

Supplementary Information

Year Ended 30 September 2007

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Financial Overview

1.1 Financial Summary

- Net profit after tax of \$40.7 million up 29%.
- Underlying profit of \$54.0 million up 29%.
- Embedded value of \$760.7 million up 22%.
- Value of one year's new business up 30%.

Financial Performance A\$million (Unless stated otherwise)	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06 Proforma	Year Ended 30-Sep-07	Year ended 30-Sep-06 Proforma	Year on Year % Change
PROFIT						
Net profit after tax	23.6	17.1	13.8	40.7	31.5	29%
Underlying profit	29.0	25.0	20.5	54.0	41.9	29%
Dividends declaration						
EQUITY						
Embedded value (post transfers)	760.7	697.1	621.3	760.7	621.3	22%
Value of one year's new business	44.5	41.9	34.3	44.5	34.3	30%
Net assets	534.5	508.9	500.3	534.5	500.3	7%
Shares on issue (millions)	334.2	334.2	334.2	334.2	334.2	-
Market capitalisation – end period	765.4	902.5	778.7	765.4	778.7	(2%)
CAPITAL STRENGTH						
Gearing (%)	15.7%	16.4%	21.2%	15.7%	21.2%	(26%)
Interest cover (times)	11.7	11.4	7.2	11.6	7.3	55%
Solvency coverage (times)	2.9	3.2	2.9	2.9	2.9	-
Financial strength rating (S&P)	A-	A-	A-	A-	A-	-
Net asset value per share (A\$)	\$1.60	\$1.52	\$1.50	\$1.60	\$1.50	7%
NTA backing per share (A\$)	\$1.16	\$1.07	\$1.04	\$1.16	\$1.04	12%
KEY PERFORMANCE INDICATORS						
New business premiums – Risk	95.5	72.6	76.2	168.1	114.6	47%
Customer retention – Risk	14%	13%	13%	14%	13%	8%
Annual inforce premiums – Risk	664.4	622.0	627.8	664.4	627.8	6%
Funds under management/advice	3,753.0	3,665.0	3,452.0	3,753.0	3,452.0	9%
Staff numbers (FTE)	697.2	684.5	641.9	697.2	641.9	9%
Controllable costs	76.4	73.1	71.5	149.5	120.9	24%
Cost to income ratio (%)	63%	65%	66%	64%	64%	2%
SHAREHOLDER RETURNS						
Earnings Per Share (\$ per share)						
- Net profit after tax	\$0.07	\$0.05	\$0.04	\$0.12	\$0.09	33%
- Underlying profit	\$0.09	\$0.07	\$0.06	\$0.16	\$0.13	29%
Return on Equity (% annualised)						
- Net profit after tax	9.0%	6.8%	5.6%	7.8%	6.4%	22%
- Underlying profit	11.1%	9.9%	8.3%	10.4%	8.5%	22%
Return on Capital (% annualised)						
- Net profit after tax	8.5%	6.5%	5.8%	7.4%	6.4%	16%
- Underlying profit	10.2%	9.1%	8.0%	9.5%	8.2%	16%

Note 1: PrefSure was acquired on 31 March 2006. Therefore PrefSure's results are included in the Balance Sheet comparatives but not income or expenses making performance measures not readily comparable to the proforma year ended 30 September 2006.

Note 2: When calculating average number of shares and equity, the opening proforma position assumes the separation and capital raising occurred 30 September 2006. Whereas the audited Financial Statements appearing in the Annual Report take into account the timing of the separation (20 November 2006) and capital raising (20 December 2006)

Note 3: The audited financial statements report a profit for the year ended 30 September 2006 of \$124.8 million. This includes a one off \$85.5 million profit due to the separation from TOWER Limited (New Zealand) and \$2.4 million of costs associated with the previous the TOWER Limited group. Allowing for these items and deducting proforma adjustments detailed in the separation Scheme Book of \$10.2 million (made up of \$1.1 million in profit from TOWER Asset Management Limited and \$4.2 million of interest revenue less \$7.0 million Corporate Office costs, \$6.6 million financing costs, \$1.9 million amortization) leads to a proforma profit of \$31.5 million.

