



TRANSCRIPT OF ASX RESULTS ANALYST BRIEFING

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Robert Elstone, ASX CEO and Managing Director

Today's results presentation is an unusual one for several reasons. Firstly, since ASX's last results announcement in February this year, it has obviously successfully merged with SFE and that led to a change in the CEO which was well-publicised in the media.

Secondly, as a consequence of the merger, the ASX result was already largely known following the dividend arrangement on 7 July 2006. Thirdly, today's presentation covers the results for independent organisations which are actually now one, ASX and SFE, with practical effect from 11 July 2006. So the first set of consolidated results won't become public until February 2007.

Additionally, since the June 30 balance date for both ASX and SFE, a number of significant events and initiatives have either taken place or been sponsored and I will brief you on those in more details after John Hayes and Martin Davey have presented the financials for ASX and SFE respectively.

If I can briefly discuss the order of proceedings - I will provide the highlights of both ASX and SFE results for the respective full and half financial year just past. Following me, John Hayes and then Martin Davey will provide you with more detail on the financials for both companies for the respective periods and finally I will wrap up, including speaking to some of the key post balance date events and a little bit more about the mindset that I am bringing into the role that I have been asked to perform.

As you can see from the slide and from the Appendix 4E that was lodged earlier this morning, on the ASX side NPAT was up 24.6% to \$137.1 million, revenue was up 9.3% to \$305 million, expenses down 6.2% to \$130.7 including D&A. Expenses excluding D&A down 2.6% to \$120.2 million, capital expenditure within guidance target. Earnings per share up 24.6% to \$133.4 cents, total dividend up 26.3% to 121.1 cents per share. Divestment of APRL with a \$9.8 million PBT and clearly a fair amount of work was done by John, principally on premises review in respect of Melbourne, Brisbane and Adelaide interstate offices.

On the SFE side, a terrific half. NPAT up 26.3% to \$42.3 million, revenue up 17% to \$76.4 million, expenses including D&A up 1% to \$26.8 million and expenses excluding D&A up 4.4% to \$24.9 million. Interim dividend up 53.1% to 32.6 cents per share, albeit that was clearly impacted by the underlying merger terms. Total exchange volumes up 26.4% to 38.9 million with futures being up 25.8% and options being up 36.8% and total Austraclear transactions up 1.2% to 0.7 million.

John Hayes, ASX CFO

Just in summary, Rob has already mentioned the growth in profit to \$137.1 million. I just want to remind everyone that this is also the first year that ASX has reported under AIFRS for the whole year. Slightly out of sink with SFE who were six months before us, so when you are comparing pre-2005, you just need to be aware that 2005 and 2006 as you see them today are under AIFRS but prior to that they are still under AGAAP.

The details of the reconciliations if you like between AGAAP and AIFRS you will find in note 31 of the accounts that have been released this morning.

The big differences or the areas to note - in relation to AIFRS for ASX in the P&L sense, we have share based payments and the removal of goodwill. On the balance sheet side, we have the addition of participant's balances, the margins that we collect from participants. A revaluation of IRESS going through an asset revaluation reserve, and the equity compensation reserve which is the other side of the share based payments.

The profit just reported was a 24.6% increase. This represents a compound growth rate over the last five years of over 18%. The highlights for the year were that revenue increased \$26.1 million, expenses were down \$8.6 million, interest income and dividends were up \$7.7 million, tax and others unfortunately were also up and some other minor adjustments to get us to the \$137.1 million.

When you are looking at the graph and the big orange bar for last year under net profit - I just want to remind people who have forgotten or weren't following ASX at the time, that that was the receipt from the NGF from the split of the guarantee fund. Part of the accounting for that was to treat that through the P&L account as a significant item and that money has gone into a restricted capital reserve, so you need to discount if you like that from revenue and profit because it isn't really a profit attributable to the company. It was just the way it had to be dealt with.

The statutory profit for the year was \$135.5 million instead of \$137.1 million. The big items that make up the difference between the statutory profit on the credit side - Rob has already referred to the profit and the sale of APRL. On the expenses side, the costs associated with the premises review including relocation of Melbourne, Adelaide and Brisbane. That came to about \$11.6 million, there were redundancy costs carried over from a prior year of \$1.3 million and there were some consultancy and other expenses of \$0.5 million. You will find all of that detailed in the accounts also.

