ASX
AUSTRALIAN STOCK EXCHANGE

27 March 2006

AUSTRALIAN STOCK EXCHANGE LIMITED AND SFE CORPORATION LIMITED ANNOUNCE MERGER PROPOSAL

Australian Stock Exchange Limited ("ASX") and SFE Corporation Limited ("SFE") today announced an agreed proposal to merge their businesses and create the leading financial markets exchange in the Asia-Pacific region. It will be the 9th largest listed exchange group globally and represents an important milestone in the development of Australia's capital markets.

The Board of SFE unanimously recommends that all SFE shareholders support and accept the merger proposal, in the absence of a superior proposal. Board members intend to vote in favour of the proposal.

The merger proposal

Under the terms of the proposed merger, to be effected by a scheme of arrangement, SFE shareholders will receive 0.51 ASX shares per SFE share. The proposal values[1] SFE ordinary shares at $16.93. This represents a 25% premium to the volume weighted average SFE share price for the period 10 to 21 March 2006. This also represents a 21% premium to an exchange ratio calculated using the twelve month volume weighted average ASX share price and the twelve month volume weighted average SFE share price.

Alternatively, SFE shareholders will be able to receive $2.58 cash per SFE share plus a variable ratio of ASX shares per SFE share such that the value of the cash and scrip alternative is equivalent to the all scrip proposal, immediately prior to the scheme meeting.

Following the merger, ASX intends to undertake a capital management initiative of up to $100 million in cash to all existing and new shareholders, subject to tax advice and any necessary approvals. This will exceed and supersede ASX's previously announced $50 million capital return.

[1] On the basis of ASX's volume weighted average price for the period 10 to 21 March 2006 of $33.19

Regulatory approvals

Conditions to the merger proposal include clearance by the Australian Competition and Consumer Commission ("ACCC") and the approval of the Federal Treasurer. In relation to the ACCC, the attached letter sets out its position at this point.

Governance and management

Mr Rick Holliday-Smith and two non-executive directors from SFE will join the Board of ASX, adding valuable experience to the Board. The current Chairman of ASX, Mr Maurice Newman AC, will be Chairman of the combined group.

The current Managing Director and CEO of ASX, Mr Tony D'Aloisio, will be the Managing Director and CEO of the combined group. Mr Robert Elstone will continue as Managing Director and CEO of SFE until completion of the merger.

Key SFE executives will be retained by the merged group.

Merger rationale – a great strategic fit

Global financial markets are growing and innovating rapidly. There is an increasing trend worldwide towards exchange consolidation. The combined group will have a broader product mix and greater financial and operational scale than either entity can expect to possess alone.

SFE's Managing Director and CEO, Mr Robert Elstone, said: "This is a great opportunity to enhance Australian capital markets, driving liquidity and market efficiencies to the benefit of all participants and shareholders."

SFE's Chairman, Mr Rick Holliday-Smith, said: "SFE has provided substantial benefits to its stakeholders since its demutualisation in August 2000. A merger with the ASX on the terms proposed is a logical progression and is supported by the SFE Board."

ASX's Chairman, Mr Maurice Newman AC, said: "The logic supporting this initiative is compelling. The businesses uniquely complement each other. Combined, they create the leading, integrated financial markets exchange in the Asia-Pacific region, able to punch above its weight in the global capital markets. This merger will have significant benefits for both sets of shareholders and all market participants, and the time is now right."

ASX's Managing Director and CEO, Mr Tony D'Aloisio, said: "This is a strategic merger which will deliver a broader range of product, deeper management expertise and greater financial scale. We congratulate SFE's Board and CEO for what they have achieved at SFE in growing a great company."

The Australian financial markets have grown strongly. Between 2002 and 2005 the level of trading activity on ASX and SFE grew at a compound annual rate of 21%[2] and 20%, respectively.

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[2] Based on volumes of equity transactions

The Boards of both companies believe the combination of these two exchanges, creating a unified market place, should benefit shareholders and market participants.

