ASX AND SFE MERGER PROPOSAL

ANALYST BRIEFING

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[START OF TRANSCRIPT]

T D'Aloisio: Good morning everyone. The merger will place the exchange group in the top ten listed exchanges worldwide. I guess the strategic significance of this, is that at first, the combined group will have a stronger business in Australia, a full range of products in equity and derivatives, trading, clearing and settlement capability, much greater scale both financially and operationally. Second, strategically it is better positioned globally. That is important given what is happening with international exchange consolidation and puts us in a position to be able to compete and respond to other opportunities that may occur in the future. In short, the merger really creates the footprint that is sought globally by other exchanges as the best structure to compete in the next five to ten years. For example, the moves of NYSE, its acquisition of Archipelago and what is happening there, the positioning of the Singapore Exchange, the Hong Kong Exchange. Basically, it is felt that an exchange that has equities, derivatives, data capabilities, together with clearing and settlement is really seen as the best footprint, or the best exchange model to compete both domestically and internationally. With this merger we really achieve that. So it is in our view a great strategic fit.

Turning to the proposal itself there are two parts to the offer. It is an all scrip offer of exchange on an exchange ratio of 0.51 ASX shares per SFE share. There is a cash and scrip alternative with $2.58 cash per share to facilitate better balance sheet efficiency but having an equivalent value in aggregate.

Now if you base that on the volume weighted average price for the period 10-21 March, which is over the time that the confidential discussions took place, it equates to a value per SFE share of 16.93, a 25% premium to the equivalently calculated ASX price.

Post merger, SFE will contribute 40% to the combined group and ASX 60%. We are very pleased to have three SFE directors join the ASX board, its Chairman Rick Holliday-Smith and two other directors. These additions will bring expertise in debt derivatives and payment systems as well as SFE participant relationships that are

going to be valuable to ASX. Maurice Newman will continue as Chairman and me as CEO, Robert (Elstone) will continue as Managing Director and Chief Executive of SFE until completion of the merger. I really admire the outstanding job that Rob has done as CEO of SFE, he really has set a very high bar.

Just on the offer and regulatory approvals, where are we there - as you would expect the merger is conditional on regulatory approval, primarily ACCC and the treasurer. We've made a detailed submission to the ACCC, the preliminary review, and there is a letter which is attached and is in your material which they've authorised us to release with this announcement Their preliminary review is that the acquisition does not appear to raise competition concerns. You'll note however that ACCC does need to do more detailed work. Central to our case is that two exchanges operate in different markets and do not impose competitive restraints on each other. SFE is essentially a debt derivatives exchange and ASX an equities exchange. We've not as yet lodged a submission with the federal treasurer for ASX to acquire more than 15% of SFE. As you know approval is needed to acquire more than 15%. We will do that shortly. Our submission will be that this is a positive, that this is in the national interest for Australia's capital markets, and we would ask for that approval to be granted. The short point is that the proposal is still subject to those two approvals. While formal approval is not required from ASIC and RBA, clearly we will discuss the merger with them in more detail. This is an important step for Australia's capital markets, so we are mindful of the need for proper regulatory process.

Turning to the benefits for ASX and SFE shareholders. The merger will generate a number of benefits, depicted on this diagram, but basically participation in a larger entity financially and operationally. A stronger base upon which to build equity and equity index futures business. Improved environment for trading of the SPI, more naturally alligned to ASX's product base. Better positioning to participate in global and regional exchange consolidation. Access to synergies, and I will discuss those more in a moment, complimentary, or combination of two complimentary businesses, and a better platform for innovation, and ASX intends to retain the payout policy of 90% for the merged crew.

In addition to the overall benefits, the benefits to ASX shareholders really - first it provides a scale entry into the interest rate and interest rate derivatives market. The graph on the screen shows the trading volume growth of SFE products in recent years. ASX believes that the derivatives business long term will continue to grow and possibly at a faster rate than the equities business, and ASX growing through acquisition in this space is preferred to trying some form of organic growth with the inherent uncertainties that are associated with those moves. They also provide the ASX with access to SFE's team of proven leaders in the derivatives exchange management. Our objective is to retain SFE's depth of talent. The merger for ASX will be EPS positive in calendar 2008, subject of course to volume in financial markets and progress and integration. But for ASX, this is a strategic acquisition and the longer term strength of a combined business will outweigh the short time needed to become EPS positive for ASX shareholders. That is very much a strategic move on our part.

