



**ASX Limited**  
(formerly Australian Stock Exchange Limited)  
ABN 98 008 624 691  
**and its controlled entities**

**HALF-YEAR REPORT**  
**INCLUDING APPENDIX 4D**  
**AND ADDITIONAL DISCLOSURES**

**31 DECEMBER 2006**

**15 FEBRUARY 2007**

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**INTERNET**

These results will be available on the Internet at [www.asx.com.au/shareholder](http://www.asx.com.au/shareholder) on Thursday 15 February 2007. A live webcast of the Investor and Analyst briefing will also be available on [www.asx.com.au/webcast](http://www.asx.com.au/webcast) from 9.30am AEDST.

Transcripts of the Investor and Analyst briefing will also be available from the ASX shareholder centre [www.asx.com.au/shareholder](http://www.asx.com.au/shareholder).

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## **MANAGING DIRECTOR AND CEO'S REPORT**

### **Introduction**

The first half of FY07 was characterised by rising equity index performance, strong listings and trading activity levels in the cash equities and (to a lesser degree) warrant markets, and very strong equity index/fixed income derivative markets. Single stock option volumes were marginally down on the prior comparable period. Two increases in official cash rates during the half were pointed at abating inflationary pressures in the real economy, while the financial economy continued to absorb strong fund inflows via a superannuation regime buoyed by favourable tax concessions announced by the Treasurer in the May 2006 Budget. The financial economy also witnessed a number of high profile private equity transactions in an already very active market for corporate control.

The Annual Report of the Australian Financial Markets Association (AFMA) released in October 2006 confirmed a healthy turnover trend for both the 'over the counter' (OTC) and exchange-traded wholesale financial markets in Australia, which continue to service the needs of retail investors and the managed funds industry very efficiently. Bank lending growth remained strong during the half, in keeping with an economy experiencing strong growth and close to full employment, albeit with a strong bias towards the resource rich state of Western Australia, which continues to face skills shortages. Whilst the real economy in New South Wales continues to underperform most other states, the financial services sector in NSW is experiencing strong growth in investment banking and wealth management activities, with several participant firms expanding their market presence.

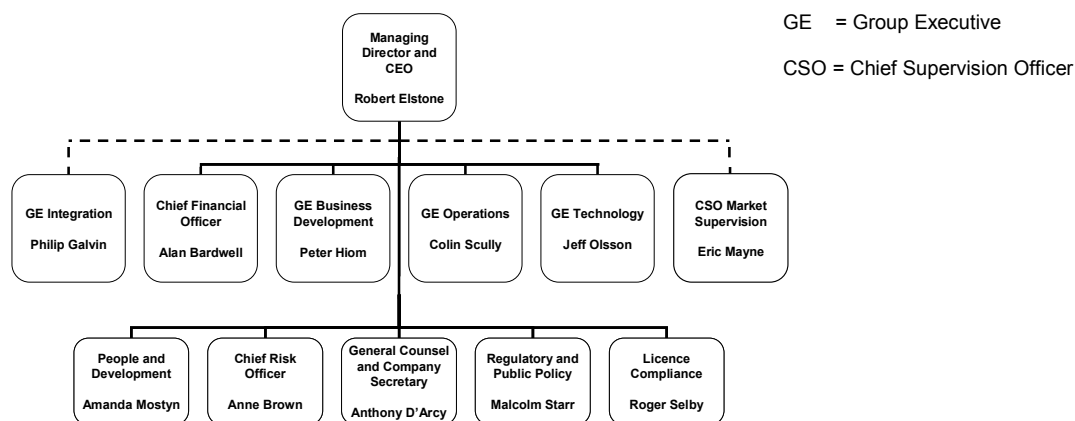
The merger of the former Australian Stock Exchange with SFE Corporation took effect in mid-July 2006 and in early December 2006 a new group emerged, under the ASX Limited holding company, which also undertook a rebranding exercise. The footprint of the new group spans the supervision and operation of the market for corporate control, equity and interest rate price discovery underpinning the cost of capital for individual firms and the national economy, a significant central counterparty in the market for risk transfer and an important operator in the wholesale financial payments system.

During the first half of FY07 the newly merged group performed strongly. Net profit after tax before significant items of \$139.3m was up 39.6% on a pro-forma basis over the prior comparable period, predicated on buoyant financial market conditions. The Chief Financial Officer's Report provides detailed insight into the group's financial performance for the half as well as guidance on expense trends. The Transaction Levels and Operating Statistics section of this Half Year Review (pages 34 to 37) provides relevant data and comparatives for understanding underlying operational performance.

ASX, known as the new Australian Securities Exchange, has changed a great deal since the completion of the merger. The senior executive management team, reporting directly to the Managing Director and CEO, comprises an equal number of former stock and futures exchange executives, with an external appointment to the role of Chief Financial Officer made in December 2006. The core supervision, legal and company secretariat, licence compliance, and market support (operations and technology) functions are led by former ASX executives; with former SFE executives leading the business development, risk policy, public policy, and human resource functions.

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The structure is balanced and, importantly, contains the required blend of expertise, experience and energy to enable ASX to meet its licence obligations, deliver compelling value to market users and issuers, and grow the value of the new group.



The 1 July 2006 separation of the market supervision function to create ASX Markets Supervision Pty Limited (ASXMS), under the leadership of Eric Mayne, is already well established. The function is accountable to a subsidiary board comprising independent as well as ASX directors. Eric Mayne, nonetheless, maintains a strong working relationship with both the Managing Director and CEO of ASX and the head of Regulatory and Public Policy (Malcolm Starr). ASXMS is also ably supported by the group's finance, human resource and technology infrastructure.

During the half-year, liaison with ASX's key regulators - ASIC and RBA - has been frequent and collaborative. Notwithstanding the scale of the ASX/SFE merger and the intensity of integration workload, ASX maintained normal (and comparable to global best practice) availability levels to market users and issuers in relation to exchange-based system applications.

As indicated at the AGM in October 2006, the collaboration between management at all levels during the first phase of the merger has been exemplary. This has enabled a newly branded, integrated group to evolve within a comparatively short period of time. Such collaboration has quickened the pace of integration and given rise to a greater critical mass of human resources committed to improving policies and processes across the group wherever possible and necessary.

### Merger Update

#### *Phase 1 – July 2006 to December 2006*

The first phase of the merger involved a wide array of integration processes. Merger synergy initiatives encompassed:

- Headcount reduction arising from functional overlaps and process improvements. During the half, group headcount reduced by 89 full-time employees (FTEs). This excludes a further FTE reduction of 28 attributable to the divestment of Orient Capital in August 2006. There were no FTE reductions from the market supervision area, where FTE numbers grew from 81 to 91 during the half in keeping with a robust listing and surveillance environment.

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- Substantially lower occupancy expenses per employee were achieved via premises integration and layout efficiencies, including the closures of the ASX Hobart office and Austraclear's Melbourne office, and the freeing up of an additional two floors of the Exchange Centre premises in Sydney, despite the full absorption of SFE staff from SFE's former Grosvenor Street premises.
- Alignment of insurance cover following the merger (in what has been a slightly softer insurance market) allowed ASX to achieve premium savings without any material change to coverage or reduction in the credit quality of counterparty insurance providers.
- Discretionary expenditure across the group (excluding supervision) has been trimmed in areas such as travel, entertainment, consulting and marketing.

The alignment of ASX and SFE remuneration policies and practices has enabled greater focus on variable remuneration linked to personal and short-term group financial performance, and higher levels of participation by key staff in equity performance-based medium-term incentives (market supervision staff are subject to regulatory performance criteria in a cash-based scheme). This was designed to give rise to lower average fixed-cost remuneration increases than ASX has traditionally granted, whilst ensuring that total remuneration levels remain competitive with those elsewhere in the financial sector. This is necessary given the sector's very competitive labour market and the persistent trend of participant firms and listed companies seeking to attract experienced ASX staff.

### ***Phase 2 – January 2007 to June 2007***

The second phase of the merger entails:

- The remaining integration of the finance and administration functions and the pursuit of additional occupancy expense savings at the Exchange Centre premises in Sydney.
- Rationalising of the former SFE primary and backup data centres and one of two OMX data centres into ASX, and planning for trading and clearing technology platform convergence across both the equity and derivative markets over coming years.
- Clarifying the clearing risk policy framework to underpin the group's ability to deliver capital efficiency benefits to users via the potential combination of the group's two central counterparty clearing entities. This will extend to refining and integrating the group's capital allocation regime to a post-merger enterprise-wide approach to risk management.

Cost savings from the first two of these activities will not fully flow until FY08. Any capital implications for ASX arising out of the third initiative will need to be consistent with the group's Financial Stability Standards (FSS) compliance obligations. Implications would only crystallise during FY08 as a consequence of more transparent external reporting of the group's capital and risk management adequacy position (at the end of FY07), and progress with the Commonwealth Treasury and APRA in facilitating the admission of authorised deposit taking institution (ADI) status entities as clearing participants in ASX traded markets. Should this outcome be achieved it would then align with the status quo in SFE traded markets and promote the case for a single central counterparty clearing entity or, at a minimum, mutual recognition or margin offsets between the exchange-traded equity and fixed income markets.

Over coming months, in keeping with its FSS compliance obligations, ASX plans to enhance its risk management oversight in the cash equities and equity derivatives markets in a manner that responds to infrequent short-term concentration of counterparty risk (T+3 settlement) exposure attributable to traded equities volume 'spikes'. These occur infrequently around the time of significant corporate actions as well as more predictably around quarterly index derivative expiry processes and related single stock option risk arbitrage activity. This will be akin to the supplementary margining practices that apply in futures market activities operated by SFE and be aligned with the practices of many overseas equity markets.

### **Business Development**

While merger integration initiatives have dominated the first half of FY07, a number of key business development initiatives have been progressed. These can be categorised as follows:

- **Cash Market Enhancements (ASX Markets)**

The passing of the 2000<sup>th</sup> listed entity milestone (in itself a key measure of the attractiveness of ASX as a listing and trading venue) further highlights that a 'one size fits all' business model will not adequately service what has become an extremely diverse set of ASX customers. For those customers seeking to raise capital, ASX is progressing a range of initiatives to meet their needs. These include:

- An equity research scheme (in conjunction with FINSIA) targeted at mid-cap stocks that will improve the quality and quantity of available research;
- The development of new indices to cover different market sectors that will create important benchmarks and improve liquidity; and
- Tailored capital raising rules to better facilitate the needs of smaller companies.

To meet the needs of customers seeking more efficient trade execution, ASX has begun exploring market micro-structure changes to improve liquidity and reduce market impact costs. These include:

- Revised block crossing thresholds to provide more flexible execution facilities and improve overall liquidity;
- New central market functionality to better facilitate the execution of large orders; and
- Revised rules to further facilitate direct market access (DMA) and algorithmic trading.

ASX expects to continue to incrementally refine the listing and trading regime it offers so as to improve liquidity across all listed entities and to ensure the most competitive cost of capital environment.

In response to customer demand to bring the benefits of exchange trading, central counterparty clearing and settlement services to the rapidly growing unlisted structured product market, ASX is developing an enhanced listing rule framework that will enable customers to list a wider range of structured products on ASX. The Australian Quoted Assets (AQUA) initiative will:

- Be provided through existing trading, clearing and settlement technology infrastructure;
- Enable issuers to list a larger number of structured products more quickly; and

- Improve sales and new product opportunities both domestically and in the region.

The AQUA initiative will deliver tailored ASX rules together with greater flexibility and choice across trading, clearing and settlement systems, allowing ASX to offer a broader range of product options to product manufacturers and investors alike. Price visibility and the ability to trade with T+3 settlement is underpinning demand for an increasing number of structured products to be listed on ASX. The AQUA initiative (which will begin in mid FY08) will ensure ASX is positioned to meet this opportunity.

- **Improving Equity Derivative Market Liquidity (ASX Markets)**

Given softer exchange-traded options (ETO) trading volumes in the first half of FY07, ASX has examined the structural reasons for lower volumes over the prior comparable period. A review found that low levels of liquidity, competition from OTC Contract for Difference (CFDs) markets and OTC equity derivative markets were all contributing factors. As a result, the following initiatives are in train:

- The delivery of an exchange-traded CFD offering at the beginning of FY08 (see below);
- Increasing market-making obligations to improve on-screen liquidity at the same time as boosting market maker fee rebate incentives;
- Implementing further micro-structure changes to provide greater flexibility to institutional brokers executing large orders; and
- Improving global distribution (see below).

Together with a range of other minor structural changes, ASX expects to improve the liquidity and competitive positioning of its ETO offering during FY08.

- **Broadening Distribution (ASX and SFE Markets)**

ASX has already made numerous structural changes to the equities and related equity derivative markets to facilitate the growing global trend towards DMA and algorithmic trading. These include lower execution latency, a revised pricing structure, improved customer connectivity and enhancements to market rules.

