GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

LEVEL 6
1 COLLINS STREET
MELBOURNE VIC 3000
T: +61 3 9949 8800 / F: +61 3 9949 8838
www.grantsamuel.com.au

23 March 2007

The Directors
ETRADE Australia Limited
Level 7, 10 Bridge Street
SYDNEY NSW 2000

Dear Directors

Takeover Offer by Australia and New Zealand Banking Group Limited

1 Introduction

On 19 February 2007, Australia and New Zealand Banking Group Limited ("ANZ") announced its intention to make a takeover offer for all the ordinary shares in ETRADE Australia Limited ("ETRADE") that it does not already own ("the ANZ Offer"). The consideration under the ANZ Offer is $4.05 cash per ETRADE ordinary share. The offer will be made through ANZ's wholly owned subsidiary ANZ Online Holdings Pty Limited. On that date, the independent directors of ETRADE[1] announced that, in the absence of a superior proposal and subject to an independent expert concluding that the offer is fair and reasonable, they would unanimously recommend that ETRADE shareholders accept the offer.

The ANZ Offer remains subject to a number of conditions which are set out in full in the Bidder's Statement by ANZ. In summary, the key conditions are that:

- ANZ obtains a relevant interest in at least 90% of ETRADE's issued shares;
- ETRADE Financial Corporation does not exercise its right to terminate its licence to ETRADE which covers the brand, technology and associated services;
- ETRADE does not undertake any material acquisitions or disposals, or enter into any new material commitments; and
- the S&P/ASX 200 Industrials (Sector) Index does not close below 5,855 on three or more consecutive trading days.

ANZ is one of the largest companies in Australia and New Zealand and a major international banking and financial services group, ranking among the top 50 banks in the world. It is listed on the Australian Stock Exchange ("ASX") and has a market capitalisation of approximately $54.0 billion.

ANZ had a relevant interest in 34.2% of the ETRADE shares at the date of the ANZ Offer. Accordingly, under Section 640 of the Corporations Act, 2001 ("Corporations Act"), ETRADE's Target's Statement must be accompanied by an independent expert's report in relation to the ANZ Offer.

The directors of ETRADE not associated with ANZ ("the independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out Grant Samuel's opinion as to whether the ANZ Offer is fair and reasonable. Grant Samuel is independent

[1] The independent directors of ETRADE comprises Kerry Roxburgh, James Dominguez, Ian Hunter and Brett Spork. This group excludes John Harries and Geoff Cohen who were nominated to the ETRADE board by ANZ and are executives of ANZ, and Jarrett Lilien who was nominated by ETRADE Financial Corporation and has since resigned from the board.

of ETRADE and has no other involvement with, or interest in the outcome of, the ANZ Offer. A copy of the report is to accompany the Target's Statement issued by ETRADE in relation to the ANZ Offer. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Summary of Opinion

Evaluation of the ANZ Offer is not straightforward. Judgements regarding the value of ETRADE are subject to considerable uncertainty. There is limited relevant valuation information from which to draw firm conclusions as to value. ETRADE has experienced strong earnings growth in recent years, but its profitability is highly leveraged to the strength of the Australian and (indirectly) international equity markets. There is no guarantee that recent favourable equity market conditions will continue. Crucially, valuation of ETRADE requires an assessment of the synergy benefits potentially available to acquirers of ETRADE, and the extent to which potential acquirers are likely to pay for those synergy benefits. This assessment is essentially subjective.

Grant Samuel has valued ETRADE in the range $4.22-4.74 per share. The valuation range reflects ETRADE's track record of strong earnings growth, its strategically attractive position and the significant synergies potentially available to acquirers of ETRADE.

The ANZ Offer of $4.05 is below the bottom end of the valuation range for ETRADE of $4.22-4.74 per share. Nonetheless, in Grant Samuel's view, there are reasons to consider accepting the ANZ Offer. Given ANZ's 34.2% shareholding in ETRADE, there appear to be limited prospects of a higher cash offer from a third party. The ANZ Offer provides certain cash value at a price well above ETRADE's pre-bid share price. In the absence of the ANZ Offer, ETRADE shares are likely to trade below the offer price, although any expectation of some corporate transaction may provide share price support.

The fundamental question for ETRADE shareholders is whether to accept the ANZ Offer or to reject the ANZ Offer on its current terms with a view to securing a higher offer from ANZ. Since the announcement of the ANZ Offer, ETRADE shares have traded consistently above the offer price, with a weighted average share price (up to 21 March 2007) of $4.20. Caledonia Investments Pty Limited, which is ETRADE's largest shareholder (other than ANZ), has acquired an additional 2.5 million ETRADE shares (representing approximately 2.5% of ETRADE's shares on issue) at an average acquisition price of $4.18 per ETRADE share, and now holds 11.97%. IWL Limited ("IWL"), a wholesale provider of online broking services, has announced that it has acquired a strategic holding in ETRADE shares and that it does not presently intend to accept the $4.05 offer.

It appears unlikely that ANZ will be successful in acquiring 100% of ETRADE at the current offer price. In Grant Samuel's view, the acquisition of ETRADE potentially offers significant benefits to ANZ. In these circumstances, it is realistic to anticipate that ANZ may increase its offer price. Certainly, the prospects of securing a higher offer will diminish if there are significant acceptances of the ANZ Offer. On balance, Grant Samuel believes that shareholders would be justified in not accepting the ANZ Offer. Accordingly, in Grant Samuel's view, the ANZ Offer is neither fair nor reasonable.

ETRADE shareholders should understand that there are risks involved in not accepting the ANZ Offer. Rejection of the ANZ Offer on the basis that ANZ may increase its offer effectively represents an attempt to extract a share of the synergistic or other strategic value for ANZ that would not be available to ETRADE on a standalone basis. However, ANZ has suggested that it does not expect to obtain substantial synergies from acquiring ETRADE. There can be no guarantee that ANZ will increase the offer price. In the absence of the ANZ Offer, the ETRADE share price will almost certainly fall, and probably to levels below the offer price. Moreover, ETRADE's strong share price performance reflects in part the strong performance of the Australian and international equities markets. Recent share price volatility in both the Australian and offshore markets demonstrates that there can be no certainty as to future trading conditions in equity markets. A prolonged and significant downturn in equity markets could materially reduce ETRADE's profitability and value.

3 Key Conclusions

- **Grant Samuel has valued ETRADE in the range $4.22-4.74 per share.**

  ETRADE has been valued in the range of $4.22-4.74 per share. The valuation is summarised below:

ETRADE – Valuation Summary ($ millions)		
	Value Range	
	Low	High
ETRADE operating business	410.0	460.0
Other assets and liabilities	13.0	15.0
Enterprise value	**423.0**	**475.0**
Net cash as at 28 February 2007	1.2	1.2
Value of equity	**424.2**	**476.2**
Fully diluted shares on issue (millions)	100.5	100.5
Value per share	**$4.22**	**$4.74**

The value of ETRADE has been assessed by estimating the market value of ETRADE's business operations and other assets and deducting external borrowings. The valuation represents the estimated full underlying value of ETRADE assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which Grant Samuel would expect ETRADE shares to trade on the ASX in the absence of a takeover offer or a similar transaction.

ETRADE's operating businesses have been valued at $410-460 million by reference to the multiples of EBITDA, EBIT and net profit after tax implied by the valuation. The valuation represents the following multiples of earnings:

ETRADE – Implied Valuation Parameters			
	Variable ($ million)	Value Range	
		Low	High
Multiple of EBITDA			
Year ended 30 June 2006 (reported)	18.0	22.7	25.5
Year ending 30 June 2007 (broker forecast)	31.0	13.2	14.8
Multiple of EBIT			
Year ended 30 June 2006 (reported)	16.9	24.3	27.3
Year ending 30 June 2007 (broker forecast)	26.0	15.8	17.7
Multiple of net profit after tax			
Year ended 30 June 2006 (reported)	19.9	21.4	24.0
Year ending 30 June 2007 (broker forecast)	24.0	17.7	19.8
Year ending 30 June 2007 (broker forecast adjusted)[2]	18.2	23.3	26.2

The multiples of 2006 earnings are of limited relevance, given that ETRADE's acquisition of the HSBC Stockbroking online business in June 2006 has materially increased ETRADE's profitability. ETRADE has not provided Grant Samuel with earnings forecasts for the year ending 30 June 2007. Instead, ETRADE has provided Grant Samuel with unaudited earnings for the eight months to 28 February 2007, the company's original budgets for the four months to 30 June 2007 and other information the company believes relevant to an assessment of ETRADE's underlying performance for the year to 30 June 2007. Having regard to the actual results for the eight months to 28 February 2007, the budgeted earnings for the four months to 30 June 2007 and the other information provided by ETRADE, it appears reasonable to expect that ETRADE's earnings for the year to 30 June 2007 will be sufficiently close to recent projections by the only broker that issues

[2] Net profit after tax has been adjusted to include a full year of income tax at the corporate rate of 30%. ETRADE expects to pay only a small amount of income tax in the 2007 financial year due to the utilisation of tax losses.

research reports on ETRADE ("broker forecasts") to be useful for analytical purposes. Accordingly, for the purpose of its valuation, Grant Samuel has adopted the broker forecasts of ETRADE earnings for 2007.

The valuation represents relatively high multiples of forecast 2007 EBITDA and EBIT. Grant Samuel believes that the multiples are reasonable, having regard to ETRADE's strong market position and the significant synergies that should be available to acquirers of ETRADE.

- **ETRADE has developed an attractive online broking business.**

  ETRADE has developed an attractive online broking business, and is the second largest online broker in Australia. It currently has a market share of around 26% of the online broker market, behind Commonwealth Securities Limited ("CommSec"), a wholly owned subsidiary of the Commonwealth Bank of Australia Limited, which has an estimated market share of 54%. ETRADE's market position was cemented by the acquisition of HSBC Stockbroking in June 2006, which provided ETRADE with access to an additional pool of around 40,000 retail customers. The only other significant market participant in the Australian online broker market is IWL, which essentially acts as a wholesaler. IWL, through its wholly owned subsidiary, Australian Investment Exchange Limited, provides wholesale stockbroking services for clients including Westpac Banking Corporation and National Australia Bank Limited, which rebadge IWL's product under their own brandnames.

  Whilst continuing to focus on its core broking activities, ETRADE has diversified its product offering to include a variety of non-broking activities and products. ETRADE intends to continue to grow its non-broking business, which will generate additional revenues and earnings and also reduce the exposure of ETRADE to the performance of the stockmarket.

- **Valuation of ETRADE is subject to considerable uncertainty.**

  Valuation of ETRADE is subject to considerable uncertainty, for a number of reasons:

  - while Grant Samuel's valuation of ETRADE's operating business represent earnings multiples that Grant Samuel believes are reasonable, there are no closely comparable listed companies or comparable transactions on which to benchmark the valuation;

  - ETRADE's financial performance is dependent on, and highly sensitive to, trading volumes on the ASX, which in turn depend on investor confidence, the performance of the Australian and international equity markets, and other factors beyond the control of ETRADE. Material changes in such factors can occur rapidly and with little or no warning, with potentially significant adverse impacts on the financial performance and prospects of ETRADE. In recent years, the ASX has largely enjoyed buoyant market conditions. Future market conditions and investor sentiment are inherently difficult to predict and there is no certainty that current conditions will continue;

  - ETRADE's earnings are potentially volatile as a result of the operating leverage inherent in the business. A large proportion of operating costs are fixed and, accordingly, changes in trading volumes could have a material impact on earnings and cash flows. Moreover, ETRADE's customer base (largely comprised of retail investors) is likely to be particularly sensitive to changes in market conditions and overall investor sentiment;

  - the inherent volatility of the stockmarket means that it is difficult to prepare forecasts for ETRADE, even for the short term; and

  - the level of cost and revenue synergies available to ANZ and other prospective purchasers from the acquisition of ETRADE could potentially be substantial. However, judgements regarding the magnitude of these synergies and the extent to which they should be reflected in a valuation are to some extent arbitrary.

- **There are likely to be substantial synergies available to prospective purchasers of ETRADE.**

  The valuation of ETRADE is prepared on the basis that 100% of ETRADE is available to be acquired. It takes into account the significant cost and revenue synergies that would be available to any acquirer with a significant banking business in Australia. ETRADE management has estimated that ANZ could possibly achieve cost synergies of approximately $8.4 million (pre-tax). There will clearly be savings in relation to costs associated with ETRADE's operation as a listed company. Savings should also be available in relation to information technology and telecommunications costs, the finance function, human resources, marketing and other overheads. In addition, there are opportunities for significant revenue synergies. Listed brokers in the United States have developed substantial non-broking banking businesses, including in relation to retail deposits, margin lending and other broking related products. There is an opportunity for an acquirer of ETRADE with significant Australian banking operations to develop similar businesses, leverage the ETRADE brand name and cross-sell retail banking products to the ETRADE client base.

There are risks and uncertainties associated with the estimation of synergy benefits, particularly in relation to revenue synergies. In Grant Samuel's view, it seems reasonable to assume that total synergies in the broad range $10-15 million could be available to potential acquirers with a significant banking business in Australia. These would represent around 25-50% of ETRADE's current year EBITDA. Of course, potential acquirers are unlikely to be willing to pay for all these synergies. In practice, ETRADE shareholders could only expect to share in a significant proportion of the available synergy value in the context of a competitive bidding process for the company.

Despite the apparent availability of synergies as estimated by ETRADE management, ANZ has indirectly suggested that it does not expect to realise significant synergies. ANZ has indicated in its Bidder's Statement that it intends to operate ETRADE as a discrete business. Subject to an internal review of ETRADE, ANZ expects that there will be few, if any, redundancies of ETRADE employees. However, ANZ has made no explicit public statement as to the short and longer term synergies that it expects to realise from acquiring ETRADE. Grant Samuel believes that ANZ would not be bidding if it did not see value in ETRADE above the current bid price.

- **Premium analysis is not conclusive.**

  The ANZ Offer represents a premium of 17% to the one month volume weighted average share price prior to announcement of the ANZ Offer. This premium is lower than the premium usually paid in successful takeovers. On the other hand, the ETRADE share price in the weeks prior to the announcement of the ETRADE Offer on 19 February 2007 appears to have been affected by takeover speculation, with the share price increasing by almost 10% over the fortnight before the announcement of the ANZ Offer.

  ETRADE announced on 11 January 2007 that the integration of its HSBC Stockbroking acquisition had progressed well and that its unaudited EBITDA for the six months to 31 December 2006 was expected to be at least 75% higher than the EBITDA for the corresponding six month period in the prior year. The ETRADE share price strengthened after the announcement, and ETRADE shares generally traded in the range $3.30-3.40 for the remainder of January 2007 (although trading may have been affected by takeover speculation in the media). Relative to this trading range of $3.30-3.40, the ANZ Offer price of $4.05 represents a takeover premium of 19.1-22.7%, which is somewhat lower than the takeover premiums generally paid in successful takeovers.

  The reality is that the takeover premium analysis is not conclusive. It is not possible to distinguish between the various factors that affected the ETRADE share price during early 2007 and there is no "pure" reference price against which to calculate the premium being offered. In any event, the magnitude of the premium is of only limited relevance to an assessment of the ANZ Offer. The premium that ETRADE shareholders could expect to realise is a function of the underlying value of the company and its attractiveness to potential acquirers, rather than determinative of value.

- **The ANZ Offer is not fair.**

  The ANZ Offer of $4.05 per share is below Grant Samuel's estimate of the full underlying value of ETRADE. Accordingly, the ANZ Offer is not fair.

- **The ANZ Offer is not reasonable.**

  A takeover offer can be reasonable, even if it is not fair, if there are circumstances that suggest that shareholders are unlikely to realise full underlying value and would be better off accepting the offer than not.

  The ANZ Offer represents a premium to ETRADE's pre-announcement share price. On the other hand, the ANZ Offer is below the bottom end of Grant Samuel's valuation range of $4.22-4.74 per share and the ETRADE trading range since the announcement of the ANZ Offer (to 21 March 2007) of $4.11-4.34.

