Singapore Exchange reports $295 million profit Financial Year ended 30 june 2011 (FY2011)

SGX recorded net profit of $295 million ($320 million) in FY2011. Excluding the ASX-SGX transaction-related costs and gain from disposal of premises, the underlying profit was $312 million ($318 million) and resulted in a return on equity of 38% (39%). This result was achieved on an improved revenue base of $661 million ($640 million).

The Board of Directors proposes a final dividend of 15 cents (15.75 cents) per share. This will bring SGX's total dividend, including interim dividends to-date of 12 cents (11.25 cents), for the year to 27 cents (27 cents) per share or a 98% (90%) payout of the reported profit. In line with the current dividend policy, the Board has maintained the base dividend of 16 cents per share, or a quarterly payment of 4 cents per share.

Mr Magnus Bocker, SGX CEO, said "We are pleased with our performance despite a difficult environment for markets globally. We saw a record number of new member firms join SGX and some large, overseas listings. This enhances our standing and also contributed to increased international revenues. We will continue to focus on expanding SGX's offering as the Asian Gateway by growing market participation, attracting more high quality listings, developing our distribution network, products and services, and implementing our new Reach technology."

Business Highlights

FY2011 was a tough year for global markets. Securities turnover velocity and trading activities declined across markets although benchmark indices, particularly in Europe and the USA, recovered from the lows of Global Financial Crisis. MSCI Singapore Index ended the year 7% higher.

Whilst equity market volatility[2] remained relatively low, we had a 6% increase in securities daily trading value (SDAV) to $1.6 billion ($1.5 billion). In addition, we also recorded an all time high derivatives[3] volume of 66 million contracts (57 million contracts) or an average daily volume of 266,782 contracts (231,938 contracts).

We remain focused on expanding SGX's Asian Gateway offering with the acquisition of new members and customers; introduction of new products and services; building a state-of-the-art infrastructure; and, making micro-market structural improvements. New products and services[4] were already contributing revenue of $8 million, $3 million of which was in the last quarter, in FY2011.

- *Securities and Derivatives products*: There has been continued interest in our suite of exchange traded funds and our newer derivatives contracts, namely, CNX Nifty futures, FTSE China A50 futures and Nikkei225 options contracts. We also launched three new SGX-LME commodities futures contracts and completed the migration of Rubber and Coffee futures contracts onto the SGX platform.
- *Equity and Debt Listings:* We raised record IPO funds of $14 billion from 34 companies, including Global Logistics and Hutchison Port Holdings Trust. SGX also facilitated a record debt capital raising programme of $170 billion from 287 listings. Of note, SGX ranked 6th in the global IPO funds raised in the first half of 2011 compared to 16th position in 2010.
- *Membership*: We admitted a record number of 24 new memberships. These new members include: IIFL Securities (the first Indian member); SEB (the first Nordic member); Dot Commodity (leading commodities broker in Japan); GETCO Asia (global liquidity provider); and 11 local and international banks admitted for SGX OTC Financial Derivatives.
- *OTC Financial Derivatives:* We launched Asia's first clearing platform for OTC Financial Derivatives in November 2010 and have since cleared a notional value of $110 billion in Interest Rate Swaps.
- *Reach initiative*[5]: We launched the new SGX Data Centre and SGX Co-Location service successfully in April 2011. This Data Centre also allows us to offer ultra-low latency market data and access. We are pleased with the strong demand for SGX Co-Location service from our members and customers since the announcement in June 2010.

Market Development, Risk Management & Regulation

The launch of Reach, our new securities trading engine, will equip SGX with new functionalities and the ability to process a broader range of order types that help investors to manage their risks. Although the proposed ASX-SGX combination to create the premier international exchange in Asia Pacific did not come to fruition, we are heartened that the transaction raised SGX's visibility, thereby providing us with more new business opportunities.

We have made micro-market structural improvements in our Securities market, such as a reduction in minimum bid-ask spreads and the introduction of continuous all-day trading on 4 July and 1 August 2011, respectively. Implementation of enhanced risk management measures such as pre-trade risk execution and circuit breakers in the securities market are also underway.

The Global Financial Crisis has heightened the awareness of managing counterparty risks through a central counterparty clearing house. Given SGX's strong balance sheet, we are confident that our Securities and Derivatives clearing houses are well positioned to seize the growing opportunities arising from regulatory developments.

We introduced a new scalable CDP Clearing Fund structure to better align members' contributions with their clearing risk exposures in FY2011. In addition, members will need to pledge additional collateral with CDP for exposures exceeding their typical volumes. Our Derivatives Clearing Fund has also been augmented to support the launch of OTC Financial Derivatives, starting with Interest Rate Swaps, in November 2010.

