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Presentation

ELMER FUNKE KUPPER, CEO AND MD, ASX LIMITED: Well good morning, it's 10:00 AM and we might kick it off. Welcome to the 2014 results briefing of ASX. My name is Elmer Funke, I'm the Chief Executive. We are joined by guests here in our auditorium in Sydney, by phone and people who follow us via webcast. Could I please ask all of you here in Sydney to turn down your mobile phones, thank you. The complete results materials, including our annual report, have been released to the market and are available on the ASX website. I'm joined here on stage by Peter Hiom, our Deputy CEO, as well as Ramy Aziz, our Chief Financial Officer. We'll use the usual format, I'll present for around about 25 minutes and then open it up for questions.

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Let me start by giving you an overview of the results. 2014 was a positive year for ASX. Profit after tax was AUD383 million, up 10%. The growth rates for earnings per share and dividends per share were lower as they were impacted by the capital raising we completed early in the year. We continue to pay out 90% of our earnings in dividends.

The main driver for the results was positive revenue growth, up 6.6% to AUD658 million. Pleasingly, all major revenue categories in the company produced growth during the year. Expense growth and capital expenditure were both in line with the guidance we gave the market at the beginning of the year. Expenses were up 5.1% to AUD153.6 million and capital expenditure was AUD43 million, within the range of AUD40 million to AUD45 million we gave as guidance.

The investments we have made over the last two years have put ASX in a better position to compete in a rapidly changing global market. Over the last two years we have completed several of our key infrastructure investments, particularly in post-trade services. We have obtained greater regulatory clarity, including on the location requirements that attach to critical infrastructure, and we've made significant progress in improving the relationships of our clients and aligning ourselves to them. Those steps put us in a good position to compete in a changing market environment.

Page 4 of the presentation shows the results in a traditional income statement. Operating revenues of AUD658 million and earnings of AUD383 million are both company records and on the right hand side you can see how 6.6% revenue growth leads to 7.1% EBITDA growth and 10% profit growth. Our EBITDA margin continues to be strong and in FY14 was over 76%.

At the end of FY13, and the beginning of this financial year, ASX raised capital, this impacted on the growth rates of earnings per share and dividends per share. Earnings per share last year was a little over AUD1.95 and it grew 1.5% in FY14. This is as a consequence of 10% earnings growth and the dilutive effect of the capital raising. Dividends per share grew 4.6% for the year and second half dividends were up more than 9%.

I mentioned earlier that in 2014 all major revenue categories for the company showed growth. This is illustrated on page 6, as the traditional waterfall we always use, and in page 7 in table format. The revenue growth rates for each of our businesses ranged at the low end. In our cash market business 2.3%, up to around 11% in our listings business and our information services business, these are attractive growth rates.

The largest contributor to growth in dollars was our listings and issuer services business, with the revenues up AUD15 million, driven largely by a strong IPO and capital raising market. Overall our revenues were up 6.6%. We thought it was useful to illustrate to you the contribution of the strong IPO market to revenue growth in each quarter, and as you can see on page 8, the revenue growth rate for ASX ranged from 4.4% in the third-quarter to 8.8% in the second-quarter.

The larger blue bars on top of this are the contribution from our listings and issuer services business to the growth rates. It showed that, particularly in the second-quarter and the fourth-quarter, the IPO market was very strong. On the right hand side you can see the growth rates in EBITDA, and with the EBITDA margin that we have you can see that the EBITDA growth mirrors, largely, our revenue growth performance through the year.

Before we go through each of the businesses, we thought it'd be useful to give you an overview of our key business priorities. ASX has five key business priorities. The first is to build on our leadership position in our core markets and to make sure that we are a global leader in both the Australian dollar and New Zealand dollar markets. We continue to make ongoing investments in the products and services we provide [and] investors, as well as the growth in community.

The second priority is to deliver a world-class, globally connected infrastructure to the intermediaries and to Australian investors. And this is where a large part of our investments have gone over the last two years, particularly in the post-trade services that we delivered in FY14.

The third priority is to deliver outstanding customer service and an outstanding customer experience. We've made good progress over the last 12 months and taken a number of specific steps to make this real. For most of our products we now have forms that allow our clients to give input into development of those businesses.

We've increased the growth incentives and improved the fee structure for our clients and in 2015 we'll open a 24 hour customer command centre in our data centre in Sydney, that allows us to service both our domestic and growing international customer base.

The fourth priority is to continue to advocate regulations that support real investors and growth. This is where we've put considerable **energy** in the last two years and Australia as a market and ASX is now very well placed to make the most of the investments that it is making. Australia continues to be one of the best regulated markets in the world.

Finally we want to be known as an employer of choice in financial markets. Again we've made good progress here and that shows in the way we now deliver to our clients and there's more to do here to make sure that we can match our skills and talents with the best in the world.

You'll see these five themes come through as we talk through each of our individual businesses and we'll start with listings and issuer services. This business accounts for about 24% of group revenues. Revenues from listings and issuer services was up 10.9% in FY14 on the back of a very strong IPO market.

We had 107 IPOs, around two a week, and in the total capital raising, both in IPO and secondaries, were well up. The main focus in this business is to ensure that Australia continues to be a highly attractive place to list and raise capital and to significantly expand the number of investment options that are available to end investors.

The terminology we use internally to describe that is the creation of an investment supermarket that covers of course domestic equities; government **bonds**, which we now quote on the exchange; an expansion of the corporate bond market; ETFs; managed funds, both listed and unlisted, and international equities which is something that we would like to get to in the next 12 to 18 months as well.