  The fundamental question for ETRADE shareholders is whether to accept the ANZ Offer or to reject the ANZ Offer on its current terms with a view to securing a higher offer from ANZ. Since the announcement of the ANZ Offer, ETRADE shares have traded consistently above the offer price, with a weighted average share price (up to 21 March 2007) of $4.20. Caledonia Investments Pty Limited, which is ETRADE's largest shareholder (other than ANZ), has acquired an additional 2.5 million ETRADE shares (representing approximately 2.5% of ETRADE's shares on issue) at an average acquisition price of $4.18 per ETRADE share, and now holds 11.97%. IWL has announced that it has acquired a strategic holding in ETRADE shares and that it does not presently intend to accept the $4.05 offer.

  It appears unlikely that ANZ will be successful in acquiring 100% of ETRADE at the current offer price. In Grant Samuel's view, the acquisition of ETRADE potentially offers significant benefits to ANZ. In these circumstances, it is realistic to anticipate that ANZ may increase its offer price. Certainly, the prospects of securing a higher offer will diminish if there are significant acceptances of the ANZ Offer. On balance, Grant Samuel believes that shareholders would be justified in not accepting the ANZ Offer. Accordingly, in Grant Samuel's view, the ANZ Offer is neither fair nor reasonable.

- **While Grant Samuel believes that, on balance, shareholders would be justified in not accepting the ANZ Offer, shareholders should understand that this is not without risk.**

  Investors should understand that there can be no certainty that a superior alternative offer for ETRADE will be forthcoming in the event that the ANZ Offer is unsuccessful. Whilst IWL has indicated that it has acquired a significant shareholding in ETRADE (although less than 5%) and is considering the formulation of an alternative proposal for ETRADE, there is no certainty that IWL will make a superior counter offer for ETRADE. IWL is a significantly smaller company, with a market capitalisation of around $260 million by comparison with ETRADE's current capitalisation of over $420 million. The strategic fit between ETRADE and IWL has still to be demonstrated. In any event, any counter-proposal seeking to acquire 100% of ETRADE could only proceed with the approval of ANZ, given its 34.2% interest in ETRADE. The ETRADE share price rose following the announcement that IWL had acquired its shareholding. On one view the IWL share acquisition is more likely to be a blocking stake than the foundation of a superior alternative offer, and may even reduce the prospects of a successful higher cash offer.

  Rejection of the ANZ Offer on the basis that ANZ may increase its offer effectively represents an attempt to extract a share of the synergistic or other strategic value for ANZ that would not be available to ETRADE on a standalone basis. However, ANZ has suggested that it does not expect to obtain substantial synergies from acquiring ETRADE. There can be no guarantee that ANZ will increase the offer price. In the absence of the ANZ Offer, the ETRADE share price will almost certainly fall, and probably to levels below the offer price.

  Moreover, ETRADE's strong share price performance reflects in part the strong performance of the Australian and international equities markets. Recent share price volatility in both the Australian and offshore markets demonstrates that there can be no certainty as to future trading conditions in equity markets. A prolonged and significant downturn in equity markets could materially reduce ETRADE's profitability and value. A decision to reject the ANZ Offer means that shareholders may be exposed to this equities market risk.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual ETRADE shareholders. Because of that, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by ANZ and the Target's Statement issued by ETRADE in relation to the ANZ Offer.

Acceptance or rejection of the ANZ Offer is a matter for individual shareholders, based on their own views as to value and expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the ANZ Offer should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

ETRADE Australia Limited

Financial Services Guide
and
Independent Expert's Report
in relation to the Takeover Offer by Australia and New Zealand Banking Group Limited

Grant Samuel & Associates Pty Limited

(ABN 28 050 036 372)

23 March 2007

GRANT SAMUEL

GRANT SAMUEL & ASSOCIATES

LEVEL 6
1 COLLINS STREET
MELBOURNE VIC 3000
T: +61 3 9949 8800 / F: +61 3 9949 8838
www.grantsamuel.com.au

Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for ETRADE Australia Limited ("ETRADE") in relation to the takeover offer from Australia and New Zealand Banking Group Limited (the "ETRADE Report"), Grant Samuel will receive a fixed fee of $290,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the ETRADE Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Practice Note 42 issued by the Australian Securities Commission (the predecessor to the Australian Securities & Investments Commission) on 8 December 1993. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the ETRADE Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with ETRADE or ANZ that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the ANZ Offer. Grant Samuel advises that:*
>
> - *five executives of Grant Samuel and its related entities each hold a parcel of less than 5,000 shares in ANZ; and*
> - *in 2005, a related entity of Grant Samuel advised ANZ in relation to ANZ's office accommodation in Perth and Sydney.*
>
> *Grant Samuel had no part in the formulation of the ANZ Offer. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fee of $290,000 for the preparation of this report. This fee is not contingent on the outcome of the ANZ Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Industry Complaints Services' Complaints Handling Tribunal, No. F 4197.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL

Table of Contents

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

1 Details of the Offer

On 19 February 2007, Australia and New Zealand Banking Group Limited ("ANZ") announced its intention to make a takeover offer for all the ordinary shares in ETRADE Australia Limited ("ETRADE") that it does not already own ("the ANZ Offer"). The consideration under the ANZ Offer is $4.05 cash per ETRADE ordinary share. The offer will be made through ANZ's wholly owned subsidiary ANZ Online Holdings Pty Limited. On that date, the independent directors of ETRADE[1] announced that, in the absence of a superior proposal and subject to an independent expert concluding that the offer is fair and reasonable, they would unanimously recommended that ETRADE shareholders accept the offer.

ANZ's Bidder's Statement was served on ETRADE on 2 March 2007 and despatched to ETRADE shareholders on 14 March 2007. ANZ had a relevant interest in 34,392,645 shares as at the date of the Bidder's Statement, which represents 34.2% of the ETRADE shares on issue.

ANZ is one of the largest companies in Australia and New Zealand and a major international banking and financial services group, ranking among the top 50 banks in the world. It is listed on the Australian Stock Exchange ("ASX") and has a market capitalisation of approximately $54.0 billion.

ETRADE is a listed Australian company that provides low cost online stockbroking services to individual investors, institutional investors, financial planners and broker groups. In addition to trading of shares, warrants, options and contracts for difference ("CFDs"), ETRADE also offers margin lending, managed funds and self managed superannuation services. ETRADE holds a licence from E*TRADE Financial Corporation ("ETRADE US") for the rights to the E*TRADE brand. ANZ and ETRADE have worked closely together through a strategic alliance established in 1999, and ANZ customers represent approximately one third of ETRADE's customer base.

The ANZ Offer remains subject to a number of conditions that are set out in full in the Bidder's Statement issued by ANZ. In summary, these include:

- that by the end of the offer period, ANZ and its associates have relevant interests in at least 90% (by number) of ETRADE shares on issue;
- that between the announcement date and the end of the offer period, no action is taken by any public authority which restrains, prohibits or impedes, or threatens to restrain, prohibit or impede, or otherwise materially adversely impacts the ANZ Offer or seeks to require the divestiture by ANZ of ETRADE shares, or the divestiture of any assets by ETRADE or ANZ (or their subsidiaries). This condition has been satisfied as the relevant consents have been obtained;
- that by the end of the offer period, ETRADE US does not exercise or give notice that it intends to exercise its right to terminate the licence without cause, and provides an enforceable and irrevocable waiver of its right to terminate the licence without cause, which is conditional on ETRADE providing a reciprocal waiver of its right to terminate the licence without cause and the ANZ Offer becoming unconditional. On 9 March 2007, ETRADE announced that ETRADE US had decided to provide the waiver, thereby satisfying part of this condition;
- no material adverse change to the assets, liabilities or future profitability of ETRADE, or to the status or terms of arrangements entered into with ETRADE, or to the status or terms of any regulatory approvals before the end of the offer period;
- that between the announcement date and the end of the offer period, ETRADE does not undertake any material acquisitions (totalling in aggregate more than $8 million), disposals (totalling in aggregate more than $8 million), or enter into any material new commitments of value greater than $4 million;
- that between the announcement date and the end of the offer period, ETRADE does not declare or distribute, any dividend, bonus or other share of profits or assets;

[1] The independent directors of ETRADE comprise Kerry Roxburgh, James Dominguez, Ian Hunter and Brett Spork. This group excludes John Harries and Geoff Cohen who were nominated to the ETRADE board by ANZ and are executives of ANZ, and Jarrett Lilien who was nominated by ETRADE Financial Corporation and has since resigned from the board.

- that between the announcement date and the end of the offer period, ETRADE does not enter into any, or vary any, contract of service with any director, executive or manager, pay any retirement benefit or make a substantial change to the remuneration of any director, executive or manager (other than an increase in remuneration of its employees with effect from 1 July 2007);
- that between the announcement date and the end of the offer period, ETRADE has not had threatened or commenced against it, any material claims or legal proceedings;
- that none of the prescribed occurrences listed in section 652C of the Corporations Act 2001 ("Corporations Act") have occurred between the date the Bidder's Statement is served on ETRADE and the date upon which the ANZ Offer closes; and
- that between the announcement date and the end of the offer period, the S&P/ASX 200 Industrials (Sector) Index does not close below 5,855 on three or more consecutive trading days.

ANZ and ETRADE have entered into an agreement to facilitate the implementation of the ANZ Offer. Under the terms of the agreement, ETRADE will not declare an interim 2007 dividend.

2 Scope of the Report

2.1 Purpose of the Report

Section 640 of the Corporations Act, 2001 ("Corporations Act") states that a target's statement made in response to a takeover offer for shares in an Australian listed entity must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- a director of the bidder is also a director of the target company.

In this case, ANZ had a relevant interest in 34.2% of the shares on issue in ETRADE immediately prior to announcing its offer. Accordingly, the directors of ETRADE not associated with ANZ ("the independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report for the purposes of Section 640 of the Corporations Act. The report is to set out Grant Samuel's opinion as to whether the ANZ Offer is fair and reasonable and to state reasons for that opinion. A copy of the report is to accompany the Target's Statement issued by ETRADE in relation to the ANZ Offer.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual ETRADE shareholders. Because of that, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by ANZ and the Target's Statement issued by ETRADE in relation to the ANZ Offer.

Whether or not to accept the ANZ Offer is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the ANZ Offer should consult their own professional adviser.

2.2 Basis of Evaluation

The term fair and reasonable has no legal definition although over time a commonly accepted interpretation has evolved. In the context of a takeover, an offer is considered fair and reasonable if the price fully reflects the value of a company's underlying businesses and assets.

Policy Statement 75 issued by the Australian Securities Commission, the predecessor to the Australian Securities & Investment Commission ("ASIC"), attempts to provide a precise definition of fair and reasonable. The Policy Statement continues earlier regulatory guidelines that create a distinction between "fair" and "reasonable". Fairness is said to involve a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. In determining fairness any existing entitlement to shares by the offeror is to be ignored. Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to accepting a takeover offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

A takeover offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

For the purpose of this report, Grant Samuel has treated "fair" and "reasonable" as separate concepts in accordance with Policy Statement 75. Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair".

A fair offer is one that reflects the full market value of a company's businesses and assets. A takeover offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the bid price. This is commonly the case in takeover offers where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the ANZ Offer is fair by comparing the estimated underlying value range of ETRADE with the offer price. The ANZ Offer will be fair if it falls within the estimated underlying value range. In considering whether the ANZ Offer is reasonable, the factors that have been considered include:

- the estimated value of ETRADE compared to the offer price;
- the existing shareholding structure of ETRADE;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of ETRADE shares in the absence of the ANZ Offer; and
- other advantages and disadvantages for ETRADE shareholders of accepting the ANZ Offer.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Bidder's Statement;
- the draft Target's Statement;
- annual reports of ETRADE for the four years ended 30 June 2006;
- half year accounts and announcement of ETRADE for the six months ended 31 December 2006;
- press releases, public announcements, media and analyst presentation material and other public filings by ETRADE including information available on its website;
- brokers' reports and recent press articles on ETRADE and the Australian and international broking industry;
- sharemarket data and related information on Australian and international listed companies engaged in the broking and equity market service industries, and on acquisitions of companies and businesses in these industries; and
- ASX data, including trading volumes for the period 1 January 1999 to 28 February 2007.

Non Public Information provided by ETRADE

- unaudited management accounts for ETRADE for the eight months ended 28 February 2007;
- unaudited management budget for ETRADE for the year ending 30 June 2007;
- unaudited management summary of potential material impacts to the unaudited management budget for the period 1 March 2007 to 30 June 2007;
- unaudited management summary of non-recurring items that would be adjusted for in the calculation of "core" EBITDA; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, representatives of Grant Samuel visited the ETRADE head office in Sydney. Grant Samuel has also held discussions with, and obtained information from, senior management of ETRADE and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances. However, subject to Section 670C of the Corporations Act, Grant Samuel has no obligation or undertaking to advise any person of any change in circumstances which has come to its attention after the date of this report or to review, revise or update its report or opinion.

This report is also based upon financial and other information provided by ETRADE and its advisers. Grant Samuel has considered and relied upon this information. ETRADE has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld. It is noted that John Harries and Geoffrey Cohen, the nominees of ANZ on the board of ETRADE, have not been involved in the provision of information to Grant Samuel.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the ANZ Offer is fair and reasonable having regard to the interests of the non associated shareholders of ETRADE. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. Grant Samuel is not in a position nor is it practicable to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgements of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of ETRADE. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- unaudited management accounts for ETRADE for the eight months ended 28 February 2007;
- unaudited management budget for ETRADE for the year ending 30 June 2007;

- unaudited management summary of potential material impacts to the unaudited management budget for the period 1 March 2007 to 30 June 2007; and
- unaudited management summary of non-recurring items that would be adjusted for in the calculation of "core" EBITDA.

This information is hereafter referred to as the "2007 Financial Information".

The unaudited management budget for the year ending 30 June 2007 was prepared in May 2006. The management summary of potential material impacts to the unaudited management budget for the period 1 March 2007 to 30 June 2007 and the management summary of non-recurring items that would be adjusted for in the calculation of "core" EBITDA, was prepared in March 2007.

ETRADE is responsible for the 2007 Financial Information. Grant Samuel has used and relied on the 2007 Financial Information for the purposes of its analysis. The major assumptions underlying the 2007 Financial Information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. However, it should be noted that the 2007 Financial Information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the 2007 Financial Information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors, inter alia, into account that:

- the 2007 Financial Information includes actual trading results of ETRADE for the eight months ended 28 February 2007 (including the results for the six months ended 31 December 2006 which have been subject to a review by Ernst & Young, the auditors of ETRADE and have been announced publicly);
- the unaudited management budget for the year ending 30 June 2007 was prepared through a detailed budgeting process involving preparation of "ground up" information by the management of ETRADE and was adopted by the board in July 2006; and
- the management summary of potential material impacts to the management budget for period 1 March 2007 to 30 June 2007 and the management summary of non-recurring items that would be adjusted for in the calculation of "core" EBITDA was endorsed by the ETRADE board in March 2007.

The directors of ETRADE have decided not to include the 2007 Financial Information in the Target's Statement and therefore this information has not been disclosed in this report. The prospective earnings for the year ending 30 June 2007 implied by the 2007 Financial Information are consistent with a recent forecast of ETRADE's earnings prepared by the only broker that covers ETRADE. The broker's forecast of ETRADE's earnings for the 2007 financial year was as follows:

- EBITDA of $31 million (before profit from associates and significant and non-recurring items);
- EBIT of $26 million (before profit from associates and significant and non-recurring items); and
- net profit after tax of $24 million (excluding significant items).

Grant Samuel has adopted these forecasts for the purpose of its valuation.

