executive director**

Denis Wood was appointed to the Board in May 2005 and is Chairman of the Group Investment Committee. He has a wide ranging skill set and extensive experience across a broad range of investment areas from investment management to investment banking. Mr Wood was previously an executive director at Ernst & Young Corporate Finance Limited New Zealand and prior to that an executive director at UBS Warburg. Mr Wood is currently Chairman of Pike River Coal Limited and Chairman of Mercy Healthcare Auckland Limited. He is resident in Auckland, New Zealand.

Michael Jefferies

**BCom, CA
Non-executive director**

Mr Jefferies is a chartered accountant with extensive experience in finance and investment. In recent years he has been an executive director of MEM Group Limited and has previously acted as Managing Director for Aurora Gold Limited and Otter Gold Mines Limited. He is currently Chairman of TAFMO Limited, a non-executive director of Australian Wealth Management

Limited and Metals Exploration Limited, an alternative director of TOWER and a senior executive of GPG. He is resident in Perth, Australia.

Chief Executive Officer and Chief Financial Officer

Mr Jim Minto has been appointed Chief Executive Officer and Managing Director of TAL. Mr John de Zwart has been appointed Chief Financial Officer.

Executive Remuneration

TAL's Board's remuneration policy is to provide market based packages comprising a blend of fixed and incentive based remuneration.

TAL executives employed in TOWER's Australia Business will continue on their current terms and conditions.

TAL's Board will, following listing, introduce a Senior Executive Option Scheme. This will permit the Board to grant options to employees for the issue of TAL Shares. The terms of the scheme are to be finalised but will include appropriate performance hurdles. This scheme will be an important feature in terms of retaining the strong skill base currently within the TAL businesses.

17 Australian Business executives participate in the current TOWER Senior Executive Option Scheme. There are 8,108,757 TOWER options on issue to those executives. If the Proposal is implemented, the options on issue to those executives will be dealt with as described under 'Senior Executive Option Scheme' on page 60.

TOWER's Board has established a bonus pool of NZ\$1.5 million which will be distributed as bonuses to key executives of both TAL and TOWER NZ involved in the successful implementation of the Proposal.

Mr Minto's remuneration terms for TAL are:

- a base salary of A\$850,000 per annum;
- a target bonus of A\$680,000 per annum being 80% of salary on attainment of performance targets to be set by TAL's Board shortly after listing of TAL;
- four million options for TAL Shares at an exercise price of A\$1.88. The exercise period will commence three years after issue of the options. 1,000,000 options will be exercisable if a performance hurdle of a 30% increase in the TAL operating profit in the three years since listing is met. All 4,000,000 options will be exercisable if there is a 100% increase in the TAL operating profit in that period, or in the event of a takeover of TAL.

Mr Minto holds 1,500,000 options to purchase TOWER Shares under the current TOWER Senior Executive Option Scheme, as shown in the following table:

	<i>Number</i>	<i>Exercise Price (NZ\$)</i>
Tranche 1	778,500	\$1.40
Tranche 2	721,500	\$2.13

For more information on the effect of the Proposal on Mr Minto's existing options see 'TOWER Senior Executive Option Scheme' on page 60.

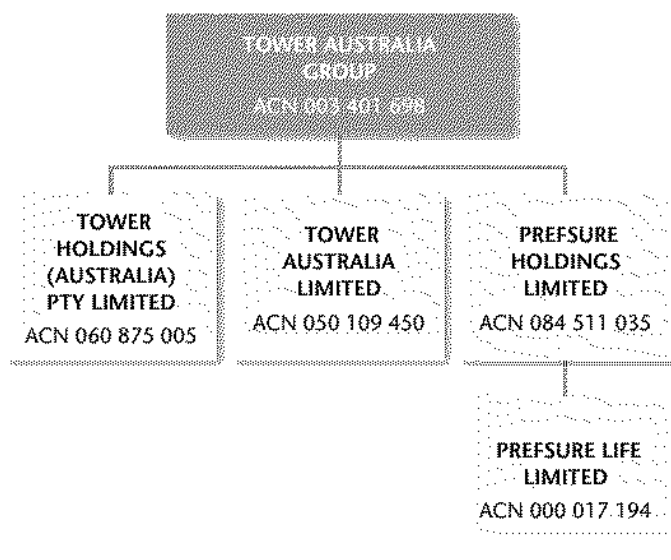
Corporate governance

TAL's Board will have the responsibility for ensuring TAL is properly managed so as to maximise returns to shareholders. To this end, the Board has adopted what it believes to be appropriate corporate governance policies and practices. The main corporate governance policies are summarised under 'TAL's Constitution' on page 85.

Incorporation of TAL

Andric Pty Limited (Andric) (ACN 003 401 698) was incorporated on 28 October 1987 in New South Wales, Australia. Andric has applied for conversion to a public company and the conversion application was gazetted on 5 September 2006. Andric will on conversion adopt the name TOWER Australia Group Limited.

The TAL Group will consist of 15 entities following the completion of separation. TAL's principal subsidiaries will be as set out below.



Material contracts

The Directors consider the following contracts are significant or material to TAL. The main features of the material contracts are summarised in this section.

Licence to use the TOWER name, brand and certain intellectual property

TOWER and TAL propose completing a licence agreement which gives TAL and its subsidiaries the exclusive right to use in Australia for up to five years the following assets of TOWER:

- the 'TOWER' name, brand and logo to the extent used by TAL in Australia; and

- the right to certain other intellectual property rights owned by TOWER, and used by TAL in Australia on 20 November 2006; and

- Australian domain names and website addresses.

TAL may stop using any or all of the licensed assets at any time, and must cease using all of the licensed assets by 19 November 2011. All rights will revert to TOWER NZ on the earlier of the date TAL ceases using them and 19 November 2011. TOWER NZ cannot resume using the assets in Australia within 3 years from TAL ceasing to use them.

Distribution agreement with InsuranceLine

InsuranceLine is a direct distributor of insurance products in Australia. TAL has ongoing arrangements to provide life insurance products to InsuranceLine and for InsuranceLine to sell TAL's products. These arrangements provide a significant amount of TAL's premium income.

Reinsurance

TAL reinsures its policy risks to varying degrees. The reinsurance contracts are spread across a number of substantial global reinsurers, and are on usual commercial terms for such contracts.

Outsourcing arrangements

TAL's investment business is in the process of outsourcing its investment management, custody and administration functions, including unit pricing. The outsource partners are recognised suppliers of these functions. It is expected both outsourcing agreements will be signed by 31 December 2006. The agreements are on arms length commercial terms.

Underwriting Agreement

The proposed Underwriting Agreement with GPG is a material contract. Full details are set out from page 17.

ASX Listing and TAL's Constitution

There is currently one class of TAL Shares. Following implementation of the Separation, there will be 234.3 million ordinary shares on issue and following completion of the Entitlements Offer 334.3 million ordinary shares on issue. The rights attached to TAL Shares are set out in TAL's Constitution, a summary of which is set out under 'TAL's Constitution' on page 85. TAL will immediately following the filing of this document with ASIC, make application for the admission of TAL to the official list of ASX and for both TAL Shares and Entitlements to be quoted.

Dividend policy

TAL's Board intends to consider its dividend policy shortly after Separation. Currently dividends are not being paid by TOWER.

TAL's Board can offer no assurance as to when dividends will be paid or as to the level to which those dividends will be franked. TAL is a holding company

and will be dependent on dividends from subsidiaries to be able to pay dividends to shareholders when declared.

GPG's shareholding

If the Separation is approved, immediately after it is implemented GPG will have a 19.80% shareholding in TAL. GPG will exercise all Entitlements allocated to it in full, and will under the Underwriting Agreement subscribe for any TAL Shares not subscribed for under the Entitlements Offer. If no Entitlements were exercised by shareholders other than GPG, GPG would hold approximately 146.4 million TAL Shares out of a total of 334.3 million TAL Shares. This would represent approximately 43.8% of all TAL Shares after completion of the Entitlements Offer. GPG is entitled to retain those Shares.

Details of the Underwriting Agreement under which GPG must subscribe for additional TAL Shares are set out under 'GPG Underwriting Agreement' from page 17.

Neither GPG, its directors, officers, nor any other person guarantees the performance of TAL Shares, or Entitlements.

Sale of Minimum Holdings

To give shareholders who hold less than A\$500 worth of TAL Shares the opportunity to sell those Shares, and to reduce administration costs, TAL intends to implement a scheme post separation to sell TAL Shares of those shareholders in accordance with TAL's Constitution.

TAL intends to formally notify shareholders of its intention to do this in early 2007.

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Risk Factors of the Offers

What are my risks?

The future performance of TAL and the future investment performance of TAL Shares will be influenced by a range of risk factors. Many of these risk factors are beyond the control of TAL and TAL's Board.

The amount and timing of any dividends that TAL pays will be influenced by a range of risk factors, many of which are beyond the control of TAL's Board.

The principal risks to returns on TAL Shares are set out below. Investors should consider these risk factors below and other information contained in this document. This list of risk factors is not exhaustive and does not detail all risks associated with investment in

TAL Shares, or TAL's businesses.

The principal risks for shareholders who receive TAL Shares under the Proposal are that they may be unable to sell their TAL Shares at or above the value at which they acquired them and they may not receive dividends on those Shares.

The reasons shareholders may not recover the money they pay for TAL Shares in full could include:

- the market price at which TAL Shares can be sold is less than the price at which they were acquired by the holder;
- there is no market for TAL Shares; or
- TAL has been placed in receivership or liquidation.

Whether, and to what extent dividends will be paid will

depend on a number of factors including the financial performance of TAL, future capital expenditure plans and the risk factors set out below.

If TAL is placed in liquidation, its assets, after paying liabilities, may not be sufficient for shareholders to recover the amount of the initial value invested in TAL Shares. Claims by secured and other creditors will rank ahead of claims by shareholders, and shareholders will rank equally with each other.

In the event that TAL becomes insolvent, shareholders will not be liable to pay any further money to any person as a result of that insolvency.

General risks

The price of TAL Shares on ASX and the decision of the TAL Board to pay a dividend may be affected by numerous factors including:

- business performance including sales growth and lapse rates;
- mortality and morbidity experience;
- general economic conditions, including fluctuation of inflation rates, interest rates and employment levels;
- investment market fluctuations;
- changes to government policy, legislation or regulation;
- the nature of competition in the markets in which TAL operates; and
- general operational, compliance and business risks.

Changes in economic conditions

Changes in economic conditions can impact on the financial results of TAL through changes in consumer demand for TAL's products and services and in investment returns. TAL cannot predict the impact future economic conditions will have on its businesses. There can be no assurance that future conditions will not materially adversely affect TAL's profitability.

Investment markets

TAL is exposed to investment markets and associated investment market movements. The exposure arises from TAL's investment of policyholders', customers'

and shareholders' funds. There is a risk that markets could fall or the level of investment returns decline, which would negatively impact TAL's income.

Compliance

Regulatory compliance has been an area of much focus recently throughout the Australian financial services industry. Some of the key consequences of this focus have been increased levels of monitoring by regulators, new licensing requirements and increasing industry awareness around risk management practices. Licences issued by APRA and ASIC are critical to TAL's ability to carry on its businesses. From time to time compliance issues arise in the operation of the TAL businesses. Such issues could arise in the future resulting in increased costs and management time to rectify, reputation loss and, in extreme circumstances, loss of licences.

Changes in government policy

Australian financial services providers, including TAL, operate in a highly regulated environment that is exposed to changes in government policy. Regulatory and policy changes may affect TAL's strategies and the costs of implementing them.

Business-specific risks

Business performance

Competition in the life risk market has intensified in recent years and resulted in reduced margins for some TAL products. TAL's success in implementing its strategies to both grow revenue and reduce unit costs is integral to its performance. Any material reduction in sales volumes or product margins, or increased unit costs could have a significant adverse impact on TAL's financial performance and returns to shareholders.

TAL's strategy plan includes outsourcing certain business functions. There is a risk the suppliers of the outsourced services may perform poorly. The procedures involved in converting internal functions to an outsourcing arrangement can result in data or other historical errors becoming apparent. This could adversely affect TAL through lost business, compliance issues and brand damage.

Profit volatility

The introduction of IFRS has increased the volatility of TAL's profits. Some of the reporting standards require certain financial information to be calculated in a way that can produce significant changes between different reporting periods.

Failure to realise benefits of PrefSure purchase

TAL purchased PrefSure Life Limited, a subsidiary of PrefSure Holdings Limited, on 31 March 2006 for A\$128 million. The extent to which TAL obtains full value from the purchase will depend upon how successful TAL is integrating the PrefSure businesses with its own and extracting business synergies. There is a risk integration will not result in the benefits expected or result in service failures to TAL's customers

or distribution partners resulting in lost business or brand damage. This could reduce the value of PrefSure, and consequentially TAL's value.

In particular, there are some IT contracts where contractual terms have not been fully agreed following the acquisition and are still under discussion with suppliers. If the IT systems were to become unavailable to TAL, or contractual terms were non-commercial, then TAL's service to its customers or financial performance could be adversely affected.

Unit pricing errors

Systems failures or errors in unit pricing in managed funds is an industry wide issue which has resulted in significant costs and brand damage to a number of financial services organisations. TAL businesses have had unit pricing errors in the past, some of which resulted in enforceable undertakings being provided to ASIC. It is possible other undetected errors exist particularly in conjunction with the planned outsourcing of this activity. Further errors could result in financial and reputation loss for TAL, and regulatory intervention.

Legacy risks

Compliance errors are often identified in older financial products and systems which are complex or require significant manual processes. TAL has a number of historical complex products and manual processes which may have undetected compliance breaches. The costs to rectify compliance breaches can be material in both compensation costs to policyholders and rectification costs. Further material compliance breaches could result in TAL's financial performance and brand being adversely affected.

Systems risk and information technology

TAL and its operating subsidiaries are reliant on information technology systems to carry on business. Some of these systems are coming to the end of their useful life and will need to be replaced or the products they support migrated to alternate systems. Some inaccuracies have occurred in the group life portfolio. As a consequence TAL is currently scoping projects to update or replace some of these systems. These projects have significant associated risks including: legacy system failures, failed implementation, unexpected costs to migrate data, install and run new systems, or in migrating clients from one product to another, which could adversely affect TAL's profitability.

TAL has contracts with a number of software and software service providers for the provision of software or software services critical to the ongoing operations of the business. Many of these systems are of an age or are customised to an extent that alternate service providers may not be available or are limited. This increases TAL's risks and potential costs associated with the software.

Reliance on key personnel

TAL has qualified and experienced management personnel. There are a number of key senior executives actively involved in major strategic decisions and who are integral to the control and profitability of TAL's operations. The loss of any of these key management personnel may have an adverse impact on financial performance.

Brand and reputation

Poor financial performance or compliance issues, and any resulting negative media coverage and changed public and customer perceptions, may impact on brand reputation. Damage to TAL's reputation may have an adverse effect on its overall performance.

Capital requirements

TAL has been successful in growing its life risk business. Such business is capital intensive. Should TAL's life business continue to experience high levels of growth, TAL could require additional external capital.

Taxation risks

Taxation laws applicable to life insurers are complex, and, in many areas unclear. These laws are also amended frequently by the relevant legislatures, and the administrative practices of collection authorities frequently change. This environment means that TAL's position, and the industry generally could be challenged on a range of tax related matters for varying periods of up to eight years following the relevant transaction.

Successful challenges by any taxing authority can result in an increased tax liability plus the imposition of interest and penalties. The imposition of these additional imposts could reduce the returns to shareholders. Challenges can arise in the areas of general corporate tax, superannuation taxes, GST, withholding taxes on policy payments and stamp duties on life insurance products. TAL monitors its tax compliance on an ongoing basis to identify and provide where appropriate for any tax liabilities.

Completion Risks

Completion of the Proposal is subject to the following completion risks:

- shareholder approval to the Resolutions, and Court approval may not be given, in which case the Proposal will not be implemented in its current form;
- regulatory approvals sought but not obtained at the date of this document may not be obtained. In particular, TOWER has sought rulings from the ATO and the New Zealand Inland Revenue Department (IRD) to clarify the taxation impacts to TOWER and Shareholders of the Proposal.
- any shortfall of TAL Shares subscribed for under the Entitlements Offer must be taken up by GPG as Underwriter. If any ongoing condition in the Underwriting Agreement is not met or if GPG defaults in completing, and the Underwriting

Agreement is terminated, TOWER will not proceed with the Proposal.

→ Proforma Financial Information Regarding TAL

The following proforma financial information regarding TAL should be read in conjunction with the sections 'Overview of TAL after Separation' on page 19 and the 'Independent Accountant's Report' on page 47. These proforma financial statements do not purport to represent what the results of the operations would have actually been had TAL been operating on a stand-alone basis for each of the financial years, or to project results of operations for any future period.

The historical proforma financial information has been derived from the published financial information for the years' ended 30 September 2004 and 2005, along with the half year period to 31 March 2006. The 2004 and 2005 financials were prepared and audited in accordance with accounting standards in operation at those times. Those financials have been amended to the current financial reporting base, Australian equivalents to International Financial Reporting Standards (AIFRS). TAL's auditor, PricewaterhouseCoopers Australia has reviewed the adjustments to AIFRS and has provided an unqualified review opinion.

The proforma historical information for the six months ended 31 March 2006 was sourced from TOWER's consolidated financial statements at that time. Those financials were prepared in accordance with New Zealand equivalents to International Financials Reporting Standards (NZIFRS) that in TOWER's case are consistent with AIFRS. Those financial statements have been reviewed by TOWER's auditors PricewaterhouseCoopers Australia and are available on the TOWER website www.towerlimited.com or phone 0800 104 124 (New Zealand) or 1800 309 428 (Australia) for your free copy.

It should be noted that TAL acquired the PrefSure Holdings Limited consolidated group (PrefSure) effective 31 March 2006. PrefSure's net assets have been included in TAL's proforma Balance Sheet as at 31 March 2006, however no PrefSure revenue has been included in the 2004 and 2005 financial years or the 6 months ending 31 March 2006 proforma Income Statement.

TAL's proforma Income Statements have been prepared to illustrate how the financial performance of the continuing TAL businesses may have looked allowing for proforma adjustments to reflect:

- Business disposals that will not be a part of the stand-alone group
- The restructure of the New Zealand and Australian companies
- Net change in financing costs
- Incremental costs as a result of being a stand-alone entity

Details of these proforma adjustments are outlined in note 2 of the Proforma Financial Statements.

The proforma Balance Sheet has been prepared to illustrate how TAL's financial position would appear after the proforma adjustments are taken into account. The proforma Balance Sheet is based on 31 March 2006 financial statements (being the most recently reviewed) with proforma adjustments as if the separation had occurred at that date that reflect:

- The implementation of the Separation, including the transfer of certain businesses between TOWER and TAL and the repayment of intercompany funding
- The Entitlements Offer and net increase in debt
- Transaction costs of the Proposal

As such it does not incorporate the operating result or changes in the mix of assets or liabilities occurring after 31 March 2006.

Proforma consolidated Income Statement for TAL

		12 months ended 30 Sep 04	12 months ended 30 Sep 05	6 months ended 31 Mar 06
	Note	A\$000	A\$000	A\$000
Revenue from continuing operations				
Premium revenue from insurance contracts		231,437	258,355	145,721
Less: Outwards reinsurance expense		(65,019)	(65,630)	(41,507)
Net premium revenue	3	166,418	192,725	104,214
Investment revenue	4	273,830	353,436	226,359
Fee and other revenue	5	17,940	14,099	7,386
Net operating revenue		458,188	560,260	337,959
Claims expense		108,071	115,478	56,797
Less: Reinsurance recoveries revenue		(50,177)	(48,423)	(25,364)
Net claims expense	6	57,894	67,055	31,433
Change in life insurance contract liabilities		(19,332)	15,320	3,852
Change in life investment contract liabilities		189,566	214,124	155,548
Management and sales expenses	7	175,856	191,444	98,838
Net claims and operating expenses		403,984	487,943	289,671
Financing costs		9,960	11,477	5,875
Share of net profits from associates and joint ventures		-	37	19
Proforma Profit before taxation		44,244	60,877	42,432
Income tax expense	8	32,065	33,786	24,748
Proforma Profit for the period		12,179	27,091	17,684
Profit attributable to minority interests		109	810	-
Proforma Profit for the period attributable to shareholders		12,070	26,281	17,684

Proforma consolidated Balance Sheet for TAL

	As at 31 Mar 06	
	Note	A\$'000
Assets		
Cash and cash equivalents		42,226
Receivables	9	122,385
Financial assets at fair value through profit or loss	10	3,186,763
Available for sale financial assets		2,498
Deferred acquisition costs	11	71,643
Investments accounted for using the equity method		914
Property, plant and equipment		5,263
Assets arising from reinsurance contracts		141,756
Deferred tax asset		61,402
Intangible assets	13	155,501
Total assets		3,790,351
Liabilities		
Payables	14	173,380
Current tax liabilities		10,342
Provisions	15	22,938
Interest bearing liabilities	16	134,685
Insurance provisions		26,007
Deferred tax liability		78,562
Other liabilities		10,923
Deferred revenue liability		103,909
Life insurance contract liabilities	17	564,775
Life investment contract liabilities	17	2,185,659
Total liabilities		3,311,180
Net Assets		479,171
Equity		
Contributed equity		400,597
Retained profits		78,574
Total Equity		479,171

Proforma consolidated statement of cash flow for TAL

	<i>12 months ended 30 Sep 04 A\$000</i>	<i>12 months ended 30 Sep 05 A\$000</i>	<i>6 months ended 31 Mar 06 A\$000</i>
Cash flows from operating activities			
Premiums received	562,182	397,787	199,537
Interest received	83,370	79,116	48,231
Dividends received	33,770	37,154	17,376
Investment income	14,353	18,243	7,442
Non-life company fee income	66,463	22,807	25,139
Claims expenses	(580,393)	(378,687)	(191,576)
Payments to suppliers and employees	(208,617)	(166,000)	(157,407)
Interest paid	(1,118)	(1,240)	(1,157)
Income taxation paid	(10,402)	(29,169)	(2,691)
Net cash outflow from operating activities	(40,392)	(19,989)	(55,106)
Cash flows from investing activities			
Net receipts/(payments) for financial assets	(7,313)	(111,606)	78,486
Payments for property, plant and equipment	(154)	(398)	-
Payment for controlled entity net of cash acquired	-	-	(109,811)
Proceeds from sale of controlled entity	-	119,880	-
Net cash inflow/(outflow) from investing activities	(7,467)	7,876	(31,325)
Cash flows from financing activities			
Entitlements Offer	-	-	160,000
Borrowings paid	-	(54)	(259,673)
Borrowings received	2,800	-	235,000
Net transaction financing costs	-	-	(10,400)
Net cash inflow/(outflow) from financing activities	2,800	(54)	124,927
Net increase/(decrease) in cash and cash equivalents	(45,059)	(12,167)	38,496
Cash and cash equivalents at beginning of period	60,956	15,897	3,730
Cash and cash equivalents at end of period	15,897	3,730	42,226

The proforma cashflow for the six months to 31 March 2006 has been adjusted to reflect the proforma adjustments outlined within this document, including:

- The Entitlements Offer
- Net repayment of internal and external funding
- Transaction costs of the Proposal.

Notes to the Proforma Financial Statements

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

This special purpose proforma financial report has been prepared in accordance with the recognition and measurement requirements, but not all disclosure requirements, of AIFRS. The proforma financial statements are prepared in Australian dollars and values are rounded to the nearest (\$'000) unless stated otherwise.

Proforma Income Statement

The proforma financial information has been reviewed by Ernst & Young in their capacity as the Independent Accountant. Refer to Ernst & Young's report on pages 47 to 56. As this information has been presented in accordance with Australian equivalents to IFRS and the accounting policies below, it differs to the audited financial statements prepared at 30 September 2004 and 30 September 2005 in accordance with accounting policies in existence at that time.

The proforma Income Statements reflect additional costs that may have been incurred if TAL had operated as a separately listed entity during the periods. These costs would have included share registry costs, ASX listing costs, annual shareholder reports, Managing Director, Investor Relations and Board related fees. They have also been prepared excluding the performance of disposed businesses.

There have been no adjustments to the proforma Income Statements to recognise the one-off costs arising on the separation of TAL.

The proforma Income Statements include net interest income which may have been earned if the separation and Entitlements Offer had occurred throughout the reported periods.

Proforma Balance Sheet

The proforma financial information provided has been extracted from the TOWER Limited Consolidated Financial Statements as at 31 March 2006 as reviewed by PricewaterhouseCoopers. The proforma Balance Sheet has been adjusted for:

- The restructure of New Zealand and Australian companies that will occur prior to or on Separation
- The Entitlements Offer and net increase in debt
- Transaction costs of The Proposal.

Specific Accounting Policies

Principles Underlying Conduct of Life Insurance Business

The life insurance operations of TAL 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 contracts 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.

For the purposes of this financial report, holders of life insurance and life investment contracts are referred to as policy holders.

(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.

(b) Fee and other revenue

Fee revenue on investment contracts and other services provided by TAL 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.

(e) Basis of expense apportionment

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

(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 Appointed 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.

(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) 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.

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 TAL 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

TAL is the head entity of the tax consolidated group comprised of TAL and its wholly-owned subsidiaries.

(i) Assets backing insurance businesses

TAL 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. As these assets are managed under TAL'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 TAL, is carried at fair value supported by independent valuations carried out six monthly.

(j) Other financial assets

Other financial assets are carried at historic cost.

(k) Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over TAL'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 TAL'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 TAL 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 TAL at which the goodwill is monitored for internal management

purposes; and

- is not larger than a segment based on either TAL's primary or TAL's secondary reporting format determined in accordance with AASB 114 '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.

Book Value of In-force Business

Book Value of in-force business represents the amount paid by TAL to purchase in-force life policies within a business combination in excess of the net assets of the business acquired. The book value of in-force business has a finite useful life and is carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated to allocate the cost of in-force business over the estimated useful lives which vary from 8 to 20 years from date of acquisition.

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.

(l) 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.

(m) 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 Instrument Liability recognised upon receipt. As there are few entry fees, the focus for TAL is the difference between the premium and the increase in the Financial Instrument 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.

(n) 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 life insurance contract liabilities are reviewed at each reporting date.

(o) Cash & Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Note 2 Proforma Adjustments

The following adjustments have been made in preparing the proforma Income Statement.

		12 months ended 30 Sep 04	12 months ended 30 Sep 05	6 months ended 31 Mar 06
	Note	A\$000	A\$000	A\$000
TOWER operating profit after tax as per the auditor reviewed financial statements	(i)	36,594	109,545	29,616
Less: TOWER (excl TAL)		(5,324)	(68,673)	(8,940)
TAL operating profit after excluding TOWER		31,270	40,872	20,676
TAL proforma adjustments				
Discontinued operations	(ii)	(12,279)	(8,056)	-
NZ/Australia Restructure	(iii)	150	637	466
Net Change to Financing Costs	(iv)	(274)	(274)	(137)
Incremental Stand Alone Costs	(v)	(6,797)	(6,898)	(3,321)
Total proforma adjustments		(19,200)	(14,591)	(2,992)
Proforma operating profit after income tax		12,070	26,281	17,684

(i) Conversion of TOWER Limited to AUD

	12 months ended 30 Sep 04	12 months ended 30 Sep 05	6 months ended 31 Mar 06
	\$000	\$000	\$000
TOWER operating profit after per auditor reviewed financial statements:			
continuing operations	NZ\$24,351	NZ\$38,433	NZ\$32,460
- discontinued operations	NZ\$16,900	NZ\$80,897	-
Operating profit after tax	NZ\$41,251	NZ\$119,330	NZ\$32,460
Operating profit after tax	A\$36,594	A\$109,545	A\$29,616
AUD/NZD exchange rate	0.8871	0.9180	0.9124

(ii) Discontinued Operations

During 2004 and part of 2005 TAL had an investment in Bridges, a company that was divested as part of the AWM separation. This adjustment removes the shareholder profit of Bridges prior to disposal.

(iii) NZ/Australia Restructure

Immediately prior to the Separation an associated company, THA and its subsidiary TAML will be transferred to TAL. These companies are currently held by an associated New Zealand company. THA is a funding vehicle for intercompany loans between Australia and New Zealand. TAML's sole activity is a fund manager for TOWER Australia Limited. This adjustment adds back the historical profit of TAML to make the results more comparable to the earnings of the continuing business.

(iv) Net Change in Financing Costs

The financing of TAL will change as a result of the Separation and Entitlements Offer. Intercompany loans with TOWER will be repaid from the new debt funding and the Entitlements Offer. This adjustment reflects the after tax increase in interest expense that may have been recognised had the new funding been in place throughout the proforma Income Statement period.

(v) Incremental Stand Alone Costs

The Australian operations were not previously allocated any costs for functions such as share registry costs, ASX listing costs, Shareholder related costs, Managing Director, Investor Relations and Board related fees. This adjustment reflects the estimated after tax cost of managing such functions in the separated Australian environment.

The following schedule outlines adjustments that have been made to the extracted TAL section of the TOWER 31 March 2006 balance sheet to derive the proforma Balance Sheet of TAL on a stand-alone basis.

Proforma Consolidated Balance Sheet As at 31 March 2006

	TAL	TAL	Internal Restructure	Capital and Debt Raising	Loan Repayment	Transaction Costs	TAL
	NZ\$000	A\$000	(i) A\$000	(ii) A\$000	(iii) A\$000	(iv) A\$000	Proforma A\$000
Assets							
Cash and cash equivalents	18,497	15,879	1,420	295,000	(259,673)	(10,400)	42,226
Receivables	165,492	142,075	51,285		(70,975)		122,385
Financial assets at fair value through profit or loss	3,681,780	3,160,808	25,956				3,186,763
Available for sale financial assets	2,910	2,498					2,498
Deferred acquisition costs	83,452	71,643					71,643
Other assets	1,064	914					914
Property, plant and equipment	6,100	5,237	26				5,263
Assets arising from reinsurance contracts	165,121	141,756					141,756
Deferred tax asset	69,086	59,311	2,091				61,402
Intangible assets	181,131	155,501					155,501
Total assets	4,374,633	3,755,621	80,778	295,000	(330,648)	(10,400)	3,790,351
Liabilities							
Payables	473,694	406,666	(2,638)		(230,648)		173,380
Current tax liabilities	14,128	12,129				(1,787)	10,342
Provisions	25,955	22,282	656				22,938
Interest bearing liabilities	116,482	100,000		135,000	(100,000)	(315)	134,685
Insurance provisions	30,293	26,007					26,007
Deferred tax liability	91,511	78,562					78,562
Other liabilities	12,723	10,923					10,923
Deferred revenue liability	121,036	103,909					103,909
Life insurance contract liabilities	657,863	564,775					564,775
Life investment contract liabilities	2,545,905	2,185,659					2,185,659
Total liabilities	4,089,590	3,510,912	(1,982)	135,000	(330,648)	(2,102)	3,311,180
Net Assets	285,043	244,709	82,760	160,000	-	(8,298)	479,171
Equity							
Contributed equity	268,576	230,572	14,760	160,000		(4,735)	400,597
Retained profits	16,467	14,137	68,000			(3,563)	78,574
Total Equity	285,043	244,709	82,760	160,000	-	(8,298)	479,171

(i) Internal Restructure

Immediately prior to the Separation an associated company, THA and its subsidiary TAML will be transferred to TAL. These companies are currently held by an associated New Zealand company. The transfer will occur in such a way that TOWER NZ's net assets will decline by A\$82.8 million and TAL's increase by A\$82.8 million. This amount has been calculated to achieve the required levels of working capital in TOWER NZ and TAL.

(ii) Capital and Debt Raising

The A\$160m Entitlements Offer and new debt of A\$135m will result in A\$295m of additional cash. That cash will be utilised to repay debt, fund working capital and pay for costs associated with this transaction.

(iii) Loan Repayments

This adjustment reflects the planned repayment of current external debt of A\$100m as well as net intercompany debt with TOWER NZ entities of A\$160m.

(iv) Transaction costs

As the estimated transaction costs are 'one-off' in nature the historical and estimated operating results have not been adjusted for these costs but the capital usage has been reflected in the Balance Sheet by reducing the level of net surplus cash.

	<i>12 months ended 30 Sept 2004</i>	<i>12 months ended 30 Sep 2005</i>	<i>6 months ended 31 Mar 2006</i>
	A\$000	A\$000	A\$000

Note 3 Premium Revenue

Life insurance premiums	208,334	265,619	148,818
Life investment premiums	432,256	191,620	92,540
Total life premium revenue	640,590	457,239	241,358
Less: Deposits recognised as an increase in policy liabilities	(409,153)	(198,884)	(95,637)
Life insurance premiums recognised as revenue	231,437	258,355	145,721
Less Reinsurance ceded	(65,019)	(65,630)	(41,507)
Total net premium revenue	166,418	192,725	104,214

Note 4 Investment Revenue

Fixed interest	86,849	107,407	47,366
Equities	147,188	216,216	161,738
Property	41,528	29,805	16,702
Other investment revenue	(1,735)	8	553
Total investment revenue	273,830	353,436	226,359

Note 5 Fee and Other Revenue

Fee and Other Revenue			
Investment and management fees	11,634	9,244	4,981
Other revenue	6,306	4,855	2,405
Total fee and other revenue	17,940	14,099	7,386

Note 6 Claims Expense

Life insurance claims	104,200	179,816	78,756
Life investment contract payments	529,524	243,397	140,516
Total life claims and payments	633,724	423,213	219,272
Less: Withdrawals recognised as a decrease in policy liabilities	(525,653)	(307,735)	(162,475)
Life insurance claims recognised as expense	108,071	115,478	56,797
Less: Reinsurance proceeds received	(50,177)	(48,423)	(25,364)
Net Claims expenses	57,894	67,055	31,433

Note 7 Management and Sales Expenses

Life company acquisition costs	27,850	30,179	14,802
Life company maintenance expenses	56,315	62,608	30,962
Total Life company management expenses	84,165	92,787	45,764
Non Life company management expenses	23,034	16,428	12,374
Total Management Expenses	107,199	109,215	58,138
Stamp duty costs	7,256	7,552	4,032
Commission acquisition costs	27,228	34,521	17,527
Commission maintenance costs	34,173	40,156	19,141
Total Management and Sales Expenses	175,856	191,444	98,838

Note 8 Taxation

	<i>12 months ended 30 Sept 2004</i>	<i>12 months ended 30 Sep 2005</i>	<i>6 months ended 31 Mar 2006</i>
	<i>A\$000</i>	<i>A\$000</i>	<i>A\$000</i>
Profit before taxation			
Continuing operations	44,244	60,877	42,432
Income tax at the current rate of 30 percent	13,273	18,263	12,730
Taxation effect of:			
Policyholder tax and other permanent tax differences due to transitional tax relief	20,834	14,934	12,145
Recognition of prior period current tax	-	536	-
Other	(2,042)	53	(127)
Taxation expense	32,065	33,786	24,748
			<i>As at 31 March 2006</i>
			<i>A\$000</i>

Note 9 Receivables

Reinsurance recoveries receivable	38,851
Outstanding premiums and trade receivables	37,987
Prepayments	1,445
Unsettled investment transactions	33,318
Investment income accrued	7,611
Other	3,173
Total receivables	122,385

Note 10 Financial assets at fair value through the profit or loss

Interest bearing securities	1,809,755
Equity investments	1,139,621
Property investments	237,387
Closing balance	3,186,763

Note 11 Deferred Acquisition Costs

Opening balance	75,156
Acquisition costs deferred during the period	601
Current period amortisation	(4,114)
Closing balance	71,643

Note 12 Subsidiaries

TAL controlled the following subsidiary companies as at 31 March 2006:

<i>Name of Company</i>	<i>Holding</i> 31 Mar 06	<i>Nature of Business</i>
TOWER Group (Australia) Pty Limited	100%	Holding company
TOWER Australia Limited	100%	Life insurance and investment
PrefSure Life Limited	100%	Life insurance and investment
TOWER Distribution Management Limited	100%	Holding company
Pivotal Financial Advisors Limited	100%	Dealer group (distribution)
TOWER Advisor Services Limited	100%	Dealer group (distribution)
TOWER Direct Pty Limited	100%	Dealer group (distribution)
Beacon Investment Management Services Limited	100%	Investment services (distribution)
Security & General Nominees Pty Limited	100%	Trustee of superannuation funds
TOWER Australian Superannuation Ltd	100%	Trustee of superannuation funds
TOWER Managed Funds Limited	100%	Responsible entity for managed funds
TOWER Asset Management Limited	100%	Responsible entity for managed funds
TOWER Risk & Investment Management Limited	100%	Service company for the TAL group
TOWER Holdings (Australia) Pty Limited	100%	Holding company
PrefSure Holdings Limited	100%	Holding company

These companies are currently in the process of being wound up.

<i>Name of Company</i>	<i>Holding</i> 31 Mar 06	<i>Nature of Business</i>
PrefSure Direct Pty Limited	100%	Dormant
PrefSure Financial Services Limited	100%	Dormant
PrefSure Business Solutions Pty Limited	100%	Dormant
ORIS Funds Management Limited	98%	Dormant
TOWER Superannuation Pty Limited	100%	Dormant

Note 13 Intangibles

	<i>As at</i> <i>31 Mar 2006</i> A\$000
Intangible assets	
Value of PrefSure's in-force business	32,049
Software license	6,643
Goodwill	
TOWER Australia Limited	105,549
PrefSure Holdings Limited	10,075
Beacon Investment Management Services Ltd	1,185
Goodwill	116,809
Total intangible assets	155,501

Key financial indicators are considered when testing TAL's goodwill for impairment, these include cash flows, growth in written premium volumes and the net assets of the business units.

An analysis of these key indicators and other valuations performed for the current year confirm that at 31 March 2006 there has been no impairment of the value of goodwill.

As at
31 March 2006
A\$000

Note 14 Payables

Trade payables	78,206
Accrued investment purchases	79,471
Reinsurance premiums payable	9,300
Commission payable	3,264
Other payables	3,139
Total payables	173,380

Note 15 Provisions

Employee benefits	12,385
Stamp duty	8,296
Other	2,257
Total provisions	22,938

Note 16 Interest Bearing Liabilities

Capitalised establishment costs	(285)
External borrowings - bank debt	135,000
Total interest bearing liabilities	134,715

The external borrowings – bank debt is the \$135m debt referred to in Stage 4 under the heading ‘Implementation of the Proposal’ on page 12 of this document. The interest on this debt is calculated with reference to the published BBSY bid rate plus a margin. There are two tranches to the facility. Tranche 1 has a term to maturity of three years and Tranche 2 has a term to maturity of five years.

Note 17 Policyholder Liabilities and Life Insurance Contracts

(a) Insurance Business – Policyholder liabilities represent:

Value of policy liabilities - Projection Method

Future policy benefits	1,774,891
Future bonuses	67,229
Future expenses	824,819
Reinsurance	236,270
Future profit margins	265,820
Future premiums	(2,838,367)
	330,662

Value of policy liabilities - Accumulation Method

Future policy benefits	175,938
Future charges for acquisition expenses	(5,504)
	170,434
Unvested policyholder benefits	63,679
Gross policyholder liabilities	564,775

(b) Investment Business – Policyholder liabilities represent:

Investment Contract Liability	2,183,028
Unvested policyholder benefits	2,631
Total policyholder liabilities	2,185,659

Note 18 Contingent Liabilities

The estimated maximum amounts of unsecured contingent liabilities not provided for in the financial statements are:

(i) AFS licence guarantee	60
(ii) RSE licence guarantee	5,000
(iii) Investment commitments	1,848
(iv) Legal disputes	190
Total contingent liabilities	7,098

(i) AFS licence guarantee

TAL has provided guarantees to the Australian Securities & Investments Commission relating to the Australian Financial Services Licences of three of its subsidiaries to the value of A\$20,000 per licence.

(ii) RSE licence guarantee

TAL has provided a guarantee to the Australian Prudential Regulation Authority relating to the Registrable Superannuation Entity Licence of one of its subsidiaries to the value of A\$5,000,000.

(iii) Investment commitments

TAL has partly paid shares in various investments that it is committed to paying further calls on capital (if any) made by the investee.

(iv) Legal disputes

All legal disputes are client related. Each claim is assessed and a provision raised when it is probable that the claim will be paid. TAL does not raise a provision where it is unlikely that the dispute will be upheld in TAL's favour.

Buyer of last resort facility

The consolidated entity has contractual agreements with its advisers to provide a "Buyer of last resort facility" should an adviser want to sell their business and on the satisfaction of certain circumstances. The terms and conditions provide that on the satisfaction of specific requirements, the adviser's book of business will be purchased for a price based on the adviser's recurring income stream from the consolidated entity. It is possible that the market value or resale value of such a business purchased may be less than the cost to consolidated entity. Due to the uncertainty of these circumstances arising no value has been placed on the contingent liability.

No material losses are anticipated in respect of any of the above contingent liabilities.

Proforma forecast financial information for the year ending 30 September 2006 for TAL after the Separation

Introduction

The proforma forecast financial information (Forecast) for the year ending 30 September 2006 has been prepared in accordance with the measurement and recognition but not disclosure requirements of Australian equivalents to IFRS and consistent with TAL's accounting policies set out in the TAL proforma historical financial information in this section.

This information was prepared by TAL's Board and management to assist Shareholders and prospective Shareholders assess the prospects of TAL's businesses. Subject to the continuous disclosure requirements imposed upon publicly listed companies, TAL does not intend to update this information or to publish forecast financial information in future.

The Forecast for the year ending 30 September

2006, shown on page 40, relates to the continuing businesses that will comprise TAL. The Forecast incorporates the pro forma historical financial information for the six months ended 31 March 2006 together with forecast financial information for the six months ending 30 September 2006. A summary of the adjustments made in arriving at the proforma forecast net profit after tax for the year ending 30 September 2006 is shown on page 41.

