

# Release to Australian Securities Exchange

## Replacement Announcement

**21 February 2011**

Attached is a revised announcement which is identical in all respects to the announcement released earlier today, except that formatting and numbering irregularities in the attachment to the announcement summarising the key terms of the Scheme Implementation Agreement have now been corrected.

For further information:

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# Release to Australian Securities Exchange

21 February 2011

## Redflex Board unanimously recommends proposal from The Carlyle Group and Macquarie

Redflex announces today that it has entered into a Scheme Implementation Agreement (“SIA”) with an entity associated with The Carlyle Group and Macquarie Group Limited (“Macquarie”) (together the “Consortium”) under which it is proposed the Consortium will acquire all of the ordinary shares in Redflex under a Scheme of Arrangement (“Scheme”).

Under the terms of the Scheme, Redflex shareholders will receive A\$2.70 cash per share where the AUD:USD exchange rate at the relevant payment date is within the range of 0.98 – 1.02, valuing Redflex’s total equity at approximately A\$300 million. The A\$2.70 per share consideration will be subject to the following exchange rate adjustment mechanism:

- If the spot exchange rate at the relevant payment date is less than 0.98, Redflex shareholders will receive A\$2.70 per share x (0.98 / spot AUD:USD exchange rate at the relevant payment date)
- If the spot exchange rate at the relevant payment date is more than 1.02, Redflex shareholders will receive A\$2.70 per share x (1.02 / spot AUD:USD exchange rate at the relevant payment date)

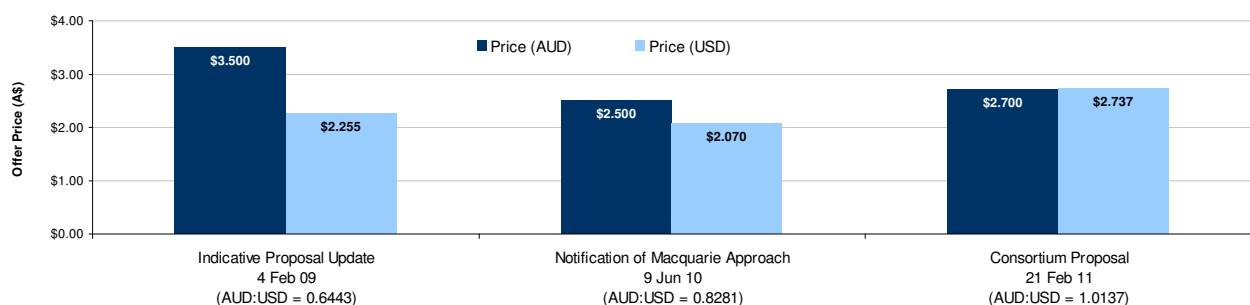
Below is a table summarising the per share consideration that would be received by Redflex shareholders under different exchange rate scenarios.

	Consideration Fixed at A\$2.70													
Exchange Rate (AUD:USD)	0.94	0.95	0.96	0.97	0.98	0.99	1.00	1.01	1.02	1.03	1.04	1.05	1.06	
Scheme Consideration (A\$)	2.81	2.79	2.76	2.73	2.70	2.70	2.70	2.70	2.70	2.67	2.65	2.62	2.60	

The price of A\$2.70 per share represents:

- A premium of 76% in AUD terms and 116% in USD terms to Redflex’s closing share price of A\$1.535 on 4 June 2010, the last trading day prior to speculation in relation to Macquarie’s indicative, non-binding and confidential proposal of A\$2.50 per share announced on 9 June 2010
- A premium of 8% in AUD terms and 32% in USD terms to Macquarie’s initial proposal of A\$2.50 per share
- A premium of 21% to Redflex’s closing share price of A\$2.24 per share on 18 February 2011, the last trading day prior to this announcement

As highlighted in the chart below, in USD terms, the price under the current proposal from the Consortium compares favourably to previously announced indicative, non-binding proposals for Redflex. This is particularly relevant given that approximately 75% of Redflex’s group revenue is generated in the United States. Specifically, in February 2009 Redflex announced that indicative proposals of around A\$3.50 per share had been received, which at the prevailing AUD:USD exchange rate of 0.6443 implied a price of US\$2.255 per share. In USD terms, the current proposal from the Consortium is approximately 20% higher than this. The price under the current proposal is also significantly higher in USD terms than Macquarie’s initial proposal in June 2010.



David Stonehill, Carlyle Managing Director, said, "We are pleased to partner with the Redflex management team and Macquarie on this remarkable road safety company, which has a demonstrated track record of financial and operating success in its core markets. This is a rare opportunity to invest in a company whose products save lives."

Brooke Coburn, Carlyle Managing Director and Head of Carlyle Growth Partners III, the U.S. Growth fund investing in Redflex, said, "Redflex is a great fit with our investment strategy. Redflex offers significant global growth opportunities, particularly in the United States, Europe and the Middle East where there is a growing appreciation for the safety that red-light cameras provide."