SGX introduced a new Sustainability Reporting Guide for our listed companies on 27 June 2011. To further improve the corporate governance standards and disclosures of these companies, it sets out principles and guides companies in their sustainability reporting.

As part of our increased engagement to improve governance, in March 2011, we emphasized to the boards of SGX listed Chinese companies their responsibility to protect shareholder interests in two respects. First, the need to put in place controls to safeguard cash and other assets. Second, the need to incorporate in their Articles of Association the ability to appoint and remove legal representatives of key Chinese subsidiaries, subject to Chinese laws and regulations.

Outlook

In the near term, the market is expected to be affected by a variety of significant macroeconomic factors in Asia, Europe and the USA. These would inevitably impact the primary and secondary market activities globally. Nonetheless, we remain committed to introducing initiatives that will meet the diverse needs of our existing and new customers. We will build on our customers' trust and strengthen SGX's role as the Asian Gateway, the platform of choice to access Asia.

FINANCIAL PERFORMANCE

For a meaningful review of SGX's performance, our discussions on the financial results will exclude: (a) FY2011: ASX-SGX transaction-related costs of $19 million and gain from disposal of premises of $2 million; and (b) impairment adjustments in FY2010. All comparatives are on a year-on-year basis unless otherwise stated.

SGX recorded an underlying profit of $312 million ($318 million) and an operating margin of 57% (59%) in FY2011. This was achieved on the back of growing revenue and EBITDA of $661 million ($640 million) and $411 million ($405 million), respectively.

Expenses were 10% higher at $287 million ($261 million) mainly driven by Technology expenses on increased depreciation for new platforms and the implementation of the Reach initiative. This initiative was rolled-out starting with the new SGX Data Centre and launch of the SGX Co-Location service in April 2011.

Staff expense was down 3% to $107 million ($111 million) as the increase of base staff costs was more than offset by the reduction in variable bonus and a writeback of share-based compensation expense. Headcount was 590 (602) at 30 June 2011.

Cashflow generated from operations was $349 million ($375 million). Capital expenditure incurred in FY2011 was $57 million ($55 million), below the range of $60-65 million as previously announced, substantially relating to the Reach initiative. Going forward, the estimated capital expenditure for FY2012 is $40-45 million, mostly to enhance our Risk Management and Depository systems.

SGX's total equity was $824 million ($816 million) on 30 June 2011. The unrestricted cash reserves were $545 million ($537 million), including the proposed final dividend of $160 million ($168 million).

For FY2011, SGX's return on equity (ROE) was 38% (39%). On the back of the reported earnings per share (EPS) of 27.6 cents (30.1 cents), our Board of Directors has proposed a final dividend of 15 cents per share. Subject to shareholders' approval at the annual general meeting on 6 October 2011, this will bring the full year dividend to 27 cents per share or approximately 98% of FY2011's reported profit (27 cents and 90% payout).

PERFORMANCE REVIEW

Securities Revenue, 44% (46%) of SGX's revenue

Securities revenue was 2% lower at $289 million ($296 million).

The MSCI Singapore Index climbed 7% to 361. Although the average market volatility decreased to 13% (18%), our securities market recorded a higher level of activity with $1.6 billion ($1.5 billion) in SDAV which lifted Access Revenue to $59 million ($57 million). Reported off-market trades accounted for 6% (4%) of the overall securities market value traded in FY2011. Clearing Revenue was lower at $226 million ($237 million) due to reduced average clearing fees of 2.8 basis points (3.1 basis points) as the proportion of trades above $1.5 million continued to rise from 37% to 45%. Nonetheless, the increased institutional participation contributed to higher settlement revenue of our Depository business.

Our overseas listed companies made up 41% of the total listed companies. Trading value of the overseas companies accounted for 47% of the total securities market turnover, 12% of which comprised Chinese companies. Turnover velocity of the overseas (ex-Chinese) companies was 86% and for Chinese companies, it was 105%. These compared to an average velocity of 59% (66%) for the total market.

Interest in Exchange Traded Funds (ETFs) continued to gain traction as we expanded the suite to 84 issues (72 issues), covering different asset classes such as equities, fixed income, money market and commodities, including gold, as at 30 June 2011. Average daily trading value of ETFs was up 87% to $38 million ($20 million). The top five actively traded ETFs were: MSCI India 100; SPDR Gold; MSCI Asia ex-Japan; MSCI Indonesia and the China CSI300.

We have launched GlobalQuote – a quotation programme for American Depositary Receipts (ADRs) which are fully fungible with the US Depository Trust and Clearing Corporation – to facilitate the trading of a wider range of Asian-based products on our market. The cumulative trading value of the 28 ADRs of Chinese, Japanese and Korean companies quoted on our new GlobalQuote, since the launch in October 2010, was $315 million.

Derivatives, 21% (21%) of SGX's revenue

Derivatives revenue was 8% higher at $142 million ($131 million).