Revenue again - you need to discount the NGF receipt and when you look at the growth rate over five years, there's an 8.3% increase compound growth rate over the last five years. Normal earnings per share have gone up 24.6%. The total dividend for the year has gone from 95.1 cents last year to 120.1 cents this year. Again in line with profit growth, that represents accumulated growth rate and dividends of nearly 25% over the last five years.

Capex - Rob mentioned \$13.9 million which was in line with our guidance. We have been saying consistently to the market that our Capex would be within \$10 million to \$15 million. You can see that from 2002 onwards, it has remained around about \$10 million. This year, we flagged there would be a kick up because of the introduction of ITS replacing SEATS. That's in the process of going live now over a staged period up to October. Most of the software development during that year just passed was in relation to ITS, with a little bit also associated with the company announcements platform. That is when companies lodge documents and we turn them around. There's only a small amount of ITS to pay going forward and that will be completed by October.

Depreciation - you can see has had a big downturn during the year. A lot of that was a direct result of us writing off Worldlink and other fixed assets at the end of last year plus some natural roll off of assets. The amortisation of ITS will commence in November and we would expect that to be about \$1.3 million for the financial year just coming up. The other systems that we are working on are not large but there is a new risk management system being developed and there will be expenses for that over the next couple of years.

In terms of the Capex guidance, it is not appropriate to do that at the present time because we don't know what the combined operation really will require in terms of integration hardware etc. That's still a process to be worked out which will be clearer in the period ahead.

Listings revenue was up 9.3%. Most of the areas of revenue grew substantially during the year. Equities on the back of increased volumes and derivatives similarly. With information services, we have had not only new users but we have had some new products that have been deriving some additional revenue and listings revenue at 7.7%. And as I mentioned previously, the compound growth rate in revenue over the last five years has been 8.3%. The other revenue line has been flat. That's mostly to do with investor education receipts where we are not charging for online courses, so the revenue from investor education type courses has been decreasing over the last couple of years.

Equities revenue as I said was up 10%. That was on the back of a 40% increase in volume. We averaged about 125,000 trades a day last year compared to just under 90,000 the prior year and of course, that resulted in a record number of trades of 31.6 million over the year and on a five year

basis, that represents a compound growth rate of 16%. Along with that however, has been a decrease in the average price from \$4.69 last year to \$3.79 this year. The two main reasons for that are: an increased volume discount which now has been removed as part of the new pricing mechanism. The discounts we gave away last year were nearly \$34 million compared to \$16 million in the prior year. The other main area of change as volumes have increased - we haven't been printing and sending out as many CHESSE statements on average than we did at lower volumes. In other words, as the volumes have gone up and there have been more day traders or more DMA type trading that hasn't resulted in a corresponding increase in the number of CHESSE statements. You can have five transactions on the same stock in any month and we still only send out one statement.

I know a lot of you are very keen to know what would happen under the new pricing regime, and we have attempted to do that for last year. The fee would come out at \$4.08 if we applied the same criteria to the new pricing regime as we did last year however, I can't emphasise the amount of caution you actually need to undertake if you are actually going to try and compare those prices because it does assume you are going to have identical trading patterns as happened in the past, and that's not only for trading and it also includes settlement and for the CHESSE statements I have just mentioned. There's also an introduction of a volume rebate which is a totally different structure from the settlement volume rebate that we had the prior year, and the pricing itself we believe will change trading patterns - it will encourage different types of trading. So while we have put it there to give you guidance as we have at the nine months and the six months, I would strongly caution you however not to just assume that all of those trading patterns are going to be identical and you can just apply those going forward to a new price.

Options are the other main revenue trading area for us. That increased 2% over the last year to about 91,000 trades a day. The average fee for options decreased and there has been a slight decrease over a number of years now and that really reflects the increased amount of market making activity relative to the total options trade. There was also a small increase in index options, which are at a lower price than a standard option contract.