### **Transaction structure**

As noted above, the proposed acquisition of Redflex by the Consortium will be by way of a Scheme.

The Scheme is subject to certain conditions including Redflex shareholder and court approval, regulatory approvals and other conditions that are usual for a transaction of this nature. A summary of the key terms of the executed SIA entered into by Redflex and the Consortium is attached to this announcement.

The SIA includes exclusivity provisions in favour of the Consortium, provision for the payment of a A\$3.39 million break fee by Redflex to the Consortium in specific circumstances, and the provision for a A\$3.39 million cost reimbursement payment by the Consortium to Redflex in specific circumstances (the payment of which is supported by a guarantee and indemnity from entities associated with the Consortium).

Importantly for Redflex, the Consortium has provided a fully funded proposal and the SIA does not include any financing conditions.

### **Board recommendation and process**

The Redflex Board unanimously recommends that Redflex shareholders vote in favour of the Scheme at the Scheme meeting, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of Redflex shareholders. Subject to those same qualifications, each Redflex director intends to vote all the Redflex shares held or controlled by them in favour of the Scheme.

As previously announced, the Redflex Board determined last year that Macquarie's initial proposal of A\$2.50 per share significantly undervalued Redflex. The Board determined that the interests of Redflex shareholders would be best served by appointing Greenhill Calburn to conduct a formal global process to determine whether a change of control offer could be secured at a price and on the terms that the Board would recommend. This process involved approaching over 40 parties, many of whom executed confidentiality agreements and were provided with access to a data room.

Following receipt of a number of confidential proposals in December 2010, including from Macquarie, Redflex and its advisers have been in negotiations with a number of parties. This ultimately led to the formation of the Consortium between The Carlyle Group and Macquarie to acquire Redflex on the terms set out in this announcement.

Redflex's Board has now concluded that the Consortium's proposal provides the best outcome for Redflex shareholders.

Redflex's Chairman, Max Findlay, said:

"Following the initial A\$2.50 proposal by Macquarie in June 2010, Redflex and its advisers have worked diligently to extract the best price for Redflex shareholders. This included undertaking a comprehensive global sale process where a number of parties were provided extensive due diligence access."

“The Board is extremely positive about Redflex’s standalone growth prospects and a number of recent technology advancements and other initiatives should add significant value to the business.”

“However, we also recognise that the Consortium has put forward an attractive proposal to shareholders at a price which represents a significant premium to a number of relevant benchmarks.”

“With 75% of Redflex’s revenue generated in USD, recent exchange rate movements have had a significant impact on the value of the business in Australian dollar terms. Despite the AUD:USD exchange rate moving from around 0.83 when Macquarie’s initial proposal was received in June 2010 to around 1.01 currently, Redflex and its advisers have been able to secure a binding proposal from the Consortium at a price significantly above Macquarie’s initial offer price.”

**Timing**

An Explanatory Booklet containing full details of the Scheme proposal, the reasons for the Redflex Directors’ unanimous recommendation, a copy of the independent expert’s report and a notice convening the Scheme meeting is expected to be sent to Redflex shareholders in April.

The Scheme meeting is expected to be held in May. Subject to the approval of the Scheme by shareholders and the court and the timely satisfaction (or waiver) of the conditions, Redflex expects the Scheme to be completed by June.

A more detailed Scheme timetable will be released in due course before the despatch of the Explanatory Booklet.

**Advisers**

Redflex is being advised by Greenhill Caliburn and Minter Ellison.

**Other Information**

The Carlyle Group is a global alternative asset manager with \$97.7 billion of assets under management committed to 76 funds as of September 30, 2010. The Carlyle Group invests across three asset classes - private equity, real estate and credit alternatives - in Africa, Asia, Australia, Europe, North America and South America focusing on aerospace & defense, automotive & transportation, consumer & retail, energy & power, financial services, healthcare, industrial, infrastructure, technology & business services and telecommunications & media. Since 1987, the firm has invested \$64.7 billion of equity in 1,015 transactions. The Carlyle Group employs more than 900 people in 19 countries. As of June 30, 2009, in the aggregate, Carlyle portfolio companies have more than \$84 billion in revenue and employ more than 398,000 people around the world.

Macquarie is a global provider of banking, financial, advisory, investment and funds management services. Macquarie's main business focus is making returns by providing a diversified range of services to clients. Macquarie acts on behalf of institutional, corporate and retail clients and counterparties around the world. Macquarie Group Limited is listed in Australia (ASX:MQG; ADR:MQBKY) and is regulated by APRA, the Australian banking regulator, as the owner of Macquarie Bank Limited, an authorised deposit taker. Macquarie also owns a bank in the UK, Macquarie Bank International Limited, which is regulated by the FSA. Founded in 1969, Macquarie employs more than 15,400 people in approximately 70 office locations in 28 countries. At 30 September 2010, Macquarie had assets under management of \$A317 billion.

