

BURSA MALAYSIA BERHAD

ANNOUNCEMENT TO BURSA MALAYSIA SECURITIES BERHAD

THE ACQUISITION OF 25% EQUITY INTEREST IN BURSA MALAYSIA DERIVATIVES BERHAD FROM CME GROUP STRATEGIC INVESTMENTS LLC PURSUANT TO THE PUT OPTION EXERCISED BY CME GROUP INC AND THE VARIATION OF GLOBEX SERVICES AGREEMENT WITH CHICAGO MERCANTILE EXCHANGE INC AND CMEG STRATEGIC SDN BHD (COLLECTIVELY REFERRED TO AS “THE PROPOSALS”)

1. INTRODUCTION

The Board of Directors of Bursa Malaysia Berhad (“Bursa Malaysia”) wishes to announce the following:

- i. Bursa Malaysia will acquire the remaining 25% equity interest in Bursa Malaysia Derivatives Berhad (“Bursa Derivatives”) from CME Group Strategic Investments LLC (“CMEGSI”) consequent to an exercise of a put option (“Put Option”) by CME Group Inc (“CME Group”) (“the Acquisition”).

The Board of Directors of Bursa Malaysia had, on 18 September 2019, approved the Put Option Price of RM162,471,000 for the acquisition of 12,500,000 ordinary shares (“Bursa Derivatives Shares”), which represents the remaining 25% equity interest in Bursa Derivatives, and an additional sum which is to be determined later (“Additional Sum”, which is further explained in item 2.8 of this announcement).

Upon completion of the Acquisition, Bursa Derivatives becomes a wholly-owned subsidiary of Bursa Malaysia.

- ii. On 18 September 2019, Bursa Derivatives entered into an agreement with Chicago Mercantile Exchange Inc and CMEG Strategic Sdn Bhd (collectively referred to as “CME”) to vary the terms of the existing Globex Services Agreement (“GSA”). The varied terms for the GSA are as prescribed in the variation to the GSA (“Variation to GSA”) and shall be effective immediately. Bursa Derivatives also entered into a non-binding Strategic Cooperation Agreement (“SCA”) with Chicago Mercantile Exchange Inc, signifying CME’s commitment to the Malaysian derivatives market under which CME and Bursa Derivatives will explore new products and other business opportunities that will deliver value to their respective customers.

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2. DETAILS OF THE PROPOSALS

2.1. Background on the Acquisition

Bursa Malaysia, CMEGSI, CME Group and Bursa Derivatives had entered into an agreement on 17 September 2009 for the acquisition of the 25% equity interest in Bursa Derivatives by CMEGSI as part of a strategic collaboration partnership between Bursa Malaysia and CME Group. Subsequently, the same parties entered into an agreement on 30 November 2009 (“Shareholders Agreement”) which contains, amongst others, customary provisions relating to restrictions on transfer, exit options, non-competition, composition of the Board of Directors, conduct of shareholders’ meetings, CME Group’s approval rights and provisions for joint product development and marketing.

For the purpose of the Acquisition, a Put Option letter has been issued by CME Group on 16 September 2019, where it sets out the following terms which vary from the terms set out in the Shareholders Agreement:

- i. the extension for the settlement of the Acquisition to early December 2019; and
- ii. an Additional Sum*, which is to be determined later, being an amount equal to 25% of the 70% of Bursa Derivatives’ operating profit before tax for the second and third quarters of the financial year ending 31 December 2019.

* For the avoidance of doubt, in the event Bursa Derivatives declares and pays any dividend in respect of its operating profit before tax for the second and third quarters of the financial year ending 31 December 2019 prior to the final settlement of the Acquisition consideration, the Additional Sum shall be reduced by an equal sum.

2.2. Background on GSA and SCA

On 17 September 2009, Bursa Derivatives had entered into the GSA with CME to host Bursa Derivatives’ products on CME Globex electronic trading platform (“Globex”).

The initial period of the existing GSA which was entered into between Bursa Derivatives and CME is effective until 19 September 2020. Both Bursa Derivatives and CME have agreed to extend the GSA with all the existing terms in the GSA to remain except for the variations as provided for in the Variation to GSA. The variations include the following:

- i. the revision in the tiered fee structure on the provision of Globex services by CME;
- ii. the extension of the initial renewal term of the agreement from 3 years to 5 years, to be effective until 19 September 2025, and with the option of successive renewal terms of 3 years, thereafter; and
- iii. the extension of the termination notice period on non-renewal of the GSA from 18 months to 24 months.

