

The SGXNet logo is a small graphic consisting of a dark blue rectangle on top and a yellow rectangle on the bottom, both with rounded corners.

SGXNet Announcement

22 August 2016

Proposed Acquisition of the Entire Issued Ordinary Share Capital of The Baltic Exchange

1. INTRODUCTION

- 1.1 Singapore Exchange Limited (**SGX**) wishes to announce that SGX, SGX Baltic Investments Pte. Ltd. (**SBI**) and The Baltic Exchange Limited (**Baltic Exchange**) have entered into an implementation agreement (**Implementation Agreement**) setting out the terms by which 100% of the issued ordinary share capital of the Baltic Exchange (**Baltic Shares**) will be acquired by SBI, a Singapore incorporated private company that is wholly owned by Asian Gateway Pte Ltd, which itself is a wholly owned subsidiary of SGX (**Proposed Acquisition**).
- 1.2 On the basis that they believe the Proposed Acquisition to be in the best interests of holders of Baltic Shares (**Baltic Shareholders**) as a whole, the board of directors of the Baltic Exchange (**Baltic Board**) unanimously recommend to Baltic Shareholders that they vote in favour of the Proposed Acquisition at the Baltic Shareholder meetings referred to below.

2. RATIONALE FOR THE PROPOSED ACQUISITION

- 2.1 Over the past year, building upon its strong adjacent franchise within the dry bulk trading community, SGX has grown Forward Freight Agreements (**FFAs**) volumes five-fold to over one-third of the dry-freight FFA market. This was achieved through a broad and inclusive partnership with over-the-counter (**OTC**) market participants, a key amongst them being the Baltic Exchange. SGX is the Baltic Exchange's only major exchange partner in Asia.

2.2 The Proposed Acquisition is intended to create value for SGX and the Baltic Exchange's respective shareholders, while sustaining the long-standing commitment of the Baltic Exchange to all of its stakeholders: employees, clients, members, panellists, regulators and the global shipping community. SGX believes that there are a number of opportunities that the Baltic Exchange and SGX can realise together, including:

- **Shipping Benchmarks:** the creation and adoption of new benchmarks, especially Asian shipping routes. These include bringing a focus to new Asian routes, and working more closely with Asian shipping participants to consider their weightage in shipping indices. SGX's relationships with Chinese partners will allow SGX to identify key shipping routes that will enhance the global footprint of Baltic's index suite;
- **Greater FFA Adoption:** alignment of benchmark provider and clearing platform will underpin the sustained marketing effort required to grow the pool of FFA users. Improved strategic alignment for new product adoption will receive greater clearing support from SGX and other FFA clearinghouses during the early stages of product development; and
- **Capital Markets Services:** capital markets access for the Baltic Exchange's members and clients through bonds, equities and securitisation to take advantage of SGX's sectoral strength in Asia's pre-eminent wealth management and maritime hub.

2.3 SGX views the Baltic Exchange's capabilities as a global information provider and index administrator to be the cornerstone of an integrated freight benchmark, trading and clearing business in the seaborne markets of dry bulk commodities and liquefied natural gas. To this end, SGX envisions that the Baltic Exchange's management team can take on active roles in SGX's commodities business, and also contribute significant depth to business development in the West by adding to its scale in London. The Baltic Exchange's business footprint in Singapore and Shanghai will be complemented by SGX's teams in both those Asian locations, with the objective of deepening the Baltic Exchange's brand presence and membership development within Asia.

3. ABOUT THE BALTIC EXCHANGE

3.1 The Baltic Exchange is a unique participant in the maritime industry, being a leading source and provider of information for the trading and settlement of shipping contracts. The Baltic Exchange is also a critical component of the freight derivatives industry. It offers strong industry representation on a government and supranational level, claim / dispute handling and best practice standard setting for the maritime industry.

3.2 The Baltic Exchange, which can trace its history back to 1744, is a leading independent source of maritime market information for the trading and settlement of physical and derivative shipping contracts through the production of daily indices. The Baltic Exchange is headquartered in London and is owned by approximately 375 shareholders, almost all of whom are current members of the Baltic Exchange.