Grant Samuel has no reason to believe that the 2007 Financial Information reflects any material bias, either positive or negative. However, the achievability of the 2007 Financial Information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable. In particular, ETRADE's financial performance is dependent on and highly sensitive to trading volumes on the ASX, which in turn depend on such factors as investor confidence, the performance of the Australian and international equity markets, and other factors beyond the control of ETRADE. Material changes in such factors can occur rapidly and with little or no warning, with potentially significant adverse impacts on the financial performance and prospects of ETRADE.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Target's Statement sent by ETRADE to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the ANZ Offer will be implemented in accordance with its terms; and
- the legal mechanisms to implement the ANZ Offer are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

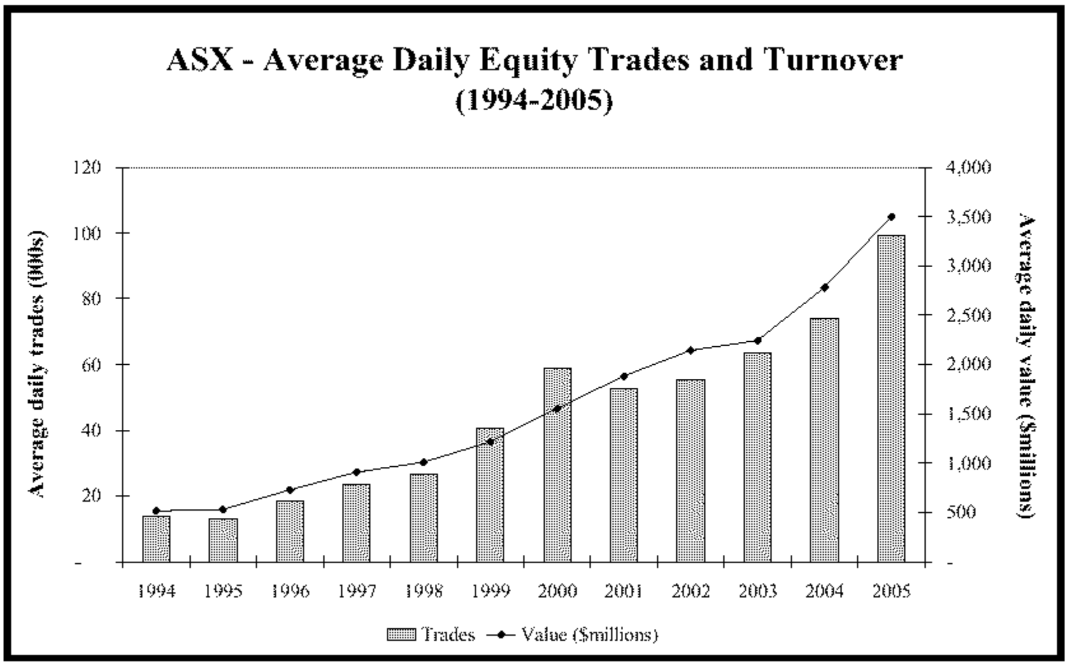
3 Overview of the Stockbroking Industry

3.1 Australian Stock Exchange Trends

The level of share ownership in Australia has been gradually increasing in recent years with approximately 55% of Australians owning shares either directly or indirectly in 2004, compared to 50% in 2002. Australian shareholders are also trading more regularly, on average 7 times a year in 2004, increasing from 5 times a year in 2002, which is partly attributable to a buoyant sharemarket. The average value of trades was approximately $11,150 in 2004, and the value of the average portfolio was $41,400. [2]

According to the ASX, 25% of the Australian market, or $300 billion, was held directly by retail investors at the end of the 2006 financial year. A further 40% of the market is invested by domestic institutions, primarily on behalf of retail investors.

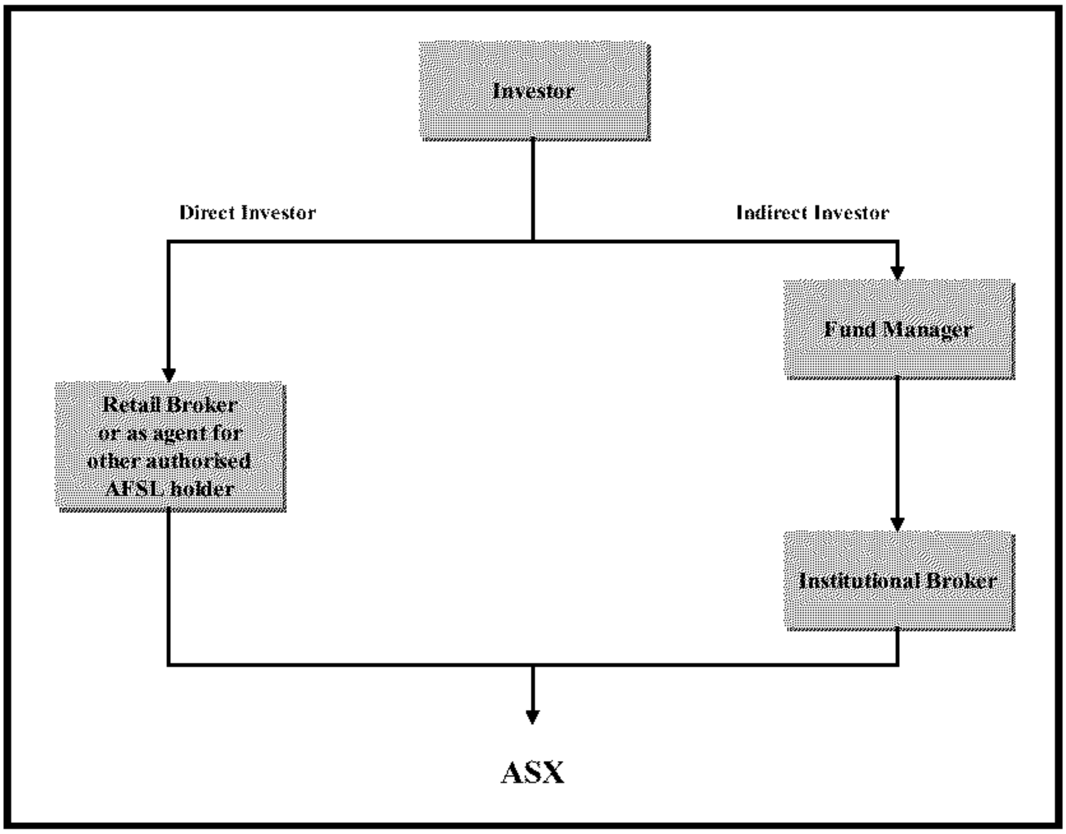
Although equity trading volumes can fluctuate significantly in the short-term, the number of equity trades on the ASX and the value of trades have generally demonstrated a steady increase since 1994, as summarised in the chart below:



Source: ASX

[2] Australia's Share Owners, An ASX Study of Share Investors in 2004.

All trading on ASX occurs through brokers or other authorised holders of an Australian Financial Services License ("AFSL"):



Around 57% of investors used a retail broker in 2004, with 61% of those using a full-service/advice broker. The most common means of acquiring direct investments in the two years ended 30 June 2004 were via a full service broker (22%), a float/prospectus (21%) or a discount/non-advice internet broker (16%).[3]

3.2 The Stockbroking Industry

3.2.1 Overview

The stockbroking system allows institutional and retail investors to trade securities on a stock exchange, by placing and executing orders on behalf of investors and ensuring settlement completes. Most transactions are either carried out over the telephone between a broker and a client, or via online services.

Stockbroking firms are generally categorised in the market according to the level of service offered to clients. They range from the traditional execution and settlement-only brokers, which do not offer advice or other value-added services, to full-service brokers. Full service brokers seek to add value by providing clients with services such as research and advice on listed companies, investments in-house and in managed funds, derivative products and financial planning. Investment banks generally fall into this category.

Historically, online brokers have focused on offering internet enabled trade execution and settlement on a discounted commission basis. However, their model has evolved to provide a more comprehensive level of wealth management capabilities and services, also delivered through their online trading platform at low cost.

[3] Australia's Share Owners, An ASX Study of Share Investors in 2004.

The following table summarises the top 10 brokers by number of trades for the eight months ended 28 February 2007:

Top 10 Brokers – Market Share by Number of Trades	
Broker	**% of Total Trades**
CommSec	10.5
Deutsche Bank	9.2
Macquarie	8.5
ABN Amro	6.7
Citigroup	6.5
Credit Suisse	6.3
UBS	5.6
Goldman Sachs JB Were	5.4
ETRADE	5.1
Morgan Stanley	4.9

Source: ETRADE

Commonwealth Securities Limited ("CommSec"), a subsidiary of Commonwealth Bank of Australia Limited ("Commonwealth Bank"), is the most active broker by number of trades on the ASX. It has also surpassed the broking arms of some of the global investment banks in terms of the value of shares traded on the ASX.

The increasing desire for direct share ownership by Australians driven, among other factors by the growth in self-managed superannuation, has created a positive demand for retail stockbroking services. The trend towards self-directed investing by retail investors is expected to continue. Through the expansion of the internet and other media, private investors can access a wealth of financial information to help them make investment decisions. Institutional demand for stockbroking services has also increased due to the growth in saving via superannuation and managed investment funds. The introduction of a broader range of services and investment products available to clients has also increased transaction volumes for the industry.

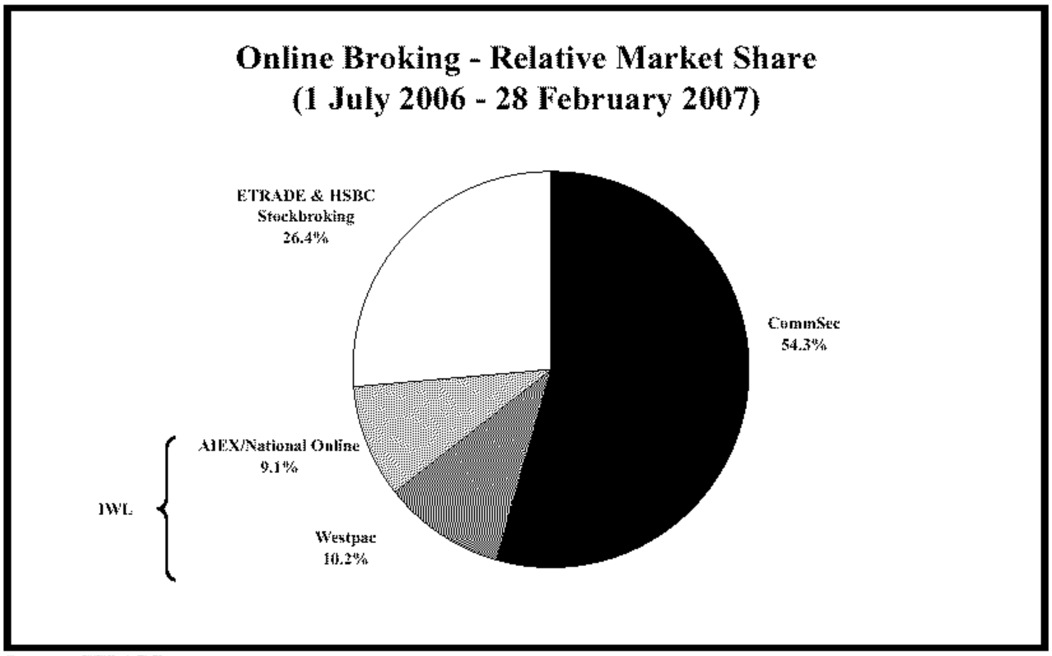
The number of transactions on ASX and the value of trades is an important measure of demand for all stockbroking related businesses. The number of equity trades is the principal driver for brokerage revenue, although there is also some correlation with the total value of shares traded.

3.2.2 Online Broking Industry

According to the ASX, there are currently 12 internet-based non advisor brokers in Australia, generating around 35-45% of ASX trades each day. Of these, CommSec, is the clear market leader with more than 1.2 million customers and a market position of around 54% of the online broker market. ETRADE is the second largest online broker with a market share of about 26% of the online broker market.

IWL Limited ("IWL"), through its wholly owned subsidiary, Australian Investment Exchange Limited ("AIEX"), and online retail brokers, Sanford Securities and Avcol Securities, claims a 9% share of Australia's online broking market. AIEX provides wholesale stockbroking infrastructure for clients including National Australia Bank Limited ("NAB"), Westpac Banking Corporation ("Westpac"), Suncorp-Metway Limited, Bank of Western Australia Limited, Hartleys Limited, Tricom Equities Limited and Austock Group. NAB and Westpac rebadge the online broking platform under their own brandnames. Whilst Westpac (10% market share) undertakes its own execution of trades, AIEX provides execution services for NAB.

The following chart summarises the relative market share of the major online brokers in Australia:



Source: ETRADE

The online brokers offer a convenient, round-the-clock service that full service brokers are unable to provide. Trading orders placed online outside market hours (10am-4pm) are submitted for execution on the next trading day. Orders made with an online broker during market hours are placed on the market and, if matched, are executed within seconds.

Low brokerage commissions remain the major drawcard of discount / online brokers by comparison with traditional full service brokers. However, price is less of a deciding factor for investors making comparisons between online brokers, because most of the online brokers charge similar brokerage commissions in the approximate range of $20-35 per trade, which is significantly lower than fees charged by full-service brokers. Therefore, customers considering online brokers have regard to qualitative elements such as the features and functionality offered, the ease of use of the website, the speed and efficiency of executing transactions and the level of customer service. Value-added services include access to:

- options, warrants and CFDs trading;
- managed funds and cash management trusts;
- initial public offerings;
- foreign markets;
- margin lending;
- market research;
- market news, commentary and ASX announcements; and
- regular client newsletters, personal watchlists, charting tools and SMS price alerts.

Customers need a bank account to settle trades made with an online broker. Some brokers permit customers to use an existing account while others require a specific cash settlement account to be established. Brokerage fees are usually charged as a percentage of the amount being traded, with a minimum charge per trade. Frequent-trader discounts are offered by some brokers. Online brokers also tend to offer telephone trading as well, although this service is more expensive.

The key characteristics of the major online brokers in Australia are summarised in the table below:

Major Online Brokers – Key Characteristics

		Fee per trade			Analyst Research			
Company	Product	Brokerage inc GST	Trades up to	Market Comment	Yes/No	Source	Options	Foreign Shares
CommSec	Share Trades Internet Preferred	$19.95 $29.95 0.12%	$10,000 $25,000	✗	✓	Independ.	✓	✓
ETRADE	E*TRADE E*TRADE Pro Power E*TRADE	$32.95 0.11%	$30,000 $999,999	✓	✓	Independ.	✓	✓
Westpac	Westpac Broking Integrated Accounts	$24.95 0.11%	$25,000	✓	✓	Independ.	✓	✗
National Online Trading	NAB OnLine Trading - Casual	$29.95 0.11%	$27,227	✓	✗	n/a	✓	✗
Macquarie Bank	Macquarie DirecTrade	$39.95 0.16%	$25,000 $100,000	✓	✓	In-house	✓	✓
Goldman Sachs JB Were	Goldman Sachs JB Were	$50.00 0.75% 0.65% 0.60%	$6,666 $15,000 $50,000 $999,999	✓	✓	In-house	✗	✓
Netwealth	Netwealth Share Trading	$17.99 $19.95 $26.99 0.11%	$5,000 $10,000 $25,000 $999,999	✓	✓	Independ.	✓	✗
St.George Bank	directshares	$32.95 0.11%	$30,000	✓	✓	Independ.	✓	✓
Sanford	Casual service	$19.95 $29.95 0.11%	$9,999 $27,227 $999,999	✓	✓	Independ.	✓	✗

Source: Infochoice.com.au

Technological investment is critical to the success of online brokers as it facilitates product and service innovation and offering, increases the information available to customers and its timely provision, improves the reliability of transaction execution and enhances brand image.

The trade execution business of online brokers has considerable operating leverage. Other than certain execution fees, which directly relate to a broker's trading volumes, the cost structure is largely fixed. Therefore, online brokers are able to manage significant volume growth, and expansion of capacity is achievable with little incremental investment.

