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**ASX HALF-YEAR RESULTS PRESENTATION: Q & A SESSION**  
*17 FEBRUARY 2006*

Arjan Van Veen, Credit Suisse

A quick question on the capital return. You say you are going to put time to it later on but can you just confirm that you expect to do whichever way you choose to go in the first half or would it potentially drag into the second half?

Tony D'Aloisio

Yes. I think it's one of the issues we want to come back to the market and be clear on it. It turns on tax and other issues and at the moment we are certainly going to try and do it in this half if we can but there are procedural issues there and I don't want to commit to that. I think certainly we think in the next six months. But we will (come back to the market). We are conscious of the fact that you say 'well, why didn't you get all the details in line before you announce it?' If we did that we wouldn't have made the announcement about the return today, and that would have raised other questions, so we made the judgement that it was better to let you know that is where we are headed but that we do have some issues and we are going to figure those through and come back to you as quickly as we can.

Chris Williams, UBS

I have a couple of questions please Tony. Given that \$3 million of your \$4.8 million reduction in cost was non-cash through depreciation can you give us an update on the progress of cost savings, keeping in mind your \$15 to \$20 million FY08 target. Did you want to address that one before I ask my other questions?

John Hayes

I perhaps should have reminded you everyone that we said this would be \$15 to \$20 million before inflation and other new initiatives like this supervisory course. I think we need to just keep that in the back of our mind. As I mentioned also, the premises. I think while you haven't seen any results from premises yet you will see some results of those in the near future. They are a very complex area to work through but I think we are making some progress. We have moved to new offices in Adelaide. We are about to move to smaller offices in Brisbane and Melbourne is still being reviewed, as is Sydney.



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In terms of staff numbers, we expect there will be a continuing reduction in numbers, not through redundancy but just through doing things better across the organisation. The exception, I think, to that is as we mentioned it was supervision where they are adding

some additional resources and that was the main areas I think that we said, staff and premises was where most of the cost savings would be coming from. There will be some in time from administrative things as we also align other processes within that area, particularly consulting fees, as these reviews come to a finalisation.

Tony D'Aloisio

My point of view looking at it is we did set a three-year program and I think the first, as you would expect, the initial impact of that is around the redundancies that took place. The next lot will be around occupancy so I think I am very comfortable that the targets that we set as a result of the profit and loss drive we will achieve but we are only six months into it at this stage.

Chris Williams, UBS

Just another question on the costs. You mentioned that CHES Holding statements a key driver of administration costs. If you look at the list of company line in your average fee it's gone from \$1.04 last December to 78 cents. About a 25% reduction. Trading volumes are up about 30%. I am not quite sure how that flows through at increase in CHES Holding costs. CHES Holding statements.

John Hayes

Sorry Chris I think when you look at the high level that is correct but not all of the number of additional trades have gone through as extra CHES statements. There have been increased CHES statements and I think of that million dollar increase, about \$300,000 if I didn't say so, was from additional printing and stationary.

Chris Williams, UBS

Thanks just. One last question on the capital management. In your notice of meeting for your AGM last year you talked about long-term incentives for executives. 50% of it being taken away from a total shareholder return focus to EPS growth which seems to imply something about the share price tie of remuneration in the company. You are now talking about spending \$50 million of shareholder's capital buy back stock at the current price. I am just wondering if you can reconcile those two seemingly divergent perspectives?



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John Hayes

When you say buy back Chris, it's one of the factors ...

Chris Williams, UBS

But it is being contemplated.

John Hayes

It is being contemplated one of the most effective ways to get a return to shareholders at the moment and they were the two that we concluded that were the most likely. It's simple to do the EPS effect, there is a very neutral EPS effect with the buyback at the moment and that's why I said we are probably favouring the capital reduction.

Chris Williams, UBS

But it just seems inconsistent with taking executive remuneration away from a share price tie but you are prepared to allocate capital to buy back the stock. I am confused as to why the Board is contemplating that.

John Hayes

We are not necessarily going to buy back the stock and that's because there is no EPS effect, as I said, if you do the calculation it's neutral. So, by buying back the stock, returning that capital to shareholders, we are not favouring staff in anyway because there is no EPS uplift because of the buy back in current share prices. But as I said, overall to be most effective for shareholders a capital reduction is probably more likely, it's just small procedures involved around that. So there is no uplift, if you are saying because the EPS ...

Chris Williams, UBS

It's not the EPS effect that I am interested in. It's the divergence in perspective between buying the stock back at \$34 and taking executive remuneration away from share price performance.

John Hayes

Sorry, I don't follow that.



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Tony D'Aloisio

We are having some difficulty with that because certainly we didn't turn our mind to the impact on the LTIs with this capital return. I would be interested, could you explain the point that you are worried about.

Chris Williams, UBS

We you are taking, 8% is your hurdle for 50% of your executives long term share holder returns. So, you are doing let's say 25% this year, you have to deliver no EPS growth the next two years and yet your Board is allocating \$50 million of shareholders capital to buy back stock at the current price. The implication in taking executive remuneration away from the share price is that the share price may be overvalued and yet the Board is prepared to buy back stock at the current price.

