PROPOSAL TO CONSIDER DEMUTUALISATION

Important Information for Transport Friendly Society Members

www.tfsl.org.au
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MESSAGE FROM TFSL BOARD OF DIRECTORS

Dear Member,

We are pleased to present you with information for the Proposal for the Demutualisation of Transport Friendly Society Ltd (“TFSL”).

For over 125 years TFSL has held a proud heritage of service provision looking after the needs of its Members. Demutualisation involves a significant operational change which we hope will set the foundation for TFSL’s continued growth and success in the future.

The basic objectives of the proposed Demutualisation of TFSL are:

• to unlock the Company’s mutual surplus reserves and deliver value to the Members in the form of Shares that may be sold for value; and
• to facilitate business growth and expansion through future share capital funding.

We are confident that the Demutualisation:

• will crystallise the dollar value of TFSL in the form of Shares;
• will enable TFSL to access capital which is required to grow its business; and
• will not have any material detrimental impact on Transport Health Policyholders, as the interests of all Policyholders with Transport Health will continue to be provided for appropriately.

Your rights and entitlements as a private health insurance policy holder are protected by Government legislation; and

• will not prejudice its creditors;
• is the best way for TFSL to move forward; and
• is considered to be in the best interests of our Members as a whole.

We believe that if TFSL does not undertake the proposed change, the organisation will be at risk of being unable to realise its full potential and growth over time. This in turn may force TFSL into a position where it is wound up or its assets become acquired by third parties at a price which does not adequately reflect its value.

Further, after considering the alternatives, we are strongly of the opinion that the Demutualisation delivers more value and future to you its Members and the Company.

If the Demutualisation is not approved by Members, the Demutualisation will be unable to proceed.

The Board unanimously recommends that you vote “YES” to each of the resolutions giving effect to the Demutualisation.

It is our belief that this Disclosure Statement provides you with full and fair disclosure of all information that is required for you to make a fully informed decision about how to vote, including the advantages and disadvantages of the Proposal.
As Members, you will decide whether this Proposal proceeds.

Before you vote, please read this Disclosure Statement carefully. There is a summary starting on page 12. However, it is only a summary and you should not rely on it without reading all of the information enclosed.

Your vote is important. We encourage you to be involved by voting, whether in person or by proxy.

Signed in Melbourne on 27 February 2014

Martyn Pickersgill

John Coulson

Phil Altieri

John Giraud

Philip Lovel AM

Nicholas Madden

Geoff Scully
PLEASE READ THIS FIRST

This Disclosure Statement is designed to assist you, as a Member, to decide whether to vote “YES” or “NO” to the Demutualisation Proposal set out in this document.

This Proposal is of major importance to you and Transport Friendly Society Ltd (“TFSL”).

The TFSL Board recommends that you vote “Yes” to the Proposal.

This Disclosure Statement contains:

- a summary of the Demutualisation on pages 12 – 18. However, as this is a summary only, you are encouraged to read the rest of this Disclosure Statement to assist you in making an informed voting decision;
- more detailed explanations of the Demutualisation, including reasons for voting “Yes” or “No”;
- reports from subject matter experts, including an independent review, in Sections 3, 4 & 6; and
- a glossary explanation of words, terms and initials used in this Disclosure Statement on page 126.

With this Disclosure Statement you will receive a letter from the TFSL Chairman, Martyn Pickersgill, which outlines your Share allocation. Also included is a Notice of Extraordinary General Meeting, a Proxy Form, a Member Verification Form and a pre-paid envelope.

WHAT YOU NEED TO DO

1. Read the Disclosure Statement, including the letter from the TFSL Chairman, the Notice of Extraordinary General Meeting, the Proxy Form and the Member Verification Form;

2. Submit the Member Verification Form and / or your Proxy Forms in the prepaid envelope provided so that it reaches TFSL before 11.00 am (AEDT) Monday 31 March 2014; and

3. Vote at the Extraordinary General Meeting on Wednesday 2 April 2014 at Computershare, Yarra Falls, 452 Johnston Street, Abbotsford, VIC, 3067 at 11.00 am (AEDT).

If you are unable to attend the Extraordinary General Meeting, you can exercise your vote by nominating a proxy to attend on your behalf. You should complete the enclosed Proxy Form and return it to TFSL before 11.00 am (AEDT) Monday 31 March 2014.

IMPORTANT DATES

<table>
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<tr>
<th>EVENT</th>
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<tr>
<td>Final day for proxy nomination</td>
<td>Monday 31 March 2014</td>
</tr>
<tr>
<td>Extraordinary General Meeting</td>
<td>Wednesday 2 April 2014</td>
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<tr>
<td>Proposed Implementation Date</td>
<td>Monday 30 June 2014</td>
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</tbody>
</table>
HOW TO VOTE

The Proxy Form and Member Verification Form can be mailed, faxed, emailed or delivered in person and must be returned to TFSL before 11.00 am (AEDT) on Monday 31 March 2014.

MAIL:

FAX: 03 9473 2145

EMAIL: votingservices@computershare.com.au

IN PERSON: Transport Friendly Society Ltd
487 Swan Street
Richmond VIC 3121

LOCATION: Computershare Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford
VICTORIA 3067

HOW DO I VOTE?
WHY VOTE?

“The Proposal for the Demutualisation of Transport Friendly Society Ltd is in the best interests of Members as a whole”

Deloitte: Independent Expert

“Your rights and entitlements as a private health insurance policy holder of Transport Health are protected by Government legislation.”

Chairman: Martyn Pickersgill

If the vote is successful, you will:

• receive an allocation of Shares reflective of your verified membership status; and

• continue to receive the benefits of your existing Policy with Transport Health.

PLEASE CONSIDER YOUR DECISION AND EXERCISE YOUR RIGHT TO VOTE.

THIS PROPOSAL WILL ONLY SUCCEED WITH THE SUPPORT OF A SPECIAL MAJORITY OF 75% OF VOTES CAST AT THE MEETING IN PERSON OR BY PROXY.
Purpose of this Disclosure Statement
The purpose of this Disclosure Statement is to:

- explain the terms and effect of the Proposal to Members;
- explain the manner in which the Proposal will be considered by Members and, if approved, implemented;
- state any material interests of the Directors, whether as Directors, Members or creditors of TFSL or otherwise, and the effect of those interests on the Proposal, as far as that effect is different from the effect on Members; and
- provide such information as is prescribed by Part 5 of Schedule 4 of the Corporations Act and as is otherwise required to constitute all the information that Members would reasonably require and expect to be given in order to make an informed decision about the Constitutional changes or the Share issue.

This Disclosure Statement is required to be sent to Members under Part 5 of Schedule 4 of the Corporations Act in relation to the Demutualisation.

Read this Document
You should read this Disclosure Statement in its entirety before making a decision as to how to vote on the resolutions to be considered at the Extraordinary General Meeting on Wednesday 2 April, 2014. Defined terms used in this document begin with capital letters. Their meaning is set out in the Glossary in Section 7.

References in this Disclosure Statement to ‘TFSL’ are to Transport Friendly Society Ltd ABN 75 052 046 625.

Responsibility Statement
The Board has concluded that the Proposal is in the best interests of Members as a whole, (see Section 1.7, page 28 of this Disclosure Statement).

The information in this Disclosure Statement (except for Sections 3, 4 & 6) has been prepared by TFSL and is TFSL's responsibility.

The Independent Expert has prepared the Independent Expert’s Report and is responsible for that report. The Independent Expert’s report is set out in Section 6.

The Appointed Actuary has prepared the Appointed Actuary’s Report and is responsible for that report. The Appointed Actuary’s report is set out in Section 4.

Mr Tony Jacob Chartered Accountant and independent tax adviser has prepared the Tax Adviser’s letter and is responsible for that Letter and the information set out in Section 3 (“Tax Advice”).

Neither TFSL, nor any of its respective Directors, officers or advisers takes any responsibility for any information contained in the Disclosure Statement other than in Sections 1, 2 & 7. Except to the extent that the Corporations Act or other law imposes responsibility on them, none of TFSL or any of its respective Directors, officers or advisers takes any responsibility for the Independent Expert’s report, the Appointed Actuary’s report or the Tax Advice.

Every Member must make their own informed decision as to how to vote on the Proposal. The content of the Disclosure Statement is general in nature and has been prepared without taking into account each Member’s particular financial, taxation, social security and any other relevant circumstances. Accordingly, TFSL strongly recommends that Members seek appropriate and timely independent professional advice on how they may be affected by the Demutualisation and their receipt of Shares.

Role of ASIC
A copy of the Disclosure Statement has been registered by ASIC on 27 February 2014 pursuant to Part 5 Clause 32 Schedule 4 of the Corporations Act. The registration by ASIC is:

- on the basis that it adequately sets out matters required to be disclosed in Part 5 Clause 32(1) of Schedule 4 of the Corporations Act; and
- does not mean that ASIC has considered whether the proposed Constitutional amendments or Share issue are in the best interests of the Members of the Company as a whole.

Privacy
Forms that accompany this Disclosure Statement require Members to provide information that may be personal information for the purposes of the Privacy Act 1988 (Cth) as amended. This information may include the name, contact details, bank account details and Policy details of Members and the name of persons appointed to act as a proxy at the Extraordinary General Meeting. TFSL may collect, hold and use that personal information in the process of implementing the Proposal. The primary purpose of the collection of personal information is to assist TFSL to conduct the Members’ meeting and implement the Proposal. Personal information may be disclosed to Computershare, print and mail service providers and staff of TFSL.

Members have certain rights to access personal information that has been collected. Members should contact the TFSL Helpline on 1800 680 952 in the first instance if they wish to access their personal information. Members who appoint a named person to act as their proxy should ensure that they inform that person of these Member matters.

This Disclosure Statement is dated 27 February 2014.
Below is an overview of the most commonly asked questions Members may have, with responses which are further expanded on in Section 1.

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
<th>More information</th>
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<tbody>
<tr>
<td><strong>1</strong> What is a “mutual organisation”?</td>
<td>In very general terms, a mutual organisation is one that is owned by its members, providing a variety of services to its members, for the sole benefit of its members. The rights and obligations of members in such an organisation, typically arise under its constitution. These rights and obligations, in the case of TFSL, are specifically referred to in Part 4 of Schedule 1 and are described in this Disclosure Statement, as Corporate Membership Rights. These are to be contrasted with Shareholder rights which would apply to Members, as Shareholders following the successful implementation of the Demutualisation.</td>
<td>For more information see Section 1 (pages 32-34).</td>
</tr>
<tr>
<td><strong>2</strong> What does it mean to Demutualise?</td>
<td>Demutualisation is the process by which a ‘mutual’ organisation such as TFSL, changes to become a shareholder-owned company. Demutualisation also separates the interests of Members as owners, from their contractual interests as Policyholders. In relation to TFSL, it includes approval of a new Constitution and the Share Allocation Rules.</td>
<td>For more information see Section 1 (page 29)</td>
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<tr>
<td><strong>3</strong> What are the advantages of Demutualisation?</td>
<td>The Demutualisation will:</td>
<td>For more information see Section 1 (page 21 - 24)</td>
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<tr>
<td>• crystallise the value of your Corporate Membership Rights in TFSL in a fair and equitable way;</td>
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<td>• provide you with Shares in exchange for your Corporate Membership Rights in TFSL;</td>
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<td>• deliver more value to Members;</td>
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<td>• reflect the Board’s belief that the existing mutual structure is no longer the most appropriate structure for TFSL;</td>
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<td>• provide the following significant business advantages to TFSL;</td>
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<td>○ better ability to raise capital;</td>
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<td>○ increased capital availability will provide more flexibility to implement its strategic business plans; and</td>
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<tr>
<td>• provide you with rights as a Shareholder that are more defined than your current Corporate Membership Rights and enable you to keep your ownership interest in TFSL, even after your Policies with Transport Health end for any reason.</td>
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</tr>
<tr>
<td><strong>4</strong> What are the disadvantages of Demutualisation?</td>
<td>The Board consider that the disadvantages of Demutualisation are:</td>
<td>For more information see Section 1 (pages 24 - 27)</td>
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<td>• the costs associated with implementing the Proposal;</td>
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<td>• maintaining a Share register will involve additional costs for TFSL; and</td>
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<td>• there is no guarantee of the ability to trade the Shares or the value you might receive when they are able to be traded.</td>
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<tr>
<td>Question</td>
<td>Response</td>
<td>More information</td>
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<tr>
<td>5 Why not remain a mutual company?</td>
<td>As a Member, you may be committed to the concept of mutuality and believe that there is no need for TFSL to change its structure. Demutualisation offers a greater return in terms of value to TFSL and its Members than if TFLS were to remain a mutual company.</td>
<td>For more information see Section 1 (page 27)</td>
</tr>
<tr>
<td>6 Will the Demutualisation affect your Policies with Transport Health?</td>
<td>Members may be concerned about the validity or continuity of their Policies after a Demutualisation has occurred. Your membership with TFSL arises from you being a Policyholder with Transport Health. Policies will continue to be protected by safe guards provided by relevant Government legislation protecting the interests of all Policyholders.</td>
<td>For more information see Section 1 (page 31)</td>
</tr>
<tr>
<td>7 What are your Corporate Membership Rights in TFSL?</td>
<td>Your Corporate Membership Rights are reflected by TFSL’s Constitution, the Corporations Act and under common law. The right to be a Member of TFSL is activated by holding Policies with Transport Health. This means that (if TFSL remains a mutual company) you will eventually lose these rights for no compensation when your Policies with Transport Health end for any reason.</td>
<td>For more information see Section 1 (pages 32 - 34)</td>
</tr>
<tr>
<td>8 What will you receive?</td>
<td>If the Demutualisation Proposal is approved you will receive Shares in TFSL in exchange for your Corporate Membership Rights, provided you are an Australian resident and have your details verified during the Verification Period.</td>
<td>For more information see Section 1 (pages 35 - 37)</td>
</tr>
<tr>
<td>9 What will you give up if you vote yes?</td>
<td>A vote in support of the proposed Demutualisation will mean that you give up your Corporate Membership Rights in TFSL. However, if the Demutualisation is implemented and Shares are issued to you, you will enjoy rights that only Shareholders are entitled to.</td>
<td>For more information see Section 1 (pages 32 - 34)</td>
</tr>
<tr>
<td>10 When will you receive your Shares?</td>
<td>If Members approve the Demutualisation at the Extraordinary General Meeting on 2 April 2014, it is currently anticipated that Shares will be issued on or shortly after 30 June 2014.</td>
<td>For more information see Section 1 (page 35)</td>
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<td>Question</td>
<td>Response</td>
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<td>11 What rights will you have as a TFSL Shareholder?</td>
<td>The rights of TFSL Shareholders will include the right:</td>
<td>For more information see Section 1 (pages 32 - 34)</td>
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<td>• to attend, speak at and demand a poll at general meetings;</td>
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<td>• to vote at general meetings;</td>
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<td>• to elect and remove Directors;</td>
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<td>• to requisition general meetings;</td>
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<td>• to propose business to be considered at each future annual general meeting;</td>
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<td>• to require TFSL to circulate a notice of proposed resolutions with the notices of the general meeting;</td>
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<td>• to sell their Shares or retain their Shares and benefit from any growth in the value of TFSL; and</td>
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<td>• to receive any dividend payments that the Board decides to pay from time to time.</td>
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<td>Shareholders will continue to be protected by statutory and general company law. Between the time TFSL Demutualises and a period of five years after the Implementation Date, the Constitution will limit some of these Shareholders’ rights.</td>
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<tr>
<td>12 Are the Share Allocation Rules fair and reasonable?</td>
<td>The Board believes that the Share Allocation Rules provide a fair and reasonable basis for allocating Shares between the Members. In particular, the Share Allocation Rules:</td>
<td>For more information see Section 4 (page 58 - 63)</td>
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<td></td>
<td>• recognise that all Members have Corporate Membership Rights and that because all Members will give up their Corporate Membership Rights in TFSL when it Demutualises, all Members should receive Shares;</td>
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<td>• recognise and value loyalty to the Company;</td>
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<td>• are simple and have been based on verifiable data;</td>
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<td>• do not unduly favour a few individuals or few with excessive benefits; and</td>
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<td>• have considered past Demutualisations involving companies operating private health funds and are based on precedents established by those Demutualisations.</td>
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<td>13 Why do I have to verify my membership?</td>
<td>It is important that Shares issued to Members are issued to Members at their correct addresses and that their membership details are otherwise correct. We ask that all Members confirm their address details by signing and returning the Member Verification Form which is enclosed with this Disclosure Statement before the end of the Verification Period. You will also be taken to be verified if you vote at the Extraordinary General Meeting, either in person or by proxy.</td>
<td>For more information see Section 1 (pages 17 &amp; 37)</td>
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<tr>
<td>Question</td>
<td>Response</td>
<td>More information</td>
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<tr>
<td><strong>14.</strong> What are the tax and social security consequences for you?</td>
<td>Depending on your personal circumstances, there may or may not be any tax or social security consequences of receiving your Shares. For example, receiving Shares and dividend payments may (in limited cases and then only after a certain period) cause you to pay more tax because you could have an increased income. It may (again, in limited cases) reduce your social security or pension entitlement (or the entitlements of your dependants) because you could have increased income and assets. However, special income tax concessions are expected to apply, which will reduce any tax impact. Also, during the period before Listing, Shares held will not be assessable for social security income and assets test purposes.</td>
<td>For more information see Section 3</td>
</tr>
<tr>
<td><strong>15.</strong> Will TFSL's businesses be affected whether the Demutualisation proceeds or not?</td>
<td>Regardless of the outcome of the Demutualisation of TFSL, the Company as a whole and each business unit will be regularly evaluated by the Board of Directors to ensure that the businesses performance returns value to Members or Shareholders.</td>
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<td><strong>16.</strong> What if the Members reject the Demutualisation?</td>
<td>If Members reject the Demutualisation:</td>
<td>For more information see Section 1 (pages 27-28)</td>
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<td></td>
<td>• TFSL will remain a mutual company and you will retain your Corporate Membership Rights in TFSL;</td>
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<td>• you will not receive an allocation of Shares;</td>
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<td>• the Constitution will remain as it is today;</td>
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<td>• you will eventually lose your Corporate Membership Rights for no compensation if your Policy with Transport Health lapses for any reason. You will then have no further opportunity to share in the value of TFSL;</td>
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<td></td>
<td>• the TFSL Board may need to consider other strategic options for TFSL which may result in further additional costs and delays. The range of options that the Board will have to consider in the event that the Proposal is rejected may include alliances or mergers with other organisations or friendly societies or, winding up the Company. The Board believes that the value that Members would currently receive under this Demutualisation would be greater than other alternatives that have been considered to date;</td>
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<td>• TFSL may not be able to raise additional capital to embark on new identified opportunities, thus the growth of the Company will be much slower. Such a situation would impact the Company’s ability to build reserves and further reduce its opportunities to accept new business; and</td>
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<td>• TFSL will have expended considerable financial resources for no benefit.</td>
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EXECUTIVE SUMMARY

Background
TFSL has a significant history in providing comprehensive health services to Victorian transportation employees and their families. The Transport Health Fund has been the cornerstone of TFSL business which forms a big part of TFSL’s history.

TFSL was originally established in 1888 to serve the interests of Melbourne’s Tramways Board in providing sickness and funeral benefits to members and their families. Since its inception, the Company has grown to represent members from all arms of Australia’s transport industry. As well as operating the Transport Health Fund, through its subsidiary, Transport Health Pty Ltd (“Transport Health”), TFSL also operates an aged care facility, retirement facilities and a comprehensive dental service.

In recognising the need to continue to maximise benefits to its Members, the Board has undertaken a review of the Company, its limitations and its future planning.

Transport Health operates a comparatively small health fund, with approximately 4,700 Policyholders. The Board remains conscious of providing benefits to Members at a level that remains competitive. It is with this in mind that a review process to determine viable future options for TFSL was undertaken as part of the broader strategic plan. This process has produced the Proposal for Members to consider in moving forward.

Following this review and after considerable deliberation, the Board has determined that it would be in the best interests of Members for the Company to Demutualise.

Purpose of this Disclosure Statement
This Disclosure Statement provides information about the Proposal and the Extraordinary General Meeting of TFSL Members and includes:

• a summary of proposed changes to the TFSL Constitution;
• a comprehensive overview of the Demutualisation and of TFSL’s processes;
• an overview of the Share Allocation Rules and calculations; and
• information to help you decide how to vote.

Why has this Disclosure Statement been sent to you?
This Disclosure Statement has been sent to you because you are a Member of TFSL.

As a Member:

• you are entitled to vote on the proposed Demutualisation, including on the proposed changes to the Constitution and on the Share Allocation Rules; and

• you may be entitled to receive Shares in TFSL if the Demutualisation is approved by Members (even if you did not vote), however this entitlement will not constitute a cash offer to Members, unless:

• you live outside of Australia, in which case you will receive the net proceeds of the sale of your Shares; or

• your name, address and membership details have not been verified by 30 June 2014, in which case your Shares will be held in trust for you until your details have been verified.

You will have a period of 18 months from the date the Demutualisation is implemented and Shares are issued, (subject to an extension of up to six months at the discretion of the Board), to claim your Shares.

If your details are not verified by TFSL or your Shares are not claimed before the end of this period, your Shares will be forfeited and cancelled. For further information please see Section 1.
What is Demutualisation?

Demutualisation is the process through which any member-owned mutual organisation becomes a shareholder-owned company i.e. the status of the Company (in the case of TFSL) will change from being one limited by shares and guarantee, to a company limited by shares.

One of the pre-requisites for membership of TFSL, is that you hold a health insurance policy issued by Transport Health. If the Demutualisation is implemented, Members will retain the Policies that they hold with Transport Health for health insurance. The Board is satisfied that your Policy benefits will remain secure and not be affected by the Demutualisation.

If the Demutualisation is approved, verified Members will be entitled to receive Shares in TFSL in exchange for their Corporate Membership Rights in TFSL. Accordingly, the Shares that you receive will be in addition to the rights you have as a Transport Health Fund Policyholder. The number of Shares allocated to you is described in the Chairman’s letter included with this Disclosure Statement and does not constitute a cash offer.

The Share Allocation Rules and a summary of the changes to the Constitution can be viewed respectively in Section 5 and in Part 1, Section 7.

Why now?

It's important for Members to understand the scope of review that informed the Board's decision to propose the Demutualisation.

TFSL has reached a critical phase in its development which requires additional capital for it to continue to develop and meet its strategic business objectives in the longer term. This is not a decision the Board arrived at easily or quickly, thus this Proposal reflects strong planning and due diligence to ensure the presentation of options to you, the Member, are clear and credible.

Alternative strategies considered by the Board

The Board considered a range of alternatives to Demutualisation before recommending this Proposal. The Board believes that none of the alternatives to the Proposal presented for consideration would deliver as much value to Members as a whole or improve the financial position of TFSL in the future.

The alternative proposals and the Board deliberations which rejected them can be viewed in Section 1.

Independent review of the Proposal

A statutory requirement of any Demutualisation is an independent assessment by a range of subject matter experts which is provided by the assistance of a number of external advisers. The reports of these advisers can be viewed in Sections 3, 4, & 6 and conform to the legislative requirements for inclusion in a Disclosure Statement of this type.

The Board has appointed Deloitte Corporate Finance Pty Ltd as the Independent Expert, to review and comment upon the Demutualisation. This report endorses the Board’s recommendation that the proposed Demutualisation is in the best interests of TFSL Members as a whole. This report can be viewed in Section 6.
Your Membership

Your membership is assessed under TFSL’s Constitution.

It is recommended that you check to ensure that your Policy is not in arrears. You will not receive an entitlement if you are not a current Policyholder with Transport Health.

Subject to final verification TFSL has approximately 4,700 Members at 31 December 2013, and the estimated number of Shares to be issued to Members is approximately 18,773,900. Members will be entitled to a Base Allocation determined by the type of Policy a Member holds. Members will also be entitled to a Duration Allocation reflecting the number of years of continuous membership of TFSL. The total number of shares issued to Members on a Base Allocation basis is 1.3 million, with the remainder of the shares (17.5 million) issued on a Duration Allocation basis.

Summary calculation of Share Allocation

The Duration Allocation is based on the length of membership (subject to a cap of 28 years) and whether a single or family policy is held. The reason this cap is applied is 1985 is the year from which records for membership can be accurately verified.

Section 5 of the Disclosure Statement provides information on how the Share Allocation for various categories of Member has been determined.

Member concerns

This Proposal may raise a number of additional concerns for you and it is the intention of this document to address these concerns in detail in Section 1.

You may argue that no single generation of Members should benefit from a windfall distribution of the value of the organisation accumulated over its history. Furthermore, you may disagree with the way the Shares are allocated.

Other concerns you may have:

• you may be concerned that you will be required to exchange your Corporate Membership Rights for Shares;
• you may hold the belief that TFSL is more exposed to a takeover as a shareholder owned company;
• you may be worried that the Demutualisation will affect your taxation or social security position;
• you may believe that the costs of implementing the Proposal, running a Share registry, or proceeding to a Listing are too high;
• you may feel that there is no guarantee of the worth or value of the Shares;
• you may feel that your interests as a Member may be prejudiced because Shareholders have conflicting interests to those of Policyholders; and
• you may believe that one of the alternatives considered by the Board is better than the proposed Demutualisation.

Each of these concerns are discussed in greater detail in Section 1 and are reasons why you may choose to vote “No” to the Demutualisation resolutions.

The Board’s responses to these issues are also in Section 1.

The Demutualisation will not affect your Policies with Transport Health

TFSL Members may be concerned about the security of their Policies with Transport Health after a Demutualisation has occurred. Your Policy with Transport Health automatically qualifies you as a Member of TFSL. Transport Health is a subsidiary of TFSL and will remain unaffected by the Demutualisation, other than also becoming a for-profit entity (like a Demutualised TFSL).

The Board is satisfied that Members’ Policy benefits with Transport Health will remain secure and that the reasonable benefit expectations of Policyholders will not be adversely affected by the Proposal.
You will continue to be protected by the safeguards provided by relevant legislation that protects the interests of all Policyholders.

The Appointed Actuary and Tax Advisor have reviewed all aspects of the Demutualisation relative to their respective reviews. Both have concluded (within the scope of their individual reviews) that the Proposal upholds the security of Policy entitlements. See Sections 4 and 6 respectively.

**What are your Corporate Membership Rights in TFSL?**

Under the Proposal, Members will exchange their Corporate Membership Rights in TFSL for Shares. The principal rights of Members currently are as follows:

- to attend, speak at and vote at general meetings;
- to elect and remove Directors; and
- to requisition general meetings.

In addition, Members may be entitled under the Corporations Act:

- to convene a general meeting; and
- to submit a proposed resolution to a general meeting.

A comparison of Corporate Membership Rights versus Shareholders’ rights in TFSL is set out on page 32 - 34.

**What you will receive**

You will receive Shares in TFSL in exchange for your Corporate Membership Rights in TFSL. However, there are exceptions to this, as referred to below.

If your details are not verified by TFSL or your Shares are not claimed before the end of the Verification Period, your Shares will be forfeited and cancelled. The residual balance of Shares in the Unverified Members Trust will be forfeited and cancelled, subject to any Shareholder approvals required under the Corporations Act.

The number of Shares allocated to you is set out in the Chairman's letter sent to you with this Disclosure Statement. You will not have to pay any money for your Shares.

TFSL reserves the right to correct your allocation of Shares shown in the Chairman’s Letter if it is found to be incorrect. If you keep your Shares, you may receive dividend payments from time to time.

Please note that the Board considers that it is unlikely that dividends will be paid for a number of years.

**Overseas Members Trust**

If you live outside Australia, you will not receive a Share allocation directly. Your Shares will be issued to the trustee of the TFSL Overseas Members Trust who will hold them on your behalf. The trustee will make appropriate arrangements to sell the Shares held on behalf of the Overseas Members at a suitable time, as determined by the Board. The proceeds will be distributed to the Overseas Members.

**Unverified Members’ Trust**

If you are an Unverified Member i.e. we are not able to verify your name, address and membership details by 30 June 2014, the Shares allocated to you will be held in trust for you by the trustee of the TFSL Unverified Members Trust. You will have a period of 18 months from the date the Demutualisation is implemented and the Shares issued (subject to an extension of six months at the discretion of the Board), to claim your Shares, together with any accrued benefits (such as dividends) less tax and expenses.
The Value of Shares to be Issued

The value of your Shares will reflect:

- the market value of TFSL's assets less liabilities;
- the earnings outlook of TFSL;
- business risks, including the future success of TFSL's business strategy to increase capital and revenue; and
- general economic conditions.

If the Demutualisation Proposal were implemented, the total number of Shares expected to be issued will be approximately 18,773,900, with a net asset value per Share of $1.89 as at 30 June 2013 of $35,484,900.

The impact of the Demutualisation costs are yet to be finalised and the trading results since 30 June 2013 have not been factored into the value of each Share referred to above. This may reduce the net asset value per Share below this figure.

It is important to understand that the allocation of these Shares to you does not equate to a cash offer but rather, is a calculation of value, in the form of Shares, with the number issued to you determined by the length of your membership and the type of Policy held.

PHIAC approval

Transport Health is currently registered with the Private Health Insurance Administration Council ("PHIAC") as a ‘not for profit’ private health insurer under the Private Health Insurance Act 2007 (Cth) ("PHIA"). This means that Transport Health's business is not conducted for profit or gain for its individual Policyholders. It also means Transport Health is exempt from paying income tax. As part of the Proposal, it is necessary for Transport Health to change its registration status to a ‘for profit’ private health insurer under the PHIA. This requires PHIAC’s approval under the PHIA.

Transport Health will apply to PHIAC for registration as a ‘for profit’ private health insurer under Section 126-42 of the PHIA. If approved, this registration will enable Transport Health to make distributions to TFSL as the shareholder of Transport Health. Also, as a for-profit private health insurer, Transport Health will no longer be exempt from paying income tax.

As at the date of this Disclosure Statement, Transport Health has not received PHIAC's approval to convert to a ‘for profit’ private health insurer. The PHIAC approval process requires 90 days between an application for a conversion to a ‘for profit’ status and its implementation. It is likely a decision by PHIAC will be made in May 2014 before the Implementation Date for the Demutualisation. Demutualisation cannot proceed without the approval from PHIAC. The resolutions to be approved at the Extraordinary General Meeting will be conditional on PHIAC's approval of Transport Health's application.

How do you sell your Shares?

The Directors intend to proceed to a Listing within 3 years after the date of approval of the Demutualisation. Following the Listing, you will be able to buy and sell Shares in the same way as other quoted securities. You should seek advice from a securities broker about such transactions.

Prior to Listing and within six months of the Implementation Date, the Board will seek ASIC approval for the establishment of an ASIC approved low volume market which will provide a limited mechanism for trading in Shares. This ensures that the costs in facilitating a private market for Shares would be kept to a minimum as compared to Listing at this early stage.

An ASIC approved low volume market has a number of restrictions attached to it, including:

- maximum of 100 trades in a 12 month period; and
- the total of these trades must not exceed $500,000 in value.

When either of these restrictions have been met, TFSL will suspend the low volume market operated by it to the start of the next 12 month period. Members wishing to trade their shares during this closure period will need to either wait for the next available 12 month period or arrange their own sales with a willing purchaser.
The matching, negotiation and execution of any transaction that occurs will take place between the buyer and seller without any involvement from TFSL. Settled transactions will be processed by TFSL’s Share registry. Once the transaction has been processed by the Share registry, the Company secretary will then update the register of sellers and buyers.

Following the allocation of your Shares, the worth of your Shares will be determined by the price at which the Shares are bought and sold. In addition to the factors referred to earlier which may affect the value of your Shares, the price at which your Shares will be bought and sold will be determined by:

- relevant Share trading restrictions;
- the perception of the market in terms of TFSL’s worth;
- trading activities on the Shares of TFSL;
- anticipation of dividend payments and the level of franking credits attributed to the Shares; and
- premiums or discounts that the market may place on the value of TFSL’s business.

It is possible that the value of your Shares, either under an ASIC approved low volume market or in a Listing, may be higher or lower than the net asset value of the Shares as referred to in this Disclosure Statement. There is no guarantee that the ASIC approved low volume market will be approved or that the Listing will occur within the anticipated timeframe or at all. For further information on Listing, see Parts 1.4 and 2.4.

