

The Largest Market in Africa

As the largest African market, the South African exchange represents about 80% of the market capitalization of the continent. The exchange covers four different financial markets - equities, derivatives, agricultural derivatives, and interest rate instruments. Its partnership with the London Stock Exchange results in a modern trading platform and a potential to capitalize on its leadership position as the African markets develop.

Q: How has the Johannesburg Stock Exchange developed within the last 10 years?

A: The importance of and the trading volume on the JSE have grown dramatically over the last decade to reach monthly volume of about \$6 billion and market capitalization of \$800 billion. For comparison, 10 years ago the trading volume was only 10% of the current amount. Now the exchange in South Africa represents roughly 80% of the market capitalization of Africa, so it is the major African market.

Currently, a total of 1,103 securities including 390 listed companies trade on the exchange. The number of new listings has been steadily increasing from 8 IPOs in 2003 to 37 IPOs in 2006, so the interest towards the exchange continues to grow.

Q: What has been the main driver behind the new listings?

A: The growth of the economy in recent years has been creating a certain amount of wealth that is reflected on the stock exchange. We are actively

looking for new companies that qualify for listings throughout the country, regardless whether they are large or small. Our active policy has been the main driver of the new listings.

In addition to the companies listed on the main board, we have also developed the Alternative Exchange, a market known as AltX, for quality small to medium companies. That market is now four years old and is very active.

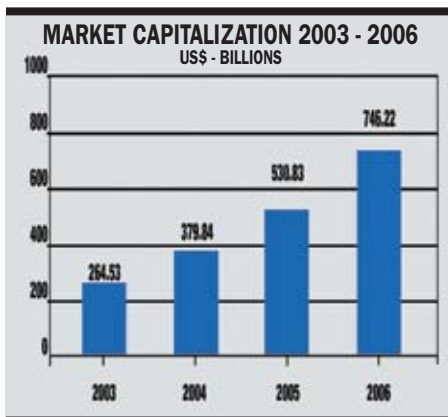
The JSE has also operated a single stock futures market since 2001, which is now the largest such market in the world. 2001 was the year we acquired the business of SAFEX, or the South African Futures Exchange. The JSE retained the SAFEX branding.

Q: How is the local economy reflected on the exchange? What are the main industries listed?

A: The stock exchange in South Africa has existed since 1887, when the discovery of gold led to a boom in mining and finance, and respectively, to demand for a stock exchange. Although



HUMPHREY BORKUM is Chairman of Merrill Lynch South Africa and Chairman of the JSE Limited. His extensive experience in South Africa's financial markets started when he joined Davis Borkum Hare and Co—co-founded by his father Max Borkum—as an unauthorised clerk on the floor of the JSE in 1965. Borkum became a dealer in 1966, covering all sectors of the market. He became a member of the JSE in 1968 and a director of Davis Borkum Hare in 1970. Borkum ran the Corporate Finance department of the firm for 20 years.



resources are still very important for the economy, South Africa also has well-developed energy, financial, communications, tourism, and services sectors.

In the last decade, the economic growth has helped to lower unemployment and to increase the investments. At the start of 2000, the restrictive labor laws were relaxed and privatization was undertaken.

Currently, construction is among the major industries on the stock exchange because there's huge spending on construction in South Africa. But the stock exchange is well diversified in terms of industries as it includes also mining, consumer industries, etc. We have a resource-based economy, and as you

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are well aware, there is a resource boom around the world, which helps drive the exchange as well.

Q: What is your policy for attracting international investors?

A: We work with exchanges around the world to encourage dual listings of companies. Currently we have dual listings mainly with the London Stock Exchange and some with the Toronto Stock Exchange. I think that given the resource boom, it is only a matter of time before we attract more dual listings. There are a number of companies in Canada and Australia, which start to look at the possibility of being listed in South Africa.

We also do international road shows both in the U.S. and in Europe to popularize the South African market, and more importantly, we do our best to address the needs of investors, both foreign and local, for efficiency of trading, fast settlement, and transparency.

Q: What is the size of the brokerage community in South Africa? How is the market distributed between retail and institutional investors?

A: We have four different groups of members: 52 equity members, 119 equity derivative members, 83 agricultural product members, and 45 fixed interest members. There is a certain overlap between those groups as some people are members of all four sectors. The brokerage community has grown probably by about 30% over the last couple of years.

Our investor base is largely institutional, with about 80% of the activity in our markets undertaken by institutions. The participation on the retail level is very small and we are spending a lot of time on road shows to educate the general public about the opportunities the stock market presents.

