BURSA MALAYSIA'S FY 2010 FINANCIAL RESULTS BRIEFING

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Pn. Nadzirah Abd Rashid, Chief Financial Officer

Dato' Yusli:

Assalamualaikum and a very good afternoon everyone.

A very warm welcome to all of those joining us both here as well as by telephone.

We have emailed presentation slides to analysts and fund managers and they are also posted on our website.

The briefing today will consist of 4 parts. I will do the overview of our performance. Nadzirah, our CFO will go through our financial numbers. Then I will come back and update on business strategy as well as developments and we will move to Q&A at the end.

Last year, we saw improved financial performance compared to the previous year. Our operating revenue increased by 11% to RM331 million. This was mainly due to the increased in securities market revenue. As you may recall, market activity improved significantly in the 4th quarter of last year with a Daily Average Trading Value hit RM2 billion and this is reflected in the 27% increase in operating revenue in 4Q10 compared to the previous year.

If we were to exclude the previous year's one-off gain from the sale of the 25% stake in Bursa Malaysia Derivatives (BMD) to the CME Group, normalised profit has increased some 11% to RM113 million in last year. If we compared the 4Q10 with 4Q09, net profit increased by 47%. This can be attributed to the more buoyant securities market, really came about as a result of improved economic performance as well as renewed interest from foreign investors. Our net profit margin and Return on Equity (ROE) remained stable over the cause of last year.

Moving on our securities market has progressed steadily and our benchmark index advanced 19% over 2010, hitting a high for the year of 1528 points in November. As u may know, the KLCI has since reached an all time high of 1574 points earlier this month.

Market capitalisation increased by 28% to reach about RM1.3 trillion by the end of last year. Velocity however declined slightly from 34% to 33% over the year, as the growth in market capitalisation was faster than the growth in trading value.

Daily Average Trading Value increased from RM1.2 billion to about RM1.6 billion in 2010. After some very quiet months in the middle of the year, we saw investor interest pick up quite significantly in the 4th quarter of last year and for 2011, so far this year daily Average Trading Value has been much better and it stand at about RM2.7 billion for the Year to Date.

The number of IPO's doubled in 2010, where we have 29 new listings. Petronas Chemicals was the largest listing ever in South East Asia and they raised RM12.8 billion. Total funds raised in our market increased by 18% from the previous year to RM33 billion. The number of structured warrants also increased significantly by 65% and we have 19 new Callable Bull Bear Certificates (CBBCs) listed. For the second half of last year, CBBCs contributed on average 8% in turnover value to the structured Warrant segment on Bursa Malaysia.

Our derivatives market remained stable. The first 9 months of the year saw a lower activity for the derivatives market mainly as a result of the narrower spreads that we saw between the futures and physical markets. However, in the 4th quarter of last year, volume traded increased by about 13%. Overall, the total number of contracts grew marginally, with FCPO increasing slightly and FKLI remaining quite flat.

That is a quick overview of our performance, now let me hand you over to Nadzirah, our CFO to go through our financial numbers in more detail.

Puan Nadzirah:

Thank you Dato'.

A very good afternoon to everyone present.

I will start by giving you a snapshot of our results. As highlighted by Dato' earlier, we made a profit of RM113 million for the financial year 2010. Our earnings per share was 21 sen.

The RM113 million is a drop from our 2009 profits of RM178 million. Represented by the grey bar in the graph, in 2009, we made a gain of RM76 million from the disposal of the 25% equity in bursa derivatives our subsidiary. If we remove this one-time capital gain, we are looking at a normalized profit of RM102 million for 2009. So if we were to compare our normalised profits for both years, we are looking at an increase of 11% in our 2010 profits. The higher profit is backed by a more active securities market in 2010. The higher trade volumes and larger number of primary and secondary issues led to a growth in our operating revenue of 11% to RM331 million. Other income remained fairly stable as a whole, while operating expenses increased by 8% to RM197 million.