4 Profile of ETRADE

4.1 Background

ETRADE was incorporated in January 1986 under the name Babilar Ltd. Its primary activity was initially the breeding of thoroughbred bloodstock. The name of the company was subsequently changed to Kia Ora Stud Ltd and listing on the ASX was granted in October 1986. Over the next ten years the company underwent a number of substantial changes in business operations. In 1997, it emerged as a listed investment company under the name Nova Pacific Capital Limited ("Nova Pacific"). At this time, it had a variety of interests in businesses involved in the electronic and associated industries. These interests have now all been sold or liquidated.

In April 1997, Nova entered into a services and licence agreement with United States-based ETRADE US to establish online stockbroking in Australia and New Zealand. The agreement covered the E*TRADE brand, technology and services. The ETRADE website was launched in April 1998 and the company changed its name to ETRADE in November 1998.

In September 1999, ETRADE and ANZ signed an agreement providing that ANZ would market the online broking platform co-branded ETRADE / ANZ to its clients in exchange for a stake of up to 35% in ETRADE.

On 28 April 2005, ETRADE announced it had purchased a 50% stake in the institutional broker Linwar Securities Pty Limited ("Linwar"). The consideration was $8 million in cash, $1 million in ETRADE shares and an incentive payment of up to $1 million for each of the financial years ending 30 June 2006 and 30 June 2007 (payable by the issue of ETRADE shares) provided certain hurdles are met (the hurdles were met for the 2006 financial year prompting payment of the first $1 million tranche).

In April 2006, ETRADE established ASANDAS, a wholly-owned subsidiary offering full-service brokering services to retail investors.

On 5 June 2006, ETRADE announced that it had agreed to acquire HSBC Stockbroking (Australia) Pty Limited ("HSBC Stockbroking") for $51.3 million funded by cash and debt. Under the purchase agreement, an adjustment of $1.2 million was paid to the vendor HSBC Bank Australia Limited ("HSBC") in September 2006 following the audit of the net asset base of HSBC Stockbroking. At the time of the purchase, HSBC Stockbroking provided online broking services to approximately 40,000 HSBC retail customers and to 32,000 customers of St.George Bank Limited ("St.George Bank"). The acquisition was effective as of 1 July 2006. ETRADE has since signed a separate agreement with St.George Bank to provide the *directshares* service to its customers.

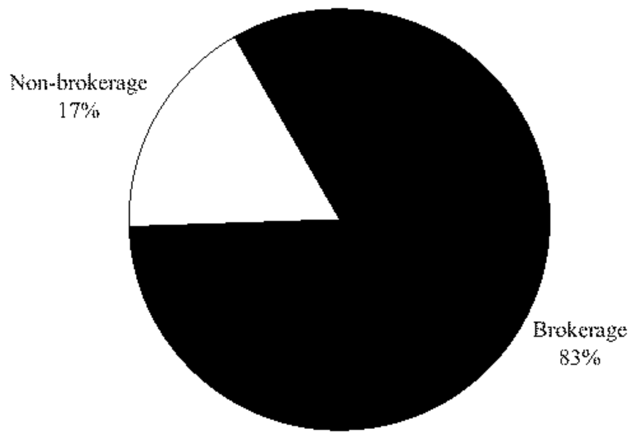
4.2 Operations

ETRADE provides online broking services for retail clients, intermediaries (financial planners and brokers) and institutional investors. During the financial year ended 30 June 2006 the company launched a new website, its third since April 1998. In addition to offering trading in Australian shares, ETRADE offers trading in international shares (following the acquisition of HSBC Stockbroking), warrants, options and CFDs. ETRADE has broadened its portfolio of activities to include full service institutional broking through its investment in Linwar and private client advisory services through the establishment of ASANDAS.

Retail and wholesale broking account for approximately 65% and 20% of ETRADE's broking revenues respectively, with the institutional broking segment and ETRADE's investments in ASANDAS and Linwar generating the balance.

The following chart shows a breakdown of revenue by product line for the six months ended 31 December 2006. It includes the contributions of HSBC Stockbroking, St.George Bank and ASANDAS for the full six months:

Revenue by Product Line
(6 months to 31 December 2006)



Source: ETRADE

Non-brokerage revenue consists of trail commissions, initial public offering ("IPO") handling fees, fees and charges recovered, commissions on managed funds and margin lending, as well as various other fees.

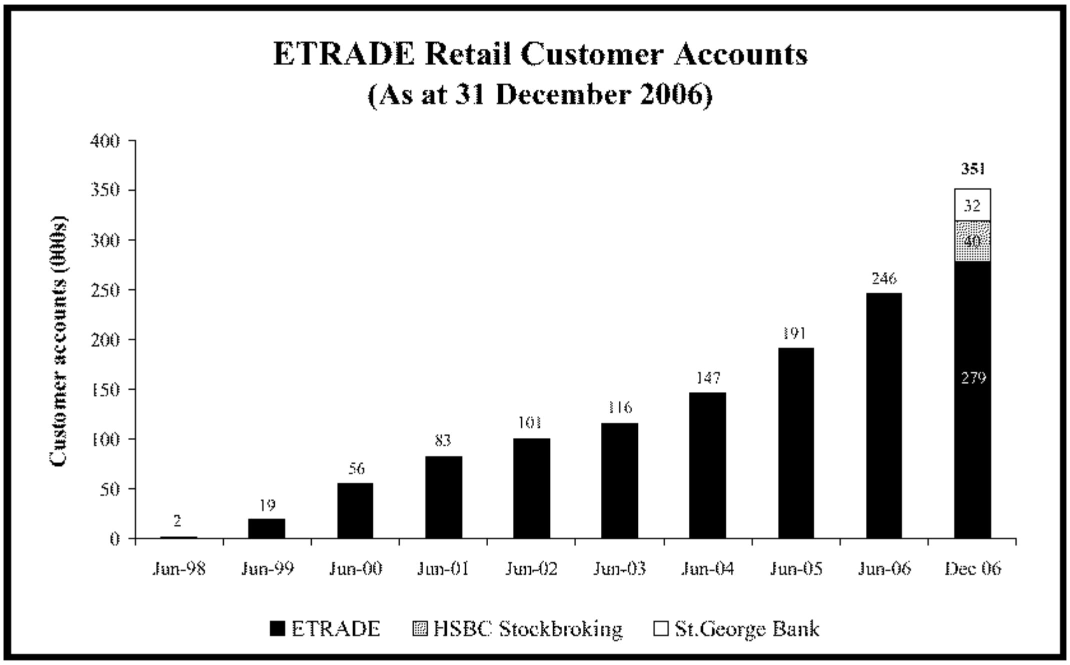
Retail

The retail segment services three categories of customers:

- **visitor traders** do not have a brokerage account with ETRADE, but can access the service to sell issuer sponsored shares;
- **casual traders** hold a brokerage account with ETRADE and are able to sell issuer sponsored and broker sponsored shares, participate in IPOs, trade equities, warrants, options and CFDs, as well as invest in managed funds, manage their superannuation and take out margin lending facilities. Investors also have access to live market information as well as research from eight independent providers. ETRADE plans to expand the research offering; and
- **active traders** who, in addition to accessing all the products and services offered to casual traders, might opt for either of the two trading platforms E*TRADE Pro or Power E*TRADE offered by ETRADE. E*TRADE Pro, based on proprietary source code, caters for investors wishing to focus on share trading. Power E*TRADE, based on Web IRESS source code, includes features most useful to investors interested in trading options and CFDs.

ETRADE was the first online broker to market CFDs in Australia, introducing the product two years ago. CFDs allow investors to take a leveraged short or long position on shares traded on the ASX, without having to buy the underlying security. Investors typically provide a cash deposit ranging from 5% to 20%. ETRADE does not provide the CFDs directly, but assists its clients to enter CFDs with MAN Financial Australia Ltd ("MAN"). ETRADE has no financial exposure.

Following the addition of approximately 40,000 HSBC Stockbroking customers and 32,000 St.George Bank customers, total ETRADE customer accounts exceeded 350,000 as at 31 December 2006. The chart below shows the growth in customer accounts since the launch of ETRADE's online trading website in April 1998:

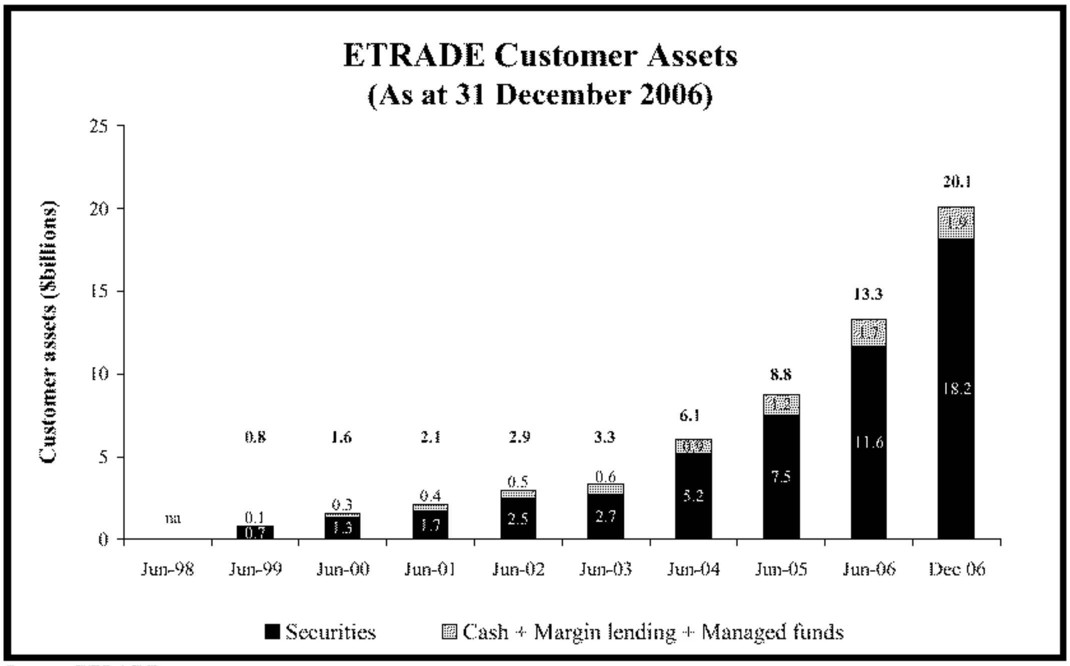


Source: ETRADE

In the current market conditions, ETRADE's clients trade around 7 times a year on average on ETRADE's website, whilst the most active clients trade up to a thousand times per month. ETRADE offers the active trader platforms Power E*TRADE and E*TRADE Pro free of charge to any active trader who executes in excess of 10 trades per month. The average trade value of ETRADE customers, including HSBC Stockbroking and St.George Bank customers, was approximately $13,000 for the six months ended 31 December 2006.

Online retail customers (excluding visitor traders) are required to open a nominated account with ETRADE. A "buy" order will only be executed if sufficient funds are available in the client's nominated account (including funds that are in the process of being credited to the client's account as a result of a prior transaction). This protects ETRADE against default risk from clients.

ETRADE is increasingly focusing on its non-broking activities, to reduce the volatility in revenues and earnings associated with the broking activities. Accordingly, it has introduced asset management products which typically generate annuity style fees and help to mitigate the impact of fluctuations in trading volumes. The chart below sets out the growth in customer assets since the launch of the ETRADE website:



Source: ETRADE

Intermediary / Wholesale

The intermediary / wholesale segment targets holders of an AFSL such as stockbrokers, financial planners and accountants. ETRADE offers access to live market data and pricing as well as independent research. Clients of intermediaries have access to the ETRADE professional platform, can execute visitor trades and are able to participate in IPOs. ETRADE is protected from default risk on these transactions through a guarantee from the intermediary. As at February 2007, ETRADE served approximately 230 wholesale businesses representing a total of 2,000 licensed representatives.

Institutional

ETRADE provides an "execution only" service to institutional clients. The service is attractive to institutional clients both because of discounted fees and because it ensures the avoidance of any possible conflict of interest with a proprietary trading desk.

Investments

ETRADE has a 50% interest in Linwar, an Australian boutique full-service institutional broker. Linwar was established in late 2002 by former local BNP Paribas directors and staff as a result of the French bank's exit from the Australian investment banking market. Linwar focuses on small to mid-cap companies listed on the ASX and relies on ETRADE for its back-office needs. In addition to income earned on its 50% holding, ETRADE generates revenue from providing execution, clearing and settlement services to Linwar.

The wholly-owned subsidiary, ASANDAS, is a full-service broker focusing on retail investors. ASANDAS is an ASX market participant and holder of an AFSL. ASANDAS' business model is based on providing a complete turnkey business structure (brand, infrastructure and AFSL) to retail advisors wishing to retain their business independence. ASANDAS aims to remain a low cost business and does not intend to provide research services.

4.3 Key Alliances

ETRADE US

ETRADE initially entered into a license agreement with ETRADE US on 18 April 1997 for the exclusive use of proprietary technology of ETRADE US to provide electronic retail brokerage services in Australia. The agreement provided that ETRADE would pay royalties to ETRADE US for the use of the trademark and technology. On 1 January 2002, both parties agreed to terminate the existing agreement and signed a new agreement under which ETRADE US granted the exclusive use of the E*TRADE brand in return for a 7.5% stake in ETRADE, valued at approximately $3.1 million at the time of the execution of the agreement. Among other provisions, the new agreement includes institutional brokerage rights, transfers the technology maintenance and development obligation of ETRADE US to ETRADE in Australia and now also covers New Zealand.

The initial term of the new agreement was five years. On 8 May 2006, ETRADE announced it had exercised its right to extend the license for a further 3 years with no further royalty payments and that it was in discussions with ETRADE US to extend the agreement to 31 December 2020. Either party can terminate the current agreement without cause if it provides three months' written notice and pays a termination fee of US$5 million. This right has been waived, conditional on the ANZ Offer being declared unconditional.

ANZ

In September 1999, ETRADE and ANZ signed an agreement providing that ANZ would market the online broking platform co-branded ETRADE / ANZ to its clients in exchange for a stake of up to 35% in ETRADE. The agreement provided that ANZ would receive an additional tranche of 5% if certain performance indicators were met, but this did not eventuate. The agreement contains an anti-dilution provision which entitles ANZ to purchase shares to enable it to maintain its percentage holding in the event that ETRADE undertakes a placement or upon conversion of convertible securities.

ETRADE does not hold a banking license. It relies on ANZ for the provision of cash management and margin lending products and receives a commission on ETRADE's clients' cash balance and margin lending facilities.

The current agreement commenced on 1 October 2002 and continues until termination. Both parties can terminate the agreement with six months' prior notice without any compensation payable to the other party.

HSBC

Following the acquisition of HSBC Stockbroking from HSBC, ETRADE and HSBC signed a referral agreement for a minimum five year period. The agreement took effect on 1 July 2006 and provides that HSBC receives a percentage of the brokerage fees ETRADE charges the clients referred by HSBC. The agreement is automatically extended until terminated, but can be terminated by either party with six months' notice without any financial penalty payable.

St.George Bank

Following the acquisition of HSBC Stockbroking, ETRADE and St.George Bank signed an outsourcing agreement, which commenced on 11 September 2006. Under the agreement, which has a term of at least three years, St.George Bank's clients have access to a white label service known as *directshares* which is based on ETRADE's platform. ETRADE retains a variable brokerage fee per contract note and pays the balance to St.George Bank.

Bendigo Bank Limited

On 7 April 2004, ETRADE announced an alliance with Bendigo Bank Limited ("Bendigo Bank") under which Bendigo Bank's clients have access to a co-branded ETRADE / Bendigo Bank online trading platform. Under the terms of the agreement, Bendigo Bank receives a commission on the brokerage fees generated by Bendigo Bank clients and pays ETRADE a percentage of the balance of the cash accounts of shared customers.