In terms of listing income, the total market cap at the end of June was \$1.2 trillion. That's a 25% increase over the prior year. IPOs - we had 227 in the last year compared to 222 in the prior year however that represents a 55% increase compared to the prior year in the amount of capital raised or \$23 billion. In terms of secondary listings, they increased 27% to \$28.3 billion of new capital and overall, the listings revenue was \$77 million for the year.

We also flagged last year as part of the pricing review that we would increase the annual listing fees in the year going forward by approximately \$4 million. That was to compensate for an additional amount of approximately \$4 million that was going to be spent on enhancing the supervision activity. So while the expenses will go up almost \$4 million next year as a result of supervision, we are clawing that back if you like in terms of annual listing fees. However, the cost line will go up and the revenue line - EBIT won't change but you need to reflect on that next year when you are comparing the results. We also flagged in December as part of the pricing review that we were going to restructure the subsequent listing fee revenue, such that for medium size companies, it would be less expensive for them to raise capital and a slight increase in the cost of raising capital for large companies. We estimate that that would generate another \$2.8 million in revenue.

In terms of expenses, there is a 6.2% decrease in the year which is about \$8.5 million. That's mostly come about from staff, from occupancy and from lower depreciation and also some reduced software maintenance costs. On the other hand, we did introduce a new insurance policy to cover default risk during the year with a AA rated insurer similar to SFE. That policy was in force for most of last year and has added to costs which appear in the administration line. Although I made this comment about the relative number of new CHESSE statements, there was actually an increase in the number of CHESSE statements during the year and that together with some consulting and some Board fees represent the increase in the admin costs over the last year.

I would highlight in terms of the staff costs, the reduction particularly, that that does now include the share based payments which are approximately \$2.2 million for this year compared to \$1.3 in the 2005 year, and of course that \$68 million also includes the inflationary impact of increased salaries during the year. I will leave you to work out what the additional savings and expenses really were prior to inflation.

In terms of the merger going forward, I think you really need to, in terms of the synergy savings, and Rob might refer to this later on, you really need to use the 2006 cost base of both organisations as the go forward base on which to estimate your synergies. I know there is a little bit of confusion in the market place as to whether the P&L drivers review needed to be added to that, but I think the P&L drivers review is now over and you actually use the 2006 cost base going forward.

Capital management - our policy at the present time still remains 90% of normal profit after tax and that was reflected in the final dividend payment announced and has subsequently been paid. We also announced that we would return \$100 million of capital to shareholders as part of the merger activity.

We are currently in discussions with the ATO where hopefully, we will have a favourable ruling on a capital reduction and we are proceeding on the basis that we will get that and we will be putting various notices to the AGM in October to have shareholders actually approve \$100 million capital reduction, subject of course to the tax office rulings being favourable. Beyond the \$100 million, it's probably not really appropriate to think too much more about capital management until we have addressed issues such as merging the clearing houses and things of that nature.

Lastly, I just want to make a couple of comments about the accounting for the merger between ASX and SFE. The effective date for the merger is close of business on 11 July 2006. Hence there will be seven trading days of revenue for SFE that won't be included in the half-year result. So ASX results to 30 December 2006 will have 184 days, contribution from SFE will only be 173 days.

The total amount paid to date, and this may change as we uncover a few more expenses - we have had to make a couple of minor provisions in there. We didn't know exactly what the results were like, transaction costs for instance, and these are all detailed in Note 30 of the accounts but at this stage, our estimation is that the total consideration was \$2.26 billion. For that, we issued 68 million new shares. There was very little take-up of cash - I think there was approximately only \$33 million in that cash option taken up. So you can see most of the share options were taken up which means now we have 170.7 million shares on issue.

We will be going through in the next six months the purchase accounting under AIFRS. What that requires us to do is separately identify all of the assets within SFE and to have those assets valued. To the extent that some of those intangible assets have finite lives, we will then be required to amortise those intangible assets with finite lives over that finite life, and so there is potential for there to be an impact on the P&L account going forward. Any of these expenses of course will reflect in the statutory profit but they will not be cash entries, they will be just accounting entries to qualify, to fit within the accounting standards as such.

If you cast your eye through Note 30, you will see there is a fair bit of detail there on how we have come to this purchase consideration. And with that I will hand you over to Martin.

