

TOWER AUSTRALIA  
GROUP LIMITED  
ANNUAL REPORT



2007

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TOWER Australia (TAL) is the only ASX listed specialist life company.

We have broad, diversified life insurance distribution capability in the Australian market through independent financial advisers, aligned advisers, alliance partners and group schemes.

We are the 4th largest life company in Australia with 11% market share based on inforce premiums.

## ANNUAL GENERAL MEETING

The Annual General Meeting of TOWER Australia Group Limited will be held at the Barnet Long Room, Customs House, Level 1, 31 Alfred Street, Circular Quay, Sydney, Australia on Wednesday 6 February 2008 commencing at 10.00am.

Details of the business of the meeting are contained in the separate Notice of Annual General Meeting & Explanatory Memorandum.

## KEY DATES FOR SHAREHOLDERS

The following table sets out the key forthcoming dates of interest to shareholders. If there are any changes to these dates, the ASX will be notified.

Date	Event
4 January 2008	Record Date for 2007 Dividend
21 January 2008	Payment Date for 2007 Dividend
6 February 2008	Annual General Meeting in Sydney

# FROM THE CHAIRMAN



I am pleased to introduce the inaugural Annual Report and accounts for TOWER Australia Group Limited (TOWER Australia) as a listed company.

**REPORTED NET PROFIT  
\$41 MILLION, UNDERLYING  
NET PROFIT \$54 MILLION**

**29%**  
**INCREASE**

**RETURN ON EQUITY 10.4%**

**22%**  
**INCREASE**

**INFORCE LIFE INSURANCE  
PREMIUM \$664 MILLION**

**11%**  
**MARKET SHARE**

For the year under review, your Company was very fortunate to have Dr Keith Barton as Chairman from its separation from TOWER Limited and listing on the ASX in November 2006 through to his retirement in September of this year. On behalf of the Board and shareholders, I would like to extend our appreciation for the work done by Keith both for TOWER in Australia and for the previous combined TOWER Limited in both Australia and New Zealand. Keith has played an integral role in building TOWER since he joined the TOWER Limited Board in 2001 and the major changes that have occurred in the company during that time.

The 2007 year was a successful one for TOWER Australia with the reported net profit of \$40.7 million representing an increase of 29% on a comparable basis. Underlying net profit, which more truly reflects Company performance, also increased 29% to \$54 million. The Board of Directors declared a dividend of 4 cents per share, fully franked, for the year. The Board also offered shareholders access to a Dividend Reinvestment Plan. You will have received details of that Plan by mail in November.

The Board's decision to pay a dividend reflects the Company's financial strength and the positive trend in underlying earnings. Of course, there is much more to do in terms of performance and growth to ensure the Company meets its objective of being the leader in its chosen market sectors. Your Board and management remain confident that TOWER Australia's strategic objectives in terms of market and financial performance can be achieved.

TOWER Australia holds a unique position. It is the only company listed on the ASX whose dominant business is life insurance, an industry that is growing at over 10% per annum. Over the past 15 years in Australia, superannuation has been the main driver of wealth creation in the financial services sector. However, increasingly wealth protection and family security through life insurance are being seen as an important adjunct.

As you will see from the Managing Director's report, TOWER Australia believes more can be done to make wealth protection and wealth creation advice accessible to all Australians. The existing regulation of advice is too restrictive in many instances, especially for people with more modest circumstances or advice needs. This reduces access for many people to financial advice. TOWER Australia will continue to advocate the need for change so that 'middle Australia' can obtain the most appropriate life insurance and investment advice available.

Life insurance is now a modern industry in a fast-growing market. It is constantly changing and adopting new processes and technologies. The introduction by TOWER Australia of its Accelerate process and product system is an example of just how life insurance is moving forward rapidly. TOWER Australia intends to remain at the forefront of innovation in this sector.

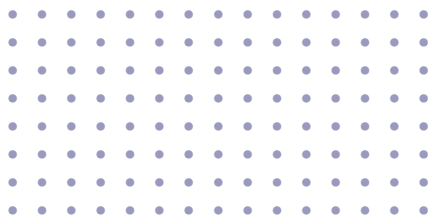
Finally, I would like to take this opportunity to personally thank the Senior Management and all staff at TOWER Australia for their hard work and effort during the past 12 months. It has been a period of significant challenges but we are emerging as a much stronger company with a very clear growth path. I would like to also acknowledge the considerable work required of the Board of Directors this year and sincerely thank them for their unstinting commitment.

**Robert Thomas**  
Chairman

# FROM THE MANAGING DIRECTOR



The past year has seen TOWER Australia successfully and smoothly transition from being part of the trans-Tasman TOWER Limited into being a separately listed company on the Australian Securities Exchange.



The transition was achieved without interruption to our business operations and this is a great credit to all involved. We have been firmly focused this year on the Australian market and hold a unique position in the life insurance market.

We are different from our listed peers in that we are the only company that derives most of its income from life insurance. The life industry continues to be a growth industry in Australia with growth of over 10% for more than 10 years now. It has expanded both in terms of premiums and sales and there is every prospect this growth will continue.

There is a substantial 'underinsurance' gap in the Australian community with people holding insufficient life cover to provide for their needs should something happen. Addressing this gap will help provide further potential growth opportunities for the future. TOWER Australia is committed to continuing to grow both its market share and the overall life insurance market in Australia. We have, and will continue to have, a niche investments business as we see it being complementary to the life insurance business.

## FINANCIAL STRENGTH

This first year has seen TOWER Australia announce its first dividend. This reflects both our financial performance and strength. Our underlying or operational profit for the year was \$54 million and represents a growth in underlying profit of 29%. Standard & Poors rates the company at A- reflecting the overall strength of the company.

The net profit after tax was \$40.7 million and this represented a 29% increase on the proforma or adjusted profit that was published in our demerger scheme book last year.

The adoption of International Financial Reporting Standards (IFRS) requires us to report slightly differently and the period-on-period performance has become a little more volatile. We therefore use the underlying profit as the best means of showing growth and performance.

We continue to focus on our cost base and have an objective of delivering a simplified and more cost effective business over the next few years.

We have a belief at TOWER Australia that we will deliver value for shareholders if we focus on delivering more value for our customers and business partners.

Excellence in products and service is important. While we do not go out of our way to seek awards, they are appreciated when received. In the past year TOWER Australia has been recognised by the Financial Review Smart Investor as being its Risk Insurer of the Year. Also for the second year in succession, TOWER Australia was named the Money Management Adviser's Choice Risk Company of the Year. Along with these two major awards, many of TOWER Australia's retail life insurance products were also recognised either by awards or as category finalists. In Investments, the Beacon Platform was also highly placed in the Financial Review Smart Investor awards in 2007.

## ATTRACTIVE MARKETS

The introduction of compulsory superannuation in Australia around 15 years ago has generated considerable wealth in the community. Superannuation funds are growing rapidly as both contributions increase and earnings multiply. This has led to an increased focus by many on the need to protect that growing wealth through life insurance cover.

Research work conducted by the financial services sector in Australia has identified a significant 'underinsurance' gap of in excess of \$1 trillion dollars just for pure death cover for families. The level of underinsurance in the wider community is much higher and represents a social policy issue for Australia.

TOWER Australia believes that all of Australia will benefit from greater access to advice around life insurance.

Life insurance, or wealth protection, can allow those adversely affected by life events to maintain their financial well being rather than draw on family, friends, the community or the government.

### TOWER AUSTRALIA BUSINESSES

The merger with PrefSure was completed satisfactorily during 2007 and TOWER Australia now has a wider spread of market distribution opportunities than before.

Personal advisers remain a core part of our business and we also have a number of business relationships with companies that distribute TOWER Australia products to their customers.

Group Life protection through business superannuation schemes or by way of investment platforms is one of the fastest growing sectors of the Australian market and TOWER Australia is, and remains committed to being, a significant force in this sector. For most Australians the workplace is the main means of accessing life insurance.

TOWER Australia's Investment business, including the Beacon platform offering, is a packager and distributor of simple investment products and services to clearly defined market niches.

### THINKING AHEAD

To stand still in today's world is to fall behind. To run with the pace of change is to stand still. TOWER Australia's objective is to be a leader in product and service innovation and market commentary – always with the consumer in mind.

Over the past 18 months we have been looking at new and innovative ways to offer life insurance cover to many more people in the right way and at the right price. Our new technology enabled Accelerate business is a combination of product and process designed to allow financial advisers to move into new market sectors. Accelerate is a complete package which has been undergoing a pilot in recent months and is now on wider offer throughout the marketplace. I am pleased to say it has proven successful and we are confident it will deliver both a bigger market and a competitive advantage to TOWER Australia.

Our strategy is one of leadership with the interests of our customers and partners being to the fore. We see the key to successfully delivering leadership in the market is being a company which understands the needs of consumers and delivers to them the right products backed by quality service. TOWER Australia strives to be a company which people want to do business.

A significant part of the TOWER Australia leadership role has been as an advocate on behalf of 'middle Australia' around underinsurance and access to advice. We have challenged the current regulatory regime around financial services advice as we believe it does not allow those who need it to obtain it at a reasonable price. We will continue to promote the cause of the consumer and help address the underinsurance gap.

### IT IS ABOUT PEOPLE

There are around 650 people employed by TOWER Australia and all have contributed to our success. We are a 'people' business both internally and externally. People have been the main point of difference for the company. Our challenge for the future remains one of attracting and holding the best people in the industry. TOWER Australia's success and recognition as being an industry leader has, and will continue to help in this regard.

We have introduced a number of programmes over the past year to build our skill base in all areas. We also have a number of programmes designed to make working at TOWER Australia a pleasant and rewarding experience. We celebrate our successes and especially appreciate feedback from staff whether they are congratulatory or critical of performance. I am pleased to say that our staff often come forward with new ideas on how we can deliver better service to our customers and partners.

### THE WAY AHEAD

TOWER Australia's aim is to be the leading provider of life insurance solutions and complementary investments in Australia. Our aspirational target is to always grow faster than the market and to be recognised as a leader on issues affecting the industry and its participants. We will temper our growth aspirations with the need to maintain profits and margins. We have recently developed a three-year strategic plan which is broadly focused on people, customers, and our business partners. We will achieve our objectives and deliver value to shareholders by remaining a focused and people driven company.

### MY THANKS

At the end of this first year I would like to thank shareholders for their strong support of TOWER Australia.

Within the company we have achieved a great deal in the past 12 months and I would like to thank our people for contributing to a year of success. They really do make the difference for us.

I would also like to thank our Board and its two Chairmen this year. Dr Keith Barton made a valuable contribution to the turnaround of TOWER Limited culminating in leading the company through the separation. His guidance of TOWER Australia in its first year of listing was invaluable. We were fortunate to secure Rob Thomas as Chairman of the company for the next phase of its development. We are well served by our Board and I thank them very much for their guidance and support.

My thanks too, to all our customers and business partners and we look forward to our future and ongoing relationship.



**Jim Minto**  
Managing Director

# DIRECTORS' REPORT

The Directors' of TOWER Australia Group Limited ('TOWER Australia') submit their Report, together with the Financial Report of the consolidated entity for the financial year ended 30 September 2007 ('the financial year'). The consolidated entity consists of TOWER Australia and the entities it controlled at the end of, or during the financial year ('the Group').

## COMPANY INFORMATION

TOWER Australia was incorporated in New South Wales on 28 October 1987 and its shares were admitted to the official list for quotation on 21 November 2006. The registered office for TOWER Australia is located at 80 Alfred Street, Milsons Point NSW 2061.

## DIRECTORS DETAILS

The names and details of TOWER Australia's Directors that are holding office as at the date of this Report or have held office during the financial year are:

Current Directors	Former Directors
Robert Thomas	Keith Barton
Michael Jefferies	William Falconer
Peter Lewinsky	Denis Wood
Ralph Pliner	Susie Staley
John Spencer	Anthony Gibbs
Gary Weiss	
Jim Minto	

## Alternate Director

Anthony Eisen

The biographies for both current and previous Directors of TOWER Australia are detailed below. Each Director was in office for the entire period unless otherwise stated above.

## CURRENT DIRECTORS

### ROBERT THOMAS

*BEC, FSIA, MSDIA*

Independent non-executive Director  
Chairman

Mr Thomas was appointed to the Tower Australia Board on 21 August 2007 and is the Chairman of the Board as well as the Chairman of the Remuneration and Nominations Committee.

Mr Thomas has in excess of 30 years experience in the investment and securities industry. He was Chief Executive Officer and subsequently Chairman of Citigroup Australia and New Zealand, Corporate and Investment Bank from the late 1990's until his retirement in 2004 and currently acts as a consultant to Citigroup.

Mr Thomas is presently the non-executive Chairman of Heartware Limited, a Director of TOWER Australia Limited and a non-executive Director of Virgin Blue Holdings Limited.

### MICHAEL JEFFERIES

*BCom, CA*

Non-executive Director  
Deputy Chairman

Mr Jefferies was appointed to the TOWER Australia Board on 8 August 2006 prior to the separation of the Australian and New Zealand businesses of TOWER Limited in November 2006. Mr Jefferies is the Deputy Chairman of the Board and the Chairman of the Investment Committee and a member of the Remuneration and Nominations Committee.

Mr Jefferies is a chartered accountant with extensive experience in finance and investment. He is currently Chairman of TAFMO Limited, a Director of TOWER Australia Limited, a non-executive Director of TOWER Limited, Ozgrowth Limited and Metals X Limited, and a Senior Executive of Guinness Peat Group.

### PETER LEWINSKY

*BEC, MBA, FCA, SF Fin*

Independent non-executive Director

Mr Lewinsky was appointed to the TOWER Australia Board on 19 December 2006 and is the Chairman of the Audit, Compliance and Risk Management Committee and a member of the Investment Committee.

Mr Lewinsky has been a private consultant to Australian businesses since 1991 and has also provided commercial and management advice to the Victorian and South Australian Governments. He is presently a Board member and Chairman of Redflex Holdings Limited, Chairman of the Audit Committee of the Victorian Government's Department of Primary Industries and a Director of TOWER Australia Limited. He is also a Board member of a number of not-for-profit organisations in an honorary capacity.

### RALPH PLINER

*BCom, LLB, LLM (First Class Honours, Cambridge University, UK)*

Independent non-executive Director

Mr Pliner was appointed to the Tower Australia Board on 19 December 2006 and is a member of the Audit, Compliance and Risk Management Committee and the Remuneration and Nominations Committee.

Mr Pliner has been a senior corporate partner of Baker & McKenzie, a financial journalist in South Africa and a lecturer in law at Melbourne University. He has been involved in a wide range of corporate, merger and acquisition transactions and has also advised a number of boards of publicly listed companies on a wide range of issues.

Mr Pliner is presently the non-executive Chairman of Clean TeQ Holdings and a Director of Clean TeQ Limited, TOWER Australia Limited, Australian Char Pty Limited, Saipem Australia Pty Limited and Herzog Services Australia Pty Limited. He was previously a non-executive Chairman of Axiom Energy Limited.

### DR GARY WEISS

*LLB (Hons), LLM (Distinction),*

*JSD (Cornell University, New York)*

Non-executive Director

Dr Weiss was appointed to the TOWER Australia Board on 8 August 2006 prior to the separation of the Australian and New Zealand businesses of TOWER Limited in November 2006.

Dr Weiss has considerable international business experience. He is presently an Executive Director of Guinness Peat Group plc, and Chairman of Ariadne Australia Limited, MEM Group Limited and Coats plc (UK). He is a Director of Guinness Peat Group plc (UK), Canberra Investment Corporation Limited, Capral Aluminium Limited, Premier Investments Limited, Tag Pacific Limited, TOWER Australia Limited, Westfield Management Limited, Westfield Holdings Limited and Westfield America Management Limited.

## **JOHN SPENCER**

*BCom, FCA*

Independent non-executive Director

Mr Spencer was appointed to the TOWER Australia Board on 8 August 2006 prior to the separation of the Australian and New Zealand businesses of TOWER Limited Group in November 2006 and is a member of the Audit, Compliance and Risk Management Committee.

Mr Spencer has significant financial and commercial expertise gained over many years from the senior management positions he has held with a number of major companies in New Zealand and overseas.

Mr Spencer is currently Chairman of Tainui Group Holdings Limited, AssureQuality Limited and Telfer Young Limited, Deputy Chairman of Solid Energy New Zealand and the Accounting Standards Review Board, and a Director of TOWER Limited, TOWER Australia Limited, WEL Networks Limited and Waikato Regional Airport Limited.

## **JIM MINTO**

*CA*

Managing Director

Jim Minto was appointed as the Managing Director of TOWER Australia in November 2006 following the separation of the Australian and New Zealand businesses of TOWER Limited and is a member of the Investment Committee. He was previously Group Managing Director of TOWER Limited, overseeing the trans-Tasman TOWER businesses and reporting to the TOWER Limited Board.

A Chartered Accountant, Mr Minto has held a number of other directorships and appointments and has been active in industry bodies throughout his career.

Mr Minto joined TOWER Limited in 1988 in New Zealand, as head of the Group's Trust business and led several other TOWER businesses in New Zealand (including Managed Funds and Health & Life) before taking on the role of Chief Executive Officer of TOWER New Zealand in early 2002. He left the New Zealand business in November 2002 to take up the role of Chief Executive Officer of TOWER Australia and then in March 2005, he was appointed Chief Executive Officer of the trans-Tasman TOWER Limited Group.

## **ANTHONY EISEN**

*BCom*

Alternate Director

Mr Eisen was appointed as an alternate Director to Dr Weiss and Mr Jefferies on the TOWER Australia Board on 19 December 2006 and is a member of the Investment Committee.

Mr Eisen has been an executive of Guinness Peat Group (Australia) Pty Ltd ("GPG") since November 2005 and has over 14 years experience in commerce and financial services. Prior to joining GPG, Mr Eisen was an investment banker in Australia with Caliburn Partnership and in the United States with Credit Suisse.

Mr Eisen is currently an alternate Director of TOWER Australia Group Limited, TOWER Limited and Capral Aluminium Limited and a Director of MMC Contrarian.

## **FORMER DIRECTORS**

### **DR KEITH BARTON**

*BSc (Hons, Class 1), PhD (University of NSW)*

Independent non-executive Director (Resigned 26 September 2007)

Dr Barton was appointed the Chairman of TOWER Australia following the separation of the Australian and New Zealand businesses of TOWER Limited in November 2006. During that time Dr Barton was also the Chairman of the Remunerations and Nominations Committee.

Dr Barton joined the TOWER Limited Board in late 2001 and served as Chairman of the Group Audit and Compliance Committee for most of 2003. He was Chairman of TOWER Limited from July 2006 until his resignation in December 2006.

### **WILLIAM FALCONER**

*LLB, CNZM*

Independent non-executive Director (Resigned 19 December 2006)

Mr Falconer was appointed to the TOWER Australia Board on 8 August 2006 and resigned on 19 December 2006.

### **DENIS WOOD**

*MA(Hons) Economics*

Independent non-executive Director (Resigned 19 December 2006)

Mr Wood was appointed to the TOWER Australia Board on 8 August 2006 and resigned on 19 December 2006.

### **SUSIE STALEY**

*LLB*

Independent non-executive Director (Resigned 19 December 2006)

Ms Staley was appointed to the TOWER Australia Board on 8 August 2006 and resigned on 19 December 2006.

### **ANTHONY GIBBS**

*Non-executive Director (Resigned 19 December 2006)*

Mr Gibbs was elected to the TOWER Australia Board on 8 August 2006 and resigned on 19 December 2006.

## **COMPANY SECRETARY**

### **PHILIPPA ELLIS**

*BSc, BCom, ACIS*

Mrs Ellis was appointed as Listed Company Secretary of the Company in November 2006 following the separation of the Australian and New Zealand businesses of TOWER Limited Group. She had previously been General Manager Investor Relations and Company Secretary of TOWER Limited.

Mrs Ellis has over 30 years experience in financial services, working in New Zealand, the United Kingdom and Australia.

### **DAVID MORROW**

*BComm, ACA, GradDip AppCorpGov, ACIS*

Mr Morrow has been the Company Secretary of the Company since November 2006 and Company Secretary of the TOWER Australia Group subsidiary companies for the past five years. He has had over 20 years experience in the financial services industry.

