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Topic 1: Features of rolling instalments

Like other instalments, rolling instalments involve a first payment and a final payment (loan amount).

But they tend to be longer dated (up to 15 years) and the final payment (loan amount) can be reset at regular intervals. These reset dates are 12-18 months apart.

Instead of switching from one instalment into another, you continue to hold the one instalment.

On each reset date, the issuer adjusts the final payment and specifies the funding cost for the next period. Before the reset date, the issuer sends you a notice detailing the adjustment and the applicable interest and fees.

Depending on the circumstances you may be issued with more instalments or be required to sell some of your holding back to the issuer.

Another possibility is that the rebalancing at reset will involve a payment of cash from the issuer to holder or vice versa.

Generally, the aim of this rebalancing at the reset date is to restore the rolling instalment's gearing to its original level.

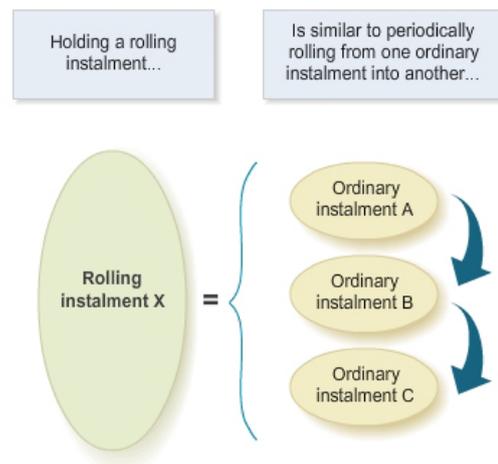
How is the final payment adjusted on the reset date?

The adjustment to the final payment, and the resulting cash flow, depends on how the share price has moved since the last reset:

- If the share price has risen, the final payment is likely to be increased, leading to a payment by the issuer to the holder.
- If the share price has fallen, the final payment is likely to be reduced, leading to a payment by the holder to the issuer.

The holder must pay funding costs for the period until the next reset. The net cashflow takes into account both the adjustment to the final payment and the funding costs.

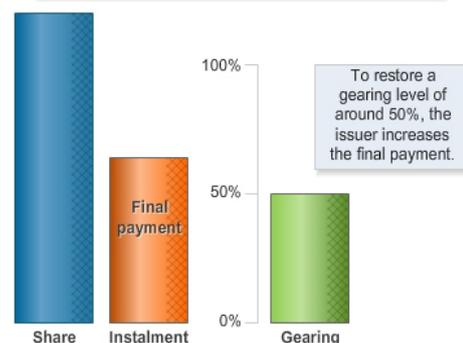
Cashflow examples are given in Topic 3.



Final payment reset to maintain level of gearing

At the time of issue, the final payment may be around half the underlying share price - a gearing of about 50%.

Over time, as the share price rises, the final payment is a much lower proportion of the share's value, and the gearing of the instalment falls.



Share price	Final payment
↑	↑

...and a payment by the issuer to the holder.



An increase in the share price between reset dates will lead to an increase in the final payment

Share price	Final payment
↓	↓

...and a payment by the holder to the issuer.



A decrease in the share price between reset dates will lead to a decrease in the final payment

Choices at reset date

Approaching the reset date, you have a choice;

Exercise the instalment

You can make the final payment and receive the shares.

Roll into the next period

You can roll into the next period. Depending on the adjustment to the final payment, and the amount due in funding costs for the next period, you may be required to make a payment to the issuer. Alternatively, you may be due an amount from the issuer.

Cash out the instalment

You can 'cash out' the instalment. The issuer will pay you the instalment's intrinsic value.

Choices at reset date (continued)

Sell the instalment

At any time, you can sell the instalment through your broker. To avoid the reset of the loan, you must do so before the reset date.

Take no action

If you take no action, your holding will automatically be rolled into the next period.

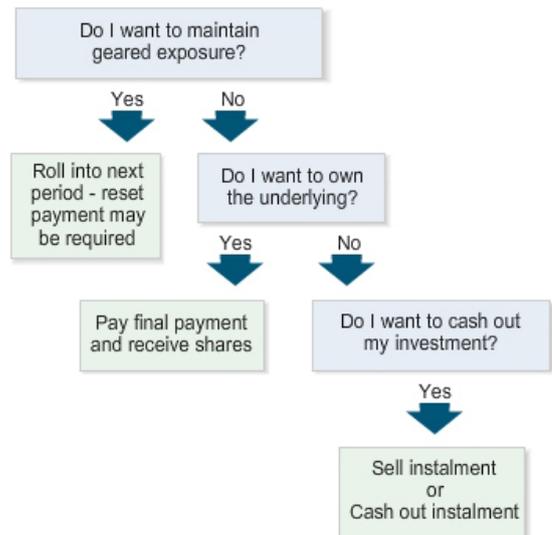
Taking no action does not necessarily produce the same result as choosing to roll into the next period. For example, if you are required to make a payment to the issuer as a result of the reset, the issuer may terminate some of your instalments and use the proceeds to pay that debt.

