Topic 1: How to buy instalments

Instalments can be bought either directly from the issuer or on the ASX.

The three methods of buying directly from the issuer are:

- Cash application
- Shareholder application (also referred to as "cash extraction"), and
- Rollover.

The method to buying on ASX is through your broker.

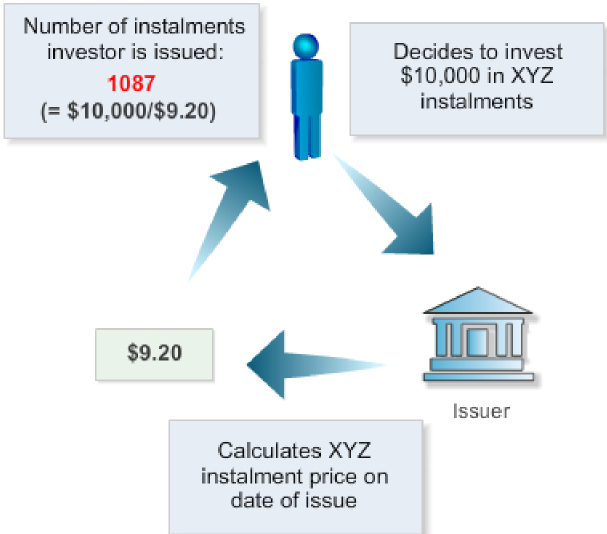
Cash application

You can buy instalments directly from the issuer by using the cash application form in the disclosure document. This process is similar to subscribing for shares when a company is floated.

Instalments can be purchased in this way before trading starts on the sharemarket, and often also for a period after trading has commenced.

At the time you subscribe for instalments, you do not know the exact price you will pay. You nominate the total amount you wish to spend, and the number of instalments you are allocated depends on the instalment price at the time they are issued to you.

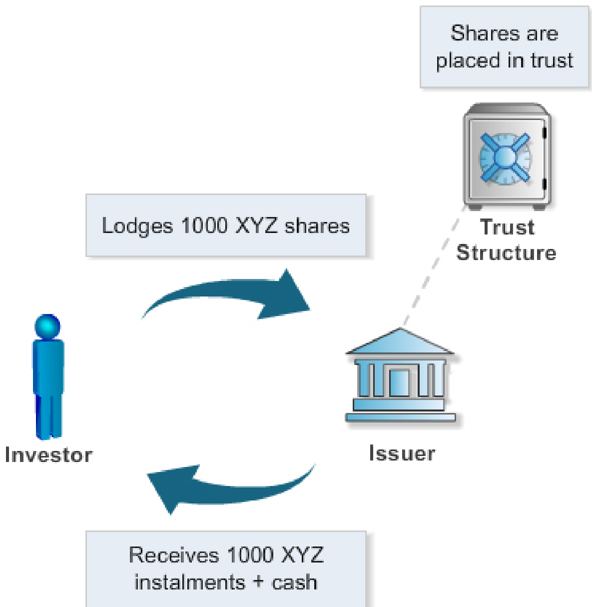
The disclosure document gives details of how the instalment price is determined.



Converting your shares

A second way of acquiring instalments directly from the issuer is to convert an existing shareholding into instalments. This technique is described as cash extraction, or a shareholder application.

Assume you hold 1,000 shares in company XYZ. You lodge these shares with the issuer, and in return receive 1,000 instalments over XYZ, plus a 'cash back' amount, equal to the difference between the current share price and the price of the instalment.



The Australian Taxation Office (ATO) does not allow this method of purchasing instalments for self managed super funds, as it is deemed to create a charge over the fund's assets.

The cash extraction strategy is discussed in more detail in course 4.

Buying on ASX

Prior to trading instalments on ASX you need to:

1. Read and understand the warrants explanatory booklet. This can be obtained from your broker, downloaded from the ASX website (PDF 856KB) or sent out free of charge from ASX Customer Service ph 131 279.

