ASX Open

Australian Stock Exchange
Report to Shareholders
2003/04

ASX
AUSTRALIAN STOCK EXCHANGE

Contents

Australian Stock Exchange Limited
ABN 98 008 624 691

The expression 'the market is open' is a daily catchcry – a pointer that the ASX market is trading, active, and open for business.

The words carry the challenge that our systems infrastructure and our rules framework are operating reliably and efficiently, so our customers can transact with confidence.

For ASX, the words carry an extra meaning: an 'open' market is transparent, accessible and accountable – a market where disclosure of material information is the essential contributor to confidence.

ASX is proud to present shareholders with their 2003/04 Report – a record of a record year. But there is a wider circle of Australians with a stake in the successful operation of this exchange. For them, and for anyone simply interested in Australia's capital market, ASX will later this year publish a separate, companion report that documents our challenging role as the exchange operator.

As with this report, it will show what it means to be an open market.

2003/04 highlights

	Year to 30 June 2004 $m	Year to 30 June 2003 $m	Year to 30 June 2002 $m	Year to 30 June 2001 $m	Year to 30 June 2000 $m	Year to 30 June 1999 $m
Operating revenue*	241.2	206.8	205.1	192.6	192.3	152.1
EBITDA	124.5	91.6	96.5	90.2	92.4	48.5
Depreciation and amortisation**	16.4	17.2	18.6	18.5	17.9	15.4
EBIT	108.1	74.4	78.0	71.7	74.6	33.1
Operating profit after tax	82.7	57.8	59.1	51.0	53.6	37.7

* Excludes interest and dividend revenue
** Excludes goodwill amortisation

Number of employees (FTE) at 30 June*	554	585	576	626	577	576

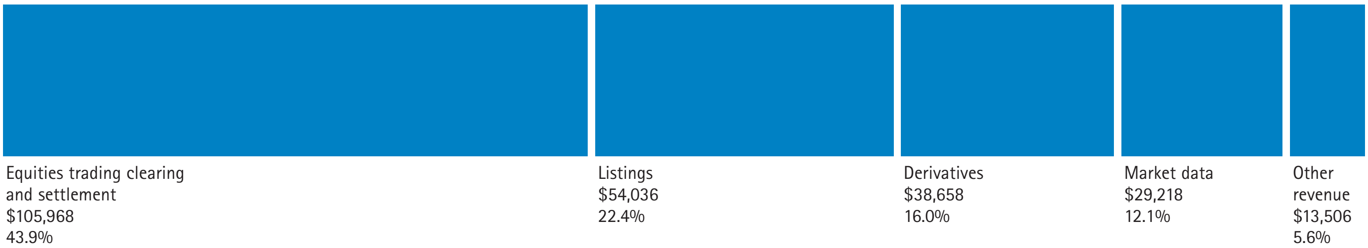
* Includes Orient Capital from year ended 30 June 2001

	cents	cents	cents	cents	cents	cents
Earnings per share						
– pre-goodwill amortisation	83.8	59.3	60.9	52.9	53.5	37.4
– post-goodwill amortisation	81.1	56.6	58.3	50.4	53.1	37.4
Dividend						
– interim	29.2	21.5	19.5	26.8	24.3	15.5
– final	27.4	18.1	21.1	16.5	31.9	19.4
– special	24.1	27.5	–	–	10.0	–
– capital return	–	–	–	–	20.0	–

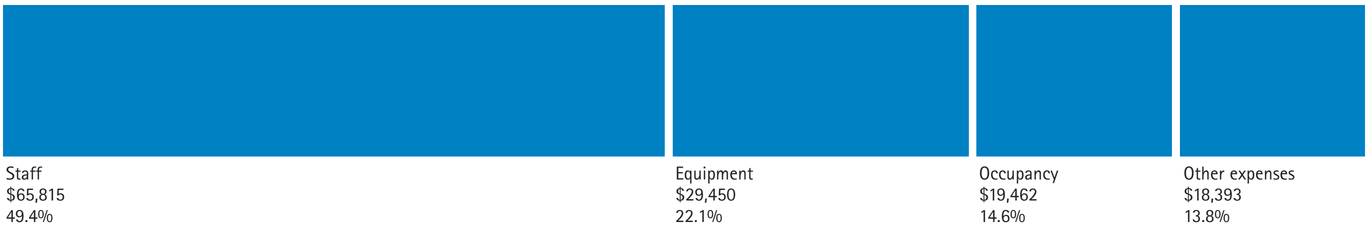
Final dividend information

– ex date	9 August 2004
– record date	13 August 2004
– payment date	27 August 2004

Revenue by category $000



Expenses by category $000



Chairman's review

By any measure 2003/04 has been an outstanding year for ASX, a year in which market records were established and then broken across nearly every field of our endeavour and when the benefits of earlier vision and groundwork continued to be realised.

The year 2003/04 is also the last under our Chief Executive Officer and Managing Director, Richard Humphry. Throughout his watch we have seen an astonishing period of change and growth. Looking back, it is remarkable what he has achieved in a decade. After all, ten years is not such a long time, and yet the markets, and, unquestionably, ASX as a business, are barely recognisable from a decade ago.

Maurice L Newman
Chairman

On 23 April 2004, Tony D'Aloisio was chosen to lead ASX into its next decade, succeeding Richard Humphry as CEO and Managing Director. As the Chief Executive Partner of Mallesons Stephen Jaques, Mr D'Aloisio has helped build Mallesons into one of Australia's most successful and prestigious law firms. Prior to assuming that role in 1992, he was a partner practising across several areas of commercial law. In addition, he has served as a company director and is on the board of the Business Council of Australia – a position he will retain. His appointment is for three years, with an option of a further two years.

Tony D'Aloisio

At the time, Richard Humphry's appointment was a somewhat controversial one. ASX was still a mutual, owned by its major customer group, the stockbrokers, and there were concerns that he would entrench the perceived bureaucracy, given that he was recruited from the New South Wales government where he was Director-General of the Premier's Department.

Rather than build a bureaucracy, he set about streamlining and modernising ASX, while at the same time preparing for its demutualisation and listing – a world-first. While the implementation of this company-making decision will be his lasting legacy, many of his initiatives have been less visible but have added greatly to shareholder value. For example, in 1998 at the time of our demutualisation, ASX's cost/income ratio was 86%. Today it is around 55%.

Richard Humphry has also played an important and influential role in persuading state and federal governments to adopt policies which have added to the efficiency and liquidity of the markets, thereby lowering the cost of capital for all. The change in the administrative arrangements which shifted responsibility for the Exchange from the Attorney-General's department to the Treasury, the abolition of market transfer duty and the reduction of capital gains taxes, are examples of policy reforms which have brought benefits not only to ASX, but to the community as a whole.

It has been a pleasure to work with him and together we have had an excellent working relationship with the Board. This has been a positive force for good throughout his term. Not only is this reflected in the financial results, but in the robust culture, with its dedication to integrity and values. This, and the sound management structure, is what Tony D'Aloisio, his successor, will inherit.

We are grateful to Mr Humphry for a decade of outstanding service and for agreeing to extend his term to ensure the transition will be as seamless as possible.

Tony D'Aloisio self-selected from an outstanding field of ASX and external candidates. Although he comes from outside financial markets, his track record in building and running the leading law firm Mallesons Stephen Jaques speaks for itself. He has taken his firm in an intensely competitive sector and built it into the pre-eminent organisation it surely is today.

As well as being the Chief Executive Partner of Mallesons Stephen Jaques, Tony D'Aloisio was a director of Boral Limited and of the Business Council of Australia. Because ASX governance requirements prohibit the chief executive from being a director of other companies listed on ASX, he has resigned from the Boral board. His skills, character and status make him a worthy successor to Richard Humphry and we are delighted to have secured his services. We look forward to a long and successful association, building on our strengths and opportunities to create further value for our shareholders.

Mr D'Aloisio will take over the role by 1 November 2004. He will be supported by the ASX senior management team which has been further strengthened with the promotion of Colin Scully to the position of Deputy Chief Executive Officer.

Last year at this time we noted the pick-up in global activity but pondered whether it was sustainable. Thanks to the unprecedented monetary and fiscal stimulus applied to the US economy, the pace of economic growth accelerated but there are still doubts about its durability. Nevertheless, the Australian index is at an all-time high and volumes of daily trades in equities and derivatives continue at buoyant levels. While IPO activity is not at a record, it has picked up significantly.

The year 2004/05 marks the beginning of reporting under the new corporate governance guidelines, developed by the ASX Corporate Governance Council, a group of some 21 interested organisations. ASX has been an early adopter. The hallmark of the guidelines has been to encourage disclosure, but to avoid the 'one size fits all' approach. Although subject to some opposition when announced, we are encouraged with the now widespread acceptance of the principles. This is important because it should avert the need for further legislation.

This said, there has been growing concern about the overall cost of regulation. It is important that government carefully monitor the costs/benefits of increasing accountability and regulatory compliance. ASX totally supports the need for full disclosure, transparency and the 'if not, why not' approach, but acknowledges that it is not possible to legislate for honesty or competence. While additional regulation may appear to provide solutions, sight should not be lost of the increasing cost burden, especially for small companies, or the moral hazards involved.

If the requirements for listed companies become too onerous, there will be a reluctance to bring companies to ASX. The number of significant private equity investors is growing rapidly and may provide an appealing alternative to the public route for unlisted companies. This would be an unhealthy development that may lead to an increase in Australia's cost of capital and become a negative for our international competitiveness.

The continued relative outperformance of the Australian market, the buoyant capital raising environment of the past twelve months, the record levels of trading activity across equities and options markets, and the continued strength in private investor participation, speak volumes for our success in providing open, accessible and transparent markets of integrity.

During the year, much of our effort has been focused on the development of a distinct and separate Market Integrity division, headed by a chief integrity officer. Our initiative reflects the ongoing need to review and evolve our practices in market supervision as circumstances and expectations require. It is important that a sense of perspective is maintained and that we do not lose sight of our central goal of enabling quality businesses to grow in a market of the highest reputation. We want to ensure a 'can do' approach within the bounds of good governance.

Amid the commentary, observation and, occasionally, excessive enthusiasm for governance and legislative reform, I have lately sensed that the system we have pioneered in Australia over the past decade is not only well-suited to our conditions, but is attracting favourable and increasing attention from regulators and practitioners overseas. In a global market, where international investors are becoming more discerning about the markets in which they invest, this is positive news for ASX and Australia. After all, a brand in which investors can have confidence is a critical ingredient for success, not least for ASX.

The 2003/04 year has been outstanding and I can assure shareholders that as we set out on the next phase of our development, we will not forget the steps that got us here in the first place.

Maurice L Newman
Chairman

Managing Director's review

This year's results with record revenue, profit and market activity, are particularly satisfying. The organisation and our people have collectively come such a long way during the past decade, and it has been my privilege to oversee this period of change and challenge.

It is also an opportunity to thank you, the shareholders, for your continued support and interest in one of Australia's great companies.

You have elected an outstanding group of directors ably led by Maurice Newman. Their professional approach to policy and strategic direction has positioned the company at the forefront of the world's stock exchanges, and assisted management in delivering consistent annual compounded profitability of more than 14% since the demutualisation year of 1998/99, while continuing to remain at the cutting edge in the dynamic area of market supervision.

This year has been notable for the increase in revenue from every category, with market conditions leading to record levels of activity in listings and trading. A net profit of $82.7 million on revenue of $241.2 million is a credit to all of the 554 employees of ASX. There is a tremendous depth of talent and capability across the organisation that will provide excellent support to my successor, Tony D'Aloisio. Mr D'Aloisio has already demonstrated outstanding abilities as Chief Executive Partner of a successful Australian law firm, and will, I am sure, continue to build on the success of ASX.

Among the many initiatives and new activities this year, there are two key decisions, other than the appointment of your new Managing Director, that are worth highlighting. In April, the Board decided to replace our core equities trading system, SEATS, with a new integrated system designed by the Swedish company OM. This new application will further enhance Australia's capital markets by providing a single integrated electronic platform for equities and derivative products.

SEATS was designed and developed to coincide with the formation of ASX in 1987 to ensure that all market participants across Australia had equal access to the same information at the same time. ASX became the first fully electronic national exchange in the world, and so the decision to move away from such a successful platform was not taken lightly. SEATS has been, and could have continued to be, a robust and capable platform for a number of years.

However, the integrated trading of all equities and derivatives products on one system is another example of ASX at the forefront of exchange developments, and it will be further strengthened by the Singapore Exchange's decision to adopt a similar system.

A second key decision was the formation of the Market Integrity division in January 2004. The internal separation of ASX's supervisory functions from commercial activities has been an evolutionary one that had its genesis in ASX's demutualisation and listing. The new structure, which formalises existing separations of information and personnel, further enhances ASX's ability to manage conflicts and deal fairly and consistently with all of our customers in all circumstances. It again places the Exchange at the forefront of what is a dynamic and evolving area impacting on all capital markets across the world.

ASX's supervisory activities are important in sustaining investor confidence and encouraging companies to list and use the market for raising capital. With our core requirement for the continuous disclosure of market sensitive information by all listed companies, ASX seeks to promote an informed and transparent market for all investors. Our policy and practice has attracted great interest internationally, and it is a credit to both our listed companies and the ASX staff who deal with this area that our markets continue to enjoy a high reputation for standards of integrity.

Australia's market capitalisation now stands at over $840 billion – equivalent to the size of the national economy (GDP) and nearly four times the size of the $220 billion capitalisation of a decade ago. Market capitalisation has increased by more than $120 billion in the last year alone. The liquidity of our market is now well over 80%, from 30% ten years ago, and all these factors together ensure Australia's companies can efficiently raise capital at the lowest possible cost. Such a market directly contributes to the nation's economic and employment growth.

Richard G Humphry
Managing Director and
Chief Executive Officer

In recent months as I have approached my retirement, I have had the opportunity to reflect on the remarkable achievements of those who brought Australia's six state stock exchanges together to form one single Australian capital market. That initiative, along with the introduction of nation-wide electronic trading and clearing and settlement systems, provided the foundation for growing Australia's capital markets to their present high levels.

These initiatives paved the way for Australia to develop deep and liquid capital markets, and this coincided with large-scale privatisation and listings of key government enterprises and demutualisation of large mutual businesses.

Progressively, these developments also introduced the Australian community to the market with the result that – as our Share Ownership Study shows – we now have over half of the adult population holding shares. The survey shows that the Australian community is rapidly emerging as one of the most sophisticated; ASX's public education seminars and courses – face-to-face and online – are strongly supported. The compulsory superannuation guarantee has further strengthened the supply of capital to listed and unlisted companies seeking the lowest cost capital possible in a well-regulated market.

That the markets have adapted and coped so well with the tremendous growth in capitalisation, activity and turnover is testament to those with the vision and the tenacity to invest time and capital in core infrastructure for the future of our business. The markets have evolved through a decade of quantum structural reform and change.

To his credit, your Chairman, Maurice Newman, was the key protagonist in ensuring that the Exchange pursued the further step of demutualisation and this led to the listing of ASX on its own market in October 1998. Apart from unlocking the true value of the Exchange for shareholders, this development made possible the organisation's drive for efficiency, growth and performance. It is no accident that this model has now been widely adopted internationally.

A major emerging challenge and opportunity for the future, as I see it, is the need now to reinvest in Australia's ageing infrastructure. I cannot imagine a better way to fund these projects than through the securitisation of assets, including the mounting supply of superannuation savings, using either debt or equity structures that are listed on our markets. ASX has the electronic infrastructure and transaction systems to support this, now and into the future. Listing has the added benefit of ensuring transparency through the high standards of disclosure and governance that are demanded of listed companies.

The liquidity and accessibility offered by our market means that all Australians have the opportunity to invest in these assets and projects. It would certainly be a great advance on the lottery held to fund construction of the Sydney Opera House in the 1960s!

I would like to leave you with a message of confidence. Your business is in sound shape and is well positioned for the multitude of challenges that lie ahead. There are capable and conscientious people at ASX who, under the leadership of Tony D'Aloisio, will continue to make this organisation a great Australian success story.

I take this opportunity to thank the staff of Australian Stock Exchange and in particular the executive management team for their achievements in developing and managing the many diverse and intricate functions of a modern exchange in such a professional and competent manner. I particularly acknowledge my deputy, Angus Richards, whose professionalism and depth of experience has been a great support to me. I also express my thanks to the Board of directors for their leadership, and you, the shareholders, for your interest and support.

Richard G Humphry
Managing Director and
Chief Executive Officer

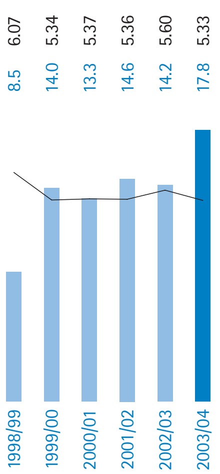
Review of operations

ASX continued to focus during the year on operating Australia's pre-eminent licensed market for financial products, performing all the commercial, business development, supervisory, technology and other activities necessary to do so on a profitable and sustainable basis.

ASX achieved a record net profit after tax of $82.76 million on record operating revenue (excluding interest and dividends) of $241.2 million. This translates to profit growth of 43.2% on revenue growth of 16.6%.

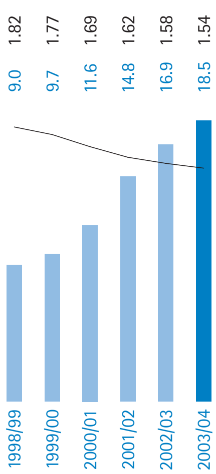
Equities

■ Trades (million)
— Average revenue per trade ($)



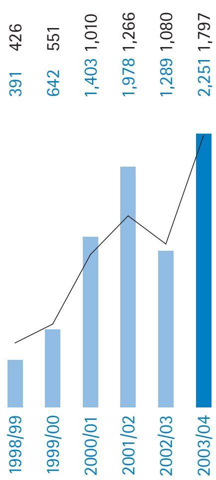
Options

■ Contracts (million)
— Average revenue per contract ($)



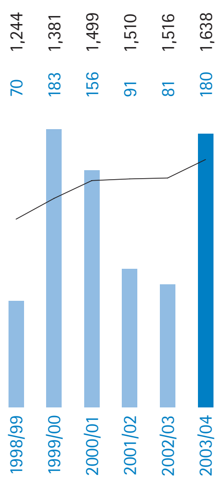
Warrants

■ New series
— Total series



Listings

■ New listings
— Total listings



The strong performance reflects buoyant conditions across ASX's business with increases in all categories of revenue. Expenses rose just 0.6%, resulting in a strong increase in profit performance. ASX will pay 100% of 2003/04 financial year earnings to shareholders with a fully franked special dividend accompanying the fully franked final dividend.

Revenues

Operating revenue of $241.2 million is made up of:

- $54.0 million in listings revenue, an increase of 39.1%;
- $106.0 million in equities revenue, an increase of 17.4%;
- $38.7 million in derivatives revenue, an increase of 0.6%;
- $29.2 million in market data revenue, an increase of 5.9%; and
- $13.4 million in other revenue, an increase of 14.1%.

The significant increase in listings revenue reflects the buoyant environment for capital raisings, with a record $38.6 billion raised for new and existing listed companies. Of this, $12.7 billion was raised for new listings and $25.9 billion was raised in the secondary market for existing listed companies. There were 180 new listings, bringing the total number of listings to 1,638.

Equities revenue grew strongly through a 25.1% increase in the number of trades, partly offset by a reduction in the average revenue per trade to $5.33 from $5.60 for the previous corresponding period. The reduction in average revenue reflects ASX's volume discount to participants, which increases as the daily average trades increase. During the period there were 17.8 million trades compared with 14.2 million during the previous corresponding period. This equates to a daily average of 69,665 compared with 56,109 during the previous corresponding period.

Derivatives revenue grew marginally, reflecting strong growth in options volumes offset by weaker revenue from the warrants business. Total options contracts traded were 18.5 million compared with 16.9 million during the previous corresponding period, an increase of 9.7%. This equates to a daily average of 72,489 against 66,606 last year, with average revenue per contract of $1.54 compared with $1.58 last year.

The warrants business experienced a resurgence in new product issuance following a fee restructure introduced by ASX in November 2003. There were 2,251 new products issued compared with 1,289 last year, reflecting the issuance of a large number of short-dated warrant series in the second half of the year. Trading volumes in warrant products were lower than the previous year, but improved during the second half of the year.

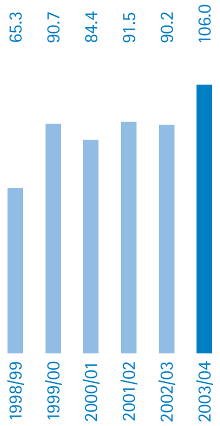
Market Data continued a business turnaround with the continued reinvestment of productivity gains achieved during the past two years into new products, new infrastructure and improved customer management processes. This has included successful enterprise negotiations with key data and information customers.

The majority of market-data revenue is earned from the wholesale distribution of pricing data to domestic and international data vendors who redistribute the content in packaged desktop solutions. ASX has introduced greater flexibility in pricing, including time-based pricing for service to meet the needs of a divergent end user customer base. Together with new product innovation, these initiatives have led to improved profitability of the market-data business.

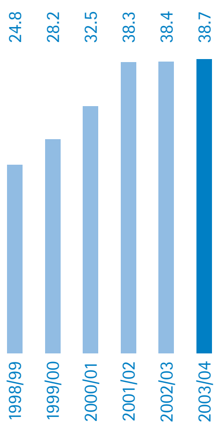
Other revenue grew strongly, with increased revenue from ASX's investment in Orient Capital and the provision of production services infrastructure to a number of clients, utilising surplus space within ASX's existing data centre facilities.