Taking a look now at the components of our operating revenue, we see that trading activity on our securities market contributes to half of our total operating revenue. The improvement of ADV from RM1.2 billion in 2009 to RM1.6 billion in 2010 boosted our trading revenue by 21% to RM168 million. Derivatives trading revenue on the other hand was fairly stable. The trading revenue comprises fees from trading and clearing, as well as other trading related fees, such as guarantee and tender fees and as presented by Dato' just now, there was a slight increase in volume year on year. This resulted in corresponding increased trading and clearing fee by a marginal 0.6%. However, the average number of open positions dropped during the year, leading to a reduction in guarantee fees by about RM1 million.

Stable revenue increased by 4% to RM108 million. The increase is attributed to the higher number of listings on the primary and secondary markets. Other operating revenue was RM18 million. The 7% improvement was due to processing fees derived from the transfer of certain functions from the Securities Commission to Bursa Malaysia in August 2009.

Moving on to operating expenses. As seen earlier, our total operating expenses increased from RM183 million to RM197 million. The increase is largely due to an 11% or RM9 million increase in staff costs to RM92 million. Our focus is to recruit the right people to complement our existing teams so that together we can bring the exchange forward. Our target is to be competitive and relevant in the region. For that to happen, we need to have the right people at the right place. We have and will continue to develop the skills set and competencies in our people. And in that same spirit, we also place importance on providing the right level of motivation for our teams.

As part of our efforts to move our business forward, we have cut over our derivatives trades from Bursa Trade Derivatives to CME's Globex Trading Platform on 20 Sep last year. The useful life of Bursa Trade Derivatives (the old system) was shortened and depreciation was accelerated. The accelerated depreciation increased depreciation expenses by about RM2 million. Upon cutting over, we also started to pay a license fee to CME. The fee charged is directly related to the volume of our products traded on Globex. For 2010, we paid a fee of RM2.7 million. We have shown this as part of our technology or system charges of RM17.7 million.

Our market development costs dropped by RM3 million to RM12 million. In 2010 we spent about RM3 million developing each of our securities, derivatives and Islamic markets. The balance RM3 million is related to conference expenses. In 2009, the higher cost was a result of our CME project expenses.

Looking now at our performance ratios, we see that our profit ratios are fairly stable when compared to the normalized ratios in 2009. Net profit margin for 2010 was 32%. Operating EBITDA margin 54% and our ROE 13%. The coverage of derivatives trading and stable revenue over expenses saw a drop of 5% to 74%. This is due to a larger increase in expenses compared to the increase from derivatives trading and stable revenue.

Our reserves saw an improvement. Shareholders' funds went up from RM840 million to RM852 million, whilst our financial resources increased from RM453 million to RM512 million. As an exchange, we are financially secure and have set aside sufficient funds for our CGF (clearing guarantee fund) and derivatives clearing fund as well as sufficient fund for our working capital. Our aim continues to be the maximization of value for our shareholders. To this end, we balance on-going returns to our shareholders and our future expansion needs. Ultimately, we want to return value to shareholders now and in the future.

In returning value to our shareholders, we will propose a final dividend of 10.5 sen per share to be approved at our upcoming Annual General Meeting. If this dividend is approved, a total dividend of 20 sen per share would be distributed for financial year 2010. Our payout for the year would then be 94%, the highest payout since our listing in 2005.

With that I conclude my presentation. I will now hand over the session back to Dato', who will bring us through the business highlights and initiatives.

Dato' Yusli:

Thank you. In terms of key developments last year, for us, maintaining the confidence of investors and improving the quality of our listed companies is vital for the Malaysian market to remain competitive. We continue to educate the market and the directors of PLCs on Corporate Governance issues.

Last year, we launched our sustainability programme, which includes a knowledge portal as well as a sustainability guide for directors of listed companies. This is with a view to improving sustainability practices within our listed companies.

To further enhance efficiency within our market, in October last year, we introduced internet trading for our derivatives business via the web-version of Bursa Malaysia Derivative's Order Management System. Internet facilities are essential for us to tap into the growing presence of sophisticated traders as well as to allow for trading by local investors through Malaysian Trading Participants (TPs) electronically.

We also implemented the E-Dividend service last year, and as a result, all shareholders can now benefit from improved payment efficiency. E-Share Payment was also launched last year, which will further promote the use of e-payments in our stock market. These are also part of our conservation efforts to reduce the use of paper within the industry.