**ATTENDANCE AT BOARD AND COMMITTEE MEETINGS**

Details of the attendance of the Directors at meetings of TOWER Australia (including meetings of committees of Directors) and the number of meetings attended by each Director during the financial year ended 30 September 2007 are as follows:

	Full Directors' Meetings		Audit, Compliance and Risk Management Committee		Remuneration and Nominations Committee		Investment Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Robert Thomas <sup>1</sup>	2	2	—	—	—	—	—	—
Michael Jefferies	9	7	—	—	5	4	2	2
Keith Barton	9	9	—	—	5	5	—	—
Peter Lewinsky <sup>2</sup>	8	7	3	3	—	—	2	1
Ralph Pliner <sup>3</sup>	8	7	3	3	5	4	—	—
John Spencer	9	8	4	4	—	—	—	—
Gary Weiss	9	8	—	—	—	—	—	—
Jim Minto	9	9	—	—	—	—	2	2
Anthony Eisen <sup>4</sup>	2	2	—	—	—	—	—	—
Anthony Gibbs <sup>5</sup>	0	0	—	—	—	—	—	—
Susie Staley <sup>6</sup>	0	0	—	—	—	—	—	—
Denis Wood <sup>7</sup>	0	0	—	—	—	—	—	—
William Falconer <sup>8</sup>	0	0	—	—	—	—	—	—

— Not a member of the relevant committee

1. Robert Thomas was appointed as a Director in August 2007
2. Peter Lewinsky was appointed as a Director in December 2006
3. Ralph Pliner was appointed as a Director in December 2006
4. Anthony Eisen is an Alternate Director for Gary Weiss and Michael Jefferies
5. Anthony Gibbs resigned in December 2006
6. Susie Staley resigned in December 2006
7. Denis Wood resigned in December 2006
8. William Falconer resigned in December 2006

**PRINCIPAL ACTIVITIES**

During the financial year ended 30 September 2007 the principal business activities of the Group were:

- the provision of life insurance services;
- funds management;
- superannuation;
- financial planning; and
- investment management.

During the financial year there was no significant change in the nature of the Group's principal business activities.

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

Significant changes in the state of affairs of the Group were as follows:

- (a) On 20 November 2006 the Group separated from its former ultimate New Zealand parent, TOWER Limited, and listed separately on the Australian Stock Exchange ('ASX') on 21 November 2006. On the same day the Company issued 100,000,000 entitlements to existing shareholders of TOWER Limited to acquire new shares for \$1.60.
- (b) On 19 December 2006, 99,998,011 ordinary shares were allotted to those persons who subscribed under the Entitlements Offer. The transaction costs of the rights issue amounting to \$6,328,000 were offset against the proceeds of the entitlements. The net proceeds were then used to repay Company debt and intercompany advances.
- (c) During the financial year, the Group transferred most of its investment activity to Russell Investment Management Limited ('Russell') and divested its investment in TOWER Managed Funds Limited ('TMFL') unit trusts. This resulted in the Group no longer consolidating TMFL unit trusts as the investments are held in unit trusts in which the Group has no controlling interest.

There were no other significant changes in the state of affairs of the Group during the financial year.

## REVIEW OF OPERATIONS AND RESULTS

The separation of the Group from TOWER Limited in November 2006 and the inclusion of PrefSure in the Group accounts for only six months of the 2006 financial year mean that the numbers in the financial statements for the two years are not readily comparable. As a consequence, this review of operations mainly refers to the results for the 2007 year only.

The Group has produced a solid result recording a profit of \$40.7 million from continuing operations for the financial year ended 30 September 2007 after the provision for income tax. This represented an increase of 30% compared with the proforma profit of \$31.2 million in 2006 reported in the Scheme Book sent to shareholders at the time of the separation.

Earnings per share for the 2007 year were 13.0 cents based on the weighted average number of shares on issue throughout the period.

Total net operating revenue for the 2007 financial year was \$814.0 million including net premium revenue of \$419.9 million and investment income of \$367.3 million.

Net claims and operating expenses for the 2007 financial year were \$730.1 million including net claims expenses of \$116.2 million and management and sales expenses of \$339.1 million.

The financial position of TOWER Australia Group Limited is strong. As at 30 September 2007, the net assets of the Group were \$534.5 million and net asset value per share was \$1.60. The gearing ratio (debt/debt + equity) was 15.7%. The Group's interest cover (operating earnings + interest after tax/interest after tax) was 10.1 times. TOWER Australia Limited, the main operating company of the Group has an Insurer Financial Strength Rating from Standard & Poor's of A-, stable.

Further details on the performance of TOWER Australia Group Limited in the 2007 financial year are included in the Chairman's Report and Managing Director's Review.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this Report. This is because the Group believes that disclosure of this information would result in unreasonable prejudice to the Group.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### DIVIDENDS

No dividends have been paid or declared in the financial year to 30 September 2007. Since the end of the financial year, the Directors have approved a payment of a final ordinary dividend of \$13.5 million (4 cents per fully paid share). The dividend is to be paid in January 2008 out of retained profits as at 30 September 2007.

No other matter has arisen since 30 September 2007 that has significantly affected or which may significantly affect:

- the Group's operations in future financial years;
- results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

## ENVIRONMENTAL REGULATION

In the normal course of its business operations the Group is subject to a range of environmental regulations, of which there have been no material breaches during the financial year.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS, SECRETARY AND COMPANY OFFICERS

In accordance with the TOWER Australia Constitution and to the extent permitted under relevant law or regulations, TOWER Australia indemnifies each Director, Secretary and Company Officer and each former Director, Secretary and Company Officer, against all liabilities to another person that may arise from their position, except where the liability:

- arises out of conduct involving lack of good faith or a breach of specific or fiduciary duties;
- is a criminal liability;
- is a liability owed by those persons to TOWER Australia or a related body corporate;
- relates to costs or expenses in defending civil or criminal proceedings in which judgement is given against the Director, Secretary or Officer or which the person seeking indemnification is not acquitted; and
- relates to costs incurred in relation to an unsuccessful application for relief under the *Corporations Act 2001* ('the Act').

Prior to the date of separation of the Group from TOWER Limited on 20 November 2006, TOWER Limited had entered into agreements to indemnify Directors and Officers of the Group. From the date of separation, TOWER Australia, being the ultimate parent entity, has entered into new agreements to indemnify Directors and Officers of TOWER Australia and its related entities. No liability has arisen under these indemnities as at the date of this Report.

TOWER Risk and Investment Management Limited insures the Directors of TOWER Australia and the Company Secretary against certain liabilities incurred as Directors and Officers of the consolidated entity to the extent permitted by the Act and the TOWER Australia Constitution. The insurance obtained for Directors' of the Group and the Company Secretary is Professional Indemnity insurance and Directors and Officers insurance. The terms of the policy prohibit the disclosure of the premiums paid.

## CORPORATE GOVERNANCE

The Board and management of TOWER Australia recognise their responsibilities to all of their stakeholders, including shareholders, policyholders, employees and the community. The Corporate Governance section in this Annual Report as well as the TOWER Australia website [www.toweraustralia.com.au](http://www.toweraustralia.com.au) provides details on the Group's approach to corporate governance.

## ROUNDING OF AMOUNTS

The Group is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

## NON-AUDIT SERVICES PROVIDED

The Group may decide to employ its auditor on assignments additional to their statutory audit duties, where the auditor's expertise and experience with the Group is important.

Details of the amounts paid or payable to the auditor for both audit and non-audit services provided during the financial year are as follows:

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>AUDIT SERVICES</b>				
<b>PricewaterhouseCoopers Australian Firm</b>				
Audit and review of financial reports	1,101	929	67	67
<b>Total remuneration for audit services</b>	<b>1,101</b>	<b>929</b>	<b>67</b>	<b>67</b>
<b>NON-AUDIT SERVICES</b>				
<b>PricewaterhouseCoopers Australian Firm</b>				
Audit of regulatory returns	143	222	—	18
Audit of superannuation returns	270	188	—	—
Controls and assurance services	50	26	—	—
Other audit related work	209	4	—	—
<b>Total remuneration for non-audit services</b>	<b>672</b>	<b>440</b>	<b>—</b>	<b>18</b>
<b>Total remuneration</b>	<b>1,773</b>	<b>1,369</b>	<b>67</b>	<b>85</b>

The Board, in accordance with advice received from the Audit, Compliance and Risk Management Committee, is satisfied that the provision of the non-audit services by the Company's auditor is compatible with the general standard of independence for auditors which is set out in the *Corporations Act 2001* and did not compromise the auditor independence requirements of the Act for the following reasons:

- all non-audit services have been reviewed by the Audit, Compliance and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

## REMUNERATION REPORT

The information provided under Parts 1, 2 and 4 to 6 in this Report includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Part 3 are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

The Remuneration Report provides TOWER Australia stakeholders with an overview of the remuneration arrangements in place between the Company's Directors and Executives as required by section 300A of the *Corporations Act 2001* and forms part of the Directors Report. It outlines the link between the rewards given to Directors and Executives and their performance.

The Remunerations Report is divided into the following sections:

**Part 1 — Board Oversight of Remuneration**

**Part 2 — Non-Executive Director Remuneration**

**Part 3 — Director Shareholdings and Equity Interests**

**Part 4 — Executive Director and Senior Executive Remuneration**

**Part 5 — Option Holdings**

**Part 6 — Total Remuneration of Directors and Executives**

In essence, TOWER Australia has structured its remuneration policies to attract and retain appropriately qualified and experienced Directors and Executives to manage the business operations of the Group.

The following table provides an overview of the elements of remuneration that are received by Executive and non-executive Directors and Senior Executives of the Group:

	Elements of Remuneration	Non-executive Directors	Executive Director	Senior Executives
<b>Fixed remuneration</b>	Fees	\$537,331	—	—
	Salary	—	\$691,136	\$1,774,034
	Superannuation	—	\$128,190	\$152,062
	Other benefits	—	\$6,478	\$24,296
<b>At-risk remuneration</b>	Short term incentive	—	\$1,045,468	\$1,246,991
	Long term incentive	—	\$522,406	\$682,882

### PART 1 — BOARD OVERSIGHT OF REMUNERATION

While the Board has ultimate oversight of the Group's remuneration policies and practices, it has established a Remunerations and Nominations Committee ('RNC') to assist in structuring policies and practices on remuneration.

The individuals comprising the RNC for the financial year ended 30 September 2007 were:

Name	Role	Position
Keith Barton <sup>1</sup>	Chairman	Independent non-executive Director
Robert Thomas <sup>2</sup>	Chairman	Independent non-executive Director
Michael Jefferies	Member	Non-executive Director
Ralph Pliner	Member	Non-executive Director

1. Keith Barton resigned as Chairman on 26 September 2007 and was replaced by Robert Thomas.

2. Robert Thomas was appointed as Chairman on 26 September 2007.

A detailed summary of the responsibilities that have been delegated to the RNC by the Board are set out in a formal charter which is available on the Company's website at [www.toweraustralia.com.au](http://www.toweraustralia.com.au).

**PART 2 — NON-EXECUTIVE DIRECTOR REMUNERATION**

This section sets out the remuneration basis of TOWER Australia's non-executive Directors for the financial year ended 30 September 2007.

**Non-executive Directors**

Detailed below are the names of each non-executive Director of the Company for the financial year ended 30 September 2007.

Name	Position	Commencement date	Date resigned
Robert Thomas	Chairman (26 September 2007 onwards)	21 August 2007	—
Michael Jefferies	Deputy Chairman      Former Chairman	8 August 2006	—
Peter Lewinsky		19 December 2006	—
Ralph Pliner		19 December 2006	—
John Spencer		8 August 2006	—
Gary Weiss		8 August 2006	—
Keith Barton		8 August 2006	26 September 2007
William Falconer		8 August 2006	19 December 2006
Denis Wood		8 August 2006	19 December 2006
Susie Staley		8 August 2006	19 December 2006
Anthony Gibbs		8 August 2006	19 December 2006

**Principles used by TOWER Australia to determine the nature and amount of remuneration**

Fees and payments made to non-executive Directors by the Company reflect the demands which are made on the non-executive Directors as well as the responsibilities that they have been given. Fees and payments are reviewed annually by the Board.

The remuneration of TOWER Australia's non-executive Directors is not linked to performance so that the Company is able to maintain the impartiality and independence of its non-executive Directors.

**Components of Non-executive Remuneration**

TOWER Australia's non-executive Directors are remunerated for their services from the maximum aggregate amount of \$900,000 approved by the shareholders at a special meeting of the Company on 6 November 2006 for that purpose.

The following table sets out the fees that are paid to the non-executive Directors of TOWER Australia:

**From 1 October 2006 to 30 September 2007**

<b>Base Fees</b>	
Chairman	\$150,000
Other non-executive Directors	\$75,000
<b>Additional Fees</b>	
Audit, Compliance and Risk Management Committee — Chairman	\$20,000
Audit, Compliance and Risk Management Committee — member	\$10,000
Remunerations and Nominations Committee — Chairman	Nil
Remunerations and Nominations Committee — member	\$5,000
Investment Committee — Chairman	\$15,000
Investment Committee — member	\$7,500

### PART 3 – DIRECTORS’ SHAREHOLDINGS & EQUITY INTERESTS

#### Shareholdings in TOWER Australia

The following table sets out the details of fully paid ordinary shares of TOWER Australia and its controlled entities that were held by the Directors of the Company and their related parties:

Name	Number of shares held at start of financial year	Shares issued on exercise of entitlements	Shares granted as part of remuneration	Other shares acquired during the year	Number of shares held at the end of financial year
Robert Thomas	—	—	—	—	—
Michael Jefferies	2,628 46,391,479 <sup>2</sup>	1,122 33,366,156 <sup>2</sup>	— —	10,009,240 <sup>2</sup>	3,750 89,766,875 <sup>2</sup>
Peter Lewinsky	10,000 <sup>1</sup>	—	—	—	10,000
Ralph Pliner	—	—	—	—	—
John Spencer	4,506	1,924	—	—	6,430
Gary Weiss	657 46,391,479 <sup>2</sup>	280 33,366,156 <sup>2</sup>	—	10,009,240 <sup>2</sup>	937 89,766,875 <sup>2</sup>
Jim Minto	7,584	3,238	—	—	10,822
Anthony Eisen	—	—	—	—	—
Keith Barton	52,446	22,389	—	—	74,835
Denis Wood	26,044	11,118	—	—	37,162
Anthony Gibbs	723 46,391,479 <sup>2</sup>	309 33,366,156 <sup>2</sup>	—	10,009,240 <sup>2</sup>	1,032 89,766,875 <sup>2</sup>
Susie Staley	6,740	2,877	—	—	9,617
William Falconer	6,846	2,923	—	—	9,769

1. Shares beneficially held and acquired on appointment (19 December 2006).

2. Shares held by Guinness Peat Group of which Gary Weiss and Anthony Gibbs are Directors and Michael Jefferies is a Senior Executive.

### PART 4 — EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

This section provides information on the remuneration of the Executive Director, the five Executives, who are not Directors, but who received the highest remuneration for the financial year ended 30 September 2007 and the key management personnel of the Group (‘collectively the Executives’).

#### The Executive Team

The following table provides the details of the Executives’ of the Group for the financial year ended 30 September 2007:

Name	Position	Commencement date	Date resigned
Jim Minto	Managing Director	1 November 2006	—
John de Zwart	Chief Financial Officer	7 July 2003	—
David Callander	CEO Retail	11 May 1998	—
Geoff Black	CEO Group Life & Alliances	1 April 2006	—
Gavin Pearce	CEO Investment	1 November 2006	—
Megan Beer	Appointed Actuary	12 January 2004	—

## Principles behind the Group's Executive Remuneration

At the core of the Group's Executive Remuneration framework are clearly structured balanced and transparent rewards and incentives that work to drive heightening levels of individual, business unit and Group performance. Performance is seen as achieving outcomes that meet or exceed the Group's business objectives, demonstrate values and increases shareholder returns.

The Group's Executive Remuneration philosophy provides remuneration packages that allow for market conditions and the qualities and value that an individual employee brings to their role. By adopting a robust and strategic approach to remuneration, the Group aims to attract and retain top Executive talent.

The Group's primary objective is to ensure that rewards paid for performance are competitive and appropriate for the results that are delivered. In remunerating its Executive's, the Group structures remuneration packages to provide an appropriate mix of fixed and performance based variable pay. Short term and long term performance incentives are incorporated into remuneration packages with each component tailored to each specific individual role. While the Group provides a fixed remuneration component reflecting each individual's experience, capability and responsibility, it is the performance based remuneration components that are viewed as essential drivers of Group performance.

## Executive Remuneration Benchmarking and Positioning

Executive Remuneration is benchmarked annually against detailed market data provided by Mercer Human Resource Consulting (Mercer). Mercer is an international consulting firm that provide data and advice on remuneration trends, policies and design. All Executive roles are evaluated and benchmarked in October each year. TOWER Australia seeks to position its Executive salaries competitively, with the market median used as a minimum measure.

## Executive Service Agreements

The remuneration and other terms of employment for the TOWER Australia's Executives are formalised in a service agreement in the form of a letter of appointment.

Major provisions of the agreements relating to remuneration are as follows:

### Duration of Contract

Under the terms of the service agreement, Executives continue to be employed until their employment is terminated.

### Notice Periods and Payments on Termination

The service agreements do not provide for the payment of any termination benefits to Executives. The amount of notice required to be given by each Executive is set out in the following table:

Name	Notice Requirements
Jim Minto	Six months' notice of the intention to terminate by both parties. As per employment contract an additional 52 week payment is payable in the case of redundancy.
John de Zwart	Six months' notice is required to be given by the Group to terminate employment. John de Zwart is required to give one months notice to terminate employment. In the case of redundancy, prevailing company policy provisions will apply over and above the contractual notice period up to an additional maximum of 52 weeks inclusive of the notice.
David Callander	Six months' notice of the intention to terminate by both parties. In the case of redundancy, prevailing company policy provisions will apply over and above the contractual notice period up to an additional maximum of 52 weeks inclusive of the notice.
Geoff Black	24 months' notice is required to be given by the Group to terminate employment. This notice is inclusive of redundancy payments payable. Geoff Black is required to give 6 months notice to terminate employment.
Gavin Pearce	Gavin Pearce is required to give six months' notice to terminate employment. In his initial two year employment term which expires 1 November 2008, a TOWER initiated termination requires a payment of the balance of his initial two year contract period or six months whichever is greater.
Megan Beer	Three months' notice of the intention to terminate by both parties. In the case of redundancy, prevailing company policy provisions will apply over and above the contractual notice period up to an additional maximum of 52 weeks inclusive of the notice.

### Restraint of Trade Clauses

Upon termination of employment for any reason the Executives are:

- prohibited from engaging in any activity that would compete with TOWER Australia for a period of six months; and
- prohibited from soliciting any employees or clients of TOWER Australia for a period of 12 months.

This is in order to protect TOWER Australia's business interests.

### The components of Executive Total Remuneration

The Group's Executive total remuneration (Total Remuneration) is made up of three components which are:

- Total Fixed Remuneration (TFR)<sup>o</sup>
- Short Term Incentives (STI)
- Long Term Incentive (LTI)

The relative proportion of remuneration paid to each Executive in 2007 on a cash paid basis is outlined below:

Name	Total Fixed Remuneration	Performance-based Remuneration		Total
		Short-term incentive	Long-term incentive	
Jim Minto	34%	44%	22%	100%
John De Zwart	35%	51%	14%	100%
David Callander	51%	32%	17%	100%
Geoff Black	51%	28%	21%	100%
Gavin Pearce	76%	0%	24%	100%
Megan Beer	66%	18%	16%	100%

Note: Apart from Megan Beer, all short term incentive payments received by the above Executives was in respect of 2006 performance criteria and included a bonus in respect of the separation from TOWER Limited. The majority of Megan Beer's short term incentive was in respect of 2006 with a minor component relating to the 2007 year.

### Total Fixed Remuneration (TFR)

TFR includes a base salary, set benefits and employer superannuation. It accounted for approximately 35 to 44% of an Executives' Total Remuneration in 2007. Benefits that are provided to Executives' include car parking (for direct reports to the Managing Director), mobile phone, Death/Total Permanent Disability and Salary Continuance Insurance.

### Remuneration and Company Performance

All of the at-risk components of the remuneration of Executives of TOWER Australia are tied to performance.

### Short Term Incentives (STI)

The STI component of Executive remuneration in the 2007 financial year relates to cash received during the year in respect of 2006 performance with the exception of a small component of Megan Beer's STI that relates to the 2007 year. At the date of this report the STI in respect of 2007 had not been finalised or approved by the Board.

Executives participate in the Company's Annual Incentive Program (AIP) in which all Group employees participate. The AIP provides for a cash bonus to be paid on the achievement of predetermined personal and business goals. For Executives that report directly to the Managing Director the target incentive under the AIP is set at 50% of TFR, for other Executives the target is set at 30% of TFR. The Managing Director has a higher proportion of 'at risk' remuneration, with an STI target set at 80% of TFR.