Revenue

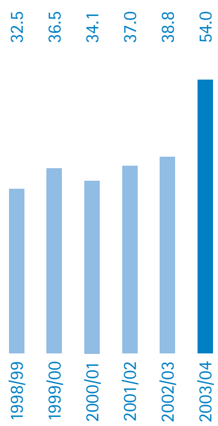
Equities ($m)



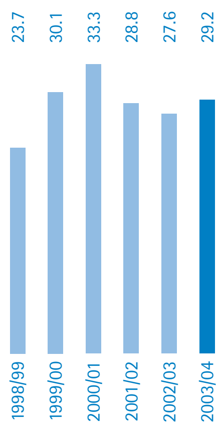
Derivatives ($m)



Listings ($m)



Market Data ($m)



Expenses

ASX's operating expenses increased by 0.6% to $133.1 million (from $132.5 million in 2002/03, which included a $5 million write-off for the FundConnect project), comprising:

- $65.8 million in staff expenses, an increase of 3.5%;
- $19.5 million in occupancy expenses, an increase of 18.5%;
- $29.5 million in equipment expenses, a decrease of 17.5%; and
- $18.4 million in administration expenses, an increase of 10.5%.

Staff numbers declined further to 554 (full-time equivalent employees) at 30 June 2004, compared with 585 at 30 June 2003. These figures both include 17 for Orient Capital.

The increase in occupancy expense reflects a lower level of subleasing income earned on surplus space under ASX tenancies, particularly in Melbourne. Equipment expenses have continued to decline, reflecting a lower level of depreciation and amortisation expense (excluding goodwill).

ASX earned EBITDA of $124.5 million, an increase of 35.9%, and EBIT of $108.1 million, an increase of 45.3%. Depreciation and amortisation expense fell to $16.4 million from $17.2 million, reflecting the containment of capitalised expenditure during the past three financial years.

Cash flow and capital expenditure

ASX's cash balance reached $110.0 million at 30 June 2004 compared with $87.7 million at 30 June 2003, reflecting strong business performance and the continued low capital expenditure. Capital expenditure was $9.9 million compared with $10.1 million during the previous corresponding period.

This capital expenditure includes the first instalment of the project to replace ASX's equities trading system, SEATS, with an externally developed system called CLICK XT. The new system, developed by OM, will integrate trading in all equities and derivatives products on the one system, and extends ASX's existing relationship with OM which provides the existing ASX derivatives trading facility. The new system is expected to be implemented during calendar year 2006.

Dividends and capital management

At the time of ASX's first half results, the Board announced its intention to pay 100% of 2003/04 financial year earnings to shareholders through the payment of a special dividend or capital return together with the final dividend. ASX's policy, since February 2001, has been to pay 70% of reported profit as dividends to shareholders.

This financial year, shareholders receive:

- 29.1 cents per share fully franked interim dividend paid in March 2004;
- 27.4 cents per share fully franked final dividend paid in August 2004; and
- 24.1 cents per share fully franked special dividend paid in August 2004.

This represents total dividends of 80.7 cents per share for the 2003/04 financial year compared with 67.1 cents per share last financial year, which included a special dividend of 27.5 cents per share paid in September 2003.

ASX is undertaking a review of capital requirements together with the significant structural change that is occurring in ASX's clearing and settlement business. ASX's subsidiary, Australian Clearing House (ACH), is exposed to significant but manageable risk as a central counterparty to trades conducted across all ASX markets.

ASX has sought approval from the Federal Government to split the National Guarantee Fund, which provides capital backing for the contract guarantee provided by ACH. This process is nearing completion and when resolved will enable direct and immediate access to funds in the event of a clearing participant default. This structure is desirable to ensure systemic stability and investor confidence in clearing and settlement services provided by ASX.

Principal initiatives

During the period, ASX also:

- formed the Market Integrity division, which formalises the internal separation of ASX supervisory decision making from its commercial activities, further strengthening our ability to manage conflict and to uphold the integrity of our market supervision. Karen Hamilton was appointed Chief Integrity Officer, reporting directly to the Managing Director and having sole responsibility for market integrity matters at an executive level;
- signed an agreement to implement a new surveillance system in place of the existing SOMA system. Reflecting our commitment to high levels of market integrity, the new system will further strengthen our ability to identify and review aberrant trading activity, and where appropriate refer it to the regulator for investigation;
- commenced offering deliverable wool futures contracts, with specifications based on the emerging China wool market;
- developed a new Buy-Write Index together with Standard & Poor's (S&P), based on detailed research conducted by Securities Industry Research Centre of Asia-Pacific (SIRCA). The research indicated that a simple buy-write strategy (involving the purchase of an underlying share or index, and the sale of an options contract over that underlying share or index) would have significantly outperformed a buy and hold strategy. The index was launched on 1 July 2004;
- developed a reporting code in partnership with the biotechnology industry as a first stage in assisting listed biotechnology companies to adopt reporting practices that provide investors and the market with full and accurate information on their activities;
- successfully transitioned the ASX Group to the new Financial Services Reform Act licence regime. As well as ensuring ASX's compliance with the new regulatory regime, this project allowed ASX to streamline and improve its group structure within which trading, clearing and settlement services are offered.

Formerly organised on a product-based structure, ASX has moved to a structure based on its functions, with all asset classes consolidated under separately licensed entities responsible for market, clearing and settlement. This consolidation will contribute to the long-term integrity, efficiency and growth of Australia's financial markets.

Under the new structure:

– ASX's market and the market of ASX Futures Exchange Pty Limited (ASXF) have been consolidated so that ASX is the sole market operator providing all trading services. ASXF ceases to hold a market licence;
– Australian Clearing House (ACH) has been created out of the former Options Clearing House Pty Limited and is now the central counterparty and clearing facility for all markets, providing all clearing and counterparty risk management services; and
– ASX Settlement and Transfer Corporation Pty Limited (ASTC) is the settlement processing facility for all markets and so provides all settlement and asset registration services.

ASX's 50% investment in ASX Perpetual Registrars recorded strong growth in revenue and earnings. The business earned a net profit after tax and goodwill amortisation of $1.4 million compared with a loss of $1.2 million during the previous corresponding period.

ASX acquired the remaining 50% of Orient Capital not previously held. Orient Capital recorded strong financial performance during the period, with revenue in excess of $4.5 million (compared with $2.9 million for the financial year ended 30 June 2003).

ASX continued its long-term community partnerships that support animal conservation through the Taronga Zoo and the Taronga Foundation, and medical research through the Garvan Institute.

ASX Supervisory Review

ASX Supervisory Review Pty Limited (ASXSR) is an independently operating subsidiary of ASX, tasked with reviewing and reporting to the ASX Board on compliance by the ASX Group with its statutory obligations as a licensed market operator and clearing and settlement service facility licensee under the Corporations Act. ASXSR has been in operation since 14 March 2001.

In addition, ASXSR is specifically tasked with reviewing certain ASX supervisory decisions involving Review Group Entities and Review Participants, who have a special identified conflict with ASX activities.

ASXSR's chairman is Mr David M Hoare. Professor Elizabeth Boros, Dr Michael Vertigan AC and Mr Richard St John are independent non-executive directors.

Further information about ASXSR can be obtained from its website, www.asxsr.com.au

ASX Corporate Governance Statement

In August 2002, ASX convened the ASX Corporate Governance Council, bringing together 21 organisations representing the Australian investment stakeholder community, to make recommendations on corporate governance practices for listed companies. In March 2003, the Council released its 'Principles of Good Corporate Governance and Best Practice Recommendations' ('Guidelines'). At the time, ASX encouraged listed entities to 'early adopt' the reporting requirement and did so itself. ASX adopted all 28 recommendations set out in the Guidelines.

This year (the 2003/04 financial year), reporting against the Guidelines on an 'if not why not' basis becomes mandatory under ASX listing rules. Accordingly, ASX has again reviewed its policies against the Guidelines. In addition we reviewed the recommendations of the Implementation Review Group – a group set up by the Council to oversee the adoption of the Guidelines and recommend enhancements to their effectiveness and improvements in their implementation. As a result, while the policies outlined below are largely the same as those set out last year, some changes are noted which incorporate evolving best practice and fine tune the operation of our policies and procedures.

The various codes, policies and charters referred to in this statement are available for review on the ASX website, www.asx.com.au.

1 Lay solid foundations for management and oversight

The ASX Corporate Governance Council states that a company should *"Recognise and publish the respective roles and responsibilities of board and management".*

The Board has adopted a formal charter that sets out the responsibilities reserved by the Board and those delegated to the Managing Director. The charter is reviewed annually to ensure it remains consistent with accepted practice in the context of the Board's objectives and responsibilities.

Specifically, the Board is charged with: setting the strategic direction of the ASX Group and monitoring management's performance within that framework; reviewing whether there are adequate resources available to meet ASX Group objectives; appointing and removing the Managing Director and overseeing succession plans for the senior executive team; approving and monitoring financial reporting and capital management; approving and monitoring the progress of business objectives; assessing the risk management framework and whether appropriate procedures are being followed; ensuring that the ASX Group has appropriate corporate governance structures in place including standards of ethical behaviour and promoting a culture of corporate and social responsibility; and monitoring whether the Board is appropriately skilled to meet the changing needs of the company. The Board has no operational involvement in supervision of the market, its role in that aspect of ASX's business being confined to setting and reviewing group policy.

The roles of Chairman and Managing Director are separated and the Managing Director may not become Chairman.

The Chairman is responsible for leading the Board in its duties, facilitating effective discussions at board meetings, ensuring procedures are in place to evaluate board performance and overseeing shareholder communications. The Managing Director is responsible for the efficient and effective operation of the ASX Group, and for bringing material and other relevant matters to the attention of the Board in an accurate and timely matter.

2 Structure the board to add value

The ASX Corporate Governance Council states that a company should *"Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties".*

Skills

A fundamental requirement for ASX directors is an understanding of financial markets. All directors meet this threshold requirement. They also bring a diverse range of skills and backgrounds including accountancy, auditing, financial services including investment banking and stockbroking, financial regulation, technology, law and public policy as well as international business skills. The Board consists of eight directors (seven non-executive and one executive). The experience and qualifications of each director and their terms of office are further discussed on pages 18 and 19.

Experience

The directors have an appropriate mix of tenure, blending experience with new membership. The Board considers this mix invaluable. Given the nature of ASX's business which involves, primarily, operating Australia's main equities market, longstanding involvement and experience in our capital markets is highly desirable to bring the skills, experience and judgement required for effective decision-making, including the ability to manage the cyclical nature of our markets. Hence, a number of directors have been on the Board since listing and were directors of the mutual prior to listing. The Board considers that these directors continue to exercise independent judgement in the task of enhancing shareholder value. In light of this need for a mix of tenure, the Board has not adopted a specific tenure threshold. The Implementation Review Group has expressed the view that tenure is not an automatic measure of independence and that the concept of renewal and refreshment of the Board as a whole is an issue of greater concern.

Appointment and removal

Board succession planning is considered an important part of the governance process. Progressive and orderly renewal of board membership is important. A particular focus at this time is to preserve continuity while achieving an orderly succession of the

Managing Director. The appointment and removal of directors is governed by the ASX constitution and the Selection and Appointment of Non-executive Directors Policy sets out the procedures followed when considering the appointment of new directors. During the period, Jillian Segal was appointed following the retirement of John Fraser, in addition to the selection of a new Managing Director. In accordance with ASX's constitution and the Corporations Act, Ms Segal was elected by shareholders at ASX's 2003 Annual General Meeting.

Stakeholder perspectives

An important function of directors is to bring the perspective of stakeholders to the oversight of a company. ASX directors bring many perspectives to the Board's deliberations including those of customers such as listed companies and participating organisations, members of the investment community such as fund managers and regulators, service providers such as lawyers and accountants and the views and interests of employees.

Independence

The Board has adopted a policy that a majority of its directors must be independent using the definition of independence from the Guidelines which is set out below.

An independent director is a non-executive director and:

- is not a substantial shareholder of the company or an officer of, or directly or indirectly associated with, a substantial shareholder of the company;
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company;
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

The Board employs a materiality threshold in judging whether customer, supplier, consultant or professional adviser relationships affect the independence of ASX directors. By virtue of its role operating the main equities market in Australia, ASX has commercial relationships with every listed entity and stockbroker in the country. In the absence of a materiality criterion, no person with a past or present association with the broking industry or a listed company would be deemed capable of bringing independent judgement to bear as a director on the ASX Board and we do not think this reasonable or in the best interests of shareholders.

The Board has adopted AASB standard 1031 to determine levels of materiality. A relationship is presumed immaterial when it generates less than 5% of group revenue, and presumed material when it generates more than 10% of group revenue during a twelve-month period in the absence of evidence or convincing argument to the contrary. In considering such evidence or argument ASX considers the strategic value and other material but non-quantitative aspects of the relationship in question. This approach to materiality has now been endorsed by the Council in its response to the Implementation Review Group's call for guidance on materiality thresholds.

In ASX's diverse customer base – which spans listed companies, data vendors, institutions and brokers – no single customer generates more than 5% of group revenue on an annual basis.

The Board has considered each relationship between its non-executive directors and any customer, supplier, consultant or professional adviser to ASX. While the relationship of directors with participating organisations and listed companies in particular brings useful stakeholder perspectives to the operation of the Board, the Board has determined that none of these past or present relationships of directors breaches the materiality threshold or otherwise compromises the independence of directors.

The threshold for the purpose of assessing the materiality of relationships between a non-executive director and ASX (other than as a director) is set according to the significance of that relationship to the director in the context of their activities as a whole. No director has a relationship considered significant enough to compromise their independence on the ASX Board.

In the past year the following restrictions on the activities and relationships of the Chairman and the Managing Director have been formalised in ASX's Board Charter and are also reflected in the contract of the Managing Director designate. This simply codifies a policy which has been observed throughout the tenure of the existing Managing Director and Chairman.

The Managing Director may not sit on the board of or have a material commercial association with a company listed on ASX or a participating organisation in ASX's markets. Additionally, the Managing Director of ASX is prohibited from dealing directly in any financial products traded on ASX markets other than ASX shares.

The Chairman of ASX may not sit on the board of or have a material commercial association with a company listed on ASX or a participating organisation which participates in ASX's markets.

The reasons for distinguishing between the Chairman of ASX and other non-executive directors on the Board of ASX in respect of their involvement with listed companies and participating organisations are:

- the Chairman is likely to be the person to whom customers, investors or participants appeal if a matter has been dealt with at an executive level and the party still has concerns which they wish to raise with ASX;
- the Chairman is the member of the Board who may be questioned on matters regarding other listed companies or participating organisations at annual general meetings and other public fora; and
- the Chairman, in his capacity as head of the Nomination and Remuneration Committee, leads the Board in its selection, appointment and assessment of the Managing Director who has ultimate responsibility on all supervisory issues in ASX.

A further feature removing ASX non-executive directors from conflicts of interest between organisations with whom they are associated and ASX is the fact that the Board has no direct role in ASX's supervisory activities, its role being limited to that of overseeing supervisory policy.

In light of the above, all of ASX's non-executive directors are currently considered by ASX to be independent directors. A list of each director's commitments outside ASX is set out on pages 18 to 19 of this report. A brief analysis of each non-executive director's relationships with entities that have an association with ASX is provided on the following page.

Chairman Maurice Newman
In accordance with the restrictions on the Chairman's activities outlined above Mr Newman has no commercial association with any company listed on ASX or any participating organisation in ASX's markets. His prior relationships with a participating organisation ended more than three years ago.

Vice Chairman Michael Shepherd
Mr Shepherd is a member of the UBS Global Asset Management (Australia) Ltd Responsible Entity Compliance Committee. UBS Global Asset Management (Australia) Ltd provides arm's length investment management services to Securities Exchanges Guarantee Corporation (a subsidiary of ASX which manages the National Guarantee Fund for investor protection) and is part of the same global group as UBS Securities Australia Limited and UBS Private Clients Australia Limited, both participating organisations of ASX. Mr Shepherd has no executive responsibility in this role and in any event none of these UBS entities is a material customer or supplier of ASX.

James Kennedy, non-executive director
Mr Kennedy is a non-executive director of three other listed entities: GWA International Ltd, Qantas Airways Ltd and Suncorp Metway Ltd. None of these companies is a material customer of ASX. Mr Kennedy was also associated with Macquarie Goodman Funds Management during the period, which is a listed entity and associated with Macquarie Equities Limited, a market participant. Neither is a material customer or supplier of ASX.

Trevor Rowe, non-executive director
Mr Rowe is Chairman, Investment Banking at Citigroup Global Markets – an entity which is part of the same global group as Smith Barney Citigroup Australia Pty Ltd, a participating organisation of ASX. Smith Barney Citigroup Australia Pty Ltd is not a material customer of ASX. Mr Rowe is also the non-executive Chairman of United Group Limited, a listed entity which is not a material customer or supplier of ASX.

Jillian Segal, non-executive director
Ms Segal is a member of the PricewaterhouseCoopers (PwC) Audit Oversight Board, a board of persons external to PwC set up to assess and report on PwC's systems for monitoring independence and quality control in respect of PwC's audit of publicly listed companies in Australia. ASX management engages PwC to provide services and work with ASX staff in conducting the internal audit function. PwC has also provided actuarial consulting services to the ASX Group in the context of looking at the group's future clearing risk management arrangements. PwC is not a material supplier of services to ASX nor is ASX a material customer to PwC and nor is Ms Segal's role with PwC one which involves her in the operations of PwC.

Michael Sharpe, non-executive director
Mr Sharpe was a former partner with Coopers & Lybrand, retiring in 1998. Coopers & Lybrand was one of the entities which eventually merged to become PricewaterhouseCoopers (see above under Ms Segal for PwC's relationship with ASX). Mr Sharpe ceased any formal connection with Coopers & Lybrand in 1998. He receives secretarial support and access to an office as part of his retirement benefit negotiated prior to his retirement from Coopers & Lybrand but is not involved in the operations of PwC.

Catherine Walter, non-executive director
Mrs Walter is a non-executive director on the boards of two other listed entities: Orica Limited and Australian Foundation Investment Company, and was during the period a non-executive director of National Australia Bank Limited. National Australia Bank Limited provides arm's length banking facilities to ASX on normal commercial terms. None of these companies is a material customer or supplier of ASX. Mrs Walter is also a member of the Financial Reporting Council, which subleases office space from ASX in the ordinary course of business. The FRC is not a material customer of ASX.

At each meeting of the Board, directors table their current outside interests. Where it is considered that a director has a material potential conflict, it is noted and where appropriate the relevant director absents him or herself for that specific item of business. That decision is minuted.

Board committees

The Board has established a number of committees to assist it in the performance of its duties. Each committee is constituted in accordance with the recommendations in the Guidelines. The establishment of and delegation of tasks to the committees does not dilute the responsibilities of the Board as a whole.

The **Nomination and Remuneration Committee** of the Board comprises three independent non-executive directors. The Committee's responsibilities cover all the matters recommended in the Guidelines, which include setting director competence standards, reviewing succession plans, evaluating the Board's performance and making recommendations for the appointment and removal of directors, and making recommendations to the Board on: executive remuneration and incentive policies; the remuneration packages of senior management; ASX's recruitment, retention and termination policies for senior management; incentive schemes; superannuation arrangements; and the remuneration framework for directors.

The Nomination and Remuneration Committee leads the process of selecting new directors for consideration by the whole Board. Directors are expected to advise the Chairman in his capacity as chair of that Committee, before accepting additional external postings and give assurance that any new responsibilities will not interfere with the proper execution of their responsibilities to ASX.

During the period the Board announced the appointment of Tony D'Aloisio as the Chief Executive Officer and Managing Director, to replace Richard Humphry when he retires.

This appointment followed the delegation by the Board to the Nomination and Remuneration Committee of the task of identifying a successor to Richard Humphry. The Committee initially reviewed the skills of the Board and senior management in the context of ASX's strategy, leading to a position description and specific search criteria being drawn up. The Committee appointed an external firm to carry out an initial search and also appointed an independent remuneration consultant and legal adviser to assist throughout the search and negotiation process. After interviewing internal and external candidates, the Committee presented a short list of recommended candidates to the full Board for consideration. The Board reached a decision and then granted authority to the Chairman to approach the preferred candidate and finalise contract negotiations. ASX announced the selection on 23 April 2004 following the contract negotiation process and final agreement of the ASX Board. Further details regarding Mr D'Aloisio's contract with ASX can be found in the directors' report on page 25.

The **Chairman's Committee** is responsible for considering, on an ad hoc basis, material issues which may arise between board meetings and any issues specifically delegated to it by the Board. There are no additional fees paid for participation in this Committee.

The **Audit and Risk Committee** is discussed below.

Membership of the Board's committees and attendance by directors at meetings is outlined on pages 18 and 19.

Independent advice

ASX directors may seek external professional advice at the expense of the company on matters relating to their role as directors of ASX. However, they must first request approval from the Chairman or Vice Chairman, which must not unreasonably be withheld. If permission is withheld the matter may be referred to the whole Board.

3 Promote ethical and responsible decision-making

The ASX Corporate Governance Council states that a company should *"Actively promote ethical and responsible decision-making".*

Code of Ethics and Conduct

ASX has formally adopted a Code of Ethics and Conduct, which promotes ethical and responsible decision-making by directors and employees. The Code requires high standards of honesty, integrity, fairness and equity in all aspects of employment with ASX. The Code also sets the task for management of delivering shareholder value, with the oversight of the Board, through the sustainable and efficient operation of the company. Specific obligations regarding fitness for office also apply to ASX directors and management by virtue of its role as market operator and clearing and settlement facility provider. ASX has comprehensive policies and procedures in place for observing these requirements.

Dealing Rules

ASX also has formal Dealing Rules that set the parameters for dealing in the securities of ASX and prohibit insider trading. Any dealing in the securities of ASX requires prior sign-off from a designated officer. The policy specifies blackout periods during which dealing in ASX shares is prohibited, broadly being four to five weeks up to and including the day of each financial results announcement. There are also policies that apply specifically to staff within ASX who may encounter confidential price sensitive information relating to financial products traded on ASX's markets.

As noted earlier, the Managing Director of ASX is prohibited from dealing directly in any financial products traded on ASX markets other than ASX shares.

'Whistle Blowing' Policy

As a part of ASX's corporate governance review last year, a 'Whistle Blowing' Policy was introduced. The policy is designed to support and protect employees who report non-compliant, suspicious or unethical conduct by other ASX staff members, regardless of the seniority of those involved in the alleged conduct. During the period, the policy was enhanced to assist staff in understanding the steps to take if a reportable matter arises. The policy formalises ASX's commitment to protect the confidentiality and position of employees wishing to raise serious matters that affect the integrity of the ASX Group.