During FY14 we launched mFund which is a significant change in the way consumers can apply for and redeem unlisted managed funds through their broker platform. As of today we have around 45 funds quoted on that platform. That's a long term investment that we believe is a game changer for the way people invest in Australia.

The second business is our cash market business, our equities business. It accounts for about 18% of the Group's revenues and includes the trading, clearing and settlement of cash equities. Revenues in this business were up 2.3%, driven by a modest rise in market activity in the Australian **equity** market. Our market share of on-market trading, which is where we competed directly with an alternative exchange, is around 90%. Our focus in this business is two-fold.

First on continued innovation of the execution services that we provide and the investments that we make and the innovations we're bringing to market are specifically targeting the end investor. An important component of this is Centre Point which is our mid-point execution venue. Centre Point continues to grow well and we continue to bring new innovations to market in Centre Point. Last year Centre Point accounted for almost 17% of our trading revenue, up from 11%.

The second key focus is clearing and settlements and on the delivery of our commitments to the Australian market place under the Code of Practice. Now you may recall that when the government decided, about 18 months ago, to retain the current market structure for clearing and settlement in Australia for at least two years, we committed to put in place a Code of Practice.

That provides transparency on the pricing mechanisms for our services, transparency and [non-discriminatory] access to our services and creates a forum of senior executives in Australia across a broad stakeholder group so that they can provide input into ASX on the development of our clearing and settlement platforms. Everything that we were asked to do on the Code and committed to do, we have done and more. We very much appreciate the input of the forum into our development priorities.

As you may know, in June we announced that we accepted a recommendation from the forum to move the settlement cycle in Australia for cash equities from T+3 through to T+2 by 2016. Also we commissioned an independent consulting report by a form called Oxera from Europe, to benchmark our cost of clearing and settlement services to those of other markets of a similar size.

Oxera concluded that, indeed, the costs of clearing and settlements for investors in the Australian market are comparable to those markets that are similar to us around the world. It is the most comprehensive and best benchmarking study ever conducted in clearing and settlement services.

In FY13 and FY14 we put very significant investments in our derivatives and OTC markets business. This business accounts for about 32% of the Group's revenues, it's our largest business. In aggregate revenues were up 5.2% to AUD207.7 **million**. But this business contains two sub-businesses. The smaller business is what we call ASX derivatives, essentially the equities options business.

Revenues there were AUD22.2 **million** so it's a smaller part, but the performance of that business was disappointing. [Now] **equity** options businesses around the world have been struggling in the current market environment but nevertheless we're not happy with this result and revenues were down 20% on the significant decline in volumes. We put in place some steps to both stabilise the performance of this business and hopefully return it to growth.

The bigger part of this business is our futures business, accounting for AUD185 **million** out of the AUD207 **million**. Revenues in that business were up 9.7% on the back of modest growth in activity levels, the inclusion of ASX**Energy** -- you may recall that last year we bought a **company** called [Decipher], that's now in our revenue numbers -- as well as lower large volume rebates as the growth in this business was somewhat lower than in the previous year. So it's a good performance.

If we look at the right hand side of page 12 you can see a very long list of initiatives because this is a very important business with rapidly changing global regulations to which we need to respond and show leadership. Rather than go through this list as a list, we thought it was useful to put together in a different kind of chart so we can bring the various elements together for you and explain why we're doing what we're doing. That is illustrated in page 13.

So to build a globally competitive derivatives and OTC business, four elements have to fall into place. The first is regulation. There needs to be clarity around regulation and we need to comply with global regulations. This is where we have made tremendous progress in the last two years. We have received relief from both the US and European regulators, allowing us to deal with European and American banks.

We have significantly greater certainty about the requirement that our regulators put on critical infrastructure, that gives us more certainty about the environment in which we invest. And we continue to advocate a greater focus on the competitiveness of Australia, as opposed to the settings within Australia, in an increasingly global market. Good progress in that respect.

The second element is the balance sheet and an ability to invest. Last year we raised AUD550 **million**, a large part of that capital raising went into our two clearing houses, ASX Clear and ASX Clear (Futures). Our derivatives clearing house now meets the highest global capital standards and received a AA- credit rating from S&P. We have a business model and scale balance sheet to invest, so when it comes to our financial capacity to compete, that is in place.

The third element is our product and services and our infrastructure. Over the last two years we have caught up with the rest of the world by making significant investments and accelerating the implementation of many new services, particularly in post-trade and risk management. That is providing an efficient solution for investors and intermediaries right here in Australia. Of course that journey never ends and we're now onto the next wave of investments that starts to bring the futures business and the OTC business together. We call that [futurisation], but good progress there.

The final step is to make sure we're well aligned with our clients. Over the last two years we've put in place advisory councils and forums for post of our derivatives markets. We're building a customer command centre in 2015 to service our domestic and international customers. And in July we announced some changed to our fee structure that gave our clients lower fees and higher growth incentives. That was an important final step to put all the pieces together and give us a chance to compete.

The next business to focus on are information services and technical services. Information services is about 11% of our revenues, technical services about 8%. Both businesses delivered good growth in FY14. Our revenues from information services were up 11% and our revenues from technical services were up 6%. Our focus in both businesses is on organic development of our services and organic growth of our revenues. On the right hand side you can see some of the initiatives that we'll continue to work on as the needs of our clients continues to evolve. So it's good progress and a focus on organic growth.

