

Directors' report (continued)

Shareholders approved a conditional entitlement scheme for the managing director and senior executives. The company granted conditional entitlements to senior executives over unissued ordinary shares in November 2001 including the officers of the company referred to above. These conditional entitlements are a long-term incentive that will only convert into shares in July 2004 if performance hurdles previously approved by shareholders are met. A detailed description of conditional entitlements is provided below.

	Long-term incentive (conditional entitlements) No.	Notional value of long-term incentive for the current year ¹ \$
Executive director		
Mr RG Humphry	115,300	268,615
Executives		
Mrs KL Hamilton	29,300	68,260
Mr JM Hayes	34,000	79,210
Mr AG Richards	36,100	84,102
Mr MA Roche	29,300	68,260
Mr CR Scully	37,600	87,597

¹ 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.

Managing director's remuneration

The managing director is employed under a contract with ASXL, which outlines his remuneration and termination arrangements as described below, and which operates until his retirement on 31 July 2004.

Remuneration

The managing director's remuneration is made up of the following components:

- base salary;
- performance bonus; and
- equity-based incentive plan.

The managing director receives a base salary, which may be increased at the Board's discretion by up to 10% per annum. He may also receive a performance bonus capped at 50% of his base salary for that year.

The managing director also participates in the executive share plan, as approved by shareholders at the 2000 annual general meeting. That meeting approved the award of a conditional entitlement to three tranches of ASXL shares:

- 117,100 shares, maturing 30 June 2002;
- 36,400 shares, maturing 30 June 2003; and
- 115,300 shares maturing 30 June 2004.

All entitlements were conditional on ASX delivering a 'total shareholder return' in the top two quartiles as measured against a peer group of companies (the S&P ASX100 adjusted for non-comparable companies and changes during the period). Applying that test, shares were issued in respect of the 2002 entitlement (disclosed in last year's report) but no shares were issued in respect of the 2003 entitlement.

Payment on retirement

The Board and the managing director agreed in 1999 the terms of his service contract which was to expire on 31 July 2002. The term of service was subsequently extended at the request of the Board for a further two years to 31 July 2004. Total service would then be 10 years. The arrangements provide for the managing director to receive on retirement payment equal to three times his base salary. This is currently valued at \$2,798,700. As at 30 June 2003 an amount of \$2,143,550 has been accrued towards the retirement payment.

If the managing director leaves of his own volition before the term is concluded he will be entitled to a retirement benefit of two times his salary. However, if he is asked to leave by the Board for reasons other than misconduct a full entitlement will be paid.

Conditional entitlements to unissued shares

As at the date of this report, ASXL has issued conditional entitlements to 562,600 (2002: 569,000) shares under the executive share plan subject to the company meeting specified performance criteria. The number of shares that a participant ultimately receives depends on the extent to which the performance criteria are met by the company, and the individual performance of the participant. The Board may increase or decrease the amount of shares awarded to participants by 20% at the end of the performance period.

The performance criteria are a relative measure of the company's performance measured against the performance of a comparative group of companies selected from the S&P ASX100 on the basis of total shareholder returns (TSR) over the performance period. Broadly, TSR is the percentage difference between the market price of the relevant shares at the beginning and end of the performance period plus dividends earned over the same period and further adjusted for any other capital movements. The market price is averaged over the three months preceding the start and end dates of the performance period. Unless TSR reaches at least the 50th percentile against the comparative group, the participant is not entitled to any shares. At the 50th percentile, participants will be entitled to 60% of the shares but the maximum entitlement is not reached until the TSR ranks at or above the 75th percentile. Any issue then is still subject to personal performance.

The shares are issued subject to certain vesting and dealing restrictions.

No conditional entitlements have been granted since the end of the financial year. Refer to note 18 of the financial statements for further details of the conditional entitlements outstanding.