- 3.3 The Baltic Exchange produces freight market indices (dry and wet bulk, and liquefied petroleum gas) on a daily basis that are widely used and trusted by ship owners, charterers and freight derivative traders as an honest and independent assessment of the shipping market. The indices produced are used as benchmark indices for the pricing and settlement of freight derivative contracts globally.
- 3.4 The indices produced rely upon panels of independent shipbrokers (panellists) around the world giving their professional judgement on a daily basis as to the prevailing level of the open market within the parameters of the route they have been asked to assess. The panellists are therefore a critical component of the production of the Baltic Exchange indices.
- 3.5 FFAs are cash settled derivatives contracts (with no physical delivery) that provide a means of hedging or speculating through the trading of standardised time charter and voyage contracts. They are established as telephone executed off market futures. Clearing houses provide clearing and settlement services for FFA contracts charging a fee per lot. In 2015, volumes of FFAs have been resilient amidst a shipping downturn, with 1.73 million lots in total (dry (including options) and wet FFAs).
- 3.6 Baltex is the Baltic Exchange's regulated trading venue used by FFA brokers for reporting of dry FFA trades as block futures. Authorised and regulated as a multi-lateral trading facility by the United Kingdom Financial Conduct Authority (**FCA**), Baltex is the leading block futures trade reporting facility for the dry FFA market.
- 3.7 As at the financial year ended 31 March 2016, there were 636 members of the Baltic Exchange with more than 2,600 representatives. The Baltic Exchange expects the number of members to remain stable for the current financial year. Annual membership fees vary depending on the type of member, ranging from a sole trader to larger corporates.
- 3.8 In addition, the Baltic Exchange receives revenue for access to its proprietary Freight Market Information (FMI) from members of the Baltic Exchange, non-member subscribers and information vendors. Fees charged are based on the level of access required.
- 3.9 The Baltic Exchange owns the freehold of the property at 38 St Mary Axe, London, EC3A 8BH, part of which is leased out to other companies on an on-going basis and also provides opportunity for room hire and catering on an ad-hoc basis. The property is 41,707sq. ft. and the latest valuation valued the freehold property at £25.9 million (exclusive of value-added tax) as of 29 January 2016 (**Property Valuation**).

4. GOVERNANCE

- 4.1 In relation to management and employees, retention of the Baltic Exchange's existing employees and management team is critical to SGX's Proposed Acquisition strategy. SGX sees the Baltic Exchange's existing management team playing an active and important role in the execution of SGX's overall commodities strategy after the Proposed Acquisition has been completed. Post-acquisition, the Baltic Exchange's employees will be part of an organisation that operates an international market infrastructure. They will not only benefit from the corporate resources offered by SGX, but will also be able to contribute to and develop their careers within a larger business footprint.
- 4.2 Post-acquisition, the Baltic Exchange's existing corporate structure which comprises three subsidiaries - the Baltic Exchange Derivatives Trading Limited (**BEDT**), Baltic Exchange Information Services Limited (**BEISL**) and The Baltic Exchange (Asia) Pte. Ltd. (collectively the **Baltic Subsidiaries**), will be retained. In line with a single shareholding structure, SGX will appoint its executives as directors on the board of the Baltic Exchange and the Baltic Subsidiaries. The oversight function performed by the boards and/or committees of the Baltic Exchange and the Baltic Subsidiaries today will be taken over by new governance bodies, which shall be constituted upon completion of the Proposed Acquisition.

The Baltic Exchange Council will be constituted as the governing body to oversee the Baltic Exchange in relation to its strategy for membership services, social responsibilities, charities, and its relationship with its members, governments, regulatory bodies and the global shipping community. Members of the Baltic Exchange will nominate from among themselves eight (8) representatives on the Baltic Exchange Council, who will be vetted by the incumbent Baltic Exchange Council and approved by the Baltic Exchange. The Chairman of the BEISL Governance Council, the Chief Executive Officer of the Baltic Exchange and two directors of the Baltic Board will also be members of the Baltic Exchange Council. As it is customary for the Baltic Board to elect its Chairman and Vice Chairman from among its directors, the Baltic Exchange Council will also elect its Chairman and Vice Chairman from among its Council Members going forward. The Chairman of the Baltic Exchange Council will be invited to attend meetings of the Baltic Board where required.

The BEISL Governance Council will be constituted to provide effective scrutiny of BEISL on all aspects of its benchmark determination process in accordance with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks and the Guide to Market Benchmarks. This council will comprise five (5) representatives of the appropriate segments of the market and shall at least comprise a dry bulk, a wet bulk and a shipping derivatives broker panellist, and one director of the Baltic Board or its subsidiaries. Council members will nominate from among themselves a Chairman, who is expected to have an intimate understanding of the physical and financial shipping markets as well as a deep understanding of the Baltic Exchange. The Chairman of the BEISL Governance Council will be invited to attend meetings of the BEISL board where required.

5. POST-ACQUISITION COMMITMENTS

Under the terms of the Proposed Acquisition, SGX and/or SBI will comply with the following commitments post-acquisition:

- (a) maintain the Baltic Exchange's headquarters in St Mary Axe, London;
- (b) maintain the existing multiple clearing house model;
- (c) strengthen the existing market benchmark production and governance model in-line with the proposed amended Guide to Market Benchmarks;
- (d) maintain the Baltic Exchange's membership subscription fees and end user data fees at current levels for at least five (5) years;
- (e) continue to provide a range of membership services including dispute resolution, social and charitable activities;
- (f) procure that the Baltic Exchange and BEISL shall use their reasonable endeavours to revise the terms of data licensing and subscription, specifically to clarify that the usage of the Baltic Exchange's indices and/or data for physical and financial settlement without the involvement of a Baltic panellist is unacceptable unless explicitly permitted by licence (e.g. for clearing houses); and
- (g) maintain SGX clearing fees of FFA contracts at current levels for at least five (5) years.