To help improve liquidity in our market, we need to develop more products and services. Last year, we saw the listing of 2 new Exchange Traded Fund's (ETF) in July, the CIMB FTSE ASEAN 40 Malaysia and the CIMB FTSE Xinhua China 25. CBBCs were launched in July last year and we have now a total of 19 listed on our market.

For Derivatives market, we successfully migrated our derivatives products onto the CME Globex electronic trading platform. This allows our derivatives products to gain better international visibility as well as provide better global access to investors.
Improving retail participation remains a key goal for us, and we continued with our efforts with ongoing educational events and engagements throughout last year. Particular focus is being placed on creating awareness. Interaction with younger segments of Malaysian population is an integral part of the strategy to build the retail base amongst the next generation of investors. We have an ongoing programme of engagement in collaboration with market intermediaries and stock brokers, which includes our Market Chat and Talk Futures programs.

Meeting the needs of international investors means we have to respond to their requirement for a world class investment market place. CME's telecommunication hub in Kuala Lumpur was launched in May last year, and this complements our existing infrastructure. The CME Malaysian hub will act as an international gateway for greater accessibility by both local and international traders and connects our market to the rest of the world.

FTSE upgraded Malaysia to "Advanced Emerging Market" status from "Secondary Emerging Market" status last year.

For our Islamic markets business, we are pleased that Bursa Malaysia remains the top Sukuk listing destination in the world, with a total of USD27.7 billion of Sukuk listed. We continue to engage our stakeholders and expand our reach in Islamic markets internationally.

For the ASEAN Link, this is where an MOU was signed between six ASEAN exchanges. We are working towards implementation which will help promote ASEAN as an asset class to international investors globally.

In terms of global recognition, as mentioned previously, with CME partnership, we have migrated all our derivatives product onto the Globex platform last year.

In June last year, Malaysia became an approved investment destination under the QDII scheme which is administered by the China Banking Regulatory Commission (CBRC). This has positive implications for inflows of Chinese funds into the Malaysian capital market.

Also in June last year, the United States Commodities Futures Trading Commission (CFTC) gave approval for Malaysian futures brokers to deal directly with American customers. This should expose our local brokers to the demands of an international investor base as well as help raise standards to the benefit of all. Nine brokers are already ready to solicit orders directly from US traders.

Another recognition was achieved in September last year when FTSE upgraded Malaysia to "Advanced Emerging Market" status within the FTSE Global Index series. The promotion demonstrated that Malaysia met FTSE's "Quality of Markets Assessment" criteria for the category. This should help put Malaysia on the radar screen of more international investors. The new status for the country will take effect from June of this year.

Also in September last year, the United States Securities and Exchange Commission (SEC) recognised Bursa Malaysia as a "Designated Offshore Securities Market", which makes it easier for US investors to trade in Malaysian listed securities and shelf listed bonds.

Moving on, in terms of our direction and strategy for this year, we will continue to focus on growing our core businesses which is currently the securities and derivatives markets. We also want to build on our key differentiating strength in areas like Islamic Markets. To support this and other initiatives, we will continue to invest in technology as well as human capital to ensure that we remain relevant and competitive amongst the other markets in this region as well as globally.

Setting our priorities in areas for future growth, firstly to revitalise the market and improve vibrancy in the market further.

To increase our market competitiveness, we will make the process of trading easier by reducing the friction of transacting on our markets. For example, we want to look at greater use of stock borrowing lenders facility, more participation by market makers.

We also want to increase the number of Proprietary Day Traders (PDT). We want to expand intra-day short selling to other classes of investors and also intent to introduce retail bonds in our market

In the area of developing World Class Capability and Capacity, here we need to develop a well-versed, highly skilled and committed manpower to drive a thriving, innovative and efficient capital market.

We will continue to enhance our regulatory and governance structure and build on our markets' reputation for quality and investor protection.We also aims to be at the forefront of the industry through creating thought-leadership. We will also continue to develop our capability and capacity by encouraging greater sophistication in the market and diversity of investors.

