

FROM THE MANAGING DIRECTOR



14%
INCREASE

UNDERLYING NET PROFIT,
\$68 MILLION

The 2008 year has been difficult both in economic and financial terms for investors and consumers as investment markets have fallen and communities have struggled with volatile economic conditions. Some high profile life insurance companies in overseas markets have been adversely affected. Significant media attention has been focused on the deteriorating financial and capital positions of these companies and the regulatory actions and government bailouts that have resulted in some cases.

The Australian life insurance market is well regulated and companies operating in this industry are closely monitored. Adverse impacts in this market have thankfully been limited and the sector continues to experience growth in premium income in excess of 12% per annum.

TOWER Australia (ASX:TAL) has had another successful year in 2008 and has ended the year in a stronger competitive position than at the start. The strategic focus of the business has been on building core capabilities and strengthening our distribution platform. The growth in our underlying profit reflects a solid operating performance and a favourable market for life insurance in Australia.

In difficult economic times, many people seek additional life insurance protection and people also tend to be more likely to retain the life insurance cover they have. Life insurance sales for TOWER Australia were strong in all areas during the 2008 financial year and business retention was within expectations. Total life insurance premium income inforce grew 13% to \$749 million over the year.

The purchase post year end of InsuranceLine was strategically important for TOWER Australia. InsuranceLine is the fastest growing

and largest direct distributor of life insurance products in the Australian market. This purchase cements TOWER Australia's strength in the key direct sales market and will help underpin future growth in the business.

It is very pleasing to report that TOWER Australia ended the 2008 financial year well capitalised, financially strong, performing well and in a good competitive position to grow further in 2009.

FINANCIAL PERFORMANCE AND STRENGTH

TOWER Australia's underlying profit of \$67.9 million for the year represented an increase of 14%. Strong operating profit in the life insurance business was offset to some extent by the reduction in operating margins in the investment business where reduced fee income reflected the investment market impacts on the level of funds under management.

The trends in the key business drivers of sales, lapses, claims and expenses were positive but management of TOWER Australia recognises the need to remain vigilant and to ensure the Company remains flexible to changing markets and global trends. TOWER Australia remains firmly focused on its cost structure and will continue to drive improvements throughout the business to boost both customer service and other aspects of competitive strategy as well as shareholder returns.

Continued growth requires investment in technology and people and TOWER Australia has done this in a responsible and sustainable manner. The productivity focus for 2009 is to continue to implement steps to simplify the business and to keep cost growth well below that of the Company's overall revenue growth.

13%
INCREASE

LIFE INSURANCE IN-FORCE
PREMIUM, \$749 MILLION

11%
MARKET SHARE

4TH LARGEST AUSTRALIAN
LIFE INSURER

TOWER Australia's capital position is conservative and well in excess of regulatory requirements. The Company entered the current cycle in a strong capital position with a defensive, high quality asset mix and has successfully traversed the liquidity and credit crisis by actively managing and monitoring its capital.

Following the completion of the InsuranceLine purchase in November 2008, TOWER Australia still has a relatively low level of debt, a gearing ratio of 24.3% and interest cover of 7.9 times earnings.

Standard & Poor's has retained its A- insurer financial strength rating for TOWER Australia and has a Positive Outlook for the Company. This reflects both the strong competitive position of the business and strong capital levels.

DISTRIBUTION

TOWER Australia has looked to innovate and improve customer and adviser access to the life insurance market in recent years. Our three-pronged distribution strategy is designed to cover most people in Australia.

Our distribution footprint covers three broad areas:

- products sold through advisers, a traditional area of strength and focus for TOWER Australia;
- workplace or Group Life cover, which provides the majority of people with access to life insurance cover; and
- life insurance sold direct to customers.

To help deliver success in these distribution channels, TOWER Australia has invested heavily in technology, designed to make gaining access to life insurance protection by customers and advisers that much easier.

TOWER Australia's Retail Life business provides life insurance through the Independent Financial Adviser channel. This channel enables those customers with more complex life insurance needs to receive appropriate advice and obtain the levels of protection they require.

Accelerate, an electronic underwriting product and process, was launched to the Independent Financial Adviser channel in April 2008 to address the needs of customers with less complex needs and who require quick, hassle free life insurance cover. The performance objective of Accelerate is to underwrite 85% of applications for the target market within three working days.