Q: What is the reason for the low participation of retail investors, in your opinion?

A: There isn't a large savings base to invest. Historically, South Africa has gone through tremendous inflation that has limited the savings. Only in the last say 5 to 10 years we managed to get inflation under control.

But probably 90% of the population is indirectly investing on the market through pension funds. We have a compulsory pension scheme and anyone who is employed in this country dedicates a certain amount of his or her salary for a pension. Most pensions get invested via the institutions into the markets.

However, if you ask a man on the street if he has investments on the stock exchange, he probably wouldn't know what you are talking about. But he would agree that he has an investment in a pension fund, so the exposure is very indirect.

Q: What trading platform do you use?

A: Due to our excellent working relationship with the London Stock Exchange, we use the same trading platform. In May 2002, we moved to JSE SETS, a version of the London Stock Exchange platform LSE SETS, which is a world-class trading platform. In addition, the LSE provides the JSE with the data dissemination system InfoWiz.

When you make a deal on the Johannesburg Exchange, that deal is executed live on the London Exchange, and comes back to us matched in microseconds. Also, every time a trade is executed on the London Stock Exchange, it is reflected here as well. But at the moment it's much less expensive for us to use the LSE's trading platform than to develop our own trading platform. In London, they have scale and vast technology resources to handle their requirements.

The front-end technology for JSE SETS is provided by GL Trade, while for settlement we use Strate, which is an electronic settlement and depository system for dematerialized equities. It dispenses with paper certificates and the risk associated with paper settlement, and has been rated amongst the top five systems in the world.

In a nutshell, we provide fully electronic trading, clearing and settlement in equities, financial and agricultural derivatives, and other associated instruments. We also have extensive surveillance capabilities and provide financial information. More importantly, we hope to extend our technological base to other markets in the African region, and thus encourage the growth of markets across Africa.

Q: Is there demand for online trading despite the small number of retail investors?

A: Yes, although it is meager. There are a number of brokers who provide electronic trading and direct access to the market. We encourage electronic trading to the extent that we can. We help the local banks in advertising their services, so there is a mutual push in that respect.

The JSE is currently embarking on a major technology upgrade, and after its completion, we will have access to the data. Currently, we are only able to estimate that a fair portion of retail trade occurs online.

Q: In the last couple of years there have been many mergers or affiliations of stock exchanges globally. Do you see the South African exchange as a leader in the consolidation of the African market?

A: We are actively talking to other exchanges in Africa without any success at the moment, but who knows what tomorrow might bring? We keep working in that direction.

Q: How has been the derivative side of the exchange developing? Also, have trading costs come down over the last 5 or 10 years?


A: There is dramatic growth on the derivative side that doesn't seem to stop. The growth has been exponential in futures, driven by the ability to hedge positions.

The trading costs have come down and we continue to gradually lower them further. In fact, a couple of months ago, we cut our costs by about 0.2%. In the past 5 years trading costs have come down probably by about 30% to 40%.

Q: Is it possible that you face future competition from a new exchange or a trading system?

A: Yes. Currently, we are a monopoly only because we provide all the necessary services, but anyone can apply for permission to open a new exchange if he fulfils all the requirements of the regulator. The requirements are mainly along the lines of surveillance and transparency. Once every 18 months, I hear about a new exchange planned, but then the interest seems to disappear after they calculate the costs and the work involved. The barriers to entry are high, I guess.

Q: When you travel around the world with the road shows, what are the main questions that you keep hearing?

A: South Africa used to have a withholding tax and an exchange control, and those are still the main concerns. We are being asked all the time if those are still in force. The truth is that they have been abolished years ago, but it takes a long time for the information to filter through. Currently, there is no tax on dividends and on capital gains, which is an important advantage. 



Johannesburg Stock Exchange

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JSE INFORMATION

Members of the Exchange	N/A
Trading Sessions	08:35 - 17:00
Official Index	JSE All Share Index
Index Return - 2006	37.68%

MARKETS & SEGMENTS

Tradable Instruments	Equities, Bonds, Derivatives, Agricultural Futures, Currency Futures
Number of Tradable Issues	1,092
Number of Listed Companies	400

MARKET PERFORMANCE

Total Market Cap*	US\$711.2
Mkt Cap Change in 2006	29.48%
Annual Turnover - 2006*	US\$312.2
Turnover Change in 2006	48.90%

KEY EXECUTIVES

Chairman of JSE	Humphrey Borkum
CEO of JSE	Russell M Loubser

*billions

Data through: 09/30/07

Source: JSE

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