



ASX HALF-YEAR RESULTS PRESENTATION

17 FEBRUARY 2006

Tony D'Aloisio – ASX MD and CEO

Good morning everyone, welcome to ASX and thank you for coming today and also welcome our interstate and international participants on the phone. Welcome to our half year results. I am going to start by providing an overview of our financial results for the half year.

John Hayes our CFO of course will then provide additional details on our performance. I will come back for a brief outlook statement and then we will go to questions. The slides we are using are included in our announcement to the market earlier this morning. I should say we have also got here today our Group Executives who are here with me and in question time. If there are questions we can answer, our Group Executives will assist.

We are primarily focusing on the financial results today. At the end of last year we provided a market update on a number of areas – where we were with our reviews and our strategy and we finished with this slide where I said that ASX had settled on a direction which really enables ASX to continue to meet and grow its domestic markets, really keep investment funds here, continue to attract listings, it enables the ASX to capture more of the contestable global order flow such as DMA and maintains ASX as an attractive destination for foreign investment.

I went on to say that none of the changes that we had outlined that had come out of our reviews were fundamental or over-arching but we felt that when you looked it as a whole cumulatively, these changes did set a clear direction for ASX on revenue growth, expense reduction and improve supervision of our market, all really designed to position ASX better for the long term.

Presentations we made at the end of last year in relation to update on the reviews and so on are on the website.

So let me move to the results starting with the results of course to the end of December 05. Let me first emphasise that these accounts have been prepared based on the International Financial Reporting Standards (AIFRS) as adopted in Australia. ASX's accounts previously were prepared under AGAAP but comparisons with the six months periods that we talk to now will be under the new international standards and John Hayes will take you through the detail of the impacts of the international standards on our accounts in his presentation.



This slide itself highlights what by all measures we feel a very satisfactory result for ASX. It covers our normal results, these have been adjusted for significant one-off

items, the details of which are in your materials, materials we have filed. As you can see from this, the normal net profit after tax for the six months was 64.1 million, that's up some 24.7%, 25% on the comparable period 31 December 04. The ASX Board has declared an interim dividend of 56.2 cents which is up 27%. Our normal EPS is up 24.8% to 62.4 cents, our normal revenue is up 8.2% to 148 million. Our normal expenses were 66.2 million, they were down 6.9% from the 71.1 million in the corresponding period, and that contrasts well with the previous comparison as to where we were on expenses at 31 December 04 and is starting to show the impact of the expense cuts that we announced as part of the profit and loss drivers review and again John will go into a bit more detail on that a little later. Our capital expenditure remains low and within the 10 to 15 million annual target that we have set and that target includes our ITS project and the announcements that were made as part of the supervision review of some additional capital expenditure in relation to the supervision area. With regard to our adjacent businesses, we sold our interest as you know in ASX Perpetual Registers last August and announced a scale back of World Link. The benefits of these decisions are starting to be felt in this reporting period. Our remaining adjacent businesses, the investment in IRESS and in Orient Capital, continue to perform well.

On capital management the Board has decided to return \$50 million to shareholders and we will expand on this in a moment. This that follows of course the increase in our dividend policy that we announced last year. So when you look at that slide taken as a whole as I said we believe it is a very strong result, one that really reflects the buoyant market conditions of the reporting period and of course the loyalty of our customers and the work of our staff.

Moving into a little bit more detail quickly this slide normal net profit after tax. The chart on the left shows the normal net profit after tax over comparable periods over the last 5 years. As I said earlier you saw strong profit growth up some 24.7%. The revenue growth on the right hand side has increased by 11.3 million or as I said 8.2%. That growth again has come across a range of our products; across the equity listings, derivatives, information services, so all have shown growth in that period.

When you look specifically at the equities revenue, SEATS trades increase from an average of 80,000 per day in that period to 105,000 – an increase of some 31%. But the rate of growth in equities revenue was of course slower and that's due to the settlement volume rebate. Over the six months, equities revenue increased by 3.6 million but we returned some 12.3 million to the market participants through the SVR. That's a \$6.3 million increase on the rebate we provided in the first half of last year.



Just on pricing, as you know, before Christmas we made announcements about new pricing measures and that includes the replacement of the SVR. So overall I think the results on net profit and revenue after tax are pleasing.

A bit more detail on the earnings, on earnings per share and dividend per share. EPS was 62.4 cents per share, up 24.8% over the corresponding period and it represents a 5 year compound growth rate of some 16.4%.