The Forecast was prepared based on an assessment of present economic and operating conditions, and on a number of assumptions concerning future business performance and other estimates, expectations and assumptions developed by TAL including the key assumptions set out below. TAL believes it has used due care and attention in the preparation of the Forecast and considers these assumptions to be reasonable when viewed in totality. However, this information is subject to economic, regulatory, political and other risks and uncertainties, many of which are outside the control of TAL and not capable of precise prediction.

Although the assessment by TAL's Board and management is based on best estimate assumptions, shareholders and prospective shareholders are cautioned that the Forecasts will vary from the actual results and may vary materially. Factors that could cause such differences include, but are not limited to, those discussed under 'Business-Specific Risks' on page 27 of this document.

The Forecasts are a statement of the present belief of TAL's Board and management as to TAL's prospects for the year ending 30 September 2006. It is not a representation by TAL's Board or management or any other person that the results set out in this section will be achieved.

The Forecasts are forward looking and should be read together with the basis of preparation, best estimate assumptions underlying its preparation and sensitivity analysis set out in this section, the risk factors described on pages 26 to 28 and other information about TAL contained in this document.

A report on forecast financial information by the Independent Accountant, Ernst & Young Transaction Advisory Services Limited, is set out in section 3.

As previously noted, TAL acquired PrefSure Holdings Limited (PrefSure) effective 31 March 2006. TAL's Income Statement only incorporates PrefSure's results from 1 April 2006. No results from PrefSure have been included in the six months ended 31 March 2006.

The contract for the transfer of THA and TAML is expected to become effective on 20 November 2006. Notwithstanding THA and TAML will not be acquired until 20 November 2006, the forecast profit for 2006 includes the full 12 months' results from TAML.

Basis of preparation

The Forecasts have been prepared using assumptions that reflect TAL management's plans and long term actuarial assumptions. The Forecasts were prepared

on a proforma basis and are based on the principle assumptions set out later in this section and the accounting policies set out in the proforma historical financial information regarding TAL.

The proforma financial information presented for the year ending 30 September 2006 will differ from the actual results when finalised. This reflects the fact that in addition to the limitations and uncertainties relating to forecasts noted above, the published financial statements of TAL:

- will not include the transfer of THA between TOWER and TAL and the repayment of intercompany funding; and
- will not recognise the impact of the other pro forma adjustments summarised below.

The Forecast operating results below exclude the impact of transaction costs as these expenses are considered 'one-off' in nature. Transaction costs have been adjusted for preparing the proforma balance sheet as at 31 March 2006. The information has been presented in this format to provide an indication of the underlying results of the business, before the impact of such costs.

Proforma forecast financial information for the year ending 30 September 2006

<i>Proforma Consolidated Income Statements</i>	<i>Note</i>	<i>6 months ended 31 Mar 06 Actual A\$000</i>	<i>6 months ending 30 Sep 06 Forecast A\$000</i>	<i>12 months ending 30 Sep 06 Forecast A\$000</i>
Revenue from continuing operations				
Premium revenue from insurance contracts		145,721	292,377	438,098
Less: Outwards reinsurance expense		(41,507)	(98,391)	(139,898)
Net premium revenue		104,214	193,986	298,200
Investment revenue		226,359	57,818	284,177
Fee and other revenue		7,386	8,943	16,329
Net operating revenue		337,959	260,747	598,706
 Claims expense		 56,797	 122,272	 179,069
Less: Reinsurance recoveries revenue		(25,364)	(69,287)	(94,651)
Net claims expense		31,433	52,985	84,418
 Change in life insurance contract liabilities		 3,852	 17,050	 20,902
Change in life investment contract liabilities		155,548	26,621	182,169
Management and sales expenses		98,838	133,945	232,783
Net claims and operating expenses		289,671	230,601	520,272
 Financing costs		 5,875	 5,897	 11,772
Share of net profits from associates and joint ventures		19	25	44
Proforma Profit before taxation and amortisation of intangibles	(ii) (iii)	42,432	24,274	66,706
Income tax expense		24,748	8,920	33,668
Proforma Profit before amortisation of intangibles		17,684	15,354	33,038
 Amortisation of intangibles	(iv)	 -	 1,863	 1,863
Proforma Profit for the period attributable to shareholders	(v)	17,684	13,491	31,175

- (i) The proforma forecast for the 12 months ending 30 September 2006 includes the historical pro forma results for the 6 months ended 31 March 2006 including each of the pro forma adjustments set out below.
- (ii) The proforma forecast for the 12 months ending 30 September 2006 includes a full year 12 months' result from TAML and 6 months' result from PrefSure from date of acquisition of 31 March 2006.
- (iii) Proforma forecasts exclude separation transaction costs to be borne by TAL amounting to approximately A\$10.4m before tax (A\$8.3m after tax) of which A\$3.6m is to be expensed.
- (iv) Amortisation of intangibles in the forecast six months ending 30 September 2006 relates to the amortisation of the value of in-force business acquired as part of the PrefSure acquisition.
- (v) The lower proforma profit in the second half of the year is due to the impact of PrefSure and lower investment returns. Operating earnings in the 6 months to 30 September 2006 are expected to be slightly higher than the first half of the year.

	<i>6 months ended 31 Mar 06</i>	<i>6 months ending 30 Sep 06</i>	<i>12 months ending 30 Sep 06</i>
	Actual	Forecast	Forecast
Operating Earnings (Excluding PrefSure)	12,176	12,812	24,988
Net investment return on shareholders' funds (excluding PrefSure)	7,436	5,751	13,187
Earnings on capital used to acquire PrefSure	1,530	-	1,530
Impact of PrefSure	-	(1,443)	(1,443)
Proforma adjustments	(3,458)	(3,629)	(7,087)
Proforma TAL operating profit	17,684	13,491	31,175

PrefSure has a negative profit contribution after allowing for operating earnings of A\$5.635m less integration costs of A\$2.965m, financing costs of A\$2.275m and amortisation of intangibles of A\$1.863m.

Reconciliation from proforma forecast net profit after tax to underlying forecast net profit after tax of TAL for the year ending 30 September 2006

The following adjustments have been made in preparing the proforma Income Statement for the year ending 30 September 2006.

		<i>6 months ended 31 Mar 06</i>	<i>6 months ending 30 Sep 06</i>	<i>12 months ending 30 Sep 06</i>
		Actual	Forecast	Forecast
	Note	A\$000	A\$000	A\$000
TOWER operating profit:	(i)	29,616	25,238	54,854
Less: TOWER (excl TAL)		(8,940)	(8,558)	(17,498)
TAL operating profit after excluding TOWER		20,676	16,680	37,356
TAL proforma adjustments				
NZ/Australia restructure	(ii)	466	440	906
Net change to financing costs	(iii)	(137)	38	(99)
Incremental stand alone costs	(iv)	(3,321)	(3,667)	(6,988)
Total proforma adjustments		(2,992)	(3,189)	(6,181)
Proforma operating profit after income tax		17,684	13,491	31,175

(i) Conversion of TOWER Limited to AUD

	<i>6 months ended 31 Mar 06</i>	<i>6 months ending 30 Sep 06</i>	<i>12 months ending 30 Sep 06</i>
	Actual	Forecast	Forecast
	\$000	\$000	\$000
TOWER operating profit after tax	NZ\$32,460	NZ\$29,285	NZ\$61,745
TOWER operating profit after tax	A\$29,616	A\$25,238	A\$54,854
AUD/NZD exchange rate	0.9124	0.8618	0.8884

(ii) NZ/Australia restructure

Immediately prior to the Separation an associated company, THA and its subsidiary TAML will be transferred to TAL. These companies are currently held by an associated New Zealand company. This adjustment adds back the historical profit of TAML to make the results more comparable to the earnings of the continuing business.

(iii) Net change to financing costs

The financing of TAL will change as a result of the Separation and Entitlements Offer and includes interest income on extra cash. Intercompany loans with TOWER will be repaid from the new debt and the Entitlements Offer. This adjustment reflects the after tax increase in interest expense as a result of the change in debt.

(iv) Incremental stand alone costs

The Australian operations were not previously allocated any costs for functions such as share registry costs, ASX listing costs, Shareholder related costs, Managing Director, Investor Relations and Board related fees. This adjustment reflects the estimated after tax cost of managing such functions in the separated Australian entity.

Best Estimate Forecast Assumptions

The general assumptions used by TAL's Board in preparing the Forecasts include the following;

- no significant change in the economic conditions prevailing in Australia and the markets in which TAL operates, other than those indicated in the specific assumptions below;
- no significant changes in regulatory or legislative environments in which TAL operates;
- no material adverse changes in the competitive environment in which TAL operates;
- no changes in interpretation and application of accounting or actuarial standards or concepts that would have a material impact on TAL's financial reporting or disclosure;
- no material legal claims;
- no major new compliance breaches occur; and
- business planning assumptions for 2006 were used. These are based on long term actuarial assumptions and methodologies adopted in the 30 September 2005 full year financial report, updated, where appropriate, for the IFRS methodologies and experience to 30 June 2006, including PrefSure integration costs.

Sensitivity Analysis

Set out in the table below is a summary of the sensitivity of the forecast NPAT to variations in a number of key assumptions. Each sensitivity reflects an estimate of the impact on forecast NPAT of a variation in a key assumption over the six months ending 30 September 2006.

The purpose of these sensitivities is to demonstrate the volatility in earnings rather than provide the user with the ability to model the result. In addition, the changes in the key variables set out in the sensitivity analysis below are not an exhaustive list of the range of variations that may arise.

Care should be taken in interpreting these sensitivities as the estimated impact of changes in each of the variables has been calculated in isolation from possible movements in other assumptions over the period. In practice movements in one assumption may have offsetting or compounding effects on other assumptions, the effects of which are not reflected in the sensitivity analysis results shown below. In addition, it is possible that more than one assumption will move at any one point in time giving rise to cumulative effects, which also are not reflected in the analysis. Further, TAL would typically respond to any material adverse change in conditions by taking action it considered appropriate to minimise, to the extent possible, any adverse impact on earnings. The effect of these actions has not been allowed for in the following sensitivity analysis.

Description	Difference in actual from assumed	Impact on profit after tax for the 6 months ending 30 September 2006
		\$'000
Mortality claims	Actual claims are 2.5% higher than base assumptions for 6 months	(700)
	Actual claims are 2.5% lower than base assumptions for 6 months	700
Morbidity claims	Actual claims are 1.0% higher than base assumptions for 6 months and outstanding claims reserves are 1.0% higher at the end of 6 months	(700)
	Actual claims are 1.0% lower than base assumptions for 6 months and outstanding claims reserves are 1.0% lower at the end of 6 months	700
Surrenders (discontinuances)	Surrender rates are 10% higher than base assumptions for 6 months	(900)
	Surrender rates are 10% lower than base assumptions for 6 months	900
Changes in discount rates for insurance contracts	Discount rates are 25bps higher than base assumptions	(1,200)
	Discount rates are 25bps lower than base assumptions	1,200
Investment earnings (impacts on return on retained profits and capital and fee revenue from investment contracts)	Investment earnings are 100bps higher than base assumptions for 6 months	400
	Investment earnings are 100bps lower than base assumptions for 6 months	(400)

Outlook for TAL beyond 2006

Overview

The outlook for TAL presented in this section is based on management's current strategy, and an assessment of the expected operating, market and economic conditions as at the date of this document. TAL does not give any warranty or representation that the outcomes set out or implied in this section will occur in practice.

The Board is confident of TAL's prospects for sustained future growth, assuming a stable economic environment and steadily performing investment markets. Subject to investment market conditions the Board expects underlying profit after tax to increase in the year ending 30 September 2007.

Impact of PrefSure Acquisition

The recent acquisition of PrefSure and its integration into the life insurance business of TOWER Australia creates a life insurance business that is Australia's third largest by in force volumes and one of the fastest growing based on new business volumes for the year ended 31 March 2006. Refer to graph under heading TAL – Strategic position in Australian market.

Results for the year ending 30 September 2006 include only six months results from the PrefSure business and accordingly the year ending 30 September 2007 will be the first period reflecting a full year's impact of the business.

Retail, Group and Alliances

The Australian life industry is expected to grow as a result of an increasing affluent population, increased consumer awareness of the importance of life insurance and the compulsory superannuation contribution requirements where trustees encourage member participation in life insurance.

TAL's sales growth is expected to come from increasing the share of the life insurance market via growing sales through existing distribution channels and developing new alternative distribution channels with key partners.

As part of the overall commitment to operational efficiency, further investment in systems to support the life insurance businesses will be made and also to replace a number of older, legacy systems.

Investments

Profit from the Investments division is largely sourced from investment products closed to new customers several years ago. As a result, the division's contribution to TAL's profit is in decline. In response, the Board and management have undertaken a strategic review of the Investments division with the aim of being a provider of packaged investment products from a range of companies to advisers in the superannuation, retirement and managed funds markets, with a focus on end customers in the 40+ age category.

The key elements of the strategy include:

- A modernising and streamlining of the current product range;
- Outsource of investment management and unit pricing;
- Business simplification and a reduction of annual operating costs; and
- Growth in aligned advisor numbers to deliver enhanced investment fund inflows.

The impact of these strategic initiatives is not expected to significantly affect the division's financial performance during the 2007 financial year.

Stand Alone Corporate Costs

Additional full year stand alone costs and financing costs incurred by TAL as a separately listed entity have been estimated on a proforma basis at A\$6.9 million per annum as set out in Note 2.



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20 September 2006

The Directors
TOWER Limited
22 Fanshawe Street
Auckland Central
NEW ZEALAND

Dear Directors

Independent Accountant's Report on Reviewed Proforma Historical Financial Information

We have prepared this Independent Accountant's Report ("Report") on historical financial information for inclusion in an explanatory memorandum and rights entitlement offer document to be dated on or about 20 September 2006 (the "Scheme Book") relating to the separation of the Australian business from TOWER Limited ("TOWER") (together the "Separated Businesses"). Following the separation the Australian business will be separately listed on the ASX and be known as TOWER Australia Group Limited ("TAL"). Within this report the remaining business will be referred to as "TOWER NZ".

The proforma historical financial information has been prepared to illustrate the historical results and financial position of TAL and TOWER NZ on a basis comparable with that which would apply should the separation proceed. Expressions defined in the Scheme Book have the same meaning in this Report.

Scope

You have requested Ernst & Young to prepare a report, for inclusion in the Scheme Book, on the following financial information:

- (a) the proforma consolidated Profit & Loss statements of the Separated Businesses for the years ended 30 September 2004 and 2005 along with the half year 31 March 2006;
- (b) the proforma consolidated balance sheet of the Separated Businesses as at 31 March 2006 as if the Separation and Entitlements Offer had occurred at that date;
- (c) the proforma consolidated statements of cash flows of the Separated Businesses for the years ended 30 September 2004 and 2005 along with the half year 31 March 2006; and
- (d) accompanying proforma notes

(together the "proforma historical financial information").

The proforma historical financial information relating to TOWER NZ is included in “Financial information regarding TOWER NZ” commencing on page 61. The proforma historical financial information relating to TAL is included in “Financial information regarding TAL” commencing on page 28. TOWER’s Board is responsible for the preparation of the proforma historical financial information regarding TOWER NZ and TAL.

This Report does not extend to proforma historical financial information other than that contained in the sections “Proforma financial information regarding TOWER NZ” on pages 61 to 73 and “Proforma financial information regarding TAL” on pages 28 to 42 of the Scheme Book.

The proforma historical financial information does not purport to present the results of operations and cashflows of the Separated Businesses had they operated on a stand-alone basis during the periods indicated, or to project results of operations or cashflows for any future period.

The historical proforma financial information has been prepared based on the recognition and measurement criteria of Australian and New Zealand equivalents of International Financial Reporting Standards (“IFRS”) for TAL and TOWER NZ respectively.

The proforma historical financial information has been adjusted to reflect certain non recurring transactions and the internal restructure required to give effect to the Separation (the “Proforma Adjustments”). In particular the proforma consolidated Profit & Loss statements and statements of cash flows have been adjusted to reflect:

- the new corporate structure of the Separated Businesses;
- the likely impact of altering the financing structure of the Separated Businesses; and
- the estimated costs of having TOWER and TAL as separately listed companies.

The proforma consolidated Balance Sheets have been adjusted to give effect to:

- the internal transactions required to separate the activities of the Separate Businesses;
- the proposed adjustments to the external debt positions; and
- the external transactions such as the TAL Entitlements Offer undertaken as part of the Separation.

The Proforma Adjustments are detailed in note 2 to the proforma financial information contained on pages 36 and pages 66 for TAL and TOWER NZ respectively.

Review of Proforma Historical Financial Information

TOWER NZ’s Board is responsible for the preparation of the proforma historical financial information for TOWER NZ, including determination of the Proforma Adjustments. TAL’s Board is responsible for the preparation of the proforma historical financial information for TAL, including determination of the Proforma Adjustments.

The proforma historical financial information relating to the years ended 30 September 2004 and 2005 has been extracted from the audited financial statements of TOWER, which were previously audited by PricewaterhouseCoopers New Zealand. Those financials were converted to AIFRS and NZIFRS and reviewed by PricewaterhouseCoopers Australia. The proforma historical financial information relating to the half year ended 31 March 2006 has been extracted from the financial statements of TOWER, which were previously reviewed by PricewaterhouseCoopers Australia. That financial data had unqualified audit and review opinions.

We have performed a review of the proforma historical financial information in order to state whether on the basis of the procedures described, anything has come to our attention that would indicate that the proforma consolidated Profit & Loss, Cash Flows and Balance Sheet, as set out in “Financial information regarding TOWER NZ” on pages 61 to 73, and “Financial information regarding TAL” on pages 28 to 42, are not presented fairly in accordance with the recognition and measurement requirements (but not all of the disclosure requirements) of applicable accounting standards and other mandatory professional reporting requirements to the extent to which they are relevant to the information presented.

We have conducted our review of the proforma historical financial information in accordance with the Australian Auditing and Assurance Standard AUS 902 “Review of Financial Reports”.

Our review of the proforma historical financial information included such inquiries and procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- analytical procedures on the financial performance of the Separated Businesses for the relevant historical periods;
- a review of work papers, accounting records and other documents;
- a review of the reasonableness of the proforma adjustments used to compile the proforma historical financial information of the Separated Businesses;
- a review of the adjustments made to the proforma historical financial information;
- a comparison of consistency in application of the recognition and measurement principles of IFRS for TAL and TOWER, and the accounting policies adopted by the Separated Businesses disclosed in note 1 of the proforma financial information contained in “Financial information regarding TOWER NZ” on page 65, and “Financial information regarding TAL” on page 32; and
- inquiry of the Boards of TAL and TOWER NZ, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review Statement on proforma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information set out in section “Financial Information regarding TOWER NZ” on pages 61 to 73, does not present fairly:

- the proforma financial statements, comprising:
 - a) the proforma consolidated Profit & Loss statements of TOWER NZ for the years ended 30 September 2004 and 2005, along with the half year ended 31 March 2006;
 - b) the proforma consolidated Balance Sheet of TOWER NZ as at 31 March 2006; and
 - c) the proforma consolidated statements of cash flows of TOWER NZ for the years ended 30 September 2004 and 2005, along with the half year ended 31 March 2006,
- in accordance with the Proforma Adjustments and the measurement and recognition requirements (but not all of the disclosure requirements) of applicable accounting standards and other mandatory professional reporting requirements in New Zealand.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information set out in section "Financial information regarding TAL" on pages 28 to 42, does not present fairly:

- the proforma financial statements, comprising:
 - a) the proforma consolidated Profit & Loss statements of TAL for the years ended 30 September 2004 and 2005, along with the half year ended 31 March 2006;
 - b) the proforma consolidated Balance Sheet of TAL as at 31 March 2006; and
 - c) the proforma consolidated statements of cash flows of TAL for the years ended 30 September 2004 and 2005, along with the half year ended 31 March 2006,
- in accordance with the Proforma Adjustments and the measurement and recognition requirements (but not all of the disclosure requirements) of applicable accounting standards and other mandatory professional reporting requirements in Australia.

Subsequent Events

Apart from the matters dealt with in this Report and elsewhere in the Scheme Book, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the Separated Businesses have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

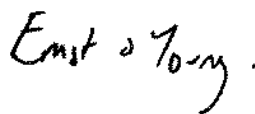
Independence or Disclosure of Interest

Ernst & Young does not have any interest in the outcome of the separation other than in the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Yours faithfully



Graeme McKenzie
Partner



Ernst & Young



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TRANSACTION ADVISORY SERVICES

20 September 2006

The Directors
TOWER Australia Group Limited
Level 10/ 80 Alfred Street
Milsons Point NSW 2031

Dear Directors

Independent Accountant's Report on Forecast Financial Information

PART 1 – INDEPENDENT ACCOUNTANT'S REPORT ON FORECAST FINANCIAL INFORMATION

We have prepared this Independent Accountant's Report (the "Report") on the proforma forecast financial information for inclusion in an explanatory memorandum and rights entitlement offer document to be dated on or about 20 September 2006 (the "Scheme Book") relating to the separation of the Australian business from TOWER Limited ("TOWER") (together the "Separated Businesses"). Following the separation the Australian business will be separately listed on the Australian Stock Exchange and be known as TOWER Australia Group Limited ("TAL"). Within this report the remaining business will be referred to as "TOWER NZ".

Expressions defined in the Scheme Book have the same meaning in this Report.

The nature of this Report is such that it can be given only by an entity, which holds an Australian Financial Services Licence under the Corporations Act. Ernst & Young Transaction Advisory Services Limited holds the appropriate Australian Financial Services Licence.

Scope

You have requested Ernst & Young Transaction Advisory Services Limited to prepare a report on the proforma consolidated forecast financial information of the continuing business that will comprise TAL following separation as set out on pages 42 to 45 of the Scheme Book.

This Report does not relate to proforma historical financial information set out in on pages 28 to 42 of the Scheme Book nor does it relate to the proforma consolidated historical and forecast financial information of TOWER NZ set out on pages 61 to 76 of the Scheme Book.

The basis on which the Forecast has been prepared is set out on pages 42 to 45 of the Scheme Book. The Forecast, which has been prepared on the assumption that the Separation proceeds, will be substantially different from the actual results for TAL for the year ending 30 September 2006. This is because the Forecast will include the transfer of THA between TOWER and TAL and the repayment of intercompany funding. In addition, the Forecast for TAL for the year ending 30 September 2006 will recognise the impact of a number of other items shown separately on page 44 of the Scheme Book under the heading "Reconciliation from proforma forecast net profit after tax to underlying forecast net profit after tax of TAL for the year ending 30 September 2006".

The Directors are responsible for the preparation and presentation of the Forecast, including the best-estimate assumptions, which include the proforma transactions, on which they are based. The Forecast has been prepared for inclusion in the Scheme Book. We disclaim any assumption of responsibility for any reliance on this Report or on the Forecast to which it relates for any purposes other than for which it was prepared.

Review of Forecast

Our review of the Forecast was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of TAL and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that:

- (a) the best-estimate assumptions do not provide a reasonable basis for the preparation of the Forecast;
- (b) in all material respects, the Forecast is not properly prepared on the basis of the best-estimate assumptions; and
- (c) the Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia and the accounting policies of TAL disclosed on pages 32 to 35 of the Scheme Book so as to present a view of TAL which is not inconsistent with our understanding of TAL's past, current and future operations.

The Forecast has been prepared by the Directors to provide investors with a guide to TAL's potential future financial performance and cash flows based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Forecast. Actual results may vary materially from those Forecast and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out on pages 26 to 28 of the Scheme Book and Sensitivity Analysis set out on page 45 of the Scheme Book.



Our review of the Forecast, that is based on best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecast included in the Scheme Book.

Review Statement

Based on our review of the Forecast as set out on pages 42 to 45 of the Scheme Book, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the prospective financial information, nothing has come to our attention which causes us to believe that:

- (a) the Directors' best-estimate assumptions set out in Section 42 to 45 of the Scheme Book do not provide a reasonable basis for the preparation of the Forecast;
- (b) the Forecast is not properly compiled on the basis of the Directors' best-estimate assumptions; and
- (c) the Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by TAL disclosed on pages 32 to 35 of the Scheme Book so as to present a view of TAL which is not inconsistent with our understanding of TAL's past, current and future operations.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of TAL and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by TAL may vary significantly from the Forecast. Accordingly, we do not confirm or guarantee the achievement of the Forecast, as future events, by their very nature, are not capable of independent substantiation. Investors should have regard to the Sensitivity Analysis and Risk Factors detailed on page 45 and 26 to 28 of the Scheme Book, respectively.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of TAL have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services Limited does not have any interest in the outcome of the Separation, other than in connection with the preparation of this Report. Ernst & Young has prepared an Independent Accountant's Report on Reviewed Proforma Historical Financial Information and participated in due diligence procedures. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report.

The Directors of TAL have agreed to indemnify and hold harmless Ernst & Young Transaction Advisory Services Limited, Ernst & Young and its employees from claims arising out of misstatement or omissions in any material or information supplied by the Directors.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'Tony Connolly', written in a cursive style.

Tony Connolly
Director and Representative

PART 2: THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT ACCOUNTANT'S REPORT

Issue date: 15 February 2005 (version 3)

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Accountant's Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

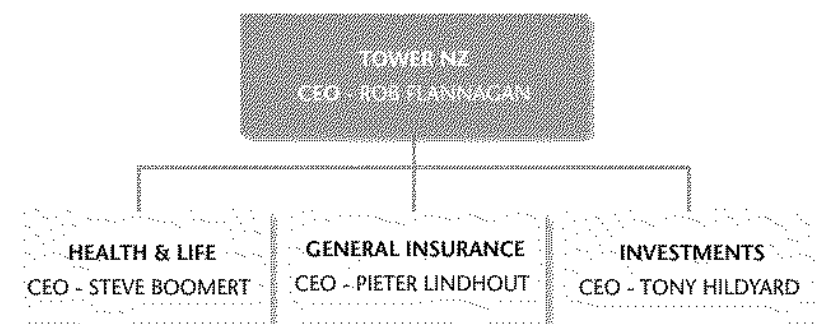
Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Schemes:
Compliance and Legal Manager Ernst & Young 680 George Street Sydney NSW 2000	Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405
Telephone: (02) 9248 5555	Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572



Overview of TOWER NZ after Separation

TOWER NZ – Organisational Structure



TOWER commenced business in New Zealand in 1869 as a government department selling life insurance policies and pensions. It has grown and transformed over the past 137 years and its business today in New Zealand is mainly focused on selected niches in the risk insurance and wealth management markets.

TOWER NZ currently comprises three businesses:

General Insurance which provides home, contents, motor vehicle and travel insurance for the retail individual market in New Zealand and commercial insurance in the Pacific Islands.

Health & Life which provides health and life insurance products for the retail individual and groups markets.

Investments which operates in wholesale and retail funds management and individual and group superannuation.

The “New” TOWER – TOWER NZ

TOWER will continue to be named TOWER Limited after the Separation but for clarity we refer to it in this document as TOWER NZ. It will comprise the New Zealand and Pacific Islands businesses as outlined above. TOWER NZ will maintain full listings on both NZX and ASX.

TOWER NZ intends to continue developing its three businesses. It will have a strong balance sheet post the Separation and will be well placed to support the turnaround and continued growth in the businesses.

TOWER NZ – Strategic Positioning in the New Zealand Market

‘TOWER’ is a well known brand in New Zealand with good market positions in health insurance, group life insurance, personal lines, general insurance and funds management. TOWER NZ’s businesses had a challenging 2005 but ended the year in stronger shape. It was a year of major change and transformation with much of the leadership renewed as the businesses were revitalised. TOWER NZ has been steadily rebuilding staff capability, service levels and overall competitiveness in its businesses as it has worked to rectify the service and business complexity issues which impacted performance in 2005.

The improvement in operating performance demonstrated in the first half of 2006 is partly reflective of progress made and enables TOWER NZ to turn its attention to restoring strong sales growth. TOWER NZ is promoting market growth around life insurance where high levels of underinsurance are evident. There is also strong consumer demand in health insurance based around the need of people to be self reliant and have control over medical procedure choices. In the managed funds sector tax changes and KiwiSaver initiatives from the New Zealand government indicate a more positive environment may emerge for savings and investment. TOWER wants to both grow the markets for insurance and investments as well as growing TOWER NZ’s share of these markets.

TOWER NZ – Key Strengths

TOWER NZ’s strengths include its:

- Brand – the ‘TOWER’ brand has good levels of consumer awareness
- Business to business alliances and distribution relationships based around a partnership model
- Pacific Islands general insurance business which provides underwriting and earnings diversification
- Scale in health insurance and group life markets
 - 16% market share of health insurance market and 14% of group life insurance market (Source: HFANZ)

- Group life insurance capabilities and relationships
- TOWER is one of a few specialist New Zealand insurers who are active and who have expertise in this market space
- Product breadth – a broad product and distribution set with general insurance products distributed both direct and through alliance partners, health and life insurance products distributed primarily through intermediaries, investment products and services both wholesale and retail distributed primarily through intermediaries
- Life and health claims management – claims management is being quickly rebuilt as a core competency
- Investment Management capability – TOWER was awarded the FundSource Fund Manager of the Year title in 2005 for the second consecutive year and has been winner and runner up of this award on a number of occasions over the past 10 years. (Source: www.fundsource.co.nz)

TOWER NZ – Businesses

A good improvement in the operating performance of the New Zealand businesses in the first half of the 2006 financial year reflected the focus of these businesses on getting the basics right. Product pricing initiatives, service improvement, better claims management in the insurance businesses and expense management flowed through into increased operating margins in all three businesses.

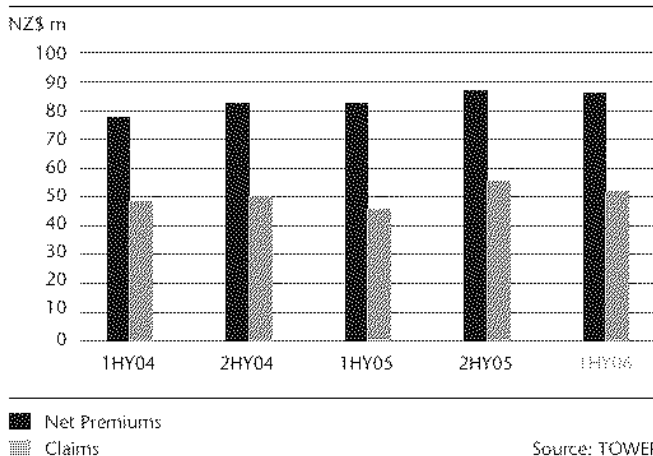
General Insurance

TOWER NZ's General Insurance business had NZ\$193 million of in-force premium as at 31 March 2006 (Source: Insurance Council of New Zealand – December 2005). It has a 10% market share of the New Zealand personal lines, general insurance market and a strong competitive position in the Pacific Islands markets where it provides commercial insurance to small to medium size businesses.

TOWER NZ's general insurance products are mainly distributed through bank and alliance channels or directly to customers. Good growth has been achieved through these channels. The alliance strategy reflects both the success of actions to drive further net growth in existing alliances and the flow of sales through new alliance channels. Work continues on building the TOWER direct channel in New Zealand and a new advertising campaign has recently commenced to help drive more direct sales.

The underwriting performance in this business has turned around from a loss of NZ\$1.6 million in the second half of 2005 to a profit of NZ\$5.6 million for the first six months of 2006. The stronger performance was a result of improved expense management while a great deal of emphasis was also placed on portfolio growth, pricing changes, claims management and service improvement.

GENERAL INSURANCE
Net Premiums and Claims



The vision of TOWER NZ's General Insurance business is to help its customers protect and grow the things they value. The General Insurance business is acutely aware of the need to deliver service that fully meets the needs of its customers and alliance partners. A key focus for management continues to be delivering first quartile customer satisfaction levels along with further service and margin improvement as stronger levels of growth build in the business.

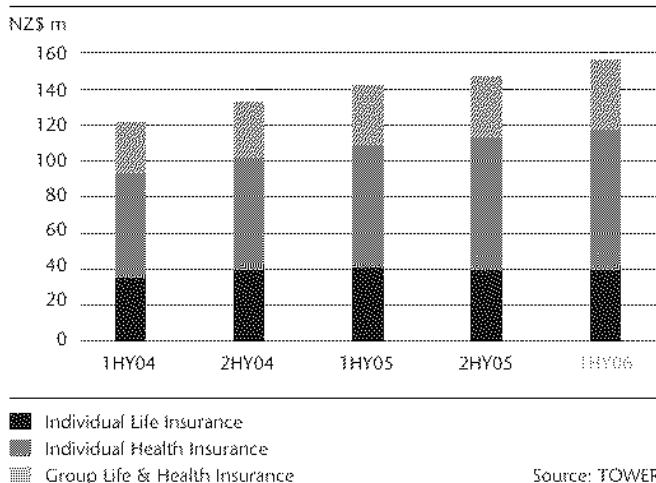
Health & Life Insurance

TOWER NZ's Health & Life Insurance business 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 (Source: HFANZ - December 2005) and a 5% market share in the life insurance market (Source: ISI - December 2005).

Over the six months ended 31 March 2006, TOWER NZ's Health business made good progress in addressing the under-performing health margins, lifting its service capability and rebuilding sales momentum. The performance of the Life business was mixed with sales and retention levels for individual life insurance products being below expectations while sales and retention levels for group life insurance were better than expected and higher than previous periods.

HEALTH & LIFE INSURANCE

In-Force Premium



Source: TOWER

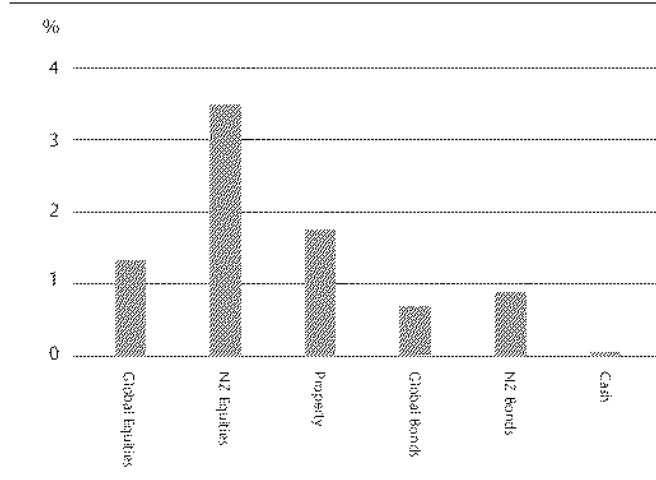
The Health & Life business is positioning itself with intermediaries as a specialist health insurer with product extension in life insurance. Developing new distribution opportunities, and the development of aligned distribution channels to support growth and improving business retention in the life business, are key priorities for this business and resources have been committed to drive this.

Investments

TOWER NZ's Investments business operates in wholesale and retail funds management and individual and group superannuation. It had NZ\$5.2 billion in funds under management and administration as at 31 March 2006 ranking it fourth in overall funds under management, fifth in terms of superannuation funds under management, and sixth in terms of retail funds under management (Source: www.fundsource.co.nz). TOWER NZ's successful investment management process continues to be maintained and is expected to provide competitive future returns for investors.

TOWER NEW ZEALAND INVESTMENTS

Investment performance compared to Benchmark 12 months ended 30 June 2006



Source: TOWER

The Investments business had a year of positive change in 2005. The business needed revitalization and a number of major projects to simplify the business structures and products and to improve efficiencies were initiated to drive that renewal.

TOWER NZ's Investments business continues to move forward with a clear focus on retaining and growing core profitable business areas. The remedial work is largely complete and the key challenge for the business in the near term is to successfully transition the business from a remedial to a growth phase and to prepare for the opportunities for market growth arising as a result of the proposed legislative changes to the New Zealand operating environment with the KiwiSaver Scheme and changes to the tax treatment of investment vehicles.

TOWER NZ Board Structure

TOWER's current Board comprises RK Barton (Chairman), WJ Falconer, Al Gibbs, JR Minto, JL Spencer, SA Staley, GH Weiss and DM Wood.

On implementation of the Separation, Tony (Al) Gibbs will become Chairman, and Michael Jefferies, currently an alternate Director of TOWER, will be appointed as a Director of TOWER NZ. RK Barton, JR Minto and GH Weiss will retire from the TOWER NZ Board. Details of the continuing Directors are set out on page 165 of this document.

TOWER Shareholders have currently approved total remuneration for non-executive Directors of TOWER and its subsidiaries of NZ\$900,000 per annum. Following implementation of the Proposal, the TOWER NZ Board will maintain that sum at the same level.

Chief Executive Officer

TOWER has appointed Mr Rob Flannagan as the Chief Executive Officer of TOWER NZ. Mr Flannagan will report to the Board of TOWER NZ.

Mr Flannagan's remuneration terms are:

- a base salary of NZ\$750,000 per annum;
- a target bonus of NZ\$375,000 per annum on attainment of performance targets to be set by the Board of TOWER NZ shortly after the Separation.

The Board of TOWER NZ proposes to grant Mr Flannagan options to purchase TOWER NZ Shares, with appropriate performance hurdles, shortly after Separation.

Dividend policy

TOWER NZ's Board will consider its dividend policy shortly after Separation. Currently TOWER is not paying any dividend.

TOWER NZ's Board can offer no assurance as to when dividends will be paid or as to the level of those dividends. TOWER NZ is a holding company and will be dependent on dividends from subsidiaries to be able to pay dividends to shareholders when declared.

TOWER Senior Executive Option Scheme

TOWER currently has on issue to a number of its key executives, including executives employed in the Australian Business, 13,515,757 options to purchase TOWER Shares. This amounts to approximately 3.75% of TOWER Shares currently on issue.

The options have been issued in four tranches on different terms. There is also a small parcel of 'legacy' options remaining from an issue made in December 2000 under an earlier option scheme. The number of options on issue and their principal terms is shown in the table below.

	<i>No. of options on issue</i>	<i>Exercise price NZ\$</i>	<i>Exercise period begins</i>	<i>Exercise period expires</i>
TRANCHE 1	3,660,000	1.40	April 2007	March 2010
TRANCHE 2	2,671,500	2.13	August 2008	August 2011
TRANCHE 3	1,350,000	2.13	August 2009	August 2012
TRANCHE 4	5,800,000	2.55	April 2009	April 2012
'LEGACY'	34,257	5.50	December 2003	December 2009
TOTAL	13,515,757			

TOWER's Board has considered how the Proposal affects the options and the objectives they are designed to achieve. The Board considers it important that any alterations to the options produced by the Proposal are fair to option holders and to TOWER, TOWER NZ and TAL shareholders, and at the same time preserve the incentives the options provide executives.

The Board has determined the options will be treated as follows if Shareholders approve the Option Reconstruction and the Proposal is implemented.

Tranche 1 options

The tranche 1 options were issued in July 2004. Holders are entitled to exercise them from April 2007 and receive a TOWER Share for each option exercised.

TOWER's Board intends to grant all holders of tranche 1 options a right to elect to receive a fixed proportion of TOWER NZ Shares and TAL Shares (instead of TOWER NZ Shares only) when they exercise tranche 1 options. The election right allows the option holders to preserve the exposure their tranche 1 options currently give them to the performance of both the Australian and New Zealand Businesses, and to preserve the value accrued in the options.

The Board considers this approach is appropriate given the proximity of the exercise date for tranche 1 options and the value accrued in the options due to the appreciation of TOWER's Share price since they were issued.

Option holders must make the election before TAL lists. Option holders who make the election will for every 100 options exercised receive 69.27 TAL Shares and 52.4 TOWER NZ Shares. This proportion is the same as the proportion of TAL and TOWER Shares a

TOWER Shareholder will receive under the Separation, but with the number of TAL Shares adjusted to offset the dilution produced by the Entitlements Offer.

New Zealand Business executives will retain their existing TOWER options and pay the existing exercise price of NZ\$1.40 to exercise them. The trustee of the NZ option scheme will sell 47.6 of every 100 TOWER NZ Shares issued by TOWER NZ on exercise of the options and use the sale proceeds to purchase 69.27 TAL Shares on ASX. The trustee will then transfer the TAL Shares to the executive. Any difference between the sale price of the TOWER NZ Shares and the cost of the TAL Shares will be paid by or belong to the TOWER company that employs the executive.

Australian Business executives will retain 52.4 TOWER options out of every 100 they hold. The remaining 47.6 options will lapse immediately following the Separation. The executive will pay the existing exercise price of NZ\$1.40 to exercise each TOWER option they retain. TAL will issue the executive 69.27 new TAL options for every 100 TOWER options held. The exercise price of a TAL option will be A\$0.794. The exercise price for the TOWER options and new TAL options together preserve the value executives had accrued in their tranche 1 options prior to the public announcement of the Separation.

The exercise period on the remaining TOWER options and new TAL options will be the same as for the existing tranche 1 options (that is April 2007 to March 2010). The performance hurdle which must be met before the TOWER options can be exercised will be waived. The hurdle had been met as at the date of this document. There will be no performance hurdle on the new TAL options.

Australian and New Zealand option holders who decline to make an election will retain their TOWER

options on existing terms and will receive only TOWER NZ Shares on exercise of them.

Tranche 2 and 3 options

Holders of tranche 2 and 3 options will be given the same election right as holders of tranche 1 options. Options held by executives who make the election will be treated in the same manner as tranche 1 options, except that the exercise price of remaining tranche 2 and 3 TOWER options will be NZ\$2.13 (which is the existing exercise price) and the exercise price of new TAL options will be A\$1.21.

The exercise period for remaining TOWER options and new TAL options will be the same as for existing tranche 2 and 3 options. The performance hurdle will be treated in the same manner as for tranche 1 options.