Turning to the benefits for the SFE shareholders, the merger proposal we feel is compelling for SFE shareholders. It offers a strong premium as shown on that chart. The offer presently valued at $16.93 is higher than SFE's highest trading price of $14.66. It is expected that we will be strongly EPS positive in the first year. There will be an increased dividend payout ratio and higher dividends per share and it provides a scale entry into the cash equities and expansion into the equity derivatives business.

We are confident, as is SFE's board, as indicated by its unanimous resolution that this offer is attractive to SFE shareholders. Over the coming months we look forward to assisting SFE's shareholders to come to the same view and accept the offer. It also has benefits for participants. First and foremost we intend to retain SFE's pricing policy and pricing structure and approach. For the participants it will provide one frontline market supervisor and back office efficiency over time via consolidated systems. We think (it will involve) improved platforms for product innovation, ongoing commitment of course to highest market integrity, environment for increased trading in SPI and the enhanced ability to compete for capital and investment opportunities. ASX is fully committed to maintaining and developing Australia's capital markets and futures will become a core part of that. As we announced in December, ASX's own pricing structure will commence on 1 July and that will not be affected by this announcement.

There are also benefits to employees. We have spoken about the benefits to participants and shareholders. The commitment of SFE and ASX staff will be a key component of our success. Staff benefits that will come out of this can be expected to include those listed – a rewarding place to work, much broader opportunities, and a stronger and larger merged group. Greater diversity of career paths, and a combined culture based on integrity, achievement and teamwork.

So they are the benefits to the stakeholders. Turning just a bit more to information on the financials - the merged entity will have a broader revenue base with a balanced mix of cash, equity and derivatives business, and of course data. What the slide there probably doesn't pick up is also the listings and the data businesses that we will have - very diversified revenue streams. So they are the revenue profiles. You also have a slide with a bit more detail on putting the two groups together based on the calendar year 2005 results. Based on the year ended 31 December, the merged entity revenue is over $425 million, versus $290 million with ASX on its own. The merged EBITDA is over $250 million versus around $170 million for ASX alone. Depending on the nature of SFE shareholder acceptances, the ASX market capitalisation should exceed the $5 billion mark and just put ASX in the top 50 companies.

Further detailed information will be provided as part of the scheme documentation. So far I have spoken about SFE, I think should also say that while SFE is a great company we are also very proud of the strength of ASX. SFE shareholders will be joining a strong company with an impressive track record. We've had volume growth in our core business, our share price performance has outpaced the index, we've been innovating in new products such as warrants, we've got strong earnings growth and operate a very strong fair and orderly market. We announced during last year a number of reviews such as the profit and loss drivers review, the outcomes of which are aimed at improving our performance over the coming years.

Turning then to the synergies, we are in the early stages of this as you would expect. We have a way to go with our plans. We are mindful that the merger of these two exchanges is a very significant undertaking and we do plan to conduct a gradual management of the integration and minimising of risk. Proper planning, dedicated integration of SFE and ASX employees from a range of disciplines to take those initiatives forward. We are also mindful that clearly, synergy extraction is a key plan of value creation for shareholders. So if I outline where we are at the moment - We think the total cost synergies by the end of year two, June 2008, should be $14 to $18 million. This represents the difference between the targeted merged entity results and the sum of the two stand alone entities. There will be some synergies in the first year but I am not in a position to provide an allocation at this time. Further cost

synergies will be extracted past 2008, and some revenue benefits from increased trading volumes such as on the SPI and we will provide further details on synergies as part of the scheme.

Premises integration is another area. We are looking at ensuring we can get benefits by collating or putting the groups together. Clearly technology integration is another area that we're looking at but again, probably more towards late 2008/2009.

So that's an indication of the cost synergies. We think that in the first two years, extraction of those synergies will be in the order of $10 to $14 million. The benefits of the cost synergies will be of course above the line, and the costs below the line.

Turning to some key steps in timing, what's going to happen from here. As I've said, this is really the first step. The most important steps are going to be the SFE shareholder vote to approve the scheme. We're proceeding by a SFE Scheme of Arrangement, which will require a majority of the members at the meetings to pass a special resolution of 75 percent.

In terms of the timetable itself, the first step is to finalise the due diligence over the next couple of weeks and also to comply with conditions precedent. You will notice in the material that in relation to due diligence, if there are material adverse changes that are found by either ASX or SFE, there is provision for them to terminate the agreement. They are set at a high threshold. We don't expect that there will be a problem, but that is there and you should note that in the conditions that are attached to the release.