Martin Davey, SFE CFO

I recognise quite a few people in the audience who will be quite familiar with SFE, but there are a few faces I don't know who I suspect will not be familiar with SFE and so some of what I talk about may be less intelligible to you. I would like to point out there is an analyst briefing pack included in the results announcement earlier today which go through the operating statistics for SFE and hopefully explains the business a bit more.

The first point I should stress so that people understand the figures, is these are interim figures so rather than the figures that John has just talked about which are annual figures, the ones that I will present are for the six months to June and all of the comparatives are against the six months to June 2005.

In terms of that increase, repeating June 2006, six months against June 2005, there is a 26% increase in SFE's profit, obviously a very good result that we are pleased with. That's the sixth successive increase in half-year profit to June so a very strong and consistent record of increasing profits. I should also say that those figures are excluding merger costs so all the figures that we talk about today are excluding the merger costs that SFE has incurred.

The 26% increase in profit has come on the back of a 17% increase in revenue and also particularly a 29% increase in net interest income. We have seen a very big increase in the margins held by SFE and we earn some interest on the back of that. Expenses, which have been a focus for people at SFE, actually rose this period but only by less than 1% including depreciation. Overall a good result.

This slide I think is no surprise - it just demonstrates the significance and steady growth that we have experienced in both profit and revenue over the last seven and a half years since demutualisation. SFE demutualised in 2000. Because the SFE cost base has either been fixed or falling over that period, the increases in revenue have generated a proportionately larger increase in profit which is also flowing through to the bottom line.

In terms of earnings per share and dividends, you can see that the growth in EPS in the period was slightly less than the growth in profit - that reflected the increased number of shares issued as a result of the exercise of executive options. Nevertheless, I think you can see that both those graphs show a very healthy increase in earnings per share and dividends per share over the period. Of course as Rob mentioned, the dividend in the last period was as a result of the terms of the merger and was therefore rather larger than it might have been under the existing SFE policy.

If we now look at a bit more detail as to where the increase in revenue has come from, you can see that pretty much across the board we have had increases. The largest and most significant item is exchange fees which have gone up 20% on the back of significantly higher volumes in the period. That's net of the rebates that we pay to our participants, which were also at a record level in the period. That increase in volumes is both in Australian dollar but also in particular the New Zealand dollar contracts that we have, whilst a very small part of our operations, did increase very substantially and they do attract a higher fee, notwithstanding the reduction fee that we announced yesterday.

Market data increased 17%, a small part of the income - that's on the back of about a 5% increase in subscriber numbers and there is a little bit of a one-off in there that we were able to collect some unbilled revenue from a prior period. That increase is very slightly inflated as a percentage, but nevertheless it is trending in the right direction. Settlement and depository - this is the Austraclear business that's gone up 4% - a mixture there of transaction fees and holding fees. Austraclear charges on transactions and also on the value of securities held in the system. Whilst the transaction volume only increased about 1% and relatively flat, the value of holdings in the system increased substantially and we will have a look at the detail of that a bit later. Registry is up nearly 30% - another very good result for that side of the business. Participation fees relatively flat, as with the technology and infrastructure fees, bit of an increase in the number of work stations and interfaces and also increase in communication charges. Other revenue - a grab bag of minor items, all sorts of things in there, the reduction really represents a reduction in the fees that we collect for sponsored products.

Not a lot to say about this chart really except to say it shows a very good trend in all our major products. You can see the interest rate products particularly have shown substantial growth over the period and relatively consistent across the portfolio. Some of the more interesting features are perhaps hidden in the other column, which has seen very substantial growth in our electricity contracts which do attract a higher fee, and also the success of our cash rate futures contract which was introduced in the period and which has now achieved significant attraction.

