

17 September 2013

The Manager
Company Announcements Office
ASX Limited

**THE TRUST COMPANY – TAKEOVER BID BY EQUITY
TRUSTEES LIMITED – THIRD SUPPLEMENTARY TARGET'S
STATEMENT SENT TO SHAREHOLDERS**

In accordance with ASX Listing Rule 3.17, the attached correspondence was today sent to shareholders of The Trust Company Limited (ASX:TRU) comprising the Third Supplementary Target's Statement of the Trust Company Limited in response to the off-market takeover bid by Equity Trustees Limited.

Yours faithfully

Geoffrey Stirton
Group Company Secretary

ENDS

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**THE
TRUST
COMPANY**

The Trust Company Limited
ABN 59 004 027 749

ASX RELEASE



THE
TRUST
COMPANY

THIRD SUPPLEMENTARY TARGET'S STATEMENT

In response to the off-market takeover offer by Equity Trustees Limited to acquire all the ordinary shares in The Trust Company Limited

The Trust Company unanimously RECOMMENDS THE REVISED PERPETUAL PROPOSAL as it is superior to both the IOOF Proposal and the Revised Equity Trustees Offer. The Trust Company unanimously recommends shareholders REJECT the Revised Equity Trustees Offer by taking NO ACTION.

This document is the third supplementary target's statement ("Third Supplementary Target's Statement") to the target's statement dated 19 April 2013 ("Target's Statement") issued by The Trust Company Limited ABN 59 004 027 749 ("The Trust Company") and lodged with the Australian Securities and Investments Commission ("ASIC") on 19 April 2013, in relation to the offer by Equity Trustees Limited ("Equity Trustees") ABN 46 004 031 298 ("Offer") for all of the shares in The Trust Company.

This Third Supplementary Target's Statement supplements, and is to be read together with, the first supplementary target's statement issued by The Trust Company on 10 May 2013 ("First Supplementary Target's Statement"), the second supplementary target's statement issued by The Trust Company on 28 June 2013 ("Second Supplementary Target's Statement") and the Target's Statement.

Unless the context requires otherwise, defined terms in the Target's Statement have the same meaning in this Third Supplementary Target's Statement. This Third Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement, the First Supplementary Target's Statement and the Second Supplementary Target's Statement.

A copy of this Third Supplementary Target's Statement was lodged with ASIC on 13 September 2013. Neither ASIC nor any of its officers takes any responsibility for the contents of this Third Supplementary Target's Statement.

Financial adviser

FLAGSTAFF

Legal adviser

**KING & WOOD
MALLESONS**

Since February this year, The Trust Company Limited (“The Trust Company”) has attracted significant corporate interest from a number of parties which has culminated in five proposals for the company being announced by three different suitors.

Below is a summary of the various developments over the past few months and an update on the current recommendation from the Board of The Trust Company in relation to the various proposals for the company.

BACKGROUND ON THE VARIOUS PROPOSALS

1. Original Equity Trustees Offer

On 21 February 2013, Equity Trustees Limited (“Equity Trustees”) announced a takeover offer for The Trust Company (“Original Equity Trustees Offer”). At that time, the Board of The Trust Company announced that it believed that Equity Trustees’ offer materially undervalued The Trust Company. On 19 April 2013, the Board of The Trust Company issued its Target’s Statement, recommending that shareholders reject the Original Equity Trustees Offer and outlining the reasons for doing so.

2. Original Perpetual Proposal

Following the announcement of the Original Equity Trustees Offer, The Trust Company received approaches from a number of parties expressing interest in The Trust Company. The Trust Company provided the opportunity to undertake due diligence to those interested parties who tabled a bona fide indicative proposal which had the potential to be in the best interests of shareholders in The Trust Company. Perpetual Limited (“Perpetual”) and IOOF Holdings Limited (“IOOF”) signed confidentiality agreements and undertook due diligence.