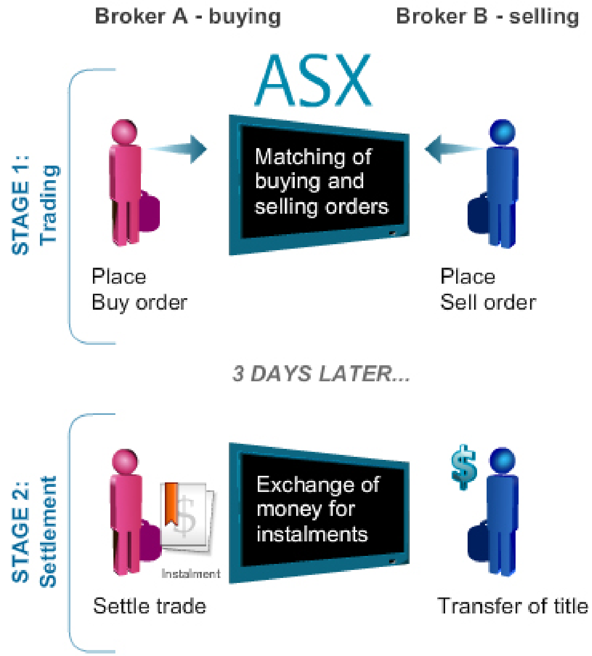
2. Sign a client agreement form.

These are available from your adviser.

Buying an instalment on ASX is no different to buying shares. You instruct your broker to place an order, either by phone or online.

When you purchase instalments on ASX, you may be buying from other investors, or from the issuer.

Settlement of the trade takes place three business days after the transaction (T+3). You will receive a CHESS statement recording your holding, just as you do when you buy shares on-market.



The role of advisers

Instalments are not standardised products, and features may vary significantly.

The help of a good adviser can be invaluable in sorting through the available instalments, and deciding the most appropriate for you.

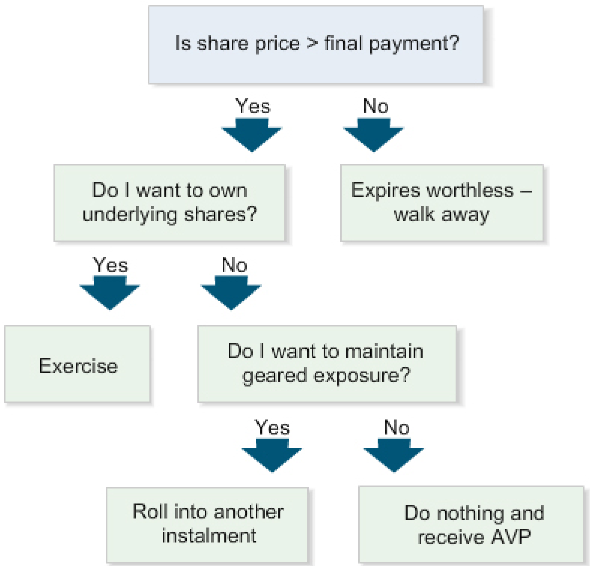
Instalments are more complex than a straightforward share investment, so there is a certain amount of administration required. Depending on your adviser, they may also attend to this for you. A full list of advisers can be found on asx.com.au

Details of all instalments listed on ASX can be found on www.asx.com.au/warrants

Topic 2: How to sell instalments

Before expiry

On, or before expiry, you can sell your instalment on ASX.



Selling an instalment is no different to selling a share. You instruct your broker to place the order, and settlement takes place T+3 (trade day plus three days).

You can check the price of your instalment on the ASX website, the warrant issuer's website, or by contacting your broker.

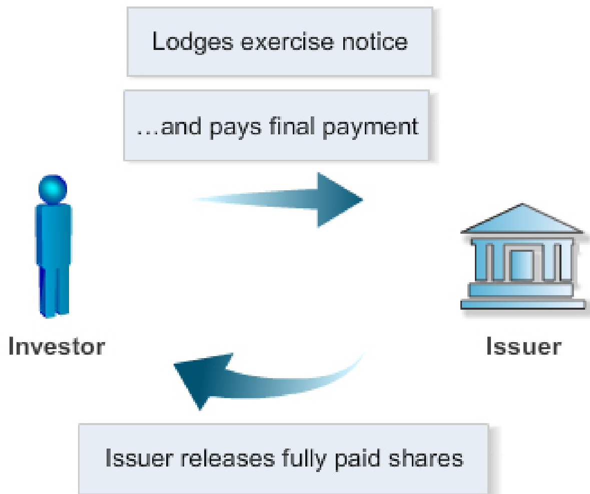
At expiry

At expiry you can choose between the following options:

- Exercise the instalment i.e. make the final payment to the issuer and take delivery of the underlying shares
- Roll into another instalment (if available)
- Take no action and receive Assessed Value Payment AVP (or take no action)

At expiry: exercise the instalment

To exercise your instalment, you must lodge an exercise notice with the warrant issuer. You pay the issuer the final payment, and the issuer releases the fully paid share to you.