The final business to focus on is Austraclear, so Austraclear is the fixed income depository of Australia's financial markets and accounts for about 6% of our revenues. The revenues from Austraclear were up 6.4% to AUD41 **million** on the back of growth in both activity levels and balances. And the average balance in Austraclear in fixed income securities was up 7% last year to AUD1.5 trillion. The main focus for Austraclear is to use it to deliver new innovative services to the Australian market place and there's two that we list here.

The first is our collateral management service which allows our clients to use securities they hold in Austraclear as collateral in financial markets, as opposed to cash. That's a new and very innovative service that we can deliver because we own Austraclear and that service was fully launched in the second half of the year. As we sit here today we have around AUD2 **billion** of collateral under management through that service.

The second is a renminbi settlement service that was launched in July which provides real time RMB settlement services to Australian corporations and clients of banks who pay and receive in RMB. That's an important service, the RMB is a currency that over time will become more and more important in the world. This is getting ready for the announcement, we hope soon, of a formal clearing bank in Australia for the renminbi which will create liquidity, and of course a free trade agreement between **China** and Australia.

So these are innovations that are new to the Australian market place that we can deliver because we have the infrastructure to allow us to bring them to market. That concludes the overview of the performance of each of our businesses.

ASX also makes revenues out of interest and dividend income, and that's illustrated on page 16. If you go down to the third line you can see in bold there that our interest income went up 35.9% to almost AUD60 **million**. Now that's almost entirely driven by the income we now receive on the capital raising we did last year. You can see that in the first line on the chart where there's a very significant increase in the net interest income on our own funds, that's a direct consequence of the capital raising.

Dividend income comes from out 19.2% shareholding, in IRESS that was up 15%, almost AUD11 **million**. You may recall that in August last year ASX participated in a pro rata rights issue that IRESS conducted as one of its capital initiatives and that has been a very good investment for us. That concludes the revenue items, we'll now move on to expenses and CapEx.

As I said in my introduction CapEx and expenses were in line with the guidance we gave at the beginning of the year. Expenses were up 5.1% to AUD153.6 **million**, that is largely driven by a continued investment in people resources that allow us to deliver new initiatives to our clients. So while we continue to manage the exchange very tightly and we are one of the most efficient exchanges in the world, we will not shy away from investing in resources where we need them to deliver new initiatives, particularly in post-trade, to our clients. As is usual we also gave some guidance on expense growth for the next 12 months and we currently expect that expense growth for FY15 will in the order of 4%.

Capital expenditure was AUD43.2 **million**, right in the middle of the range that we gave at the beginning of the year. We thought it was useful to give you some insight into the capital expenditure for post-trade services, but this includes both the services that our clients see, such as OTC clearing and client clearing and collateral management, as well as some of the internal work we need to do to upgrade our systems to deliver those services.

In FY14 around AUD25 **million** out of the AUD43 **million** relates to those post-trade services and that's the lighter bar on top of the stack that you can see for FY14. If you look between FY12, FY13 and FY14, you can see that we spent just below AUD50 **million**, AUD49 **million** on the new post-trade services for the Australian market place. We're again giving guidance for FY15 and again we expect capital expenditure to be in the range of AUD40 **million** to AUD45 **million**, as it has been in the last couple of years.

Now our capital raising that we did 12 months ago and the investment program that we're running is about ensuring that Australian intermediaries and Australian investors and international investors who use our market continue to have access to a world class infrastructure based right here in Australia.

The impact of global regulations means that our focus, and we believe the focus of regulators and the government, should be less on the regulatory settings within Australia, because they are fine, and much more on the competitiveness of Australia in a changing global market. That is the big theme of the submissions we put to both the Murray Inquiry -- the Financial System Inquiry -- as well as the competition policy review that [Ian Harper] is running.

Our regulatory frameworks have to recognise that our world doesn't stop at the Harbour Bridge and that global regulatory and competitive forces will have, over time, a big impact on our industry as well as many other industries in which Australia has a strong position. So therefore we have to focus on the competitiveness of Australia to make sure we have a stable market, we can support a domestic economy and make the most of the Asian opportunities. The recommendations, three each to the two reviews, support this very notion. For us this is not a theoretical exercise, it's real and our recommendations are real.

Now before we close off we will share recent market activity levels, as we always do. This is of course for the first seven weeks of the year and so you always have to sort of think about what that says about the rest of the year. But nevertheless we give them to you. Market activity is very much driven by the current economic environment.

Globally we have seen an environment for some time now of very low volatility with the VIX running at seven year lows (technical difficulty) for some time, as well as a very benign interest rate environment where interest rate continues to be low for a persistent period. That of course, when you look at markets around the world, has reduced some of the trading opportunities for some of our clients, particularly larger investment banks, and you see that reflected in the performance of some of the international financial markets and exchanges.

Domestically our economy continues to show positive resilience and that shows in our numbers. Of course our main concern long term is rising unemployment and particularly youth unemployment, and of course the **energy** we see in Canberra around policies and federal budget is not helping as it is a very internally focussed debate at a time when we should focus on the competitiveness of Australia. Nevertheless it continues to be a reasonably good environment for the exchange and that's reflected in the trading performance for the first seven weeks.

When we look at the cash markets, the total market, this is all lit venues and all dark venues, trading volume was AUD4.6 **billion** today, that's about 4.4% up on the same period last year. Our on-market trading for ASX was AUD3.2 **billion** and that was in line with last year.