Australian Business executives who decline to make an election will lose all their tranche 2 and 3 TOWER options when TAL lists. TAL will issue them 145.5 new TAL options for every 100 TOWER options previously held. The exercise price of the new TAL options will be A\$1.21, the exercise period will be the same as the TOWER tranche 2 and 3 options, and there will be no performance hurdle.

New Zealand Business executives who decline to make an election will retain all their tranche 2 and 3 TOWER options on existing terms.

The effect of the changes to tranches 1, 2 and 3 is that executives can, if they wish, retain the same exposure to the Australian and New Zealand Businesses after Separation as they did before. This ensures the executives are not disadvantaged by the Separation and lets them preserve the value accrued in their options. It also maintains the alignment of executive and shareholder interests.

Tranche 4 options

Tranche 4 options held by New Zealand Business executives will be retained by them on existing terms.

Australian Business executives' options lapse immediately following the Separation. The Board considers that as this tranche has only been in existence since April 2006, the Australian Business executives performance is focused on TAL and should be wholly replaced with new options for TAL shares.

As a result, 4 million TOWER options will lapse and TAL will issue 5.82 million new options (145.5 for every 100 lapsed options) with an exercise price of A\$1.45. These amounts preserve the value the executives had accrued in their tranche 4 options prior to the announcement of the Separation. The exercise period will be the same as for existing tranche 4 TOWER options. The new TAL options will have a performance hurdle that incentivises the holders to increase TAL shareholder value.

The effect of the changes to tranche 4 is to focus executives solely on the business that employs them and thereby incentivise the executive to increase shareholder value in that business.

Legacy options

These options will be treated in the same manner as tranche 1 TOWER options held by Australian Business executives, except that the exercise price of the new TAL options will be A\$3.12. The exercise price of remaining TOWER options will be unchanged (NZ\$5.50).

Rounding

Fractional amounts of options will in all cases be rounded to the nearest whole number, with 0.5 being rounded up.

Mr Minto's existing options

Mr Minto currently holds both tranche 1 and tranche 2 options. His options will be restructured as a result of the Proposal as follows:

	TOWER NZ Options	Exercise Price (NZ\$)	TAL Options	Exercise Price (A\$)
Tranche 1	407,934	\$1.40	539,267	\$0.794
Tranche 2	-	-	1,049,783	\$1.21

Independent Expert's Opinion

The Independent Expert considered the impact on Shareholders of the proposed Option Reconstruction as part of the Proposal and concluded that it is fair and equitable to TOWER Shareholders. See page 142 of this document.



Proforma Financial Information Regarding TOWER NZ

The following proforma financial information regarding TOWER NZ should be read in conjunction with the sections 'Overview of TOWER NZ after Separation' on page 57 and the 'Independent Accountant's Report' on page 47. These proforma financial statements do not purport to represent what the results of the operations would have actually been had TOWER NZ been operating on a stand-alone basis for each of the financial years, or to project results of operations for any future period.

The historical proforma financial information has been derived from the published financial information for the year's ended 30 September 2004 and 2005, along with the half year period to 31 March 2006. The 2004 and 2005 financials were prepared and

audited in accordance with accounting standards in operation at those times. Those financials have been amended to the current financial reporting base, New Zealand equivalents to International Financials Reporting Standards (NZIFRS). TOWER's auditor, PricewaterhouseCoopers Australia, has reviewed the adjustments to NZIFRS and has provided an unqualified review opinion.

The proforma historical information for the six months ended 31 March 2006 was sourced from TOWER's consolidated financial statements at that time. Those financials were prepared in accordance with NZIFRS. Those financial statements have been reviewed by TOWER's auditors PricewaterhouseCoopers Australia and are available on the TOWER website www.towerlimited.com or phone 0800 104 124 (New Zealand) or 1800 309 428 (Australia) for your free copy.

TOWER NZ's proforma Income Statements have been prepared to illustrate how the financial performance of the continuing TOWER NZ businesses may have looked allowing for proforma adjustments to reflect:

- Business disposals that will not be a part of the stand-alone group

- The restructure of the New Zealand and Australian companies
- Net change in financing costs
- Reduced costs as a result of being a smaller stand-alone entity.

Details of these proforma adjustments are outlined in note 2 of the Proforma Financial Statements.

The proforma Balance Sheet is prepared to illustrate how TOWER NZ's financial position at 31 March 2006 would have appeared had the proforma adjustments been taken into account. The proforma Balance Sheet is based on 31 March 2006 financial statements (being the most recently reviewed) with proforma adjustments as if the Separation had occurred at that date that reflect:

- The implementation of the Separation, including the transfer of certain businesses between TOWER NZ and TAL and the repayment of intercompany funding
- The net reduction in debt
- Transaction costs of the Proposal.

As such it does not incorporate the operating result or changes in the mix of assets or liabilities occurring after 31 March 2006.

Proforma consolidated Income Statement for TOWER NZ

	Note	12 months ended 30 Sep 04 NZ\$'000	12 months ended 30 Sep 05 NZ\$'000	6 months ended 31 Mar 06 NZ\$'000
Revenue from continuing operations				
Premium revenue from insurance contracts		314,739	341,433	169,057
Less: Outwards reinsurance expense		(23,746)	(35,065)	(6,279)
Net premium revenue	3	290,993	306,368	162,778
Investment revenue	4	92,487	109,535	53,418
Fee and other revenue	5	50,505	45,863	22,688
Net operating revenue		433,985	461,766	238,884
Claims expense		237,437	249,818	110,145
Less: Reinsurance recoveries revenue		(20,673)	(11,099)	(1,388)
Net claims expense	6	216,764	238,719	108,757
Change in life insurance contract liabilities		(15,109)	6,799	(1,631)
Change in life investment contract liabilities		9,810	13,596	7,809
Management and sales expenses	7	195,048	169,032	91,418
Net claims and operating expenses		406,513	428,146	206,353
Financing costs		6,881	6,898	3,260
Share of net losses from associates and joint ventures		-	(41)	-
Proforma Profit before taxation		20,591	26,681	29,271
Income tax expense	8	6,172	10,688	13,315
Proforma Profit for the period		14,419	15,993	15,956
Profit attributable to minority interests		20	802	490
Proforma Profit for the period attributable to shareholders		14,399	15,191	15,466

Proforma consolidated Balance Sheet for TOWER NZ

		<i>As at 31 Mar 06</i>	
		Note	NZ\$'000
Assets			
Cash and cash equivalents			70,198
Receivables		9	124,872
Financial assets at fair value through profit or loss		10	1,279,170
Deferred acquisition costs		11	51,999
Current tax asset		12	50,687
Other assets			97
Property, plant and equipment			9,445
Deferred tax asset		12	22,892
Goodwill – Intangibles		14	30,811
Total assets			1,640,171
Liabilities			
Payables		15	218,429
Current tax liabilities			11,940
Provisions		16	8,200
Interest bearing liabilities		17	86,230
Insurance provisions		18	226,911
Deferred tax liability			13,901
Other liabilities		19	22,261
Life insurance contract liabilities		20	787,648
Life investment contract liabilities			49,423
Total liabilities			1,424,943
Net Assets			215,228
Equity			
Contributed equity			346,369
Accumulated losses			(140,816)
Reserves			6,211
Total equity attributed to shareholders			211,764
Minority interests			3,464
Total Equity			215,228

Proforma consolidated Statement of Cash Flow

	<i>12 months ended 30 Sep 04 NZ\$000</i>	<i>12 months ended 30 Sep 05 NZ\$000</i>	<i>6 months ended 31 Mar 06 NZ\$000</i>
Cash flows from operating activities			
Premiums received	349,107	315,129	169,633
Interest received	30,086	26,936	16,386
Dividends received	15,934	16,729	2,480
Investment income	37,734	91,385	17,595
Non-life company fee income	94,079	92,482	12,684
Claims expenses	(290,956)	(267,161)	(114,307)
Payments to suppliers and employees	(241,393)	(199,034)	(21,848)
Interest paid	(11,911)	(13,985)	(8,697)
Income taxation received/(paid)	24,029	31,368	(2,777)
Net cash inflow / (outflow) from operating activities	6,709	93,849	71,149
Cash flows from investing activities			
Net receipts / (payments) for financial assets	51,740	(60,471)	(68,994)
Costs associated with disposal of business	-	(33,901)	-
Payment of funds on restructure of business	-	-	(1,654)
Payments for purchase of property, plant and equipment	(5,005)	(3,337)	(500)
Net cash inflow / (outflow) from investing activities	46,735	(97,709)	(71,148)
Cash flows from financing activities			
Proceeds from issue of equity share capital	-	2,422	1,596
Repayment of related entity funding	-	-	185,540
Issue of capital notes and borrowings	75,000	-	85,000
Borrowings paid	(81,783)	(8,491)	(200,000)
Net costs associated with separation			(10,696)
Sale of treasury stock	12,031	-	-
Net cash inflow / (outflow) from financing activities	5,248	(6,069)	61,440
Net increase/(decrease) in cash and cash equivalents	58,692	(9,929)	61,441
Cash and cash equivalents at beginning of period	(37,988)	18,457	8,723
Effect of exchange rate change on cash and cash equivalents	(2,247)	195	(1,280)
Cash and cash equivalents at end of period	18,457	8,723	68,884
Represented by:			
Cash			70,198
Overdraft			(1,314)
			68,884

The proforma cashflow for the 6 months to 31 March 2006 has been adjusted to reflect the proforma adjustments outlined within this document, including:

- The new borrowing
- Net repayment of internal and external funding
- Transaction costs of the Proposal.



Notes to the Proforma Financial Statements

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

TOWER proposes to separate TAL from the TOWER Limited Consolidated group, and list TAL as a separate entity on the ASX. The details of the relevant transactions are set out elsewhere in this document.

These proforma historical financial statements have been prepared as a special purpose financial report to provide information that will be useful in considering this proposal by presenting the TOWER Limited Consolidated group as it may have looked in the 2004 and 2005 financial years and six months to 31 March 2006 had TOWER NZ been a stand-alone entity.

These special purpose proforma financial statements have been prepared in accordance with the recognition and measurement, but not all disclosure, requirements of NZ IFRS. The proforma financial statements are prepared in New Zealand dollars and values are rounded to the nearest (\$'000) unless stated otherwise.

Proforma Income Statements

The proforma Income Statements have been reviewed by the Independent Accountant whose report appears on pages 47 to 56. As this information has been presented in accordance with New Zealand equivalents to IFRS and the accounting policies below, it differs to the audited financial statements prepared at the time in accordance with NZGAAP in existence at the time.

The proforma Income Statements have been prepared to exclude the trading performance of disposed businesses, including TAL.

The proforma Income Statements have been adjusted to estimate the net saving on stand-alone and shareholder related costs to TOWER NZ as a result of the Separation. All costs such as share registry fees, ASX listing fees, Shareholder related costs, Managing Director, Investor Relations and Board related fees were borne by TOWER, however given the reduced size of TOWER NZ post-separation some of these costs are expected to reduce.

There have been no adjustments to the proforma Income Statement to recognise the one-off costs arising from the separation of TAL.

For the proforma Income Statement Australian dollars have been converted into New Zealand dollars at the exchange rate of NZ\$1.00 = A\$0.9124 for the half year ended 31 March 2006, NZ\$1.00 = A\$0.9180 for the year ended 31 September 2005 and NZ\$1.00 = A\$0.8871 for the year ended 30 September 2004.

Proforma Balance Sheet

The proforma Balance Sheet has been extracted from the TOWER Limited Consolidated Financial Statements as at 31 March 2006 as reviewed by PricewaterhouseCoopers. The proforma Balance Sheet has been adjusted for:

- The restructure of the New Zealand and Australian companies that will occur prior to or on separation
- Net change in financing costs
- Transaction costs of The Proposal.

For the Balance Sheet position Australian dollars have been converted into New Zealand dollars at the exchange rate of NZ\$1.00 = A\$0.8585 as at 31 March 2006.

Note 2 Proforma Adjustments

The following adjustments have been made in preparing the proforma Income Statement.

		12 months ended 30 Sep 04	12 months ended 30 Sep 05	6 months ended 31 Mar 06
	Note	NZ\$000	NZ\$000	NZ\$000
TOWER operating profit after tax as per the auditor reviewed financial statements		41,251	119,330	32,460
Less: TAL		(35,250)	(44,523)	(22,662)
TOWER operating profit after excluding TAL		6,001	74,807	9,798
TOWER proforma adjustments				
Discontinued operations	(i)	(3,058)	(72,123)	-
NZ/Australia restructure	(ii)	(169)	(694)	(511)
Net change to financing costs	(iii)	9,187	10,745	5,323
Net change in stand alone costs	(iv)	2,438	2,456	856
Total proforma adjustments		8,398	(59,616)	5,668
Proforma operating profit after income tax		14,399	15,191	15,466

(i) Discontinued operations

During 2004 and part of 2005 AWM was part of TOWER prior to its separation in February 2005. This adjustment removes the profit earned by that part of AWM prior to separation as well as the profit earned by TOWER on separation of AWM from TOWER.

(ii) NZ/Australia restructure

Immediately prior to the Separation an Australian based company, THA and its subsidiary TAML will be transferred to TAL. These companies are currently owned directly by an associated New Zealand company. This adjustment eliminates TAML's profit that was previously recognised by TOWER to allow comparability of the continuing business profits from period to period.

(iii) Net change in financing costs

As a result of the Proposal there will be refinancing of certain external and internal borrowings. This proforma adjustment reverses the original after tax financing cost on the following funding that will be repaid as a result of the Proposal

- capital notes and bonds totalling NZ\$200m,
- internal policyholder loans of NZ\$15m and
- preference shares of NZ\$10m currently held by policyholders.

The after tax interest cost on the proposed new bank debt of NZ\$85m has been deducted from this adjustment to reflect the net ongoing financing costs.

(iv) Net change in stand alone costs

The New Zealand operations previously met all costs for functions such as share registry, ASX listing, Shareholder related costs, Managing Director, Investor Relations and Board related fees. This adjustment reflects the estimated reduction to these costs as a result of the separation and has been calculated by reversing the original cost and replacing this with the estimated cost post separation of NZ\$6.4m after tax.

The following adjustments have been made in preparing the proforma balance sheet:

Consolidated Balance Sheet As at 31 March 2006

	TOWER	TAL	TOWER NZ	Internal Restructure (i)	Change in Financing (ii)	Transaction Costs (iii)	Separation Adjustments (iv)	TOWER NZ Proforma
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Assets								
Cash and cash equivalents	30,202	(18,497)	11,705	(1,654)	70,991	(10,844)		70,198
Receivables	267,429	(165,492)	101,937	(59,738)	82,673			124,872
Financial assets at fair value through profit	4,991,183	(3,681,780)	1,309,403	(30,233)				1,279,170
Available for sale financial assets	2,910	(2,910)	-					
Deferred acquisition costs	135,450	(83,452)	51,999					51,999
Current tax asset	50,687	-	50,687					50,687
Other assets	1,162	(1,065)	97					97
Property, plant and equipment	15,576	(6,100)	9,476	(31)				9,445
Assets arising from reinsurance contracts	165,121	(165,121)	-					-
Deferred tax asset	94,415	(69,086)	25,328	(2,436)				22,892
Intangible assets	216,819	(181,131)	35,688				(4,877)	30,811
Total assets	5,970,954	(4,374,634)	1,596,320	(94,092)	153,664	(10,844)	(4,877)	1,640,171
Liabilities								
Payables	423,637	(473,694)	(50,057)	3,073	265,413			218,429
Current tax liabilities	27,661	(14,128)	13,533		149	(1,742)		11,940
Provisions	34,919	(25,955)	8,964	(764)				8,200
Interest bearing liabilities	117,797	(116,482)	1,315		85,000	(85)		86,230
Insurance provisions	257,204	(30,293)	226,911					226,911
Deferred tax liability	105,412	(91,511)	13,901					13,901
Other liabilities	34,985	(12,724)	22,261					22,261
Life insurance contract liabilities	1,445,511	(657,863)	787,648					787,648
Life investment contract liabilities	2,716,363	(2,666,940)	49,423					49,423
Capital bonds/notes	197,200	-	197,200		(197,200)			-
Total liabilities	5,360,689	(4,089,590)	1,271,099	2,309	153,362	(1,827)	-	1,424,943
Net Assets	610,265	(285,044)	325,221	(96,401)	302	(9,017)	(4,877)	215,228
Equity								
Contributed equity	913,368	(264,714)	648,654			-	(302,285)	346,369
Retained profits	(380,765)	3,506	(377,259)	(81,305)	302	(9,017)	326,463	(140,816)
Reserves	74,198	(23,836)	50,362	(15,096)		-	(29,055)	6,211
Total equity attributed to shareholders	606,801	(285,044)	321,757	(96,401)	302	(9,017)	(4,877)	211,764
Minority interests	3,464	-	3,464					3,464
Total Equity	610,265	(285,044)	325,221	(96,401)	302	(9,017)	(4,877)	215,228

(i) THA/TAML Restructure

Immediately prior to the Separation TOWER subsidiaries THA and TAML will be transferred to TAL. The transfer will occur in such a way that TOWER's net assets will decline by NZ\$96.4m and TAL's increase by NZ\$96.4m. This amount has been calculated to achieve the required levels of working capital in TOWER NZ and TAL.

(ii) Change in Financing

The following is anticipated to occur as a result of implementation of the Proposal:

	NZ\$000
Receive intercompany balance due from TAL	268,663
Pay TAL intercompany balance due to them	(82,672)
Repay capital notes & bonds	(200,000)
Raise new bank debt	85,000
Net cash position movement	70,991

In addition to the above, certain capitalised costs and derivative positions will be unwound resulting in a net gain after tax of NZ\$0.3m.

The \$25m reduction in policy holder funding support is within the same consolidated group and does not impact the net cash position of the group as this is used to repay internal debt, it is eliminated on consolidation and does not appear in the table above.

(iii) Transaction Costs

As the estimated transaction costs are 'one-off' in nature the historical and estimated operating results have not been adjusted for these costs but the capital usage has been reflected in the Balance Sheet by reducing the level of net surplus cash.

(iv) Separation Adjustments

The TAL business, after the internal restructure, is being transferred to TOWER Shareholders at a director's valuation of NZ\$567m (A\$469m) as detailed in the section 'Assessed value of TAL' on page 13 of this document. Upon separation TOWER will cancel NZ\$567m of share capital. For illustration purposes this has been separately shown as NZ\$265m share capital for TAL and a further adjustment of NZ\$302m upon Separation.

At the date of transfer TOWER held TAL at NZ\$369m (comprising NZ\$285m for TAL, NZ\$79m for THA and TAML and NZ\$5m goodwill). Had the Separation occurred on 31 March 2006, TOWER would have recorded a profit on sale of NZ\$197m as a result of the Separation.

The proforma adjustment to retained profits NZ\$326m on separation reflects the profit on sale of and de-recognition of retained profits acquired at time of purchase. The NZ\$29m adjustment to reserves reflects the transfer of foreign exchange reserves required following the Separation.

	12 months ended 30 Sept 2004 NZ\$000	12 months ended 30 Sep 2005 NZ\$000	6 months ended 31 Mar 2006 NZ\$000
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Note 3 Premium Revenue

Life insurance premiums	61,012	56,035	28,406
Life investment premiums	21,750	21,945	10,381
Total life premium revenue	82,762	77,980	38,787
Less: Deposits recognised as an increase in policy liabilities	(17,636)	(12,600)	(6,079)
Life insurance premiums recognised as revenue	65,126	65,380	32,708
General insurance premiums	174,134	186,134	85,973
Health insurance premiums	75,479	89,919	50,376
Gross premium revenue	314,739	341,433	169,057
Less: Reinsurance ceded	(23,746)	(35,065)	(6,279)
Total net premium revenue	290,993	306,368	162,778

Note 4 Investment Revenue

Fixed interest	27,624	38,465	19,762
Equities	14,176	31,030	56,811
Property	8,839	21,146	10,323
Other investment revenue	41,848	18,894	(33,478)
Total investment revenue	92,487	109,535	53,418

Note 5 Fee and Other Revenue

Fee and other revenue			
Investment and management fees	50,441	45,581	22,607
Other revenue	64	282	81
Total fee and other revenue	50,505	45,863	22,688

	<i>12 months ended 30 Sept 2004</i>	<i>12 months ended 30 Sep 2005</i>	<i>6 months ended 31 Mar 2006</i>
	NZ\$000	NZ\$000	NZ\$000

Note 6 Claims Expense

Life insurance claims	92,387	70,244	32,094
Life investment contract payments	4,334	30,169	12,247
Total life claims and payments	96,721	100,413	44,341
Less: Withdrawals recognised as a decrease in policy liabilities	(30,987)	(27,142)	(11,246)
Life insurance claims recognised as expense	65,734	73,271	33,095
General insurance claims	120,222	115,872	51,131
Health insurance claims	51,481	60,675	25,919
Gross Claims expense	237,437	249,818	110,145
Less reinsurance proceeds received	(20,673)	(11,099)	(1,388)
Net Claims expenses	216,764	238,719	108,757

Note 7 Management and Sales Expenses

Life company acquisition costs	4,013	4,599	1,965
Life company maintenance expenses	6,410	8,144	4,631
Total Life company management expenses	10,423	12,743	6,596
Non Life company management expenses	171,548	147,888	81,322
Total Management Expenses	181,971	160,631	87,918
Commissions acquisition costs	11,503	5,427	2,180
Commission maintenance costs	1,574	2,974	1,320
Total management and sales expenses	195,048	169,032	91,418

Note 8 Taxation

Income tax at the current rate of 33 cents	6,795	8,805	9,659
Taxation effect of:			
Life insurance companies permanent differences	(1,393)	4,447	2,682
Life companies permanent differences	769	(2,564)	974
Taxation expense	6,171	10,688	13,315

*As at
31 March 2006
NZ\$000*

Note 9 Receivables

Reinsurance recoveries receivable	16,099
Outstanding premiums and trade receivables	97,957
Prepayments	79
Other	10,737
Total receivables	124,872

Note 10 Financial assets at fair value through the profit or loss

Interest Bearing Securities	714,713
Equity Investments	457,396
Property Investments	107,061
Total financial assets at fair value through profit or loss	1,279,170

Note 11 Deferred acquisition costs

Opening balance	50,929
Acquisition costs deferred during the period	7,212
Current period amortisation	(6,142)
Total deferred acquisition costs	51,999

Note 12 Tax assets

Prepaid tax	50,687
Current Tax Assets	50,687
Tax Losses	18,561
Other temporary differences	4,331
Deferred tax assets	22,892
Total Assets	73,579

Prepaid life company tax

Under New Zealand life insurance tax rules the group is required to pay tax in relation to its own profits and on behalf of policyholders. Tax paid by the group on its taxable profits can be used to satisfy the policyholder tax liability. Due to tax on policyholder liabilities exceeding tax on group taxable profits it has been necessary to prepay income tax resulting in a prepaid tax asset.

This prepaid tax can be used to satisfy tax liabilities on future group taxable profits in excess of Policyholder tax liabilities and is not affected by shareholder continuity requirements. The directors have assessed the appropriateness of the carrying value of the asset including the likely period over which the group is expected to utilise this prepaid tax asset using the following assumptions:

Growth in TOWER NZ operating profits (per annum)	3.0% to 7.0%
Investment returns (net of taxation)	3.6% to 5.7%
Tax Rate	33%

The assumptions are consistent with those used in calculating the appraisal values of the life companies and fair values of the non-life companies.

Based on the above assumptions the Directors estimate the prepaid asset will be recovered in full against future group tax liabilities by 2013. Changes in the above assumptions could impact on the timeframe in which the prepaid tax asset would be utilised by the group. If the actual taxable income of the trading companies were below Directors' estimates by 20% the prepaid tax asset would be fully utilised by 2015.

While the Directors have considered the timeframe for realisation of the prepaid tax asset based on future profits from the group's existing business activities, the timeframe for realising the prepaid tax asset can also be affected by future actions such as business acquisitions or changes in tax legislation.

Tax losses

As at 31 March 2006 the New Zealand group had accumulated tax losses. These tax losses are available to carry forward provided the required continuity of shareholders is maintained. A benefit attributable to the tax losses of NZ\$56.2m (tax impact of NZ\$18.6m) has been recognised as an asset that is expected to be recoverable against future taxable income of the group. There are also unrealised taxable gains within the group, if these were realised they would significantly reduce or eliminate the overall tax loss immediately.

Note 13 Subsidiaries

TOWER controlled the following New Zealand companies as at 31 March 2006 that will continue to be controlled following the separation of TAL:-

<i>Name of Company</i>	<i>Holding</i> 31 Mar 06	<i>Nature of Business</i>
TOWER Asset Management Limited	100%	Investment management services
TOWER Corporations Holdings Limited	100%	Management services
TOWER Finance Limited	100%	Issue of capital notes and bonds
TOWER Health & Life Limited	100%	Term, disability and medical insurance
TOWER Insurance Limited	100%	Fire and general insurance
TOWER Life Limited	100%	Non trading
TOWER Life (N.Z.) Limited	100%	Life insurance and superannuation management
TOWER Managed Funds Limited	100%	Life insurance administration and personal superannuation management
TOWER Medical Insurance Limited	100%	Medical insurance
		<i>As at</i>
		<i>31 March 2006</i>
		NZ\$000

Note 14 Intangibles

Goodwill

TOWER Medical Insurance Limited	13,067
TOWER Insurance Limited	17,744
Total Goodwill	30,811

Key financial indicators are considered when testing the goodwill for impairment these include cash flows, growth in written premium volumes, margins and the net assets of the business units.

An analysis of these key indicators and other valuations performed for the current year confirm that at 31 March 2006 there has been no impairment of the value of goodwill.

Note 15 Payables

Trade payables	51,009
Accrued investment purchases	163,828
Other payables	3,592
Total payables	218,429

Note 16 Provisions

Employee benefits	5,718
Restructuring provision	1,045
Other	1,437
Total provisions	8,200

Note 17 Interest Bearing Liabilities

Overdraft	1,315
External Borrowings - Bank Debt	84,915
Total Interest bearing liabilities	86,230

The external borrowings – Bank debt is the \$85m debt referred to in Stage 4 under the heading 'Implementation of the Proposal' on page 13 of this document. The interest on this debt is calculated with reference to the published BKBM bid rate plus a margin. The term to maturity of the facility is three years.

As at
31 March 2006
NZ\$'000

Note 18 Insurance Provisions

Unearned premiums – general insurance	89,884
Unearned premiums – health and disability	13,718
Outstanding claims – general insurance	69,834
Outstanding claims – life, health and other	53,475
Total insurance provisions	226,911

Note 19 Other Liabilities

FuturePlan Debenture	18,987
Other	3,274
Total other liabilities	22,261

TOWER Life (NZ) Limited has issued a debenture to the TOWER FuturePlan. The debenture is maintained as a separate fund within TOWER Life (NZ) Limited. Interest on the debenture is directly linked to the investment earnings of this fund. The debenture has no fixed repayment term.

Note 20 Life insurance contract liabilities

(a) Insurance Business - Policyholder liabilities represent:

Value of policy liabilities - Projection Method	
Future policy benefits	953,974
Future bonuses	152,574
Future expenses	123,499
Reinsurance	(45,857)
Future profit margins	202,401
Future premiums	(702,957)
Total value of policy liabilities - projection method	683,634
Value of policy liabilities - Accumulation Method	
Future policy benefits	85,274
Total value of policy liabilities - accumulation method	768,908
Unvested policyholder benefits	18,740
Gross policyholder liabilities	787,648

Note 21 Contingent Liabilities

TOWER Limited has guaranteed external debt issued by a controlled entity totalling NZ\$85m.

Taxation Dispute

In February 2004, the New Zealand Inland Revenue Department (NZIRD) refunded TOWER NZ\$30m 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 has commenced 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 NZ is unsuccessful, the NZ\$30m 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.

Imputation Credits

In June 2006, the NZIRD advised TOWER it was considering an adjustment to disallow imputation credits of NZ\$11m related to the 1994 income year. Insufficient detail has been provided by the NZIRD to determine if any risk exists and whether there is any potential impact to existing assets or future liabilities.

Use of Money Interest

The NZIRD has advised TOWER it is considering TOWER's entitlement to use of money interest paid to TOWER for the income tax years 1996 to 2005 in respect of some prepaid assets at that time. The amount of interest involved is NZ\$12m. TOWER has received independent advice supporting the position taken by TOWER and will defend its position if the matter is formally challenged by the NZIRD.

Proforma forecast financial information TOWER NZ – 2H2006

The proforma forecast financial information (Forecast) for the year ending 30 September 2006 has been prepared in accordance with the measurement and recognition, but not disclosure requirements of New Zealand equivalents to IFRS, and consistent with TOWER NZ's accounting policies set out in the TOWER NZ proforma historical financial information in this section.

This information was prepared by TOWER's Board and management for the purpose of this Forecast to illustrate what the financial performance and position of TOWER NZ would be assuming separation had already occurred. Subject to the continuous disclosure requirements imposed upon publicly listed companies, TOWER does not intend to update this information or to publish forecast financial information in the future.

The Forecast for the year ending 30 September 2006, shown below, relates to the continuing businesses that will comprise TOWER NZ. The Forecast incorporates the proforma historical financial information for the six months ended 31 March 2006 together with forecast financial information for the six months ending 30 September 2006. A summary of the adjustments made in arriving at the proforma forecast net profit after tax for the year ending 30 September 2006 is shown below.

The Forecast was prepared based on an assessment of present economic and operating conditions, and on a number of assumptions concerning future business performance and other estimates, expectations and assumptions developed by TOWER including the key assumptions set out below. TOWER believes it has used due care and attention in the preparation of the Forecast and considers these assumptions to be reasonable when viewed in totality. However, this information is subject to economic, regulatory, political and other risks and uncertainties, many of which are outside the control of TOWER and not capable of precise prediction.

Although the assessment by TOWER's Board and management is based on best estimate assumptions, shareholders and prospective shareholders are cautioned that the Forecasts will vary from the actual results and may vary materially.

The Forecast is a statement of the present belief of TOWER's Board and management as to TOWER

NZ's prospects for the year ending 30 September 2006. It is not a representation by TOWER's Board or management or any other person that the results set out in this section will be achieved.

The Forecasts are forward looking and should be read together with the basis of preparation, best estimate assumptions underlying its preparation and sensitivity analysis set out in this section, the risk factors described on pages 26 to 28 and other information about TOWER contained in this document.

Basis of preparation

The Forecast has been prepared using assumptions that reflect TOWER management's plans and expectations as to the most probable future economic conditions and financial results for TOWER NZ. The Forecast was prepared on a proforma basis and is based on the principal assumptions set out later in this section and the accounting policies set out in the proforma historical financial information regarding TOWER NZ.

The proforma financial information presented for the year ending 30 September 2006 will differ from the actual results when finalised. This reflects the fact that in addition to the limitations and uncertainties relating to forecasts noted above, the published financial statements of TOWER will:

- include the operating result of TAL up until the date of Separation; and
- not recognise other proforma adjustments as describe in note two on page 66 of this section; and
- record costs relating to the proposed Separation and Entitlements Offer that have not been expensed for the purposes of this Forecast.

The Forecasts have been prepared under the recognition and measurement criteria under current New Zealand equivalents to IFRS for the year ending 30 September 2006.

The Forecast operating results below exclude the impact of transaction costs as these expenses are considered 'one-off' in nature. Transaction costs have been adjusted in preparing the proforma balance sheet as at 31 March 2006 (refer page 68). The information has been presented in this format to provide an indication of the underlying results of the business, before the impact of such costs.

<i>Proforma Consolidated Income Statements</i>		<i>6 months ended 31 Mar 06</i>	<i>6 months ended 30 Sep 06</i>	<i>12 months ended 30 Sep 06</i>
	Note	NZ\$000	NZ\$000	NZ\$000
Revenue from continuing operations				
Premium revenue from insurance contracts		169,057	178,767	347,824
Less: Outwards reinsurance expense		(6,279)	(5,495)	(11,774)
Net premium revenue		162,778	173,272	336,050
Investment revenue		53,418	23,524	76,942
Fee and other revenue		22,688	29,702	52,390
Net operating revenue		238,884	226,498	465,382
Claims expense		110,145	127,071	237,216
Less: Reinsurance recoveries revenue		(1,388)	(3,773)	(5,161)
Net claims expense		108,757	123,298	232,055
Change in life insurance contract liabilities		(1,631)	(3,581)	(5,212)
Change in life investment contract liabilities		7,809	(7,495)	314
Management and sales expenses		91,418	96,854	188,272
Net claims and operating expenses		206,353	209,076	415,429
Financing costs		3,260	3,607	6,867
Profit before taxation	(ii) (iii)	29,271	13,815	43,086
Income tax expense		13,315	(1,153)	12,162
Profit for the period		15,956	14,968	30,924
Profit attributable to minority interests		490	136	626
Profit for the period attributable to shareholders	(v)	15,466	14,832	30,298

(i) The proforma forecast for the 12 months ending 30 September 2006 includes the historical proforma results for the 6 months ended 31 March 2006 including each of the proforma adjustments set out below.

(ii) The proforma forecast for the 12 months ending 30 September 2006 exclude the results from both THA and TAML.

(iii) Proforma profit excludes separation transaction costs to be borne by TOWER NZ amounting to approximately NZ\$9m after tax.

Reconciliation from proforma forecast net profit after tax to underlying forecast net profit after tax of TOWER for the year ending 30 September 2006

The following adjustments have been made in preparing the proforma Income Statement for the year ending 30 September 2006.

		<i>6 months ended 31 Mar 06 Actual</i>	<i>6 months ending 30 Sep 06 Forecast</i>	<i>12 months ending 30 Sep 06 Forecast</i>
	Note	NZ\$000	NZ\$000	NZ\$000
TOWER operating profit after tax as per the reviewed financial statements		32,460	29,285	61,745
Less: TAL		(22,662)	(19,386)	(42,048)
TOWER operating profit after excluding TAL		9,798	9,899	19,697
TOWER proforma adjustments				
NZ/Australia restructure	(i)	(511)	(511)	(1,022)
Net change to financing costs	(ii)	5,323	4,091	9,414
Reduction in TOWER stand alone costs	(iii)	856	1,353	2,209
Total proforma adjustments		5,668	4,933	10,601
TOWER NZ Proforma operating profit after income tax		15,466	14,832	30,298

(i) NZ/Australia restructure

Immediately prior to the proposed scheme subsidiary companies THA and TAML will be transferred to TAL. This adjustment reduces the historical profit for the profit attributable to TAML in order to make the results more comparable to the earnings of the continuing business.

(ii) Net Change in financing costs

The financing of TOWER NZ will change as a result of the separation and repayment of intercompany debt. Monies received from the repayment of intercompany loans with TAL together with new debt will be used to repay external and internal debt as described on page 12. This adjustment reflects the after tax reduction to interest expense that may have been recognised had the new funding been in place throughout the proforma Income Statement period.

(iii) Reduction in TOWER NZ stand alone costs

The TOWER NZ operations previously met all costs for functions such as share registry costs, ASX listing costs, Shareholder related costs, Managing Director, Investor Relations and Board related fees. This adjustment reflects the lower costs associated with the smaller TOWER NZ entity post separation.

Best Estimate Forecast Assumptions**General assumptions**

The general assumptions used by TOWER's Board in preparing the Forecasts include the following;

- no significant change in the economic conditions prevailing in New Zealand and the markets in which TOWER NZ operates, other than those indicated in the specific assumptions below;
- no significant changes in regulatory or legislative changes in the environments in which TOWER NZ operates;
- no material adverse changes in the competitive environment in which TOWER NZ operates;
- no changes in interpretation and application of

accounting or actuarial standards or concepts that would have a material impact on TOWER NZ's financial reporting or disclosure;

- no change in corporate rates of taxation in New Zealand;
- no material legal claims;
- no material adverse weather or earthquake events in New Zealand or the Pacific Islands, and no significant civil unrest in the Pacific Islands in which TOWER NZ operates.

Sensitivity Analysis

Set out in the table below is a summary of the sensitivity of the forecast NPAT to variations in a number of key assumptions. Each sensitivity reflects an estimate of the impact on forecast NPAT of a variation in a key assumption over the six months ending 30 September 2006.

The purpose of these sensitivities is to demonstrate the volatility in earnings rather than provide the user with the ability to model the result. In addition, the changes in the key variables set out in the sensitivity analysis below are not an exhaustive list of the range of variations that may arise.

Care should be taken in interpreting these sensitivities as the estimated impact of changes in each of the variables has been calculated in isolation from possible movements in other assumptions over the period. In practice movements in one assumption may have offsetting or compounding effects on other assumptions, the effects of which are not reflected in the sensitivity analysis results shown below. In addition, it is possible that more than one assumption will move at any one point in time giving rise to cumulative effects, which also are not reflected in the analysis. Further, TOWER NZ would typically respond to any material adverse change in conditions by taking action it considered appropriate to minimise, to the extent possible, any adverse impact on earnings. The effect of these actions has not been allowed for in the following sensitivity analysis.

<i>Description</i>	<i>Difference in actual from assumed</i>	<i>Impact on profit after tax for the 6 months ending 30 September 2006</i>
		\$'000
Health and Life Business		
- Life Morbidity Experience	+2.5%	(600)
	- 2.5%	600
- Surrenders (discontinuances)	+2.5%	(300)
	-2.5%	300
- Changes in discount rates for insurance contracts	+2.5%	200
	-2.5%	(200)
- Impact of changes to investment earnings on fee revenue from investment contracts	+2.5%	0
	-2.5%	0
General Insurance business		
- General insurance claims experience	+2.5%	(1,000)
	-2.5%	1,000
- Impact of changes in investments earnings on return on retained profits	+10%	250
	-10%	(250)
- Retention	+5%	1,200
	-5%	(1,200)

Outlook for TOWER NZ beyond 2006

The outlook for TOWER NZ presented in this section is based on management's current strategy and an assessment of the expected operating, market and economic conditions as at the date of this document. TOWER NZ does not give any warranty or representation that the outcomes set out or implied in this section will occur in practice.

TOWER NZ is a health and life, general insurance and funds management business, enjoying growth in sales and margins following a period of rebuilding leadership and staff capability, service levels and competitiveness in its markets.

The Board expects the current New Zealand rates of market growth for life insurance, health insurance, and general insurance to continue in the coming year.

TOWER NZ's businesses are well placed to take advantage of this market growth. Growth is expected to come from increasing the sales from existing independent distribution alliance partners and through direct channels.

Subject to investment market conditions, the Board expects TOWER NZ's total underlying profit after tax to increase in the year ending 30 September 2007. The key drivers are as follows:

- Increased planned operating margins in the health and life insurance risk businesses, driven by expected profitable sales growth and ongoing action to reduce lapses.
- Increased contribution from the general insurance business through profitable sales growth and operational process improvements
- Increased contribution from higher funds under management
- Partly offsetting the improved underlying core business unit improvements is increased investments in IT required for regulatory changes (Investments) and product rationalisation (life insurance) and process improvements generally.



Taxation implications of the Proposal

Introduction

The information set out in this section is not tax advice in relation to any investor's specific circumstances – it is a general guide only. The tax implications of the Proposal will vary depending upon the particular circumstances of TOWER Shareholders. The summaries below are intended as a general guide only and do not represent a complete analysis of all potential tax implications associated with the Proposal. Shareholders should consult their own tax adviser as to the tax consequences for them, including tax return reporting requirements, applicable tax laws and the effect of any proposed changes in the tax laws.

General

This section gives you a guide to the general tax position of TOWER Shareholders in relation to the Proposal based on legislation current at the date of this document. The commentary is only a summary of certain tax consequences based on current law and practice of New Zealand and Australia. This document does not contain a discussion of the possible tax implications of the Proposal for TOWER Shareholders who are tax residents of any other jurisdiction.

New Zealand Tax Implications

Treatment of the cancellation of the TOWER Shares

If the Proposal proceeds, some of your TOWER Shares will be cancelled. TOWER Shareholders will receive TAL Shares from TOWER in consideration for that cancellation. The number of TAL Shares TOWER Shareholders will receive is set out in the Initial Court Orders (see 'Details of the Proposal' on page 9, and 'Court Orders' on page 157).

No part of the transfer of TAL Shares effected under the Proposal is expected to be regarded as a dividend for New Zealand tax purposes. TOWER has applied to the Commissioner of the Inland Revenue Department (IRD Commissioner) for confirmation that the TAL Shares transferred as part of the Proposal will not be viewed as being in lieu of a dividend.

New Zealand does not have a general purpose capital gains tax, however the cancellation of shares by a company can give rise to a taxable event if a shareholder is in the business of dealing in shares, acquired the shares for the purpose of resale, or as part of a scheme or arrangement to derive a profit. If you fall within any of these categories the value of the TAL Shares you receive may need to be included in

your annual return as gross income. If the value of the Shares received is treated as gross income, a deduction should be available for the proportionate cost to you of acquiring the cancelled TOWER Shares.

Treatment of your acquisition of TAL Shares

If, and to the extent that, as a New Zealand resident shareholder you are a dealer in shares, the cost of the TAL Shares transferred to you should be the value of the TAL Shares as at the date your TOWER Shares are cancelled.

For New Zealand resident shareholders, future distributions from TAL are likely to be taxable in New Zealand and are unlikely to have tax credits attached to offset the New Zealand income tax liability.

Treatment of the Entitlements

The receipt by you of Entitlements should not itself result in you deriving gross income for tax purposes. In the event that you are in the business of dealing in shares and you exercise Entitlements and subscribe for TAL Shares, your cost base in the additional TAL Shares will include the subscription price paid for them.

In the event that you do not exercise the Entitlements and they lapse, no gross income or loss should result from the lapse.

If you acquired the Entitlements for the purpose of sale or are a dealer in shares and rights to shares and you sell Entitlements, you may be required to include the sale proceeds as gross income.