This chart is an interesting one to compare the two sides of the SFE business. On the left hand side you have got the exchange traded business where you can see very substantial growth in volumes and also a significant decline in the average transaction fee. This reflects SFE policy of sharing the benefits of growth in transaction volumes with the market, principally through the rebate system which goes to large volume customers through the large volume rebate or to the local participants through the local rebate. The net effect of that has been a general decline in the average fee against significant rises in volumes. If you contrast that with the Austraclear business on the right hand side, those volumes have been relatively flat and you can actually see the average fee that's charged in Austraclear has risen particularly since 2003 when the moratorium on Austraclear fee increases, which came to place at the time of the acquisition by SFE, was lifted. However I have also added a blue line which shows the average cost for the customer in terms of transacting and you can see that has gone down. That's the cost per \$10 million worth of securities, so whilst the number of transactions has stayed relatively constant, and the fee for transactions has gone up, the fee per \$10 million of securities transacted has gone down. This is because the average size of the transaction has gone up over the period.

If we look in a bit more detail behind the Austraclear business, as I mentioned before not all the revenue comes from transactions. Some of it is driven by the value of securities that are held in the system and the chart on the left shows you the growth in the value of those securities which has been quite substantial with a compound growth of nearly 17%. And fortunately only a minor part of Austraclear's revenue is driven by holdings. The majority has been based on transactions. If you look at the chart on the right hand side, you can see that proportion and that's changed essentially in this period - the reason being that we had a fairly major change to the pricing structure for Austraclear from 1st January 2006 and we reduced some transaction fees and increased holding fees so we have tried to hitch the revenue to the more strongly growing part of that business.

There's always a lot of interest in SFE's expense base. As I mentioned it's something of a novelty to be talking about costs having gone up, but there are some particular reasons for that. The major driver of cost base is employee costs and that has gone up 7%. A couple of reasons for that - the head count has dropped compared to the previous period but there has been some change in the composition of SFE's employment and the employment of more highly paid staff. There was a modest review of salaries which resulted in a slight increase from the 1st January but we have also had to recognise under AIFRS the new accounting standards, the cost of executive options and share schemes and the impact of that has increased the cost and recognised in this period as compared to the prior period. Finally, there has been a slight reduction in the proportion of the employment costs that have been capitalised and attributed to in-house developed software projects.

Not a great deal to say about the other lines. As you can see, they are pretty consistent from period to period. Computer related costs dropped 4% - that reflects the renegotiation of facilities managements, arrangements with OMX during 2005, and the benefits being reflected in these accounts. Small increases or decreases in the other areas, a big increase in other expenses might catch your eye but most of that is actually exchange differences reflecting our modest exposure to New Zealand and to the US, so in some periods we get a gain and some periods we get a loss by marking to market. Unfortunately, this period we had a slight cost going through the P&L.

We talked about dividends before. Here is the chart showing the dividends against the cash flow of the business and I think it demonstrates quite graphically the significant cash generation capabilities of the SFE business. As you see, for most periods over the last 5 years, the business has generated operating cash flow or free cash flow after deducting capex in excess of dividend payout, and a special dividend in 2004, and obviously a larger dividend in this period as a result of the merger terms.

My final chart shows some key performance indicators. The volume growth we have talked about - it gives you a trend over the last 5 years and you can see that we have had a year with a flat growth in 2002 but other than that, most years we have experienced significant double digit growth. ROE 38% - I think that's a figure that shareholders should be very satisfied with. Efficiency ratio is really just the reverse of the cost efficiency that we were talking about before and as you can see, that's halved over the period since demutualisation. The significant driver of that is head count. Not a great change in the period, but I think it's interesting to see that about a third of the head count has been taken out of the business over that period. System availability - I think Rob will talk a little about that, but it demonstrates there the reliability, touch wood of the SFE systems which generally have had very good uptime consistently over that whole period.

Robert Elstone, ASX CEO and Managing Director

I guess, obviously, John and Martin have talked understandably, as being outstanding CFOs, via the rear view mirror on the numbers for the period up to 30 June 2006, 12 months for ASX and 6 months for SFE. I am extremely conscious that you are likely to have a keen level of interest in my more forward looking statements, but before I speak to the outlook section of the 4E, I would like to reflect initially on the few weeks and try to put into context just how much change has happened to this company since the 30 June 2006 balance date. It's been a period of significant transformation in a very short time frame.