Our futures business as you know is our largest business and their daily average volume continues to run at about 400,000 contracts a day and that was 2.5% up on the same period last year and the start of the year in the RPO market was -- capital raising market was quite positive with AUD6.8 **billion** raise in July and that was well up of course on the previous year.

Let me finish by repeating the key messages. ASX produced a positive result in 2014, with revenues up 6.6% and earnings up 10%. Expenses and CapEx were well managed and in line with the guidance we gave you at the beginning of the year. And our investment program between FY13 and FY14 is on track and puts the **company** in a stronger position to compete in a rapidly changing global regulatory environment. This is where I will stop talking and open it up for questions.

If I could please ask you to state your name and the **firm** you represent and then ask your question and could you please use the microphone because these days more people follow us on line than the followers in the room. I will start here in Sydney and then move to the phone.

Questions and Answers

ANTHONY HOO, ANALYST, NOMURA HOLDINGS: Good morning. Anthony Hoo from Nomura. I have got a question on your balance sheet. Your cash position seems relatively strong, got free cash flow of AUD260 **million**. Can you give us an insight into your thinking around this cash pile? Is it -- are you holding this because you see an increasing need for you guys to spend on specific initiatives, for example your policy trade services and those requirements are going up in the new future? Or do you regard it as giving you additional firepower for perhaps **acquisition** such as the Decipher business you bought?

ELMER FUNKE KUPPER: As you know we don't make idle statements about what we may or may not do. But when you think about our balance sheet. Our balance sheet is extraordinarily strong. We're today debt free, we're AA rated and we have substantial cash position. When you look at our cash position and our capital position, a considerable part of our capital is of course allocated to our risk taking **operations** that we take on behalf of Australian investors. So our clearing houses, both equities and futures carry a lot of that capital and that's in those clearing houses sitting there in cash. So they are risk taking activities that need to be supported.

Despite that we have an attractive surplus cash position at the company level. In the scheme of things, a couple of hundred million dollars for a company of our size is not that large amount of money. It is true, that that gives us substantial fire power to both support our organic business and do other things. But that's not why we have it. We have it because we need to have a strong capital position to support our clearing operations and we need to have the balance sheet and the earnings to invest.

We have that balance right at the moment. So, nothing's changed in that respect over the last two years except that we have stronger [clearing houses] than we did before. That is not sickening any particular initiative. We're comfortable with our expenditure profile. And in fact we've given you guidance on 2015 for CapEx, AUD40 million to AUD45 million. That sounds remarkably consistent with our recent experience.

So, it is literally just that. And you know, AUD200 million is not a particularly large number for a company. We're in a unique position amongst exchanges with only one or two others in the world, that we're not very happily geared. And I think this terrific position that gives us the skill to invest in options that we otherwise wouldn't have. But that's really all it is.

ANTHONY HOO: Just quickly as well. Your CapEx guidance for next year. Is the composition of that again similar to what we saw in FY14 in terms of roughly half post trade?

ELMER FUNKE KUPPER: Again, we're not giving guidance on that. You do know of course that most of our post trade services are now in place. So I think what you'll start to see is that we'll continue to pay to invest in post-trade services, because as I said earlier, that never stops now. We're on to the next futurisation initiatives and so forth. So that becomes now all part of our normal ongoing investment program, because as we said, we delivered most of the core infrastructure.

So, when we talk about AUD40 million to AUD45 million, that is across all our businesses and all our platforms. We're not giving you guidance on how that splits. But I did say earlier on, that we have delivered most of the core infrastructure and post trade services now.

ANTHONY HOO: Thanks. But I think what I was getting at was, is that AUD40 million, AUD 50 million now what we should look at as being a normal level of CapEx for you or in that AUD40 million, AUD50, million are there any specific initiatives that are kind of one off or?

ELMER FUNKE KUPPER: We were running at somewhere between the mid AUD30 million and the mid AUD40 million over the last three or so years. Last year it was AUD40 million to AUD45 million and FY15 was saying AUD40 million to AUD45 million. Beyond that I won't make no predictions, because I can't. But you can make your own assessment of that.

ANTHONY HOO: Thank you.

ELMER FUNKE KUPPER: Any other questions in the room? We have a large number of people on line. So we might move to people who have questions over the phone.

OPERATOR: Our first phone questions comes from the line of Ross Curran from CBA. Please ask your question.

ROSS CURRAN, ANALYST, COMMONWEALTH BANK OF AUSTRALIA: Hi gents. Just firstly just on costs. Congratulations on the cost number. I didn't think you'd get there for the full year given the run rate was so high by the third quarter. Just wondering if there's any specific initiatives in the fourth quarter that got that cost back under control?

ELMER FUNKE KUPPER: When you say back under control. We made a prediction at the beginning of the year which was 5% and that's where it is. I was still slightly amused at the half year when we say your run rate was eight and to get to five there for the second half must be two, which is mathematically correct. And that's where we ended up.

Of course what you partially see here is the year-on-year affect, right? So as we recruited some staff early on. So you would always see I think some of the expense growth in the second half being a bit larger than the first half, simply because of the year-on-year effect and that's really probably the main thing. But the reality is we also at the same time also look at process improvements and savings wherever we can find that it's not going to program.