For further information:

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**ATTACHMENT**

**SUMMARY OF THE SCHEME IMPLEMENTATION AGREEMENT**

**Summary**

On 21 February 2011, Redflex Holdings Limited (**Redflex**), A.C.N. 149 328 012 Pty Ltd (to be re-named RoadSafety Holdings Pty Ltd) (**BidCo**) and Macquarie Capital Group Limited, Macquarie Special Situations Master Fund Limited and Carlyle U.S. Growth Fund III, L.P. (together, **Guarantors**) entered into a Scheme Implementation Agreement (**SIA**).

The SIA sets out the obligations of Redflex, BidCo and the Guarantors in relation to a scheme of arrangement (**Scheme**) to be proposed to Redflex shareholders. A summary of some key terms of the SIA is set out below.

**Conditions**

The Scheme will not become Effective, and the respective obligations of the parties in relation to the implementation of the Scheme will not be binding, until each of the following conditions precedent is satisfied or waived to the extent and in the manner set out in the SIA:

- (a) **(Regulatory Approvals):**
  - (i) **(ASIC and ASX)** before 8.00am on the Second Court Date, ASIC and ASX issue or provide such consents or approvals as are necessary or which Redflex and BidCo agree are necessary or desirable to implement the Scheme and such consent, approval or other act has not been withdrawn or revoked before 8.00am on the Second Court Date;
  - (ii) **(FIRB)** before 8.00am on the Second Court Date, either:
    - (A) the Treasurer (or his delegate) has provided a notice in writing (without any term or condition which BidCo reasonably considers unacceptable) stating or to the effect that, in terms of Australia's foreign investment policy, the Australian Government does not object to BidCo acquiring the Scheme Shares pursuant to the Scheme; or
    - (B) the period provided for under the FATA during which the Treasurer may make orders under section 18 or 22 of the FATA prohibiting the acquisition of the Scheme Shares by BidCo has elapsed without any such order being made; or
    - (C) if an interim order under section 22 of the FATA prohibiting such acquisition is made, the subsequent period for making a final order prohibiting the acquisition of the Scheme Shares by BidCo has elapsed without any such order being made.

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- (iii) **(HSR)** before 8.00am on the Second Court Date any applicable waiting period (and any extension thereof) under all applicable Antitrust Laws (including the Hart Scott Rodino Act) relating to the implementation of the Scheme has expired or been terminated and any necessary consents under any Antitrust Law have been obtained; and
  - (iv) **(Regulatory Authority)** all other approvals of a Regulatory Authority as are necessary or which BidCo and Redflex agree are necessary or desirable to implement the Proposed Transaction are obtained;
  - (b) **(No Material Adverse Change)** no Material Adverse Change occurs between the date of the SIA and 8.00am on the Second Court Date;
  - (c) **(No Redflex Prescribed Occurrence)** no Redflex Prescribed Occurrence occurs between the date of the SIA and 8.00am on the Second Court Date;
  - (d) **(No Guarantor Prescribed Occurrence)** no Guarantor Prescribed Occurrence occurs between the date of the SIA and 8.00am on the Second Court Date;
  - (e) **(No change of Redflex Board recommendation)** between the date of the SIA and the date of the Scheme Meeting, none of the Directors of Redflex changing, qualifying or withdrawing their unanimous recommendation to Redflex Shareholders to vote in favour of the Scheme, which recommendation may be expressed to be given:
    - (i) in the absence of a Superior Proposal; and
    - (ii) subject to the Independent Expert opining that the Scheme is in the best interest of Redflex Shareholders;
  - (f) **(Redflex Warranties)** those Redflex warranties which are qualified as to materiality being true and correct and those Redflex warranties which are not qualified as to materiality being true and correct in all material respects in each case at the times specified in the relevant warranty and a certificate confirming this is provided by Redflex to BidCo by 8.00am on the Second Court Date;
  - (g) **(BidCo Warranties)** those BidCo warranties which are qualified as to materiality being true and correct and those BidCo warranties which are not qualified as to materiality being true and correct in all material respects in each case at the times specified in the relevant warranty and a certificate confirming this is provided by BidCo to Redflex by 8.00am on the Second Court Date;
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- (h) **(Guarantor Warranties)** the Guarantor warranties being true and correct at the times specified in the relevant warranty and a certificate confirming this is provided by each Guarantor to Redflex by 8.00am on the Second Court Date;
  - (i) **(Shareholder approval)** the Scheme is approved by Redflex Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act;
  - (j) **(Court approval)** the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act;
  - (k) **(Restraining orders)** no judgment, order, decree, statute, law, ordinance, rule of regulation, or other temporary restraining order, preliminary or permanent injunction, restraint or prohibition, entered, enacted, promulgated, enforced or issued by any court or other Regulatory Authority of competent jurisdiction remains in effect as at 8.00am on the Second Court Date that prohibits, materially restricts, makes illegal or restrains the completion of the Scheme or any Transaction Document;
  - (l) **(Financial statements confirmation)** within five Business Days of the release to ASX of the financial statements for the Redflex Group for the six month period ended 31 December 2010 (as reviewed by Redflex's auditors and as disclosed in the half-year report for that period), BidCo notifies Redflex that it is satisfied that those financial statements do not adversely differ in any respect (other than (1) differences that, when aggregated with all other differences in the relevant financial statement, have a net effect of less than A\$350,000; or (2) a difference in respect of any individual line item of less than A\$350,000) to the unaudited financial statements for that period (as already disclosed to BidCo prior to the date of the SIA);
  - (m) **(Third party consents)** all consents, approvals or waivers of rights by parties other than Redflex under any material contracts that in the reasonable opinion of BidCo are necessary or desirable are obtained;
  - (n) **(Audit working papers)** Redflex provides to BidCo within 5 Business Days after the date of the SIA the Audit Working Papers; and
  - (o) **(Independent Expert)** the Independent Expert concluding in the Independent Expert's Report that in its opinion the Scheme is in the best interest of Redflex Shareholders and the Independent Expert not having publicly withdrawn or qualified this conclusion on or before the Second Court Date.

