



TRANSCRIPT OF ASX RESULTS ANALYST BRIEFING – Q&A

17 August 2006

John Heagerty, ABN Amro

Just want to focus quickly on the costs. Obviously you have highlighted the \$14 million to \$18 million and you have gone through with a lot of detail the potential areas where costs could come out of. What's your first take on those cost targets, which were obviously set by your predecessor, and do you believe that you will readily overachieve on those cost targets?

Robert Elstone, ASX CEO and Managing Director

I don't want to get into interpretations. I used the words 'quite achievable' and you have to read at this stage, it's far too early for me to give guidance. You need to read whatever you need to read into the terminology 'quite achievable'. At this stage, we haven't achieved anything other than lowering some insurance premiums.

I am a great believer that we will talk about the goals after we have scored them rather than predict how many goals we are going to score. But I think you should read something into 'quite achievable' because I think they are quite achievable but I am not going to give guidance on time frames or how much they might be overshoot at this stage. I far prefer us to get through the first phase of the merger and then give you much more definitive guidance then.

John Heagerty, ABN Amro

Thanks and just a second question. On the management changes announced today, can you give us a bit more colour around the decision on both CFOs to leave at the same time?

Robert Elstone, ASX CEO and Managing Director

Well I think colour is a good word. I'll speak on both their behalves as obviously I was clearly influential in some of the decision making. In Martin's case, several months ago he opted to have a lifestyle change and not participate any longer in fulltime employment. I regret that decision because he has been a fantastic right hand man to me during my five or six years at SFE but I am not here to dissuade anyone from making those kind of lifestyle choices. In John's case, I have taken the view that he is sufficiently close to retirement anyway. I'm taking a three to five year view of my period of stewardship, and I deem that the CFO position in the company I want to build is of such criticality, that I want someone that can run with me for the whole five years and secondly can generally be an internal succession candidate assuming I run my full term. It's no reflection on John or Martin's level of capabilities at all. They have worked terrifically well, both with me and as a partnership and they will do that until the end of the year, so you shouldn't read anything untoward other than its another layer of change and transformation that is going to happen to this company.

Andrew Hill, Deutsche Bank

I had a question on the capital front. Going back to the merger terms and with the deal complete and 90% of the SFE shareholders choosing to take the all scrip option, it looks as though you have paid out roughly \$30 million in cash compared to the \$350 million you were prepared to pay out. Does that mean there is \$320 million cash that you have got that you planned not to have?

Robert Elstone, ASX CEO and Managing Director

I think that could be answered a couple of different ways. I am not sure there is \$320 million of cash that we have got so John can provide that clarity.

John Hayes, ASX CFO

There is certainly not that amount of excess cash. What we had put in place is a debt facility with the bank which would enable us to borrow up to, and in fact a little bit more than that amount, so we are able to facilitate everything we are currently doing without actually having to borrow.

Andrew Hill, Deutsche Bank

Doesn't it still imply you were prepared to take on that debt to complete the transaction? Why can't you sustain that level of debt going forward?

John Hayes, ASX CFO

I think there are a number of issues that need to be worked through. One we have touched on already is whether or not clearing houses will impact on our capital requirements. For example, by combining the clearing houses the necessary capital will be reduced or in fact expanded.

I think at this stage, while we can go borrow the money, I think until we need to, it would not be an appropriate thing to do simply just to gear the balance sheet. I don't think anyone was ever necessarily in favour of, or indicated that we were prepared to borrow money just to return money to shareholders. To borrow money to pay dividends is not really, I don't believe, a satisfactory way to go for an exchange that's got substantial risks embedded in it.

Robert Elstone, ASX CEO and Managing Director

I think perhaps another way of answering your question is simply to say that yes, the will may still exist to gear the balance sheet so you shouldn't interpret that will as somehow gone away. I think what we are communicating is that it's a second stage decision to, in my view, a far more important decision which is the issue around the integration of the two clearing houses and going through a full cycle of FSS (Financial Stability Standards) compliance with the Reserve Bank, I think its that simple.

Andrew Hill, Deutsche Bank

So I should read that as the potential is still there, but no decision has yet been made?

Robert Elstone, ASX CEO and Managing Director

Correct, correct.

Andrew Hill, Deutsche Bank

A second question, just if you could clarify around the cost base going forward. Did I hear you correctly that there are no incremental cost savings coming out of the P&L review and I am just wondering how that reconciles with the on-off charge taken against the premises item in the second half?