At the end of this process, The Trust Company Board determined that the proposal from Perpetual was the most attractive and was in the best interests of shareholders, in the absence of a superior proposal. On 7 May 2013, The Trust Company announced that it had entered into a Scheme Implementation Agreement (“SIA”) with Perpetual to implement a proposal from Perpetual to acquire all of the issued shares in The Trust Company (“Original Perpetual Proposal”).

3. Revised Equity Trustees Offer

On 21 June 2013, Equity Trustees improved its takeover offer for The Trust Company, whereby it increased its offer consideration to 37 Equity Trustees shares for every 100 shares in The Trust Company plus a special dividend of 22 cents per share (expected to be fully franked) to be paid by The Trust Company (“Revised Equity Trustees Offer”).

As part of this announcement, Equity Trustees revised its estimate of expected cost synergies from \$8 million per annum to \$11 million per annum, with potential total synergies of \$15 million per annum. At this time, The Trust Company engaged Ernst & Young to assist it with the assessment of potential synergies and implementation costs estimated by Equity Trustees and Perpetual.

In relation to the potential synergies estimates and implementation costs presented by Perpetual, Ernst & Young assessed (using the fact-based risk assessment framework) that:

- \$14 million of synergies claimed by Perpetual were supportable; and
- The implementation costs of two times synergies announced by Perpetual appeared conservative but were based on recent successful delivery of cost reduction programs by Perpetual.

In relation to the potential synergies estimates and implementation costs presented by Equity Trustees, Ernst & Young assessed (using the fact-based risk assessment framework) that:

- \$7.5 million of synergies claimed by Equity Trustees were supportable; and
- The implementation costs of one times synergies announced by Equity Trustees were likely to be insufficient given the scale, complexity and duration of the integration. With reference to the likely complexity of the required change to the business, the quantum of synergies and time to realise the synergies, implementation costs of one and a half times the total synergies targeted may be a more appropriate estimate.

Subsequent to the receipt of the assessment from Ernst & Young, the Board of The Trust Company concluded that to fully evaluate the Revised Equity Trustees Offer it was necessary to undertake further enquiry of Equity Trustees. The further enquiry process (discussed in more detail on page 3), which has now ceased (pursuant to the revised SIA entered into with Perpetual on 9 September 2013), involved reciprocal provision of information by both parties, as well as a series of meetings involving key management and the Board of The Trust Company.

4. IOOF Proposal

On 2 September 2013, The Trust Company received a proposal from IOOF of 0.74 IOOF shares (or cash equivalent, up to a cap of \$100 million and with a floor price of \$6.03 per share in The Trust Company) and a 22 cent special dividend (expected to be fully franked) for every share in The Trust Company ("IOOF Proposal"). Under the IOOF Proposal, The Trust Company also had the ability to pay an interim dividend of up to 17 cents per share in The Trust Company.

After considering the IOOF Proposal, the Board of The Trust Company determined that the IOOF Proposal was likely to be a Superior Proposal to the Original Perpetual Proposal under the SIA with Perpetual and, on 4 September 2013, The Trust Company provided Perpetual with notice that it had three business days to match or better the IOOF Proposal pursuant to clause 10.5 of the SIA.

5. Revised Perpetual Proposal

On 9 September 2013, The Trust Company announced that it had received an improved proposal from Perpetual and entered into a revised SIA ("Revised SIA") with Perpetual whereby shareholders in The Trust Company will receive:

- Scheme Consideration:
 - 0.182 Perpetual shares for each share in The Trust Company, which can be received as:
 - > Perpetual shares;
 - > Cash equivalent, up to a cap of \$110 million¹ and with a floor price of \$6.29 per share in The Trust Company; or
 - > A mix of the above.
- Dividends:
 - A special dividend of 22 cents per share in The Trust Company (fully franked); and
 - An interim dividend of up to 17 cents per share in The Trust Company (fully franked), to be paid in the ordinary course.