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**Exclusivity arrangements**

**No Shop**

During the Exclusivity Period, Redflex must not, and must ensure that its authorised persons do not, except with the prior written consent of BidCo, directly

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or indirectly solicit, invite, initiate, or encourage any Competing Proposal or initiate discussions with any third party with a view to obtaining any expressions of interest, offer or proposal from any person in relation to a Competing Proposal (whether from a person with whom Redflex has previously been in discussions or not) or communicate to any person an intention to do any of these things.

**No Talk and no due diligence**

Subject to the exceptions noted below, during the Exclusivity Period, Redflex must not and must ensure that its Authorised Persons do not, except with the prior written consent of BidCo, directly or indirectly:

- (a) participate in any negotiations in relation to a Competing Proposal or which may reasonably be expected to lead to a Competing Proposal;
- (b) enter into any relevant agreement in connection with a Competing Proposal; or
- (c) provide any information to a third party for the purposes of enabling that party to make a Competing Proposal or in circumstances where the provision of information may reasonably be expected to lead to a Competing Proposal; or
- (d) communicate to any person an intention to do any of the things referred to in this provision.

**Exceptions**

The No Talk restriction does not apply:

- (a) to the extent it restricts the Redflex Board from taking or refusing to take any action with respect to a Competing Proposal which is or may reasonably be expected to lead to a Superior Proposal (which was not solicited, initiated, invited or encouraged (whether directly or indirectly) by Redflex or any of its Authorised Persons in contravention of the No Shop restriction); and
- (b) the Redflex Board determines in good faith after receiving written legal advice from Redflex's external legal advisers, that failing to respond to the Competing Proposal would reasonably be likely to constitute a breach of its fiduciary or statutory duties.

**Notice of Competing Proposal**

- (a) During the Exclusivity Period, Redflex must promptly notify BidCo if it or any of its Authorised Persons receive a Competing Proposal in writing and must provide BidCo with the price and conditions of the Competing Proposal (excluding the identity of the party or any other details about the Superior Proposal) and whether or not it is a Superior Proposal together with copies of any material confidential information concerning the Redflex Group's operations or assets provided to any person associated with the Competing Proposal not previously provided to BidCo (a
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**Competing Proposal Notice).**

- (b) In respect of any Competing Proposal which is a Superior Proposal, Redflex agrees that it will not, until the expiration of five Business Days following the receipt of the Competing Proposal Notice by BidCo:
  - (i) enter into any legally binding agreement with respect to the Superior Proposal; or
  - (ii) publicly recommend the Superior Proposal.
- (c) If Redflex gives BidCo a Competing Proposal Notice, BidCo agrees that the notice will be Confidential Information of Redflex (as defined in the Confidentiality Deed).
- (d) In respect of any Competing Proposal which is a Superior Proposal, BidCo will have the right, but not the obligation, at any time until the expiration of five Business Days following receipt of the notice to:
  - (i) offer to amend the terms of the Scheme; or
  - (ii) to propose any other transaction,

which must be submitted to Redflex in writing (each a **BidCo Counterproposal**), and if BidCo does so, the Redflex Board must review the BidCo Counterproposal in good faith and in what the Redflex Board considers is required to comply with its fiduciary and statutory duties, to determine whether the BidCo Counterproposal is more favourable to Redflex Shareholders than the Superior Proposal.