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Analysis of Profit

2.1 Analysis of Income Statement

Income Statement \$Amillion	Business Unit	Corporate Office	Policyholder	Consolidated 6 months to 30-Sep-07	Consolidated 6 months to 31-Mar-07	Consolidated 6 months to 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06 Proforma
Net premium revenue	233.1	-	-	233.1	186.9	206.9	420.0	305.0
Investment income	16.1	1.1	118.9	136.1	231.2	99.6	367.3	325.9
Fee and other revenue	13.2	0.3	-	13.5	13.3	14.0	26.8	26.9
Net Operating Revenue	262.4	1.4	118.9	382.7	431.4	320.5	814.1	657.8
Net claims expense	(56.0)	-	-	(56.0)	(60.2)	(55.0)	(116.2)	(86.4)
Movement in policy liability	7.3	-	(119.4)	(112.1)	(162.8)	(67.6)	(274.9)	(227.2)
Management expenses	(176.8)	(4.4)	-	(181.2)	(157.8)	(166.7)	(339.0)	(265.9)
Net Claims and Operating Expenses	(225.5)	(4.4)	(119.4)	(349.3)	(380.8)	(289.3)	(730.1)	(579.5)
Amortisation expense	-	(1.9)	-	(1.9)	(1.9)	(1.9)	(3.8)	(1.9)
Goodwill derecognised	-	(3.2)	-	(3.2)	-	-	(3.2)	-
Financing costs	-	(4.0)	-	(4.0)	(3.9)	(4.7)	(7.9)	(9.4)
Profit Before Taxation	36.9	(12.1)	(0.5)	24.3	44.8	24.6	69.1	67.0
Income tax expense	(8.1)	3.7	0.5	(3.9)	(27.7)	(10.8)	(31.6)	(35.5)
Acquired tax asset	-	3.2	-	3.2	-	-	3.2	-
Profit Attributable to Shareholders	28.8	(5.2)	-	23.6	17.1	13.8	40.7	31.5
Add back non cash items and allow for proforma adjustments								
Discount rate changes	0.4	-	-	0.4	2.6	1.3	3.0	2.2
Surrender fees mismatch	3.1	-	-	3.1	5.1	1.0	8.2	3.8
Integration	-	-	-	-	-	2.5	-	2.5
Normalised Corporate Office costs	-	-	-	-	(1.7)	-	(1.7)	-
Amortisation	-	1.9	-	1.9	1.9	1.9	3.8	1.9
Underlying Profit	32.3	(3.3)	-	29.0	25.0	20.5	54.0	41.9

Underlying Profit

Due to recent corporate restructuring and timing differences that emerge from the adoption of International Financial Reporting Standards, the reported net profit after tax may not be comparable period to period. To improve comparability the following adjustments are made to arrive at underlying profit.

- **Discount Rate Changes**
 - Risk business policy liabilities are discounted at the risk free rate. As the risk free rate changes the value of liabilities increases or decreases. The policy liabilities discounted at the risk free rate are negative with the main component of risk policy liabilities being deferred acquisition costs.
- **Integration**
 - Integration costs represent the cost of integrating PrefSure into TOWER.
- **Surrender Fees Mismatch**
 - TOWER has a number of closed investment products with complex early surrender fees. These fees vary with the policyholders account balance. The adoption of International Financial Reporting Standards means that there is a timing mismatch between the recognition of revenue and underlying cash flows. Refer to definitions for more details.
- **Normalised Corporate Office Costs**
 - The 1H07 result included only 4 months of Corporate Office costs that were incurred from date of separation 20 November, so an adjustment is made as if TOWER had incurred these costs throughout the period.
- **Amortisation**
 - Amortisation charges are non-cash and hence added back to underlying profit.

- **Net Premium Revenue and Net Claims Expense**
 - Inforce premiums are analysed in section 5.
- **Acquired Tax Asset/Goodwill Derecognised**
 - The acquired tax asset of \$3.2 million (2H07) is a fair value adjustment relating to the PrefSure acquisition that was recognised in the 2007 tax return that is offset by a reduction in goodwill. Accounting standards require that both movements be presented on the face of the Income Statement even though there is no impact on profit.

- **Investment Income**
 - The vast majority of shareholder and policyholder investment assets were sold in 2H07 and reinvested in Russell Investment Management managed funds. Consequently a detailed analysis of investment returns by asset class has not been performed for this period.
 - Asset mix is analysed in section 3.4.

Investment Income \$Amillion	Closing Asset Balance As at 30-Sep-07	Average Assets 6 months to 30-Sep-07	Annualised Yield % 6 months to 30-Sep-07	Before tax Investment Income 6 months to 30-Sep-07	After Tax Investment Income 6 months to 30-Sep-07	After Tax Investment Income 6 months to 31-Mar-07
BUSINESS UNIT						
- Cash and financial assets	452.0	484.0	6.4%	15.8	11.4	10.8
- Strategic assets	34.0	33.2	3.4%	0.3	0.1	0.4
CORPORATE						
- Fixed interest	29.7	41.2	6.3%	1.1	0.9	0.7
- FX gain on separation	N/A	N/A	N/A	-	0.5	0.5
Total Investment Assets/Income	515.7	558.4	5.6%	17.2	12.9	12.4
Policyholders investment income and impact from discounting policy liabilities				118.9	1.0	0.9
Investment Income on Shareholder Funds				136.1	13.9	13.3

Note: Increase in value of strategic assets has been recognised in equity reserves.

- **Management Expenses**
 - 2H07 Business Unit management expenses have increased by \$0.9 million compared to 1H07 due to higher variable administration costs paid to third party suppliers
 - Major projects in 2H07 included:
 - Establishment of mortgage broker distribution business
 - Investment management and custody outsourcing
 - Product and IT simplification initiatives ie workflow and customer communication.
 - Stamp duty and commission costs have increased in line with sales.