**Verification of your details**

If your name and address details listed in the Member Verification Form are correct, please sign in the appropriate space.

If the details are incomplete or incorrect, please fill out the Member Verification Form with the correct information and sign the form in the appropriate space. Please return the form to the address listed in the Member Verification Form.

**NOTE:** RETURNING THE MEMBER VERIFICATION FORM IS NOT A VOTE FOR OR AGAINST THE PROPOSAL.

**NOTE:** YOU ARE REQUIRED TO RETURN THE MEMBER VERIFICATION FORM IN ORDER TO BECOME A VERIFIED MEMBER, EVEN IF YOU ARE SENDING IN A PROXY FORM OR PLAN TO VOTE IN PERSON AT THE EXTRAORDINARY GENERAL MEETING.

**What happens if you fail to verify your details?**

If the Demutualisation is approved and you have not:

- voted in person or by proxy at the Extraordinary General Meeting; or
- confirmed your details by 30 June 2014,

you will be considered an Unverified Member and your Shares will be issued to the trustee of the TFSL Unverified Members Trust.

**Where and when is the Extraordinary General Meeting?**

The Extraordinary General Meeting will be held:

**ON** Wednesday 2 April 2014 at 11.00 am (AEDT),

**AT** Computershare Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, VIC, 3067.

As a Member, you are entitled to attend. If you will be attending, please contact us on 1800 680 952 to confirm your attendance. If you cannot attend in person, we ask you to return your Proxy Form to us in the prepaid envelope provided, so that it is received by us no later than 11.00 am (AEDT) Monday 31 March 2014. Alternatively, your Proxy Form can be submitted in person at TFSL’s head office or by any other manner listed on the Proxy Form before that time. Please note that Members who vote at the Extraordinary General Meeting, either in person or by proxy, will for Share allocation purposes, be taken to be verified.
How may you vote?

If you are entitled to vote, you can do so:

in person at the Extraordinary General Meeting (see above); or

by proxy if you wish to appoint someone to attend the Extraordinary General Meeting to vote on your behalf, you should complete and return the Proxy Form in the prepaid envelope provided. The person you appoint is called your proxy. You can instruct your proxy to vote “Yes” or “No” on the resolutions or leave it to them to decide. You can also appoint the Chairman of the meeting as your proxy to vote on your behalf.

Even if you do not vote at the meeting, you will still be entitled to receive a Share Entitlement, subject to you becoming verified before the end of the Verification Period.

The result

The result of the Members’ vote will be determined at the Extraordinary General Meeting and will be published on our website www.tfsi.org.au within seven days of the Extraordinary General Meeting.
SECTION 1

THE DEMUTUALISATION

Part 1: The Demutualisation

Part 2: What is the Demutualisation

Part 3: Will the Demutualisation affect your Policies with Transport Health

Part 4: How do Membership Rights compare with Shareholder Rights

Part 5: Information about Shares in TFSL
THE DEMUTUALISATION

1.1 Why is the Board recommending the Demutualisation?

To understand why the Board has arrived at the decision for Demutualisation, it’s useful to consider the origins of TFSL as a mutual friendly society in order to look toward the future.

Friendly Societies

Friendly societies remain the cornerstone in providing services across a range of industries such as transport, banking and pharmacy and were formed for mutual benefit purposes to provide assistance where it was most needed in the form of sick pay, funeral benefits, the supply of medical attention and medicine.

In colonial Australia, illness and accidents were of concern, as the inability to work often resulted in crippling debt for families. Funerals were often an additional cost on the already burdened shoulders of families. This prompted the development of mutual societies which would provide mutual aid, where each man made a regular contribution to a common fund. In times of need, the fund would provide a benefit should hardship fall upon a member. Mutual societies were the first health funds to launch in Australia, which over time, has produced a health insurance industry that TFSL has become part of.

TFSL History

TFSL was established as a mutual friendly society in 1888. Originally known as the Mutual Benefit Society of the Employees of Melbourne Tramway and Omnibus Company Limited, TFSL commenced service during a time when friendly societies were known for their coordination of medical services, including supplies of medication, sick pay entitlements and specifically for the assistance they provided to those who fell upon hard times. Devoid of good clinics or hospitals, the early colonies were fruitful soil for mutual organisations; there were organisations such as TFSL, who responded to the needs of a rapidly growing transport industry.

Since then, like other friendly societies, TFSL has evolved to provide benefits to Members in the form of health insurance, dental services, residential aged care services and a retirement village. TFSL has a strong history of achievement in responding to industry trends and providing services reflecting these shifts in service requirements.

Smaller friendly societies have struggled with regulatory compliance and the development of sound business strategies which has impacted their growth and strategic direction. At TFSL, this has produced robust debate as to which service model is the best fit for Members. Often the first predictor of the need for organisational change is a decline in membership.

Decline in TFSL membership

Building on its proud historical foundation of service to its Members, the Board has worked hard to establish systems that ensure strict compliance with the regulatory requirements for the services it offers to its membership. This has not been without its challenges. As a result of privatisation and economic change within the transport sector, the membership number of TFSL has been in steady decline since the late 1990’s. At its peak, TFSL membership was approximately 5,300, but has since dropped to approximately 4,700; this creates an additional burden on TFSL to remain competitive. As membership declines, this reduces the viability of TFSL to continue to operate effectively. It is with these factors in mind that a Demutualisation is proposed.

Strategic Direction

The decision to recommend Demutualisation has not occurred in isolation, it has been recognised as a viable business strategy within the organisation. The Board has identified key areas for service development for the next five years which focus on the following goals:

1. growing membership of the core business to optimum levels supported by strong capital reserves;
2. developing profitable subsidiary businesses which improve the overall financial position of TFSL; and
3. reducing and working towards eliminating the day to day financial subsidy required by the core business.
The strategic planning for TFSL also aims to make improvement in the following areas:

1. growing and developing the revenue and cash generating activities of the core business;
2. bringing excellence to every aspect of operations, improving efficiency and eliminating waste; and
3. developing a distinctive culture that guides operational decisions.

The Board and management are committed to the long term prosperity of TFSL and will continue to develop the strategies as necessary for the benefit of its Shareholders.

The Board strongly believes that the decision to Demutualise TFSL will improve the strategic direction of the Company. In turn, this will increase the profitability and value of the Company and should therefore deliver value in the long term to its Members, who will become Shareholders of TFSL if the Demutualisation is approved.

1.2 TFSL - Today

Today, TFSL is registered as a service provider across various sectors. It operates:

- its subsidiary Transport Health; a provider of health benefits from its registered private health fund, which is regulated by PHIAC;
- as an accredited aged care provider, regulated by the Department of Social Services;
- a retirement village regulated under the Retirement Villages Act 1986 (Vic) and the Owners Corporation Act 2006 (Vic); and
- a comprehensive dental service.

The regulatory environment in which Transport Health operates, requires strict compliance with the same rules and regulations that apply to organisations with memberships many times larger than Transport Health. The Board sought advice from industry experts and was informed that regulation and compliance regimes will continue to increase over time. This ultimately increases the burden on TFSL to operate in a changing economic and regulatory landscape.

The Board believes that TFSL's mutual structure is no longer the most appropriate structure for the Company and that undertaking a Demutualisation will maximise value for Members. In turn, this will enable the Company to respond in a timely manner to business risks and opportunities. The longer term benefit of this should be the increased value of the Company.

It is important that TFSL responds to the opportunity to grow and maximise its value for Members. To achieve these aims, TFSL may require future access to additional capital and it is a Demutualisation that will ultimately provide the ability to raise capital through the future issue of shares.

1.3 What are the advantages of the Demutualisation?

The reasons why the Board has recommended the Demutualisation are discussed herein and are reasons that may assist you in choosing to vote “YES” to the Demutualisation.

After reviewing a number of options, the Board believes that a mutual structure is no longer an appropriate structure for TFSL. The financial stability of TFSL is at the forefront of the organisation's strategic planning and future forecasting. The Board believes that a Demutualisation will assist TFSL in reaching its goals as an organisation and release capital back into the business and benefit Members in the form of Shares.

The Demutualisation will achieve the following immediate outcomes for Members:

- properly protect the interests of Policyholders in the longer term;
- is in the best interests of TFSL’s Members as a whole; and
- is the best way for TFSL to move forward.

The Board firmly believes that if TFSL does not undertake a Demutualisation, the growth of the Company will be much slower. This in turn will impact its ability to build reserves and reduce future opportunities to accept new business. Set out below is additional information on the advantages of the Demutualisation.
(a) **Transport Health Policyholders’ interests protected**

This relates to the security of your Policies in the future. The Board has agreed that any proposal it recommends must properly protect the interests of Policyholders with Transport Health.

Policies will continue to be protected under the existing regulatory regime. There are adequate assets in the Transport Health Fund to adequately meet prudential solvency and capital adequacy requirements.

The Board remains satisfied that the Policy benefits that Members currently enjoy with Transport Health will remain secure and not be adversely affected by the implementation of the Demutualisation.

(b) **Crystallising the value of your Corporate Membership Rights in TFSL**

As a Member, you are an owner of TFSL; currently:

- there is no clear value for your membership rights; and
- you are unable to sell your Corporate Membership Rights.

You will lose your Corporate Membership Rights when your Policies with Transport Health are terminated (regardless of the reason for termination).

The Demutualisation will provide you with Shares in TFSL (subject to your satisfaction of the verification requirements) in exchange for your Corporate Membership Rights in the Company. This is essentially a ‘swap’ which will allow you to crystallise the value of your Corporate Membership Rights which will convert to rights as a Shareholder. As a consequence, in the future, these rights will not be dependent upon you remaining a Transport Health Policyholder.

Following the issue of Shares, the worth of your Shares will be determined by the value set by the market. This value will reflect the value of the Company as a whole, including anticipated future profits and goodwill, plus any premiums or discount that the market may place on the value of the TFSL business.

Following the issue of your Shares, you will have the choice between:

- keeping your Shares and benefitting as a Shareholder through possible dividend payments and any increases in the value of your Shares over time; or
- selling your Shares, either by private treaty or on the ASIC approved low volume market or on an approved stock exchange following a Listing.

**Please note there is no guarantee that the ASIC approved low volume market or a Listing will occur within the anticipated timeframe or at all, nor is there any guarantee as to the future value of your Shares.**

Upon Demutualisation, you will retain your ownership interests in TFSL, even if your Policies with Transport Health lapse. If the Demutualisation does not proceed, you will eventually lose your Corporate Membership Rights for no compensation when the Policies that you hold with Transport Health end. You would then have no further opportunity to share in the value of the Company.

The Board holds the view that the Demutualisation is not only fair and equitable, but also beneficial, because:

- it will unlock the Company’s surplus reserves; and
- it will allow TFSL to undertake further business growth.

(c) **Share Allocation Rules**

With the assistance of its Appointed Actuary, TFSL has developed a set of business rules for the allocation of Shares to its verified Members. The Board believes that these rules provide a fair and reasonable basis for allocating Shares amongst Members.

The allocation basis was determined following advice from the Appointed Actuary on considerations to be used in the determination for the basis of Share allocation.

The Independent Expert has subsequently concluded that the Share Allocation Rules provide a fair and reasonable basis for allocating the value of TFSL between Members.
The Share Allocation Rules:

- recognise that all Members have Corporate Membership Rights and that because Members will surrender their Corporate Membership Rights in TFSL when it Demutualises, all verified Members will receive Shares in return;

- recognise that the allocation basis does not reward only Corporate Membership Rights, but also loyalty; and

- the allocation basis is generally consistent with other bases adopted in comparable Demutualisations.

The Share Allocation Rules can be viewed in Section 5.

(d) Delivering maximum value to Members

The principal focus of the Board has been to deliver Members with the most value. Under the existing mutual structure, TFSL can only distribute value to Members through reduced Policy premiums and / or increased benefits. This value is limited by the regulatory requirement of a defined amount of capital being retained to meet solvency requirements under the PHIA. The Board estimates that the value that Members will receive if the Demutualisation was implemented at the date of this Disclosure Statement would be approximately $35,484,900. This amount would then be subjected to the Share Allocation Rules to determine a number of shares to be issued to each verified Member, see Section 5.

In the Board's view, the Demutualisation delivers value, as Members will be issued with an asset being a share, which subject to the 15% share ownership and voting restriction detailed under the proposed Constitution, they can deal with in a manner which they see as appropriate. In an unregulated market, value is really what two willing parties determine, often without reference to the assets of the company or future profit making potential.

If a Demutualisation does not proceed, the Company will not be able to distribute any capital to its Members, as its mutual structure does not allow for this. A Demutualisation will ensure that Members receive Shares, but this will not reduce or impact on the capital of TFSL.

The Board believes that the Demutualisation will also provide a number of significant business benefits to TFSL. These include:

(e) Improved ability to raise capital

TFSL requires additional capital to achieve its long term business and strategic objectives. Whilst TFSL remains a mutual company, its ability to raise and use capital is restricted. Its business operations are currently financed either by its own resources or external borrowings.

The Board believes that the Company should have a structure which allows it the ability to raise capital to better facilitate growth and expansion. The option to raise capital to meet such requirements is facilitated by the Demutualisation and is conversely restricted if TFSL remains a mutual company.

(f) Increased Flexibility

This ability to raise capital will provide TFSL with greater flexibility to respond rapidly and effectively to strategic opportunities that will build the capital reserves. If the Demutualisation is approved and the proposed Listing proceeds, TFSL will have the ability to access equity markets as well as increase its access to debt markets.

(g) Management Accountability

After Demutualisation, Shareholders will have a direct financial interest in the performance, dividends and Share price. This together with the greater market scrutiny, should increase management accountability and focus.
(h) Rights as a Shareholder

The Board believes that there are advantages in having Shareholders’ rights in TFSL rather than having Corporate Membership Rights in the Company. As a Shareholder, your rights will include:

- the right to receive dividends that the Board decides will be paid from time to time;
- the right to sell your Shares; and
- rights to participate in surplus assets on a winding up of TFSL which, will be much clearer.

Your rights as a Shareholder of TFSL will continue while you hold Shares, regardless of whether you remain as a Policyholder with Transport Health.

(i) Tax Concession

Current income tax laws will provide a special concession if TFSL Demutualises in a manner which meets certain conditions – which the Proposal plans to undertake. Under the tax concession, the value of TFSL that is released to Members in the form of Shares at the time of Demutualisation, is tax free. That value also establishes a deemed tax cost base for each allocated Demutualisation Share, so that it has the effect of retaining the tax-free concession when your Shares are later sold – for future capital gains tax calculation purposes. For further details on the tax aspects of the Demutualisation, see Section 3.

(j) Social Security Position

Members who receive Shares under the Demutualisation and who are in receipt of Government income support payments (such as the age pension or veterans’ service pension), will not be assessed under the income test and assets test on those Shares (by Centrelink and the Department of Veterans Affairs) ("DVA") until Listing occurs and the Shares are traded. Without a Demutualisation as planned, any other form of surplus distribution, if it were possible could result in funds that become immediately subject to these tests. For further details on the social security aspects of the Demutualisation, see Section 3.

1.4 What are the disadvantages of the Demutualisation?

The Board believes that the disadvantages of the Demutualisation are:

(a) Uncertainty of a Listing date and value of Shares

Prior to Listing, the Board will seek ASIC approval for the establishment of an ASIC approved low volume market which will provide a limited mechanism for trading in Shares. This ensures that the costs in facilitating a private market for Shares would be kept to a minimum as compared to Listing at this early stage.

An ASIC approved low volume market has a number of restrictions attached to it, including:

- maximum of 100 trades in a 12 month period; and
- the total of these trades must not exceed $500,000 in value.

When these restrictions have been met, the low volume market operated by TFSL will cease until the next 12 month period. Members wishing to trade their shares during this closure period will need to arrange their own sales.

The matching, negotiation and execution of any transaction that occurs will take place between the buyer and seller without any involvement from TFSL. Settled transactions will be processed by TFSL’s Share registry. Once the transaction has been processed by the Share registry, the Company secretary will then update the register of sellers and buyers.

The Board recommends that you take particular care and seek appropriate and timely financial advice if you are approached by anyone to buy your Shares at a low price prior to Listing.

In the unlikely event that TFSL does not undertake the proposed Listing or this is delayed, and there is not an acquisition of, or merger involving TFSL Shares which is supported by Shareholders, you may have difficulty realising the value of your Shares.

The Board intends that TFSL will not pay dividends before the proposed Listing (although such dividends are not guaranteed even after Listing). Each of these factors may lower the value which you are able to realise for your Shares if TFSL does not undertake the proposed Listing.
In addition, the Board cannot give assurances as to the value of the Shares. Shares in TFSL may trade at higher or lower prices due to a range of circumstances. Shareholders who decide to sell their Shares may therefore not realise the value of the Shares indicated in this Disclosure Statement.

**Board response:**

It is the Board’s intention to proceed to Listing within 3 years following the date of approval of the Demutualisation. The Board considers it very unlikely that it will be in a position to List before that time. The period of 3 years is expected to provide the Company with sufficient time to ensure that it has adequately prepared, has appropriate operating and compliance procedures in place and is in a position to List. As this event is scheduled in the future, it is not possible for the Board to put a value on the Shares at that time. It is also a possibility that the value of the Shares at the time of Listing could be very low or that the proposed Listing may be delayed or not occur at all. The Board however is unaware of any situation or circumstance that would preclude a Listing within the 3 year period.

Nevertheless, the Board believes that such a low value would still provide a return to Members as opposed to not Demutualising and not being able to access any value in TFSL. Further to this, the value of Shares cannot be predicted with certainty and will not be known until trading in the Shares occurs, as the market will dictate the value at this point in time. The valuation of Shares will also be determined by investors who will likely consider the value of TFSL’s business, anticipated future profits and goodwill.

(b) **Costs of implementing the Demutualisation, including costs of Listing and establishing a Share Registry**

The costs of implementing the Demutualisation are set out in detail in Part 3 of Section 7 and whilst not yet known are estimated to be in the vicinity of $775,000 which is reflective of $700,000 for Demutualisation and establishing a Share Registry and $75,000 for establishing the ASIC Low Volume Market and Listing.

**Board response:**

The Board believes that whilst there is a cost associated with the Demutualisation and with establishing and maintaining a Share register and proceeding to a Listing, the value released to Members through the Proposal and the ability to later trade their Shares, will outweigh the costs associated with the Demutualisation and further costs associated with a Listing and maintaining a Share registry.

(c) **Success as a Mutual**

Some Members may be committed to the concept of mutuality and would argue that:

- TFSL’s mutual structure has been appropriate and successful for many years;
- any change to TFSL’s values or structure may change public perceptions of TFSL;
- that with the number of mutual health fund insurers in decline, being a mutual may be a positive feature for TFSL and its subsidiary Transport Health, therefore a competitive advantage;
- that it is unfair that only this current generation of Members should benefit from this windfall distribution by the Company; and
- that part of the Company’s capital can be distributed now or later on a fair and equitable basis.

**Board response:**

The Board acknowledges that its mutual structure has served TFSL well in the past. However, given competitive and rapidly changing health and aged care markets, membership decline and expected capital needs for the future, the Board believes that a mutual structure is no longer the most appropriate structure for TFSL. TFSL remains proud of its heritage. If the Demutualisation proceeds, TFSL will remain committed to the values that have been a contributory factor to its success for over 120 years.

It is true that in recent years TFSL has performed well and has expanded its scope of service and its asset portfolio. However, it is important to be cognisant of future trends and plan for these accordingly to ensure the organisation is in a position to take advantage of future opportunities and the capital that is required to harness these opportunities.

The current mutual structure also prevents Members from sharing in the value of the TFSL in the form of Shares or in the distribution of profits or surplus assets.
(d) Exchange of Corporate Membership Rights

Some Members may be concerned that following the Demutualisation, they will no longer be Members of TFSL and will give up their Corporate Membership Rights. Members of TFSL have rights which are in addition to contractual rights under their Policies. The principal rights of Members are described in greater detail in Section 1, pages 32 – 34.

By exercising their Corporate Membership Rights, Members may influence TFSL. For example, it is possible for Members to elect and remove Directors and to amend the Constitution. Accordingly, and subject to compliance with the Corporations Act and any other legal requirements, it may be possible for Members to amend the Constitution to remove the restriction on the distribution of surplus or to require that cash distributions be provided to Members.

Board response:

Although you give up your Corporate Membership Rights in TFSL, you will receive Shares in TFSL which you can sell following the Demutualisation, see Section 1, Part 5. You will thereafter have various rights as a Shareholder. While TFSL remains a mutual, you cannot readily access the value of your Corporate Membership Rights. You need to consider whether you will receive fair value for the loss of your membership rights by receiving Shares in TFSL.

The Directors believe that the allocation of Shares will deliver more value to Members than the existing Corporate Membership Rights.

(e) Increased exposure to takeover

Under the mutual framework, it would be difficult (but not impossible) for an individual or group to acquire control of TFSL. With the Shares being able to be traded, the possibility of a takeover may increase. Although transitional shareholding limitations under the proposed Constitution will apply, it is possible during that period for the shareholding limitations under the proposed Constitution to be waived in some circumstances and for the limitation specified in the proposed Constitution to be varied by special resolution of Shareholders. These transitional shareholding limitations restrict Shareholders acquiring or disposing of Shares representing 15% or more of the voting power for a period of 5 years from the date of issue of the Shares under the proposed Constitution. These limitations can be varied by the Directors at their discretion (eg. in the event of a takeover).

Board response:

A takeover of TFSL following the Demutualisation, can only occur if the transaction was in compliance with relevant legislation, including the Corporations Act and on the basis that the acquirer had obtained all necessary government and regulatory approvals. In practice, this will make it quite difficult to takeover TFSL without Shareholders’ approval. Furthermore, the Directors note that a takeover offer under certain circumstances may provide significant benefits to Shareholders. Subject to the takeover provisions in the Corporations Act, a takeover of TFSL would be unlikely to succeed without the broad support of Shareholders.

(f) Potential taxation and social security implications

Receiving Shares or dividend payments may require you to pay more tax because you have increased income. Also, after the proposed Listing, with Shares being traded, it may cause your entitlements to pensions or other social security benefits (or those of your dependants) to be reduced because you have increased income and assets. Information on taxation and social security implications is set out in Section 3.

Board response:

The Board believes that the benefits that Members will receive from the issue of Shares (including the tax concession and non-assessable social security position before Listing) will be significantly greater than the possible future tax and social security implications that could arise. These implications (including some example calculations) are explained more fully in Section 3. The Board recommends affected Members consider carefully the potential effect and compare this with the benefits they can expect under the Demutualisation.

(g) Shareholders may have competing interests

Some Members may consider that they will be prejudiced because Shareholders may have interests that compete with those of Policyholders and such interests may be to the detriment of Policyholders. This is a reference to Shareholders seeking increasing dividends and increased value of Shares, to the detriment of increased Policy benefits and entitlements or premium reductions.
Board response:

Under current regulations and annual Government review processes for health insurance premium adjustment, the interests of Policyholders are not expected to be affected. Also under TFSL’s existing mutual structure, distribution of surpluses is limited by Constitutional restrictions and the need to build reserves to provide ongoing solvency and business continuity, without the ability to access outside equity. If the Demutualisation is approved, TFSL may be able to seek to obtain capital from equity markets to support its ongoing activities without affecting the reserves required to support its Transport Health Fund. The Board is aware of the potential for competing interests of Shareholders and Policyholders; however it believes that your interests as a Policyholder will remain protected and does not believe that the Proposal will have an adverse effect on your Policy premiums.

The Board remains satisfied that all conflicts of interest have been declared and believe that this scenario is unlikely.

(h) Minority Shareholder Discount

There is a possibility that the value of Shares issued to each Shareholder in accordance with the Share Allocation Rules, may on a voluntary sale, be discounted due to the size of each Shareholder’s holding not representing a majority or controlling interest in TFSL. The magnitude of the discount could be compounded by the fact that the market for Shares in TFSL could be illiquid due to its relatively small size.

Board response:

Share parcels allocated to Members will be relatively small in number and will not afford any such Shareholder a majority or controlling interest. When the Shares are able to be traded, their value will be reflected by a number of factors, including the market value of TFSL’s assets and liabilities, its earnings outlook and general economic conditions. It is possible that the market may discount the value of minority holdings and that the market for TFSL’s Shares may be illiquid due to its relatively small size. Illiquid is defined as the state of a security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value.

1.5 What are the alternatives?

The Board considered a number of alternatives, all of which were raised before the 2013 Annual General Meeting. It concluded that it should recommend the Demutualisation. In the opinion of the Board, there were a number of alternatives to Demutualisation.

These were:

- remain as a mutual;
- merge with another organisation;
- sell a combination of existing assets to fund future growth initiatives; and
- winding up the Company.

(a) Remaining as a mutual

The option to remain trading as a mutual company is an alternative to the proposed Demutualisation. However, in light of TFSL’s declining membership and the Company’s need to raise additional capital to fund its activities, this has not been considered an appropriate option, as the long term future for TFSL under the existing structure would not have been viable.

(b) Merge with another organisation

Potential partners are likely to be significantly larger than TFSL, which would compromise the negotiating position of TFSL and would likely result in the end of TFSL as an organisation.

(c) Sell a combination of existing assets to fund future growth initiatives

It may be difficult to see how to return any benefits to Members. In fact, the services that would be provided to Members would be small, as few use aged care or retirement village facilities, thus may not be supported by the Members.
(d) Winding up the Company

The option of winding up the Company was presented to the Board and was met with considerable discussion. A winding up of the Company may require a transfer of existing Transport Health Policies to another registered health insurer. In this event, Transport Health Fund surpluses may be required to be transferred across to the other insurer.

Board Response:

*In view of the commercial opportunities available to TFSL currently, the Board concluded that the proposed Demutualisation is the fairest and most equitable way to maximise value for its Members whilst providing TFSL with the strongest opportunity for growth is in the best interests of Members as a whole. It is envisaged that the implementation of TFSL’s strategic business goals will also add value for our Members.*

1.6 What will happen if the Demutualisation is rejected?

If the Members reject the Demutualisation:

- TFSL will remain as a mutual and you will retain your Corporate Membership Rights;
- you will not receive any Shares;
- the proposed Constitution will not be adopted;
- you will eventually lose your Corporate Membership Rights for no compensation when your Policies end for any reason;
- the Board may need to consider developing another plan which will potentially involve further substantial delays;
- the ability of TFSL to raise timely capital will be severely impacted, which is likely to result in TFSL not being able to reach its full potential; and
- TFSL may be required to downsize its business.

1.7 Recommendation

After careful evaluation of all matters described in this Section, the Board is of the view that TFSL Members should vote in favour of a Demutualisation which will:

- properly protect the membership interests of Policyholders with Transport Health;
- be in the best interests of Members as a whole; and
- provide the best structure for TFSL’s future.

The Board recommends the Demutualisation to all Members and encourages you to vote “YES” to all of the Demutualisation resolutions.

1.8 Independent Expert’s opinion

The Independent Expert has reviewed the following aspects of the Demutualisation:

- the Share Allocation Rules set out in *Section 5* of the Disclosure Statement;
- the opinion of the Appointed Actuary set out in *Section 4* of the Disclosure Statement;
- potential advantages and disadvantages to the Members of the Demutualisation, including any rights of Members gained or lost;
- other alternatives available to Members; and
- other implications associated with the Members rejecting the Demutualisation.

The Independent Expert has expressed the opinion that the advantages of the Demutualisation outweigh the disadvantages and accordingly has concluded that the proposed Demutualisation is in the best interests of Members as a whole. Further details on the Independent Expert’s report can be viewed in *Section 6.*
PART 2

WHAT IS THE DEMUTUALISATION

2.1 Overview

The Demutualisation involves TFSL changing from a mutual company to a shareholder-owned company. Members will exchange their Corporate Membership Rights in TFSL for Shares in the Company. Within six months of the Implementation Date the Board intends to seek ASIC approval for the establishment of an ASIC-approved low volume market which will provide a limited mechanism for trading in Shares. This ensures that the costs in facilitating a private market for Shares would be kept to a minimum as compared to Listing at this early stage.

The Board also intends to proceed with a proposed Listing, within 3 years following the date of approval of the Demutualisation.

There are three major process milestones required to progress the Demutualisation of TFSL.

Step 1:
Members will be asked to vote in favour of changing from a company limited by shares and guarantee to a company limited by shares.

This will involve the adoption of a new Constitution which sets out the rights of Shareholders, as well as other requirements to enable the Company to operate as a shareholder-owned company.

Step 2:
Following the endorsement of changes to the Constitution, Members will be asked to approve the Share Allocation Rules see Section 5.

Step 3:
Shares will be issued in exchange for your Corporate Membership Rights in TFSL. This will not constitute a cash offer.

For the Demutualisation to proceed, the Constitutional changes and Share Allocation Rules cannot be validly approved unless:

• a minimum 21 days’ notice has been given of the meeting at which they are proposed;
• at least 10 Members comprising a quorum must be personally present;
• a special majority of 75% of votes of Members present at the meeting in person or by proxy are cast in favour of these changes;
• PHIAC approves the change of status of the Transport Health Fund; and
• the changes are registered with ASIC.

2.2 TFSL Demutualises

Today, you and other TFSL Members hold Corporate Membership Rights in TFSL. These rights are in addition to your rights as a Policyholder with Transport Health. It is important to understand that a Demutualisation of TFSL separates the Corporate Membership Rights of Members as owners of TFSL from their contractual rights as Policyholders with Transport Health.

The Demutualisation will provide you with Shares in TFSL in exchange for your Corporate Membership Rights in the Company, subject to you satisfying the verification requirements. The total number of Shares to be issued is expected to be approximately 18,773,900 Shares.

The number of Shares allocated to you has been determined under the Share Allocation Rules which have been approved by the Board. These Rules are set out in Section 5.

Most Members will receive their Shares directly. Special arrangements have been made for Overseas Members under the TFSL Overseas members Trust and under the TFSL Unverified Members Trust for Members whose name, address and membership details have not been verified.
The Shares will provide Members access to the value of their membership interests without reducing the Company’s assets. This value is not readily available to you whilst TFSL remains a mutual company.

2.3 Process of Demutualisation

The process of Demutualisation involves Members voting at the Extraordinary General Meeting to:

- change TFSL to a shareholder-owned company;
- approve the Share Allocation Rules; and
- approve the issue of Shares in accordance with the Share Allocation Rules.

There is a requirement for a quorum of 10 Members to be personally present at the Extraordinary General Meeting. The Demutualisation cannot proceed unless 75% of the votes validly cast on the resolutions to Demutualise, either in person or by proxy, are “YES” votes. As noted earlier, PHIAC must also approve the change of status of the Transport Health Fund for the Demutualisation to proceed.

2.4 Process of Listing

There are usually numerous regulatory, structural, organisational and constitutional issues to be met prior to Listing which include:

- the Constitution of TFSL must be appropriate for a Listing on the selected stock exchange;
- Listing timetables and timeframes are to be met; and
- TFSL must be able to meet initial and ongoing Listing rule obligations.

An example of the current requirements for listing on one of the stock exchanges being investigated are:

- minimum of 50 shareholders with a minimum $2,000 worth of Shares;
- minimum market capitalisation of $500,000;
- at least 25 % of shares in the hands of the public;
- must have an adequate 2 year track record;
- must have a constitution that is compliant with the exchange rules; and
- must have appointed a nominated advisor and a sponsoring broker.

Based on the admission criteria above, TFSL should be able to satisfy the Listing criteria of the selected stock exchange. However, TFSL believes that it needs to grow and strengthen its business and thus enhance the value of the Company before it Lists on a stock exchange.

Please note there is no guarantee that a Listing will occur within the anticipated timeframe or at all, nor is there any guarantee as to the future value of your Shares.
PART 3

WILL THE DEMUTUALISATION AFFECT YOUR POLICIES WITH TRANSPORT HEALTH

3.1 Will your Policy rights with Transport Health stay the same?

The Shares you receive in exchange for your Corporate Membership Rights in TFSL will be in addition to your current rights and benefits as a Policyholder of Transport Health. You will be able to retain your Policies with Transport Health and there will be no change in the manner in which your Policies are treated for taxation and social security purposes after the Demutualisation.