Each Executive is set clear company, business unit and individual performance targets and objectives.

At a Group level performance measures include:

- NPAT (50% weighting) — Group Net Profit After Tax;
- New Business Growth (25% weighting) — Actual Group New Business performance against budgeted New Business targets; and
- Lapses (25% weighting) — Actual Group policy lapse rate versus budgeted lapse rate.

At a minimum the Group performance based STI component for Executives represents 20% of STI payable but can be as high as 50%. During 2007, STI bonuses plus the one off separation bonus accounted for between 18 and 51% of an eligible Executives Total Remuneration including long term incentives.

At a business unit level, performance measures are similar to those listed above but are adjusted to reflect the primary business drivers and measures of each particular Executive's business unit. Generally, this component represents 30% of STI.

Individual or Personal performance targets are also set for each Executive by the Managing Director and represent 50% of STI. Personal performance targets may include the delivery of key initiatives or change programs, service standards, employee retention and compliance.

**Calculation and approval of Short Term Incentives**

For Executives, AIP bonuses are paid annually and only upon the achievement of agreed performance objectives.

The Managing Director is responsible for assessing performance of each Executive and for recommending the total STI to be paid. Recommendations are based on actual Group and business unit performance against target and the delivery of Personal Objectives.

The Managing Director may also recommend STI payments over and above target bonus amounts for exceptional performance.

The Managing Director recommendations are then presented to the RNC for consideration and recommendations made to the Board for approval. It is only when written approval has been obtained that STI payments are made. A record of STI payment calculations and approvals are retained on individual employee files and are reflected in Board Minutes.

**Long Term Incentives (LTI)**

The Group has adopted the TOWER Executive Share and Option Plan (the Plan) which allows TOWER Australia to grant options over shares and issue shares to eligible Executives of the Group. Long term incentives accounted for 15 to 24% of Executives total remuneration in 2007.

**Overview of the Plan**

The Group's long-term incentive arrangements are designed to encourage a focus on long term results and Executive retention. The share options issued under the Plan are used to align the economic interests of the Executives with those of the shareholders. Participation is limited to those Executives who directly make a significant impact on the Group's financial results.

Under the Plan, eligible Executives are granted options or shares based on performance criteria which have been determined by the Board. These performance criteria are required to be satisfied before the eligible Executive will be entitled to exercise the options or become beneficially entitled to the shares. Options granted under this Plan will only vest if performance conditions are met.

There are a number of events that may cause options to lapse under the Plan, including, for example:

- where the eligible Executive ceases to be employed by the Company as defined in the Plan Rules;
- on the expiration of the exercise period;
- where the eligible Executive has acted fraudulently or is in breach of the duties that they owe to the Company; or
- where the Board has determined that the performance criteria has not been met.

In addition, shares that are issued to eligible Executives as a part of the Plan will be forfeited if:

- the eligible Executive is dismissed or ceases to be employed by the Company as defined in the Plan Rules; or
- the Board believes the eligible Executive has acted fraudulently, dishonestly, is in serious breach of a duty to the Company or its related entities or commits any act of harassment or discrimination; or
- the Board believes that the eligible Executive has brought TOWER Australia or its related entities into serious disrepute.

**Performance Hurdles**

The Board may in its absolute discretion in relation to an offer to be made to an eligible executive prescribe the performance criteria that must be satisfied before the eligible executive will be entitled to exercise the Options. For avoidance of doubt, such performance criteria can include performance criteria relating to an individual, a group or team, a business unit or business units, a TOWER company or a TOWER group or any combination of these or any other internal or external performance measures or benchmarks considered appropriate by the Board. Performance criteria can also prescribe any performance period within which the criteria must be met.

**PART 5 — OPTION HOLDINGS**

With the separation of the Group from the New Zealand business, TOWER Limited, the options held by the Executives changed.

For the issue of options that occurred in 2004 and 2005, each Executive was offered the chance to retain the same interests in the business of Australia and New Zealand by retaining options to acquire a proportion of shares in TOWER Limited (52.4 TOWER Limited shares for each 100 options held) and TOWER Australia (69.27 shares in TOWER Australia for each 100 options held). The issue of options by TOWER Limited lapsed for Australian Executives and these options were replaced by options issued by TOWER Australia.

The terms and conditions of each grant of options are as follows:

Tranche	Grant Date	Date vested and exercisable	Expiry date	Exercise price	Value of option at grant date
One	27 February 2007	1 April 2007	31 March 2010	0.794	0.29
Two	27 February 2007	9 August 2008	9 August 2011	1.21	0.35
Three	27 February 2007	9 August 2009	9 August 2012	1.21	0.37
Four	27 February 2007	5 April 2009	5 April 2012	1.45	0.44
Five	27 February 2007	21 November 2009	20 November 2012	1.88	0.65
Six	27 February 2007	23 February 2010	22 February 2013	2.93	1.01
Seven	30 March 2007	30 March 2010	30 March 2013	2.60	0.91

In accordance with accounting standards the value of options is determined at date of issue and is not subsequently revalued. The values in the preceding table for tranches One, Two, Three and Four were proportionally amended to reflect the change in the number of options granted and exercise price as a result of the sale of Australian Wealth Management and separation from TOWER Limited.

#### Option holdings of Senior Executives and Key Management Personnel

Options granted over ordinary shares in TOWER Australia and provided to each Senior Executive or key management personnel ('collectively the Officers') of the Group through the Plan, as part of their remuneration during the financial year ended 30 September 2007 are as follows:

Name	Option held at start of year	Options granted during year	Options exercised during year	Options lapsed during year	Options held at the end of year	Options vested in year	Options vested or exercisable at the end of year	Percentage of remuneration that consists of options
Jim Minto	—	5,589,050	—	—	5,589,050	539,267	—	22%
John de Zwart	—	1,967,174	—	—	1,967,174	239,674	—	14%
David Callander	—	1,467,174	—	—	1,467,174	239,674	—	17%
Geoff Black	—	1,364,000	—	—	1,364,000	—	—	21%
Gavin Pearce	—	1,364,000	—	—	1,364,000	—	—	24%
Megan Beer	—	783,587	—	—	783,587	119,837	—	16%

Options granted under the Plan carry no dividend or voting rights. Except for tranches one to five, where the exercise price and performance hurdles were determined as part of the separation from TOWER Limited, the exercise price of the options is determined by the Board. The exercise price will not be less than the Market Value of a Share in TOWER Australia on the last ASX trading day prior to the date of the offer of Options under the Plan. When exercised each option is convertible into one ordinary share of TOWER Australia.

#### Value of options granted

The value of the options that were granted to the Executives during the financial year ended 30 September 2007 is set out below:

Name	Tranche	Number of options granted	Option exercise price	Fair value at grant date	Value of options at grant date	Date first option can be exercised	Expiry date
Jim Minto	One	539,267	\$0.794	\$0.29	\$156,387	1 April 2007	31 March 2010
	Two	1,049,783	\$1.21	\$0.35	\$367,424	9 August 2008	9 August 2011
	Five	4,000,000	\$1.88	\$0.65	\$2,600,000	21 November 2009	20 November 2012
John de Zwart	One	239,674	\$0.794	\$0.29	\$69,505	1 April 2007	31 March 2010
	Two	582,000	\$1.21	\$0.35	\$203,700	9 August 2008	9 August 2011
	Three	145,500	\$1.21	\$0.37	\$53,835	9 August 2009	9 August 2012
	Six	1,000,000	\$2.93	\$1.01	\$1,010,000	23 February 2010	22 February 2013
David Callander	One	239,674	\$0.794	\$0.29	\$69,505	1 April 2007	31 March 2010
	Two	582,000	\$1.21	\$0.35	\$203,700	9 August 2008	9 August 2011
	Three	145,500	\$1.21	\$0.37	\$53,835	9 August 2009	9 August 2012
	Seven	500,000	\$2.60	\$0.91	\$455,000	30 March 2010	30 March 2013
Geoff Black	Four	1,164,000	\$1.45	\$0.44	\$512,160	5 April 2009	5 April 2012
	Seven	200,000	\$2.60	\$0.91	\$182,000	30 March 2010	30 March 2013
Gavin Pearce	Six	1,000,000	\$2.93	\$1.01	\$1,010,000	23 February 2010	22 February 2013
	Seven	164,000	\$2.60	\$0.91	\$149,240	30 March 2010	30 March 2013
Megan Beer	One	119,837	\$0.794	\$0.29	\$34,753	1 April 2007	31 March 2010
	Two	181,875	\$1.21	\$0.35	\$63,656	9 August 2008	9 August 2011
	Three	181,875	\$1.21	\$0.37	\$67,294	9 August 2009	9 August 2012
	Six	300,000	\$2.93	\$1.01	\$303,000	23 February 2010	22 February 2013

**PART 6 — TOTAL REMUNERATION OF DIRECTORS AND EXECUTIVES**

Details of the total remuneration paid to the Executive and Non-executive Directors, and the key management personnel of the Group for the financial year ended 30 September 2007 are set out in the following table. The table includes the details of the five Executives with the highest remuneration, for the Group, as required by the *Corporations Act 2001*.

**Total Remuneration for the Financial Year ended 30 September 2007**

Name	Short term benefits			Post employment benefits	Other long-term benefits	Termination benefits	Share based payments	Total
	Cash, salary and fees	Cash bonus <sup>(1)</sup>	Non-monetary benefits	Pension and super-annuation benefits			Equity settled; share and units; options and rights	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>								
Dr Keith Barton	124,036	—	—	—	—	—	—	124,036
Dr Gary Weiss	76,787	—	—	—	—	—	—	76,787
John Spencer	70,551	—	—	—	—	—	—	70,551
Michael Jefferies	87,589	—	—	—	—	—	—	87,589
Peter Lewinsky	78,846	—	—	—	—	—	—	78,846
Ralph Pliner	77,550	—	—	—	—	—	—	77,550
Robert Thomas	—	—	—	—	—	—	—	—
Bill Falconer	5,493	—	—	—	—	—	—	5,493
Tony Gibbs	5,493	—	—	—	—	—	—	5,493
Susie Staley	5,493	—	—	—	—	—	—	5,493
Denis Wood	5,493	—	—	—	—	—	—	5,493
	<b>537,331</b>	—	—	—	—	—	—	<b>537,331</b>
<b>Executive Director</b>								
Jim Minto	691,136	1,045,468	6,478	128,190	—	—	522,406	2,393,678
	<b>691,136</b>	<b>1,045,468</b>	<b>6,478</b>	<b>128,190</b>	—	—	<b>522,406</b>	<b>2,393,678</b>
<b>Senior Executives <sup>(2)</sup></b>								
John de Zwart	421,723	689,302	7,351	44,142	—	—	197,254	1,359,772
David Callander	360,440	254,040	6,390	39,561	—	—	134,448	794,879
Geoff Black	381,735	218,510	7,052	18,265	—	—	165,594	791,156
Gavin Pearce	346,990	—	888	11,471	—	—	113,527	472,876
Megan Beer	263,146	85,139	2,615	38,623	—	—	72,059	461,582
	<b>1,774,034</b>	<b>1,246,991</b>	<b>24,296</b>	<b>152,062</b>	—	—	<b>682,882</b>	<b>3,880,265</b>
<b>TOTAL</b>	<b>3,002,501</b>	<b>2,292,459</b>	<b>30,774</b>	<b>280,252</b>	—	—	<b>1,205,288</b>	<b>6,811,274</b>

(1) Cash bonuses are reported when paid. Of the \$2,292,459 shown above, \$2,279,597 relates to 2006 and TOWER Limited, with \$12,862 relating to 2007.

(2) Denotes the five highest paid executives in the Group as required to be disclosed under the *Corporations Act 2001*.

**Total Remuneration for the Financial Year ended 30 September 2006**

Name	Short term benefits			Post employment benefits	Other long-term benefits	Termination benefits	Share based payments	Total
	Cash, salary and fees	Cash bonus <sup>(1)</sup>	Non-monetary benefits	Pension and super-annuation benefits			Equity settled; share and units; options and rights	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>								
Dr Keith Barton	86,725	—	—	—	—	—	—	86,725
William Falconer	76,939	—	—	—	—	—	—	76,939
Tony Gibbs	73,425	—	—	—	—	—	—	73,425
Susie Staley	73,425	—	—	—	—	—	—	73,425
John Spencer	82,210	—	—	—	—	—	—	82,210
Dr Gary Weiss	73,425	—	—	—	—	—	—	73,425
Denis Wood	101,526	—	—	—	—	—	—	101,526
Michael Jefferies	4,393	—	—	—	—	—	—	4,393
	<b>572,068</b>	—	—	—	—	—	—	<b>572,068</b>
<b>Executive Director</b>								
Jim Minto	752,370	351,440	5,786	—	—	—	147,636	1,257,232
	<b>752,370</b>	<b>351,440</b>	<b>5,786</b>	—	—	—	<b>147,636</b>	<b>1,257,232</b>
<b>Executives</b>								
John de Zwart	377,734	122,532	7,037	41,016	—	—	85,920	634,239
Lee Sullivan	103,500	40,572	3,561	11,500	—	—	—	159,133
William Giesbers	145,206	151,308	—	—	—	324,228 <sup>(2)</sup>	—	620,742
	<b>626,440</b>	<b>314,412</b>	<b>10,598</b>	<b>52,516</b>	—	<b>324,228</b>	<b>85,920</b>	<b>1,414,114</b>
<b>TOTAL</b>	<b>1,950,878</b>	<b>665,852</b>	<b>16,384</b>	<b>52,516</b>	—	<b>324,228</b>	<b>233,556</b>	<b>3,243,424</b>

(1) Cash bonuses are reported when paid. All of the \$665,852 shown above relates to 2005 and TOWER Limited.

(2) William Giesbers resigned 31 January 2006.

Signed in accordance with a resolution of the Directors.



**R B Thomas**  
Director  
Sydney, 26 November 2007



**J R Minto**  
Director



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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## Auditor's Independence Declaration

As lead auditor for the audit of TOWER Australia Group Limited for the year ended 30 September 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the *audit*; and
- b) no contraventions of any applicable code of professional conduct in relation to the *audit*.

This declaration is in respect of TOWER Australia Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'PT Murray'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

PT Murray  
Partner  
PricewaterhouseCoopers

Sydney  
26 November 2007

# CORPORATE GOVERNANCE

## 1. APPROACH TO CORPORATE GOVERNANCE

### TOWER AUSTRALIA'S APPROACH TO GOOD CORPORATE GOVERNANCE

TOWER Australia's Board and Executive Management have responsibility to achieve the highest standards of corporate performance, ethical behaviour and accountability. The Board has developed and adopted corporate governance structures and practices that are consistent with good practice and ensure the integrity of the governance framework. Where developments arise in corporate governance, the Board is committed to review TOWER Australia's practices and incorporate changes where appropriate.

Effective corporate governance practices add value to TOWER Australia's business by reducing risk, creating transparency and enhancing decision-making. It assists TOWER Australia to ensure future sustainability and create long term value for shareholders and other stakeholders.

### STANDARDS IN CORPORATE GOVERNANCE

TOWER Australia has taken into account the ASX Corporate Governance Principles and Recommendations published in August 2007 ('ASX Principles') in its approach to corporate governance. If TOWER Australia, in assessing its business and governance needs, has departed from the ASX Principles, this report sets out the nature of the variance and the reasons for doing so.

### DATE OF THIS REPORT AND AVAILABILITY OF CURRENT GOVERNANCE MATERIAL

This report reflects TOWER Australia and its controlled entities' (the Group) corporate governance policies and practices as at 30 September 2007.

Further details about TOWER Australia's corporate governance policies and procedures are available on the TOWER Australia website [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance). These documents are updated and reviewed regularly, recognising that corporate governance is about continual improvement.

## 2. TOWER AUSTRALIA BOARD

### ROLE OF THE BOARD

The Board, as representatives of the shareholders, has ultimate responsibility to the shareholders for the performance and overall governance of TOWER and its controlled entities. In practice this is achieved through formal delegation to the Managing Director and to its three Board Committees – Audit, Compliance and Risk Management Committee, Remuneration and Nominations Committee and the Investment Committee.

### KEY DUTIES & RESPONSIBILITIES OF THE BOARD

The Board reserves certain functions to itself. These duties and responsibilities are outlined in the Board Charter, a copy of which is available on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance).

Broadly, the duties of the Board include:

- overseeing the Group including monitoring its controls and accountability systems;
- determining the Group risk management policies, framework and profile;
- monitoring systems of risk management, internal controls, legal compliance and codes of conduct which affect the Group;
- determining strategic objectives and approving the annual operating plans, financial targets and capital expenditure plans;
- assessing and monitoring performance, including management's performance against the strategic objectives, operating plans and financial targets;
- approving all changes to the corporate structure, including tax and financial, which are of strategic importance to the Group;
- determining Group financial and treasury strategy and policies, including approving all dividend policies and distributions to shareholders, lending and borrowing, tax, and investment and foreign exchange policies in respect of shareholders' funds;
- approving capital and operating expenditure above delegated limits;
- approving all transactions relating to major business and company acquisitions, mergers and divestments; and
- appointing, removing and determining the remuneration of, the Managing Director and ratifying the appointment, and as appropriate, the removal of the Chief Financial Officer and Secretary.

### BOARD COMPOSITION AND SIZE

The Constitution of TOWER Australia requires that the Board has a minimum of three and a maximum of ten Directors. The size and composition of the Board is reviewed annually, taking into account the needs of the business and to ensure there is an appropriate blend of commercial skills and experience to govern and add value to the TOWER Australia business through:

- engaging in effective and efficient decision making;
- discharging its responsibilities under the law effectively and efficiently; and
- understanding the business of the Company and the environment in which it operates.

At 30 September 2007, the Board consisted of:

- four independent non-executive Directors:
  - Robert Thomas
  - Peter Lewinsky
  - Ralph Pliner
  - John Spencer
- two non-executive Directors:
  - Michael Jefferies
  - Gary Weiss
- one executive Director:
  - Jim Minto (Managing Director)
- one alternate Director:
  - Anthony Eisen

Information concerning each Director's qualifications and experience is set out on pages 4-5 of the Directors' Report.

## BOARD APPOINTMENTS – SELECTION, REVIEW AND RENEWAL

### Nominations and Appointments

Recommendations and nominations for new Directors are made by the Remuneration and Nominations Committee and approved by the Board.

In appointing Directors, the Board considers:

- the current size and composition of the Board;
- the strategic needs of TOWER Australia and its subsidiaries;
- regulatory requirements; and
- the skills, knowledge and independence of the potential Director.

On appointment, new Directors receive a Letter of Appointment, which sets out their duties, the terms and conditions of appointment and their remuneration.

New Directors are required to participate in an induction programme to ensure that they are familiar with their duties and responsibilities, the TOWER Australia business and the regulatory environment in which TOWER Australia operates.

### Board Performance Assessment

The Remuneration and Nominations Committee is responsible for overseeing the review and performance assessment of the Board.

Broadly, the evaluation of both the Board and the individual Directors of the Company will take into consideration the following factors:

- the extent and effectiveness to which the role has been performed;
- the extent to which key decisions have been made in a timely and effective manner;
- demonstration of the required expertise in the role;
- attendance and participation at Board meetings; and
- contribution made to the Board.

The Board reviews its own composition and performance and that of the Board Committees in accordance with the terms of the Board Charter, a copy of which is available on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance). A performance evaluation was not conducted during the period ended 30 September 2007 as the Board had been operating for less than a year. It is intended that a review of Board and Director performance will be undertaken in 2008.

### Succession Planning

The Board, with assistance from the Remuneration and Nominations Committee, considers the succession of its members as required.

With the exception of the Managing Director, one third of the Directors of TOWER Australia must retire by rotation at each Annual General Meeting. Any other Director, who has been in office for more than three years since his or her last election, or who has been appointed to fill a casual vacancy, is also required to retire at the next Annual General Meeting.

### Directors and Executives Remuneration

Detailed information on TOWER Australia's remuneration policies and practices can be found on pages 9-17 of the Directors' Report.

## ASSESSING THE INDEPENDENCE OF TOWER AUSTRALIA DIRECTORS

The Board considers that an independent Director is a non-executive Director who is free from management and any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their independent judgment.

The independence of TOWER Australia Directors is regularly assessed by the Board in light of the interests and information which Directors disclose.