Under the SCA, Chicago Mercantile Exchange Inc and Bursa Derivatives will establish a joint working group with product development and product marketing representatives from both exchanges. The joint working group will meet at least quarterly and will explore opportunities to develop and market new products.

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2.3. Related Party Transactions (“RPT”)

In view of the variations made to the Put Option and the GSA, the Proposals are deemed as related party transactions pursuant to Chapter 10, Paragraph 10.08(9) of Bursa Malaysia Securities Berhad’s Main Market Listing Requirements (“MMLR”) where an announcement is required.

2.4. Information on Bursa Derivatives

Bursa Derivatives was incorporated in Malaysia under the Companies Act, 1965 on 17 April 1993 as a public limited company under the name of The Kuala Lumpur Options & Financial Futures Exchange Bhd. On 31 May 2001, it changed its name to Malaysia Derivatives Exchange Bhd and subsequently assumed its present name on 15 April 2004.

The principal activities of Bursa Derivatives are to provide, operate and maintain the derivatives exchange. Bursa Derivatives operates the most liquid and successful crude palm oil futures (FCPO) contract in the world.

Based on Bursa Derivatives Group (which includes Bursa Malaysia Derivatives Clearing Berhad, a wholly-owned subsidiary of Bursa Derivatives) audited financial statements as at 31 December 2018, the net profits and the net assets attributable to the 25% equity interest was RM6,572,000 and RM12,291,000, respectively.

Further information on Bursa Derivatives is set out in Appendix A.

2.5. Information on CME Group

CME Group was incorporated under the laws of the State of Delaware, United States of America, on 2 August 2001 as a corporation under the name Chicago Mercantile Exchange Holdings Inc. In December 2002, Chicago Mercantile Exchange Holdings Inc completed its initial public offering of its Class A common stock, which is listed on the NASDAQ Global Select Market under the symbol “CME”. On 12 July 2007, CME Group merged with CBOT Holdings Inc and was renamed CME Group Inc.

Further information on CME Group is set out in Appendix A.

2.6. Information on CMEGSI

CMEGSI, a limited liability company formed under the laws of the State of Delaware and a wholly-owned subsidiary of CME Group, was formed on 12 December 2007. CME Group is the sole member of CMEGSI. As a member managed limited liability company, CMEGSI does not have a board of directors, but is managed solely by its sole member, CME Group. The principal activity of CMEGSI is to serve as a holding company for certain strategic investments of CME Group.

2.7. Information on CME

Chicago Mercantile Exchange Inc and CMEG Strategic Sdn Bhd are both wholly-owned subsidiaries of CME Group.

2.8. Basis and justifications in arriving at the Consideration for the Acquisition

The consideration of RM162,471,000 for the Acquisition was arrived at as of 31 March 2019 based on the pre-agreed valuation formula as defined in the Shareholders Agreement (“the Formula”). This takes into consideration the earnings before interest, taxes, depreciation and amortisation (“EBITDA”) of Bursa Derivatives Group and the Enterprise Value over EBITDA multiple of 17.8 times which was derived based on 12 listed exchanges as prescribed in the Formula.

The Additional Sum, which is to be determined later, will be based on the 25% of the 70% of Bursa Derivatives’ operating profit before tax for the second and third quarters of the financial year ending 31 December 2019. The Additional Sum is arrived at based on the fact that CMEGSI remains as a 25% shareholder of Bursa Derivatives until the completion of the Acquisition, i.e. in early December 2019.

2.9. Mode of Settlement for the Proposals

The total cash consideration of RM162,471,000 for the Acquisition will be fully paid upon the delivery of the duly executed and stamped transfer form and relevant share certificates by CMEGSI to Bursa Malaysia. The Additional Sum, which is to be determined later, will also be fully satisfied in cash. The abovementioned sum for the Acquisition and the Additional Sum shall together be paid to CMEGSI.

The consideration for the Acquisition and the Additional Sum will be funded by the disposal of a portion of the quoted shares (outside Malaysia) owned by Bursa Malaysia.

The payment for the fees as stipulated in the GSA will be made in the normal course of business of Bursa Derivatives and will be funded by the operating cashflows of Bursa Derivatives.

2.10. Liabilities to be Assumed

Bursa Derivatives Shares to be acquired pursuant to the Acquisition are free and clear of all liens, charges and claim of any kind of restrictions whatsoever in nature and they rank pari passu in all respects with the existing shares of Bursa Derivatives.

There is no liability to be assumed by Bursa Malaysia arising from the Proposals.