3.2 Will your Policy benefits with Transport Health be secure?

The Board is satisfied that your Policy benefits with Transport Health will remain adequately secure. The safeguards provided by the relevant legislation that protects the interests of all Policyholders, will continue following the implementation of the Demutualisation. The Appointed Actuary has concluded that the security of Policy benefits provided will not be materially adversely impacted as a result of the Demutualisation.
### 4.1 Overview

If the Demutualisation of TFSL is approved, you will receive Shares in TFSL in exchange for your Corporate Membership Rights in the Company. It is important that you understand the scope of the Corporate Membership Rights you are giving up and how these compare with the rights you will receive as a Shareholder of TFSL. Although you will surrender your Corporate Membership Rights in TFSL, you will retain your Policies. Your Policy rights are contractual rights and will remain unchanged. To assist you in understanding your rights, a table comparing the rights of a Member as opposed to rights of a shareholder is provided below.

**Table 1: Rights Comparison**

<table>
<thead>
<tr>
<th>Membership rights in TFSL</th>
<th>Shareholders’ rights in TFSL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source of rights</strong></td>
<td></td>
</tr>
<tr>
<td>Rights are conferred primarily under:</td>
<td>Rights will be conferred primarily under:</td>
</tr>
<tr>
<td>• TFSL's Constitution; and</td>
<td>• TFSL's Constitution; and</td>
</tr>
<tr>
<td>• company law.</td>
<td>• company law.</td>
</tr>
<tr>
<td>Some of these rights are not available to persons under the age of 18.</td>
<td>You will not have some of these rights if the rights arise from Shares which you own jointly with others whose names appear first in the TFSL register in relation to those Shares.</td>
</tr>
</tbody>
</table>

In both cases, these rights are in addition to the rights you currently hold under your Policies with Transport Health. If the Demutualisation is approved, you will retain your Policies with Transport Health. The Board is satisfied that your Transport Health Policy benefits will remain secure.

**Permanency of rights**

Membership rights derive from your Policies with Transport Health. This means that you will eventually lose your Corporate Membership Rights for no compensation when your Policies end for any reason. If your Policies with Transport Health expire, you will retain your Share entitlement. Shares are a form of property and they remain a personal asset after your Policies with Transport Health end.

**Right to receive notice of general meetings**

Members have the right to receive notices of general meetings. Notice is given by:

- serving it on the Member; or
- sending it by post, facsimile or electronic address to the Member.

Every Share carries the right to receive notices of general meetings. Notice is given by:

- serving it on the Shareholder; or
- sending it by post, facsimile or electronically to the address of the Shareholder.

The notification process for general meetings for Members or Shareholders will not change under a Demutualisation.
**Membership rights in TFSL**

**Shareholders' rights in TFSL**

### Voting Rights

- All Members are entitled to vote in person or by proxy:
  - Under the Constitution, each Member who:
    - is entitled to vote on a show of hands, has one vote; and
    - is entitled to vote on a ballot, and has one vote.

- All Shareholders are entitled to vote in person or by proxy except where two or more joint owners of Shares vote. In this case only the vote of the joint owner whose name appears first on TFSL’s Register of Members will be counted.
  - Under the proposed Constitution, each Shareholder who is entitled to vote:
    - has one vote on a show of hands; and
    - on a poll, has one vote for each fully paid up Share they hold.

Prior to Demutualisation, each Member has one vote. Following Demutualisation each Shareholder will have one vote for each fully paid up Share held. Accordingly, individual's voting power could be potentially diluted or increased, depending on the number of fully paid up Shares held as a proportion of all fully paid up Shares issued.

### Rights to transfer Membership or Shares

- Your Corporate Membership Rights in TFSL cannot be transferred.

- Subject to relevant Share trading restrictions, you may be able to sell your Shares privately or via an ASIC approved low volume market prior to any Listing. If you sell your Shares, you keep your Policies and all rights attached to your Policies.

  - You can also bequeath Shares or gift them to another person.

### Right to attend, speak at and demand a ballot or poll at general meetings

- Members and their proxies have the right to attend and speak at general meetings of the Company.

- A poll can be demanded by the Chairman of the meeting or by any five Members entitled to vote on the resolution.

- Shareholders, their proxies, attorneys and representatives (for Shareholders which are corporate entities) have the right to attend and speak at general meetings of the Company. A poll can be demanded by the Chairman of the meeting or by any five Members entitled to vote on the resolution or by Shareholders with at least five % of the votes that may be cast on the resolution.

### Right to elect and remove Directors

- Under the existing Constitution, each year, one third of Directors or if their number is not a multiple of three, then the whole number nearest to one third must retire. The Directors who retire are eligible for re-election.

  - A ballot for the election of Directors will be held only if there are more qualified candidates than there are vacancies – otherwise the Chairman declares the candidates elected.

  - Members can vote to remove a Director.

- Under the Proposed Constitution, each year, one third of Directors or if their number is not a multiple of three, then the whole number nearest to one third must retire. The Directors who retire are eligible for re-election.

  - A ballot of Shareholders for the election of Directors will be held only if there are more qualified candidates than there are vacancies – otherwise the nominated the candidates are deemed to be elected. The Shareholders can also vote to remove a Director. There is no requirement for Directors to hold Shares.
<table>
<thead>
<tr>
<th>Membership rights in TFSL</th>
<th>Shareholders’ rights in TFSL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rights in relation to the distribution of surpluses upon winding up</strong></td>
<td>Under the proposed Constitution, upon winding up and after meeting all debts and liabilities of TFSL, expenses, costs, charges and expenses of the winding up, any excess assets shall be distributed to Shareholders in the proportion to the Shares held by them, subject to the amounts paid up on the Shares.</td>
</tr>
<tr>
<td>The current Constitution at clause 19.1 prohibits surplus assets from being distributed to Members on a winding up.</td>
<td></td>
</tr>
<tr>
<td><strong>Rights to receive dividends</strong></td>
<td>The proposed Constitution will allow for the declaration of dividends out of profits to Shareholders.</td>
</tr>
<tr>
<td>There are no rights to receiving a dividend as a Member.</td>
<td></td>
</tr>
<tr>
<td><strong>Liability of Member</strong></td>
<td>Under the proposed Constitution, the liability of Shareholders is limited by the amount that is unpaid on the Shares, or ought to be paid up at the commencement of the winding up. Members are not required to pay any amount for the Shares received under the Proposal.</td>
</tr>
<tr>
<td>The liability of the Members is limited to $1 upon the winding up of the Company whilst a Member of the Company or within a year after ceasing to be a Member.</td>
<td></td>
</tr>
</tbody>
</table>
PART 5

INFORMATION ABOUT SHARES IN TFSL

5.1 Who will receive Shares?

If TFSL Demutualises, you and other Members will receive Shares in TFSL in exchange for Corporate Membership Rights in the Company.

Most Members will receive their Shares directly.

However:

- if you live outside of Australia, you need to read the section entitled “What if you live outside of Australia” on page 36; and familiarise yourself with the TFSL Overseas Members Trust; or

- if your name, address and membership details have not been verified before the end of the Verification Period, you need to read the section entitled “What if your membership details have not been verified?” on page 37 which outlines the requirements for the TFSL Unverified Members Trust.

5.2 How many Shares will you receive?

The number of Shares allocated to you is stated on the Chairman’s letter, which was sent to you together with this Disclosure Statement.

Details of how the number of Shares you receive has been determined are set out in the Share Allocation Rules in Section 5. The Board believes that the Share Allocation Rules provide a fair and reasonable basis for the allocation of Shares between Members. The allocation basis was determined based on the advice of the Appointed Actuary. The Independent Expert has concluded that the Share Allocation Rules provide a fair and reasonable basis for the allocation of Shares to Members as a whole.

As part of the Proposal, Members will be voting to approve the Share Allocation Rules and the issue of Shares to Members.

The total number of Shares to be issued is expected to be 18,773,900.

If you have any questions about the number of Shares allocated to you, call our dedicated helpdesk 1800 680 952. TFSL reserves the right to correct the allocation of Shares to you shown on the Chairman’s letter if it is found to be incorrect. TFSL has established a Review Committee to consider any complaints or requests in relation to the allocation of Shares or a person’s status as a Member. A review form may be provided on request from TFSL by:

- email to votingservices@computershare.com.au;
- by phone to 1800 680 952; or
- by mail in the prepaid envelope provided.

5.3 When will you receive your Shares?

If the Demutualisation is approved, the Shares will be issued by TFSL on or shortly after 30 June 2014. At this stage it is anticipated that a statement showing your Share holdings will be sent to you. Please keep the statement in a safe place.

5.4 Will you have to pay for your Shares?

You will not have to pay for your Shares and you will not have to pay any brokerage fees to receive them. You will simply exchange your Corporate Membership Rights in TFSL for the Shares.
5.5 Will you receive dividend payments?

If you keep your Shares and the Directors declare a dividend, you will receive a dividend. Dividends will be declared in Australian dollars. The amount of dividends that will be paid will be dependent on the Company’s performance.

Shares allocated to Unverified Members will be held by the trustee of the TFSL Unverified Members Trust. If dividends were declared whilst Shares are still held by the trustee, the monies (including any imputation credits) will be held by the Trustee of the TFSL Past Income Trust and eventually forwarded to you, after verification. Refer to the Glossary on page 82 for further information on this trust.

5.6 What is the Share value?

If the Demutualisation Proposal is implemented, then the total number of Shares expected to be issued is approximately 18,774,000 with a net asset value per Share as at 30 June 2013 of $1.89.

The impact of Demutualisation costs which are yet to be finalised and trading results since 30 June 2013 have not been factored into the values in the table below and may reduce the net asset value per Share below this figure. In addition, the net asset value per Share described in the following table is likely to differ from the fair market value of the Shares.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Net Assets ($)</th>
<th>Total number of issued Shares</th>
<th>Net Asset Value per share ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30/06/2013</td>
<td>At the last balance date</td>
<td>35,484,499</td>
<td>18,773,900</td>
<td>$1.89</td>
</tr>
</tbody>
</table>

5.7 When will you be able to sell the Shares?

Subject to relevant Share trading restrictions, you may be able to sell your Shares privately or via an ASIC approved low volume market and later on an approved stock exchange if the Listing takes place.

The Board recommends that you take particular care and seek appropriate and timely financial advice if you are approached by anyone to buy your Shares at a low price prior to Listing.

5.8 Will selling your Shares affect your Policy with Transport Health?

Your rights as a Policyholder with Transport Health will not be affected in anyway by the sale of your Shares.

5.9 Will you be able to buy more Shares?

Subject to relevant Share trading restrictions, you may be able to buy more Shares in TFSL privately or via and ASIC approved low volume market at a price which is expected to fluctuate from time to time. If and when the Shares are Listed, you will then be able to do this through securities brokers and firms licensed to deal in Listed Shares on the selected stock exchange.

5.10 What if you live outside of Australia?

If you live outside of Australia, you will be classified as an Overseas Member and you will not directly receive the Shares allocated to you. Instead, the Shares will be issued to the trustee of the TFSL Overseas Members Trust. Any references in this or other documents that we may send to Members receiving Shares or exchanging their Corporate Membership Rights in TFSL for Shares should be read on this basis.

The trustee will be obliged to:

- hold the Shares in trust for you;
- use its best endeavours to sell the Shares and the Shares allocated to other Overseas Members as soon as possible after the Listing occurs or when the shares are able to be traded on any other market determined by TFSL and in any event within one year of the first to occur of such dates; and
- pay you the net proceeds of the sale of your Shares and any income referable to those Shares (less any tax and expenses) following the sale of your Shares.
5.11 What if your membership details have not been verified?

If your name, address and membership details have not been verified by 30 June 2014, you will be an Unverified Member and you will not immediately receive the Shares allocated to you. Instead, the Shares will be issued to the trustee of the TFSL Unverified Members Trust. Any references in this or other documents that we may send to Members receiving Shares or exchanging their Corporate Membership Rights in TFSL for Shares should be read on this basis.

You will be able to claim your Shares from the trustee by confirming your details to TFSL at any time up to **18 months** after the date the Demutualisation of TFSL was implemented and the Shares are issued, subject to an extension of up to six months at the discretion of the Board. TFSL will be required to take certain steps to identify Unverified Members during that period.

When your details have been verified, you will then be entitled to claim and receive the Shares allocated to you and any income referable to those Shares (less any tax and expenses).

After the Verification Period, you will no longer be able to claim your Shares. If you have not claimed your Shares or have not otherwise been located by the end of the stated period, you will forfeit your allocation of Shares. At that time, the residual balance of Shares in the Unverified Members Trust will, in accordance with the terms and conditions of the TFS Unverified Members Trust, be cancelled, subject to any Shareholder approval required under the Corporations Act.

Your details will be verified if:

- you respond to TFSL’s mail-outs requesting name and address details; or
- you inform TFSL of a change of address on or before 30 June 2014; or
- your registered address is a post office box; or
- you vote on the Proposal, including if you complete and return a Proxy Form; or
- you have otherwise confirmed details in a manner satisfactory to TFSL.
SECTION 2

TFSL, BUSINESS AND FINANCIAL INFORMATION
Overview of operations

TFSL operates a diversified private health insurance, retirement and aged care business. The TFSL group’s business operations are as follows:

(a) Private Health Insurance – Transport Health Pty Ltd

Transport Health is a restricted not for profit health fund with approximately 4,700 members. It is one of the smallest health funds operating in Australia today.

(b) Retirement and Aged care

TFSL owns and operates The Mornington Retirement Village, on the Mornington Peninsula in Victoria, which has 186 independent living units and 36 serviced apartments. It also owns and operates Park Hill Gardens Aged Care Facility, a 65 bed residential aged care facility co-located at the Mornington site.

Historical Information

(a) Basis of preparation

General

This section sets out summary financial information for TFSL for the years ended 30 June 2012 and 30 June 2013. The summary financial information has been extracted from the audited financial statements over this period. The annual report of TFSL is available in full on its website (www.tfsl.org.au).

This section comprises:

• consolidated income statements;
• consolidated balance sheets; and
• consolidated cash flow statements.

Accounting principles

The summary financial information has been prepared in accordance with Australian International Financial Reporting Standards (“AIFRS”). The financial statements are presented in a summarised form and detailed disclosures and notes applicable to the complete financial statements have not been included. TFSL’s annual reports from which the financial information is extracted can be found on the TFSL website (www.tfsl.org.au). These reports contain details of significant accounting policies, detailed breakdowns of financial positions and discussion of strategy and operations for each period.
### (b) Income statement

<table>
<thead>
<tr>
<th>Income statement</th>
<th>30 June 2013 Audited $</th>
<th>30 June 2012 Audited $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health insurance premium revenue</td>
<td>15,145,208</td>
<td>13,737,002</td>
</tr>
<tr>
<td>Retirement and Aged Care</td>
<td>8,142,414</td>
<td>7,954,170</td>
</tr>
<tr>
<td>Interest</td>
<td>1,159,306</td>
<td>1,361,231</td>
</tr>
<tr>
<td>Gains on adjustment of investment property to fair value</td>
<td>737,570</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>1,213,449</td>
<td>1,290,754</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>26,397,947</td>
<td>24,343,157</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>(7,436,349)</td>
<td>(6,972,666)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(309,685)</td>
<td>(310,764)</td>
</tr>
<tr>
<td>Claims expense</td>
<td>(12,824,628)</td>
<td>(12,007,803)</td>
</tr>
<tr>
<td>Marketing</td>
<td>(419,965)</td>
<td>(291,847)</td>
</tr>
<tr>
<td>IT Fees</td>
<td>(352,017)</td>
<td>(352,017)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(3,054,470)</td>
<td>(3,105,941)</td>
</tr>
<tr>
<td><strong>Surplus before income tax expense</strong></td>
<td>2,000,833</td>
<td>1,302,119</td>
</tr>
<tr>
<td>Income tax benefit/(expense)</td>
<td>1,795,031</td>
<td>(335,084)</td>
</tr>
<tr>
<td><strong>Surplus/(Loss) for the year</strong></td>
<td>3,795,864</td>
<td>967,035</td>
</tr>
</tbody>
</table>

#### Other comprehensive income

<table>
<thead>
<tr>
<th>Items that will not be reclassified to the profit and loss</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revaluation of land and building</td>
<td>668,906</td>
<td>–</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Items that may be reclassified subsequently to profit and loss</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in fair value of available for sale financial assets</td>
<td>3,197</td>
<td>(2,375)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other comprehensive income for the year , net of income tax</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net inflow from unsettled claims</td>
<td>–</td>
<td>11,583</td>
</tr>
<tr>
<td>Net inflow from the sale of financial assets</td>
<td>–</td>
<td>(1,478)</td>
</tr>
<tr>
<td>Other comprehensive income for the year , net of income tax</td>
<td>672,103</td>
<td>(2,375)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total comprehensive income for the year</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFSL normalised surplus before income tax</td>
<td>1,632,072</td>
<td>315,327</td>
</tr>
</tbody>
</table>

---

Surplus for the year ended 30 June 2013 was $3,795,864, an increase of $2.8 million on 2012. However, 2013 contains items of an irregular nature. The table below sets out the normalised profit for the 2 years. Surplus before income tax has been normalised by removing certain material irregular items. Certain other irregular items, such as payments for employee redundancies and consultants have not been removed in the normalisation process.
## Statement of financial position

<table>
<thead>
<tr>
<th>Statement of financial position</th>
<th>30 June 2013</th>
<th>30 June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Audited $</td>
<td>Audited $</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>12,057,866</td>
<td>10,504,515</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>3,007,609</td>
<td>2,135,640</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>3,500,000</td>
<td>10,306,322</td>
</tr>
<tr>
<td>Inventories</td>
<td>32,538</td>
<td>49,670</td>
</tr>
<tr>
<td>Other</td>
<td>204,886</td>
<td>239,126</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td><strong>18,802,899</strong></td>
<td><strong>23,235,273</strong></td>
</tr>
<tr>
<td>Receivables</td>
<td>11,255,265</td>
<td>11,197,595</td>
</tr>
<tr>
<td>Building under construction</td>
<td>–</td>
<td>710,647</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>9,725,317</td>
<td>4,170,674</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11,264,874</td>
<td>11,673,534</td>
</tr>
<tr>
<td>Investment Property</td>
<td>14,830,854</td>
<td>8,405,000</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>30,048</td>
<td>50,447</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td><strong>47,106,458</strong></td>
<td><strong>36,207,997</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>65,909,357</strong></td>
<td><strong>59,443,270</strong></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1,530,041</td>
<td>878,958</td>
</tr>
<tr>
<td>Borrowings</td>
<td>10,825</td>
<td>–</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Provisions</td>
<td>2,455,920</td>
<td>2,555,490</td>
</tr>
<tr>
<td>Other</td>
<td>22,219,422</td>
<td>19,525,967</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td><strong>26,216,208</strong></td>
<td><strong>22,960,415</strong></td>
</tr>
<tr>
<td>Borrowings</td>
<td>70,459</td>
<td>–</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>3,859,348</td>
<td>5,365,157</td>
</tr>
<tr>
<td>Provisions</td>
<td>278,843</td>
<td>101,166</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td><strong>4,208,650</strong></td>
<td><strong>5,466,323</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>30,424,858</strong></td>
<td><strong>28,426,738</strong></td>
</tr>
<tr>
<td><strong>Net Equity</strong></td>
<td><strong>35,484,499</strong></td>
<td><strong>31,016,532</strong></td>
</tr>
</tbody>
</table>

Source: Audited financial statements 2012, 2013

Current assets are mainly comprised of cash and investments. In 2012 TFSL reviewed its investment strategies and took external advice in relation to these strategies. Based on this external advice a decision was made to diversify investments into other stable categories. This has had the effect of categorising some of the financial assets into non-current other financial assets. A large percentage of the funds included in cash and cash equivalents relate to funds held by Transport Health and the residential aged care facilities to meet legislative requirements. From an operational perspective, these funds are viewed as “unavailable” or “quarantined funds” not available to meet daily cash flow requirements.

Property, plant and equipment and investment property represent TFSL's residential aged care business and the Mornington Retirement Village. These assets were revalued in 2013 and there has been significant investment in the construction of 17 new independent living units in the year ended 30 June 2013.

There has been no major change in provisions between 30 June 2012 and 2013. The provision balance is mainly comprised of the outstanding claims and other regulatory provisions required in the operation of the Transport Health Fund.
Other liabilities mainly comprise of resident bonds and resident loans. The increase in this balance is reflective of the level of resident change over in the residential aged care facility and the higher accommodation bonds being paid by these incoming residents.

The deferred tax liability has decreased significantly from 30 June 2012 to 30 June 2013. The main reason for this being the re-recognition of carried forward tax losses which had previously been derecognised, being re-recognised as an asset which offset this liability.

(d) Statement of cash flows

<table>
<thead>
<tr>
<th>Statement of Cash Flows</th>
<th>30 June 2013 Audited $</th>
<th>30 June 2012 Audited $</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cashflow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>23,911,445</td>
<td>22,871,053</td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td>(24,277,903)</td>
<td>(23,111,084)</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>1,244,140</td>
<td>1,653,537</td>
</tr>
<tr>
<td><strong>Net cash inflow provided from operating activities</strong></td>
<td>877,682</td>
<td>1,413,506</td>
</tr>
<tr>
<td><strong>Cashflow from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for PPE and intangibles</td>
<td>(167,011)</td>
<td>(144,963)</td>
</tr>
<tr>
<td>Proceeds from sale of business operation and physical assets</td>
<td>–</td>
<td>43,395</td>
</tr>
<tr>
<td>Payments for buildings under construction</td>
<td>(3,403,441)</td>
<td>(627,619)</td>
</tr>
<tr>
<td>Redemption of other financial assets</td>
<td>8,306,321</td>
<td>12,062,596</td>
</tr>
<tr>
<td>Investments in other financial assets</td>
<td>(7,050,076)</td>
<td>(8,793,391)</td>
</tr>
<tr>
<td>Improvements to investments</td>
<td>(62,430)</td>
<td>–</td>
</tr>
<tr>
<td>Establishment of maintenance fund</td>
<td>–</td>
<td>(31,561)</td>
</tr>
<tr>
<td><strong>Net cash inflow/(outflow) provided from investing activities</strong></td>
<td>(2,376,637)</td>
<td>2,508,457</td>
</tr>
<tr>
<td><strong>Cashflow from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accomodation bond receipts</td>
<td>5,365,723</td>
<td>3,064,307</td>
</tr>
<tr>
<td>Accomodation bond repayments</td>
<td>(2,683,575)</td>
<td>(3,116,450)</td>
</tr>
<tr>
<td>Net movement in Loans from residents - serviced apartments</td>
<td>375,000</td>
<td>1,450,599</td>
</tr>
<tr>
<td>Loan advances - related entity</td>
<td>–</td>
<td>9,900</td>
</tr>
<tr>
<td>Finance lease payments</td>
<td>(4,841)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash inflow provided from financing activities</strong></td>
<td>3,052,307</td>
<td>1,408,356</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>1,553,352</td>
<td>5,330,319</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the financial year</td>
<td>10,504,515</td>
<td>5,174,196</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the financial year</strong></td>
<td>12,057,867</td>
<td>10,504,515</td>
</tr>
</tbody>
</table>

Source: Audited financial statements 2012, 2013

Cash flow from operating activities

The decrease is mainly due to the reduction in interest and dividends received due to the change in investment policies impacting on the timing of these receipts and the increase in payments to suppliers being higher than the increase in receipts from members and customers.

Cash flow from investing activities

Payments towards the construction of the 17 new independent living units contributed to the negative outflows in this category in the year ended 30 June 2013 compared to the year ended 30 June 2012.

Cash flow from financing activities

Resident bonds (accommodation bond receipts) were much higher in the year ended 30 June 2013 due to the larger turnover of residents in 30 June 2013.
SECTION 3

TAX AND SOCIAL SECURITY INFORMATION

Part 1: Tax Adviser’s Report

Part 2: Tax and Social Security Consequences
TAX ADVISER’S REPORT

Tony C Jacob
B Com (Melb), FCA, FCIS, FGIA
Chartered Accountant
Registered Tax Agent
ABN 46 595 262 476

20 January 2014

The Board of Directors
Transport Friendly Society Ltd
487 Swan Street
RICHMOND VIC 3121

Dear Board of Directors

Proposed Demutualisation:
Tax and Social Security Implications

Based on the currently considered Proposal to Demutualise, my advice on its general tax and social security means test implications for eligible members of Transport Friendly Society Ltd are set out as follows:

1. Tax Implications

Part 1(a) that follows outlines the tax implications for members who give up their membership rights and receive Demutualisation Shares. Part 2A that follows goes into more detail.

2. Social Security Means Test Implications

Part 1(b) that follows outlines the social security means test implications for affected members who receive Demutualisation Shares. Part 2B that follows goes into more detail.

The means test refers to both the income test and the assets test, as they apply to persons who receive Federal Government income support payments – in particular, the age pension and the veterans’ service pension.

Also, in my view, the contents of the Tax and Social Security Information section in the Proposal to Demutualise reflect an accurate summary of how members may expect to be affected – under current relevant laws, guidelines and other advices issued.

This advice is general in nature, and does not substitute appropriate and timely independent advice that members may wish to obtain – to help ascertain how tax and social security laws and guidelines may apply to their individual circumstances.

Further, I am not licensed to provide financial product advice. Taxation and the social security means test rules are only two of the matters which members need to consider when making a decision on a financial product – such as shares. Members should consider seeking advice from an Australian Financial Service Licence [AFSL] holder before making any decisions in relation to a financial product.

Finally, I confirm that I will secure a fee of approximately $80,000, plus GST, together with reimbursement for out of pocket expenses for providing this advice and associated services. Neither myself or any related party will receive any other fee, remuneration or benefit in connection with the provision of this advice and associated services.

Yours sincerely

Liability limited by a scheme approved under Professional Standards Legislation.
PART 1(a) TAX IMPLICATIONS FOR MEMBERS

A Income Tax – including Capital Gains Tax

1 Tax Concessions Available on Shares

The demutualisation of Transport Friendly Society Ltd ["TFSL"] is expected to meet the pre-conditions and conditions of Division 316 of the Income Tax Assessment Act 1997 ["ITAA97"]. As a consequence, the following important tax concessions become available:

- the exchange of mutual rights for shares in TFSL is disregarded as a capital gains tax ["CGT"] event – to eligible recipients of the allocation of Demutualisation Shares in TFSL;
- eligible recipients of Demutualisation Shares receive a concessional tax cost base, that corresponds to the ‘embedded value’ of the non-health insurance business of TFSL (including its wholly-owned subsidiaries) at the time Members resolve to Demutualise, and also the ‘market value’ of the health insurance business of TFSL at the time it Demutualises – even if each recipient may have paid no money for the Shares;
- the ‘embedded value’ and the ‘market value’ are calculated by an eligible actuary;
- the concessional tax cost base (technically referred to as the 1st element of the CGT cost base) is calculated by dividing the actuarially-determined value of TFSL by the number of Demutualisation Shares issued; and
- the deemed date of acquisition will be the Share issue date.

2 Dividends to TFSL Shareholders

After Demutualisation – and subject to its approval, it is possible that:

- periodic dividends will be paid out of profits derived from TFSL group operations;
- the extent to which such dividends are franked would depend upon the existence of sufficient surpluses in a post-demutualisation franking account of TFSL (and its subsidiaries);
- franking surpluses arise principally from income tax paid on taxable profits derived, and also (to a lesser extent) from franking credits received from any franked dividend income on investments held by TFSL;

Accordingly, the extent to which future dividends (paid by TFSL to its Shareholders) may be franked would depend upon:

- the post-demutualisation mix of taxed and untaxed profits;
- franking credits received from any franked dividend income (on TFSL’s investments); and
- the recoupment of current tax losses.

3 TFSL Unverified Members Trust

In anticipation that as a few entitled recipients of Demutualisation Shares may be uncontactable or otherwise unverifiable at the time of Share Allocation, an Unverified Members Trust ["UMT"] is to be established – for the purpose of holding Shares on behalf of such persons, pending their future location and verification.

Under this arrangement, the following tax outcomes may be expected:

- shares transferred upon verification, from the trustee of the UMT to the entitled persons, are expected to be treated as a disregarded CGT event for both the trustee and the recipients;
- the subsequently-verified recipients will be treated as having acquired their Demutualisation Shares at the same time as all other entitled recipients – that is, at original Share issue date; and
- the subsequently-verified recipients will also receive the concessional tax cost base on their allocated Demutualisation Shares.
4 **TFSL Overseas Members Trust**

To avoid undue administrative costs and particular compliance issues relating to any overseas-resident Shareholders, it has been considered prudent for an Overseas Members Trust ["OMT"] to be established – for the sole purpose of holding Demutualisation Shares on behalf of any verified non-resident Members.

The trustee of the OMT will be obliged to sell these Shares at a future specified time, and forward Share sale proceeds to the non-resident Shareholders.

For Australian tax purposes, any Overseas Members will obtain the benefit of the concessional tax cost base when the value of any assessable net capital gain or loss on the sale of Shares is calculated and distributed.

The trustee of the OMT will be obliged to withhold an appropriate amount of tax in relation to any realised net capital gain, before distribution of Share sale proceeds to the Overseas Members. It is possible that a non-resident Shareholder will not be subject to Australian CGT when the Shares are sold.

Any TFSL dividends which are distributed to non-resident Shareholders (through the OMT), will be subject to a dividend withholding tax deduction – generally, to the extent of the unfranked part of a dividend (except on any unlikely portion that relates to a ‘foreign dividend account’ amount). Imputation credits attached to a franked dividend are not normally available to be claimed by a non-resident.

Non-resident Shareholders would also need to take into account the impact of tax laws in their country of residence.

5 **Tax Status of Health Insurance Policies**

The Demutualisation of TFSL will not adversely affect the status of health insurance Policies, currently issued by Transport Health Pty Ltd (a wholly-owned subsidiary of TFSL).

Health benefits paid will continue to be a tax-free receipt to Members.

B **Goods & Services Tax**

The proposed Demutualisation is not expected to attract any goods and services tax ["GST"] consequences for Members, under Australia’s current GST laws.

In particular, no GST is attracted on

a) the issue of company shares – including Demutualisation Shares;

b) the future sale of those Shares; and

c) dividends paid on those Shares.

C **Stamp Duty**

Under current Victorian duty laws and guidelines, the issue of Demutualisation Shares by TFSL will not attract any duty.

Also, any transfer (including sale) of TFSL Shares will not attract duty.
PART 1(b) SOCIAL SECURITY MEANS TEST IMPLICATIONS FOR MEMBERS

1 General Position

(a) Income & Assets Tests

Unless specially exempted, Australia’s social security benefits and veterans’ entitlements are currently subject to a means test – made up of:

- an income test; and
- an assets test.

Accordingly, the value of such benefits and entitlements may be affected by the level of:

- assessed income, under the income test; and
- assessed assets, under the assets test.

A financial asset is assessed at its market value, which is typically reviewed by Centrelink and the Department of Veterans Affairs ("DVA"), every six months (in March and September) with reference to published prices or other relevant information. This normally determines its value under the assets test.

Under the separate income test, a financial asset is subject to deemed earning rates – and actual earnings from (for example) interest, dividends and capital gains are ignored.

(b) Status of Shares

A share investment in a public company, whether listed or unlisted, is treated as an assessable financial asset – for purposes of means-tested benefits and entitlements.

A Member’s holding of allocated Demutualisation Shares in TFSL will be regarded as a share investment in a public company.

(c) Commencement of Period of becoming Assessable

A Member’s Demutualisation Shares received from TFSL will be non-assessable under both the assets test and income test - until a future time the shares are Listed.

After a future time of Listing, the standard assets test and income test rules will operate – as they apply to listed shares generally, which are as follows:

- under the assets test, Shares will be automatically assessed at their market-quoted value;
- under the income test, a person will be deemed to earn income at relevant published deeming rates – which will be calculated on the assessed asset value;

In relation to the disposal of the Shares at any time:

- if the Shares are gifted, consideration should be given to the gifting limits and other rules;
- if Shares are sold, the proceeds of sale may be expected to become subject to the assets test and income test;

Even though a Member (in receipt of a pension or allowance) will not be immediately affected by a receipt of TFSL Demutualisation Shares, it is required that Centrelink or the DVA be informed of the number of Shares received – within 14 days.