Qantas

ETRADE has entered into an agreement with Qantas Airways Limited ("Qantas") that allows ETRADE customers to earn Qantas Frequent Flyer points when they trade. The agreement requires ETRADE to pay Qantas a fixed amount per mile awarded. ETRADE is the only online trading service in Australia that allows its clients to earn miles on the Qantas Frequent Flyer points program. The agreement commenced on 1 October 2003 and has been re-signed for a term which expires on 30 September 2009.

ETRADE management believes that none of these agreements should be affected by the ANZ Offer.

4.4 Outlook

ETRADE intends to pursue investment opportunities and aims to continue growing its more recent products such as CFDs, managed funds and margin lending. The purchase of a perpetual non-exclusive source code licence for E*TRADE Pro should enable ETRADE to further tailor its service offering for wholesale clients. The integration of HSBC Stockbroking and the St.George Bank outsourcing agreement and the investments in ASANDAS and Linwar are expected to generate further cross-selling opportunities.

In addition, ETRADE continues to expand its business model to focus on asset-based revenues and reduce its exposure to the volatility and competitive pressure of its transaction based commission business. Growth of the non-broking business is aimed at creating a more balanced business model in both strong and weak markets.

4.5 Financial Performance

The historical financial performance of ETRADE for the four years ended 30 June 2006 and for the six months ended 31 December 2006 is summarised below:

ETRADE – Financial Performance ($000s)[4]

	Year ended 30 June				Six months ended 31 Dec
	2003 actual AGAAP	2004 actual AGAAP	2005 actual AGAAP	2006 actual AIFRS	2006 actual AIFRS
Total revenue[5]	**18,382**	**32,361**	**42,192**	**53,201**	**38,653**
EBITDA[6]	**1,819**	**9,462**	**14,486**	**18,022**	**14,703**
Depreciation and amortisation	(1,224)	(921)	(806)	(1,155)	(2,114)
EBIT[7]	**595**	**8,540**	**13,680**	**16,867**	**12,589**
Net interest	606	1,084	1,876	2,007	(275)
Equity accounted share of profits of associates	-	-	34	996	400
Operating profit before tax	**1,201**	**9,625**	**15,591**	**19,870**	**12,715**
Significant items before tax	-	-	-	-	(2,150)
Income tax expense	-	-	-	-	3,630
Profit after tax attributable to ETRADE shareholders	**1,201**	**9,625**	**15,591**	**19,870**	**14,195**
Statistics					
Basic earnings per share (cents)	*1.2*	*9.9*	*15.9*	*20.0*	*14.2*
Dividends per share (cents)	-	-	-	*5[8]*	-
Payout ratio	*na*	*na*	*na*	*25%*	*na*
Amount of dividend franked	*na*	*na*	*na*	*20% 8*	*na*
Total revenue growth	*(3%)*	*76%*	*30%*	*26%*	*na*
EBITDA growth	*35%*	*420%*	*53%*	*24%*	*na*
EBIT growth	*332%*	*1,335%*	*60%*	*23%*	*na*
EBITDA margin	*10%*	*29%*	*34%*	*34%*	*38%*
EBIT margin	*3%*	*26%*	*32%*	*32%*	*33%*

Source: ETRADE and Grant Samuel analysis

The following points should be noted in relation to ETRADE's financial performance over the past four financial years:

- the growth in revenues and earnings is primarily due to the growth in ETRADE's core online broking business, supported by a steady growth in customer accounts, customer assets under administration and strong sharemarket performance;
- Linwar (50% interest acquired on 28 April 2005) contributed earnings to the last two months of the financial year ended 30 June 2005 and made a full year contribution in the 2006 financial year. Linwar is treated as an associate of ETRADE for accounting purposes;
- ASANDAS (established in April 2006) contributed approximately $516,000 to revenue in the last 3 months of the 2006 financial year; and

4 Numbers may not add due to rounding.

5 Total revenue represents the sale of goods and provision of services.

6 EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

7 EBIT is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

8 An unfranked special dividend of 10 cents per share was paid on 10 November 2005.

- as the acquisition of HSBC Stockbroking was effective 1 July 2006, it does not impact the financial performance for the four financial years to 30 June 2006.

Grant Samuel makes the following comments regarding the financial performance of ETRADE in the six months ended 31 December 2006:

- the strong increase in revenue and earnings is a reflection of the contributions of HSBC Stockbroking, St.George Bank and ASANDAS for the full six months, as well as a result of growth in the core business;
- ETRADE announced on 11 January 2007 that HSBC Stockbroking's performance was in line with expectations with an annualised EBITDA for the six months ended 31 December 2006 reaching $6 million (including synergies and before integration costs and excluding *directshares* earnings). The company reported in its half-year results that HSBC Stockbroking had contributed $5.7 million in revenues and $1.7 million of net profit (excluding non-recurring expenses) over the period;
- depreciation and amortisation expense includes the amortisation of the HSBC customer list valued at $23.2 million and amortised over 10 years, as well as increased depreciation reflecting an increase in fixed assets in recent years;
- interest paid exceeded interest received as a result of a draw down of debt which occurred on 30 June 2006;
- the $2.15 million of significant items corresponds to integration and development costs associated with the acquisition of HSBC Stockbroking; and
- the income tax benefit for the half year ended 31 December 2006 includes utilisation of a deferred tax asset which ETRADE brought to account as a result of an agreement with the Australian Taxation Office ("ATO") detailed below.

On 11 January 2007, ETRADE announced that the integration process following the acquisition of HSBC Stockbroking produced a number of anomalies, but that all issues had been identified and were being resolved at no financial loss to any customer and without significant financial impact on ETRADE.

The alliance with ANZ involved the issue of ETRADE shares to ANZ as payment for the provision of clients to the ETRADE broking business. These share based payments totalled $72 million and were paid between September 1999 and October 2002. ETRADE claimed a $60 million tax deduction in respect of the payments, however, this claim was challenged by the ATO. On 25 October 2006, ETRADE announced that following a recent tax audit, ETRADE and the ATO had agreed on a tax deduction of $33 million. This confirmed ETRADE's chosen tax treatment for the financial year ended 30 June 2006 and results in a balance of approximately $20 million in carry forward losses for the 2007 financial year. It is expected that the tax losses will be fully utilised in the 2007 financial year.

4.6 Financial Position

The financial position of ETRADE as at 31 December 2006 is summarised below:

ETRADE – Financial Position ($000s)[9]	As at 31 December 2006
Debtors and prepayments (net)	122,792
Creditors and provisions	(127,227)
Net working capital	**(4,435)**
Property, plant and equipment (net)	4,372
Investments accounted for using the equity method	12,488
Intangibles (net)	24,032
Goodwill	31,781
Deferred tax liabilities (net)	(3,207)
Other assets (net)	(1,568)
Total funds employed	**63,464**
Cash	31,304
Interest bearing liabilities	(30,767)
Net borrowings	**537**
Equity attributable to ETRADE shareholders	**64,002**
Statistics	
Shares on issue at year end (millions)	*100.5*
Net assets per share (cents)	*64*
NTA[10] per share (cents)	*8*

Source: ETRADE and Grant Samuel analysis

The following should be noted in relation to ETRADE's financial position as at 31 December 2006:

- debtors and creditors predominantly comprise settlement obligations and reflect the fact that parties to a securities transaction have to settle the transaction within three days of ASX approval. As they are a direct consequence of trading values in the three days prior to the balance date, they are subject to very high volatility;
- the acquisition of HSBC Stockbroking was settled during the six months ended 31 December 2006. Cash held in escrow for acquisition as at 30 June 2006 of $51.2 million was paid to the vendors in the half year ended 31 December 2006;
- investments accounted for using the equity method consist of ETRADE's 50% interest in Linwar;
- a significant increase in ETRADE's intangibles and goodwill in the half year ended 31 December 2006 is mostly due to the HSBC Stockbroking acquisition. HSBC Stockbroking's customer list was valued at $23 million as at 1 July 2006 (generating a $1.2 million amortisation expense in the six months ended 31 December 2006) and goodwill on the acquisition was approximately $31.7 million; and
- during the six months ended 31 December 2006, a deferred tax liability of $6.56 million in relation to the identifiable intangible asset of the HSBC Stockbroking customer list was recognised. This liability was partially offset by $2.1 million of carry forward losses and $1.7 million of net temporary differences recognised following the settlement of the tax dispute with the ATO.

---

9 Numbers may not add due to rounding.

10 NTA is net tangible assets, which is calculated as net assets less goodwill and other intangibles.

ETRADE's operations have primarily been funded over time by profits from operations:

ETRADE – Cash Flow ($000s)[11]				
	Year ended 30 June			
	2003 actual AGAAP	2004 actual AGAAP	2005 actual AGAAP	2006 actual AIFRS
EBITDA	**1,819**	**9,462**	**14,486**	**18,022**
Changes in working capital and other adjustments	(672)	2,102	713	809
Capital expenditure (net)	(250)	(623)	(933)	(4,269)
Operating cash flow	**897**	**10,941**	**14,266**	**14,562**
Tax paid	(10)	-	-	-
Net interest paid	604	1,093	1,888	2,007
Dividends paid (net)	-	-	-	(9,128)
Investments (net)	-	-	(8,114)	(887)
Proceeds from equity issue	-	229	363	734
Payment for share buyback	-	-	-	(1,590)
Other	4	(11)	-	(5)
Proceeds from borrowings	38	(29)	-	31,321
Net cash generated (used)	**1,533**	**12,223**	**8,404**	**37,013**
Cash - opening	*12,968*	*14,501*	*26,724*	*35,127*
Cash - closing	*14,501*	*26,724*	*35,127*	*72,140*

Source: ETRADE and Grant Samuel analysis

4.7 Capital Structure and Ownership

As at 21 March 2007, ETRADE had 100,451,929 ordinary shares on issue and in excess of 4,000 registered shareholders. More than 60% of ETRADE's shares are held by institutional shareholders.

The top ten ordinary shareholders in ETRADE as at 16 March 2007 are shown in the table below. They account for approximately 69% of the ordinary shares on issue.

11 Numbers may not add due to rounding.

ETRADE – Top Ten Shareholders as at 16 March 2007	Number of Shares (000s)	% Interest
Australia & New Zealand Banking Group Limited	34,350,645	34.20
UBS Nominees Pty Ltd	8,411,296	8.37
National Nominees Limited	4,274,144	4.25
RBC Dexia Investor Services Australia Nominees Pty Limited (GSJBW A/C)	4,119,510	4.10
Converging Arrows, Inc.	4,111,911	4.09
ANZ Nominees Limited (Cash income A/C)	3,986,545	3.97
HSBC Custody Nominees (Australia) Limited	3,006,860	2.99
EDAM AM International Pty Ltd	2,906,552	2.89
HSBC Custody Nominees (Australia) Limited – GSI ECSA	2,507,670	2.50
HSBC Custody Nominees (Australia) Limited – A/C 2	1,721,369	1.71
Subtotal - Top 10 shareholders	**69,396,502**	**69.07**
Other shareholders	31,055,427	30.93
Total	**100,451,929**	**100.00**

Source: ETRADE

Substantial shareholders in ETRADE who had notified the company of their shareholdings as at 21 March 2007 as set out below.

ETRADE – Substantial Shareholders as at 21 March 2007	Number of Shares (000s)	% Interest
Australia & New Zealand Banking Group Limited	34,392,645	34.24
Caledonia Investments Pty Limited	12,024,340	11.97
ANZ Nominees Limited	5,134,080	5.11

Source: DFS IRESS

Since the announcement of the ANZ Offer, there has been some movement in the shareholdings of substantial shareholders of ETRADE. On 13 March 2007, ETRADE US, through its subsidiary Converging Arrows, Inc, announced that it was no longer a substantial shareholder, having sold around one third of its interest on market at an average price of $4.18 per share. At the same time, Caledonia Investments Pty Limited ("Caledonia") lodged a substantial shareholder notice indicating that it has increased its shareholding in ETRADE to 11.97%. On 20 March 2007, UBS Nominees Pty Ltd announced it had ceased to be a substantial shareholder on 19 March 2007.

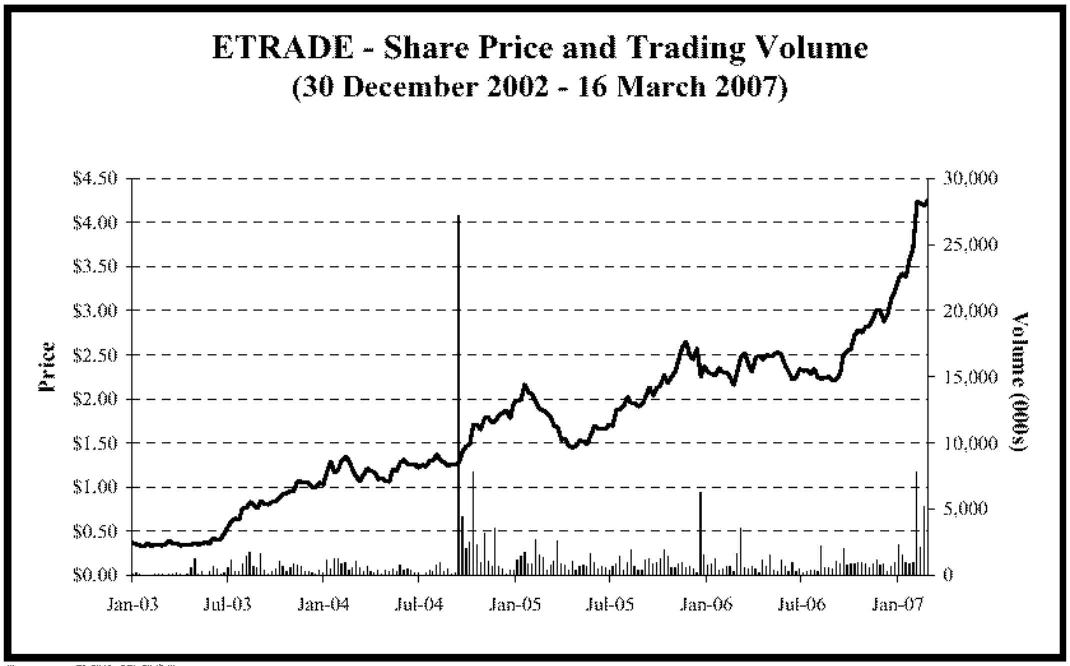
4.8 Share Price History

A summary of the price and trading history of ETRADE since 1 January 2003 is set out below:

ETRADE– Share Price History					
	Share Price ($)			Average Weekly Volume (000's)	Average Weekly Transactions
	High	Low	Close		
Year ended 31 December					
2003	1.12	0.31	1.00	399	57
2004	1.88	0.97	1.87	1,439	148
2005	2.72	1.38	2.57	942	244
2006	3.10	2.12	2.96	905	242
Quarter ended					
31 March 2006	2.60	2.12	2.52	1,448	332
30 June 2006	2.75	2.17	2.22	684	175
30 September 2006	2.40	2.14	2.29	604	131
31 December 2006	3.10	2.26	2.96	884	329
Week ended					
5 January 2007	3.15	2.97	3.13	645	422
12 January 2007	3.22	3.02	3.22	973	411
19 January 2007	3.42	3.22	3.36	2,331	551
26 January 2007	3.54	3.36	3.42	1,568	472
2 February 2007	3.42	3.21	3.38	968	632
9 February 2007	3.59	3.36	3.58	811	439
16 February 2007	3.80	3.60	3.70	929	525
23 February 2007	4.33	4.03	4.24	7,829	1,582
2 March 2007	4.27	4.11	4.22	2,128	769
9 March 2007	4.23	4.16	4.19	5,197	798
16 March 2007	4.34	4.12	4.25	5,406	811

Source: DFS IRESS

The following graph illustrates the movement in the ETRADE share price and trading volumes since 30 December 2002:



Source: DFS IRESS

The ETRADE share price has increased significantly over the past four years reflecting ETRADE's strong financial performance. The following movements in trading volumes and share price prior to 31 December 2006 are noteworthy:

- on 30 September 2004, just under 27 million shares were exchanged as a result of the sale by RG Capital Holdings (Australia) Pty Limited and Computershare Limited ("Computershare") of their 15.7% and 11.7% stakes in ETRADE, representing a combined total of 26.7 million shares. The two main buyers, Perpetual Trustees Australia Limited ("Perpetual") and Caledonia, bought 7.9% and 7.6% respectively for a combined 15.1 million shares. The transaction reduced the concentration of shareholdings on the ETRADE register, which resulted in a subsequent increase in liquidity and higher average trading volumes;
- in line with other companies that are directly exposed to the sharemarket trading volumes, such as ASX Limited and Computershare, ETRADE's share price declined from a closing price of $2.18 on 3 February 2005 to $1.40 on 3 May 2005 following a change in market sentiment;
- the share price declined more than 7% from 30 December 2005 to 3 January 2006, on volumes significantly higher than usual. ETRADE responded to an ASX query that it was not aware of any factors unknown to the market explaining these movements; and
- after trading in the range $2.16-2.70 between 8 December 2005 and 11 September 2006, the share price steadily increased for the remainder of the 2006 calendar year.