Tony D'Aloisio

I will think about that.

John Hayes

Me too.

Tony D'Aloisio

A phone question.

Mike Younger, Citigroup

Firstly, derivative volumes. There has been a sharp pull back in the rate of growth and certainly we are seeing declines coming through in recent months. I wouldn't mind a comment on what you think might be responsible for that and also market data revenue, there was a nice increase of 10%, just wondering if there are any fee increases that contributed.

Tony D'Aloisio

Thank you, I will ask Colin Scully to cover those, as Group Executive Markets.



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Colin Scully

Firstly, on market data there are no price increases that are coming through there and I think we are confident of the momentum in that area continuing. In fact, probably as an observation, of the general market conditions flowing into market data products.

In relation to options, we are looking at that closely. I think the last quarter there was a drop. We looked for the circumstances. If we look beyond that quarter, January, we have had a recovery towards the end of January and into February. If we compare this January to last we are about a 2½% drop but then last January there are a few things there that put upward pressure on that. News Corporation, for example, was trading actively as part of the changes announced there. That's not of course current in the environment and if we look at a January-on-January effect I think it is something like 25% January 04 a lift from January 04 and something like 48% from January 03.

So if we look at our strategies aimed at increasing options activity both in institutional and retail spaces: we have upward signs on accreditation programs in the retail area. There are starting to be some increased activity on institutional activity so we have got some encouragement in that sense. Looking beyond the market conditions I think there is also a role there for the strength in the equity market having an effect on the options market. For example, buy-write strategies which are very significant in a retail sense, but with the strength of the equity market people go into the equity market as opposed to options to do that strategy so there are a range of things that work. On balance, I think we have got confidence that we are on top of those issues and we continue to monitor it closely of course. But I think it's not troubling beyond those initial trends.

Mike Younger, Citigroup

And with regards to staff numbers, just interested in where the company believe, say 18 months out, those staff numbers will get to.

Tony D'Aloisio

We are not making predictions out to that point in relation to staff numbers. What are they currently?

John Hayes

484 FTE, and there hasn't been a lot of change since December, it's travelling about the same level. There are, I think when we said the half year when we first flagged – sorry, the



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full year - when we flagged the number of potential reductions there were still a number of positions to be filled and that's always the case. You always have people leaving and being replaced but we are not actually facing any redundancy program at the moment so it's really going to be how quickly we can achieve some efficiency savings, how many people are going to leave, how many people get replaced, it's very hard to predict accurately.

Steven Kench, Macquarie.

A related question around current volumes. You mentioned, Tony, we have seen 149,000 trades per day in February. Can you just comment given we are up sort of 20 to 50% off this reported period in terms of volume, a little bit less by value, so the average value per trade has fallen a little bit, can you just comment on the current trends you are seeing? What's driving that volume? And then just to follow on from that, at the pricing review you gave some pro-forma indicative revenue per trades at 105,000 per day which was for the period that has just been reported with a new pricing regime at \$4.53 from \$4.15. At the current volumes can you provide us with a figure at the current sort of levels given the opaqueness of the new pricing regime, either now or down the track?

Tony D'Aloisio

I am going to ask John to comment on the second question and Colin to pick up his views on current trends in terms of trading.

Colin Scully

On trading I think we are starting to see a number of effects and I have to say when we talk to the participants they are turning their mind to this as well. There has certainly been an increased trading in the institutional area and that's contributed to a down weighting on the average value if you like, in other words there is increased trading in the DMA area and that's sort of taken off from December/January. These things that we are reflecting on the extent to which there is also a factor in there of anonymity, some of the big participants are saying there is a contribution there which we are exploring at the moment. Looking beyond that you have the market cycle, the resource activity and the retail segment returned in force in January again contributing to a downward pressure on the average trade size, so they are the things we are observing. We are doing quite a lot of work on it at the moment to try and develop that. It's early days but they are the things we are taking stock of at the moment.



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John Hayes

In relation to the second question, one thing I should point out - in case people have forgotten – is that the current pricing the SVR cuts out at 135,000 trades a day so the discounts capped from then on, so there should be some positive impact at that level if those trades keep continuing. In terms of the new pricing, it really is very difficult to predict what it would be at say 150,000 trades at the moment because the pattern of trade as Colin is saying is changing even without the pricing. And when you look through the various proportions of amounts that are capped at \$75 and how they are clearing and particularly settlement changes as the trading pattern change it really changes from month to month and that is why we are saying we would really like to have a bit more history

before we can give you any sort of guidance as to what that translates to into the new pricing.

Tony D'Aloisio

Like you, we would like to be able to predict a bit more in terms of what the changed pricing arrangements could impact but our difficulty in doing that at the moment is it's been a risk and it was a calculated risk that we took in introducing new pricing structure because of its advantages over the existing structure, we knew we would go through a period where there would be risks associated with what would the pattern be vis-à-vis the pattern of trading changes and how would that impact on the new pricing, and as soon as we give more guidance to the market we will. But for the moment we are grappling with the issue ourselves and, as I said, it was calculated to be a risk that was associated with moving from a predominantly transaction-based to a value-based system.