Management Expenses A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Business Unit management expenses	65.2	64.3	61.9	129.5	105.7
Project expenses	6.8	5.1	4.3	11.9	5.2
Corporate Office management expenses	4.4	3.7	5.3	8.1	10.0
Total Controllable Management Expenses	76.4	73.1	71.5	149.5	120.9
Stamp duty and other expenses	16.3	13.1	16.2	29.4	26.0
Sales expenses (commissions)	88.5	71.6	79.0	160.1	119.0
Total Expenses	181.2	157.8	166.7	339.0	265.9
Cost to Income Ratio (%) – Consolidated	63%	65%	66%	64%	64%
Cost to Income Ratio (%) – Business Unit Only	61%	62%	62%	61%	61%

Note: Cost to income ratio is defined as controllable management expenses costs/(controllable management expenses plus underlying profit grossed up for tax)

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Analysis of Profit

2.2 Analysis of Shareholder Profit

Analysis of Profit \$Amillion	Business Unit	Corporate Office	Consolidated 6 months to 30-Sep-07	Consolidated 6 months to 31-Mar-07	Proforma 6 months to 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06 Proforma
OPERATING MARGINS							
Life Insurance Operating Margins							
Planned profits	12.6	-	12.6	12.6	13.9	25.2	22.1
Experience profits (losses)	1.2	-	1.2	(0.2)	3.2	1.0	3.5
Capitalised loss (recognition) and reversal	0.4	-	0.4	(0.4)	(0.4)	-	0.1
Operating Margins from Life Insurance	14.2	-	14.2	12.0	16.7	26.2	25.7
Life Investment products	3.9	-	3.9	6.0	1.4	9.9	7.5
Other operating margins	1.7	0.4	2.1	0.1	0.7	2.2	1.2
Business Unit Operating Margins	19.8	0.4	20.2	18.1	18.8	38.3	34.4
Corporate Office costs after tax	-	(2.4)	(2.4)	(4.0)	(3.7)	(6.4)	(7.0)
Net investment return on shareholders' funds	12.5	1.4	13.9	13.3	8.7	27.2	21.1
Financing costs	-	(2.7)	(2.7)	(2.4)	(3.3)	(5.1)	(6.6)
Underlying Profit Before Amortisation and Non-cash Items	32.3	(3.3)	29.0	25.0	20.5	54.0	41.9
Amortisation of intangibles	-	(1.9)	(1.9)	(1.9)	(1.9)	(3.8)	(1.9)
Integration of PrefSure	-	-	-	-	(2.5)	-	(2.5)
Normalised Corporate Office costs	-	-	-	1.7	-	1.7	-
Surrender fee mismatch	(3.1)	-	(3.1)	(5.1)	(1.0)	(8.2)	(3.8)
Discount rate changes	(0.4)	-	(0.4)	(2.6)	(1.3)	(3.0)	(2.2)
Net Profit After Tax	28.8	(5.2)	23.6	17.1	13.8	40.7	31.5

Note: Comparatives have been restated to remove the effect of integration costs, surrender fee mismatch and normalized Corporate Office costs.

- **Planned Profit Margins**

- 2H07 planned profit margins from life insurance business remain unchanged with no material change in assumptions.
- TOWER continues to invest in the development of new distribution channels, underwriting and client service platforms. These costs are assumed to continue when establishing planned profit margins.

- **Experience Profits (Losses)**

- Mortality and morbidity experience generated \$2.8 million experience profits in 2H07.

- Expenses and retention experience was broadly consistent with expectations and partially offset mortality and morbidity profits.

- **Capitalised Loss (Recognition) and Reversal**

- 1H07 loss recognition was recaptured in the 2H07.

- **Other Operating Margins**

- This represents mainly distribution, trustee and corporate services entities.

- **Net Investment Return on Shareholder Funds**

- Analysed in section 2.1.

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Capital Analysis

3.1 Capital Position

Business Units hold sufficient economic capital to meet regulatory requirements and target surplus requirements along with additional working capital as required to meet their capital management plans. The Business Units also hold capital in excess of economic capital that together with Corporate Office surplus cash and financial assets totals \$86.3 million. Excess capital in relation to participating business is not distributed immediately and may only be distributed in line with policyholder bonuses. TOWER is well capitalised and has resumed payment of dividends.

Capital Position As at 30-Sep-07 A\$million	Total
Economic capital	365.0
Strategic assets	35.3
Goodwill and intangibles	147.5
Excess capital	86.3
Total Capital	634.1
External debt	(99.6)
Shareholder Equity	534.5

3.2 Solvency

Solvency Ratios A\$million	As at 30-Sep-07	As at 31-Mar-07	As at 30-Sep-06
NTA within life statutory funds	388.7	362.4	340.7
NTA within life shareholder funds	13.1	24.5	24.8
NTA in non-life subsidiaries	52.5	51.3	41.9
NTA Backing Shareholder Capital	454.3	438.2	407.4
Excess provisions	(131.0)	(127.4)	(99.6)
Inadmissible assets and other deductions	(42.4)	(42.0)	(42.1)
Assets Available to Meet Solvency Requirements	280.9	268.8	265.7
Solvency reserve for life company	91.9	78.3	85.1
Solvency requirements for non-life companies	5.0	5.0	5.0
Total Solvency Requirements	96.9	83.3	90.1
Excess Assets above Solvency Requirements	184.0	185.5	175.6
Coverage of Required Solvency Requirements	2.9	3.2	2.9
Financial Strength Rating (S&P)	A-	A-	A-

- Financial strength rating is for TOWER Australia Limited
- Solvency coverage is for the Business Units including non life companies.
- NTA within life shareholder funds reduced following the the Part 9 transfer and deregistration of PrefSure Life Limited.
- Solvency reserves for life companies increased by \$9.0 million because the expense reserve was partially offset by available capital within the PrefSure Life Shareholders Fund which no longer exists. The balance of the increase is due to a higher resilience reserve because more assets are invested in longer term fixed interest securities.