Following the expected approval from the US Securities and Exchange Commission to enable ASX to promote exchange-traded options to US customers, ASX will leverage SFE's offshore sales and marketing capabilities to extend its global distribution of both interest rate and equity derivatives through the electronic connection of offshore customers. ASX is also in the process of expanding the infrastructure hosting facility located in Sydney that will allow customers to host technology infrastructure close to the exchange.

- **Growing the Futures Franchise (SFE Markets)**

Through the continued growth of its benchmark Australian and New Zealand interest rate products, the deeply liquid futures market provided by ASX continues to facilitate significant interest rate risk transfer activity on a daily basis, as well as providing transparent price discovery for the entire Australian yield curve. Furthermore, ASX has:

- Continued to reduce the costs of trading and improve market efficiency through the permanent introduction of ½ basis point trading in the 3 Year Bond futures contract; and

- Broadened its New Zealand product offering through the introduction of the Overnight Cash Rate (OCR) Futures Contract, a sister product to the successful interbank contract in the Australian market.

Another year of impressive growth in the d-cypha SFE electricity futures and options trading volume has provided the cornerstone of ASX's developing energy and environmental franchise. Average daily volume in the electricity futures market is now approaching that of the spot market operated by the National Electricity Market. Further product initiatives are underway to improve the existing electricity offering as well as the ongoing development of water, coal and emission derivatives over coming years.

- **New Derivatives Products (SFE Markets)**

ASX is also pursuing new derivatives offerings by launching the world's first exchange-traded CFD market scheduled for August 2007. The development of the OTC CFD market has heightened interest in the benefits an exchange-traded market offers, such as price discovery, transparency, liquidity, central counterparty clearing and front-line supervisory oversight. ASX is well progressed in the delivery of the CFD platform (which will be available through existing SFE technology infrastructure), and has strong support from a diverse range of ASX and SFE brokers, clearing participants and market makers. A significant marketing campaign will underpin the launch together with a comprehensive education and broker accreditation program. This initiative, due to launch in early FY08, is a standout example of a new project that will have benefited from the combination of ASX and SFE's respective retail and wholesale franchises.

- **Improving Market Information Services (ASX and SFE Markets)**

ASX is in the process of completing the migration of all its market data customers onto its new integrated trading platform infrastructure, thereby combining and simplifying the data sources of all of its real-time price information. New product offerings in the coming year will include intra-day Reference Point data via ASX On-line combined with a straight-through-processing capability via the SWIFT network. Customer demand will also be investigated for further information services from the databases of ASX Austraclear, given the growth in depository holdings in recent years and the improved reporting functionality in the new EXIGO system (refer below).

- **Leveraging the Austraclear Franchise**

Via its ownership of Austraclear, the central securities depository for A\$ denominated debt securities in Australia, ASX performs a critical wholesale payments role in the Australian financial system. Through its delivery versus payment services to its bank and custodian customers, ASX is in a position to extend its payment service capabilities to additional asset classes.

Austraclear has been selected by the Victorian Government to act as the Financial Settlement Manager (FSM) for that state's electronic conveyancing system, the Land Exchange (LX). This involves the electronic settlement and title register update of property transactions using a secure network and a FSM. Stage one of the LX pilot - the electronic update of the Land Titles register to reflect changes in interest over a property (eg the recording or discharging of mortgages, caveats or transfers) - went live in August 2006. Stage two, scheduled for the 3rd quarter of 2007, involves the introduction of electronic settlements managed by Austraclear acting as the FSM.



### Delivering Benefits to Customers

Together with the business development initiatives outlined above, ASX participant customers benefited from:

- Further reductions in average fees per trade in SFE traded markets and further signalled changes to fees and rebates, allowing users in both ASX and SFE traded markets to share the synergy benefits of the merger and appropriately gainshare the incremental growth in traded market activity;
- Two core infrastructure application projects came to fruition during the half; namely EXIGO replacing FINTRACS in August 2006 in the OTC clearing, settlement and depository space, and CLICK XT replacing SEATS in the cash equity and equity derivative trading platform arena. The CLICK XT integrated trading system implementation was smooth, whilst the EXIGO implementation experienced some early teething issues which are being resolved. The EXIGO system, based on an open architecture, is supporting three times the number of simultaneous users than its predecessor system (FINTRACS) and delivering straight-through processing benefits to users;
- The CLICK XT integrated trading system has improved capacity for traded volume growth, reduced order execution latency and facilitates cross market contingent trading between cash equities and related equities derivatives without legging risk. Additional functionality upgrades to both the CLICK XT and EXIGO applications are scheduled for the 4<sup>th</sup> quarter of FY07 to the benefit of market users. Both of these new systems represent a substantial investment of time and money by ASX in core infrastructure for the exchange-traded and OTC markets in Australia, and are designed to ensure that ASX remains at the forefront of contemporary technological developments in the sector;
- Market developments, including the facilitation of DMA trading and enhancements to the exchange-traded options market; and
- A bolstering of the capital base of SFE Clearing Corporation in keeping with strong traded volume growth in equity index and fixed income derivatives (obviating any additional fixed capital requirement from participant clearing firms commensurate with that growth). An equivalent bolstering of the capital base of the Australian Clearing House (ACH) will shortly also be made.

As mentioned earlier, issuer customers will benefit from:

- Changes to ASX's suite of indices, including allowing foreign domiciled entities to be included in the local S&P/ASX benchmarks to the extent of localised trading; and
- Liquidity enhancements, such as the equity research scheme for smaller companies and new crossing rules.

In keeping with a heightened consciousness of the costs of regulatory requirements, in March 2006 ASX commenced a review of its Operating Rules with a view to reducing complexity and compliance costs for listed entities and market participants. A Guidance Note was developed and issued in December 2006 to assist issuers in understanding how ASX exercises some of the discretions it has in its listing rules. Analysis has also been completed to identify areas of overlap between the Corporations Act and ASX listing and market rules, with a view to reducing duplication for listed entities and participant firms later in 2007.

### Pricing

Just prior to the end of the half ASX foreshadowed two important principles relating to its medium term pricing intentions:

- Trading fee rebates in both ASX and SFE traded markets would be based from the start of FY08 on higher incremental gain-sharing in favour of market users at higher activity levels (thereby aligning rebate methodologies for both markets); and
- Whilst ASX would continue to review the relationship between trade volume and trade value in the cash equities market, wider market micro-structure considerations are also relevant, and would be incorporated into any pricing refinements to coincide with the implementation of a modified rebate structure referred to above to apply from the start of FY08.

In an equities exchange, the relationship between traded volume (number of trades) and traded value (\$ value of traded volume) is complex. Whilst it would be reasonable to expect both variables to be highly correlated over the medium term (and they have been historically), their interrelationship is complicated by the vagaries of order execution in a macro sense (central limit order book (CLOB) versus an upstairs crossing) and micro sense (the efficiency of price discovery within the CLOB) over very short run periods - particularly during periods of structural change in the market such as witnessed by the shift towards DMA and algorithmic trading.

By definition, market depth of liquidity in an equities environment is specific to single stocks at single points in time. The most efficient form of price discovery and trade execution for more liquid stocks involves anonymous trade matching of orders of a suitable size so as to minimise price point movement (otherwise known as market impact costs). This is akin to the way in which price discovery in liquid futures markets works, where almost all trading activity is concentrated around far fewer liquid contracts but conducted exclusively in the central market.

As a legacy of the way equity markets have evolved, unlike futures markets, larger order sizes of liquid stocks can be executed in a number of different ways. These include block trades, crossings and disaggregation of a number of smaller orders and execution in the central market, typically managed by trading algorithms offered to end users by ASX participant brokers seeking to offer a diverse range of order execution facilities.

The trigger for which of these avenues of trade execution is taken, and their relative transaction costs, has as much to do with the industry microeconomics of executing brokers as it does with overall capital market efficiency. The issue is further complicated by the exchange fee sensitivities of different types of market users, which can vary significantly. The diversity of broker business models and disparity in trading motives between proprietary trading and end user execution make it virtually impossible for any exchange group to design a fee regime with uniform application.

Given the complexity of these market micro-structure considerations, any 'a priori' view of an exchange's optimal pricing model for a cash equities market in favour of trade volumes or trade value is unduly simplistic and ignores the wider issues of the economics of broker trade execution and overall value proposition to end users of capital markets<sup>1</sup>.

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<sup>1</sup> For example, the incentive for brokers to invest in alternate trading platforms is higher where exchange fee structures are biased towards charging per trade, rather than by value, which remains the case at many of the European exchanges. In ASX's case, the combination of its own investment in an integrated platform and a value-based pricing framework for equities trades supplemented by appropriate gainsharing of fee rebates, are pointed at ensuring that the most efficient form of price discovery (the central limit order book) remains competitive, to the benefit of both shareholders and users.

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The real challenge, both in terms of the exchange's fee regime and the trade matching functionality offered, is how to grow liquidity and improve market efficiency by maximising the proportion of trade volume and value conducted in the central market. The counter incentive (to trade outside of the central market in order to minimise brokerage compression) is positively correlated with the growth of algorithmic trading which threatens traditional order facilitation by brokers. This helps to explain the proliferation of alternative trading platforms (be they broker proprietary or independent) over recent years in several overseas jurisdictions and their potential entry into Australia, albeit their sustainable value proposition to end users of capital markets is far from clear when regard is had to Australia's existing central market (bid/offer spread) efficiency and declining average fee per trade.

ASX will consider its market micro-structure value proposition to customers with differing trading styles and business models over coming months and any pricing refinements or technology adaptations deemed necessary will be, as earlier foreshadowed, announced to coincide with the implementation of a modified rebate regime prior to the start of FY08.

### Listings Activity and the Private Equity Trend

During the first half of FY07 listing activity on the ASX equity market was very strong.

During the period there were:

- 147 new listings (compared to 129 for the prior comparable period), with more than 40 additional issues in the pipeline waiting to come to market over the third quarter to March 2007.
- As at the end of December 2006, 2,014 entities were listed in total, up from 1,873 at December 2005.

The market's overall capitalisation grew strongly and issuers have continued to raise substantial amounts of capital:

- At the end of December 2006, domestic equity market cap was \$1.39 trillion – up more than 25% on the prior comparable period.
- For the first half of the financial year, \$9.95 billion of capital was raised through IPOs and \$27.78 billion through secondary capital issues. This is 36% greater than the total capital raised over the corresponding period last year.

Listing activity on the ASX therefore remained buoyant despite several high profile private equity transactions during the half involving major listed companies. Notwithstanding the strength of listing activity throughout 2006, the growth in private equity activity does have supervisory as well as business implications for ASX. The private equity trend has the potential to place additional stress on the public market's continuous disclosure regime in a number of ways, for example:

- Price sensitive information (about proposed transactions) may be kept from the market, creating potential for market abuse if information is leaked. This is an issue because of the breadth of participants traditionally involved in private equity transactions who have access to price sensitive information.
- Private equity approaches to listed companies are often incomplete. In cases where the market is filled with speculation or rumour about such approaches, the company is placed under pressure to meet its obligations to immediately disclose material information to the public market while also trying to assess the value of a private equity approach.

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These risks and their implications for the efficiency of the price discovery process as well as the market for corporate control, are counterbalanced by heightened supervisory activity by ASXMS.

Whilst some market commentators have argued that the coincidence of hedge fund trading styles and the growth of private equity heighten the risk of market disclosure abuse (or failure) and, correspondingly, strengthen an argument for market supervision to be conducted independently of market operation, such commentary ignores the alignment of ASX's business and supervisory interests (akin to an airline's alignment of its commercial and safety interests) and close co-operation with ASIC. Exchange market monitoring practices are designed to ensure compliance with listing and operating rules. Parallels drawn by some commentators between ASX market supervision and a civil police force function are inaccurate because they confuse the monitoring and referral activities for rule compliance conducted by the market operator (ASX) with the forensic and investigative powers given to an independent government agency (ASIC) to ensure legislative compliance.

ASX welcomes ASIC's recently announced desire to upgrade its own surveillance activities for exchange-based and OTC markets, bringing it closer into line with equivalent agencies overseas, and looks forward to even closer ongoing co-operation with the corporate regulator. It is important for market commentators to understand the public benefits of a front-line supervision model before calling for centralised regulation (predicated on black letter law) based on perception rather than fact.

A summary of the supervisory statistics for ASXMS for the half include:

- 60,919 company announcements processed (14.4% increase on pcp);
- 382 announcements made following on from 661 continuous disclosure-related queries;
- 284 price queries made with 203 subsequent additional market announcements; and
- 60 referrals in total made to ASIC:
  - 14 related to insider trading;
  - 5 related to market manipulation; and
  - 6 related to continuous disclosure

Notwithstanding ASX's heightened surveillance activities and ongoing focus on the continuous disclosure regime, the private equity trend undoubtedly has the potential to reduce capital flows to the public equity market either directly (via delistings) or indirectly (via share buybacks, special dividends, etc, as part of a defence strategy to counter a private equity approach or bid).