An affected Member should also inform Centrelink or the DVA of the number of Shares received and which continue to be held, when the Shares are Listed - again within 14 days.

Centrelink and the DVA are aware of TFSL’s proposed Demutualisation, and the non-assessable position that will be applied to the Shares held until a future time of Listing.
(d) Status of Health Insurance Policies

The Demutualisation of TFSL will not adversely affect the current exempt assets test and income test status of health insurance policies, issued by Transport Health Pty Ltd.

If uncertain, a person (entitled to receive an Australian Government income support payment) should seek confirmation of the above position from Centrelink or the DVA.

Who is Affected?

(a) Recipients of Means-Tested Benefits

To help avoid inappropriate decisions on a Demutualisation Share entitlement, it is important for TFSL Members to appreciate that only recipients of means-tested social security and veterans’ benefits may be affected. In other words, benefits that are not subject to a means test will not be affected by taking up the Demutualisation Share entitlement – see item 3 below.

Means-tested benefits include the following (this is not an exhaustive list):

Benefits paid by Centrelink

- Age pension;
- ABSTUDY;
- Austudy;
- Bereavement allowance;
- Carer payment;
- Disability support pension;
- Newstart allowance;
- Parenting payment;
- Partner allowance;
- Sickness allowance;
- Widow allowance;
- Youth allowance.

Benefits paid by the DVA

- Service pension;
- Income support supplement;

However, even if in receipt of a means-tested social security benefit or veterans’ entitlement, a Member may not be adversely affected if the holding of TFSL Demutualisation Shares does not result in exceeding the relevant maximum benefit/entitlement threshold limits for income test and assets test purposes.

In other words, if a Member continues to be entitled to a full pension or allowance, receipt of the Demutualisation Shares will have no adverse impact on the Member’s pension or allowance.

(b) Foreign Pensions & Benefits

Foreign pensions and other social security benefits may or may not be means-tested, and those in receipt of them should make appropriate inquiries (with the relevant paying bodies) on their respective entitlement rules.
Who is not Affected?

(a) Recipients of Non Means-Tested Benefits

Non means-tested social security and veterans’ benefits will not be affected by the holding of Demutualisation Shares (or other assets).

Non means-tested benefits include the following (this is not an exhaustive list):

**Benefits paid by Centrelink**
- Pensions paid to some blind persons;
- Carer allowance;
- Double orphan allowance;
- Pensioner education supplement.

**Benefits paid by the DVA**
- Disability pension;
- War widows pension.

(b) Superannuation Pensions

Superannuation pensions are also unaffected by the holding of Demutualisation Shares (or other assets).

Gifting and Deprivation Rules

Even if a TFSL Member is adversely affected (by the issue of Demutualisation Shares), it may be possible to mitigate (or even entirely remove) that adverse effect by an appropriate program of timely gifted amounts. It is not uncommon for pensioners to discuss such an approach with a financial information service officer within Centrelink or the DVA. Alternatively, timely professional advice could be sought from a licensed financial adviser.

A means-tested social security or veterans’ entitlement recipient (or couple) may gift up to a total of $10,000 of assessable assets in any one financial year, without activating the deprivation rules.

Briefly, the deprivation rules deem an assessable asset to be still held for a period of 5 years (after deprivation) – to the extent of its value which exceeds the annual $10,000 threshold, or $30,000 on a rolling 5-year basis.

Some Practical Example Scenarios

The following scenarios indicate the effect on a TFSL Member who might, for example, receive 3,000 Demutualisation Shares worth (say) $1.00 each, and which pays an annual franked dividend of 6% = $180.

This effect (if any) only applies to a TFSL Member after the Shares are Listed – because of the pre-listing non-assessable position.

Member is in Receipt of a Non-Means Tested Pension

Not affected at all, as this type of pension is not subject to either the income or assets test.

Member is in Receipt of a Means-Tested Pension

Generally, most means-tested Government income support payments are affected by the income test before being affected by the assets test – because the income limits are often reached before the asset limits.

An example of how both tests might operate (applying prescribed rates and thresholds that operate from 20 September 2013 to 19 March 2014) is set out below:

(a) Assets test:

Shares are assessed to have a value of 3,000 x $1.00 = $3,000.

If the inclusion of this Share value does not exceed the Member’s relevant “maximum allowable asset limit for the full pension” (as currently applies), the assets test will not adversely affect the pension.
If the inclusion of this Share value does exceed that limit, the fortnightly pension will only be reduced by

\[
1.50 \times (\frac{3,000}{1,000}) = 3.00.
\]

(b) **Income test:**

Based on the example of an assessed asset value of $3,000, the current increase in deemed income would be $3,000 \times 3.5\% = $105 for a full year (assuming the current higher deeming rate applies). This is equal to $4.00 (rounded) of assessed income per fortnight. Under the deeming rules, actual dividend receipts and capital gains upon disposal are ignored.

If the inclusion of the deemed income amount does not exceed the Member’s relevant “maximum income limit for the full pension” (which is currently $156.00 per fortnight, for a single age pensioner), the income test will not adversely affect the pension.

If the inclusion of the deemed income amount does exceed that limit, the fortnightly pension will only be reduced by a maximum of

\[
50\% \text{ (the current taper rate)} \times 4.00 = 2.00.
\]

As may be noted in the worked examples above, even if affected by the means test, the maximum impact on a person’s age pension entitlement appears relatively minor and then only after the Shares are Listed.
PART 2

TAX AND SOCIAL SECURITY CONSEQUENCES (IN MORE DETAIL)

A  Taxation

The tax implications summarised below are based on a general understanding of how current Australian tax laws will affect a Member who receives Demutualisation Shares from TFSL.

Division 316 of the Income Tax Assessment Act 1997 sets out the income tax and capital gains tax ("CGT") consequences arising from the Demutualisation of a friendly society like TFSL. Subject to meeting the conditions of Division 316, those consequences include the following in particular:

1. No amount will be included in a Member's assessable income when giving up his or her membership rights in TFSL in exchange for Shares in TFSL.

2. A concessional deemed tax cost base will apply to all Demutualisation Shares. This can be used by Members to reduce the value of a taxable gain or profit upon future sale or disposal of those Shares.

3. For CGT purposes, all Demutualisation Shares issued will be treated as 'post CGT Shares' - in other words, shares issued on or after 20 September 1985.

Some important Division 316 conditions include:

After the Demutualisation, TFSL (including its subsidiary group entities) operates on a ‘for profit’ basis for its Members:

- a Member's mutual membership rights must be extinguished when the Shares are issued in exchange;
- a Member's separate interests in Policies (in respect of TFSL health insurance) remain unaffected;
- Shares must be simultaneously issued to all persons entitled to receive them under the Demutualisation of TFSL.

The Demutualisation Shares can only be issued to:

- a person who is, or has been, a Member of TFSL; or
- a person who is, or has been, insured through TFSL (and/or one of its wholly-owned subsidiaries).

Unlike some previous friendly society Demutualisations, the Shares are not required to be Listed – including, within any specified period after Members resolve to Demutualise TFSL. However, the Shares may be Listed.

Tax Status of Policies

The Demutualisation Proposal will not affect the tax status of Policies held by Members, including their existing health insurance policies issued by Transport Health Pty Ltd – which is a wholly-owned subsidiary of TFSL.

Health insurance Policy benefits paid will continue to be tax-free in the hands of Policyholders.

Tax Status of Shares

(a) Upon Receipt of Shares

No amount will be included in a Member's assessable income as a result of exchanging membership rights for Shares in TFSL.

(b) Upon Receipt of Dividends

Where the Member (who becomes a Shareholder) is an individual resident in Australia, the Member's assessable income will include the cash amount of a dividend received plus the notional value of any imputation credits attaching to a franked dividend.
Imputation credits can then be claimed to reduce the Shareholder’s total tax liability. A refund of excess imputation credits is available where the value of imputation credits exceeds the Shareholder’s tax liability.

An unfranked dividend, or any unfranked portion of a partly-franked dividend, would not attach any imputation credits.

Special anti-avoidance tax rules exist which may deny the availability of imputation credits and the franking tax offset in certain circumstances. For example, dividend streaming and franking credit trading schemes can trigger anti-avoidance tax rules. No such schemes are planned under the proposed Demutualisation.

(c) Upon Future Sale or Disposal of Shares

Upon a future sale or disposal of Shares, a Member (who becomes a Shareholder) would normally be subject to CGT on any net capital gain. If a Shareholder realises a capital loss, the loss can only be offset against net capital gains. Where capital losses exceed net capital gains, the excess capital loss may be carried forward and used in a future year.

A capital gain or loss generally refers to the calculated difference between capital proceeds received upon sale or disposal of Shares and the tax cost base of the Shares.

The assessable net capital gain (after offset for any capital losses) is affected by how long the Shares are held. If held for 12 months or more, the net capital gain is reduced by a CGT discount - which is 50% for Shareholders who are individuals. The CGT discount does not apply if Shares are held and sold within 12 months.

Also, the CGT rules do not apply if a Shareholder acquires and sells the Shares in the ordinary course of business, or if the Shares are acquired with the dominant intention of resale at a profit. In these circumstances, any resulting gain will be subject to the ordinary income tax rules, and will not obtain the benefit of a CGT discount. Most Members (who become Shareholders) should not fall into this category.

All Shares will be deemed to have been acquired by the Members on the day on which the Shares are issued, which will correspond to the date of implementation of the Demutualisation of TFSL. This date is currently expected to be on or after 30 June 2014.

(d) Tax Cost Base of Shares

A concessional tax cost base applies to the Shares issued by TFSL under the Demutualisation Proposal.

In calculating any capital gain, the Member will be deemed to have acquired the Shares at a cost base which relates to an actuarially-calculated embedded value of the non-health insurance business of TFSL (including that of its subsidiaries), and also the market value of the health insurance business of TFSL (including that of its subsidiaries).

In calculating the embedded value, the Appointed Actuary needs to take into account any significant movements in value up to the date Members resolve to proceed with the Demutualisation. In calculating the market value, the value of the health insurance business at the time of issue of the Shares needs to be determined.

Accordingly, the tax cost base of each Share is not currently known. Members will be generally notified of the tax cost base sometime after the actuarial calculation is completed. If any Member needs to know the tax cost base at any time, please contact TFSL.

It should also be noted that, proposed under the Constitution, Members and others will be restricted from acquiring or disposing of Shares where the total number of Shares in which that person (or another person) has Voting Power increases to fifteen (15) % or more. This restriction is to remain in place for a period of five years from the date the Shares are issued.

Members are encouraged to seek appropriate, timely and independent professional advice as to how tax laws might affect their individual circumstances, mindful that these laws do change from time to time. Any non-resident Members should also take into account any impact of tax laws in the country in which they are resident for tax purposes.
B Social Security

Members who are entitled to receive an Australian Government income support payment (such as a social security/veterans’ pension or allowance) need to consider whether, as a result of receiving the Shares, their entitlements will be affected by any applicable means test.

Receiving Shares in TFSL may only affect a limited number of Members because:

- not all pensions or allowances are means-tested;
- even if in receipt of a means-tested pension or allowance, the assessed value of a Member’s Share allocation may have little or no impact on existing entitlements; and
- a non-assessable position is expected to apply during the period before TFSL Shares are Listed.

Under current means test rules, the Shares will be assessed as follows – also noting that, at this stage, TFSL has not yet determined any future time of Listing.

(a) Prior to any future time of Listing

The Shares will not be assessed under the income test or the assets test until any future time of Listing.

However, if you choose to sell or give away your TFSL Shares prior to any future time of Listing, the proceeds of the sale or the gift value (in excess of your relevant gifting threshold) will be included as part of your assessable assets immediately. The estimated value of the gift will be derived from TFSL estimates. It would be in a Member’s interest to contact Centrelink or the Department of Veterans’ Affairs (“DVA”) before making such a decision, to find out how it might affect their entitlement.

(b) After any future time of Listing

The Shares will be assessed with reference to the quoted price under a Listed market, and will normally be reviewed every six months (in March and September).

Under the assets test, the Shares will generally be assessed at their market value.

Under the income test, the deeming rates will be calculated on their assessed asset value to deem how much income is counted. Actual income earned on the Shares (such as dividends) will be ignored.

Centrelink administers social security entitlements, and the DVA administers veterans’ entitlements.

Members who are unsure of their entitlement position, or who would simply like to check if their present entitlement is means-tested in the first place, should contact the appropriate Government body. Both these bodies have been informed of the Demutualisation Proposal.

As is the normal procedure with changes to asset holdings, Members who receive social security entitlements are obliged to inform Centrelink or the DVA of Shares issued to them (and again after they are Listed) within 14 days. Their obligation to notify will only be required after the issue of Shares which is expected to be on or after 30 June 2014.

All Members need to do is to identify themselves and mention their allocated number of Demutualisation Shares from TFSL. They do not have to state the dollar value of their Shares, as it will be calculated for them.

Notifications by telephone can be made to the following numbers for the cost of a local call: Centrelink - 13 23 00 (for Retirement entitlements) or 13 27 17 (for Disability, Sickness and Carer entitlements) or refer to local White Pages number (for any other type of Centrelink entitlement), DVA - 13 32 54.

Members who receive overseas Government pensions or allowances are encouraged to contact the appropriate overseas body to help determine any impact the issue of Shares might have.
SECTION 4

ACTUARIAL REPORT

Part 1: Actuarial Report

Part 2: Financial Services Guide
26 February 2014

Board of Directors
Transport Friendly Society Ltd
487 Swan Street
RICHMOND VIC 3121

Dear Directors

Appointed Actuary’s Report and Financial Services Guide

1 Background

Transport Friendly Society Limited (TFSL) owns and operates a number of businesses, including Transport Health Pty Ltd (Transport Health), a retirement village, a residential aged care facility and a dental clinic. Membership of TFSL is obtained by becoming a Transport Health Policyholder.

The Board of TFSL has recommended in favour of a proposal (the “Proposal”) to Demutualise TFSL. Demutualisation involves the exchange of membership rights for shares, and the Proposal is described in detail in the Disclosure Statement.

Transport Health

Transport Health is a not-for-profit private health insurer with around 4,700 policyholders, meaning it is one of the smallest private health insurers in Australia. It is a “restricted access fund” meaning that only persons associated with the transport industry are allowed to take out policies with Transport Health and become members of the fund.

Australian private health insurers can operate on either a for-profit or not-for-profit basis. Transport Health is currently a not-for-profit insurer, but must become a for-profit insurer when TFSL Demutualises. As a for-profit insurer, Transport Health can pay dividends to shareholders, but will need to pay income tax on its profits. Not-for-profit insurers cannot pay dividends but are exempt from income tax.

Transport Health’s business plan assumes it will continue to operate in a similar way to the past following the Demutualisation of TFSL. However, TSFL is considering a range of options for Transport Health, including selling the business at some time in the future.
2 Scope of this report

Finity Consulting Pty Ltd (Finity) is an independent firm of actuaries specialising in the insurance industry. We have been engaged by TFSL to provide actuarial advice regarding the Proposal, including development of the Share Allocation Rules and the valuation of TFSL in accordance with the Income Tax Assessment Act 1997. We have provided a number of reports to TFSL in relation to these matters, and will provide additional reports at a later date.

Finity has provided actuarial advice to Transport Health since 2011 and Jamie Reid, a Principal of Finity, is the Appointed Actuary of Transport Health.

We have been asked by TFSL to address the following questions:

- The allocation question: Are the Share Allocation Rules fair and reasonable to TFSL Members?
- Two Policyholder impact questions:
  - Impact on premiums and benefits: Is the Proposal likely to have a material adverse impact on the premiums and benefits of Transport Health Policyholders?
  - Impact on security of benefits: Is the Proposal likely to have a material adverse impact on the security of benefits provided to Transport Health Policyholders?

We note that each of these questions is relevant to the members of TFSL, because all TFSL members are Transport Health Policyholders.

We have based our answers on the information contained in the Disclosure Statement, and discussions with the management of TFSL. While these discussions reflect management’s current plans for TFSL and Transport Health, these intentions may of course change, for example, if the business environment changes or Transport Health is sold.

Some of the words used in this report have particular meanings – these words are capitalised and are described in the glossary of the Disclosure Statement (Part 4 of Section 7).

3 The allocation question

Conclusion

We have assessed the Share Allocation Rules against the allocation principles established by the Board. Based on this assessment, we consider that the Share Allocation Rules are fair and reasonable to TFSL Members.

How were the Share Allocation Rules developed?

The Board discussed factors relevant to share allocation at length. Finity provided the Board with information on how this issue has been addressed by other organisations that have Demutualised. Based on this discussion, the review of precedents and the preference to keep the allocation rules simple and clear, the Board agreed a set of allocation principles.
Finity used the principles to develop a number of potential approaches to allocating shares. One of the approaches was adopted by the Board, and the Share Allocation Rules in Section 5 reflect this decision.

**Our assessment of the Share Allocation Rules**

The table below shows our assessment of the Share Allocation Rules against the Board’s allocation principles.

<table>
<thead>
<tr>
<th>Principle</th>
<th>Our assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only Members should receive shares</td>
<td>The Share Allocation Rules are consistent with this.</td>
</tr>
<tr>
<td>Member rights being given up are not significant</td>
<td>Membership rights and Shareholder rights are compared in Section 1, Part 4 of the Disclosure Statement.</td>
</tr>
<tr>
<td></td>
<td>Membership rights relate to matters such as participating in general meetings. To the extent these are valued by Members, some of the rights of Shareholders are similar.</td>
</tr>
<tr>
<td>Shares can be regarded as a windfall gain</td>
<td>Members have no entitlement to TFSL’s assets, other than contractual rights under their insurance policies. Any allocation of Shares can therefore be regarded as a windfall gain.</td>
</tr>
<tr>
<td>Each Member’s contribution to TFSL’s value cannot be precisely determined</td>
<td>The Share Allocation Rules recognise this by taking a simple approach, consistent with industry precedents.</td>
</tr>
<tr>
<td></td>
<td>Each Member receives a Base Allocation which recognises that contribution to value is not solely dependent on duration and number of persons covered under the product.</td>
</tr>
<tr>
<td>The profitability of individual Members does not drive the allocation</td>
<td>The variable part of the allocation depends only on the duration of membership, product type (Hospital Only, Extras Only or Combined) and the number of people covered (Single or Family).</td>
</tr>
<tr>
<td>Loyalty to TFSL should be recognised</td>
<td>In addition to a Base Allocation each Member receives Shares in proportion to the duration of their membership with TFSL, up to a maximum limit.</td>
</tr>
</tbody>
</table>
4 The Policyholder impact questions

Conclusion

We have been asked to consider the impact of the Proposal on premiums, benefits and the security of benefits.

No business can guarantee that it will always offer the same products for the same price, and no such guarantees are offered by TFSL or Transport Health. Our view is that the extensive regulation of private health insurance, together with the ability to access equivalent cover from other insurers, means the Proposal is unlikely to lead to a material detrimental change in Member premiums and benefits.

Legal requirements mean Policyholder benefits will remain secure.
Impact on premiums and benefits

Transport Health has prepared projections for the next 3 years assuming it will operate on a business-as-usual basis. There are no anticipated changes to benefits, and premiums are forecast to increase only in line with claims inflation.

TFSL is considering a number of options for all businesses including Transport Health. While Transport Health has prepared the financial projections described above, there can be no guarantee that Transport Health will continue to operate in line with this plan, especially if any of TFSL’s businesses are sold after Demutualisation.

TFSL currently subsidises Transport Health premiums. The subsidy takes the form of providing Transport Health with management services below cost price, and currently represents approximately $800,000 per annum. Transport Health Policyholders also have preferred provider arrangements at TFSL’s dental clinic, and TFSL has provided a written guarantee and indemnity to Transport Health.

The subsidy has the effect of reducing Transport Health’s management expenses to industry average levels (as a percentage of premium). While Transport Health’s financial projections assume these arrangements will continue, this cannot be guaranteed.

Given the comments above, we base our opinion on the extensive regulatory safeguards in place and the competitive nature of private health insurance, rather than Transport Health’s current business plan.

Any changes in premium must be approved by a Commonwealth government minister. Transport Health has applied to increase premiums by an average of 5.9% effective April 2014. Transport Health would be invited to apply to increase premiums again from April 2015, but any change would be subject to regulatory scrutiny, and be subject to government approval. The government approval mechanism should ensure that any future premium increases are not unreasonable.

Transport Health is required by law to provide 60 days notice of a reduction in benefits. Policyholders could choose to move to a different fund of their choice without prejudicing their benefit entitlements or serving new waiting periods (because of portability rules set out in law). Policyholders can also change funds if they are unhappy about any changes to benefits, premiums or service levels. There is a wide range of funds to choose from, including several operating on a not-for-profit basis.

While Members are not being offered any guarantees with regard to what products will be sold in future or their prices, Members have no such guarantees at present. Regardless of whether or not the Demutualisation proceeds, TFSL is not obliged to continue to subsidise Transport Health or provide dental services to Policyholders.

Impact on security of benefits

The ongoing security of benefits is protected by a number of laws and regulations, which are unaffected by the Proposal. There are regulations regarding the minimum amount of assets...
Transport Health must hold in addition to its liabilities (known as the regulatory minimum capital requirements).

Transport Health is regulated by the Private Health Insurance Administration Council ("PHIAC"), which monitors the financial soundness of insurers. PHIAC has extensive powers to protect the security of benefits, for example, by requiring an insurer to hold assets in excess of the legal minimum.

Ultimately, if an insurer was unable to pay claims, then legislation allows the government to raise a levy on other insurers to ensure benefits are paid to Policyholders.

Whether or not Transport Health is sold after Demutualisation, it may hold a lower value of assets after converting to a for-profit insurer, because it will be able to pay dividends and will be required to pay tax. As a for-profit insurer, Transport Health may have additional options to raise capital if required, for example, by issuing more shares.

The same laws and regulations protecting benefit security apply to all insurers, regardless of how they are owned or operated. Our opinion is that the Proposal will not have a material adverse impact on the security of benefits, because the benefits are adequately secured by law.

5 The extent of our responsibility

Finity is responsible only for this report, and not for the other information in the Disclosure Statement. Our findings are dependent on the truthfulness of those we interviewed and the completeness and accuracy of the information we reviewed. Should any problems arise from the verbal or written representations made to us, they are not Finity's responsibility.

Each Member needs to make his or her own informed decision about how to vote. Finity cannot be responsible for the outcome, whatever that may be. Our report is general in nature and does not take into account the personal circumstances of each Member.

Many things may change in the future. We have formed our views based on the current environment and what we know today. If future circumstances change, it is possible that our findings could prove to be wrong.

Yours sincerely

Jamie Reid
Appointed Actuary of Transport Health Pty Ltd
Fellows of the Institute of Actuaries of Australia

Sonia Tripolitano
Fellows of the Institute of Actuaries of Australia
FINANCIAL SERVICES GUIDE

Dated 24 January 2014

Finity Consulting Pty Limited (Finity, we, us or our) is the holder of Australian Financial Services Licence (AFSL) No. 286324. Our AFSL authorises us to provide financial product advice in relation to general insurance products and securities.

We have been engaged by Transport Friendly Society Ltd (“TFSL”) to provide the Appointed Actuary’s report (Report) to be included in a Disclosure Statement to be issued by TFSL. Finity also provides advice to Transport Health Pty Ltd, but we do not act for any other parties relevant to the Demutualisation.

Purpose of this Guide

This Financial Services Guide provides you as a retail client with important information to assist you in deciding how to use our Report. It provides you with:

(a) details as to the type of financial advice we are providing;
(b) details of the types of financial services we are authorised to provide;
(c) information as to how we are remunerated and any conflicts of interest we might have;
(d) contact details in the event you wish to make a complaint and an outline of our dispute resolution procedures; and
(e) details of the compensation arrangements we have in place.

We are required to issue you with a Financial Services Guide under the Corporations Act and the terms of our AFSL as a result of TFSL providing you with a copy of our Report to you.

General Advice only

Our Report provides general financial product advice only. In preparing this Report, we have not taken into account your personal circumstances including financial situation or needs.

Associations and relationships

We and our authorised representatives, shareholders, employees and associates from time to time, have relationships with the issuers of financial products. No Finity entity, and no individual involved with the preparation of the Report, has any interest in TFSL.
Remuneration

Finity will receive a fixed fee of $125,000 for providing our Report and other advice in relation to the proposed Demutualisation of TFSL. We will also be reimbursed for our out of pocket expenses. Finity, its officers, employees, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

Compensation Arrangements

We hold professional indemnity insurance as required by section 912B of the Corporations Act 2001 (Cth).

Complaints

If you have any concerns regarding our Report, please let us know. If you wish to lodge a formal complaint, you may do so in writing to The Complaints Officer, Finity Consulting Pty Limited, 7/155 George Street, Sydney NSW 2000. We will respond to your complaint promptly.

If you are not satisfied with our response or the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to assist them to resolve complaints relating to the financial services industry.

FOS can be contacted on 1300 780 880 and further details may be obtained from www.fos.org.au.

Our Contact Details

You may contact us at:

Finity Consulting
Level 7
155 George Street
Sydney NSW 2000
SHARE ALLOCATION RULES

Part 1: Purpose of Share Allocation Rules

Part 2: Eligible Members

Part 3: Calculation of Share Entitlement

Part 4: Share Allocation Calculation Examples
PART 1

PURPOSE OF SHARE ALLOCATION RULES

This section sets out the Share Allocation Rules which Members are asked to approve at the Extraordinary General Meeting on Wednesday 2 April 2014. The Share Allocation Rules are also referred to in the Appointed Actuary’s Report and the Independent Expert’s Report.

The TFSL Board believes that the Share Allocation Rules provide a fair and reasonable basis for allocating Shares between the Members.

The Share Allocation Rules set out the basis for determining the Share Entitlements to be distributed to Members. Therefore, if TFSL Demutualises, Shares will be issued in accordance with the Share Allocation Rules to Eligible Members who become verified.

Eligible Members must satisfy the Company’s verification requirements as detailed in Section 1, Part 5 in order to actually receive their Share Entitlement.

Except as otherwise stated, words and phrases used in these Share Allocation Rules are to be given the same meaning as equivalent words and phrases used in this Disclosure Statement.
PART 2

ELIGIBLE MEMBERS

For the purposes of these Share Allocation Rules, only a Member who meets the conditions listed below is entitled to receive a Share Entitlement following their verification.

Criteria

- All Members who hold a current Policy as at the Cut-Off Date and continue to hold a policy at the Implementation Date (on or shortly after 30 June 2014);
- if a Member is more than 90 days in arrears as at the Implementation Date they are deemed ineligible;
- if a Member is in arrears but they are less than 90 days in arrears they must be paid up to date before Shares are issued;
- the Cut-Off Date is 28 February 2014 or five days before the Notice of Extraordinary General Meeting is issued, whichever is later.

If a person who satisfies the above conditions, subsequently dies prior to the issue of the Shares, the estate of the deceased Eligible Member will become entitled to the Shares.
CALCULATION OF SHARE ENTITLEMENT

A Share Entitlement will be allocated to each Eligible Member as detailed in the Share Allocation Form sent with this document and in accordance with the Share Allocation Rules.

If TFSL is not able to verify the details of Members whose Shares have been issued to the TFSL Unverified Members Trust at the end of Verification Period (the period from the date of the Extraordinary General Meeting when the Demutualisation was approved, until the period ending 18 months after the Shares are issued, subject to an extension of up to six months at the discretion of the Board), then in accordance with the terms and conditions of the trust, such residual balance of Shares will be cancelled, subject to any Shareholder approvals required under the Corporations Act.

Each Member receives an allocation of Shares according to the following formula

\[
\text{Number of Shares} = \text{Base Allocation} + \text{Duration Allocation}
\]

The Base and Duration Allocations are determined by the type of product that a Member holds and whether the Member has a Single or Family Policy.

The Duration Allocation is also determined by the length of time that a Member has continuously held a Policy with Transport Health.

The summary of allocation is shown below. It is the product held and Policy type (Single or Family) at the Record Date that determine the allocation.

The allocations for people who were not Members at the Record Date is described below, under the heading New Members.

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Base Allocation (Shares)</th>
<th>Duration Allocation (per year of Membership*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Extras Only</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Single Hospital Only</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Single Combined</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Family Extras Only</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Family Hospital Only</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Family Combined</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>

* Maximum duration allocation is 28 years

Single and Family Policies

Members are defined as “Single” if they hold a single Policy type. All other Members are classified as having “Family” Policies, including couples and single parent families.

Changes between a Single and Family Policy

The allocation is based on whether the Member has a Single or Family Policy at the Record Date. Changes in the number of people covered over time do not change the allocation.

Duration of Membership

The duration of a Member is defined as the number of years between the date when they first joined Transport Health and the Record Date, rounded up to the nearest whole year. For the purposes of allocating Shares, the maximum duration of a Member is capped at 28 years.

This reflects that Transport Health’s records prior to 1985 are considered not sufficiently complete and accurate for the purpose of verifying the Policy joining date.

No allowance is made for any periods where a Member has suspended their policy.
Product Level

TFSL has classified the products into three groups reflecting the level of cover. The groups are Extras Only, Hospital Only, or Combined (which includes both hospital and extras benefits).

The table below shows which products are in each category:

Table 2 – Classification of each product

<table>
<thead>
<tr>
<th>Product Level</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Only</td>
<td>Top Hospital</td>
</tr>
<tr>
<td></td>
<td>Top Hospital with excess</td>
</tr>
<tr>
<td></td>
<td>Top Hospital with co-payment</td>
</tr>
<tr>
<td></td>
<td>Basic Hospital</td>
</tr>
<tr>
<td></td>
<td>Healthy Choice Hospital</td>
</tr>
<tr>
<td>Extras Only</td>
<td>Top Extras</td>
</tr>
<tr>
<td></td>
<td>Healthy Choice Extras</td>
</tr>
<tr>
<td>Combined</td>
<td>Young Singles</td>
</tr>
<tr>
<td></td>
<td>Young Couples</td>
</tr>
<tr>
<td></td>
<td>Family by Design Top Hospital</td>
</tr>
<tr>
<td></td>
<td>Family by Design Top Hospital with excess</td>
</tr>
<tr>
<td></td>
<td>Family by Design Top Hospital with co-payment</td>
</tr>
</tbody>
</table>

If a Member holds both an ‘Extras only’ and a ‘Hospital only’ Policy, they will be treated as having a Combined Policy for the purposes of the Share allocation.

Each of the different Hospital Only products receives the same allocation. Similarly, each Extras Only and Combined products receives the same allocation.

Change in Product

The allocation is based on the Member’s Policies at the Record Date. Changes in products over time do not change the allocation.

Multiple Policies

Some Members have multiple Policies, for example, having both an ‘Extras only’ and a ‘Hospital only’ policy. These Members will be treated as having one combined Policy for the purposes of the Share allocation.

New Members

Members joining TFSL between the Record Date and the Cut-Off Date will receive shares. Members must continue to hold a Policy at the Implementation Date, and not be in arrears in order to receive shares. The allocation to these Members will be the same as if the Member had joined on the Record Date.

Members joining after the Cut-Off Date will not receive shares.

Review Committee

The Review Committee will consider any requests from Members for a review of their proposed Share allocation. This will occur if a Member believes that their entitlement for Shares or allocation of Shares has been incorrectly determined based on the Share Allocation Rules.
SHARE ALLOCATION CALCULATION EXAMPLES

The examples are intended to show how the Share Allocation Rules apply. However, in the case of any ambiguity, the Share Allocation Rules take precedence.

Example 1 – Young Couple Hospital and Extras

Ilona joined in August 2013 on a young couple hospital and extras Policy, which is a Combined product. The duration of membership is one year, rounded up to the nearest year.

A couple on a Combined product receive a Base Allocation of 400 shares plus a Duration Allocation of 400 shares per year, as shown below.