Key outcomes

The merged company will be owned up to 40.2% by former SFE shareholders and 59.8% by existing ASX shareholders[3].

Based on current market values, the merged group would be valued at up to $5.3 billion, placing it around 50th in rank of the largest companies listed on ASX[4].

Benefits for ASX and SFE shareholders

- Participation in a larger entity, financially and operationally
- A critical mass upon which to expand equity and equity index futures business including an improved environment for trading in the SPI contract
- Better positioning the combined group to participate in global and regional exchange consolidation
- Access to synergies
- A combination of two complementary businesses with minimal product duplication
- A better platform for product innovation
- ASX intends to retain its dividend pay-out policy of 90% for the merged entity and expects dividends will be fully franked

Benefits to existing ASX shareholders

The ASX Board sees the following benefits for ASX shareholders:

- Provides a scale entry into the interest rate derivatives market and a new revenue stream
- Access to a team of proven leaders in derivatives exchange management in SFE
- Expected to be EPS positive in calendar year 2008, subject to volumes in financial markets and the progress of integration

Benefits to existing SFE shareholders

The SFE Board sees the following benefits for SFE shareholders:

- Strong premium to recent share price performance
- Expected to be strongly EPS positive in the first year on a SFE share equivalent basis
- Increased dividend payout ratio for merged entity
- Provide a scale entry into cash equities

[3] Assuming all SFE shareholders accept the all scrip proposal
[4] Assuming all SFE shareholders accept the all scrip proposal and based on closing prices for SFE and ASX at 24 March 2006

Benefits to ASX and SFE participants

ASX's new pricing structure announced in December will, as previously advised, commence on 1 July 2006. It is intended that SFE's existing pricing policy will be maintained.

In time, the primary participant benefits are expected to include one front-line market supervisor, an improved environment for trading in the SPI contract, and one clearing & settlement system (with associated reduced back-office requirements). Some of these initiatives may not be finally implemented for two to three years as they remain subject to detailed scoping. Participants will be fully consulted during this process.

Financial information

Key financials

The key financials for the new entity on a proforma historical basis for the year ended 31 December 2005 are as follows:

Year ended 31 December 2005 A$m	ASX Stand Alone[5]	Merged entity Pro-forma[6]
Revenue	291	426
EBITDA	169	255
EBIT	156	237

Synergies and integration

ASX and SFE will form an integration team to plan for the integration of the businesses. ASX proposes a phased implementation plan aimed at balancing synergy benefits with integration and business risks.

Subject to the results of integration scoping, ASX expects cost synergies through:

- Consolidation of premises
- Integration of IT environment including a move to common systems
- Administration and business efficiencies
- Personnel reductions in areas of direct overlap

ASX also believes further potential for revenue benefits exists in the medium to longer-term from:

- Higher trading in the SPI which has a greater affinity with ASX's core business
- Broader platform for product innovation encouraging development across debt and equity (e.g. retail derivative products)

[5] Based on the addition of the results for the first half of the year ended 30 June 2006 and the second half of the year ended 30 June 2005
[6] Excludes SFE's interest income on participant balances

In the medium term, ASX expects annual cost synergies in the order of $14 to $18 million by the year ended 30 June 2008. For the longer term, whether and to what extent further cost synergies exist, will be the subject of detailed work by the integration team.

Financing

ASX has approved and committed finance facilities for the cash component of the offer.

Merger Implementation Agreement

ASX and SFE have entered into a Merger Implementation Agreement under which they have agreed to proceed with a merger by way of a scheme of arrangement between SFE and its shareholders. Implementation of the merger is conditional on the satisfaction of a number of conditions precedent. The conditions precedent and key terms are described in attachment II.

SFE has applied to the Australian Securities and Investments Commission ("ASIC") for ASIC, instead of ASX, to supervise its compliance with ASX Listing Rules.