The disclosure document sets out the procedure you must follow to correctly exercise the instalment.

It is important to be aware of the expiry date of any instalments you hold. The issuer is not required to send you notification of approaching expiry, though many do so.

Transfer of the fully paid shares must be completed no more than 20 business days after expiry.

If your instalment is American exercise style, you may exercise it at any time prior to expiry. If the instalment is European style, exercise is permitted only at expiry.

At expiry: roll into another instalment

As expiry approaches, the issuer often will issue a new instalment to enable holders to maintain their geared exposure to the underlying shares. Instalment holders who take this option 'roll' their existing holding into the new series.

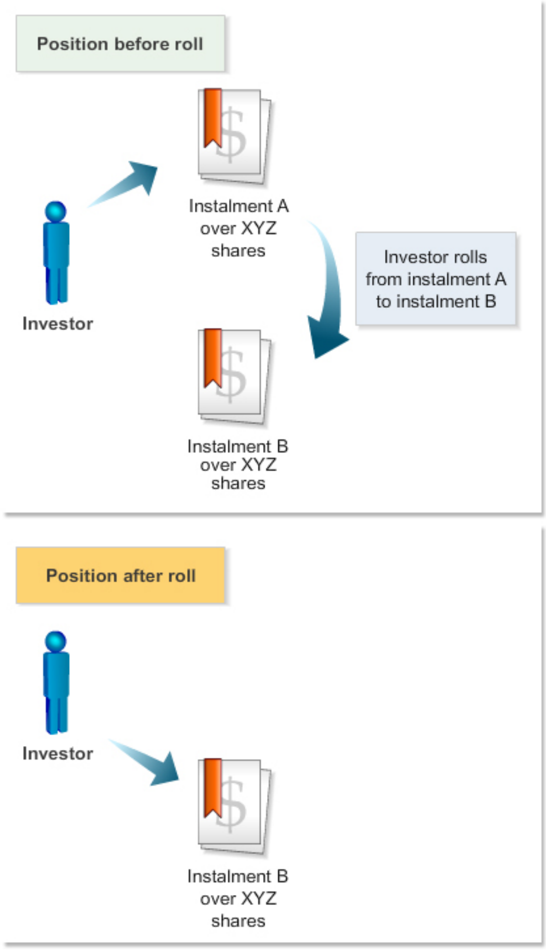
The benefits of this strategy include:

- You are not required to make the final payment, but continue to have a geared exposure to the underlying shares.
- Rolling is not classed by the ATO as a capital gains event, and so there may be no capital gains tax consequences. (For capital gains tax consequences, investors should seek tax advice from a suitably qualified individual)

The risks of this strategy include:

- Share price may fall in the period following the roll-over resulting in negative returns for the instalment
- At the point of rollover the interest rate may change

In Course 7, we will cover 'rolling instalments', a type of instalment which has a rolling mechanism built in.



At expiry: take no action

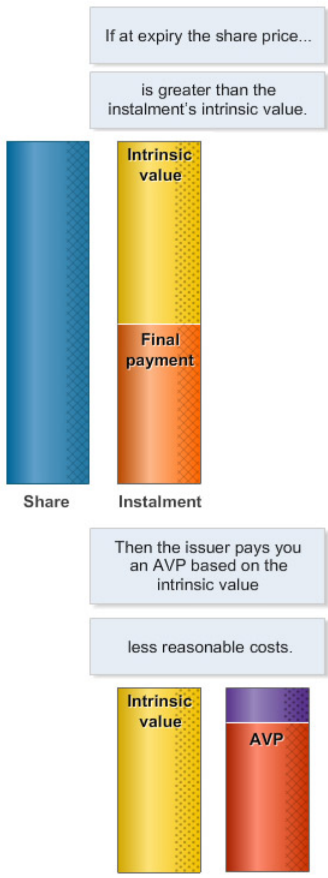
If by expiry you have taken no action, the instalment lapses, and you may no longer exercise it. What follows depends on the value of the instalment.