3. RATIONALE FOR THE PROPOSALS AND PROSPECT

Following the Acquisition, Bursa Derivatives will be a wholly-owned subsidiary of Bursa Malaysia. This will enable Bursa Malaysia to streamline its assets and expand its offerings in the derivatives business. The strategic relationship with CME will continue with the extension of the GSA and enhanced business collaboration via the new non-binding SCA.

The revision in the tiered fee structure as stated in item 2.2(i) is expected to provide cost savings to Bursa Derivatives annually while its products continue to have global visibility, accessibility and connectivity to investors.

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4. RISK FACTOR

Bursa Malaysia is not aware of any risk factors arising from the Proposals.

5. FINANCIAL EFFECTS OF THE PROPOSALS

5.1. Share Capital

The Proposals do not have any effect on the share capital of Bursa Malaysia.

5.2. Substantial Shareholders' Shareholdings

The Proposals do not have any effect on the substantial shareholders' shareholdings in Bursa Malaysia.

5.3. Earnings and Earnings per Share ("EPS")

Based on the latest audited financial statements of Bursa Malaysia and its subsidiaries ("Bursa Malaysia Group") for the financial year ended 31 December 2018, assuming the Acquisition will be completed by early December 2019, the Acquisition and the Variation to GSA will not have any material effect on the consolidated earnings and EPS of Bursa Malaysia Group.

5.4. Net Assets ("NA") and Gearing

The Proposals will not have any material impact on the gearing of Bursa Malaysia Group.

The Variation to GSA does not have any material impact on the NA of Bursa Malaysia Group. For illustrative purposes, the proforma effects of the Acquisition (based on the Put Option Price) on the NA of Bursa Malaysia Group based on the audited consolidated balance sheet of Bursa Malaysia Group as at 31 December 2018 are shown below:

	Audited as at 31 December 2018 RM '000	Effects of the Acquisition RM'000	Effects post Acquisition RM '000
Share capital	424,142	-	424,142
Other reserves	251,311	-	251,311
Retained earnings	199,705	(150,180) ⁽²⁾	49,525
NA / Equity attributable to the shareholders of Bursa Malaysia	875,158	(150,180)	724,978
Non-controlling interest	12,291	(12,291) ⁽¹⁾	-
Total equity	887,449	(162,471)	724,978
No. of shares in issue ('000)	807,475		807,475
NA per share (RM)	1.08		0.90

Note ⁽¹⁾ The Acquisition would cause a change in Bursa Malaysia's ownership interest on Bursa Derivatives from 75% (pre-acquisition) to 100% (post-acquisition). Consequently, the non-controlling interest would decline by RM12,291,000.

Note ⁽²⁾ With the Acquisition, Bursa Malaysia will continue to have control of Bursa Derivatives, and therefore the Acquisition is accounted for as an equity transaction with owners of Bursa Malaysia, in accordance with the requirements of the Malaysian Financial Reporting Standard 10 Consolidated Financial Statements. The remaining amount of RM150,180,000 is offset against the retained earnings of Bursa Malaysia.

6. APPROVAL REQUIRED

The Proposals do not require the approval of the shareholders of Bursa Malaysia or any relevant authority.

7. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED

None of the directors and/or major shareholders of Bursa Malaysia and/or persons connected with them have any interest, whether direct or indirect, in the Proposals. However, the Proposals involve the interest of the major shareholder of Bursa Derivatives and persons connected, namely CME Group and CMEGSI, and their nominee director in Bursa Derivatives.

8. AUDIT COMMITTEE STATEMENT

The Audit Committee, having considered all aspects of the Proposals, is of the opinion that the Proposals are fair, reasonable and on normal commercial terms and are in the best interest of Bursa Malaysia and are not detrimental to the interest of the minority shareholders of Bursa Malaysia.

In establishing the above opinion, the Audit Committee has taken into consideration amongst others, the rationale and the benefits of the Proposals.

9. DIRECTORS' STATEMENT

The Board of Directors of Bursa Malaysia, after having considered all aspects of the Proposals, is of the opinion that the Proposals are fair, reasonable and on normal commercial terms and are not detrimental to the interest of the minority shareholders of Bursa Malaysia. The Board of Directors of Bursa Malaysia is of the view that the Proposals are in the best interest of Bursa Malaysia.

10. ORIGINAL COST OF INVESTMENT TO CMEGSI

CMEGSI acquired the 25% equity interest in Bursa Derivatives on 30 November 2009 for RM55,600,000.

11. TRANSACTION WITH THE SAME RELATED PARTY FOR THE PRECEDING 12 MONTHS

There was no other transaction with CME Group and its group of companies that is not in the ordinary course of business, for the twelve (12) months preceding the date of this announcement.