Ilona's Allocation

<table>
<thead>
<tr>
<th>Base Allocation</th>
<th>400 Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration Allocation (= 400 x 1 year)</td>
<td>400 Shares</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>800 Shares</td>
</tr>
</tbody>
</table>

Example 2 – Top Hospital

Jacqueline joined in 1960, and has continuously held a single Hospital Only Policy. Jacqueline receives a Base Allocation of 100 Shares, plus a Duration Allocation of 100 Shares per year. For the purposes of allocating Shares the maximum duration of a Member is capped at 28 years.

Jacqueline’s Allocation

<table>
<thead>
<tr>
<th>Base Allocation</th>
<th>100 Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration Allocation (= 100 x 28 years)</td>
<td>2,800 Shares</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>2,900 Shares</td>
</tr>
</tbody>
</table>

Example 3 – Family with more than two adults

Ryan joined with his wife and 23 year old son on a Family by Design Policy in 2009 and has held it to this day.

Ryan’s Allocation

<table>
<thead>
<tr>
<th>Base Allocation</th>
<th>400 Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration Allocation (= 400 x 5 years)</td>
<td>2,000 Shares</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>2,400 Shares</td>
</tr>
</tbody>
</table>

Ryan receives the Family combined allocation, with duration five years.

Example 4 – Change in Product Level

Sarah joined Transport Health on a single Hospital Only policy in 2004, and upgraded to a Combined Policy in 2007 which she holds at the Record Date.

The Share allocation is based on the product level at the Record Date, so Sarah receives the combined Policy allocation. The Duration Allocation reflects the total period of membership on any level of cover, which is 10 years.

Sarah’s Allocation

<table>
<thead>
<tr>
<th>Base Allocation</th>
<th>200 Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration Allocation (= 200 x 10 years)</td>
<td>2,000 Shares</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>2,200 Shares</td>
</tr>
</tbody>
</table>
**Example 5 – Change in Number of People Covered**

Tim joined Transport Health on a single Hospital Only Policy in 2004. Since 2007 Tim has held a Family Hospital Only Policy.

The Share allocation is based on the number of people covered at the Record Date, so Tim receives the Family Policy allocation. The Duration Allocation reflects the total period of membership on any level of cover, which is 10 years.

<table>
<thead>
<tr>
<th>Tim’s Allocation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Allocation</td>
<td>200 Shares</td>
</tr>
<tr>
<td>Duration Allocation</td>
<td>(= 200 x 10 years)</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>2,200 Shares</td>
</tr>
</tbody>
</table>

**Example 6 – Break in Membership**

Jane first joined Transport Health in 1990, ceased to be a member in 2000 and re-joined in 2003.

For the purposes of allocating Shares, the duration of Membership is based on the date Jane re-joined Transport Health, that is, 11 years. Assuming Jane has an Extras Only policy, the allocation is as follows.

<table>
<thead>
<tr>
<th>Jane’s Allocation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Allocation</td>
<td>100 Shares</td>
</tr>
<tr>
<td>Duration Allocation</td>
<td>(= 100 x 11 years)</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>1,200 Shares</td>
</tr>
</tbody>
</table>

**Example 7 – Death of original member**

James joined as a single Member in 1970 on a hospital only Policy. In 1992 he married Eve and changed his Policy to a couple Policy. In 2005 James died and Eve took over the Policy changing it back to a single Policy.

<table>
<thead>
<tr>
<th>Eve’s Allocation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Allocation</td>
<td>100 Shares</td>
</tr>
<tr>
<td>Duration Allocation</td>
<td>(= 100 x 22 years)</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>2,300 Shares</td>
</tr>
</tbody>
</table>

Eve receives a single Policy allocation with the Duration Allocation according to when she joined the fund in 1992.

**Example 8 – Multiple Policies**

Bob joined as a family Member in 1990 on a hospital and extras Policy. In 1995 he divorced his wife but retained the Policy. In 2003 he remarried and took out another couple hospital and extras Policy for himself and his new wife. He converted his first Policy to a Family Hospital and Extras Policy.

Members with multiple Policies are treated as having one combined Policy for the purposes of the Share allocation. Bob’s join date of 1990 is used to calculate the membership duration.

<table>
<thead>
<tr>
<th>Bob’s Allocation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Allocation</td>
<td>400 Shares</td>
</tr>
<tr>
<td>Duration Allocation</td>
<td>(= 200 x 24 years)</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>5,200 Shares</td>
</tr>
</tbody>
</table>
Example 9 – Marriage Breakdown

Giles and Emma joined as a couple in 1997 on a hospital only policy. In 2005 they divorced and Emma continued the Policy as a single Member.

Emma’s Allocation

<table>
<thead>
<tr>
<th>Allocation Type</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Allocation</td>
<td>100</td>
</tr>
<tr>
<td>Duration Allocation (= 100 x 17 years)</td>
<td>1,700</td>
</tr>
<tr>
<td>Total Allocation</td>
<td>1,800</td>
</tr>
</tbody>
</table>

Emma receives the duration allocation back to her original joining date of 1997, not 2005.
SECTION 6

INDEPENDENT EXPERT REPORT
INDEPENDENT EXPERT REPORT

Transport Friendly Society Ltd
Independent expert’s report and Financial Services Guide
26 February 2014
Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and related regulated emissions units (i.e., carbon) to retail and wholesale clients. We are also authorised to provide general financial product advice relating to derivatives to retail clients and personal financial product advice relating to derivatives to wholesale clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately $75,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed demutualisation of Transport Friendly Society Ltd.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We have not performed any services for Transport Friendly Society Ltd prior to the preparation of this report within the last two years.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS’ contact details are also set out below.

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).
The Directors
Transport Friendly Society Ltd
487 Swan Street
Richmond VIC 3121

26 February 2014

Dear Directors

Independent expert’s report

Introduction

Transport Friendly Society Ltd (TFSL) is a mutual friendly society whose principal activity comprises the provision of private health insurance through its 100%-owned subsidiary, Transport Health Pty Limited (Transport Health). TFSL’s member base is comprised of the policyholders of Transport Health (the Members). TFSL’s Members typically are, or have been, employed within the transportation sector. In addition, TFSL operates a retirement village, an aged care facility and a dental clinic.

Transport Health is a very small player within the private health insurance industry with 4,678 policyholders as at 31 December 2013. The number of Transport Health’s policyholders has declined since the late 1990s when it reached a peak of approximately 5,300 members. Being a very small health insurance service provider, Transport Health has been struggling to provide a competitive product offering due to increasing regulations as well as a consolidating industry.

The board of directors of TFSL (Directors or the Board) are proposing to the Members that TFSL demutualise the friendly society in accordance with Part 5 of Schedule 4 of the Corporations Act 2001 (Corporations Act) (Schedule 4), on or before 30 June 2014 (the Implementation Date) (the Demutualisation).

An overview of the Demutualisation is set out in Section 1 of the Disclosure Statement. The Demutualisation primarily entails the following:

- TFSL changing from a mutual organisation to a shareholder-owned company, including associated changes to the constitution of TFSL (the Existing Constitution)
- relinquishment of membership rights by the Members
- issuing shares to Members1 (the Shares) in accordance with allocation rules as determined by the Directors (Allocation Rules) and as reviewed by Finity (the Appointed Actuary).

If approved, the Demutualisation will result in an allocation of 18,773,900 Shares in TFSL amongst 4,678 Members2. It is noted that any rights associated with the policies held by the Members will be retained when Members become shareholders of TFSL and relinquish their membership rights (i.e. there is not anticipated to be any detrimental impact upon the rights of Members as policyholders).

The basic objectives that the Directors seek to achieve through the Demutualisation are to:

1 Members residing outside Australia and ‘unverified’ Members will receive shares indirectly into trusts which will hold them on behalf of these members. The trustee of the trust for the non-resident Members will make appropriate arrangements to sell their shares within 12 months of the earlier of the date the Shares are listed or are able to be lawfully traded on a market approved by TFSL and will distribute the proceeds to the non-resident Members or their designated family members. The trustee of the trust for unverified Members will transfer the allocated shares of each unverified member who becomes verified during the verification period. Shares which remain unclaimed after the verification period will be forfeited and cancelled.

2 Based on Member data as at 31 December 2013 and may change in the interim between this date and the notice of the EGM.
unlock the surplus reserves of TFSL and its subsidiaries and deliver value to the Members in the form of Shares that may be sold for value; and

facilitate expansion of TFSL’s business operations (including its product offering) by allowing TFSL to raise funds through the issue of new equity.

The Directors have stated that, pursuant to the implementation of the Demutualisation, they will endeavour to list the shares of TFSL on an approved Australian stock exchange within three years of the Demutualisation being approved by Members (the Listing), assuming the Directors continue to hold the view that Listing remains in the best interests of Shareholders. The Directors consider it very unlikely that TFSL will be in a position to list before that time. In order to provide some liquidity to the shares in the interim, the Directors have also stated that they will seek ASIC approval to operate a low volume market (Low Volume Market)\textsuperscript{3} within a six month period from the date the Shares are first issued pursuant to the Demutualisation to facilitate transactions in the Shares prior to Listing (discussed further in the executive summary of the Disclosure Statement). Whilst the approval of the Demutualisation is a condition required to commence operating the Low Volume Market as well as to the Listing, these actions will not necessarily be undertaken by TFSL pursuant to the approval of the Demutualisation. A change of circumstances may lead to a deferral or to the cancellation of the planned Low Volume Market and the Listing and the Directors have not as yet undertaken activities required to obtain approval from ASIC for the operation of the Low Volume Market.

Approval of the Demutualisation will be subject to the following:

- passage of a series of special resolutions (the Resolutions) to be voted on by the Members at an extraordinary general meeting to be held on 2 April 2014 (the EGM). The Resolutions will encompass the following:
  - approval for TFSL to alter the Existing Constitution, to convert TFSL from a company limited by shares and guarantee to a company limited by shares only
  - approval of the Allocation Rules
  - approval for the issue of Shares in accordance with the Allocation Rules

Valid approval of the Resolutions requires the following:

- a minimum 21 days’ notice of the EGM must be provided to Members
- a quorum comprised of at least 10 Members must be personally present at the EGM
- a special majority in favour of the Resolutions, consisting of 75% of the votes cast by Members present at the EGM or voting by proxy

- approval by the Private Health Insurance Administration Council (PHIAC) for TFSL’s health insurance fund, operated by its subsidiary Transport Health, to change its insurer registration status under Division 126 of the Private Health Insurance Act 2007 (Cth) (PHIA) from ‘not for profit’ to ‘for profit’. Being registered as a ‘for profit’ insurer will allow Transport Health to distribute surplus funds to TFSL (and, in turn, by way of future dividends to the Members, subject to approval of the Resolutions).

Purpose of the report

Schedule 4 of the Corporations Act 2001 (Cth) (Corporations Act) regulates the transfer of interests in financial institutions and friendly societies, including in the case of demutualisation. Clause 29 of Schedule 4 prescribes the information to be provided to members in relation to a demutualisation. Amongst the documents to be provided to members (and to ASIC) in connection with the demutualisation is a “report by an expert that:

- states whether, in the expert’s opinion the proposed modification or share issue is in the best interests of members of the company as a whole; and
- gives the expert’s reasons for forming that opinion; and
- complies with subclauses 33(2) and (3).”\textsuperscript{4}

\textsuperscript{3} Whilst a Low Volume Market provides some liquidity to the Shares, trading in a Low Volume Market is subject to numerous restrictions. As a result, realising the full underlying value of TFSL shares by selling them on the Low Volume Market may be more difficult than, for example, selling them on a stock exchange. A description of the Low Volume Market is set out in the executive summary of the Disclosure Statement.

\textsuperscript{4} Subclauses 33(2) and (3) of Schedule 4 set out independence requirements for the expert providing its opinion in respect of the demutualisation in accordance with Schedule 4.
Pursuant to Schedule 4, the Directors have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report (IER) advising whether, in our opinion, the Demutualisation is in the best interests of the Members as a whole to assist the Members in their consideration of the Resolutions in connection with the Demutualisation.

This report is to be included in the Disclosure Statement and has been prepared for the exclusive purpose of assisting the Members in their consideration of the Demutualisation. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Members and the Directors, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

In evaluating the Demutualisation we have considered RG 111: Content of expert reports, issued by ASIC in March 2011 (RG 111).

RG 111 recognises that in situations where the demutualisation does not involve a change in the underlying economic interests of security holders, a change of control or a selective treatment of different security holders (the Demutualisation will not result in any of these situations occurring) the issue of “value”, typically of prominent importance in relation to transactions other than demutualisations (i.e. takeover offers, scheme of arrangements, etc.), may be of secondary importance for the expert’s assessment of the transaction.

In respect of demutualisations, RG 111 suggests that the expert should provide an opinion as to whether the advantages of the transaction outweigh the disadvantages. RG 111 states that possible advantages to be considered may include the unlocking of value for members and greater management accountability, as compared to possible disadvantages such as the loss of the benefits of being a mutual organisation.

To assess whether the Demutualisation is in the best interests of the Members, we have adopted the test of whether the advantages of the Demutualisation outweigh the disadvantages as set out in RG 111.

To assess whether the Demutualisation is in the best interests of the Members we considered the following significant factors:

- the Allocation Rules set out in Section 5 of the Disclosure Statement
- the opinion of the Appointed Actuary with respect to: (i) the fairness and reasonableness of the Allocation Rules; and (ii) whether or not the Demutualisation will have a materially adverse impact upon the magnitude of premiums and benefits and the security of benefits of policyholders; as set out in Section 4 of the Disclosure Statement
- potential advantages and disadvantages to the Members of the Demutualisation including any rights of Members gained or lost
- other alternatives available to Members and/or TFSL
- possible implications associated with Members rejecting the Demutualisation.

Summary and conclusion

In our opinion the advantages of the Demutualisation outweigh the disadvantages. Accordingly, we have concluded that the Demutualisation is in the best interests of Members as a whole.

If approved, the Demutualisation will result in Members receiving a direct economic interest in TFSL and will create the opportunity for TFSL to further grow its business as a result of a broader set of options to raise capital to expand its product offering and customer base.

Currently, TFSL’s subsidiary, Transport Health, is facing risks that progressively weaken its competitive position relative to larger and better capitalised health insurance players and is vulnerable to changes in an increasingly regulated industry. Whilst TFSL has maintained its status as a friendly society for over 100 years, changes in the industry (including increasing health insurance premiums, increasing requirements for investment in technology and increasing competition from large players) and a presently favourable legal and tax regime relating to demutualisation, make the Demutualisation a timely and economically viable change in the current market.

The share allocation rules set by the Directors of TFSL, confirmed as fair and reasonable by the Appointed Actuary, are broadly in line with precedent transactions. Whilst the proposed Allocation Rules appear to have a relatively high variable allocation component compared to precedents (i.e. rewarding long-standing members more), we do not consider this unreasonable having regard to the long history of TFSL and its subsidiaries and
the fact that a significant portion of Members have been members for a very extensive period, contributing more to the business.

The Demutualisation will not have a material adverse impact upon the ongoing rights of Members as policyholders (refer to the advice received by TFSL from the Appointed Actuary and the tax adviser (Tax Adviser), as set out in Section 4 and Section 3, respectively, of the Disclosure Statement) and the alternative options considered by the Directors are suboptimal compared to the Demutualisation.

A more detailed explanation of the advantages and disadvantages identified as well as the alternatives considered is set out below.

Advantages of the Demutualisation

The likely advantages to Members if the Demutualisation is approved include the following:

Allocation Rules are reasonable

We consider the Allocation Rules to be reasonable to Members as a whole. Our opinion is based on the following:

- the Allocation Rules are broadly comparable to those adopted in other precedent demutualisations (especially of other health funds) and in line with the guiding principles determined by the Directors to inform the formulation of the Allocation Rules (the Allocation Principles). We note that the Allocation Rules include a fixed component based on policy type and a variable component based on duration of membership. The Allocation Rules result in a substantial majority (approximately 93%) of the proposed share allocation falling under the variable component. Whilst the variable component appears to be at the higher end of those observed in other demutualisations, this feature of the Allocation Rules reflects an attempt to recognise the greater contribution made by TFSL’s longer-standing Members (more than a quarter of the Members have been with TFSL for 28 years or longer).

- the report of the Appointed Actuary, as set out in Section 4 of the Disclosure Statement (Appointed Actuary Report). The Appointed Actuary has concluded that the Allocation Rules are fair and reasonable to the Members and that the Demutualisation is not likely to have a materially adverse impact upon the premiums and benefits associated with the Members’ policies.

Unlocking value

Clauses 5A and 19 of the Existing Constitution preclude the distribution of any income or property held by TFSL to its Members, even in the event of wind-up. In addition, Members are currently unable to transfer their membership rights to other parties for consideration. As a result, membership rights (in isolation of the relevant policyholder rights) currently have no economic value to Members.

If the Demutualisation is approved, Shareholders (formerly Members) will be able to access the underlying economic value associated with TFSL as follows:

- by receiving dividends (and attached franking credits, if any) and / or distribution of other surpluses subject to the discretion of the Directors. In accordance with the terms of the Demutualisation, TFSL will change its constitution so as to enable the Directors to declare and pay a dividend to Shareholders.

- by disposing of their Shares. Pursuant to the Demutualisation, Shareholders will own a transferable (subject to certain restrictions such as the market depth of the Low Volume Market and a 15% shareholding restriction for five years from the Implementation Date) economic interest in the underlying value of TFSL. As a result, Shareholders will be able to divest their Shares for consideration.

We note the following in relation to Members’ ability to access the value through receipt of dividends and the disposal of shares:

- the Board has advised that TFSL is not likely to pay dividends to Shareholders prior to any Listing.

- whilst the Directors have stated their intention to commence operating a Low Volume Market within six months from the Implementation Date and to undertake Listing within three years from the Demutualisation, Shareholders will have a relatively limited capacity to sell their shares in the period prior to any Listing and, as such, may not be able to readily realise the fair value of their Shares.

- traded parcels of shares tend to trade at a discount to the full value of the underlying company. This is due to the fact that traded parcels of shares typically represent minority interests in the company and do not confer the right to control the company’s operating and financial decisions. This type of discount is referred to as a minority interest discount and it is typically between 10% and 30%.
In addition, shares traded in relatively small companies such as TFSL are often subject to a liquidity discount, resulting from relatively low share trading volume. Any realisation of shares by Members other than by takeover is likely to occur at a minority interest value and may also reflect a liquidity discount.

Whilst the timing and magnitude of dividends is uncertain and the price at which the Shares will trade may not be reflective of TFSL’s full underlying value, the proposed swap of membership rights into shareholding rights should allow Members to extract greater economic value than they are currently able to do. Accordingly, the Demutualisation allows Members to access value held in TFSL which could not previously be readily distributed.

Access to additional capital and improved flexibility

TFSL’s registration as a mutual friendly society precludes it from raising capital via the issue of new equity. If the Demutualisation is approved, TFSL will be able to issue new equity to fund its ongoing operations and any future expansion. In addition, the ability to raise new equity capital will increase TFSL’s operational flexibility and resilience, including improving its ability to respond to new market opportunities and/or challenges.

All else being equal, easier access to capital and enhanced capital structure flexibility should increase TFSL’s equity value for the benefit of its shareholders.

Whilst raising capital through the issue of new equity may have some disadvantages, including possible dilution of the interest held in TFSL by existing Members / Shareholders, on balance, we consider broader options to access capital to be beneficial to Members.

No detrimental impact likely upon Members’ rights as ongoing policyholders

The Demutualisation will provide benefits to Members without being likely to have a material adverse impact upon Members’ existing rights as health insurance policyholders with Transport Health. Key considerations are as follows:

- in the event of demutualisation, policies will continue to be subject to the existing regulatory regime governing the provision of private health insurance, including the requirement that any changes to premium rates be approved by the Commonwealth Minister for Health

- Transport Health will continue to be subject to prudential solvency and capital adequacy requirements stipulated under PHIA and enforced by PHIAC. We note that, all other things being equal, the demutualisation should support the capital position of TFSL (and therefore Transport Health) by enabling TFSL to raise new equity capital

- the market for private health insurance is largely commoditised and highly competitive, with ‘for profit’ and ‘not for profit’ health insurers operating in the same market. Accordingly, competitive pressures mean that it is unlikely that Transport Health will alter its premiums or benefits in a manner detrimental to the interests of Members following the Demutualisation

- management and the Appointed Actuary have advised that the Demutualisation is not expected to materially adversely affect benefits paid out and premiums incurred under the policies (refer to the Appointed Actuary’s report in Section 4 of the Disclosure Statement).
Neutral tax consequences

As set out in the Tax Adviser’s report (refer to Section 3 of the Disclosure Statement), the Demutualisation is expected to produce neutral tax consequences for Members at the time of demutualisation.

In accordance with Division 316 of the Income Tax Assessment Act 1997 (Cth) (Division 316), the Members of friendly societies which demutualise to become for-profit entities do not incur a capital gains tax (CGT) liability until they sell their allotted Shares. In addition, in calculating any capital gain arising from the future sale of the Shares, Members will, on a concessional basis, be deemed to have acquired the Shares at a cost base to be calculated on or around the Implementation Date5 rather than for nil consideration. The relevant transaction date for CGT purposes is deemed to be the date on which the Shares are issued. We note that the concessional tax base does not depend on TFSL becoming a listed entity.

Accordingly, should the Members elect to sell their Shares subsequent to the Demutualisation, the associated CGT liability will be calculated with reference to capital gains generated on the concessional tax cost base. Furthermore, should individual Members sell their shares more than one year subsequent to completion of the Demutualisation they will be entitled to a 50% discount on any assessable capital gain.

Separation of shareholder rights and policyholder rights

Members who receive Shares in TFSL pursuant to the Demutualisation will be able to continue to hold, dispose of or acquire additional Shares, subject to the New Constitution’s limitations (refer Appendix 1 of the Disclosure Statement and Section 1 of this Report). Furthermore, Members are able to hold Shares irrespective of whether they choose to hold or terminate their health insurance policies with Transport Health and/or choose to hold health insurance policies with other providers.

Accordingly, the Demutualisation provides Members with the flexibility to make decisions in relation to their shareholder rights independently of decisions relating to their policyholder rights.

Greater management accountability

If the Demutualisation is implemented, the financial performance of TFSL (and therefore its management) will be subject to a greater degree of scrutiny, particularly in the event that the Shares become listed. In the event that the Shares become listed, TFSL will also be subject to significant ongoing disclosure requirements.

As a result, we consider that the Demutualisation is likely to increase management accountability. However, as discussed in the disadvantages set out below, such changes will also result in higher ongoing costs.

Disadvantages of the Demutualisation

The likely disadvantages to Members if the Demutualisation is approved include the following:

Loss or dilution of membership rights

The membership rights of Members as outlined in Part 4, Section 1 of the Disclosure Statement and Section 1 of this Report will be relinquished if the Demutualisation is approved. However, this is mitigated by the rights that the Members would acquire as shareholders of TFSL, which broadly include those foregone as Members and include, amongst others, the right to attend and vote at general meetings and the right to vote on the composition of TFSL’s Board.

In contrast to Members’ existing voting rights, which entitle them to one vote regardless of their financial commitment to TFSL, each shareholder in TFSL will be entitled to one vote for each share owned. The Demutualisation would therefore re-distribute voting rights in accordance with shareholders’ proportionate ownership of TFSL’s share capital. Some Members may find this change in their voting power to be unfavourable.

Contrary to the concept of mutuality and competing interests of Policyholders and Shareholders

TFSL has operated under a mutual structure for an extended period of time. If the Demutualisation is approved, certain elements of that structure such as the election of Directors from among the Members will be changed. Members may view these as desirable features and their loss as a detrimental aspect of the Demutualisation.

5 The concessional tax cost base of the Shares will be equal to the sum of the ‘embedded value’ of the non-health insurance business and the ‘market value’ of the health insurance business (as determined by the Appointed Actuary) divided by the total number of Shares issued upon demutualisation.
Mutuals are often community focused with priority placed on the community and members. If the Demutualisation is approved, it is possible that the focus of TFSL will change as greater priority is placed on improving value for shareholders. TFSL currently operates for the benefit of Members as policyholders. Upon demutualisation of TFSL, management would need to consider the interests of both policyholders and shareholders. Over time, the interests of shareholders and those of policyholders may diverge. Arguments to retain a mutual status could include the following:

- public perceptions of TFSL and its operations (including Transport Health) may be altered in a possibly detrimental fashion by moving away from a mutual status
- remaining a mutual organisation may constitute a point of differentiation and competitive advantage for TFSL (and, in turn, Transport Health) within the private health insurance sector
- the mutual values that have underpinned TFSL’s operations may be eroded following the Demutualisation as the company increases its focus on delivering returns to Shareholders. This may include operational changes such as hiring new senior staff to manage the transition to a corporate structure
- the placement of Members’ rights solely as policyholders above other commercial considerations.

We note that the concerns listed above are mitigated by the fact that, under the Demutualisation, the Members will become Shareholders and therefore will benefit from any action undertaken by TFSL management with the interests of Shareholders in mind.

In addition, the rights and entitlements of Members as policyholders in Transport Health will persist following the Demutualisation and will continue to be subject to the protections afforded under the relevant legislative and regulatory guidelines (including PHIA) and the oversight of the private health insurance regulator, PHIAC.

**Liability to pay company tax for Transport Health**

As part of the Demutualisation, Transport Health will become a ‘for profit’ health insurer under PHIA and accordingly will become subject to Australian company tax. This additional cost will reduce TFSL’s economic margins and distributable profits and may incentivise management to increase insurance premiums paid by Transport Health’s policyholders to offset the additional cost. Everything else being equal, Shareholders could expect lower net profits than those achieved in the past or an increase in the insurance premiums (subject to regulatory approval) to mitigate the increase in costs.

However, we note that:

- management is of the view that the benefits and upside potential unlocked by the broader consequences of the Demutualisation (refer to the advantages set out above), will more than offset the increase in costs associated with the possible future tax payments
- to the extent that Transport Health incurs additional tax liability, it may be able distribute dividends to its Shareholders with franking credits attached to them. Franking credits would increase the net cash proceeds realisable from Shareholders compared to the receipt of unfranked dividends
- the detrimental impact associated with paying company tax will be partially mitigated by Transport Health being able to recognise future tax losses in the determination of its capital adequacy reserves in accordance with PHIA
- Transport Health will only be liable to pay company tax in the event that it generates profits, which, in any case, would not be readily distributable to policyholders (i.e. Members) in the absence of the Demutualisation and the associated conversion of Transport Health to ‘for profit’ status.

**Demutualisation and compliance costs**

If the Demutualisation and associated Low Volume Market and Listing proceed, TFSL is likely to incur additional annual costs such as audit, advisory, legal, share registry and other regulatory costs. However, management has advised that a significant proportion of one-off costs associated with the Demutualisation have already been incurred by TFSL (e.g. tax, legal and accounting advisory fees). TFSL has also advised that the set-up and ongoing costs associated with the Low Volume Market are expected to be relatively low and not significantly in excess of the basic costs associated with maintaining a share register. In addition, TFSL has advised that the intention to wait a period of three years to seek a Listing is aimed at testing the performance and appeal of TFSL shares prior to incurring the costs and the burden associated with a Listing.

Alternatives to the Demutualisation

The Directors have considered a number of possible alternative strategies in addition to the Demutualisation. These are discussed below.

Remaining ‘as is’

The preceding discussion of the advantages and disadvantages of the Demutualisation essentially compares TFSL if the Demutualisation is approved to TFSL if it remains ‘as is’. We consider the main advantages of the Demutualisation to be the distribution of value to Members and enhanced ability to access additional equity capital necessary for the future growth of the business. We have concluded that, on balance, the likely advantages to Members as a whole if the Demutualisation is approved outweigh the likely disadvantages.

In addition, management has noted that, due to TFSL’s small membership and its requirement for additional capital to fund the expansion of its product offering, they do not consider it viable in the longer term for TFSL to remain ‘as is’.

Sale of assets and businesses and/or merger with another organisation

The Board and the management of TFSL have considered a range of potential asset sale and merger scenarios, including the following:

- sell all of the assets and businesses held by TFSL with the exception of Transport Health and use the proceeds to fund the continued operation of Transport Health
- sell all of the assets and businesses held by TFSL with the exception of Transport Health and then seek a merger between Transport Health and another health insurer
- sell Transport Health and use the proceeds to fund the other operations of TFSL (e.g. dental, aged care and retirement services)
- sell all of the assets and businesses of TFSL (including Transport Health) and use the proceeds to fund new business ventures
- merge all of the assets and business of TFSL (including Transport Health) with those of another organisation.

The Board and the management of TFSL have noted several limitations relating to the scenarios set out above, including the following:

- in the absence of the Demutualisation, the scenarios set out above do not provide a mechanism to readily distribute value to Members
- the sale of assets to fund the continued operation of Transport Health and/or the other businesses of TFSL is a short-term solution which does not obviate the need for additional capital if required in the future
- due to TFSL and Transport Health’s small size, it may be difficult to negotiate optimal terms for the Members in the event of a private merger
- there is a limited number of organisations that offer a comparable suite of services to those offered by TFSL and Transport Health.

In addition, since the Demutualisation may be followed by a subsequent Listing, it should increase the likelihood of TFSL being subject to a public merger or acquisition (M&A). Public M&A is typically subject to a greater degree of scrutiny and transparency than private M&A. Accordingly, TFSL may be able to extract greater value for its Members / Shareholders in the event of public M&A following demutualisation.

Winding up

Wind-up entails liquidating the assets and liabilities of TFSL. We make the following comments in relation to the potential wind-up of TFSL:

- clause 19 of the Existing Constitution stipulates that any surpluses resulting upon wind-up may not be distributed to Members and must instead be distributed to a ‘like organisation’. As a not-for-profit health fund registered under PHIA, Transport Health is precluded from distributing surpluses to Members. As a result, Management has advised that, in the event of wind-up, TFSL may be obligated to transfer Transport Health and its associated surplus to another health insurer.

wind-up would preclude Members from benefiting from the future expansion opportunities available to TFSL.

Members will be forced to seek an alternative health insurance provider with possible adverse changes to the terms of their policies currently held with Transport Health. Accordingly, we do not consider that a wind-up alternative is likely to result in a superior outcome for the majority of the Members when compared to the Demutualisation.

Reduced premiums and increased benefits on policies

TFSL (via Transport Health) could conceivably distribute some of its surplus to Members by reducing policy premiums and other fees and increasing policy benefits. Under this alternative, the accumulated value would gradually be passed through to Members over time. We make the following comments in relation to this alternative:

- the extent to which value can be distributed is constrained by the magnitude of premiums and benefits and capital adequacy requirements stipulated by PHIAC
- it may not result in an equitable distribution of value to Members whose policies terminate in the near future and may benefit future members who have yet to contribute to the value of Transport Health (and therefore TFSL).

On balance, we consider the use of reduced premiums and increased benefits on policies to be an inefficient way to distribute value to Members when compared to the Demutualisation.

Conclusion on potential alternatives to the Demutualisation

We have considered whether Members as a whole would be better off under the Demutualisation than under the alternatives. In our opinion, having regard to the interests of Members, we consider that Members as a whole will be better off under the Demutualisation than under the alternatives.

Impact on the individual circumstances of Members

We have considered the advantages and disadvantages of the Demutualisation in relation to Members as a whole. However, there may be other factors that have an impact upon the individual circumstances of Members, including individual tax obligations, social security considerations and brokerage costs.

The Demutualisation may give rise to tax liabilities as a consequence of receiving Shares and dividends. Members should consider their individual taxation circumstances and consult an independent adviser as necessary.

Receipt of Shares by Members may have an adverse impact upon means-tested social security entitlements as affected Members may be deemed to have greater assessable assets and income.

We refer Members to Section 3 of the Disclosure Statement for the Tax Adviser’s discussion of the taxation and social security implications associated with the Demutualisation. Members should consider their individual circumstances in relation to these matters before voting on the Demutualisation.

Opinion

In our opinion the advantages of the Demutualisation outweigh the disadvantages. Accordingly, we have concluded that the Demutualisation is in the best interests of Members as a whole.