On the other hand, the perceived challenge to the public equity market posed by private equity is likely to be an issue of timing. An often preferred exit mechanism for private equity investments can be a return to the public equity market via an IPO, or a trade sale to an existing listed entity that might need to raise capital to fund the acquisition.

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It is tempting and fashionable to conclude that the recent rise of private equity activity is a consequence of a rising agency cost to shareholders attributable to a heightened regulatory compliance environment. Such a view, whilst not without merit and worthy of consideration, is somewhat partial. The increased prevalence of private equity could just as easily be attributed to:

- The short-term focus of much of the hedge fund and benchmark driven traditional investment community; and/or
- The coincidence of low corporate leverage and nominal interest rates together with the non-discretionary investing behaviour of index funds.

In reality, it is too early in the evolution of private equity in Australia to form a view on the medium to longer-term impact on the Australian capital market from a public/private mix of ownership perspective. What is important, however, is to monitor the finite ability of currently very thin credit spreads in debt markets to sustain valuation arbitrage vis-à-vis the public equity market.

The systemic risk implications of the private equity trend, recently touched on by the Governor of the Reserve Bank, are also relevant to ASX. As a large central counterparty to the investment banking community, any increase in counterparty risk exposure has the potential to have an impact on ASX. Any rise in the provision of leveraged finance by banks into private equity transactions (albeit risk managed through traditional risk syndication or use of the credit default swap market) or distribution of such debt to non-bank financial institutions or asset managers in the form of collateralised debt obligations (CDO's), has the potential to increase systemic risk within the financial system.

ASX is one of several stakeholders with a direct interest in this issue, alongside ASIC, APRA and the RBA, albeit ASX's interest is of a supervisory, risk management and commercial nature. ASX will continue to invest in its supervisory infrastructure and risk management practices as well as enhance its co-operation with ASIC and the RBA as this trend develops. ASX will do this not solely because it is required to do so but also because it is in its reputational and shareholders' long term interests to do so. At the same time, ASX will seek to ensure that the ASX Corporate Governance Council guidelines strike the right balance between market efficiency and effectiveness such that the public equity market continues to thrive and that both public and private equity markets complement each other.

In November 2006, the ASX Corporate Governance Council released an Explanatory Paper for public comment on its proposed changes to the 'Principles of Good Corporate Governance and Best Practice Recommendations'. It also released an Exposure Draft of proposed changes. The public consultation period ended on 9 February 2007.

The proposed changes, which took into account feedback from Council review groups and users of corporate governance information, sought to remove areas of regulatory overlap, assist understanding of how certain Principles are to be applied, and remove inconsistent terminology. Importantly, the Principles remain non-prescriptive and the "if not, why not?" approach still applies. A revised set of Principles and Recommendations is expected to become effective from July 2007, after reviewing the submissions received during the consultation process.

### Summary

Global exchange consolidation gathered pace during the second half of 2006 with several high profile exchange merger announcements likely to be consummated during 2007. The new Australian Securities Exchange is better placed to remain globally relevant as further consolidation opportunities arise. At the same time ASX is in a strong position to deliver the lowest cost of capital and an efficient market for corporate control for listed entities predicated on the continuous disclosure regime and platform convergence, clearing efficiencies and gainsharing benefits to market participant firms over coming years.

In evaluating the global landscape ASX will have regard to shareholder, user and regulatory/national interests in pursuit of any offshore growth opportunities, conscious of the reality that in financial markets that are increasingly globally integrated, regulation and supervision remain strictly national responsibilities.

Since balance date, trading volumes in underlying cash and derivative markets have been very strong. Listing activity levels, including the pipeline of listing applications, remain robust. Interest rate views point to a more stable outlook for Australian rates but domestic and offshore spread differentials are likely to underpin fixed income derivative volumes. The Australian index p/e ratio relativity to many of its overseas peers, as well as its own history, would point to an equity market well placed to absorb a growing supply of domestic capital, including that of the Future Fund.

The Board, executive management and all employees of the new ASX can be proud of what has been achieved during the first half of FY07. Much work still lies ahead for the new organisation, which sits at the crossroads of Australia's financial and real economies, and is charged with managing often very divergent stakeholder expectations.

As the financial economy of Australia becomes larger in terms of the stock and velocity of capital than the equivalent stocks and flows in the real economic markets for traded goods and labour, ASX's significance and value proposition to both economies will continue to grow, not only in its traditional domain of traded equity and fixed income markets but in related commodity and energy markets. ASX is also well placed to provide an end to end trading, clearing and settlement infrastructure for the operation of an Australian market for carbon emissions as part of a national response to climate change.

ASX's financial strength is paramount to it being in a position to meet its various stakeholder expectations as its systemic significance grows. I look forward to being in a position to report a strong operating and financial performance for ASX for the year to 30 June 2007 in August 2007.

**Consolidated pro-forma income statement for the  
half-year ended 31 December 2006**

	31 Dec 2006 \$'000	30 Jun 2006 \$'000	31 Dec 2005 \$'000
<b>Revenues</b>			
ASX listings	56,355	42,962	41,834
ASX cash market	76,527	65,454	59,269
SFE derivatives	57,626	56,185	48,941
ASX derivatives	16,069	16,889	16,449
Information services	26,132	23,257	21,563
Technology infrastructure	11,576	10,608	10,567
Austraclear depository and settlement fees	6,893	6,727	6,657
Austraclear registry fees	3,096	2,502	2,246
Other revenue	5,413	8,578	9,699
<b>Operating revenue</b>	<b>259,687</b>	<b>233,162</b>	<b>217,225</b>
<b>Expenses</b>			
Staff expenses	40,994	46,678	46,177
Occupancy expenses	9,019	9,700	10,201
Equipment expenses	14,321	13,591	13,959
Administration expenses	10,875	13,990	14,454
<b>Cash operating expenses</b>	<b>75,209</b>	<b>83,959</b>	<b>84,791</b>
EBITDA	184,478	149,203	132,434
Depreciation and amortisation	7,586	7,010	7,576
EBIT	176,892	142,193	124,858
Interest income	12,230	12,693	12,067
Net interest on participant balances	7,932	6,276	4,440
Dividend revenue	1,200	1,725	975
Normal profit before income tax	198,254	162,887	142,340
Income tax expense	(58,957)	(47,657)	(42,542)
<b>Normal profit after income tax</b>	<b>139,297</b>	<b>115,230</b>	<b>99,798</b>
<b>Significant items</b>			
Net gain on sale of APRL investment	-	(4)	9,764
Redundancy expenses	-	(649)	(652)
Consultancy and recruitment expenses	-	237	(720)
Premises project	-	(11,606)	-
Merger transactions (SFE pre-acquisition)	(6,790)	(4,784)	-
Merger implementation	(27,880)	-	-
Net gain on sale of Orient Capital Pty Limited	7,081	-	-
Tax on significant items	10,418	4,684	(1,470)
<b>Profit after income tax</b>	<b>122,126</b>	<b>103,108</b>	<b>106,720</b>
Less SFE Net Loss after tax 1 – 11 July 2006	(2,592)	-	-
<b>Statutory net profit after tax</b>	<b>124,718</b>	<b>103,108</b>	<b>106,720</b>
Normal NPAT from pro-forma	139,297	115,230	99,798
Less SFE normal NPAT 1 – 11 July 2006	2,161	-	-
<b>Statutory NPAT excluding significant items</b>	<b>137,136</b>	<b>115,230</b>	<b>99,798</b>

### CHIEF FINANCIAL OFFICER'S REPORT

The following discussion and analysis of the Group's (ASX and SFE) financial performance is based on ASX's non-statutory (pro-forma) income statement unless otherwise stated. The pro-forma income statement itself is not audited, but is based upon underlying external auditor reviewed accounts. It reflects performance for six months to 31 December 2005, the six months to 30 June 2006 and the six months to 31 December 2006. The pro-forma income statement reflects performance as if the two companies were one during those periods.

Although the ASX/SFE merger was effected 11 July 2006, the pro-forma income statement is for the six month period to 31 December 2006. ASX's statutory income statement reflects the 11 day adjustment and a reconciliation between the pro-forma and statutory income statement has been provided.

SFE's net profit after tax for the 11 days to 11 July 2006 was a loss of \$2.6 million. This loss was mainly attributable to the ASX/SFE merger transaction expenses which were not capitalised (\$6.8 million before tax). These costs have been treated as significant items in the pro-forma income statement. They are not included in the statutory income statement since they relate to pre-acquisition costs of SFE.

ASX's dividend policy, earnings per share calculations for LTI performance measurement and other similar calculations are based on ASX's pro-forma normal profit after income tax, adjusted in this period for the first eleven days of July. ASX has provided a reconciliation between normal pro-forma profit and statutory profit.

The following information should also be noted:

- There were no material changes to accounting policies as a consequence of the ASX and SFE merger. Independent of the merger, ASX has changed its amortisation policy for new core clearing and settlement systems. Consequently, amortisation of the new Austraclear EXIGO system will be for a period of 10 years rather than the 7 years for other core ASX systems. This reflects the expected useful life of the new (EXIGO) system.
- There have been some minor changes to classifications within some revenue and expense items. These changes are described in detail within this report. All comparatives reflect a consistent application of these changes.
- All references to previous corresponding period (pcp) are for the six months to 31 December 2005.
- All figures are in Australian dollars.

Based on ASX Limited's **pro-forma income statement** (page 15), the key highlights of the Group's financial performance for the six months to 31 December 2006 are:

- Normal net profit after tax of \$139.3 million, up 39.6%.
- Normal earnings per share (EPS) of 81.6 cents per share<sup>2</sup>, up 30.8%.
- Operating revenue excluding interest and dividends of \$259.7 million, up 19.6%.
- Cash operating expenses of \$75.2 million, down 11.3%.
- Merger restructure costs of \$27.9 million (reflected as a significant item).
- \$2.3 billion of goodwill booked upon merger.
- Divestment of Orient Capital for a pre-tax profit of \$7.1 million.
- Dividend of 72.3 cents per share, up 28.6%.
- Capital reduction of 58.5 cents per share.

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<sup>2</sup> Based on shares on issue at 31 December 2006.



## Normal Profit – Up 39.6%

Normal net profit after tax for the six months ended 31 December 2006 was \$139.3 million (\$99.8 million pcp). This result excludes significant item expenses after tax expense of \$17.2 million (6.9 million profit pcp).

Group profit performance for the first half of the 2006-2007 financial year is largely attributable to strong market conditions and cash operating cost savings. The performance of the listings business was buoyed by a number of large capital raisings (including Telstra 3) and overall market capitalisation growth. Record cash equity and debt derivative traded activity was also experienced in the six month period.

## Normal Earnings Per Share – Up 30.8%

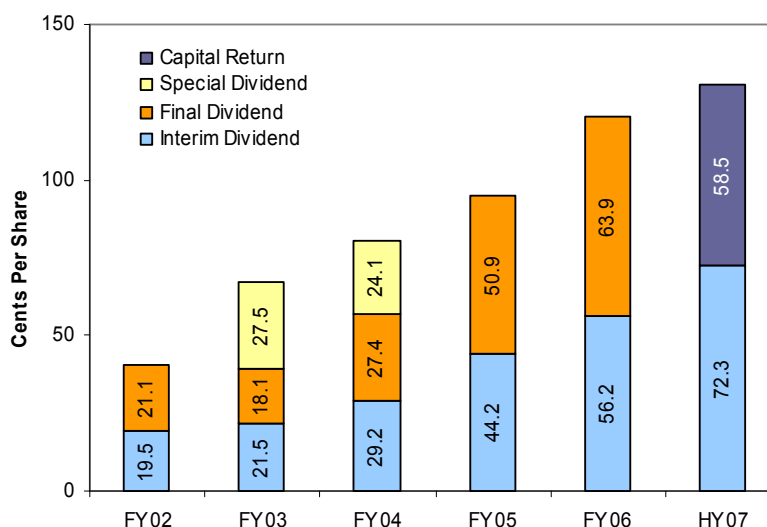
The pro-forma normal result represents earnings of 81.6 cents per share (62.4 cps pcp) based on 170,815,584 ordinary shares on issue at 31 December 2006.

## Dividend – Up 28.6%, \$100M Return of Capital

A fully franked interim dividend of 72.3 cents per share (56.2 cps pcp) has been declared. This dividend maintains ASX's policy to pay 90% of normal statutory net profit after tax as fully franked dividends.