I inherited a company that was extraordinarily well managed when it comes to expense discipline and what we're trying to do is retain that and invest where we need to in new services. And that balance so far has been I think working very well for us. Ramy is there anything else that explain--

RAMY AZIZ, CFO, ASX LIMITED: No, I think it's mainly because of FY13 the costs were going up during the year. So the fourth quarter was slightly higher than the other quarters. So when you're comparing that to this year, the fourth quarter is relatively flat. So nothing else specific Ross.

ROSS CURRAN: Secondly then, on those new initiatives, mFund, I was wondering if you might give us a feel for how you're educating advisers about it and the take up rate so far?

ELMER FUNKE KUPPER: Well I think like with all these things that radically change to the way a market operates, progress can be frustratingly small sometimes. So we have 45 funds connected. We hope that that number will go up of course.

We have a number of brokers connected and a number of brokers committed to connect. But of course is that second part of the statement that needs to happen. And some of the larger brokers in particularly can take their time because this is all part of their IT infrastructure and their own planning.

So I'd say, you know we put infrastructure in place that we think is a game changer for the long term and we're happy that it's trading. But of course it's the consumer and the brokers that need to drive this, because we actually done it for them. Sort of our gift to the industry if you will, because the savings are greater for them than they are for us. Peter is there anything else you would like to add to that? I think that's where we are. I'd like to see that number grow substantially over the next couple of years as the platform matures.

ROSS CURRAN: So no comments on the actual dollars on the [rates] at this stage?

ELMER FUNKE KUPPER: No. No because that kind of tells you -- let's put it this way, if they were material we probably would have to announce them wouldn't we. So it's a start. And we're still waiting for a number of brokers to connect to the platform. That can take in some cases six to 12 months as we fit in their list of enormous priorities that they have.

But what we do know is the [feedback] that we do get from people who have used it is very positive. So hopefully this is just a matter of time before it becomes common practice.

ROSS CURRAN: And then finally just the fee reduction in OTC clearing. I was wondering if you could talk through the competitive threats in that space?

ELMER FUNKE KUPPER: Well it's one of those things where what we do know is that some financial markets are genuinely globally competitive now. So the best example there is the over-the-counter markets. Right, so clients have a choice to do that wherever they wish to do that. We believe that we absolutely [need to] have all the toys and all the infrastructure in place for the Australian market place to be competitive.

One of the reasons that we built the OTC infrastructure and the platform management infrastructure is of course because we could see that over time the futures and OTC markets would start to converge. And we talked about that today. That's called futurisation and that is about creating products and services and start to connect these two businesses. So Ross it's very, very important that we're in that game.

But if you look at futures and OTC, increasingly clients start to use those products together. So what we've done with the new fee structure is we've recognised that our business has very substantially grown in size over the last 10 years, in a business that's largely fixed cost. And so it's recognising that it's probably time to give some of that back to our clients, but do it in a way that motivates them to grow the business, involve futures and OTC.

And so for us, that was a natural step to improve the alignment with our clients and if you study the fee release that we put out when we issued that, the fee changes apply to the house volume of our (technical difficulty) for the entire 2014 year our profit growth wouldn't have been 10%, it would have been something like 6.6% or something like that.

So in that sense it's actually a relatively small impact on our earnings for what we think is a better strategic positioning in our most important business that needs to be globally competitive. That's the sort of rationale -- rationale behind it as we put in the (inaudible).

ROSS CURRAN: Thank you very much.

ELMER FUNKE KUPPER: When you think about the competitive threats to the business, that's in part driven by regulations. So while [the OTC] market is free to go where it goes, so it can go to Chicago, Singapore, London, Australia. The futures market is no so free. So in March, April (technical difficulty) competitive global market. But it gives us a lot more certainty on the environment we invest in. And that was very important to us. As I'm sure it's important for our competitors who might think about our market.

We will move on to the next question.

OPERATOR: Our next question comes from the line of Nigel Pittaway from Citigroup. Please ask your question.

NIGEL PITTAWAY, ANALYST, CITIGROUP: Hi, it's Nigel Pittway here from Citi. Just a couple of quick questions. First of all the derivatives revenue seem to spike up a little bit in the fourth quarter, despite no obvious reason from volumes. Was that just the unwind of the rebate accrual, that basically had come through the other three quarters or is there another reason for that? I think it was AUD55 million in the -- AUD55.5 million in the fourth quarter.

ELMER FUNKE KUPPER: I see puzzled looks on Peter's and Ramy's faces.

RAMY AZIZ: I would think a little bit of it would have been due to the way we accrue the large volume rebate. But not all that significant. The rest is really just the volume growth. There's nothing else Nigel.

PETER HIOM, DEPUTY CEO, ASX LIMITED: It's not the same (inaudible).

RAMY AZIZ: No, that's throughout the year.

ELMER FUNKE KUPPER: That's throughout the year, so--

RAMY AZIZ: Not significantly no.

ELMER FUNKE KUPPER: [Not significantly, no] the fourth quarter spend's a bit stronger. They might think, I know how to do this because we produce or nine month numbers. So you can derive the fourth quarter numbers (inaudible).

NIGEL PITTAWAY: Yes. So (inaudible).

ELMER FUNKE KUPPER: No, we have no -- if we come up with something we'll let everybody know. But I think it's just a bit of seasonality. There's nothing special that we can think of right now that explains that other than just normal activity.

NIGEL PITTAWAY: Alright. So the second question is just in some ways a tad similar to some of the other questions. But I mean just on the CapEx, I mean the -- if I took the fourth quarter run rate you'd be heading well over your AUD40 million to AUD45 million you've guided to for next year. So there does seem to be a bit of acceleration in the fourth quarter. I mean are there any particular reasons for that? Was that a particularly sort of strong period for CapEx or?