Pursuant to the Revised SIA with Perpetual, The Trust Company was obliged to cease all discussions with third parties in relation to a potential change of control transaction with respect to The Trust Company. This included ending discussions with both Equity Trustees in relation to the reciprocal enquiry process and IOOF in relation to the IOOF Proposal.

RECIPROCAL ENQUIRY PROCESS WITH EQUITY TRUSTEES

As noted in its announcement on 23 July 2013, two key areas of focus for The Trust Company during the reciprocal enquiry process were:

- Synergies: understanding the likely level of implementation costs as well as whether there may be additional areas of potential synergies beyond the supportable synergies identified by Ernst & Young; and
- Capital position: understanding how Equity Trustees proposed to fund the regulatory capital requirements and transaction specific impacts of combining the two entities.

Synergies

During the reciprocal enquiry process, discussions between The Trust Company and Equity Trustees clarified that there may be further synergies available to Equity Trustees in addition to the \$7.5 million of synergies which were assessed as supportable by Ernst & Young (based on presentations and information provided by Equity Trustees at the time).

The discussions held between the two companies provided further clarity regarding the size of the support services function of The Trust Company and Equity Trustees, and the extent to which these were complementary or overlapping. A number of complementary support services roles were identified within each business (i.e. roles specific to services offered by only one of the companies) which would reduce the capacity for support staff to be leveraged across the merged entity.

Based on the more detailed understanding of Equity Trustees' business gained through the reciprocal enquiry process, The Trust Company believes that additional synergies of up to \$2.5 million may be capable of being realised.

¹ In the event shareholders in The Trust Company elect to receive greater than a total of \$110 million in cash consideration, there will be a proportional scale back of the cash, and shareholders in The Trust Company will receive the balance of their consideration in Perpetual shares (to a value of not less than \$6.29 per share in The Trust Company)

Accordingly, The Trust Company believes an appropriate range for total synergies that may be capable of being realised by the merged group is \$7.5 million up to \$10.0 million (comprising the \$7.5 million of synergies assessed as supportable by Ernst & Young and the further synergies of up to \$2.5 million identified by The Trust Company following discussions with Equity Trustees during the reciprocal enquiry process).

Nothing came to The Trust Company's attention during the reciprocal enquiry process to cause the company to have a different view on integration costs relating to the Revised Equity Trustees Offer to that provided by Ernst & Young (one and a half times the total synergies targeted).

Capital position

In determining the potential regulatory capital requirements of a combined group under the new regulatory framework that will be effective from 1 July 2014, The Trust Company assumed that Equity Trustees will require additional capital of \$7 million to \$9 million to satisfy these regulatory capital requirements, as foreshadowed in Equity Trustees' FY13 results presentation (this assumes that the Equity Trustees 2013 final and 2014 interim dividends will be fully underwritten, which would result in the issue of new shares by Equity Trustees).

Given the regulatory changes, The Trust Company believes it is not prudent to rely on the possibility of any funding sources (if any) from The Trust Company's capital position in determining whether there is any potential regulatory capital shortfall in the combined group.

Additional transaction specific impacts that arise from combining the two companies under the Revised Equity Trustees Offer include funding of the proposed special dividend of 22 cents per share, the break fee payable to Perpetual under the Revised SIA, integration costs, defence-related costs and the cancellation of the Equity Trustees shares currently held by The Trust Company. In aggregate, these impacts on the capital position of the combined group are estimated by The Trust Company to be in the order of \$30 million to \$35 million.

Accordingly, it is The Trust Company's view that there is a potential regulatory capital shortfall of approximately \$37 million to \$44 million if the two companies are combined, comprising:

- The \$7 million to \$9 million identified by Equity Trustees in relation to its standalone position; and
- Transaction related impacts and costs of \$30 million to \$35 million.

There are a number of possible methods available to Equity Trustees to meet the potential regulatory capital shortfall, including selling (as opposed to cancelling) the Equity Trustees shares held by The Trust Company. The Trust Company sought Equity Trustees' views on how any regulatory capital shortfall would be satisfied. When the reciprocal enquiry process ceased on execution of the Revised SIA with Perpetual, Equity Trustees had not yet provided any details on how it proposed to meet this potential regulatory capital shortfall (beyond the dividend reinvestment plan underwriting referred to above).