6. TRANSACTION STRUCTURE

It is currently envisaged that the Proposed Acquisition will be implemented by way of a court-sanctioned scheme of arrangement (**Scheme**) pursuant to Part 26 of the Companies Act 2006 of the United Kingdom (**UK Companies Act**). The procedure of the Scheme involves, among other things, an application by the Baltic Exchange to the High Court of Justice of England and Wales (**Court**) to sanction the Scheme, under which all of the Baltic Shares will be transferred to SBI and the Baltic Shareholders will receive cash in exchange. To date, SGX has received irrevocable undertakings from Baltic Shareholders representing approximately 74% of the Baltic Shares to vote in favour of the Proposed Acquisition.

7. CONSIDERATION

7.1 Under the terms of the Proposed Acquisition, which is subject to the satisfaction of certain conditions (listed below), the Baltic Shareholders will be entitled to receive:

- (a) £160.41 in cash (**Cash Price**) per Baltic Share; and
- (b) £19.30 in cash as a final dividend (**Special Dividend**) per Baltic Share. Declaration and payment of the Special Dividend is subject to approval by a majority of the Baltic Shareholders in a general meeting and is conditional on the Proposed Acquisition becoming effective.

7.2 Accordingly, the Cash Price and the Special Dividend value the Baltic Exchange's entire issued ordinary share capital at approximately £87.0 million (approximately S\$153.0 million).

7.3 In arriving at the Cash Price, SBI has taken into account, *inter alia*, current market conditions, the prospects of the Baltic Exchange, the synergistic benefits that may be derived from the Proposed Acquisition and the Property Valuation.

7.4 The value of the Cash Price and Special Dividend together represents a premium of approximately 339% to the net tangible asset value per Baltic Share as at 31 March 2016.

7.5 The Cash Price and Special Dividend (if approved by the Baltic Shareholders) shall be paid to Baltic Shareholders within 14 days of the effective date of the Proposed Acquisition.

7.6 If the Special Dividend is not approved by Baltic Shareholders in a general meeting, SGX and SBI have agreed that the Cash Price for each Baltic Share shall be increased by an amount equal to:

- (a) the amount of the Special Dividend per Baltic Share; less
- (b) an amount equal to any additional United Kingdom stamp duty or United Kingdom stamp duty reserve tax incurred by SBI as a consequence of the increased Cash Price divided by the total number of Baltic Shares.

8. FUNDING

SGX will use its available cash on hand to fund the Proposed Acquisition.

9. CONDITIONS TO THE PROPOSED ACQUISITION

9.1 The implementation of the Proposed Acquisition is subject to various conditions precedent, which are set out in detail in the Implementation Agreement, including without limitation:

- (a) approval from the FCA of the change of control of Baltic Exchange Derivatives Trading Limited (which operates Baltex) (**FCA Approval**);
- (b) approval of the Scheme at a meeting convened at the direction of the UK Court by a majority in number of the Baltic Shareholders present and voting either in person or by proxy, representing 75% or more in value of each class of the Baltic Shares held by those shareholders;
- (c) approval of a special resolution required to implement the Scheme by at least 75% of the votes cast in person or by proxy by Baltic Shareholders at a separate general meeting to be convened in connection with the Scheme; and
- (d) sanction of the Scheme by the UK Court,

and all such events must occur on or before 31 December 2016 or such later date as SBI and the Baltic Exchange may agree and, if required, the Court may approve. If the Scheme does not become effective on or before 31 December 2016 (or such later date as SBI and the Baltic Exchange may agree and, if required, the Court may, approve), it will lapse and the Proposed Acquisition will not proceed.

10. TIMING

Subject to the progress of the FCA Approval process, the Proposed Acquisition is expected to be completed by the end of November 2016.

11. FINANCIAL EFFECTS

The Proposed Acquisition is not expected to have a material impact on the financial position of the SGX for the current financial year.

12. GENERAL INFORMATION

A copy of the Implementation Agreement will be made available for inspection during the Company's normal business hours on any business day at the Company's registered office for a period of 3 months from the date of this Announcement.

By Order of the Board

Ding Hui Yun

Company Secretary

Cautionary Statement Regarding Forward-Looking Statements

Information set out in this Announcement contains forward-looking statements, which involve a number of risks and uncertainties. These statements reflect SGX's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. SGX cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Such forward-looking statements include, but are not limited to, statements about the benefits of the Proposed Acquisition, including estimated revenue and cost synergies, possible or assumed future results of operations and operating cash flows, the combined group's plans, objectives, expectations, intentions, growth opportunities and competitive position and other statements that are not historical facts. These forward-looking statements should not be relied upon as predictions of future events as SGX cannot assure readers that the events or circumstances reflected in these statements will be achieved or will occur. In particular, SGX cannot assure readers that the Proposed Acquisition will be approved by the shareholders of the Baltic Exchange or that the conditions to the Proposed Acquisition will be satisfied or that the Proposed Acquisition will occur. SGX does not undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.