RAMY AZIZ: No, what I would say Nigel is don't extrapolate quarterly numbers for CapEx. It is very lumpy. A lot of it is driven just by when we might make payments to our service providers. You know, our programs are ongoing during the year. It just happens the cash flows on some of those tend to be lumpy. So I wouldn't read anything into a quarterly CapEx number.

ELMER FUNKE KUPPER: And remember it's also then related to when some of these projects finish. We completed a number of these post-trade projects in the third and fourth quarter. So it's just a natural process. And the reason we give you guidance for next year is so you don't extrapolate that number. This is the idea of guidance. So don't read anything in that.

NIGEL PITTAWAY: Okay, thank you.

OPERATOR: Our next question comes from the line of Kieren Chidgey from Deutsche Bank. Please ask your question.

KIEREN CHIDGEY, ANALYST, DEUTSCHE BANK: Good morning guys. I've got two questions. One is a similar question to Ross' and I know you don't want to talk about sort of individual contributions from some of the new initiatives. But collectively, given we can see that investment in the cost line with 5% cost growth last year and another 4% coming this year, in aggregate are you comfortable that those -- the expense for those new initiatives is paying off and that you are seeing sort of net benefits there?

And tied into that, and OTC clearing more specifically, should we interpret the fee cut in [SFE] as a sign that you're not getting the traction you were hoping for in OTC? Or is it more just a function of trying to encourage more volume?

ELMER FUNKE KUPPER: First question is that are we pleased with how our initiatives are tracking on delivery? Absolutely. In fact if you look at our post-trade infrastructure, we put it in place faster than almost any other exchange that I know of. Much slower than I would like by the way, but faster than most. And so we put ourselves in the game with that infrastructure.

And remember, if you're a fully integrated vertically -- if you're a vertically integrated multi asset class exchange, but don't [have] any excuses to make sure you have complete set of services. And that is as much offensive as it is defensive. So you never want to give your clients any reasons to do anything anywhere else but with you. And certainly when it comes to the Aussie dollar, there's absolutely no excuses for us in that.

So what we try to do is have that investment program, keep it within the envelope over the last few years and again in FY15 of AUD40 million to AUD45 million that allowed us to pay out 90% of our earnings in dividends over the last two years. So the way we designed that program in 2012, 2014 is financially actually very low risk.

Because what it allows us to do is continue to deliver the returns to shareholders from the wonderful machine that we have when markets are growing which of course they did last year and yet not risk those returns if some of these initiatives don't pay off. That's been a very, very important equation because we've seen other exchanges around the world not get that right. Overinvest, not deliver any revenues, because revenues aren't certain remember, they are markets building liquidity, building activity is hard.

And so you have to assume as you run these businesses, that not everything will go to plan, because that's life. Of course our target's saying that everything will go to plan. But the reality is which you don't want to lose [returns]. So we manage that equation very carefully and I think very well. So from a shareholder perspective there is no downside to doing this and there is upside if we see liquidity build. Whether it will with the research that we put in place, we will of course see. The choice is made by our clients whether they use it.

In terms of stimulating our clients to use them, aligning ourselves with them and making sure that the margin or fees are globally competitive, yes, of course we do do those things to make sure we stimulate demand. That's why we've done it. We'll see from October into the second half how that goes.

So for us that was a natural piece of the puzzle having done the regulations, having done the balance sheet, having done the infrastructure, we've now done the client bit. If we add them up we'll see where it goes.

I can't make any predictions, and that's why we don't give outlook statements on that because remember it is up to our clients who have choice to use these services, but it doesn't put at risk the returns from the wonderful machine that we have to shareholders. That equation has been very important to us.

KIEREN CHIDGEY: Just to pick up on something around that, you're saying you're not putting at risk the returns from the machine, but you are lowering the fees in SFE to potentially stimulate activity in the OTC states as well.

ELMER FUNKE KUPPER: My comment was around the CapEx profile, so what with the investment to make around CapEx over the last three years and I guess again in FY2015 because you would have given it a number, and we try to get the equation right in the way we invest in our platforms. So that's what it is about.

In terms of alignment with our clients we felt it was time to give a little bit of it back to them and to see if we can get higher growth from that having had such wonderful growth over the last ten years. So yes we've done a little bit of that, point taken. It's not a particularly material number but it's important that we help and that it works for both them and for us.

KIEREN CHIDGEY: The second question, just hoping you could share some thoughts on velocity trend in cash equities which are now towards decades lows. I'm just interested in your thoughts on how velocity levels domestically compare to some of the key global markets and whether or not you think there's any factors specific to our market such as increased trends towards passive investment given the changes we're seeing in superannuation and the like which are having more of a pronounced impact here domestically.

ELMER FUNKE KUPPER: I'll let Peter comment as well. I think if you look at our velocity numbers they were down a bit again in FY14, so they are running at lows if you take the last decade, probably. Velocity numbers in other markets have also gone down materially for example in Asia.

If you compare velocity numbers between markets, market structure starts to play a role as well, so in the US velocity numbers are materially higher. I don't know if they've moved, but part of their velocity numbers of course include the massive impact that higher frequency traders have on that particular marketplace. So slightly artificial spinning of the turbines in United States creates higher velocity without any material value.

But it's true that velocity numbers have been low over here, they've been low in Singapore. I think they might have been lower in Hong Kong as well. I can't recall the last time I looked at that, it's a while ago.