Australian Tax Implications

General

The following is a summary of the Australian tax consequences of the Proposal for TOWER Shareholders who are Australian tax residents and hold their TOWER Shares on capital account.

This summary does not apply to all TOWER Shareholders and, in particular, it does not apply to:

- TOWER Shareholders who hold their TOWER Shares as trading stock or revenue assets;
- TOWER employees whose TOWER Shares are subject to the employee share acquisition scheme tax rules; or
- TOWER Shareholders who are not the beneficial owners of their TOWER Shares.

Treatment of the cancellation of some of your TOWER Shares

If the Proposal is implemented, some of your TOWER Shares will be cancelled by TOWER. You will receive TAL Shares from TOWER in consideration for that cancellation. The number of TAL Shares you will receive is based on a formula set out in section 'Details of the Proposal' on page 9.

TOWER has applied to the ATO for a class ruling to confirm that the TAL Shares allocated as part of the Proposal will be treated as a capital return and not a dividend for Australian tax purposes and that

the Proposal qualifies for demerger relief as set out in Division 125 of the Income Tax Assessment Act 1997. In particular, TOWER has requested the ATO to confirm the tax implications set out below. The ATO is currently in the process of considering the ruling application in detail. While the ATO may not issue a final class ruling until after the Proposal is implemented, it is expected that the ATO will provide TOWER with a non-binding draft ruling prior to the shareholder meeting scheduled for 6 November 2006.

Treatment as a return of capital

On the basis that no part of the cancellation should be a dividend for tax purposes, the transaction should be treated entirely on capital account. Accordingly, you will need to consider the capital gains tax implications of the Proposal.

However, in the event that the ATO is of the opinion that some part or all of the value of TAL Shares transferred to you is a dividend then that part will be included in your assessable income as an unfranked dividend. As mentioned above, TOWER has requested that the ATO confirm that no part will be a taxable dividend.

Capital gains tax implications

The Proposal should qualify for demerger relief as set out in Division 125 of the Income Tax Assessment Act 1997. That is, you should have the choice to apply the demerger relief in order to disregard any capital gain or loss that would otherwise result from the Proposal.

Choosing to apply demerger relief

If you choose to apply the demerger relief, no capital gain or loss would result from the Proposal. Your existing cost base in TOWER Shares before the Separation would be apportioned between the TAL Shares received by you and your remaining TOWER Shares, in a manner that is appropriate having regard to the market value of each set of shares. TOWER will suggest a reasonable method of apportionment of your cost base in your Shareholder Statement which will be mailed to you on 18 December 2006.

In determining your entitlement to discount capital gains tax treatment on a subsequent disposal of TAL Shares acquired under demerger relief, the acquisition time of those shares will be the time you acquired your cancelled TOWER Shares.

Choosing not to apply demerger relief

If you do not choose to apply the demerger relief, then you will realise a capital gain if the value of the TAL Shares you receive is higher than the cost base of your TOWER Shares that are cancelled. Conversely, you will realise a capital loss if the value of the TAL Shares you receive is less than the reduced cost base of your TOWER Shares that are cancelled. If you are an individual, trust or complying superannuation fund and you have held your TOWER Shares for more than 12 months at the time of implementation of the Proposal, then you may be entitled to the discount capital gains tax treatment.

Your TOWER Shares may have different cost bases depending upon when you acquired those TOWER Shares and the amount you paid to acquire them. You may be able to select which of your TOWER Shares are cancelled by TOWER under the Proposal if your TOWER Shares are capable of being identified individually by reference to appropriately maintained share and/or accounting records. If you cannot identify individually your TOWER Shares, then you will be treated by the ATO as having disposed of those TOWER Shares that you have held the longest. This will impact on the amount of any capital gain or capital loss arising on the cancellation of your TOWER Shares.

For those TOWER Shareholders who were issued TOWER Shares on the demutualisation of TOWER Corporation in 1999, the cost base for capital gains tax purposes will include only amounts paid by you in respect of your current TOWER Shares and not any amounts paid by you in respect of your pre-demutualisation rights in TOWER Corporation (for example, it will not include premiums paid on life insurance policies.)

In the event that some part of the distribution of TAL Shares is deemed by the ATO to be a taxable dividend, you will still be required to calculate whether you have realised a capital gain or loss in relation to the Proposal if you do not choose demerger relief. However, if you have realised a capital gain, the capital gain should be reduced by the amount that is included in your assessable income as a dividend.

Your new TAL Shares will be acquired by you at the time your TOWER Shares are cancelled. This acquisition date will be relevant to your entitlement to discount capital gains tax treatment on a subsequent disposal of TAL Shares.

The cost base of the TAL Shares and your remaining TOWER Shares will be adjusted in the same manner as if you had chosen demerger relief to apply (as mentioned above, TOWER will suggest a reasonable method of apportionment of those shareholders who elect demerger relief).

Proposed law changes may affect availability of demerger relief

There are proposed changes to the capital gains tax treatment of non-residents that will (in their current form) inadvertently deny the availability of demerger relief to TOWER Shareholders with respect to the Proposal. The Australian Government has indicated that this adverse consequence was unintended and it intends to amend the proposed law to remove this adverse consequence. Therefore, TOWER currently expects that the Proposal should continue to qualify for demerger relief.

However, in the event that the Parliament of Australia does not make the required amendments, demerger relief will not be available. In such a case, the tax implications for you in respect of the cancellation should be the same as if you had not chosen to apply demerger relief except that there is no adjustment

to your cost base in your new TAL Shares or your remaining TOWER Shares.

Treatment of the Entitlements

The receipt by you of Entitlements will not itself result in you deriving a capital gain. In the event that you exercise the Entitlements and subscribe for additional TAL Shares the exercise of the Entitlements will not, in itself, result in you deriving a capital gain. Your cost base in the additional TAL Shares will include the subscription price you paid. This cost base is likely to be different to the cost base of the TAL Shares that TOWER transferred to you under the Proposal.

In the event that you do not exercise the Entitlements and they lapse, no capital gain or loss will result from the lapse. In the event that you sell the Entitlements, you will make a capital gain on the sale. That capital gain will be realised at the time you sell the Entitlements. In working out the capital gain, the cost base of those Entitlements will include only incidental costs incurred in the sale (for example, brokerage costs).

Australian stamp duty implications

You will not have to pay Australian stamp duty on the acquisition of the TAL Shares under the Proposal or the acceptance of your Entitlements.



Answers to important questions

This section comprises the Investment Statement for the purposes of the New Zealand Securities Act 1978 and Regulations in respect of the Offers.

What sort of investment is this?

The Separation

TOWER will transfer all of its 234.3 million TAL Shares to TOWER Shareholders on a pro-rata basis (of 0.6511 TAL Shares for every TOWER Share held) to implement the Separation.

If the Separation is approved by the Court, it will be binding on all TOWER Shareholders, will automatically occur, and TOWER will transfer to TOWER Shareholders the number of TAL Shares to which they are entitled. In return for the transfer of those TAL Shares, TOWER will cancel 0.4760 TOWER Shares for every TOWER Share held as a capital reduction.

Fractional amounts will be rounded to the nearest whole number, with 0.5 rounded up.

TAL Shares are ordinary shares in TAL, rank equally with each other, and will each provide the holder with the right to:

- attend and vote at meetings of TAL, including the right to cast one vote for each share in TAL, on a poll;
- an equal share in distributions authorised by TAL's Board or distributed on any liquidation; and
- all other rights as a shareholder conferred by the Corporations Act and by TAL's Constitution.

Entitlements Offer

If the Separation proceeds, TAL will offer Entitlements on a renounceable basis to those TAL shareholders who are recorded in TAL's register of shareholders at the close of business on 27 November 2006 with an address in New Zealand or Australia.

Entitlements will be allocated to shareholders on the basis of 0.4269 Entitlements for every TAL Share held, rounded to the nearest whole number, with 0.5 rounded up.

Approximately 100 million Entitlements will be issued. Each Entitlement gives the holder the right to subscribe for one ordinary share in TAL at an issue price of A\$1.60.

The exact number of Entitlements to which each TAL shareholder will be entitled based upon their shareholding in TAL at the close of business on 27 November 2006 and will be printed on an Entitlement and Acceptance Form and mailed to TAL shareholders on 30 November 2006. Fractional amounts will be

rounded to the nearest whole number, with 0.5 rounded up.

You may also contact the TOWER Shareholder Information Line on:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers).

to confirm your Entitlement, particularly if you wish to sell your Entitlements from 21 November 2006.

TAL Shares purchased on ASX from 21 November 2006 will not qualify for Entitlements.

Further details about the rights and obligations of TAL shareholders are set out in TAL's Constitution – see 'TAL's Constitution' on page 85.

Who is involved in providing it for me?

The issuer of the TAL Shares and issuer and offeror of the Entitlements is TAL.

TAL can be contacted at:

Level 11
22 Fanshawe Street
P O Box 90347
Auckland
New Zealand

TAL's principal place of business is:

80 Alfred Street
PO Box 142
Milsons Point
Sydney
NSW 2061
Australia.

TOWER, and its Directors are promoters of the offeror of TAL Shares and of Entitlements, and the offeror of the TAL Shares to be transferred under the Proposal.

TOWER's Directors are:

- Ronald Keith Barton, of Sydney, Australia;
- William John Falconer, of Cambridge, New Zealand;
- Anthony Ian Gibbs, of Auckland, New Zealand;
- James Raymond Minto, of Auckland, New Zealand;
- John Lewis Spencer, of Wellington, New Zealand;
- Susannah Adair Staley, of Dunedin, New Zealand;
- Gary Hilton Weiss, of Sydney, Australia;
- Denis Michael Wood, of Auckland, New Zealand; and
- Michael Jefferies of Perth, Australia is an alternate director.

TOWER and its Directors can be contacted at TOWER's registered office at:

Level 11
22 Fanshawe Street
PO Box 90347
Auckland
New Zealand.

Activities of TAL

TAL was incorporated in October 1987 as Andric Pty Limited and is a wholly owned subsidiary of TOWER. Andric Pty Ltd will change its name to TOWER Australia Group Limited. TAL will own all the companies in the Australian Business.

The principal activities of TAL are, and will be, providing life and related insurance products, both personal and corporate, and related investment products, including superannuation.

See 'Overview of TAL after Separation' on page 19 for more information.

How much do I pay?

TAL Shares transferred under the Separation

No money is payable by you for the TAL Shares which will be transferred under the Separation. They will automatically be transferred to you if the Separation is approved and implemented. The transfer will take place on 20 November 2006. The value of your holding in TOWER Shares will decrease following the reduction in capital of TOWER through cancellation of 0.4760 TOWER Shares for every TOWER Share you hold on 17 November 2006.

Entitlements

TAL shareholders entitled to Entitlements will receive them at no cost. The maximum number of TAL Shares to which you are entitled by exercising Entitlements (and the amount you must pay for them) will be set out in the Entitlement and Acceptance Form to be sent to you on 30 November 2006. You may also contact the TOWER Shareholder Information Line on:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers)

to confirm your Entitlement and for any other related queries.

You may acquire additional Entitlements on ASX, or by private agreement.

It is intended that Entitlements will be tradeable on ASX. The price payable for an Entitlement which is traded will be that quoted on ASX during the period that Entitlements are quoted. The price will be determined by a number of factors including the supply and demand for Entitlements at any particular time.

TAL Shares issued

TAL Shares will be issued on the exercise of Entitlements for A\$1.60 each.

The subscription price for TAL Shares issued on the exercise of Entitlements is payable to TOWER Australia Group Limited and must be forwarded:

- in New Zealand to:
TOWER Australia Group Limited
Freepost 2888
Computershare Investor Services Limited

Private Bag 92119
Auckland 1020

– in Australia to:

TOWER Australia Group Limited
GPO 7043

Computershare Investor Services Pty Limited
Sydney NSW 2001

in time to be received by the Registrar by 5pm Australian Eastern Summer time (7pm New Zealand standard time) on 14 December 2006. If the Registrar does not receive a properly completed Entitlement and Acceptance Form and payment in full for the TAL Shares applied for, by this time, the Entitlement to subscribe for TAL Shares will lapse, you will get no value for them, and your interest in TAL will be diluted.

What are the charges?

TAL Shares transferred under the Separation

No charges are payable by you in respect of the TAL Shares to be transferred under the Separation.

TOWER will meet the costs of selling TAL Shares and Entitlements to which Foreign Shareholders would have been entitled under the Proposal.

Entitlements

There are no charges payable for the Entitlements. If you wish to exercise them, the issue price for each TAL Share is payable in full on the exercise of an Entitlement. The issue price is A\$1.60 for each TAL Share.

Entitlements and TAL Shares (once allotted) traded on ASX will attract normal brokerage fees and charges.

For the Proposal TOWER estimates total costs will be NZ\$18.5 million after tax. TOWER NZ and TAL will each pay approximately half of those costs.

What returns will I get?

TAL Shares

Shareholders in TAL will be entitled to any distribution declared by TAL's Board on TAL Shares.

Shareholders may also benefit from any increase in the market price of shares they sell. The market price may also decrease.

The market price for TAL Shares will depend upon a number of factors, including the operational and financial performance of TAL. It will also depend on the risk factors that relate to the TAL businesses – see 'What are my risks?' on page 26.

TAL's Board intends to consider its dividend policy shortly after Separation. At the date of this document, no dividends have been proposed, declared or paid.

Whether, and to what extent, dividends will be paid will depend upon a number of factors, including the financial performance of TAL, expected operating and economic conditions, future capital expenditure plans, and upon the risk factors that relate to TAL's businesses.

No amount of returns quantifiable as at the date of this document and enforceable by shareholders has been promised.

Returns to shareholders will be affected by taxation, both of TAL and personally.

The comments contained in this document are of a general nature only. They do not constitute legal or taxation advice. Shareholders should consult their own tax advisers and consider any tax consequences of owning TAL Shares, in light of their own situation.

TAL is the entity legally liable to pay dividends (if any). The person legally liable to pay the return on the sale of TAL Shares will be the purchaser of them.

Entitlements

TAL shareholders may get a return from selling their Entitlements, or from exercising their Entitlements and selling the TAL Shares issued. Dividends may also be payable in the future on TAL Shares issued on the exercise of Entitlements in the same way they may be payable on other TAL Shares.

Any return you receive from selling Entitlements will depend on the price at which those Entitlements can be sold on ASX. That price will in turn be influenced by the expected price of TAL Shares. The person legally liable to pay the return on the sale of Entitlements will be the purchaser of them.

Entitlements are tradable on ASX between 21 November 2006 and 7 December 2006. You may:

- exercise your Entitlements in full;
- sell your Entitlements in full;
- sell part of your Entitlements and exercise the balance or allow the balance to lapse; or
- do nothing.

TOWER's Board considers that the Entitlements should have value and that Shareholders should either exercise their Entitlements, or sell them. Shareholders who will receive small parcels of Entitlements may find it uneconomical to sell them. For those Shareholders, an option may be to sell their TOWER Shares before 13 November 2006 on NZX or ASX.

If you do not exercise or sell your Entitlements you will receive no return from them. As the Underwriter will take up all TAL Shares not subscribed for under the Entitlements Offer, your holding in TAL will be diluted.

For assistance, you should seek your own investment, financial, taxation or other professional advice.

General

No person, including TOWER, TAL, GPG as underwriter, or the advisers to any of those parties or their directors and officers guarantees the performance of any TAL Shares, or Entitlements, or promises any amount of return on them, or that any dividend will be paid on TAL Shares, or that a shareholder will receive back the amount they invest in TAL.

What are my risks?

See 'Risk Factors of the Offers' on page 26.

Can the investment be altered?

The terms of the Separation may only be altered by an order of the Court. TOWER and TAL reserve the right for any reason to vary any or all of the dates or times included in the timetable in this document, subject to approval by ASX, NZX and, if required, the Court.

The rights attaching to TAL Shares are governed by TAL's Constitution. TAL's Constitution may only be altered by a Special Resolution of shareholders, or in certain circumstances, by court order. A Special Resolution must be approved by a majority of 75% or more of votes cast by shareholders entitled to vote and voting on that Resolution.

Neither TAL, a shareholder nor any other person has the right to alter the consideration payable for a TAL Share, described under 'How much do I pay?' on page 80.

How do I cash in my investment?

There will be no established market for the sale of TAL Shares prior to the listing of TAL. However, TOWER's Board is of the opinion that a ready market will develop.

Subject to any securities laws and regulations that may apply at any time, you may sell TAL Shares issued or transferred to you. Following quotation on ASX, TAL Shares will be freely tradeable, subject to compliance with TAL's Constitution, applicable securities law and the development of an active trading market in TAL Shares. Brokerage fees may be payable on the sale and purchase of Shares or Entitlements. No charges are payable to TAL.

Under the current timetable, it is anticipated that, if the Proposal is approved at the Special Meeting, shareholders will be mailed their shareholder registration number with their Shareholder's Statement on 20 November 2006 (confirming their new shareholding in both TOWER NZ and TAL), and their Entitlement and Acceptance Form on 30 November 2006. Shareholders can also ascertain the number of TAL Shares transferred to them, and the number of Entitlements they will receive by phoning the TOWER Shareholder Information Line on:

- 0800 104 124 (New Zealand)
- 1800 309 428 (Australia)
- +61 2 9 415 4325 (for overseas callers).

Application has been made to ASX for permission to list the TAL Shares and Entitlements offered, and the listing requirements of ASX that can be complied with on or before the date of this document have been duly complied with. TAL Shares will trade from 21 November 2006 with no entitlement to Entitlements. Entitlements may be traded on ASX between 21 November 2006 and 7 December 2006. Trading in Entitlements will occur until 7 December 2006.

Quotation of TAL Shares issued on the exercise of Entitlements is expected to occur on 8 December 2006 on ASX on a deferred settlement basis.

TAL will not be listed on NZX.

Shareholders should not attempt to sell TAL Shares or Entitlements until they know whether, and how many have been allocated to them.

Who do I contact with enquiries about my investment?

Enquiries in relation to TOWER Shares, TAL Shares or Entitlements can be made to:

The TOWER Shareholder Information Line:

- 0800 104 124 (New Zealand);
- 1800 309 428 (Australia);
- +61 2 9 415 4325 (for overseas callers); or

General Manager, Investor Relations & Corporate Services

TOWER Limited
TOWER Centre
PO Box 90347
22 Fanshawe Street
Auckland Central
NEW ZEALAND
Phone: +64 9 369 2082
Fax: +64 9 369 2160

Is there anyone to whom I can complain if I have problems with the investment?

Complaints about TAL Shares or Entitlements can be made to:

General Manager, Investor Relations & Corporate Services

TOWER Limited
TOWER Centre
PO Box 90347
22 Fanshawe Street
Auckland Central
NEW ZEALAND
Phone: +64 9 369 2082
Fax: +64 9 369 2160

There is no Ombudsman to whom complaints about TAL Shares can be made in New Zealand. Complaints can be made about TAL Shares to ASIC in Australia.

What other information can I obtain about this investment?

Further information about TAL Shares, Entitlements and about TAL is contained in this document and in the Independent Expert's Report contained in it.

There are no modifications, exceptions or limitations on the powers of TAL's Board imposed by TAL's Constitution, except as provided in the Corporations Act and ASX Listing Rules (once TAL is listed). Shareholders may inspect a copy of TAL's Constitution at its registered office during normal business hours.

There is a summary on page 85. Other information relating to TAL may be obtained from the public register at ASIC. An annual report complying with the Corporations Act will be given annually to all TAL shareholders. An annual meeting of TAL will be held following the end of each financial year.

Information for New Zealand investors

The following information is required to be included in this document under the Securities Act (Australian Issuers) Exemption Notice 2002 (**Notice**), which exempts TOWER and TAL from having a New Zealand registered prospectus in relation to the Offers contained in this document.

Investors in TAL should note:

- transfers of TAL Shares will be made in the manner specified in this document (which comprises the Australian prospectus) and in the manner prescribed under the laws of Australia;
- investors should satisfy themselves as to the tax implications of investing in TAL Shares and Entitlements;
- investing in securities of an Australian issuer may carry with it a currency exchange risk;
- financial reporting requirements applying in New Zealand and those applying to Australia may be different and the financial statements of TAL may not be compatible in all respects with the financial statements prepared in accordance with New Zealand law, and TAL may not be subject in all respects to New Zealand law;
- although a copy of the Australian prospectus and other documents have been received by the Registrar of Companies in New Zealand, the Australian prospectus has not been registered in New Zealand under New Zealand law and may not contain all the information that a New Zealand registered prospectus is required to obtain;
- ASIC has granted exemptions from, or modifications to, the Corporations Act, as set out on page 85; and
- it is not a condition of the Notice that TAL be listed on NZX, and New Zealand resident investors may not have access to information concerning TAL in the same way as investors have in relation to issuers listed on NZX.

It is a term of the offer of TAL Shares under this document that TAL will, within five working days of receiving a request for a copy of the Australian prospectus relating to the TAL Shares, without fee, send or cause to be sent to the person so requesting it:

- a copy of the Australian prospectus (note that this document contains that prospectus);
- copies of any documents that, under the laws of Australia, must accompany any copy of the Australian prospectus sent to any person to whom an offer of the TAL Shares is made in Australia; and
- a copy of any document, or part of a document, lodged with ASIC that is referred to in the Australian prospectus and is taken to be included in that

prospectus under section 712 of the Corporations Act.

Agreement as to jurisdiction

In respect of a dispute concerning TAL Shares and Entitlements raised by a New Zealand shareholder, TAL:

- agrees to submit to the non-exclusive jurisdiction of the New Zealand courts;
- has instructed a New Zealand agent for service referred to below to accept service on TAL's behalf; and
- agrees that this statement is an agreement with each investor in TAL investing as a consequence of the Proposal, for the purposes of section 389(1)(e) of the Companies Act.

Despite the statements above, the contract in respect of securities may not always be enforceable in the New Zealand courts.

TOWER Limited, 11th Floor, 22 Fanshawe Street, Auckland Central, New Zealand has been appointed by TAL to accept service in New Zealand of any document on its behalf.



Additional statutory information

Copies of documents filed with ASIC

Copies of documents lodged at ASIC in relation to TAL may be obtained from, or inspected at, an office of ASIC.

ASX maintains records of company announcements for all companies listed on ASX. Copies of announcements made by TOWER, and TAL, if the Proposal is implemented may be obtained from ASX in Sydney.

Other information

Listing on ASX

Application will be made immediately after this document is filed with ASIC for the admission of TAL to the official list of ASX, and for the Entitlements and TAL Shares to be granted official quotation on ASX. The fact of such admission is not to be taken as an indication of the merits of TAL.

The Offers are conditional on ASX granting permission for all of the TAL Shares to be listed for quotation within 3 months after the date of this document. If permission is not granted the Proposal will not proceed.

Subject to ASX granting approval for TAL to be admitted to the Official List of ASX either unconditionally or on terms and conditions acceptable to TAL, the:

- TAL Shares to be transferred under the Proposal will be transferred to shareholders on 20 November 2006; and
- TAL Shares issued on acceptance of Entitlements will be allotted to shareholders on 19 December 2006.
- TAL Shares will not be listed on NZX.

TOWER NZ Shares will continue to be quoted on both NZX and ASX.

TAL will apply for the TAL Shares to participate in the Clearing House Electronic Sub-Register System (CHESS). Shareholders who are transferred or issued TAL Shares will receive holding statements, in lieu of share certificates, that set out the number of TAL Shares issued to each shareholder. The statements will also provide details of the shareholder's Holder Identification Number (HIN) (in the case of a holding on the CHESS sub-register) or Securityholder Reference Number (SRN) (in the case of a holding on the issuer sponsored sub-register). A HIN or SRN must be quoted, as applicable, in all dealings with a stock broker or the Registrar. Further statements will be provided to shareholders, which will reflect any changes in their holdings of TAL Shares during a particular month. Additional statements may be requested at any time, although TAL reserves the right to charge a fee.

Last date for issue of TAL Shares

No securities will be issued on the basis of this document later than 13 months after the date of this document.

No offers outside Australia and New Zealand

This document does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. Special provisions apply to Shareholders whose address on TOWER's register of Shareholders is not in New Zealand or Australia. See 'Foreign Shareholders' on page 15.

Unauthorised information

No person is authorised to give any information or to make any representation in connection with this offer which is not contained in this document. Any information or representation not so contained may not be relied on as having been authorised by TOWER or TAL.

TOWER and TAL's right not to proceed

TOWER and TAL reserve the right not to proceed with the Proposal. If the Entitlements Offer does not proceed, the relevant application monies paid in respect of the TAL Shares to be issued under the Entitlements Offer will be refunded. No interest will be paid on any application monies refunded as a result of the withdrawal of the Entitlements Offer.

Regulatory approvals/waivers

ASX waivers and confirmations

An application has been made to ASX for waivers from and modifications of the ASX Listing Rules in connection with the Proposal:

- ASX Listing Rule 10.14 to the extent necessary to allow the issue of TAL options to Jim Minto (TAL's Managing Director) without separate TAL shareholder approval.
- ASX Listing Rules 7.22.3 and 7.22.5 to allow the executive options issued by TOWER to be reconstructed other than in accordance with these Rules (they being inappropriate in the context of the Separation).

ASX has been asked to confirm that ASX Listing Rule 11.4 (dealing with disposals of major assets) does not apply to the Proposal, and that ASX Listing Rule 6.23A will apply to the Option Reconstruction.

NZX waivers

NZX has granted a waiver, to the extent necessary, from the requirements of NZX Listing Rule 7.6.6 which would otherwise require separate approval by Foreign Shareholders to the cancellation of TOWER Shares under the Proposal.

NZX has granted a waiver from NZX Listing Rule 8.1.7 to allow the executive options issued by TOWER to be reconstructed other than in accordance with this Rule on the condition that the Option Reconstruction is considered by Shareholders as a separate Resolution.

Foreign Acquisitions and Takeovers

TOWER and TAL have been advised that the Australian Treasury has no objection under the Foreign Acquisitions and Takeovers Act 1974 (**Act**) with respect to the following:

- the consolidation of TOWER's Australian Business under TAL as the holding company;
- the agreement under which TOWER will acquire beneficial ownership of the TAL Shares and the right to direct that those Shares be transferred either to itself or to its Shareholders; and
- the TAL Entitlements Offer to occur after the implementation of the Separation and the subsequent transfer of the TAL Shares.

Any non-Australian residents that propose to acquire additional Shares in TAL, other than under the implementation of the Separation or as a result of exercising their Entitlements under the TAL Entitlements Offer, should consider whether they need confirmation of no objection from the Treasurer under the Act.

Notifications to ASIC and APRA

TOWER and TAL will make all necessary notifications to ASIC and APRA, in relation to the consolidation of the Australian Business under TAL and the change of shareholding in TAL arising from implementation of the Separation and the subsequent transfer and issue of TAL Shares.

Financial Sector shareholdings

Any person that proposes to acquire additional Shares in TAL, other than under the implementation of the Separation or as a result of exercising their entitlements under the TAL Entitlements Offer, should consider whether they need approval under the Financial Sector (Shareholdings) Act 1998.

ASIC relief

Application has been made to ASIC for the following exemptions from, or modifications of, the Corporations Act in connection with the Proposal:

- from sections 723(1) and 727(2)(a) so that an application form for the TAL Shares to be transferred under the Separation or issued under the Entitlements Offer is not required to be included in or accompanied by this document;
- from sections 734(5)(b) and 734(6) relating to reference to application forms in announcements regarding the Offers.

Interests of directors

Except as disclosed in this document, no Director, alternate Director or proposed Director of TOWER and TAL:

- holds or has held in the last 2 years before the lodgement of this prospectus with ASIC any interest:
 - in the formation or promotion of TAL; or
 - in any property acquired or proposed to be acquired by TAL in connection with its formation or promotion or the Offers made under this document; or
 - in the Offers made under this document, or
- has been paid or has agreed to be paid or has received or has agreed to receive any benefits:
 - to induce them to become or to qualify as a Director or proposed Director; or
 - for services rendered by them in connection with the formation or promotion of TAL or the Offers under this document.

The Directors and alternate Director of TOWER have the following interests in TAL Shares (assuming the Proposal is implemented and all Entitlements to which a Director is entitled are subscribed for), either directly or indirectly. The Directors' potential holdings of TAL Shares are calculated on the holding of TOWER Shares

as at 10 August 2006:

<i>Name</i>	<i>Beneficial Shares</i>	<i>Associated Persons</i>
Keith Barton		74,835
Bill Falconer	9,768	
Anthony Gibbs	1,032	66,196,001
Michael Jefferies	3,750	66,196,001
Denis Wood	37,162	
John Spencer	6,429	
Susannah Staley	9,617	
Gary Weiss	937	66,196,001
Jim Minto	10,822	

GPG (through its nominee Ithaca (Custodians) Limited, and Guinness Peat Group Shares Limited) will have 46.4 million TAL Shares transferred to it under the Separation and will accordingly receive 19.8 million Entitlements in the Entitlements Offer. On exercise of those Entitlements, GPG will hold 66.2 million TAL Shares, before subscribing for any under the Underwriting Agreement.

No Director, or any other person, guarantees the performance of TAL Shares or that a shareholder will receive back the amount they invest in TAL Shares. TAL's Constitution provides that Directors may be paid remuneration for services in their capacity as a Director of an amount authorised by shareholders.

All Directors are also entitled to be paid travelling and other expenses incurred in relation to the management of TAL. TAL may also award special remuneration to any Directors who undertake any work additional to that expected of the Directors. Remuneration for work not in the capacity of a Director may be approved by the Directors without shareholder approval. TAL management who are appointed to TAL Boards do not receive Directors' fees in addition to their employment remuneration.

Each of TAL's Directors has entered into a deed of indemnity with TAL under provisions in TAL's Constitution for TAL to indemnify its Directors. The deed of indemnity includes an obligation on TAL to maintain adequate Directors' and Officers' insurance cover, and provide a right of access to certain documents.

Tony Gibbs and Gary Weiss are also directors of GPG and Michael Jefferies is an executive of GPG. GPG is underwriting the Entitlements Offer. Details of the Underwriting Agreement are set out on page 17.

TAL's Constitution

Constitution and rights attaching to Shares

The rights attaching to the TAL Shares will be set out in TAL's Constitution and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASTC Settlement Rules and the general law of Australia.

TAL will adopt the Constitution on its conversion to a public company. A summary of the Constitution is

set out below. It is not intended to be an exhaustive summary of the rights and obligations of shareholders. Investors who wish to inspect TAL's Constitution may do so at the registered office of TAL during normal business hours after the date of conversion which is expected to be 6 October 2006.

Voting

Subject to the Corporations Act, the ASX Listing Rules and any rights or restrictions attached to any class or classes of TAL Shares, at general meetings of shareholders or classes of shareholders:

- every shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- on a poll, every person present who is a shareholder or a proxy, attorney or representative has one vote for every fully paid TAL Share and a fraction of a vote for every partly paid TAL Share.

Dividends

The Directors may declare and pay dividends out of the profits of TAL and may fix the amount and timing for payment and the method of payment of any such dividend. Subject to any special rights attached to any class of TAL Share, dividends are payable to all shareholders in proportion to the amounts paid up (not credited) on the shares held by them.

General meetings and notices

Each TAL shareholder is entitled to receive notice of, and to attend and vote at, general meetings of TAL and to receive all notices, accounts and other documents required to be sent to shareholders under TAL's Constitution, the Corporations Act or the ASX Listing Rules.

Transfer of Shares

As the TAL Shares will be quoted on ASX, transfers will be effected in accordance with the ASTC Settlement Rules and ASX requirements. The Directors may refuse to register a transfer of TAL Shares in limited circumstances. A holding lock to prevent a transfer of TAL Shares may be applied in accordance with the ASX Listing rules and the ASTC Settlement Rules.

Number of Directors and appointment

The number of Directors must be not less than three and the maximum is to be fixed by the Directors but may not be more than 10.

Subject to the Corporations Act and the ASX Listing Rules (other than in the case of the Managing Director), each year _ of the Directors for the time being in office and any Director in office for more than three years since election or re-election must retire (but in each case may seek re-election).

The Directors may also appoint a Director to fill a casual vacancy on the TAL Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of TAL.

Remuneration of Directors

Subject to the ASX Listing Rules, TAL shareholders may determine the maximum cash fees to be paid to Directors. The sum fixed in TAL's Constitution as the maximum aggregate cash remuneration to be paid to non-executive Directors for services rendered as directors of TAL and its child entities is a maximum of A\$900,000 per annum, which may be distributed among the directors as they determine. TAL's Constitution also makes provision for TAL to pay all reasonable expenses of Directors in attending meetings and carrying out their duties.

Indemnification and insurance of Directors

TAL, on a full indemnity basis and to the full extent permitted by law, indemnifies each person who is or has been a Director or Secretary of TAL, and such other Officers or former Officers of TAL as the Directors in each case determine (each an Officer), or representative of TAL serving as an Officer of another company at the request of TAL, against any liability (other than legal costs) incurred in the discharge of their duties as an Officer of TAL or such other company except where the liability is a liability owed to TAL or a related body corporate or the liability arises out of conduct involving a lack of good faith on the part of the officer or conduct attracting the civil penalty provisions of the Corporations Act. Officers may also be indemnified by TAL for costs (including legal costs) and expenses incurred in defending an action for a liability incurred in acting as an Officer of TAL or a related body corporate.

TAL may pay insurance premiums on behalf of a prior or existing Officer or auditor of TAL or of a subsidiary of TAL, to the full extent permitted by the Corporations Act.

Variation of rights

Subject to the Corporations Act and the ASX Listing Rules, all or any of the rights attached to any class of TAL Shares may be varied or cancelled with the consent in writing of the holders of at least 75% of the issued TAL Shares in the particular class or the sanction of a special resolution passed at a meeting of holders of TAL Shares in that class.

Unmarketable parcels

If a shareholder holds a number of shares which is less than a marketable parcel (as defined in the ASX Market Rules) TAL may, as agent for the shareholder, sell or dispose of such shares held by each unmarketable parcel holder on any terms and in the manner and at those times which the Directors determine provided that the procedures set out in TAL's Constitution are followed.

Alteration of Constitution

TAL's Constitution can only be amended by a Special Resolution passed by at least 75% of votes cast by shareholders present and voting at a general meeting of TAL.

Corporate Governance

The Board of TAL recognises and supports the increased emphasis on good corporate governance and is committed to the highest standards of oversight, accountability and management of TAL. The corporate governance framework for TAL is underpinned by the ASX Guidelines, and will apply from TAL's Listing on ASX.

TAL is committed to delivering strong returns and shareholder value while also promoting shareholder and general market confidence in TAL. TAL is committed to meeting its legal and other obligations to stakeholders, including shareholders, employees, customers and the wider community. Maintaining TAL's reputation for honesty and fairness is crucial to its success as a business. The code of ethics adopted by the TAL's Board will be an important tool for achieving these aims.

Governance and Management

TAL's Board's primary role is to represent and promote the interests of shareholders effectively with a view to enhancing growth and returns in TAL and adding long term value to TAL's Shares. When fulfilling its roles and responsibilities the Board will have appropriate regard to TAL's values, the concerns of its shareholders, the concerns of policyholders as reflected by the duty of priority directors have under the relevant Australian life insurance legislation, its relationships with significant stakeholders and the communities and environment in which it operates.

The TAL Board should comprise a majority of non-executive, independent Directors. Independent Directors are those persons who are independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement. TAL's Board will adopt a Board Charter and various other corporate governance documents, which have been designed to:

- enable TAL's Board to provide strategic guidance for TAL and effective oversight of management; and
- clarify the respective roles and responsibilities of Directors and senior executives in order to facilitate Board and management accountability to both TAL and its shareholders, and to ensure a balance of authority so that no single individual has unfettered powers.

Board Charter

The Board Charter will set out the principles for the operation of the Board and describes the functions of the Board, which include:

- determining TAL's strategic objectives, and approving the annual operating plans and financial targets, capital expenditure plans and the like;
- assessing and monitoring performance, including management's performance, against the strategic objectives, operating plans and financial targets;
- approving all changes to TAL's corporate structure,

which are of strategic importance;

- determining TAL financial, treasury and information technology strategies and policies, and dividend, distribution, lending and borrowing, tax, investment and foreign exchange policies;
- determining TAL risk management policies, framework and profile;
- approving capital expenditure, operating expenditure, asset acquisitions and divestments, and settlement of legal proceedings, in all cases where they are outside the normal course of business and above delegated limits;
- approving all transactions relating to major business and company acquisitions, mergers and divestments; and
- the Chief Executive Officer's/Managing Director's appointment and remuneration.

Delegation

While at all times the Board retains full responsibility for guiding and monitoring TAL in discharging its roles and responsibilities, the operation and administration of TAL is achieved in part through delegation to sub-committees of the Board, and through delegation of the day-to-day leadership management of TAL to the Chief Executive Officer/Managing Director.

The Board will have three Standing Committees – the Audit and Compliance Committee, the Remuneration and Appointments' Committee and the Investment Committee. Other committees will be established from time to time as necessary.

Audit and Compliance Committee

The Audit and Compliance Committee's terms of reference include responsibilities to:

- independently and objectively review the financial information presented by management to TAL's Board, the external auditor and the public;
- oversee the performance of the external auditor and be satisfied as to its independence;
- review the effectiveness and efficiency of management processes, risk management and internal financial controls and control systems;
- monitor and review compliance with regulatory and statutory requirements and obligations; and
- supervise the internal audit function and receive regular reports on risks, exposures and statutory compliance.

The Committee will comprise a minimum of three suitably qualified non-executive Directors appointed from time to time by the Board.

Remuneration and Appointments Committee

The Remuneration and Appointments' Committee will advise the Board in respect of a number of matters including:

- appointment and succession of Board Directors, Director remuneration and Board and Director performance evaluation;

- the Chief Executive Officer's/Managing Director's and senior executive appointment, termination, performance appraisal and remuneration; and
- developing and maintaining TAL's corporate governance principles, policies and practices.

The Committee will comprise a minimum of three suitably qualified non-executive Directors appointed from time to time by the Board.

Investment Committee

The Investment Committee duties and responsibilities include:

- reviewing and monitoring investment policy and strategy in respect of TAL shareholder funds and policyholder funds;
- reviewing risk management policy and statements in respect of investment management including derivative policy;
- considering the establishment, adjustment or deletion of limited and counter party approvals and the scope of financial instruments to be used in the management of TAL's investments;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies.

The Committee will comprise a minimum of two suitably qualified non-executive Directors appointed from time to time by the Board and the Chief Executive Officer/Managing Director.

Remuneration

TAL's remuneration policies aim to attract and retain talented and motivated Directors and employees who will contribute to enhanced TAL performance.

Non-executive Director remuneration

Non-executive Directors will be paid an annual fee for their service on the Board and all committees of TAL's Board or child entities of TAL within the maximum aggregate sum for such Directors approved from time to time by shareholders. No Directors fees are payable to TAL's Board until after the listing of TAL. The current maximum aggregate sum is a total of A\$900,000 per annum.

Executive remuneration

TAL's remuneration policy is to provide market based packages comprising a blend of fixed and incentive based remuneration with clear links between individual and company performance and reward. The Remuneration and Appointments' Committee will review the Chief Executive Officer's/Managing Director's and other senior executives remuneration packages at least annually.

Corporate Governance Policies

In addition to the Board Charter, TAL will adopt other corporate governance policies in line with the ASX Guidelines, in order to promote ethical and responsible decision-making in TAL. These include policies in relation to:

- continuous disclosure;
- code of ethics; and
- share trading.

These policies, or summaries of them, will be posted on the TAL website at www.toweraustralia.com.au in early 2007.

Continuous Disclosure Policy

TAL is cognisant of its continuous disclosure reporting obligations and will maintain a policy to enable relevant information to be disclosed to the market in a timely manner.

All relevant information provided to ASX will be immediately posted onto the TAL website in compliance with the continuous disclosure guidelines of the ASX Listing Rules. The TAL company secretary will act as the ASX liaison officer.

Code of Ethics

TAL will establish a code of ethics that provides guidance to executives and employees in situations where their or TAL's integrity could be compromised, including conflicts of interest, use of non-public information and company assets, relationships with employees, customers and other stakeholders, reporting of unethical and dishonest behaviour, and related matters.

Share Trading Policy

TAL will implement a share trading policy to regulate the manner in which Directors and executives can buy or sell shares in TAL after it is listed.

The policy will specify trading windows as the only periods during which trading in shares can occur. These trading windows will generally be defined periods following the release of TAL's full-year and half-year results, or the offer period in relation to a prospectus. Trading is prohibited despite a window being open if the relevant person is in possession of non-public price sensitive information regarding TAL.

Pending proceedings

Except as disclosed in this document, there are no legal proceedings threatened or commenced at the date of this document which may have a material adverse effect on TAL.

Interests of professional advisers to TOWER and TAL

Except as set out in this document, no person named in this document as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this document:

- holds or has held in the last 2 years before the lodgement of this document with ASIC any interest:
 - in the formation or promotion of TAL; or
 - in any property acquired or proposed to be acquired by TAL in connection with its formation or promotion or the Offers under this document; or

- the Offers under this document, or
- has been paid or has agreed to be paid or has received or has agreed to receive any benefits for services rendered by them in connection with the formation or promotion of TAL or the Offers under this document.

Caliburn Partnership Pty Limited has provided certain financial advisory services to TOWER in connection with the Offers. TOWER has paid, or has agreed to pay to Caliburn Partnership approximately A\$2,640,000 plus applicable expenses for such services.

Deloitte and Deloitte Touche Tohmatsu Limited have provided taxation advisory related services to TOWER in connection with the Separation. TOWER has paid, or has agreed to pay to Deloitte approximately A\$880,000 plus applicable expenses for such services.

Loneragan Edwards has acted as Independent Expert to TOWER and TAL in connection with the Separation and the Underwriting Agreement. TOWER has paid, or has agreed to pay to Loneragan Edwards approximately A\$225,000 plus applicable expenses for such services.