In term of improving the Eco-System, we want to see further liberalisation of the market by working closely with the relevant policy makers and we will actively engage the government to expedite the government as well as GLIC sells down to increase free float in the market and we want to see further privatisation of government assets.

In terms of improving Efficiency and Productivity, we will review our current market structure to make it more efficient and cost effective. We are looking at simplifying the rules to drive a more cost effective market and will continue with the continuous upgrading of our infrastructure as well as the implementation of more e-Services for the market place.

In terms of internationalising the market, we will expand our derivatives business worldwide together with the CME group. We will implement the ASEAN Link and intent to introduce an International Board to bring international securities to be traded in Malaysia.

Looking forward, in terms of market outlook, we believe that with the sustainable macro-economic story on going in Malaysia, with continued strengthening of our currency and sustainable domestic corporate earnings growth, we expect to see more investor interest especially foreign capital inflows into our market.

We see potential catalysts for the market to include the award of projects or contract under the Economic Transformation Programme (ETP), execution of items under Budget 2011, more merger and acquisition activities taking place in the country as well as further divestments by the government-linked investment companies.

We look forward to improved performance from our derivatives market this year. We expect the FCPO and FKLI contracts to move in tandem with the volatility level of Crude Palm Oil (CPO) prices as well as FBM KLCI. Following the migration of our derivatives products onto CME

Globex platform, we expect to see further enhancement of trading activities this year. The volume growth that we have seen in the last quarter last year after we move onto Globex has been very encouraging.

For our Islamic markets, we expect to see more Sukuk listings and we expect to retain our leadership position as the No.1 destination for Sukuk listings in the world. We will also expand our reach and profile of our Islamic Market and continue to penetrate into the GCC region.
So, ladies and gentlemen, that conclude our brief presentation and we would like now to open the floor for questions.

<u>Q&A session:</u>

Question: Are you saying that the processed results this year, under normalised conditions it is actually better but because of last year's one off sales have pumped up the performance of 2009 to be better than this year. Under normalised profit removing that particular one-off gain, this year (2010) performance on a net basis is better than last year by 11%.

Dato Yusli: Yes, if we were to exclude the one-off transactions which resulted in more than RM70 million gains in 2009 from the profit numbers then we would have done better. Of course we like to do much better but given the challenging condition we had in the middle of the year when the investors' sentiment was quite poor. I think we did relatively well. Fortunately the market sentiment picked up in the last quarter (4th quarter) and that has enabled us to put in better results.

Question: Going to 2011, how do you think you will be doing?

Dato' Yusli: well, we expect 2011 to be better than previous year. We had a great start to the year but having said that we had a good start last year as well but things very quickly unravel in the middle of last year mainly through external factors. This is still a possibility in the world today because the expectation is that the volatility will continue into the future. Even now, as we speak there are still many uncertain scenarios playing on in the global environment. So, it is quite hard to predict with any certainty how it is going to be but certainly we have had a great start and if market condition were to remain stable and if economic recovery continues to happen in the main markets around the world, I think investor confidence can remain relatively high but the word of caution for investors would be expect it to be fairly volatile because there are still some uncertainty out there.

Question: you have mentioned a lot of things and instruments that you have introduced to make Bursa more attractive to investors but bearing in mind that in Singapore there is a potential merge of Singapore with Australia that is going to be huge and also recent potential listing Hutchison Whampoa's IPO which is supposed to be about USD3 billion to USD6 billion. These are great huge challenges as an exchange. What can we do to put our self in contagion with the best in the region?

Dato' Yusli: well, as I said we need to continue to invest in good technology, good people and obviously it would help if we continue to get a good quality IPOs but we must appreciate that one of the reasons why investors have been coming back to Malaysian market is because they see good strong performance by our own companies. These are Malaysian companies which have grown strongly in recent years and we know that many of our big companies are growing very quickly on the back of the strong growth being seen within ASEAN as well as Asia region. So let's not forget that we have some very good high quality companies in our market which is attracting the attention of investors both domestically and internationally. So, what we want to do is to encourage these corporate and more to come to our market. Obviously, last year we saw Petronas Chemical listing which I believe was a huge contributor to raising investor interests and sentiment in our market last year.