As you can from this slide, since 1st July this year there have been a number of important changes. As John and Martin indicated, the merger was effected on 11th July from an accounting perspective and on 25th July from a legal perspective. With the merger, three new directors joined the ASX board from 25th July with Rick Holliday-Smith, Peter Warne and myself as Managing Director and CEO. Consequentially, two existing ASX directors, Cathy Walter and Jim Kennedy have indicated that they

will retire at this year's October AGM. So the merger itself has already crystallised in the guise of five director movements, substantive Board renewal and that will be an ongoing process.

On the executive management front there have been two senior level departures - Angus Richards and Christine Jones. You have seen the appointment of a new general counsel and company secretary in Anthony D'Arcy, and I announced on my very first day after I was appointed a new interim organisational structure for the first phase of the merger. As you can see from the slide, a key element of that new organisational structure is a senior executive reporting to me, Phil Galvin, dedicated to the integration task and I will talk about that in a moment, and an important split in my view between business operations under Colin Scully and business development under Peter Hiom. As was also referenced in the 4E release this morning, both John Hayes and Martin Davey will be leaving the group at the end of this calendar year. An executive search for a new CFO is currently underway and I expect to announce an appointment in the final quarter of this year.

On the market integrity front, ASX Market Supervision (ASXMS) started operations on 1st July under the leadership of the Chief Supervision Officer, Eric Mayne. ASXMS is charged with oversight of the application of ASX operating rules and that subsidiary board comprises three main board directors and two external directors.

ASX has consistently been given a clean bill of health for its market supervision activities by ASIC. Earlier this year for example, ASIC noted that ASX "continues to function as an effective and reliable market" and just a year ago, the World Economic Forum ranked Australia's ASX markets as the third best regulated in the world behind the UK and Denmark. I think ASX Markets Supervision is an important step in the maintenance and enhancement of the integrity standards that ASX has built over its years of evolution.

There's a new regulatory policy unit now headed by Malcolm Star who came across from SFE, and will manage the development of market policy which will then be implemented by ASX Markets Supervision. That regulatory policy unit will report directly to me rather than form part of ASXMS, and that clearly separates policy development from supervisory enforcement.

All told by this company's historical standards, this has been an enormous amount of change in four or five weeks and I think it represents the foundation - it doesn't represent the end of the change process, but it's an enormous start and it represents the foundation work I believe in building an even greater company in the future and capitalising on the merger opportunity.

I will now talk a little bit about the mindset that I am bringing into the role and the vision I have for the group of companies that I have got stewardship for.

This is the new look footprint for the ASX Group of Companies, it details its integrated reach across a range of financial markets. So just on the first breakout slide, we are looking at the crystallisation of a holding company that will be known as ASX Limited. Clearly that has an indicative market cap, somewhere between \$5.5 and \$6 billion - one of the top ten listed exchanges in the world. It's got over 25,000 shareholders on its registrar. Equally important, that holding company will own six core licensees - two trading exchanges, the Australian Stock Exchange and the Sydney Futures Exchange; two central counter parties in the guise of ACH and SFEC; and two central securities depositaries in the guise of ASTC and Austraclear, and very important I think that this transaction hasn't been about the stock exchange acquiring the futures exchange. It's been about the creation of a new group of companies that own those six core licences.

Another way of looking at that same caption is to think in terms of the products and service functions, so clearly on the exchange side it goes to capital raising, it goes to price discovery. And on the central counterparty side you have clearly got the two only, and therefore the two largest central counter parties in the Australian financial system conducting trade novation and market risk management and obviously delivering an awful lot of capital efficiency into the over the counter wholesale financial markets in Australia. In the two depositaries or vaults, you have ASTC and Austraclear which hold the bulk of the wholesale traded securities of this country.

From a regulatory oversight point of view, you can look across the six licenses and top that up with ASXMS as a new operating subsidiary for supervisory oversight. There's a front line regulator over and above the ASIC remit which is clearly biased principally towards fair, orderly and transparent market oversight as well as supervising ASX Limited, the listed company. And then the RBA's

oversight against a fair and effective clearing and settlement facility test as it relates to both the novation CCP's and the clearing and settlement CSD's.