In assessing the independence of Directors, the Board has regard to whether the Director or an immediate family member has any of the following relationships with TOWER Australia or any of TOWER Australia's related entities:

- is a substantial shareholder of TOWER Australia or an officer of, or otherwise associated directly with a substantial shareholder of TOWER Australia;
- within the last three years has been employed in an executive capacity by TOWER Australia or been a Director after ceasing to hold such employment;
- within the last three years has been a principal of a material professional advisor or a material consultant to TOWER Australia, or an employee materially associated with the service provided;
- is a material supplier or customer of TOWER Australia, or an officer of or otherwise associated directly or indirectly with a material supplier or customer of TOWER Australia;
- has served on the Board of the Company for a period which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interests of the Company; and/or
- has an interest or a business or other relationship which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interests of the Company.

The materiality of a relationship is assessed on an individual basis and has regard to a Director's individual circumstances. If the Board considers that a Director is not independent, notwithstanding any of the factors mentioned above, the Board will provide reasons for its decisions.

The independent non-executive Directors of TOWER Australia will meet informally on occasions, without the non-independent Directors, Managing Director, Chief Financial Officer or any other member of management being present.

### MEETING THE 'FIT AND PROPER' TEST

TOWER Australia has put in place comprehensive measures to ensure that individuals who are appointed to senior positions within TOWER Australia have the appropriate fitness and propriety to effectively discharge their responsibilities and duties.

### CONFLICTS OF INTEREST

TOWER Australia is aware of the importance of managing conflicts of interest. Directors are required to continually monitor and disclose any potential conflicts of interest that arise. In addition, any Director with a material personal interest in a matter being considered by the Board must declare this interest and must not vote on any matter which relates to that interest.

TOWER Australia has established a Conflicts of Interest Policy which requires Directors to:

- disclose any actual or potential conflicts of interest that arise;
- take necessary and appropriate measures to resolve any conflict of interest; and
- comply with the *Corporations Act 2001* requirements in relation to disclosing conflicts of interest and restrictions on voting.

A copy of TOWER Australia's Conflicts of Interest Policy can be found on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance).

### BOARD MEETINGS

The Board holds approximately eight formal meetings each year. It also meets whenever it is necessary between these formal meetings, to carry out its responsibilities. The Board held nine scheduled meetings and a varying number of scheduled Board Committee meetings during the period to 30 September 2007. Details of attendance at Board and Board Committee meetings can be found on page 6 of the Directors' Report.

In carrying out the business which is to be transacted at a Board meeting, Directors are required to raise any questions they may have, request further information if needed, raise concerns and vote on matters before the Board according to their own judgement.

### ACCESS TO INFORMATION AND INDEPENDENT ADVICE

All Directors are given unrestricted access to all records and information relating to TOWER Australia. Directors are encouraged to speak with members of senior management at any time to request relevant information.

Directors are entitled to seek independent advice on any matter that relates to the business of TOWER Australia at the Company's expense, but must ensure that costs are reasonable and advise the Chairman before obtaining the advice.

### MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER ASSURANCE

The Board has received and considered the annual certification from the Managing Director and Chief Financial Officer which states that:

- TOWER Australia's financial reports present a true and fair view, in all material respects, of the Company's financial position and performance, and are in accordance with Australian accounting standards; and
- TOWER Australia's risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively in all material aspects.

## 3. BOARD COMMITTEES

### ROLE OF BOARD COMMITTEES

The Board has established a number of expert Committees to assist it in its duties and responsibilities. Board Committees allow matters to be discussed and considered in greater detail. The Board Committee structure also utilises the skills and experience of TOWER Australia Directors to maximum advantage for the benefit of all TOWER Australia stakeholders. Board Committees are formed in response to the needs of the business and the Board may appoint further Board Committees as it sees fit.

### CURRENT BOARD COMMITTEES

TOWER Australia has three Board Committees:

- Audit, Compliance and Risk Management Committee;
- Remuneration and Nominations Committee; and
- Investment Committee.

Each Committee has its own Charter which specifies the composition, responsibilities and duties. A copy of these Charters can be found on TOWER Australia's website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance).

The structure and membership of each of the Board Committees is as follows.

### AUDIT, COMPLIANCE AND RISK MANAGEMENT COMMITTEE

#### Composition

The Committee consists of a minimum of three suitably qualified non-executive Directors, the majority of whom are independent. The Board appoints the Chairman of the Committee who cannot also be Chairman of the Board. The Managing Director cannot be a member of the Committee. Members of the Committee are required to be financially literate with an appropriate understanding of TOWER Australia's business. At least one member of the Committee must have accounting or financial expertise in the area of life insurance.

During the period to 30 September 2007, the Committee comprised the following members:

- Peter Lewinsky (Chairman);
- Ralph Pliner; and
- John Spencer.

#### Role of the Committee

The role of the Committee is set out in its Charter and includes:

- overseeing the performance of the External Auditor and being satisfied as to the independence of the External Auditor;
- independently and objectively reviewing the financial information presented by management to the Board, the External Auditor and the public;
- assisting the Board to fulfil its obligations in respect of determining the Group's risk profile having regard to the following risk classes:
  - Asset risk;
  - Strategic risk;
  - Operational risk;
  - Fiduciary risk; and
  - Insurance risk;
- reviewing the strategies, policies, frameworks, models and procedures in place to govern the identification, management and mitigation of material risks;
- reviewing the effectiveness and efficiency of management processes, Group risk management and internal financial controls and control systems;
- monitoring and reviewing compliance with regulatory and statutory requirements and obligations;
- monitoring the adequacy and effectiveness of the Group's internal control systems and processes (including reviewing reports from internal and external audit, compliance, and risk management together with management's responses); and
- maintaining open and direct lines of communication with the External and Internal Auditors.

## REMUNERATION AND NOMINATIONS COMMITTEE

### Composition

The Committee consists of a minimum of three non-executive Directors, the majority of whom are independent. The Chairman of the Committee is appointed by the Board and is an independent non-executive Director.

During the period to 30 September 2007 the Committee comprised the following members:

- Keith Barton (Chairman) – replaced by Robert Thomas on 26 September 2007;
- Ralph Pliner; and
- Michael Jefferies.

### Role of the Committee

The Committee advises the Board on matters related to the appointment, succession and remuneration of Directors, and Senior Executives and the performance of the Board. The Committee Charter includes the following responsibilities:

- recommending the Company's remuneration, superannuation and incentives policies;
- reviewing the Company's recruitment, retention and termination policies;
- reviewing policies for the appointment and remuneration of Directors and Senior Executives;
- determining the necessary and desirable competencies of the Board;
- determining the criteria for the selection of Directors;
- considering the policies for the assessment of the independence and fitness and propriety of Directors;
- evaluating the performance of the Board and individual Directors;
- evaluating the role of the Chairman of the Board; and
- succession planning.

## INVESTMENT COMMITTEE

### Composition

The Committee consists of a minimum of three suitably qualified members (including at least two non-executive Directors). The Chairman of the Investment Committee is appointed by the Board and cannot be the Chairman of the Board.

During the period to 30 September 2007 the Investment Committee comprised the following members:

- Michael Jefferies (Chairman);
- Peter Lewinsky;
- Jim Minto; and
- Anthony Eisen.

### Role of the Committee

The Committee assists the Board to carry out its duties in the areas of investment strategies and processes. The Committee Charter sets out its responsibilities which include:

- reviewing and monitoring investment policy and strategy and where appropriate, monitoring compliance with the Company's statutory and regulatory obligations;
- reviewing risk management policy and statements in respect of investment management, including derivative policy;
- approving risk management strategies in respect of investment management;
- reviewing and monitoring investment mandates, including allowable investments, policy ranges, benchmarks and risk control limits;
- considering the establishment, adjustment or deletion of limits and counter party approvals and the scope of financial instruments to be used in the management of investments;
- reviewing the appointment of external investment managers;
- reviewing and monitoring investment performance of key products and fund manager performance;
- monitoring compliance with investment policies and client mandates;
- reviewing delegations to investment managers and management;
- receiving and considering large and/or non-standard investment related transactions; and
- ensuring all investments are being managed in accordance with statutory obligations.

## 4. ROLE OF THE CHAIRMAN

The Chairman of the Board is an independent non-executive Director. The role of the Chairman and the Managing Director are separate. The responsibilities of the Chairman include:

- providing effective leadership to the Board;
- establishing processes for ensuring the accurate and timely flow of information to the Board;
- facilitating Board discussions;
- monitoring Board performance;
- ensuring that decisions of the Board are implemented as intended;
- representing and speaking on behalf of the Board to shareholders and other stakeholders; and
- facilitating relations between the Board and the Managing Director.

## 5. ROLE OF TOWER AUSTRALIA CORPORATE GOVERNANCE PROFESSIONALS

### HEAD OF CORPORATE GOVERNANCE

Peter Noble (BCom, LLB) is the head of Corporate Governance for TOWER Australia. Mr Noble joined TOWER Australia in January 2007. He has over 30 years experience in legal practice and in the financial services sector.

Mr Noble has chief management responsibility for corporate governance functions at TOWER Australia and is part of the Executive Management team.

## COMPANY SECRETARY

### Responsibility for TOWER Australia Group Limited

Philippa Ellis (BSc, BCom, ACIS) is the General Manager of Investor Relations and the Listed Company Secretary. Mrs Ellis was previously the company secretary of TOWER Limited for three years. She is an associate member of Chartered Secretaries Australia.

Mrs Ellis has chief responsibility for the company secretarial requirements of the listed entity TOWER Australia Group Limited.

### Responsibility for TOWER Australia Controlled Entities

David Morrow (BCom, ACA, GradDip AppCorpGov, ACIS) is the Company Secretary for the controlled entities of TOWER Australia. Mr Morrow has been a company secretary of TOWER Australia since November 2006 and has had chief responsibility for the company secretarial requirements of the controlled entities of TOWER Australia for the past five years.

Both Company Secretaries are appointed and dismissed by the Board.

It is the responsibility of the Company Secretary to:

- monitor Board policy and ensure that procedures are followed;
- distribute the Board agenda and briefing materials before each meeting;
- record, maintain and distribute the minutes of all General Meetings of the Company;
- notify the Directors of Board meetings; and
- assist in oversight of the Company's compliance programme.

## 6. RISK MANAGEMENT

### APPROACH TO RISK MANAGEMENT

Management of risks is essential to the prudent management of the TOWER Australia business.

While the Board retains the overall responsibility for ensuring that TOWER Australia has a strong system of risk management and internal compliance, the Board has delegated specific monitoring and evaluation of the effectiveness of risk management policies to the Audit, Compliance and Risk Management Committee including:

- reviewing the internal accounting and financial controls that are in place to safeguard TOWER Australia's financial and physical resources;
- reviewing TOWER Australia's risk management strategies;
- determining the risk appetite of TOWER Australia;
- assessing the risk management framework against the expectations of the regulators;
- reviewing TOWER Australia's risk profile;
- ensuring measures are in place to manage compliance with the laws, regulations, contracts, industry codes, industry standards and policies; and
- ensuring that processes are in place to produce information for external use which is accurate, reliable and compliant with relevant laws.

## BUSINESS RISKS WHICH MAY AFFECT TOWER AUSTRALIA

The nature of TOWER Australia's business means that risks within the following classes have the ability to impact on its performance:

- Asset Risk – the risk of loss due to changes in interest rates or asset prices including both asset and liability impacts;
- Insurance Risk - the risk of financial loss and consequent inability to meet policyholder liabilities due to changes in policyholder claim rates, inappropriate insurance pricing, policy, design, underwriting and claims management, changes in assumptions and reinsurer defaults;
- Strategic Risk – the risk of loss due to inadequate or failed internal processes, people or systems, from external events or from a failure of strategic initiatives, where those losses relate (principally) to the franchise value of TOWER Australia;
- Fiduciary-type Risk – the risk that TOWER Australia is not managing investment funds in line with policyholder reasonable expectations or in accordance with the duties of TOWER Australia's Directors; and
- Operational Risk – the risk of financial loss occurring through the failure of people, fraud, outsourcing processes, business continuity and systems to perform as required, resulting from the breakdown of controls or from external events where those losses relate (principally) to the balance sheet value of TOWER Australia.

## 7. BOARD DELEGATION TO MANAGEMENT

### BOARD DELEGATION TO THE MANAGING DIRECTOR

The Board has delegated authority to the Managing Director to manage the day-to-day leadership and business of TOWER Australia within the delegation limits that are set by the Board from time to time. The Managing Director may sub-delegate responsibilities within these delegation limits; however the Managing Director remains accountable for all authority that has been delegated to management. The delegations from the Board to the Managing Director are set out in the Board Charter delegation, a copy of which is available on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance).

## 8. ETHICAL BUSINESS CONDUCT

### ETHICAL AND RESPONSIBLE DECISION-MAKING

TOWER Australia has adopted a Code of Ethics (Code) which applies to its Directors, executives and employees.

The Code sets out the standards of honest, ethical and law-abiding behaviour that is expected by TOWER Australia. It encourages employees to bring breaches of the Code to the attention of management or the Board. The Code also provides protection for those who report breaches.

A copy of the Code is available on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance). The Code is regularly reviewed and updated to ensure it reflects the highest standards of behaviour.

### INSIDER TRADING

The Board has approved a Trading Policy for TOWER Australia which sets out the manner in which Directors, Executives and employees can trade in TOWER Australia securities.

Trading in TOWER Australia securities by Directors, Executives and certain employees is restricted to the following trading windows:

- within six weeks after the announcement of the TOWER Australia full year financial results to the ASX; and
- within six weeks after the announcement of the TOWER Australia half year financial results to the ASX.

A copy of the TOWER Australia Trading Policy can be found on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance).

### CORPORATE AND SOCIAL RESPONSIBILITY

For TOWER Australia to continue to be successful in business, it must also be an active and responsible member of the community. TOWER Australia takes its social and environmental responsibilities very seriously. Information on TOWER Australia's workplace and community programmes are included in the TOWER Australia 2007 Shareholder Review.

## 9. CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

### CONTINUOUS DISCLOSURE

TOWER Australia is committed to providing timely and relevant information about its business operations to all shareholders and potential investors to enable them to make informed decisions about their investments.

TOWER Australia ensures all disclosures:

- are made in a timely manner;
- are factual;
- do not omit material information; and
- are expressed in a clear and objective manner to allow an investor to assess the impact of the information when making investment decisions.

All material information relating to TOWER Australia is accessible on the TOWER Australia website as soon as it is disclosed to the ASX.

TOWER Australia's approach to communicating with shareholders and the market is set out in its Corporate Disclosure Policy. A copy of the Corporate Disclosure Policy can be found on the TOWER Australia website at [www.toweraustralia.com.au/investor/corporate\\_governance](http://www.toweraustralia.com.au/investor/corporate_governance).

### COMMUNICATING WITH SHAREHOLDERS

The Board works to ensure that shareholders are informed of all material information necessary to assess TOWER Australia's performance. Information is communicated to shareholders through:

- Annual Reports;
- Shareholder Newsletters;
- Market Briefings;
- Annual General Meetings;
- Media Releases; and
- the TOWER Australia website.

TOWER Australia encourages all shareholders to attend, participate and vote at its Annual General Meeting (AGM). The Notice of Annual General Meeting is accompanied by explanatory notes on the items of business to assist shareholders to understand the business that will be transacted at the meeting. Questions can be registered prior to the meeting by completing the relevant form accompanying the Notice of Meeting.

The Board also requests that the Company's External Auditor attends the meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Proceedings at shareholder meetings and important briefings are webcast live on the TOWER Australia website.

# INCOME STATEMENT

for the year ended 30 September 2007

	Note	GROUP		COMPANY	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Revenue from continuing operations</b>					
Premium revenue from insurance contracts		641,238	465,122	—	—
Less: Outwards reinsurance expense		(221,356)	(160,073)	—	—
Net premium revenue	3	419,882	305,049	—	—
Investment income	4	367,289	322,272	73,196	2,011
Fee and other revenue	5	26,802	25,333	—	—
<b>Net operating revenue</b>		<b>813,973</b>	<b>652,654</b>	<b>73,196</b>	<b>2,011</b>
Claims expense		298,150	184,900	—	—
Less: Reinsurance recoveries revenue		(181,999)	(98,465)	—	—
Net claims expense	6	116,151	86,435	—	—
Change in life insurance contract liabilities	26	12,650	16,337	—	—
Change in life investment contract liabilities	26	262,214	210,846	—	—
Management and sales expenses	7	339,066	255,904	2,062	2
<b>Net claims and operating expenses</b>		<b>730,081</b>	<b>569,522</b>	<b>2,062</b>	<b>2</b>
Amortisation/Impairment expense	11	(3,791)	(1,896)	(70,588)	—
Goodwill derecognised	11	(3,172)	—	—	—
Financing costs	7	(7,853)	(3,146)	—	—
Share of net profits of associates	38	95	100	—	—
<b>Profit before corporate restructure and taxation</b>		<b>69,171</b>	<b>78,190</b>	<b>546</b>	<b>2,009</b>
Gain on corporate restructure <sup>1</sup>		—	85,463	—	69,010
<b>Profit before taxation</b>		<b>69,171</b>	<b>163,653</b>	<b>546</b>	<b>71,019</b>
Income tax expense (benefit)	8	28,506	38,831	(1,940)	603
<b>Profit from continuing operations</b>		<b>40,665</b>	<b>124,822</b>	<b>2,486</b>	<b>70,416</b>
<b>Profit for the year attributable to shareholders of TOWER Australia Group Limited</b>		<b>40,665</b>	<b>124,822</b>	<b>2,486</b>	<b>70,416</b>
		<b>Cents</b>	<b>Cents</b>		
Basic and diluted earnings per share	22	13.0	24.5		

Footnote:

1. TOWER Australia Group Limited (TAGL) separated from TOWER Limited (New Zealand) 20 November 2006. Prior to separation on 30 September 2006 TOWER Limited Group forgave a \$69.0 million debt owed by TAGL as part of the separation process. This is a non-recurring item relating to the separation and subsequent listing of TAGL. In the year ended 30 September 2006 the TOWER Limited Group also forgave a debt owed by the Group of \$16.5 million.

The above Income Statement should be read in conjunction with the accompanying notes.