We need to get the regulatory approval that I talked about earlier and lodge the scheme documents with ASIC. There's a first court hearing, a shareholders meeting and a second court hearing in effective date. So in all, we expect in short that the merger will be completed around July to August of this year. Clearly we will both work to accelerate that if we can, but there are processes that we need to follow.

In closing, can we say that ASX's board and management are enthusiastic on this merger. The merger will provide significant benefits to both sets of shareholders, participants and employees. It is an important strategic milestone in the development of our capital markets and indeed in the development of the ASX, and we're pleased that the SFE board has unanimously recommended the proposal to SFE shareholders.

I'll close there and we'll open it up to questions, both from analysts here and analysts also on line.

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Q: (Arjan Van Veen from Credit Suisse) Firstly, on the cost synergies, you effectively, the way you've done the deal, you've given the first two years of what you expect to be cost synergies to SFE shareholders. I was wondering if you could talk through the potential upside, other than the three points you've mentioned as year three onwards in terms of how much further revenue or expense synergies you think that is available to you.

T D'Aloisio: I think it's early days for us to be able to say much more than we've said in the release. I mean, we're hopeful there will be more cost and revenue synergies going forward, but certainly we've viewed this as essentially a strategic acquisition, and even though in the short term there is the EPS affect you're talking about for ASX shareholders, we nevertheless formed the view that it was a deal that we should do for the long term.

Q: (Andrew Hill from Deutsche Bank) Just a couple of questions. Firstly, in terms of the planned synergies, I was just wondering, does that in any way impact the savings you announced as a result of the P&L review last year? And also just on the capital front, given that the business, like I guess has more diversity going forward, does that impact the amount of capital you are required to hold?

T D'Aloisio: No, they're good questions, in fact I should have covered capital more fully in my presentation.

So far as the synergies are concerned, there is no duplication with what I announced in relation to the $15 to $20 million from ASX. That program will continue, and is not being part of this. These are synergies to extract in a merger in addition to that.

In relation to capital itself, we've announced as part of this, a capital return or share buy back of $100 million to all the combined shareholders post the merger. That will replace the $50 million promised capital return that we were going to go ahead with, for the ASX shareholders in June.

Does that answer both questions?

Q: (Andrew Hill from Deutsche Bank) I guess a little more on the diversification impact. The revenue streams I guess are more diversified post the merger. Does that impact your assessment of how much capital the business requires?

T D'Aloisio: I think it's something we want to do further work on clearly. I mean the capital, the balance sheet efficiency and return of capital will also turn on what percentage of shareholders accept the scrip and cash alternative. I think it's something that we will work on over the next few months as we get close to the voting on the scheme. I don't have a specific answer for you this morning.

Q: (Share Fitzgerald from JP Morgan) Just on the cost synergies. Can you give us some rough breakdown of where they're coming from, in terms of premises, staff, IT, and in terms of the $14 to $18 million range you've given, can you explain what the swing variable is between what needs to happen to get $18 vis-à-vis $14 million?

T D'Aloisio: I think the - I'm not in a position at this stage to break it down between all the components. I think that's something that we're doing further work on, and clearly as the integration team is put together we will get a better feel.

As you expect in any sort of proposal such as this, given where we are and the stages at which we are, in the two of us coming together, you naturally have a tendency to put the numbers down that you feel comfortable with at this point in time, hence you use a range of $14 to $18 million. I think we'll get a better fix on the synergy figure over the coming period.

Q: (Chris Williams of UBS) I've just got a couple of questions please. Firstly, I believe seven years ago when a merger was knocked back it was in relation to the potential for competition in these markets. Can you just make some comments as to how you see, or what you see, has changed in the seven years since then in relation to the potential for competition?

T D'Aloisio: I think what you've had over the last seven years has probably been fairly clear evidence that each exchange operates in a separate market and doesn't really impose their competitive constraint on the other in terms of equities or in terms of debt derivatives. I think when you look at what's been happening overseas, the work that has been done by the European Commission and so on, what you see is that they talk about net worth effects and tipping of markets, and when you look at that literature and you look at what's happened, you do come away with a fairly strong sense that

we are operating in separate markets, and hence I think with the benefit of the experience over the last six or seven years, we are able to have a stronger case in going to the Trade Practices Commission or the ACCC.