Anticipated timetable

The merger will be implemented through an SFE scheme of arrangement and is currently expected to be implemented by July/August 2006. Key steps include obtaining ACCC clearance and Treasurer approval; lodging scheme documents with ASIC; first court hearing; SFE shareholders' meeting; and second court hearing.

Shareholder information

Further information on the merger proposal will be lodged with the ASX and included on ASX's website at www.asx.com.au and SFE's website at www.sfe.com.au.

ABN AMRO Corporate Finance is acting as financial advisor to ASX and UBS AG Australia Branch is acting as financial advisor to SFE. Mallesons Stephen Jaques and Freehills are acting as legal advisors to ASX and Blake Dawson Waldron are acting as legal advisors to SFE.

Analyst Briefing

Time: 11.00 am
~~Venue: Radisson Plaza Hotel, 27 O'Connell Street (Cnr O'Connell and Pitt Streets), Sydney.~~
Dial-in numbers:
Australia Toll Free: 1800 555 616
Outside Australia: +61 3 9221 4420
Live webcast: http://cm.world-television.com.au/xl?preid=31290

Media Briefing

Time: 2.00 pm
Venue: Radisson Plaza Hotel, 27 O'Connell Street (Cnr O'Connell and Pitt Streets), Sydney.
Dial-in numbers:
Australia Toll Free: 1800 555 616
Outside Australia: +61 3 9221 4420
Live webcast: http://cm.world-television.com.au/xl?preid=31292

For further information:

Media

Gervase Greene
Manager Corporate Relations, ASX
(BH) +61 2 9227 0464
(Mobile) 0419 496 703
www.asx.com.au/media

Jeremy Johnston
General Manager, Marketing and Corporate Communications, SFE
(B.H.) +61 2 9256 0504

Investors and analysts

Dimitri Burshtein
General Manager
Investor Relations, ASX
(BH) +61 2 9227 0279
(Mobile) 0414 629 751

Martin Davey
Chief Financial Officer, SFE
(B.H.) +61 9256 0576

Attachments

I ACCC letter
II Merger Implementation Agreement – Key Terms and Conditions Precedent

ATTACHMENT I

Australian
Competition &
Consumer
Commission

PO Box 1199
Dickson ACT 2602

470 Northbourne Ave
Dickson ACT 2602

ph (02) 6243 1111
fax (02) 6243 1199

www.accc.gov.au

Our Ref: C2006/119
Contact Officer: Baethan Mullen
Contact Phone: (02) 6243 1369

15 February 2006

Donald Robertson
Partner
Freehills

By Facsimile: (02) 9322 4000

Dear Mr Robertson

Re: Proposed merger between ASX and SFE

I refer to your letter of 19 January 2006 regarding the above matter.

The ACCC has considered the information provided by you in relation to the proposed acquisition on a confidential basis. Based on that information the ACCC's preliminary view is that the proposed acquisition does not appear to raise competition concerns pursuant to section 50 of the Trade Practices Act.

This preliminary view has been formed without the benefit of market inquiries due to your client's confidentiality requirements. Consequently the ACCC intends to conduct market inquiries to assist its consideration of the competition issues once such inquiries can be made.

The ACCC's inquiries will seek to confirm the following submissions:

- that the ASX and SFE are not significant competitors particularly because of the existence of network effects;
- that the proposed merger is unlikely to affect product innovation;
- that the proposed merger is unlikely to raise vertical concerns; and
- that, in relation to index options, retail investors trade on the ASX and institutional investors invest on the SFE.

Market inquiries would also seek information on the following issues:

- The extent to which the merged entity might be competitively constrained by alternatives to trading on the ASX/SFE, such as internalisation, off-book, over the counter, alternative trading systems and overseas exchanges; and
- Whether the ASX faces pressure from brokers and investors (particularly large institutional investors) in setting its fees.

ATTACHMENT I

I would be grateful if you would advise me in writing if your client intends to proceed with the proposed acquisition and, if so, when the ACCC is free to make market inquiries.

If you wish to discuss this matter, please do not hesitate to contact Baethan Mullen on (02) 6243 1369.