Supervisory structure

During the period ASX created a Market Integrity division and appointed a Chief Integrity Officer, solely responsible at an executive level for ASX's supervisory functions. This structure was adopted in order to reinforce actual and perceived impartiality and independence of decision-making in the exercise of supervisory functions.

'Information Barriers' Policy and communications authority framework

Supplementing the above structure, physical and non-physical 'information barriers' were put in place to 'ring-fence' and protect supervisory decision-making from inappropriate commercial influence. While 'information barriers' had previously existed to protect supervisory information and decisions, the review of the policy refined their operation and extended the policy to all ASX staff to assist them in identifying and managing potential conflicts of interest. Further, a communications authority framework now sets out procedures for decision-making where both commercial and supervisory elements may be involved in a particular transaction (for example, the operational flow-on activities which may result from a supervisory decision). Together these policies provide detailed procedures for interaction between potentially conflicted employees to prevent commercial interests compromising supervisory integrity.

Education

All of ASX's corporate governance policies are available to staff on ASX's internal and external websites. To increase awareness and understanding of all these policies, ASX incorporated a corporate governance section into the established induction program for new employees from November 2003 and during the period the Board approved the roll out of an education program to all existing staff in 2004/05 financial period.

4 Safeguard integrity in financial reporting

The ASX Corporate Governance Council states that a company should *"Have a structure to independently verify and safeguard the integrity of the company's financial reporting".*

ASX believes its practices satisfy this principle.

ASX has a highly structured six-monthly reporting process, culminating in Board sign-off and release of financial results to the market. The Chief Executive Officer and Chief Financial Officer provide letters of assurance to the Board for each half-year and full-year result. ASX also releases unaudited quarterly updates to the market.

ASX's Audit and Risk Committee is constituted in accordance with the Guidelines, and its responsibilities and composition requirements are set out in the Audit and Risk Committee Charter.

The Audit and Risk Committee's primary responsibilities are to review the integrity of the ASX Group's financial and external reporting; review and assess the internal and external auditors' activities, scope and independence; review the management processes for the identification of significant business risks and exposures and oversee the monitoring of internal control structures, including controls against conflicts of interest and fraud. The Committee also has specific responsibility for recommending the appointment or dismissal of external auditors and monitoring any non-audit work carried out by the external audit firm. The procedures for appointment of an external auditor are outlined in the charter. No director has any association, past or present, with ASX's external auditor.

The Audit and Risk Committee currently meets five times annually. The Committee may meet whenever necessary, and subsequently relays a summary of discussions and any significant matters arising to the Board followed by meeting minutes.

External audits

ASX is vigorously scrutinised by government, regulators, customers and investors. We view this scrutiny as a further validation of our efforts to maintain and promote the integrity of our markets, as well as the prudential operation of our systems.

ASX is required to undergo regulatory audits each year in order to provide assurances to the market regulators and ASX's customers regarding the operational integrity of ASX systems and processes. The external auditor, KPMG, under the scrutiny of the Audit and Risk Committee, presently conducts these regulatory audits in return for reasonable fees.

ASX and its clearing and settlement subsidiaries are also assessed each year by ASIC to review compliance with their licence obligations to provide a market and clearing and settlement services in a way that is fair, orderly and transparent. The assessment report is provided to the Parliamentary Secretary to the Treasurer for review and approval. ASX Supervisory Review, a body set up by ASX to assist ASX in complying with its supervisory responsibilities, also reviews ASX's supervisory arrangements and reports to the ASX Board. The ASX Supervisory Review directors are independent of ASX. Appointments to that board are approved by ASIC and advised to the relevant Minister. Appointees cannot be terminated before the expiry of their term without notifying ASIC and the Minister, and ASIC may object to such a proposal. Further details on ASX Supervisory Review are available at page 11 of this report and on its website, www.asxsr.com.au.

During the year the Audit and Risk Committee reviewed its charter to simplify it by retaining its chief functions and policies that form the basis of its governance structure. To supplement this, two additional documents have been created, a Committee Areas of Focus Summary and a Risk Management Policy which appear on ASX's website. A further document in the nature of a working plan assists the Committee further in carrying out its functions. The aim of these changes is to further clarify and better communicate the Committee's role.

Internal audit

The internal audit function reports to the Managing Director with its reports made available to the Audit and Risk Committee so that the internal audit objectives, plans and resources provide adequate support of the Committee's own goals and objectives. Management engages PricewaterhouseCoopers to provide services and work with ASX staff in conducting the internal audit function. The internal audit function is independent of the external audit, has full and free access to the Audit and Risk Committee to preserve independence, and also has full and free access to ASX employees and ASX records.

5 Make timely and balanced disclosure

The ASX Corporate Governance Council states that a company should *"Promote timely and balanced disclosure of all material matters concerning the company".*

ASX fulfills its disclosure responsibilities absolutely and is proud of its record in disclosure. As market supervisor ASX recognises that its own disclosure practices must set a high standard for the market.

Responsibility for supervision of ASX's compliance with continuous disclosure lies with ASIC. ASX's disclosure responsibilities are codified through a formal policy covering authority for disclosure approval, 'awareness' and 'materiality' of information or events, and the obligation to report these matters to designated compliance officers. The policy details the disclosure process, including the required interactions with ASX's disclosure contacts at ASIC. The policy specifically recognises the company's obligation to respond to market speculation and avoid a false market in ASX's securities.

The Managing Director has ultimate authority and responsibility for approving market disclosure, which in practice is exercised in consultation with the Company Secretary. The Board reviews 3.1 announcements made each month, and considers disclosure obligations in the context of each item of business which comes before it.

ASX considers its disclosed discussion of financial results meets the standards outlined in the Guidelines. This disclosure includes availability of materials on the ASX website and provision of all information necessary for investors to make informed decisions about an investment in ASX securities.

This year ASX brought the preparation and release of its full-year results forward by a month in recognition of the value to investors of timely financial reporting. It also provided guidance to the market on 5 February 2004, ahead of the release of its half-yearly result, regarding expectations for that result.

6 Respect the rights of shareholders

The ASX Corporate Governance Council states that a company should *"Respect the rights of shareholders and facilitate the effective exercise of those rights".*

ASX has adopted a shareholder communication policy that identifies disclosure and transparency as important qualities for ASX's shareholders and prospective investors. ASX therefore aims to provide good quality, clear communication with shareholders, using available methods and technologies.

ASX views shareholder meetings as an opportunity for shareholders to meet with and question the Board and management of ASX. ASX's external auditor attends all annual general meetings and is available to answer shareholder questions. For the annual general meeting to be held in September 2004, ASX will also accept prior to the meeting, written questions from shareholders for the Chairman or auditors to answer at the meeting. Written answers to these questions will be available at the meeting and published on the website. All shareholder meetings and results briefings are recorded and webcast.

ASX followed the Business Council of Australia Chairman's Committee's recommendations in respect to running annual general meetings in respect of its 2003 annual general meeting and will do so again this year. This year that committee has also issued a discussion paper regarding policy and practical issues surrounding shareholder meetings. ASX is evaluating that paper and will adopt any further recommendations which it believes will enhance shareholder participation.

ASX's website, asx.com.au, is a key source of information for ASX's shareholders and prospective shareholders. ASX places all company announcements on the site immediately following confirmation of their release to the market. Analyst briefing material is released as a company announcement and the briefings are webcast. ASX also displays annual and half-year reports to shareholders, speeches and presentations given by the Chairman, Managing Director and management and other useful business indicators including daily trading volumes.

Further communication with shareholders occurs with periodic dividend payments and the distribution of annual and half-year reports (unless shareholders have chosen not to receive these). Email is also an important method of communication for investors. Key announcements and updates can be received by email where shareholders provide their details to ASX or the appointed share registrar.

7 Recognise and manage risk

The ASX Corporate Governance Council states that a company should *"Establish a sound system of risk and oversight and management and internal control".*

ASX takes this responsibility seriously and has put in place appropriate procedures for risk management.

The Audit and Risk Committee has responsibility for reviewing the risk management framework and policies within ASX. It receives presentations from the heads of each division on risks of each business unit and risk containment measures adopted. The Board workshops a risk matrix for the ASX Group and its multitude of activities annually. Risk is broadly considered as anything that may impede the achievement of effective market operation and ASX's strategic goals.

The Audit and Risk Committee receives periodic reports monitoring compliance with existing statutory requirements as well as adherence to internal policies. The internal auditors also provide guidance for improving practices within ASX.

One of ASX's key areas of business is the operation of a clearing and settlement facility for ASX's markets. Clearing houses are exposed to significant but manageable counterparty risks as a central counterparty to trades conducted on markets for which they clear. This role includes rigorous oversight of the risk profile and capital liquidity of participants in the markets and management of the clearing houses' own financial resources so that it can withstand participant default. The settlement facility's role to provide automated delivery against payment for market transactions, and store records of ownership for large numbers of investors, means that it manages significant operational risks in its role. The assessment and mitigation of these risks so as to prevent systemic shocks is a crucial component of the operational success of ASX on a day-to-day basis.

ASX is answerable to the Reserve Bank of Australia (RBA) for the effective oversight of systemic risk within ASX's clearing and settlement operations. The boards of Australian Clearing House Pty Ltd and ASX Settlement and Transfer Corporation Pty Limited, ASX's clearing and settlement subsidiaries, must discharge licence obligations to comply with RBA standards. They do so by reviewing operational policies and procedures of management, considering policy issues, receiving regular and detailed risk management reports and financial reports and discussing the content of the reports with the relevant management. The Committee monitors whether licence obligations are being met across the Group and that risk from clearing and settlement activity is being managed effectively.

ASX also considers the security of its people, buildings and technology systems as part of organisational risk management.

Compliance officer

During the year, ASX appointed a compliance officer reporting to the Chief Executive Officer with a direct line of reporting access to the Audit and Risk Committee. The role of the ASX Group Compliance Officer is to manage compliance by the ASX Group with its obligations under the Corporations Act as the holder of a market licence, two clearing and settlement licences and two financial services licences.

CEO and CFO sign-off

ASX has adopted a policy requiring the Chief Executive Officer and the Chief Financial Officer to state to the Board in writing to the best of their knowledge that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects.

8 Encourage enhanced performance

The ASX Corporate Governance Council states that a company should *"Fairly review and actively encourage enhanced board and management effectiveness".*

The Performance Evaluation Policy on ASX's website documents the process for evaluating the performance of the Board, individual directors, board committees, the Managing Director and key executives. The Nomination and Remuneration Committee takes responsibility for assessing that the framework and the processes used for conducting evaluations are appropriate and then makes recommendations to the Board in relation to the performance of the Managing Director and other key executives.

The Board's own performance evaluation for the year to 30 June 2003 was undertaken using the following processes:

- chairman's one-on-one assessment with each director based on a list of criteria against which individuals were measured for individual performance;
- discussion by the Board of its performance as a group based on the activities it achieved against its set performance objectives;
- confidential questionnaire filled out by directors with the results being collated and discussed.

In addition to those tools, the Board has decided to seek external assistance in conducting a review of its performance for the 2003/04 year.

Education

All new ASX staff and directors undertake induction programs run by ASX management. On joining ASX, directors receive an information kit containing copies of all group policies and procedures and then receive a reference file each month with information relevant to the operation of ASX and the industry. Additionally the Board receives periodic briefings on topical issues and has set aside a budget for individual directors to seek external education on their duties and other issues of relevance. ASX utilises secure online communication for providing board briefing materials and updates to directors.

The Board has access to the resources of the Company Secretariat and also approves the appointment or removal of the Company Secretary on the advice of management. The Secretariat is responsible for providing reference files and monthly board papers to each director and ensuring that management provides content in adequate detail. The Company Secretary is also responsible and accountable to the Board on all ASX governance matters.

9 Remunerate fairly and responsibly

The ASX Corporate Governance Council states that a company should *"Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined".*

ASX's Board has put in place a number of measures to implement this principle.

Discussion on ASX's remuneration policies of non-executive directors, the Managing Director and senior executives of the company and the relationship between such policy and the company's performance is provided in the Directors' report on page 23.

10 Recognise the legitimate interests of stakeholders

The ASX Corporate Governance Council states that a company should *"Recognise legal and other obligations to legitimate stakeholders".*

ASX has a diverse range of stakeholders and has a number of measures in place that recognise their interests.

The ASX Code of Ethics and Conduct guides compliance with legal requirements and ethical responsibilities, and also sets a standard for employees and directors dealing with ASX's obligations to external stakeholders. The code includes standards of care and diligence, addresses the privacy of information given to ASX, occupational health and safety, reinforces the requirement for fair and competitive market behaviour and the avoidance of conflicts of interest.

ASX acknowledges that, beyond its accountability as a public corporation to its shareholders, it also carries the expectations of a wider set of stakeholder groups. ASX endeavours to fulfil these expectations through, for example, the provision of investor education and online market information and data.

ASX makes even-handed, disclosed donations to federal political parties, and supports a number of community and charity organisations including the ASX Reuters Charity Foundation. ASX also actively participates in the public policy debate, and is represented in both government and non-government groups such as Committee for Economic Development of Australia, the Sydney Institute, the Business Council of Australia, the Financial Reporting Council and the Business Regulation Advisory Group.

This year ASX will elaborate on its communications to its wider stakeholder community by publishing a report on ASX's activities in the financial markets.

Board of directors

Maurice L Newman AC
FSIA, FSDIA, age 66
Chairman and independent non-executive director
Maurice Newman has been Chairman of ASX since 1994. He was elected to the Board in 1990. During this time, he led ASX through its demutualisation and listing.

Mr Newman brings a wealth of experience to ASX, derived from wide-ranging interests and involvement with an array of corporate, professional and public sector activities. Mr Newman's 40-year career in the financial services industry culminated in his role as Executive Chairman of Deutsche Bank Group in Australia and New Zealand from 1985 to 1999. He relinquished all positions with Deutsche Bank related entities in July 2001. He is currently Chancellor of Macquarie University; a director of the Queensland Investment Corporation; Chairman of Tourism New South Wales, Sydney Convention & Visitors Bureau, the Australian Government's Financial Sector Advisory Council, the Taronga Foundation and the Australian Fathers' Day Council; Advisor to the Marsh Group of Companies; a Member of the Business Council of Australia's Chairmen's Panel; and a Patron of CEDA.

Richard G Humphry AO
FCA, AAIB, MACS, age 65
Managing Director and non-independent executive director
Richard Humphry joined the Board as CEO in April 1994, following a long career in state and federal public services, most notably as Auditor-General of Victoria and (from 1988) as Director-General of the NSW Premier's Department. Richard has also worked in several advisory capacities for government including President of the Commonwealth Remuneration Tribunal. He is a Chairman of ASX Perpetual Registrars Ltd, a joint venture between ASX and Perpetual Trustees Australia Limited and a member of the board of the Business Council of Australia. He is also a director of the Garvan Research Foundation and Deputy Chairman of the Zoological Parks Board of New South Wales as a consequence of ASX's community partnerships with these organisations. The Federal Attorney-General has recently appointed Richard to the Administrative Review Council, a body which reviews proposed legislation. His management expertise, his broad knowledge of the financial services sector and his public policy experience all contributed to Richard's management of the successful transition of ASX into being as a public company in 1998, and have contributed to its profitability since.

Michael H Shepherd
FSIA, age 54
Vice Chairman and independent non-executive director
Michael Shepherd joined the ASX Board in 1988, and commenced as Vice Chairman in 1991. He brings a detailed understanding of the operation of Australia's financial markets, through his many years in the stockbroking profession and extensive participation on finance industry policy committees. This expertise most obviously lends itself to his role overseeing the ASX Market Rules Committee, as well as directorships of ASX's clearing and settlement subsidiaries. He is National Vice President and Regional Chairman of The Securities Institute of Australia, and a director of The Shepherd Centre. Michael's industry skills extend to his current position as a member of the UBS Global Asset Management (Australia) Limited Responsible Entity Compliance Committee. Michael is also the Chairman of the Australian Hearing Services, a Federal Government Authority, and a member of the executive committee for the Committee for Sydney.

James J Kennedy AO, CBE
D.Univ (QUT), FCA, age 70
Independent non-executive director
Jim Kennedy was first elected to the ASX Board in 1990. He is one of Australia's most experienced public company directors. Other current directorships are Qantas Airways Limited, Suncorp-Metway Ltd and GWA International Limited. Jim has had extensive involvement in both federal and state government boards and inquiries. Among many past directorships, he was the foundation chairman of the Australian Postal Commission. He brings an accounting, finance, and business background to the Board as well as 13 years experience in funds management as Chairman of the Queensland Investment Corporation, from which he retired in 2001 and as a director of the Macquarie Goodman Funds Management Limited from which he retired in February 2004. Jim is a Fellow of the Institute of Chartered Accountants and in 1989 was presented with the Award for Distinction by the Institute in recognition of his 'notable achievements as a company director and a businessman'.

Board and committee meetings

Board and Committee membership and ASX director attendance for 1 July 2003 – 30 June 2004

	ASX Board		Chairman's Committee		Nomination and Remuneration Committee		Audit and Risk Committee		Market Rules Committee	
ML Newman	11(1)	11(1)	7	8	13	14				
RG Humphry	11(1)	11(1)	8	8						
JJ Kennedy	11(1)	11(1)								
TC Rowe	11(1)	11(1)					4	4		
J Segal	11(1)	11(1)					4	4		
MJ Sharpe	11(1)	11(1)	7	8	14	14	4	4		
MH Shepherd	11(1)	11(1)	8	8	14	14			9	9
CM Walter	11(1)	11(1)					3	4		
M Fowles[1]	3	3								

From left to right:
Maurice Newman
Richard Humphry
Michael Shepherd
James Kennedy
Trevor Rowe
Jillian Segal
Michael Sharpe
Catherine Walter

Trevor C Rowe AM
FCIS, FAICD, ACPA, age 61
Independent non-executive director
Trevor Rowe was appointed to the Board in July 2002. He brings more than 20 years international experience in investment banking and is now Chairman Investment Banking at Citigroup Global Markets. Amongst other appointments, Trevor holds the chairmanships at the large fund manager Queensland Investment Corporation, Telecorp, United Group Limited, and Queensland BioCapital Fund, and is Chancellor of Bond University. He is a member of the Foreign Affairs Council and a director of Resimac Limited. In April 2003, Trevor was awarded the Commonwealth of Australia Centenary Medal for 'distinguished service to the finance industry'. In the June 2004 Queen's Birthday list, Trevor was awarded a Member of the Order of Australia (AM) in the General Division for his 'contribution to the investment banking sector and his contribution to the formulation of public policy, to high education and to the community'.

Jillian S Segal
BA, LLB (UNSW), LLM (Harv), age 48
Independent non-executive director
Jillian Segal is ASX's most recent appointee, joining the Board in July 2003. Perhaps best known as former Deputy Chairman of the corporate industry regulator, the Australian Securities and Investments Commission, Jillian worked on the Dawson Trade Practices review and is Chairman of the Banking and Financial Services Ombudsman Board. Other positions include a directorship of the Australia Council's Major Performing Arts Board and membership of PricewaterhouseCoopers' Audit Standards Oversight Board (a board set up to assess PwC's systems for monitoring independence and quality control in respect of PwC's audit of publicly listed companies in Australia). Jillian is also a member of the Council for Multicultural Australia, Business Regulation Advisory Group and ICAC's Operations Review Committee. Ms Segal's regulatory background, together with her professional background in the law, adds considerable value to the Board.

Michael J Sharpe AO
BEc, Hon D.ScEcon (Sydney), FCA, age 66
Independent non-executive director
Michael Sharpe first joined the Board in 1995. He brings to shareholders a wealth of experience drawn from over 45 years in the accounting profession. Michael was a partner in Coopers & Lybrand for most of this time; retiring in 1998. He served as Chairman of Audit in Coopers & Lybrand International and he was National Audit Partner and a member of the Executive Committee of the Australian firm. Relevant experience was gained as Chairman of the International Accounting Standards Committee, President of the Institute of Chartered Accountants in Australia, Independent Auditor of the Australian National Audit Office and a member of the Takeover Panel. Michael has served as a director on many boards in the last 12 years including having served as a trustee of State Super in NSW for many years. Because of this experience and his specialised knowledge of capital markets, risk management, internal controls, audit, financial reporting, public policy and regulation, Mr Sharpe is considered to have the necessary skills, experience, ethics and judgement to enable a significant contribution as an ASX director and as chairman of its Audit and Risk Committee.

Catherine M Walter AM
LLB (Hons), LLM, MBA (Melb), age 52
Independent non-executive director
Catherine Walter joined the Board in 1996 having previously practised law as a financial services and corporate solicitor for 20 years. After completing an MBA, Catherine was Managing Partner of the Melbourne Office of Clayton Utz, thereafter being appointed a Commissioner of the City of Melbourne where she continued in her role as a non-executive director of a number of statutory corporations and listed companies. Catherine is currently a director of Orica Limited, Australian Foundation Investment Company, and Melbourne Business School Limited; a member of the Financial Reporting Council and chairs the Federal Government's Business Regulation Advisory Group. Catherine is a solicitor and non-executive professional company director.

Max Fowles
BCom, age 51
Max Fowles retired from the Board on 30 September 2003. He was first appointed to the Board in 1993. During his term, Max was, and continues to be, chairman of the Listings Appeal Committee, which adjudicates appeals from ASX's decisions on admissions and waivers for listed companies. He was the only director other than the Managing Director to have served as an executive of a stock exchange, having been head of listings for the former Perth Stock Exchange.

■ Meetings attended while a director or member.
■ Meetings held while a director or member and required to attend.
Numbers in brackets are circular resolutions.