Note: PrefSure Life Limited merged its statutory funds with TOWER Australia Limited on 2 April 2007 under Part 9 of the Life Act 1995 scheme of arrangement. PrefSure Life Limited has since been deregistered as a life insurer.

3

Capital Analysis

3.3 Reconciliation of Financial Statements to Shareholder Capital

Balance Sheet A\$million	Business Units	Corporate Office	Policyholders	Consolidated As at 30-Sep-07	Consolidated As at 31-Mar-07
ASSETS					
Cash and cash equivalents	50.0	18.0	(4.4)	63.6	348.4
Receivables	162.1	53.8	(56.3)	159.6	231.6
Financial assets at fair value through income statement	402.0	11.7	2,794.9	3,208.6	3,019.2
Other financial assets	34.0	-	-	34.0	32.1
Investment property	-	-	-	-	14.1
Deferred acquisition costs	60.7	-	-	60.7	64.3
Other assets	0.1	-	-	0.1	0.2
Property, plant and equipment	4.7	-	-	4.7	3.3
Assets arising from reinsurance contacts	98.5	-	41.0	139.5	137.7
Deferred tax asset	10.6	14.6	7.3	32.5	(34.9)
Intangible assets	-	147.5	-	147.5	152.6
Total Assets	822.7	245.6	2,782.5	3,850.8	3,968.6
LIABILITIES					
Payables	106.8	1.7	9.6	118.1	347.9
Current tax liabilities	-	60.3	-	60.3	8.5
Provisions	16.0	3.4	0.6	20.0	22.7
Interest bearing liabilities	-	99.6	-	99.6	99.5
Insurance liabilities	69.8	-	2.2	72.0	62.0
Other liabilities	1.4	-	-	1.4	1.6
Deferred revenue liability	93.0	-	0.7	93.7	97.5
Life insurance contract liabilities	29.4	-	505.6	535.0	547.0
Life investment contract liabilities	52.4	-	2,263.8	2,316.2	2,273.0
Total Liabilities	368.8	165.0	2,782.5	3,316.3	3,459.7
Net Assets	453.9	80.6	-	534.5	508.9

- TOWER outsourced its investment management activities to Russell Investment Management ('RIM') in 2H07. TOWER now holds the majority of its policyholder and shareholder assets in RIM's public offer unit trusts.

Shareholder Capital A\$million	Business Units	Corporate Office	Consolidated As at 30-Sep-07	Consolidated As at 31-Mar-07
Cash and Financial Assets	452.0	29.7	481.7	546.2
Strategic investments	34.0	-	34.0	33.0
Policy liabilities - risk business	69.0	-	69.0	29.3
Policy liabilities - investments business	(52.4)	-	(52.4)	(53.0)
Deferred revenue liability – investments business	(93.0)	-	(93.0)	(96.8)
Deferred acquisition costs – investments business	60.7	-	60.7	64.3
Total Shareholder Investment Assets in Excess of Policyholder Liabilities	470.3	29.7	500.0	523.0
Net operation assets/(liabilities)	(16.4)	3.0	(13.4)	(67.2)
NTA Backing Shareholder Capital	453.9	32.7	486.6	455.8
Goodwill	-	147.5	147.5	152.6
External debt	-	(99.6)	(99.6)	(99.5)
Total Equity	453.9	80.6	534.5	508.9

Note: Excludes policyholder interests

3.4 Cash and Financial Assets

(a) Business Unit Cash and Financial Assets

At 30 September 2007, the business unit held \$452.0 million of cash and financial assets invested as follows:

Cash and Financial Assets As at 30-Sep-07 A\$million	Total
Cash at bank	50.0
<i>Investments managed or supervised by Russell Investment Management:</i>	
- Fixed interest securities – Domestic	353.0
- Fixed Interest securities - International	2.7
- Equities - Domestic	10.0
- Equities - International	6.2
- Property	2.3
- Balanced and diversified portfolio, Cash and investment debtors	26.5
Total Managed Investments	400.7
Other	1.3
Shareholder Cash and Financial Assets	452.0

(b) Corporate Office Cash and Financial Assets

The Group has no significant exposure to low credit quality assets such as CDO's or sub prime mortgages.

