

Attention ASX Company Announcements Platform Lodgement of Open Briefing®



Australian Stock Exchange Limited
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Australian Stock Exchange Limited recently reported a record net profit after tax of \$64.1 million for the half year ended December 2005, excluding an after tax profit of \$6.9 million for non recurring significant items. This represents growth of 24.7 percent on the previous corresponding period. What were the key drivers of the record result?

MD & CEO Tony D'Aloisio

The two key drivers were the stronger revenue performance and the first impacts of our expense reduction program which we announced with our Profit and Loss Drivers Review in May 2005. Revenue was up 8.2 percent and expenses were down 6.9 percent when compared to the previous comparison period.

The strong growth was primarily driven by record equity trading volumes and strong capital raising including a number of new large listings and overall growth in market capitalisation.

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In addition to the interim dividend of 56.2 cents per share, you're returning \$50 million to shareholders by way of a capital reduction or an on-market buy-back. You have \$213 million of unrestricted cash on the balance sheet, why are you returning only \$50 million? Is there a minimum level of cash you need to retain?

MD & CEO Tony D'Aloisio

We need to distinguish between cash and capital. We have issued capital of only \$106 million and we're returning \$50 million of that. Of the \$56 million that will remain, \$38.5 million is required to meet the capital requirements of our clearing house.

While we think the remaining capital base of \$56 million is adequate, we don't want to go much below that.

Our cash position is strong, but our ability to return that cash as a special dividend is limited because of limited franking credits.

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Will special dividends be less likely in the future given your franking position?

MD & CEO Tony D'Aloisio

Our policy is to pay out 90 percent of normal net profit after tax as fully franked dividends. Special dividends are subject to the availability of franking credits. Our Board regularly considers ASX's capital and cash position. If and when the capacity is available we'll consider special dividends.

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With the upcoming return of \$50 million, do you favour a capital reduction over a buy-back?

MD & CEO Tony D'Aloisio

The Board hasn't made a final decision, but we're leaning towards a capital reduction.

There are procedural issues that we need to investigate. For example, with a capital reduction, we require shareholder approval via an Extraordinary General Meeting and possibly a Tax Office ruling. We will advise the market as soon as possible what our course of action will be. We will work hard to make the timing this financial year but it could slip into the first quarter of the next financial year.

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In the last six months revenue increased eight percent compared with last year's revenue growth of 16 percent. Why is the revenue growth rate slowing given the buoyant market conditions?

MD & CEO Tony D'Aloisio

The market is growing and that's positive for our revenue growth. However, growth in our equities' revenue is determined by our pricing policy and the Settlement Volume Rebate (SVR), a sliding scale discount applied to the average number of trades per day.

Although the volume of SEATS trades grew by 31 percent over the previous comparison first half, this didn't translate into equivalent revenue growth because of the higher discount paid to our customers. Equities trading revenue grew by 6.1

percent and the average fee per trade was \$4.20 compared with \$5.04 for the previous comparison period.

The impact of the SVR can be seen by the amount we have returned to participants. In the 6 months to 31 December 2005, our total equities revenue increased by \$3.6 million but over the same period, we returned \$12.3 million to market participants. That is more than double the \$6.0 million we returned to participants for the 6 months to 31 December 2004.

We have addressed the SVR in our new pricing arrangements to come into force on 1 July 2006.

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With a reduction in normal expenses of \$4.9 million, your cost to income ratio has fallen to 44.5 percent. Are you on track to achieve the Profit and Loss Review's target of cost savings of \$15 to \$20 million by FY08?

MD & CEO Tony D'Aloisio

When we announced our Profit and Loss Drivers review in May 2005, we set a target to reduce expenses by \$15 to \$20 million by FY08. The \$15 to \$20 million reduction target would be prior to inflation and new initiatives.

We've made a good start at implementing the cost reduction elements of the Profit and Loss Drivers Review and we're on track to meet the target for FY08.

We're also pleased that we're below our short term cost to income ratio target of 50 percent. Nevertheless, as the ratio is influenced by the strong growth in revenues in the latest half, we'll remain focussed on managing our costs. The savings in the latest half were largely from staff efficiencies and currently we're focussed on our occupancy costs with reviews underway of our Sydney and Melbourne premises.

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How does your cost to income ratio of 44.5 percent compare with other stock exchanges?

MD & CEO Tony D'Aloisio

There are a number of exchanges with a lower cost to income ratio, but we're near the bottom of the curve. (ie, up with the best of them).

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What is the outlook for costs beyond FY08?