1 Max Fowles retired from the Board effective 30 September 2004

Financial report

Year in review – ASX market announcements and media releases

30 June 2004
End of financial year statistics and summary

30 June
ASX signs agreement to adopt integrated trading system

15 June
Launch of S&P/ASX Buy-Write Index

02 June
ASX Investment Report

24 May
Issue of additional securities – executive share plan

03 May
Transcript of interview with ASX Chairman on 'Business Sunday'

29 April
ASX launches world-first reporting code for biotechnology industry

23 April
Open briefing – ASX Chairman on appointment of new CEO

23 April
ASX appoints a new Managing Director and CEO

22 April
ASX to adopt integrated trading system

20 April
'Reflections on Australia's Capital Markets' – address by Managing Director and CEO

07 April
Quarterly update – 9 months to 31 March 2004

06 April
ASX welcomes Government guidelines on disclosure

30 March
Change of director's interest – Richard Humphry

26 March
ASX Chairman's letter to shareholders

26 March
Half-year report to shareholders – six months to 31 December 2003

23 March
Change of director's interest – Michael Sharpe

15 March
New issue of additional securities

11 March
FSR transition and ASX Group structure

11 March
Tribeca to run ASX accreditation programs

04 March
Change of director's interest – Richard Humphry

26 February
Open briefing – ASX CEO on $42.5m profit and outlook

25 February
ASX results for the Half-year ended 31 December 2003
Half-year financial report
Results presentation by Richard Humphry, Managing Director and CEO
Audio webcast of results briefing

19 February
Completed acquisition of Orient Capital

17 February
Options generate better returns – says SIRCA research

11 February
Clarification of article in The Australian

05 February
ASX expects to report strong first-half result

03 February
ASX share ownership study – 2003 findings

22 January
Change of director's interest – Richard Humphry

14 January
Clarification of item in AFR

13 January
Change of director's interest – Richard Humphry

05 January
End of calendar year highlights

01 January
End of calendar year statistics

29 December 2003
Change of director's interest – Michael Shepherd

15 December
Award of conditional entitlements – executive share plan

02 December
ASX research provides insight into self-managed super funds

31 October
ASX sees record trading levels

23 October
Annual General Meeting 2003
ASX Chairman's address and Managing Director's presentation
Results of meeting
Webcast of meeting

21 October
Quarterly update – three months to 30 September 2003

17 October
Design study for integrated trading system

09 October
ASX welcomes proposed fining power for ASIC

03 October
Final director's interest – Max Fowles

30 September
September 2003 – a record month for equities and options trading

18 September
ASX and Shenzhen Stock Exchange sign MOU

12 September
Notice of 2003 Annual General Meeting

11 September
Change of director's interest – Jillian Segal

08 September
Change of director's interest – Catherine Walter

07 September
ASX wool futures contracts begin trading

04 September
Report to shareholders 2002/03

29 August
New share trading records set

28 August
Busiest-ever options day on ASX
Open briefing – ASX CEO on 2003 results and outlook

27 August
Results for the Full-year ended 30 June 2003
Results presentation by Richard Humphry, Managing Director and CEO
Audio webcast of the analyst briefing

01 August
Initial director's interest – Jillian Segal

29 July
Composition of ASX Board

01 July
ASX and Aspect announce strategic alliance
Final director's interest – John Fraser

Directors' report

The directors present their report together with the financial report of Australian Stock Exchange Limited (ASXL) and of the consolidated entity (ASX), being ASXL and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

Directors

The directors of ASXL in office during the financial year and until the date of this report were as follows:

Maurice Lionel Newman AC (Chairman);
Richard George Humphry AO (Managing Director and Chief Executive Officer);
Michael Henry Shepherd (Vice Chairman);
Max Fowles, retired 30 September 2003;
James Joseph Kennedy AO, CBE;
Trevor Cyril Rowe AM;
Jillian Shirley Segal, appointed 29 July 2003;
Michael John Sharpe AO; and
Catherine Mary Walter AM.

The directors were in office for the entire period unless otherwise stated.

For details of the directors' qualifications, experience and special responsibilities refer to pages 18 to 19, which are to be read as part of this report.

Directors' meetings and their attendance at those meetings (including meetings of committees of directors) are detailed on pages 18 to 19, which is to be read as part of this report.

Principal activity

The consolidated entity provides stock exchange and ancillary services in Australia.

There were no significant changes in the nature of the activities of the consolidated entity during the financial year.

Consolidated results

The consolidated net profit after tax for the year attributable to the members of ASXL was $82,691,000 (2003: $57,753,000).

The financial report of ASXL and the consolidated financial report of the consolidated entity have been reviewed and approved by the directors on the recommendation of the Audit and Risk Committee of ASX.

Dividends

Dividends paid or declared by the company since the end of the previous financial year were:

Type	Cents per share	Total amount $000	Date of payment	Tax rate for franking credit
As proposed in last year's report:				
Final	18.1	18,466	22 September 2003	30%
Special	27.5	28,055	22 September 2003	30%
	45.6	46,521		
In respect of the current financial year:				
Interim	29.2	29,790	26 March 2004	30%
Final	27.4	28,137	27 August 2004	30%
Special	24.1	24,748	27 August 2004	30%
	80.7	82,675		

All dividends paid or declared by the company since the end of the previous financial year were 100% franked.

Review of operations

The review of operations during the year is on pages 8 to 11, which is to be read as part of this report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Likely developments

ASX has applied under section 891A of the Corporations Act 2001 for a determination from the Minister directing that an amount be paid out of the National Guarantee Fund (NGF) by Securities Exchanges Guarantee Corporation (SEGC) to Australian Clearing House (ACH), a controlled entity of ASXL. As part of this application to 'split' the NGF, ASX has sought the introduction of amending regulations to the Corporations Regulations, which would have the effect of transferring the responsibility for clearing and settlement support from SEGC to ACH. SEGC would remain liable for investor protection claims. ACH proposes to enter into a deed of indemnity with SEGC to deal with certain transitional issues in the event that the splitting of the NGF occurs and payment is made to it under section 891A.

It is possible that a further payment may be made out of the NGF to ACH if regulation changes occur to cap those investor protection claims, which will remain the responsibility of the NGF after the split.

Before any such payments may be made to ACH, the Minister must be satisfied of those matters specified in sections 891A(1) and 891A(4) of the Corporations Act 2001. ASX has been notified this week that its application is now being considered by the Parliamentary Secretary to the Treasurer, in the light of advice from Treasury, the Australian Government Actuary, the Australian Securities and Investments Commission and the Reserve Bank of Australia. ASX does not infer from this that a decision on the application is imminent. It does seem however that substantial progress is being made towards conclusion of what is a complex approvals process.

As regulation changes are subject to a non-disallowance process in both Houses of Parliament, there is some uncertainty as to when these changes may become effective.

ASX continues to monitor its capital position cognisant of potential changes resulting from this process.

Environmental regulation

The directors of ASXL are not aware of any significant material environmental incidents arising from the operations of the consolidated entity during the financial year.

Events subsequent to balance date

Except for the dividend declared after year end and the shares issued on 5 July 2004 (as described below), there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of ASXL, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

Indemnification and insurance of officers and auditors

Since the end of the previous financial year, the consolidated entity has paid insurance premiums in respect of directors' and officers' liability for current and former directors and officers of ASXL, its controlled entities and a related body corporate.

The officers of ASXL covered by the insurance include the current directors as listed on pages 18 to 19, executives, the company secretaries and former directors.

The insurance policies prohibit disclosure of the nature of the liability insured against and the amount of the premiums.

The constitution of ASXL provides that the officers of ASXL, as detailed above, and the auditor of ASXL, KPMG, are indemnified out of the property of ASXL against any liability incurred in that capacity in defending any proceedings, whether civil or criminal, in which judgment is given in their favour or in which they are acquitted or in connection with any application in relation to any such proceedings in which relief is granted under the Corporations Act 2001.

The officers are also indemnified out of the property of ASXL against any liability incurred in that capacity after 15 April 1994 (other than to ASXL, a related entity or a related body corporate) provided that liability does not arise out of conduct involving a lack of good faith.

Conditional entitlements to unissued shares

At the date of this report, ASXL has on issue 478,900 conditional entitlements to ordinary shares. These conditional entitlements were granted as part of ASX remuneration policy (refer 'Remuneration report' below) and cover the performance period 1 December 2003 to 30 November 2007. For further details on the conditional entitlements refer to note 27.

Shares issued as a result of the exercise of conditional entitlements

During the financial year no conditional entitlements were converted to ASXL ordinary shares. On 5 July 2004, 552,400 conditional entitlements were converted to 633,557 ASXL ordinary shares. There were no amounts unpaid on the shares issued and no consideration was received on conversion.

Remuneration report

This remuneration report is provided under the Corporations Act 2001 taking into account the spirit of the proposals under CLERP 9, the guidance provided by the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations and relevant accounting standards.

ASX remuneration structures distinguish between Board, Managing Director, senior executives and staff. The purpose of the disclosure is to explain clearly and transparently both the process and outcomes of ASX's remuneration policies.

Non-executive director remuneration

Policy and process

ASXL non-executive directors receive a fee for service and have no entitlement to a bonus of any kind or participation in any share-based incentive schemes. This policy reflects the differences in the role of the Board, which is to provide oversight and guide strategy, and management, which is to operate the business and execute the company's strategy. Non-executive directors are not subject to a share qualification, however, they may hold shares in ASXL subject to the ASXL Dealing Rules.

The Board reviews its fees every year under advice from an external independent remuneration consultant. The process involves benchmarking against comparative companies and also assessing the amount and level of effort employed by ASXL directors in conducting their duties. The aim of the fee review is to compensate ASXL non-executive directors fairly for their services, recognising the level of skill and experience required to conduct the role, and to have in place a fee scale which enables ASX to attract and retain talented non-executive directors.

Fees

In accordance with the constitution and shareholder approval granted at the October 2001 annual general meeting, total aggregate fees payable to non-executive directors on an annual basis is $1.5 million. At the September 2004 annual general meeting, the Board will be seeking shareholder approval to increase the total aggregate fees payable to non-executive directors on an annual basis from the current amount of $1.5 million to $2 million. Further details will be outlined in the notice of annual general meeting.

The fee scale for non-executive directors, including key committees and subsidiary boards on which non-executive directors serve, is set out below. These fees were set in the fee review conducted in November 2003, which included consideration of the termination of the non-executive directors' retirement benefit under which entitled directors gave up substantial entitlements to future benefits. Further detail on the retirement benefit scheme is provided below.

Position	Fee per annum $
Chairman of the Board	300,000
Vice Chairman of the Board	125,000
Non-executive director	100,000
Audit and Risk Committee Chair	40,000
Audit and Risk Committee member	20,000
Nomination and Remuneration Committee member[1]	10,000
Market Rules Committee Chair[2]	20,000
ASX Settlement & Transfer Corporation Pty Ltd director	30,000
Australian Clearing House Pty Ltd director	30,000

1 The Chairman of the Board is the Chairman of the Nomination and Remuneration Committee. He receives no additional fee for this role.

2 The Market Rules Committee Chairman and members may also receive a special sitting fee of $2,000 per day where meetings in excess of normal requirements are held.

Directors receive no benefits in addition to their fees. Benefits such as car parking are provided on a 'salary sacrifice' basis.

Remuneration details of directors

The nature and amount of each major element of the emolument of each director of ASXL for the financial year are set out below:

	Primary			Post-employment		Equity		Other		
	Salary and fees[1] $	Cash bonus[2] $	Non-cash benefits[3] $	Super-annuation $	Accrued retirement benefits[4] $	Value of conditional entitle-ments[5] $	Additional shares[6] $	Other benefits[7] $	Total remun-eration $	Total accrued retirement benefits[8] $
Non-executive directors										
ML Newman[9]	285,970	–	14,030	11,002	13,127	–	–	–	324,129	312,571
MH Shepherd	144,823	–	14,030	80,147	5,728	–	–	–	244,728	136,395
M Fowles[10]	–	–	–	20,437	3,708	–	–	–	24,145	–
JJ Kennedy	100,000	–	–	8,938	3,708	–	–	–	112,646	113,662
TC Rowe	120,000	–	–	10,041	–	–	–	–	130,041	–
JS Segal	110,000	–	–	–	–	–	–	–	110,000	–
MJ Sharpe	118,050	–	–	53,952	3,708	–	–	–	175,710	113,662
CM Walter	120,000	–	–	10,041	3,708	–	–	–	133,749	113,662
Executive director										
RG Humphry	907,225	466,500	14,030	50,286	1,156,450	459,345	239,363	96,440	3,389,639	3,300,000
Total	1,906,068	466,500	42,090	244,844	1,190,137	459,345	239,363	96,440	4,644,787	4,089,952

Notes to the above remuneration table

1 Salary and fees include Board and committee fees and are on a paid or payable basis.
2 Cash bonus relates to a performance bonus paid for the financial year ended 30 June 2003.
3 Non-cash benefits consist of the provision of car parking.
4 Accrued retirement benefit for the non-executive directors relates to the period 1 July 2003 to 26 August 2003. The retirement benefit for the non-executive directors was frozen at that date. Refer to the Managing Director's remuneration section below for details on his retirement accrual.
5 The notional value ascribed to this long-term incentive (conditional entitlements) has been determined by an independent actuary using the criteria set out in the ASIC guidelines and applying the terms and conditions of the share plan. The notional value of the conditional entitlements has then been proportionally attributed to the current financial year on a straight-line basis over the term of the plan.
6 Conditional entitlements received as remuneration in prior years converted to ASXL shares on 5 July 2004. The ASXL Board exercised its discretion to increase the number of shares issued to executives based on their performance to 30 June 2004. The additional shares have been included in remuneration for the current year and have been valued at $10.38 per share.
7 Other benefits include annual leave and long service leave entitlements accrued during the year and the cost of the provision of salary continuance insurance, which is provided to all ASX staff.
8 The total accrued retirement benefits have been disclosed in accordance with the ASX Corporate Governance Council best practice recommendations.
9 Mr Newman is provided with office and secretarial support to assist him in carrying out his ASXL Board duties. No cost is included as part of his remuneration above.
10 Mr Fowles retired as a director during the year and received $113,662 as a retirement benefit. This has not been included in remuneration above since the accrual was disclosed in the prior financial year.

Directors' fees paid for SEGC directorships are not included in the above figures, since SEGC is not a controlled entity. During the financial year, $54,500 in total was paid to the directors of ASXL who were also directors of SEGC.

Directors' and officers' indemnity insurance has not been included in the above figures since it is impracticable to determine an appropriate allocation basis.

Directors' interests

The relevant interest of each director in the share capital issued by companies within the consolidated entity, as notified to the Australian Securities and Investments Commission (ASIC) in accordance with section 205G(1) of the Corporations Act 2001 and listing rule 3.19A, at the date of this report is as follows:

	ASXL ordinary shares
Non-executive directors	
ML Newman	83,000
MH Shepherd	30,000
JJ Kennedy	1,000
TC Rowe	4,300
JS Segal	2,000
MJ Sharpe	2,000
CM Walter	8,000
Executive director	
RG Humphry	288,360

Retirement benefits

Shareholders approved a directors' retirement scheme in 1998, which provided a benefit to ASXL non-executive directors pursuant to the following scale:

– after three years service, the basic fee for a director in the year of retirement;
– after six years service, twice that basic fee; and
– after nine years service, three times that basic fee.

The Board decided on 26 August 2003 to terminate this scheme. The accrued entitlements have been frozen at that date and will be paid to entitled non-executive directors at the time of their retirement. The amount accrued by each director during the financial year, together with the total amount accrued, is set out above. Non-executive directors who joined the Board of ASXL in the three years before August 2003 have no accrued entitlement to a retirement benefit as the minimum service period under the scheme to qualify for a benefit was three years.

Managing Director's remuneration

The policy framework for determining the Managing Director's remuneration is the same as for other senior executives. This is dealt with on the following page under 'Senior executive remuneration'.

Transition to a new Managing Director

Richard Humphry, the Managing Director as at the date of this report, had originally planned to retire on 31 July 2004. In April 2004, the Board of ASXL announced Mr Humphry's successor, Mr Tony D'Aloisio, and signed an agreement under which Mr D'Aloisio will commence his duties at ASX on or before 1 November 2004. The terms of Mr D'Aloisio's service contract with ASXL were disclosed in detail to the market at the time his appointment was announced on 23 April 2004. It is currently anticipated that he will take up the position at the beginning of October 2004. Mr Humphry's remuneration arrangements over the reporting period and during the transition are outlined below.

In the case of both Mr Humphry and Mr D'Aloisio, the terms and conditions of the service arrangements and the levels of remuneration were determined upon advice from independent remuneration consultants with regard to the skills and experience of the relevant individual and market data relevant to executives of that calibre and with comparable responsibilities. The service arrangements provide frameworks for the review of remuneration over the period of the contract.

Current Managing Director

At the request of the Board of ASXL, Mr Humphry has agreed to stay on in his role as Managing Director and Chief Executive Officer of ASX until Mr D'Aloisio takes up the position but not beyond 31 October 2004. Mr Humphry's service contract assumed retirement on 31 July 2004, accordingly the agreement was extended to cover the extra months of service. Mr Humphry's remuneration and termination arrangements are described below.

Remuneration

Base salary

The Managing Director receives a base salary, which may be increased at the Board's discretion by up to 10% per annum. The Managing Director's current salary is $1 million per annum. For the period from 1 August 2004 until his retirement the Board has determined that the Managing Director's salary will be $1.1 million per annum.

Short-term incentive

Mr Humphry may also receive a performance bonus capped at 50% of his base salary each year. The performance bonus for the financial year ended 30 June 2003 is set out above. The performance bonus for the financial year ended 30 June 2004, if awarded, will be payable in October 2004. There is no performance bonus relating to the period from 1 July 2004 until his departure date.

The performance criteria against which the short-term incentive is awarded are set each year by the Board and reviewed annually. For the financial year ended 30 June 2004 they were as follows:

- ensure ongoing market integrity;
- maximise profit within context of the three-year ASX business plan;
- effectively manage investor relations;
- effectively manage capital;
- effectively manage financial performance of investments in other entities;
- create revenue streams which are not dependent on market activity;
- pursue other opportunities to create long-term shareholder wealth;
- effectively manage costs including operation within budget cost targets, noting that forecast budget cost targets may change over the year as new initiatives are added and actual revenue is received;
- ensure that ASX as an organisation continues to maintain and increase its focus on customer relationship management;
- enhance core business, capacity, access and liquidity;
- increase the number of products and services; and
- increase international reach.

Long-term incentive

The Managing Director also participated in the executive share plan, as approved by shareholders at the October 2000 annual general meeting. On 5 July 2004, 138,360 shares were issued to Mr Humphry under this plan.

The issue of the shares was conditional upon ASX delivering a 'total shareholder return' in the top 50% as measured against a peer group of companies (the S&P/ASX 100 adjusted for non-comparable companies and changes during the period). The plan also allows for the Board to increase or decrease the award by 20% at the end of the performance period (assuming the minimum hurdle of reaching the 50th percentile has been met), to account for individual performance of each participant. Applying those rules, 115,300 shares were issued on the basis that ASX performed in the 76th percentile of companies in its peer group, increased by 23,060 shares to recognise Mr Humphry's individual contribution to that result.

There will be no long-term incentive payable for the period of extended service from 1 August 2004 until his retirement.

Payment on retirement

The terms of service provide for the Managing Director to receive on retirement, payment equal to three times his base salary, which will result in a benefit of $3.3 million, payable at the date of retirement.

Senior executive remuneration

Policy, process and structures

The Nomination and Remuneration Committee sets overarching remuneration policy, which covers the Managing Director, senior executives and staff. The principles upon which ASX's remuneration policy is based include the following.

- Reward is set at a level which allows ASX to be competitive, attract talented staff and retain key staff whilst not seeking to be a market leader in remuneration levels.
- Reward structure is designed to reward behaviour proportionally to achievement and to motivate staff to outperform.
- Both financial and non-financial aspects of performance are measured and rewarded and performance targets comprise both qualitative and quantitative measures, including maintaining market integrity.
- Both supervisory and commercial functions are considered of equal value to the organisation, which is recognised in setting remuneration of relevant executives and staff.
- Supervisory staff do not have revenue-based performance targets.
- Performance pay has regard to both company and individual performance.

Key aspects of remuneration structure include the following.

- The components of executive remuneration are base salary, short-term incentives and long-term incentives.
- Specific retention arrangements are put in place for positions other than executive positions where the organisation identifies a key risk relating to projects or other targets.
- Non-monetary benefits are provided on a salary sacrifice basis and costed into the total reward.
- There are no contractual pre-set termination benefits other than for the current Managing Director, which are described above.

Each year the Board reviews remuneration policy. Fixed remuneration of staff and executives comprise a salary benchmarked against a Board-approved market position. Performance-based pay is in the form of cash bonuses. The performance evaluation process takes place immediately after the end of the financial year with each manager being required to evaluate the performance of individuals against their objectives set at the start of the year. The total amount available to distribute across the company for performance-related remuneration is determined according to the level at which the company meets pre-set financial hurdles and then the performance evaluation process is used to determine individual reward. The amount of the reward to individuals reflects that individual's performance against pre-determined objectives for the year.

Senior executive performance targets are drawn from the Managing Director's performance targets, as set out above, and largely depend upon the achievement of the business plan goals for the area under the management of the relevant executive.

Remuneration details of executives

The nature and amount of each major element of the emolument of each of the five executive officers of the company and the consolidated entity receiving the highest emoluments for the financial year were:

	Primary			Post-employment	Equity		Other	
	Salary and fees $	Cash bonuses[1] $	Non-cash benefits[2] $	Super-annuation $	Conditional entitlements[3] $	Additional shares[4] $	Other benefits[5] $	Total remuneration $
KL Hamilton	351,455	160,000	3,434	11,002	143,771	45,620	39,964	755,246
JM Hayes	381,121	130,000	14,151	11,002	165,250	52,938	42,868	797,330
AG Richards	370,058	150,000	17,764	11,002	173,820	56,208	42,317	821,169
MA Roche	334,308	140,000	3,381	12,202	143,465	45,620	38,980	717,956
CR Scully	405,327	150,000	18,291	67,587	185,000	68,300	51,032	945,537
Total	1,842,269	730,000	57,021	112,795	811,306	268,686	215,161	4,037,238

Notes to the executive remuneration tables

1 Cash bonuses relate to performance bonuses paid for the financial year ended 30 June 2003.

2 Non-cash benefits consist of the provision of car parking and notional interest on employee share purchase plan loans. Refer to note 21(b) for further details on the share purchase plan. ASXL does not intend to issue further shares under the employee share purchase plan.

3 The notional value ascribed to this long-term incentive (conditional entitlements) has been determined by an independent actuary using the criteria set out in the ASIC guidelines and applying the terms and conditions of the share plan. The notional value of the conditional entitlements has then been proportionally attributed to the current financial year on a straight-line basis over the term of the plan.