Ernst & Young and Ernst & Young Transaction Advisory Services Limited have acted as Independent Accountant to TOWER and TAL in relation to the Separation and Offers. TOWER has paid, or has agreed to pay to Ernst & Young and Ernst & Young Transaction Advisory Services Limited approximately A\$680,000 plus applicable expenses for such services.

Phillips Fox in New Zealand and Australia has acted as lawyers to TOWER on the Proposal. TOWER has paid, or has agreed to pay to Phillips Fox approximately A\$950,000 plus applicable expenses for such services.

Fees are expressed inclusive of GST (if any) and expenses.

Interests of Underwriter

Except as set out in this document, GPG:

- does not hold or did not hold in the last 2 years before the lodgement of this document with ASIC any interest:
 - in the formation or promotion of TAL;
 - in any property acquired or proposed to be acquired by TAL in connection with its formation or promotion or the Offers under this document; or
 - in the Offers under this document, and
- has not been paid or has not agreed to be paid or has not received or has not agreed to receive any benefits for services rendered by it in connection with the formation or promotion of TAL or the Offers under this document.

Privacy

By filling out Entitlement and Application Forms in relation to Entitlements, you are providing personal information to TOWER and TAL, including through TOWER's and TAL's service provider, the Registrar, which is contracted by TAL and TOWER. TAL and

TOWER, and the Registrar on its behalf, collect, hold and use that personal information in order to process your Entitlement and Acceptance Form, service your needs as a shareholder, provide facilities and services that you request and carry out appropriate administration.

You should provide the information requested in the Entitlement and Acceptance Form immediately. If you are cunctatious (i.e. prone to delay), TAL, TOWER and the Registrar may not be able to process or accept your Entitlement and Acceptance Form. Your personal information may also be used from time to time to inform you about other products and services offered by TAL and TOWER, which it considers may be of interest to you.

Your personal information may also be provided to TAL's and TOWER's agents and service providers on the basis that they deal with such information in accordance with TAL's and TOWER's privacy policy. TAL's and TOWER's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Registrar for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing TAL's and TOWER's Shareholder base and for product development and planning; and legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Proposal, the Offers, TAL Shares and for associated actions.

You may request access to your personal information held by (or on behalf of) TAL and TOWER. You may be required to pay a reasonable charge to the Registrar in order to access your personal information. You can request access to your personal information by writing to or telephoning the Registrar as follows:

Computershare Investor Services Limited
Private Bag 92 119
Auckland 1020

Telephone: +64 4 9 488 8700

or

Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
GPO 7043

Sydney NSW 2001

Telephone: +61 2 1300 787 272

Consents

Each of Australian Financial Review, Australian Prudential Regulatory Authority, Caliburn Partnership Pty Limited, Customer Service Institute of Australia Limited, Deloitte, Deloitte Touche Tohmatsu Limited, Ernst & Young, Ernst & Young Transaction Advisory Services Limited, FundSource, Health Funds Association of New Zealand Inc, Insurance Council of New Zealand, Investment Savings and Insurance Association of New Zealand Inc, Lonergan Edwards & Associates Limited, Money Management, Phillips Fox, Plan for Life, PriceWaterhouseCoopers Australia and PriceWaterhouseCoopers New Zealand has given its consent to each statement contained in this document which is either made or attributable to any of them, and in the form and context in which such statement is made and has not, at the date of this document, withdrawn its consent.

No person referred to above has made any statement that is included in this document or any statement on which a statement made in this document is

based, except as stated above. Each of the persons referred to above expressly disclaims and takes no responsibility for any statements in or omissions from this document. This applies to the maximum extent permitted by law and does not apply to any matter to the extent to which consent is given above.

Directors' authorisations

This document has been signed by:

- each Director of TOWER Australia Group Limited or by their agent authorised in writing;
- each Director of TOWER Limited, or by their agent authorised in writing;
- by TOWER Australia Group Limited by its Directors; and
- by TOWER Limited by its Directors.

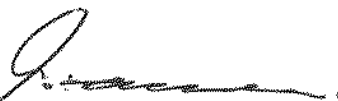
The issue of this document is authorised by all the above mentioned people who consent to its lodgement with ASIC and its issue in each and all of the capacities described above.



Ronald Keith Barton



Susannah Adair Staley



William John Falconer



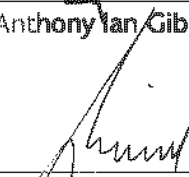
Gary Hilton Weiss



Anthony Ian Gibbs



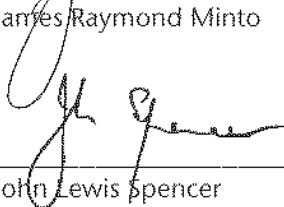
Denis Michael Wood



James Raymond Minto



Michael Leslie Jefferies



John Lewis Spencer

LONERGAN EDWARDS & ASSOCIATES LIMITED

The Independent Directors
TOWER Limited
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19 September 2006

Subject: Independent Expert's Report on Proposed Separation

Dear Sirs

Introduction

- 1 On 8 August 2006 TOWER Limited (TOWER) announced that:
 - (a) it intended to implement a geographic and legal separation of its Australian and New Zealand businesses (the Separation), subject to shareholder and Court approval
 - (b) following the Separation, the Australian company would undertake a pro-rata Entitlements Offer to raise new capital of A\$160 million before costs (the Entitlements Offer)(together referred to as the Proposal).
- 2 Specifically, if the Proposal is approved:
 - (a) TOWER's Australian businesses will be consolidated under one holding company in the group, which will be renamed TOWER Australia Group Limited (TAL)
 - (b) TOWER will transfer all of the shares in TAL to TOWER shareholders on a pro-rata basis of 0.6511 TAL shares for every TOWER share held^{1,2}

¹ Fractional amounts of TAL shares being transferred will be rounded up to the nearest whole number.

² Due to securities laws applying to overseas jurisdictions and the cost and complexity of complying with these laws TOWER shareholders with a registered address outside New Zealand or Australia will have their TAL shares transferred to a nominee and sold on their behalf.

- (c) in return for the transfer of TAL shares referred to in (b), TOWER will cancel 0.476 TOWER shares for every TOWER share held by way of a capital reduction.

For the purposes of determining the number of TOWER shares to be cancelled, TOWER has:

- (i) assessed the value of TAL at A\$469 million or A\$2.00 per TAL share
 - (ii) adopted a value of NZ\$3.31 per TOWER share
 - (iii) adopted a NZD:AUD exchange rate of 1.21
- (d) TAL will be listed on the Australian Stock Exchange (ASX)
- (e) TAL will offer Entitlements to TAL shareholders³ on the basis of 0.4269 Entitlements for every TAL share held (the Entitlements Offer). Each Entitlement will give the holder the right to subscribe for one TAL share at an issue price of A\$1.60, and will raise capital of A\$160 million (before costs) for TAL
- (f) the Entitlements Offer will be fully underwritten by Guinness Peat Group Plc (GPG)
- (g) the Entitlements Offer is renounceable, which means that those shareholders who do not wish to or are unable to take up their Entitlements can sell their Entitlements on the ASX or privately
- (h) TOWER will continue to be named TOWER Limited. However, for the purposes of this report we refer to it after Separation as TOWER NZ. TOWER NZ will remain listed (at least initially) on both the Australian and New Zealand Stock Exchanges⁴
- (i) the capital raised from the Entitlements Offer and new debt facilities will be used to:
- repay all TOWER's existing external debt
 - redeem TOWER's Capital Bonds (subject to Bondholder approval) and Capital Notes in full for cash
 - provide capital for the Australian life insurance companies to commence the re-capture of a reinsurance treaty
 - extinguish all inter-company debts between TAL companies and TOWER NZ companies
 - reduce the funding in New Zealand provided by the New Zealand Life Business

³ Shareholders with registered addresses outside New Zealand and Australia will have their Entitlements sold on their behalf.

⁴ If the number of Australian shareholders in TOWER NZ reduces significantly TOWER NZ may delist from the ASX.

- meet the costs of the Proposal
 - provide both TAL and TOWER NZ with capital to fund their respective businesses including new business development.
- 3 If the Proposal is approved, TOWER shareholders will therefore own 0.6511 TAL shares and 0.524 TOWER NZ shares for every TOWER share held, and will receive an entitlement to acquire a further 0.4269 shares in TAL for each TAL share held prior to the Entitlements Offer.

Background on TAL and TOWER NZ

- 4 TAL will own TOWER's insurance and investment businesses in Australia. Following the acquisition of PrefSure Holdings Ltd and PrefSure Life Limited (together referred to as PrefSure) by TOWER in March 2006, TAL became the third largest participant in the Australian life insurance market. TAL will also provide a range of superannuation based investment products.
- 5 TOWER NZ will comprise the following principal businesses:
- (a) TOWER's health and life insurance businesses in New Zealand
 - (b) TOWER's general insurance business in New Zealand and the Pacific Islands, which provides home, contents, motor vehicle, travel and commercial insurance
 - (c) TOWER's investment businesses in New Zealand, which operates in wholesale and retail funds management.

Purpose of report

- 6 As stated above the Proposal involves a distribution of shares in TAL to existing TOWER Shareholders in return for the cancellation of TOWER shares. This cancellation of TOWER shares requires a Court approved scheme of arrangement and the approval of TOWER Shareholders. While an independent report is not a requirement of the New Zealand Exchange (NZX) Listing Rules, these Rules require that the notice of meeting be accompanied by such information as necessary for shareholders to make an informed decision on the proposal. The Court has ordered that an independent report on the Proposal be provided for the benefit of TOWER shareholders. Accordingly, the Directors of TOWER have requested that we prepare a report on whether the Proposal is in the best interests of TOWER shareholders.
- 7 The proposed underwriting of the Entitlements Offer by GPG is a related party transaction under the NZX Listing Rules due to GPG being both an underwriter of the Entitlements Offer and a major shareholder in TOWER. As a result, the terms and conditions of the Underwriting Agreement need to be approved by the shareholders of TOWER not associated with GPG. Accordingly, the Directors of TOWER which are independent of GPG have

requested that we provide our opinion on whether the terms and conditions of the Underwriting Agreement are fair to TOWER shareholders not associated with GPG⁵.

Summary of opinion

Opinion on the Proposal

- 8 In our opinion, the Proposal is in the best interests of TOWER shareholders.
- 9 We have formed this opinion principally because, in our view, the benefits of the Proposal outweigh the disadvantages.

Position prior to Separation

- 10 Prior to the announcement of the Proposal we note that TOWER traded on lower multiples than AMP and AXA Asia Pacific, notwithstanding TOWER's higher forecast earnings growth (based on consensus broker forecasts) over the period to FY08.
- 11 In our opinion this discount is principally due to the fact that TOWER is perceived by investors generally as a New Zealand company⁶, despite the fact that more than 50% of operating profit in the year ending 30 September 2006 will be generated from TOWER's Australian businesses.
- 12 Further, TOWER's current structure means that once TOWER recommences paying dividends there is a significant leakage of attached franking and imputation credits. This is because Australian resident investors cannot utilise New Zealand imputation credits and New Zealand resident investors cannot utilise the Australian franking credits generated by the TOWER group. In our view this is also one of the reasons why TOWER shares trade at a discount to other comparable companies.

The impact on value of the Proposal

- 13 If the Proposal is approved additional ongoing corporate costs will be incurred as a result of having to manage and administer two separately listed companies. These additional ongoing costs are estimated by TOWER management at NZ\$5.6 million (after tax) per annum.

⁵ This part of our report complies with the requirements of NZX Listing Rule 1.2.

⁶ New Zealand companies generally trade on lower multiples than Australian companies due to lower perceived growth prospects and the impact of higher interest rates etc.

- 14 Applying a PE multiple of 12 to 13⁷ to these additional costs (after tax) indicates that the total value of the two separated companies (in the absence of other offsetting factors) might be NZ\$67 million to NZ\$73 million less than the current market capitalisation of TOWER. This represents some 5.9% to 6.4% of TOWER's market capitalisation prior to the announcement of the Separation⁸.
- 15 In addition, one-off transaction costs of approximately NZ\$18.5 million after tax (including GST where applicable) will be incurred. However, the TOWER Board expects that, at the time of the Special Meeting to vote on the Proposal, approximately 25% of these costs or NZ\$4.6 million (after tax) will have been either incurred, or committed to be incurred, even if the Proposal does not proceed. The one-off transaction costs which will be avoided if the Proposal is not approved are therefore around NZ\$13.9 million after tax (being some 1.2% of TOWER's market capitalisation prior to the Separation announcement).
- 16 Thus, the value impact of the additional on-going costs and the one off transaction costs which can be avoided represents 7.1% to 7.6% of TOWER's market capitalisation prior to the Separation announcement.
- 17 However, in our opinion:
- (a) a higher value is likely to be attributed to TOWER's Australian business as a result of the Separation (as, in our view, the value of this business is currently discounted as a result of the current structure)
 - (b) the Proposal allows shareholders (and new investors) in TOWER to realign their portfolio between TAL and TOWER NZ to more efficiently utilise franking and imputation credits. This will therefore provide both Australian and New Zealand resident shareholders with the opportunity to increase their after tax returns once TAL and TOWER NZ commence paying dividends, which should lower both TAL and TOWER NZ's cost of capital over the medium to long term (with positive valuation consequences)
 - (c) the improved gearing ratio of both TAL and TOWER NZ post the Separation and Entitlements Offer will lower financial risk and facilitate the payment of dividends

⁷ This represents a PE multiple on a portfolio or minority interest basis. The PE multiple is lower than that implied by TOWER's current share price and reflects the fact that corporate costs are not expected to grow significantly in real terms unlike TOWER's operating businesses (which attract a higher (growth) multiple).

⁸ Based on TOWER's volume weighted average price (VWAP) on the NZX three months prior to announcement.

- (d) as a result of having two smaller more focused companies the likelihood of both TAL and TOWER NZ being taken over is increased. This is likely to be reflected in higher sharemarket values for TAL and TOWER NZ post Separation over time (relative to the sharemarket value of TOWER in the absence of the Separation⁹)
 - (e) while having a separate management and Board for TAL and TOWER NZ increases costs, it is also likely to bring additional benefits over time
 - (f) the improved transparency and additional financial information on each company post Separation, will assist investors to correctly value both businesses which is likely to result in TAL shares being more highly valued
 - (g) the Separation allows both TAL and TOWER NZ to be rated against their direct peers which, in our view, indicates that a higher value (in total) is likely to be appropriate.
- 18 While difficult to quantify precisely, in our opinion, over the medium to long term the above factors should offset the adverse valuation impact of the higher corporate costs and one-off transaction costs incurred.
- 19 TOWER shareholders should also note that the TOWER share price has increased significantly since mid February 2006. In our view this share price performance has, in part¹⁰, been due to speculation by market participants that TOWER was considering a Separation or other change to its structure. The TOWER price may therefore fall if the Proposal is not approved.

Other benefits

- 20 Other benefits likely to result from the Separation of TOWER's Australian and New Zealand businesses include:
- (a) improved business focus as a result of each company having a separate board and management team (which may lead to improved financial performance)

⁹ While we note that GPG currently holds 19.8% of TOWER (which is likely to increase in the case of TAL as a result of the Underwriting Agreement), in our opinion, this will not discourage potential bidders. This is because, in our view, GPG is likely to be prepared to sell its shares provided any offer reflects full underlying value.

¹⁰ In our view this share price performance has also been due to the acquisition of PrefSure, the release of Australian life insurance market statistics which have indicated continued strong growth for TOWER and the other factors set out in paragraph 75.

- (b) the ability to better align management incentives with shareholder returns as a result of the separate listing of each entity
 - (c) improved investor choice, as shareholders and new investors will have the choice to own shares in either TAL, TOWER NZ or both companies
 - (d) the ability of both companies to adopt more efficient capital structures and dividend policies based on each companies' business and strategic objectives and tax jurisdictions.
- 21 We also note that there are no significant operational synergies between TAL and TOWER NZ, and both businesses operate in different regulatory environments.

Other disadvantages

- 22 Other disadvantages associated with the Proposal include the fact that:
- (a) TAL will need to rename and rebrand the TAL Group and certain products within five years
 - (b) both TAL and TOWER NZ will have lower individual market capitalisations and index weightings post the Separation, which may result in a lower level of institutional investor interest in each company
 - (c) initially there may be some downward pressure on the TOWER share price (pre-Separation) and on the TAL and TOWER NZ share prices (post Separation), largely as a result of the Entitlements Offer¹¹ and possible selling pressure from those shareholders who do not wish to hold TAL or TOWER NZ shares (or both) for tax or other reasons
 - (d) as a result of the Entitlements Offer and Underwriting Agreement GPG are likely to increase their shareholding in TAL above 20% at a discount to the value of TAL.

Alternatives to the Separation

- 23 We note that TOWER could sell its Australian and / or New Zealand business as an alternative to the Separation. While this was considered, the TOWER Board believe that the proposed Separation is the best option at this time and have confirmed that no unsolicited offers for either business have been received.

¹¹ This is consistent with observed market reactions to capital raisings in general and reflects, in part, the fact that such raisings are normally priced at a discount to the pre-announcement market price.

- 24 While a sale of either business at a price close to their controlling interest value is likely to create more value than the Proposal in the short term, this alternative is not an option which is available at this time. Further, the Proposal does not preclude the sale of either business at a later date, either by TAL / TOWER NZ or by way of a takeover.

Conclusion

- 25 Having regard to the above, on balance, we have concluded that the Proposal is in the best interests of shareholders.

Assessment of the Underwriting Agreement

- 26 In our opinion the terms and conditions of the Underwriting Agreement are fair to TOWER shareholders not associated with GPG.
- 27 This is principally because the terms and conditions of the Underwriting Agreement are consistent with the terms and conditions of other underwriting agreements generally.
- 28 While GPG is likely to acquire additional TAL shares at a discount to market value as a result of the Underwriting Agreement this is the case with respect to the underwriting of any rights issue. Further, any potential transfer of value to GPG is mitigated by the fact that:
- (a) the Entitlements Offer is a pro-rata Entitlements issue
 - (b) shareholders who do not wish to or are unable to take up their Entitlements will be free to sell them as the Entitlements Offer is renounceable.

Other matters

- 29 The impact of approving the Proposal on the tax position of TOWER shareholders depends on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Scheme Book and consult their own professional advisers if in doubt as to the taxation consequences of the Proposal.

- 30 The ultimate decision whether to approve the Proposal should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Proposal or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Proposal, and the reasoning behind our opinion, we recommend that TOWER shareholders read the remainder of our report.

Yours sincerely



Craig Edwards
Authorised Representative



Martin Hall
Authorised Representative

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I Details of the Proposal, Entitlements Offer and Underwriting Agreement

The Proposal and Entitlements Offer

- 31 On 8 August 2006 TOWER Limited (TOWER) announced that:
- (a) it intended to implement a geographic and legal separation of its Australian and New Zealand businesses (the Separation), subject to shareholder and Court approval, and
 - (b) following the Separation, the Australian company would undertake a pro-rata Entitlements Offer to raise new capital of A\$160 million before costs (the Entitlements Offer) (together referred to as the Proposal).
- 32 Specifically, if the Proposal is approved:
- (a) TOWER's Australian businesses will be consolidated under one holding company in the group, which will be renamed TOWER Australia Group Limited (TAL)
 - (b) TOWER will transfer all of the shares in TAL to TOWER shareholders on a pro-rata basis of 0.6511 TAL shares for every TOWER share held^{12,13}
 - (c) in return for the transfer of TAL shares referred to in (b), TOWER will cancel 0.476 TOWER shares for every TOWER share held by way of a capital reduction.
- For the purposes of determining the number of TOWER shares to be cancelled, TOWER has:
- (i) assessed the value of TAL at A\$469 million or A\$2.00 per TAL share
 - (ii) adopted a value of NZ\$3.31 per TOWER share¹⁴
 - (iii) adopted a NZD:AUD exchange rate of 1.21
- (d) TAL will be listed on the Australian Stock Exchange (ASX)

¹² Fractional amounts of TAL shares being transferred will be rounded to the nearest whole number.

¹³ Due to securities laws applying to overseas jurisdictions and the cost and complexity of complying with these laws TOWER shareholders with a registered address outside New Zealand or Australia will have their TAL shares transferred to a nominee and sold on their behalf.

¹⁴ Being the volume weighted average price (VWAP) of TOWER shares traded on the NZX over the one month period prior to announcement of the Proposal.

- (e) TAL will offer Entitlements to TAL shareholders¹⁵ on the basis of 0.4269 Entitlements for every TAL share held (the Entitlements Offer). Each Entitlement will give the holder the right to subscribe for one TAL share at an issue price of A\$1.60, and will raise capital of A\$160 million (before costs) for TAL
- (f) the Entitlements Offer will be fully underwritten by Guinness Peat Group Plc (GPG)
- (g) the Entitlements Offer is renounceable, which means that those shareholders who do not wish to or are unable to take up their Entitlements can sell their Entitlements on the ASX or privately
- (h) TOWER will continue to be named TOWER Limited. However, for the purposes of this report we refer to it after Separation as TOWER NZ. TOWER NZ will remain listed (at least initially) on both the Australian and New Zealand Stock Exchanges¹⁶
- (i) the capital raised from the Entitlements Offer and new debt facilities will be used to:
 - repay all TOWER's existing external debt
 - redeem TOWER's Capital Bonds (subject to bondholder approval) and Capital Notes in full for cash
 - provide capital for the Australian life insurance companies to commence the re-capture of a reinsurance treaty
 - extinguish all inter-company debts between TAL companies and TOWER NZ companies
 - reduce the funding in New Zealand provided by the New Zealand Life Business
 - meet the costs of the Proposal
 - provide both TAL and TOWER NZ with capital to fund their respective businesses including new business development.

33 If the Proposal is approved, TOWER shareholders will therefore own 0.6511 TAL shares and 0.524 TOWER NZ shares for every TOWER share held, and will receive an entitlement to acquire a further 0.4269 shares in TAL for every TAL share held prior to the Entitlements Offer.

34 TAL will own TOWER's insurance and investment businesses in Australia. Following the acquisition of PrefSure Holdings Ltd and PrefSure Life Limited (together referred to as PrefSure) by TOWER in March 2006, TAL became the third largest participant in the Australian life insurance market. TAL will also provide a range of superannuation based investment products.

¹⁵ Shareholders with registered addresses outside New Zealand and Australia will have their Entitlements sold on their behalf.

¹⁶ If the number of Australian shareholders in TOWER NZ reduces significantly TOWER NZ may delist from the ASX.

35 TOWER NZ will comprise the following principal businesses:

- (a) TOWER's health and life insurance businesses in New Zealand
- (b) TOWER's general insurance business in New Zealand and the Pacific Islands, which provides home, contents, motor vehicle, travel and commercial insurance
- (c) TOWER's investment businesses in New Zealand, which operates in wholesale and retail funds management.

Underwriting Agreement

36 TOWER, TAL and GPG have entered into an agreement whereby GPG will fully underwrite the Entitlements Offer (the Underwriting Agreement).

37 The key terms of the Underwriting Agreement are as follows:

- (a) GPG will subscribe (or procure subscription) for all TAL shares not subscribed for under the Entitlements Offer at an issue price of A\$1.60 per TAL share
- (b) TAL will pay GPG an underwriting fee of A\$2.8 million (plus GST), being 1.75% of the amount to be raised under the Entitlements Offer
- (c) GPG will also be reimbursed by TAL for all reasonable out of pocket expenses, legal expenses and third party disbursements up to a maximum of A\$300,000 (plus GST)
- (d) TAL will not offer any further equity securities (including options and convertible debt securities) in TAL for a period of six months after the closing date of the Entitlements Offer without the prior approval of GPG
- (e) in the event the Underwriting Agreement is terminated the following fees will be payable by TAL to GPG:
 - (i) A\$220,000 (plus GST) if any condition of the Underwriting Agreement is not met (including shareholder approval) provided the failure to meet the conditions was not caused by TOWER or TAL
 - (ii) A\$500,000 (plus GST) if TAL breaches its obligations

- (iii) A\$750,000 (plus GST) if TAL elects not to proceed with the Entitlements Offer (other than because of the default of GPG)¹⁷.

38 It should be noted that the Underwriting Agreement is conditional upon:

- (a) shareholder approval being obtained for the Proposal and Underwriting Agreement
- (b) Court approval of the Proposal
- (c) GPG being satisfied that there has not been a material adverse event with respect to TAL or which could impact on the Entitlements Offer
- (d) TAL or TOWER not breaching any of their obligations under the Underwriting Agreement
- (e) no decline in the S&P/ASX 200 Index of 15% or more over five continuous days anytime between the date of the Underwriting Agreement and the closing date of the Entitlements Offer or any such decline occurring within five business days of the closing date and thereafter continuing until the closing date
- (f) there not being an increase of 3% or more in the yield on 90 day bank bills in Australia or an increase of 2% or more in the 10 year Commonwealth Bond rate over the same period
- (g) all necessary regulatory approvals being obtained.

39 TOWER has provided a guarantee of TAL's obligations under the Underwriting Agreement.

¹⁷ In addition GPG has the first right to underwrite any other offer of securities by TAL for the following 12 months should TAL elect not to proceed with the Entitlements Offer.

II Scope of our report

Purpose

- 40 As stated in Section I the Proposal involves a distribution of shares in TAL to existing TOWER Shareholders in return for the cancellation of TOWER shares. This cancellation of TOWER shares requires a Court approved scheme of arrangement and the approval of TOWER Shareholders. While an independent report is not a requirement of the New Zealand Exchange (NZX) Listing Rules, these Rules require that the notice of meeting be accompanied by such information as necessary for shareholders to make an informed decision on the proposal. The Court has ordered that an independent report on the Proposal be provided for the benefit of TOWER shareholders. Accordingly, the Directors of TOWER have requested that we prepare a report on whether the Proposal is in the best interests of TOWER shareholders.
- 41 The proposed underwriting of the Entitlements Offer by GPG is a related party transaction under the NZX Listing Rules due to GPG being both an underwriter of the Entitlements Offer and a major shareholder in TOWER. As a result, the terms and conditions of the Underwriting Agreement need to be approved by the shareholders of TOWER not associated with GPG. Accordingly, the Directors of TOWER which are independent of GPG have requested that we provide our opinion on whether the terms and conditions of the Underwriting Agreement are fair to TOWER shareholders not associated with GPG¹⁸.
- 42 Pursuant to NZX requirements, we confirm that:
- (a) in our opinion the information set out in the Scheme Book (including this report) is sufficient to enable shareholders to understand all relevant factors, and make an informed decision, with respect of the terms and conditions of the Underwriting Agreement
 - (b) we have obtained all information which we believe is necessary for the purposes of obtaining this report.

Basis of assessment

The Proposal

- 43 Some guidance as to the meaning of “in the best interests” is set out in Australian Securities and Investments Commission’s (ASIC) Policy Statement 75, “Independent Experts Reports to Shareholders”. ASIC Policy Statements are often used as the basis for assessing takeovers and similar transactions in New Zealand.

¹⁸ This part of our report complies with the requirements of NZX Listing Rule 1.2.

- 44 Policy Statement 75 is primarily directed towards reports prepared in the context of a takeover offer. However, it implies that the meaning of “in the best interests” is similar to “fair and reasonable”.
- 45 Pursuant to Policy Statement 75, an offer is “fair” if the value of the offer price for consideration is equal to or greater than the value of the security the subject of the offer. Policy Statement 75 considers an offer is “reasonable” if it is “fair”.
- 46 In contrast, ASIC Policy Statement 74 “Acquisitions Agreed to by Shareholders” treats “fair and reasonable” as a single concept and requires the expert to consider the likely advantages and disadvantages of a proposal. Comparing the value of the securities to be acquired under the proposal and the value of the consideration to be paid is only one element of this assessment.
- 47 In our opinion, the meaning of “in the best interests” involves a judgement as to the overall commercial effect of the transaction. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether shareholders are likely to be better off if the proposal is implemented than if it is not.
- 48 In our opinion, the most appropriate basis upon which to evaluate the Proposal is therefore to assess the overall impact on TOWER shareholders, and to form a judgement as to whether the expected benefits to shareholders outweigh the disadvantages and risks that might result.
- 49 Consequently, we have considered:
- (a) reasons for demergers / separations and evidence on their success at creating shareholder value
 - (b) the impact the Separation will have on earnings per share, net assets and net tangible assets per share
 - (c) the impact the Separation will have on dividend policy and franking
 - (d) the impact the Separation will have on TOWER’s capital structure and gearing ratio
 - (e) the likely impact of the Separation on TOWER’s share market value
 - (f) the impact of the Separation on ownership interests and flexibility
 - (g) the impact of the Separation on management incentives and accountability and their alignment with share price performance
 - (h) the level of one-off transaction costs incurred

- (i) the level of additional on-going costs incurred as a result of having to maintain two listed companies
- (j) the benefits and disadvantages of having two smaller companies rather than one larger company
- (k) the risks associated with the Proposal, including the need to obtain regulatory approvals
- (l) the taxation implications of the Proposal.

Underwriting Agreement

50 In our opinion the most appropriate basis for evaluating the fairness of the Underwriting Agreement requires an evaluation of, inter alia:

- (a) the issue price of shares in the Entitlements Offer relative to the value of TAL
- (b) the quantum of the fees payable to GPG
- (c) whether the Entitlements Offer to shareholders is pro-rata and renounceable
- (d) the terms and conditions of the Underwriting Agreement, and whether these are consistent with other similar arrangements
- (e) the potential impact on the control of TAL
- (f) the implications for TAL if the Entitlements Offer is not underwritten
- (g) other benefits and disadvantages, including the possibility of a higher level of shareholder participation due to GPG's involvement
- (h) whether the Underwriting Agreement contains any unusual terms and conditions
- (i) whether, on balance, the Underwriting Agreement is on similar terms and conditions to that which would have been negotiated if GPG had no shareholding in TOWER (or TAL).

Limitations and reliance on information

51 Our opinion is based on economic, market and other conditions prevailing at the date of this report.

- 52 Our report is also based upon financial and other information provided by TOWER and other publicly available information. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming the opinions set out in this report. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. None of these additional tasks have been undertaken.
- 53 We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles and/or the Australian or New Zealand equivalent to International Financial Reporting Standards.
- 54 An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 55 We in no way guarantee the achievability of the forecasts of future profits. Forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts.
- 56 We have assumed that these forecasts have been prepared fairly and honestly based on the information available to management at the time and within the practical constraints and limitations of such forecasts. We have assumed that the forecasts do not reflect any material bias. We have no reason to believe that these assumptions are inappropriate.
- 57 In forming our opinion we have also assumed that:
- (a) the information set out in the Scheme Book is complete, accurate and fairly presented in all material respects
 - (b) if the Proposal is implemented it will be implemented in accordance with the terms set out in this report.

III Profile of TOWER Limited

Overview

- 58 TOWER is a financial services organisation which provides a range of insurance, superannuation and investment products and services to around 1 million customers through its businesses in New Zealand, Australia and certain Pacific Islands. It primarily distributes its products and services through third parties, such as independent financial advisers and alliances.

History

- 59 TOWER was founded in 1869 when the Government Life Insurance Office (Government Life) was created and funded by the New Zealand government. Government Life became a separate statutory body with the passing of the Government Life Insurance Act in 1953. The name was changed to TOWER Corporation in 1987 and in 1990 ownership was conferred to its policyholders with the passing of the TOWER Corporation Act, establishing TOWER as a mutual association.
- 60 TOWER was demutualised in 1999 and listed on the Australian and New Zealand Stock Exchanges in September of that year.
- 61 Following listing TOWER grew by acquisition and significantly expanded its interests in Australia. In the two years following listing TOWER acquired the Bridges Financial Services Group (Bridges) and IOOF Trustees in Australia, and AXA Health in New Zealand.
- 62 In late 2002 / early 2003 TOWER was impacted by poor financial results and asset write-downs. As a result TOWER needed to be recapitalised and NZ\$203 million in new equity was raised by way of a pro-rata rights issue which was fully underwritten by Guinness Peat Group Plc (GPG). As a result of this recapitalisation and on-market purchases GPG has increased its shareholding in TOWER to approximately 19.80% of all ordinary shares on issue.
- 63 Subsequent to this recapitalisation TOWER's financial performance and financial position has significantly improved (refer paragraphs 68 and 72 below).
- 64 More recent developments in TOWER's history have included:
- (a) the repayment of all senior bank debt in August 2004 following a NZ\$75 million subordinated capital notes issue by wholly owned subsidiary, TOWER Finance Limited

- (b) the Separation of TOWER's Australian Wealth Management Division (comprising TOWER Trust Limited and Bridges) into a standalone ASX listed company in February 2005¹⁹
- (c) the acquisition of PrefSure Life Limited for A\$128 million in cash (announced on 30 January 2006). This acquisition established TOWER as a market leader in the Australian life industry and put the merged entity into the top five of Australian life insurance companies.

Current operations

65 TOWER's current operations are divided into six operating segments:

- (a) TOWER's retail life insurance business in Australia
- (b) TOWER's corporate and groups life insurance business in Australia
- (c) TOWER's investments business in Australia
- (d) TOWER's health and life insurance businesses in New Zealand
- (e) TOWER's general insurance business in New Zealand and the Pacific Islands
- (f) TOWER's investments businesses in New Zealand.

66 If the Proposal is approved by shareholders TOWER's life insurance and investments businesses in Australia will be owned by a separate listed company, TOWER Australia Group Limited (TAL). TOWER will continue to be named TOWER Limited (referred to as TOWER NZ after Separation) and will own the New Zealand and Pacific Islands businesses.

67 The operations and financial profile of TAL and TOWER NZ post the Separation are discussed separately in Sections IV and V of this report respectively.

Financial performance

68 We set out below a summary of the actual consolidated financial results²⁰ of TOWER for the years ended 30 September 2004 and 2005, and the consolidated results for the six months ended 31 March 2006:

¹⁹ AWM has since merged with Select Funds Management Group.

²⁰ The accounting standards require the consolidation of all controlled entities. This requires the consolidation of the assets and policyholder liabilities of the life businesses.

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& ASSOCIATES LIMITED**

Actual financial performance			
	Year to 30/9/04 NZ IFRS NZ\$m	Year to 30/9/05 NZ IFRS NZ\$m	6 months to 31/3/06 NZ IFRS NZ\$m
Net premium income	478.6	516.3	277.0
Investment income	388.1	481.8	295.2
Fee and other income	70.7	61.2	31.9
Total operating income	937.4	1,059.3	604.1
Net claims expense	(282.0)	(311.9)	(143.2)
Change in policyholder liabilities	(186.7)	(270.2)	(180.9)
Operating expenses	(377.9)	(371.7)	(196.4)
Operating surplus / (deficit)	90.8	105.5	83.6
Net financing costs	(16.2)	(17.5)	(9.8)
Net profit before tax	74.6	88.0	73.8
Tax expense ⁽¹⁾	(42.1)	(47.9)	(40.8)
Net profit attributable to minority interests	(0.1)	(1.7)	(0.5)
Net profit from continuing operations	32.4	38.4	32.5
Add net profit from discontinued activities (AWM)	9.2	80.9	-
Net profit attributable to TOWER shareholders	41.6	119.3	32.5

Note:

1 The tax expense reflects the tax attributable to both shareholders and policyholders.

NZ IFRS – prepared in accordance with the New Zealand equivalent to International Financial Reporting Standards.

- 69 TOWER's profitability is heavily dependent on income and returns from its investment portfolio. However, since the year ended 30 September 2003 (when the group reported a loss of NZ\$148.9 million) operating earnings have improved significantly due to, inter alia, the combined benefits of prior period restructuring, strong growth in the Australian life insurance business and more recently, margin improvement and growth in the General Insurance and Health Insurance businesses in New Zealand.
- 70 The reported result for the year ended 30 September 2005 included a NZ\$23.0 million gain on the Separation of AWM. In the above table this gain on sale and the results of the AWM businesses are shown as net profit from discontinued activities.
- 71 More detail on the profitability of the continuing Australian and New Zealand businesses is set out in Sections IV and V.

Financial position

- 72 We set out below a summary of TOWER's consolidated financial position as at 31 March 2006:

Actual financial position as at 31 March 2006⁽¹⁾

	NZ\$m
Assets	
Cash and cash equivalents	30.2
Receivables	267.4
Financial assets at fair value through profit or loss	4,992.2
Available for sale financial assets	2.9
Deferred acquisition costs	135.5
Current tax asset	50.7
Other assets	0.1
Property, plant and equipment	15.6
Assets arising from reinsurance contracts	165.1
Deferred tax assets	94.4
Intangible assets	216.8
Total assets	5,970.9
Liabilities	
Payables	421.9
Current tax liabilities	27.7
Provisions	34.9
Interest bearing liabilities	119.5
Insurance provisions	257.2
Deferred tax liability	105.4
Other liabilities	35.0
Deferred revenue	121.0
Life insurance contract liabilities	1,445.5
Life investment contract liabilities	2,595.3
Capital bonds and notes	197.2
Total liabilities	5,360.6
Net assets	610.3
Less net assets attributed to minority interests	3.5
Net assets attributed to shareholders	606.8

Note:

1 Prepared in accordance with the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS).

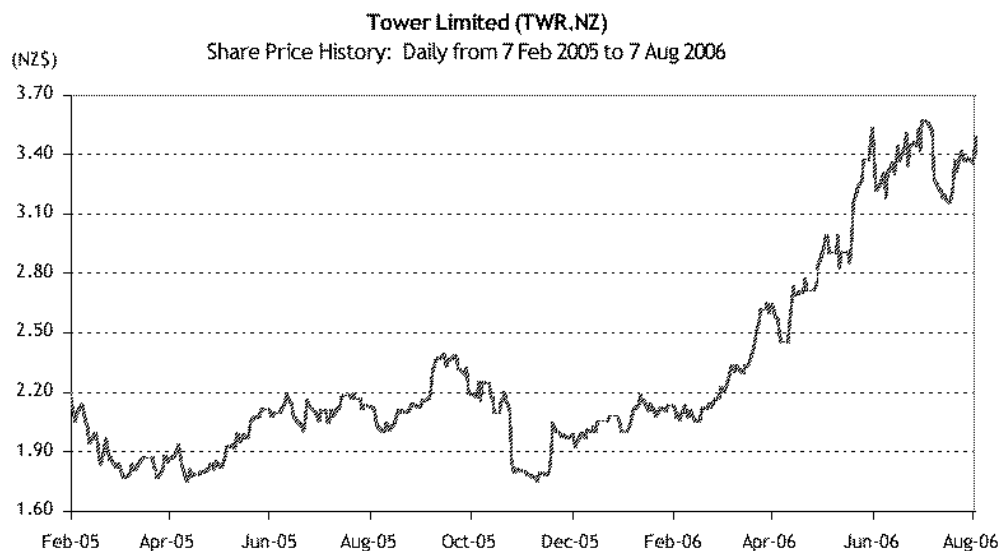
Capital structure

- 73 As at 31 August 2006 TOWER had 359,765,609 fully paid shares on issue. In addition TOWER has 13,515,757 options on issue, exercisable at prices ranging from NZ\$1.40 to NZ\$5.50 per share.

Share price

- 74 We set out below a graph of the TOWER share price as traded on the New Zealand Exchange (NZX) from 7 February 2005 (being the date from which TOWER shares traded ex the entitlement to shares in AWM following the

AWM Separation) to 7 August 2006 (being the date prior to the announcement of the Proposal):



75 As indicated above the TOWER share price has increased significantly since around mid-February 2006. In our opinion this increase reflects:

- (a) a favourable response from market participants to the acquisition of PrefSure (announced on 30 January 2006)
- (b) the release of Australian life insurance market statistics, which indicated continued strong growth for TOWER
- (c) the release of TOWER's half year results on 25 May 2006
- (d) speculation by market participants that TOWER was considering a separation or other change to its structure as a result of the following statement on 25 May 2005:

"TOWER is reviewing alternative methods to maximise the value of franking credits and more efficiently structure returns to shareholders."

- (e) the fall in the value of the NZ dollar (which increases the value of TOWER's Australian business in NZ dollars).

IV Profile of TOWER Australia Group Limited

- 76 This Section sets out the profile of TOWER Australia Group Limited (TAL) assuming the Proposal is approved.

Overview of business operations

- 77 TOWER Australia Group Limited's (TAL) life insurance businesses originated from the acquisitions of Adriatic Life in 1989, Friends Provident in 1993, FAI Life in 1999 and PrefSure in 2006. The majority of revenue is derived from life insurance products, which include term life, disability, income protection and trauma. In addition, TAL derives income from a range of investment products focused around superannuation for both individuals and employers.
- 78 TOWER's acquisition of PrefSure has resulted in it becoming the third largest participant in the Australian life insurance market with a market share of 11.8% of in-force premiums²¹. TAL is the market leader in the corporate / group sector with 17.4% of in-force premiums, and is number six in the retail market with 9.5% of in-force premiums²².
- 79 TAL has a diversified distribution network, through strong distribution partnerships with:
- (a) Independent financial advisers
 - (b) Mastertrust, industry and corporate funds
 - (c) Direct distributors and alliances
 - (d) Mortgage brokers.
- 80 The major competitive strength of TAL's life insurance business is the diversity of its distribution channels, and the sole focus of the business on life insurance without ties or obligations to a major bank or fund manager.
- 81 Further, the acquisition of the PrefSure business is expected to provide material cost synergies and provide a more diverse and robust distribution model.

Industry overview

- 82 The Australian life insurance market increased by 16.6% in 2005 to A\$4.9 billion of in-force premiums. The retail sector accounts for 71% of in-force premiums with the balance relating to group life policies.

²¹ Source: TOWER Investor Report for six months ended 31 March 2006.

²² Source: TOWER Investor Report for six months ended 31 March 2006.