I think the reasons for that in part are the ones that you explained. So the chase for yield, the need to hug the index, the passive money. That actually has done very well over the last 12 to 18 months. If you just hug the index you can do very well in the last to 12 to 18 months. But of course that creates lower turnover.

I was actually relatively pleased that overall the market grew by 4% or so last year, which translated to higher clearing and settlement revenues for us, which was good. So at least we saw some growth last year but it's fair to say that if you're an Australian investor and we're sitting on AUD1.8 trillion today the question is what do you do with that money.

Churning it doesn't seem to make a lot of sense in a lot of people's eyes, so therefore they're sitting on their portfolios and looking for new ways to invest the enormous amount of cash that's flowing towards them.

Hence our interest in developing interest supermarkets, so we can give more opportunities for people to invest locally as opposed to that money going overseas. So I think you've got the explanation. Peter, is there anything else you want to--

PETER HIOM: Well, it's certainly true that the growth in the index hasn't been matched by growth in turnover. You talk to customers and that's an observation in Australia that we hear every week and it's an interesting phenomena. I think Elmer's given most of the reasons for that around passive investment or not a return to the **equity** markets from some investors.

I would just caution on the use of velocity as a measure. I won't call it old-fashioned but I would say that we focus much more on the execution mechanism for clients now as opposed to delivering perceived liquidity through increasing velocity, as one person's increased liquidity is another person's HFT intermediating transactions that are not need to be intermediated.

So for us, much more important for us to focus on how we innovate the execution environment. That's where we've shown our success around things such as Centre Point, where we can actually create value out of creating those execution services and charge more for those services than we can in the (inaudible) market.

It doesn't mean we don't develop liquidity, but we think about that much more holistically about how we execute efficiently for customers as opposed to simply what is the velocity number for the market. We would like the velocity number to be higher, there's no doubt, but that's not a primary measure of success for us.

ELMER FUNKE KUPPER: We don't talk much about velocity in the **Company**. We talk about an investor's needs, how we innovate, and how we deliver it to them.

You can see this in the numbers, the Centre Point growing on average, if you go to the back of the pack you can see our average margin in equities trading is up because the higher growth is in the higher margin products which is what investors are looking for. That's where we are but we'd love it to go back to where it was, and have this market structure by the way, so that things really motor very well, but we can't control that.

KIEREN CHIDGEY: Thanks for your thoughts.

OPERATOR: Your next question comes from Adam Lee from UBS. Please ask your question.

ADAM LEE, ANALYST, UBS: Hi guys, thanks very much. Just firstly a quick question on the D&A line. Quite a bit of acceleration into the fourth quarter which makes a lot of sense with a lot of projects coming on the AUD49 **million** of post-trade spend. Just wondering when you're looking at that I guess with the ongoing investment and things coming online in the next year whether that's the kind of runway we're really looking for into 2015, and then I've just got another question on another part.

ELMER FUNKE KUPPER: Okay, so no we've given you CapEx number but not an D&A number for next year, so we won't do that in this forum. But it's been running up pretty much with the rate of investment growth, so you're going to have to make some assumptions about what you think beyond FY15 because otherwise we'd give you that number our CapEx profile would look like.

As you know theoretically over time CapEx and D&A converge, but we don't give any outlook on our CapEx profile beyond FY15 so we can't tell you where that might happen. I look at our auditors here and of course they are nodding but they're also frowning and saying different amortisation rates for different investments. We get that thank you.

So I think you've seen it go up with our investments over the last couple of years, and these things tend to catch up over time. But the question is to make an assumption about what our CapEx profile would be beyond FY15, and there we're giving you no guidance.

ADAM LEE: Sure, that's fine. I expected that would be the answer. Just moving quickly to the ASX derivatives, specifically just looking at the full year average fee was fairly flat, but if you actually look at the first half or the second half from a very soft first half average fee per contract, you actually had quite good improvement into the second half. I was wondering how that related to some of the initiatives you were talking about and have implemented in this business, and if you have any kind of observations on that first half to second half movement.

PETER HIOM: I think Adam the main reason for the difference in the first half and second half comes back to the LPR and how we accrue that, because as you know the LPR was always based on where you end up for the full year. We can't predict where we'll end up so we tend to accrue it based on the rate that we're going versus the prior year. As it turns out for the full year we're only up about 2% in terms of our total volume, so we saw some fallback of the LPR in the second half of the year.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Adam can I just ask-- was your question in relation to future or ETOs?

ADAM LEE: No, ETOs I'**m** talking about -- (multiple speakers) -- a 25% increase in average fee.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: In which case the answer is yes to your question. That relates to some of the work we've been doing in part of the market making arrangement, and in part in our marketing activities to stimulate investors. So what you're seeing is market makers trading less with each other and more with real investors. That shows up therefore in an increase in the average fee.

ADAM LEE: Thanks very much.

OPERATOR: Our next question comes from Ryan Fisher from Goldman Sachs. Please ask your question.

RYAN FISHER, ANALYST, GOLDMAN SACHS: Thank you. I have two questions. First one relates to international equities or depository receipts.

Elmer, I think last time round you mentioned that you were reapproaching that and just trying to put in better protections for unsophisticated investors. Could you perhaps just confirm what's going on and what the outlook is?

ELMER FUNKE KUPPER: So we -- on the slide you can see that it says international equities between brackets future focus. Because remember in all the time that I've been in the exchange this is the one initiative that was knocked back by the regulator, and I think at the time for very good reason.