# BALANCE SHEET

as at 30 September 2007

	Note	GROUP		COMPANY	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Assets</b>					
Cash and cash equivalents	29	63,554	310,281	4,361	5,447
Receivables	9	159,656	164,724	79,011	23,770
Financial assets at fair value through profit or loss	10	3,208,590	2,838,959	11,684	—
Other financial assets	12,38	33,988	32,455	436,615	296,009
Deferred acquisition costs	13	60,672	67,889	—	—
Other assets		120	188	—	—
Plant and equipment	14	4,696	4,339	—	—
Assets arising from reinsurance contracts	26	139,513	165,652	—	—
Deferred tax assets	8	32,492	—	10,110	9,544
Intangible assets	11	147,516	154,209	—	—
<b>Total assets</b>		<b>3,850,797</b>	<b>3,738,696</b>	<b>541,781</b>	<b>334,770</b>
<b>Liabilities</b>					
Payables	15	118,110	328,374	23,236	19,522
Current tax liabilities		60,275	15,109	60,295	15,109
Provisions	16	19,961	16,464	—	—
Outstanding claims — life insurance	18	72,036	51,621	—	—
Deferred tax liabilities	8	—	14,617	—	—
Interest bearing liabilities	17	99,576	100,000	—	—
Other liabilities	19	1,435	1,664	—	—
Deferred revenue liability	20	93,671	100,693	—	—
Life insurance contract liabilities	26	535,014	597,724	—	—
Life investment contract liabilities	26	2,316,235	2,175,426	—	—
<b>Total liabilities</b>		<b>3,316,313</b>	<b>3,401,692</b>	<b>83,531</b>	<b>34,631</b>
<b>Net Assets</b>		<b>534,484</b>	<b>337,004</b>	<b>458,250</b>	<b>300,139</b>
<b>Equity</b>					
Contributed equity	23	384,137	230,573	384,137	230,573
Retained profits	24	146,301	105,636	72,052	69,566
Reserves	24	4,046	795	2,061	—
<b>Total Equity attributable to shareholders of TOWER Australia Group Limited</b>		<b>534,484</b>	<b>337,004</b>	<b>458,250</b>	<b>300,139</b>

The above Balance Sheet should be read in conjunction with the accompanying notes.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2007

	Note	GROUP		COMPANY	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Total equity at the beginning of the financial year</b>		337,004	211,809	300,139	229,723
Profit for the year		40,665	124,822	2,486	70,416
Changes in fair value of available-for-sale financial assets, net of tax	23	1,190	—	—	—
<b>Total recognised income and expense for the year</b>		<b>41,855</b>	<b>124,822</b>	<b>2,486</b>	<b>70,416</b>
Transactions with equity holders in their capacity as equity holders:					
Rights issue	21	153,669	—	153,669	—
Options exercised	21	(105)	—	(105)	—
Share based payments reserve	23	2,061	373	2,061	—
<b>Net movement in equity for the financial year</b>		<b>197,480</b>	<b>125,195</b>	<b>158,111</b>	<b>70,416</b>
<b>Total equity at the end of the financial year</b>		<b>534,484</b>	<b>337,004</b>	<b>458,250</b>	<b>300,139</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# STATEMENT OF CASH FLOWS

for the year ended 30 September 2007

	Note	GROUP		COMPANY	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Premiums received		922,001	653,967	—	—
Reinsurance paid		(213,101)	(138,402)	—	—
Non-life company fee income		16,577	12,914	2,608	—
Claims expenses		(736,391)	(522,313)	—	—
Reinsurance received		149,739	97,520	—	—
Payments to suppliers and employees		(301,431)	(309,908)	(4,178)	(37,737)
Interest paid		(7,853)	(3,146)	—	—
Income taxation paid		(28,958)	(23,463)	(790)	(18,555)
<b>Net cash outflow from operating activities</b>	29(b)	<b>(199,417)</b>	<b>(232,831)</b>	<b>(2,360)</b>	<b>(54,281)</b>
<b>Cash flows from investing activities</b>					
Payments for financial assets		(4,154,000)	(1,070,751)	—	—
Proceeds from sale of financial assets		3,829,359	992,914	1,274	—
Interest received		63,362	87,484	—	2,011
Dividends received		212,862	47,301	—	—
Investment income		8,047	21,728	—	—
Proceeds from sale of available-for-sale financial assets		—	47,500	—	—
Net payments purchase of plant and equipment		(2,427)	(30)	—	—
Loans repaid		65,648	—	—	—
Payment for purchase of controlled entities, net of cash acquired	39	(68,280)	(102,462)	—	—
<b>Net cash (outflow) / inflow from investing activities</b>		<b>(45,429)</b>	<b>23,685</b>	<b>1,274</b>	<b>—</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		(155,445)	—	—	—
Proceeds from borrowings		—	100,000	—	—
Proceeds from issue of shares		153,564	—	—	—
<b>Net cash (outflow) / inflow from financing activities</b>		<b>(1,881)</b>	<b>100,000</b>	<b>—</b>	<b>—</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(246,727)</b>	<b>(109,146)</b>	<b>(1,086)</b>	<b>(54,281)</b>
Cash and cash equivalents at beginning of year		310,281	419,427	5,447	59,728
<b>Cash and cash equivalents at end of year</b>		<b>63,554</b>	<b>310,281</b>	<b>4,361</b>	<b>5,447</b>

The above Cash Flows Statement should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

### Compliance with IFRS

Compliance with AIFRS ensures that the financial statements and notes to the financial statements comply with International Financial Reporting Standards (IFRS).

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

The financial statements are presented in Australian dollars.

### Rounding

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial report. Amounts in the directors' report and financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of TOWER Australia Group Limited ("Company" or "parent entity") as at 30 September 2007 and the results of all controlled entities for the year then ended. TOWER Australia Group Limited and its controlled entities together are referred to in this financial report as "the Group" or "the consolidated entity".

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

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

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

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

### Investment in associates

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

### CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### PRINCIPLES UNDERLYING THE CONDUCT OF THE LIFE INSURANCE BUSINESS

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

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario of 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 partially linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

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

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

The Group operates predominantly in the financial services industry. As such, the assets and liabilities disclosed in the consolidated balance sheet are grouped by nature and listed in an order that reflects their relative liquidity.

### SPECIFIC ACCOUNTING POLICIES

#### a) Premium revenue

##### Life insurance contracts

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

##### Life investment contracts

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

#### b) Fee and other revenue

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** Continued

**c) Investment income**

Investment income 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".

**Interest Income**

Interest income is recognised on an effective interest method.

**Fair value gains and losses**

Fair value gains and losses on financial assets at fair value are recognised through the income statement.

**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.

The apportionment process is adopted by applying the following methodology:

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

**f) Policy acquisition costs**

**Life insurance contracts**

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.

**Other contracts**

Policy acquisition costs comprise the 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).

Deferred acquisition costs are recognised for the products noted below and are amortised in line with the provision of services.

**Superannuation products**

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

**Life investment contracts**

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

**g) Outward reinsurance expense**

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

**h) Financing costs**

Financing costs include interest on external debt (borrowing costs) and amortisation of transaction costs.

**i) Taxation**

**Current tax**

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

**Deferred tax**

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

#### **Income tax for other business**

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

#### **Tax consolidation**

TOWER Australia Group Limited is the head entity of the tax consolidated group comprised of TOWER Australia Group Limited and its wholly-owned entities. Under tax consolidation the head entity assumes the following balances from controlled entities within the tax consolidated group:

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

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

#### **GST**

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense.

Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

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

#### **j) Foreign currency**

##### **Transactions and balances**

In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates.

Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

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

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

#### **k) Cash and cash equivalents**

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

#### **l) Receivables**

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

#### **m) Plant and equipment**

##### **Plant and equipment**

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

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

#### **n) Financial asset backing insurance business**

The Group has determined that all assets held within the statutory funds of life insurance companies are assets backing the policy liabilities of the life insurance business. As these assets are managed under the Group's Risk Management Statement on a fair value basis and are reported to the board on this basis, they have been valued at fair value through the income statement wherever the applicable standard allows.

Fair value is determined as follows:

- (i) Cash assets and bank overdrafts are carried at face value which approximates fair value;
- (ii) 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;
- (iii) 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;
- (iv) Unlisted unit trusts are recorded at fund managers' quoted redemption prices; and
- (v) Receivables are carried at book value, which is the best estimate of fair value as they are settled within a short period.

#### **o) Other financial assets**

Other financial assets comprise available-for-sale financial assets, comprising principally unlisted equity securities, which are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. They are carried at fair value with any change in fair value taken to equity reserve.

#### **p) Intangibles**

##### **Goodwill**

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

## 1. SUMMARY OF SIGNIFICANT

### ACCOUNTING POLICIES Continued

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

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

- (i) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- (ii) is not larger than a segment based on either the Group's primary or the Group'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.

#### Software

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.

#### Value in-force

Value of in-force business acquired represents the amount paid 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 impairment 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.

#### q) Impairment of non-financial assets

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

#### r) Acquisition of assets

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

If there is a discount on acquisition then this is recognised directly in the income statement.

#### s) Derivative financial instruments

All derivatives are recognised at fair value through the income statement.

#### t) Leased assets

##### As lessee

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

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

#### u) Borrowings or Interest bearing liabilities

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

#### v) Payables

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

#### w) Provisions

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

#### x) Employee benefits

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

#### y) Capital guarantees

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

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

#### z) Life investment contract liabilities

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

##### (i) Deposit component

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.

#### **(ii) Revenue component**

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

Accounting standards define this part as the Management Services Element.

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.

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

#### **aa) Life insurance contract liabilities**

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

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

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

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

#### **bb) Contributed equity**

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

#### **cc) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

#### **dd) Share based payments**

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

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

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

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

#### **ee) Segment reporting**

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

#### **ff) Earnings per share**

##### **Basic earnings per share**

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

##### **Diluted earnings per share**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** Continued

**gg) New accounting standards and UIG interpretations**

The Australian Accounting Standards Board (AASB) has issued the following amendments to Australian Accounting Standards:

AASB NO.	TITLE	OPERATIVE DATE
2005-10	Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038)	01-January-2007
AASB 7	Financial Instruments: Disclosures	01-January-2007
AASB 8	Operating Segments	01-January-2009
2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	01-March-2007
2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	01-January-2008
2007-3	Amendments to Australian Accounting Standards arising from AASB 8 (AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038)	01-January-2009
2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038)	01-July-2007
2007-6	Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)	01-January-2009
2007-7	Amendments to Australian Accounting Standards (AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128)	01-July-2007
2007-8	Amendments to Australian Accounting Standards arising from AASB 101	01-January-2009

These amendments are not effective on balance date and have not been applied in preparing the Group's financial statements. The Group expects to adopt these standards where applicable for the annual reporting periods beginning on or after the operative dates set out above. The Group does not expect there to be any material adjustments, or disclosure impacts, upon application of the above standards.

**2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below. It has been determined that no critical accounting judgements have been made in the year.

**A) POLICY LIABILITIES**

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs and present value of in-force business are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- i) The cost of providing benefits and administering these insurance contracts;
- ii) Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- iii) Discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts; and
- iv) The amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 26.

**B) ASSETS ARISING FROM REINSURANCE CONTRACTS**

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due and these amounts can be reliably measured.

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>3. PREMIUM REVENUE</b>				
Life insurance contract premiums	657,232	484,394	—	—
Less: Deposits recognised as an increase in policy liabilities	(15,994)	(19,272)	—	—
<b>Life insurance contract premiums recognised as revenue</b>	<b>641,238</b>	<b>465,122</b>	<b>—</b>	<b>—</b>
Less: Reinsurance expense	(221,356)	(160,073)	—	—
<b>Total net premium revenue</b>	<b>419,882</b>	<b>305,049</b>	<b>—</b>	<b>—</b>

#### 4. INVESTMENT INCOME

Interest	62,667	87,434	1,904	2,011
Dividends	208,311	46,860	71,118	—
Property	7,663	21,728	—	—
Net fair value gains on financial assets at fair value through profit or loss	88,648	166,250	174	—
<b>Total investment income</b>	<b>367,289</b>	<b>322,272</b>	<b>73,196</b>	<b>2,011</b>

On 1st April 2007 the Company received a \$71.1 million (2006: nil) dividend immediately prior to TOWER Holdings (Australia) Limited, a controlled entity, being wound up.

At the same time the Company impaired the carrying value of TOWER Holdings (Australia) Limited by \$70.6 million to reflect the reduction in fair value. See note 39 for more detail.

#### 5. FEE AND OTHER REVENUE

Fees from life investment contracts	12,017	10,828	—	—
Investment management fees	7,411	4,604	—	—
Other revenue	7,374	9,901	—	—
<b>Total fee and other revenue</b>	<b>26,802</b>	<b>25,333</b>	<b>—</b>	<b>—</b>

#### 6. CLAIMS EXPENSE

Life insurance claims	359,336	231,011	—	—
Life investment contract payments	391,273	295,795	—	—
<b>Total life claims and payments</b>	<b>750,609</b>	<b>526,806</b>	<b>—</b>	<b>—</b>
Less: Withdrawals recognised as a decrease in policy liabilities	(452,459)	(341,906)	—	—
<b>Life insurance claims recognised as expense</b>	<b>298,150</b>	<b>184,900</b>	<b>—</b>	<b>—</b>
Less: Reinsurance recoveries received	(181,999)	(98,465)	—	—
<b>Total net claims expense</b>	<b>116,151</b>	<b>86,435</b>	<b>—</b>	<b>—</b>

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>7. MANAGEMENT AND SALES EXPENSES</b>				
<b>LIFE INSURANCE CONTRACTS</b>				
Policy acquisition expenses:				
Commission	33,253	36,226	—	—
Other acquisition expenses	36,428	29,026	—	—
Policy maintenance expenses:				
Commission	113,472	73,507	—	—
Other maintenance expenses	88,679	61,822	—	—
Investment management expenses	1,699	1,767	—	—
<b>Total life insurance expenses</b>	<b>273,531</b>	<b>202,348</b>	<b>—</b>	<b>—</b>
<b>LIFE INVESTMENT CONTRACTS</b>				
Policy acquisition expenses:				
Commission	2,886	2,565	—	—
Other acquisition expenses	3,942	4,802	—	—
Policy maintenance expenses:				
Commission	7,495	7,118	—	—
Other maintenance expenses	23,021	19,180	—	—
Investment management expenses	6,318	5,776	—	—
<b>Total life investment expenses</b>	<b>43,662</b>	<b>39,441</b>	<b>—</b>	<b>—</b>
<b>Other non-life expenses</b>	<b>21,873</b>	<b>14,115</b>	<b>2,062</b>	<b>2</b>
<b>Total management and sales expenses</b>	<b>339,066</b>	<b>255,904</b>	<b>2,062</b>	<b>2</b>
<b>Included in total management and sales expenses are the following:</b>				
Amortisation of deferred acquisition costs	8,990	8,946	—	—
Change in provision for doubtful debts	748	382	—	—
Depreciation:				
Office equipment and furniture	841	572	—	—
Motor vehicles	7	5	—	—
Computer hardware and software	1,249	1,245	—	—
Donations	64	6	—	—
Employee benefits expense	70,725	54,532	—	—
Project costs	12,901	5,234	—	—

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>AUDITORS REMUNERATION</b>				
<i>Assurance services</i>				
<i>Audit services</i>				
<i>PricewaterhouseCoopers Australian firm</i>				
Audit and review of financial reports	1,101	929	67	67
<i>Non-PricewaterhouseCoopers Australian firm</i>				
Audit or review of financial reports of any entity in the Group	—	—	—	—
<b>Total remuneration for audit services</b>	<b>1,101</b>	<b>929</b>	<b>67</b>	<b>67</b>
<i>Other assurance services</i>				
<i>PricewaterhouseCoopers Australian firm</i>				
Audit of regulatory returns	143	222	—	18
Audit of superannuation funds	270	188	—	—
Controls assurance services	50	26	—	—
Other audit related work	209	4	—	—
<b>Total remuneration for other assurance services</b>	<b>672</b>	<b>440</b>	<b>—</b>	<b>18</b>
<b>Total remuneration</b>	<b>1,773</b>	<b>1,369</b>	<b>67</b>	<b>85</b>
<i>Finance costs</i>				
Interest expense	7,853	3,146	—	—
<b>Total financing costs</b>	<b>7,853</b>	<b>3,146</b>	<b>—</b>	<b>—</b>

## 8. TAXATION

### ANALYSIS OF TAXATION EXPENSE

Current taxation	(15,340)	40,731	227	603
Deferred taxation	45,462	(5,037)	(1,343)	—
Under/(over) provided in prior years	(1,616)	3,137	(823)	—
<b>Income tax expense for the year</b>	<b>28,506</b>	<b>38,831</b>	<b>(1,940)</b>	<b>603</b>
<b>Total profit before taxation</b>	<b>69,171</b>	<b>163,653</b>	<b>546</b>	<b>71,019</b>
Income tax at the current rate of 30% (2006: 30%)	20,751	49,096	164	21,306
Taxation effect of non-deductible expenses/non-assessable revenue:				
Permanent difference arising from taxation of life company	15,119	15,868	—	—
Permanent difference arising from taxation of non life company	(299)	(8,578)	619	—
Utilisation of previously unrecognised tax benefits	(2,133)	—	(1,900)	—
Tax benefit recognised on PrefSure acquisition	(3,172)	—	—	—
Permanent difference arising on debt forgiveness	—	(20,703)	—	(20,703)
Imputation tax credits	(256)	—	—	—
Under/(over) provided in prior years	(1,616)	3,137	(823)	—
Other	112	11	—	—
<b>Income tax expense</b>	<b>28,506</b>	<b>38,831</b>	<b>(1,940)</b>	<b>603</b>

The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders.

**8. TAXATION continued**

	Opening balance at 1 October	Charged/ (credited) to income	Charged to equity	Acquisition/ disposal of controlled entity	Closing balance at 30 September
2007	\$000	\$000	\$000	\$000	\$000
<b>MOVEMENTS IN DEFERRED TAXATION</b>					
Deferred revenue liability	24,787	(639)	—	—	24,148
Provisions and accruals	5,035	3,498	—	—	8,533
Financial instrument liability	—	—	—	—	—
Carried forward losses	9,544	(1,343)	—	—	8,201
Fair value	(31,222)	39,756	—	—	8,534
Deferred acquisition costs	(20,367)	2,165	—	—	(18,202)
Tax benefit recognised on PrefSure acquisition	—	3,172	—	—	3,172
Other	(2,394)	(1,147)	1,647	—	(1,894)
<b>Total deferred tax</b>	<b>(14,617)</b>	<b>45,462</b>	<b>1,647</b>	<b>—</b>	<b>32,492</b>
<b>2006</b>					
<b>MOVEMENTS IN DEFERRED TAXATION</b>					
Deferred revenue liability	21,930	2,857	—	—	24,787
Provisions and accruals	4,505	530	—	—	5,035
Financial instrument liability	6,478	(6,478)	—	—	—
Carried forward losses	9,270	274	—	—	9,544
Fair value	(29,115)	(2,107)	—	—	(31,222)
Deferred acquisition costs	(22,110)	1,743	—	—	(20,367)
Other	5,739	(1,857)	—	(6,276)	(2,394)
<b>Total deferred tax</b>	<b>(3,303)</b>	<b>(5,037)</b>	<b>—</b>	<b>(6,276)</b>	<b>(14,617)</b>

**UTILISATION OF DEFERRED TAX ASSETS**

Included in the deferred tax balance of \$32.5 million is a deferred tax asset (DTA) of \$65.4 million (2006: \$50.9 million) offset by a deferred tax liability \$32.9 million (2006: \$65.5 million). The method and timing of the realisation of DTAs has been reviewed in conjunction with the Tax Group's current and future tax liabilities. This review indicates that the Group is able to realise these DTAs within the expected timeframes, and therefore the recognition of these assets is justified.

**UNRECOGNISED TEMPORARY DIFFERENCES AND LOSSES**

There are no unrecognised temporary differences in respect of revenue losses from current and prior periods. Capital tax losses not recognised are \$78.0 million, tax effect of \$23.4 million. (2006: \$78.0 million, tax effect of \$23.4 million). Of the \$23.4 million, \$5.3 million of the benefit is due to the unutilised loss incurred by TOWER Group (Australia) Pty Limited in 2002 from the share buyback in FAI Life holding company, and \$18.1 million of the benefit is due to the loss incurred by the Company on the sale of Bridges in 2005.

Refer to note 24 for information on franking credits.

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>9. RECEIVABLES</b>				
Reinsurance recoveries receivable	73,399	41,139	—	—
Outstanding premiums and trade receivables	81,478	59,262	—	—
Prepayments	1,709	2,004	—	—
Unsettled investment sales	—	52,440	—	—
Other	3,070	9,247	77	—
Related party receivables	—	632	78,934	23,770
<b>Total receivables</b>	<b>159,656</b>	<b>164,724</b>	<b>79,011</b>	<b>23,770</b>
<b>Analysed as:</b>				
Current	154,424	163,178	79,011	23,770
Non-current	5,232	1,546	—	—
	<b>159,656</b>	<b>164,724</b>	<b>79,011</b>	<b>23,770</b>
<b>10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
Fixed interest securities	117,657	1,416,323	11,684	—
Equity securities	—	1,158,920	—	—
Unlisted unit trusts	3,090,933	—	—	—
Property trusts	—	263,716	—	—
<b>Total financial assets at fair value through profit</b>	<b>3,208,590</b>	<b>2,838,959</b>	<b>11,684</b>	<b>—</b>
<b>Analysed as:</b>				
Current	1,154,000	1,070,750	11,684	—
Non-current	2,054,590	1,768,209	—	—
	<b>3,208,590</b>	<b>2,838,959</b>	<b>11,684</b>	<b>—</b>

Note:

During the period the Group disposed of its interests in controlled unit trusts and acquired units in unit trusts managed by Russell Investment Management Limited where the Group does not have a controlling interest.

	Goodwill	Value of In-force Business	Total
Year ended 30 September 2006	\$000	\$000	\$000

## 11. INTANGIBLE ASSETS

Opening balance	110,960	—	110,960
Additional goodwill recognised	225	—	225
Acquisition of PrefSure	17,164	27,756	44,920
Amortisation expense during period	—	(1,896)	(1,896)
<b>Closing net book amount at 30 September 2006</b>	<b>128,349</b>	<b>25,860</b>	<b>154,209</b>

### AT 30 SEPTEMBER 2006

Cost	180,848	27,756	208,604
Accumulated amortisation and impairment losses	(52,499)	(1,896)	(54,395)
<b>Net book amount at 30 September 2006</b>	<b>128,349</b>	<b>25,860</b>	<b>154,209</b>

### YEAR ENDED 30 SEPTEMBER 2007

Additional goodwill recognised	270	—	270
PrefSure goodwill derecognised	(3,172)	—	(3,172)
Amortisation expense during period	—	(3,791)	(3,791)
<b>Closing net book amount at 30 September 2007</b>	<b>125,447</b>	<b>22,069</b>	<b>147,516</b>

### AT 30 SEPTEMBER 2007

Cost	181,118	27,756	208,874
Accumulated amortisation and impairment losses	(55,671)	(5,687)	(61,358)
<b>Net book amount at 30 September 2007</b>	<b>125,447</b>	<b>22,069</b>	<b>147,516</b>

The Group recognised a \$3.2 million deferred tax asset during 2007 which related to the acquisition of PrefSure in 2006. This is a pre acquisition asset so goodwill has been derecognised to reflect the value of goodwill acquired at date of acquisition.