Stephen Kench, Macquarie

Just one final quick question. The \$50 million capital return, does that reflect the amount of cash that you receive from the sale of the JV?

Tony D'Aloisio

We looked at the thing as a whole. I mean obviously that was a factor because we had sold that but we really looked at the cash and the capital issues as John went through our capital base and where it's at. We felt given where the business was at, what we were doing, the reviews are in place, still had to sort out occupancy and so on that we felt that \$50 million was a reasonable figure. So it was a judgement and clearly that would have weighed into it because we had sold that asset.



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Steven Kench, Macquarie.

So given you have got the NGF funding, you've got reasonable cash reserves, do you see any excess capital in there potentially?

Tony D'Aloisio

Additional capital? I said at the last reporting and I commented on the clearing house and one of the issues that was behind our capital management was to see how the new arrangements settled with the clearing house and with its stability standards and so on at \$110 million; whether with the increased patterns of trading would it need more capital, and what I said at the time I recall we would want to leave it for 18 months, 2 years and

really just make sure if indeed there is a need for additional capital we are able to cover it, and that still remains our position. I think it's settling in well, the clearing house is working very well, but the trading patterns and increased trading and the volatility of trading and the exposures that we have are getting greater. So we still do have that issue to sort out.

In terms of other areas of additional capital, Eric (Mayne) announced the supervision review and what was required there and we talked to the market about that. We have covered the ITS project and really there isn't, we are not seeing a need, at this point to go to shareholders for additional capital.

David Humprys, Morgan Stanley.

Firstly, on forward pricing. From what you have told us in this period just gone, under the new pricing regime average price per trade would have risen 8.8%. My question is it that working in line with what you are thinking on VIP rebates i.e. I presume what you have told us is based on a basis point rebate. My second question is on the capital return. Based on my ready reckoning you could have paid out a fully franked special dividend of around \$15 million. Just wondering why you didn't split the return to maximise your lowered franking credits and do a capital return otherwise?

Tony D'Aloisio

I think I will ask Colin to cover the first point on pricing and John may also want to comment on the special dividend. We have a very tight franking credit situation at the moment and I think I guess the CEO would have a concern that if we spend all the franking credits and get into a position of going into in future dividends that aren't fully franked I think there would be a real concern, so I think didn't seem to be much margin





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there to pay out a special dividend at this point. We have said we will review the special dividend as part of this six months results but we always look at special dividends and keep them under review but at the moment we felt that the capital return or share buy back was a better way to go and no special dividend. John, do you want to comment?

John Hayes

Thanks Tony. The certainty of having franking I think is very important and one of the things you need to consider when you are looking at how much franking you can generate is how quickly your revenue's changing relative to when you can actually make the tax payments relative to that revenue. And with the PAYG system you only ever pay two instalments in the current year on which you are actually earning the revenue. That subsequent year is when you generate the catch-up if you like so you need to - when you

are looking at how much surplus you have got - you need to take into account 'well, I need to be able to pay a dividend in the next period, but will I have paid enough tax to cover that and the dividend going forward?' So I think at this stage, particularly since we are paying such a high percentage of our profits as a fully franked dividend, our first port of call is to make sure we can continue to do that so while you could clear out the small surplus that we do have you then run the risk of not being able to pay enough tax in the next period to continue to be able to pay a franked credit.

Tony D'Aloisio

And Colin, do you want to cover the price?

Colin Scully

Yes, there has been no change in our thinking on the VIP and as we outlined in the announcements last December at 105,000 based on the modelling at that point and anticipated \$10 million lift in revenue, or about 7%, and the numbers there, the increased revenue per trade, \$4.15 to \$4.53 broadly, that is consistent. We are in the process now of working it through. Tony foreshadowed earlier we announced the changes to the price with a six-month lead time so not only systems be put in place but we start working it through with the customers. Some of the big institutional brokers have been affected by the shift in moving to value. Tony and I are in the process of working that through with them at the moment and we said that the program, the VIP, would be announced toward the end of the financial year and there would be two thresholds. One for ASX (the market), one for individual brokers and we are still consistent with that thinking at this point.



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Ryan Fisher, GoldmanSachs JB Were

A question on DMA. I was wondering on the submissions that you are receiving to date whether there is anything that surprised you and what your latest thinking is on the elasticity of demand, pricing and other variables.

Tony D'Aloisio

I will ask Colin to cover that.

Colin Scully

Well, I think what's happening is, I referred to it earlier in terms of increased activity in that space and we are working that through at the moment. It's interesting to note

because, as we said the last time we spoke at this forum, that DMA was growing. We announced the price change at the moment which amongst other things facilitates that sort of business. Those changes won't come into effect until 1<sup>st</sup> July and there is increased activity so I think there is a deal of positioning from some major customers with clients starting to see that effect in lieu of that price increase. We haven't received submissions as such, we just continue to work with those major customers and I have to say people have different views. Some have a view that DMA will be a major feature in their business, others that it won't, they will have more traditional broking activities and that's what we are about, having a market that caters for all sorts of models. We will still watch that as we progress at the moment. *(ends)*