An individual Member’s decision in relation to the Demutualisation may be influenced by his or her particular circumstances. If in doubt the Member should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Stephen Ferris          Tapan Parekh
Director                Director

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1 Overview of the Demutualisation

1.1 Summary of the terms of the Demutualisation

Transport Friendly Society Ltd (TFSL) is a mutual friendly society whose principal activities comprise the provision of private health insurance through its 100%-owned subsidiary, Transport Health Pty Limited (Transport Health). TFSL’s member base is comprised of the policyholders of Transport Health (the Members). TFSL’s Members typically are, or have been, employed within the transportation sector. In addition, TFSL operates a retirement village, an aged care centre and a dental clinic, which were founded using surpluses generated by TFSL’s insurance business.

The board of directors of TFSL (the Directors or Board) are proposing to demutualise the friendly society in accordance with Part 5 of Schedule 4 of the Corporations Act 2001 (Corporations Act) (Schedule 4), on or before 30 June 2014 (Implementation Date) (the Demutualisation). An overview of the Demutualisation is set out in Section 1 of the Disclosure Statement. The key changes associated with the Demutualisation are as follows:

- TFSL changing from being a mutual organisation to a shareholder-owned company, including associated changes to TFSL’s constitution (Existing Constitution)
- relinquishment of membership rights by the Members and issuance of shares to Members in accordance with the Allocation Rules.

Approval of the Demutualisation is subject to Members approving four special resolutions (Resolutions) at an Extraordinary General Meeting (EGM) concerning the following:

- changing the company’s registration under Section 164 of the Corporations Act from a company limited by guarantee and shares to a company limited by shares only
- alteration of the Existing Constitution so as to convert TFSL from a company limited by shares and guarantee to a company limited by shares only (New Constitution). Pursuant to the New Constitution the following changes, amongst others, will apply:
  - membership in TFSL will arise only from the ownership of shares, rather than through an application for membership by a policyholder. In other words, following the Demutualisation, acquiring a policy with TFSL will no longer be a condition required to obtain membership in TFSL
  - under the Demutualisation, Directors will be able to distribute profits and other surpluses to Shareholders, in the form of dividends or distributions upon wind-up. This contrasts with the Existing Constitution, wherein Directors cannot distribute surpluses to Members under any circumstances
  - Shareholders will have the right to receive notice of, attend, speak, demand a ballot and vote at general meetings, including the right to vote on the election or removal of Directors. These rights are similar to Members’ current rights under the Existing Constitution.
  - however, voting rights for Shareholders will be proportionate to the magnitude of their Shareholding, meaning that some Shareholders may have greater voting rights than others. Conversely, under the Existing Constitution, each Member has only one vote, irrespective of the number of policies held.
  - changes to ensure compliance with the listing rules of an approved stock exchange, in the event that TFSL becomes listed.

The Directors have stated that pursuant to the implementation of the Demutualisation they will endeavour to list the shares of TFSL on a stock exchange within three years of the Demutualisation being approved by Members (the Listing), assuming the Directors continue to hold the view that Listing remains in the best interests of Shareholders. The Directors consider it very unlikely that TFSL will be in a position to List before that time. In order to provide some liquidity to the Shares in the interim, the Directors have also stated that they will seek ASIC approval to operate a low volume market (Low Volume Market) within a six month period from the date Shares are issued pursuant to the Demutualisation to facilitate transactions in the Shares prior to Listing (discussed further in the executive summary of the Disclosure Statement). Whilst the approval of the Demutualisation is a condition required to commence operating the Low Volume Market as well as for the Listing, these actions will not necessarily be undertaken by TFSL pursuant to the approval of the Demutualisation. A change of circumstances may lead to a deferral or to the cancellation of the planned Low Volume Market or Listing.
an individual Shareholder cannot hold more than 15% of the total voting rights associated with the Shares for a period of five years from the Implementation Date. The Directors have advised that this restriction is intended to limit the ability of predatory acquirers to purchase Shares in TFSL below fair value, following the Demutualisation. However, we note that the New Constitution allows the Directors to vary this restriction at their discretion. For example, in the event of a takeover, the Directors may elect to remove the restriction.

- Directors will not be required to be Shareholders (under the Existing Constitution, Directors are required to be Members).
- Shareholders can retain their rights indefinitely as long as they continue to hold Shares, whereas Members automatically relinquish all membership rights upon termination of their policies. This has the effect of separating Shareholder rights from policyholder rights, whereas Members hold Member rights and policyholder rights in tandem.
- Membership rights cannot be transferred, whereas Shareholder rights are transferrable upon sale or transfer of the Shares (subject to the shareholding restrictions outlined above).
- Both Members and Shareholders enjoy limited liability in the event of wind-up.

Details of the proposed changes to the Existing Constitution are summarised in Appendix 1 of the Disclosure Statement.

- Approval for the issue of Shares in accordance with the Allocation Rules.

The changes effected by the Resolutions will, broadly speaking, result in Members relinquishing their rights as Members in exchange for new rights as Shareholders. Part 4, Section 1 of the Disclosure Statement provides a comparison of Member rights and Shareholder rights.

If approved, the Demutualisation will result in an allocation of 18,773,900 Shares in TFSL amongst 4,678 Members. It is noted that any rights associated with the policies held by the Members will be retained when Members become shareholders of TFSL and relinquish their membership rights.

### 1.2 Conditions precedents

In addition to the approval of the Resolutions, the following must be satisfied prior to the execution of the Demutualisation:

- Approval of the Resolutions by the Members noting that:
  - A minimum 21 days’ notice of the EGM must be provided to Members.
  - A quorum comprised of at least 10 Members must be personally present at the EGM.
  - A special majority vote in favour of the Resolutions must be achieved, consisting of 75% of the votes cast by Members present at the EGM or voting by proxy.

- Approval by the Private Health Insurance Administration Council (PHIAC) for TFSL’s health insurance subsidiary, Transport Health, to change its insurer registration status under Division 126 of the Private Health Insurance Act 2007 (PHIA) from ‘not for profit’ to ‘for profit’. Being registered as a ‘for profit’ insurer will allow Transport Health to distribute surplus funds to TFSL (and, in turn, the Members, in the form of dividends), subject to the approval of the Resolutions.

### 1.3 Background to the Demutualisation

TFSL’s subsidiary, Transport Health, is a very small player within the private health insurance industry with 4,678 policyholders as at 31 December 2013. In addition to the health insurance services offered by Transport Health, TFSL offers retirement, aged care and dental services, which were established using surpluses generated by TFSL’s core insurance businesses (including life insurance and other insurance activities which have since been divested).

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8 Based on Member data as at 31 December 2013 and may change in the interim between this date and the notice of the EGM.
The size of TFSL’s membership has declined since the late 1990s when it reached a peak of approximately 5,300 members. Being a very small health insurance service provider, Transport Health has been struggling to provide a competitive product offering due to increasing regulations, greater competition and a consolidating industry. Having regard to these factors, the Directors are proposing the Demutualisation to the Members with the following basic objectives:

- unlock the surplus reserves of TFSL and its subsidiaries and deliver value to the Members in the form of the Shares, which may be sold for value. TFSL will be able to pay dividends to Shareholders out of the profits of TFSL and distribute any surpluses arising upon wind-up of TFSL to Shareholders. In addition, if TFSL were to sell any of its assets or businesses following the Demutualisation, it would be able to distribute the resulting surpluses to Shareholders

- facilitate expansion of TFSL’s business operations (including its product offering) by allowing TFSL to raise funds through the issue of new equity. As a mutual friendly society, TFSL is currently unable to raise capital in this way. The expansion of TFSL’s business operations may be supported by the Demutualisation in the following ways:
  - health policies issued by TFSL (via its subsidiary, Transport Health) must be backed by minimum capital levels, in accordance with legislative and regulatory requirements. Accordingly, in order to issue more policies and expand the size of the health fund, TFSL is required to increase its capital base. As a mutual, TFSL must rely on internally generated funds to meet its capital adequacy requirements, which limits the fund’s ability to grow rapidly. However, in the event that the Demutualisation is approved, TFSL will be able to raise capital more effectively via the issue of new equity.
  - TFSL’s ability to fund the expansion of its business operations into other areas (e.g. expand its aged care and retirement village offerings) is currently limited to internally generated funds. If the Demutualisation is approved, TFSL will be able to raise capital more effectively via the issue of new equity.

The Demutualisation would be the latest in a series of friendly society and health fund demutualisations in recent years, including the demutualisations of Doctor’s Health Fund (DHF), ahm Health Insurance (ahm), Manchester Unity Health Fund (MU), MBF Health Insurance (MBF), nib Health Funds Limited (nib), NobleOak Life Limited (NobleOak), Hibernian Friendly Society Limited (Hibernian) and IOOF Holdings Limited (IOOF).
2 Scope of the report

2.1 Purpose of the report

Schedule 4 regulates the transfer of interests in financial institutions and friendly societies, including in the case of demutualisation. Clause 29 of Schedule 4 prescribes the information to be provided to members in relation to a demutualisation. Amongst the documents to be provided to members (and to ASIC) in connection with the demutualisation is a “report by an expert that:

• states whether, in the expert’s opinion the proposed modification or share issue is in the best interests of members of the company as a whole; and
• gives the expert’s reasons for forming that opinion; and
• complies with subclauses 33(2) and (3).”

Clauses 33(2) and 33(3) of Schedule 4 (the Independence Requirements) concern independence of the expert with respect to the company. In particular:

• clause 33 (2) requires the expert not to be an associate of the company; and
• clause 33 (3) requires the expert to disclose in its report any relationships between the expert and the company, any financial interest of the expert which may compromise providing an unbiased opinion and any fee (or other benefit) the expert will receive in connection with its report.

Pursuant to Schedule 4, the Directors have requested that Deloitte Corporate Finance provide an independent expert’s report advising whether, in our opinion, the Demutualisation is in the best interests of the Members as a whole to assist the Members in their consideration of the Demutualisation.

Deloitte Corporate Finance complies with the Independence Requirements since:

• Deloitte Corporate Finance is not an associate of TFSL
• Deloitte Corporate Finance has no relationships with TFSL or financial interests other than those arising in connection with this report.

This report is to be included in the Disclosure Statement to be sent to Members and has been prepared for the exclusive purpose of assisting Members in their consideration of the Demutualisation. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Members and the Board, in respect of this report, including any errors or omissions however caused.

2.2 Basis of evaluation

2.2.1 Guidance

In evaluating the Demutualisation we have considered ASIC Regulatory Guide 111: Content of expert reports, issued by ASIC in March 2011 (RG 111).

RG 111 recognises that in situations where the demutualisation does not involve a change in the underlying economic interests of security holders, a change of control or a selective treatment of different security holders (we understand that the Demutualisation will not result in any of these situations occurring) the issue of “value”, typically of prominent importance in relation to transactions other than demutualisations (i.e. takeover offers, scheme of arrangements, etc.), may be of secondary importance for the expert’s assessment of the transaction.

In respect of demutualisations, RG 111 suggests that the expert should provide an opinion as to whether the advantages of the transaction outweigh the disadvantages. RG 111 states that possible advantages to be considered may include the unlocking of value for members and greater management accountability, as compared to possible disadvantages such as the loss of the benefits of being a mutual organisation.

To assess whether the Demutualisation is in the best interests of the Members, we have adopted the test of whether the advantages of the Demutualisation outweigh the disadvantages as set out in RG 111.
To assess whether the Demutualisation is in the best interests of the Members we considered the following significant factors:

- the Allocation Rules set out in Section 5 of the Disclosure Statement
- the opinion of the Appointed Actuary set out in Section 4 of the Disclosure Statement
- potential advantages and disadvantages to the Members of the Demutualisation including any rights of Members gained or lost
- other alternatives available to Members and / or TFSL
- possible implications associated with the Members rejecting the Demutualisation.

2.2.2 Individual circumstances

We have evaluated the Demutualisation for Members as a whole and have not considered the effect of the Demutualisation on the particular circumstances of individual investors. Due to their particular circumstances, individual Members may place a different emphasis on various aspects of the Demutualisation from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Demutualisation is in their best interests. If in doubt, Members should consult an independent adviser, who should have regard to their individual circumstances.

2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix C.

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.
3 Industry overview

TFSL is a friendly society whose principal activity comprises the provision of private health insurance through its subsidiary, Transport Health. We provide an overview of friendly societies and the private health insurance sector in the following sections.

3.1 Friendly societies

3.1.1 Overview

Friendly societies in Australia have traditionally been engaged in encouraging and supporting self-help within the community. Established upon the principles of thrift, savings and sharing of risks within a community, these societies were originally created so that members could make financial provision for sickness benefits and funeral costs.

Friendly societies have historically utilised mutual structures (‘mutuals’). Mutuals are typically limited by guarantee (i.e. members) rather than shares (i.e. shareholders). Profits (or surpluses) generated by a mutual typically cannot be directly distributed to members. However, surpluses can be reinvested in the organisation or indirectly distributed to policyholders through, for example, reduced premiums and increased benefits. Under the mutual structure, the primary way to build capital is through retained profits, since a mutual cannot easily raise capital. Policies issued are therefore typically backed by a mutual’s retained capital.

3.1.2 History and dynamics

Pursuant to changes in Australian legislation during the mid-twentieth century, friendly societies were given authority to expand their operations into health insurance, mortgages and personal loans, education savings, aged care, provision of holiday accommodation and other areas. Bolstered by the aforementioned changes combined with tax concessions, friendly societies exhibited strong growth with assets increasing from less than $1 billion in the early 1980s to $9 billion by the early 1990s7.

Prior to 1983, friendly societies were exempt from income tax on all businesses due to their non-profit mutual and co-operative structure. Since then tax benefits provided to friendly societies have been gradually withdrawn by legislative amendments and tax increases to align the tax treatment of friendly societies with other financial institutions. This has reduced the ability of friendly societies to generate surplus funds and significantly eroded their competitive advantage.

Friendly societies are now taxed on an increasing portion of their income. Profits derived are now generally taxable, except for certain transitional old business (e.g. not-for-profit health funds such as that operated by Transport Health). Friendly societies have sought to improve their operational performance through mergers and acquisitions or a change of strategic direction, sometimes involving demutualisation and subsequent listing on a stock exchange.

Until recently, listing on a stock exchange within two years from demutualisation (unless the Tax Commissioner allows an extension beforehand) was a condition necessary to obtain CGT concessions similar to those expected to apply to the Demutualisation. Following the introduction of Division 316, Part 3 of the Income Tax Assessment Act 1997 (ITAA), which sets out the income tax and CGT consequences arising from the demutualisation of friendly societies, listing on a stock exchange is no longer a condition required to access these benefits. This is discussed further in the executive summary of this report and in Section 3 of the Disclosure Statement.

During the 1990s, there were several mergers and acquisitions of friendly societies. Set out below is a small sample of these transactions:

- Healthplan Community Services merged with Manchester Unity of South Australia in 1995
- CBA Victoria Friendly Society merged with IOOF in 1995
- StateGuard Friendly Society merged with Australian Pacific Friendly Society in 1995
- the Over 50’s Queensland Society merged with The Over 50’s Friendly Society in 1998.

7 Australian Prudential Regulatory Authority (APRA) insight – Issue One 2010
As depicted in the following figure, a significant number of demutualisations of organisations (including friendly societies and health funds) have occurred since 1985.

Figure 1: Number of demutualisations for the period from 1985 to 2013

Recent examples of demutualisation of friendly societies and health funds include:
- Hibernian resolved to demutualise in September 2002 and listed on a stock exchange in November 2004 (under the name Aevum)
- IOR Friendly Society resolved to demutualise in June 2007 and listed on a stock exchange in December 2009
- nib resolved to demutualise in October 2007 and listed on a stock exchange in November 2007
- MBF resolved to demutualise in June 2008
- ahm resolved to demutualise in January 2009
- NobleOak resolved to demutualise in December 2010
- DHF resolved to demutualise in April 2012.

As a result of this process, the number of friendly societies in Australia has decreased from 33 as at June 2003 to 12 as at November 2013.

3.1.3 Regulatory environment

Friendly societies are subject to the provisions of the Corporations Act and are overseen by ASIC. In addition, friendly societies are subject to statutory and regulatory frameworks specific to the services which they provide.

3.2 Health insurance industry

3.2.1 Overview

The health insurance industry comprises businesses that primarily underwrite and/or sell insurance policies relating to health and medical risks. Underwriting health insurance policies involves assuming risks (i.e. obligations to pay benefits to policyholders under specified circumstances) in return for the payment of premiums.

\[\text{APRA website}\]

Health funds are registered under PHIA as either ‘for-profit’ or ‘not-for-profit’. For-profit funds pay income tax on their profits and are able to distribute their after-tax profits to their owners, whereas not-for-profit funds do not pay income tax and are not able to distribute their surpluses. Both for-profit and not-for-profit health funds must comply with prudential solvency and capital adequacy requirements that ensure they are able to pay benefits to their members as required.

Health funds are also registered as having either ‘open’ or ‘restricted’ memberships. Open funds provide policies to the general public whereas restricted funds provide policies only through specific employment groups, professional associations or unions.

Approximately half of the Australian population is covered by some form of private health insurance. Industry revenue, derived mainly from insurance premiums, has increased at a moderate rate in recent years. The following figure sets out total industry revenue from financial year (FY) 2005 to FY2013.

### Figure 2: Australian health insurance industry – total revenue from FY2005 to FY2013

![Figure 2: Australian health insurance industry – total revenue from FY2005 to FY2013](source)

3.2.2 Products

Health insurance products fall under the following categories:

- **hospital**: covers the costs associated with in-hospital treatment, including accommodation and theatre fees. Most medical services listed under the Medicare Benefits Schedule (MBS) are covered by some form of private hospital insurance. Hospital coverage ranges from ‘top’ cover which covers all Medicare-assisted services to ‘public’ cover which covers only default benefits for treatment in public hospitals.

- **general treatment (extras)**: provides benefits for ancillary services such as physiotherapy, dental care and optical services. General treatment cover ranges from comprehensive cover which provides a relatively high level of benefits across a wide range of extras, to basic cover which provides lower levels of benefits across a narrower range of extras.

- **combined**: consists of coverage for both hospital and general treatment (extras) services. Combined cover can be purchased in either a pre-packaged or customisable form.
The majority of insured Australians hold combined cover, as illustrated in the following diagram.

*Figure 3: Australian health insurance product segmentation (by number of policies)*

![Diagram showing product segmentation]

Source: IBIS World report: Health Insurance in Australia (October 2013)

### 3.2.3 Market dynamics

Since the early 1990s, Australia’s health insurance sector has experienced significant consolidation and an increase in the market share of for-profit providers, as set out in the following table.

**Table 1: Number and market share of health insurers (end of FY)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of health insurers</td>
<td>59</td>
<td>49</td>
<td>44</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Number of open access health insurers</td>
<td>39</td>
<td>32</td>
<td>29</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Number of for-profit insurers</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>For-profit market share (%)</td>
<td>0.1</td>
<td>0.4</td>
<td>12.5</td>
<td>15.9</td>
<td>68.6</td>
</tr>
</tbody>
</table>

Source: PHIAC – Competition in the Australian Health Insurance Market; PHIAC – Annual Report on Operations 2011-12

The significant increase in the market share of for-profit health funds after FY2005 is mainly attributable to the conversion of large health funds from not-for-profit to for-profit status. Notable conversions of health funds from not-for-profit to for-profit status during recent years include the following:

- **nib** converted to for-profit status in October 2007 and held approximately 6% market share as at the end of FY2012
- **BUPA Asia Pacific Pty Limited (BUPA)**, a for-profit health fund, merged with the larger MBF in June 2008, resulting in the conversion of MBF’s health funds to for-profit status. The merged entity held 27% market share as at the end of FY2012
- **Medibank Private Limited (Medibank)** converted to for-profit status in October 2009 and held approximately 28% market share as at the end of FY2012.

The consolidation of the health insurance sector has largely been driven by participants’ desire to increase profitability and distribute regulatory costs over a larger policyholder base. We discuss drivers of profitability for participants in the health insurance industry in the following section.
3.2.4 Profitability

The health insurance industry offers largely commoditised products to price-sensitive consumers. Profitability of participants in the health insurance industry is sensitive to a number of factors including the following:

- **Medicare coverage**: Medicare is the government funded universal health insurance scheme. The value of private health insurance resides in the extent to which the coverage and benefits afforded by private health insurance surpass those offered under Medicare.

  In recent years, the range of products and services covered by Medicare has increased, which has had a negative impact on demand for private health insurance.

- **Medicare levy surcharge and government rebates**: various government initiatives have been implemented to increase the attractiveness of private health insurance to consumers. These include the Medicare levy surcharge and the private health insurance rebate, which we discuss as follows.

  The Medicare levy surcharge applies to individuals, families and their dependants who generate incomes above the Medicare levy surcharge thresholds and who do not hold an appropriate level of private patient hospital cover. The surcharge is designed to encourage potential policy holders to take out an appropriate level of private health insurance coverage to avoid incurring the surcharge.

  The private health insurance rebate allows policyholders to claim a rebate on their private health insurance premiums. The rebate is income tested, which results in lower or no rebates for higher income earners.

  We note that changes to the manner in which the rebate is indexed will come into effect from 1 April 2014. These changes are intended to result in the size of the rebate increasing at a rate lower than the rate at which premiums tend to increase. Accordingly, the changes will have the effect of gradually phasing out the rebate over time.

- **limitations upon member profiling (i.e. ‘community rating’)**: current statutory and regulatory requirements ensure that insurers cannot discriminate between members based on age, sex, health status, use of health services or claim history (i.e. health insurance is a ‘community-rated’ rather than ‘risk-rated’ product). Health insurers are therefore not able to readily risk-profile their members, which may detrimentally affect their profitability.

- **magnitude of premiums**: premium income constitutes the majority of revenue for health insurers, accounting for more than 95% of industry revenue. Private health insurers must apply to the Minister for Health for approval of any change in premiums. Stringent government regulation of premium changes aims to create transparency within the industry whilst increasing pressure on insurers to maintain low premiums.

  In addition, the commoditised nature of health insurance and significant competition within the industry limit the ability of individual insurers to raise their premiums in excess of the market.

- **magnitude of benefits**: benefits paid constitute the main expense of health insurers. Australia’s ageing population, increasing healthcare costs and limitations upon premium increases may result in benefits paid increasing as a percentage of premiums generated. This may result in decreased profitability for health insurers going forward.

- **capital adequacy requirements**: health insurers are required to maintain minimum capital levels, in order to comply with capital adequacy requirements enforced by PHIAC. In order for industry participants to grow, they must generally increase their capital levels in order to support the sale of new policies. Accordingly, for-profit insurers with the ability to access equity capital markets are more able to support expansion than not-for-profit mutuals.

- **scale**: health insurers incur significant management and compliance costs, which are fixed in nature. Accordingly, larger insurers typically exhibit better expense ratios due to their ability to distribute their fixed costs over a larger policy base. In addition, larger insurers are often able to negotiate better terms with the providers of medical services (e.g. hospitals).

- **macroeconomic environment**: weak macroeconomic performance tends to result in increased unemployment, which in turn reduces the affordability of private health insurance and increases the attractiveness of public health insurance (i.e. Medicare).

  In addition, weak economic performance is typically associated with lower interest rates, which leads to reduced investment income for health funds.
distribution and marketing: to keep costs to a minimum it is important that health insurers have low-cost and efficient product distribution channels. In addition, effective marketing can assist insurers in differentiating their offering and accessing geographically diverse markets. To this end, many health insurers outsource the distribution and marketing of their products to brokers and agents, including those with a predominantly online presence (e.g. iSelect).

taxation: unlike for-profit insurers, not-for-profit insurers are not required to pay company tax. All other things being equal, this increases the profitability of not-for-profit insurers. However, we note that capital adequacy requirements are somewhat lower for for-profit insurers.

3.2.5 Regulatory environment
Private health insurers are subject to extensive regulation, principally enforced by PHIAC. PHIAC is an independent statutory body responsible for administering PHIA. PHIAC conducts regular fund reviews as part of its regulation of the private health insurance industry. PHIA’s fund review program, which commenced in 2002, allows PHIAC to gain a detailed understanding of the operations of health insurers.
PHIA and PHIAC require private health insurers to comply with comprehensive prudential, solvency, capital adequacy, disclosure and other regulatory standards which are designed to:

- ensure that health insurers hold sufficient capital to support their ongoing operations and ensure that insurers hold sufficient assets to pay benefits to policyholders as they fall due
- ensure that health insurers act with integrity, prudence and professional skill, and do not act in a way that would promote instability in the industry
- promote transparent communication in relation to the operations and financial condition of health insurers
- manage risk inequalities among individual health insurers by enforcing risk equalisation measures
- incentivise consumers to take out health insurance policies
- foster competition among health insurers.
Recent changes to the regulatory environment include the following:

- changes to the manner in which the private health insurance rebate is indexed, effective 1 April 2014, which have the effect of phasing out the impact of the rebate over time
- changes to capital adequacy standards, proposed by PHIAC and intended to come into effect by 31 March 2014, which will result in broadly lower minimum capital requirements across the industry.

3.2.6 Outlook
Although recent government initiatives have increased uptake of private health insurance, participants in the industry face a number of challenges going forward. These include increasing healthcare costs (at a rate greater than general inflation), an ageing population, an increasingly commoditised product, significant management and compliance costs and the phasing out of certain government rebates.

Accordingly, insurers are aiming to reduce expense ratios, maximise policyholder numbers and increase premiums (to the extent permitted) in order to sustain and increase profitability. To this end, it is expected that insurers will continue to try to pass increased costs on to policyholders via increased premiums and increase policyholder numbers via increased marketing activity. In addition, it is likely that the significant consolidation activity which has taken place within the industry will continue into the future, as insurers seek to leverage the benefits of scale and strengthen their competitive positions in the market.
4 Profile of TFSL

4.1 Introduction

TFSL is a mutual friendly society whose principal activity comprises the provision of private health insurance through its 100%-owned subsidiary, Transport Health. As a mutual, TFSL operates for the benefit of its Members by providing products, services and benefits in the best interests of its collective membership.

Since its establishment in 1888, TFSL has offered a range of products and services to its members including private health insurance, dental services, residential aged care services and a retirement village.

An overview of TFSL’s history is provided in the figure below.

Figure 1: Summary of the history of TFSL

- 1888: Mutual Benefit Society of the Employees of Melbourne Tramway and Omnibus Company Limited was registered in 1888. It was established as a mutual organisation to serve the interests and welfare of the transport industry workforce in the form of sickness and funeral benefits for its members and their families.
- 1920: Only cable employees were admitted as members of the society up until 1920, but Electric Tramways employees were admitted after this date.
- 1923: Amalgamated with the Melbourne Metropolitan Tramways Board
- 1933: Automatic payroll deductions were introduced which made it easier to collect membership fees and resulted in growth in membership
- 1949: Purchase of Vimy House Private Hospital in South Melbourne
- 1982: Purchase of Karinyah Nursing Homes, 36 bed home that was open to the public as well as members
- 1987: Incorporation of the company
- 1988: Opening of Richmond office
- 1988: Name change to Tramways Friendly Society and other changes to the Constitution resulting from changes to the Victorian Government Friendly Societies Act
- 1988: Introduction of a superannuation fund (since divested)
- 1988: Purchase of land on the Mornington Peninsula, which is the current site of the Mornington Retirement Village facility
- 1988: Change of company name from Tramways Friendly Society to Transport Friendly Society was implemented between 1988 and 1990
- 1999: The company’s nursing home operations were transferred to the Mornington site
- 2000: The company became a limited liability organisation
- 2013: Completed construction of The Mews extension of the Mornington Retirement Village

Source: TFSL

Note: some name changes may be excluded from the company history presented above.

4.2 Operations

The following figure sets out a simplified operating and legal structure for TFSL.
TFSL is the ultimate parent company for the group and engages in the following activities:

- operates the Mornington Retirement Village (Mornington), Shearwater Apartments (Shearwater) and Dental on Swan (Dental) (discussed below)
- provides management and administrative functions for the operations listed above, as well as for its 100% owned subsidiaries, Transport Health and Park Hill Gardens Aged Care Facility Pty Limited (Park Hill).

A description of TFSL’s main operations is set out below.

### 4.2.1 Transport Health

Transport Health is a not-for-profit restricted health insurance fund with 4,678 members as at 31 December 2013. The fund is registered under PHIA and regulated by PHIAC.

Transport Health provides health insurance to Members residing in Australia who are currently, or were formerly, associated with the transport industry. The fund offers hospital, extras and combined cover to its Members. The following table breaks down the membership of Transport Health by product type as at 31 December 2013.
Table 2: Breakdown of membership for Transport Health as at 31 December 2013

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Hospital</th>
<th>Extras</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Hospital</td>
<td>Top Extras</td>
<td></td>
<td>1,797</td>
</tr>
<tr>
<td>Top Hospital</td>
<td>Mid Extras</td>
<td></td>
<td>154</td>
</tr>
<tr>
<td>Top Hospital</td>
<td>No Extras</td>
<td></td>
<td>369</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>2,320</strong></td>
</tr>
<tr>
<td>Mid Hospital</td>
<td>Top Extras</td>
<td></td>
<td>616</td>
</tr>
<tr>
<td>Mid Hospital</td>
<td>Mid Extras</td>
<td></td>
<td>279</td>
</tr>
<tr>
<td>Mid Hospital</td>
<td>No Extras</td>
<td></td>
<td>228</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>1,123</strong></td>
</tr>
<tr>
<td>Public Hospital</td>
<td>Top Extras</td>
<td></td>
<td>109</td>
</tr>
<tr>
<td>Public Hospital</td>
<td>Mid Extras</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Public Hospital</td>
<td>No Extras</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>156</strong></td>
</tr>
<tr>
<td>No Hospital</td>
<td>Top Extras</td>
<td></td>
<td>477</td>
</tr>
<tr>
<td>No Hospital</td>
<td>Mid Extras</td>
<td></td>
<td>112</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>589</strong></td>
</tr>
<tr>
<td>Young Singles Combined</td>
<td></td>
<td></td>
<td>404</td>
</tr>
<tr>
<td>Young Couples Combined</td>
<td></td>
<td></td>
<td>86</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td><strong>490</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>4,678</strong></td>
</tr>
</tbody>
</table>

Source: TFSL

We make the following comments in relation to the membership profile and performance of Transport Health:

- total membership grew by 5.6% and 4.8% during FY2012 and FY2013, respectively. This exceeded average membership growth for the broader private health insurance industry of 3.5% and 2.9% for FY2012 and FY2013, respectively
- 87% of Members hold some form of combined coverage, with 38% of Members holding premium combined coverage (i.e. both Top Hospital and Top Extras)
- all products are currently profitable, with the exception of Mid Hospital. However, losses for Mid Hospital have decreased in recent years
- the highest net Member growth rates are observed for the Young Combined and Extras Only product categories, which generated growth rates during FY2013 of 49.1% per annum (p.a.) and 22.2% p.a., respectively. Membership for these product categories constituted 23% of Transport Health’s total membership as at 31 December 2013
- the highest lapse rates (i.e. rate at which Members exit their policies) are observed for Young Combined and Mid Hospital, which had lapse rates during FY2013 of 11.2% p.a. and 10.6% p.a., respectively. The high lapse rates are due to a combination of factors including:
  - product changes for Mid Hospital
  - lower loyalty levels for Young Combined policyholders (in part due to being newer Members)
  - policyholders in these product categories show greater sensitivity to pricing
  - competition from other providers.
- the average Member age is expected to gradually increase over the next few years, from 42.0 years as at 30 June 2013 to 42.5 years as at 30 June 2016.

In recent years, Transport Health has sought to leverage technology to improve its operating performance. This includes increasing reliance upon online distribution channels, in particular, iSelect. Approximately 60% of

policies sold during FY2013 were sourced through iSelect. The fund is also seeking to increase automation of claims and payments in order to improve the efficiency and cost effectiveness of service delivery.

After the payment of benefits, Transport Health’s main cost is a management fee paid annually to TFSL (parent entity) in return for the provision of management and compliance services. The management fee comprises 10% of revenue generated. Although a management fee of 10% is broadly in line with industry averages, the actual operating costs incurred by TFSL on behalf of Transport Health have been significantly in excess of this in recent years. Accordingly, the fund’s management and compliance costs are effectively subsidised by the parent entity.