Cash and fixed interest securities held by Corporate Office at 30 September 2007 is \$29.7 million and is used to meet the following cash flows:

Surplus Cash A\$million	Total
Surplus Cash at 31-Mar-2007	31.1
<i>Corporate Movements:</i>	
PrefSure Part 9 transfer	11.9
Interest received	0.9
Tax benefit	2.0
Payments to suppliers	(12.6)
Interest paid	(3.6)
Surplus Cash at 30-Sep-2007	29.7

3.5 Reconciliation of Capital Movements

Capital Movements A\$million	Business Units 6 months to 30-Sep-07	Corporate Office 6 months to 30-Sep-07	Consolidated 6 months to 30-Sep-07	Consolidated 6 months to 31-Mar-07 Proforma
Opening Equity Position	438.2	70.7	508.9	500.3
Net profit after tax	28.8	(5.2)	23.6	17.1
Separation adjustment	-	-	-	(8.5)
PrefSure Part 9 transfer	(11.9)	11.9	-	-
Change in fair value of strategic assets	1.2	-	1.2	-
Share options reserve movement	-	1.0	1.0	1.0
Other transfers	(2.4)	2.2	(0.2)	(1.0)
Closing Equity Position	453.9	80.6	534.5	508.9

Note: Excludes Policyholder interests

3.6 Debt

Debt relates to \$100.0 million external bank debt less establishment costs of \$0.5 million.

- Interest is floating with an interest rate of 7.28% as at 30 September 2007.
- The debt comprises \$75.0 million maturing 19 November 2009 and \$25.0 million maturing 19 November 2011.
- TOWER's gearing ratio is 15.7% as at 30 September 2007.

3.7 Risk Management

Hedging Policies and Derivatives:

- TOWER invests in Australian domiciled funds managed by Russell Investment Managers. On instruction from policyholders, some of these funds are directly exposed to foreign exchange movements. The shareholder is not exposed to foreign currency movements except where needed to match policy liabilities.
- No other hedges or derivatives are currently entered into by the Group.
- The Group treasury policy defines acceptable parameters for currency, maturity, and interest rate exposures.

3.8 Dividend Policy

TOWER declared a fully franked dividend of 4 cents per (\$13.4 million) share on 26 November 2007. The dividend represents a dividend payout ratio of 25% of underlying profit.

As at 30 September 2007, TOWER has \$59.1 million of franking credits available to frank dividends.

TOWER's revised dividend policy is to target a dividend payout ratio of between 20%-40% of underlying profit subject to regulatory capital requirements and available capital. Dividends will be paid annually.

4

Value Analysis

4.1 Life Company Embedded Values

Value Analysis \$Amillion	As at 30-Sep-07	As at 31-Mar-07	As at 30-Sep-06
Embedded value	760.7	697.1	621.3
Increase in Embedded Value pre transfers and changes in discount rates (annualised)	28%	33%	43%
Value of one year's new business	44.5	41.9	34.3

Note: On 2 April 07, the business of PrefSure Life Limited was transferred into TOWER Australia Limited. The values as at 31 March 07 and 30 September 06 include the value of PrefSure Life Limited.

The embedded value of TOWER's life businesses increased 28% YOY from \$621.3 million to \$794.4 million pre transfers out and discount rate changes.

Embedded value is equivalent to the net present value of all future cashflows expected to arise from inforce business. These future cashflows include future profit margins net of tax, capital releases and the value of franking credits at 70% of face value.

The discount rates that applied at the respective dates were:

Discount Rates	% p.a.
September 2006	10.5
March 2007	11.0
September 2007	11.0

Change in Embedded Value

The changes in the embedded value is summarised below:

Change in Embedded Value	A\$million
Embedded value as at 30 September 2006	621.3
Expected increase in value of inforce	62.8
Earnings on net worth	6.5
Experience:	
- Investment earnings	2.2
- Other	2.8
Changes in assumptions:	
- Economic	9.7
- Other	35.5
Value added from new business	43.4
Model changes and other	10.2
Embedded Value as at 30 September 2007 prior to:	794.4
- Discount rate changes	(18.9)
- Transfer of franking credits	(14.8)
Embedded Value as at 30 September 2007 After Transfers	760.7

Change in Value of One Year's New Business

The changes in the value of one year's new business are summarised below:

Change in Value of One Year's New Business	A\$million
Value of one year's new business as at 30 September 2006	34.3
Change in one year's volumes and mix of business	6.9
Changes in assumptions:	
- Discount rate	(2.8)
- Economic	0.5
- Other	3.6
Product changes	(3.3)
Model & methodology changes and other	5.0
Value of One Year's New Business as at 30 September 2007	44.5

Increases in sales volumes, a change in sales mix towards segments with higher margins, together with a favourable change in assumptions, primarily claims, reflecting recent experience, have improved the value of one year's new business. This has been partly offset by a change in assumptions to increase discount rates.

Assumptions

The assumptions used for valuing in force business and the value of one year's new business are long term best estimate assumptions.

Maintenance unit costs are based on budgeted 2007/08 expenses and volumes, increased with expense inflation for dollar related expenses. The valuations do not assume any improvements in future unit costs from efficiency gains. Expense assumptions are consistent with profit reporting.

Discontinuance and claim (mortality and morbidity) assumptions are best estimate assumptions based on recent company experience and are consistent with those used for profit reporting.