The ETRADE share price experienced strong appreciation in the first six weeks of the 2007 calendar year and increased by almost 10% in the fortnight prior to the announcement of the ANZ Offer. The following factors contributed to the improving ETRADE share price:

- on 11 January 2007, ETRADE provided an update on the progress of the integration of the HSBC Stockbroking business, and indicated that its unaudited EBITDA for the six months to 31 December 2006 was expected to be at least 75% higher than the EBITDA for the corresponding six month period in the prior year; and
- takeover speculation appeared in the media from 16 January 2007 in conjunction with the announcement of the departure of ETRADE's Chief Executive Officer on 15 January 2007.

ETRADE shares generally traded in the range $3.30-3.40 for the remainder of January 2007.

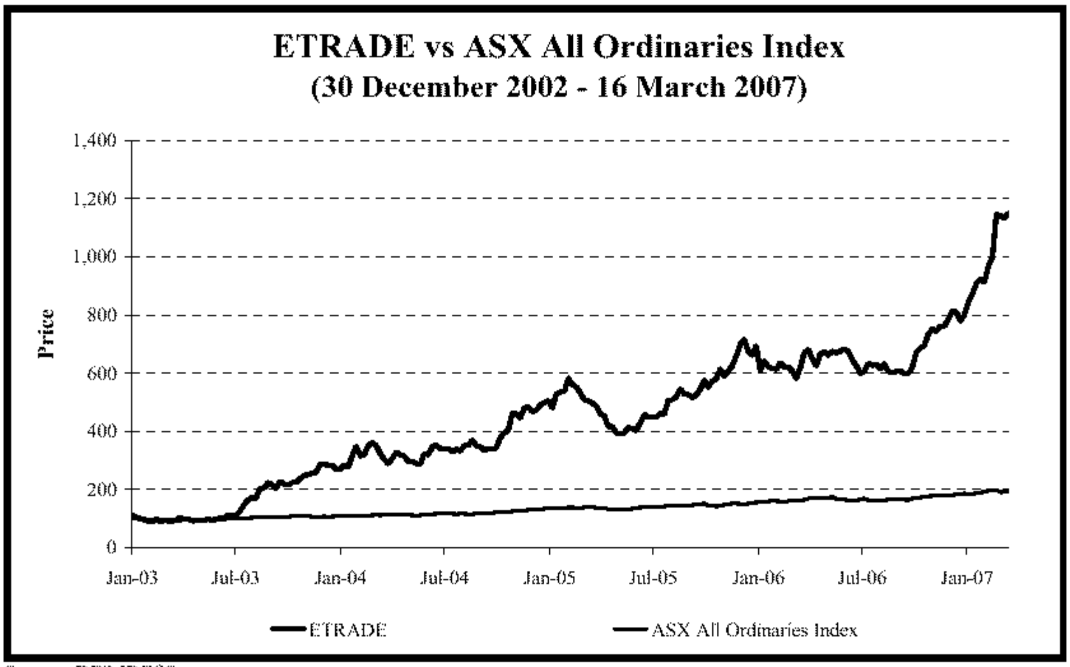
ETRADE's closing share price on 16 February 2007, the day prior to the announcement of the ANZ Offer, was $3.70, representing a market capitalisation of approximately $372 million. On 19 February 2007, following the announcement of the ANZ Offer, ETRADE shares closed at $4.15.

ETRADE shares have traded in the range $4.11-4.34 since the announcement of the ANZ Offer, with a volume weighted average price of $4.20 to 19 March 2007. The following events have occurred during this period:

- Caledonia increased its stake in ETRADE from 9.45% to 10.46% on 21 February 2007 and then to 11.97% on 13 March 2007;
- on 9 March 2007, ETRADE announced that one of the conditions of the bid which required that ETRADE US waive its right to terminate the Services and License Agreement with ETRADE without cause, had been satisfied;
- on 13 March 2007, ETRADE US, which was a substantial shareholder through its holding company Converging Arrows, Inc., sold 2.3 million shares and ceased to be a substantial shareholder;
- on 15 March 2007, IWL announced it had acquired a strategic stake in ETRADE (less than 5% of shares on issue). IWL further indicated that it currently did not intend to accept the ANZ Offer and that it was considering formulating an alternative offer for ETRADE;

- on 19 March 2007, ETRADE announced its unaudited results for the eight months to 28 February 2007; and
- on 20 March 2007, UBS Nominees Pty Ltd announced it had ceased to be a substantial shareholder on 19 March 2007.

The relative performance of ETRADE shares against the ASX All Ordinaries Index since 30 December 2002 is shown below:



Source: DFS IRESS

Notwithstanding its share price reversals in the first six months of 2003, the February 2005 to May 2005 period and the first half of 2006, ETRADE has significantly outperformed the ASX All Ordinaries Index and the S&P/ASX Financials Index since 1 January 2003.

5 Valuation of ETRADE

5.1 Valuation Summary

ETRADE has been valued in the range $424-476 million which corresponds to a value of $4.22-4.74 per share. The valuation represents the estimated full underlying value of ETRADE assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect ETRADE shares to trade on the ASX in the absence of a takeover offer.

The value for ETRADE is the aggregate of the estimated market value of ETRADE's operating business, other assets and net cash. The valuation is summarised below:

ETRADE – Valuation Summary ($millions)		
	Value Range	
	Low	High
ETRADE operating business	410.0	460.0
Other assets and liabilities	13.0	15.0
Enterprise value	**423.0**	**475.0**
Net cash as at 28 February 2007	1.2	1.2
Value of equity	**424.2**	**476.2**
Fully diluted shares on issue (millions)	100.5	100.5
Value per share	**$4.22**	**$4.74**

The bottom of the range $4.22 represents the threshold price above which an offer would be fair from a financial point of view. However, an offer price below that level would not be fair.

The valuation of ETRADE is subject to considerable uncertainty:

- ETRADE's financial performance is dependent on, and highly sensitive to, trading volumes on the ASX, which in turn depend on such factors as investor confidence, the performance of the Australian and international equity markets, and other factors beyond the control of ETRADE. Material changes in such factors can occur rapidly and with little or no warning, with potentially significant adverse impacts on the financial performance and prospects of ETRADE. Over the past three years, the ASX has largely enjoyed buoyant market conditions. However, there can be no certainty that these conditions will continue;
- ETRADE's earnings are potentially volatile, as a result of the operating leverage inherent in the business. A large proportion of ETRADE's operating costs are fixed and, accordingly, changes in trading volumes can have a material impact on earnings and cash flows. Moreover, ETRADE's client base of retail investors is likely to be particularly sensitive to significant changes in market conditions;
- uncertain future market conditions makes it difficult to prepare any reliable short or longer term forecasts for ETRADE; and
- the cost and revenue synergies available to ANZ or other purchasers of ETRADE could potentially be substantial. However, quantification of these synergies and judgements regarding the extent to which they should be reflected in a valuation are somewhat arbitrary.

Given the difficulties in developing reliable earnings and cash flow forecasts for ETRADE, discounted cash flow analysis can be no more than indicative. Accordingly, Grant Samuel has primarily had regard to the capitalisation of earnings methodology in valuing ETRADE. Grant Samuel has had particular reference to multiples of EBITDA, EBIT and net profit after tax.

The valuation includes a premium for control. Takeover premiums are typically in the range 20-35% depending on the individual circumstances. In particular, the premium paid can vary depending upon the synergies available to acquirers and competition or perceived competition for control of a takeover target.

The valuation reflects the particular attributes of ETRADE's business and takes into account factors such as:

- the strong historical growth of ETRADE, and its positive short to medium term growth outlook;
- the strong market position of ETRADE as the second largest online broker in Australia;
- ETRADE's position as the only independent retail online broker in Australia of meaningful size, and the strategic acquisition opportunity it therefore represents;
- the opportunities available to ETRADE to expand its non-broking activities, which would both grow its business and reduce the exposure of its earnings to ASX trading volumes. In particular, in the short to medium term ETRADE intends to significantly grow its cash management (which generates annuity style income) and margin lending businesses; and
- the substantial cost and revenue synergies available to potential acquirers of ETRADE.

5.2 Methodology

5.2.1 Overview

Grant Samuel's valuation of ETRADE has been estimated by aggregating the estimated market value of its operating businesses and net cash as at 28 February 2007. The value of the operating business has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The valuation of ETRADE is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in ETRADE could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

5.2.2 Capitalisation of Earnings

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

In determining a value for ETRADE's business, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of listed Australian companies involved in equity market services, and transactions involving these businesses. Grant Samuel has also considered price earnings multiples, as the online brokers in the United States tend to have significant banking activities, and therefore for these companies, net profit after tax is more relevant than EBITDA and EBIT.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interest) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

5.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (ie. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

However, ETRADE has not prepared forecasts of financial performance beyond the 2007 financial year and there is no board approved forecast of financial performance for the 2007 financial year. Further, earnings in the broking industry are volatile due to their dependence on the prevailing economic environment and stockmarket performance. A significant proportion of ETRADE's costs are fixed, which will magnify the impact of changes in revenue. These factors, combined with a highly competitive environment and a susceptibility to external shocks, can result in large swings in earnings. Accordingly, there is considerable uncertainty inherent in any forecasts (and particularly longer term forecasts) of the financial performance of ETRADE. ETRADE has not prepared any forecasts of its financial performance beyond the 2007 financial year. As a result, in Grant Samuel's view, it is not possible to base a valuation of ETRADE on discounted cash flow analysis.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business operations of ETRADE. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in ETRADE's case.

5.3 Assessment of Implied Multiples

5.3.1 Overview

The earnings multiples implied by the valuation of ETRADE's operating business and the net value of ETRADE are summarised below:

ETRADE – Implied Valuation Parameters			
	Variable ($millions)	Value Range Low	Value Range High
Multiple of EBITDA			
Year ended 30 June 2006 (reported)	18.0	22.7	25.5
Year ending 30 June 2007 (broker forecast)	31.0	13.2	14.8
Multiple of EBIT			
Year ended 30 June 2006 (reported)	16.9	24.3	27.3
Year ending 30 June 2007 (broker forecast)	26.0	15.8	17.7
Multiple of net profit after tax			
Year ended 30 June 2006 (reported)	19.9	21.4	24.0
Year ending 30 June 2007 (broker forecast)	24.0	17.7	19.8
Year ending 30 June 2007 (broker forecast adjusted)[12]	18.2	23.3	26.2

The multiples of 2006 earnings are of limited relevance, given that ETRADE's acquisition of the HSBC Stockbroking online business in June 2006 has materially increased ETRADE's profitability. ETRADE has not released guidance statements or forecasts for the year ending 30 June 2007 or beyond. Accordingly, the implied multiples of 2007 earnings set out above are based on a recent forecast of the only broker that provides research coverage of ETRADE ("broker forecasts"). This forecast is sufficiently close to the prospective earnings implied by ETRADE's 2007 Financial Information to be useful for analytical purposes. EBITDA and EBIT exclude ETRADE's share of EBITDA and EBIT from Linwar and are before significant and non-recurring items which primarily relate to the integration of HSBC Stockbroking and St.George Bank customers. Net profit after tax excludes significant and non-recurring items.

The valuation of the ETRADE operating business of $410-460 million implies multiples that Grant Samuel regards as realistic. The implied valuation parameters set out above have been compared to multiples implied by the share prices of listed Australian and international equity market service providers and online broking companies (analysed in Appendix 1 to this report) and the prices at which transactions involving these companies have been completed.

5.3.2 Market Evidence

Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;

12 Net profit after tax has been adjusted to include a full year of income tax at the corporate rate of 30%. ETRADE expects to pay only a small amount of income tax in the 2007 financial year due to the utilisation of tax losses.

- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form an appropriate judgement as to value;
- observed acquisition multiples reflect the economic and other circumstances at the time of the transaction. The price paid in each transaction will be the product of a unique combination of factors, including:
  - economic factors (eg. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and sharemarket conditions at the time; and
  - the number of competing buyers for a business.
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these synergies, the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings; and
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation.

Sharemarket Evidence

Whilst there are no comparable listed retail online brokers in Australia, there are a number of listed companies that are dependent on ASX trading volumes for the majority of their earnings, and are exposed to the risk of a downturn in market conditions. Accordingly, in reviewing multiples implied by its valuation of ETRADE, Grant Samuel has focussed its analysis on the sharemarket evidence provided by Australian listed equity market service companies.

Grant Samuel has also had regard to listed online brokers in the United States. However, the majority of these businesses are considerably larger than ETRADE, and there are distinct differences in the business models and regulatory framework governing these brokers compared to ETRADE. In particular, the online brokers in the United States are not restricted from offering banking products to their customers. Accordingly, the non-broking activities of the United States online brokers tend to generate a considerable proportion of revenues and earnings.

The following table is extracted from Appendix 1 and sets out the multiples implied by the share prices of Australian and international companies engaged in equity market services:

Sharemarket Ratings of Selected Equity Market Services Companies[13]

Company	Market Capital-isation (millions) A$	EBITDA Multiple[14] (times) Histori-cal	EBITDA Forecast Yr 1	EBITDA Forecast Yr 2	EBIT Multiple[15] (times) Histori-cal	EBIT Forecast Yr 1	EBIT Forecast Yr 2	Price Earnings Multiple[16] (times) Histori-cal	PE Forecast Yr 1	PE Forecast Yr 2
Australia										
ASX Limited	7,018	39.1	16.8	14.8	41.6	17.5	15.5	55.0	24.0	21.2
Computershare Limited	6,011	22.5	13.9	12.7	25.9	15.0	13.6	35.1	22.1	20.0
GBST Holdings Limited	164	16.8	12.6	10.9	18.5	14.0	11.9	26.7	20.5	17.2
Iress Market Technology	833	19.4	15.2	13.1	22.9	17.0	14.7	33.5	24.7	21.3
IWL Limited	271	10.6	na	na	13.3	na	na	13.8	na	na
United States										
E*Trade Financial Corporation	13,059	na	na	na	na	na	na	17.4	13.5	11.5
optionsXpress Holdings, Inc.	1,855	na	na	na	na	na	na	20.3	16.0	13.9
TD Ameritrade Holding Corp	12,079	na	na	na	na	na	na	20.1	14.4	10.9
The Charles Schwab Corporation	30,306	na	na	na	na	na	na	26.2	20.5	16.8
TradeStation Group, Inc.	757	na	na	na	na	na	na	18.9	16.6	14.2

Source: Grant Samuel analysis[17]

EBITDA and EBIT multiples are not meaningful for the United States online brokers due to the significant contribution of banking activities to their financial performance. Capitalisation of earnings for banking businesses is usually by reference to multiples of net profit after tax.