Choices at expiry

Expiry occurs at the end of the rolling instalment's term. Your choices are similar to reset however unlike at reset the particular rolling instalment will cease to exist after expiry.

You can:

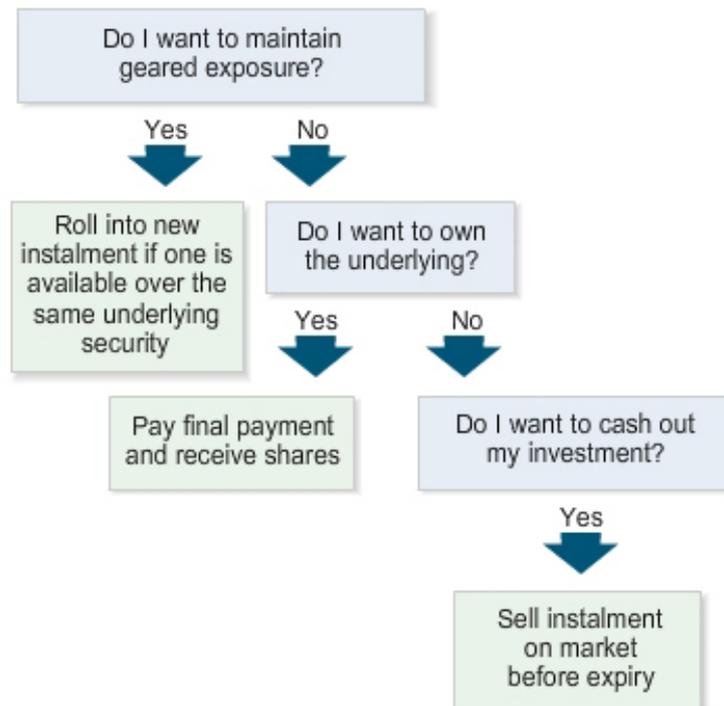
- Sell them on market before they expire
- Take delivery of the shares by paying the final payment to the Issuer (the payment may be higher or lower than when you initially bought the warrants)



Rolling instalments	
Term	5 - 15 years at time of issue
Dividends and franking credits	Received by holder
Gearing	Regular geared or highly geared
Final payment	Periodically reset to default gearing level
Funding costs	Charged on the reset date
ASX code	Fourth letter 'I', or 'D' during the reset period

- Convert your existing holding into a new series of rolling instalments (you may be required to make or be eligible to receive a payment on conversion)

The PDS for the Instalments you hold will provide details on how to take any of these actions.



Topic 2: Selecting a rolling instalment

How to buy and sell rolling instalments

You can buy a rolling instalment in the same way you would buy an ordinary instalment.

Rolling instalments can be bought direct from the issuer via:

- Cash application
- Shareholder application, or
- Rollover application.

You can also buy and sell rolling instalments on ASX through your stockbroker the same way you do shares.

Self managed super funds are able to buy rolling instalments by any of these methods, except the shareholder application method.

As with all instalments, you are under no obligation to make the final payment.

	Investor	SMSF
Direct from issuer	Cash application	✓
	Rollover application	✓
	Shareholder application	✗
	Purchase on ASX	✓

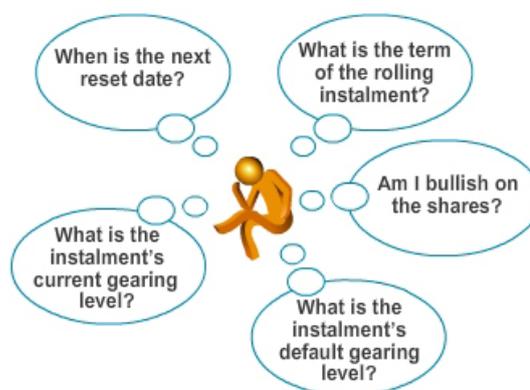
Selecting a rolling instalment

Rolling instalments may be an investment consideration if you are looking for long term exposure, and want to maintain your gearing at a reasonably constant level.

One of the most important factors to consider is the level of gearing. Before you buy a rolling instalment, check the Product Disclosure Statement (PDS) for the default gearing level.