On the right hand side dividends per share. As I said earlier, they have been declared at 56.2 fully franked up some 27.1% on the corresponding interim dividend of 44.2 cents. Effectively that means that we will be paying by way of dividend something in the order of \$55, 56 million and then we have also earmarked the additional \$50 million capital return for shareholders.

Capital management always does remain under review of course with any company, particularly us. Our policy as we have said is to return surplus capital that is above our operational needs and that's reflected in the 90% normal net profit after tax that we pay fully franked. But after assessing our capital requirements, the Board came to the view that there was a surplus of \$50 million which we are looking at returning either as a capital reduction or as an on market share buy back. We are looking at the tax and other issues and the process associated with that. We will announce further details as soon as possible and do that, that return of capital as quickly as we can.

We haven't got the timetable this morning. We feel that an on market share buyback or a capital reduction are the best options that are available to us given the limited availability of franking credits and I think the decision to return capital does reflect the Board's continuing confidence in the strength of our capital position and our business in general.

On expense management, these two performance charts illustrate our performance in expense management. When we announced the results of our P&L drivers review last May we articulated an objective of seeking to keep the ASX cost to income ratio below 50% and certainly that continues to be our target. Last July, our full year results showed that for the first time we had gone below that and this shows a further improvement but as we say when we talk about this left hand side of the slide it is very much affected by the buoyant market conditions that we have on the revenue side. So it is an indicator of our performance on expense management.

The issues that are impacting, the positive things of the profit and loss drivers review that are impacting on expense management are around staff costs which are down some 5.8%, equipment costs are down 3.7%. On the right hand side of the graph that is looking at operating leverage the spread between revenue and expenses, that continues to widen. Over that 5 year period revenue has grown 8.4% (5 year CAGR),



expenses 0.9% (5 year CAGR) and EBIT 17.8% (5 year CAGR) and those growth rates have translated into an additional \$35.9 of interim normal net profit after tax. So cost management will remain a focus.

I think that all the slides indicate that we are starting to get the benefits out of the profit and loss drivers review that we announced, and as I said, in a moment John will go into the expense side of things in a bit more detail as well. He is going to have a lot of work to do with all the things I have just referred to him.

Just a few business highlights before handing over to John. In the last 6 months we completed the last of the reviews that we undertook when I took office at the ASX, namely the pricing and supervision reviews and as I said earlier the results of those are on the websites together with a general summary of the outcome of the various reviews that we had conducted. In that period we made further strides in the ITS project, the replacement of SEATS with the integrated trading system. We announced last November a delay in that project. What we wanted to do was we wanted to make sure that the testing came up with what we want. We have really specified we want a system at the end of the day that is better than the current SEATS trading system and I am very pleased to report that really the further testing and the further work that was done during January really led to a position where as we have announced to the market we have accepted that product and now we are down to the implementation stage so it is a very significant structural change long term for ASX and one that we are very confident on but the extra time we have spent on it is well worth while.

Just to avoid any ambiguity, the revised time table for implementing the ITS project doesn't impact in any way in the new pricing structure which will commence on 1 July nor does it have any impact on the operation of the market. The SEATS system will continue to function up to the point that we switch the equities over to the new system in October this year.

The six months also saw record market activity and some operational highlights there for the six months to the end of December. We averaged a record of 105,000 seats trades per day. As I said earlier it's a 31% increase in the previous period. Option contract performance was also strong. Daily contracts of 88,000, 7% increase on the previous period but it is down 4% in our immediate previous half. Listings performance was also very strong with 129 listings. Over the six months period a total of 29.4 billion was raised on the market and that includes 17.7 billion from new listings which included SP Osnet, Goodman Fielder, Tattersalls, Spark Infrastructure, Macquarie Media Group.

Interestingly as you see from that slide the total market capitalization is now exceeded one trillion for the first time in our history. At the end of 05 domestic market



capitalization was 1.1 trillion compared to 990 billion at December 2004 and it reflects a 12% increase and you can see that it has also factored in the impact of the loss of News Corporation.

Benchmark index – the S&P/ASX 200 has also recorded a strong 18% increase when compared to 31 December 2004.

Importantly these operational highlights were really achieved with systems and infrastructure and support to the market with 99.9% uptime. Those of you will be aware that some exchanges in our region are having difficulties with trading systems reflecting you know really problems for their markets. That is very pleasing to see at ASX we do not have any of that and we have systems that are operating near 100%.

So that's what I wanted to say by way of overview of our results. What I am now going to do is hand over to John Hayes. John will go through the financials in more detail and then we will come back and look at the outlook and questions. So John.