The value of one year's new business is the value at policy issue for the actual new business written over 2006/07 and allows for the acquisition expenses incurred over 2006/07 in writing that business. New business includes new policies as well as increases to existing policies. (For consistency, the embedded value does not include any increases to existing policies).

TOWER Australia Limited is required to hold regulatory capital in excess of policy liabilities. In addition, it holds an additional amount of capital ('target surplus') based on internal requirements. In determining the economic values, the value of this capital is discounted based on the expected time it is required to be held in TOWER Australia Limited prior to being available for distribution to shareholders.

Economic assumptions are shown below.

Assumptions	%p.a.
Investment return for underlying asset classes:	
- Cash	5.25
- Fixed interest	6.25
- Australian equities (including an allowance for franking credits)	11.25
- International equities	10.25
- Property	9.25
Investment returns (next of tax)	3.67 to 8.91
Inflation	
- Benefit indexation	3.5
- Expenses inflation	2.5
Discount rate	11.0

Franking credits are valued at 70% of their face value.

Sensitivity Analysis

The tables below set out the sensitivity of the embedded value and value of new business as at 30 September 2007 to changes in key economic and business assumptions.

Sensitivity Analysis A\$million	As at 30-Sep-07
Embedded Value Assuming:	
Discount rate 1% higher	726.1
Discount rate 1% lower	805.1
Investment returns 1% lower	751.7
Discontinuance rate 10% higher	716.3
Renewal expenses 10% higher	724.9
Value of One Year's New Business Assuming:	
Discount rate 1% higher	39.7
Discount rate 1% lower	50.2
Investment returns 1% lower	44.2
Withdrawal rate 10% higher	36.3
Renewal expenses 10% higher	37.1

These sensitivities are indicative only as the variations caused by changes to assumptions are not always linear, symmetrical, or independent.

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Value Analysis

4.2 Comparison of Value to Carrying Values

Shareholder Assets	Net Profit after Tax	Carrying Value	Embedded Value or Net Assets	Value of One's Year New business	Valuation Basis	Enterprise Value may be determined by:
Life company	47.9	400.4	760.7	44.5	Embedded Value + Multiple of Value of One Year's New Business	Taking a view on the key assumptions used in calculating embedded value and value of one year's new business using the sensitivities. Multiplying the value of one year's new business by an appropriate new business multiplier to determine the total value of future new business.
Non life companies	2.4	18.2	18.2	N/A	Net Assets	These distribution, trustee and corporate services entities may be valued using a suitable multiple of earnings.
Strategic assets	1.1	35.3	35.3	N/A	Fair Value	These assets are already fair valued using enterprise value techniques.
Corporate Office assets	2.1	32.7	32.7	N/A	Net assets	As these assets are made up of cash, debtors, creditors and tax assets, this balance equates to fair value.
Corporate Office costs	(3.9)	N/A	N/A	N/A	N/A	An allowance for corporate costs should be based on normalised expenses. Refer Section 2.1 Normalised Corporate Office Expenses
Debt	(5.1)	(99.6)	(99.6)	N/A	Amortised cost	This asset is at fair value.
Intangibles	(3.8)	147.5	N/A	N/A	Included above	This is a non-cash item and should be ignored in an enterprise value calculation.
Total	40.7	534.5	747.3	44.5		

This table provides guidance on how the capital and embedded value information may be used to determine enterprise value. To arrive at the enterprise value per share, the enterprise value should be divided by the current number of shares adjusting for the number of share option expected to be exercised.

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Life Insurance Premiums

Performance against Key Business Drivers

New Business A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Individual lump sum	51.7	40.2	40.3	91.9	64.7
Income protection	9.6	8.5	8.8	18.1	16.2
Individual life insurance	61.3	48.7	49.1	110.0	80.9
Group life insurance	34.2	23.9	27.1	58.1	33.7
Total Life Insurance	95.5	72.6	76.2	168.1	114.6

Note PrefSure Life Limited new business and lapses are included from the date of acquisition ie. 31 March 2006.

Lapse Rates A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Individual lump sum	14%	14%	14%	14%	13%
Income protection	13%	12%	13%	13%	13%
Total Individual Life Insurance	14%	13%	13%	14%	13%

Annual Inforce Premiums A\$million	As at 30-Sep-07	As at 31-Mar-07	As at 30-Sep-06
Individual lump sum	304.2	278.6	259.6
Income protection	108.3	103.6	99.7
Individual life insurance	412.5	382.2	359.3
Group life insurance	251.9	239.8	268.5
Total Life Insurance	664.4	622.0	627.8

Net Claims A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Individual lump sum	20.1	25.0	16.9	45.1	33.7
Income protection	8.8	8.0	9.5	16.8	15.0
Individual life insurance	28.9	33.0	26.4	61.9	48.7
Group life insurance	27.6	27.2	25.4	54.8	34.5
Net Claims for On-sale Products	56.5	60.2	51.8	116.7	83.2
Conventional	(0.5)	-	3.2	(0.5)	3.2
Net Claims	56.0	60.2	55.0	116.2	86.4
Annualised Claims Ratio (%)	24%	32%	27%	28%	28%