ASX's policy of paying dividends referenced to normal profit has provided higher dividends for the past 3 reporting periods than paying 90% of statutory profit. On current projections, ASX has sufficient franking credits to maintain its dividend policy on a fully franked basis.

ASX also returned 58.5 cents per share (\$100 million) by way of a capital reduction in October 2006, satisfying a commitment made at the time of the ASX/SFE merger.



## Review of operations

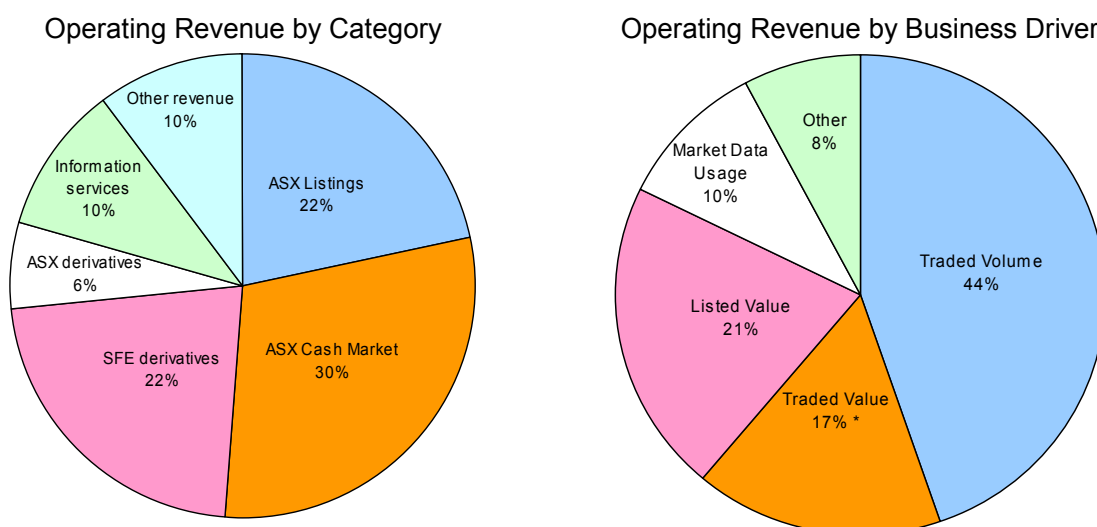
### Operating Revenue – Up 19.6%

Total operating revenue (excluding interest and dividend revenue) for the six months to 31 December 2006 was \$259.7 million (\$217.2 million pcp).

The increase in revenue has been achieved with growth in key revenue lines, notably Listings, ASX cash equities and SFE derivatives.

### Operating Revenue by Category and Business Driver

The charts below provide a breakdown of operating revenue by category and key drivers for the six-month period ended 31 December 2006:



\* 95.5% of Traded Value reflects ASX Cash Market revenue, 4.5% reflects Austraclear revenue.

Key business drivers data is available on pages 34 to 38 of this document.

### ASX Listings – Up 34.7%

*Note – Warrants listing and turnover fees, formerly included within ASX Derivatives, are now included within ASX Listings Revenue*

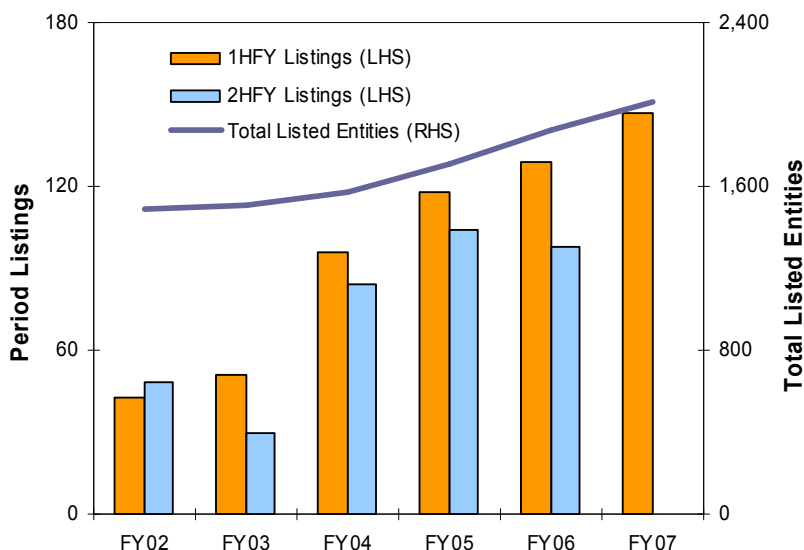
Total listings revenue for the six months to 31 December 2006 was \$56.4 million (\$41.8 million pcp). The increase in listings revenue has been underscored by growth in the three key listing fee categories of annual, initial and subsequent listing fees, all of which have been driven by increased activity and the overall increase in capitalisation of ASX's equity market. Based on first half FY07 revenues:

- Annual listing fees accounted for approximately 38% of total listings revenue;
- Secondary listing fees accounted for approximately 32% of total listings revenue;
- Initial listing fees accounted for approximately 22% of total listings revenue;
- Other listing fees accounted for approximately 1% of total listings revenue; and
- Warrant fees accounted for approximately 7% of total listings revenue.

## ASX Limited and its controlled entities

Revenue from secondary capital raisings, which include rights issues, dividend reinvestment plans (DRPs) and share purchase plans (SPPs) was the second largest contributor to aggregate listings revenue. Significant revenue generating secondary raisings during the period were undertaken by Telstra (\$8.7 billion), IAG (\$0.8 billion), MIG (\$0.5 billion) and ASX (\$2.4 billion) itself associated with the SFE merger. During the six months, there were 147 new listings compared with 129 for the previous corresponding period.

The chart below shows the number of new listings for each six-month period and the total number of listed entities as at 31 December each year.



Also included in ASX Listings revenue are fees from issuance of new warrants, annual fees and fees based on the value of warrant turnover.

During the six months, there were 2,590 new warrants listed compared to 2,145 during the previous corresponding period. Of these new warrants, 1,756 series were short-dated trading warrants compared to 1,580 warrant series during the previous corresponding period. This growth in issuance resulted in a record number of warrant series on issue of 3,091 at the end of December 2006.

Warrants turnover value reached a record \$4.7 billion during the six months, an increase of 26.5% on the previous corresponding period.

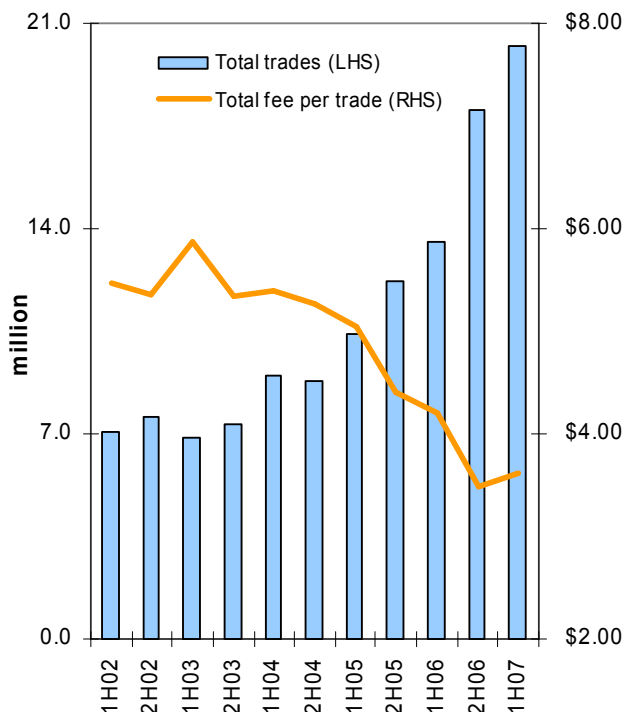
### ASX Cash Market – Up 29.1%

*Note – Cash Market Infrastructure fees, formerly included within ASX Equities, are now included within Technology Infrastructure Revenue. ASX Cash Market includes the trading clearing and settlement of equities, warrants and interest rate securities.*

Total ASX cash market revenue for the six months to 31 December 2006 was \$76.5 million (\$59.3 million pcp). The average fee per trade (excluding fail fees) was \$3.62 (\$4.20 pcp). Cash market revenue was earned on a record 20.2 million trades, equating to an average of 157,673 trades per day (105,271 pcp). During the six months, a single day trading record was set on 28 November 2006 with 236,380 trades, comprising an aggregate trade value of \$5.7 billion.

## ASX Limited and its controlled entities

The graph below shows the level of cash market trades and the average fee per trade for each half year for the past five financial years:



On 1 July 2006, ASX's new cash market pricing structure commenced<sup>3</sup>. The following table shows the average cash market fee per trade and behavioural drivers for the three previous half year periods.

	six months ended 31 December 2006	six months ended 30 June 2006	six months ended 31 December 2005
<b>Average Fee</b>			
Average Fee Per Trade Net of Rebates - 2 Sides (\$)	<b>\$3.62</b>	\$3.48	\$4.20
Average Fee Per \$ Turnover Net of Rebates - 2 Sides (bps)	<b>1.28</b>	1.17	1.28
<b>Key Behavioural Drivers</b>			
Average turnover per day including crossings (\$ billion)	<b>4.454</b>	4.327	3.464
Average trades per day (million)	<b>157.7</b>	145.6	105.3
Percentage of turnover above \$2.679m – capped at \$75 (%)	<b>9.72%</b>	8.29%	9.06%
Percentage of turnover crossed (%)	<b>32.41%</b>	29.76%	33.40%
Total trading days	<b>128</b>	124	129

<sup>3</sup> See Pricing Review market announcements of 15 December 2005 and 24 April 2006.

## **ASX Limited and its controlled entities**

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ASX has reviewed six months of activity under the revised cash market pricing regime. Over any medium to long term period, the growth rates for trade value and volume have been similar. However, over the past 12 to 18 months, the rate of growth of traded volume has exceeded traded value. This suggests an increasing significance of DMA and algorithmic trading activity. DMA trading seeks to achieve execution efficiency through the use of sophisticated electronic order generation which typically slices (or fragments) larger orders into many smaller orders. The growth of DMA trading has been facilitated by technological and communications advancements, the growing pools of investment capital and the growth of hedge funds.

The rise of DMA, algorithmic and program trading has had a significant impact on the equity broker business model through increased fragmentation of equity orders. This is a further advancement of order fragmentation that occurred in the Australian equities market following the rapid increase in retail participation in the last ten years.

ASX determined some time ago that a 'DMA friendly' strategy was optimal for both shareholders and market participants because it contributes to a reduction in the total costs (particularly market impact costs) of trading and increases the overall efficiency of ASX markets, thereby improving revenue outcomes through increased trading. The foundations of this strategy include investments in trading technology, investments in latency reduced networks, FIX connectivity, pre and post trade anonymity and a DMA oriented pricing model.

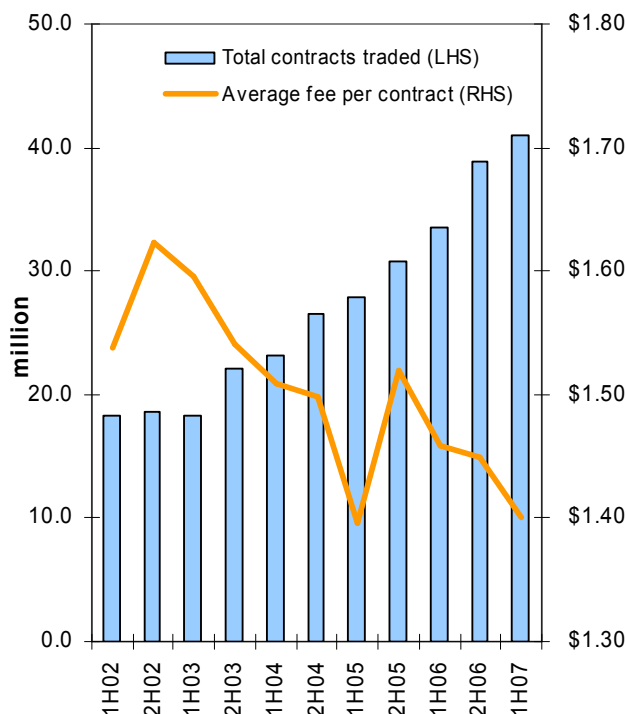
ASX will ensure, going forward, that rebate mechanisms fairly reward participants bringing significant liquidity to the market. It is also reviewing technology platform convergence and clearing house integration in order to reduce technology and capital costs to market users. ASX has already advised that Volume Incentive Plan (VIP) rebate qualification thresholds will be re-set on an annual basis on a similar principle that applies in SFE markets where incremental gain-sharing occurs in favour of market users at higher activity levels. ASX will also extend VIP eligibility to trades that include all crossings with effect from 1 July 2007. This is expected to give rise to higher volume rebates for FY08 at the same time as accommodating the DMA trend. In December 2006, ASX advised that the payment of annual VIP and Supplementary Volume Incentive Plan (SVIP) rebates would be made in two six monthly instalments. The first instalment of the 2006-2007 rebates, \$7.0 million, was paid in January 2007.