John Hayes – ASX CFO

Thanks Tony. Tony mentioned this is the first time ASX has reported under AFRIS and I will refer you to the 4D and the detail at the back. We have tried to provide as much information as you need to be able to go back to basically June 2004 and to see where the gaps are, what the differences are and how that translates into the current.

So in the back of the 4D you have a balance sheet for June 05, December 04 and effectively June 04 although it's called 1st July which is when the transition takes place and you have also got the P&L for June 05 and for December 04 in a fair bit of detail. If you find after having gone through that that there is something you don't understand please give me a call and I will try and explain it to you.

The main items, if you like, that affect ASX going forward obviously fall into both balance sheet and P&L categories and I will just touch on the main ones. The first one you will notice is novation of clearing house cash margins from participants. This is the first time that we have adopted this approach. It is the international approach I think now. There was a disagreement at the beginning of this process but over the course of the last year we have finally reached agreement internationally as to how this should be treated and the exchange that is most close to us in terms of vertical integration from Europe Deutsche Boerse has also adopted this approach. You will see various components of Singapore and Hong Kong that adopt sort of international standards also following that line.

So the first thing we have on our balance sheet is cash margins. It's not cash that is available to shareholders. So we have shown it as three lines. We have shown you the



unrestricted cash, the cash we got from NGF which is restricted, and then we have got cash margins from participants. To the end of December that was \$255 million and the corresponding liability is \$261 million. Now you might ask why the difference. The difference is the way margins work – is that you call for the margin today and you

get paid tomorrow so the other \$6 million is not sitting in actual cash balances, it's actually sitting in receivables.

The other major balance sheet item is the revaluation of IRESS. IRESS is now sitting in our investments at market value and the after tax effect of that revaluation is sitting in a revaluation reserve within the equity component of our balance sheet. So there is \$44.6 million that has been added to the value of IRESS and \$31.2 million appears in our asset revaluation reserve.

On the P&L side of things we have expensed share based payments for the first time in this half it was about \$700,000. To try and help you with comparisons what I have done on page 8 of the 4D where we show the market based cash flow I have actually shown you for the last two halves the comparable amounts that you have to adjust to EBIT to get back to AGAAP. So you will see adjustments for the share based payments for December 04 and for June 05 as well but for this half it was \$700,000.

The other item that might be a bit tricky for some is the straight lining of leases. Now I have mentioned in previous presentations that our lease for this building has a fixed 4½% increase. Under AIFRS, you actually have to front end all of the 4½% increase and then amortise it over the life of the lease. So we have made an adjustment of 1st July 2004 of about \$7 million and now that will be amortised so that 4½% increase doesn't actually appear as an accounting expense going forward although the cash outflow will obviously reflect that 4½% but the actual accounting expense will be flat lined if you like. So the adjustment here for this half was only \$100,000 negative, so it's an additional expense of \$100,000 in occupancy but going forward over the next 5 ½ years you will actually see whatever is remaining of that \$7 million being amortised in such a way that the accounting expenses for this building is straight. So there won't be any increases going forward from an accounting perspective.

The other item that would have been major is goodwill but on the sale of APRL we no longer have to amortise that goodwill because we don't have the asset. So if you are looking for a big lump of goodwill it is no longer there as most of that goodwill was for APRL which was about \$2.9 million. There's a remnant of around \$100,000 for Orient Capital. Goodwill amortisation which no longer appears in the P&L account so to that extent profit has gone up by about \$100,000.

The other little tricky item which is difficult to quantify but it's only a couple of hundred thousand, but I just thought I would mention it to you is we moved to



settlement date accounting for equities which means we don't recognise the order and trade fee until the date of settlement rather than the date it was actually done. That is an adjustment of about \$200,000 so I don't think you really need to worry about that going forward. But that is just so we recognise internationally when we actually derive revenue from that trading as opposed to the clearing.

The clearing fee still goes through on the date of transaction but the actual order and trading fee doesn't. So they are the major changes and as I said it will require you to read a little bit just to understand what it is but the net effect is that there is very little change to the balance sheet other than those things I have mentioned and insignificant amounts to the P & L account.

Now Tony has already gone through most of this, I just wanted to really highlight the operating leverage that we get from this as Tony mentioned. The normal profit after tax is up 24.7% but EBIT has gone up 24% on the back of 8.2% increase in revenue and 6.9% decrease in expenses. The other item there is significant items reflects the sale of APRL. That was a \$9.8 million profit before tax but because it was a capital gain and because we had written off a lot of goodwill the actual tax expense was only about \$1.9 million so the net after tax gain on APRL was \$7.8 million. So that is reflected in that. The other obviously significant items there are \$6.9 million were some expenses. When you look through the detail you will find there was a small amount of redundancies occurring in the second half and a little bit more of restructuring cost, such that I think it was about \$1.4 million so the net turned out to be about \$6.9 million.