Q: (Chris Williams of UBS) I accept the view that between the businesses as they stand, there is little or no competition but my interpretation of the ACCC's position was that if you put ASX and SFE together it creates a greater market power that therefore was a larger deterrent to any potential competition or potential entrance to the market, so it wasn't the fact there was or wasn't competition between ASX and SFE, it was the potential for competition, and I don't understand how that has changed.

T D'Aloisio: What the ACCC, I mean in the end this is a matter for the ACCC and clearly I can't speak for them other than what the submission, what we said to them and the the letter that they've issued. I think the ACCC has said, when you read that letter, they're going to be talking to the industry over the next period and there will be an opportunity to assess their view on the issues over the coming few weeks, but it's not a question that really should be directed so much at me. I think ultimately that will be a matter that the ACCC will explain itself.

Q: (Chris Williams of UBS) Okay. I've just got a second follow up question, which actually has just escaped my mind, so I might just leave it there, thanks.

Q: (Mike Younger from Citigroup) Thanks very much. Two questions. Firstly, is it realistic to expect that you're not going to have to put through any pricing concessions in order to get the participants in agreeance [sic] with the merger, and secondly, the comment on placing the exchange in a better position to participate in terms of global consolidation, can you comment on what sort of region you're talking about - is that limited to Asia or are we talking truly global consolidation?

T D'Aloisio: I think on the first one I've said that we're going to maintain the existing pricing policies of SFE. We will be clearly, as part of this, talking to the participants over the coming months, to convince them that there shouldn't be a concern on their part.

On the better positioning issue more globally, I think what we're saying is when you look at what's happening overseas, and you look at what exchanges are trying to do, you just know that if you've got a footprint that's got the sort of product range and positioning that we have, you know you're going to have a very good business and what that does is it just opens up opportunities, if in fact opportunities exist to do something in Asia you would look at those, more globally you would look at those.

You know that by putting them together you will be better placed to do that. It's no more than that. I'm not suggesting that there's something else in the pipeline. It's simply that you'll have a much stronger business given the sort of footprints that the international exchanges are seeking. So that you've got a seat at the table if things happen in the region, or if things happen more globally.

Q: (Mike Younger from Citigroup) Just with regard to your comments on pricing. There's going to be synergies realised from this and I suppose the inference from your documentation is that it could well be more than the $14 to $18 million. Would the participants not rightly expect some of that to be passed through to them in the form of lower pricing?

T D'Aloisio: I think what you're really looking at in operating the exchange business and Rob and I, we've talked about this. Clearly at the end of the day everyone is underpricing, is under cost pressure and we have to demonstrate over a period of time that we've flattened our cost base and can see it reducing. I mean that's been our objective of ASX, it's been the objective of SFE. SFE have done it extremely well. We want to

continue that process. In the end that's the best protection for all participants rather than any specific individual negotiated prices. It's really the long term cost base of the business being flat or going down.

: (Mike Younger from Citigroup) If I may ask just one further question. The deal seems to be, even if it is the cash plus scrip offer, it only takes gearing to less than 10 per cent. Is there any reason why you wouldn't have been a little more aggressive with the use of debt?

T D'Aloisio: We do come from two very conservative businesses that are not geared at all. So I think we end up with a balance sheet strength of around $300 million, I think in that order. We think that's a very good start to getting great efficiency out of the balance sheet. We want to assess that. If there's scope down the track to do more we will do it, but it's on the conservative side, but we think it's very sensible given where the two businesses are and the culture of the two businesses.

Q: (Stephen Kench from Macquarie) Just another question on the capital structure. I apologise. The financial profile, I don't have the page number, states net debt and cash of $219 million under a full scrip bid. Does that mean that you're actually raising some debt - you're replacing the $100 million capital buyback with debt?

T D'Aloisio: Yes.

Q: (Stephen Kench from Macquarie) What is the debt that you'd be raising as part of the transaction?

T D'Aloisio: If we use the $100 million, we do the $100 million capital return and all of the $350 million cash is used, I think we end up with $219 million debt on the balance sheet.

Q: (Stephen Kench from Macquarie) That is the actual debt number? Right, okay.

T D'Aloisio: That's the debt number.

Q: (Stephen Kench from Macquarie) I'd just reiterate my sort of thoughts, the same sort of thoughts as the previous question in terms of the net debt to equities. That seems like a very low number and the ability to make the transaction EPS accretive sooner appears a no brainer.

T D'Aloisio: Thanks.