### **SFE Derivatives – Up 17.8%**

Total SFE derivatives revenue for the six months to 31 December 2006 was \$57.6 million (\$48.9 million pcp). During the half year period, there were 41.1 million derivative contracts traded (33.5 million pcp) on the Sydney Futures Exchange. Growth over the previous corresponding period was 23.2% in futures and 8.2% in options.

## ASX Limited and its controlled entities

The graph below shows the level of SFE derivatives contracts traded and the average fee per contract for each half year across the past 5 financial years. The average contract fee across all SFE derivative contracts traded was \$1.40 for the 6 months to 31 December 2006 (\$1.46 pcp). The decline in the average fee is a result of record Large Volume Rebates (LVR) rebates and increased volumes transacted by local participants who accounted for approximately 20% of total volume traded (17.1% pcp).



Modifications to the LVR scheme were announced in December 2006 in order to reward a wider range of users of SFE markets. Participants' eligibility to the LVR has been reduced from the current 750,000 to 500,000 contracts for the six month period to 30 June 2007. In addition, the LVR scheme now includes a further gain share formula of up to 75% in favour of participants, up from 50% currently, and applies once total eligible volumes reach 42.5 million contracts for the six month period to 30 June 2007. The largest users will also be rewarded with proportionately higher rebates by weighting their volumes and thereby receiving a larger proportion of the pool. The LVR will continue to fund the proprietary rebate scheme.

ASX also announced in December 2006 that the headline fee on Exchange for Physical transactions and certain SFE options were to be reduced from 1 January 2007. Additionally, the fee for NZ dollar denominated derivatives was reduced from NZ\$2.00 to NZ\$1.50 with effect from 1 September 2006.

It is estimated that the effect of these fee reductions, along with the realignment of the LVR parameters and the change in local participant volume rebates, will result in the average fee over the coming six month period to 30 June 2007 being approximately \$1.46 at current trading levels, \$1.40 if volumes grow 10%, and \$1.33 if volumes grow 20%. These estimates assume similar trading patterns as experienced in the past six months. Changes in factors such as the relative proportion contributed by different participant groups and contract types may affect these estimates, and ASX makes no forecast of volumes to be traded in 2007.

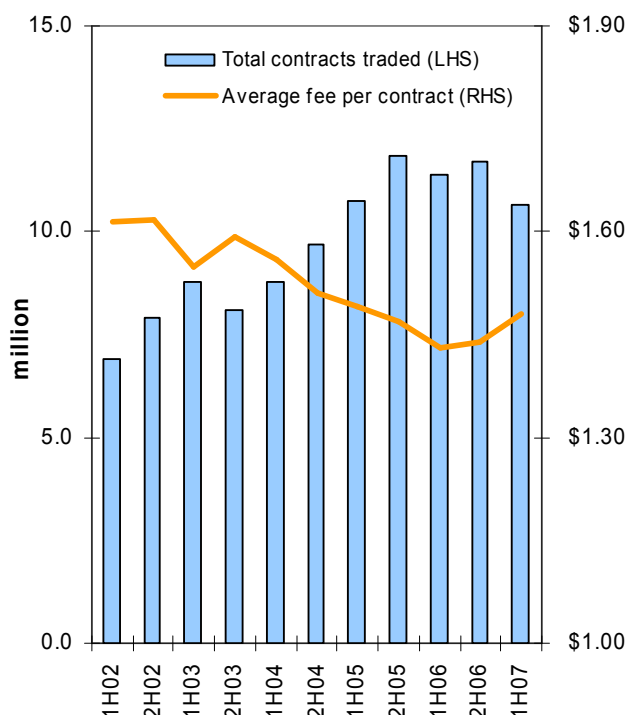
## ASX Limited and its controlled entities

### ASX Derivatives – Down 2.3%

*Note – Warrants listing and turnover fees, formerly included within ASX Derivatives, are now included within ASX Listings Revenue. Derivatives Infrastructure fees, formerly included within ASX Derivatives, are now included within Technology Infrastructure Revenue.*

Total ASX derivatives revenue for the six months to 31 December 2006 was \$16.1 million (\$16.4 million pcp). The average fee per contract was \$1.48 (\$1.43 pcp) and average daily contracts were 83,074 per day (88,197 pcp).

The graph below shows the level of ASX option contracts traded and the average fee per contract for each half year across the past 5 financial years:



As can be seen, the recent performance of the ASX equity options market has been subdued due to reasons already noted in the Managing Director and CEO's report. It is noteworthy, however, that over this same period, open interest has not trended down.

As previously announced, ASX will also implement a new revenue sharing initiative in relation to exchange traded options from 1 July 2007.

### Information Services – Up 21.2%

*Note – Information services includes both ASX Information services revenue and SFE market data revenue.*

Total Information services revenue for the six months to 31 December 2006 was \$26.1 million (\$21.6 million pcp).

## ASX Limited and its controlled entities

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The main source of Information Services revenue is from the sale of market data terminal subscriptions. ASX has two market data terminal products, one for ASX markets (cash equity and equity derivatives) and one for SFE markets (index and debt derivatives). Total ASX market data and total SFE market data terminal subscriptions at 31 December 2006 were 43,588 (37,552 pcp) and 19,749 (17,820 pcp) respectively.

Included in the current period is a one-off \$1.5 million payment received following market data subscription audits.

### **Technology Infrastructure – Up 9.6%**

*Note – Technology infrastructure includes ASX cash market infrastructure fees (formerly within equities trading, clearing and settlement), ASX derivatives market infrastructure fees (formerly within derivatives trading, clearing and settlement) and SFE technology infrastructure fees.*

Technology infrastructure revenue for the six months to 31 December 2006 was \$11.6 million (\$10.6 million pcp). At 31 December 2006:

- Total ITS workstations numbered 718 (669 SEATS/402 CLICK six months ended 30 June 2006). The reduction in workstations having arisen from the completed migration of SEATS to CLICK;
- Total SYCOM terminals numbered 230 (238 six months ended 30 June 2006); and
- Total SYCOM interfaces were 182 (162 six months ended 30 June 2006).

### **Austraclear Depository and Settlement – Up 3.6%**

Total Austraclear settlement and depository revenue for the six months to 31 December 2006 was \$6.9 million (\$6.7 million pcp).

The Austraclear depository and settlement average fee (transaction and holding fee) for the six months was \$9.98 (\$9.40 pcp). The increase is due to increased holdings fees in 2006 offset by lower transaction fees.

Transaction fees were reduced in 2006 and will remain unchanged in 2007 whilst holding fees were increased effective 1 January 2007 and will remain unchanged until the end of FY08.

Whilst Austraclear transaction volumes continue to remain relatively flat (decreasing 2.4%) over the previous corresponding period, the average portfolio holding balances continue to increase. Average holdings increased to \$693.3 billion (\$585.0 billion pcp), and at 31 December 2006, \$718.7 billion was held by Austraclear.

### **Austraclear Registry Fees – Up 37.9%**

Total Austraclear registry revenue for the six months to 31 December 2006 was \$3.1 million (\$2.2 million pcp). Increases in Australian dollar debt origination across both domestic and offshore issuers resulted in the continued growth in these services.

### **Other – Down 44.2%**

*Note – Includes ASX participation fees, Austraclear participation fees, Orient Capital revenue and other miscellaneous revenue.*

Total other revenue for the six months to 31 December 2006 was \$5.4 million (\$9.7 million pcp). The decrease is mainly attributable to ASX's 31 August 2006 sale of Orient Capital. Please refer to note 5 of the financial statements for further information on the sale of Orient Capital.



**Cash Operating Expenses – Down 11.3%**

Total cash operating expenses<sup>4</sup> for the six months to 31 December 2006 were \$75.2 million. This compares to \$84.0 million for the six months to 30 June 2006 and \$84.8 million for the prior corresponding period.

The net movement in ASX cash operating expenses between the six months ended 30 June 2006 (\$84.0 million) and the six months ended 31 December 2006 (\$75.2 million) can be attributed to three separate factors:

- ASX/SFE merger synergies of \$4.6 million;
- Net other expense reductions of \$4.6 million; and
- Additional investments in ASX Market Supervision<sup>5</sup> of \$0.4 million.

	<b>Cash Operating Expenses \$ million</b>	<b>Depreciation and Amortisation \$ million</b>	<b>Total Normal Operating Expenses \$ million</b>
Six months to 30 June 2006	84.0	7.0	91.0
Synergy savings	(4.6)	-	(4.6)
Net other expense reductions	(4.6)	-	(4.6)
ASX Market Supervision additional investments	0.4	-	0.4
Change in depreciation and amortisation	-	0.6	0.6
Six months ended 31 Dec 2006	75.2	7.6	82.8

Synergy savings resulted primarily from merger related savings in staff costs and premises. Staff savings in the six months were limited as headcount numbers decreased progressively since the merger. The full benefit of these reductions will be seen in future periods. Premises savings have largely arisen from the move of SFE staff from their former premises at Royal Naval House into ASX's Exchange Square premises that was largely completed by the end of October 2006. The full expense savings of this relocation will be realised in future periods.

Net other expense reductions include premises and administration expenses realised from the Profit and Loss Drivers Review and further reductions in discretionary costs. Included is \$1.3 million of reduced expenses following the sale of Orient Capital in 2006 and saving from more efficient use of space at Exchange Square. These decreases were offset by modest fixed remuneration increases and the requisite expensing of employee equity schemes under the ASX long term incentive plan as required under AIFRS. This resulted in a net saving of \$4.6 million for the period.

ASX also incurred an additional \$0.4 million of Market Supervision investment expenses during the six months. These expenses are recovered from annual listing fee increases which came into effect from 1 July 2006.

<sup>4</sup> Cash operating expenses are total expenses pre depreciation and amortisation.

<sup>5</sup> See Market Supervision Review market announcement of 15 December 2005.

## Expense Movements for the Full Year to 30 June 2007

ASX's merger synergy target was to achieve \$14 to \$18 million of cash operating expense savings by 31 December 2008<sup>6</sup>. One-off integration costs associated with extracting synergy benefits was estimated at approximately \$18 to \$20 million for the 2 years ending 30 June 2008. ASX now expects to meet this synergy target earlier than expected and merger restructure costs to achieve this will be greater (refer to discussion of significant items).

ASX has taken due care and effort to ensure synergy savings are achieved in a sustainable manner, whilst increasing investment in risk management and supervisory activities and key business development priorities.

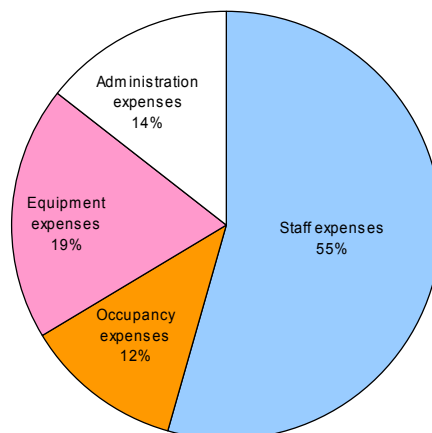
As noted above, given the timing of headcount reductions and premises restructuring, savings were limited in the half. Greater synergy savings are expected to flow in the second half and periods thereafter. For the 12 months to 30 June 2007, ASX estimates full year synergy savings in the range of \$14 to \$16 million.

Non synergy (net) expense reductions are expected to continue in the second half on a similar basis as the past six months. Conversely, additional investments in ASX Market Supervision of approximately \$2.0 million are expected which will be recovered from higher annual listing fees.

## Cash operating expenses by Category

The chart below provides a breakdown of cash operating expenses by category for the six-month period ended 31 December 2006:

Cash Operating Expenses by Category



### Staff Expenses – Down 11.2%

Total staff expenses for the six months to 31 December 2006 were \$41.0 million (\$46.2 million pcp). The decrease in staff expenses reflects both the number and timing of synergy related headcount reductions. In the six months to 31 December 2006, group Full Time Equivalent (FTE) staff numbers have reduced from 656 (including 28 Orient Capital FTEs) to 539, a net reduction of 117 FTE (89 excluding Orient) or 18% (14% excluding Orient).

Staff expenses exclude redundancy and outplacement costs associated with the merger. These expenses are included as significant items.

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<sup>6</sup> See ASX Shareholder Letter market announcement of 30 May 2006.

## ASX Limited and its controlled entities

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### **Occupancy Expenses – Down 11.6%**

*Note – Excludes ASX depreciation and amortisation charges, which is now disclosed as a separate line item in the pro-forma Income Statement.*

Total occupancy expenses for the six months to 31 December 2006 were \$9.0 million (\$10.2 million pcp). The decrease in occupancy expenses reflects both synergy and non-synergy savings.