Moving to revenue, a couple of things I just wanted to highlight in passing was the 5 year compound average growth rates of some of those revenue items, particularly listings. Now you may recall that we had previously some annual fee increases and IPO fee increases up until June of last year so from July that is this half there were no price increases as such. However the annual listing fee went up from \$62,000 on average to \$68,000 which reflects more the increase in market cap as at 1st July when we sent out our annual listing fees.

It wasn't because there was any price increase but was simply because the annual listing fees are based on market capital at a particular time for a company and depending where that company fits in a range of about ten different levels their fee gets set on that basis and because generally the market cap of all the market was up as at 1st July that flowed through to a slight increase in annual listing fees but there was no price increase as such.

We have in our presentation before in December mentioned that we were going to incur \$2 million extra in supervisory costs next year and that we would recover that from annual listing fees so you need to bear in mind when you are looking forward that



there will be a small lift in prices if you like in annual listing fees next year from 1st July to cover those additional costs of supervision.

We also announced as part of the pricing review the secondary listing fees were being aligned so the smaller raised amounts became cheaper when there were secondary listings and the larger ones will incur a bit more of expense and the net of that was going to be about \$2.8 million from July 2006 onwards. I just wanted you to keep that in mind as well.

In terms of equities, that is probably the thing that you are most focused on and what we have done in the 4D is shown you what the fee would have been for the December 05 half and the December 04 half. We haven't provided any more detail from that because it is quite a complex formula if you were trying to build it into a model without a lot of detail from ourselves and I think the key point to keep in mind is that the new pricing will actually change the way the market behaves so that any structural formulas that we have at the moment to calculate that are likely to change from July 05.

So the best guidance we can give you at the moment is to show you what the fee would have been under the new format as at December 05 and December 04 but you will have to wait for a little bit longer before we can actually provide you with anymore detail. So my suggestion would be that you just stick to your estimate of the number of trades and your estimate of the average fee which as you can see is pretty close to what we predicted it would be. It's one of those areas that will be a bit of a moving feast and we need a bit of history to be able to give you some more assurance as to how you can determine that. I can go through a little bit more detail perhaps later on outside this if you wish.

Now in terms of costs as shown there on the screen we had a reduction of 6.9% overall in terms of costs. Staff costs went down 5.8%, and that reflects if you like a change in the staff numbers from about 560 December the previous year to 484 staff at December 05. However these savings have been minimised to some extent by the implementation of AIFRS and that \$700,000 that I mentioned to you that was in this half. There was a smaller amount in the December 04 portion which you will see from EBIT.

That non cash expense for the share base payments will actually increase over the next couple of years. The arrangements that we have in place for the long term incentives are that there will be new issues made every year and as they build up to a 3 year period the expense that will go through, the staff expenses for that long term incentive will actually increase and after three years it should flatten out and remain fairly constant. I think probably it is going to increase from current \$700,000 a half to \$1.5 million over the next two years, so it's \$3 million a year and then it will become flat.



Occupancy as I mentioned earlier, there was a small adjustment there for straight lining of leases. In terms of the premises review we are still confident that we are going to

achieve the \$4 to \$6 million saving by 2008. Reviewing our occupancy arrangements are still very much work in progress and what's not reflected here of course is any savings but I just wanted to assure you that it is taking place and those savings will come through by 2008. With leases they are quite complicated and a fair bit of work still needs to take place.

Equipment costs you will notice have gone down by 23.6%, that's largely a reflection of the write-off of World Link and some other software. You will notice when you look at the cash flow statement that depreciation has actually fallen from about \$8 million to \$5 million so \$3 million of that saving has really come about from depreciation, the rest from maintenance cost savings.

Now in terms of going forward, I don't expect depreciation will actually slip much further and come October when ITS goes live then we will start amortising that system and there will be probably nine months effect within next year and we expect it to get to about \$1.8, \$1.9 million in a full year from the 07 year onwards. The maintenance costs that are reflected in that equipment costs are also likely to trend up a little bit.

One of the tradeoffs of buying a system off the shelf is that as that system gets bigger the maintenance costs you pay to owe in actually increase slightly as well and I think we flagged that at the time of actually announcing that we were going to build the system that eventually maintenance costs would increase a little bit.