Yours sincerely

Tim Grimwade
General Manager
Mergers & Asset Sales Branch

MERGER IMPLEMENTATION AGREEMENT
KEY TERMS AND CONDITIONS PRECEDENT

No solicitation

SFE has agreed that neither it nor its related parties will solicit any competing offer or proposal from any other person to acquire control of SFE, a relevant interest in 20% or more of SFE's shares or all or a substantial part of its assets or business (Competing Transaction). SFE has also agreed that unless the fiduciary obligations of its directors oblige them to do so, SFE will not participate in negotiations or discussions for a Competing Transaction, and SFE will notify ASX of any unsolicited approach.

Re-imbursement of costs

SFE has agreed to pay to ASX $11 million if the merger does not proceed because:

- any member of the SFE Board withdraws their support or fails to recommend or adversely varies their recommendation (unless the Merger Implementation Agreement has been validly terminated by SFE or the Independent Expert has concluded that the proposed scheme is not in the best interests of SFE shareholders);
- any director of SFE publicly recommends, promotes or otherwise endorses a Competing Transaction in relation to SFE; or
- of a Competing Transaction which is reasonably capable of being completed, and which is more favourable to SFE shareholders than the Scheme, taking into account all terms and conditions of the Competing Transaction.

ASX has agreed to pay to SFE $11 million if the merger does not proceed because:

- ASX breaches a term of the Merger Implementation Agreement, which results in a valid termination of the Merger Implementation Agreement by SFE; or
- ASX terminates the Merger Implementation Agreement because it refuses to provide undertakings that may be required as a condition of ACCC approval, and ASX's refusal is unreasonable in the circumstances.

Neither party is obliged to pay a break fee if:

- prior to a break fee event occurring, the Merger Implementation Agreement has been validly terminated; or
- the Scheme becomes effective notwithstanding the occurrence of the event.

Termination

The Merger Implementation Agreement may be terminated if:

- the SFE Board changes its recommendation, including any adverse modification to its recommendation, or withdraws its support for the scheme;
- a party is in material breach of the agreement which continues unremedied for 7 Business Days;
- within 14 days of the date of the Merger Implementation Agreement, either party becomes aware of events or circumstances occuring prior to the date of the agreement which would be reasonably likely to have a material adverse effect on the consolidated net profit after tax or consolidated net assets of the other party;
- if the conditions precedent are not satisfied or waived;
- the scheme is not implemented by 30 September 2006.

Conditions precedent

The Scheme will not become Effective unless each of the following conditions precedent is satisfied or waived:

(a) **Regulatory Approvals**: before 8.00am on the Second Court Hearing Date:

(i) ASIC and ASX issue or provide such consents or approvals or do other acts which SFE and ASX agree are necessary or reasonably desirable to implement the Scheme;

(ii) ASX receives written advice from the Treasurer of the Commonwealth of Australia under section 851B of the Corporations Act specifying unconditionally and for an indefinite period that ASX may have Voting Power in SFE of up to 100% for the purpose of section 850B of the Corporations Act and the Treasurer of the Commonwealth of Australia neither revokes, nor varies the terms of, that approval; and

(iii) the ACCC either:

(A) indicates that it does not intend to oppose the proposed acquisition of SFE Shares by ASX;

(B) indicates that it does not intend to oppose the proposed acquisition of SFE Shares by ASX subject to receipt of undertakings acceptable to both SFE and ASX; or

(C) has not commenced, or threatened to commence, proceedings in respect of the proposed acquisition;

(b) **Restraints**: no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other material legal restraint or prohibition preventing the Scheme is in effect as at 8.00am on the Second Court Hearing Date;

(c) **No ASX Material Adverse Change**: no ASX Material Adverse Change occurs or becomes apparent between the date of this agreement and 8.00am on the Second Court Hearing Date;

(d) **No SFE Material Adverse Change**: no SFE Material Adverse Change occurs or becomes apparent between the date of this agreement and 8.00am on the Second Court Hearing Date;