You can think in terms of key stakeholders and customers. I won't list them but clearly on the exchange side, you have got almost getting close to 2,000 listed companies, the broker community, the entire information vendor community, you have got retail and institutional investors, regulators, government and obviously the shareholders. Now that the clearing houses have been brought together under one corporate umbrella, you've got a wide variety of clearing participants representing the major banks as well as mid range and retail brokers, and then on the depository side you've got the entire franchise there of settlement participation in the wholesale end of the Australian financial payment system, all under the one umbrella.

So for the mathematicians who like numbers as opposed to accounting data, in terms of turnover and risk profile, on the ASX side around about \$1.2 trillion of market cap and as John indicated, over 120,000 average daily seats trades, over 90,000 average daily options trades and in the case of SFE over 300,000 daily futures and options trades. What's to my mind reasonably mind boggling, is if you come on to the CCP's you've got CCP, ACH from the ASX fold which novates \$4 billion a day and bolting onto that you now have SFE Clearing Corporation which novates \$100 billion a day. So it gives you some perspective on what this new group means, because clearly if you extrapolate four times a year going into the expiry convergence processes in the futures markets, that \$100 billion a day on SFE goes to half a trillion per day four times a year. That's an enormous level of risk transfer and puts into perspective the relativity of the two groups from a risk management perspective.

Then again, on the depository of clearing and settlement side you have got \$700 million net in novated daily settlements on the ASX side, \$20 billion per day in settlements through Austraclear and the Austraclear depository holds around about 25-30% of the wholesale liabilities of the entire banking system in Australia. So this is a hell of a franchise.

Systems - Martin touched on them on the SFE side but clearly, you have got an emerging picture of a reasonably OMX dominated suite of core applications, both the front end trading system with a cutover from seats to OMX Click XT (ITS). Clearly SFE brings the derivatives clearing engine which is another OMX product, and on Monday SFE Austraclear cuts over with a brand new depository system which has been built by OMX called Exigo.

I think what's relevant about this slide is again the good uptime availability stats as well as latency stats coming out of our core applications, particularly if you compare 99.9% uptime of ASX. The only note of caution there is that's a system which operates between 10 am and 4pm whereas 99.9% uptime on Sycom is a system which operates for 22 ½ hours a day. So again a word of caution that one operates during our daylight hours and one operates during our night ours and while we are all asleep. But really they are staggeringly good. I won't say touch wood, I have a lot more confidence than Martin. They are staggeringly good latency and availability stats.

That's all I wanted to say in relation to the structure of the group. I think as far as the 12 month outlook is concerned it really is a mixed bag. Some business as usual elements and clearly a very heavy operational workload in relation to the integration challenge. So again, without necessarily reading through every single one of those notes, I am thinking of the merger in three phases.

The first phase will be between now and Christmas of this year, the second phase will be January to June of next year and the third phase will really be July 2007 through to about July 2008 although it will probably never end in that sense that the combined group will obviously continue to evolve.

The workload is heavily front ended into this first half and essentially involves quite separate from the merger, both the stand alone exchanges have huge core application change outs to achieve. On the SFE side, Exigo go live this Monday. That project's been about 3 ½ - 4 years in gestation phase. On the ASX side, the change of the migration from SEATS to CLICK occurs in October as John has indicated.

Clearly we have got an evolving organisation structure and executive management team to bed down. We have got the important challenge of consolidation of premises and desktop integration, which whilst its mundane, in this technology based world you really can't function unless you have got integrated desktops.

We are going through the process of identifying all the functional overlaps and process re-engineering opportunities, particularly in the operating and technology sides of the business, and we are also going through in these early weeks a review of a rather large number of business projects which probably need some rationalisation. And on top of that, we are bringing together two lots of staff so we have quite a challenge in the area of alignment of human resource policies and procedures. Most of that is going to dominate the period between now and Christmas at the end of 2006.

The second phase of the merger, I think, will be more bedding down in the organisation. It will involve the consolidation of proliferal IT applications. We will quite straightforwardly need to synchronise the timing of pricing policy changes, particularly around rebate structures. We are still on track to launch CFD's on exchange in the second calendar quarter of next year, and we are on track to meet our obligations as it relates to the electronic conveyancing pilot we are doing in relation to the Victorian state government.