Robert Elstone, ASX CEO and Managing Director

I think it's fair to say there are still incremental cost savings coming out of the P&L review. I think what you can't do is simply add the P&L drivers review and the merger synergies up because in some respects there is a degree of correlation between those two. There are some interdependencies and rather than elaborate on those today, I think we've just clearly signalled for the purposes of measuring the merger synergies, you should measure our achievement of those merger synergies against the combined June 2006 cost base. That obviously is not unrelated to why I am saying I believe the merger synergies are 'quite achievable'.

David Humphries, Morgan Stanley.

A couple of questions if I may. The first one on the impact of the new pricing regime. Back when it was first announced, we started to get some colour on what the impact might be, we were seeing revenue, or based on revenue increases of somewhere between 8% and 9%. For the full-year we are now looking at 7½% or thereabouts. Is that the outcome the exchange was looking for at the time that the regime was introduced? Secondly, in the six weeks of the year to date, have we seen any new behaviours emerging, particularly in the context of crossing activity? And third, has there been any recent dialogue with participants to get a feel for how they see its tracking?

Robert Elstone, ASX CEO and Managing Director

I can't possibly answer the first question because I wasn't an ASX employee when the decision was made so I will flick that one to John.

John Hayes, ASX CFO

David, I think you are making the assumption that I was trying to very heavily qualify and that is that you can't use the existing trading patterns to say yes they are the same going forward and therefore you get that answer. And that's why I was saying the \$4.08 that we calculated was used with those assumptions, but with that qualification between December and June, those trading patterns had changed slightly. There was less amount capped, and the amount capped is on page 8 there I think of available results, whereas the crossing's actually decreased. So in that variation in the six months, that's why you can't actually use those existing patterns and say, well we will lock that forward and you can calculate the new price. As Rob's alluded, I think its going to take at least six months, or up to six months to actually get a feel for where those changes are.

Robert Elstone, ASX CEO and Managing Director

I think that flows into question two and question three David. The second part of your question, I think realistically, doesn't appear to be anything untoward in the July data, and it is July and it is traditionally one of the unusual trading pattern months – the reason being being Summer in the northern hemisphere. And the answer to your third question is, no feedback of any materiality from the invoices that have been sent out for the July trading period.

David Humphries, Morgan Stanley

My second question, they were the three parts of the first. I guess the best adjective I saw that you used in terms of your outlook commentary was that the outlook is going to be 'challenging'. I understand the context of that in terms of putting together two organisations. Can you give us some colour on whether or not we are likely to see fairly pedestrian growth over the year term given the substantial decrease in value traded on the ASX since May?

Robert Elstone, ASX CEO and Managing Director

I am always going to say this in response to this line of questioning. I think we are the market operator, we are not the market predictor. We are a pipe that water washes through when the water chooses to flow. Yes, there are some things we can do to try and attract more water but at the end of the day, I think any exchange CEO that stands up and gives you a forecast of volumes is either deluded or setting out to mislead you.

I am reading the same newspapers as you, I listen to the same economists as you, I am a trained monetary economist so I have my own views on markets, but I don't think it's appropriate for me as the now combined market operator to make predictions. I just fail to see what value the prediction would have to you because, is there going to be a terrorist event next week, is there going to be another official cash rate increase in three months? I don't know anymore than you know. I am not trying to dismiss your question. I think I draw a line in the sand that says that as a market operator I think we have a feel on both sides of the business, for what drives volumes but that doesn't mean we have PhDs in forecast accuracy and that's not a business we will ever get into anyway.

I think the soggyiness we have observed, particularly in equity markets, with the volatility associated with both the Iraq situation and the Lebanese situation, who knows how long that's going to last. If we have got 50 people in the room, I am sure my guess is, it would be guesswork, and we are not in the business of giving guidance around guesswork. I don't mean to be dismissive. It's a good question, but it's not a question we can answer.

David Humphries, Morgan Stanley

So the use of 'challenging' is more in the context of the operational challenges that you face as opposed to the environment that we are in?

Robert Elstone, ASX CEO and Managing Director

I understand perhaps that part of your question a little better. But there is no doubt that even if this merger hadn't happened, both these exchanges had an awful lot on their plate with these core application change outs. On top of that, both had a fair number of business projects on their plate as well. We know we are going into a period of heavy, heavy workload. We are consciously trying to manage the operational risks day to day, and I think we manage them in both businesses extremely well. We have now got an even higher bar to jump with both the RBA and ASIC to keep them constantly informed, because what we obviously are going to try and do this side of Christmas is bolt together two of the most vital pieces of core infrastructure on which the entire banking system and funds management industry and insurance industry is totally dependent for price discovery.