Instalment expires with value

If your instalment is deliverable, and the share price at expiry is above the final payment amount, the issuer is required to pay you an Assessed Value Payment (AVP). The AVP is based on the instalment's intrinsic value less reasonable costs.

The instalment's disclosure document will explain how the AVP is calculated and when it will be paid.

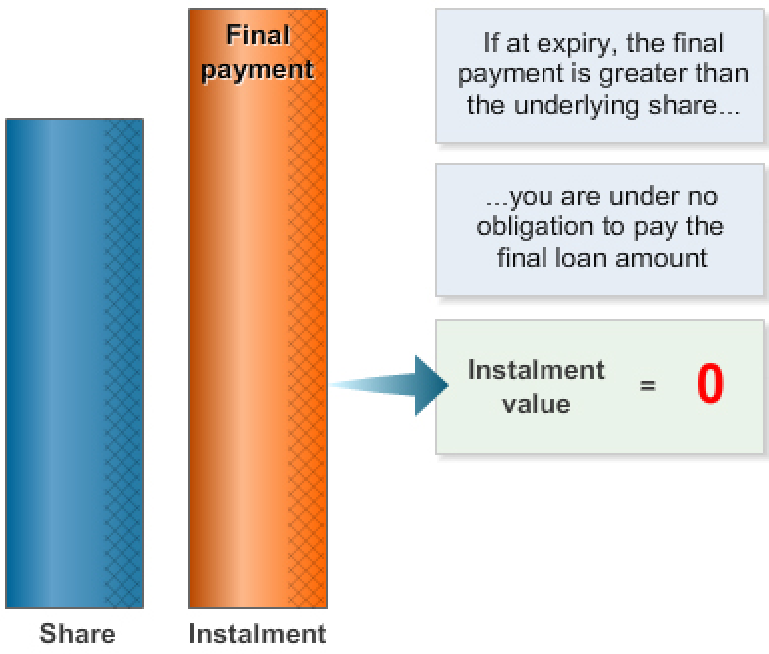
If you do not intend to exercise or roll, you may wish to sell your instalments on the market before expiry. Selling on ASX should result in you receiving close to 100% of intrinsic value, excluding brokerage.



Instalment expires without value

If the price of the underlying shares is below the final payment amount, your instalment has no intrinsic value. If you exercise the instalment it is a more expensive option as the share can be bought more cheaply on market.

In this case, the instalment will expire worthless. Consequently, your loss may be 100% of the amount you paid for the instalment.



Topic 3: Warrant codes/Issuer/Disclosure documents

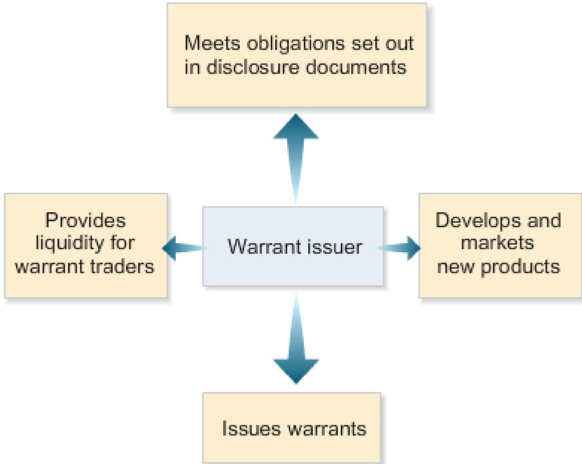
Warrant issuers

Instalments may be issued only by financial institutions that meet strict criteria prescribed by ASX. Warrant issuers have to comply with ASX Market rules.

The ASX does not guarantee the issuer's performance. If you exercise your instalments, you rely on the issuer to meet its obligations under the instalment.

The issuer holds in trust an equivalent number of shares for the instalments issued, with the instalment holder as the beneficial owner.

Refer to the ASX website for a current list of [warrant issuers.]



Product Disclosure Documents

A warrant issuer must produce a disclosure document containing the terms and conditions of any warrant it issues.

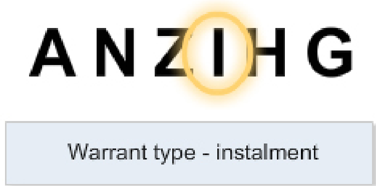
The product disclosure statement (PDS), also called a disclosure document, or offering circular contains comprehensive information about the product.