So we're doing quite a bit of work now to come up with a strategy around the entire investment supermarket that encapsulates international futures, corporate **bonds** -- which I think help with things going through parliament but not enough -- et cetera. We will hopefully sometime this year get some traction on that but of course we need to bring the regulators along.

So we're preparing for that conversation with our regulators. What you see on the screen is displaying it and that's coming. Well, you read that I guess.

But the ball is still in our court so I think we're well advanced I think around the investment supermarket. That's why we're talking about it, and this is a key part of that.

So when we put a package in front of the regulators and bureaucrats we hope that they will support us, as they have in many initiatives. So we parked that one two years ago simply because with all the things that were going on we decided to just leave that for a little while. I think the time is coming to pick it back up, so you should assume this financial year we'd like to seriously progress that one, and the ball is in our court to now put the package to the regulators that addresses the issues that they rightfully raised last time.

So we'll have to work on those. So I can't give you timing; I won't give you timing. I can but I won't give you timing on when we'll do that.

But we're flagging it. That's the priority for this financial year, to make real progress here.

You know how long it takes. I mean let's take corporate **bonds**; the idea of improving the corporate bond market is not a new one. I think we have to go back to the last century to get the ideas there.

It has gone through the lower house, some of the improvements, I think, but it's still sitting in the upper house. To be honest that should have done a long time ago and it's not going far enough.

So these things sadly sometimes take a considerable amount of time. But we're not giving up and it's a priority for FY15, that's what we're flagging with you.

RYAN FISHER: Thank you.

ELMER FUNKE KUPPER: (multiple speakers)--is in the room here, so he's not shuffling nervously in his seat, so he seems pretty confident that we're going to at least have a crack at that.

RYAN FISHER: Great thank you. My second question also relates to regulation and it relates to cash market clearing review. I guess we're coming back towards that, is it next February. Just interested in your thoughts at this early stage.

ELMER FUNKE KUPPER: We step back and say why did the regulators recommend to the government that we retain the current market structure for at least two years, or as they put it defer a decision on an alternative operator for two years which is a more technical way to put the same message.

Effectively the conclusion from all the work that we did and others did around there is that both the business case and the appetite for a change in market structure wasn't very strong. We have some real experience with equities trading where we have an alternative exchange here, and yes we've cut our fees on the back of that.

We also built our technical services business, we built Centre Point. In fact we're doing pretty well out of that market structure change.

I don't think many brokers and investors have done very well out of that change. If there any investors in the room here listening, you really haven't noticed nothing from that change.

If you think about the business case it's really around end investors. We think not much has changed from the conclusion from 18 months ago, and that the total cost of clearing Australian equities for the entire Australian marketplace is AUD40 **million**. That's it for the entire economy -- it might be AUD41 **million** or AUD43 **million** in FY14, but it's low AUD40s **million**.

So the question is what's the trade-off between fees and the cost of complexity as we see in equities trading. We know from the Oxera report that came out that our fees for a market of our size compared to the rest of the world where there is competition in some cases or there's no competition and it's a utility those fees are broadly in line for clearing and settlement.

So the real question you have to ask is what's the problem we're trying to solve here and what are the net benefits to end investors? You would expect to us to say that, and repeat that. We also have to believe it and the Oxera reports that support it.

At the same time we have to deliver on our commitments to the marketplace, and over the last 18 months the code of practice has been working incredibly well, at least we believe for the end investors. There's always people who are unhappy, there's no surprise who that might be.

But I think for investors it has worked very well. It's highly transparent, we're getting very good input. So again if you take all that together what we have in Australia actually is a market structure and a self-regulated regime -- although self-regulated is a big statement when we were asked to do this, but these things are not always questioned as you know -- and so we delivered on that.

So you can actually get a very good outcome that's similar to competitive markets as Oxera shows by having yourself a well-regulated market and I think that's the outcome we have. So we'd like to think that nothing's changed and that the decision will be carried forward but of course it's not up to us. I'**m** sure the regulators will do their independent work, sound the market with the analysis and so forth before they reach any conclusion.

When that will happen is a little bit uncertain. The official timeline would be first half next financial year, thereabouts, but there has been no public confirmation of that timeline so we will see when that work starts. But we've done everything that we said we would do and more and the consultant's report shows that that creates very good outcomes.

The other thing that we've done -- which is a bullet point on the slide that you might have glanced over -- but we have as of the time that the code was put in place -- which is August last year -- we are waiving the annual fees to any alternatives exchange that uses what we call the trade acceptance service. The trade acceptance service is the service that we use to clear for other exchanges, so since the code has been in place those exchanges are not paying or waiving the annual fees for that.

So the reality is we have a benchmark competitive outcome, we have an excellent relationship with the industry, and the alternative exchanges that use our platform pay zero for clearing and settlement services on an annual basis. So we waive those fees, so you get a great service for free. I'd say that's not a bad outcome.

So we'd like to think that that's a good outcome for the Australian marketplace. But we'll see what the powers say about that in the next six months or so.

RYAN FISHER: Great, thank you for that.

OPERATOR: There are no further phone questions, so I'll hand it back to your speakers for any closing comments.

ELMER FUNKE KUPPER: Any final question here that was triggered by all of that? No.

Well, can I thank everybody who joined us over the internet and by phone for joining this morning as well as everybody in the room here and we look forward to seeing you in the next couple of days as we do the rounds and again at our AGM at the end of September. Thank you.

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