### IMPAIRMENT TESTING FOR GOODWILL

The amount of goodwill is subject to annual impairment testing at the business unit level.

	TOWER Australia Limited	PrefSure	Other	Total
Carrying amount of goodwill	109,776	11,938	3,733	125,447

Key financial indicators are considered when testing the Group'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 confirms that at 30 September 2007 goodwill has not been impaired.

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Investments in associates (note 38)	706	995	—	—
Investments in controlled entities carried at cost	—	—	436,615	296,009
Available-for-sale financial assets	33,282	31,460	—	—
	<b>33,988</b>	<b>32,455</b>	<b>436,615</b>	<b>296,009</b>

Available-for-sale financial assets represent strategic investments not intended for resale.

TOWER Australia Group Limited holds its controlled entity companies under a holding company, TOWER Group (Australia) Limited. All controlled entity companies have a balance sheet date of 30 September 2007. Principal trading controlled entity companies at 30 September 2007 and 2006 are as follows:

NAME OF COMPANY	HOLDINGS		NATURE OF BUSINESS
	2007	2006	
Beacon Investment Management Services Limited	100%	100%	Financial services distribution
PrefSure Holdings Limited	100%	100%	Holding company
TOWER Asset Management Limited	—	100%	Investment management services
TOWER Australia Limited	100%	100%	Life insurance and superannuation provider
PrefSure Life Limited	100%	100%	Life insurance
TOWER Risk and Investment Management Limited	100%	100%	Service company
Pivotal Financial Advisers Limited	100%	100%	Financial adviser services
TOWER Distribution Management Limited	100%	100%	Holding company
TOWER Direct Pty Limited	100%	100%	Distribution company
TOWER Australian Superannuation Limited	100%	100%	Superannuation trustee company
TOWER Managed Funds Limited	100%	100%	Investment management services
TOWER Group (Australia) Limited	100%	100%	Holding company
TOWER Australia Distribution Limited	100%	100%	Distribution company
TOWER Executive Share Options Pty Limited	66%	—	Trustee

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000

### 13. DEFERRED ACQUISITION COSTS

Opening balance	67,889	75,157	—	—
Acquisition costs deferred during the period	1,773	1,678	—	—
Current period amortisation	(8,990)	(8,946)	—	—
Closing balance	60,672	67,889	—	—
<b>Analysed as:</b>				
Current	8,058	8,081	—	—
Non-current	52,614	59,808	—	—
	<b>60,672</b>	<b>67,889</b>	<b>—</b>	<b>—</b>

	GROUP			
	Office equipment and furniture	Computer hardware and software	Motor Vehicles	Total
	\$000	\$000	\$000	\$000
<b>14. PLANT AND EQUIPMENT</b>				
<b>YEAR ENDED 30 SEPTEMBER 2006</b>				
Opening net book amount	1,731	1,756	—	3,487
Additions	69	3	—	72
Disposals	—	—	(41)	(41)
Acquired a controlled entity	147	2,426	70	2,643
Depreciation charge	(572)	(1,245)	(5)	(1,822)
<b>Net book amount 30 September 2006</b>	<b>1,375</b>	<b>2,940</b>	<b>24</b>	<b>4,339</b>
<b>AT 30 SEPTEMBER 2006</b>				
At cost	12,856	44,320	39	57,215
Accumulated depreciation	(11,481)	(41,380)	(15)	(52,876)
<b>Net book amount 30 September 2006</b>	<b>1,375</b>	<b>2,940</b>	<b>24</b>	<b>4,339</b>
<b>YEAR ENDED 30 SEPTEMBER 2007</b>				
Opening net book amount	1,375	2,940	24	4,339
Additions	2,471	—	90	2,561
Disposals	—	—	(107)	(107)
Depreciation charge	(841)	(1,249)	(7)	(2,097)
<b>Net book amount 30 September 2007</b>	<b>3,005</b>	<b>1,691</b>	<b>—</b>	<b>4,696</b>
<b>AT 30 SEPTEMBER 2007</b>				
At cost	15,327	44,320	22	59,669
Accumulated depreciation	(12,322)	(42,629)	(22)	(54,973)
<b>Net book amount 30 September 2007</b>	<b>3,005</b>	<b>1,691</b>	<b>—</b>	<b>4,696</b>

The parent company does not hold any plant and equipment.

	GROUP		COMPANY	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
<b>15. PAYABLES</b>				
Trade payables	61,651	48,443	11,950	11,951
Unsettled investment purchases	210	94,601	—	—
Reinsurance premiums payable	56,249	47,993	—	—
Related party payables	—	137,337	11,286	7,571
<b>Total payables</b>	<b>118,110</b>	<b>328,374</b>	<b>23,236</b>	<b>19,522</b>
<b>Analysed as:</b>				
Current	112,736	325,862	23,236	19,522
Non-current	5,374	2,512	—	—
	<b>118,110</b>	<b>328,374</b>	<b>23,236</b>	<b>19,522</b>

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>16. PROVISIONS</b>				
Employee benefits	12,613	8,232	—	—
Stamp duty	4,399	4,860	—	—
Other	2,948	3,372	—	—
<b>Total provisions</b>	<b>19,961</b>	<b>16,464</b>	<b>—</b>	<b>—</b>
<b>Analysed as:</b>				
Current	14,587	10,877	—	—
Non-current	5,374	5,587	—	—
	<b>19,961</b>	<b>16,464</b>	<b>—</b>	<b>—</b>

#### MOVEMENTS IN PROVISIONS

Movements in each class of provision other than employee benefits during the financial year are set out below:

#### STAMP DUTY

Opening balance at 1 October	4,860	5,223	—	—
Additions	—	—	—	—
Amounts used	(461)	(363)	—	—
<b>Closing balance at 30 September</b>	<b>4,399</b>	<b>4,860</b>	<b>—</b>	<b>—</b>

This provision relates primarily to stamp duty liabilities which may arise once the resolution of various issues with the stamp duty authorities have been reached.

#### OTHER PROVISIONS

Opening balance at 1 October	3,372	2,672	—	—
Additions	3,543	2,071	—	—
Amount used	(4,578)	(2,628)	—	—
Reversal of unused amount	(370)	(413)	—	—
Controlled entity provisions acquired	981	1,670	—	—
<b>Closing balance at 30 September</b>	<b>2,948</b>	<b>3,372</b>	<b>—</b>	<b>—</b>

Included in Other Provisions are provisions for:

- (i) Liabilities arising from legacy compliance issues that require remediation and provisions for any potential compensation payments to policyholders;
- (ii) Carrying value of plant and equipment that needs to be impaired;
- (iii) Bad and doubtful debtors; and
- (iv) Surplus lease space.

All payments are expected to be finalised in the next 12 months.

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>17. INTEREST BEARING LIABILITIES</b>				
Short term borrowing	100,000	100,000	—	—
Transaction costs	(424)	—	—	—
<b>Total interest bearing liabilities</b>	<b>99,576</b>	<b>100,000</b>	<b>—</b>	<b>—</b>
The above interest-bearing liabilities are non-current and unsecured.				
The loan was refinanced during the period with associated transaction costs being capitalised. The loan is split into two tranches. Tranche A of \$75 million due to mature December 2009 and Tranche B of \$25 million due to mature December 2011. Both tranches attract a floating interest rate which had a weighted average interest rate for 2007 of 7.33%. Please refer to note 27 for more detail.				
<b>18. OUTSTANDING CLAIMS — LIFE INSURANCE</b>				
Outstanding claims — life insurance contracts	72,036	51,621	—	—
<b>Analysed as:</b>				
Current	72,036	51,621	—	—
<b>19. OTHER LIABILITIES</b>				
Unearned revenue — rental incentive	1,435	1,664	—	—
	<b>1,435</b>	<b>1,664</b>	<b>—</b>	<b>—</b>
<b>Analysed as:</b>				
Current	229	229	—	—
Non-current	1,206	1,435	—	—
	<b>1,435</b>	<b>1,664</b>	<b>—</b>	<b>—</b>
<b>20. DEFERRED REVENUE LIABILITY</b>				
Opening balance	100,693	106,602	—	—
Movement	(7,022)	(5,909)	—	—
<b>Closing balance</b>	<b>93,671</b>	<b>100,693</b>	<b>—</b>	<b>—</b>
<b>Analysed as:</b>				
Current	11,121	5,909	—	—
Non-current	82,550	94,784	—	—
	<b>93,671</b>	<b>100,693</b>	<b>—</b>	<b>—</b>

## 21. CONTRIBUTED EQUITY

Movements in ordinary share capital during the financial year:

Date/Details	GROUP		COMPANY	
	Number of Shares	\$000	Number of Shares	\$000
1 October 2005 — opening balance	510,269,341	230,573	510,269,341	230,573
Less share cancellation	(276,025,953)	—	(276,025,953)	—
30 September 2006 — balance	<b>234,243,388</b>	<b>230,573</b>	<b>234,243,388</b>	<b>230,573</b>
19 December 2006 — rights issue	99,998,011	159,997	99,998,011	159,997
Less transaction costs	—	(6,328)	—	(6,328)
Less options exercised	—	(105)	—	(105)
30 September 2007 — closing balance	<b>334,241,399</b>	<b>384,137</b>	<b>334,241,399</b>	<b>384,137</b>

All shares rank equally with one vote attached to each share.

On 20 November 2006 the consolidated entity separated from its New Zealand parent, TOWER Limited, and separately listed on the Australian Stock Exchange on 21 November 2006. On the same day the parent entity issued 100,000,000 entitlements to existing shareholders to acquire new shares for \$1.60. On 19 December 2006, 99,998,011 ordinary shares were allocated to those persons who subscribed under the Entitlements Offer. The transaction costs incurred of \$6,328,000 were offset against the proceeds of the entitlements. The net proceeds were used to repay all of TOWER's debt and intercompany advances from its NZ parent as part of the capital restructure which occurred at the time of the separation (2006: there was a cancellation of 0.5409 shares for each share held with no change to the ordinary share capital).

## 22. EARNINGS PER SHARE

There is no difference in the calculation of basic and diluted earnings per share as there is only one class of fully paid ordinary shares.

	GROUP	
	2007 Cents	2006 Cents
<b>(A) BASIC AND DILUTED EARNINGS PER SHARE</b>		
Profit attributable to the ordinary equity holders of the Company	13.0	24.5

Comparative 2006 earnings per share would be 11.2 cents per share if calculated based on the closing number of share on issue on 30 September 2007 of 334.2 million and profit after tax of \$39.3 million excluding the \$85.5 million gain on restructure.

### (B) RECONCILIATIONS OF EARNINGS USED IN THE CALCULATING EARNINGS PER SHARE

	GROUP	
	2007 \$000	2006 \$000
<b>Basic and diluted earnings per share</b>		
Profit from continuing operations	40,665	124,822
Profit attributable to the ordinary equity holders of the company used in the calculation of basic and diluted earnings per share	40,665	124,822

### (C) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	GROUP	
	2007 Number	2006 Number
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating the basic and diluted earnings per share.	312,323,673	509,513,106

**23. RESERVES AND RETAINED PROFITS**

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>SHARE BASED PAYMENTS RESERVE</b>				
Opening balance at 1 October	795	422	—	—
Option expense	2,061	373	2,061	—
<b>Closing balance at 30 September</b>	<b>2,856</b>	<b>795</b>	<b>2,061</b>	<b>—</b>
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS RESERVE</b>				
Opening balance at 1 October	—	—	—	—
Movement in fair value of investments held for sale	2,071	—	—	—
Tax effect of movement in fair value of investments held for sale	(881)	—	—	—
<b>Closing balance at 30 September</b>	<b>1,190</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>RETAINED PROFIT/(LOSS)</b>				
Opening balance at 1 October	105,636	(19,186)	69,566	(850)
Net profit for the year	40,665	124,822	2,486	70,416
<b>Closing balance at 30 September</b>	<b>146,301</b>	<b>105,636</b>	<b>72,052</b>	<b>69,566</b>

**NATURE AND PURPOSE OF RESERVES**
**a) Share based payments reserve**

The share based payments reserve is used to recognise the fair value of options issued to employees but not exercised.

**b) Available-for-sale financial assets reserve**

Changes in the fair value of investments, such as equities classified as available-for-sales financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1(o). Amounts are recognised in the income statement when the associated assets are sold or impaired.

**24. DISTRIBUTIONS TO SHAREHOLDERS**

No dividends were paid during the year ended 30 September 2007 or 30 September 2006.

	COMPANY	
	2007 \$000	2006 \$000
Franking credits available for subsequent financial years based on a tax rate of 30% (2006 – 30%)	59,079	47,348

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

## 25. SEGMENTAL REPORTING

### DESCRIPTION OF SEGMENTS

Life insurance and funds management includes all life and disability insurance and wealth management services in Australia.

Other financial services includes all other financial services such as the provision of financial advice.

Corporate includes all head office related costs.

Business Segments	Life insurance and funds management	Other financial services	Corporate	Total
2007	\$000	\$000	\$000	\$000
<b>PROFITS FROM OPERATIONS</b>				
Profits from continuing operations	47,760	3,680	(10,775)	40,665
<b>Profit for the year</b>	<b>47,760</b>	<b>3,680</b>	<b>(10,775)</b>	<b>40,665</b>
<b>REVENUE</b>				
Revenue — external	796,774	15,140	2,059	813,973
Revenue — internal	—	—	—	—
<b>Total revenue</b>	<b>796,774</b>	<b>15,140</b>	<b>2,059</b>	<b>813,973</b>
Total assets	3,519,351	81,029	250,417	3,850,797
Total liabilities	3,117,612	21,637	177,063	3,316,313
Acquisition of property, plant and equipment, intangibles and other non-current assets	—	272	(3,172)	(2,900)
Depreciation and amortisation	8,990	2,089	3,798	14,877
Other non-cash expenses	(275,701)	3,251	(65,649)	(338,099)
Profit from associates, joint ventures and investments accounted for under the equity method	—	(95)	—	(95)
Investments in associates, joint ventures and investments accounted for under the equity method	—	706	—	706
<b>2006</b>				
<b>Profits from operations</b>				
Profits from continuing operations	33,590	862	90,370	124,822
<b>Profit for the year</b>	<b>33,590</b>	<b>862</b>	<b>90,370</b>	<b>124,822</b>
<b>REVENUE</b>				
Revenue — external	635,850	13,775	88,492	738,117
Revenue — internal	813	5,982	(6,796)	—
<b>Total revenue</b>	<b>636,664</b>	<b>19,757</b>	<b>81,696</b>	<b>738,117</b>

## 25. SEGMENTAL REPORTING continued

Business Segments	Life insurance and funds management	Other financial services	Corporate	Total
2006	\$000	\$000	\$000	\$000
Total assets	3,521,752	14,727	202,217	3,738,696
Total liabilities	3,121,979	18,066	261,647	3,401,692
Acquisition of property, plant and equipment, intangibles and other non-current assets	—	297	44,920	45,217
Depreciation and amortisation	15,911	1,829	(6,972)	10,768
Other non-cash expenses	(89,371)	373	(75,430)	(164,428)
Profit from associates, joint ventures and investments accounted for under the equity method	—	—	100	100
Investments in associates, joint ventures and investments accounted for under the equity method	—	600	395	995

## GEOGRAPHICAL SEGMENTS

The economic entity operates solely in Australia.

## 26. LIFE INSURANCE BUSINESS

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>(A) POLICYHOLDER LIABILITIES REPRESENT:</b>				
<b>LIFE INSURANCE CONTRACT LIABILITIES</b>				
<i>Value of policy liabilities — Projection method</i>				
Future policy benefits	1,937,837	2,135,172	—	—
Future bonuses	94,502	53,210	—	—
Future expenses	1,012,452	929,839	—	—
Reinsurance	191,348	98,675	—	—
Future charges for acquisition expenses	(713)	—	—	—
Future profit margins	353,106	237,527	—	—
Future premiums	(3,343,404)	(3,178,200)	—	—
	245,128	276,223	—	—
<i>Value of policy liabilities — Accumulation method</i>				
Future policy benefits	112,211	123,498	—	—
Future charges for acquisition expenses	(4,309)	(5,260)	—	—
	107,902	118,238	—	—
<b>Total vested policy liabilities</b>	<b>353,030</b>	<b>394,461</b>	—	—
Unvested policyholder benefits	68,014	68,551	—	—
<b>Net policyholder liabilities — life insurance contracts</b>	<b>421,044</b>	<b>463,012</b>	—	—

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>RECONCILIATION OF MOVEMENTS IN INSURANCE CONTRACT POLICYHOLDER LIABILITIES</b>				
Gross life insurance liabilities at 1 October	597,724	403,077	—	—
Acquired life insurance contract liabilities	—	168,454	—	—
Increase in life insurance contract liabilities recognised in the income statement	12,650	16,337	—	—
Deposits recognised as an increase in policy liabilities	18,164	19,202	—	—
Withdrawals recognised as a decrease in policy liabilities	(61,186)	(50,170)	—	—
Movement in gross policy liabilities ceded	(32,338)	40,824	—	—
<b>Gross life insurance contract liabilities at 30 September</b>	<b>535,014</b>	<b>597,724</b>	—	—
<b>LIFE INVESTMENT CONTRACT LIABILITIES</b>				
<i>Value of policy liabilities — Projection method</i>				
Future policy benefits	2,215,501	2,044,853	—	—
Reinsurance	(39,285)	(1,593)	—	—
	2,176,216	2,043,260	—	—
<i>Value of policy liabilities — Accumulation method</i>				
Future policy benefits	107,388	94,375	—	—
<b>Net policyholder liabilities — life investment contracts</b>	<b>2,283,604</b>	<b>2,137,635</b>	—	—
<b>RECONCILIATION OF MOVEMENTS IN INVESTMENT CONTRACT POLICYHOLDER LIABILITIES</b>				
Gross life investment contract liabilities at 1 October	2,175,427	2,064,881	—	—
Acquired life investment contract liabilities	—	17,021	—	—
Increase in life investment contract liabilities recognised in the income statement	262,214	206,892	—	—
Deposits recognised as an increase in policy liabilities	281,884	178,367	—	—
Withdrawals recognised as a decrease in policy liabilities	(403,290)	(291,734)	—	—
<b>Gross life investment contract liabilities at 30 September</b>	<b>2,316,235</b>	<b>2,175,427</b>	—	—
<b>Total gross policyholder liabilities</b>	<b>2,851,249</b>	<b>2,773,151</b>	—	—
<b>LIABILITIES CEDED UNDER REINSURANCE</b>				
At 1 October	165,652	13,755	—	—
Acquired liabilities ceded under reinsurance	—	115,646	—	—
Movement in income statement	(26,139)	36,251	—	—
At 30 September	<b>139,513</b>	<b>165,652</b>	—	—
<b>Net policyholder liabilities</b>	<b>2,711,735</b>	<b>2,607,499</b>	—	—
<b>Analysed as:</b>				
Payable within 12 months	472,000	590,400	—	—
Payable in more than 12 months	2,239,735	2,017,099	—	—
	<b>2,711,735</b>	<b>2,607,499</b>	—	—

## 26. LIFE INSURANCE BUSINESS continued

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>(B) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS</b>				
<b>Life insurance contracts</b>				
Planned profit margins	28,178	21,968	—	—
Experience profits	(1,080)	1,026	—	—
Capitalised loss/(recognition) and reversal	(247)	134	—	—
Impact of yield changes	(3,029)	(2,150)	—	—
Investment earnings on assets in excess of policy liabilities of life companies	21,898	13,221	—	—
<b>Operating profit after tax attributable to shareholders arising from life insurance contracts</b>	<b>45,720</b>	<b>34,199</b>	<b>—</b>	<b>—</b>
Life investment contracts				
Planned profit margins	7,110	9,152	—	—
Experience losses	(5,917)	(5,385)	—	—
Investment earnings on assets in excess of policy liabilities of life companies	1,103	2,583	—	—
<b>Operating profit after tax attributable to shareholders arising from life investment contracts</b>	<b>2,296</b>	<b>6,350</b>	<b>—</b>	<b>—</b>

**(C) SOLVENCY REQUIREMENTS OF LIFE FUNDS**

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for each of the life insurance companies in the Group is shown below. The shareholder equity retained in each of the life insurance companies exceeds these minimum requirements.