Since its launch, Accelerate has consistently exceeded its performance objective and it has also won a number of awards. It was named Australian Banking and Finance Magazine's Best Life Insurance Product and Best Technology Innovation for 2008 and won a silver award in Money Management's Adviser Choice Risk Award for the Disability Product for 2008. More recently, in early December 2008, TOWER Australia and Accelerate life insurance products received two gold awards and one silver award in the 2009 Money Magazine Awards.

The Workplace or Group Life channel offers life insurance protection through superannuation and on investment platforms. This is a rapidly growing sector

of the market and TOWER Australia is bringing its experience and learning's from the Accelerate process to this channel. TOWER Australia has recently launched an online life insurance offering on the Skandia investment platform and is looking to extend this implementation more widely across its customer base in this channel.

The Direct channel offers life insurance direct to customers through mass media. This is the fastest growing sector in the life insurance market in Australia. InsuranceLine, TOWER Australia's key direct business, sells insurance direct to customers through TV advertising and call centre operations. InsuranceLine dominates this sector of the market in Australia and has been growing premium income in excess of 20% per annum in recent years.

A GROWTH MARKET

TOWER Australia continues to see the life insurance market in Australia as an area offering considerable growth potential and as an attractive business area. In the past the industry has made life insurance products complex and failed to properly explain to Australians why they need financial protection. It has generally failed to offer simple products to consumers in a readily accessible way.

TOWER Australia is fully behind the Investments and Financial Services Association (IFSA) push to close the 'wealth protection' gap in the years ahead and believes that all of Australia will benefit from greater access to advice around life insurance.

The industry has trebled in size in the past ten years to \$7 billion and there are projections that it can do so again going forward. The latest DEXX&R forecasts predict the market trebling to \$22 billion by December 2017.

LOOKING TO TOMORROW

During 2008 TOWER Australia asked its employees to participate in a cultural renewal process and review of core Values. Employees were actively involved in work-shopping ideas about what the Company stands for and what they want the Company to represent. As a result, five key themes have been narrowed down to reflect the values of TOWER Australia and its people.

These values are:

- collaboration – working as a team internally and with the world around us;
- accountability – standing up for what we do and why we do it;
- innovation – being thought leaders;
- respect – for our customers, clients and workmates; and
- simplicity – in all that we do.

We are looking to bring these Values fully to life in 2009 and create energy from this to drive the business forward to further success in the next few years.

We will see TOWER Australia continue to improve to meet those core Values. It is about TOWER Australia taking a firm position in the marketplace and defining why it is different and a better Company with which to do business.

These values will underpin TOWER Australia's growth plans for the future. We will work closely with our business partners, develop innovative products and ways to do business and whenever possible we will offer simple and easily understood solutions.

Work has continued towards the re-brand of TOWER Australia and the core Values are an essential part of the re-brand strategy. 2009 will be a year of bringing the Values to life to underpin the new brand. In 2010 (prior to the November 2011 deadline) the Company expects to change its name and much of the preparation work for that is now complete.

WITH THANKS

Companies like TOWER Australia can only be successful by delivering value to key stakeholders including business partners, advisers, end customers and employees. By doing that successfully, value can also be delivered for shareholders.

I would like to thank our customers, business partners and advisers for their business and relationships with us. These are appreciated and have allowed us to continue to grow.

People continue to be a key strength for TOWER Australia and the team right across the business has further strengthened overall over the past year. There were some changes at the Senior Executive level with Brett Clark joining us in August 2008, taking up the position of CEO, Retail Life replacing David Callander who moved overseas.

It has been a challenging year for us all. Who would have thought that the stock market and global economies in 2008 would continue the falls that initially started in the latter part of 2007? It is only through good work and forward thinking that TOWER Australia has been able to prosper in such an environment and put itself in a good position for the future.

I wish to thank everyone at TOWER Australia for their hard work and effort. TOWER Australia is a people business and TOWER Australia's people make all the difference.

I would like to thank our Board and our Chairman, Mr Rob Thomas. Both past and present members of the Board have made significant contributions to the success of the Company over the year.

We welcome Dai-ichi Life as the new cornerstone shareholder and thank GPG and its former TOWER Australia Directors Gary Weiss and Michael Jefferies for their valuable contribution over the past five years.

Finally my thanks to you the shareholders of TOWER Australia for your support. We will look to continue to deliver strong returns for you.



Jim Minto
Managing Director