This may be different from the current level of gearing, especially if the price of the underlying has changed significantly since the previous reset date.

In these circumstances, there may be a large adjustment to the final payment at the next reset date.



Rolling instalment codes

The six-letter ASX [warrant code convention](#) does not distinguish between ordinary instalments and rolling instalments. The fourth letter of the code, which identifies warrant type, is the letter 'I'.

During the reset period, the fourth letter of the rolling instalment code temporarily changes to the letter 'D', and the instalment will settle on a deferred settlement basis.

N A B I H Q

Fourth letter of warrant code identifies that the warrant is an instalment.

Check the disclosure document to ascertain whether this is an ordinary instalment or a rolling instalment

Each issuer can provide you with details of its rolling instalments, and you can also check the range of available instalments by [searching on the ASX website](#).

Monitoring the performance of your rolling instalment

You can check the price of your instalment on the [ASX website](#), the [warrant issuer's website](#), or your broker's website.

The issuer may publish an 'indicative pricing matrix'. This is a matrix that sets out the price the instalment may trade at on ASX, given various prices of the underlying stock on that day. These prices are not guaranteed, and are indicative only.

AGKIZR		
Exercise Price:		\$5.75
Type:		Instalment
Expiry:		Dec 03, 2009
Conversion Ratio:		1
Delta:		0.9743
Stock Price:	Bid:	Offer:
1325	800.6	801.1
1330	805.5	806.0
1335	810.4	810.9
1340	815.3	815.8
1345	820.1	820.6
1350	825.0	825.5
1355	829.9	830.4

Topic 3: How the reset mechanism works

Before each reset date, the issuer reviews the final payment (loan amount), and determines the new final payment and funding costs for the period until the next reset date.

The intention is to keep the relation of the final payment to the price of the underlying at a level similar to that which existed at the date of issue. Issuers will also factor in interest rates, volatility, price movement of the underlying when determining the new final payment for the next reset period.

Cash payment versus adjustment of warrant holding

Adjustment at reset time usually involves:

- the holder being issued with more rolling instalments, or
- the holder selling back some of their holding to the issuer

Holders may request that adjustment be done by cash payment. Cash transfers may have tax implications

Example

Assume you have bought rolling instalments over XYZ shares. The PDS specifies a default gearing level of 50%.

What can you expect to happen if?

- The underlying share price rises strongly
- The underlying share price falls or remains steady
- The underlying share price rises enough to cover the next period's interest and borrowing fees.

Scenario 1 - share price has risen strongly

As the share price has risen, the instalment is now geared at less than 50%.

To restore the gearing level the issuer may increase the final payment.

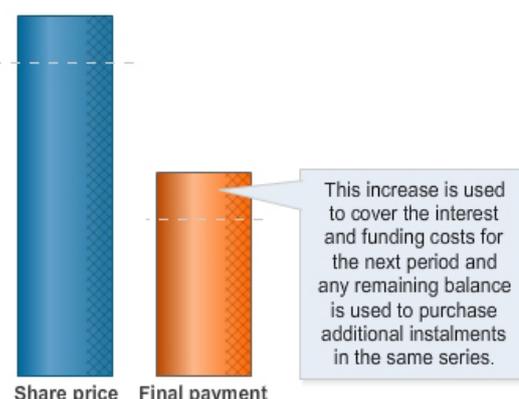
If this increase is greater than the next period's interest and funding costs then the issuer will use the difference to purchase additional rolling instalments in the same series to the value of the surplus. (Assuming the holder is not exercising their instalment).

At the time of issue, the instalment is geared at 50%.



As the share price has increased...

the issuer increases the final payment on the reset date...



The issuer may offer an alternative, with the amount that would be used to purchase the additional instalments paid in cash. There may be restrictions on the use of this cash for business or investment purposes only and this option may be at the discretion of the issuer.

Scenario 2 - share price has fallen or not risen significantly

If the share price of the underlying falls, the final payment needs to be reduced in order to return to the original gearing level.

When the final payment is reduced, stays the same or has not risen significantly to cover the interest and funding costs of the next period, you may be asked to make an additional payment to the issuer.

If a roll over payment is due you may either sell a number of your rolling instalments to cover the outstanding costs or request to pay the issuer in cash.

Scenario 3 - share price rises enough to cover the interest and funding cost

If the share price rises enough to enable the loan amount to be increased by a sufficient amount to cover the interest amount and borrowing costs you will not have to take any action.

In this case the issuer will cover the payment of your cost and there will be no cash back or payment made by either party.