To the extent that Equity Trustees sells the Equity Trustees shares held by The Trust Company or issues new equity capital to satisfy the potential regulatory capital shortfall, this would have a dilutive impact on earnings per share and dividends per share (assuming a constant dividend payout ratio) that shareholders in The Trust Company would receive under the Revised Equity Trustees Offer.

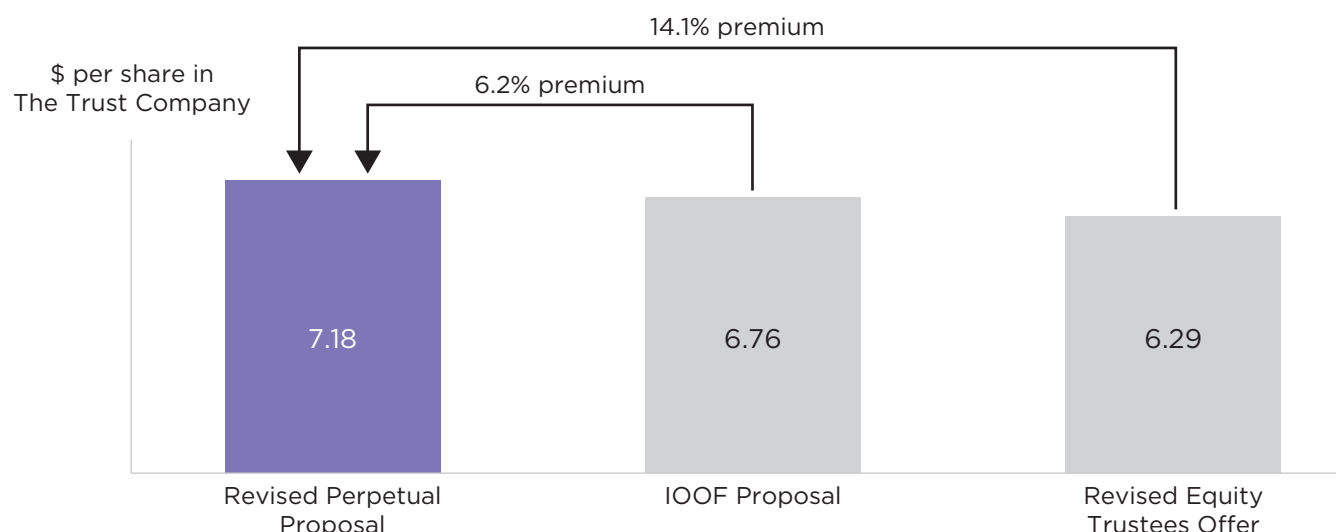
COMPARISON OF THE VARIOUS PROPOSALS AND BOARD RECOMMENDATION

Based on closing share prices as at 12 September 2013, the Revised Perpetual Proposal represents a 14.1% and 6.2% premium to the Revised Equity Trustees Offer and the IOOF Proposal, respectively:

- The Revised Perpetual Proposal represents a total value of \$7.18 per share in The Trust Company (including the 22 cent special dividend and the 17 cent interim dividend payable by The Trust Company)
- The IOOF Proposal represents a total value of \$6.76² per share in The Trust Company (including the 22 cent special dividend and the 17 cent interim dividend payable by The Trust Company)
- The Revised Equity Trustees Offer represents a total value of \$6.29 per share in The Trust Company (including the 22 cent special dividend)

² Adjusted for IOOF announced final dividend of 22.5 cents per share, which shareholders in The Trust Company would not receive

Implied value of the Revised Perpetual Proposal, IOOF Proposal and Revised Equity Trustees Offer, based on closing share prices as at 12 September 2013



The Board of The Trust Company has considered other relevant approaches in assessing the relative values of the Revised Perpetual Proposal, IOOF Proposal and Revised Equity Trustees Offer, all of which support the conclusion that the Revised Perpetual Proposal represents the highest value to shareholders of The Trust Company.