The Transport Health operating segment generated a net surplus of $1.4 million on revenue of $15.8 million during FY2013.

4.2.2 Mornington

Mornington, located on the Mornington Peninsula, is a retirement village facility consisting of 186 independent living units. Residents own their units under strata title and are part of an owner’s corporation, which incurs most of the operating expenses associated with the village.

The Mews development (Mews) was completed in 2013 and added 17 luxury independent living units to the village. Mews was constructed upon the last of Mornington’s available land and accordingly comprises the final expansion of the village.

Mornington generates income by charging residents a one-off deferred management fee upon departure. The deferred management fee is calculated based on the sale value of the units (described in more detail in Section 4.4 below). Given that the majority of expenses are incurred by the owner’s corporation, the majority of the management fee comprises a surplus to Mornington.

The Mornington operating segment generated a net surplus of $1.7 million on revenue of $1.9 million during FY2013.

4.2.3 Shearwater

Shearwater is comprised of 36 serviced apartments which are physically located within the Mornington retirement village.

Residents lease the apartments by advancing an interest-free loan to Shearwater (i.e. TFSL), against which a deferred management fee is charged progressively over the term of the lease (described in more detail in Section 4.4 below). Operating expenses associated with servicing the apartments are borne by Shearwater.

The Shearwater operating segment generated a net surplus of $0.8 million on revenue of $1.9 million during FY2013.

4.2.4 Dental

Dental is a dental clinic located in Richmond, Victoria. It provides treatment for preventative, restorative and prosthetic dentistry for both Members and non-Members. The dental clinic has increased its operating hours and employed new staff during FY2013.

The Dental operating segment generated a net surplus of $0.1 million on revenue of $1.1 million during FY2013.

4.2.5 Park Hill

Park Hill is located in the Mornington Peninsula, Victoria, and offers nursing care for residents with low care, high care and dementia specific needs. The facility is staffed twenty-four hours a day by registered nurses and personal care attendants. Revenue is comprised of fees paid by residents, as well as government subsidies.

The Park Hill operating segment generated an immaterial net surplus (approximately $5,000) on revenue of $5.5 million during FY2013, which follows three years of small and decreasing segment losses.
4.3 Members rights, limitations and duties

Membership of TFSL arises upon entering an insurance policy with Transport Health. The existing rights, limitations and duties of Members are conferred by the Existing Constitution and company law and are set out in Part 4, Section 1 of the Disclosure Statement.

Key Member rights, limitations and duties include the following:

- right to receive notice of, and attend, general meetings of TFSL (General Meetings)
- right to vote at General Meetings. Each Member has one vote. Where policies are jointly held, the only Member entitled to vote in respect of that policy is the Member whose name appears first in relation to that policy on TFSL’s register of Members
- right to attend, speak and demand a ballot or poll at General Meetings
- right to elect and remove Directors
- membership rights cannot be transferred
- no dividends or surpluses held by TFSL may be distributed to Members, including upon wind-up
- liability of Members upon winding up of TFSL is limited to $1.

The Existing Constitution stipulates that, in the event of wind-up, any funds remaining after the payment of all debts and liabilities will be distributed to a like organisation in Australia which has objects and a constitution containing similar clauses prohibiting the distribution of funds to its members.
4.4 Financial performance

The simplified audited consolidated income statements of TFSL for the financial years ended 30 June 2010 to 30 June 2013 are summarised in the following table (further details are set out in Part C, Section 2 of the Disclosure Statement).

<table>
<thead>
<tr>
<th>Table 3: Financial performance of TFSL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total membership</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Annual premium rate increase (effective 1 April) (%)</strong></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Health insurance premium revenue</td>
</tr>
<tr>
<td>Dental revenue</td>
</tr>
<tr>
<td>Retirement village management fees</td>
</tr>
<tr>
<td>Serviced apartment management fees</td>
</tr>
<tr>
<td>Aged care services fees</td>
</tr>
<tr>
<td>Interest income</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
</tr>
<tr>
<td>Revenue growth (%)</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
</tr>
<tr>
<td>Employee benefits</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
</tr>
<tr>
<td>Benefits paid to Members</td>
</tr>
<tr>
<td>Other expenses</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
</tr>
<tr>
<td><strong>Surplus before income tax</strong></td>
</tr>
<tr>
<td>Income tax (expense)/benefit</td>
</tr>
<tr>
<td><strong>Surplus after income tax</strong></td>
</tr>
<tr>
<td>Other income</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
</tr>
</tbody>
</table>

Source: TFSL annual reports

We note the following in relation to the financial performance of TFSL:

- The largest contributors to revenue and expenses are policy premiums earned and policy benefits paid, respectively.
- Premium revenue increased at a compound annual growth rate (CAGR) of 14% for the period from FY2010 to FY2013, supported by an increase in both membership and premium rates over the period. Total membership and premium rates increased by 4.8% and 6.8%, respectively, during FY2013.
- Benefits paid to members increased at a CAGR of 9.2% for the period from FY2010 to FY2013, due to increasing membership and increasing healthcare costs. We also note that growth in benefits paid can be distorted by waiting periods which apply to claims made by new policyholders. Accordingly, waiting periods for new members can result in the growth in benefits paid lagging growth in premium revenue.
- Other significant contributors of revenue include Mornington, Shearwater and Park Hill:
  - Deferred management fees for Mornington are calculated based on the value of the units and the duration of tenancy. The deferred management fee entitlement is 6% of the initial purchase price if the unit is sold within the first twelve months of ownership. Otherwise, the management fee entitlement is 3% of the future resale price, increasing at a rate of 1% per quarter (after the first 12 months) to a maximum of 27.5% of the future resale price.
The management fee is recognised on an accrual basis and is calculated based upon the average expected tenancy term (FY2013: 11.2 years), a selected discount rate (FY2013: 3.8%) and estimates of capital growth since the resident first occupied the unit.

Revenue for Mornington was significantly higher during FY2011 relative to the adjacent years, largely due to changes to the expected length of stay and capital growth assumptions following a report commissioned by an expert during the year. The magnitude of the impact of these changes upon revenue was approximately $3.1 million.

- Lease tenants at Shearwater advance an interest-free loan to the company against which a deferred management fee is charged progressively over the term of the lease. The deferred management fee is 2% of the loan amount in the first year, increasing by 3% p.a. to a maximum of 20% in the seventh year.

Management fees are recognised on an accrual basis and are calculated based on the average expected tenancy term (FY2013: 7 years) and the selected discount rate (FY2013: 3.8%).

- Park Hill revenue comprises fees paid by aged care residents and government subsidies.
  - The largest non-operational revenue source is interest income, which is principally generated upon TFSL’s investments in cash deposits and bonds.
  - Other revenue principally relates to gains on revaluation of investment property, while other income principally relates to gains realised on the revaluation of other property.
  - After health benefits, TFSL’s most significant expenses are employee benefits and other expenses.
  - Tax expenses are associated with TFSL’s for-profit businesses (i.e. not health insurance). The tax benefit of approximately $1.8 million realised in FY2013 is attributable to deferred tax benefits associated with prior year tax losses not previously recognised.
4.5 Financial position

The audited balance sheets of TFSL as at 30 June 2011, 30 June 2012 and 30 June 2013 are summarised in the table below (further details are set out in Part C, Section 2 of the Disclosure Statement).

<table>
<thead>
<tr>
<th>Table 4: Financial position of TFSL</th>
<th>Audited 30 Jun 11 (AUD 000)</th>
<th>Audited 30 Jun 12 (AUD 000)</th>
<th>Audited 30 Jun 13 (AUD 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>23,064</td>
<td>10,505</td>
<td>12,058</td>
</tr>
<tr>
<td>Receivables</td>
<td>3,433</td>
<td>2,136</td>
<td>3,008</td>
</tr>
<tr>
<td>Inventories</td>
<td>40</td>
<td>50</td>
<td>33</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>-</td>
<td>10,306</td>
<td>3,500</td>
</tr>
<tr>
<td>Other current assets</td>
<td>338</td>
<td>239</td>
<td>205</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>26,874</strong></td>
<td><strong>23,235</strong></td>
<td><strong>18,803</strong></td>
</tr>
<tr>
<td>Receivables</td>
<td>8,514</td>
<td>11,198</td>
<td>11,255</td>
</tr>
<tr>
<td>Building under construction</td>
<td>83</td>
<td>711</td>
<td>-</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>420</td>
<td>4,171</td>
<td>9,725</td>
</tr>
<tr>
<td>Property, plant and equipment (PPE)</td>
<td>11,839</td>
<td>11,674</td>
<td>11,265</td>
</tr>
<tr>
<td>Investment property</td>
<td>8,405</td>
<td>8,405</td>
<td>14,831</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>51</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>29,312</strong></td>
<td><strong>36,208</strong></td>
<td><strong>47,106</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>56,186</strong></td>
<td><strong>59,443</strong></td>
<td><strong>65,909</strong></td>
</tr>
<tr>
<td>Payables</td>
<td>909</td>
<td>879</td>
<td>1,530</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>449</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>19</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Provisions</td>
<td>2,263</td>
<td>2,555</td>
<td>2,456</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>17,397</td>
<td>19,526</td>
<td>22,219</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>21,037</strong></td>
<td><strong>22,960</strong></td>
<td><strong>26,216</strong></td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>-</td>
<td>-</td>
<td>70</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>5,034</td>
<td>5,365</td>
<td>3,859</td>
</tr>
<tr>
<td>Provisions</td>
<td>63</td>
<td>101</td>
<td>279</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>5,997</strong></td>
<td><strong>5,466</strong></td>
<td><strong>4,209</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>26,134</strong></td>
<td><strong>28,427</strong></td>
<td><strong>30,425</strong></td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>30,052</strong></td>
<td><strong>31,016</strong></td>
<td><strong>35,484</strong></td>
</tr>
</tbody>
</table>

Source: TFSL Annual Reports

We note the following in relation to the financial position of TFSL:

- TFSL holds the majority of its funds in cash and cash equivalents and other financial assets. Other financial assets include cash deposits (2013: $3,500,000), shares (2013: $310,003) and bonds held to maturity (2013: $9,415,315).

We note that the balance of cash and cash equivalents decreased significantly and the balance of other financial assets increased significantly from FY2012 onwards. This reflects a decision made by TFSL during FY2012 to diversify its investment holdings out of cash.

Cash and cash equivalents balances also include amounts maintained to fund the repayment of resident bonds associated with the aged care operations (2013: 4,683,373) and satisfy legislated solvency requirements for Transport Health (2013: $5,792,130).

- non-current receivables principally relate to deferred management fees
- other current liabilities principally consist of the following:
  - policy premiums received in advance (2013: $2,561,728)
- resident loans (2013: $8,168,000), payable to Shearwater’s residents and against which deferred management fees are deducted over time
- resident bonds (2013: $11,489,694), which are non-interest bearing deposits paid by residents of Park Hill. These deposits are liabilities which fall due and payable when the resident leaves the facility.

- PPE is principally comprised of the Park Hill facilities and investment property is principally comprised of TFSIL’s interests in the Mornington independent living units and Shearwater serviced apartments
- provisions relate to employee benefits (2013: $1,331,764) and outstanding benefit claims (2013: $1,403,000).
5 The Allocation Rules

5.1 Introduction

The Directors have considered the allocation of shares as a means of releasing the value of TFSL to Members and compensating them for the membership rights they will relinquish if the Demutualisation is approved.

The Appointed Actuary has been asked to consider alternatives available to TFSL when determining the equitable allocation of shares to Members for the purposes of the Demutualisation. Based on this advice, the Directors have established the Allocation Rules as set out in Section 5 of the Disclosure Statement.

The Appointed Actuary has then been requested by the Directors to opine on the fairness and reasonableness of the Allocation Rules and on the impact of the Demutualisation upon the interests of Members as policyholders. The Appointed Actuary has concluded that the Allocation Rules are fair and reasonable having regard to the allocation principles defined by the Board. In addition, the Appointed Actuary has concluded that the Demutualisation is unlikely to have a material adverse impact upon the interests of Members as policyholders. Deloitte Corporate Finance’s assessment of the Allocation Rules included having regard to the rights of Members as set out in Section 4.3 and discussions with the Appointed Actuary, representatives of the Board and management of TFSL. Deloitte Corporate Finance had no involvement with TFSL or its advisers in developing the Allocation Rules.

5.2 Basis for assessment

Allocation methods are inherently subjective and judgement must be exercised in assessing the reasonableness of the basis for allocation, especially having regard to the long history of TFSL and the lack of detailed data available for the entire existence of TFSL. We have reviewed the basis for the Allocation Rules in consultation with the Appointed Actuary and had regard to Members’ existing rights and the extent to which different categories of Members have contributed to the value associated with TFSL. In our opinion, the basis for allocation would be reasonable if it:

- is not discriminatory to Members as a whole
- is based on objective rather than subjective principles, to the extent possible
- is capable of being implemented in a practical fashion
- appropriately compensates members for relinquishing membership rights
- reflects, to the extent identifiable, the relative financial contribution Members have made to TFSL’s accumulated surpluses.

We note that this entails consideration of the broader financial contribution made by Members to the surpluses of TFSL through the payment of premiums over time, and is distinct from the determinants of profitability (e.g. frequency of claims and current profit margins) associated with individual Members and policies

- is not inconsistent with precedents observed in comparable Australian demutualisations.

5.3 Allocation Principles

Based on discussions with the Appointed Actuary, representatives of the Board and the management of TFSL, we understand that:

- notwithstanding the desire for objectivity, the allocation of value to Members or groups of Members will necessarily involve a certain level of subjectivity

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9 We discuss the impact of the Demutualisation on Members’ broader interests (i.e. in addition to the Allocation Rules) in the executive summary of this report.
it is likely that a substantial portion of TFSL’s surplus has not been generated by the current cohort of Members.

the quantification of individual Members’ financial contribution to TFSL’s surplus is difficult, largely due to variability in policy coverage, premiums paid and benefits received over time, for both individual Members and groups of Members.

Accordingly, in formulating the Allocation Rules, the Directors agreed upon a set of guiding principles and considerations (the Allocation Principles). The Allocation Principles were developed having regard to the advice of the Appointed Actuary and the allocation principles and rules adopted in precedent demutualisations (including those involving mutual health insurers).

The Allocation Principles set by the Directors are as follows:

- only Members should receive shares
- Member rights being given up are not significant
- Shares can be regarded as a windfall gain
- each Member’s contribution to TFSL’s value cannot be precisely determined
- the profitability of individual members does not drive the allocation (we note that this relates to the profitability of individual Members and policies and does not preclude contemplation of the broader financial contribution of Members to TFSL’s surpluses – refer Section 5.2)
- loyalty to TFSL should be recognised
- the allocation should be easy to calculate and understand, based on information that is available and verifiable
- the allocation should consider past demutualisations, and not be significantly out of step without good reason
- there should be a mechanism for dealing with any disputes.

We do not consider the Allocation Principles to be inconsistent with the basis for assessment set out in Section 5.2. In addition, the Allocation Principles are broadly consistent with the allocation principles adopted in prior demutualisations of other health insurers. Accordingly, we consider the Allocation Principles to be reasonable.

### 5.4 Allocation Rules

The key terms of the Allocation Rules are as follows:

- **eligibility criteria:** all Members who held a current health insurance policy with Transport Health as at the later of 28 February 2014 and five days prior to notice of the EGM (Cut-Off Date) and continue to hold a policy as at 30 June 2014 (Implementation Date) will be eligible to receive Shares. If a Member is more than 90 days in arrears on their policy premiums they will be deemed ineligible. If a Member is less than 90 days in arrears their policy premiums must be paid up to date prior to the issue of the Shares.

- **shares entitlement:** each Member will receive an allocation of Shares based upon the type of policy they hold (the Base Allocation) and an additional amount of Shares based on the duration of their membership (the Duration Allocation). Membership duration is calculated as the time between joining TFSL (Join Date) and 31 December 2013 (Record Date) and is rounded up to the nearest whole year. Members who join after the Record Date but before the Cut-Off Date will receive the Base Allocation and a Duration Allocation based on a membership duration of one year.

The Base Allocation and Duration Allocation (per year of membership) are set out in the following table.
### Table 5: Base Allocation and Duration Allocation of Shares

<table>
<thead>
<tr>
<th>Policy coverage</th>
<th>Base Allocation per Member (Shares)</th>
<th>Duration Allocation per Member (Shares per year of Membership)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Extras Only</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Single Hospital Only</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Single Combined</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Family Extras Only</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Family Hospital Only</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Family Combined</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>

Source: TFSL, Appointed Actuary

Notes:
1. The maximum membership period considered under the Duration Allocation is 28 years
2. ‘Single’ refers to where Members hold policies that cover only a single individual. ‘Family’ refers to all other policies (i.e. policies that cover couples, single parents and families)
3. Refer Section 3.2 for a more detailed description of Hospital, Extras and Combined policy types.

Specific notes relating to the definition of the policy type and exclusions/inclusions are set out in Part 2 and Part 3 of Section 5 of the Disclosure Statement.

### 5.5 Analysis of the Allocation Rules

We note that pursuant to the Allocation Rules set out above, 18,773,900 Shares will be allocated to the Members with no individual Shareholder holding greater than 0.06% of TFSL’s Shares with a consequentially very widespread shareholding base. The table below sets out the level of concentration of ownership resulting from the Allocation Rules.

### Table 6: Proposed allocation of Shares under the Allocation Rules

<table>
<thead>
<tr>
<th>Number of shares allocated per Member</th>
<th>Number of Members</th>
<th>Proportion of Members</th>
<th>Total Shares allocated (000s)</th>
<th>Proportion of Shares allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 3,000</td>
<td>2,668</td>
<td>57%</td>
<td>3,330</td>
<td>18%</td>
</tr>
<tr>
<td>3,001 to 6,000</td>
<td>1,088</td>
<td>23%</td>
<td>5,465</td>
<td>29%</td>
</tr>
<tr>
<td>6,001 to 9,000</td>
<td>127</td>
<td>3%</td>
<td>954</td>
<td>5%</td>
</tr>
<tr>
<td>More than 9,001</td>
<td>795</td>
<td>17%</td>
<td>9,025</td>
<td>48%</td>
</tr>
<tr>
<td>Total</td>
<td>4,678</td>
<td></td>
<td>18,774</td>
<td></td>
</tr>
</tbody>
</table>

Source: TFSL

Note: the allocation shown above is based on Member data as at 31 December 2013 and may change in the interim between this date and the notice of the EGM.

The Allocation Rules are set out in detail in Section 5 of the Disclosure Statement. Our assessment of the fairness and reasonableness of the Allocation Rules, in particular those considered to be the most critical as listed in 5.4 above, is set out below.

### 5.5.1 Eligibility criteria

We make the following comments with respect to the eligibility criteria:

- the rationale for setting the Cut-Off Date prior to the announcement of the Demutualisation to the market is to preclude individuals from purchasing policies with Transport Health with the sole objective of participating in, and benefiting from, the Demutualisation. We are of the view that this rationale is reasonable and not inconsistent with the Allocation Principles.
the eligibility criteria provide for the exclusion of policyholders who are in significant arrears on their policy payments. We do not consider this criterion to be unreasonable and note that it is consistent with prior health fund demutualisations, including DHF, ahm, MBF and nib.

broadly speaking, with the exception of policyholders in arrears, all Members are considered eligible to participate in the allocation of Shares. In addition, only individuals who are Members are considered eligible. This is consistent with the precedent demutualisations and the Allocation Principles. In addition, this is consistent with Section 126-42(5)(b) of PHIA, which stipulates that a conversion of a health fund to ‘for profit’ status must not result in a financial benefit to any person who is not a policyholder and must not result in an inequitable distribution of financial benefits among policyholders. Based on the above, we consider the eligibility criteria to be reasonable.

5.5.2 Calculation of Share entitlement

We consider the calculation of the Base Allocation and Duration Allocation to be consistent with the Allocation Principles. In particular, we make the following comments in relation to the calculation of the Share entitlement:

- the key features of the calculation of the Share entitlement, including the simplicity of the rules and the allocation of Shares based on fixed (Base Allocation) and variable (Duration Allocation) components, are broadly consistent with the approaches taken in prior demutualisations, in particular, the demutualisations of private health insurers. These include the demutualisations of DHF, ahm, MU, MBF and nib.

- the rules governing the Base Allocation and the Duration Allocation are not broken down by the specific policy configurations held by individual Members but, rather, rely on broad categorisations such as ‘Single’ or ‘Family’ for the number of persons covered and ‘Extras’, ‘Hospital’ or ‘Combined’ for the type of policy held.

We do not consider this simplified approach to be unreasonable and consider it to be consistent with the Allocation Principles, specifically, that the allocation should be easy to calculate and understand, the profitability of individual Members does not drive the allocation and each Member’s contribution to the value of TFSL cannot be precisely determined. In addition, this approach is consistent with our basis for assessment (i.e. capable of being implemented in a practical fashion) and prior demutualisations, including those of DHF, ahm, MU, MBF and nib.

- the Duration Allocation increases with increasing duration of membership. Additionally, the magnitude of both the Base Allocation and the Duration Allocation (per year) are scaled upward to reflect increasing levels of policy coverage (i.e. number of individuals covered and comprehensiveness of insurance coverage provided). Scaling factors of two are employed for ‘Family’ Members and ‘Combined’ Members, respectively. These scaling factors result in a compound scaling factor of four for Members who are classed as both ‘Family’ and ‘Combined’. We note that the magnitude of the scaling factors used is broadly consistent with those used in prior demutualisations of mutual health insurers, including ahm and MU.

We consider this approach to be consistent with the Allocation Principles, specifically, that loyalty to TFSL should be recognised. In addition, all other things being equal, this approach effectively results in a higher allocation of Shares to Members who have made greater financial outlays on their policies and thereby approximately recognises the relative financial contribution of different Member categories. This is consistent with our basis for assessment as set out in Section 5.2.

- the maximum membership period considered under the Duration Allocation is 28 years, due to membership data for TFSL prior to 1985 being unreliable. We do not consider this unreasonable and note that this approach is consistent with numerous precedent demutualisations (including ahm, MU and MBF) where duration was capped due to historical data being unreliable. From data provided by TFSL, there is a significant portion of Members who have been Members of TFSL for a longer period than 28 years. Whilst these Members may not be fully recognised for their loyalty to TFSL as a consequence of the ‘duration cap’, we note that the relatively low Base Allocation (refer to the paragraph below) component results in a relatively high allocation of shares to long-standing Members of TFSL.
the fixed component of the allocation (i.e. the Base Allocation) is expected to represent approximately 7% of the total allocation (i.e. the Duration Allocation represents approximately 93% of the total allocation). This is based on a fixed allocation to variable allocation (per year) multiple of 1.0 (Fixed Allocation Multiple). The Fixed Allocation Multiple is within, but towards the lower end of, the range observed for the precedent health fund demutualisations, as set out in the following table.

Table 7: Fixed Allocation Multiple for precedent health fund demutualisations

<table>
<thead>
<tr>
<th>Fixed Allocation Multiple</th>
<th>DHF</th>
<th>TFSL</th>
<th>MU</th>
<th>ahm</th>
<th>NIB</th>
<th>MBF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.0</td>
<td>1.0</td>
<td>2.5</td>
<td>3.1</td>
<td>3.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: TFSL, Deloitte analysis

Notes:
1. The demutualisations of DHF and nib did not include base allocations but did include minimum allocations, which are similar in practice to base allocations and inform the Fixed Allocation Multiples shown in this table.

We note that the Fixed Allocation Multiples observed for the precedent demutualisations vary widely and reflect consideration by the directors of a wide range of factors specific to these demutualisations. In the present instance, we understand that the Board and the Appointed Actuary have had regard to the specific membership profile of TFSL in determining the Fixed Allocation Multiple, including the following specific considerations:

- more than a quarter of Members have been policyholders for 28 year or longer. However, the maximum duration is capped at 28 years (discussed above). The Directors have advised that, in determining the variable component of the allocation, they have had significant regard to the need to recognise the contribution of Members with membership tenures greater than the 28 year duration cap

- TFSL’s ancillary businesses (e.g. retirement, aged care and dental services) were established using surpluses generated from TFSL’s insurance business, which in turn were largely the result of the patronage of TFSL’s longer-standing Members

- the Directors and the Appointed Actuary have noted that the average membership tenure of TFSL is likely to be relatively high compared to other health insurers that have recently demutualised, due to the following factors:
  - health funds such as nib, MU and ahm demutualised following very significant growth phases that involved the acquisition of a substantial number of new members. Although TFSL’s member base has increased in recent years, its current membership remains below historical peaks and is still largely comprised of long-standing Members
  - related to the above point, most of the precedent health fund demutualisations have been of unrestricted (or ‘open’) health funds, which contrasts with the restricted status of Transport Health (i.e. restricted to persons associated with the transport industry). All other things being equal, unrestricted funds are typically better positioned to acquire new members due to their open status. In addition, members of restricted funds tend to be more loyal and less likely to switch to other funds (e.g. due to industry and career-based allegiances)

In addition, of the recently demutualised health funds we consider DHF to be most comparable to Transport Health, due to its small size (less than 8,000 members at the time of demutualisation) and its restricted status at the time of demutualisation. The Fixed Allocation Multiple for DHF is 1.0, consistent with the multiple for TFSL.

Having regard to the above, we do not consider the Fixed Allocation Multiple implied by the Allocation Rules to be unreasonable

Having regard to the above, we consider the basis for the calculation of the Share entitlement to be consistent with the Allocation Principles and our basis for assessment.

5.6 Conclusion

We are of the view that any share allocation process should recognise:

- that existing membership rights will be extinguished; and
- the extent to which different Members have contributed to the creation of the surpluses.
In determining the basis of allocation, the Directors and the Appointed Actuary have considered these criteria and have taken into account the need for a consistent basis that is both fair and easily understood.

In particular, the requirements we established in determining the fairness and reasonableness of the Allocation Rules (refer to Section 5.2) are broadly satisfied.

Due to the fragmentation of membership data available, the Allocation Rules may not fully reflect the relative financial contribution that Members have made to TFSL’s accumulated surpluses. However, given the allocation of shares will effectively represent a windfall to the majority of Members and given the low Fixed Allocation Multiple, we are of the view that this limitation is properly mitigated.

The Allocation Rules appropriately take into account specific circumstances characterising TFSL and its membership. This includes the process used by the Directors to determine the fixed and variable components of the allocation. Although the variable component of the allocation is towards the lower end of those observed for the precedent demutualisations, we consider the allocation approach to be supported by the long-standing membership of a large proportion of the Members of TFSL.

Based on the above, we are of the opinion that the Allocation Rules represent a reasonable basis upon which the financial benefit arising from the Demutualisation will be distributed amongst Members and they are therefore reasonable.
## Appendix A: Glossary

<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFSL</td>
<td>Australian Financial Services Licence</td>
</tr>
<tr>
<td>ahm</td>
<td>ahm Health Insurance</td>
</tr>
<tr>
<td>Allocation Principles</td>
<td>Principles determined by the Board and which informed the development of the Allocation Rules</td>
</tr>
<tr>
<td>Allocation Rules</td>
<td>The allocation rules determined by the Board to assign Shares to the Members as part of the Demutualisation</td>
</tr>
<tr>
<td>APESB</td>
<td>Accounting Professional and Ethical Standards Board Limited</td>
</tr>
<tr>
<td>Appointed Actuary</td>
<td>FInity</td>
</tr>
<tr>
<td>Appointed Actuary Report</td>
<td>Report prepared by the Appointed Actuary in relation to the Demutualisation and included in the Disclosure Statement</td>
</tr>
<tr>
<td>APRA</td>
<td>Australian Prudential Regulation Authority</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>AUASB</td>
<td>Auditing and Assurance Standards Board</td>
</tr>
<tr>
<td>Base Allocation</td>
<td>The fixed component of the share allocation proposed under the Demutualisation</td>
</tr>
<tr>
<td>Board</td>
<td>Board of directors of TFSL</td>
</tr>
<tr>
<td>BUPA</td>
<td>BUPA Asia Pacific Pty Limited</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound average growth rate</td>
</tr>
<tr>
<td>CGT</td>
<td>Capital gains tax</td>
</tr>
<tr>
<td>Constitution</td>
<td>The constitution of TFSL</td>
</tr>
<tr>
<td>Corporations Act</td>
<td>Corporations Act 2001 (Cth)</td>
</tr>
<tr>
<td>Cth</td>
<td>Commonwealth</td>
</tr>
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<td>Cut-Off Date</td>
<td>The later of 28 February 2014 and five days prior to the notice of the EGM</td>
</tr>
<tr>
<td>Deloitte Corporate Finance</td>
<td>Deloitte Corporate Finance Pty Limited</td>
</tr>
<tr>
<td>Demutualisation</td>
<td>The Demutualisation of TFSL, as proposed by the Board</td>
</tr>
<tr>
<td>Dental</td>
<td>Dental on Swan</td>
</tr>
<tr>
<td>DHF</td>
<td>Doctor’s Health Fund</td>
</tr>
<tr>
<td>Directors</td>
<td>Board of directors of TFSL</td>
</tr>
<tr>
<td>Disclosure Statement</td>
<td>The disclosure statement prepared by TFSL in relation to the Demutualisation</td>
</tr>
<tr>
<td>Division 316</td>
<td>Division 316 of the ITAA</td>
</tr>
<tr>
<td>Duration Allocation</td>
<td>The variable component of the share allocation proposed under the Demutualisation</td>
</tr>
<tr>
<td>EGM</td>
<td>Extraordinary General Meeting</td>
</tr>
<tr>
<td>Existing Constitution</td>
<td>The existing constitution of TFSL, in force as at the date of this report</td>
</tr>
<tr>
<td>Fixed Allocation Multiple</td>
<td>The multiple of the fixed component of the proposed share allocation (i.e. Base Allocation), relative to the variable component (i.e. Duration Allocation) (per year)</td>
</tr>
<tr>
<td>FSG</td>
<td>Financial Services Guide</td>
</tr>
<tr>
<td>FY</td>
<td>Financial year</td>
</tr>
<tr>
<td>General Meeting</td>
<td>General meetings of TFSL</td>
</tr>
<tr>
<td>Hibernian</td>
<td>Hibernian Friendly Society Limited</td>
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<tr>
<td>IBIS</td>
<td>IBIS World Pty Ltd</td>
</tr>
<tr>
<td>IER</td>
<td>Independent Expert Report</td>
</tr>
<tr>
<td>Implementation Date</td>
<td>30 June 2014</td>
</tr>
<tr>
<td>IOOF</td>
<td>IOOF Holdings Limited</td>
</tr>
<tr>
<td>ITAA</td>
<td>Income Tax Assessment Act 1997 (Cth)</td>
</tr>
<tr>
<td>Join Date</td>
<td>Date when a Member joined TFSL</td>
</tr>
<tr>
<td>Listing</td>
<td>The listing of the Shares on an approved Australian stock exchange</td>
</tr>
</tbody>
</table>

*Deloitte: Transport Friendly Society Ltd – Independent expert’s report and Financial Services Guide*
<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Volume Market</td>
<td>An ASIC-approved low volume market, which the Directors will apply for if the Demutualisation is approved, to facilitate trading in the Shares during the interim period between demutualisation and any Listing</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Merger and acquisition</td>
</tr>
<tr>
<td>MBF</td>
<td>MBF Health Insurance</td>
</tr>
<tr>
<td>MBS</td>
<td>Medicare Benefits Schedule</td>
</tr>
<tr>
<td>Medibank</td>
<td>Medibank Private Limited</td>
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<td>Members</td>
<td>Refers to the members of TFSL</td>
</tr>
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<td>Mews</td>
<td>The Mews development at Mornington</td>
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<td>Mornington</td>
<td>Mornington Retirement Village</td>
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<tr>
<td>MU</td>
<td>Manchester Unity Health Fund</td>
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<td>New Constitution</td>
<td>The constitution proposed for TFSL which would reflect changes associated with the Demutualisation</td>
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<tr>
<td>nib</td>
<td>nib Health Funds</td>
</tr>
<tr>
<td>NobleOak</td>
<td>NobleOak Life Limited</td>
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<td>p.a.</td>
<td>Per annum</td>
</tr>
<tr>
<td>Park Hill</td>
<td>Park Hill Gardens Aged Care Facility Pty Limited</td>
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<tr>
<td>PDS</td>
<td>Product Disclosure Statement</td>
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<td>PHIA</td>
<td>Private Health Insurance Act 2007 (Cth)</td>
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<td>PHIAC</td>
<td>Private Health Insurance Administration Council</td>
</tr>
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<td>PPE</td>
<td>Property, plant and equipment</td>
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<tr>
<td>Record Date</td>
<td>31 December 2013</td>
</tr>
<tr>
<td>Report</td>
<td>This report, being the independent expert report prepared by Deloitte in relation to the Demutualisation</td>
</tr>
<tr>
<td>Resolutions</td>
<td>The resolutions to be voted upon at the EGM and which, if approved, will facilitate the execution of the Demutualisation</td>
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<td>RG 111</td>
<td>ASIC Regulatory Guide 111: Content of expert reports</td>
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<tr>
<td>Schedule 4</td>
<td>Schedule 4 of the Corporations Act 2001</td>
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<td>Shareholders</td>
<td>Shares pursuant to the Demutualisation</td>
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<td>Shares</td>
<td>Shares that will be issued to Members if the Demutualisation is approved</td>
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<td>Shearwater Apartments</td>
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<td>Tax Adviser</td>
<td>The tax adviser to the Board in relation for the Demutualisation</td>
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<td>TFSL</td>
<td>Transport Friendly Society Ltd</td>
</tr>
<tr>
<td>Transport Health</td>
<td>Transport Health Pty Limited</td>
</tr>
</tbody>
</table>

**Deloitte**: Transport Friendly Society Ltd – Independent expert’s report and Financial Services Guide
Appendix B: Sources of information

In preparing this report we have had access to the following principal sources of information:

- Appointed Actuary Report and the Tax Adviser’s report
- Financial Condition Report for Transport Health for FY2013, prepared by Finity
- memos and presentations in relation to the Allocation Rules, dated September 2013 and October 2013, prepared by Finity
- share allocation data, prepared by Finity pursuant to the Allocation Rules
- the Disclosure Statement (including the reports of the Appointed Actuary and the Tax Adviser)
- share trading options matrix prepared by TFSL
- membership data for TFSL
- Existing Constitution of TFSL
- annual reports (including audited financial statements) for TFSL for the financial years ending 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013
- documents providing historical background for TFSL
- publicly available disclosure documentation for precedent demutualisations
- publicly available research papers in relation to the performance of mutual, non-mutual and demutualised insurers
- strategic planning documentation for TFSL
- TFSL’s company website
- publicly available information on comparable companies and comparable demutualisations published by ASIC, Thompson research, Capital IQ and other sources
- IBIS company and industry reports
- other publicly available information and media releases on TFSL, comparable companies and the health insurance industry.