There are similarities between IWL and ETRADE, given that IWL is subject to the same regulatory, economic and trading environment as ETRADE and that it generates almost three quarters of its gross revenues from transactional broking. However, there are also significant differences. As a provider of wholesale services (principally to Westpac and NAB) IWL does not "own" its retail customers and effectively shares its brokerage revenue with its "retailers". It is highly reliant on its key retailers and vulnerable to a loss of any of its key customer relationships. It appears to have less ability than ETRADE to grow its business through the development of a broader product range and through sharing in the value created by banking products ancillary to the core broking business. The differences in business model are reflected in the differences in the recent growth rates of IWL and ETRADE. For the six months to 31 December 2006, IWL's EBITDA grew by only 16% on EBITDA for the prior corresponding period, whereas ETRADE's EBITDA grew by 86% on the prior corresponding period (albeit in part as a result of the HSBC Stockbroking acquisition). Moreover, if the earnings of IWL for the first half of the 2007 financial year are annualised, there appears to have been minimal, if any, growth on the 2006 financial year

---

13 The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

14 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, and significant items.

15 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, amortisation of intangibles, investment income and significant items.

16 Represents market capitalisation divided by net profit after tax (before amortisation of intangibles and significant items).

17 Grant Samuel analysis based on data obtained from IRESS, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

earnings despite a full 6 month contribution from the acquisitions of JDV Limited ("JDV") and BOSS Software International completed during the 2006 financial year. There are no earnings forecasts available for IWL.

Whilst they are not providers of stockbroking services, ASX Limited, Computershare, GBST Holdings Limited ("GBST") and Iress Market Technology are all service providers to the equity market. One significant difference between ETRADE and these companies is that each occupies a dominant position in the sector of the market in which it operates and has few, if any, competitors. Apart from GBST, these companies trade within the range 14-17 times year one forecast EBITDA and 22-25 times year one forecast net profit after tax before significant and non-recurring items. GBST, a provider of securities transaction and client accounting technology, trades on multiples of 12.6 times year one forecast EBITDA and 20.5 times year one forecast net profit after tax before significant and non-recurring items. These lower multiples may reflect in part the fact that GBST is much smaller than the other comparable companies, and has limited share liquidity because more than 57% of GBST's shares are held by three shareholders.

The United States online brokers trade at significantly lower multiples than the Australian equity market service providers, apart from The Charles Schwab Corporation ("Schwab"). Schwab trades at 20.5 times year one forecast net profit after tax before significant and non-recurring items (based on a December year end), but trades at 23.4 times net profit if earnings are realigned to a June year end. Of the five United States online brokers analysed, Schwab generates the most amount of revenue through advisory and other non-transaction dependent fees. The other four online brokers trade within the range 14-17 times year one forecast net profit after tax before significant and non-recurring items or 15-18 when earnings are realigned to a June year end. The lower trading multiples of the United States online brokers (by comparison with the multiples on which the Australian equity market service providers are trading) reflect the competitive nature of the United States broking market and the relative maturity of their online broking models.

The trading multiples do not include a premium for control.

Transaction Evidence

Whilst there have been a number of relevant transactions involving equity market services companies in recent years, these have generally involved divisions of larger entities or acquisitions by related parties, with little or no publicly disclosed information in relation to transaction metrics.

Two transactions involving online brokers completed in the past two years in Australia provide some valuation evidence:

- the acquisition of JDV by IWL was announced in July 2005. The acquisition was priced at 14.6 times historical EBITDA. JDV is a provider of web-enabled trading platforms, back office and portfolio management solutions to wealth management professionals. Forecast earnings for JDV at the time of the acquisition are not available; and
- the acquisition of HSBC Stockbroking by ETRADE in June 2006 was priced at around 11.6 times forecast EBITDA. Synergies totalling $2 million were expected to be generated from the acquisition.

The initial public offering of GBST was priced at forecast EBITDA multiples of 8.3 times[18]. It should be noted that initial public offerings reflect sharemarket prices and do not include a premium for control.

Given the limitations of the available transaction evidence, Grant Samuel has placed more reliance on the valuation evidence derived from a review of sharemarket prices for equity market service providers and United States online brokers.

[18] The prospectus was dated 3 May 2005 and the forecast was for the financial year ending 30 June 2005.

5.3.3 Analysis and Conclusions

The multiples implied by the valuation of ETRADE have been assessed having regard to the above market evidence and the particular attributes of the ETRADE business including its historical performance, market position and short to medium term growth outlook. In this context:

- ETRADE has secured an important position in the Australian broking sector, as the second largest provider of online equity market services with an online market share of approximately 26%;
- ETRADE is the largest independent retail online broker in Australia, and therefore represents a strategic acquisition opportunity to prospective purchasers;
- ETRADE has grown its customer numbers significantly in each year since it was established. From a base of 1,500 customers in 1998, ETRADE currently has in excess of 350,000 customers;
- with a low cost model, ETRADE is ideally positioned to manage future significant growth in customer numbers;
- successful implementation of some or all of the initiatives underway or under consideration to enhance performance could have a material effect on the future profitability of ETRADE;
- whilst the barriers to entry to the full service broking industry are low, the barriers are higher for the online broking industry due to the significant upfront technology costs and the need for scale;
- whilst ETRADE's strategic focus on online broking services has not changed, it has also commenced expansion into non-broking activities such as margin lending and asset management. This is expected to offer additional growth opportunities and will assist to reduce volatility in revenues; and
- substantial synergies (both cost and revenue) could potentially be available to acquirers of ETRADE with significant Australian banking operations.

On the other hand:

- ETRADE's revenues remain highly dependent on market conditions. A substantial proportion of its revenues are directly related to ASX trading volumes, which are subject to considerable volatility. ETRADE is a market-leveraged business. The high fixed costs, retail customer base and operating leverage of the online broking industry make it even more exposed to movements in market activity, and therefore, the volatility in revenues tends to be more pronounced. Relatively small changes in market activity can and do have a substantial impact on profitability;
- ETRADE has benefited from a buoyant equity market in recent years that continues to set new highs in trading volumes. A significant and sustained downturn in market activity would immediately have an adverse impact on the profitability and value of ETRADE;
- online brokers operate in a highly competitive landscape. Not only do they compete amongst each other in the discount broking space, but they also compete with the full service brokers; and
- there is a risk that ETRADE US does not renew its licence to the E*TRADE trademark and technology beyond 2009.

The valuation of ETRADE's operating business implies multiples of broker forecasts of EBITDA for the 2007 financial year of 13.2-14.8 times, multiples of broker forecasts of EBIT of 15.8-17.7 times and multiples of 23.3-26.2 times broker forecasts of net profit after tax[19]. Whilst Grant

[19] Net profit after tax has been adjusted to include a full year of income tax at the corporate rate of 30%. ETRADE expects to pay only a small amount of income tax in the 2007 financial year due to the utilisation of tax losses.

Samuel considers that the multiples implied by the value range are reasonable, there are no directly comparable listed companies or comparable transactions on which to benchmark the valuation.

5.4 Synergies

Grant Samuel's analysis has included an assessment of the likely synergies available to a potential acquirer of ETRADE, and a judgment as to the likely amount that a potential purchaser would be prepared to pay for those synergies. Premiums are paid for a variety of reasons. They can be substantial where there are extensive synergy benefits or perceived strategic benefits for the acquirer. In some cases, there may be little or no premium paid at all, particularly where there are few buyers.

To the extent synergies are unique to a particular acquirer ("special synergies"), it is normal valuation practice to exclude such synergies in determining fair value. However, it is normal valuation practice to allow for synergies which are achievable by more than one party. Moreover, the synergy assessment is based on an assumption that 100% of the target company is available to be acquired, and is therefore not specific to the particular opportunities available to or intentions of any particular acquirer.

The synergies available to ANZ through the acquisition of ETRADE are potentially significant. In addition to the removal of costs associated with being a publicly listed company, synergies could potentially be obtained through cost reductions in relation to information technology, telecommunications, human resources, research, marketing and other corporate overheads. ETRADE management has estimated that these cost synergies (pre-tax) could be of the order of $8.4 million, including $0.6 million of public company cost savings. In addition, ETRADE management considers that substantial revenue synergies could be available to ANZ, through growth of margin lending and cash management activities to retail and wholesale customers, and the introduction of new products such as scrip lending and the cross-selling of products such as equity loans, mortgages and cards to the ETRADE customer base.

ANZ has indicated in its Bidder's Statement that it does not intend to integrate ETRADE into its operations, but rather, to operate it as a discrete entity. Subject to an internal review of ETRADE, ANZ expects that there will be few, if any, redundancies of ETRADE employees. Effectively, ANZ has indirectly suggested that it does not expect to extract substantial cost synergies from the acquisition of ETRADE. However, there has not been any explicit public statement by ANZ as to its expectations of the short and longer term synergies that it expects to realise from acquiring ETRADE, including the revenue synergies that it anticipates.

Any of the major Australian banks should be able to achieve significant synergies through integrating ETRADE within their operations. Commonwealth Bank, as the owner of CommSec, could potentially realise the greatest quantum of synergies, but these would probably be, at least in part, special synergies unique to Commonwealth Bank, and are therefore not relevant to the valuation of ETRADE. Significant synergies should theoretically be available to Westpac or NAB, or other companies with significant banking operations in Australia. Whilst there could be some initial issues associated with switching and retaining ANZ customers, there are likely to be considerable cost savings and revenue synergies available through the distribution of banking products to broking customers. It is arguable that Westpac or NAB could generate the majority of the synergies available to ANZ.

Grant Samuel estimates that it is reasonable to expect total synergies in the range $10-15 million (pre-tax) could be achieved by a prospective purchaser with a substantial banking business. This represents around 25-50% of broker forecasts of ETRADE's EBITDA for the 2007 financial year. Of course, shareholders could not expect to realise the value of all of these synergies through an offer for ETRADE, and would generally only realise a significant proportion of this value in the context of a competitive bidding process for the company.

5.5 Other Assets and Liabilities

The value of ETRADE's other assets and liabilities are summarised below:

ETRADE – Other Assets and Liabilities ($millions)		
	Value Range	
	Low	High
50% interest in Linwar	13.0	15.0
Final consideration for 50% interest in Linwar	(1.0)	(1.0)
Tax losses	1.0	1.0
Total other assets and liabilities	**13.0**	**15.0**

ETRADE's 50% interest in Linwar has been valued at $13-15 million based on capitalisation of earnings of the business.

ETRADE anticipates that it will be required to make a final $1 million share payment in respect of the acquisition of 50% of Linwar, as it is expected that the 2007 financial year performance hurdles will be satisfied. The consideration will be in the form of shares which will be issued following completion of the 2007 financial year.

At 28 February 2007, ETRADE had a deferred tax asset of approximately $1.0 million, which is expected to be fully utilized before the end of the 2007 financial year.

5.6 Net Cash

As at 28 February 2007, ETRADE had net cash of approximately $1.2 million (excluding clients' cash held in trust accounts of $8.5 million).

6 Evaluation of the ANZ Offer

6.1 The ANZ Offer is Not Fair

Grant Samuel has valued ETRADE in the range $4.22-4.74 per share. The ANZ Offer is $4.05 cash for each ETRADE ordinary share. The offer price is below Grant Samuel's assessment of the underlying value of ETRADE and on this basis the ANZ Offer is not fair.

The valuation represents the full underlying value of ETRADE's shares and includes a premium for control. This valuation is on the basis that all ordinary shares in ETRADE are available to potential acquirers. The range of values exceeds the price at which shares in ETRADE would be expected to trade on the ASX in the absence of the ANZ Offer or any alternative offer.

ETRADE is the only independent online retail broker in Australia of a meaningful size. It represents a strategic opportunity for the major domestic banks and other companies interested in securing a strong position in the online broking market. There are significant synergies available to a number of potential acquirers of ETRADE, in particular to banks that have the opportunity to cross-sell retail banking products to ETRADE's client base.

An offer anywhere within the valuation range would be by definition fair. However, an offer towards the high end of Grant Samuel's value range would only be expected to be achieved in the event of a competitive bidding process for ETRADE.

Shareholders should understand that valuation of ETRADE is subject to considerable uncertainty for a number of reasons, including:

- while Grant Samuel's valuation of ETRADE's operating business represent earnings multiples that Grant Samuel believes are reasonable, there are no closely comparable listed companies or comparable transactions on which to benchmark the valuation;
- ETRADE's financial performance is dependent on, and highly sensitive to, trading volumes on the ASX, which in turn depend on investor confidence, the performance of the Australian and international equity markets, and other factors beyond the control of ETRADE. Material changes in such factors can occur rapidly and with little or no warning, with potentially significant adverse impacts on the financial performance and prospects of ETRADE. In recent years, the ASX has largely enjoyed buoyant market conditions. However, future market conditions and investor sentiment are difficult to predict and there is no certainty that current conditions will continue;
- ETRADE's earnings are potentially volatile as a result of the operating leverage inherent in the business. A large proportion of operating costs are fixed and, accordingly, changes in trading volumes could have a material impact on earnings and cash flows. Moreover, ETRADE's customer base (largely comprised of retail investors) is likely to be particularly sensitive to changes in market conditions and overall investor sentiment;
- the inherent volatility of the stockmarket means that it is difficult to prepare forecasts for ETRADE, even for the short term; and
- the level of cost and revenue synergies available to ANZ and other prospective purchasers from the acquisition of ETRADE could potentially be substantial. However, judgements regarding the magnitude of these synergies and the extent to which they should be reflected in a valuation are to some extent arbitrary.

6.2 Premium for Control

The ANZ Offer represents a premium to the trading prices of ETRADE prior to announcement of the ANZ Offer:

Implied Offer Premium over Share Price	
Date/period	Premium
15 January 2007 (day prior to media speculation)	21%
16 February 2007 (day prior to announcement)	9%
One month VWAP[29] prior to 19 February 2007	17%
Three months VWAP prior to 19 February 2007	26%

However, the ETRADE share price had increased significantly in the weeks prior to the announcement of the ANZ Offer, which affects the calculated premiums:

- ETRADE announced on 11 January 2007 that the integration of its HSBC Stockbroking acquisition had progressed well and that its unaudited EBITDA for the six months to 31 December 2006 was expected to be at least 75% higher than its EBITDA for the corresponding six month period in the prior year. The ETRADE share price strengthened after the announcement;
- ETRADE shares generally traded in the range of $3.30-3.40 per share between 12 January 2007 and 31 January 2007;
- takeover speculation in relation to ETRADE commenced with the announcement of the intended departure of the current Chief Executive Officer, on 15 January 2007; and
- the ETRADE share price increased by almost 10% over the fortnight before the announcement of the ANZ Offer.

Relative to the trading range of $3.30-3.40 per share, the ANZ Offer price of $4.05 represents a takeover premium of 19.1-22.7%, which is somewhat lower than the takeover premiums generally paid in successful takeovers.

Takeover premium analysis is not conclusive as it is not possible to distinguish between the factors that affected the ETRADE share price during January 2007. As a result, there is no clear reference price against which to calculate the premium being offered. In any event, the magnitude of the premium is of only limited relevance to an assessment of the ANZ Offer. The premium that ETRADE shareholders could expect to realise is a function of the underlying value of the company and its attractiveness to potential acquirers, rather than determinative of value.

6.3 The ANZ Offer is Not Reasonable

In some takeovers there are factors that might suggest that even if an offer is not fair, it is reasonable and that shareholders should consider accepting even though it is not fair. For instance, this may be the case in circumstances where:

- the offeror already controls the company;
- there are other significant or controlling shareholdings;
- there is little or no likelihood of an alternative offer; or
- the liquidity of the shares after the offer closes is likely to be significantly reduced with potentially adverse impact on the share price.

Evaluation of the ANZ Offer is not straightforward. It is difficult to make precise judgements about the value of ETRADE shares, due to the limited forecast information and valuation evidence. Further, ETRADE's performance is leveraged to Australian and international trading volumes. ETRADE has benefited from buoyant conditions in recent years. There is no guarantee that the prevailing market conditions will continue.

[29] Volume weighted average price.