Now I don't want to be unduly melodramatic, but I take that obligation incredibly seriously. I think sometimes when I read some of the media, its well, you've done the merger what are you going to do next. The merger has got about 2½ years of heavy workload associated with it and the first phase i.e. the period between now and Christmas is particularly heavy. Having said that, I don't see that we are going to stop a whole heap of business activities and development opportunities just because we are doing a merger. There are different people focused on those issues. I just think we have a lot on our plate, we've got a lot to achieve particularly in the first phase of the merger so that I can give you better guidance on synergies when we get to the first half reporting period. But I see nothing on the radar which gives me cause for concern that whatever the market is going to deliver by way of activity levels, we are not going to be able to cope with. I don't see those issues being a likelihood at all.

Alex Chau, Credit Suisse

I have two questions similar to the questions Andrew asked. On the P&L, admittedly the guidance did come from a different CEO at the time, but I recall at the merger presentation that the P&L benefits would still remain over and above the merger synergies - that has been guide for between \$14 million to \$18 million. I just wonder why that now appears to have changed in terms of the guidance? It appears now those benefits may not potentially flow through.

Robert Elstone, ASX CEO and Managing Director

The short answer is, in four weeks in the job, I haven't had an opportunity to look at the P&L drivers review. It was something I wasn't part of and I think it's probably wrong to leave you with the impression that the benefits of the P&L drivers review have somehow stopped and aren't going to flow through. I just think it's a giant step for mankind, I know you want to do it because you want people to buy the stock. I think it's a giant step for mankind to add the cost savings in the P&L drivers review to the merger synergies because I know for a fact that some of those line items overlap.

So don't interpret these comments as I have a personal disassociation with the P&L drivers review because I wasn't the architect of it. But that doesn't mean to say I don't take accountability for the fact that there will be P&L drivers review benefits flowing through. I think that's why you should read, back to this other gentleman's question, that when I say I think the merger synergies benefits are quite achievable. What I am alluding to there, is there is clearly an interplay between the merger synergies - its just that the only things I can measure my own performance against is the June 2006 cost base and the merger synergy targets that we are going for. But it would be wrong to leave you with the impression of a complete distancing from the P&L drivers review. Equally, I think it would be wrong for you to just add the two numbers up because there is an interplay as an accident of timing, given the proximity of the merger being effective to the last briefing that you got. I suspect the answer is somewhere in the middle, but that's not a scientific response.

John Hayes, ASX CFO

I would just add to that...that \$15 million to \$20 million we talked about was before, and people seemed to not take this into account, it was before inflation and new initiatives and what I was trying to also allude to in my presentation is that if you actually adjust and you adjust for the share based payments, you actually come up with a much larger number than \$8.5 million to start with. That is the cost base going forward.

Robert Elstone, ASX CEO and Managing Director

I also think, as John says, the P&L drivers review was before inflation and new initiatives. I think by any standards the merger with SFE is a new initiative. If you add 40% to the size of the company, some things changed. So to keep backdating back to an activity that had validity before the company grew by 40%, I just think is a slightly questionable assumption and that's the only point being made Alex.

Alex Chau, Credit Suisse

The second question is on capital management, and I apologise for harping on the capital management issue but it does appear that there is a much more conservative approach taken to capital considering at the merger time, that you were potentially considering taking on gearing to fund the cash portion. The cash portion is coming in at \$30 million or thereabouts, and that leaves on my account collations as potentially surplus capital over and above regular capital requirements and clearing house requirements of about \$70 million. I am just wondering why, given that there was some guidance on potentially further capital management initiatives over and beyond \$100 million, why did that lose a bit more in the relaxation of the guidance there?

Robert Elstone, ASX CEO and Managing Director

I don't think it's relaxation. I think the words used were 'over the medium term'. In other words, the reference is to capital management beyond a \$100 million capital reduction, the words were used over the medium term. What you are interpreting as conservatism is quite wrong. The way I responded to this other gentleman's question, is it is simply a question that clearly you've got very disparate risk profiles emerging from the integration of the two clearing houses and I want to see those issues resolved both internally and in conjunction with the systemic risk regulator before we provide additional guidance. That doesn't mean I am conservative - that just means it's a timing issue.

Chris Williams, UBS

I wanted to pass on my thanks and congratulations to John and Martin for the excellent job they have done and the disclosures they have provided historically. A couple of quick questions and they partly follow on from others, so apologies for that. Thank you for giving the average fee over the previous 12 months under the new pricing structure or what you think it would be, can you give us a number for July or for perhaps the six weeks to date as it's a little bit more topical and relevant at current levels of activity?