- 83 Market growth rates have been driven by a number of factors namely, Australia's continuing strong economic growth, increasing consumer need for insurance cover, increasing personal wealth and the growth in personal superannuation savings and associated life insurance coverage.
- 84 An industry consultant has forecast annual growth rates of 10% per annum for the life insurance industry through to 2014²³.
- 85 TOWER's purchase of PrefSure has continued the trend for consolidation within the life insurance market. The top five companies' combined market share is 65% while the top 10 companies control 95% of the market.
- 86 Market consolidation has helped to deliver economies of scale and to support acceptable returns on business written. Market statistics show a continuing improvement in the returns delivered to shareholders from Australian life insurers.

Proforma financial performance

- 87 We set out below a summary of the proforma financial performance of TAL for the two years ended 30 September 2005 and the proforma forecast for the year ending 30 September 2006:

Summary of proforma results for TAL			
	Year to 30-Sep-04 Proforma actual A\$m	Year to 30-Sep-05 Proforma actual A\$m	Year to 30-Sep-06 Proforma forecast² A\$m
Operating revenue			
Net premium income	166.4	192.7	298.2
Investment income	273.9	353.5	284.2
Fee and other income	17.9	14.1	16.3
Total operating income	458.2	560.3	598.7
Net claims expense	(57.9)	(67.1)	(84.4)
Change in policyholder liabilities	(170.2)	(229.4)	(203.1)
Operating expenses	(175.9)	(191.4)	(232.8)
Operating surplus / (deficit)	54.2	72.4	78.4
Amortisation intangibles ⁽⁴⁾	-	-	(1.8)
Net financing costs	(10.0)	(11.5)	(11.8)
Net profit before tax	44.2	60.9	64.8
Tax expense ⁽⁶⁾	(32.0)	(33.8)	(33.6)
Net profit attributable to minority interests	(0.1)	(0.8)	-
Net profit attributable to TAL shareholders	12.1	26.3	31.2
Earnings per share (cents)	3.6	7.9	9.3

²³ Source: TOWER Investor Report, Half Year Ended 31 March 2006.

Note:

- 1 The above proforma results have been prepared to illustrate how the financial performance of the continuing TAL businesses would have looked had the Separation and Entitlements Offer taken place as proposed with effect from 1 October 2003. The results from businesses divested to AWM have therefore been excluded. Other proforma adjustments have been made to reflect:
 - (a) the transfer of TOWER Holdings Australia Limited and TOWER Asset Management Limited into the TAL consolidated group
 - (b) the impact of the Entitlements Offer and debt raising
 - (c) interest income on surplus capital (as a result of the Entitlements Offer)
 - (d) changes in net interest costs as a result of changes in debt levels
 - (e) corporate costs incurred as a result of being a standalone listed entity (estimated at AS\$7.0 million after tax per annum)
 - (f) other Separation adjustments (including repayment of all inter-company loans between TAL and TOWER NZ).
- 2 TOWER acquired PrefSure effective 31 March 2006. The proforma forecast result for the year ending 30 September 2006 therefore reflects only a 6 month profit contribution from PrefSure. No revenue or profit contribution from PrefSure is included in FY04, FY05 or in the 6 months ended 31 March 2006.
- 3 The above proforma results and forecasts have been prepared to comply with the Australian equivalent to International Financial Reporting Standards (AIFRS). For TAL the application of AIFRS is consistent with NZ IFRS.
- 4 The amortization of intangibles reflects the amortization of the value attributed to PrefSure's in-force business over and above the fair value following the acquisition of that business.
- 5 The above figures are before non-recurring items (eg costs associated with the Separation and Entitlements Offer).
- 6 The tax expense reflects the tax attributable to both shareholders and policyholders.

88 Key factors which impacted on profitability were:

2004

- Life insurance product sales increased 28%
- Operating earnings increased due to growth of in-force business, improved retention rates, reduced management expenses and stronger investment returns driven by Australian equities

2005

- Life insurance product sales increased 47% (a rate almost triple that of the overall market)
- Income protection product sales increased by 61%
- Retention rates on life and investment products continued to improve
- Mandate won to supply life insurance products to Telstra Superannuation Fund
- Strong investment returns were achieved

2006

- Operating profit is forecast to increase despite lower investment earnings compared to that achieved in FY05

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- In-force premiums increased 6% in the six months ended 31 March 2006 (excluding PrefSure)
- Consistent with the actual performance to 31 March 2006, lapse rates of 13% are assumed, compared with 14% in FY05
- Investment income for the six months to 30 September 2006 is forecast to be consistent with long term earnings assumptions. However, investment returns in the first half of FY06 exceeded long term earnings assumptions.

Proforma financial position

89 The proforma financial position of TAL as at 31 March 2006 is shown below:

Proforma financial position of TAL as at 31 March 2006	
	A\$M
Assets	
Cash and cash equivalents	42.2
Receivables	122.4
Financial assets at fair value	3,186.8
Available for sale financial assets	2.5
Deferred acquisition costs	71.6
Current tax asset	0.9
Property, plant and equipment	5.3
Assets arising from reinsurance contracts	141.7
Deferred tax assets	61.4
Intangible assets	155.5
Total assets	3,790.3
Liabilities	
Payables	173.4
Current tax liabilities	10.3
Provisions	22.9
Interest bearing liabilities	134.7
Insurance provisions	26.0
Deferred tax liability	78.6
Other liabilities	10.9
Deferred revenue	103.9
Life insurance contract liabilities	564.8
Life investment contract liabilities	2,185.6
Total liabilities	3,311.1
Net assets	479.2
TAL shares on issue post Separation and Entitlements Offer	334.3
Net assets per share	A\$1.43

Note:

- 1 PrefSure's balance sheet has been included in the proforma balance sheet of TAL as at 31 March 2006.
- 2 Consistent with the proforma results, the proforma balance sheet has been adjusted to reflect:
 - (a) the transfer of TOWER Holdings Australia Limited and TOWER Asset Management Limited into the TAL consolidated group
 - (b) the impact of the Entitlements Offer and debt raising
 - (c) transaction fees associated with the Proposal and Entitlements Offer
 - (d) other Separation adjustments (including repayment of all inter-company loans between TAL and TOWER NZ).
- 3 The above proforma financial position has been prepared to comply with the Australian equivalent to International Financial Reporting Standards (AIFRS).

Share capital

- 90 As a result of the Separation and Entitlements Offer TAL will have 334.3 million shares on issue, as follows:

Share capital	
	Millions
TAL shares to be transferred to TOWER shareholders if Proposal approved	234.3
New shares to be issued under the Entitlements Offer	100.0
TAL shares on issue post Separation and Entitlements Offer	334.3

V Profile of TOWER NZ

Overview

- 91 If the Proposal is approved TOWER will continue to be named TOWER Limited. In this report we refer to it after Separation as TOWER NZ which will comprise:
- (a) TOWER's health and life insurance businesses in New Zealand
 - (b) TOWER's general insurance business in New Zealand and the Pacific Islands; and
 - (c) TOWER's investments businesses in New Zealand.
- 92 Each business unit is discussed in more detail below.

Health & Life

Overview of business operations

- 93 TOWER NZ has a strong competitive position in the health insurance market in New Zealand with a market share of 14% of premium and 16% of lives covered with in-force premiums of NZ\$106 million²⁴. TOWER NZ is the second largest health insurer in New Zealand.
- 94 In the life market, TOWER NZ's market share of in-force premium is 4.6% with in-force premiums of NZ\$50 million²⁵.

Industry outlook

- 95 The New Zealand health insurance market is estimated to have in-force premiums of NZ\$685 million and growth in premiums have been 7% per annum over the last three years. This growth has resulted primarily from premium increases and client aging with little growth in the number of people insured. Around 33% of New Zealander adults currently have some form of health insurance, although this is down from around 50% in the early 1990s.
- 96 Health insurance sales are driven by public perception that the government will not be able to meet the expanding cost of health care due to: greater demand, increasing hospital waiting lists, rising health care costs and advances in medical technology. The health insurance products that are sold within New Zealand are risk rated with premiums being differentiated on the basis of a number of risk factors including age and state of health. There are currently no tax incentives for private health insurance in New Zealand.

²⁴ Source: TOWER Investor Report, six months ended 31 March 2006.

²⁵ Source: TOWER Investor Report, six months ended 31 March 2006.

- 97 One major player (Southern Cross) dominates the New Zealand health insurance industry with a market share in excess of 60%. As stated above TOWER is the second largest health insurer in New Zealand.
- 98 The New Zealand life insurance market has approximately NZ\$1.2 billion premium in-force and has experienced premium growth of 6% per annum over the last three years. The operating environment for the life insurance industry has been positive during the last 12 months reflecting high employment levels and the state of the New Zealand economy.
- 99 The life insurance market can be characterised as being relatively fragmented with a number of international and local participants. The most common method of distribution is by intermediated channels through either broking firms or individual advisers. The industry currently operates under a fairly light-handed regulatory model with a degree of self-regulation.
- 100 Significant levels of underinsurance exists in New Zealand and this provides growth opportunities as general awareness of the benefits of life insurance increases.

General Insurance

Overview of business operations

- 101 TOWER NZ's General Insurance business is predominantly in personal lines such as home, contents, motor vehicle, travel and commercial insurance in New Zealand. TOWER NZ has a strong market position in New Zealand as number three in personal lines general insurance with a 10% market share²⁶.
- 102 Over the six months to 31 March 2006, TOWER NZ has continued to experience losses at its home portfolio book. This industry wide issue in New Zealand has been exacerbated by under pricing home insurance premiums relative to the cost of claims, particularly given that rebuilding costs have more than doubled over the last five years.
- 103 TOWER NZ also holds a strong competitive position in the Pacific Islands with a 20% to 60% market share in each of the areas in which it operates. The Pacific Islands' business has had a strong focus in recent periods on selective risk-based underwriting and as a result has enjoyed strong underwriting performance.

²⁶ Source: TOWER Investor Report, six months ended 31 March 2006.

Industry outlook

- 104 The General Insurance personal lines market is estimated to be worth approximately NZ\$1.6 billion and grew at an estimated 5% last year. The industry is characterised by intense competition despite being dominated by two insurers which have a combined market share of 40%. Competition is intense because of the large number of international and local underwriters and brokers in the market. Organic growth remains subdued and several underwriters have launched related product offerings including life insurance. Growth continues in bank channels at the expense of direct underwriters. The first half of TOWER's financial year to 31 March 2006 was also characterised by increased advertising spend, particularly through television.
- 105 Underinsurance / lack of insurance, competition and home and construction price inflation are the key challenges facing the industry. It is estimated that approximately 25% of New Zealand homes are uninsured with some rural areas having up to 40% of homes either underinsured or not insured. The increased frequency of weather related events is resulting in a significant proportion of the New Zealand population facing significant financial risk. The industry continues to deal with the financial consequences of the recent housing boom and a tight labour market. These two factors combined continued to put pressure on home portfolio margins across the industry.
- 106 In the Pacific Island markets in which TOWER NZ operates, trading conditions have been relatively stable and overall returns remain attractive. TOWER has a conservative underwriting strategy in the region with a narrow scope of cover with effective underwriting and high levels of reinsurance. However, the Pacific Islands remain exposed to catastrophic perils in the form of cyclones, earthquakes and civil unrest.

Investment Businesses

Overview of business operations

- 107 TOWER's Investment Businesses in New Zealand operate in wholesale and retail funds management and individual and group superannuation in New Zealand. TOWER ranks fourth in overall funds under management, and is ranked sixth in retail funds. In wholesale funds TOWER ranks fifth in superannuation and is also one of the top two providers to charitable trusts.
- 108 The retail managed funds business has recently reduced its cost base through the outsourcing of the registry system to a specialist provider.
- 109 As at 31 March 2006 funds under management and advice was NZ\$5.4 billion.

Industry outlook

- 110 Total funds under management in the managed funds sector continued to grow and reached over NZ\$52 billion at 31 March 2006 (as calculated by FundSource Research Limited). Retail investments represent approximately 50% of funds under management with the balance being represented by superannuation, charitable and life insurance funds. Strong investment returns, particularly global equities, are responsible for most of this growth.
- 111 Despite the strong returns, managed funds will continue to be at a significant disadvantage to direct investments until the tax issues surrounding collective savings and investment products are addressed in April 2007.
- 112 The Government has also proposed a KiwiSaver scheme that will target the “regular saver” market. KiwiSaver is essentially a retail product accessed through the employer which will target wholesale pricing.
- 113 The fund management industry is generally supportive of the KiwiSaver scheme as it attempts to address the savings gap, encourage saving and reduce the Government’s retirement liabilities. However, there is general concern over the expenses incurred in ensuring existing systems comply with the KiwiSaver qualifying criteria.
- 114 Further, many market participants believe that, given the voluntary nature of KiwiSaver, it may fail to meet the Government’s objective and may not reach the critical mass required to support its set up and reporting costs.

Proforma financial performance

- 115 We set out below a summary of the proforma financial performance of TOWER NZ for the two years ended 30 September 2005 and the proforma forecast for the year ending 30 September 2006:

Summary of proforma results for TOWER NZ			
	Year to 30-Sep-04 Proforma actual NZSm	Year to 30-Sep-05 Proforma actual NZSm	Year to 30-Sep-06 Proforma forecast NZSm
Operating revenue			
Net premium income	291.0	306.4	336.1
Investment income	92.5	109.5	76.9
Fee and other income	50.5	45.9	52.4
Total operating income	434.0	461.8	465.4

Summary of proforma results for TOWER NZ

	Year to 30-Sep-04 Proforma actual NZ\$m	Year to 30-Sep-05 Proforma actual NZ\$m	Year to 30-Sep-06 Proforma forecast NZ\$m
Net claims expense	(216.8)	(238.7)	(232.1)
Change in policyholder liabilities	5.3	(20.4)	4.9
Operating expenses	(195.0)	(169.1)	(188.3)
Operating surplus / (deficit)	27.5	33.6	49.9
Net financing costs	(6.9)	(6.9)	(6.9)
Net profit before tax	20.6	26.7	43.0
Tax expense ⁽⁴⁾	(6.2)	(10.7)	(12.1)
Net profit attributable to minority interests	-	(0.8)	(0.6)
Net profit attributable to TOWER NZ shareholders	14.4	15.2	30.3
Earnings per share (cents)	7.7	8.1	16.1

Note:

1 The above proforma results have been prepared to illustrate how the financial performance of the continuing TOWER NZ businesses would have looked had the Separation taken place as proposed with effect from 1 October 2003. The results from businesses divested (eg TAL and AWM) have been excluded. Proforma adjustments have been made to reflect:

- the transfer of TOWER Holdings Australia Limited and TOWER Asset Management Limited into the TAL consolidated group
- the transfer of TAL shares to TOWER Limited shareholders
- the cancellation of TOWER NZ shares as a result of (b)
- the settlement of intercompany loans between TAL and TOWER NZ
- changes in net interest costs as a result of changes in debt levels
- corporate costs incurred as a result of being a standalone listed entity (estimated at NZ\$6.5 million after tax per annum)
- other Separation adjustments (including repayment of all inter-company loans between TAL and TOWER NZ).

2 The above proforma results and forecasts have been prepared to comply with the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS).

3 The above figures are before non-recurring items (eg costs associated with the Separation).

4 The tax expense reflects the tax attributable to both shareholders and policyholders.

116 Key factors which impacted on profitability were:

2004

- New business life and health insurance sales increased 23% to NZ\$24.6 million
- Operating earnings from life insurance increased by 97% due to growth of in-force business, premium reviews and improved experience performance

- General insurance premiums increased by 12%, however an underwriting loss was incurred due to storm and flood losses in New Zealand (net NZ\$2.9 million). A writedown in the value of IT systems was also made (net NZ\$4.4 million)
- Retail funds management faced difficult market conditions with industry wide shifts out of managed funds
- Total funds under management and administration were NZ\$5.6 billion

2005

- TOWER NZ Investments was awarded “Fund Manager of the Year” and remained New Zealand’s second largest wholesale fund manager with an 18% share of market
- Total funds under management and administration were NZ\$5.8 billion
- The General Insurance business recorded a NZ\$1.6 million underwriting profit (compared with a NZ\$5.7 million loss in FY04)
- TOWER Health & Life recorded a lower profit, largely as a result of a 27% reduction in new business sales and higher lapses

2006

- Consistent with the actual results achieved in the six months ended 31 March 2006 management have forecast margin improvement and business growth in the General Insurance and Health insurance business (relative to that achieved in FY05)
- Margins are also expected to be higher in the Investment Business in FY06 compared with FY05
- The Life Insurance business also achieved growth, and large levels of under-insurance remains, providing further growth opportunities
- All operating businesses are forecast to increase operating profit, notwithstanding lower investment income
- Investment income for the six months to 30 September 2006 is forecast to be consistent with long term earnings assumptions. However, investment returns in the first half of FY06 exceeded long term earnings assumptions.

Proforma financial position

- 117 The proforma financial position of TOWER NZ as at 31 March 2006 is shown below:

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Proforma financial position of TOWER NZ as at 31 March 2006

	NZ\$m
Assets	
Cash and cash equivalents	70.2
Receivables	124.9
Financial assets at fair value	1,279.2
Deferred acquisition costs	52.0
Current tax asset	50.7
Other assets	0.1
Property, plant and equipment	9.4
Deferred tax assets	22.9
Intangible assets	30.8
Total assets	1,640.2
Liabilities	
Payables	218.4
Current tax liabilities	11.9
Provisions	8.2
Interest bearing liabilities	86.2
Insurance provisions	226.9
Deferred tax liability	13.9
Other liabilities	22.3
Life insurance contract liabilities	787.7
Life investment contract liabilities	49.4
Total liabilities	1,424.9
Net assets	215.3
Less net assets attributed to minority interests	3.5
Net assets attributed to TOWER NZ shareholders	211.8
 TOWER NZ shares on issue post Separation	 188.5
Net assets per share	NZ\$1.12

Note:

- 1 Consistent with the proforma results, the proforma balance sheet has been adjusted to reflect:
 - (a) the transfer of TOWER Holdings Australia Limited and TOWER Asset Management Limited into the TAL consolidated group
 - (b) the transfer of TAL shares to TOWER Limited shareholders
 - (c) the cancellation of TOWER NZ shares as a result of (b)
 - (d) the settlement of intercompany loans between TAL and TOWER NZ
 - (e) other Separation adjustments (including repayment of all inter-company loans between TAL and TOWER NZ).
- 2 The above proforma financial position has been prepared to comply with the New Zealand equivalent to International Financial Reporting Standards (NZ IFRS).

Share capital

- 118 As set out in Section III TOWER currently has 359.8 million shares on issue. If the Proposal is approved the number of shares on issue will reduce to 188.5 million due to the cancellation of shares, as shown below:

Share capital	
	Millions
Number of TOWER shares currently on issue	359.8
Number of shares to be cancelled as a result of Separation	(171.3)
TOWER NZ shares on issue post Separation	188.5

VI Empirical evidence on demergers / separations

- 119 In recent years there have been a number of demergers / separations in Australia and New Zealand. In the majority of cases these demergers have involved the separation of a subsidiary exposed to an unrelated industry or different market.
- 120 The primary reason given for demergers is to unlock shareholder value. As shown below the share price performance of companies undertaking demergers in recent years have, in most cases, significantly outperformed share market indices, indicating that significant value has been created:

Returns from demergers					
Date of announcement	Parent entity	Demerged entity	Cumulative TSR in excess of market return ^{(1), (2)}		
			1 year %	2 year %	3 year %
08 Nov 1999	Origin Energy Limited	Boral Limited	6.9	81.7	134.7
17 Feb 2000	Amcor Limited	PaperlinX Limited	27.7	52.0	87.6
25 Feb 2000	The Broken Hill Proprietary Company Limited ⁽³⁾	OneSteel Limited	2.2	25.4	44.8
10 Oct 2000	Fletcher Challenge Forests Limited	Fletcher Building Limited	21.2	70.9	116.1
19 Mar 2001	BHP Billiton Limited	BHP Steel Limited ⁽⁴⁾	(4.5)	18.5	54.8
21 Nov 2001	WMC Limited	WMC Resources Limited	29.7	23.6	21.2
07 Feb 2003	CSR Limited	Rinker Group Limited	17.0	62.3	202.1
01 May 2003	AMP Limited	Henderson Group PLC	24.5	25.7	47.0
21 Jun 2004	Amrad Corporation Limited ⁽⁵⁾	Avexa Limited ⁽⁵⁾	(39.3)	(42.6)	n/a
13 Sep 2004	TOWER Limited ⁽⁶⁾	Australian Wealth Management Limited ⁽⁶⁾	7.9	35.5	n/a
17 Jun 2005	Mayne Group Limited ⁽⁷⁾	Mayne Pharma Limited ⁽⁷⁾	(26.2)	n/a	n/a

Note:

TSR - total shareholder returns from the first trading day of the demerged entities. The TSR therefore excludes the return from the demerger announcement date to the first trading day of the demerged entities. Total shareholder returns assumes that dividends, capital returns and proceeds from rights issues are reinvested in the issuing company's shares.

1 Combined TSR of the parent entity and the demerged entity.

2 Adjusted for movements in the All Ordinaries Accumulation Index during the assessed periods.

3 Renamed BHP Billiton Limited upon the merger with Billiton in June 2001.

4 Renamed Bluescope Steel Limited in November 2003.

5 Two year TSR covers period from 23 September 2004 up to 14 July 2006. Amrad Corporation Limited changed its name to Zenyth Therapeutics Limited in December 2005.

6 Two year TSR covers period from 15 February 2005 up to 14 July 2006.

7 One year TSR covers period from 21 November 2005 up to 14 July 2006. Mayne Group Limited changed its name to Symbion Health Limited in November 2005.

- 121 There have also been a number of empirical studies on demergers, with most concluding that the empirical evidence is that demergers enhance value.
- 122 The principal reasons given in these studies for the enhancement of value include:
- (a) improved transparency and information on the demerged entity, resulting in a higher value being attributed to the demerged entity post demerger
 - (b) increased likelihood of takeover or merger activity involving the demerged entity
 - (c) increased business and management focus resulting in improved financial performance
 - (d) the ability to better align management incentives with shareholder returns (due to the separate listing of the demerged entity)
 - (e) improved investor choice, and the possibility of attracting new investors as a result of the demerger
 - (f) an enhanced ability (in some cases) to pursue growth opportunities not available to the parent.

VII Evaluation of the Proposal

Summary of opinion

- 123 In our opinion, the Proposal is in the best interests of TOWER shareholders.
- 124 We have formed this opinion principally because, in our view, the benefits of the Proposal outweigh the disadvantages.
- 125 Over time, in our opinion, these net benefits are likely to result in shareholder value being enhanced relative to the position if the Proposal is not approved.

Financial implications of the Proposal and Entitlements Offer

Impact on earnings

- 126 We set out below a comparison of TOWER's profit forecast for the year ending 30 September 2006 (pre Separation) and the proforma profit forecast for both TAL and TOWER NZ (post Separation):

Year ending 30 September 2006	
	NPAT ⁽¹⁾ NZ\$m
Actual TOWER profit forecast	61.7
Impact of additional corporate costs ⁽²⁾	(5.6)
Proforma profit forecast for both TAL and TOWER NZ (post Separation but pre Entitlements Offer)	56.1
Additional earnings from capital raised ⁽³⁾	9.3
Proforma profit forecast for both TAL and TOWER NZ (post Separation and Entitlements Offer)	65.4
Comprising:	
Proforma profit forecast – TAL	35.1
Proforma profit forecast – TOWER NZ	30.3
Total	65.4

Note:

- 1 NPAT – net profit after tax before non-recurring items (such as Separation costs).
 2 Due to having two separately listed companies.
 3 Net of Separation costs and costs associated with the Entitlements Offer.

- 127 As indicated above the proforma net profit after tax forecast for the year ending 30 September 2006 for TAL and TOWER NZ (in total) is expected to be NZ\$5.6 million less than that achieved by TOWER if the Separation does not proceed (before taking into account the impact of the additional capital to be raised under the Entitlements Offer). This reflects the additional ongoing

costs incurred as a result of managing and administering two separate listed companies (estimated at around NZ\$5.6 million after tax).

Standalone corporate costs

- 128 While the standalone corporate costs of TOWER (which is to be renamed TOWER NZ) are expected to reduce from NZ\$8.8 million (after tax) per annum to NZ\$6.5 million (after tax) per annum (in 2006 dollar terms) this reflects the removal of the TAL businesses from the TOWER Group.
- 129 TAL is expected by management to incur standalone corporate costs of NZ\$7.9 million (after tax) (in 2006 dollar terms).
- 130 Consequently, total ongoing corporate costs are expected to exceed those incurred by TOWER by approximately NZ\$5.6 million per annum (in 2006 dollar terms).

Return on additional capital

- 131 For the purposes of the proforma forecast it has been assumed that the additional capital raised under the Entitlements Offer (net of transaction costs and costs associated with the Separation) achieves a rate of return of approximately 6% per annum.
- 132 This relatively low return reflects the fact that, initially, the returns from this additional capital will largely reflect the saving in interest expenses and the investment income generated (which will depend on the nature and performance of investments held). Higher returns are likely to be generated when the additional capital is invested in the business.

Foreign currency movements

- 133 Under the current structure, it should also be noted that TOWER's earnings (and net assets) from year to year are significantly impacted by changes in the NZD:AUD exchange rate. However, if the Proposal is approved TAL and TOWER NZ will report their results and financial position in their local currency, and accordingly variations due to exchange rate movements will not be significant.

Impact on financial positioning and gearing

- 134 We set out below a comparison of the actual financial position and gearing level of TOWER as at 31 March 2006 with the proforma financial position and gearing level of TAL and TOWER NZ as at the same date:

	Pre Separation TOWER Actual NZ\$m	TAL Proforma NZ\$m ⁽⁴⁾	Post Separation TOWER NZ Proforma NZ\$m	Total Proforma NZ\$m
Total assets ⁽¹⁾	5,970.9	4,415.0	1,640.2	6,055.2
Total liabilities ⁽¹⁾	5,360.6	3,856.8	1,424.9	5,281.7
Net assets	610.3	558.2	215.3	773.5
Minority interests	3.5	-	3.5	3.5
Net assets attributed to shareholders	606.8	558.2	211.8	770.0
Total debt ⁽²⁾	316.7	156.9	87.9 ⁽³⁾	244.8
Debt/(debt + equity)	34.2%	21.9%	29.0%	24.0%

Note:

- 1 Includes policyholder assets and liabilities.
- 2 Excludes policyholder liabilities.
- 3 Includes a bank overdraft which is net off against cash in the table in paragraph 117.
- 4 Based on an AUD:NZD exchange rate of 0.8585 (being the exchange rate on 31 March 2006).

- 135 As indicated above the proforma net assets of both TAL and TOWER NZ (in total) exceed the actual net assets of TOWER as at 31 March 2006 by NZ\$163.2 million. This largely reflects:
- (a) the A\$160 million²⁷ in additional capital raised under the Entitlements Offer; less
 - (b) transaction costs associated with the Separation and Entitlements Offer of NZ\$18.5 million (after tax).
- 136 As a result of the capital raised under the Entitlements Offer (some of which is used to repay inter-company loans between TAL and TOWER NZ, external debt and TOWER's Capital Bonds²⁸ and Notes) the gearing ratio of both TAL and TOWER NZ falls.
- 137 Both TAL and TOWER NZ will therefore be in a better position to pursue acquisitions should such future opportunities arise. However, as stated above, in the short term the returns from this additional capital will largely reflect the saving in interest expense and the investment income generated (which will depend on the nature and performance of investments held).

²⁷ NZ\$186.4 million based on the assumed AUD:NZD exchange rate on 31 March 2006 of 0.8585.

²⁸ Subject to Bondholder approval.

Valuation implications of the Proposal

Share market ratings before the Separation

- 138 Prior to the announcement of the proposed Separation TOWER's market capitalisation was around NZ\$1.1 billion²⁹. This market capitalisation implies the following multiples:

Implied multiples

PE multiple:	
– Based on average broker earnings forecast for FY06	18.0
– Based on average broker earnings forecast for FY07	13.8
– Based on average broker earnings forecast for FY08	12.1
Enterprise value to embedded value ratio ⁽¹⁾	1.6
Market capitalisation / net tangible assets	2.9

Note:

1 Refer paragraph 159 for explanation of embedded value.

- 139 As evident from the reduction in the PE ratio based on FY07 and FY08 forecasts compared with the PE ratio based on FY06 forecasts, TOWER is expected (based on consensus broker forecasts) to significantly increase net profit after tax in the years ending 30 September 2007 and 2008. This is principally due to the realisation of synergy benefits following the acquisition of PrefSure effective 31 March 2006 and improved operating margins in general insurance and health, and growth in Australian retail life profits.
- 140 In comparison, the multiples of other Australasian listed companies involved in similar activities to TOWER are shown below:

²⁹ Based on the volume weighted average price (VWAP) of TOWER shares on the NZX in the three months prior to the announcement of the Separation which was NZ\$3.15.

	AMP Limited	AXA Asia Pacific
Market capitalisation (A\$b) ⁽¹⁾	16.4	11.2
PE multiple:		
– Based on average broker earnings forecast for FY06	19.5	19.3
– Based on average broker earnings forecast for FY07	18.9	18.1
– Based on average broker earnings forecast for FY08	17.4	16.0
Enterprise value to embedded value ratio	n/m	1.6
Market capitalisation / net tangible assets	7.5	5.2

Note:

1 As at 7 August 2006.

n/m – not meaningful due to the size of other businesses.

- 141 While both AMP and AXA Asia Pacific have significantly larger and more diverse business operations than TOWER, we note that TOWER currently trades on significantly lower prospective multiples notwithstanding TOWER's higher forecast earnings growth over FY06 to FY08.
- 142 In our opinion this discount principally reflects the fact that TOWER is perceived by investors generally as a New Zealand company³⁰, despite the fact that more than 50% of operating profit in the year ending 30 September 2006 will be generated from TOWER's Australian businesses.
- 143 Further, TOWER's current structure means that once TOWER recommences paying dividends there is a significant leakage of attached franking and imputation credits. This is because Australian resident investors cannot utilise New Zealand imputation credits and New Zealand resident investors cannot utilise the Australian franking credits generated by the TOWER group. In our view this is also one of the reasons why TOWER shares trade at a discount to other comparable companies.

The impact on value of the proposed Separation

- 144 If the Separation is approved additional ongoing corporate costs will be incurred as a result of having to manage and administer two separately listed companies. These additional ongoing costs are estimated by TOWER management at NZ\$5.6 million (after tax) per annum.

³⁰ New Zealand companies generally trade on lower PE multiples than Australian companies due to lower perceived growth prospects and the impact of higher interest rates etc.

- 145 Applying a PE multiple of 12 to 13³¹ to these additional costs (after tax) indicates that the total value of the two demerged companies (in the absence of other offsetting factors) might be NZ\$67 million to NZ\$73 million less than the current market capitalisation of TOWER. This represents 5.9% to 6.4% of TOWER's market capitalisation prior to the announcement of the Separation³².
- 146 In addition, one-off transaction costs of approximately NZ\$18.5 million (after tax) will be incurred. However, TOWER's Board expects that, at the time of the Special Meeting to vote on the Proposal, approximately 25% of these costs or NZ\$4.6 million (after tax) will have been either incurred, or committed to be incurred, even if the Proposal does not proceed. The one-off transaction costs which will be avoided if the Proposal is not approved are therefore around NZ\$13.9 million (being some 1.2% of TOWER's market capitalisation prior to the Separation announcement).
- 147 Thus, the value impact of the additional on-going costs and the one off transaction costs which can be avoided represents 7.1% to 7.6% of TOWER's market capitalisation prior to the Separation announcement.
- 148 However, in our opinion:
- (a) a higher value is likely to be attributed to TOWER's Australian business as a result of the Separation (as, in our view, the value of this business is currently discounted as a result of the current structure)
 - (b) the Proposal allows shareholders (and new investors) in TOWER to realign their portfolio between TAL and TOWER NZ to more efficiently utilise franking and imputation credits. This will therefore provide both Australian and New Zealand resident shareholders with the opportunity to increase their after tax returns once TAL and TOWER NZ commence paying dividends, which should lower both TAL and TOWER NZ's cost of capital over the medium to long term (with positive valuation consequences)
 - (c) the improved gearing ratio of both TAL and TOWER NZ post the Separation and Entitlements Offer will lower financial risk and facilitate the payment of dividends

³¹ This represents a PE multiple on a portfolio or minority interest basis. The PE multiple is lower than that implied by TOWER's current share price and reflects the fact that corporate costs are not expected to grow significantly in real terms unlike TOWER's operating businesses (which attract a higher (growth) multiple).

³² Based on TOWER's volume weighted average price (VWAP) on the NZX 3 months prior to announcement.

- (d) as a result of having two smaller more focused companies the likelihood of both TAL and TOWER NZ being taken over is increased. This is likely to be reflected in higher sharemarket values for TAL and TOWER NZ post Separation over time (relative to the sharemarket value of TOWER in the absence of the Separation³³)
- (e) while having a separate management and Board for TAL and TOWER NZ increases costs, it is also likely to bring additional benefits over time
- (f) the improved transparency and additional financial information on each company post Separation, will assist investors to correctly value both businesses which is likely to result in TAL shares being more highly valued
- (g) the Separation allows both TAL and TOWER NZ to be rated against their direct peers which, in our view, indicates that a higher value (in total) is likely to be appropriate.

149 While difficult to quantify precisely, in our opinion, over the medium to long term the above factors should offset the adverse valuation impact of the higher corporate costs and one-off transaction costs incurred.

150 TOWER shareholders should also note that the TOWER share price has already increased significantly since mid February 2006. In our view this share price performance has, in part³⁴, been due to speculation by market participants that TOWER was considering a separation or other change to its structure. The TOWER share price may therefore fall if the Proposal is not approved.

Implied value of TAL post Separation

151 Post the Separation (but prior to the Entitlements Offer) the directors of TOWER (based on external advice) have determined that the fair market value of TAL shares on a listed market value basis is A\$469 million or A\$2.00 per share. This value represents the mid-point of the range of potentially appropriate values considered by the directors.

³³ While we note that GPG currently holds 19.8% of TOWER (which is likely to increase in the case of TAL as a result of the Underwriting Agreement), in our opinion, this will not discourage potential bidders. This is because, in our view, GPG is likely to be prepared to sell its shares provided any offer reflects full underlying value.

³⁴ In our view this share price performance has also been due to the acquisition of PrefSure, the release of Australian life insurance market statistics which have indicated continued strong growth for TOWER and the other factors set out in paragraph 75.

- 152 Under the Entitlements Offer TAL proposes to raise A\$160 million by issuing 100 million new TAL shares at A\$1.60 per share. Adjusting the directors' value of TAL before the Entitlements Offer of A\$2.00 per share to reflect the dilutionary impact of the Entitlements Offer (and associated costs) results in a post Entitlements Offer value of around A\$1.85 per TAL share.
- 153 However, having regard to a likely minority interest³⁵ trading range we have adopted a price of A\$1.75 to A\$1.95 per TAL share post the Entitlements Offer for the purposes of working out the implied multiples.
- 154 It should be noted that LEA has not undertaken a valuation of TAL and the price at which TAL shares will trade is not certain. Further, initially there may be selling pressure from those shareholders who do not wish to hold TAL shares for tax or other reasons. Shareholders who wish to sell their Entitlements may also put downward pressure on the TAL price.
- 155 Adopting a price for TAL shares of A\$1.75 to A\$1.95 per share results in the following market capitalisation and enterprise values post the Separation and Entitlements Offer:

Indicative market capitalisation and enterprise value		
	Low A\$M	High A\$M
Indicative listed market price per share	\$1.75	\$1.95
Number of shares on issue post Entitlements Offer	334.3	334.3
Indicative market capitalisation	585.0	651.9
Net interest bearing debt (excluding policyholder liabilities)	92.5	92.5
Indicative Enterprise value	677.5	744.4

- 156 TAL management are forecasting proforma earnings of A\$31.2 million after tax for the year ending 30 September 2006. However, for the purposes of calculating the implied PE ratio we have made the following adjustments:

Normalised EPS	
	A\$M
Proforma forecast profit after tax - FY06 ⁽¹⁾	31.2
Annualised impact of PrefSure (after adding back integration costs and amortisation) ⁽²⁾	3.7
Anticipated synergy benefits (net of tax) ⁽³⁾	4.9
Normalised proforma profit after tax	39.8
Number of shares on issue post Entitlements Offer	334.3
Normalised EPS	A\$0.119

Note:

- 1 This proforma forecast reflects the proforma adjustments referred to in Note 1 paragraph 87 (eg the additional standalone corporate costs and the additional return from capital raised (net of costs) under the Entitlements Offer).
- 2 The contribution from PrefSure is only reflected in the forecast proforma FY06 earnings for 6 months.
- 3 TOWER has estimated synergy benefits of around \$7 million (pre-tax) arising from the acquisition of PrefSure. These synergies are not reflected in the proforma FY06 forecast.

³⁵ Or listed market value.

- 157 Thus, a A\$1.75 to A\$1.95 price per TAL share represents a PE multiple of 14.7 to 16.4 times normalised profit after tax³⁶. This multiple range appears low when compared against the PE multiples of AMP and AXA Asia Pacific (shown in paragraph 140).
- 158 Given that TAL is largely a life insurance company we have also calculated the enterprise value as a multiple of TAL's embedded value.
- 159 Embedded value is a term commonly used to refer to an actuarial valuation technique that is widely used in the insurance and wealth management industry. An embedded value is an estimate of the economic value of a company, excluding the value of any future business that the company may be expected to write. Embedded value therefore comprises:
- (a) the discounted value of future profits from in-force business and movements / releases of regulatory capital; and
 - (b) adjusted net assets, being shareholder assets in excess of the regulatory capital requirements.
- 160 As at 31 March 2006 the embedded value of TAL's businesses (including PrefSure) was A\$599.9 million³⁷.
- 161 TAL's enterprise value to embedded value ratio (based on a TAL share price range of A\$1.75 to A\$1.95 per share) is therefore 1.13 to 1.24.
- 162 Given that:
- (a) embedded value excludes the value of any future business that the company may write (ie it excludes goodwill over and above that reflected in existing contracts in hand)
 - (b) the value of one year's new business written by TAL's businesses was estimated at around A\$28 million as at 31 March 2006
 - (c) TOWER recently acquired PrefSure at a price to embedded ratio of 1.0, and expects to add significant value as a result of synergy benefits
- in our opinion, the enterprise value to embedded value ratio implied for TAL appears low.
- 163 We also note that the implied market capitalisation divided by net tangible assets of TAL (1.8 to 2.0) is also significantly lower than that for AMP and AXA Asia Pacific.

³⁶ The FY06 PE multiple is 16.8 to 18.8 on a pro-forma basis if the synergy benefits are excluded.

³⁷ Using discount rates of 10.5% per annum for TOWER Australia and 11.0% per annum for PrefSure

Indicative value of TOWER NZ

- 164 Having regard to TOWER's market capitalisation prior to the Separation (which was around NZ\$1.1 billion) and the value attributed to TAL (above), we set out below the implied market capitalisation of TOWER NZ required in order for TOWER shareholders to be no worse off under the Proposal from a valuation perspective:

Indicative market capitalisation and enterprise value		
	Low NZ\$m	High NZ\$m
Number of TOWER shares currently on issue	359.8	359.8
3 month VWAP prior to Separation announcement	NZ\$3.15	NZ\$3.15
Market capitalisation prior to Separation announcement	1,133.3	1,133.3
Capital to be raised under Entitlements Offer ⁽¹⁾	193.6	193.6
Implied total capitalisation post Separation and Entitlements Offer	1,326.9	1,326.9
Less indicative value attributed to shares in TAL ⁽³⁾	(788.8)	(707.9)
Value of shares in TOWER NZ in order for TOWER shareholders to be no worse off	538.1	619.0
Number of TOWER NZ shares on issue post Separation	188.5	188.5
Value of each TOWER NZ share in order for TOWER shareholders to be no worse off	NZ\$2.85	NZ\$3.28

Note:

- 1 Converted to NZ dollars using a NZD:AUD exchange rate of 1.21 (being the closing average for the 3 months prior to the Separation announcement).
- 2 Transaction costs have been ignored as the above calculation focuses on the value prior to the announcement of the Separation and the additional capital to be contributed by shareholders.
- 3 Being the TAL values in paragraph 155 converted to NZ dollars at a NZD:AUD exchange rate of 1.21 (being the closing average for the 3 months prior to the Separation announcement).

- 165 On a proforma basis TOWER NZ is forecast to generate profit after tax of NZ\$30.3 million in the year ended 30 September 2006. This represents 16.1 NZ cents per share based on the 188.5 million shares which will be on issue post the Separation.
- 166 The value of NZ\$2.85 to NZ\$3.28 per TOWER NZ share therefore implies a PE ratio of 17.7 to 20.4 times FY06 proforma earnings.
- 167 While this is a high PE ratio we note that it is consistent with:
- (a) the PE ratio calculated for TOWER based on its market capitalisation prior to the Separation announcement and average broker forecasts for FY06
 - (b) the 2006 PE ratios of AMP and AXA Asia Pacific.

- 168 Further, TOWER NZ expects growth in earnings to be achieved in FY07 and FY08 due to increased health and general insurance margins and growth in sales.

Other benefits of the Proposal

Management and Board focus

- 169 If the Proposal is approved a separate board and management team will be responsible for each of TAL and TOWER NZ. A separate board and management enhances the operational focus of each entity and improves the pursuit of different strategic objectives without the limitations of the current operational structure.
- 170 Having separate listed entities also increases the ability of each of the companies to align business performance with employee remuneration. This improves accountability to shareholders and provides more incentive to perform as rewards can be more closely tied to performance.