4 Conditional entitlements received as remuneration in prior years converted to ASXL shares on 5 July 2004. The ASXL Board exercised its discretion to increase the number of shares issued to executives based on their performance to 30 June 2004. The additional shares have been included in remuneration for the current year and have been valued at $10.38 per share.

5 Other benefits include annual leave and long service leave entitlements accrued during the year and the cost of the provision of salary continuance insurance, which is provided to all ASX staff.

Directors' and officers' indemnity insurance has not been included in the above figures since it is impracticable to determine an appropriate allocation basis.

Conditional entitlements granted to the five highest paid executive officers

During the financial year, the company granted conditional entitlements over unissued ordinary shares to the following five most highly remunerated officers of ASX as part of their remuneration:

	Number granted	Value $ (at $7.42 per share[3])
Executive officers		
KL Hamilton	26,500	196,630
JM Hayes	29,200	216,664
AG Richards	29,400	218,148
MA Roche	26,200	194,404
CR Scully	34,500	255,990

The above conditional entitlements were granted on 15 December 2003 in respect of the performance period from 1 December 2003 to 30 November 2007. The executive share plan is discussed in more detail below.

Executive share plan

Shareholders approved a conditional entitlement scheme, the executive share plan, for the Managing Director and senior executives.

There were two offers current during the reporting period under the executive share plan, the November 2001 offer and the December 2003 offer.

November 2001 offer: the performance period for this offer commenced on 22 November 2001 and ended on 30 June 2004. The shares issued pursuant to this offer are detailed at note 18(a). The base market price for the offer was calculated as the volume weighted average price during the period from 15 November 2001 to 21 November 2001 and is $11.97 per share. For the purposes of valuing the conditional entitlements for the disclosure of remuneration, the actuarial determined value was $10.38 per share.

December 2003 offer: the performance period for this offer commenced on 1 December 2003 and ends on 30 November 2007. The base market price for the offer was calculated as the volume weighted average price during the period from 24 November 2003 to 28 November 2003 and is $15.50 per share. For the purposes of valuing the conditional entitlements for the disclosure of remuneration, the actuarial determined value was $7.42 per share.

The companies included in the comparative group for both offers were selected from the S&P/ASX 100 adjusted to exclude foreign companies, mineral companies and property trusts at 21 November 2001 and 1 December 2003 respectively. A list of these companies and further details on the executive share plan appear on ASX's website in the Corporate Governance section. Note 27 also provides further details.

The fair value of the conditional entitlements was calculated at grant date using the Monte Carlo simulation technique and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed in this report is the portion of the fair value of the conditional entitlements allocated to this reporting period.

The following factors and assumptions were used in determining the fair value of conditional entitlements at grant date:

Grant date	Expiry date	Exercise price	Estimated volatility	Risk free interest rate	Dividend yield
3 December 2001	30 June 2004	–	30% p.a.	5.02%	3%
15 December 2003	30 November 2007	–	24% p.a.	5.70%	3%

Corporate governance
ASXL's corporate governance matters are discussed on pages 12 to 17.

Non-audit services
Refer to note 28 in the financial report for further details of the non-audit services provided by the company's auditors.

Rounding of amounts to nearest thousand dollars
ASXL is a company of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Dated at Sydney this 27th day of July 2004.

Signed in accordance with a resolution of the directors:

Maurice L Newman AC
Chairman

Richard G Humphry AO
Managing Director

Statements of financial performance

for the year ended 30 June 2004

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
Revenues from ordinary activities					
Listings		54,036	38,833	–	–
Equities trading, clearing and settlement		105,968	90,243	–	–
Derivatives trading, clearing and settlement		38,658	38,442	–	–
Market data		29,218	27,588	–	–
Dividend revenue		1,875	1,530	101,875	52,530
Interest revenue		7,220	6,459	2,544	2,840
Other revenue		13,356	11,706	–	–
Total revenues from ordinary activities	2	250,331	214,801	104,419	55,370
Expenses from ordinary activities					
Staff expenses		65,815	63,618	–	–
Occupancy expenses		19,462	16,423	–	–
Equipment expenses		29,450	35,695	–	–
Administration expenses		18,597	16,771	809	538
Total expenses from ordinary activities	3, 4	133,324	132,507	809	538
Share of net profit/(loss) of associate accounted for using the equity method	13	(434)	(1,713)	–	–
Profit from ordinary activities before income tax expense		116,573	80,581	103,610	54,832
Income tax (expense) relating to ordinary activities	5(a)	(33,350)	(22,415)	(520)	(691)
Profit from ordinary activities after income tax expense		83,223	58,166	103,090	54,141
Net (profit) attributable to outside equity interest	20	(532)	(413)	–	–
Net profit attributable to members of the parent entity	19	82,691	57,753	103,090	54,141
Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity		–	–	–	–
Total changes in equity other than those resulting from transactions with owners as owners		82,691	57,753	103,090	54,141
Basic earnings per share (cents per share)	7	81.1	56.6		
Diluted earnings per share (cents per share)	7	80.3	56.2		

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

Statements of financial position

at 30 June 2004

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
Current assets					
Cash assets	25	110,048	87,669	17,846	53,917
Receivables	9	23,741	21,830	–	–
Other assets	10	5,054	7,084	–	–
Total current assets		138,843	116,583	17,846	53,917
Non-current assets					
Investments accounted for using the equity method	13	47,307	47,741	–	–
Investments – other	11	22,950	22,950	104,448	104,101
Deferred tax assets	5(c)	10,380	9,333	10,380	9,060
Property, plant and equipment	14	50,988	54,304	–	–
Receivables	9	14,388	18,730	53,571	47,506
Intangible assets	12	5,034	2,276	–	–
Total non-current assets		151,047	155,334	168,399	160,667
Total assets		289,890	271,917	186,245	214,584
Current liabilities					
Payables	15	11,931	10,375	–	–
Current tax liabilities	5(b)	17,989	10,999	17,673	10,585
Provisions	16	19,204	17,804	–	–
Other liabilities	17	6,610	4,878	6	6
Total current liabilities		55,734	44,056	17,679	10,591
Non-current liabilities					
Deferred tax liabilities	5(d)	5,689	5,446	5,689	5,406
Provisions	16	8,671	9,616	–	–
Other liabilities	17	–	–	–	62,489
Total non-current liabilities		14,360	15,062	5,689	67,895
Total liabilities		70,094	59,118	23,368	78,486
Net assets		219,796	212,799	162,877	136,098
Equity					
Parent entity interest					
– Contributed equity	18	106,282	106,282	106,282	106,282
– Retained profits	19	113,514	105,899	56,595	29,816
Total parent entity interest in equity		219,796	212,181	162,877	136,098
Total outside equity interest	20	–	618	–	–
Total equity		219,796	212,799	162,877	136,098

The statements of financial position are to be read in conjunction with the notes to the financial statements.

Statements of cash flows

for the year ended 30 June 2004

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
Cash flows from operating activities					
Receipts from customers		267,875	227,158	–	–
Payments to suppliers and employees		(144,610)	(148,295)	(809)	(532)
Dividends received		1,875	1,530	101,875	52,530
Interest received		7,220	6,459	2,544	2,840
Income taxes paid	5(b)	(28,223)	(19,873)	(27,730)	(12,069)
Receipts from subsidiaries under tax funding agreement		–	–	33,261	18,102
Cash received from Financial Industry Development Account		5,314	5,567	–	–
Net cash provided by operating activities	25(a)	109,451	72,546	109,141	60,871
Cash flows from investing activities					
Expenditure on internally developed assets		(3,740)	(4,295)	–	–
Purchase of plant and equipment		(6,171)	(5,847)	–	–
Proceeds on sale of plant and equipment	2	155	147	–	–
Payment for additional investment in controlled entity	12	(5,347)	–	(5,347)	–
Proceeds on sale of investment in controlled entity		–	–	5,000	–
Payments for non-current investments		–	(1,050)	-	(1,050)
Loans from subsidiary entities		–	–	(72,896)	14,936
Repayments from associate		3,008	527	3,008	527
Net cash (used in)/provided by investing activities		(12,095)	(10,518)	(70,235)	14,413
Cash flows from financing activities					
Dividends paid	6	(76,311)	(43,448)	(76,311)	(43,448)
Proceeds from employee share plans		1,334	682	1,334	682
Net cash (used in) financing activities		(74,977)	(42,766)	(74,977)	(42,766)
Net increase in cash held		22,379	19,262	(36,071)	32,518
Cash at beginning of year		87,669	68,407	53,917	21,399
Cash at end of year	25(c)	110,048	87,669	17,846	53,917

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

1 Statement of significant accounting policies

The significant accounting policies that have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there has been a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the company are shown as a separate item in the consolidated financial statements.

ASXL owns 100% of Securities Exchanges Guarantee Corporation Limited (SEGC). The financial statements of SEGC have not been included in the consolidated financial statements because ASXL is not entitled to the entity's assets, nor is it able to control the entity so as to pursue ASXL objectives.

Associates

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss after tax is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to transactions with associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

(c) Revenue recognition

Operating revenue

Operating revenue comprises amounts earned (net of returns, rebates and allowances) from the provision of products or services to entities outside the consolidated entity. Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority, when the goods are provided or, in relation to the provision of services, when services have been performed.

Interest revenue

Interest revenue is recognised as it accrues. It includes gains or losses on short-term bills when revaluing them to market.

Dividend revenue

Dividends are recognised when they are received, net of any franking credits.

Sale of non-current assets

The profit and loss on disposal of assets is brought to account at the date when ownership passes to a party external to the consolidated entity.

The gain/(loss) on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net of proceeds on disposal.

(d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Taxation

The consolidated entity adopts the income statement liability method of tax-effect accounting.

Income tax expense for the year is calculated on the operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, are carried forward in the statement of financial position as a deferred tax asset or a deferred tax liability.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or in relation to tax losses, when realisation is virtually certain.

ASXL elected to form a tax consolidated group for income tax purposes with effect from 1 July 2002. ASXL, the head entity, therefore recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions). Refer to note 5 for further details.

(f) Earnings per share
Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the company.

Diluted EPS is calculated by dividing net profit attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(g) Cash and cash equivalents
Cash assets are stated at market value.

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within one working day, with a term to maturity of less than three months.

(h) Receivables
The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Trade debtors to be settled within 30 days are carried at amounts due.

(i) Investments
Controlled entities
Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

Associates
In the company's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

Other companies
Other investments are carried at the lower of cost or recoverable amount.

(j) Property, plant and equipment
Cost and valuation
All classes of property, plant and equipment are measured at cost.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Depreciation and amortisation
Depreciation is provided on a straight-line basis on all plant and equipment, over their estimated useful lives. The depreciation periods used for each class of asset, for the current and previous years, are as follows:

	Years
– Plant and equipment	3-7
– Computer equipment and software	3-7
– Motor vehicles	4-6
– Leased motor vehicles	3-4
– Leasehold improvements	The lease term

Leased plant and equipment
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the elapsed items, are recognised as an expense on a straight-line basis.

Leased premises
Lease incentives are included in several of the operating leases negotiated by the consolidated entity, and include rent-free periods and free fit-out of leased areas. The estimated value of the lease incentives has been apportioned over future accounting periods. The provision has been calculated on the basis of discounted net future cash flows. The net lease costs are charged against the results for those periods to permit a proper matching of expenditure and revenue. Refer note 1(r) for further details.

Capitalisation and amortisation of software expenditure
Expenditure for major upgrades or enhancements to existing major systems is capitalised and amortised over seven years, or if minor enhancements to existing systems, the lesser of five years or the remaining useful life of the system being enhanced. Expenditure on new software projects less than $500,000 is expensed. Internal costs are also included in capitalised expenditure.

(k) Goodwill
Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of a controlled entity.

For associates, the consolidated financial statements include the carrying amount of goodwill in the equity accounted investment carrying amount.

Goodwill is amortised on a straight-line basis over the period during which benefits are expected to arise. This period of amortisation is 20 years.

(l) Recoverable amount
Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount and where a carrying value exceeds the recoverable amount, the asset is written down. In determining recoverable amount, the relevant cash flows have been discounted to their present value.

1 Statement of significant accounting policies (continued)

(m) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the company or consolidated entity. Trade accounts payable are settled on normal commercial terms.

(n) Employee benefits

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided up to reporting date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' cumulative services provided to the reporting date. Refer note 1(r) for further details.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms to maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Employee and executive share plans

The value of equity-based compensation schemes, as described in note 27, are not recognised as an employee benefits expense. It is anticipated this policy will change with the introduction of International Financial Reporting Standards (IFRS). Refer to note 8 for further details.

(o) Superannuation fund

ASX employees are members of the ASX superannuation plan (the plan), which is part of an externally managed multi-employer trust. The plan exists to provide benefits for employees and their dependants on retirement, disability or death. The consolidated entity contributes to the plan in addition to contributions made by employees. Employer contributions are recognised as an expense as they are made.

(p) Financial Industry Development Account (FIDA)

SEGC holds the assets of the National Guarantee Fund (the Fund) in trust for the purposes set out in the provisions of Part 7.5 Division 4 of the Corporations Act 2001 and administers the Fund in accordance with those provisions. SEGC is able to determine that funds in excess of the Fund's 'minimum amount' may be transferred to ASXL to be paid into a separate account designated as FIDA. Money held by ASXL in the FIDA account may only be used for a purpose that has been approved by the Federal Treasurer. In relation to FIDA funding, the Minister may approve purposes relating to programs for the development of the financial industry that are conducted primarily for a public benefit and are not conducted primarily to promote the profitability of the commercial operations of ASXL. FIDA receipts are recognised on an accruals basis.

(q) Foreign currency

Some operating expenses, including system maintenance fees, are paid in foreign currencies. Foreign currency transactions are translated to Australian currency at the rates of exchange prevailing at the dates of the transactions. At 30 June 2004 and 30 June 2003, there were no significant foreign currency exposures.

(r) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates of government bonds most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Surplus lease space

A provision is made for surplus leased premises when it is determined that no substantive future benefit will be obtained by ASX from its occupancy. This arises where premises are currently leased under non-cancellable operating leases and the consolidated entity either:

- currently does not occupy the premises and does not expect to occupy it in the future;
- sublets the premises for lower rentals than it is presently obliged to pay under the original lease; or
- currently occupies the premises, but the premises have been assessed to be of no substantive benefit beyond a known future date.

The provision has been calculated on the basis of discounted estimated net future cash flows.

(s) Novation

Australian Clearing House Pty Limited (ACH), a controlled entity of ASX, provides contract guarantee support for clearing across all ASX markets which includes exchange traded options, futures, transferable derivative instruments ('warrants'), securities and managed investments ('equities'). Transactions between two participating organisations are replaced by novation. The novation replaces the original contract between the two participating organisations with a contract between the selling participating organisation and ACH, and a contract between ACH and the buying participating organisation.

Through the novation process, all positions are matched. Novated contracts are currently disclosed as contingent assets and contingent liabilities. Refer to note 23(c) for further details.

The treatment of novation is being reviewed as part of the implementation of IFRS. Refer note 8 for further details.

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
2 Revenues from ordinary activities					
Revenues from operating activities					
Operating revenue		241,236	206,812	–	–
Dividend revenue					
– controlled entities		–	–	100,000	51,000
– other corporations		1,875	1,530	1,875	1,530
Interest revenue					
– associated company	26(c)	965	1,013	965	1,013
– other parties		6,255	5,446	1,579	1,827
Revenues from ordinary activities		250,331	214,801	104,419	55,370
Proceeds on sale of plant and equipment		155	147	–	–
3 Expenses/(gains) from ordinary activities					
Included in expenses from ordinary activities are the following items:					
Depreciation of:					
Plant and equipment		4,420	4,040	–	–
Computer equipment and software		11,879	12,992	–	–
Motor vehicles		70	113	–	–
Total depreciation		16,369	17,145	–	–
Amortisation of:					
Goodwill		204	129	–	–
Leased motor vehicles		–	12	–	–
Total amortisation		204	141	–	–
Total depreciation and amortisation expenses		16,573	17,286	–	–
Net doubtful debts expense/(recoveries)		294	(334)	–	–
Net loss on sale of plant and equipment		231	1	–	–
Operating lease rental expense		17,204	14,827	–	–
4 Individually significant items included in profit from ordinary activities before income tax expense					
ASX FundConnect expenses (including write-off)		–	5,046	–	–
Total		–	5,046	–	–

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
5 Taxation				
(a) Income tax (expense)				
Prima facie income tax (expense) calculated at 30% (2003: 30%) on the operating profit before tax	(34,972)	(24,174)	(31,083)	(16,450)
Movement in income tax (expense) due to:				
Non-tax deductible items	(427)	(367)	–	–
Dividends from wholly owned subsidiaries	–	–	30,000	15,300
Imputation credit gross up	(241)	(197)	(241)	(197)
Franking credit offset	804	656	804	656
FIDA non-assessable income	1,230	1,053	–	–
Research and development concession	48	494	–	–
Equity accounted associate result	(130)	(514)	–	–
Building allowance	48	48	–	–
Amortisation of goodwill	(61)	(39)	–	–
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax consolidated group	–	–	(32,850)	(21,348)
	(33,701)	(23,040)	(33,370)	(22,039)
Increase in tax base of depreciable assets on tax consolidation	538	–	–	–
(Under)/over provision in prior year	(187)	625	(187)	–
Recovery of income tax under a tax funding agreement	–	–	33,037	21,348
Total income tax (expense)	(33,350)	(22,415)	(520)	(691)
Total income tax (expense) is made up of:				
Current income tax provision	(35,026)	(23,529)	(34,631)	(22,476)
Deferred tax liability	(243)	248	(283)	(5,377)
Deferred tax asset	1,047	241	1,320	9,060
(Under)/over provision in prior year	(187)	625	(187)	–
Tax related receivable from wholly-owned subsidiaries	–	–	33,037	21,348
Deferred tax liability created on revaluation of assets on acquisition	1,059	–	–	–
Deferred tax balances of acquired subsidiary transferred on tax consolidation	–	–	224	–
Deferred tax balances transferred on 1 July 2002	–	–	–	(3,246)
Total income tax (expense)	(33,350)	(22,415)	(520)	(691)
(b) Current tax liabilities				
Balance at beginning of year	10,999	7,968	10,585	178
Current year's income tax expense on operating profit	35,026	23,529	34,631	22,476
Income tax paid	(28,223)	(19,873)	(27,730)	(12,069)
Under/(over) provision in prior year	187	(625)	187	–
Current tax liabilities	17,989	10,999	17,673	10,585

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
(c) Deferred tax assets				
Deferred tax assets comprise the estimated future benefit at an income tax rate of 30% (2003: 30%) of the following items:				
Provisions for:				
– Doubtful debts	287	199	287	199
– Employee benefits	6,612	5,843	6,612	5,772
– Leased premises	1,616	2,289	1,616	2,289
– Superannuation	–	163	–	163
Accrued expenses	1,661	550	1,661	527
Revenue received in advance	204	289	204	110
Deferred tax assets	10,380	9,333	10,380	9,060
(d) Deferred tax liabilities				
Deferred tax liabilities comprise the estimated expense at an income tax rate of 30% (2003: 30%) of the following items:				
Accrued interest	99	147	99	147
Prepayments	–	62	–	62
Capitalised project costs	5,040	4,579	5,040	4,574
Depreciation timing differences	550	658	550	623
Deferred tax liabilities	5,689	5,446	5,689	5,406

Tax consolidation

ASXL elected to form a tax consolidated group for income tax purposes with effect from 1 July 2002. ASXL is the head entity for the purposes of the tax consolidation legislation and therefore is legally liable for the income tax liabilities of the ASXL tax consolidated group.

In accordance with Urgent Issues Group Abstract 52 'Income Tax Accounting under the Tax Consolidation System', the deferred tax balances of the subsidiaries in the tax consolidated group have been transferred to ASXL at their carrying value on the date of entry into the group. ASXL has compensated the subsidiaries for those amounts based on the carrying value of the deferred tax balances. ASXL now recognises the current and deferred income tax liabilities and assets of all the entities within the tax consolidated group.

Tax funding agreement

ASXL has entered into a tax funding agreement with the following subsidiaries:

- ASX Operations Pty Limited;
- Australian Clearing House Pty Limited (formerly named Options Clearing House Pty Limited);
- ASX Settlement and Transfer Corporation Pty Limited;
- ASX International Services Pty Limited; and
- Orient Capital Pty Limited.

The tax funding agreement is effective from 1 July 2002. The agreement has the objective of achieving an appropriate allocation of the group's income tax expense to the main operating subsidiaries within the ASX Group. The subsidiaries party to the tax funding agreement will reimburse ASXL for their portion of the group's tax expense based on a formula set out in the agreement, and will recognise this amount as tax expense in their financial statements. All deferred tax balances for the group are now recognised in ASXL.

6 Dividends

Dividends recognised in the current year by the company are:

	Cents per share	Total amount $000	Date of payment	Franked tax rate	Percentage franked
Final – 2003	18.1	18,466	22 September 2003	30%	100%
Special – 2003	27.5	28,055	22 September 2003	30%	100%
Interim – 2004	29.2	29,790	26 March 2004	30%	100%
Total amount	74.8	76,311			

Subsequent events

Since the end of the financial year, the directors declared the following dividend:

	Cents per share	Total amount $000	Date of payment	Franked tax rate	Percentage franked
Final – 2004	27.4	28,137	27 August 2004	30%	100%
Special – 2004	24.1	24,748	27 August 2004	30%	100%
Total amount	51.5	52,885			

The final and special dividends have not been recognised in the financial statements for the year ended 30 June 2004 but will be recognised in subsequent financial reports.

	Consolidated 2004 $000	Consolidated 2003 $000
Dividend franking account		
30% franking credits available to shareholders of ASXL for subsequent financial years	23,470	19,363

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(a) franking credits that will arise from the payment of the current income tax payable; and
(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Change in measurement of dividend franking amount
The amount of franking credits available to shareholders disclosed above has been measured under the New Business Tax System (Imputation) Act 2002, and represents income tax paid amounts available to frank distributions. Therefore, fully franked dividends to the amount of $54,763,000 could potentially be paid to shareholders.