(e) **No ASX Prescribed Event**: no ASX Prescribed Event occurs between the date of this agreement and 8.00am on the Second Court Hearing Date;

(f) **No SFE Prescribed Event**: no SFE Prescribed Event occurs between the date of this agreement and 8.00am on the Second Court Hearing Date;

(g) **Independent Expert report**: the Independent Expert issues its report which concludes that the Scheme is in the best interests of Scheme Participants before the date on which the Scheme Booklet is lodged with ASIC;

(h) **Execution of documents**: between the date of this agreement and the date of despatch of the Scheme Booklet, ASX executes the Deed Poll pursuant to which ASX covenants in favour of the Scheme Participants to perform its obligations under the Scheme;

(i) **No termination**: this agreement has not been terminated before 8.00am on the Second Court Hearing Date;

(j) **Scheme Participants approval**: the Scheme is approved by the requisite majorities of Scheme Participants in accordance with the Corporations Act;

(k) **Court approval**: a court of competent jurisdiction approves the Scheme in accordance with section 411(4)(b) of the Corporations Act; and

(l) **Interest in SFE**: between the date of this agreement and the Scheme becoming Effective, no person (other than ASX or an Associate of ASX) acquires an interest in securities so as to have Voting Power of more than 26% in SFE Shares; and

(m) **Compliance:** neither party nor any of their Related Bodies Corporate, officers or directors is the subject of any formal investigation, charge or proceeding brought by ASIC in relation to an alleged offence under the Corporations Act.

Relevant definitions:

ASX Material Adverse Change means one or more events or circumstances occur or fail to occur after the date of this agreement and which, when taken as a whole is or are reasonably likely to have the effect of diminishing (other than substantially as a ~~result of a reduction in trading volumes)~~:

(a) the ongoing consolidated annual net profit after tax of the SFE Group (calculated on the basis of AIFRS) by $8 million or more; or

(b) the consolidated net assets of the ASX Group (calculated on the basis of AIFRS) by $50 million or more.

ASX Prescribed Event means the occurrence of any of the following:

(a) ASX converting all or any of its shares into a larger or smaller number of shares;

(b) ASX resolving to reduce its share capital in any way;

(c) ASX:

  (i) entering into a buy-back agreement; or

  (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;

(d) ASX declaring, paying or distributing any dividend, bonus or other share of its shareholder profits or shareholder assets or returning or agreeing to return any capital to its members (other than declaring and paying a dividend as contemplated by clause 4.6, or undertaking the Proposed Capital Management Initiative after the Scheme becomes Effective);

(e) ASX or any of its Subsidiaries issuing shares to a person outside the ASX Group, or granting an option over its shares to a person outside the ASX Group, or agreeing to make such an issue or grant such an option to a person outside the ASX Group, other than as disclosed by ASX to SFE prior to the date of this agreement;

(f) ASX or any of its Subsidiaries issuing or agreeing to issue securities or other instruments convertible into shares or debt securities to a person outside the ASX Group, other than as disclosed by ASX to SFE prior to the date of this agreement;

(g) ASX or any of its Subsidiaries disposing or agreeing to dispose of the whole, or a substantial part, of its business or property;

(h) other than in the ordinary course of business and consistent with past practice, ASX or any of its Subsidiaries creating or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;

(i) other than in the ordinary course of business and consistent with past practice, ASX or any of its Subsidiaries:

    (i) increasing the remuneration of, or otherwise varying, the employment arrangements with any of its directors or employees;

    (ii) accelerating the rights of any of its directors or employees to compensation or benefits of any kind (including under any ASX executive or employee share plans); or

    (iii) paying any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract in place at the date of this agreement);

(j) other than in the ordinary course of business and consistent with past practice, ASX or any of its Subsidiaries:

    (i) entering into any contract or commitment involving revenue or expenditure of more than $10,000,000 over the term of the contract or commitment; or

    (ii) terminating or amending in a material manner any contract material to the conduct of the ASX Group's business or which involves expenditure or revenue of more than $10,000,000 over the term of the contract;