12. HIGHEST PERCENTAGE RATIO

The highest percentage ratio applicable to the Acquisition pursuant to Paragraph 10.02(g) of the MMLR of Bursa Malaysia Securities Berhad is approximately 19.0%.

The highest percentage ratio applicable to the Variation to GSA pursuant to Paragraph 10.02(g) of the MMLR is approximately 7.2%.

13. ESTIMATED TIME FRAME FOR COMPLETION

The estimated time frame to complete the Acquisition is by early December 2019.

The Variation to GSA takes effect on 18 September 2019.

14. DOCUMENTS AVAILABLE FOR INSPECTION

The salient features of the Shareholders Agreement and the put option letter are available for inspection at the registered office of Bursa Malaysia during normal business hours for a period of 3 months from the date of this announcement.

The salient features of the Variation to GSA are available for inspection at the registered office of Bursa Malaysia during normal business hours for a period of 3 months from the date of this announcement.

This announcement is dated 18 September 2019.

APPENDIX A

1. INFORMATION ON BURSA MALAYSIA DERIVATIVES BERHAD (“BURSA DERIVATIVES”)

- 1.1 Bursa Derivatives was incorporated in Malaysia under the Companies Act, 1965 on 17 April 1993 as a public limited company under the name of The Kuala Lumpur Options & Financial Futures Exchange Bhd. On 31 May 2001, it changed its name to Malaysia Derivatives Exchange Bhd and subsequently assumed its present name on 15 April 2004.
- 1.2 The principal activity of Bursa Derivatives is to provide, operate and maintain a derivatives exchange. Bursa Derivatives operates the most liquid and successful crude palm oil futures (FCPO) contract in the world.
- 1.3 The Board of Directors of Bursa Derivatives comprises Datuk Muhamad Umar Swift, Datin Mariam Prudence binti Yusof, William Francis Herder and Christopher Lee Fix.
- 1.4 Bursa Malaysia Berhad holds 75% equity interest in Bursa Derivatives, while the remaining 25% of the equity interest is held by CME Group.

2. INFORMATION ON CME GROUP INC

- 2.1 CME Group Inc was incorporated under the laws of the State of Delaware, US on 2 August 2001 as a corporation under the name Chicago Mercantile Exchange Holdings Inc. In December 2002, Chicago Mercantile Exchange Holdings Inc. completed its initial public offering of its Class A common stock, which is listed on the NASDAQ Global Select Market under the symbol “CME”. On 12 July 2007, CME merged with CBOT Holdings, Inc and was renamed CME Group Inc. In connection with the merger, CME acquired the CBOT exchange. In 2008, CME Group Inc merged with NYMEX Holdings, Inc. and acquired New York Mercantile Exchange (“NYMEX”) and Commodity Exchange, Inc (“COMEX”). On 17 October 2012, CME Group Inc acquired The Board of Trade of Kansas City, Missouri, Inc. (“KCBT”) and its hard red winter wheat product line and effective from December 2013, KCBT operations were transferred to CBOT. In April 2013, CME Group purchased the non-controlling interest in CME Group Index Services from Dow Jones & Company.
- 2.2 CME Group Inc is the holding company for Chicago Mercantile Exchange Inc, CBOT, NYMEX, COMEX and their respective subsidiaries. Through its exchanges, CME Group Inc offers the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agriculture products and metals. CME Group Inc provides electronic trading globally on its CME Globex platform. The Company also offers clearing and settlement services across asset classes for exchange-traded and over-the-counter derivatives through its clearing house, CME Clearing.

- 2.3 The Board of Directors of CME Group Inc comprises of Terrence A. Duffy, Charles P. Carey, Michael A. Spencer, Timothy S. Bitsberger, Dennis H. Chookaszian, Elizabeth A. Cook, Ana Dutra, Martin J. Gepsman, Larry G. Gerdes, Daniel R. Glickman, Yra G. Harris, Gedon Hertshten, William W. Hobert, Daniel G. Kaye, Phyllis M. Lockett, Deborah J. Lucas, Ronald A. Pankau, Alex J. Pollock, Terry L. Savage, William R. Shepard, Howard J. Siegel, Dennis A. Suskind and Robert J. Tierney Jr..
- 2.4 As at 29 June 2019, Capital World Investors is the largest shareholder of CME Group Inc holding 35,148,244 Class A Shares or approximately 9.82% of all shares outstanding in each Class A common stock of CME Group Inc.

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