Question: Hi. Good afternoon. I have 2 or 3 question. First, taking on the M&A and exchange consolidation in Asia, do you see Bursa Malaysia being the participant in the exchanges consolidation in which SGX – ASX have taken the first step across Asia? Are you either a seller or a buyer in 3-5 years?

Dato' Yusli: We remain open to opportunities which will help us enhance our business case. Obviously we know that there is a lot of expectation for growth of markets in our region but we also appreciate that in Asia the expectation is that there will not be the same level of M&A that we have seen for example in America or in Europe among exchanges simply because the speed of development of the exchanges are in many different levels. There are still many exchanges in Asia which are not demutualised therefore not listed. So, doing transactions with these exchanges will be that much more challenging but as I said, we remain open to opportunities within this region as well as outside this region. So, that is something that the BOD is actively looking at.

Question: Thank you. I have a couple of more accounting related question. Firstly is on the tax rate. Tax rate seems to have gone up significantly from 27% in the first 9th month to 36% in the 4th quarter. Is there any particular reason for that?

Pn. Nadzirah: The effective tax rate for the 4th quarter was higher mainly because of the retirement benefit expenses which are not tax deductible as well as some other non deductible market development expenses.

Question: ok. Going forward for 2011, should I be still taking queue from earlier 2010 number or should we consider a higher expected tax rate for an option.

Pn. Nadzirah: the effective tax rate for the whole year of 2010 is around 28%. So, I would think that we should be looking at effective tax rate of maybe around 27% to 28%

Question: Thanks. The second question is on minority interest on the P&L line. It had changed significantly to your cost of the year. It was closed to RM900 million in 1st two quarter down to RM600 million then down to RM13 million. It is like a pretty significant shift, probably I am missing something big here but what are the reasons for that change?

Pn. Nadzirah: the profit made by the derivatives business was actually lower in the 4th quarter even though we saw an increase in the derivatives volume being traded on Globex. The expenses were also higher. So that pushed down the profit for Bursa Derivates in the 4th quarter. We actually spent on the implementation of ASP and the expenses actually were carried on to the 4th quarter even after the implementation and as I mentioned earlier, the system charges is payable for the use of Globex and that is about RM2.7 million, it contribute to increase in the expenses for Bursa Derivatives. Hence, the MI is slightly lower in the 4th quarter. It is a lot lower in the 4th quarter.

Question: two questions if I may. Firstly, can you comment on the outlook for IPO and whether are you expecting a growth in terms of the funds raised and my second question is whether you can give us an update on the performance of the derivatives contract traded on Globex and whether is it running on target.

Dato' Yusli: Ok. It's a bit difficult to forecast IPO outlook. The general expectation among market payer is that we will see a similar if not higher level number of IPOs this year. As you know, we have had 5 IPOs so far this month and we expect to have another 1 next week. So, in terms of number of IPOs is probably going to be similar if not higher and in terms of fund raised, are also quite hard to forecast as you know last year we had about RM30 over billion funds raised and substantial portion of that was Petronas Chemicals. So, obviously for us to beat that, we would need some sizeable IPOs but having said that I would expect to have some substantial fund raising perhaps through the secondary issuance given the implementation of some of the ETP projects which as you know the government has indicated that 90% or so of the fund should be raised by the private sector. So, given the size and scale for some of these projects, it would not be surprising if some of the listed companies involved were to embark for fund raising activities this year. So, I would not put a number on it but I expect the number to be quite healthy. In terms of derivative contracts, yes, we have a good performance so far the 1st three weeks or so of the year. In fact, we had our highest ever number of contract traded a few days ago about 51,000 contracts compared to the other previous highest daily number of contract traded was about 47,000. So, of course it helps when there is a lot more volatility in the price say palm oil and with the FBMKLCI as well being a bit more volatile, we should expect more interest in that contract. So at the moment it looks pretty much within our expectation and we hope this will continue over the year.

Question: Dato' you said you want o expand the business by implementing the ASEAN-link. Are you having any discussions with the other Asian countries? And how is the progress? Is there anything to update? And are you going to do the similar thing as like the cross trading with Thailand? Is it something similar like that?