In that second phase of the merger we will also be looking at synchronisation of trading rules and processes where relevant. That doesn't mean we will harmonise everything. It just means we will be opportunistic where it makes sense to harmonise. And I think importantly, and John touched on this in his relation to capital management, we do have a challenge in harmonising both risk appetite, stress testing and margin methodologies across both clearing houses.

The third phase of the merger, July 2007 and beyond, is much more around convergence of the core applications. Probably starting with derivatives clearing engines which will need to come together round about the middle of next year. Clearing house integration and the dialogue with the Reserve Bank on that will kick off in the next few days literally.

The third phase will also involve rationalisation of data centres. If you look at the two exchanges plus OMX we have six data centres. We only need two going forward, so there is a lot of activity that will probably be in that financial year 2007 to 2008. And obviously whilst there will be an awful lot of introspection going on, I guess the only reassurance I can give you is that at my level, I will very much be looking out the front windscreen of this vehicle, making sure that we are not missing out despite that inevitable internal focus on external growth opportunities. So that's pretty much an overview of the three phases of the merger.

I guess in my four weeks to date leading the organisation, my early read on expense synergies is that the published number in the explanatory memorandum scheme booklet of \$14 to \$18 million by the end of calendar 2008 is very achievable. I say that predicated upon the following sources of synergies.

Inevitably there will be head count reductions across both organisations attributable to either functional overlap or process re-engineering opportunities associated with market convergence. The market supervision areas will be excluded from any head count reductions.

Secondly, there will be a greater focus on business project execution as opposed to ideas generation.

There will be a focus obviously on achieving lower occupancy expenses per employee. We have already lowered our insurance costs. Those of you who know me well, will know that we will be lowering our discretionary expenditures.

We will be shifting remuneration ratios far more from fixed to variable so they match market activity levels far more. And then as I said, we will be looking at data centre rationalisation as well as technology supply chain re-engineering, which is code for, obviously in our case, the relationship with OMX.

Now those merger synergy estimates reflect approximately 10%-12% of the June 2006 pre-merger combined cost base. And that's the base from which I will be measuring my personal delivery against those publicly disclosed merger targets.

We won't be able to provide more definitive guidance on synergies until the half-year results in February 2007. That is until the first phase of the merger integration has actually been completed by Christmas. As you can hopefully get the impression, we have an awful lot to achieve between now and the end of 2006.

There will be some merger unrelated non-cash cost increases. Non-cash expenses will increase by just under \$4 million pursuant to both the Click XT and the Exigo platform change outs going live in this current first half of the financial year. Having said that, we will also be examining the useful lives of our core applications with a view to lengthening the amortisation life beyond the current 7 years as is accounting policy. That's not a promise, its just saying we will do the review.

Additionally, we will be incurring incremental expenses from this year associated with the increase investment in market supervision, but as indicated in the market announcement of 15 December last year, those expense increases will be recovered through our new annual listing fee increases resulting in an EBIT neutral outcome.

As John has indicated, under AIFRS, purchase accounting for the merging, also has the potential to impact our future P&L, albeit in a non cash way, and we expect to have greater clarity on that by the time of the first-half results next February.

If I can now move on to the topic of pricing, particularly on the ASX side. I have previously indicated that I need to understand the basis upon which the change from volume to value was made and to see its impact. My early read is that six months data will be required to observe whether the actual trading patterns that we observe mirror the pre-announcement assumptions and fairly voluminous stress testing that was done prior to the implementation of that decision. As I have indicated publicly in door stop interviews I have already done, if the new pricing system needs fine tuning or changing then that will be the recommendation I make to the board, but I am not going to prejudge that until I have got live data.

Finally, as John indicated in regard to capital management beyond the \$100 million that we have already committed to, and obviously at an advanced stage of dialogue with the ATO, we won't be in a position to further review capital management in the short term. We first need to work through the issues associated with integrating both clearing houses and satisfying the RBA as the systemic risk supervisor.

Thank you for your patience. I realise it's a fairly lengthy presentation. I would like to take the opportunity on behalf of the board, senior executive team and myself to thank John and Martin for their efforts, particularly in the previous weeks leading up to the merger announcement at the end of March and in the previous three or four months. They have both made terrific contributions to ASX and SFE.

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