All former SFE staff have now moved into the ASX Bridge Street building from Royal Naval House and ASX is pursuing assignment and sub-lease options for the Royal Naval House premises. At ASX's Bridge Street premises the Level 10 and the Exchange Square Ground floor leases have been released, Level 9 has been vacated and options are being considered for additional occupancy expense savings. The SFE Greenwich back up site is being integrated into the ASX back up site at Bondi and ASX's Hobart office was closed during the half.

ASX has provided for the balance of the Royal Naval House lease, the SFE Greenwich back up site lease and leases on vacated space in the Bridge Street building based upon conservative sub-lease assumptions. These expenses are shown as significant items.

Savings have also been achieved from previous ASX Profit and Loss Drivers Review decisions with the relocation of ASX's Melbourne, Brisbane and Adelaide offices into more cost effective premises.

### **Equipment Expenses – Up 2.6%**

*Note – Excludes ASX depreciation and amortisation charges, which is now disclosed as a separate line item in the pro-forma Income Statement.*

Total equipment expenses for the six months to 31 December 2006 were \$14.3 million (\$14.0 million pcp). Notwithstanding increased maintenance payments to OMX to support the CLICK XT application, ASX was able to contain growth in equipment expenses. Similarly, with increased levels of cash market activity, ASX incurred higher costs for the production and distribution of CHES holding statements.

### **Administration – Down 24.8%**

*Note – Includes SFE insurance, legal, accounting, bank fee and clearing guarantee expenses. Excludes ASX depreciation and amortisation charges, which is now disclosed as a separate line item in the pro-forma Income Statement.*

Total administration expenses for the six months to 31 December 2006 were \$10.9 million (\$14.5 million pcp). The decrease in administration expenses reflects both synergy and non-synergy savings. Reduced expenditure was recorded in the key discretionary areas of travel, entertainment, insurance, use of external consultants and some marketing expenditures.

### **EBITDA – Up 39.3%**

Earnings before interest, tax depreciation and amortisation (EBITDA) for the six months to 31 December 2006 was \$184.5 million (\$132.4 million pcp).

### **Depreciation and Amortisation – No Change**

Total depreciation and amortisation for the six months to 31 December 2006 was \$7.6 million (\$7.6 million pcp).

## ASX Limited and its controlled entities

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During the six months, two of the ASX Group's core system replacements – CLICK XT for SEATS and EXIGO for FINTRACs were successfully completed. Combined amortisation for the two new systems for the six months was \$1.0 million with an estimated annual amortisation charge of approximately \$4.0 million.

This increase in depreciation and amortisation was offset by decreases following the write-off of fixed (occupancy) assets associated with ASX's merger implementation and a number of assets reaching the end of their accounting life.

### **EBIT – Up 41.7%**

Earnings before interest and tax (EBIT) for the six months to 31 December 2006 was \$176.9 million (\$124.9 million pcp).

### **Interest and Dividend Income – Up 22.2%**

Total interest and dividend Income for the six months to 31 December 2006 was \$21.4 million (\$17.5 million pcp). Total interest and dividend revenue comprises:

- interest earned on the ASX Group's unrestricted (\$291.2 million) and restricted (\$71.5 million) cash reserves - \$12.2 million;
- net interest on ASX funds deposited by participants - \$7.9 million; and
- the FY06 final dividend earned on ASX's investment in IRESS Market Technology (8.0 cents per share on 15 million shares) – \$1.2 million.

Interest income on the Group's own cash balances was affected by lower group cash balances (\$362.7 million on 31 December 2006, \$401.8 million on 31 December 2005) arising from ASX's capital return (\$100 million) and merger consideration cash payments (\$33.3 million). The revenue impact of lower cash balances was offset by increased interest rates (official cash rate 6.25% on 31 December 2006, 5.50% on 31 December 2005).

Net interest income on participant cash balances also increased due to higher participant balances associated with increased margin deposits from derivative trading activity.

### **Tax on Normal Profit**

Tax on normal profit for the six months to 31 December 2006 was \$59.0 million (\$42.5 million pcp).

Following the ASX/SFE merger, all Australian domiciled entities are now part of the ASX tax consolidation group. The average tax rate for the group for the six months to 31 December 2006 was 29.7% compared to 29.9% for the six months to 31 December 2005. This includes certain tax benefits associated with research and development over major system projects.

The impact of merging the two tax consolidation groups has resulted in a one-off tax benefit of \$7.2 million which has been recognised through goodwill as required under accounting standards.

The ASX group has undertaken the allocation of assets required under tax consolidation and there were no other material tax impacts. Independent valuations have also been obtained in order to allocate assets within the merged tax consolidation group.

### Significant Items

Significant items after tax for the six months to 31 December 2006 amounted to a loss of \$17.2 million. The four main components of significant items for the half were:

- Merger restructure expenses of \$27.9 million before tax;
- Merger transaction expenses not capitalised of \$6.8 million before tax relating to the SFE pre-acquisition period; and
- Profit on sale of Orient Capital Pty Limited of \$7.1 million before tax;
- Tax benefit on significant items of \$10.4 million.

### Merger Restructure Expenses

Prior to the ASX/SFE merger, ASX advised that total (pre-tax) merger restructure costs were expected to be \$18 to \$20 million. As noted above, total (pre-tax) merger restructure costs for the six months to 31 December 2006 were \$27.9 million. These costs may increase to approximately \$33 million for the full year to June 2007.

The components of merger restructure costs were:

- Redundancy and outplacement - \$7.7 million;
- Premises restructure - \$19.1 million; and
- Other - \$1.1 million.

Although total merger restructure costs will be higher than previously estimated, the quantum has been impacted by the earlier achievement of certain synergy benefits and conservatism in the treatment of premises restructure expense calculations.

Included within the premises restructure costs is a write-off of fixed assets and estimates of net losses on assignment and sub-lease options. The magnitude of this significant expense reflects an appropriate degree of conservatism.

### Balance Sheet – Capital Expenditure

Capital expenditure for the six months to 31 December 2006 was \$8.8 million (\$6.0 million pcp).

As noted above, during the six months ASX completed the implementation of two new systems (CLICK XT/ITS and EXIGO). Other key development projects underway include the Exchange Traded CFD market, Land exchange electronic conveyancing, several new market supervision initiatives and a new risk management system.

ASX estimates that total capital expenditure for the group for the 12 months to 30 June 2007, including maintenance and investment capital expenditure, will be within the range of \$15 to \$20 million. While the full capital expenditure program has not yet been finally determined, it is likely this level of capital expenditure will be sustained in to FY08.

### Balance Sheet – Goodwill and Intangible Assets

As required by AASB 3 *Business Combinations*, ASX has allocated the purchase price paid to acquire SFE to all the assets acquired including intangibles. Independent valuations have been obtained in order to confirm these asset values.

## **ASX Limited and its controlled entities**

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In summary, the majority of the purchase price (\$2.4 billion) has been allocated to goodwill. This goodwill is not subject to amortisation. It will be reviewed at least annually for impairment. No impairment has occurred in the current period.

The revaluation of assets to their fair value has also resulted in an increase to intangible assets, namely core software applications. This represents an uplift in depreciable assets of approximately \$7 million. This has the effect of increasing the amortisation charges recognised in the income statement by approximately \$1.2 million per annum pre-tax. For the six months to 31 December 2006, this additional amortisation charge amounted approximately to \$0.5 million.

Full details of the purchase price consideration and allocation is included in note 4 to the statutory financial statements.

### **Balance Sheet – Issued Capital**

At 31 December 2006, ASX Limited had 170,815,584 ordinary shares on issue.

During the six months to 31 December 2006, 68,004,817 new ordinary shares were issued to former SFE shareholders as consideration for ASX's merger with SFE. A further 68,952 ordinary shares were issued as a result of ASX executives converting conditional entitlements and performance rights.

On 1 December 2006, ASX issued a further 174,700 performance rights (including 30,000 to the ASX Managing Director and CEO) to executives giving the holders the future right to ASX shares if certain performance hurdles are met. Subject to the meeting of those hurdles, these shares will vest on 30 November 2009.

### **Balance Sheet – Equity Capital**

Total ASX Group equity capital at 31 December 2006 was \$2,682.6 million. Equity capital net of goodwill (\$2,262.4 million) is \$420.2 million. This capital comprises:

- \$2,361.4 billion of issued capital (\$99 million excluding goodwill);
- \$188.7 million of retained earnings, with \$123.5 million to be paid as the interim dividend;
- \$71.5 million of restricted capital transferred from the NGF in 2005;
- \$57.7 million of asset revaluation reserves from the revaluation of ASX's investment in IRESS Limited and Available-for-sale treasury investments; and
- \$3.4 million of equity compensation reserve being for the expensing of employee equity schemes.

### **Balance Sheet – Capital Management**

The ASX Board regularly reviews the ASX Group's capital requirements and structure to optimise long term shareholder returns. ASX met its commitment to return \$100 million (58.5 cents per share paid in October 2006) to shareholders post merger and maintains its policy of paying 90% of normal profit as fully franked dividends. ASX's policy of paying dividends referenced to normal profit (rather than statutory) has also provided higher dividends than otherwise because historically significant items reduced statutory profit.

## ASX Limited and its controlled entities

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The overarching objective of ASX's capital management strategy is to optimise returns to shareholders whilst at the same time maintaining the financial community's confidence in the ASX as a robust and stable enterprise capable of fully meeting all its obligations as a key market infrastructure entity within the financial system. ASX is particularly cognisant of its wider licence Financial Stability Standards obligations specifically associated with operating its central counterparty (CCP) clearing activities in both ACH<sup>7</sup> and SFECC<sup>8</sup>.

As part of its obligations to ASIC and the RBA, ASX is required to support clearing (counterparty) risks with variable (margin), contingent and fixed capital. Clearing risks can and do materially fluctuate over very short time periods. This makes assessing and quantifying current and future risk capital requirements a complex and dynamic process. The merger of ASX and SFE presents an opportunity to align the risk appetite, risk management practices and clearing participant status of each of the group's CCP subsidiaries. In the intervening period, ASX Limited has approved the provision of subordinated debt to both CCP subsidiaries (SFECC \$50 million paid 1H07, ACH \$25 million payable in 2H07).

ASX has no near term plans for any further capital management initiatives until greater clarity around CCP integration is more developed. This includes satisfactory consultation with the RBA, clearing participants and other relevant stakeholders, including APRA and the Commonwealth Treasury.

### Balance Sheet – Cash and Liquidity Risk Management

Closely related to the discussion of capital management is ASX's approach to liquidity management. A key responsibility of ASX's Central Counter Parties (CCPs) is to ensure the financial stability of the exchange markets through periods of normal and abnormal volatility. While adequate capital in both fixed and variable terms is essential to provide such stability, being able to satisfy its settlement obligations requires ASX to maintain its capital in the form of cash and highly liquid assets.

As at 31 December 2006, total margins from participants were \$4 billion. Approximately 2% of margins are invested as cash placements while 98% is invested in a combination of highly liquid short-term securities.

The Group's cash portfolio is invested in short term debt securities with maturities of less than six months and a weighted average maturity at 31 December 2006 of approximately 23 days. Total ASX Group cash holdings at 31 December 2006 were \$362.7 million comprising:

- unrestricted cash of \$291.2million; and
- restricted cash of \$71.5 million<sup>9</sup>.

In addition to the high level of liquid capital on the balance sheet, ASX also has available committed overdraft and standby credit facilities totalling \$150 million that will increase to \$200 million in 2H07.

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<sup>7</sup> Australian Clearing House Pty. Limited. A wholly owned subsidiary of ASX Limited.

<sup>8</sup> SFE Clearing Corporation Pty. Limited. A wholly owned subsidiary of ASX Limited.

<sup>9</sup> Transferred from National Guarantee Fund (NGF) in 2005. See Changes to NGF market announcement of 15 February 2005.

**Outlook**

ASX's results for the six months to 31 December 2006 were strong. Earnings growth was achieved through the concurrence of increased revenue and decreased expenses. Given the scale and complexity of the ASX/SFE merger, guidance has been provided on expected FY07 expenses movement indicating a strong cost base result for the full year, providing scope to gain-share revenue growth between users and shareholders.

As touched on in the Managing Director and CEO's report, ASX and SFE markets continue to experience strong growth in trading activity relative to prior corresponding periods. This trend, coupled with forecast expense changes, bodes well for a strong full-year result, although as always, market trading activity remains inherently unpredictable.