Robert Elstone, ASX CEO and Managing Director

The answer is no.

Chris Williams, UBS

Okay, I will move onto the next one. Just wondering why the supervision cost line or the part of the business in supervisory activity is not considered part of the cost reduction profile and I am just wondering out loud whether that has any relationship to the ACCC not objecting to the merger?

Robert Elstone, ASX CEO and Managing Director

No, on the last point of connectivity. I think the reason there may be some residual cost increases, and I will be unpopular with users for saying this, but clearly our supervision area is constantly under

siege from our customer base who want to steal our staff all the time. Its been running under complement and because of that, there are vacancies being filled all the time so there will be some creeping cost increases in the supervision area but it is complete. I have taken the view, rightly or wrongly, that in my first year which coincides with the first year of bedding down of ASXMS, its absolutely vital going back to my earlier response question, why we are bolting together two such vital pieces of core infrastructure – firstly, we don't want any hiccups while we are doing that plumbing challenge, but secondly we don't want any supervisory hiccups either. So Eric Mayne and I have kicked off a terrific early working relationship. I think we have a good understanding of what needs to be achieved with the supervision resource base, and we want to continue to get clean bills of health from ASIC and RBA assessments and I just don't see that as the big early priority for me. I think there are much bigger parts of the group that warrant my early attention. So it's nothing more Machiavellian than that Chris.

Chris Williams, UBS

Thank you and just a final point of clarification again on the cash consideration. I assume, I am interpreting from your comments, that you didn't actually draw down any debt - you used cash facilities on balance sheet to fund that?

Robert Elstone, ASX CEO and Managing Director

Correct.

Andrew Hill, Deutsche Bank

I just wanted to get some clarity on your views on the new pricing structure. Given we did see quite substantial fragmentation of order flow during the June 2005 half, are you looking for additional changes beyond that behavioural change that we saw in the June half?

Robert Elstone, ASX CEO and Managing Director

Not particularly. I don't think its anything more sophisticated to my answer than because there are several explanatory variables to the take off in volumes that we saw from last year to this year on the ASX side. I think to pin any one cause or factor to the increase in volume is difficult. What that means practically is that rightly or wrongly, I have taken the view that it will need several months of data for me to analyse the trading patterns during the first half of the year to determine how divergent they are from the underlying assumptions that gave rise to the pricing algorithm change in the first place. Its nothing more sophisticated than that.

I have heard the views from the analytic community – 'well, are you going to change this'? The answer is, I may change this but I will change it on the basis of data. I won't change it on the basis of an a-priori view as to whether it's right or wrong. From the evidence I have seen of the thinking, the assumptions, the extent of the sensitivity analysis and stress testing that was done, it all appears pretty robust. Now that doesn't mean to say I agree with the decision or I won't change it. All I am saying is I got very satisfied with the thinking that went into the decision. If subsequent events prove the decision to have some measurement error or some assumptive error, then I reserve the right to change it again. It's that simple. There is no point really going into guessing games here. Well, why do you need six months, can't you find out after three? Well it's a little bit distorted because July and August aren't the best months as a sample so I have taken the view that I will look at it during the first half of this year, given, and I am not looking for a sympathy vote in saying this, but given the enormous work load on me and this company between now and Christmas. It's an important issue, its got my attention, but I am not going to bed every night worrying about this issue until I have got data I can look at.

Mike Younger, Citigroup

I won't touch on capital management Rob, but I did have three questions I would like to ask. The first is in regard to global consolidation and what your views are and if we start to see consolidation in the Asian region, as the New York Stock Exchange seems to be quite vocal in that regard, but does that put pressure on ASX to look elsewhere. The second part is why there is a need to review the pricing change given there was a significant review made by the board and a consultation process with the market before it went through. And a third clarification - John mentioned on annual listing fees that

subsequent fees were raising by \$2.8 million and the bill was going to be an offset through supervisory costs? I wasn't aware of an annual listing fee going up \$4 million in addition to subsequent listing fees. So I just want a clarification on that point as well please.

Robert Elstone, ASX CEO and Managing Director

I will let John answer the third one. On the first two - global consolidation - I have given the Board as recently as yesterday's Board meeting, the reassurance that whilst 99% of the resources of the company will be focused internally, I certainly won't be and I will be looking out of the front windscreen as I put it. Clearly the scale that this new group of companies now has puts it in a much better position, both within the region or globally to participate in domestic or cross border consolidation. Am I going to be spooked if someone does something in the region in the next two or three months? Well, the answer is it would depend what it is. I think those of you who know me have heard me talk about this before, but whilst it sells an awful lot of newspapers, I think a lot of this cross border M&A type activity is probably more about selling newspapers than it is necessarily growing value for shareholders. That doesn't make me a sceptic of it; it just makes me a realist in my attitude towards it.