Derivatives volume was up 15% to a record 66 million (57 million) contracts[6], or average daily volume (DAV) of 266,782 (231,938) contracts, in FY2011. Average volatility of the underlying equity indices in FY2011 was at recent lows, except for the March and April period during the Japanese earthquake and tsunami aftershocks in 3Q FY2011. Futures & Options revenue increased by 5% to $106 million ($101 million) given that the majority of our contracts are denominated in the US-dollar which has weakened over the year. The average yield per contract was $1.61 ($1.77) largely due to the changing volume mix in our derivatives suite. During the year, we have expanded the suite with the SGX-LME metal futures contracts and SICOM contracts, namely Rubber and Robusta Coffee futures, now on the SGX platform.

DAV of our key Asian Gateway equity contracts registered higher volume in FY2011: Nikkei225 futures 119,298 (113,075); MSCI Taiwan futures 63,959 (63,727); CNX Nifty futures 49,966 (35,565); MSCI Singapore futures 15,125 (15,016); FTSE China A50 futures 7,297 (0); and, Nikkei 225 options at 4,981 (584) contracts. In particular, the relaunch of the FTSE China A50 futures and Nikkei 225 options saw initial success with encouraging volume pick-up. Market share of our main contracts improved year-on-year: Nikkei225 futures was 28% (26%) and CNX Nifty futures was 15% (10%), while the MSCI Taiwan futures remained steady at 24% (24%). The total interest rate futures volume traded was 812,628 contracts (850,320 contracts) in FY2011.

We are encouraged by the strong derivatives showing as it is a sign of early returns from our investments over the last three years. The upgrade of our derivatives trading and data engines, extending of trading hours, introduction of proximity hosting and more recently in April 2011 the co-location service coupled with our dedicated efforts to expand our membership and distribution network saw the entry of new customers. Prior to FY2009, high frequency trading (HFT) was minimal; but, HFT contributed to 29% (26%) of the overall derivatives volume in FY2011.

Structured warrants revenue was $4 million ($5 million) on an average daily trading value of $22 million ($29 million).

Interest income, license and other revenue was 29% higher at $32 million ($25 million) mainly driven by: improved collateral management revenue on the back of higher average collateral deposits and an improved yield; higher revenue from OTC Commodities Derivatives, as well as, revenue from OTC Financial Derivatives launched in November 2010.

In FY2011, we cleared OTC Financial Derivatives of $110 billion in notional value and OTC Commodities of 164,837 lots (124,829 lots), equivalent to a notional value of $23 billion ($15 billion).

Market Data, 5% (5%) of SGX's revenue

Market data revenue increased 6% to $32 million ($31 million) primarily due to increased subscriptions for securities price information. The average number of securities and derivatives terminals was 42,595 (38,129) and 23,790 (25,088), respectively, in FY2011.

Member Services and Connectivity, 6% (5%) of SGX's revenue

Member Services and Connectivity revenue was 23% higher at $39 million ($32 million).

Membership revenue was up 9% to $8 million ($7.5 million) as new members joined our markets. We are pleased to see the entry of members from new markets, including IIFL Securities (the first Indian member), SEB (the first Nordic member), GETCO Asia (a global market maker) and DOT Commodity (Japan's leading commodity broker). In addition, we also welcomed 11 local and global banks to our newly launched OTC Financial Derivatives business during the year.

Connectivity revenue was 27% higher at $31 million ($25 million) mainly driven by: an increase in connectivity subscription from existing and new members; and the first contribution from our new SGX Co-Location service. The average securities and derivatives connectivity subscriptions were 94 (78) and 613 (543), respectively, in FY2011. The SGX Co-Location service, which received strong interest from our members and customers, was successfully rolled out on 18 April 2011 after the opening of SGX Data Centre.

Depository Services, 14% (13%) of SGX's revenue

Depository revenue was up 11% to $91 million ($82 million).

Securities settlement revenue was 25% higher at $63 million ($51 million) on the back of increased institutional settlement instructions. Conversely, the lower retail participation in the securities market, by measure of the percentage of trades below $1.5 million, led to a reduction in contract processing revenue to $21 million ($25 million).

Issuer Services, 10% (10%) of SGX's revenue

Issuer Services revenue was up 3% to $66 million ($64 million).

Listings revenue was 5% higher at $39 million ($37 million) mainly driven by new bond listings. There were 34 (42) new companies, with record primary equity fund raising of $14 billion ($5 billion), listed on SGX Mainboard and Catalist in FY2011. The total secondary equity fund raising was $7 billion ($11 billion) during the year. On the fixed income side, 287 new bond issues (164 issues) – including eight retail bond and 16 RMB issues – were listed on SGX, for a total debt capital raising programme of $170 billion ($73 billion) in FY2011.

Appendix