		TOWER AUSTRALIA LTD		PREFSURE LIFE LIMITED	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Solvency requirement	A	3,217,567	2,806,563	—	229,775
Represented by:					
Minimum Termination Value (excluding investment-linked risk margin)		2,862,098	2,578,257	—	148,095
Other liabilities		263,592	150,423	—	74,423
Solvency reserve	B	91,877	77,883	—	7,257
<b>Solvency requirement</b>		<b>3,217,567</b>	<b>2,806,563</b>	<b>—</b>	<b>229,775</b>
Assets available to meet solvency reserve:	C	264,224	224,425	—	23,315
Solvency reserve	B	91,877	77,883	—	7,257
<b>Excess assets above required</b>		<b>172,347</b>	<b>146,542</b>	<b>—</b>	<b>16,058</b>
Required solvency reserve %	$(B/(A-B)) \times 100$	2.9%	2.9%	—	3.3%
Coverage of required solvency reserve	C/B	2.9	2.9	—	3.2%

## (D) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS — LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2007. The appointed actuary, Megan Beer, FIAA has calculated policyholder liabilities for TOWER Australia Limited and PrefSure Life Limited. The appointed actuary is satisfied as to the accuracy of the data from which the policyholder liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculations of policy liabilities and solvency requirements.

### (i) Policy Liabilities

Policy liabilities for life insurance business have been determined in accordance with Actuarial Standard 1.04 issued by the Life Insurance Actuarial Standards Board. The standard requires that the policyholder liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

#### *Valuation of policy liabilities*

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the life companies.

The life companies incur costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) directly related to the acquisition of new business are deferred as long as the underlying policy is expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

#### *Methods used to value policy liabilities*

##### (i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

##### (ii) Accumulation method

Under the accumulation method, the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported, less any deferred acquisition costs.

#### *Methods used*

Where the policy liability is determined by the projection method, Actuarial Standard 1.04 requires profit to be related to one or more financially measurable indicators of the provision of service (or related income) called 'profit carriers'. The profit carriers adopted for the major product groups are shown in the table below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Traditional participating	Projection	Cost of supportable bonuses
Traditional non-participating, renewal and level term insurance	Projection	Expected death claims
Lifetime annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Participating investment account	Projection	Cost of supportable bonuses
Group risk insurances	Accumulation	—
Group salary continuance — open claims	Projection	—

**26. LIFE INSURANCE BUSINESS continued**
**(ii) Disclosure of assumptions**

The following table summarises the key assumptions used in the calculation of policyholder liabilities, together with notes on any significant changes in the assumptions:

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (by product Group)	SIGNIFICANT CHANGES
Discount rates for participating business	The discount rates assumed in calculating policyholder liabilities were derived from the expected long term average rates of return for the relevant asset pools backing this business, based on a neutral asset mix for each pool. Discount rates assumed are net of taxation and investment expenses.	The discount rates used are as follows: September 2007 3.7% to 7.3% p.a. September 2006 3.8% to 5.5% p.a.
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on government bond rates, or the inter bank mid swap rates, depending on the nature, structure and term of the contract liabilities.	The discount rates used are as follows: September 2007 6.3% to 7.1% p.a. September 2006 5.6% to 6.2% p.a.
Inflation	A specific allowance before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation: September 2007 3.53% p.a. September 2006 3.4% p.a.
Future expenses	Future maintenance expenses have been set based on the expected cost of servicing each in force policy over the next year, excluding any one off costs, with allowance for future inflation. Future investment management expenses have been set based on the actual costs of the Group's investment managers.	None
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	None
Mortality — risk products	Standard mortality tables, primarily IA95-97. These are adjusted for company experience.	The mortality assumptions were updated from IA90-92 to be largely based on the IA95-97 table. Mortality for life insurance plan was increased by 50%
Mortality — annuities	IM/IF80 standard mortality table adjusted for company experience.	None
Disability — lump sum	Based upon recent company experience.	None
Disability income	Standard morbidity table, IAD89-93, adjusted for company experience. Specific company experience is used for certain wholesale schemes.	None
Discontinuances	Discontinuance rates have been assumed to be consistent with the experience of recent years. Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors.	None
Surrender values	Surrender values are based on current practice.	None
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is generally at the maximum allowable of 25% of the value of bonuses distributed to participating policyholders subject to policy conditions. Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	None

## EFFECT OF CHANGES IN ACTUARIAL ASSUMPTIONS DURING THE REPORTING PERIOD

The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

The life insurance contract liability calculations include the use of published market yields, such as Commonwealth Government bond rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance sheet date.

The impact of assumption changes for life insurance contracts is shown below:

	CHANGE IN FUTURE PROFIT MARGINS
	\$000
<b>ASSUMPTION CHANGE</b>	
Non-market related economic assumptions	(13)
Mortality	31,000
Discontinuances	(5,003)
Expenses	11,728
Morbidity	13,868

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

There were no other material changes in the life insurance contract liabilities due to assumption changes for the year ending 30 September 2007.

VARIABLE	IMPACT OF MOVEMENT IN UNDERLYING VARIABLE
Expenses risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily disabled and the duration which they remain temporarily disabled. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For benefits which are not contractually linked to the underlying assets, the Group is exposed to market risk.

**26. LIFE INSURANCE BUSINESS continued**

**(iii) Sensitivity analysis**

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variable as disclosed above. The movement in any key variable will impact the profit and shareholders equity of the Company. The tables below describe how the change in each assumption will effect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in assumptions net of reinsurance.

**IMPACT OF CHANGES IN VARIABLES**

<b>VARIABLE</b>	<b>MOVEMENT</b>	<b>Change in Life Insurance Contract Liabilities Net of Reinsurance \$000</b>	<b>Change in Shareholder Profit After Tax and Equity Net of Reinsurance \$000</b>
Insured life mortality	Worsening by 10%	5,392	(3,712)
Morbidity claims costs	Worsening by 10%	4,768	(3,338)
Annuitant mortality	Worsening by 10%	2,786	(1,950)
Lapses and surrenders	Worsening by 10%	35	(15)
Renewal expenses	Worsening by 10%	929	(418)

**(iv) Solvency requirements**

Separate to the policy liabilities recognised in the balance sheet, the life insurance companies maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances.

The methodology and bases for determining the solvency requirement is in accordance with the requirements of AS2.04 'Solvency Standard' issued by the Life Insurance Actuarial Standards Board of Australia for the life insurance companies.

**(v) Life insurance risk**

The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Group are in note 27.

Insurance risks are controlled through adequate premium rates and policy charges for the policy terms and conditions and sufficient reinsurance arrangements, all of which are approved by the appointed actuary. In addition, insurance risk is controlled via underwriting process and tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

**Underwriting management procedures**

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies meeting certain criteria are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

**Claim management procedures**

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

**Reinsurance management procedures**

A number of analytical tools are used to assess the impact on the Group's exposure to risk with the objective to achieve optimal choice of type of reinsurance and retention levels. These tools produce financial projections based on assumptions to provide a detailed analysis of the potential exposures. Details of the reinsurance, retention levels and administration of the various portfolios are documented in reinsurance treaties and addenda.

**Terms and conditions of life insurance contracts**

The nature of the terms of the insurance contracts written by the Group is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables on the following page provide an overview of the key variables upon which the amount of related cash flows are dependent.

TYPE OF CONTRACT	DETAILS OF CONTRACT WORKINGS	NATURE OF COMPENSATION FOR CLAIMS	KEY VARIABLES AFFECTING FUTURE CASH FLOWS
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability, including renewable term)	Guaranteed benefits paid on death, permanent and temporary disability or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities.
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities.
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured that is payable on death or maturity. The guarantee amount is increased throughout the duration of the policy by the addition of regular bonuses annually that once added are not removed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities.
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earnings on assets backing the liabilities.

#### vi) Concentration of insurance risk

The Group aims to maintain a portfolio of policyholders with a diversified spread of insurance risk types, ages, sex, occupation classes and geographical locations for the individual and group risk business. The Group uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Group is exposed to a greater risk of loss in the event of an event affecting a location where groups of insured employees work. The Group has reflected the geographical concentration risk in the premium rates. The Group has purchased catastrophe reinsurance to limit some of the exposure from any one event.

**27. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION**

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market price risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Group objectives and policies in respect of insurance risk are in note 26, while the managing of financial risk and other non-financial risks are set out in the remainder of this section.

The Group’s objective is to satisfactorily manage these risks in line with the Group’s risk management policy and guidance which are approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Group depending on the nature of the risk. The Groups’ exposure to all risks is monitored by the Risk Executive Manager and this exposure is reported monthly to the executive management and the Audit, Compliance and Risk Management Committee.

The Board has delegated to the Audit, Compliance and Risk Management Committee, which is made up of a minimum of three non-executive Directors, the responsibility to review the effectiveness and efficiency of management processes, Group risk management and internal financial controls and systems as part of their duties.

Financial risks are generally managed by selecting appropriate assets given the nature of policy liabilities and policyholder benefit expectations and the Boards’ risk appetite. The assets are regularly monitored to ensure that asset/liability mismatch risks, credit risk, liquidity risk, interest rate risk, currency risk, market price risk and financing risk are maintained within acceptable limits. For those life insurance and life investment contracts where the benefits paid are directly impacted by the value of the underlying assets, the Group is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management and also changes in surrender penalties which depend on investment market performance.

The Board has delegated to the Group Investment Committee the responsibility for:

- (i) reviewing investment policy for shareholder and policyholder funds;
- (ii) reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- (iii) considering the establishment, adjustment or deletion of limits and counter—party approvals, and the scope of financial instruments to be used in the management of investments;
- (iv) reviewing the appointment of external investment managers;
- (v) monitoring compliance with investment policies and client mandates

Compliance risk and operational risk are both monitored by internal committees and report regularly to the Board.

**(A) MARKET RISK**

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

The Group Investment Committee determines the levels of market risk it accepts by reviewing:

- (i) what constitutes market risk for the Group;
- (ii) the basis used to fair value financial assets and liabilities;
- (iii) assets allocation and portfolio structures;
- (iv) diversification benchmarks by type of instrument and geographical areas; and
- (v) reporting of market risk exposures and the monitoring thereof.

**(i) Currency risk**

Currency risk is the risk of loss resulting from changes in exchange rates.

The Group’s principal transactions are carried out in Australian Dollars and its exposure to foreign exchange risk arises primarily with respect to international investments.

The Group Investment Committee sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

Foreign Currency Denominated Asset and Liabilities:

Assets and liabilities not hedged	GROUP		
	Assets \$000	Liabilities \$000	Net Exposure \$000
<b>AS AT 30 SEPTEMBER 2007</b>			
Exposure to other currencies	—	—	—
<b>AS AT 30 SEPTEMBER 2006</b>			
Exposure to other currencies	443	(1,528)	(1,085)

### ii) Interest rate risk

Interest rate risk is the risk that the value/future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Board is responsible for the management of the interest risk arising from external borrowings via board approved policies and management delegations. These policies allow for the use of interest rate swaps. As at 30 September 2007 there were interest rate swaps of \$6,230,000 (2006: \$103,825,000).

The Group manages interest risk arising from its interest bearing investments in accordance with Group Investment Committee approved policies based on international asset management good practice.

### Life insurance asset liability mismatch

Interest rate risk and market risk arise in life insurance to the extent that there is a mismatch between the statutory fund assets and policyholder liabilities. The impact of these mismatches impact current period operating profits. The primary areas of mismatch for the life insurance businesses are:

- (i) for non-participating life insurance contracts, the mismatch between the risk free discount rates used in the policy liability calculations and the backing asset values; and
- (ii) for a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation) and the income earned on assets backing liabilities.

Interest rate and market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and financial risks and capital requirements as advised by the appointed actuary.

The following tables provide information on the financial assets and financial liabilities. They show the weighted average effective interest rate. The weighted average interest rates are based on carrying amounts and rates applicable at balance date, net of the impact of derivatives. Where applicable, the rates are net of directly attributable transactions costs.

### MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES — GROUP

	Effective Interest Rate	0–12 months \$000	12–24 months \$000	24–36 months \$000	36–48 months \$000	48–60 months \$000	Over 60 months \$000	Total \$000
<b>2007</b>								
Fixed interest securities	7.21%	22,603	5,921	—	4,443	1,421	83,268	117,657
Other borrowings	7.33%	(100,000)	—	—	—	—	—	(100,000)
<b>2006</b>								
Fixed interest securities	6.52%	318,853	203,421	163,707	123,864	206,693	399,785	1,416,323
Other borrowings	6.53%	(100,000)	—	—	—	—	—	(100,000)

All other financial assets and liabilities are non-interest bearing.

### iii) Price risk

All financial assets (other than investments in controlled entities) and liabilities are recorded at values which approximate fair value.

### (B) CREDIT RISK

Credit risk is the risk of loss that arises from a counter party failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk on that instrument.

The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

The only significant concentrations of credit risk are outlined as follows:

**27. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION** *continued*

	GROUP		COMPANY	
	2007 Carrying value \$000	2006 Carrying value \$000	2007 Carrying value \$000	2006 Carrying value \$000
Australian government	7,055	17,371	—	—
Controlled entities	—	—	436,615	296,009

Additionally, the Group has normal clearing house exposures associated with dealings through recognised exchanges and financial intermediaries.

**(C) FINANCING AND LIQUIDITY RISK**

Financing and liquidity risk is the risk that the Group will not be able to refinance debt obligations or may not be able to raise cash when required and on acceptable terms.

The Group treasury function maintains sufficient liquid assets to cover obligations and unforeseen expenses and claims arising within the Group.

**(D) FAIR VALUES**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All assets shown on the balance sheet are at fair value unless otherwise noted.

**(E) DERIVATIVE FINANCIAL INSTRUMENTS**

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term reweightings of asset class, sector and security exposures and to hedge portfolios when a market is subject to significant short-term risk.

Derivative financial instruments used include forward foreign exchange contracts, futures, currency swaps and interest rate swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>AS LESSEE</b>				
Rent paid under non-cancellable operating leases during the year	4,697	2,803	—	—
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
Not later than one year	5,324	5,106	—	—
Later than one year and not later than five years	17,554	16,733	—	—
Later than five years	3,698	7,230	—	—
	<b>26,576</b>	<b>29,069</b>	—	—

Operating lease payments represent the future rentals payable for office space under current lease. Leases are for an average of six years with rental rates reviewed every three years.

**29. CASH AND CASH EQUIVALENTS**

Cash at bank and in hand	22,270	26,409	—	—
Deposits at call	41,284	283,872	4,361	5,447
<b>Total cash and cash equivalents</b>	<b>63,554</b>	<b>310,281</b>	<b>4,361</b>	<b>5,447</b>

The effective interest rate for cash at bank is 5.36% (2006: 5.0%) and deposits at call is 6.0% (2006: 6.1%). Deposits at call primarily mature within 12 months of balance date.

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>(A) RECONCILIATION TO CASH AT THE END OF THE YEAR</b>				
The previous figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:				
Balances as previous	63,554	310,281	4,361	5,447
<b>Balances per Statement of cash flow</b>	<b>63,554</b>	<b>310,281</b>	<b>4,361</b>	<b>5,447</b>
<b>(B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit attributable to shareholders	40,665	124,822	2,486	70,416
<b>Add/(less) non-cash items</b>				
Depreciation	2,096	1,822	—	—
Amortisation of intangibles	6,963	1,896	71,118	—
Movement in deferred acquisition costs	7,217	7,268	—	—
Change in life insurance and life investment contract liabilities	97,216	76,879	—	—
Unrealised gain on investments	(88,648)	(165,814)	—	—
Dividend and interest income (reinvested)	(284,270)	(156,513)	(71,118)	—
Share of profits from associates	(95)	(100)	—	—
Non-cash employee benefits expense — share based payments	3,251	373	2,062	—
Net gain on sale of available-for-sale financial assets	—	(436)	—	—
Debt forgiveness	—	(85,462)	—	—
Loans repaid	(65,649)	—	—	—
Decrease/(increase) in deferred tax	(45,618)	10,032	(3,930)	—
	(326,872)	(185,233)	618	70,416
<b>ADD/(LESS) MOVEMENTS IN WORKING CAPITAL RELATING TO OPERATING ACTIVITIES</b>				
(Increase)/decrease in receivables	191,092	(1,245)	(56,063)	49,293
(Decrease)/increase in payables	(108,803)	(58,028)	3,713	(154,060)
Decrease/(increase) in taxation	45,166	11,675	49,372	(19,930)
	127,455	(47,598)	(2,978)	(124,697)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>(199,417)</b>	<b>(232,831)</b>	<b>(2,360)</b>	<b>(54,281)</b>

### (C) DISPOSAL OF SUBSIDIARIES

On 21 September 2007, the Company sold its total ownership of 100% in the controlled entities listed below:

TOWER Holdings (Australia) Pty Ltd;

TOWER Superannuation Pty Ltd;

TOWER Asset Management Ltd;

Lighthouse (Australia) Ltd;

Oris Funds Management Ltd;

PrefSure Financial Services Pty Ltd;

PrefSure Business Solutions Pty Ltd; and

Security & General Nominees Pty Ltd.

All of these controlled entities were dormant at the time of disposal. On the date of sale the value of each of the companies sold was \$2.00. Consideration received on the sale was \$2.00 per company.

### 30. NON-CASH INVESTING AND FINANCING ACTIVITIES

During the financial year the Group did not undertake non-cash investment activities.

### 31. CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
The estimated maximum amounts of unsecured contingent liabilities not provided for in the financial statements are:				
AFS licence guarantees (i)	60	60	—	—
RSE licence guarantee (ii)	5,000	5,000	—	—
Operating lease guarantee (iii)	2,000	806	—	—
Rental guarantee (iv)	95	—	—	—
Investment commitments (v)	6,661	1,815	—	—
<b>Total contingent liabilities</b>	<b>13,816</b>	<b>7,681</b>	<b>—</b>	<b>—</b>

#### (i) AFS licence guarantee

The consolidated entity has provided guarantees to the Australian Securities & Investments Commission relating to the Australian Financial Services Licences of three of its controlled entities to the value of \$20,000 per licence.

#### (ii) RSE licence guarantee

The consolidated entity has provided a guarantee to the Australian Prudential Regulation Authority relating to the Registrable Superannuation Entity Licence of one of its controlled entities to the value of \$5,000,000.

#### (iii) Operating lease guarantee

The consolidated entity has provided a guarantee to support the commercial lease on its Milsons Point, Sydney office premises \$2,000,000. During the financial year the consolidated entity terminated the lease on its O'Connell Street premises and the associated \$806,000 bank guarantee.

#### (iv) Rental guarantee

The Company has provided a guarantee of \$95,000 (2006: nil) to the landlord to cover any default in rental payments. No material losses are anticipated in respect of this contingent liability.

#### (v) Investment commitments

During the 2006 financial year, the consolidated entity had partly paid shares in various investments that it is committed to paying further calls on capital (if any) made by the investee.

#### (vi) Finance facilities

In the prior year the consolidated entity committed to provide funding support to two associates that formed part of the TOWER Holdings (Australia) Pty Limited Group. Following the acquisition and subsequent liquidation of TOWER Holdings (Australia) Pty Limited these entities cease to be part of the Group.

#### (vii) 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 criteria. 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 exceed the cost to consolidated entity. Due to the uncertainty of these circumstances arising no value has been placed on the contingent liability.

#### (viii) Contributions tax

A system limitation requires manual calculation and deductions of contributions tax. There is a risk of late payment to the ATO leading to penalties. The quantum penalties and associated system costs is yet to be assessed.

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

## 32. RELATED PARTIES TRANSACTIONS

### (A) PARENT ENTITIES

Prior to separation on 20 November 2006, the immediate parent of TOWER Australia Group Limited, was TOWER Group Network Ltd, a New Zealand resident company. The ultimate parent entity was TOWER Limited, a company incorporated in New Zealand, which at 30 September 2006 owned 100% of the issued ordinary shares of TOWER Australia Group Limited. As part of the separation TOWER Australia Group Limited became the ultimate parent entity and is listed on the Australian Securities Exchange (ASX).

### (B) CONTROLLED ENTITIES

Interests in controlled entities are set out in note 12.

### (C) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<i>Sales of services</i>				
Service fees charged to related party	274	1,481	—	—
<i>Purchase of services</i>				
Service fee from related party	—	780	—	—
Management fees and commissions charged to related party	837	1,422	—	—
Investment expenses charged by related party	—	4,985	—	—
<i>Tax consolidation legislation</i>				
Purchase of tax losses assumed from tax consolidation entities	—	2,849	—	2,849
<i>Other</i>				
Interest on promissory notes	—	485	—	485
Debt forgiveness	—	(85,462)	—	—

Following the separation of the Group from TOWER Limited on 20 November 2006, there are no related party transactions outside the Group. The 2007 balances comprise of related party transactions pre the November 2006 separation. There are no balances outstanding at year end.