The Trust Company has assumed that there is no regulatory capital shortfall for the purpose of assessing the Revised Equity Trustees Offer, notwithstanding that a potential capital shortfall has been identified.

In addition to representing a higher value to shareholders than the IOOF Proposal and Revised Equity Trustees Offer, the Revised Perpetual Proposal is superior for a number of other reasons, as summarised below:

	Revised Perpetual Proposal	IOOF Proposal	Revised Equity Trustees Offer
Value per share in The Trust Company (as at 12 September 2013)	\$7.18 ³	\$6.76 ^{3,4}	\$6.29 ⁵
Minimum value per share in The Trust Company under the cash alternative	\$6.68 (or better) ³	\$6.42 (or better) ³	✗ No cash alternative available
Total cash available (excluding special dividend and interim dividend)	\$110m	\$100m	✗ No cash alternative available
Special dividend to shareholders in The Trust Company	22 cents per share	22 cents per share	22 cents per share
Interim dividend to shareholders in The Trust Company	Up to 17 cents per share	Up to 17 cents per share	✗ Payment of a dividend by The Trust Company is a defeating condition of Equity Trustees' offer
Flexibility for shareholders in The Trust Company to mix and match consideration between cash and shares	✓	✗	✗
High level of certainty in offer consideration value – low level of reliance on synergy realisation	✓	✓	✗
Capability in implementing transformation programs and experience in delivering the size and complexity of the proposed integration	Strong evidence ⁶	Strong evidence ⁷	Limited experience ⁶

³ Includes the 22 cent special dividend and the 17 cent interim dividend payable by The Trust Company

⁴ Adjusted for IOOF announced final dividend of 22.5 cents per share, which shareholders in The Trust Company would not receive

⁵ Includes the 22 cent special dividend

⁶ As assessed by Ernst & Young, per the announcement by The Trust Company on 23 July 2013

⁷ As assessed by The Trust Company based on IOOF company filings and acquisition track record

BOARD RECOMMENDATION

In light of the above, your directors unanimously recommend that shareholders in The Trust Company support the Revised Perpetual Proposal, in the absence of a superior proposal, subject to an independent expert opining that the Scheme is in the best interests of shareholders in The Trust Company.

In relation to the Revised Equity Trustees Offer, your directors unanimously recommend that shareholders **REJECT** the Revised Equity Trustees Offer. The Revised Equity Trustees Offer is scheduled to close at 7pm Melbourne time on 30 September 2013 (unless withdrawn or extended). To **REJECT** the Revised Equity Trustees Offer, **DO NOT RESPOND** and **DO NOTHING** in relation to all documents sent to you by Equity Trustees.

NEXT STEPS

In the coming weeks, you will receive a Scheme Booklet providing an overview of the Revised Perpetual Proposal. You will have the opportunity to vote on the Revised Perpetual Proposal at a Scheme Meeting, which is aimed to be held in November 2013.

Shareholders should be aware that the Revised Perpetual Proposal is subject to Perpetual receiving informal clearance from the Australian Competition & Consumer Commission ("ACCC") to acquire The Trust Company. The ACCC's decision is expected to be received on 19 September 2013.

Your Board will continue to keep you updated on developments as they occur. In the meantime, if you have any queries in relation to the Revised Perpetual Proposal, IOOF Proposal or Revised Equity Trustees Offer, please contact The Shareholder Information Line on **1800 505 206** (within Australia) or **+612 8256 3354** (outside Australia).

AUTHORISATION

The copy of this Third Supplementary Target's Statement that is to be lodged with ASIC has been approved by a resolution passed by the board of directors of The Trust Company.

Signed by Bruce Corlett AM for and on behalf of The Trust Company in accordance with section 351 of the *Corporations Act*.



Bruce Corlett AM
Chairman
The Trust Company



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