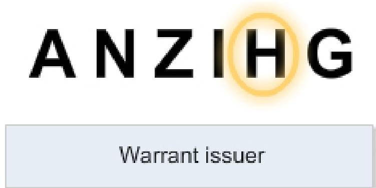
It should help you make an informed assessment of the features, benefits and risks of the product, and of the issuer's capacity to fulfil its obligations.

Warrant codes

Every warrant listed on ASX has a [unique six-letter code].

- The first three letters of the code identify the underlying security. For most equity warrants, this is the same as the ASX code for the stock itself.
- The fourth letter of the code identifies the type of warrant.
- The fifth letter identifies the warrant issuer.
- The sixth letter identifies the particular warrant series.





Topic 4: Instalments on the ASX website

The ASX website has the following information on instalments:

Education

- Warrants explanatory guide (PDF)
- List of warrant issuers
- Recording of past lectures
- Instalment fact sheets and portfolio studies

Product information

- List of instalments on issue
- PDS
- Instalment prices

Searching for disclosure docs and prices

The ASX website is a good place to search for instalments available on market and their prices. New issues of Instalments will not yet be displayed on the ASX website

When searching for instalments, a useful way to start is by selecting the underlying company, then the instalment type.

Topic 5: Instalment risks

Like any investment, instalments involve risk.

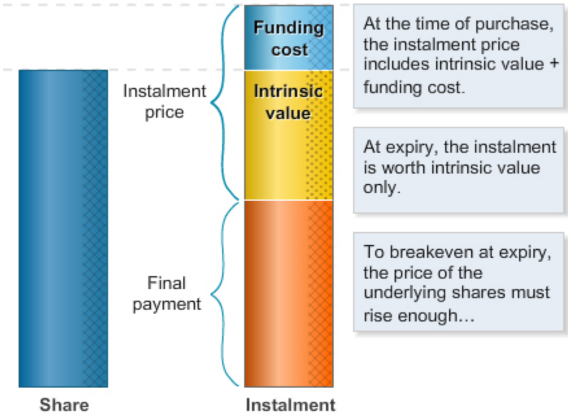
You should consider these risks when deciding if an instalment is an appropriate investment for you.

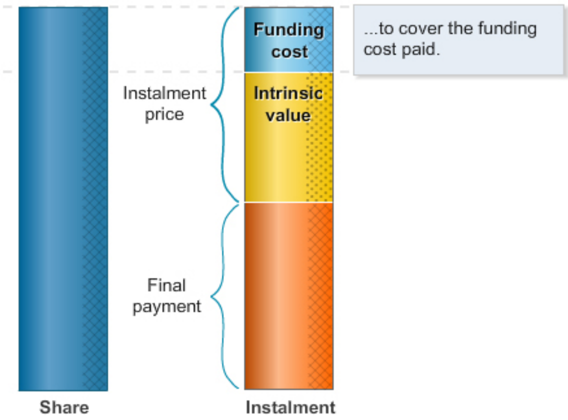
Performance of the underlying asset

An instalment's performance depends above all else on the performance of the underlying. If the value of the underlying does not rise, you will not make a profit.

Even if the price of the underlying shares stays steady, you will lose money due to interest decay. To break even, the share price needs to rise enough to cover the amount you lose as a result of the passage of time.

If the value of the underlying falls, the leveraged exposure that instalments offer may result in significant losses. The more highly geared the instalment, the more damaging this effect.





Limited life

An instalment has a limited life.

To benefit, the rise in the share price must take place before expiry. The instalment may expire without the expected movement taking place.

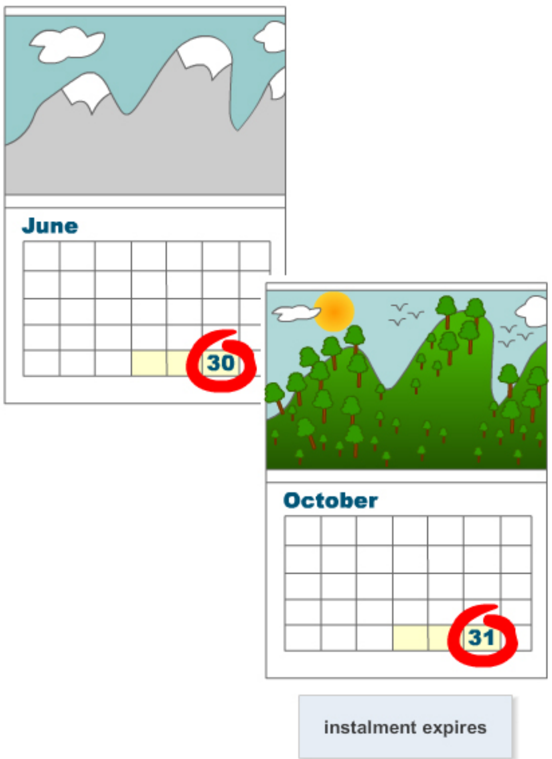
This is an important point of difference between investing in shares and investing in warrants.