- (e) If the Redflex Board determines, in good faith and in order to satisfy what the Redflex Board considers to be its fiduciary and statutory duties, that the BidCo Counterproposal is more favourable to Redflex Shareholders than the Superior Proposal, then:
    - (i) if the BidCo Counterproposal contemplates an amendment to the Scheme, the parties must enter into a deed amending the SIA in relation to the Scheme and reflecting the BidCo Counterproposal;
    - (ii) if the BidCo Counterproposal contemplates any other transaction, Redflex must make an announcement as soon as reasonably practicable recommending the BidCo Counterproposal, in the absence of a more favourable proposal, and the parties must pursue implementation of the BidCo Counterproposal in good faith; and
    - (iii) Redflex must not take any of the steps referred to in paragraph (b) above.
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**Exceptions**

Despite anything in the Notice of Competing Proposal section above, each obligation of Redflex set out in this section does not apply:

- (a) to the extent it restricts the Redflex Board from taking or refusing to take any action with respect to a Competing Proposal which is or may reasonably be expected to lead to a Superior Proposal (which was not solicited, initiated, invited, facilitated or encouraged (whether directly or indirectly) by Redflex or any of its Authorised Persons in contravention of the No Shop restriction); and
  - (b) to the extent that the Redflex Board determines in good faith and after having taken written advice from its legal advisers that complying with such obligation would be likely to involve a breach of the fiduciary or statutory duties owed by any Redflex Director.
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**Redflex Break Fee**

- (a) Redflex agrees to pay to BidCo \$3,390,000 (exclusive of GST) (exclusive of GST) (**Redflex Break Fee**) if any of the following circumstances arise:
    - (i) (**Superior Proposal**) During the period commencing on the date of the SIA and ending on the End Date, a Superior Proposal is publicly announced and within twelve months from the date of the public announcement of such Superior Proposal:
      - (A) the proponent of that Superior Proposal has voting power in Redflex of at least 50%; and
      - (B) that Superior Proposal is (or becomes) free from any defeating conditions.
    - (ii) (**Change of Recommendation**) At any time prior to the Second Court Date, any director of Redflex:
      - (A) withdraws or adversely modifies their recommendation of the Proposed Transaction or recommends or supports a Competing Proposal;
      - (B) does not recommend in the Explanatory Booklet that Redflex Shareholders approve the Scheme in the absence of a Superior Proposal; or
      - (C) makes any public statement to the effect that the Scheme is not, or is no longer, recommended,
 except in circumstances where:
      - (D) the Regulatory Authority condition is not satisfied as at 8.00am on the Second Court Date or the Guarantor Prescribed Occurrence condition is not satisfied;
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- (E) the Independent Expert opines that the Scheme is not in the best interest of Redflex Shareholders (other than as a result of a Superior Proposal); or
  - (F) Redflex is entitled to terminate the SIA due to its termination right for material breach.
- (iii) **(Material Breach)** Redflex is in breach of any of its obligations under the SIA which is material in the context of the Scheme taken as a whole or of a representation and warranty given by it under the SIA which is material in the context of the Scheme taken as a whole and BidCo terminates the SIA in accordance with (and subject to the cure periods specified in) its termination rights.
  - (iv) **(Prescribed Occurrence)** the Redflex Prescribed Occurrence condition is breached or not satisfied prior to 8.00am on the Second Court Date.
- (b) Redflex must pay BidCo the Redflex Break Fee within five Business Days of receipt by Redflex of a demand for payment from BidCo made after the occurrence of a break fee trigger event without any deduction or set-off.
  - (c) For the avoidance of doubt, the Redflex Break Fee is not payable merely because the resolution submitted to the Scheme Meeting in respect of the Scheme is not approved by the majorities required under section 411(4)(a)(ii) of the Corporations Act.
  - (d) Despite anything else in the SIA, the Redflex Break Fee is only payable once.
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**BidCo  
Reimbursement of  
Costs**

- (a) If Redflex is not already obliged to pay the Redflex Break Fee, BidCo agrees to pay to Redflex \$3,390,000 (exclusive of GST) (being a reimbursement of Redflex's costs in relation to the Proposed Transaction) (**BidCo Reimbursement Amount**) if:
    - (i) **(Material Breach)** BidCo is in breach of any of its obligations under the SIA which is material in the context of the Scheme taken as a whole or of a representation and warranty given by it under the SIA which is material in the context of the Scheme taken as a whole and Redflex terminates the SIA in accordance with (and subject to the cure periods specified in) its termination rights; or
    - (ii) **(Scheme Consideration)** BidCo does not pay the Scheme Consideration in accordance with the terms and conditions of the SIA and the Deed Poll.
  - (b) BidCo must pay Redflex the BidCo Reimbursement Amount within five Business Days of receipt by BidCo of a demand for payment from Redflex made after the occurrence of a trigger event without
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any deduction or set-off.

- (c) Despite anything else in the SIA, the BidCo Reimbursement Amount is only payable once.
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**Guarantee and indemnity**

In consideration of Redflex executing the SIA at the request of the Guarantors, the Guarantors, severally in their respective proportions, unconditionally and irrevocably:

- (a) guarantee to Redflex the due and punctual performance and observance by BidCo of the obligations under the BidCo Reimbursement of Costs clause that must be performed and observed by BidCo (**Guaranteed Obligations**); and
- (b) subject to the terms of the SIA, indemnify Redflex against all losses, damages, costs and expenses which Redflex may now or in the future suffer or incur consequent on or arising directly or indirectly out of any breach or non-observance by BidCo of a Guaranteed Obligation.
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**Termination of SIA Mutual**

BidCo or Redflex may, by notice in writing to the other, terminate the SIA at any time:

- (a) prior to the Second Court Date if the other is in breach of any of its obligations under the SIA (including a breach of a representation or warranty) which is material in the context of the Scheme taken as a whole and the other party has failed to remedy that breach within ten Business Days (or 8.00am on the Second Court Date if earlier) of receipt by it of a notice in writing from the terminating party setting out details of the relevant circumstance and requesting the other party to remedy the breach;
- (b) if the conditions are not satisfied in accordance with the terms of the SIA; or
- (c) if the Effective Date for the Scheme has not occurred on or before the End Date.