## ASX Limited and its controlled entities

### KEY FINANCIAL RATIOS, BUSINESS ACTIVITY LEVELS & OTHER STATISTICS

Key Financial Ratios		Half year ended 31 Dec 2006	Half year ended 31 Dec 2005
Basic Earnings per share (EPS) including significant items	*	77.0	69.2
Normal Earnings per share (EPS)	2, 3	86.0	62.4
Diluted Earnings per share (EPS)	*	76.8	68.8
Dividends per share (cents) – interim		72.3	56.2
Return on equity:	2, 4, 6	39.1%	31.9%
EBITDA / Operating revenue	1, 2	71.0%	61.0%
EBIT / Operating revenue	1, 2	68.1%	57.5%
Total expenses / Operating revenue	1, 2	31.9%	42.5%
Capital expenditure \$'000	#	8,813	4,526
Net tangible asset backing per share	#	\$2.15	\$3.14
Net asset backing per share	#	\$15.70	\$3.26
Shareholders' equity as a % of total assets (excluding participants' balances)	#	91.3%	76.1%
Shareholders' equity as a % of total assets (including participants' balances)	#	38.6%	48.1%
Share price at end of period		\$38.15	\$31.95
Ordinary shares on issue at end of period		170,815,584	102,737,815
Weighted average number of ordinary shares		161,903,908	102,729,450
Market Value of ordinary shares on issue		\$6,517 million	\$3,282 million
Market to Book Value		2.43	9.81
Full time equivalent (FTE) permanent staff			
- number at period end	5	539	647
- average during the period	5	592	652

\* Based on statutory numbers and weighted average number of shares

# Based on statutory numbers

1 Operating revenue excludes interest and dividend revenue

2 Excluding significant items

3 Normal Earnings per share is Basic earnings per share excluding significant items, including SFE NPAT 1 – 11 July 2006. The December 2005 comparative comprises normal NPAT for ASX only

4 These are half-year results and ratios are not annualised

5 Includes Orient staff until 31 August 2006 and SFE staff for entire periods

6 Based on normal profit after tax and capital at period opening

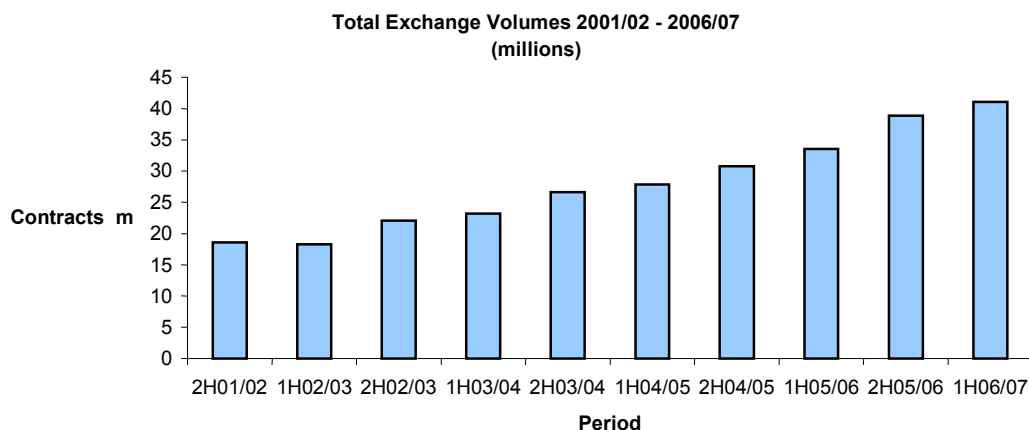
## ASX Limited and its controlled entities

Key ratios & statistics	Half year ended 31-Dec-06	Half year ended 30-Jun-06	Half year ended 31-Dec-05	Half year ended 30-Jun-05
ASX Market Trading Days	128	124	129	123
SFE Market Trading Days	128	127	129	126
<b>ASX Markets</b>				
<b>Listing Services</b>				
Total Domestic Market Capitalisation (\$b)	1,390.32	1,207.33	1,096.03	959.98
Number of listed entities (includes all stapled entities)	2,014	1,930	1,873	1,774
Number of new listings	147	98	129	126
Market Capital raised from IPOs (\$m)	9,946	7,077	16,031	6,516
Market capital raised from subsequent listings (\$m)	27,782	16,662	11,665	10,375
Average initial listing fee	83,931	53,215	68,245	60,894
Average annual listing fee	21,683	17,469	18,164	17,696
Average fee per \$m of subsequent capital	660	954	1,036	1,366
<b>Structured Products</b>				
Number of new warrant series	2,590	2,533	2,145	2,111
Total warrant series	3,091	3,104	2,447	2,318
<b>Cash Market</b>				
Total cash market trades (000)	20,182	18,054	13,580	12,173
Average daily cash market trades	157,673	145,593	105,271	98,966
Average daily cash market turnover (inc. crossings) (\$b)	4.454	4.327	3.464	3.327
Percentage of Turnover crossed (%)	32.4%	29.8%	33.4%	35.6%
Percentage of Turnover over \$2.679m (where \$75 cap applies) (%)	9.7%	8.3%	9.1%	9.0%
Average cash market trading, clearing and settlement fee	\$3.62	\$3.48	\$4.20	\$4.40
<b>Exchange Traded Options</b>				
Total Option contracts (000)	10,633	11,727	11,377	11,833
Average daily option contracts (000)	83,074	94,573	88,197	96,204
Average fee per option contract	\$1.48	\$1.44	\$1.43	\$1.47
<b>SFE Markets</b>				
<b>Futures</b>				
Total Futures (000)	39,224	36,785	31,843	29,233
<b>Options</b>				
Total Options (000)	1,841	2,101	1,702	1,535
Total Exchange Volumes (000)	41,065	38,886	33,545	30,768
Daily Average Volume	320,826	306,244	260,067	244,256
Average Fee per contract	\$1.40	\$1.45	\$1.46	\$1.52

## ASX Limited and its controlled entities

Key ratios & statistics	Half year ended	Half year ended	Half year ended	Half year ended
	31-Dec-06	30-Jun-06	31-Dec-05	30-Jun-05
<b>Austraclear</b>				
<b>Settlement and Depository</b>				
Total Transactions (000)	691	698	708	690
Average Daily Settlement Volumes	5,398	5,637	5,475	5,611
Average Settlement and Depository Fee (including portfolio holding)	\$9.98	\$9.62	\$9.40	\$9.42
Securities holdings (average \$b)	693.3	644.0	585.0	551.5
Securities holding turnover (times pa)	11.1	10.6	9.9	10.6
<b>Information Services</b>				
ASX Market Data Terminals on balance date	43,588	41,922	37,552	35,828
SFE Market Data Terminals on balance date	19,749	18,393	17,820	17,554
<b>Technology Infrastructure</b>				
ASX ITS workstations on balance date	718	N/A	N/A	N/A
ASX SEATS workstations on balance date	N/A	669	674	648
ASX CLICK workstations on balance date	N/A	402	373	375
SFE SYCOM® workstations on balance date	230	238	244	221
SFE SYCOM® interfaces on balance date	182	162	148	157

## SFE Exchange Activity Levels and Statistics

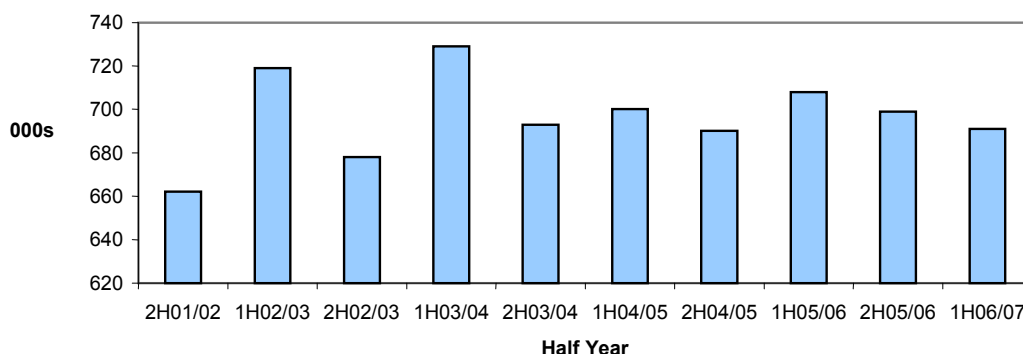


### Sydney Futures Exchange (contracts '000)

	Half year ended <b>31-Dec-06</b>	Half year ended 30-Jun-06	Half year ended 31-Dec-05	Half year ended 30-Jun-05
<b>FUTURES</b>				
SFE SPI 200™	3,391	3,125	2,792	2,805
90 Day Bank Bills	9,903	9,599	8,534	7,585
3 Year Bonds	15,681	15,336	13,400	12,463
10 Year Bonds	8,150	6,902	5,875	5,146
30 Day Interbank Cash Rate	1,152	858	636	763
AUD Futures	0	1	1	3
Other Interest Rate	<1	<1	<1	<1
Agricultural	13	9	8	12
Electricity	33	19	12	9
Share Futures and Other Equity	14	21	26	22
NZ\$ - 90 Day Bank Bill	887	915	559	423
<b>Total Futures</b>	<b>39,224</b>	<b>36,785</b>	<b>31,843</b>	<b>29,233</b>
<b>OPTIONS</b>				
SFE SPI 200™	265	381	322	359
90 Day Bank Bills	101	82	131	114
3 Year Bonds	356	501	283	195
Overnight 3 Year Bonds	760	762	701	512
Intra-day 3 Year Bonds	288	289	208	301
10 Year Bonds	18	35	15	25
Overnight 10 Year Bonds	42	35	42	26
Intra-day 10 Year Bonds	1	1	<1	1
Electricity	1	1	<1	<1
Agricultural	<1	<1	<1	<1
NZ\$ - 90 Day Bank Bill	10	14	<1	3
<b>Total Options</b>	<b>1,841</b>	<b>2,101</b>	<b>1,702</b>	<b>1,535</b>
<b>Total Volumes</b>	<b>41,065</b>	<b>38,886</b>	<b>33,545</b>	<b>30,769</b>
Daily Average	321	306	260	244
Average Fee per contract	\$1.40	\$1.45	\$1.46	\$1.52

## Austraclear Activity Levels and Statistics

Total Austraclear Volumes 2001/02-2006/07



### Settlement and Depository Volumes (transactions '000)

	Half year ended 31-Dec-06	Half year ended 30-Jun-06	Half year ended 31-Dec-05	Half year ended 30-Jun-05
Cash Transfers	314	309	308	304
Fixed Interest Securities	183	182	191	196
Discount Securities	164	171	175	163
Foreign Exchange	21	28	25	17
Interest Rate Swaps	5	5	6	5
Forward Rate Agreements	2	3	3	4
Audit Certificates	1			
Global Securities	<1	<1	1	<1
<b>Total Transactions</b>	<b>691</b>	<b>698</b>	<b>708</b>	<b>690</b>
Average Daily Settlement Volumes	5.40	5.64	5.48	5.61
Average Settlement and Depository Fee (including portfolio holding)	\$9.98	\$9.62	\$9.40	\$9.42
Securities holdings (average \$bn)	\$693	\$644	\$585	\$552
Securities holding turnover (times pa)	11.1	10.6	9.9	10.6
<b>Number of participants</b>				
SFE Clearing	15	14	15	15
SFE Full	24	23	22	22
SFE Local	47	50	50	50
Austraclear	728	712	693	684

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**ASX Cash Market Average Fee and Composition**

	Half year ended 31 December 2006	Half year ended 30 June 2006	Half year ended 31 December 2005
<b>Estimated Average Fee (both sides)</b>			
Order Fee	N/A	\$0.32	\$0.32
Trade Fee	\$1.43	\$1.01	\$1.11
Clearing and Settlement Fee Net of SVR	N/A	\$1.17	\$1.30
VIP	-\$0.14	N/A	N/A
Supplementary VIP	-\$0.21	N/A	N/A
Clearing Fee	\$0.95	N/A	N/A
Settlement and Other CHES fee	\$0.97	N/A	N/A
Other CHES fees	N/A	\$1.20	\$1.67
Non Broker Participants	N/A	\$0.30	\$0.33
Listed entities	\$0.62	\$0.81	\$0.90
<b>Average Fee Per Trade Net of Rebates - 2 Sides (\$)</b>	<b>\$3.62</b>	<b>\$3.48</b>	<b>\$4.20</b>
<b>Average Fee Per \$ Turnover Net of Rebates - 2 Sides (bps)</b>	<b>1.28</b>	<b>1.17</b>	<b>1.28</b>
<b>Key Behavioural Drivers</b>			
Total trading days	128	124	129
Average turnover per day including crossings (\$ billion)	4.454	4.327	3.464
Average trades per day (million)	157.7	145.6	105.3
Percentage of turnover above \$2.679m (%) – capped at \$75	9.72%	8.29%	9.06%
Percentage of turnover crossed (%)	32.41%	29.76%	33.40%

## DIRECTORS' REPORT

The directors are pleased to present their report together with the consolidated financial report for the half-year ended 31 December 2006 and the review report thereon.