Clearly we have the scale now to participate in it, but we need to bed down this domestic transaction. If we need to respond, we have got the capital base, I suspect we have the shareholder support to respond as long as we continue to deliver the results that both companies have historically.

On why we need to review pricing, I just think clearly I have listened to some of the, I won't call it 'noise' because that's a pejorative term. I have listened to some of the feedback from the analytical and the shareholder community that they had, and they still have concerns with those pricing changes. I am not oblivious to those concerns but I think I have addressed, and the way you have asked your question now is with the tone of my response. So I really don't propose to say very much. You have asked your question very reasonably and I think I have answered this point repeatedly, equally reasonably. I am taking a very pragmatic attitude. I am not jumping up and down because I think there is a huge problem, because I don't think there is. If there is a need for some fine tuning or an about face then I will do that because I am a pragmatic person. I will flip to John on listing fees.

John Hayes, ASX CFO

When we announced the pricing changes in December 2005, the last part of that announcement dealt with the subsequent listing fees, and the aim there, as you are probably aware, to make it a little bit cheaper for small companies to raise capital and we had thought for some time even after the previous pricing reviews, that the listed companies perhaps weren't paying the full freight for their subsequent listings. That is actually in the December 2005 announcement and that was \$2.8 million.

When the supervision review was announced, and if you remember that was post-dated the P&L drivers review, we had the P&L drivers review and the outstanding issue there was supervision. The supervision announcement came several months later and when that announcement was made we said there would be an increase funding for the supervision area going forward and that we would recover that from annual listing fees. If we didn't make that totally clear at the time, I apologise for that but there was a definite statement that we would increase listing fees by the amount of the increased amount we were spending on supervision. That happens to turn out to be \$4 million thereabouts and we have to adjust the annual listing fees that have just gone out in July 2006 to listed companies to reflect that \$4 million.

Ryan Fisher, Goldman Sachs JB Were

... it's important to note that the cost target of P&L drivers plus synergies was actually the basis that SFE shareholders voted on, so I don't think it's just an analyst modelling issue. Turning to the question, there were some SFE fee reductions put through yesterday afternoon. The SFE fee changes, to the extent that they affect about 10% of volume - could you confirm that they were immaterial from a financial point of view?

Robert Elstone, ASX CEO and Managing Director

I don't believe they are material from a financial point of view and if I had formed that judgement we would have made a dedicated release.

Ryan Fisher, Goldman Sachs JB Were

And the commentary in the same release about the LVR is a bit difficult to interpret. Could you clarify what your thinking is on the LVR?

I think from memory, the reference is linked to the point I made during the presentation I made this morning. The intention is to time synchronise the LVR rebates as that historically has been set on an annual basis, based on a calendar year. Because SFE is migrating into a different accounting period, it means that when we reset the qualifications threshold for the LVR for next year, that reset will only apply to a six month period instead of a 12 month period. So in other words, we will reset it I think in about October/November this year for the six month period January to June and then we will reset it again probably around about May 2007 for the 12 month period July 2007 through to June 2008. Sorry if it wasn't very clear.

Ryan Fisher, Goldman Sachs JB Were

The final question is regarding dividend policy, there was some comment that any amortisation of new goodwill that's created through the merger might be deducted before calculating dividends. John or Martin is there any further thinking on that?

John Hayes, ASX CFO

We did say that Ryan, but we also said dividend policy is always subject to Board review and I think it depends on actually what comes out of that valuation process and what the amortisation is.

Ryan Fisher, Goldman Sachs JB Were

But John can I just ask why if it is a non-cash item is it relevant to the dividend payments?

John Hayes, ASX CFO

I think from a cash point of view you are absolutely right and it is no different from goodwill and you may recall that ASX had a policy of paying its dividend pre-goodwill. So there is precedent. All I am saying is at this stage, there's been no firm confirmation of that but we have alluded to the fact that it may be eliminated. When we have actually done the work, when we see the quantum of what it is and also have an opinion, if you like, as to what is best practice at that stage I think that is what the Board would get the recommendation for. As to the way it should go ahead forward, at the present time I think we are saying there is still a policy of 90% as well, just whether or not it includes that amortisation.

.....oOo.....