



QUESTIONS FROM SHAREHOLDERS TO THE CHAIRMAN

What do you think the optimal capital structure is for the group given the strong balance sheet and underlying cash flows, and how do you intend on achieving this level of leverage?

ASX's strong balance sheet and cash position reflects not only the fundamental strength of ASX's business but also the unique risk profile of a vertically integrated exchange group.

An integral part of ASX's value proposition is the capital efficiency offered to market participants through the novation process. This is the process by which all market trades are guaranteed with ASX's clearing houses becoming the central counter party for each trade.

On any given day, ASX's clearing houses novate in excess of AU\$100 billion nominal value of securities/obligations. The nature of ASX's business is such that this risk exposure can materially fluctuate over a very rapid time period – potentially minutes. Consequentially, assessing risk capital requirements is a complex and dynamic process.

Unlike classic financial or industrial businesses, ASX's dynamic capital requirements necessitate tiers of risk management controls and processes. This includes a regime of fixed and variable (margins and collateral) capital, which requires the Board to make complex judgements regarding the interplay between both forms of capital, as well as to subdivide its capital management thinking between the fixed capital requirements of other group companies/activities with those of its novating subsidiaries. These judgements have little or no parallel in industrial companies or other financial intermediaries. The ASX/SFE merger presents a further layer of complexity in this interplay with the integration of these two clearing houses planned over the next year.

The ASX Board regularly reviews ASX's capital requirements and structure to optimise shareholder returns. This includes maintenance of our intrinsic capital management philosophy to return excess capital to shareholders, including acquiring debt if necessary.

ASX will meet its commitment to return \$100 million to shareholders post merger. However, given the detailed analysis and work necessary to integrate the ASX group clearing houses, it is premature for ASX to commit to any particular capital structure or further capital returns at the current time. ASX's capital structure would also need to satisfy both of its key regulators – ASIC (Market and Clearing & Settlement Facility Licences) and RBA (Systemic Stability Regulator), as well as the shareholder community.

Our (ASA) policy is to support well designed incentive schemes based on company equity as an effective way of attracting, motivating and retaining key executives. Especially when scheme participant's interests are aligned with those of shareholders. We question that the large \$7.7 million termination payment to Mr D'Aloisio was in the best interest of shareholders.

What is the board's policy on executive termination payments? What assurances can the board give that they are able to stand up to excessive demands from executives?

The Board is at all times mindful of its legal responsibilities including its duty to act in the best interests of shareholders. The Board will continue to discharge its responsibilities and will only make termination payments to executives when it is reasonable to do so having regard to what is in the best interests of shareholders and ASX's legal obligations.

The payment to Mr D'Aloisio was made after the Board had received advice from external legal advisors (including senior counsel) and from an external remuneration consultant. The Board was of the view that the arrangement that was reached with Mr D'Aloisio was reasonable and in the best interests of ASX shareholders.

At the completion of Mr Elstone's contract what payments will be owing for his years of service and/or completing his contract with ASX?

The terms of Mr Elstone's contract, including termination payments, were released to the market on 14 July 2006. There are no payments owing to Mr Elstone following the completion of the contract. The consequences on termination are provided in the release, a copy of which is to this letter.

My understanding of the ASX Long Term Incentive arrangements is that there is no provision for retesting of performance hurdles in subsequent periods. Please confirm that retesting of missed performance hurdles is not part of the ASX plan.

Confirmed.

Again, with respect to the issue of executives hedging the "at Risk" component of their performance plan that we raised last year. You advised that ASX does not offer participants the opportunity to participate in price protection schemes. Does the plan prohibit the executives arranging such protection outside of ASX?

The prohibition on hedging the "at risk" component of remuneration is detailed in clause 4.3 of the ASX Dealing Rules for Directors and Employees. It states:

"Prohibition on financial products issued over ASX shares by third parties

You are not permitted to deal at any time in financial products such as options, warrants, futures or other financial products issued over ASX shares by third parties such as banks and other institutions traded on either ASX markets or any other market. The exception applies where ASX shares form a component of a listed portfolio or managed fund or index product.

If you are a participant in the ASX Executive Share Plan or the ASX Long Term Incentive Plan, you are prohibited from entering into transactions in financial products which operate to limit the economic risk of your conditional entitlement or performance right to ASX shares under these schemes.”

Given the overall excellent quality of the annual report it is disappointing to again find that a 5 year financial summary is not included in the report or notes. Our members and retail shareholders find the five year summary very informative. We would encourage ASX to compile such a summary for future reports.

Page 7 of the annual report to shareholders provides shareholders with the five year financial summary for the following:

- Normal revenue and expenses (excluding significant items)
- Normal Net Profit After Tax (excluding significant items)
- Normal Cost Income Ratio and Normal EBIT Margin
- Normal Earnings
- Dividend Per share.

Premises review Note 4 discloses a restructuring expense related to premises of \$11.6M. Another write-off related to changing strategy. Is the board satisfied management is appropriately balancing long term commitments with the need for flexibility and changing strategy?

ASX's premises review and costs associated are not a consequence of a change of strategy but rather the changing nature of ASX's business. The majority of the \$11.6 million expense related to the costs associated with ASX exiting its Melbourne lease - a 20 year lease entered into in 1992. Since then, ASX's physical presence in Melbourne has significantly reduced forcing ASX to pursue subletting arrangements.

The Board is satisfied that the outcomes of the premises review are consistent with ASX's commercial imperatives.

AIFRS: Do you foresee that AIFRS changes to profit reporting will impact on ASX's ability to pay dividends at the current levels into the future?

ASX's current dividend policy is to pay 90% of normal earnings as fully franked dividends. This policy has not changed as a consequence of the implementation of AIFRS. Please see Note 31 to ASX's 2005-2006 accounts (pages 93-99 of the annual report to shareholders) for a reconciliation of the changes from AGAAP to AIFRS.

It was recently reported that CommSec [online ,discount broker] had joined forces with the NZSX and some overseas banks to form a company to compete against the ASX Ltd and that they would use the Settlement and Clearing House facilities of the ASX Ltd to carry out their transactions. Please explain how and why they are able to do this as it appears unfair not only to the ASX Ltd itself but to the other members of the ASX Ltd

New Zealand Exchange Limited has announced it will launch an Australian Electronic Communications Network (ECN) for trade reporting services. CommSec was one of five named broker partners participating in the venture. Details of the offering have not been announced although media speculation focused on the institutional (Specials) crossing market. Special Crossings trades are individual trades with a \$ value in excess of \$ 1 million or a portfolio trade in excess of \$10 million. These are relatively few in number. ASX does facilitate access to the CHES system on a commercial basis subject to satisfactory regulatory and other arrangements. No proposal has yet been received from the announced ECN.