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Investment Fund Flows

Performance against Key Business Drivers

New Business/Sales A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Retail superannuation	33.2	22.5	28.3	55.7	49.8
Corporate superannuation	33.4	33.1	25.4	66.5	50.8
Bonds & other	2.1	1.9	11.1	4.0	24.0
Life Investment New Business	68.7	57.5	64.8	126.2	124.6
Beacon	150.0	118.2	104.6	268.2	177.7
Total New Business/Sales	218.7	175.7	169.4	394.4	302.3

Surrender Rates A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06	Year ended 30-Sep-07	Year ended 30-Sep-06
Total retail superannuation	10%	9%	8%	10%	9%
Total corporate	12%	12%	16%	12%	16%
Bonds & other	13%	12%	12%	13%	13%
Total Investment	11%	11%	12%	11%	11%

Funds under Management/Advice A\$million	6 months ended 30-Sep-07	6 months ended 31-Mar-07	6 months ended 30-Sep-06
Retail superannuation	2,001	2,006	1,937
Corporate superannuation	509	500	475
Annuities	148	156	168
Bonds & other	125	126	149
Beacon (FUA)	970	877	723
Total Funds Under Management/Advice	3,753	3,665	3,452

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Explanations & Terminology

Australian Equivalents to International Financial Reporting Standards (AIFRS) – Financial statements have been prepared under AIFRS. Refer to TOWER Australia Limited Financial Statements for a detailed list of accounting policies.

Annual Premium Inforce (API) – Contractual annual premium income payable on inforce individual and group life insurance policies at a point in time.

Business Units – TOWER's corporate structure is split along product and operational lines into business units representing Retail Risk, Alliances, Group Risk and Investments. These business units are accountable for all revenues, expenditure and capital required to deliver the products for which they are responsible.

Business Unit Accountable – Revenue, expense or capital items allocated to Business Units. All non allocated items are deemed Corporate Office. As a consequence of this definition business unit results do not include financing costs, corporate costs, corporate investment income and amortisation or impairment of intangibles such as value of inforce business and goodwill. Changes in discount rates are deemed Business Unit accountable but this is excluded from performance ratios.

Business Unit Capital – Total shareholder capital allocated to business units either individually or in total. The total is taken to be the shareholder equity of the life company and operating subsidiaries excluding TOWER Australia Group Limited and other holding companies.

Claims Ratio – Defined as net claims expense divided by net premium revenue. This ratio is expected to increase in future as TOWER retains greater insurance risk.

Corporate Office – This represents director, investor relations, shareholder, listing costs, financing, amortization and other activities required for the listed entity.

Cost to Income Ratio – Defined as controllable costs divided by (controllable costs + underlying profit before financing costs grossed up by 30% for tax).

Debt – Relates to external bank debt.

Deferred Acquisition Costs (DAC) – Represents investment product related acquisition costs not yet expensed on the basis that the DAC can be reliably measured and it is probable that it will give rise to premium revenue that will be brought to account in subsequent financial years. DAC for life insurance business is not separately disclosed as it forms part of the insurance policy liabilities under margin on services accounting.

Deferred Revenue Liability (DRL) – Represents investment product fees not yet recognised in the income statement.

Earnings Per Share (EPS) – Calculated as profit divided by the basic weighted average number of ordinary shares.

Economic Capital – The greater of operating capital requirements target surplus and capital retained for rating

purposes, surplus capital requirements or regulatory capital requirements.

Excess Capital – The amount of capital in excess of economic capital, strategic assets and intangible assets.

FUA - Funds under advice.

FUM - Funds under Management.

Full-Time Equivalent (FTE) – The FTE of a full-time staff member is equal to 1.0. The calculation of FTE for part-time staff is based on the proportion of time worked compared to that worked by full-time staff.

Gearing Ratio – Defined as debt divided by (debt + equity)

Intangibles – Represent the value of inforce business, distribution rights and goodwill recognised as part of the acquisition of subsidiaries such as FAI and PrefSure and certain capitalised costs.

Interest Cover – Defined as (underlying profit + interest after tax) divided by interest after tax.

Insurance Contracts – Life insurance contracts are accounted for using Margin On Services (MoS). MoS is the financial reporting methodology used to report the life insurance business for Australian companies.

MoS policy liabilities are determined using either the projection or accumulation methods.

Liabilities are calculated using the projection method, which allows the expected revenues to be recognised over the life of the business as services are provided. This is achieved by estimating policy cash flows (premiums, benefits, costs and profit margins to be released in future periods) and then calculating the policy liability as the net present value of these projected cash flows.

The policy liabilities have two components:

- The best estimate liabilities (to cover future benefits and costs, and allowing for future premiums)
- The value of future profit margins (based on the appropriate profit carrier).

No profit is normally recognised on inception of new business. Instead, profit margins on new business (after allowing for the recoverability of acquisition costs) enhance the existing value of future profit margins, to be released over the future life of the business. If actual experience differs from that expected, the financial effects of these differences are recognised as experience profits or losses in addition to the expected profits.

Where future losses are expected, they must be recognized immediately. If a favorable change in assumptions subsequently occurs, or if profitable new business is written, previously recognised losses may be reversed.