MD & CEO Tony D'Aloisio

We'll probably start looking at that in the first quarter of calendar 2007, but at the moment we're focussed on delivering the FY08 target.

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As a result of your Pricing Review, you are altering the ASX pricing structure from a predominantly volume-based to a predominantly value-based system

effective from 1 July 2006. Have you been able to quantify the effect of the pricing changes on prospective revenue? What benefits do you anticipate ASX will derive from the pricing change?

MD & CEO Tony D'Aloisio

By way of guide, based on actual activity in the 6 months to the end of December 2005 the average fee would have been \$4.57 compared with the actual \$4.20 under the current pricing structure. But, like for like comparisons are not easy to make as trading patterns may change as a result of the new pricing structure. Hence, it is a guide only.

Over the next few months we'll work with the industry to see what sort of changes may occur in trading behaviour and review what additional information we can offer the market.

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You also announced the results of your review of ASX's supervisory role in December. What will be the impact of increased investment in market supervision on your costs and how will it benefit the ASX?

MD & CEO Tony D'Aloisio

The changes will benefit the market as the significant additional resources will improve market supervision and further strengthen investor confidence in the market. The establishment of a more independent supervisory operational structure will put out of play the perception of conflict of interest between our regulatory and commercial roles.

The earnings impact is expected to be neutral. Over the three years to FY08 we're budgeting for additional operating costs of around \$2 million per year and capital costs of around \$1.2 million per year. The capital component will be absorbed within our current annual CAPEX target of \$10 to \$15 million per annum. Operating costs will be recovered from increases in annual listing fees from 1 July 2006 resulting in a net EBIT impact of nil.

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You've stated that you aim to grow your share of Direct Market Access (DMA) trading? What is DMA and what progress have you made over the last six months?

MD & CEO Tony D'Aloisio

DMA or Direct Market Access is a collective expression we use to describe a variety of computer based trading strategies used by institutional and hedge fund investors. The trading strategies they employ include VWAP (value weighted average price) trading, arbitrage trading, statistical arbitrage trading and index arbitrage trading.

The real evidence of the growth potential of the DMA business will come with the new pricing environment post 1 July 2006. Based on the experience of overseas markets with similar pricing structures, we expect DMA trading to increase in Australia.

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What's your current share of DMA trading?

MD & CEO Tony D'Aloisio

We cannot accurately track DMA trading. We base our estimates on market consultation and certain other indicators. We currently estimate that DMA accounts for around 15 percent to 20 percent of trading by value and marginally more by volume.

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Anonymous trading has received a mixed reception from brokers and fund managers. Why have you introduced a system which seems to foster less transparency? What are the benefits of the new system?

MD & CEO Tony D'Aloisio

The problem with the former system was that it was neither anonymous nor open. There were those who had information and those who didn't and we wanted a level playing field. We also thought there would be greater market liquidity with anonymous trading.

After consultation with brokers and institutions, anonymity won the day over an open system.

We've coupled the introduction with a decision to review it after 12 months. While it's early days, there's some initial evidence suggesting greater market liquidity, but we'll decide whether to retain anonymity or not at the end of November 2006.

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Your new Integrated Trading System is due to go live in October. Is the technology on budget and what will be the benefits to ASX traders? What are the risks of introducing a new trading platform?

MD & CEO Tony D'Aloisio

The original budget of \$11 million has grown to \$15 million primarily as a result of the integration of additional features that we and our customers wanted.

Being able to trade both derivatives and equities on the same platform will be a big advantage. Investors will be able to execute complex trades more quickly. Our implementation work and strategic analysis suggest it's the right decision for ASX and the market.

The risks of any new trading system or new technology are in the design, the execution and the implementation stages. Our implementation team has identified these risks and we're very confident that there'll be no threats to the system or its benefits.

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The London Stock Exchange recently became the subject of a hostile takeover bid. Is ASX vulnerable to a similar bid?

MD & CEO Tony D'Aloisio

We've always said that as a publicly listed company we're subject to the market. As such, we are subject to acquisition. Our objective is to focus on running the business in a sound, sustainable and profitable way. Our goal is to grow the business and grow the market.

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Your Annual Report stated that you are looking to grow your core business. What are the main challenges facing ASX?

MD & CEO Tony D'Aloisio

The challenges for us over the next 6 to 12 months will be to continue to focus on our core business, to deliver the desired outcomes of the Supervision and Pricing Reviews, the successful introduction of the Integrated Trading System platforms and delivering cost reduction targets.

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Thank you Tony.

For more information about the Australian Stock Exchange Limited, view www.asx.com.au.

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