Naturally you only invest in shares you think will increase in value. However, there is no 'deadline' for the expected movement to occur. If you wish, you can hold the shares indefinitely.

With instalments, the underlying shares must perform as expected within a specific timeframe.

At expiry a range of choice are available to you.

- Pay final amount - Receive underlying shares
- Rollover Application - Roll from expiring series to a new series.
- Sell On-market - Immediately before expiry sell on ASX



- Do Nothing - If final payment greater than underlying share price then nothing happens and initial outlay is lost - If final payment less than underlying share price then receive Assessed Value Payment.

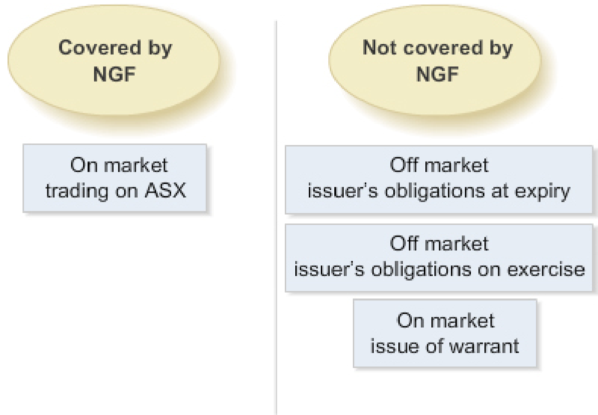
Issuer credit risk

You are exposed to the risk that the issuer will not perform its obligations under the warrant.

The National Guarantee Fund (NGF) covers the trading of warrants on ASX, but not the issue of a warrant, nor the off - market settlement obligations of the issuer arising from exercise or expiry.

To date, no warrant issuer has defaulted on its obligations to settle upon exercise of a warrant.

In the case of instalments, credit risk is further reduced, as the issuer places the underlying instrument in a trust on behalf of the instalment holder.



Early termination

In certain circumstances, called 'extraordinary events', an instalment may terminate before the expiry date.

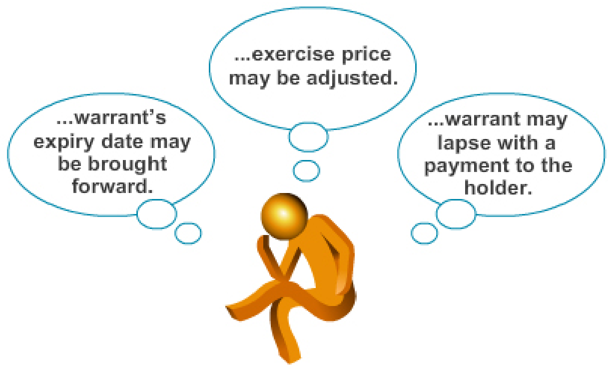
The instalment's disclosure document will set out those circumstances, and the consequences of an extraordinary event occurring.

Examples of extraordinary events include:

- the delisting of the underlying company
- a takeover of the underlying company.

Possible consequences include:

- the warrant's expiry date may be brought forward
- the exercise price may be adjusted, or
- the warrant may lapse with a payment to the holder.



Liquidity risk

Liquidity risk is the risk you may not be able to sell your instalments for a reasonable price.

There may be insufficient orders to buy, or the price offered may be too low. A lack of liquidity in a warrant series may be due to a lack of liquidity in the underlying shares.

Issuers have certain obligations intended to promote a liquid market. Issuers generally meet these obligations by making markets in their warrants.

In times of extreme volatility, the ability of market makers to maintain a market may be put under stress. The presence of suitable quotes in the market at such times cannot be assured.