Administration costs you will notice also have actually gone up. Some of that is a reflection of increased CHES statements, the printing and mailing of those CHES statements along with the increases in volume but also there is default insurance included in there for the first time. As part of the restructure of the clearing house, we took out some default insurance with a AA rated entity and that's affectively to provide protection for the clearing house above a certain level and I think there was a \$100 million cover there over the amount of capital that is currently sitting of ACH of \$110 million.

The expense for the period just past it was about \$300,000 which represents about 3 months of the premium. So that will be an ongoing cost going forward as well. And as I mentioned to you going forward next year we will have an increase in cost because of the additional work we are doing in supervisory area but that will be recovered out of annual listing fees, but nevertheless it will be an increase in costs. There won't be any change to EBIT.



And lastly capital expenditure. As Tony has mentioned it has come in at \$4.5 million which is well within our \$10 to \$15 million annualised target rate. \$2.4 million of that \$4.5 was to do with ITS and I think previously we have mentioned to you that ITS was going to cost \$11 plus million. Our re-estimate of that now is \$15 million by the time it goes live in October.

Most of that has come about because as part of the process of the development, customers have come up with some enhancements or several enhancements that they would actually like implemented into the system and it has made sense to us so we have gone ahead and included those enhancements and then of course you have got the additional cost of a little bit of delay so I think we were going live in July and we have to keep those staff on until October now. So there is some cost associated with that but most of that cost is to do with enhancements for customers so the expected budget for ITS is around \$15 million now. That will still be accommodated within the \$10 to \$15 million range we said previously.

In the second half it's likely to increase slightly. Expected the payments for OM and for the systems bill will go up from that \$2.4 in the first half to about \$3.5 in the second half and there will be a little bit left over in the first quarter of next year but our capex we are confident will still come within that \$10 to \$15 million range.

The other thing we said in December as part of the supervisory review is that we would spend more money on some systems for that area that would come out of this capex budget. Even when we add that to it we are still confident that we are going to come within this \$15 million target range.

Depreciation as I mentioned to you has slipped now to \$5 million. That's an annualised rate of about \$10 million. It's roughly what we are spending on capex at the moment, I think that will flatten out as I said over the next half and there probably won't be any significant increase in depreciation until we actually go live with ITS come October. November will be the first month that we probably amortise that. So I think that's about all on capex and I will hand you back to Tony.

Sorry - one of the things I should have mentioned to you is the capital return. The capital return of \$50 million will probably be way of a capital reduction although we are still looking at the possibility of an on market buyback. The capital reduction has got some procedural issues associated with it, mainly getting a tax office ruling and getting shareholders to approve it. So we will come back to you with the details but the Board hasn't made a firm decision whether it will be a capital reduction or an on-market buy back.



The question you might ask is: why \$50 million? One of the things I should point out to you in terms of our balance sheet is that our issued capital is only \$106 million so the amount we could actually ever return in terms of a capital reduction or a buyback at the present time is \$106 million. Of course that doesn't preclude special dividends and things of that nature.

Franking is really the issue with special dividends. So, of that \$106 million the accounting entry to make it tax effective for shareholders will be to debit that \$106 million which will leave us with issued capital of \$56 million only and of that \$38.5 million of it we believe is committed to the clearing house so there is not too much of a buffer in terms of actual issued capital for a buyback or a further capital reduction.

It's not to say we won't work out a way of some other instrument to be able to do that to replace that, for instance one of the things we may be able to do with the clearing house is to use subordinated debt but at the present time we feel pretty much committed to paying for that out of our issued capital. I am happy to take some questions on that later if anyone wants. Thank you.

Tony D'Aloisio – ASX MD and CEO

Thanks John. Just quickly on the outlook and summary.

I think over the coming 6 to 12 months our focus as I said at the end of last year is very much to continue to focus on the core business, delivering the outcomes from the reviews that we announced. I won't go through the details of those as I said they are on the website.

Looking at the outlook itself, as you know it's not our practice to make predictions and forecasts. The Reserve Bank report this week noted that corporate profitability had matched the rise in share prices and the outlook for both the domestic and global environment it says appears to be very favourable for corporations. I mean our own trading conditions since 1 January have been strong, particularly for equities, average trades per day are now at 122,000 for January and near 149,000 for February.

Listings have continued to be solid and looking forward, on 1 July our new supervisory structure takes effect as well as our new pricing model and later in the year of course we will be migrating to the new ITS.

So we have as usual at ASX we have got a very busy year ahead of us, essentially around continuing to support the market and its current performance and completing the various projects and reviews that I outlined.

Thank you for your attention. *(ends)*