Grant Samuel has concluded that the ANZ Offer is not reasonable. The reasons for Grant Samuel's opinion are summarised below:

- although the ANZ Offer represents a premium to ETRADE's pre-announcement share price, the ANZ Offer is below the low end of Grant Samuel's valuation range of $4.22-4.74 per share and the ETRADE trading range since the announcement of the ANZ Offer (to 19 March 2007) of $4.11-4.34 per share;
- it appears unlikely that ANZ will be successful in acquiring 100% of ETRADE at the current offer price. Since the announcement of the ANZ Offer, ETRADE's second largest shareholder, Caledonia, has acquired an additional 2.5 million ETRADE shares (representing approximately 2.5% of ETRADE's shares on issue) at an average acquisition price of $4.18 per ETRADE share, and now holds 11.97%. IWL has announced that it has acquired a strategic holding in ETRADE shares and that it does not currently intend to accept the ANZ Offer; and
- the acquisition of ETRADE potentially offers significant benefits to ANZ. Grant Samuel believes that ANZ would not be bidding if it did not see value in ETRADE above the offer price. In these circumstances, it is realistic to anticipate that ANZ may increase its offer price. On the other hand, the prospects of securing a higher offer will diminish if there are significant acceptances of the ANZ Offer.

However, shareholders should understand that there are risks associated with not accepting the ANZ Offer. In particular:

- there can be no certainty that a superior alternative offer for ETRADE will be forthcoming in the event that the ANZ Offer is unsuccessful:
  - whilst IWL has indicated that it has acquired a significant shareholding in ETRADE (although less than 5%) and is considering the formulation of an alternative proposal for ETRADE, there is no certainty that IWL will make a superior counter offer for ETRADE. IWL is a significantly smaller company, with a market capitalisation of around $260 million by comparison with ETRADE's current capitalisation of over $420 million. The strategic fit between ETRADE and IWL has still to be demonstrated. The ETRADE share price increased following the announcement that IWL had acquired its shareholding. On one view the IWL share acquisition is more likely to be a blocking stake than the foundation of a superior alternative offer, and may even reduce the prospects of a successful higher cash offer;
  - there has been no indication that any of the domestic banks other than ANZ have an interest in acquiring ETRADE. Competition regulation may prevent Commonwealth Bank (the owner of CommSec) from acquiring ETRADE, and NAB and Westpac currently utilise IWL to provide online broking services; and
  - it is possible that an international bank or online broker could view ETRADE as an attractive entrance into the Australian marketplace. Of the international participants, ETRADE US was at one time viewed as a potential acquirer, given its existing relationship with ETRADE. However, ETRADE US has divested part of its interest in ETRADE since the announcement of the ANZ Offer, which would suggest that it is unlikely that ETRADE US will make a counter-offer for ETRADE. ETRADE US had a representative on the board of ETRADE, who resigned as a director effective 9 March 2007.

  In any event, any counter-proposal seeking to acquire 100% of ETRADE could only proceed with the approval of ANZ, given its 34.2% interest in ETRADE. Therefore, there appears to be at best limited prospects of ETRADE receiving a higher cash offer from a third party;
- rejection of the ANZ Offer on the basis that ANZ may increase its offer effectively represents an attempt to extract a share of the synergistic or other strategic value for ANZ that would not be available to ETRADE on a standalone basis. However, ANZ has suggested that it does not expect to obtain substantial synergies from acquiring ETRADE. There can be no guarantee that ANZ will increase the offer price. In the absence of the ANZ Offer, the

ETRADE share price will almost certainly fall, and probably to levels below the offer price; and

- ETRADE's strong share price performance reflects in part the strong performance of the Australian and international equities markets. Recent share price volatility in both the Australian and offshore markets demonstrates that there can be no certainty as to future trading conditions in equity markets. A prolonged and significant downturn in equity markets could materially reduce ETRADE's profitability and value. A decision to reject the ANZ Offer means that shareholders may be exposed to this equities markets risk.

On balance, Grant Samuel believes that shareholders would be justified in not accepting the ANZ Offer. Accordingly, in Grant Samuel's view, the ANZ Offer is neither fair nor reasonable.

6.4 Shareholder Decision

The decision of each shareholder as to whether to accept the ANZ Offer is a matter for individual shareholders based on each shareholder's views as to value and future market conditions, risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences (such as the extent to which capital gains tax will be payable) may vary from shareholder to shareholder. If in any doubt, shareholders should consult an independent professional adviser.

7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services and manages property development funds. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 380 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) CA (SA) ACMA and Hannah Crawford BCom LLB CA F Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Matt Leroux MEng MBA assisted in the preparation of the report. Each of the above persons is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the ANZ offer is fair and reasonable. Grant Samuel expressly disclaims any liability to any ETRADE shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target's Statement issued by ETRADE and has not verified or approved any of the contents of the Target's Statement. Grant Samuel does not accept any responsibility for the contents of the Target's Statement (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with ETRADE or ANZ that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the ANZ Offer. Grant Samuel advises that:

- five executives of Grant Samuel and its related entities each hold a parcel of less than 5,000 shares in ANZ; and
- in 2005, a related entity of Grant Samuel advised ANZ in relation to ANZ's office accommodation in Perth and Sydney.

Grant Samuel had no part in the formulation of the ANZ Offer. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $290,000 for the preparation of this report. This fee is not contingent on the outcome of the ANZ Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993.

7.4 Declarations

ETRADE has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence, wilful misconduct, reckless misbehaviour, fraud, breach of the terms of its engagement letter or misleading or deceptive conduct by Grant Samuel. ETRADE has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been negligent or engaged in wilful misconduct, reckless misbehaviour, fraud, breach of the terms of its engagement letter or misleading or deceptive conduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by ETRADE are limited to an amount equal to three times the total fees paid to Grant Samuel.

Advance drafts of this report were provided to ETRADE and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target's Statement to be sent to shareholders of ETRADE. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 23 March 2007 and the Appendix form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
23 March 2007

Grant Samuel & Associates

Appendix 1

Valuation Evidence from Sharemarket Prices

The valuation of ETRADE has been considered in the context of the sharemarket ratings of listed Australian and United States-based companies with operations similar to the trading activities of ETRADE. While none of these companies is precisely comparable to ETRADE and the number and range of listed Australian and American companies is limited, the sharemarket data provides some framework to assess the overall and individual operating business valuations of ETRADE.

Sharemarket Ratings of Selected Listed Companies[1]

Company	Market Capital-isation[2] (A$millions)	EBITDA Multiple[3] (times)			EBIT Multiple[4] (times)			Price Earnings Multiple[5] (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
Australian companies										
ASX Limited	7,019	39.1	16.8	14.8	41.6	17.5	15.5	55.0	24.0	21.2
Computershare Limited	6,011	22.5	13.9	12.7	25.9	15.0	13.6	35.1	22.1	20.0
GBST Holdings Limited	164	16.8	12.6	10.9	18.5	14.0	11.9	26.7	20.5	17.2
Iress Market Technology	833	19.4	15.2	13.1	22.9	17.0	14.7	33.5	24.7	21.3
IWL Limited	271	10.6	na	na	13.3	na	na	13.8	na	na
United States companies										
E*TRADE Financial Corporation	13,059	na	na	na	na	na	na	17.4	13.5	11.5
optionsXpress Holdings, Inc.	1,855	na	na	na	na	na	na	20.3	16.0	13.9
TD Ameritrade Holding Corp	12,079	na	na	na	na	na	na	20.1	14.4	10.9
The Charles Schwab Corporation	30,306	na	na	na	na	na	na	26.2	20.5	16.8
TradeStation Group, Inc.	757	na	na	na	na	na	na	18.9	16.6	14.2

Source: Grant Samuel analysis[6]

The multiples shown above are based on sharemarket prices as at 15 March 2007 and do not reflect a premium for control.

ASX Limited, Computershare Limited ("Computershare"), GBST Holdings Limited ("GBST") and IWL Limited ("IWL") each have a June year end. Iress Market Technology ("IRESS"), E*TRADE Financial Corporation ("ETRADE US"), optionsXpress Holdings ("optionsXpress"), Inc., The Charles Schwab Corporation ("Schwab") and TradeStation Group, Inc. ("TradeStation") have a December year end. TD Ameritrade Holding Corp ("TD Ameritrade") has a September year end.

---

1 The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

2 Market capitalisation based on sharemarket prices as at 15 March 2007.

3 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

4 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

5 Represents market capitalisation divided by net profit after tax (before significant and non-recurring items).

6 Grant Samuel analysis based on data obtained from IRESS, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

EBITDA and EBIT multiples are not meaningful for the United States online brokers due to the significant contribution of banking activities to their financial performance. Capitalisation of earnings for banking businesses is usually by reference to multiples of net profit after tax.

A brief description of each company is set out below:

ASX Limited

ASX Limited was created through the merger of the Australian Stock Exchange and the Sydney Futures Exchange on 5 July 2006. It is one of the top 10 listed exchange groups in the world with a market capitalisation as at 15 March exceeding $7 billion. It operates the markets for equities, derivatives and fixed interest securities, as well as capital-raising and corporate control transactions. The growth in earnings evidenced by the significant decline in its multiples between the 2006 financial year and forecast for the 2007 financial year is largely a consequence of the acquisition of SFE Corporation Limited on 5 July 2006. On a pro forma basis, ASX Limited generated an EBITDA of $282 million on revenues of $450 million during the financial year ended 30 June 2006. The derivatives and the cash market segments accounted for approximately 31% and 28% respectively, with ASX listings adding an additional 19%. ASX Limited's performance in the six months ended 31 December 2006 was very strong, with total revenue reaching $260 million and EBITDA $184 million supported by a high number of listings and cash equities trading levels.

Computershare Limited

Computershare is an Australian company which was established in 1978 and listed on the ASX in 1994. It is the world's largest share registry with a market capitalisation as at 15 March 2007 of $5.9 billion and operations in all major international markets. In the financial year ended 30 June 2006, Computershare generated an EBITDA of $304 million on revenues of $1.6 billion. The provision of registry and related services accounted for in excess of three quarters of the revenue. The balance of revenues was generated through the provision and management of employee share and option plans, print and electronic document services, shareholder relationship management and the provision of software. For the 2006 financial year, North America represented just under 60% of the revenue with Asia Pacific and EMEA (Europe, Middle East and Africa) sharing the balance. The growth in earnings between the 2006 financial year and forecast for the 2007 financial year reflects strong revenues for the first half of the financial year ending 30 June 2007, the contribution for the full six months of the benefits from the restructuring of the United Kingdom business and the impact of synergy benefits from the successful integration of the Equiserve business (acquired in June 2005).

ETRADE US

The United States-based ETRADE US was incorporated in 1996. It is listed on NASDAQ and had a market capitalisation of US$9.3 billion as at 15 March 2007. ETRADE US offers investing and trading, banking and lending services to their retail clients and market making, execution and direct market access services to institutional clients. As at 30 September 2006, it had approximately 4.4 million customer accounts for a total of US$185 billion in customer assets. In the financial year ended 31 December 2006, the retail segment accounted for approximately two thirds of total revenue of US$2.4 billion. Net interest income represented more than half of the 2006 financial year revenues and commissions approximately a quarter. ETRADE US trades at the lower end of the range of United States companies. This is likely to be a consequence of its greater exposure to interest rate risk as compared to its peers. Net interest income represented 58% of its net revenue for the financial year ended 31 December 2006.

GBST Holdings Limited

GBST is an Australian company which was established in 1983 and listed on the ASX in June 2005. It had a market capitalisation as at 15 March 2007 of approximately $160 million. GBST specialises in the provision of client accounting and securities transaction technology to capital market participants. GBST generates more than 90% of its revenues through recurring license fees. In the financial year ended 30 June 2006, GBST had revenues of $28 million and EBITDA of $9 million. GBST trades on lower multiples than its peers probably reflecting that more than 57% of its shares are held by three shareholders. Further, GBST is considerably smaller than its peers in the equity market service industry.

Iress Market Technology

Iress is an Australian company, listed on the ASX, with a market capitalisation as at 15 March 2007 in excess of $840 million. Iress provides solutions that allow access to real time sharemarket information to financial market participants and offers trading and financial planning tools to wealth management professionals. Iress now covers the Australian, New Zealand and Canadian sharemarkets and also has wealth management clients in South Africa. During the financial year ended 31 December 2006, it generated an EBITDA of just under $42 million on revenues exceeding $93 million.

IWL Limited

IWL is an Australian company listed on the ASX with a market capitalisation of approximately $260 million as at 15 March 2007. The company provides online broking solutions to retail and institutional clients under its own brand as well as under white label arrangements. It also offers financial planning software and investment research to retail and wholesale clients. During the financial year ended 30 June 2006, EBITDA was $28 million on operating revenues of $106 million. Wholesale broking, retail broking and advisory software respectively accounted for approximately 55%, 17% and 15% of the operating revenues. IWL trades at significantly lower historical multiples than its Australian peers, which is likely to reflect the wholesale nature of its business model. Furthermore, if the earnings of IWL for the first half of the 2007 financial year are annualised, there appears to have been minimal, if any, growth on the 2006 financial year earnings despite a full 6 month contribution from the acquisitions of JDV Limited ("JDV") and BOSS Software International completed during the 2006 financial year. No recent forecast information is publicly available.

optionsXpress Holdings, Inc.

optionsXpress is a United States online broker listed on NASDAQ with a market capitalisation as at 15 March 2007 in excess of US$1.4 billion. Initially focused on option trading, the company now covers shares, futures, foreign exchange and fixed income securities. Since opening its first customer account in December 2000, optionsXpress had grown its customer accounts to over 200,000 and assets to over US$4 billion. In the financial year ended 31 December 2006, the company generated just under $187 million in revenues, of which almost 85% were brokerage related and the balance was interest revenue.

TD Ameritrade Holding Corp

The United States-based TD Ameritrade provides securities brokerage services to retail and institutional investors as well as intermediaries, through its online broking trading platform and a branch network. The company is listed on NASDAQ and had a market capitalisation over US$9.1 billion as at 15 March 2007. In January 2006, TD Ameritrade completed the acquisition of the United States brokerage operations of the Canadian Toronto-Dominion Bank. Similar to its United States competitors, TD Ameritrade also offers banking products. As at 30 September 2006, it had approximately 6.2 million customer accounts for a total of US$260 billion in assets. During the financial year ended 29 September 2006, the company generated an EBITDA of US$920 million on revenue in excess of US$1.8 billion. Transaction fees accounted for approximately 40% of the revenue, net interest for another 39% and money market fees for the balance. TD Ameritrade trades at the lower end of the range of United States companies, probably reflecting its greater exposure to interest rate risk as compared to its peers. Net interest income represented 39% of net revenue for the financial year ended 31 December 2006.

The Charles Schwab Corporation

Schwab is the largest listed United States broker in terms of market capitalisation, customer accounts and customer assets. As at 30 September 2006, it had in excess of 6.7 million customer accounts and US$1,300 billion in client assets. Schwab offers brokerage and banking services through its online platform and a network of branches. During the financial year ended 31 December 2006, trading revenue accounted for 18% of the revenue, whereas fees generated on assets under management and net interest reached 45% and 33% respectively. Schwab is listed on NASDAQ and had a market capitalisation in excess of US$22 billion as at 15 March 2007. With a multiple of 20.5 times year one forecast net profit after tax before significant and non-recurring items, Schwab trades at significantly higher multiples than the other United States brokers. Schwab generates the most amount of revenue through advisory and other non-transaction dependent fees of the United States online brokers.

TradeStation Group, Inc.

TradeStation is an American brokerage firm listed on NASDAQ with a market capitalisation as at 15 March 2007 of close to US$560 million. At 31 December 2006, TradeStation had 31,500 customer accounts and customer assets of US$1.6 billion. For the financial year ended 31 December 2006, the company had $128 million of revenues, of which in excess of 60% were generated through brokerage, another 31% were net interest income and the balance was mainly subscription fees. As a result of this revenue mix, TradeStation trades above the average of the United States brokers with a forecast year one multiple of net profit after tax before significant and non-recurring items of 16.6 times.