	Consolidated 2004	2003
7 Earnings per share		
Basic earnings per share (cents)	81.1	56.6
Diluted earnings per share (cents)	80.3	56.2

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	2004 $000	2003 $000
Earnings used in calculating basic and diluted earnings per share	82,691	57,753

	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	102,019,933	101,971,038
Effect of dilutive securities: Contingently issuable shares	972,825	729,424
Weighted average number of ordinary shares used in calculating diluted earnings per share	102,992,758	102,700,462
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in the calculation of diluted earnings per share	4,896	3,140

8 Impact of International Financial Reporting Standards (IFRS)

For the year ending 30 June 2006, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS which would require identification of all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position on the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years. Consequently, the consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

ASX has approached the implementation of IFRS in three phases.

Assessment and planning phase: This phase involves assessing the key anticipated impacts of conversion to IFRS based on the consolidated entity's existing accounting and reporting policies and procedures, systems and processes. The company considers the assessment and planning phase to be substantially complete as at 30 June 2004.

Design phase: This phase involves formulating the changes required to accounting policies and procedures, systems and processes in order to transition to IFRS. This phase also involves reliably estimating the quantitative impacts of conversion to IFRS. The design phase is aimed to be performed and substantially completed during the upcoming financial year.

Implementation phase: This phase will include implementation of the identified IFRS changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS. The implementation phase is aimed to be performed and substantially completed during the upcoming financial year.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows.

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value. A review of the accounting treatment of the novation arrangements are being undertaken as part of the design phase to determine whether the value of contracts subject to novation require recognition on the face of the statement of financial position. The current accounting treatment is to disclose novated contracts as contingent assets and contingent liabilities (refer to note 23). If the novation contracts were to be recognised on the statement of financial position, there is not expected to be an impact on the statement of financial performance on the basis the novation contracts are expected to continue to net to nil.
- Impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and other assets of cash-generating operations have been impaired. In particular, ASXL's investments in APRL and Orient Capital will be tested for impairment on conversion to IFRS and will be tested during subsequent years if there is an indication of impairment. Whilst at this time there have been no indications of an impairment of these assets, if there is an impairment in the future, the amount will be recognised in the statement of financial performance.
- Goodwill will be tested for impairment annually and will not be amortised. ASX is carrying notional goodwill through its 50% interest in APRL and goodwill on consolidation of Orient Capital. At this point in time there have been no indications of an impairment of goodwill, but if there is an impairment in the future, the amount will be recognised in the statement of financial performance.
- Equity-based compensation in the form of employee shares will be recognised as an expense in the periods during which the employee provides related services. ASXL has issued conditional entitlements (refer to note 18) which will vest in July 2007 subject to performance criteria being met. It is expected that the value of these entitlements, along with any future grants of conditional entitlements, will be expensed on a pro rata basis over the vesting period.
- Income tax will be calculated based on the 'balance sheet approach' replacing the 'income statement approach' currently used under Australian GAAP. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. In addition, as tax effects follow the underlying transaction, some tax effects will be recognised in equity. This approach is not expected to result in a significant change to deferred tax assets and liabilities.
- Actuarial gains and losses in the defined benefit superannuation plan sponsored by entities within the consolidated entity will be recognised in the statements of financial position and the statements of financial performance. ASX currently has seven members in the defined plan whose vested contributions constitutes less than 4% of total ASX superannuation plan assets and any future gains or losses are not expected to be significant; and
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
9 Receivables					
Current					
Trade debtors		22,463	20,240	–	–
Less: Provision for doubtful debts		(955)	(661)	–	–
		21,508	19,579	–	–
Other debtors		2,233	2,251	–	–
		23,741	21,830	–	–
Non-current					
Loan to associate – unsecured		11,575	14,583	11,575	14,583
Loans to controlled entities	26(b)	–	–	10,407	–
Employee share plan trust loans	21(b)	2,813	4,147	2,813	4,147
Subordinated loan – controlled entities		–	–	28,776	28,776
		14,388	18,730	53,571	47,506
10 Other assets					
Current					
Prepayments		3,142	2,637	–	–
Accrued revenue		1,912	4,447	–	–
		5,054	7,084	–	–
11 Investments – other					
Non-current					
Controlled entities					
Unlisted shares at cost		–	–	8,143	7,796
Subordinated loan – controlled entities		–	–	20,900	20,900
Investment in associate – at cost		–	–	52,455	52,455
Other corporations					
Listed shares at cost*		22,950	22,950	22,950	22,950
		22,950	22,950	104,448	104,101

* ASXL owns shares in the following listed company:

Name of the entity:	IRESS Market Technology Limited
Principal activity:	The provision of equity and related market services to professional market participants.
Percentage ownership interest held:	14.4%
Carrying amount of investment:	$22,950,000

The market value of shares held in IRESS Market Technology Limited at 30 June 2004 was $48,000,000 (2003: $34,350,000).

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
12 Intangible assets				
Goodwill	5,551	2,588	–	–
Accumulated amortisation	(517)	(312)	–	–
	5,034	2,276	–	–

On 1 January 2004, ASXL acquired the remaining 50% of the voting share capital of Orient Capital Pty Limited, making it a 100% owned subsidiary on that date. The acquisition details are as follows:

	$000
Consideration paid:	
Cash paid and incidental costs of acquisition	5,347
Fair value of 50% of net assets acquired	(2,384)
Goodwill arising on acquisition	2,963

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
13 Investments accounted for using the equity method				
Non-current				
Investment in associate	47,307	47,741	–	–

Details of the investment in associate, ASX Perpetual Registrars Limited (APRL), are as follows:

Principal activity:	Share registry services
Balance date:	30 June 2004
Percentage ownership interest held:	50%

	2004 $000	2003 $000
ASX Perpetual Registrars Limited		
Statements of revenue and expenses		
Revenues	53,591	48,888
Operating expenses	38,316	36,744
EBITDA	15,275	12,144
Depreciation and amortisation (excluding goodwill)	7,693	7,564
EBIT	7,582	4,580
Interest expense	1,951	2,138
Net profit before tax and goodwill amortisation	5,631	2,442
Income tax (expense)	(1,301)	(704)
Net profit after tax pre-goodwill amortisation	4,330	1,738
Goodwill amortisation	(2,982)	(2,948)
Net profit/(loss) after income tax expense	1,348	(1,210)

	2004 $000	2003 $000
Reconciliation of associate's reported result to equity accounted result		
ASXL's 50% share of APRL profit/(loss)	674	(605)
Goodwill amortisation	1,491	1,474
Income tax expense	651	352
Share of associate's operating profit before income tax and goodwill	2,816	1,221
Share of associate's income tax (expense) attributable to operating profit	(651)	(352)
Net profit after tax pre-goodwill	2,165	869
Adjustments:		
Amortisation of goodwill arising from investment	(2,599)	(2,582)
Share of associate's net loss – equity accounted	(434)	(1,713)
The consolidated entity's share of aggregate assets and liabilities of associate is as follows:		
Current assets	7,302	4,898
Non-current assets	37,102	41,197
Total assets	44,404	46,095
Current liabilities	2,888	2,318
Non-current liabilities*	11,749	14,684
Total liabilities	14,637	17,002
Net assets – as reported by associate	29,767	29,093
Adjustments arising from equity accounting:		
Goodwill (net of amortisation)	17,540	18,648
Net assets – equity accounted	47,307	47,741

* Part of a shareholder subordinated loan facility used to fund the development of a new registry system. ASXL's share of funding facility is $11.5 million. Refer note 26(c) for further details.

Share of post-acquisition retained (losses) attributable to associate		
Share of associate's retained (losses) at beginning of year	(4,714)	(3,001)
Share of associate's net (losses) accounted for using the equity method	(434)	(1,713)
Share of associate's retained (losses) at end of year	(5,148)	(4,714)
Movement in carrying amount of investment		
Carrying amount of investment in associate at beginning of year	47,741	49,454
Share of associate's net losses	(434)	(1,713)
Carrying amount of investment in associate at end of year	47,307	47,741
Commitments		
Share of associate's capital commitments	–	–
Share of associate's operating lease commitments payable	3,257	4,057

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
14 Property, plant and equipment				
Non-current				
Property, plant and equipment at cost				
Opening value	58,790	59,677	–	–
Additions	2,938	258	–	–
Transfers to computer equipment and software	(707)	–	–	–
Disposals	(336)	(1,295)	–	–
Other	–	150	–	–
Closing value	60,685	58,790	–	–
Accumulated depreciation				
Opening value	37,915	35,170	–	–
Depreciation expense	4,420	4,040	–	–
Depreciation written back on disposals	(118)	(1,295)	–	–
Closing value	42,217	37,915	–	–
Property, plant and equipment at net book value	18,468	20,875	–	–
Computer equipment and software at cost				
Opening value	81,418	76,772	–	–
Additions	3,352	3,819	–	–
Transfers from capital works in progress	6,548	10,153	–	–
Transfers from property, plant and equipment	707	–	–	–
Fair-value adjustment on acquisition of Orient Capital	3,528	–	–	–
Disposals	(213)	(9,326)	–	–
Closing value	95,340	81,418	–	–
Accumulated depreciation				
Opening value	53,500	49,659	–	–
Depreciation expense	11,879	12,992	–	–
Depreciation written back on disposals	(198)	(9,151)	–	–
Closing value	65,181	53,500	–	–
Computer equipment and software at net book value	30,159	27,918	–	–

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
Motor vehicles at cost				
Opening value	682	1,071	–	–
Disposals	(396)	(389)	–	–
Closing value	286	682	–	–
Accumulated depreciation				
Opening value	401	570	–	–
Depreciation expense	70	113	–	–
Depreciation written back on disposals	(254)	(282)	–	–
Closing value	217	401	–	–
Motor vehicles at net book value	69	281	–	–
Leased motor vehicles at cost				
Opening value	25	242	–	–
Disposals	(25)	(217)	–	–
Closing value	–	25	–	–
Accumulated amortisation				
Opening value	14	203	–	–
Amortisation expense	–	12	–	–
Amortisation written back on disposals	(14)	(201)	–	–
Closing value	–	14	–	–
Leased motor vehicles at net book value	–	11	–	–
Capital works in progress at cost				
Opening value	5,219	11,622	–	–
Additions	3,621	6,065	–	–
Transfers to computer equipment and software	(6,548)	(10,153)	–	–
Write-off	–	(2,315)	–	–
Closing value	2,292	5,219	–	–
Total property, plant and equipment at net book value	50,988	54,304	–	–
Total property, plant and equipment				
– At cost	158,603	146,134	–	–
– Accumulated depreciation and amortisation	(107,615)	(91,830)	–	–
Total property, plant and equipment at net book value	50,988	54,304	–	–

15 Payables

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
Current				
Trade creditors	6,270	5,961	–	–
Other creditors and accruals	5,661	4,414	–	–
	11,931	10,375	–	–

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
16 Provisions					
Current					
Employee benefits	21(a)	18,430	16,568	–	–
Leased premises		774	1,236	–	–
		19,204	17,804	–	–
Non-current					
Employee benefits	21(a)	3,867	2,858	–	–
Leased premises		4,804	6,216	–	–
Superannuation		–	542	–	–
		8,671	9,616	–	–

The movements in the consolidated provision balances shown above are as follows:

	Employee benefits $000	Leased premises $000	Super-annuation $000	Total $000
Balance at beginning of year	19,426	7,452	542	27,420
– made during the year	13,803	–	–	13,803
– used during the year	(10,932)	(1,874)	(542)	(13,348)
Balance at end of year	22,297	5,578	–	27,875

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
17 Other liabilities					
Current					
Revenue received in advance		6,513	4,826	–	–
Other		97	52	6	6
		6,610	4,878	6	6
Non-current					
Loans from controlled entities	26(b)	–	–	–	62,489

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
18 Contributed equity				
Share capital				
Ordinary shares – fully paid	106,282	106,282	106,282	106,282

	Number of shares	Number of shares
(a) Ordinary shares		
Movements in ordinary shares during the year		
Balance at beginning of year	102,019,933	101,518,760
Shares issued under executive share plans	–	396,983
Shares issued to employees under short-term incentive plan	–	58,425
Shares issued to employees ($1,000 to each employee)	–	45,765
Balance at end of year	102,019,933	102,019,933

Terms and conditions of ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up the company, ordinary shareholders rank after creditors and are entitled to any proceeds of liquidation.

Subsequent events

On 5 July 2004, 633,557 ASXL ordinary shares were issued under the executive share plan in relation to the performance period which commenced on 22 November 2001 and ended 30 June 2004. Refer to note 27 for further details of the executive share plan. There were no amounts unpaid on the shares issued and no consideration was received on conversion.

	2004 No.	2003 No.
(b) Conditional entitlements		
Movements in conditional entitlements during the year		
Balance at beginning of year	562,600	569,000
Number issued during the year	483,400	58,400
Number cancelled or lapsed during the year	(18,100)	(64,800)
Balance at end of year	1,027,900	562,600

The 483,400 conditional entitlements granted during the year were issued as part of executive and senior management remuneration and cover the performance period 1 December 2003 to 30 November 2007. The conditional entitlements have a fair value at grant date of $7.42 each, and have a nil exercise price (i.e. no consideration will be paid at the date of vesting). The conditional entitlements were provided at no cost. A further 7,500 conditional entitlements for the performance period 1 December 2003 to 30 November 2007 were issued on 5 July 2004.

Terms and conditions of conditional entitlements

For details of the terms and conditions refer to note 27.

No accounting entries have been recognised for the issue of the conditional entitlements.

	Consolidated		The Company	
	2004 $000	2003 $000	2004 $000	2003 $000
19 Retained profits and reserves				
Retained profits				
Balance at beginning of year	105,899	91,594	29,816	19,123
Net profit attributable to members of the parent entity	82,691	57,753	103,090	54,141
Dividends paid	(76,311)	(43,448)	(76,311)	(43,448)
Transfer from asset revaluation reserve	1,235	–	–	–
Balance at end of year	113,514	105,899	56,595	29,816

Asset revaluation reserve

(a) Nature and purpose of the reserve

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

(b) Movements during the year				
Balance at beginning of year	–	–	–	–
Additions	1,235	–	–	–
Transfers to retained earnings	(1,235)	–	–	–
Balance at end of year	–	–	–	–

On 1 January 2004, ASXL acquired the remaining 50% of the voting share capital of Orient Capital Pty Limited. On acquisition, the assets of Orient Capital were revalued to fair value, which resulted in an asset revaluation reserve on consolidation of $1,235,000. This amount was transferred to retained earnings during the financial year.

	Consolidated		The Company	
	2004 $000	2003 $000	2004 $000	2003 $000
20 Outside equity interest (OEI)				
Reconciliation of OEI in a controlled entity comprise:				
Balance at beginning of year	618	205	–	–
Share of operating profits	532	413	–	–
Reversal of OEI after 100% acquisition*	(1,150)	–	–	–
Balance at end of year	–	618	–	–
Interest in share capital	–	307	–	–
Interest in retained profits at end of year	–	311	–	–
Total outside equity interest	–	618	–	–

* Outside equity interest previously related to Orient Capital Pty Limited. On 1 January 2004, ASXL acquired the remaining 50% of the subsidiary and Orient Capital Pty Limited is now 100% owned.

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000

21 Employee benefits

(a) Aggregate employee benefits, including on-costs

The aggregate employee benefits recognised in the statements of financial position are as follows:

	Note	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
Current	16	18,430	16,568	–	–
Non-current	16	3,867	2,858	–	–
		22,297	19,426	–	–

The present value of employee benefits not expected to be settled within twelve months of balance date has been calculated using the following weighted averages:

	2004	2003	2004	2003
Assumed rate of increase in salary and wages rates	3.0%	3.0%	–	–
Discount rate applied to non-current portion	5.7%	5.7%	–	–
Settlement term (years)	6	6	–	–

The total number of full-time equivalent employees at 30 June 2004 was 554 (2003: 585).

(b) Employee share plans

ASX has implemented two general employee share plans. These are detailed below:

– *ASX employee share acquisition plan (plan 1)*

Two parcels of ordinary shares, having a market value of $1,000 each, were offered to all eligible employees at no cost. The first offer was made in December 1998 and the second offer in September 2002. Dealing in the shares issued under the plan is not permitted for a period of three years from date of issue, unless the participant ceases to be an employee.

– *ASX employee share purchase plan (plan 2)*

Eligible employees were entitled to acquire ordinary shares up to a maximum market value of 10% of their fixed remuneration package, the total allocation being capped at a market value of approximately $2,500,000 for each of the three offers made under this plan. Employees were offered a 10-year interest-free, non-recourse loan to facilitate the share purchase. Ordinary shares issued under this facility are held in trust on the employees' behalf, with any dividends paid on those shares being applied against any outstanding loan balance. No term restrictions apply to plan 2 shares. Where employees elect to sell their shares, they become entitled to the excess of the proceeds over the amount outstanding on the loan and any costs of sale. Where sale proceeds fall short of loan balances plus selling costs, the trustee, ASX Operations Pty Limited, a controlled entity, underwrites the resulting loss. Further details of any contingent liabilities relating to the above employee share purchase plans can be found at note 23(e). The last offer made under this plan was April 2001.

ASX has decided that no further issues will be made under this plan.

Details of the ordinary shares allocated under both plans are as follows:

Plan	Number of eligible employees	Date of issue	Issue price $	Number of shares issued	Market value on issue $
Plan 1:*					
– offer 2	587	12 September 2002	12.37	45,765	566,113
Plan 2:					
– offer 1	470	5 December 1998	8.34	300,112	2,502,934
– offer 2	449	31 March 2000	13.85	179,374	2,484,330
– offer 3	592	20 April 2001	12.51	199,755	2,498,935
Total				725,006	8,052,312

* Shares issued under plan 1 – offer 1 vested with employees on 4 December 2001.

21 Employee benefits (continued)

(b) Employee share plans (continued)

The details of plan 1 (offer 2) and plan 2 (offers 1, 2 and 3) are as follows:

	Plan 1 offer 2 No.	Plan 2 offer 1 No.	Plan 2 offer 2 No.	Plan 2 offer 3 No.	Total No.
Shares remaining at 30 June 2003	41,877	120,608	122,177	161,591	446,253
Shares disposed of during the financial year	6,642	29,223	33,671	44,156	113,692
Shares remaining at 30 June 2004	35,235	91,385	88,506	117,435	332,561

	$000	$000	$000	$000	$000
Loan balance at 30 June 2003	–	729	1,523	1,895	4,147
Loan repayments	–	166	408	500	1,074
Dividends paid (offset against loan balance)	–	80	79	101	260
Loan balance at 30 June 2004	–	483	1,036	1,294	2,813
Market value of shares at 30 June 2004	548	1,420	1,375	1,825	5,168

ASXL share price at 30 June 2004 was $15.54 (2003: $12.52).

(c) Executive share plan

Refer to note 27 for details.

(d) Superannuation plan

ASX and its employees contribute to the ASX superannuation plan (the plan) which is part of the Mercer Retirement Trust, a multi-employer trust. Within the plan, all members participate in the accumulation fund except for seven members who remain in the defined benefit fund category. The plan complies with all the requirements of the Superannuation Industry (Supervision) Act 1993.

	2004 $000	2003 $000
At 30 June 2004, the latest available unaudited information relating to the fund is:		
Net market value of assets	32,936	28,215
Accrued benefits	32,750	28,047
Excess of net assets over accrued benefits	186	168
Vested benefits	32,750	28,035
Employer contributions to the plan	3,656	3,705

An actuarial valuation of the fund was performed at 30 June 2004 and there were no unfunded liabilities at that date.

	Consolidated		The Company	
	2004	2003	2004	2003
	$000	$000	$000	$000

22 Commitments

(a) Capital and operating commitments

Commitments contracted for but not yet incurred as at balance date are as follows:				
Due:				
Not later than one year	11,459	10,511	–	–
Later than one year but not later than five years	16,091	9,433	–	–
Later than five years	32,572	–	–	–
	60,122	19,944	–	–

(b) Non-cancellable operating lease rental commitments

Future operating lease rental of premises not provided for in the financial statements:				
Due:				
Not later than one year	18,940	18,576	–	–
Later than one year but not later than five years	71,326	70,558	–	–
Later than five years	49,048	62,408	–	–
	139,314	151,542	–	–

The consolidated entity's major leases are in respect of premises from which it operates. These leases are all generally long-term with unexpired periods ranging from one to eight years with options to extend for further periods. Future rentals are subject to indexation and periodical rental reviews.

23 Contingent liabilities

(a) Support for National Guarantee Fund (NGF)

If the amount of the NGF falls below the minimum amount determined in accordance with the Corporations Act 2001, SEGC may determine that ASXL must pay a levy to SEGC. Where a levy becomes payable, ASXL may determine that participants in the market must pay a levy, provided that the total amounts payable under this levy do not exceed the amount payable by ASXL to SEGC. Failure by either ASXL or a participant in the market to pay a levy does not constitute an offence under the Corporations Act 2001.

(b) Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit, and lodgement of financial reports, and directors' reports.

It is a condition of the Class Order that the company and each of the participating subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed, dated 1 June 1992, is that the company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the company is wound up.

The subsidiaries subject to the Deed are:

- ASX Operations Pty Limited (ABN: 42 004 523 782)
- Options Clearing House Pty Limited (ABN: 29 003 435 014)
- SECH Nominees Pty Limited (ABN: 53 008 610 660).

Consolidated statements of financial performance and consolidated statements of financial position, comprising the company and the subsidiaries that are party to the Deed, after eliminating all transactions between parties to the Deed, at 30 June 2004, are shown below.

Summarised statements of financial performance and retained profits for parties to the Deed of Cross Guarantee

	Consolidated 2004 $000	2003 $000
Profit from ordinary activities before related income tax expense	110,798	74,364
Income tax (expense) relating to ordinary activities	(18,370)	(14,587)
Profit from ordinary activities after related income tax expense	92,428	59,777
Retained profits at beginning of the year	83,809	67,480
Net profit for the year	92,428	59,777
Dividends recognised during the year	(76,311)	(43,448)
Retained profits at end of the year	99,926	83,809

Statements of financial position
for parties to the Deed of Cross Guarantee

	Consolidated 2004 $000	Consolidated 2003 $000
Current assets		
Cash assets	64,531	84,928
Receivables	23,272	21,019
Other financial assets	4,825	4,497
Total current assets	92,628	110,444
Non-current assets		
Investments – other	114,448	109,101
Deferred tax assets	10,380	9,059
Property, plant and equipment	47,515	53,953
Receivables	53,019	47,507
Total non-current assets	225,362	219,620
Total assets	317,990	330,064
Current liabilities		
Payables	11,738	9,807
Current tax liabilities	17,673	10,583
Provisions	19,182	18,402
Other	5,930	4,281
Total current liabilities	54,523	43,073
Non-current liabilities		
Deferred tax liabilities	5,158	5,407
Provisions	8,572	8,336
Loans – related parties	43,529	83,157
Total non-current liabilities	57,259	96,900
Total liabilities	111,782	139,973
Net assets	206,208	190,091
Equity		
Contributed equity	106,282	106,282
Retained profits	99,926	83,809
Total equity	206,208	190,091

23 Contingent liabilities (continued)

(c) Australian Clearing House Pty Limited (ACH)

A controlled entity, ACH (formerly known as Options Clearing House Pty Limited), operates a clearing facility in relation to securities, derivatives and certain other financial products traded on ASX's markets. Most market transactions are novated to ACH in accordance with its operating rules.