Q: (Stephen Kench from Macquarie) The second question really is --

T D'Aloisio: Would you like to be the CEO?

Q: (Stephen Kench from Macquarie) You know we've had this debate for a long time. The SFE pricing policy around the rebate structure and the ASX for that matter, does that include the rebate structures for both entities in terms of maintaining that current level?

T D'Aloisio: Our pricing policy at the ASX, the one that has been announced, and we'll stay with that and continue and implement it with SFE's pricing policy. What we say is we're going to make no change to it.

Q: (Stephen Kench from Macquarie) I'm talking about the actual rebate structure itself as part of that policy.

T D'Aloisio: That would include the rebate structure itself.

Q: (Stephen Kench from Macquarie) And you don't think that will create any conflict once broking firms move to an integrated platform …?

T D'Aloisio: No, it's a good point. I mean, we're kicking that around about...

We're not seeing as yet - we want to talk to the participants about the extent of integration that's going on, and whether then in the longer term we do need to look at some combined rebate or something, but at the moment it's very early on and we still see the houses really separating the fixed interest side from the equity side, so I think it's an issue we want to talk to the participants about.

Q: (Shane Fitzgerald from JP Morgan) Just a question for Robert actually. In terms of looking at the valuation that you've agreed to in this bid, can you go through the sort of thought processes - how you arrived at what you think SFE was worth and therefore the price you've accepted?

Robert Elstone: Well obviously the prevailing market cap was a good place to start, and then it simply became a question of how much Tony and I could stretch each other's friendship and the fact that we're still sitting here and smiling and will work very cooperatively over the next three to five, however long it takes for the scheme to close.

I can give you a scientific response. I mean the bottom line is you all understand how negotiation processes work. I think this is a terrific transaction in valuation terms for SFE, because it recognises both the existing PE and the growth prospects of the company, and has Tony has indicated, I think on a medium term view it's a terrific strategic acquisition that hopefully will look cheap with the benefit of hindsight in a few years time.

Q: (David Humphreys of Morgan Stanley) I guess what I wanted to do was reverse that question for Tony - from the perspective of operating a fairly conservative organisation, you haven't been too shy in paying 29.7 times consensus 06 and 27 times 07. You've set the new benchmark relative to what NASDAQ bid for the LSE, which was around 27 times 06.

Can you just comment on what value drivers you see in terms of growth that justify such a premium, given it is 25 percent relative to the previous closing price, and a follow up question if I may. Just in terms of your comment regarding being best positioned for further consolidation either globally or regionally, how much of this is a defensive move from a strategic perspective, given you prefer to be the acquirer rather than the target.

T D'Aloisio: I think on the second issue, it's not so much really one or the other. What you're seeking to do is to put yourself in a position that you can negotiate the best deal if things do occur, or to put it another way, if you remain on your own, you're still much stronger than you would be without the acquisition. So it's both - to strengthen the existing business, and in doing that it better positions you. Whether it's then a defensive or offensive strategy, they are options to be sorted out in the future.

In terms of the value itself, quite clearly we would have liked to have acquired it just as a merger of equals and a share swap as you would expect, but it is a quality asset. It's a strategic judgement that we're making about long term value for ASX and its shareholders, and in terms of the advice we've received, our board in consideration, it was a process that we went through, but in the end our judgement was that this was a quality asset and the premium that we've paid needed to be paid in order to do the deal.

Q: (David Humphreys of Morgan Stanley) Just a follow up on that then Tony. If another bidder comes out of the woodwork, are you prepared to go a bit further?

T D'Aloisio: I'll outline all my tactics to you right now if you like. This is a very good positioning where we have the SFE board with its unanimous support, and we have every expectation that this deal will be completed, but you guys are in the market, we're all in the market, if something does emerge, we'll deal with it at the time.

Q: (Ryan Fisher of Goldman Sachs JBWere) Tony a question about your comments about expected EPS accretion. Now just confirming that you've based that on consensus EPS forecasts plus your own cost saving estimate?

T D'Aloisio: It's internal ASX, not necessarily based on consensus.

Q: (Ryan Fisher of Goldman Sachs JBWere) Okay, so the base figures may differ from consensus?

T D'Aloisio: Yes.

Thank you all for coming this morning.

As I say, we're in the first stage. There are a number of steps yet to go through but both Rob and I are confident that we'll get this deal through.

Thank you and good morning. [END OF TRANSCRIPT]