## 33. KEY MANAGEMENT PERSONNEL DISCLOSURES

### A) DIRECTORS

The following persons were Directors of the Company during the financial year:

#### (i) Executive Directors

J R Minto

#### (ii) Non-executive Directors

J L Spencer

G H Weiss

M L Jefferies

P J Lewinsky (appointed 19 December 2006)

R B Pliner (appointed 19 December 2006)

R B Thomas (appointed 21 August 2007)

W J Falconer (resigned 19 December 2006)

A I Gibbs (resigned 19 December 2006)

S A Staley (resigned 19 December 2006)

D M Wood (resigned 19 December 2006)

R K Barton (resigned 26 September 2007)

**33. KEY MANAGEMENT PERSONNEL DISCLOSURES** continued

**(B) KEY MANAGEMENT PERSONNEL COMPENSATION**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly, or indirectly, including any directors (whether executive or otherwise) of that entity.

The following persons were identified as key management personnel of the Group during the financial year:

NAME	POSITION
J Minto	Managing Director
J de Zwart	Chief Financial Officer
D Callander	CEO Retail Life Insurance
G Black	CEO Group Life & Alliances
M Beer	Appointed Actuary
G Pearce	CEO Investments (appointed 15 December 2006)

The remuneration of Directors and other members of key management during the year was as follows:

	GROUP		COMPANY	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Salaries and other short-term employee benefits	5,326	2,633	—	—
Termination benefits	—	324	—	—
Post-employment benefits	280	53	—	—
Share based payments	1,205	234	—	—
	<b>6,811</b>	<b>3,244</b>	—	—

Following the separation of the New Zealand and Australia entities the Company became the listed entity on the ASX. A new board has been established to oversee the TOWER Australia Group Limited. These directors are also on the boards of subsidiary life insurance companies.

As the directors are appointed to a number of boards within the Group it is not possible to allocate the compensation on a reasonable basis to any one controlled entity as it is in connection to the management of the affairs of a number of controlled entities. Therefore compensation disclosed equates to the total compensation received by the directors from the Group.

**(C) LOANS TO KEY MANAGEMENT PERSONNEL**

There have been no loans made to directors of the Company and other key management personnel of the Group, including their related parties.

**(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

Key management also hold various policies and accounts with the Group. These are operated in the normal course of business on normal customer terms.

For further information please refer to the Remuneration Report.

**34. SHARE BASED PAYMENTS**

As part of the separation TOWER Australia Group Limited established an Executive Share Option Scheme. Prior to the separation of the New Zealand and Australian companies the Australia executives were covered under the TOWER Limited Executive Share Option Scheme. Upon separation Australian executives were no longer entitled to TOWER Limited options so replacement options, tranches One, Two, Three and Four, were issued by TOWER Australia Group Limited on terms commensurate with the original options as far as practicable. As part of the capital restructure which occurred at the time of separation the number of options also reduced in proportion to the number of shares on issue, the exercise price per option was reduced, however, the exercise dates and exercise periods remain unchanged.

New tranches (Five, Six and Seven) were offered to executives during the financial year under the TOWER Australia Group Limited Executive Share Options Scheme therefore the Company now has seven executive share option schemes. Each has differing conditions which are set out in the following tables. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

All shares options will be equity settled.

The fair value for options was estimated by using a binomial pricing model. The main inputs to the model were as follows:

Terms of share schemes	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7
Exercise price	\$0.79	\$1.21	\$1.21	\$1.45	\$1.88	\$2.93	\$2.60
Grant date	27-Feb-07	27-Feb-07	27-Feb-07	27-Feb-07	27-Feb-07	27-Feb-07	30-Mar-07
Vesting date	1-Apr-07	9-Aug-08	9-Aug-09	5-Apr-09	21-Nov-10	23-Feb-10	30-Mar-10
Expiry date	31-Mar-10	9-Aug-11	9-Aug-12	5-Apr-12	20-Nov-12	22-Feb-13	30-Mar-13
Expected volatility	20%	20%	20%	20%	20%	20%	20%
Risk free rate	5.71%	5.71%	5.71%	5.73%	5.73%	5.73%	5.92%
Fair value of the plan (\$000)	417	902	242	2,561	2,600	5,959	1,241
Amount expensed during the year (\$000)	—	371	56	752	371	596	104

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from six months to two years adjusted to remove significant impacts arising from one off events.

The expected life is based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations.

#### DETAILS OF THE SHARE OPTIONS OUTSTANDING AS AT 30 SEPTEMBER WERE AS FOLLOWS:

	NUMBER OF OPTIONS							Weighted average exercise price
	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	
<b>2007</b>								
Outstanding at start of year	—	—	—	—	—	—	—	—
Granted	1,438,045	2,577,533	654,750	5,820,000	4,000,000	5,900,000	1,364,000	\$1.92
Forfeited	—	—	—	1,018,500	—	100,000	—	\$1.58
Exercised	59,919	—	—	—	—	—	—	\$0.79
Lapsed	—	—	—	—	—	—	—	—
<b>Outstanding at the end of the year</b>	<b>1,378,126</b>	<b>2,577,533</b>	<b>654,750</b>	<b>4,801,500</b>	<b>4,000,000</b>	<b>5,800,000</b>	<b>1,364,000</b>	<b>\$1.95</b>
<b>Exercisable at the end of the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>2006</b>								
Outstanding at start of year	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—
Lapsed	—	—	—	—	—	—	—	—
<b>Outstanding at the end of the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Exercisable at the end of the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

**35. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS**
**RESTRICTIONS ON ASSETS**

Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that Company, to acquire investments to further the business of the Company or as distributions to shareholders. Distributions may be made to shareholders only when solvency requirements are met and sufficient equity remains for the ongoing operation of the business.

**36. GUARANTEED RETURNS ON FUNDS INVESTED — LIFE INSURANCE COMPANIES**

The Company or its controlled entities guarantee capital contributed by policyholders together with any declared dividends for the following funds. At balance date the policy liabilities of these funds were:

	2007 \$000	2006 \$000
Statutory Fund 1	130,532	161,183
Statutory Fund 2	2,484	2,525
Statutory Fund 3	78,928	79,851
<b>Total</b>	<b>211,944</b>	<b>243,559</b>

**37. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS OF LIFE INSURANCE COMPANIES**
**GROUP**

	Investment linked	Non-investment linked	Investment linked	Non-investment linked
	2007 \$000	2007 \$000	2006 \$000	2006 \$000
Investment assets	2,227,232	969,674	1,981,199	941,344
Other assets	40,690	331,581	156,197	399,204
Policyholder liabilities	(2,174,426)	(676,821)	(2,005,811)	(767,338)
Other liabilities	(105,522)	(184,077)	(146,879)	(158,145)
<b>Net assets</b>	<b>(12,028)</b>	<b>440,357</b>	<b>(15,294)</b>	<b>415,065</b>
Net premium income	12,017	419,882	10,828	305,047
Investment income	300,287	64,569	255,733	65,053
Claims expense	—	(116,152)	—	(86,429)
Other operating expenses	(41,609)	(284,705)	(37,725)	(213,473)
Change in policyholder liabilities	(256,355)	(18,509)	(205,495)	(21,693)
<b>Operating surplus/(deficit) before taxation</b>	<b>14,340</b>	<b>65,085</b>	<b>23,341</b>	<b>48,506</b>
Taxation (expense)/credit	(14,175)	(24,670)	(19,744)	(18,513)
<b>Operating surplus/(deficit) after taxation</b>	<b>165</b>	<b>40,415</b>	<b>3,597</b>	<b>29,993</b>

### 38. INVESTMENTS IN ASSOCIATES

#### (A) CARRYING AMOUNTS

Information relating to associates is set out below.

Name of company	Principal activity	Ownership interest	GROUP		COMPANY	
			2007 \$000	2006 \$000	2007 \$000	2006 \$000
Australian Financial Risk Management Pty Limited	Insurance services	20%	706	610	—	—
Diversified Portfolio Managers Limited	Financial Services	0%	—	385	—	—
			706	995	—	—

TAGL disposed of its interest in Diversified Portfolio Managers Limited during the 2007 Financial Year.

#### (B) MOVEMENTS IN CARRYING AMOUNTS

Opening value	995	331	—	—
Acquisitions	—	564	—	—
Disposals	(384)	—	—	—
Share of profits	95	100	—	—
<b>Total investments accounted for using the equity method</b>	<b>706</b>	<b>995</b>	<b>—</b>	<b>—</b>

#### (C) SUMMARISED FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S ASSOCIATES IS SHOWN BELOW:

Total assets	4,556	6,108	—	—
Total liabilities	3,417	(4,039)	—	—
Revenue	1,870	2,263	—	—
Profit	366	593	—	—

#### (D) SHARE OF PROFITS

Profit before income tax	136	110	—	—
Income tax expense	(41)	(10)	—	—
Profit after income tax	95	100	—	—

The above associates have a 30 June reporting date.

### 39. ACQUISITION

#### 2007

##### TOWER HOLDINGS (AUSTRALIA) PTY LIMITED

On 19 November 2006 the Group acquired 100% of the share capital of TOWER Holdings (Australia) Pty Limited (acquiree), a provider of investment funds management services, and its controlled entity TOWER Asset Management Limited, an investment funds manager for \$70,588,000 from TOWER Limited as part of the separation.

The acquired business contributed a net profit of \$1,109,000 to the consolidated entity during the period from 20 November 2006 to 30 September 2007.

Excluding the costs associated with the separation of the consolidated entity with TOWER Limited, if the acquisition had occurred on 1 October 2006, revenue from the acquired company would have been \$170,000 and the loss would have been \$2,368,000.

**39. ACQUISITION** continued

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

	Acquiree's carrying amount \$'000
Cash	2,308
Accounts receivable	238,578
Property, plant and equipment	26
Deferred tax benefit	1,491
<b>Total assets</b>	<b>242,403</b>
Accounts payable	3,365
Provisions	13,426
Interest bearing liability	155,024
<b>Total liabilities</b>	<b>171,815</b>
<b>NET ASSETS</b>	<b>70,588</b>
Purchase consideration settled in cash	(70,588)
Cash and cash equivalents in controlled entity acquired	2,308
<b>Cash outflow on acquisition</b>	<b>(68,280)</b>

The above carrying amount of the assets and liabilities acquired approximate their fair value at 20 November 2006. Subsequent to acquisition TOWER Holdings (Australia) Pty Limited has been disposed of. A dividend of \$71.1 million was paid reducing the net assets to \$2 and subsequently sold for \$2 (refer to note 29).

**2006**

**PREFSURE HOLDINGS LIMITED**

On 31 March 2006 the Group acquired 100% of the share capital of PrefSure Holdings Limited (acquiree) and its controlled entities, a specialist life insurance business for \$115,661,000.

Details of net assets acquired and goodwill as at date of acquisition 31 March 2006 are as follows:

	2006 \$000
Purchase consideration:	
Cash paid (excluding direct acquisition costs)	113,548
Direct costs related to acquisition paid in cash	2,113
Cash paid	115,661
Total purchase consideration	115,661
Fair value of net assets acquired	81,145
<b>Intangibles</b>	<b>34,516</b>
Value of in-force business	19,407
Goodwill	15,109
<b>Intangibles</b>	<b>34,516</b>

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

In 2007, a tax asset of \$3.2 million has been attributed to the acquired business and as a consequence \$3.2 million of goodwill has been derecognised.

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

	Fair value	Acquiree's carrying amount
	\$000	\$000
Cash	13,199	13,199
Accounts receivable	47,413	47,413
Assets classified as held for sale	152,839	152,839
Fixed interest securities	2,500	2,500
Assets arising from reinsurance contracts	115,646	115,646
Investments accounted for using the equity method	564	564
Property, plant and equipment	843	2,387
Deferred tax benefit	12,495	12,495
Intangibles	12,203	12,203
<b>Total assets</b>	<b>357,702</b>	<b>359,246</b>
Accounts payable	67,924	67,924
Taxation payable	2,982	2,907
Provisions	5,721	5,721
Deferred tax liability	13,777	13,756
Policyholder liabilities — insurance contracts	169,132	167,851
Policyholder liabilities — investment contracts	17,021	17,021
<b>Total liabilities</b>	<b>276,557</b>	<b>275,180</b>
<b>NET ASSETS</b>	<b>81,145</b>	<b>84,066</b>
Purchase consideration settled in cash		(115,661)
Cash and cash equivalents in controlled entity acquired		13,199
<b>Cash outflow on acquisition</b>		<b>(102,462)</b>
Less adjustments for deferred consideration paid post 31 March 2006		(8,768)
<b>Net cash outflow on acquisition as at 31 March 2006</b>		<b>(111,230)</b>

#### 40. SUBSEQUENT EVENTS

On 23 November 2007, the Group proposed a final dividend on ordinary shares of \$13.4 million representing 4.0 cents per share fully franked. The dividend will be paid on 21 January 2008, this has not been recognised as a payable in these financial statements.

# DIRECTORS' DECLARATION

for the year ended 30 September 2007

In the Directors' opinion:

- a) the financial statements and notes set out on pages 22 to 73 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, the Corporations Regulations 2001; and
  - (ii) giving a true and fair view of the Company's financial position as at 30 September 2007 and of its performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



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**R B Thomas**  
Director

**J R Minto**  
Director

Sydney, 26 November 2007

# INDEPENDENT AUDITOR'S REPORT



## Independent auditor's report to the members of TOWER Australia Group Limited

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
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Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999

### Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of TOWER Australia Group Limited, which comprises the balance sheet as at 30 September 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both TOWER Australia Group Limited (the company) and the TOWER Australia Group Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in parts 1, 2 and 4 to 6 of the remuneration report within the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in the directors' report on pages 9 to 17 of the directors' report and not in the financial report.

#### *Directors' responsibility for the financial report and the AASB 124 Remuneration disclosures contained in the directors' report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.



*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website  
<http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Matters relating to the electronic presentation of the audited financial report*

This audit report relates to the financial report and remuneration disclosures of TOWER Australia Group Limited (the consolidated entity) for the financial year ended 30 September 2007 included on the TOWER Australia Group Limited web site. The company's directors are responsible for the integrity of the TOWER Australia Group Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion on the financial report*

In our opinion:

- (a) the financial report of TOWER Australia Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 September 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report*

In our opinion, the remuneration disclosures in the directors' report that are contained in pages 9 to 17 of the directors' report comply with Accounting Standard AASB 124.



PricewaterhouseCoopers



PT Murray  
Partner

Sydney  
26 November 2007

# SHAREHOLDER INFORMATION

As at 30 November 2007

## NUMBER OF HOLDERS OF EQUITY SECURITIES

### ORDINARY SHARE CAPITAL

334,241,045 fully paid ordinary shares were held by 42,059 shareholders. All issued ordinary shares carry one vote per share.

### DISTRIBUTION OF SHAREHOLDINGS

Range of holdings	Number of holders	Percentage	Number of shares	Percentage
1 – 1,000	25,529	60.7	11,674,848	3.5
1,001 – 5,000	13,036	31.0	27,672,935	8.3
5,001 – 10,000	1,912	4.5	13,931,137	4.2
10,001 – 100,000	1,477	3.5	36,145,530	10.8
100,001 and over	105	0.3	244,816,595	73.2
<b>Total</b>	<b>42,059</b>	<b>100.0</b>	<b>334,241,045</b>	<b>100.0</b>
Holding less than a marketable parcel	704		106,302	

### TWENTY LARGEST SHAREHOLDERS

	Ordinary shares	% of issued capital
GPG Nominees Pty Limited	66,196,001	19.8
J P Morgan Nominees Australia Limited	29,307,296	8.8
HSBC Custody Nominees (Australia) Limited	24,797,112	7.4
Citicorp Nominees Pty Limited	19,968,277	6.0
GPG Australia Nominees Limited	16,820,874	5.0
National Nominees Limited	14,496,660	4.3
AMP Life Limited	10,220,425	3.1
Cogent Nominees Pty Limited	9,845,104	2.9
ANZ Nominees Limited	9,502,902	2.8
RBC Dexia Investor Services Australia Nominees Pty Limited	6,709,550	2.0
UBS Nominees Pty Limited	6,152,931	1.8
Queensland Investment Corporation	3,896,982	1.2
Forbar Custodians Limited	2,457,445	0.7
Invia Custodian Pty Limited	1,689,950	0.5
TOWER Corporation Holdings Limited	1,524,930	0.5
Weststar Capital Corporation Limited	979,571	0.3
Custodial Services Limited	977,145	0.3
Fleet Nominees Limited	915,564	0.3
New Plymouth District Council	796,781	0.2
Gerald Harvey	625,733	0.2

### SUBSTANTIAL SHAREHOLDERS

	Ordinary shares	% of issued capital
Guinness Peat Group plc	89,766,875	26.9
AMP Limited	27,544,755	8.2
Orion Asset Management Limited	17,677,888	5.3

# INFORMATION FOR SHAREHOLDERS

## STOCK EXCHANGE LISTING

TOWER Australia Group Limited is listed on the Australian Securities Exchange (ASX) with ASX code TAL.

## COMPANY INFORMATION

The TOWER Australia website [www.toweraustralia.com.au](http://www.toweraustralia.com.au) has comprehensive information about the Company and its services. In particular the Shareholder Centre section of the site includes news releases and announcements to the ASX, financial reports and presentations and webcasts, TOWER Australia share price updates, Annual Reports and Shareholder newsletters. The website also has information about all product and services offered by TOWER Australia's business lines.

Shareholder enquiries about TOWER Australia's operating and financial performance should be emailed to [investor.relations@toweraustralia.com.au](mailto:investor.relations@toweraustralia.com.au) or addressed to General Manager Investor Relations, TOWER Australia Group Limited, PO Box 142, Milsons Point, NSW 1565, Australia.

## DIVIDEND POLICY

Dividends are determined by the Board of Directors having regard to a range of circumstances within the business operation of TOWER Australia Group Limited. The Board has announced that it intends to pay dividends once a year and that the payout ratio in the medium term will be in the range of 20 – 40% of Underlying Profit.

## DIVIDEND REINVESTMENT PLAN (DRP)

TOWER Australia Group Limited's Dividend Reinvestment Plan enables shareholders to increase their investment in TOWER Australia shares in any easy and convenient way without incurring brokerage fees or other transactional costs. Details of the Dividend Reinvestment Plan are available from the TOWER Australia website: [www.toweraustralia.com.au/investor/shareholders/dividends.asp](http://www.toweraustralia.com.au/investor/shareholders/dividends.asp).

## DIVIDEND PAYMENTS

Dividend payments from TOWER Australia Group Limited will be paid by direct credit into shareholders' nominated Australian or New Zealand bank or financial institution account.

## SHARE REGISTRY

Shareholders seeking information about TOWER Australia Group Limited shareholdings or dividends should contact the Share Registrar:

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne  
VIC 3001  
AUSTRALIA

Tel: 1300 656 389 (within Australia)  
+61 3 9415 4379 (outside Australia)  
Fax: +61 2 8235 8150  
Email: [Web.queries@computershare.com.au](mailto:Web.queries@computershare.com.au)  
Website: [www.computershare.com.au](http://www.computershare.com.au)

## CHANGE OF SHAREHOLDER DETAILS

You can access your current shareholding and manage your details online via TOWER Australia's website [www.toweraustralia.com.au/investor](http://www.toweraustralia.com.au/investor). You will need to use the ASX code TAL and your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) in order to access this information. Alternatively you can contact the Share Registrar directly.

It is important that shareholders notify the Share Registrar immediately if there is a change to their registered address.

It is essential that shareholders notify the Share Registrar of their new details if they close their bank or financial institutions account or otherwise change their banking arrangements.

## CORPORATE DIRECTORY

**TOWER Australia Group Limited**  
**ACN 003 401 698**

## REGISTERED OFFICE

80 Alfred Street  
Milsons Point  
NSW 2061  
AUSTRALIA

Telephone: +61 2 9448 9000  
Website: [www.toweraustralia.com.au](http://www.toweraustralia.com.au)

## SHARE REGISTRY

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne  
VIC 3001  
AUSTRALIA

Tel: 1300 656 389 (within Australia)  
+61 3 9415 4379 (outside Australia)  
Website: [www.computershare.com.au](http://www.computershare.com.au)

## AUDITOR

PricewaterhouseCoopers