As a result of the novation process, ACH acts as the central counterparty for ASX's markets. Upon novation, market transactions between trading participants are replaced by contracts between the clearing participant acting for the seller and ACH as buyer, and between the clearing participant acting for the buyer and ACH as seller. Once all transactions are novated, the total of all amounts and financial products that a clearing participant is obliged to pay and deliver to ACH on a business day are set off against the total of all amounts and financial products that the participant is entitled to receive from ACH on that business day to arrive at net payment and net delivery obligations between ACH and each clearing participant.

At 30 June 2004 ACH had a right to receive from participants payments of $374.4 million and a corresponding obligation to make payments to participants of $374.4 million (2003: $438.8 million). These payments relate to the delivery and receipt of all unsettled cash market securities transactions. Furthermore, total collateral required by ACH to cover participants' derivatives exposures was $522.7 million (2003: $606.4 million). This was made up of bank guarantees for the amount of $87.2 million (2003: $51.9 million), cash of $168.1 million (2003: $213.6 million) and the remainder in securities. At that date, clearing participants had lodged collateral with ACH in the form of securities with a haircut value of $1,271.9 million (2003: $1,266.7 million).

If a participant fails to meet its net delivery or net payment obligations to ACH, then ACH has the right to make a claim on the National Guarantee Fund (NGF) in the circumstances set out in Division 4 of Part 7.5 of the Corporations Regulations.

At the date of the financial report, all net delivery and net payment obligations owing to ACH by clearing participants at 30 June 2004 were settled.

No part of these amounts have been recorded as assets and corresponding liabilities in the statements of financial position of the consolidated entity at 30 June 2004 (2003: $nil).

As noted in the directors' report under the heading 'likely developments', ASX has applied under s891A of the Corporations Act 2001 for a determination from the Minister directing that an amount be paid out of the NGF by SEGC to ACH. As part of this application to split the NGF, ASX has sought the introduction of amending regulations to the Corporations Regulations, which would have the effect of transferring the liability for clearing and settlement support from SEGC to ACH. If this occurs, ACH would no longer have the right to make a claim on the NGF in the event that a participant failed to meet its net delivery or net payment obligations to ACH. Instead, ACH's settlement obligations would have to be met from ACH's own financial commitments. At this stage, for the reasons set out in the directors' report, it is difficult to predict when, or if, a payment will be made to ACH under section 891A. In the event that such a payment is made, ACH proposes to enter into a deed of indemnity with SEGC to deal with certain transitional issues arising from the transfer of the NGF's liability for clearing and settlement support.

(d) Litigation

The consolidated entity is a defendant from time to time in legal proceedings. Where appropriate, the consolidated entity takes legal advice. The consolidated entity does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position.

(e) Employee share plans

Employees have been provided with non-recourse loans to acquire ASXL ordinary shares under ASX employee share purchase plan – plan 2 as detailed in note 21. Under this plan, employees may elect not to repay the loan thereby forgoing ownership in the shares. Where this occurs, the shares are sold on the market with the net proceeds utilised to offset the outstanding loan balance. A contingent liability arises where the proceeds from sale are insufficient to meet any outstanding loan balance net of dividends. Details specific to offers made under this plan are outlined below:

	Plan 2 offer 1	Plan 2 offer 2	Plan 2 offer 3
Issue price of shares	$8.34	$13.85	$12.51
Contingent liability will arise if ASXL share price falls to	$5.53	$11.63	$10.98
	$000	$000	$000
Market value of shares	1,420	1,375	1,825
Loan balance outstanding	483	1,036	1,294
Contingent liability	–	–	–

The ASXL share price at 30 June 2004 was $15.54 (2003: $12.52). At 30 June 2004, there was no contingent liability relating to any of the above plan 2 offers (2003: $nil).

(f) SGX Link

ASX and Singapore Stock Exchange Limited (SGX) are operating a cross-border trading link using wholly-owned subsidiaries. The activities of each subsidiary operating the trading link have reciprocal financial guarantees from ASX and SGX.

ASX has given a guarantee of SG$4.8 million to SGX in respect of its operating subsidiary, ASX International Services Pty Limited. SGX has given a guarantee of AUD$4.8 million in respect of its operating subsidiary, SGXLink.

24 Segment reporting

ASX provides stock exchange and ancillary services in Australia. The revenue streams derived from those services are shown in the statements of financial performance.

	Consolidated 2004 $000	Consolidated 2003 $000	The Company 2004 $000	The Company 2003 $000
25 Notes to the statements of cash flows				
(a) Reconciliation of the operating profit from ordinary activities after income tax to the net cash flows from operating activities				
Profit from ordinary activities after tax	83,223	58,166	103,090	54,141
Add non-cash items:				
Depreciation and amortisation	16,369	17,157	–	–
Share of associate losses	434	1,713	–	–
Net loss on sale of non-current assets	231	1	–	–
Write-off of capital projects	–	2,315	–	–
Amortisation of goodwill	204	129	–	–
Changes in assets and liabilities during the financial year:				
Increase in tax items	5,128	2,542	6,051	6,724
(Increase)/decrease in current receivables	(1,911)	1,715	–	–
Decrease/(increase) in other current assets	2,030	(1,824)	–	–
Increase/(decrease) in payables	1,556	(2,595)	–	–
Increase/(decrease) in other current liabilities	1,732	(909)	–	6
Increase/(decrease) in current provisions	1,400	(4,851)	–	–
(Decrease) in non-current provisions	(945)	(967)	–	–
(Decrease) in other non-current liabilities	–	(46)	–	–
Net cash provided by operating activities	109,451	72,546	109,141	60,871
(b) Financing facilities available				
At balance date, the following financing facilities had been negotiated and were available:				
Total facilities:				
Standby line of credit facility (unsecured)	50,000	50,000	50,000	50,000
Used at balance date:				
Standby line of credit facility (unsecured)	–	–	–	–
Unused at balance date:				
Standby line of credit facility (unsecured)	50,000	50,000	50,000	50,000
(c) Reconciliation of cash				
Cash at the end of the year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:				
Total cash assets	110,048	87,669	17,846	53,917

26 Related party disclosures

(a) Directors

The directors of ASXL during the financial year were:

Name	Position held
Maurice Lionel Newman	Chairman;
Richard George Humphry	Managing Director and Chief Executive Officer;
Michael Henry Shepherd	Vice Chairman;
Max Fowles	Non-executive director, retired 30 September 2003;
James Joseph Kennedy	Non-executive director;
Trevor Cyril Rowe	Non-executive director;
Jillian Shirley Segal	Non-executive director, appointed 29 July 2003;
Michael John Sharpe	Non-executive director; and
Catherine Mary Walter	Non-executive director.

All directors were in office for the full financial year unless otherwise stated.

Mr ML Newman was a member of the advisory Board of Marsh Inc., a subsidiary of which rendered services to ASX in the ordinary course of business. Mr Newman is also Chairman of the Taronga Foundation.

Mr RG Humphry is a director of The Garvan Medical Research Foundation and Deputy Chairman of the Zoological Parks Board of NSW. During the year, ASX made a contribution of $55,000 to the Garvan Medical Research Foundation and $55,600 to the Zoological Parks Board of NSW.

Mr MH Shepherd is a member of the UBS Global Asset Management (Australia) Limited Responsible Entity Compliance Committee. UBS Global Asset Management (Australia) Limited provides funds management services to SEGC in the ordinary course of business.

Mr M Fowles, a former director of ASXL, has entered into a three year consulting agreement with ASXL. Under this agreement, Mr Fowles has been paid $67,650 in the current financial year.

Mr JJ Kennedy is a director of Qantas Airways Limited, which has an established commercial relationship with ASX in the ordinary course of business.

Messrs JJ Kennedy, TC Rowe, and Mrs CM Walter are or were directors of either participating organisations and/or listed entities during the year. Products purchased by, and fees levied on, both participating organisations and listed entities are on the standard terms and conditions available to all participating organisations and listed companies.

Ms JS Segal is a member of the PricewaterhouseCoopers Audit Standards Oversight Board and receives fees in that role. PricewaterhouseCoopers provides consulting services including internal audit services in the ordinary course of business.

Mr MJ Sharpe was, from 1968 to 1998, a partner in Coopers & Lybrand. He receives retirement benefits including an office and secretarial services, negotiated at the time of his retirement, from PricewaterhouseCoopers, who render consulting services including internal audit services in the ordinary course of business.

Mrs CM Walter was a director of National Australia Bank Limited during the period, which renders banking and financial services to ASX in the ordinary course of business. Mrs Walter is also a member of the Financial Reporting Council, which subleases office space from ASX in the ordinary course of business.

(b) Wholly-owned group transactions

The ultimate parent entity in the wholly-owned group is Australian Stock Exchange Limited.

ASX Operations Pty Limited (ASXO) acts as the operating entity for most of the transactions of the consolidated entity. Expenses paid, revenues collected and purchases of capital items on behalf of other entities within the consolidated entity are booked to inter-entity loan accounts. No settlement of inter-entity accounts occurs. Interest is not charged on any inter-entity loan accounts.

ASXO received a management fee of $389,000 exclusive of GST (2003: $387,000) in respect of administration, accounting and legal services provided to SEGC. Included in other debtors is an amount receivable from SEGC of $118,000 (2003: $106,000). Settlement of the account with SEGC occurs regularly.

ASXL received $5,314,000 (2003: $5,567,000) from FIDA during the year. An amount of $1,881,000 is receivable from FIDA at 30 June 2004 (2003: $1,857,000).

ASXL has a subordinated loan agreement with ACH for $20,000,000. Repayment obligations are subordinated, in the event of default, to all other creditors of ACH under an associated trust deed. No interest is charged on the loan. This loan has no fixed repayment date and is not repayable in the foreseeable future.

ASXL has a subordinated loan agreement with ASX Settlement and Transfer Corporation Pty Limited (ASTC) for $28,776,000. Repayment obligations are subordinated, in the event of default, to all other creditors of ASTC under an associated trust deed. No interest is charged on the loan.

	Note	The Company 2004 $000	The Company 2003 $000
26 Related party disclosures (continued)			
(b) Wholly-owned group transactions (continued)			
Balances with entities within the wholly-owned group			
The aggregate amount payable/receivable to wholly-owned controlled entities by the company at balance date is as follows:			
Non-current			
Loans to controlled entities	9	10,407	–
Loans from controlled entities	17	-	62,489

Interest is not paid on any inter-company loans.

Dividends			
Dividends received or due and receivable by the company from wholly-owned controlled entities		100,000	51,000

(c) Other related parties

Balances with other related parties

The aggregate amount receivable from an associate of the company at balance date is as follows:

	Note	2004 $000	2003 $000
Non-current			
Loan to associate	9	11,575	14,583

ASXL previously agreed to provide ASX Perpetual Registrars Limited a shareholder loan facility of $15 million to fund the development of a new registry system. The loan is now unsubordinated. Repayments during the year have reduced the loan balance to $11.5 million. Accumulated interest receivable on the loan of $0.075 million remains outstanding at 30 June 2004 (2003: $0.583 million).

Interest on the loan is based on normal commercial terms. During the year, interest revenue on the above loan amounted to $0.965 million (2003: $1.013 million).

ASX Reuters Charity Foundation Limited is a joint venture company sponsored by Australian Stock Exchange Limited and Reuters Australia Pty Limited. Its principal activity is to raise funds for charity. ASX provides ongoing management assistance and resources to the foundation. No income is derived by ASXL from the foundation.

27 Director and executive disclosures for disclosing entities

(a) Remuneration policy for specified directors and specified executives

Non-executive directors

ASXL non-executive directors receive a fee for service and have no entitlement to a bonus of any kind or participation in any share-based incentive schemes. This policy reflects the differences in the role of the Board, which is to provide oversight and guide strategy, and management, which is to operate the business and execute ASX's strategy. Non-executive directors are not subject to a share qualification, however, they may hold shares in ASXL subject to the ASXL Dealing Rules.

Directors are appointed for a term of three years by shareholders. In accordance with the constitution and shareholder approval granted at the October 2001 Annual General Meeting, total aggregate fees payable to non-executive directors on an annual basis is $1.5 million.

The Board reviews its fees every year under advice from an external independent remuneration consultant. The process involves benchmarking against comparative companies and also assessing the amount and level of effort employed by ASXL directors in conducting their duties. The aim of the fee review is to compensate ASXL non-executive directors fairly for their services, recognising the level of skill and experience required to conduct the role, and to have in place a fee scale which enables ASX to attract and retain talented non-executive directors.

The fees detailed in the table below were set in the fee review conducted in November 2003 which included consideration of the termination of the non-executive directors' retirement benefit under which entitled directors gave up substantial entitlements to future benefits.

Position	Fee per annum $
Chairman of the Board	300,000
Vice Chairman of the Board	125,000
Non-executive director	100,000
Audit and Risk Committee Chair	40,000
Audit and Risk Committee member	20,000
Nomination and Remuneration Committee member	10,000
Market Rules Committee Chair	20,000
ASX Settlement & Transfer Corporation Pty Ltd director	30,000
Australian Clearing House Pty Ltd director	30,000

Specified executives and executive director

(i) Policy, process and structures

The Board sets overarching remuneration policy, which covers the Managing Director and specified executives. The principles upon which ASX's remuneration policy is based include the following.

- Reward is set at a level which allows ASX to be competitive, attract talented staff and retain key staff whilst not seeking to be a market leader in remuneration levels.
- Reward structure is designed to reward behaviour proportionally to achievement and to motivate staff to outperform.
- Both financial and non-financial aspects of performance are measured and rewarded and performance targets comprise both qualitative and quantitative measures, including maintaining market integrity.
- Both supervisory and commercial functions are considered of equal value to the organisation, which is recognised in setting remuneration of relevant executives and staff.
- Supervisory staff do not have revenue-based performance targets.
- Performance pay has regard to both company and individual performance.

Key aspects of executive remuneration structure include the following components.

- Base salary, short-term incentives and long-term incentives.
- Specific retention arrangements are put in place for positions other than executive positions where the organisation identifies a key risk relating to projects or other targets.
- Non-monetary benefits are provided on a 'salary sacrifice' basis and costed into the total reward.
- There are no contractual pre-set termination benefits other than for the current Managing Director, which are described above.

(ii) Base salary

Each year the Board reviews the base salary for the Managing Director and specified executives. The Managing Director's base salary can be increased at the Board's discretion by up to 10% per annum. Fixed remuneration for specified executives is reviewed and benchmarked against a Board-approved market position. The base salary for the Managing Director and specified executives is set out at note 27(b).

(iii) Short-term incentive – performance bonus

Performance-based pay for the Managing Director and executives is in the form of cash bonuses. The performance evaluation process takes place after the end of the financial year. The Board evaluates the Managing Director's performance against objectives set at the start of the year. In the case of the specified executives, the Managing Director conducts the evaluation and makes a recommendation to the Board.

Managing Director

The Managing Director may receive a performance bonus capped at 50% of his base salary for that year. The performance bonus for the financial year ended 30 June 2003 is set out at note 27(b) below and was paid in October 2003. When setting this amount the Board considered the Managing Director's performance against the following performance objectives:

- ensure ongoing market integrity;
- maximise profit within context of the three-year ASX business plan;
- effectively manage investor relations;
- effectively manage capital;
- effectively manage financial performance of investments in other entities;

27 Director and executive disclosures for disclosing entities (continued)

(a) Remuneration policy for specified directors and specified executives (continued)

- create revenue streams which are not dependent on market activity;
- pursue other opportunities to create long-term shareholder wealth;
- effectively manage costs including operation within budget cost targets, noting that forecast budget cost targets may change over the year as new initiatives are added and actual revenue is received;
- ensure that ASX as an organisation continues to maintain and increase its focus on customer relationship management;
- enhance core business, capacity, access and liquidity;
- increase the number of products and services; and
- increase international reach.

There is no performance bonus relating to the period from 1 July 2004 to the date of retirement.

Specified executives
Senior executives' performance targets are drawn from the Managing Director's performance targets and largely depend upon the achievement of the business plan goals for the area under the management of the relevant executive. The performance bonus for the year to 30 June 2003 is set out in note 27(d) below and was paid in October 2003.

(iv) Long-term incentive – executive share plan
The executive share plan was approved by shareholders at the October 1999 annual general meeting. The Managing Director's participation under the plan was approved at the October 2000 annual general meeting. The intention of this plan is to both increase the alignment between senior executive financial returns and shareholder returns and to retain senior staff. The plan is a long-term incentive plan based on overall corporate performance.

Initially participants are awarded conditional entitlements to ASXL ordinary shares calculated using the following formula:

N = (R x Y x Z) / MP
where:
N = number of entitlement shares, rounded up to the nearest 100.
R = annual fixed remuneration at the date the executive is offered participation in the plan.
Y = percentage of remuneration as determined by the Board.
Z = pro-rated proportion of the performance period the executive participates in the plan. This is determined as the number of days the executive participates in the plan / Total number of days in the performance period expressed as a percentage and rounded to the nearest whole percentage. This is used where the entitlement is awarded to an executive after the commencement of a particular performance period.
MP = the market price of ASXL's shares. The market price is the volume weighted average price in the five trading days prior to the commencement of the performance period.

If prior to the expiration of the performance period, ASX undertakes a bonus issue, pro-rata issue or a reorganisation of its capital, the method of adjustment will ensure that the participant does not receive a benefit that holders of ordinary securities do not receive. A conditional entitlement does not otherwise entitle a participant to participate in new issues of shares or receive a dividend.

Subject to the achievement of performance criteria, at the end of a performance period, new ASXL shares will be issued to participants or will be acquired on-market by ASX on behalf of the participant. If shares are issued as a result of company performance, the Board may adjust the number of shares up or down by 20%, based upon individual performance.

Company performance is measured on a basis of Total Shareholder Returns (TSR) over the performance period. TSR for ASX is measured against a comparative group of listed companies. Broadly, TSR is the percentage difference between the market price of the relevant shares at the start and end of the performance period plus dividends earned over the same period. It therefore measures both capital growth in share price together with income returned to shareholders through dividends. The Board chose the criteria for determining the entities in the comparative group in consultation with a specialist human resources consultant.

The Board has set the following performance criteria under the plan:

- if ASX's performance ranks below the median (i.e. the 50th percentile) of the comparative group, the participant will not be provided with any shares for the performance period;
- if ASX's performance is at the median, the participant will be entitled to 60% of the entitlement shares;
- if ASX's performance is at or above the 75th percentile, then the participant will be entitled to 100% of the entitlement shares; and
- for performance between the median and the 75th percentile, for each percentile increase, the participant will be entitled to an additional 1.6% of the entitlement shares.

The Board uses a matrix table to evaluate the performance of the individual based on the following criteria:

- Performance
- Strategic focus
- Team commitment
- Corporate alignment
- Client focus.

If the participant has been awarded a conditional entitlement, but has not yet received shares because the performance period has not finished or employment ceases, the conditional entitlement will immediately lapse unless the Board decides that employment has ceased due to a qualifying reason. A qualifying reason includes hardship, where an employee pursues other ASX initiatives (e.g. secondments) and other circumstances which are considered by the Board to be extraordinary. In such cases the Board has approved a policy whereby the performance of the company and individual is measured at the termination date and the entitlement is pro-rated to account for the portion of the performance period served.

After the shares have been issued, they are subject to restrictions for a period of ten years from the date of the initial grant of conditional entitlements. A participant may request the removal of restrictions within that period and the Board must consider the request in a timely manner and not unreasonably withhold the removal of restrictions.

Where a participant leaves ASX after the shares have been issued, the restrictions will be lifted provided the Board is satisfied that they are leaving for a qualifying reason. Where the shares have already been issued, the Board would ordinarily be satisfied that departure was for a qualifying reason unless exceptional circumstances existed. In the case where a participant who had received shares commits an act of fraud or other specified misconduct of a serious nature, the shares will be forfeited.

November 2001 offer under the executive share plan

Both the Managing Director and the specified executives participated in this offer. The performance period for the November 2001 offer commenced on 22 November 2001 and ended on 30 June 2004. The base market price for the offer was calculated as the volume weighted average price during the period 15 November 2001 – 21 November 2001 and is $11.97 per share. The following table sets out the number of conditional entitlements awarded on 21 November 2001, the number of shares issued based on TSR performance of the ASX in the 76th percentile in its peer group, and the number of shares issued based on individual performance.

	Conditional entitlements awarded No.	Company performance shares issued 5 July 2004	Individual performance shares issued 5 July 2004
RG Humphry	115,300	115,300	23,060
KL Hamilton	29,300	29,300	4,395
JM Hayes	34,000	34,000	5,100
AG Richards	36,100	36,100	5,415
MA Roche	29,300	29,300	4,395
CR Scully	37,600	37,600	6,580

December 2003 offer under the executive share plan

The performance period for this offer commenced on 1 December 2003 and ends on 30 November 2007. The base market price for the offer was calculated as the volume weighted average price during the period 24 November 2003 – 28 November 2003 and is $15.50 per share. The current Managing Director does not participate in this offer. The following conditional entitlements have been awarded to the following specified executives:

	Conditional entitlements awarded No.
KM Hamilton	26,500
JM Hayes	29,200
AG Richards	29,400
MA Roche	26,200
CR Scully	34,500

(v) Termination payments

The terms of service provide for the Managing Director to receive on retirement, payment equal to three times his base salary, which will result in a benefit of $3.3 million, payable at the date of retirement. There are no contractual pre-set termination benefits for the specified executives.