**Redflex**

Redflex may, by notice in writing to BidCo, terminate the SIA at any time prior to 8.00am on the Second Court Date if at any time before then there is a Superior Proposal and a majority of the Redflex Directors changes or withdraws their recommendation of the Scheme and recommend a Superior Proposal.

**BidCo**

BidCo may, by notice in writing to Redflex, terminate the SIA:

- (a) if the Audit Working Papers condition is not satisfied;
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- (b) if within 10 Business Days of BidCo receiving the audit working papers, BidCo notifies Redflex that the Audit Working Papers are not satisfactory to BidCo acting reasonably having regard to (among other things) the auditor's closing report provided to BidCo prior to the date of the SIA; or
  - (c) at any time prior to 8.00am on the Second Court Date if at any time before then:
    - (i) any director of Redflex:
      - (A) withdraws or adversely modifies their recommendation of the Proposed Transaction or recommends or supports a Competing Proposal;
      - (B) does not recommend in the Explanatory Booklet that Redflex Shareholders approve the Scheme in the absence of a Superior Proposal; or
      - (C) makes any public statement to the effect that the Scheme is not, or is no longer, recommended; or
  - (d) a Competing Proposal is announced or made and is recommended or supported by any director of Redflex.
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**Conduct of business**

The SIA imposes a number of restrictions on the conduct of Redflex's businesses until the implementation date of the Scheme these include:

- (a) incur any additional financial indebtedness (except for draw-downs on existing banking facilities or utilisation of existing securitisation programs), other than in the usual and ordinary course of business and consistent with past practice;
  - (b) guarantee or indemnify the obligations of any person other than a member of the Redflex Group or grant a Security Interest;
  - (c) (except as required by law or as provided in an existing contract in place as at the date of the SIA) make any material change to the terms of employment of (including increasing the remuneration or compensation of), or grant or pay any bonus, retention, severance, termination payment or superannuation entitlement to, any director, officer or executive;
  - (d) (except as pursuant to contractual arrangements in effect on the date of the SIA) enter into any enterprise bargaining agreement or similar collective employment agreement;
  - (e) acquire, lease or dispose of or agree to acquire, lease or dispose of, or offer, propose, or announce a bid, or tender for any business, property, assets, entity or undertaking, with a value in excess of \$1 million individually or in aggregate;
  - (f) enter into, vary or terminate any contract, joint venture, partnership or commitment (or any series of related contracts, joint
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ventures, partnerships or commitments):

- (i) involving total expenditure greater than \$1 million, individually or when aggregated with all such related contracts, joint ventures, partnerships or commitments;
  - (ii) waiving any third party default which has a financial impact upon the Redflex Group, or accepting as a compromise anything less than the full compensation due to the Redflex Group, in each case where the applicable expenditure or impact is or will be in excess of \$1 million in any financial year;
  - (iii) restraining any material member of the Redflex Group from competing with any person or conducting activities in any market; or
  - (iv) with any related entity of any member of the Redflex Group (other than a member of the Redflex Group);
- (g) enter into any new financing arrangement, agreement or otherwise provide financial accommodation other than with members of the Redflex Group (irrespective of what form that accommodation takes), or amend the terms of any existing financing arrangement, agreement or instrument;
  - (h) enter into any agreement, arrangement or transaction with respect to derivative instruments (including, but not limited to, swaps, futures contracts, forward commitments, commodity derivatives or options) or similar instruments, except foreign currency hedges or interest rate hedges (including basis swaps on interest rates, such that the net period for the floating interest on the swaps is the same period as the net floating interest period on the relevant loan) made in the ordinary course of business consistent with past practice and in accordance with existing policy as at the date of the SIA;
  - (i) amend the terms of its Long Term Incentive Plan to allow for the accelerated vesting of Performance Rights beyond the number provided for in the Disclosure Letter;
  - (j) issue, or agree to issue, or grant an option to subscribe for, debentures (as defined in section 9 of the Corporations Act) other than under an existing financing arrangement which has been Fairly Disclosed in the Due Diligence Material or the Disclosure Letter;
  - (k) alter in any material respect any accounting policy of any Member of the Redflex Group other than any change required by AIFRS or IFRS (as applicable); or
  - (l) amend in a material respect or terminate any existing shareholders agreement, joint venture agreement or other similar investor agreements or arrangements, or enter into any shareholders agreement, joint venture agreement or other similar
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investor agreement or arrangement.