Dato' Yusli: Yes, the ASEAN-link is a project that we are discussing with the exchanges within ASEAN. So, currently the plan is to roll out and launch this by the end of this year and the first three markets that we expect to be linked would be Thailand, ourselves and Singapore. So, the target is to have that in place by the end of this year. All the exchanges involved have been in discussions going back the last 2 years or so and in terms of getting this thing up and running. So, this is like you referred to as cross trading. Basically this is to enable investors in different ASEAN countries to invest directly into other markets in ASEAN. So, we want to make it easier for say Malaysian investor to buy stocks in Bangkok, for Thai investor to buy stocks in Singapore by creating electronic links between the different markets. We are targeting by the end of this year we expect to have the 1st three links. I think the fourth one will be Philippines which will happen probably sometime earlier next year which is what they had indicated themselves. And then Indonesia and Vietnam will follow but we don't have a firm timeline on that.

Question: Just to follow up on the ASEAN-Link, can you just remind us whether you would need to pay some CAPEX from this.

Dato' Yusli: Yes. There will be some CAPEX involve but we are trying to keep that as little as possible.

Question: would you remind us, how much you need to set aside for clearing guarantee fund? I guess the angle I'm coming from is that with over RM500 million financial resources available. Would that be room for special dividend now that markets have rebounded and also will you be considering further capital management measures to enhance your ROE?

Dato' Yusli: we have set aside about RM85 million for the clearing guarantee fund. Yes, as you pointed out, we do have some access cash, we said previously that we wanted to see how the whole industries settle down after the crisis. Certainly something that the BOD is looking at whether we are in a position to pay out any special dividends but we have no plans to do so at this point in time. We will certainly keep that in mind as we proceed into next year. In terms of capital management measures, apart from the building which we owned, the buck of other assets are in cash, as well as the technology assets, we have not made any further decision on this building but certainly something we will continue to look into in the future.

Question: the big surprise for myself was actually the increase in salary cost, would you be able to let us know the employees count for 2009 and 2010 and whether you have plan to increase this further? Basically, I recalled in the previous briefing, management has actually said that you planned to keep the staff level around this level. So, just wondering is there a change in view on that part. If I hear correctly, did you mention about bringing in more international directors and would that cost more?

Dato' Yusli: No, I did not mention anything about international directors or you mean international board and you thought as in board of directors? No, international board is where we offer international securities but that does not mean that we will not have international directors at some point in time in the future. We had about 626 staffs at the end of 2009 and 630 staffs at the end of 2010. So there are slight increases in the numbers. Going forward, we think the number will increase slightly but it should not be significantly more. I think the budget is about less than 640 people for this year but it is something that we constantly reviewing our cost base and we acknowledge that human capital cost is a major component of our cost base and easily counting for about half. So, we are really conscious about that and certainly that we are not going to allow manpower cost to get out of hand. We want to look at the productivity measures as well.

Question: the first one that I asked is about the foreign shareholding for bursa in December. And the second part was any further updates for the CME tie-up and how much volume was attributable to Globex?

Dato' Yusli: ok, we had about 18% foreign shareholding at the end of December. In terms of CME tie-up, it is ongoing. The efforts since we moved onto Globex have now moved into marketing and promoting our products. As I mentioned in my presentation, our trading participants (TPs) can now market directly to investors in America. It is very much about trying to expand number of investors who are going to trade our derivatives product and we will use the CME network to reach out as many of these people as possible. We will also work closely with CME to try identifying what sort of new product we should be looking at launching into our market in the future. So, apart from that is to learn as much as we can from CME in terms of processes, trying to make our market more efficient. So, that becomes more attractive for people who want to trade our products.

Question: going from what I was saying with regards to SGX. People said that, why Hutchison has gone is because Singapore allows for listing with business trust and which is exciting. That is the reason why a company has taken option to list in Singapore and I understand it is not allowed here. Is there a possibility that a listing of a business trust will be also open ie: stock exchange allowing it?

Dato' Yusli: certainly we will look into this. At the moment we are trying to focus our attention on normal corporate for now but certainly with this development, we will be looking into this matter.

Thank you very much for coming.