(k) ASX or any of its operating Subsidiaries resolving that it be wound up;

(l) a liquidator, provisional liquidator or administrator of ASX or any of its operating Subsidiaries being appointed;

(m) the making of an order by a court for the winding up of ASX or any of its operating Subsidiaries;

(n) ASX or any of its operating Subsidiaries executing a deed of company arrangement; or

(o) a receiver, or a receiver and manager, in relation to the whole, or a substantial part of the property of ASX or any of its operating Subsidiaries being appointed,

provided that none of the above events in paragraphs (a) to (j) will constitute an ASX Prescribed Event where ASX has first consulted, in reasonable detail, with SFE in relation to the proposed event, and SFE has either approved of the proposed event or has not objected to the proposed event within five Business Days of having been so consulted.

SFE Material Adverse Change means one or more events or circumstances occur or fail to occur after the date of this agreement and which, when taken as a whole is or are reasonably likely to have the effect of diminishing (other than substantially as a result of a reduction in trading volumes):

(a) the ongoing consolidated annual net profit after tax of the SFE Group (calculated on the basis of AIFRS) by $5 million or more; or

(b) the consolidated net assets of the SFE Group (calculated on the basis of AIFRS) by $35 million or more.

SFE Prescribed Event means the occurrence of any of the following:

(a) SFE converting all or any of its shares into a larger or smaller number of shares;

(b) SFE resolving to reduce its share capital in any way;

(c) SFE:

  (i) entering into a buy-back agreement; or

  (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;

(d) SFE declaring, paying or distributing any dividend, bonus or other share of its shareholder profits or shareholder assets or returning or agreeing to return any capital to its members (other than declaring and paying a dividend as contemplated by clause 4.6);

(e) SFE or any of its Subsidiaries issuing shares, or granting an option over its shares to a person outside the SFE Group, or agreeing to make such an issue or grant such an option to a person outside the SFE Group, other than as disclosed by ASX to SFE prior to the date of this agreement;

(f) SFE or any of its Subsidiaries issuing to a person outside the SFE Group or agreeing to issue securities or other instruments convertible into shares or debt securities to a person outside the SFE Group, other than as disclosed by ASX to SFE prior to the date of this agreement;

(g) SFE or any of its Subsidiaries disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;

(h) other than in the ordinary course of business and consistent with past practice, SFE or any of its Subsidiaries creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;

(i) other than in the ordinary course of business and consistent with past practice, SFE or any of its Subsidiaries:

  (i) increasing the remuneration of, or otherwise varying, the employment arrangements with any of its directors or employees;

  (ii) accelerating the rights of any of its directors or employees to compensation or benefits of any kind (including under any SFE executive or employee share plans); or

(iii) paying any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract in place at the date of this agreement);

(j) other than in the ordinary course of business and consistent with past practice, SFE or any of its Subsidiaries:

(i) entering into any contract or commitment involving revenue or expenditure of more than $10,000,000 over the term of the contract or commitment; or

(ii) terminating or amending in a material manner any contract material to the conduct of the SFE Group's business or which involves expenditure or revenue of more than $10,000,000 over the term of the contract;

(k) SFE or any of its operating Subsidiaries resolving that it be wound up;

(l) a liquidator, provisional liquidator or administrator of SFE or any of its operating Subsidiaries being appointed;

(m) the making of an order by a court for the winding up of SFE or any of its operating Subsidiaries;

(n) SFE or any of its operating Subsidiaries executing a deed of company arrangement; or

(o) a receiver, or a receiver and manager, in relation to the whole, or a substantial part, of the property of SFE or any of its operating Subsidiaries being appointed,

provided that none of the above events in paragraphs (a) to (j) will constitute a SFE Prescribed Event where SFE has first consulted, in reasonable detail, with ASX in relation to the proposed event, and ASX has either approved of the proposed event or has not objected to the proposed event within five Business Days of having been so consulted.