Transparency

- 171 TAL and TOWER NZ will have simpler and more transparent corporate structures (with no cross ownership or funding arrangements) than the current single group structure.
- 172 This will assist in increasing the visibility of both companies within the financial community. As separate reporting entities, in our opinion, investors will be better able to evaluate and understand each companies' financial performance, operations and strategy.
- 173 It will also be easier for the investment community generally to assess the respective profitability and growth prospects of each company, and value them appropriately, than is currently possible under the single group structure.
- 174 As a result of this improved transparency and information a higher value may be attributed to the demerged companies over time relative to their value if the Proposal is not approved.

Investor flexibility

- 175 If the Proposal is approved TOWER shareholders and new investors will have the choice to own shares in either TAL, TOWER NZ or both companies. The Proposal therefore provides improved investor flexibility (especially regarding the utilisation of franking credits³⁸).

³⁸ Refer paragraphs 179 to 185 below.

- 176 Further, shareholders who wish to retain their percentage interest in both TAL and TOWER NZ can do so by taking up their Entitlements.

Independent capital structure and dividend policy

- 177 If the Proposal is approved TAL and TOWER NZ will be able adopt a capital structure and dividend policy based on their individual business and strategic objectives. They will also be able to manage their capital resources without the need to compete with each other for capital. In this regard, we note that TAL is largely a life insurance operation (which can be capital intensive during periods of growth).
- 178 In addition, both companies will have direct access to the equity and debt capital markets by virtue of their separate listings. This will allow the operations of each company to be funded more efficiently.

Franking and imputation credit utilisation

- 179 As at 31 March 2006 the TOWER Limited Group had:
- (a) no material New Zealand imputation credits (due to carried forward tax losses and other factors); and
 - (b) Australian franking credits of A\$40.3 million³⁹.
- 180 However, notwithstanding the level of franking credits and TOWER's return to profitability, no dividends have been paid by TOWER since January 2002.
- 181 TOWER also stated in its results announcement for the half year to 31 March 2006 that:
- "With the trans-Tasman business structure, spread of shareholders and large base (70,000 shareholders) there is significant leakage of franking credits which makes distributions to shareholders via dividends inefficient."*
- 182 The reference above to the *"significant leakage of franking credits"* refers to the fact that Australian resident investors cannot use NZ imputation credits and NZ resident investors cannot use Australian franking credits. As 36% and 54% of TOWER shares are held by Australian resident investors and New Zealand resident investors respectively⁴⁰, the benefit of franking or imputation credits attached to dividends by TOWER is therefore significantly reduced (as franking credits and imputation credits cannot be distributed solely to those who can benefit from them).

³⁹ In Australia imputation credits are usually referred to as franking credits.

⁴⁰ As at 31 March 2006. For the purposes of calculating the Australian and New Zealand shareholdings GPG's 19.8% shareholding has been treated as a New Zealand shareholding. 10% of shares are beneficially owned by interests outside Australia and New Zealand.

- 183 However, if the Proposal is approved TOWER's Australian and New Zealand businesses will be owned by separate listed companies. As a result Australian franking credits will be generated and distributed by the Australian company (TAL) and NZ imputation credits will be generated and distributed by the NZ company (TOWER NZ).
- 184 The Proposal (if implemented) therefore provides an opportunity for TOWER shareholders to realign their portfolio between the two companies to more efficiently utilise franking and imputation credits.
- 185 In our view, the proposed structure will also be more attractive to new investors, as such investors will be able to choose between TAL and TOWER NZ depending on their residence and ability to utilise franking credits.

Improved takeover prospects

- 186 Due to having two smaller and more focused businesses, in our opinion, the demerged entities are likely to be more attractive takeover targets. Consequently, in our opinion, the likelihood of future corporate activity involving TAL and/or TOWER NZ is increased.
- 187 While we note that GPG currently holds 19.8% of TOWER (which is likely to increase as a result of the Underwriting Agreement), in our opinion, this will not discourage potential bidders. This is because, in our view, GPG is likely to be prepared to sell its shares provided any offer reflects full underlying value.

Disadvantages of the Proposal

Transaction and on-going costs

- 188 Transaction costs relating to the Proposal and Entitlements Offer are estimated at approximately NZ\$18.5 million after tax (including GST, where applicable).
- 189 The costs include expenses incurred in separating the Australian and New Zealand Divisions, shareholder and policyholder communication costs, financial advisory, legal, accounting and other advisory and experts' fees and costs incurred in respect of the Proposal and the Entitlements Offer, printing and underwriting fees.
- 190 TOWER's Board expects that at the time of the Special Meeting to vote on the Proposal, approximately 25% of these costs (NZ\$4.6 million) will have been either incurred, or committed to be incurred, even if the Proposal does not proceed.

- 191 The one-off transaction costs which will be avoided if the Proposal is not approved are therefore around NZ\$13.9 million. These costs represent around 1.2% of TOWER's market capitalisation prior to the Separation announcement⁴¹.
- 192 Due to having two separate entities, there will also be some duplication of corporate level costs such as listing costs, board costs and senior management costs. The total additional on-going costs expected to be incurred by TAL and TOWER NZ relative to the current structure is expected to be around NZ\$5.6 million (after tax) per annum (in 2006 dollar terms).

Rebranding and renaming costs for TAL

- 193 TOWER has granted rights to TAL to use the TOWER name, brand and TOWER's Australian intellectual property in Australia for five years. TAL will need to rename and rebrand the TAL Group and certain of its products prior to the expiry of that term. TAL will incur costs to do this, and additional costs to promote and establish its new brand and product names.

Index weightings

- 194 If the Proposal is implemented, TOWER NZ and TAL will each have a lower individual market capitalisation and index weighting than TOWER currently has. This may result in a lower level of institutional investor interest in each company, depending on the final index weightings of TOWER NZ and TAL.

Impact on shareholders of proposed reconstruction of employee options

- 195 TOWER currently has 13,515,757 executive options on issue under TOWER's Executive Option Plan. This amounts to approximately 3.75% of TOWER shares on issue. These options are not listed on any stock exchange and are held by key executives in TOWER's Australian business and New Zealand business.
- 196 The number of options on issue and their principal terms is shown in the table below:

⁴¹ Based on TOWER's VWAP on the NZX three months prior to announcement.

Options on issue				
	No. of options on issue	Exercise price NZ\$	Exercise period begins	Exercise period expires
Tranche 1	3,660,000	1.40	April 2007	March 2010
Tranche 2	2,671,500	2.13	August 2008	August 2011
Tranche 3	1,350,000	2.13	August 2009	August 2012
Tranche 4	5,800,000	2.55	April 2009	April 2012
Legacy	34,257	5.50	December 2003	December 2009
Total	13,515,757			

- 197 As a result of the Separation and Entitlements Offer, and to preserve the incentives the options provide to executives, TOWER intends to reconstruct the terms of the options.
- 198 Details of the proposed reconstruction of employee options is set out in the Scheme Book. However, in summary:
- (a) holders of the Tranche 1 options and the “Legacy” options can choose to keep their existing Tranche 1 options (which will become TOWER NZ options) or may elect to receive a fixed proportion of TOWER NZ and TAL shares on exercise of their TOWER options. This election must be made before TAL lists
 - (b) Australian employees who hold Tranche 2 and 3 options will have their existing Tranche 2 and 3 options replaced by options in TAL. However, all holders of Tranche 2 and 3 options may instead elect to receive a fixed proportion of TOWER NZ and TAL shares on exercise of their TOWER options (provided they elect to do so before TAL lists)
 - (c) Australian employees who hold Tranche 4 options will have their existing Tranche 4 options replaced by options in TAL
 - (d) performance hurdles for Tranche 1, 2 and 3 options have been removed given the achievement of the hurdles prior to the announcement of the Proposal. Performance hurdles on Tranche 4 options have not been achieved and will either remain or be replaced by equivalent performance hurdles (in circumstances where TAL options are issued)
 - (e) the employing entity for each executive will incur any costs associated with the option schemes irrespective of the entity in which the options are granted.
- 199 We have reviewed the terms of the proposed reconstruction of employee options from shareholders perspective.

- 200 While the value of the reconstructed options will depend on a number of factors (including future volatility and dividend policy post reconstruction) we note that:
- (a) the total cost of exercising the reconstructed options is virtually identical to the cost of exercising the existing options
 - (b) the intrinsic value of the reconstructed options is expected to be similar to the intrinsic value of the existing options
 - (c) the exercise periods (and expiry dates) will not change as a result of the reconstruction
 - (d) Australian employees who hold Tranche 4 options will receive new TAL options with equivalent performance hurdles to those currently required to be met.
- 201 Further, in our opinion, the approach adopted by TOWER to reconstruct the employee options appears sensible.
- 202 Given the above, and the fact that the options only have a small dilutionary effect on shareholders (due to the small number on options on issue relative to shares), in our opinion, the proposed reconstruction of employee options is unlikely to have a material effect on shareholder value.
- 203 Consequently, we consider that the proposed reconstruction of the employee options as part of the Proposal is fair and equitable to TOWER shareholders.

Alternatives considered

- 204 TOWER's Board considered a range of alternatives and external advice before it recommended the Proposal. The main alternatives considered included:
- (a) maintaining the existing TOWER structure; and
 - (b) a separation or demerger along product lines.
- 205 TOWER's Board evaluated each alternative against a number of criteria, including:
- (a) the ability to maximise shareholder value
 - (b) the ability of each separated entity to achieve its strategies and sustain itself as a separate entity; and
 - (c) certainty of execution and implementation timeframe.

- 206 Based on the above criteria, the TOWER Board and its external advisers concluded that the Proposal to separate TOWER into two geographically focused listed entities was the optimal structure to enhance value for TOWER shareholders.
- 207 We note that TOWER could sell its Australian and / or New Zealand business as an alternative to the Separation. While this was considered, the TOWER Board believe that the Proposed Separation is the best option at this time and have confirmed that no unsolicited offers for either business have been received.
- 208 While a sale of either business at a price close to their controlling interest value is likely to create more value than the Proposal in the short term, this alternative is not an option which is available at this time. Further, the Proposal does not preclude the sale of either business at a later date, either by TAL / TOWER NZ or by way of a takeover.

Taxation consequences

- 209 The impact of approving the Proposal on the tax position of TOWER shareholders depends on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Scheme Book and consult their own professional advisers if in doubt as to the taxation consequences of the Proposal.
- 210 However, in summary:
- (a) the Separation is not expected to have any adverse tax consequences for TAL or TOWER NZ
 - (b) no part of the transfer of TAL shares under the Proposal is expected to be regarded as a dividend for New Zealand tax purposes. However, confirmation of this is being sought from the tax authorities in both jurisdictions
 - (c) New Zealand and Australian investors who are in the business of dealing in shares (or acquiring shares for the purpose of resale) may be subject to capital gains tax on the value of the TAL shares received
 - (d) distributions from TAL are unlikely to have New Zealand imputation credits attached to offset any New Zealand tax liability owing by New Zealand resident investors
 - (e) TOWER has applied to the ATO for a class ruling to confirm that the TAL shares allocated under the Proposal will be treated as a capital return and not a dividend for Australian tax purposes and that the Proposal qualifies for Separation relief as set out in Division 125 of the

Income Tax Assessment Act 1997

- (f) distributions from TOWER NZ are unlikely to have Australian franking credits attached to offset any Australian tax liability owing by Australian resident investors.

VIII Assessment of the Underwriting Agreement

Terms and conditions

Basis of assessment

211 In order to assess whether the terms and conditions of the Underwriting Agreement are fair to TOWER shareholders not associated with GPG we have had regard to:

- (a) the size of the underwriting fee (and other fees) payable to GPG, having regard to the risk associated with the underwriting and market evidence as to underwriting fees generally
- (b) the pricing of the Entitlements Offer relative to the value of TAL adopted by the TOWER Board (based on external advice) for the purposes of the Proposal
- (c) the fact that the Entitlements Offer is pro-rata and renounceable
- (d) the potential impact the Underwriting Agreement has on the control of TAL
- (e) the implications for TAL if the Entitlements Offer is not underwritten
- (f) the fairness of the other fees payable to GPG
- (g) the conditions of the Underwriting Agreement which must be satisfied in order for the underwriting to occur
- (h) other benefits and disadvantages, including the possibility of a higher level of shareholder participation due to GPG's involvement
- (i) whether the Underwriting Agreement contains any unusual terms and conditions
- (j) whether, on balance, the Underwriting Agreement is on similar terms and conditions to that which would have been negotiated if GPG had no shareholding in TOWER (or TAL).

212 These matters are discussed below.

The underwriting fee

- 213 As stated above GPG are entitled to an underwriting fee of A\$2.8 million (plus GST), or 1.75% of the amount to be raised under the Entitlements Offer. However, GPG currently hold a 19.8% interest in TOWER, which means that the underwriting risk GPG faces is for the remaining 80.2% of the Entitlements Offer only. Thus, the effective underwriting fee given its exposure is 2.18%⁴².
- 214 In comparison we set out below a summary of the underwriting fees payable in connection with recent rights issues in Australia:

Underwriting fees on rights issues				
Date	Issuer	Underwriter	Amount raised \$ million	Underwriting Fee %
Nov-05	ERG	Patersons Securities	30.5	4.00
Oct-05	Healthscope	Macquarie Equity Capital Markets / Goldman Sachs JBWere	129.2	2.50
Sep-05	Macmahon Holdings	Patersons Securities / Wilson HTM Corporate Finance	31.5	4.00
Aug-05	Coates Hire	Macquarie Equity Capital Markets	158.7	2.13
Mar-05	Australian Infrastructure Fund	Deutsche Bank / UBS	225.0	2.50
Mar-05	Origin Energy	Citigroup / Deutsche Bank	641.0	1.50
Mar-05	Australian Agricultural Company	ABN AMRO Morgans / ABN AMRO Rothschild	66.7	1.75
Mar-05	Capral Aluminium	GPG	33.1	3.00
Feb-05	JF Meridian Trust	JP Morgan	126.9	1.99
Feb-05	TOWER	GPG	139.0	1.75 ⁽¹⁾
Aug-04	Primelife Corporation	Tricom Equities	50.0	3.00 ⁽²⁾
Aug-04	Prime Infrastructure	UBS / Wilson HTM	187.0	3.50
Jul-04	ERG	Patersons Securities	67.0	4.00
Jun-04	SP Telecommunications	ABN AMRO Morgans	89.6	2.75 ⁽³⁾
Apr-04	Roe Oil Company	Goldman Sachs JBWere	49.9	3.70
Mar-04	Alinta	Macquarie Equity Capital Markets	465.0	1.90
Feb-04	Oxiana	Macquarie Equity Capital Markets / Goldman Sachs JBWere	189.0	2.25

Note:

- 1 Effective underwriting fee given GPG's exposure was 2.18%.
- 2 Equity component of capital raising only (ie excluding the note offer).
- 3 The underwriting fee was not payable in connection with the shares issued to the major shareholder, Soul Pattinson.

⁴² Being the underwriting fee of A\$2.8 million divided by the amount raised under the Entitlements Offer (A\$160 million) divided by 80.2%.

215 In addition we have reviewed the level of underwriting fees paid in connection with new listings in Australia. The underwriting fees payable in connection with these new issues was consistent with the underwriting fees payable in connection with rights issues, as shown below:

Underwriting fees on IPOs					
Date	Issuer	Underwriter	Market Capitalisation at issue price \$ m	Amount raised \$ m	Underwriting Fee %
Jul-06	Mariner Pipeline Income Fund	CommSec	137.0	137.0	3.00
Jan-06	VDM Group	Patersons Securities	54.3	8.2	4.00
Nov-05	Oaks Hotels & Resorts	ABN Amro Morgans	129.7	30.0	3.00
Nov-05	Rubicon Europe Trust Group	Deutsche Bank AG / Merrill Lynch	258.7	258.7	3.00
Oct-05	Alinta Infrastructure	UBS AG Australia	925.8	740.7	3.40
Sep-05	Babcock & Brown Wind Partners	JP Morgan / UBS AG	674.5	378.7	2.50
Sep-05	Regional Express Holdings	Tricom Equities	115.0	35.0	2.00
Sep-05	Fone Zone	UBS AG Australia	125.2	62.0	2.75
Aug-05	Reckson New York Property Trust	Citigroup Global Markets, UBS AG	263.0	263.0	1.25
Jul-05	Challenger Infrastructure Fund	Citigroup Global Markets Australia / JP Morgan Australia	315.0	315.0	2.50
Jun-05	APN European Retail Trust	Merrill Lynch / JP Morgan	180.1	180.1	1.50
May-05	Becton Developments	Austock Corporate Finance	152.9	15.0	4.00
Apr-05	Domino's Pizza Australia New Zealand Limited	Goldman Sachs JBWere	132.0	74.8	2.50
Apr-05	JF Industrial Trust	JP Morgan Australia	120.5	120.5	2.00
Mar-05	Australian Energy Developments	CommSec	92.6	55.0	4.25
Mar-05	Macquarie Prologis Income Trust (SHEDS - Hybrid Securities)	Macquarie Equity Capital Markets	150.0	150.0	2.25
Mar-05	Macquarie Capital Alliance Group	Macquarie Equity Capital Markets / Goldman Sachs JBWere	500.0	500.0	2.50 ⁽¹⁾
Feb-05	Babcock & Brown Japan Property Trust	UBS AG Australia	297.7	297.7	2.00
Feb-05	Select Managed Funds	UBS AG Australia	297.0	110.4	3.00
Feb-05	Everest Babcock & Brown Alternative Investment Management	UBS AG Australia / Tricom Equities / Wilson HTM	300.0	300.0	2.00
Feb-05	Hastings High Yield Fund	UBS AG Australia / Westpac	150.0	150.0	3.25 ⁽²⁾

Note:

1 Underwriting fees and funds raised based on first instalment. Second instalment is not underwritten.

Underwriting fees not payable on the shares issued to Macquarie Bank.

2 Underwriting fees based on first instalment (2/3's of the offer). 2.25% for the final instalment.

- 216 Generally, underwriting fees are a function of, inter alia, the size of the issue, the underwritten price relative to the value of shares underwritten prior to the capital raising and the risk associated with the underwriting (being the probability that the underwriter will be called upon to purchase shares under the underwriting agreement).
- 217 With respect to the Underwriting Agreement we note that:
- (a) the size of the Entitlements Offer relative to the existing capital base of TAL is high, as TAL proposes to issue 100 million new shares representing 42.7% of the 234.3 million shares on issue prior to the Entitlements Offer
 - (b) TAL shares are not currently listed and the price at which TAL shares will trade is not certain
 - (c) the underwriting fee payable to GPG is at the lower end of the range of underwriting fees generally paid (as evident from the tables above).
- 218 Consequently, in our opinion, the size of the underwriting fee payable to GPG is fair.

The Entitlements issue price

- 219 As the Entitlements Offer is priced at a discount of 20% to the mid-point value of TAL adopted by the TOWER Board (based on external advice) for the purposes of the Proposal⁴³, there will be a transfer of value to GPG if shareholders do not either sell or take up their Entitlements. This is usually the case with respect to any underwritten rights issue. Further, in our opinion, this potential transfer of value is mitigated by the fact that:
- (a) the Entitlements Offer it is a pro-rata entitlements issue
 - (b) shareholders who do not wish to or are unable to take up their entitlements will be able to sell them as the Entitlements Offer is renounceable.
- 220 Nonetheless, shareholders who wish to sell their Entitlements should note that:
- (a) the market for the rights may be illiquid
 - (b) rights often trade at a discount to their theoretical value, particularly if there are a number of shareholders who wish to sell their rights

⁴³ The effective discount is only 14.9% once the dilutionary effect of the Entitlements Offer is taken into account.

- (c) brokerage costs will be incurred
- (d) as a result of the above some value dilution is likely to occur if shareholders sell their Entitlements. However, this would occur irrespective of whether the Entitlements Offer is underwritten by GPG.

Impact on control of TOWER Australia

- 221 GPG is a 19.8% shareholder in TOWER and will initially have the same shareholding in TAL if the Proposal is implemented. As a result of the Underwriting Agreement any Entitlements not taken up by shareholders will be taken up by GPG in its capacity as underwriter. It is therefore likely that GPG will increase its shareholding in TAL as a result of the Underwriting Agreement.
- 222 While GPG could theoretically increase its shareholding in TAL to 43.79% as a result of the Underwriting Agreement this is unlikely as this will only occur if no Entitlements are taken up by other shareholders.
- 223 We note that the entitlements offer and underwriting undertaken in connection with the Separation of AWM in 2005 resulted in GPG acquiring 27.2% of the AWM shares offered under the Entitlements Offer (excluding GPG's own entitlements).
- 224 Assuming a similar level of participation would result in GPG's shareholding in TAL increasing to around 26%.
- 225 Accordingly, GPG may significantly increase its shareholding and voting power in TAL as a result of the Underwriting Agreement and will be able to retain any shares acquired.

Implications if the Entitlements Offer is not underwritten

- 226 The Directors of TOWER have advised that the Entitlements Offer has been underwritten to ensure that sufficient capital could be raised to facilitate the Separation of the TAL and TOWER NZ's businesses, strengthen the financial position of each company and to fund new business development. Consequently, in the absence of the Underwriting Agreement additional capital may be required in order to achieve all the objectives of the Separation.

Other fees payable to GPG

- 227 As indicated above GPG is entitled to fees ranging from A\$220,000 to A\$750,000 (plus GST) in certain circumstances, including if the underwriting does not proceed for reasons which are outside GPG's control. GPG will also be reimbursed for all reasonable out of pocket expenses, legal fees and third party disbursements up to a maximum of A\$300,000 (plus GST).

228 In our opinion, these fees are reasonable because:

- (a) GPG has invested time and incurred costs in connection with the negotiation of the Underwriting Agreement; and
- (b) GPG should be entitled to receive consideration for the period for which it does have an underwriting risk.

Other benefits of the underwriting

229 GPG has an excellent reputation in both Australia and New Zealand for its investment acumen. GPG's continued support for TOWER (both through its existing holding and its underwriting commitment) may therefore result in a higher level of shareholder participation in the Entitlements Offer compared with the position if GPG was not underwriting the Entitlements Offer.

230 In our view a third party underwriter is also likely to sell shares acquired under any underwriting arrangement, which would place downward pressure on the TAL share price post the Entitlements Offer. In contrast, GPG is likely to retain any shares acquired.

Assessment of fairness

231 Based on the above, we have concluded that the terms and conditions of the Underwriting Agreement are fair to TOWER shareholders not associated with GPG.

Appendix A**Financial Services Guide****Lonergan Edwards & Associates Limited**

- 1 Lonergan Edwards & Associates Limited (ABN53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its provision of an Independent Expert's Report (IER) to be sent to TOWER shareholders in connection with the Proposal and Underwriting Agreement.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licenced investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Hall who are both authorised representatives of LEA. Mr Edwards and Mr Hall have over 13 years and 20 years experience in the provision of valuation advice respectively. Mr Hall is also a qualified actuary.

Declarations

- 3 This report has been prepared at the request of the directors of TOWER to accompany a Scheme Book providing information to shareholders with respect to the Proposal and Underwriting Agreement. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not:
 - (a) the Proposal is in the best interests of TOWER shareholders
 - (b) the terms and conditions of the Underwriting Agreement are fair to TOWER shareholders not associated with GPG.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Hall have any interest in the outcome of the proposed transaction. LEA is entitled to receive a fee for the preparation of this report based on the time incurred at our standard hourly rates. With the exception of this fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

Indemnification

- 5 As a condition of LEA's agreement to prepare this report, TOWER agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of TOWER which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 6 LEA consents to the inclusion of this report in the form and context of which it is included in the Scheme Book to TOWER shareholders.

Appendix A

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.
- 9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.
- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Services (FICS), an external complaints resolution service. You will not be charged for using the FICS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001).

Appendix C

Glossary

AIFRS	Australian equivalent to International Financial Reporting Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
AWM	Australian Wealth Management Limited
Government Life	Government Life Insurance Office
GPG	Guinness Peat Group Plc
GST	Goods and services tax
IER	Independent Expert's Report
LEA	Loneragan Edwards & Associates Limited
NZ GAAP	New Zealand General Accepted Accounting Practice
NZ IFRS	New Zealand equivalent to International Financial Reporting Standards
NZX	New Zealand Exchange
PrefSure	PrefSure Holdings Ltd and PrefSure Life Limited
TAL	TOWER Australia Group Limited
the Entitlements Offer	The offer to acquire one TAL share for A\$1.60 per share
the Proposal	The Separation of TOWER's Australian and New Zealand businesses and the Entitlements Offer
the Separation	The legal separation of TOWER's Australian and New Zealand businesses
TOWER	TOWER Limited
TOWER NZ	TOWER Limited after separation



Court Orders

This section contains copies of the Application for Initial Court Orders, and the application for Final Court Orders. Initial Orders were granted on 14 August 2006.

Application for Initial Court Orders

Take notice that counsel for the Applicant will move the Court for the following orders:

Special meeting of Shareholders

- 1 That subject to the order sought in paragraph 13 below, the Applicant be directed to hold a special meeting (**Shareholders' Meeting**) of its shareholders (**Shareholders**) to consider and, if thought fit, to approve and adopt in the manner specified in the order sought in paragraph 2 below, the proposed scheme of arrangement (**Scheme**) between the Applicant and its Shareholders, which is described in the arrangement plan (**Arrangement Plan**) annexed to the originating application for final court orders (**Application for Final Orders**) approving the Scheme, and any other business, whether incidental to the Scheme or otherwise, that TOWER wishes to put to Shareholders for consideration.
- 2 That the Scheme described in the Arrangement Plan be put to the Shareholders for approval by way of a special resolution (**Special Resolution**) of 75% or more of the votes cast by those Shareholders, as one class, entitled to vote and voting on the Special Resolution at the Shareholders' Meeting (where voting in person or by proxy).
- 3 That the Applicant be permitted to make such amendments, revisions and/or supplements to the Arrangement Plan as it may determine are in its best interests and in the best interests of its Shareholders, and that the Arrangement Plan as so amended, revised and/or supplemented will be the Arrangement Plan to be submitted to the Shareholders for their approval at the Shareholders' Meeting.
- 4 That the Applicant be permitted to make consequential amendments, revisions and/or supplements to the Special Resolution and the Shareholders' Meeting Materials referred to in the order sought in paragraph 17 below.
- 5 That if the Applicant makes any material amendments, revisions and/or supplements to the Arrangement Plan or the Special Resolution after it has sent the Shareholders' Meeting Materials to those persons referred to in the orders sought in paragraphs 17 and 18 below, it will send to those persons a supplementary memorandum (**Supplementary Memorandum**) by ordinary mail advising them of such amendments, revisions and/or supplements.
- 6 That the Arrangement Plan to be submitted to this Court for approval on the hearing of the Application for Final Orders shall be the Arrangement Plan as amended by any amendments, revisions and/or supplements to the Arrangement Plan made in accordance with the orders sought in paragraphs 3 to 5 above.
- 7 That the Shareholders be authorised to vote by proxy at the Shareholders' Meeting provided that they deliver their proxy forms to the registered office of the Applicant or the office of the share registry of the Applicant no later than 48 hours before the commencement of the Shareholders' Meeting (or in the event that the date of the Shareholders' Meeting changes, not less than 48 hours before the commencement of the meeting on the new date), and that the Applicant be entitled to disregard any proxy forms received after this deadline in accordance with regulation 6.10(g) of the Applicant's constitution.
- 8 That notwithstanding the order sought in paragraph 7 above, the Applicant be entitled to accept as valid, proxy forms received prior to any consequential amendment being made to the Special Resolution, unless, upon receipt of the Supplementary Memorandum, the owner notifies the Applicant that he or she wishes to cancel their first proxy and replace it with a second proxy.
- 9 That only those Shareholders whose names appear in the register of Shareholders of the Applicant on the date fixed by the Board of Directors of the Applicant for the Shareholders' Meeting pursuant to section 125(1)(d) of the Companies Act 1993 (**Entitlement Date**), be entitled to be represented and vote at the Shareholders' Meeting or any adjournment(s) or postponement(s) thereof.
- 10 That bondholders and noteholders of debt securities issued by TOWER Finance Limited (**Debt Securities**), a wholly-owned subsidiary of the Applicant, under Trust Deeds dated 8 March 2002 and 15 June 2004 respectively, be provided with the same information in respect of the Scheme as Shareholders; but that, for the avoidance of doubt, bondholders and noteholders have no right to vote at the Shareholders' Meeting except to the extent required by New Zealand law.
- 11 That the Trustee of the Debt Securities be provided with the same information in respect of the Scheme as Shareholders; but that, for the avoidance of doubt, the Trustee, in its role as Trustee of the Debt Securities, has no right to vote at the Shareholders' Meeting except to the extent required by New Zealand law.
- 12 That the Chairman of the Shareholders' Meeting be permitted to adjourn or postpone the

Shareholders' Meeting on one or more occasions without the necessity of first convening the Shareholders' Meeting or first obtaining any vote of its Shareholders regarding the adjournment or postponement.

- 13 That subject to the terms of these orders, the Shareholders' Meeting will otherwise be conducted in accordance with the provisions of the Companies Act 1993 and the constitution of the Applicant.

Report by independent expert

- 14 That Lonergan Edwards & Associates Limited of Sydney be directed to provide an independent expert's report on the arrangement, for the benefit of Shareholders (**Independent Expert's Report**).
- 15 That a copy of the Independent Expert's Report be filed with the Court.
- 16 That the Applicant be directed to pay any costs incurred in the preparation of the Independent Expert's Report.

Notice of Shareholders' Meeting and Application for Final Court Orders

- 17 That the Applicant give notice of the Shareholders' Meeting and the Application for Final Orders by mailing, using prepaid ordinary mail not less than 10 clear business days prior to the date of the Shareholders' Meeting, the following materials:
- (a) A Notice of the Shareholders' Meeting;
 - (b) A Scheme Book, in substantially the form referred and annexed to the affidavit of James Raymond Minto sworn and filed in support of this application with such amendments, revisions and/or supplements as counsel may advise are necessary or desirable (provided that such amendments, revisions and/or supplements are not inconsistent with the terms of this order), which combines:
 - (i) an explanatory memorandum providing details of the Scheme, and which includes notice to Shareholders of their rights to appear and be heard on the Application for Final Orders in accordance with the order sought in paragraph 26 below;
 - (ii) a letter to Shareholders from the Chairman of the Board of Directors of the Applicant explaining the Scheme;
 - (iii) an investment statement which complies with the New Zealand Securities Act 1978 and a prospectus issued by the Applicant for the purpose of Part 6D of the Australian Corporations Act 2001, in respect of the TOWER Australia Group Limited shares being transferred;
 - (iv) the Independent Expert's Report;
 - (v) a copy of the Initial Orders made pursuant to this application;

- (vi) the draft Application for Final Orders; and
 - (c) A proxy form for use by the Shareholders for the Shareholders' Meeting,
- (collectively the **Shareholders' Meeting Materials**)

to the following persons:

- (a) The directors and auditors of the Applicant;
 - (b) The Shareholders entered on its share register at the addresses that appear on such register at 5.00pm on the date fixed by the Board of Directors of the Applicant for the determination of the Shareholders entitled to Notice of the Shareholders' Meeting pursuant to section 125(3)(a) of the Companies Act 1993 (Notice Date);
 - (c) The bondholders and noteholders entered on the respective security registers for the Debt Securities, at the addresses that appear on such registers as at 5.00pm on the Notice Date; and
 - (d) The Trustee of the Debt Securities as at 5.00pm on the Notice Date.
- 18 That the Applicant will provide, on request, a copy of the Shareholders' Meeting Materials to any Shareholder who is entered on the share register, and any bondholder and noteholder who is entered on the relevant securities register, between the 5.00pm on the Notice Date and 5.00pm on the Entitlement Date.
- 19 That the Shareholders' Meeting Materials be deemed to have been received by those persons specified in the order sought in paragraph 17 above two business days after the time of posting.
- 20 That the Applicant be granted leave to give notice of the Application for Final Orders to persons outside the jurisdiction of this Court in the manner prescribed in the orders sought in paragraphs 17 and 18 above.
- 21 That the accidental failure or omission by the Applicant to send the Shareholders' Meeting Materials and the Application for Final Orders to the persons specified in the orders sought in paragraphs 17 and 18 above or the non-receipt of such documents by such persons will not constitute a breach of the orders or invalidate any resolution passed or proceedings taken at the Shareholders' Meeting. If any such failure or omission is brought to the attention of the Applicant, then it shall use its best endeavours to rectify it by the method and in the time most reasonably practicable in the circumstances.

Reporting of results of Shareholders' Meeting

- 22 That the Chairman of the Shareholders' Meeting be directed to inform the Shareholders that any Shareholder who wishes to sell or transfer his, her or its shares after the Shareholders' Meeting and before the date on which the Scheme takes effect, should:
- notify the Applicant in writing of the proposed transfer or sale and provide the Applicant with the contact details of the proposed transferee or purchaser; and
 - notify the proposed transferee or purchaser of the Scheme and the fact that it is subject to the Application for Final Orders and that such orders of the Court, if granted, will be binding on the proposed transferee or purchaser.
- 23 That the Chairman of the Shareholders' Meeting shall inform the Shareholders that, subject to receiving the contact details of the proposed transferee or purchaser, the Applicant will on request provide any proposed transferee or purchaser with copies of the Shareholders' Meeting Materials.
- 24 That the Applicant shall, prior to the hearing of the Application for Final Orders, file with this Court an affidavit verifying the actions taken and the resolutions passed by the Shareholders at the Shareholders' Meetings.
- 25 That a date and a time for the hearing and determination of the Application for Final Orders be fixed, unless the directors of the Applicant determine to abandon the Scheme.

Rights of dissenting shareholders

- 26 That Shareholders who vote against the Scheme at the Shareholders' Meeting do not have the right to invoke minority buy-out rights under section 110 of the Companies Act 1993.

Right to be heard

- 27 That any Shareholder who wishes to appear and be heard on the Application for Final Orders must file a notice of appearance or a notice of opposition (both containing an address for service) and any affidavits and a memorandum of submissions on which such Shareholder intends to rely by 5.00pm on the date specified in paragraph 34, and serve a copy on the Applicant at its address for service; and that the Applicant will serve upon that Shareholder at their address for service, a copy of the affidavit(s) in support of the Application for Final Orders by 5.00pm on the date specified in paragraph 34. For the purposes of clarity, a Shareholder may file such notice prior to the date of the Shareholders' Meeting.
- 28 That any creditor of the Applicant who wishes to appear and be heard on the Application for

Final Orders must file an application for leave to be heard on the Application for Final Orders (containing an address for service), a notice of opposition, any affidavit and a memorandum of submission upon which that person intends to rely by 5.00pm on the date specified in paragraph 34, and serve a copy on the Applicant at its address for service; and that Applicant will serve upon that person at their address for service a copy of the affidavit in support of the Application for Final Orders by 5.00pm on the date specified in paragraph 34. For the avoidance of doubt, a creditor may file an application to be heard prior to the date of the Shareholders' Meeting.

- 29 That the only persons entitled to appear and be heard at the hearing of the Application for Final Orders will be:
- the Applicant;
 - those Shareholders of the Applicant who file a notice of appearance or a notice of opposition to the Application for Final Orders in accordance with the order sought in paragraph 26 above;
 - those creditors of the Applicant who file an application for leave to be heard, and a notice of opposition to the Application for Final Orders in accordance with the order sought in paragraph 28 above and who are subsequently granted leave to appear and be heard at the hearing of the Application for Final Orders.
- 30 That if the hearing of the Application for Final Orders approving the Scheme is adjourned, only those persons referred to in the order sought in paragraph 29 above need be served with notice of the adjourned date.
- 31 That except as provided in the orders sought in paragraphs 17, 18, 26, 28 and 30 above, the Applicant is not required to serve any other documents on the persons specified in those orders.
- 32 That the Applicant is granted leave to apply at short notice to vary these orders and apply for such further orders as may be appropriate.

Venue

- 33 That these proceedings be filed, heard and determined in Wellington.

Timetabling

34 That the Court fix the following dates for the procession and determination of this application:

- | | | |
|------|--|-------------------|
| 34.1 | File final copy of Scheme Book and Independent Expert's Report | 20 September 2006 |
| 34.2 | Shareholders' Meeting | 6 November 2006 |
| 34.3 | File supplementary affidavits in support of the Application for Final Orders | 6 November 2006 |
| 34.4 | Final date for Shareholders and creditors to file notice of appearance/opposition and application for leave to be heard | 7 November 2006 |
| 34.5 | Final date for the Applicant to file any affidavit in response to any application by any person filing under paragraph 34.4, and serve the affidavit in support of the Application for Final Orders to such persons. | 9 November 2006 |
| 34.6 | Final hearing (if necessary) | 10 November 2006 |

35 That no document on any file relating to this application be searched, inspected or copied until the business day after counsel advises the Court that the Scheme Book has been filed with the Australian Securities and Investments Commission. This is expected to occur on or about 20 September 2006.

36 Any such other orders or directions that the Court deems appropriate.

Upon the grounds that such directions are appropriate to ensure the proper consideration of the Arrangement Plan, and upon the grounds appearing in the affidavit of James Raymond Minto.

This Application is made in reliance on Sections 236(2) and 237 of the Companies Act 1993 and on Rule 458I of the High Court Rules.

Certified pursuant to the Rules of Court to be correct.

Application for Final Court Orders

Take notice that counsel for the Applicant will move the Court for the following orders:

- 1 The proposed scheme of arrangement (**Scheme**) between the Applicant, TOWER Group Network Limited, and TOWER's shareholders, the key elements of which are described in the

arrangement plan (a draft of which is annexed to this application and the final version of which will be submitted to the Court) (**Arrangement Plan**), is approved and is binding upon the Applicant, TOWER Group Network Limited, and TOWER's shareholders with effect from the Effective Time as defined in the Arrangement Plan, subject to:

- (a) The satisfaction, waiver or release of the terms and conditions of the Scheme described in the Arrangement Plan; and
- (b) Any amendment, modification or supplement to the Scheme made in accordance with the Arrangement Plan.

- 2 The Applicants are granted leave to apply to the Court at short notice to extend the date by which order 1 will take effect.

Upon the grounds that:

- (a) Section 236(1) of the Companies Act 1993 provides the Court with powers to make orders that the Scheme is binding on the Applicant and its shareholders and on such other persons as the Court may specify and upon such terms and conditions as the Court thinks fit.
- (b) Section 237(1) of the Act provides the Court with the power to make additional orders to give effect to the Scheme.
- (c) By the date on which this application is determined, the Applicant will have complied with the initial orders made by this Court and the requirements of Part XV of the Companies Act 1993.
- (d) The Scheme is fair and reasonable to the shareholders of the Applicant.
- (e) The Scheme is such that an intelligent and honest person of business acting in respect of his or her own interest would reasonably approve it.
- (f) The Scheme is in the best interests of the shareholders of the Applicant.
- (g) The Scheme is in the best interests of the Applicant.
- (h) The Scheme will not adversely affect the interests of the creditors of the Applicant.
- (i) Appear in the affidavit of James Raymond Minto filed, and further affidavit to be filed, in support of the application for directions and initial orders and in support of this notice of originating application.
- (j) Appear in the memorandum of counsel filed in support of the ex parte application for initial orders and in support of this application.

This application is made in reliance on Part XV of the Companies Act 1993 and upon Rule 4 and Part IVA of the High Court Rules.

Certified pursuant to the High Court Rules to be correct.

Arrangement Plan

Arrangement pursuant to Part XV of the Companies Act 1993.

Introduction

- 1 TOWER has proposed a Scheme between it, TOWER Group Network Limited, and TOWER's shareholders, the terms of which are set out in this document.
- 2 The Scheme will take effect only if it is approved by a special resolution of TOWER Shareholders and by the Court in accordance with clause 236 of the Companies Act 1993.

Interpretation

- 3 In this document, unless the context otherwise requires:

Arrangement Plan means this arrangement plan;

ASX means the Australian Stock Exchange;

Business Day means a day on which both NZX and ASX is open for trading;

Court means the High Court of New Zealand;

Deed of Disposal means the deed between TOWER and a nominee relating to the disposal of TOWER Australia Shares to which Foreign Shareholders are entitled;

Effective Time means 5.00pm on the Record Date;

Foreign Shareholder means a TOWER Shareholder, whose address on TOWER's share register is not recorded as being in New Zealand or Australia;

Licence Agreement means the licence agreement between TOWER and TOWER Australia permitting TOWER Australia to use TOWER's brand and intellectual property for a 5 year period.

NZX means New Zealand Exchange Limited;

Record Date means 17 November 2006, or such later date as TOWER may decide;

Scheme means the arrangement to be undertaken in accordance with this Arrangement Plan, subject to any amendment or variation made in accordance with the Arrangement Plan.

Share Registrar in respect of TOWER means Computershare Investor Services Limited, and in respect of TOWER Australia means Computershare Investor Services Pty Limited;

Share Sale and Purchase Agreement means the agreement entered into between TOWER and TOWER Group Network, which transfers the title to all of the fully paid ordinary shares in TOWER Australia from TOWER Group Network to TOWER, entered into prior to the Effective Time.

Shareholders' Meeting means the special meeting of TOWER Shareholders (and any adjournment of that meeting) held pursuant to an order of the Court to consider and, if thought fit, approve the Scheme;

TOWER Australia means TOWER Australia Group Limited (ACN 003 401 698);

TOWER Australia Share means a fully paid ordinary share in the capital of TOWER Australia;

TOWER Australia Shareholder means the persons recorded on the TOWER Australia share register as holders of TOWER Australia Shares as at the Effective Time;

TOWER means TOWER Limited;

TOWER Group Network means TOWER Group Network Limited, a subsidiary of TOWER and the holding company of TOWER Australia;

TOWER Share means a fully paid ordinary share in the capital of TOWER;

TOWER Shareholder means in respect of holders of TOWER Shares entitled to participate in the Scheme, the persons recorded on the TOWER share register as holders of TOWER Shares as at the Effective Time; and

Headings and references

- 4 The division of this Arrangement Plan into sections and the insertion of headings are for convenience of reference only and do not affect the construction or interpretation of this Arrangement Plan.