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Explanations & Terminology

An accumulation method may be used if it produces results that are not materially different from those produced by a projection method. In this case the total for policy liabilities is defined for risk business as the sum of unearned premium plus outstanding and unreported claims at the valuation date. For life investment contracts, the total for policy liabilities is defined as the account balance or surrender value less any DAC.

Investment – Investment contracts may consist of a financial instrument and an investment management services element, both of which are measured at fair value. TOWER recognises and discloses the liability relating to the financial instrument as ‘Life investment contract liabilities’ and splits the assets and liabilities relating to the management services element between DAC and DRL.

Life investment contract liabilities are tightly linked to the performance and value of the assets (after income tax) that back these liabilities. The fair value of such liabilities is therefore the same as the fair value of the assets, after income tax on the basis charged to policyholders. The extent to which these are perfectly matched is eliminated when reporting shareholder capital and separately disclosed under the heading of ‘Policyholder’.

The DAC and DRL are amortised over the period of the contract in line with the service delivery.

Investment Income – Relates to the investment income on shareholder assets invested in income producing investment assets (as opposed to income producing operating assets) attributed to the BUs (including Corporate Office).

Lapse Rates – Voluntary cancellations as a percentage of average annual premium income prior to cancellations. Policies expiring due to maturities, death or disablement are excluded from the calculation.

Management Controllable costs – Represent salary and other operational expenditure controllable by management, such controllable costs include project costs but exclude financing costs, amortisation, stamp duty and other variable costs directly attributable to policyholders (e.g. investment management fees).

New Business/Sales – Premiums from new clients plus CPI and age increases from existing clients, for group risk customers this represents the net increase in premiums received year on year.

Net Asset Value (NAV) per Ordinary Share – Net assets attributable to members of the company less minority interest divided by the number of ordinary shares issued.

NAV Multiple – Calculated as current share price divided by NAV per ordinary share.

Net Tangible Assets (NTA) per Ordinary Share – Net assets attributable to members of the company less

minority interests and intangibles divided by the number of ordinary shares issued.

Non cash items – Items recognised in profit in accordance with International Financial Reporting Standards but are expected to reverse in future periods and items relating to the amortisation or impairment of intangible assets including goodwill. The sum of amortisation, discount rate changes and surrender fee mismatch.

Operating Earnings – Represent those profits or losses attributable to shareholders that relate to the underlying performance of businesses units excluding Corporate Office and other non cash items and are stated after investment earnings, corporate and financing expenses.

Project Costs – Costs associated with major change initiatives which are not normal part of distributing or maintaining products or services.

Policyholder – When separating policyholder interest from shareholder interest in the Income Statement and Balance Sheet, policyholders include unit linked, investment account and annuity policy liabilities and investment assets backing those liabilities.

Return on Equity (ROE) – Calculated as annualised profit divided by average shareholder equity for the period.

Return on Capital (ROC) – Calculated as annualised profit before interest, divided by average capital for the period where capital is equal to net assets plus debt.

Risk Free Rate – The risk free interest rate is the interest rate that is assumed can be obtained by investing in financial instruments with no risk. This is approximated with reference to the yields available from government bonds.

Strategic Assets – These represent investments in distribution companies or joint ventures where TOWER does not hold a controlling interest.

Surplus Cash – This is defined as cash held outside the business unit within Corporate Office to meet corporate office expenses, financings costs and other Corporate Office cash requirements.

Surrender Fees Mismatch – TOWER has a number of closed investment products with complex early surrender fees that in part vary with the account balance. The value of these future surrender fees are capitalized and included on the balance sheet within Deferred Revenue Liabilities (DRL). This DRL is amortised each year, with the amortisation charge reflecting the surrender fee income recognised in respect of the services provided. There is a corresponding increase in surrender values as exit fees reduce.

When investment earnings exceed long term assumptions leading to higher account balances, the capitalised value of future surrender fees fall. This fall in fees does not crystallise until the policy is surrendered but International Financial Reporting Standards require that the capitalised effect be brought to account. This fall may reverse in future periods and will be partially offset by higher annual investment management fees.

There is also a second order effect for these products. The policy liability is based on the present value of future payments and hence moves in line with the account balance. The policy liability exceeds the surrender value for this business. The surrender value is invested as instructed by the policyholder with the excess liability over surrender value invested conservatively. When market returns exceed long term earnings assumptions, the investment income credited to the liability is not matched by the investment income earned on the assets backing those liabilities, thereby creating an investment mismatch loss.

Underlying Profit – Net profit after tax adjusted for non cash items.

Value of Inforce Business – The economic value of a business acquired with reference to premiums and assets under management in force at the time of acquisition less the net assets of the businesses acquired. The value incorporates future profits expected to emerge from the business as well as the release of supporting capital.

Value of New Business – A calculation of the economic value of the profits expected to emerge from the new business written over a particular period, net of the cost of providing supporting capital.

Variable Costs – Include costs that vary directly with the level of related business (e.g. planner fees and commissions, investment, management fees, outsource administration fees, and stamp duty costs).



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