## Key Definitions

### Competing Proposal

means any offer, proposal or expression of interest (including by way of takeover bid or scheme of arrangement or otherwise):

- (a) under which, if ultimately completed substantially in accordance with its terms, a person or two or more persons who are Associates would directly or indirectly:
  - (i) acquire a relevant interest in or become the holder of more than 15% of the Shares;
  - (ii) acquire, obtain a right to acquire, or otherwise obtain an economic interest in, 15% or more by value of the business or property of Redflex or any member of the Redflex Group;
  - (iii) acquire or obtain a right to acquire, the whole or substantially all of the business or property of the Redflex Group;
  - (iv) acquire control of Redflex, within the meaning of section 50AA of the Corporations Act; or
  - (v) otherwise acquire or merge with Redflex or amalgamate with, or acquire a significant shareholding or economic interest in Redflex or any member of Redflex Group or 15% or more by value of the total assets or business of any member of Redflex Group, whether by way of takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding entity for Redflex or other synthetic merger or any other transaction or arrangement; or
- (b) which results in Redflex ceasing to be admitted to the official list of ASX or the Scheme Shares ceasing to be officially quoted on the market operated by ASX; or
- (c) which may otherwise compete with, or be inconsistent in any material respect with the consummation of, the Proposed Transaction.

### Deed Poll

means the deed poll to be executed by BidCo prior to the date the Explanatory Booklet is despatched to Redflex Shareholders, in a form consistent with the terms and principles of the SIA and acceptable to Redflex acting reasonably.

<b>Effective</b>	when used in relation to the Scheme means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to that Scheme.
<b>End Date</b>	<p>(a) 31 July 2011; or</p> <p>(b) such other date and time agreed in writing between BidCo and Redflex.</p>
<b>Exclusivity Period</b>	<p>means the period commencing on the date of the SIA and ending on the earliest of:</p> <p>(a) the End Date;</p> <p>(b) the Effective Date of the Scheme; and</p> <p>(c) the date the SIA is terminated in accordance with its terms.</p>
<b>Guarantor Prescribed Occurrence</b>	the occurrence of an insolvency event in relation to BidCo or a Guarantor.
<b>Material Adverse Change</b>	<p>(a) an event or circumstance (including a change in law) that occurs, is announced or becomes known (in each case whether or not it becomes public) after the date of the SIA which individually or when aggregated with all other such events or circumstances:</p> <p>(i) has or could reasonably be expected to have the effect of diminishing the net assets of the Redflex Group by A\$9,876,600 or more;</p> <p>(ii) has the result (or is reasonably expected to have the result) that (x) the reasonably expected revenue (recurring or non-recurring) arising from contracts of the Redflex Group are reduced (including as a result of a loss of a contract) or (y) the reasonably expected costs or liabilities (recurring or non-recurring, and including legal costs) relating to contracts of the Redflex Group are increased, and such revenue reduction or cost or liability increase has (or would have), individually or together with other reductions and increases, the result (or is reasonably expected to have the result) that the aggregate reduction in recurring and non-recurring revenue of the Redflex Group plus the aggregate increase in recurring and non-recurring costs or liabilities (including legal costs) of the Redflex Group is least US\$5,000,000 on an annualised basis;</p> <p>(iii) has the result (or is reasonably expected to have the result) that at least five of the top twenty contracts to which</p>

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- a member of the Redflex Group is a party (as at the date of the SIA and as measured by the aggregate revenue received or to be received by any member of the Redflex Group under such contract) are, or could reasonably be expected to become, lost or become non-revenue generating;
  - (iv) has the result (or is reasonably expected to have the result) that the business of the Redflex Group is (or would be) unable to be carried on in substantially the same manner as carried on at the date of the SIA and that inability has (or would have) the result (or is reasonably expected to have the result) that either:
    - (A) the aggregate recurring and non-recurring revenue of the Redflex Group is reduced by at least US\$5,000,000 on an annualised basis; or
    - (B) the aggregate recurring and non-recurring costs or liabilities (including legal costs) of the Redflex Group are increased by at least US\$3,000,000 on an annualised basis; or
  - (v) has the result (or is reasonably expected to have the result) that present or future third party monetary obligations of a member of the Redflex Group in respect of moneys borrowed or raised totalling at least US\$5,000,000 (or, without limitation, its equivalent in any other currency or currencies) becomes capable of being declared due and payable before their stated maturity or expiry (other than as a result of the Proposed Transaction); or
  - (b) there is any change to the reasonable expectations with respect to the revenues or costs (including legal costs) or other liabilities relating to any contract of the Redflex Group (including as a result of the loss of a contract), which change was known to the Redflex Board or the senior management of any member of the Redflex Group and not disclosed to BidCo, a Guarantor or any of their respective Authorised Persons prior to the date of the SIA, and any such reduction in expected revenue or increase in expected cost or liability has (or would have), individually or together with other such reductions or increases, the result (or would reasonably be expected to have the result) that the aggregate reduction in recurring and non-recurring revenue of the Redflex Group plus the aggregate increase in recurring and non-recurring costs or liabilities (including legal costs) of the Redflex Group is at least US\$1,000,000 on an annualised basis; or
  - (c) the All Ordinaries Index and/or the S&P500 Index falling more than 20% below the closing level on the date of the SIA and remaining at that lower level for at least five consecutive trading days,

but does not include any event or circumstance:

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- (d) required to be done or procured by Redflex pursuant to the SIA or the Scheme;
  - (e) done with the express prior written consent of BidCo;
  - (f) to the extent that it was fairly disclosed in the disclosure letter or due diligence materials;
  - (g) to the extent that it was fairly disclosed in documents that were publicly available prior to the date which is two Business Days prior to the date of the SIA from public filings of Redflex with ASX or ASIC or public registers;
  - (h) relating to costs and expenses incurred by Redflex associated with the Scheme process, including all fees payable to external advisers of Redflex, to the extent such amounts are Fairly Disclosed in the Disclosure Letter;
  - (i) subject to (c) above, relating to any material adverse change or disruption to the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America, Singapore, Hong Kong, China or the international financial markets or any change in national or international political, financial or economic conditions;
  - (j) relating to foreign currency movements; or
  - (k) relating to the payment by Redflex of a Permitted Special Dividend.

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**Redflex Prescribed Occurrence**

means the occurrence of any of the following on or after the date of the SIA:

- (a) Redflex converts all or any of its shares into a larger or smaller number of shares;
  - (b) any member of the Redflex Group resolves to reduce its share capital in any way;
  - (c) any member of the Redflex Group:
    - (i) enters into a buy-back agreement; or
    - (ii) resolves to approve the terms of a buy-back agreement under subsections 257C(1) or 257D(1) of the Corporations Act;
  - (d) any member of the Redflex Group issues securities, or grants a performance right or an option over its securities, or agrees to make such an issue or grant such a right or an option other than pursuant to the exercise of a Performance Right on issue immediately before the date of the SIA;
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- (e) any member of the Redflex Group issues, or agrees to issue, convertible notes;
  - (f) any member of the Redflex Group disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
  - (g) any member of the Redflex Group creates or agrees to create, any Security Interest over the whole, or a substantial part, of its business or property;
  - (h) an Insolvency Event occurs in relation to any member of the Redflex Group;
  - (i) Redflex pays, declares, distributes or incurs a liability to make or pay a dividend, bonus or other share of its profits, income, capital or assets by way of dividend or other form of distribution other than in respect of the Permitted Special Dividend;
  - (j) any member of the Redflex Group makes any change to its constitution or convenes a meeting convened to consider a resolution to change a constitution of any member of the Redflex Group;
  - (k) any member of the Redflex Group ceases, or threatening to cease to, carry on the business conducted as at the date of the SIA;
  - (l) any member of the Redflex Group (other than a dormant, non-operating member of the Redflex Group) being deregistered as a company or being otherwise dissolved;
  - (m) any disposal of shares or securities by a member of the Redflex Group in any member of the Redflex Group other than to a member of the Redflex Group; or
  - (n) any member of the Redflex Group directly or indirectly authorising, committing or agreeing to take or announcing any of the actions referred to in paragraphs (a) to (m) above insofar as it applies to the member of the Redflex Group the subject of such direct or indirect authorisation, commitment, agreement or announcement;

provided that a Redflex Prescribed Occurrence will not include any matter:

- (o) required to be done or procured by Redflex pursuant to the SIA or the Scheme;
- (p) Fairly Disclosed in filings of Redflex with the ASX prior to the date of the SIA;
- (q) to the extent it is Fairly Disclosed in the Due Diligence Material or the Disclosure Letter; or
- (r) the undertaking of which BidCo has approved in writing.

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**Second Court Date** means the first day on which an application made to the Court for an order under

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section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

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**Superior Proposal**

means:

- (a) any bona fide offer, proposal or expression of interest (including by way of takeover bid or scheme of arrangement or otherwise) under which, if ultimately completed substantially in accordance with its terms, a person or two or more persons who are Associates would directly or indirectly:
    - (i) acquire a relevant interest in or become the holder of more than 50% of the Shares; or
    - (ii) acquire or obtain a right to acquire, the whole or substantially all of the business and property of the Redflex Group including by way of sale or purchase of assets, shareholder approved acquisition or disposal or joint venture; or
    - (iii) otherwise acquire control of Redflex, within the meaning of section 50AA of the Corporations Act including by way of capital reduction, share buy-back, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding entity for Redflex or other synthetic merger or analogous transaction or arrangement; and
  - (b) which in the determination of the Redflex Board acting in good faith in order to satisfy what the Redflex Board considers to be its fiduciary or statutory duties (after taking advice from its legal and financial advisers) would, if completed substantially in accordance with its terms, be reasonably likely to result in a transaction more favourable to Redflex Shareholders as a whole than the Proposed Transaction, taking into account all of the terms and conditions of the Competing Proposal, including consideration, conditionality, funding, certainty and timing.
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