Currency

- 5 Except as expressly indicated otherwise, all sums of money referred to in this Arrangement Plan are expressed and shall be payable in New Zealand dollars.

Time

- 6 Time shall be of the essence in each and every matter of thing herein provided. Unless otherwise indicated, all times expressed herein are local time, Wellington, New Zealand.

The Scheme

- 7 Subject to any amendments to this Arrangement Plan made in accordance with the orders of the Court, at the Effective Time the following will occur sequentially in the order specified and, except as otherwise provided, without any further act or formality:
 - (a) the TOWER share register will close and the persons recorded on the register as holders of TOWER Shares at the Effective Time will be treated as the shareholders subject to the Scheme;
 - (b) TOWER directs and TOWER Group Network consents to the transfer of the legal ownership of all of the 234.3 million TOWER Australia Shares, to which TOWER has acquired title pursuant to the Share Sale and Purchase Agreement, to TOWER Shareholders, on the basis of:

- (i) in the case of each TOWER Shareholder whose address is recorded on the TOWER share register at the Effective Time as being in New Zealand or Australia, 0.6511 TOWER Australia Shares for every TOWER Share held by that TOWER Shareholder (fractional amounts will be rounded to the nearest whole number, with 0.5 being rounded up); and
 - (ii) in the case of each Foreign Shareholder, 0.6511 TOWER Australia Shares for every TOWER Share held by the TOWER Shareholder (fractional amounts will be rounded to the nearest whole number, with 0.5 being rounded up) will be transferred to a nominee who will endeavour to dispose of such shares and account to each TOWER Shareholder for the proceeds of sale; and
- (c) TOWER is appointed as authorised agent and attorney for and of each transferee of TOWER Australia Shares under clause 7(b)(i), to execute all documents and do all things which it reasonably considers necessary or desirable on behalf of each such person to effect the Arrangement Plan, including but not limited to:
- (i) agreeing to become a shareholder of TOWER Australia; and
 - (ii) arranging for each such person to be registered as a holder of TOWER Australia shares,
- for the purposes of section 231 of the Australian Corporations Act 2001 or otherwise;
- (d) The name of each transferee of TOWER Australia Shares pursuant to clause 7(b)(i) will be entered by the Share Registrar in the share register of TOWER Australia as the holder of those TOWER Australia Shares;
- (e) TOWER, in consideration for the TOWER Australia shares transferred pursuant to clause 7(b), will cancel 0.4760 TOWER Shares (by way of a capital reduction) for every TOWER Share held by each TOWER Shareholder (fractional amounts will be rounded to the nearest whole number, with 0.5 being rounded up);
- (f) The Share Registrar will update the TOWER share register to reflect the shares cancelled pursuant to clause 7(e);
- (g) As soon as practicable following the Record Date, TOWER and TOWER Australia will jointly procure that the Share Registrar forward or cause to be forwarded, by mail to:
- (i) each TOWER Shareholder at the address specified in the TOWER share register, a statement confirming their holding of TOWER Shares; and
 - (ii) each TOWER Australia Shareholder at the address specified in the TOWER share register, which will be recorded as their address in the

TOWER Australia share register, a statement confirming their holding of TOWER Australia Shares;

- (h) The Licence Agreement will be entered into (unless entered into on a conditional basis on such earlier date as TOWER may consider desirable).
- (i) Within 10 business days of the final Court orders being made by the Court, TOWER will cause the final Court orders made by the Court to be delivered to the New Zealand Registrar of Companies for registration.

Conditions

- 8 The Scheme is conditional upon the final Court orders being granted by the Court in accordance with sections 236(1) and 237(1) of the Companies Act 1993, on terms acceptable to the board of TOWER.
- 9 If the condition contained in section 8 is not satisfied by the Effective Time, then the Scheme will not proceed and this Arrangement Plan will be of no effect.

Amendments

- 10 TOWER reserves the right to amend, modify and/or supplement this Arrangement Plan at any time and from time to time provided that any such amendment, modification or supplement must be contained in a written document which is filed with the Court. If any such amendment modification or supplement to the Arrangement Plan is made following the Shareholders' Meeting, it must be approved by the Court and communicated to TOWER Shareholders in the manner required by the Court (if so required).
- 11 Any amendment, modification or supplement to this Arrangement Plan may be agreed by TOWER at any time prior to or at the Shareholders' Meeting with or without any other prior notice or communication and, if so proposed and accepted by the persons voting at the Shareholders' Meeting shall become part of the Arrangement Plan for all purposes.
- 12 Any amendment, modification or supplement to this Arrangement Plan which is approved or directed by the Court following the Shareholders' Meeting shall be effective only if it is consented to by the Applicant.

Right not to proceed with the Arrangement

- 13 The directors of TOWER reserve the right not to proceed with the arrangement if, at any time prior to the Effective Time, in their opinion, the Arrangement Plan is not in the best interests of TOWER, TOWER Australia and/or TOWER's Shareholders.



Glossary

APRA means the Australian Prudential Regulatory Authority.

ASIC means the Australian Securities & Investments Commission.

ASX means the Australian Stock Exchange Limited (ACN 008 624 691).

ASX Guidelines means ASX principles of good corporate governance and best practice recommendations.

ATO means the Australian Tax Office.

Australian Business means the Australian companies of TOWER prior to implementation of the Separation.

AWM means Australian Wealth Management Limited.

Bonds means the Capital Bonds issued by TOWER Finance.

Business means the Australian Business or the New Zealand Business, as the context permits.

Companies Act means the Companies Act 1993 (New Zealand).

Corporations Act means the Corporations Act 2001 of the Commonwealth of Australia.

Court means the High Court of New Zealand.

Entitlement and Acceptance Form means the forms stating the number of Entitlements to which shareholders are entitled, intended to be posted to shareholders on 30 November 2006.

Entitlements means entitlements to acquire TAL Shares.

Entitlements Offer means the offer of Entitlements contained in this document, and where the context permits, the issue of TAL Shares under that offer.

Final Orders means the final orders of the Court approving the Proposal under Part XV of the Companies Act.

Foreign Shareholder means a Shareholder in TOWER at the close of business on 17 November 2006, whose address on TOWER's Share register is not in New Zealand or Australia.

FUA means funds under administration.

FUM means funds under management.

FUS means funds under supervision.

GAAP means Generally Accepted Accounting Principles.

GPG and Underwriter means Guinness Peat Group plc through its nominee Ithaca (Custodians) Limited.

GST means Goods and Services Tax under (in New Zealand) the Goods and Services Tax Act 1985 and (in Australia) the New Tax System (Goods and Services Tax) Act 1999, as the case may be.

IFA means Independent Financial Adviser.

IFRS means International Financial Reporting Standards.

Independent Expert's Report means the report of Lonergan Edwards contained in this document. The Independent Expert's Report is also as Independent Appraisal Report for the purposes of the NZX Listing Rules.

Lonergan Edwards means Lonergan Edwards & Associates Ltd

Major Transaction means a Major Transaction as set out in section 129 of the Companies Act.

New Zealand Business means the New Zealand and Pacific Islands companies of TOWER prior to implementation of the Separation.

Notice of Meeting means the notice of the Special Meeting accompanying this document.

Notes means the Capital Notes issued by TOWER Finance.

NZX means New Zealand Exchange Limited.

Offers means the offer of TAL Shares and Entitlements made under this document.

Option Reconstruction means the reconstruction of options in TOWER held by employees as set out on page 60 of this document.

Proposal means the Separation, the Offers, the proposed underwriting of the Entitlements Offer by GPG and the associated refinancing and restructuring of TOWER, TOWER NZ and TAL, as described in this document.

Registrar means Computershare Investor Services Limited in New Zealand, and Computershare Investor Services Pty Limited in Australia.

Resolutions means all resolutions put to the Special Meeting.

Scheme Book means this document.

Separation means the proposed separation of TOWER's Australian and New Zealand Businesses. It will be effected under Part XV of the Companies Act by TOWER (through TOWER Group Network) transferring all of its TAL Shares to TOWER Shareholders on a pro-rata basis (0.6511 TAL Shares for every TOWER Share held, subject to rounding), and in return the cancellation of 0.4269 TOWER Shares for every TOWER Share held as a capital reduction, the key components of which are described in this document, subject to any amendment made in accordance with an order of the Court.

Shareholders or TOWER Shareholders means shareholders of TOWER.

Special Meeting means the special meeting of TOWER Shareholders (and any adjournment of that meeting) held pursuant to an order of the Court to consider, and if thought fit, approve the Separation including the Option Reconstruction, the grant by TAL of new options to Mr Minto, and the Underwriting Agreement.

TAL means Andric Pty Limited (ACN 003 401698) which will be renamed TOWER Australia Group Limited prior to the Offers being made and is referred to in this document as TAL or TOWER Australia Group.

TAL businesses means the businesses owned by TAL and their subsidiaries.

TAL Group means TAL and its subsidiary companies.

TAL Shares means shares in TAL.

TAML means TOWER Asset Management Limited.

TOWER means TOWER Limited, which before implementation of the Separation comprises the Australian and New Zealand Businesses, and after the Separation comprises only the New Zealand Business. TOWER will continue to be known as TOWER after implementation of the Separation but in this document is referred to as TOWER NZ.

TOWER NZ means TOWER Limited, after implementation of the Separation.

TOWER's Board means the Board of Directors of TOWER.

TOWER NZ's Board means the Board of Directors of TOWER after Separation.

TOWER Finance means TOWER Finance Limited.

TOWER Group means TOWER and its subsidiary companies, which before implementation of the Separation comprises the Australian and New Zealand Businesses, and after comprises the New Zealand Business only.

TOWER NZ Group means TOWER and its subsidiary companies after Separation.

TOWER Group Network means TOWER Group Network Limited.

TOWER Holdings means TOWER Holdings (Australia) Pty Limited (ACN 060 875 005) and, in the context, its subsidiaries.

TOWER Shares means shares in TOWER Limited.

Trustee means New Zealand Guardian Trust as trustee for the holders of the Notes and Bonds.

Underwriting Agreement means the agreement dated 19 September 2006 between GPG, TAL and TOWER under which GPG agrees to underwrite the Entitlements Offer on the terms contained in that agreement.

In this document, a reference to time, unless the contrary is stated, is a reference to New Zealand standard time.

A reference to New Zealand dollars, or NZ\$, is a reference to New Zealand currency, and a reference to Australian dollars, or A\$ is a reference to Australian currency.



Directory

Board of Directors of TOWER

- Ronald Keith Barton
- William John Falconer
- Anthony Ian Gibbs
- Michael Jefferies (alternate director)
- James Raymond Minto
- John Lewis Spencer
- Susannah Adair Staley
- Gary Hilton Weiss
- Denis Michael Wood

Registered office of TOWER

Level 11
TOWER Centre
22 Fanshawe Street
Auckland Central
New Zealand

General Manager, Investor Relations and Corporate Services of TOWER

Philippa Ellis
TOWER Limited
22 Fanshawe Street
Auckland Central
New Zealand

Board of Directors of TAL

- Ronald Keith Barton
- William John Falconer
- Anthony Ian Gibbs
- Michael Leslie Jefferies
- James Raymond Minto
- John Lewis Spencer
- Susannah Adair Staley
- Gary Hilton Weiss
- Denis Michael Wood

Registered office of TAL

80 Alfred Street
Milsons Point, NSW2061
Sydney
Australia

Registrar – TOWER and TAL

Freepost 2888
Computershare Investor Services Limited
Private Bag 92119
Auckland 1020
and
GPO 7043
Computershare Investor Services Pty Limited
Sydney NSW 2001

Legal Advisers to TOWER

Phillips Fox
50-64 Customhouse Quay
Wellington
and
201 Elizabeth Street
Sydney

Financial Advisers to TOWER

Caliburn Partnership Pty Limited
Level 34
Chifley Tower
2 Chifley Square
Sydney NSW 2000

Tax Advisers to TOWER

Deloitte
Deloitte House
8 Nelson Street
Auckland
and
Deloitte Touche Tohmatsu Limited
Grosvenor Place
225 George Street
Sydney NSW 2000
Grosvenor Place
Sydney NSW 1217

Independent Accountant

Ernst & Young
Ernst & Young Transaction Advisory Services Limited
Ernst & Young Centre
680 George Street
Sydney NSW 2000



Geographic Separation of TOWER Limited

Jim Minto

Group Managing Director

20 September 2006

John de Zwart

Group Chief Financial Officer



TOWER

Disclaimer

- The information in this presentation is a summary only
- Full information on the proposal to separate TOWER Australia via a geographic demerger is contained in the Scheme Book (which includes the Australian Prospectuses and a New Zealand Investment Statement). The Scheme Book was lodged with the Australian Securities and Investments Commission on 20 September 2006 and will be posted to TOWER shareholders resident in Australia and New Zealand on or about 18 October 2006
- Offers of TOWER Australia Group Shares and Entitlements are made in the Scheme Book
- Anyone wishing to acquire entitlements will need to complete the application form that will be distributed within 3 months of the date of the Scheme Book, on or about 30 November 2006. No money is currently being sought
- Investors should seek their own investment, financial, taxation or other professional advice regarding the Proposal and the Offers



TOWER

Agenda

A. Transaction Overview

B. Overview of TOWER Australia Group Limited (“TAL”)

C. Overview of TOWER Limited (NZ businesses)

D. Capital Raising

E. Profit Forecasts

F. Timetable

Jim Minto

Group Managing Director



TOWER

Rationale for Separation

- The rationale for demerger is driven by the potential to unlock future value for TOWER shareholders
- Geographically separated Australian and New Zealand operations are expected to grow faster with focused strategies, simpler and easier to value businesses, and stronger balance sheets

Focused Strategy

- The Australian and New Zealand businesses have different characteristics, operations and strategies with limited operational synergies
- The separation enables each to focus on its own strategies for growth
- Dedicated boards and management teams

Investor Choice

- Provide investors with the ability to choose whether to invest directly in either or both companies based on the investment characteristics that best meet their objectives
- Allow more efficient utilisation of franking and imputation credits

Simplified Structure

- Simpler businesses with focused information post separation will allow investors to more easily understand and evaluate the performance and potential of each company



TOWER

Transaction Summary

Separation

- TOWER shareholders to receive an allocation of TAL shares based on existing their TOWER shareholding (total issued capital of TAL of 234.3 million shares)⁽¹⁾
- In return for TAL shares received, a proportion of TOWER shares will be cancelled (leaving a total issued capital of TOWER of 188.5 million shares)⁽²⁾
- Requires approval of 75% of votes cast by shareholders voting. **Board of TOWER unanimously recommend shareholders vote in favour of the resolution**

Entitlements Issue

- A\$160m renounceable rights issue of TAL shares at A\$1.60 each underwritten by GPG to refinance existing debt and provide additional capital for growth
- Shareholders to receive entitlements based on TAL shareholding
- Underwriting agreement requires approval of 50% of votes cast by shareholders. GPG and its associates cannot vote on this resolution. **Board members not associated with GPG unanimously recommend shareholders vote in favour of the resolution**

Independent Expert

- Separation is in the best interests of TOWER shareholders
- Concluded that the terms and conditions of the underwriting agreement with GPG are fair to TOWER shareholders not associated with GPG

Notes:

1. Assessed equity valuation for TOWER Australia of A\$469m pre-entitlements offer at notional A\$2.00 share price based on Directors' assessment and external advice
2. Based on TOWER share price of NZ\$3.31 per share which is 1 month VWAP to 7 August 2006 (the day before the transaction announcement)

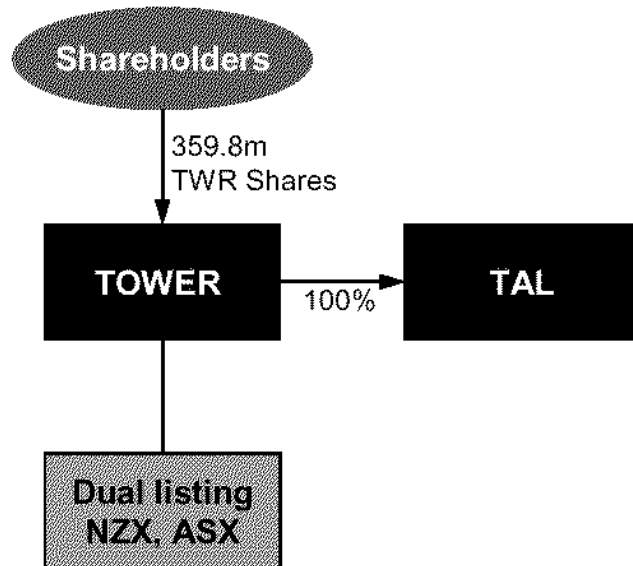


TOWER

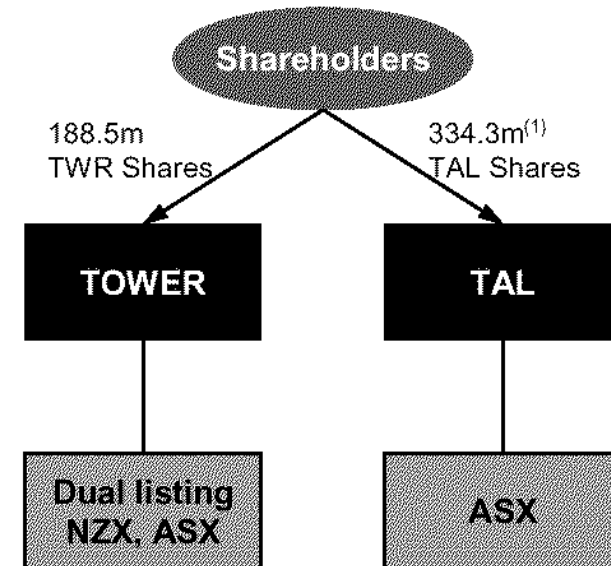
The Proposal

- TOWER to transfer 0.6511 TAL shares to TOWER shareholders for every TOWER share held
- In return, TOWER will cancel 0.4760 TOWER shares for every TOWER share held
- TAL shareholders to receive 0.4269 Entitlements for every TAL share then

CURRENT



PROPOSED



Independent Expert Opinion: Proposal is in the best interest of shareholders.

Note:

1. 234.3m shares Pre Entitlements Offer plus 100m shares issued Post Entitlements Offer



TOWER

Agenda

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TOWER

TOWER Australia (TAL)

Market Position

- TAL is a leading independent specialist life insurer in Australia
 - Inforce premium income in excess of A\$600 million
 - 12% market share
- TAL is the market leader in the group sector with 17.4% share of in-force premiums
 - No. 6 in the retail market with 9.5% share of in-force premiums
- TAL has grown in excess of market for the past 3 years
 - Market growing at 10% pa, high levels of under insurance by Australians
- Strong relationships with both traditional and 'new' distributors including:
 - independent financial advisers (IFAs)
 - mortgage brokers
 - financial planners
 - private health insurers
 - mastertrusts
 - corporates
 - direct marketers
 - industry funds
- TAL has A\$3bn niche investment business comprising superannuation, non superannuation and annuity products
 - Most products are closed to new business and customers have been reducing
 - The investment strategy is focused on providing a simplified superannuation offering to aligned risk advisers



TOWER

TOWER Australia

Overview of Performance

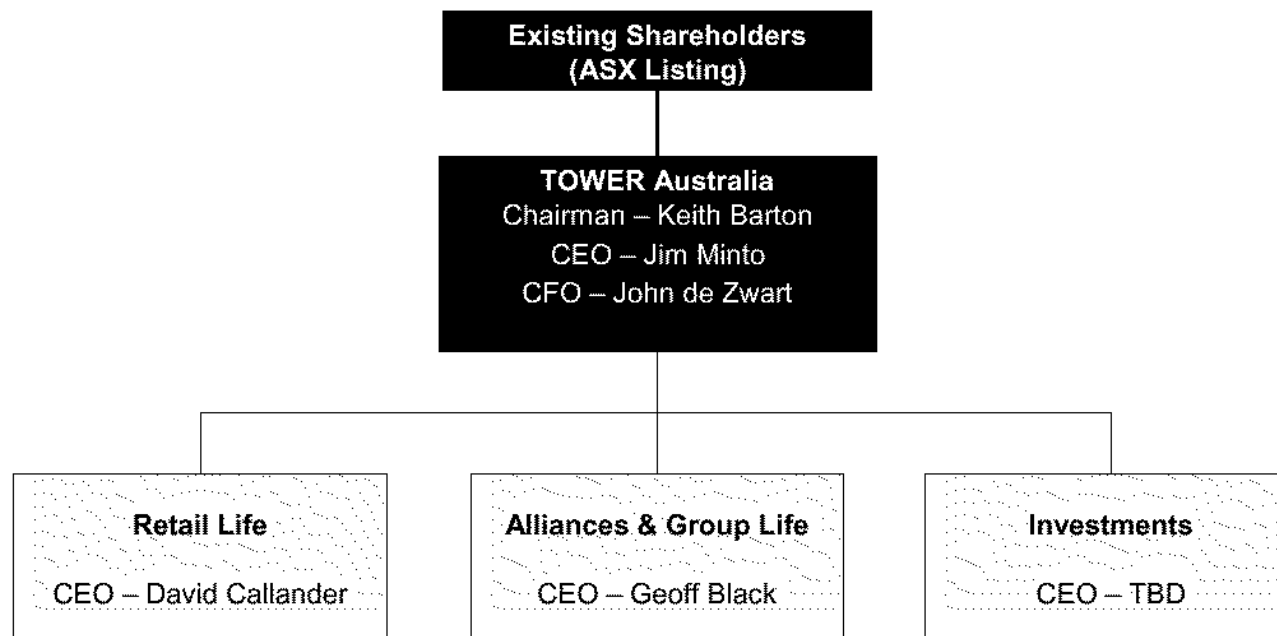
- TAL has steadily improved operating earnings since 2004 through:
 - cost reductions
 - improved lapse rates
 - increased sales
 - product repricing, and
 - exiting unprofitable lines
- Further earnings improvements are expected through realising PrefSure synergies and lowering infrastructure costs associated with legacy systems and products
- TAL has a strong balance sheet including:
 - low gearing
 - significant free cash reserves
 - conservative shareholder asset mix, and
 - low exposure to investment market fluctuations
- TAL competes based on better understanding our customer and distributor needs, leadership in product design and superb service.



TOWER

TOWER Australia

Management/Organisational Structure





TOWER

TOWER Australia **Vision**

- Our vision is to be the leading specialist life risk business in Australia, offering complementary investment products sold through our chosen distribution partners
- The vision is driven through our strategic objectives:
 - Enhancing the quality of our earnings by developing the most diversified distribution channels in our industry
 - Increasing the scale of our earnings by securing major new business and distribution relationships
 - Delivering product and service leadership to extend our customer relationships
 - Strict financial control to manage our costs and capital structure
 - Building a credible and profitable investment proposition
 - Creating a high performance team and culture



TOWER

TOWER Australia

Strategic Objectives – Life Risk

- Leverage current sales channels strategies with Business-to-Business partnering
 - Specialisation will be a factor in driving outperformance over bank assurers
- Good lapse management will continue to be a strong value driver supported by alignment of interest with dealers and advisers
 - As distribution patterns change, remuneration structures will evolve aiding the downward trend in lapse rates
- Productivity to be driven through system and process consolidation with the PrefSure merger a further catalyst for this
 - Significant business simplification opportunity, for example a single group life system by end 2006
 - Targeting migration of six core IT systems into two by 2009
- Product innovation and leadership will continue to be important in maintaining competitive position
- New alliance and channel opportunities to be exploited
 - Future proofing business value and underpinning growth



TOWER

TOWER Australia

Strategic Objectives - Investments

- Niche strategy based around existing Life distribution capability
 - Increased focus on smaller groups and Licence holders
- Some platform capability is outsourced and the investment business Beacon provides an opportunity to leverage further sales
- Unlocking value from classic products (traditional & unit linked)
 - Significant value can be released from optimisation strategies
- Will continue to use modern multi-manager Investment Management structures
- Participation in market product rationalisation initiatives which are expected to be supported by legislation
- Growth in FUM and business transformation leading to more productivity improvements are key priorities



TOWER

TOWER Australia

2007 Outlook

- In 2007, the businesses will focus on:
 - Increasing sales through IFAs
 - Maintaining mastertrust growth and margins through enhanced services
 - Completing the integration of PrefSure
 - Developing existing and new alliances to close the under-insurance gap
 - Launching new retail and corporate superannuation investment offerings to aligned distributors and IFAs
 - Outsourcing certain investment related back office activities, begin upgrading customers of closed products and rationalising systems to simplify the business and lower fixed costs
 - Enhancing product margins and ROE
- TAL is well positioned to participate in expected consolidation within the Australian life insurance industry



TOWER

TOWER Australia Summary

- Leading independent life insurer in Australia
- Niche investment business
- Well positioned in high growth and high margin segments
- Broad based and rapidly expanding distribution capability
- Experienced and focused board and management team
- Strong balance sheet and low levels of gearing



TOWER

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TOWER

TOWER Limited (NZ businesses)

Market Position

- TOWER is a well known brand in New Zealand and participates in the general insurance, health insurance, life insurance and investment markets
- TOWER also operates in the commercial insurance market in the Pacific Islands
- TOWER General Insurance is a top 4 participant in the NZ retail market
- TOWER Health & Life is a leading participant in the group life, retail and group health markets, and is experiencing strong growth
- TOWER Investments is a leading wholesale fund manager in the NZ market and recipient of many industry awards
 - The investment market is undergoing significant change as a result of Kiwisaver, a tax incentivised superannuation savings scheme and improvements to the tax treatment of managed funds.
 - TOWER is well placed to participate in industry growth.



TOWER

TOWER Limited (NZ businesses)

Overview of Performance

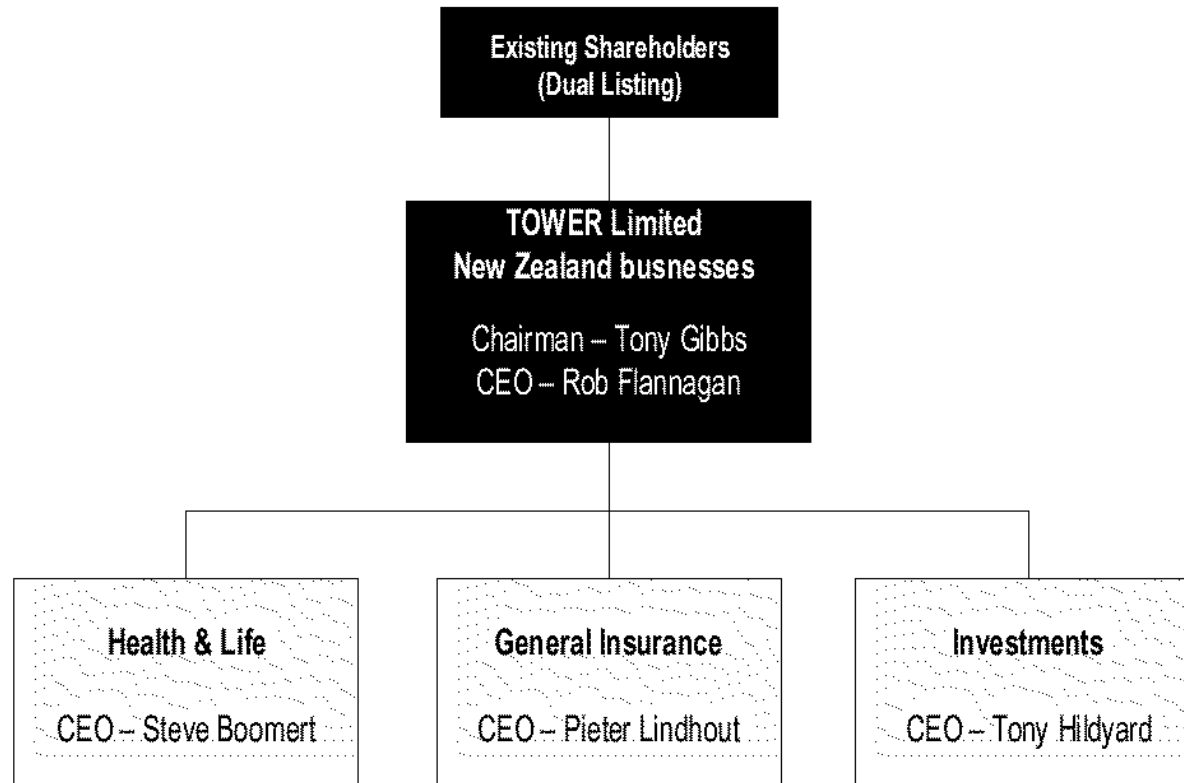
- NZ businesses have undergone a major transformation over the past 18 months following initiatives undertaken by a new management team
- TOWER Health & Life have made good progress in restoring health margins, lifting service capability and rebuilding sales momentum. Performance of the life business has been mixed
 - group life has exceeded sales and retention expectations
 - slower turnaround in individual life sales
- TOWER General Insurance has experienced weak underwriting profits driven by losses on home insurance partly offset by strong earnings from motor and Pacific Islands
 - price increases over the past 18 months are expected to see underwriting performance improve
 - Claims management improving
- TOWER Investments has focused on major reinvestment in the business including:
 - investment registry and system outsourcing
 - sale or closure of non performing products
 - a revamping of product offerings



TOWER

TOWER Limited (NZ businesses)

Management / Organisation Structure





TOWER

TOWER Limited (NZ businesses)

Vision

- Our vision is to be a leading provider in the risk business lines conducted in New Zealand
- We will be a leading wholesale asset manager and provider of investment products to retail and employee benefits markets
- The vision is driven through our strategic objectives:
 - Enhancing the quality of our earnings by developing more diversified distribution channels
 - Increasing the scale of our earnings by securing additional new business and distribution relationships
 - Delivering product and service leadership to extend our customer relationships
 - Ensuring strict financial control to manage our costs and capital structure
 - Maintaining and leveraging the strong market position in NZ investments
 - Creating a high performing team and culture



TOWER

TOWER Limited (NZ businesses)

Strategic Objectives – General Insurance

- Investing further in Business-to-Business partnering skills to underpin alliance partner business base
 - A core of strong alliance partners is already in place
- Redevelopment of direct sales distribution strategy and brand commenced 2H06
 - Direct distribution one of the key growth platforms
- Continued development of competitive strategy including investigation of new product and market opportunities
- Investment in process renewal and work flow leading to service and productivity improvements over the period
- Continued focus on operating margins with strong product management and pricing
- Optimise Pacific Islands business driving risk adjusted returns with careful underwriting



TOWER

TOWER Limited (NZ businesses)

Strategic Objectives – Health & Life

- Positioned with intermediaries as a specialist Health insurer with No. 2 market position and product extension in Life
- Health Insurance sales are running slightly above in-force market share
- Market and distribution development around Life business
 - Focus on new distribution opportunities
 - Development of aligned distribution channels will support growth
- Development of competitive strategy in both Health and Life markets
 - Improved retention in Life business a priority, resources committed to drive this
- Continued focus on claims management, pricing and health margin management.
 - Productivity driven by system and process renewal including further automation and the combination of two Life systems into one over next two years
- Product innovation and leadership remains important to maintaining competitive positions in both product lines



TOWER

TOWER Limited (NZ businesses)

Strategic Objectives – Investments

- Productivity improvement through continued simplification of business model and system
- Leverage TOWER's position as a market-leading wholesale asset manager
- Growth in wholesale mandates and workplace savings will increase funds under management
- Provide leading retail products will be provided to niche markets
 - Tax changes should make these more attractive from 2007
- Maintain delivery of superior investment performance



TOWER

TOWER Limited (NZ businesses)

2007 Outlook

- TOWER in NZ will continue to focus on improving profit margins and growing market share of new business
- TOWER Health & Life will continue developing aligned and new distribution channels and improving customer retention
- TOWER General Insurance will continue to focus on investing in the brand, service improvements, profitable product pricing, improving retention and claims management
- TOWER Investments will aim to continue its award winning investment performance, launch Kiwisaver and continue back office simplification and outsourcing



TOWER

TOWER Limited (NZ businesses) Summary

- A leading non bank financial services provider in NZ
- Strengthening operating margins driven by price increases, good claims management and cost management
- Strongly improving business to business alliance capability
- Well positioned to take advantage of future growth in the investment markets
- Highly recognised retail brand
- Experienced and focused board and management team
- Strong balance sheet, low levels of gearing, strong free cashflow
- Well positioned for organic and inorganic growth



TOWER

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John de Zwart

Group Chief Financial Officer

**TOWER**

Current Proforma Debt Structure

(as at 31 March 2006)

- All figures are proforma as at 31 March 2006 unless otherwise stated
- Pre separation the group maintained significant intra group funding arrangements that will be settled as part of the Proposal

TAL (NZ\$m) ⁽¹⁾			TOWER Limited (NZ\$m)	
Group Liquid Assets	42		Group Liquid Assets	15
Intragroup Financing ⁽²⁾	(186)	----->	Intragroup Financing ⁽²⁾	186
External Debt ⁽³⁾	(116)	NZ\$186m	TI Preference shares ⁽⁴⁾	(36)
		intra group	TMF DAC loan ⁽⁵⁾	(15)
		financing	External Debt ⁽⁶⁾	(200)
Net Debt	(260)		Net Debt	(50)

Notes:

- Assumes AUD/NZD of 0.8585 (exchange rate as at 31 March 2006)
- Repayment of net intercompany debt including transfer of TOWER Holdings Australia (THA) to TAL
- A\$100m bank debt
- TOWER Life (NZ) investment in TOWER Insurance (policyholder funding)
- TOWER Managed Funds Deferred Acquisition Costs Loan (policyholder funding)
- TOWER issued Bonds of NZ\$125m and Notes of NZ\$75m

**TOWER**

Target Proforma Debt Structure

(as at 31 March 2006)

- The post separation debt positions have been optimised to lower gearing, eliminate intragroup funding, provide working capital for the separate businesses and to provide flexibility for future growth and capital management initiatives

NEW SOURCES OF CAPITAL

- A\$160m / NZ\$186m Entitlements Offer⁽¹⁾
- A\$135m / NZ\$157m Bank Debt⁽¹⁾

- NZ\$85m Bank Debt

POST SEPARATION NET DEBT POSITION

TAL (NZ\$m) ⁽¹⁾	
Group Liquid Assets	71
External Debt	(157)
Net Debt	(86)

NZ\$186m
extinguish
intra group
financing

TOWER Ltd (NZ businesses) (NZ\$m)	
Group Liquid Assets	50
TI Preference shares	(26)
External Debt ⁽²⁾	(88)
Net Debt	(64)

USES OF CAPITAL

- Transaction Costs & Adjustments (NZ\$10m)
- Refinance External Debt (NZ\$116m)

- Transaction Costs & Adjustments (NZ\$9m)
- Reduce TI Preference shares (NZ\$10m)
- Repay TMF DAC Loan (NZ\$15m)
- Refinance External Debt (NZ\$200m)

Notes:

- Assumes AUD/NZD of 0.8585 (exchange rate as at 31 March 2006)
- TOWER Limited bank debt of NZ\$85m and overdraft of NZ\$3m

**TOWER**

Proforma Capital Position

(as at 31 March 2006)

- Post separation and recapitalisation, TAL and TOWER Limited will have strong balance sheets and lower gearing

	TOWER Ltd Pre Separation (NZ\$m)	TAL (A\$m)	TOWER Ltd Post separation (NZ\$m)
Shareholders' Equity	610	479	215
Group Liquid Assets	56	60	50
Total Debt	317	135	88
Debt/(Debt + Equity)	34%	22%	29%
Group Solvency Ratio (times)	2.4x	3.2x	2.2x

**TOWER**

Proforma Solvency (as at 31 March 2006)

TOWER Australia

- No change to Australian life company positions
- Updated solvency position post demerger excluding A\$135m external debt.

	Assets available to meet Solvency (A\$m)	Solvency Requirement (A\$m)	Solvency Coverage (times)
TOWER Australia - Risk and Investments	293	98	3.0x
PrefSure – Life	28	22	1.3x
Group Liquid Assets	60	-	n/a
TOTAL	381	120	3.2x

**TOWER**

Proforma Solvency (as at 31 March 2006)

TOWER Limited (NZ businesses)

- No material change to subsidiary businesses – minor improvements in life company from DAC and GI preference share repayment and retention of current year profits

(NZ\$m)	Assets available to meet Solvency	Solvency Requirement	Solvency Coverage (times)
Health & Life	140	96	1.5x
General Insurance	104	47	2.2x
Investments	29	6	5.2x
Group Liquid Assets	50	-	n/a
TOTAL	323	149	2.2x

**TOWER**

Transaction Costs

- While additional costs will be incurred in the form of one-off transaction costs and additional corporate costs, TOWER believes that the benefits of the transaction will allow shareholder value to be enhanced over time

AFTER TAX TRANSACTION COSTS (ONE-OFF) NZ\$		AFTER TAX RECURRING COSTS NZ\$	
Debt Refinancing (including cancellation)	\$3.1m	Reduction in TOWER Limited corporate costs FY06 ⁽²⁾	NZ\$2.3m
Underwriting	\$2.5m	Additional TAL corporate costs (FY06)	NZ\$7.9m
Stamp Duty	\$3.4m		
Adviser Fees	\$6.5m		
Other Transactions Costs	\$3.0m		
Total One-Off Costs⁽¹⁾	\$18.5m	FY06 Proforma increase in corporate costs	NZ\$5.6m

Notes:

1. Excludes future re-branding costs in TOWER Australia which will occur sometime in the next 2-5 years.

2. TOWER Group pre separation group office costs are \$8.8 million and is expected to reduce to \$6.5m post separation.



TOWER

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**TOWER**

TOWER Group Pre Separation 2006 Full Year Forecast

(NZ\$m)	6 Months ended		FY06 F'cast	FY05
	Mar 06A	Sep 06F		
TOWER Australia	21.5	26.4	47.9	33.7
TOWER Limited				
- TOWER Health & Life	11.1	8.6	19.7	13.0
- TOWER General Insurance	5.2	3.4	8.6	6.9
- TOWER Investments	2.8	3.9	6.7	4.9
Operating Earnings Net of Tax	40.6	42.3	82.9	58.5
Finance Costs	(4.2)	(8.9)	(13.1)	(9.3)
Head Office Costs & Investment Income	(3.9)	(2.1)	(6.0)	(8.3)
NPAT Before Amortisation	32.5	31.3	63.8	40.9
Amortisation	-	(2.1)	(2.1)	-
NPAT pre Separation ⁽¹⁾	32.5	29.2	61.7	40.9

Note:

* Excludes AWM operating profits and gain on sale, amortisations and revaluations



TOWER

Proforma Financial Forecasts

TOWER Australia

(A\$m)	6 Months ended		FY06 F'cast	FY05
	Mar06A	Sep06F		
TOWER Australia Business Unit	20.7	18.6	39.3 ⁽²⁾	32.8
Amortisation	-	(1.9)	(1.9)	-
Proforma Adjustments	20.7	16.7 ⁽¹⁾	37.4 ⁽³⁾	32.8
- NZ/Australia restructure	0.5	0.4	0.9	0.7
- Change to financing costs	(0.2)	0.1	(0.1)	(0.3)
- Standalone costs	(3.3)	(3.7)	(7.0)	(6.9)
NPAT from Continuing Operations	17.7	13.5	31.2	26.3

Notes:

1. Proforma 2H06 forecast NPAT includes A\$2.3m shareholder investment income and A\$1.6m negative net impact from PrefSure acquisition comprising: A\$5.6m PrefSure 2H06 forecast NPAT, A\$3.0m integration costs net of tax, amortisation costs (A\$1.9m) and \$2.3m PrefSure acquisition financing costs net of tax.
2. FY06 forecast NPAT includes expected losses from discount rate changes (A\$3.3m) of which A\$2.4m relates to 2H06 forecasts.
3. NZ\$ equivalent NZ\$42.0m

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Proforma Financial Forecasts

TOWER Limited (NZ businesses)

(NZ\$m)	6 Months ended		FY06 F'cast	FY05 ⁽¹⁾
	Mar06A	Sep06F		
TOWER Group NPAT Pre Separation	32.5	29.2	61.7	40.9
Less: TOWER Australia	(22.7)	(19.3)	(42.0)	(38.2)
Sub-total	9.8	9.9	19.7	2.7
Proforma adjustments				
- NZ/Australia restructure	(0.5)	(0.5)	(1.0)	(0.7)
- Net change to financing costs	5.3	4.1	9.4	10.7
- Change in standalone costs	0.9	1.3	2.2	2.5
TOWER Group Proforma NPAT⁽¹⁾	15.5	14.8	30.3	15.2

Note:

1. Excludes gain on sale, operating profit from AWM and discontinued businesses



TOWER

Agenda

- A. Transaction Overview
- B. Overview of TOWER Australia
- C. Overview of TOWER Limited (NZ businesses)
- D. Capital Raising
- E. Profit forecasts
- F. Timetable



- Separation

- By mid October 2006 Scheme Book despatched
- 6 November 2006 Shareholder meeting
- 13 November 2006 TOWER trades ex entitlements to TAL shares
- 17 November 2006 Record date for TAL shares
- 21 November 2006 TAL shares trade on ASX

- Entitlements Offer

- 21 November 2006 TAL entitlements trade on ASX
- 27 November 2006 Record date for Entitlements Offer
- 14 December 2006 Entitlements Offer closes
- 19 December 2006 Entitlement shares issued

Note:

TOWER Limited & TAL reserve the right to vary any of the dates or times included in the timetable, subject to any approval required by NZX and ASX, or the Court