27 Director and executive disclosures for disclosing entities (continued)

(b) Specified directors' remuneration

The following table outlines the nature and amount of the elements of the remuneration of the specified directors of ASXL for the year ended 30 June 2004.

	Primary			Post-employment		Equity		Other		
	Salary and fees[1] $	Cash bonus[2] $	Non-cash benefits[3] $	Super-annuation $	Accrued retirement benefits[4] $	Value of conditional entitle-ments[5] $	Additional shares[6] $	Other benefits[7] $	Total remun-eration $	Total accrued retirement benefits[8] $
Non-executive directors										
ML Newman[9]	285,970	–	14,030	11,002	13,127	–	–	–	324,129	312,571
MH Shepherd	144,823	–	14,030	80,147	5,728	–	–	–	244,728	136,395
M Fowles[10]	–	–	–	20,437	3,708	–	–	–	24,145	–
JJ Kennedy	100,000	–	–	8,938	3,708	–	–	–	112,646	113,662
TC Rowe	120,000	–	–	10,041	–	–	–	–	130,041	–
JS Segal	110,000	–	–	–	–	–	–	–	110,000	–
MJ Sharpe	118,050	–	–	53,952	3,708	–	–	–	175,710	113,662
CM Walter	120,000	–	–	10,041	3,708	–	–	–	133,749	113,662
Executive director										
RG Humphry	907,225	466,500	14,030	50,286	1,156,450	459,345	239,363	96,440	3,389,639	3,300,000
Total	1,906,068	466,500	42,090	244,844	1,190,137	459,345	239,363	96,440	4,644,787	4,089,952

Notes to the above remuneration table

1 Salary and fees include Board and committee fees and are on a paid or payable basis.
2 Cash bonus relates to a performance bonus paid for the financial year ended 30 June 2003.
3 Non-cash benefits consist of the provision of car parking.
4 Accrued retirement benefit for the non-executive directors relates to the period 1 July 2003 to 26 August 2003. The retirement benefit for the non-executive directors was frozen at that date. Refer to the Managing Director's remuneration section in note 27(a)(v) for details on his retirement accrual.
5 The notional value ascribed to this long-term incentive (conditional entitlements) has been determined by an independent actuary using the criteria set out in Accounting Standard AASB1046 and applying the terms and conditions of the share plan. The notional value of the conditional entitlements has then been proportionally attributed to the current financial year on a straight-line basis over the term of the plan.
6 Conditional entitlements received as remuneration in prior years converted to ASXL shares on 5 July 2004. The ASXL Board exercised its discretion to increase the number of shares issued to executives based on their performance to 30 June 2004. The additional shares have been included in remuneration for the current year and have been valued at $10.38 per share.
7 Other benefits include annual leave and long service leave entitlements accrued during the year and the cost of the provision of salary continuance insurance, which is provided to all ASX staff.
8 The total accrued retirement benefits have been disclosed in accordance with the ASX Corporate Governance Council best practice recommendations.
9 Mr Newman is provided with office and secretarial support to assist him in carrying out his ASXL Board duties. No cost is included as part of his remuneration above.
10 Mr Fowles retired as a director during the year and received $113,662 as a retirement benefit. This has not been included in remuneration above since the accrual was disclosed in the prior financial year.

Directors' fees paid for SEGC directorships are not included in the above figures, since SEGC is not a controlled entity. During the financial year, $54,500 in total was paid to the directors of ASXL who were also directors of SEGC.

Directors' and officers' indemnity insurance has not been included in the above figures since it is impracticable to determine an appropriate allocation basis.

The specified executives of ASX and their positions held during the financial year were:

Name	Position held
Karen Leslie Hamilton	Executive General Manager – Issuers and Market Integrity until 1 January 2004, then Chief Integrity Officer
John Michael Hayes	Chief Financial Officer
Angus George Richards	Deputy Managing Director
Michael Anthony Roche	Executive General Manager – Market Services
Colin Robert Scully	Chief Operating Officer

All executives held their stated position for the full financial year unless otherwise stated.

(d) Specified executives' remuneration

The following table outlines the nature and amount of the elements of the remuneration of the specified executives of ASX for the year ended 30 June 2004.

	Primary			Post-employment	Equity		Other	
	Salary and fees $	Cash bonuses[1] $	Non-cash benefits[2] $	Super-annuation $	Value of conditional entitlements[3] $	Additional shares[4] $	Other benefits[5] $	Total remuneration $
KL Hamilton	351,455	160,000	3,434	11,002	143,771	45,620	39,964	755,246
JM Hayes	381,121	130,000	14,151	11,002	165,250	52,938	42,868	797,330
AG Richards	370,058	150,000	17,764	11,002	173,820	56,208	42,317	821,169
MA Roche	334,308	140,000	3,381	12,202	143,465	45,620	38,980	717,956
CR Scully	405,327	150,000	18,291	67,587	185,000	68,300	51,032	945,537
Total	1,842,269	730,000	57,021	112,795	811,306	268,686	215,161	4,037,238

Notes to the above remuneration table

1 Cash bonuses relate to performance bonuses paid for the financial year ended 30 June 2003.

2 Non-cash benefits consist of the provision of car parking and notional interest on employee share purchase plan loans. Refer to note 21(b) for further details on the share purchase plan. ASXL does not intend to issue further shares under the employee share purchase plan.

3 The notional value ascribed to this long-term incentive (conditional entitlements) has been determined by an independent actuary using the criteria set out in Accounting Standard AASB1046 and applying the terms and conditions of the share plan. The notional value of the conditional entitlements has then been proportionally attributed to the current financial year on a straight-line basis over the term of the plan.

4 Conditional entitlements received as remuneration in prior years converted to ASXL shares on 5 July 2004. The ASXL Board exercised its discretion to increase the number of shares issued to executives based on their performance to 30 June 2004. The additional shares have been included in remuneration for the current year and have been valued at $10.38 per share.

5 Other benefits include annual leave and long service leave entitlements accrued during the year and the cost of the provision of salary continuance insurance, which is provided to all ASX staff.

Directors' and officers' indemnity insurance has not been included in the above figures since it is impracticable to determine an appropriate allocation basis.

27 Director and executive disclosures for disclosing entities (continued)

(e) Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of ASXL held directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Net change – other[1]	Held at 30 June 2004	Conditional entitlements vested 5 July 2004[2]	Additional shares issued 5 July 2004[2]	Held at date of this report
Specified directors						
ML Newman	83,000	–	83,000	–	–	83,000
RG Humphry	302,303	(152,303)	150,000	115,300	23,060	288,360
MH Shepherd	50,000	(20,000)	30,000	–	–	30,000
M Fowles	16,500	(16,500)	–	–	–	–
JJ Kennedy	1,000	–	1,000	–	–	1,000
TC Rowe	–	4,300	4,300	–	–	4,300
JS Segal	–	2,000	2,000	–	–	2,000
MJ Sharpe	2,000	–	2,000	–	–	2,000
CM Walter	3,000	5,000	8,000	–	–	8,000
Specified executives						
KL Hamilton[3]	10,475	–	10,475	61,100	9,165	80,740
JM Hayes	956	(755)	201	34,000	5,100	39,301
AG Richards	46,340	–	46,340	36,100	5,415	87,855
MA Roche	30,546	–	30,546	29,300	4,395	64,241
CR Scully	6,096	–	6,096	37,600	6,580	50,276
Total	552,216	(178,258)	373,958	313,400	53,715	741,073

1 Net change – other includes purchases, sales and deletion of shareholdings for directors who retired during the financial year.
2 Shares issued 5 July 2004 relate to conditional entitlements and additional shares issued under the executive share plan.
3 Amounts include spouse.

(f) Conditional entitlement holdings and transactions

The movement during the reporting period in the number of conditional entitlements over ordinary shares in ASXL held directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Granted as remuneration	Net change – other	Held at 30 June 2004	Conditional entitlements vested 5 July 2004	Held at date of this report
Specified director						
RG Humphry	115,300	–	–	115,300	115,300	–
Specified executives						
KL Hamilton[1]	61,100	26,500	26,300	113,900	61,100	52,800
JM Hayes	34,000	29,200	–	63,200	34,000	29,200
AG Richards	36,100	29,400	–	65,500	36,100	29,400
MA Roche	29,300	26,200	–	55,500	29,300	26,200
CR Scully	37,600	34,500	–	72,100	37,600	34,500
Total	313,400	145,800	26,300	485,500	313,400	172,100

1 Amounts include spouse.

All conditional entitlements granted as remuneration in the current financial year were granted on 15 December 2003 and cover the performance period 1 December 2003 to 30 November 2007. The conditional entitlements have a fair value at grant date of $7.42 per share, and have a nil exercise price (i.e. no consideration will be paid at the date of vesting). The conditional entitlements were provided to the above specified executives at no cost.

The number of shares that will ultimately be issued at the end of the performance period (being 30 November 2007) will depend on:

1 the extent to which the performance criteria is met. This is determined using ASX's relative Total Shareholder Return over the performance period compared to a selected group of companies.
2 whether the executives remain in service. Generally, the conditional entitlements will lapse with no value if they are no longer in service at the end of the performance period.

The above conditional entitlements are 100% of the conditional entitlements issued. Under the executive share plan rules, the ASXL Board may use its discretion to increase or decrease the number of shares issued to executives by 20% provided all performance hurdles are achieved.

(g) Loans to specified directors and specified executives

No specified director or specified executive has entered into any loans with any company in the ASX Group except to participate in ASXL share acquisition schemes.

Interest free loans have been offered to all ASX staff, excluding the Chief Executive Officer, as part of employee share purchase plans. This plan is no longer in use by ASXL and the balances relate to issues made in prior years. All specified executives in the current year have participated in these share purchase plans, and have consequently taken out interest free loans. Specified directors, including the Managing Director and Chief Executive Officer, were not eligible to participate in the share acquisition plans and therefore have no loan balances.

Details regarding the aggregate of loans made by any entity in the economic entity to specified directors and executives, and the number of individuals who held a loan during the year are as follows:

	Balance 1 July 2003 $	Repayments[1] $	Interest charged $	Closing balance $	Interest not charged[2] $	Number in the group No.
Specified directors	–	–	–	–	–	–
Specified executives	210,693	(24,168)	–	186,525	14,931	5
Total	210,693	(24,168)	–	186,525	14,931	5

1 Repayments include dividend income on ASXL shares held under the share plan ($14,748), and proceeds from the sale of ASXL shares under the share plan ($9,420).
2 Interest not charged represents a notional interest amount which would be payable if interest was charged on an arm's length basis. The assumed arm's length interest rate used was 7.7%.

The disclosures above are in aggregate as no individual loan balance exceeded $100,000 at any time during the financial year.

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
28 Auditor's remuneration				
Auditor of the company – KPMG				
Audit services:				
Audit and review of the financial reports	456,005	379,220	–	–
Non-statutory audit services:				
Regulatory audit services				
– Industry audit services	173,000	173,000	–	–
– Share registry audit services	–	3,500	–	–
Other audit services	22,755	8,500	–	–
Non-audit services:				
Taxation services				
(a) Tax compliance services:				
– Review of income tax returns	25,500	19,800	–	–
– Research and development tax concessions	38,900	48,710	–	–
– Consolidated income tax regime	43,350	115,207	–	–
– Goods and Services Tax	16,558	88,450	–	–
– FBT assistance	4,950	7,480	–	–
(b) Corporate tax advisory services:				
– Employee benefits	29,800	50,800	–	–
– National Guarantee Fund	29,450	–	–	–
– Workcover	12,450	–	–	–
– General corporate tax	44,872	35,395	–	–
Accounting advisory services:				
International Accounting Standards	–	24,025	–	–
National Guarantee Fund	14,300	5,800	–	–
Other services				
Recruitment of junior staff	12,800	–	–	–
Research paper on capital adequacy model	15,000	–	–	–
Information technology	2,100	–	–	–
Total auditor's remuneration	941,790	959,887	–	–

All amounts shown above are exclusive of GST.
The parent entity's audit fees were paid by ASX Operations Pty Limited, a wholly-owned subsidiary.

29 Controlled entities

Particulars in relation to controlled entities

Name of entity	Note	Parent entity's investment(a) 2004 %	2003 %
Parent entity: Australian Stock Exchange Limited			
Controlled entities:			
ASX Operations Pty Limited (ASXO)*	(b)	100	100
ASX Futures Exchange Pty Limited*		100	100
ASX International Services Pty Limited		100	100
ASX FundConnect Pty Limited*		100	100
ASX Supervisory Review Pty Limited *		100	100
Australian Clearing House Pty Limited	(c)	–	100
CHESS Depositary Nominees Pty Limited	(d)	100	–
Orient Capital Pty Limited*	(e)	100	50
Controlled entities of ASXO:			
ASX Settlement and Transfer Corporation Pty Limited (ASTC)		100	100
ASX Pty Limited*		100	100
Australian Clearing House Pty Limited	(c)	100	–
Australian Securities Exchange Pty Limited*		100	100
CHESS Depositary Nominees Pty Limited*	(d)	–	100
Options Clearing House Pty Limited *	(b) (f)	100	100
SECH Nominees Pty Limited*	(b)	100	100
Controlled entities of ASTC:			
TNS Clearing Pty Limited*		100	100

Notes:
(a) Parent entity refers to the immediate controlling entity of the entity in which the investment is shown.
(b) A controlled entity that has entered into a Deed of Cross Guarantee with Australian Stock Exchange Limited in respect of relief granted from specified accounting and financial reporting requirements in accordance with ASIC Class Order 98/1418. Refer note 23(b) for details of the Deed of Cross Guarantee.
(c) Australian Clearing House Pty Limited [ABN: 48 001 314 505] (formerly Options Clearing House Pty Limited) was sold by Australian Stock Exchange Limited to ASX Operations Pty Limited for $5 million on 16 July 2003. Options Clearing House Pty Limited [ABN: 48 001 314 503] changed its name to Australian Clearing House Pty Limited on 25 February 2004.
(d) CHESS Depositary Nominees Pty Limited was sold by ASX Operations Pty Limited to Australian Stock Exchange Limited on 20 October 2003 for $2.
(e) Australian Stock Exchange Limited acquired the remaining 50% of the voting share capital on issue of Orient Capital Pty Limited on 1 January 2004. Refer to note 12 for further details.
(f) Australian Clearing House Pty Limited [ABN: 29 003 435 014], changed its name to Options Clearing House Pty Limited on 25 February 2004.

Although ASXL owns 100% of Securities Exchanges Guarantee Corporation Limited (SEGC), SEGC has not been consolidated into the ASX Group financial statements. SEGC is governed by the Corporations Act 2001 and ASXL is not able to control the entity so as to pursue ASX objectives nor is it entitled to the entity's assets.

All controlled entities were incorporated in Australia.

* Denotes those controlled entities for which an audit of their financial statements is not required.

30 Financial instruments

(a) Credit risk

The credit risk on financial assets of the consolidated entity, which has been recognised in the statements of financial position, other than investments in shares, is generally the carrying amount net of any provisions for doubtful debts.

Credit risk relating to short-term and investment securities is managed by placing certain funds with a minimum of two professional fund managers who invest the portfolio in accordance with investment agreements approved by the Board. The investment agreements provide guidelines limiting the exposure of the portfolio to an optimum level of liquidity in investments with a number of counterparties. These guidelines include restricting the maximum value of the portfolios held by each counterparty dependent upon each of those counterparties' published credit ratings.

(b) Interest rate risk

The consolidated entity has minimal exposure to interest rate risk. Interest rate risk arises in relation to short-term and investment securities comprising short-term deposits, bank bills and fixed interest securities. The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below.

		Weighted average interest rate		Floating interest rate		Fixed interest rate*		Non-interest bearing		Total	
	Note	2004 %	2003 %	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000
Financial assets											
Cash assets	25	5.14	4.88	63,212	14,970	46,760	72,677	76	22	110,048	87,669
Trade and other receivables	9	6.80	6.55	11,575	14,583	–	–	26,554	25,977	38,129	40,560
Other financial assets	10	–	–	1,912	4,447	–	–	–	–	1,912	4,447
Investments in listed shares	11	–	–	–	–	–	–	22,950	22,950	22,950	22,950
				76,699	34,000	46,760	72,677	49,580	48,949	173,039	155,626
Financial liabilities											
Trade and other payables	15	–	11.70	–	–	–	9	11,931	10,366	11,931	10,375
Employee benefits payable	16	5.74	5.74	–	–	3,867	2,858	18,430	16,568	22,297	19,426
Other liabilities	17	–	–	–	–	–	–	6,610	4,878	6,610	4,878
				–	–	3,867	2,867	36,971	31,812	40,838	34,679
Net financial assets				76,699	34,000	42,893	69,810	12,609	17,137	132,201	120,947

* All fixed interest securities have a term to maturity of less than 12 months, other than the non-current long service leave portion of the employee benefits balance. The term to maturity for this financial liability is as follows:

	$000	$000
Fixed interest rate maturing in:		
Greater than one year less than five years	2,011	1,517
Greater than five years	1,856	1,341
	3,867	2,858

(c) Financial futures contracts

There were no futures contracts entered into at 30 June 2004 (2003: $nil).

(d) Net fair values of financial assets and financial liabilities

Valuation approach

All financial assets and financial liabilities are carried at cost. Cost approximates net fair value in all cases except for investments in listed companies. The difference between the fair value and cost of investments in listed companies is disclosed at note 11.

There were no unrecognised financial instruments for the year ended 30 June 2004 (2003: $nil).

31 Subsequent events

For dividends declared after 30 June 2004 refer to note 6.

For shares issued after 30 June 2004 refer to note 18.

Except for the above mentioned items, no other matter or circumstance has arisen since the end of the financial year to the date of this report which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years.

Directors' declaration

1 In the opinion of the directors of Australian Stock Exchange Limited (the company):

(a) the financial statements and notes, set out on pages 29 to 69, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the company and the controlled entities identified in note 23(b) will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those controlled entities pursuant to ASIC Class Order 98/1418.

Dated at Sydney this 27th day of July 2004.

Signed in accordance with a resolution of the directors:

Maurice L Newman AC	**Richard G Humphry** AO
Chairman	Managing Director

Independent audit report

to the members of Australian Stock Exchange Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements (notes 1 to 31), and the directors' declaration for both Australian Stock Exchange Limited (the 'Company') and the Australian Stock Exchange Group (the 'consolidated entity'), for the year ended 30 June 2004. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Australian Stock Exchange Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

NT Davis
Partner
Sydney, 27 July 2004

Shareholder information

as at 9 July 2004

Voting power

ASX has ordinary shares on issue. At a general meeting, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and one vote for each fully paid share held unless that share is a 'default share'. The constitution classifies default shares as any shares held above the 15% voting power limit by one party and its associates.

Distribution of shareholdings

Number of shares held	Number of holders	Number of shares	% of issued capital
1 – 1,000	10,366	5,825,798	5.68
1,001 – 5,000	4,593	10,679,363	10.40
5,001 – 10,000	472	3,631,031	3.54
10,001 – 100,000	540	22,562,728	21.98
100,001 and over	161	59,954,570	58.41
Total	16,132	102,653,490	100.00

The number of security investors holding less than a marketable parcel of 32 securities ($15.650 on 09/07/2004) is 70 and they hold 839 securities.

Substantial shareholders

The following organisations have disclosed a substantial shareholder notice to ASX.

Name	Number of shares	% of voting power advised
Commonwealth Bank of Australia	10,810,528	10.60
Barclays Group	7,796,430	7.64

Largest 20 shareholders

The largest 20 shareholders in the company are:

	Number of shares	% of issued capital
Citicorp Nominees Pty Limited	10,910,215	10.63
National Nominees Limited	8,604,178	8.38
JPMorgan Nominees Australia Limited	6,857,269	6.68
Westpac Custodian Nominees Ltd	5,174,523	5.04
RBC Global Services Australia Nominees Pty Limited	1,842,431	1.79
Cogent Nominees Pty Limited	1,605,096	1.56
ANZ Nominees Limited	1,341,292	1.31
Bond Street Custodians Limited	1,189,894	1.16
Queensland Investment Corporation	700,264	0.68
AMP Life Limited	680,785	0.66
Health Super Pty Ltd	660,267	0.64
Invia Custodian Pty Limited	392,543	0.38
UBS Warburg Private Clients Nominees Pty Limited	337,475	0.33
Victorian Workcover Authority	315,410	0.31
PSS Board	312,991	0.30
Government Superannuation Office	299,772	0.29
ASX Operations Pty Limited	297,326	0.29
Richard George Humphry	288,360	0.28
CSS Board	262,475	0.26
The Australian National University	250,000	0.24

On-market buy back

There is no current on-market buy back.

Directory

ASX around Australia
Sydney
Exchange Centre
20 Bridge Street
Sydney NSW 2000
Telephone (61 2) 9227 0000
Facsimile (61 2) 9227 0885

Adelaide
Level 19,
91 King William Street
Adelaide SA 5000
Telephone (61 8) 8216 5000
Facsimile (61 8) 8216 5098

Brisbane
Riverside Centre
Level 5, 123 Eagle Street
Brisbane QLD 4000
Telephone (61 7) 3835 4000
Facsimile (61 7) 3835 1004

Hobart
AMP Building
Level 12, 86 Collins Street
Hobart TAS 7000
Telephone (61 3) 6234 7333
Facsimile (61 3) 6234 3922

Melbourne
Stock Exchange Centre
Level 3, 530 Collins Street
Melbourne VIC 3000
Telephone (61 3) 9617 8611
Facsimile (61 3) 9614 0575

Perth
Exchange Plaza
2 The Esplanade
Perth WA 6000
Telephone (61 8) 9224 0000
Facsimile (61 8) 9221 2020

Share registry
ASX Perpetual
Registrars Limited
Level 8, 580 George Street
Sydney NSW 2000
Telephone (61 2) 8280 7111
Facsimile (61 2) 9287 0303
Internet www.asxperpetual.com.au

Auditor
KPMG

ASX on the internet
www.asx.com.au
Email: info@asx.com.au

ASX by phone
Customer Service:
1300 300 279
for the cost of a local call
from anywhere in Australia

August 2004.

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Thank you to Macquarie Bank for allowing us to photograph their trading room for the inside front cover.

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