In addition, we have had discussions and correspondence with certain directors, executives and other persons, including: Martyn Pickersgill, Chairman of the Board, TFSL; Derek Cafferty, CEO, TFSL; Sharon Brearley Roberts, General Manager (Finance), TFSL; and Jamie Reid, Appointed Actuary, Finity, in relation to the above information and to current operations and prospects.
Appendix C: Qualifications, declarations and consents

The report has been prepared at the request of the Directors and is to be included in the Disclosure Statement to be given to Members for approval of the Demutualisation in accordance with Schedule 4. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Disclosure Statement in their assessment of the Demutualisation outlined in the report and should not be used for any other purpose.

Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Members and TFSL, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Demutualisation.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Demutualisation is in the best interests of the Members as a whole in relation to Schedule 4. Deloitte Corporate Finance consents to this report being included in the Scheme Booklet in the form and context in which it is to be included in the Disclosure Statement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by TFSL and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to TFSL management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by TFSL and its officers, employees, agents or advisors, TFSL has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which TFSL may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance’s reliance on the information provided by TFSL and its officers, employees, agents or advisors or the failure by TFSL and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Demutualisation.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance’s consideration of this information consisted of enquiries of TFSL personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for TFSL included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of TFSL referred to in this report since anticipated events may not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership of Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Stephen Ferris, Director, B.Ec, F.Fin, CA, Tapan Parekh, Director, B.Bus, M.Com, CA, F.Fin, Michele Picciotta, Associate Director, B.Com (Hons) and Kanishka Dayawansa, Manager, BCom, LLB (Hons). Stephen and Tapan are Directors and Michele is an Associate Director of Deloitte Corporate Finance. Each has many years’ experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.
Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- TFSL proposes to issue the Disclosure Statement in respect of the Demutualisation between TFSL and the Members
- the Disclosure Statement will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Disclosure Statement for review
- it is named in the Disclosure Statement as the ‘independent expert’ and the Disclosure Statement includes its independent expert’s report in Section 6 of the Disclosure Statement.

On the basis that the Disclosure Statement is consistent in all material respects with the draft Disclosure Statement received, Deloitte Corporate Finance Pty Limited consents to it being named in the Disclosure Statement in the form and context in which it is so named, to the inclusion of its independent expert’s report in Section 6 of the Disclosure Statement and to all references to its independent expert’s report in the form and context in which they are included, whether the Disclosure Statement is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Disclosure Statement and takes no responsibility for any part of the Disclosure Statement, other than any references to its name and the independent expert’s report as included in Section 6.
About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s approximately 182,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 5,700 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte’s web site at www.deloitte.com.au.

Member of Deloitte Touche Tohmatsu Limited
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SECTION 7

OTHER INFORMATION

Part 1: Summary of Material Terms of the Proposed Constitution

Part 2: Directors and their Entitlements

Part 3: Additional Information

Part 4: Glossary
SUMMARY OF MATERIAL TERMS OF THE PROPOSED CONSTITUTION

Listed below are a summary of material terms of the proposed Constitution. The changes predominantly relate to those required to facilitate and implement the Demutualisation and are listed below:

- Change of status of the Company to reflect that it is limited by shares;
- Inclusion of clauses dealing with membership of the Company, being shareholder based, including Shareholder rights covering attendance and voting at general meetings, as well as the right to receive all reports specified by the Corporations Act or any other law;
- Amendments to the share capital clauses, including:
  a) provision for employee share plans;
  b) a restriction on the acquisition or disposal of Shares to 15% or more of voting power for a period of 5 years from the Implementation Date;
  c) the right of the Company to give notice to a Shareholder who holds an unmarketable parcel of Shares to sell their shares unless the Shareholder within six weeks, notifies the Company that they wish to retain the Shares. (Prior to Listing, a marketable parcel is defined as a parcel of 300 Shares. Once the Company is Listed, a marketable parcel of Shares will be defined in accordance with the Listing Rules.); and
  d) the ability of the Company to create reserves to meet contingencies before declaring any dividends and to capitalise reserves or profits or other amounts available for distribution to Shareholders;
- Power to declare and pay a dividend to Shareholders;
- Provisions to allow Directors to contract with the Company, subject to certain restrictions and disclosures;
- Amendments to the internal management provisions to allow for the appointment of a chief executive officer and the conferring of power on Company officers and the fixing of their remuneration;
- The clause in the former Constitution requiring the election of Directors from the membership has been modified. Directors are not required to hold Shares in the Company. All Directors who have been serving for an uninterrupted period of twelve (12) years, are now to retire at the end of the next annual general meeting of the Company and will not be eligible for re-election.
- Consequential amendments to provide for compliance with Listing Rules of an approved stock exchange in the event that the Company is Listed; and
- Amendment to the winding up clause to allow for the distribution of available assets to Shareholders in proportion to the amount paid up (not credited) on Shares held by them.
PART 2

DIRECTORS & THEIR ENTITLEMENTS

Entitlements of Directors in connection with the Proposed Demutualisation

In order to be nominated or appointed as a Director of TFSL, the candidate must be a member of Transport Health. As a result of their Transport Health memberships, the Directors will be entitled to receive their Share Entitlement if this Demutualisation is approved. The estimated entitlement which each Director will be eligible to receive is as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Share Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phil Altieri</td>
<td>5,800</td>
</tr>
<tr>
<td>John Coulson</td>
<td>11,600</td>
</tr>
<tr>
<td>John Giraud</td>
<td>11,600</td>
</tr>
<tr>
<td>Phillip Lovel AM</td>
<td>2,000</td>
</tr>
<tr>
<td>Nicholas Madden</td>
<td>5,600</td>
</tr>
<tr>
<td>Martyn Pickersgill</td>
<td>3,200</td>
</tr>
<tr>
<td>Geoff Scully</td>
<td>11,600</td>
</tr>
</tbody>
</table>

Other than the entitlements disclosed above, no Directors or officers of TFSL will receive any benefit from the Demutualisation.

The current Directors of TFSL, together with their qualifications and experience, are set out below:

**Martyn Pickersgill** Chairman Non-Executive Director

Martyn has been involved in health insurance both at ANA (now Australian Unity) and at IOOF, where he was managing Director for 14 years prior to joining the Board of Transport Friendly Society. He has also been involved in retirement village operation and management, as managing director of IOOF Community Villages Friendly Society. As a self-employed management consultant for the past 15 years, Martyn consults to small and medium-sized companies, mainly dealing with business strategy and risk controls. During the last 15 years, he has also run the industry association for friendly societies and managed a friendly society that owned and operated 12 retail pharmacies. Martyn is a qualified accountant and has been involved in member-based organisations since 1976.

**John Coulson** Deputy Chairman Non-Executive Director

John is a self-employed management consultant who mainly works on strategic planning projects for companies, not-for-profit organisations and government agencies. This experience has included undertaking business improvement projects for a number of member-based organisations. In his director role on a number of not-for-profit and private sector boards, John has guided the preparation of marketing plans, IT development strategies and risk management system enhancements. John has a long-standing involvement with the transport sector – commencing in a strategic planning role at the then M&MTB and finishing as the Group Manager – Finance of the Metropolitan Transit Authority of Victoria. In recent years, John has been partner in charge of management consulting divisions in several mid-tier chartered accounting firms, most recently during a ten year period at HLB Mann Judd Chartered Accountants.

**Phil Altieri** Non-Executive Director

Through his position as Assistant National Secretary of the Rail Tram and Bus Union – Victorian Branch, Phil provides the Board with insight into the inner workings of the Transport Industry, particularly corporate strategy and policy formulation, infrastructure requirements, employment relations and occupational health and safety protocols. He has also held advisory roles on national transport issues to various levels of Government. Phil has been a Director of TFSL since August 2008 and presently serves as a member of the Building and Property Development Committee. Phil has been employed in the public transport system for 35 years, in various roles and has worked at all tram depots across Melbourne’s tram system.
John Giraud Non-Executive Director

A lifelong member of the Company, John brings a wealth of experience through his engineering roles in the food and pharmaceutical industries involving project management, maintenance and facility management. John is currently employed by a leading pharmaceutical company in a capital project management role and is familiar with working in a highly regulated industry involving complex processes and high tech equipment. He has managed many large scale multi-million dollar projects through to successful completion. John has been an active member of the Building and Property Development Committee, where his building industry knowledge and experience has been a valued asset during the design and construction of the new Mornington ILU's.

Philip Lovel AM Non-Executive Director

Philip has been involved with the transport industry his entire working life. For the past 26 years he was the CEO of the Victorian Transport Association (VTA), only recently retiring and taking a temporary position as Executive Director. The VTA is the leading multi-modal freight and logistics organisation in Australia. It is funded by its members and represents the freight and logistics industry in all freight issues. With many senior positions on industry and Government boards and associations including TWUSUPER Fund, Vic Roads Advisory Board, Roads Australia and the Australian Road Transport Industrial Organisation, Philip brings to the Board a vast knowledge of the transport industry. In 2007 Philip was awarded Membership in the General Division of the Order of Australia in recognition of his work in the transport industry.

Nicholas Madden Non-Executive Director

Employed for over 30 years by Ansett Transport Industries, culminating as finance manager for Ansett Pioneer, Nick has accumulated vast experience in the transport industry primarily in management, operational analysis, finance, accounting and quality assurance. During a further period of over 10 years as a self-employed management and accounting consultant, Nick has installed quality assurance systems in a number of Australia's leading transport companies including Seafast and Comet. He also provides accounting and managerial services to diverse clients in semi-government and health services industries in addition to specialised accounting for self-managed superannuation funds.

Geoff Scully Non-Executive Director

Geoff Scully is also a lifelong member and former employee of the Company. He joined the Board in 2000, bringing with him 40 years of experience in health insurance, public & private hospital administration & appointments to several national health care associations. Geoff is a past president of the Australasian Transplant Coordinators Association and a former member of the Australian Kidney Foundation. Geoff coordinated organ transplantation in Victoria & Tasmania for sixteen years and he was involved in the production of national organ retrieval intensive care & operating theatre guide lines, public education via the production of Community Service Announcements and a National School Education Program for Australian & New Zealand secondary students.
PART 3

ADDITIONAL INFORMATION

Consent by and fees payable to advisers

The following advisers and Independent Expert have consented to the inclusion of their reports in the form and context as included in this Disclosure Statement and such consent has not been withdrawn as at the date of this Disclosure Statement:

- Mr Tony Jacob, Chartered Accountant, Independent Tax Adviser;
- Mr Jamie Reid, Finity Consulting Pty Ltd; and
- Deloitte Corporate Finance Pty Ltd.

Demutualisation costs

The following details the costs of the Proposal incurred to date and the Company’s best estimate of the total costs of implementing the Demutualisation, market establishment costs and on going Share Registry costs.

- The costs of Demutualisation incurred at 31 January 2014 are approximately $388,736.
- It is estimated that the total costs of Demutualisation, if approved and implemented, which includes fees payable to advisers (including the Independent Expert), printing, distribution and meeting costs, and of establishing the Share Registry will be approximately $700,000.
- The Company expects to incur further costs associated with establishing the ASIC Low Volume Market and Listing, which are estimated at $75,000.
- There will be ongoing costs associated with these markets in maintaining the Share Registry, which are estimated at $40,000 per annum.

Documents available for inspection

Copies of the following documents are available for inspection by Members free of charge during normal business hours at the registered office of TFSL at Richmond:

- Constitution of TFSL;
- Proposed Constitution of TFSL;
- TFSL Unverified Members Trust Deed;
- TFSL Overseas Members Trust Deed; and
- TFSL Past Income Trust Deed.
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIFRS</td>
<td>Australian International Financial Reporting Standards.</td>
</tr>
<tr>
<td>Appointed Actuary</td>
<td>means the appointed actuary of Transport Health from time to time for the purposes of PHIA, who is, at the date of the Disclosure Statement, Mr Jamie Reid of Finity Consulting Pty Ltd.</td>
</tr>
<tr>
<td>ASIC</td>
<td>refers to the Australian Securities and Investments Commission.</td>
</tr>
<tr>
<td>ATO</td>
<td>refers to the Australian Taxation Office.</td>
</tr>
<tr>
<td>Base Allocation</td>
<td>refers to the basis for determining Share Entitlements of Eligible Members under the Share Allocation Rules, and is based on the type of Policy held but not the length of membership.</td>
</tr>
<tr>
<td>Board</td>
<td>means the Board of Directors of TFSL.</td>
</tr>
<tr>
<td>Centrelink</td>
<td>refers to the Commonwealth Government agency that administers income-support benefits to eligible persons, other than veterans entitled to benefits administered by the DVA.</td>
</tr>
<tr>
<td>Company</td>
<td>Transport Friendly Society Ltd  ACN 052 046 625.</td>
</tr>
<tr>
<td>Constitution</td>
<td>means the constitution of TFSL in force as at the date of this Disclosure Statement and the proposed new Constitution as the context requires.</td>
</tr>
<tr>
<td>Corporate Membership Rights</td>
<td>these are various rights enjoyed by Members as Members of TFSL under its Constitution and at law and include rights to receive notices of general meetings, to vote and speak at such meetings, and rights to elect and remove directors. Some of these rights are not available to persons under 18 years. These rights co-exist with any rights which Members may have as a Policyholder. Refer to pages 32 - 34 for further detail as to how these rights compare with rights as a Shareholder.</td>
</tr>
<tr>
<td>Cut-off Date</td>
<td>28 February 2014 or five days before the Notice of Extraordinary General Meeting is issued, whichever is later.</td>
</tr>
<tr>
<td>Demutualisation and Demutualise</td>
<td>refers to a mutual organisation like TFSL becoming a shareholder owned company. Demutualise has a corresponding meaning.</td>
</tr>
<tr>
<td>Director(s)</td>
<td>means a director of TFSL.</td>
</tr>
<tr>
<td>Disclosure Statement</td>
<td>means this Disclosure Statement which has been registered with ASIC pursuant to Part 5 Clause 32 of Schedule 4 of the Corporations Act.</td>
</tr>
<tr>
<td>Duration Allocation</td>
<td>refers to a basis for determining Share Entitlements of Eligible Members under the Share Allocation Rules and is based on the length of membership.</td>
</tr>
<tr>
<td>DVA</td>
<td>refers to the Department of Veterans Affairs, which is the Commonwealth Government agency that administers income-support benefits to eligible veterans.</td>
</tr>
<tr>
<td>Eligible Members</td>
<td>refers to persons who meet eligibility conditions as detailed in the Share Allocation Rules.</td>
</tr>
<tr>
<td>Extraordinary General Meeting</td>
<td>means the extraordinary general meeting of the Members to be held on 2 April 2014 or any adjournment thereof.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Health Fund Rules</td>
<td>refers to rules of the Transport Health Fund.</td>
</tr>
<tr>
<td>Implementation Date</td>
<td>the date the Demutualisation is implemented and Shares issued being on or shortly after 30 June 2014.</td>
</tr>
<tr>
<td>Independent Expert</td>
<td>means Deloitte Corporate Finance Pty Limited ACN 003 833 127.</td>
</tr>
<tr>
<td>Imputation Credit</td>
<td>the imputation credit is a tax offset and will cover, in part or full, the tax payable on the dividends by a resident shareholder or individual. If the tax offset is more than the tax payable on the dividends, the excess tax offset will be applied to any tax payable on other taxable income you received. If any excess tax offset amount is left over after that, the Australian Taxation Office will refund that amount to you (if you are a resident individual).</td>
</tr>
<tr>
<td>List or Listed</td>
<td>means when the Shares are listed (refer Listing below).</td>
</tr>
<tr>
<td>Listing</td>
<td>means the inclusion of TFSL on an official stock exchange.</td>
</tr>
<tr>
<td>Member(s)</td>
<td>means each person who is a member of TFSL.</td>
</tr>
<tr>
<td>Member Verification Form</td>
<td>refers to the personalised verification form enclosed with the Chairman’s letter and accompanying the Disclosure Statement.</td>
</tr>
<tr>
<td>Overseas Member</td>
<td>means a member who as at the Cut-Off Date has a registered address outside Australia.</td>
</tr>
<tr>
<td>PHIA</td>
<td>means Private Health Insurance Act 2007 (Cth).</td>
</tr>
<tr>
<td>PHIAC</td>
<td>Private Health Insurance Administration Council.</td>
</tr>
<tr>
<td>Policy</td>
<td>means an entitlement to a benefit in accordance with the Transport Health Fund rules.</td>
</tr>
<tr>
<td>Policyholders</td>
<td>means a person who holds a Policy under the rules of the Transport Health Fund.</td>
</tr>
<tr>
<td>Proposal</td>
<td>refers to the Demutualisation as outlined in the Disclosure Statement.</td>
</tr>
<tr>
<td>Proxy Form</td>
<td>refers to the Proxy Form which accompanies the notice of Extraordinary General Meeting and the Disclosure Statement.</td>
</tr>
<tr>
<td>Record Date</td>
<td>31 December 2013</td>
</tr>
<tr>
<td>Register of Members</td>
<td>means TFSL’s register of Members or Shareholders as the context requires.</td>
</tr>
<tr>
<td>Regulators</td>
<td>means ASIC, PHIAC and any other government regulatory authority.</td>
</tr>
<tr>
<td>Review Committee</td>
<td>means the review committee established by TFSL to resolve any disputes or complaints about membership of TFSL, Share allocations and entitlements.</td>
</tr>
<tr>
<td>Share Allocation Form</td>
<td>means that part of the Chairman’s letter to Members referred to on page 4 headed “Share Allocation Form” which accompanies the Disclosure Statement and sets out the estimated Share Entitlement of a Member.</td>
</tr>
<tr>
<td>Share Allocation Rules</td>
<td>refers to the rules issued by the Board which, if approved by the Members, will determine the Members’ individual entitlement to Shares.</td>
</tr>
<tr>
<td>Share Entitlement</td>
<td>refers to the Shares that are to be allocated to the Member in accordance with the calculations carried out in accordance with the Share Allocation Rules.</td>
</tr>
<tr>
<td>Shareholder(s)</td>
<td>means the person who holds Shares.</td>
</tr>
<tr>
<td>Shares</td>
<td>refers to fully paid up ordinary Shares in TFSL.</td>
</tr>
<tr>
<td>Tax Adviser</td>
<td>means Mr Tony C Jacob, B Com (Melb), FCA, FCIS, FGIA, Chartered Accountant</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Transport Health</td>
<td>means Transport Health Pty Ltd  ACN 099 028 127.</td>
</tr>
<tr>
<td>Transport Health Fund</td>
<td>means the Transport Health Fund registered under the PHIA.</td>
</tr>
<tr>
<td>TFSL</td>
<td>Transport Friendly Society Ltd  ACN 052 046 625.</td>
</tr>
<tr>
<td>TFSL Overseas Members Trust</td>
<td>means the trust established in respect of Overseas Members.</td>
</tr>
<tr>
<td>TFSL Past Income Trust</td>
<td>means the trust established for the benefit of Unverified Members who become verified before the end of the Verification Period. Under the trust, the trustee is obliged to cause a new company to be formed as a wholly owned subsidiary of the trustee. This company will become entitled, under the terms of the TFSL Unverified Members Trust to all income of that trust to which no Unverified Member or other person is presently entitled at the end of each financial year. Once Members are verified, they are entitled to receive from the trustee a dividend equal to the amount of any income imputation accruing to their Shares and any attached imputation credits.</td>
</tr>
<tr>
<td>TFSL Unverified Members Trust</td>
<td>means the trust established in respect of Unverified Members.</td>
</tr>
<tr>
<td>Unverified Members</td>
<td>means a Member who is unverified at 30 June 2014.</td>
</tr>
<tr>
<td>Verification Period</td>
<td>means the period from the date of the Extraordinary General Meeting when the De-mutualisation was approved until the period ending 18 months after the Shares are issued, subject to an extension of up to six months at the discretion of the Board.</td>
</tr>
</tbody>
</table>
TRANSPORT FRIENDLY SOCIETY LTD
ACN 052 046 625

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that the Extraordinary General Meeting of Members of Transport Friendly Society Ltd (“Company”) will be held on Wednesday 2 April 2014 at Computershare at 11.00 am (AEDT). Registration will commence from 10.30 am (AEDT).

AGENDA

SPECIAL BUSINESS

To consider and if thought fit, to pass the following as special resolutions:

(a) “That subject to the Private Health Insurance Administration Council approving the change of status of the Transport Health Fund from a not for profit fund to a for profit fund, that the status of Transport Friendly Society Limited (“TFSL”) be changed to a company limited by shares with effect upon the date on which the Australian Securities & Investments Commission alters the details of the Company’s registration under section 164 of the Corporations Act 2001”;

(b) “That subject to approval of Item (a) above, the Company’s existing Constitution be repealed and replaced by the Constitution set out in the document submitted to the meeting and for the purposes of identification, initialled by the Chairman of the meeting”;

(c) “That subject to approval of Item (a) above, the Share Allocation Rules set out on Pages 67-74 of the Disclosure Statement dated 27 February 2014, a copy of which has been previously circulated to Members and has been tabled at the meeting and for the purposes of identification, initialled by the Chairman of the meeting, be approved”;

(d) “That subject to the approval of Items (a), (b), and (c), above, the issue of fully paid up ordinary Shares to Eligible Members as referred to and in accordance with the Share Allocation Rules set out on Pages 67-74 of the Disclosure Statement dated 27 February 2014, a copy of which has been previously circulated to Members and which has been tabled at the meeting and for the purposes of identification, initialled by the Chairman of the meeting, be approved”.

Voting Exclusion Statement

The Company need not disregard a vote if:

It is cast by a Director as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or

It is cast by a Director chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

By order of the Board of Directors

Derek Cafferty
Company Secretary

Dated: 27 February 2014
EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of Members in relation to the business to be conducted at TFSL's Extraordinary General Meeting to be held on 2 April 2014.

The following notes explain the agenda items to be discussed and voted on at this Extraordinary General Meeting and should be read in conjunction with TFSL's Notice of Extraordinary General Meeting dated 2 April 2014.

Information about the Special Resolutions

Item (a) proposes that TFSL be converted to a Shareholder-owned company. This is the first step to the Demutualisation process, under which the Members will exchange their corporate Membership rights for Shares in TFSL. Please refer to Section 1 of the Disclosure Statement for additional information.

Item (b) relates to the adoption of a new Constitution, as the proposed Demutualisation referred to above, has necessitated a full review of the Constitution. The changes to the Constitution predominantly relate to Shareholder rights and matters relating to Share issue and dividends. A summary of all material terms of the proposed Constitution have been included in – Other Information Section 7 Part 1 at page 122 of the Disclosure Statement. A copy of the proposed Constitution is available for inspection at the Company's registered office and will be sent to any Member, at the Company’s expense, on request to the Company secretary. Please note the resolution cannot be approved unless Item (a) as outlined above has been approved by Members.

Item (c) relates to the approval of the Share Allocation Rules which forms the basis of a Member’s Share Entitlement. Please note that this resolution cannot be approved unless Item (a) as outlined above has been approved by Members. Pages 67-74 of the Disclosure Statement provides further information on the Share Allocation Rules.

Item (d) relates to the issue of fully paid ordinary Shares to Eligible Members as referred to and in accordance with the Share Allocation Rules referred to in Item (c) above. Please note, this resolution cannot be approved unless Items (a), (b) and (c) outlined above have been approved by Members.

All resolutions are effectively subject and conditional upon the Private Health Insurance Administration Council ("PHIAC") approving the change of status of the Transport Health Fund from a not for profit fund to a for profit fund. Should PHIAC not provide its approval, which is expected to be 9 May 2014, then the special resolutions will not be effective and the Demutualisation will not proceed.

PROXY INFORMATION

A Member entitled to attend and vote at this Extraordinary General Meeting may appoint a proxy to attend and vote on the Member’s behalf. The proxy need not be a Member of the Company. Please note that under the Company’s Constitution, a person other than the Chairperson may not act as proxy for more than ten (10) Members, where the Members do not specify the way the vote is to be exercised. If you wish to appoint a proxy, you will need to complete, sign and date the Proxy Form and return the same by hand, mail, facsimile or email to the addresses shown on the Proxy Form.

Any Proxy Form whereby the name of the appointee is not stated will be deemed to be given in favour of the Chairperson, and unsigned Proxy Forms will be deemed invalid.

All Proxy Forms must be returned to the Company either by hand, post or by email or fax no less than 48 hours prior to the time of commencement of the Extraordinary General Meeting, i.e. by 11.00 am (“AEDT”) on Monday 31 March 2014. If your Proxy Form is signed under power of attorney or other authority, you must attach a certified copy of the power of attorney or other authority when returning the Proxy Form.

IF YOUR PROXY FORM WAS NOT ENCLOSED WITH YOUR NOTICE OF MEETING, PLEASE CONTACT US FOR A REPLACEMENT COPY.
**Proxy Form**

**How to Vote on Items of Business**
The Resolutions will be voted on in accordance with your directions.

**Appointment of Proxy**
If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that person in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy.

Should you desire to direct your proxy how to vote, you should place a mark (X) in the appropriate box. Otherwise your proxy may vote as he/she thinks fit or may abstain from voting.

**Signposting Instructions**
You must sign this form as follows in the space provided:
- **Member**: the Member must sign the form.
- **Power of Attorney**: to sign under Power of Attorney you must have previously lodged the documentation with Transport Friendly Society Ltd. If you have not previously lodged this documentation for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Lodgement of a Proxy**
To be effective, your Proxy Form and Power of Attorney or authority (if any) under which it is signed or a copy of the Power of Attorney or other authority, certified as a true copy must be received by 11.00 am (AEDT) on Monday 31 March 2014.

**Turn over to complete the form**

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**Lodge your proxy:**

**By Hand:**
Transport Friendly Society Ltd
487 Swan Street
Richmond, Vic 3121

Or alternatively

**By Mail:**
Transport Friendly Society Ltd
CI-Computershare Investor Services Pty Limited
GPO Box 2062
Melbourne Victoria 8060

**By Fax:**
(03) 9473 2145

**By Email:**
votingservices@computershare.com.au

**For all enquiries call:**
(within Australia) 1800 680 952
(outside Australia) +61 3 9415 4064

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**Extraordinary General Meeting of Members to be held at 11.00 am (AEDT) on Wednesday 2 April 2014**
Proxy Form

STEP 1  Appoint a Proxy to Vote on Your Behalf

I hereby appoint

☐ the Chairman of the Meeting  OR  ☐

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my proxy to act generally at the meeting on my behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Extraordinary General Meeting of Transport Friendly Society Ltd to be held at the Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford at 11.00 am (AEDT) on Wednesday 2 April 2014 or at any adjournment of that meeting.

STEP 2  Items of Business

☐ Please note: If you mark the Abstain box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Item 1  Approval of change of status of Transport Friendly Society Ltd to a company limited by Shares

Item 2  Adoption of the Constitution

Item 3  Approval of Share Allocation Rules set out on Pages 67 - 74 of the Disclosure Statement dated 27 February 2014

Item 4  Approval of the issue of Shares to Eligible Members as referred to and in accordance with the Share Allocation Rules set out on Pages 67 - 74 of the Disclosure Statement dated 27 February 2014

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN  Signature of Member

This section must be completed.
This information is required to enable Computershare to verify the eligibility of the member to vote. This ensures the integrity of the vote and enable the member to be contacted by Computershare should that be necessary. This information will only be available to Computershare.
Member Verification Form

Before you complete the Member Verification Form, please read the following instructions and the Disclosure Statement and Notice of Extraordinary General Meeting that was sent to you.

Completing the Member Verification Form

1. Please check your name and address details on the form: If any of the details are incorrect, please enter the correct details in the space provided above.

2. Sign the Form: When you are happy that the details on the Form are correct, please sign in the appropriate spaces below and include your contact phone number.

3. Use the enclosed reply envelope to return the Form: Once you have signed the Form, you should return it to the Company Secretary at the following address:

   Transport Friendly Society Ltd
c/- Computershare Investor Services Pty Limited
GPO Box 2062
Melbourne Victoria 8060

I confirm that the above details, with any corrections which I make as set out above, are correct. I also confirm that I wish to be allocated the number of Shares detailed in the Chairman’s letter dated 27 February 2014 sent to me.

SIGN

Signature of Member

Print Name

Contact Details

Daytime Telephone

Date

/ /
CORPORATE DIRECTORY

Transport Friendly Society Ltd
487 Swan Street
Richmond Victoria 3121
Website: www.tfsl.org.au

Legal Adviser to Transport Friendly Society Ltd
Mr Stephen Teale
Turks Legal
Level 10 (North Tower)
459 Collins Street
Melbourne Victoria 3000

Taxation Adviser to Transport Friendly Society Ltd
Mr Tony C Jacob, Chartered Accountant
14 Kilrush Street
Brighton Victoria 3186

Member Register
Computershare Investor Services Pty Limited
GPO Box 2062
Melbourne Victoria 3001

Appointed Actuaries
Mr Jamie Reid
Ms Sonia Tripolitano
Finity Consulting Pty Ltd
Level 7 / 155 George Street
Sydney NSW 2000

Independent Expert
Deloitte Corporate Finance Pty Limited
Level 9, Grosvenor Place
225 George Street
Sydney NSW 2000

Member inquiry information line
Computershare Investor Services Pty Limited
(within Australia) 1800 680 952
(outside Australia) +61 3 9415 4064
Voting Information for an Extraordinary General Meeting to be held on Wednesday 2 April 2014

TRANSPORT FRIENDLY SOCIETY LTD
ABN 75 052 046 625

Date: 27 February 2014

www.tfsl.org.au