### Directors

The directors of ASX Limited at any time during or since the end of the half-year are:

<b>Name</b>	<b>Period of directorship</b>
<i>Chairman</i> <b>Maurice L Newman AC</b>	Director since 1990, Appointed chairman 1994
<i>Current Managing Director and Chief Executive Officer</i> <b>Robert G Elstone</b>	Appointed 25 July 2006
<i>Former Managing Director and Chief Executive Officer</i> <b>Anthony M D'Aloisio</b>	Appointed 11 October 2004 Resigned 25 July 2006
<i>Vice-Chairman</i> <b>Michael H Shepherd</b>	Director since 1988
<b>Russell A Aboud</b>	Director since 2005
<b>Rick Holliday-Smith</b>	Appointed 25 July 2006
<b>Trevor C Rowe AM</b>	Director since 2002
<b>Jillian S Segal AM</b>	Director since 2003
<b>Michael J Sharpe AO</b>	Director since 1995
<b>Peter H Warne</b>	Appointed 25 July 2006
<b>James J Kennedy AO, CBE</b>	Director since 1990 Retired 9 October 2006
<b>Catherine M Walter AM</b>	Director since 1996 Retired 9 October 2006

### Review of operations

In accordance with ASIC Class Order 98/2395, this information has been transferred to the Managing Director and CEO's Report and Chief Financial Officer's Report.

## **Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of ASX Limited**

The lead auditor's independence declaration is set out on page 41 and forms part of the directors' report for the half-year ended 31 December 2006.

### **Rounding of amounts**

ASX Limited is a company of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998, as varied by Class Order 05/641 dated 28 July 2005 and Class Order 06/51 dated 31 January 2006. In accordance with those Class Orders, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars or million dollars, as indicated.

Dated at Sydney this 14th day of February 2007.  
Signed in accordance with a resolution of the directors:

Maurice L Newman AC  
Chairman

Robert G Elstone  
Managing Director and CEO



**Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of ASX Limited**

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2006 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

J F Teer  
Partner

Sydney, 14th day of February 2007

**ASX Limited and its controlled entities**

**Statutory format  
Consolidated income statement  
for the half-year ended 31 December 2006**

	Note	Half year ended 31 Dec 2006 \$'000	Half year ended 31 Dec 2005 \$'000
<b>Revenues</b>			
ASX listings		56,355	41,834
ASX cash market		76,527	59,269
SFE derivatives		56,741	-
ASX derivatives		16,069	14,771
Information services		25,867	17,307
Technology infrastructure		11,356	8,326
Austraclear depository and settlement fees		6,529	-
Austraclear registry fees		2,956	-
Dividend		1,200	975
Other		5,366	7,327
<b>Total revenues</b>		<b>258,966</b>	<b>149,809</b>
<b>Expenses</b>			
Staff expenses		47,779	34,763
Occupancy expenses		29,315	10,454
Equipment expenses		20,273	10,717
Administration expenses		13,686	11,678
<b>Total expenses</b>		<b>111,053</b>	<b>67,612</b>
Interest income		119,526	14,495
Interest paid to participants		(100,160)	(6,612)
Net interest income		19,366	7,883
Net gain on sale of Orient Capital Pty Ltd	5	7,081	-
Net gain on sale of investment in APRL	6	-	9,764
Profit before income tax expense		174,360	99,844
Income tax expense		(49,642)	(28,779)
<b>Net profit for the period</b>		<b>124,718</b>	<b>71,065</b>
Basic earnings per share (cents per share)	3	77.0	69.2
Diluted earnings per share (cents per share)	3	76.8	68.8

ASX purchased SFE on 11 July 2006, therefore the Income Statement only consolidates SFE from this date.

The income statement should be read in conjunction with the notes to the half-year financial statements.

**ASX Limited and its controlled entities**

**Consolidated balance sheet  
at 31 December 2006**

	Note	31 Dec 2006 \$'000	30 June 2006 \$'000
<b>Current assets</b>			
Cash		131,536	112,193
Available-for-sale financial assets		4,241,426	534,729
Receivables		127,633	22,445
Other assets		9,254	6,996
<b>Total current assets</b>		<b>4,509,849</b>	<b>676,363</b>
<b>Non-current assets</b>			
Investments		105,300	93,295
Property, plant & equipment		17,315	17,246
Receivables		722	1,124
Intangible assets - software		52,123	20,184
Intangible assets - goodwill	4	2,262,384	5,034
<b>Total non-current assets</b>		<b>2,437,844</b>	<b>136,883</b>
<b>Total assets</b>		<b>6,947,693</b>	<b>813,246</b>
<b>Current liabilities</b>			
Payables		134,289	21,861
Amounts owing to participants		3,971,592	370,610
Current tax liabilities		24,710	24,248
Provisions		17,132	18,624
Other current liabilities		38,767	3,979
<b>Total current liabilities</b>		<b>4,186,490</b>	<b>439,322</b>
<b>Non-current liabilities</b>			
Commitments	8	38,650	-
Deferred tax liabilities		11,447	3,950
Provisions		28,494	14,067
<b>Total non-current liabilities</b>		<b>78,591</b>	<b>18,017</b>
<b>Total liabilities</b>		<b>4,265,081</b>	<b>457,339</b>
<b>Net assets</b>		<b>2,682,612</b>	<b>355,907</b>
<b>Equity</b>			
Issued capital		2,361,381	106,282
Retained earnings		188,683	129,617
Restricted capital reserve		71,489	71,489
Asset revaluation reserve		57,692	44,835
Equity compensation reserve		3,367	3,684
<b>Total equity</b>		<b>2,682,612</b>	<b>355,907</b>

The balance sheet should be read in conjunction with the notes to the half-year financial statements.

**ASX Limited and its controlled entities**

<b>Consolidated statement of changes in equity for the half-year ended 31 December 2005</b>	<b>Issued capital</b>	<b>Retained earnings</b>	<b>Restricted capital reserve</b>	<b>Asset revaluation reserve</b>	<b>Equity compensation reserve</b>	<b>Total equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance at 1 July 2005	106,282	104,141	71,489	29,085	1,968	312,965
Change in fair value of available-for-sale financial assets (net of tax)	-	-	-	2,100	-	2,100
Share-based payments	-	-	-	-	654	654
Total non-profit items recognised directly in equity	-	-	-	2,100	654	2,754
Net profit for the period	-	71,065	-	-	-	71,065
Dividends paid (not previously provided)	-	(52,290)	-	-	-	(52,290)
Closing balance at 31 December 2005	106,282	122,916	71,489	31,185	2,622	334,494
<b>Consolidated statement of changes in equity for the half-year ended 31 December 2006</b>	<b>Issued capital</b>	<b>Retained earnings</b>	<b>Restricted capital reserve*</b>	<b>Asset revaluation reserve</b>	<b>Equity compensation reserve</b>	<b>Total equity</b>
	<b>\$'000</b>	<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance at 1 July 2006	106,282	129,617	71,489	44,835	3,684	355,907
Capital return	(99,908)	-	-	-	-	(99,908)
SFE merger – shares consideration	2,355,007	-	-	-	-	2,355,007
Change in fair value of available-for-sale financial assets (net of tax)	-	-	-	12,857	-	12,857
Share-based payments	-	-	-	-	(317)	(317)
Total non-profit items recognised directly in equity	2,255,099	-	-	12,857	(317)	2,267,639
Net profit for the period	-	124,718	-	-	-	124,718
Dividends paid (not previously provided)	-	(65,652)	-	-	-	(65,652)
Closing balance at 31 December 2006	2,361,381	188,683	71,489	57,692	3,367	2,682,612

The statement of changes in equity should be read in conjunction with the notes to the half-year financial statements.

**ASX Limited and its controlled entities**

<b>Consolidated cash flow statement</b>	<b>Half year</b>	<b>Half year</b>
<b>For the half-year ended 31 December 2006</b>	<b>ended</b>	<b>ended</b>
	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	<b>285,352</b>	180,989
Cash paid to suppliers and employees	<b>(111,620)</b>	(86,503)
Cash generated from operations	<b>173,732</b>	94,486
Interest received	<b>19,366</b>	7,883
Dividends received	<b>1,200</b>	975
Income taxes paid	<b>(52,932)</b>	(28,505)
Cash received from Financial Industry Development Account	<b>1,000</b>	589
<b>Net cash provided by operating activities</b>	<b>142,366</b>	75,428
<b>Cash flows from investing activities</b>		
Acquisition of SFE	<b>(57,738)</b>	-
Proceeds on sale of Orient Capital Pty Limited	<b>12,632</b>	-
Proceeds on sale of APRL	-	58,931
Net increase in participants' margins and commitments	<b>594,196</b>	37,437
Payments for non-current assets	<b>(8,813)</b>	(4,526)
Proceeds on sale of plant and equipment	<b>22</b>	89
Repayments from associate	-	6,036
<b>Net cash provided by investing activities</b>	<b>540,299</b>	97,967
<b>Cash flows from financing activities</b>		
Dividends paid	<b>(109,782)</b>	(52,290)
Capital return	<b>(99,908)</b>	-
Receipts from employee share plan loans	<b>402</b>	575
<b>Net cash (used in) financing activities</b>	<b>(209,288)</b>	(51,715)
<b>Net increase in cash and cash equivalents</b>	<b>473,377</b>	121,680
Fair value increase of available-for-sale financial assets	<b>14</b>	
Cash and cash equivalents at the beginning of the financial period	<b>646,922</b>	418,954
Cash and cash equivalents on acquisition of SFE	<b>3,252,649</b>	
<b>Cash and cash equivalents at the end of the financial period</b>	<b>4,372,962</b>	540,634
<b>Net increase in cash and cash equivalents held comprises:</b>		
Net increase in participants' balances	<b>594,196</b>	37,437
Net (decrease) / increase in cash reserves	<b>(120,805)</b>	84,243
Acquisition of SFE – participants' balances	<b>3,045,437</b>	-
Acquisition of SFE – cash reserves	<b>207,212</b>	-
	<b>3,726,040</b>	121,680
<b>Classification of cash balances:</b>		
ASX reserves	<b>291,231</b>	213,331
Restricted cash	<b>71,489</b>	71,489
Participants' margins and commitments	<b>4,010,242</b>	255,814
<b>Total cash and cash equivalents</b>	<b>4,372,962</b>	540,634

The cash flow statement should be read in conjunction with the notes to the half-year financial statements.

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

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1. Statement of significant accounting policies

ASX Limited (the "Company") is a company domiciled in Australia. The consolidated half-year financial report of the Company for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

This report must be read in conjunction with any public announcements made by the Company during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated interim financial report was authorised for issuance on 14 February 2007.

**Basis of preparation**

This half-year financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including AASB 134 Interim Financial Reporting, other mandatory professional reporting requirements and the Corporations Act 2001.

The half-year report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated financial report of the consolidated entity as at and for the year ended 30 June 2006.

The half-year financial report has been prepared in Australian dollars on the historical cost basis except for available for sale financial assets which have been recognised at fair value.

**Summary of significant accounting policies**

Except as described below, the accounting policies applied by the consolidated entity in this half-year report are the same as those applied by the consolidated entity in the consolidated financial report as at and for the year ended 30 June 2006.

*Available-for-sale financial assets*

Cash equivalents have been reclassified from held-to-maturity to available-for-sale. The impact of this reclassification is not material.

**Changes in estimates**

During the six months ended 31 December 2006 management reassessed its estimate in relation to the useful life of software assets. As a result, the useful life of EXIGO has been increased from 7 to 10 years and the financial impact of this reassessment is a decrease in depreciation expense of \$271,000 in the current period.

2. Segment reporting

**Business segments**

The consolidated entity accounts internally for the following business segments:

*Exchange traded activities*

These activities comprise the derivation of revenue from the operation of the licensed securities and derivatives exchanges (Australian Securities Exchange and Sydney Futures Exchange), and the licensed clearing operations conducted by Australian Clearing House Pty Limited and SFE Clearing Corporation Pty Limited. This includes fees for trading, clearing and

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

settlement of equity and derivative contracts, together with revenues from market data services, technology infrastructure, and interest on participant margin balances held.

*Non-exchange traded activities*

These include settlement, depository and registry services for debt securities, conducted by the licensed clearing entity, Austraclear Limited. This includes fees for transactions and holdings of debt securities as well as registry and issuer and paying agency fees.

*Unallocated revenue and unallocated expenses*

Unallocated revenue includes interest earned on group cash reserves. Where applicable, costs that are directly attributable to specific business segments have been charged to those segments, and those costs remaining are unallocated expenses.

**Geographical segments**

The Group operates predominantly in one geographic segment, Australia.

	Exchange Traded	Non- Exchange Traded	Unallocated	Consolidated
<b>Half-year ended 31 December 2006</b>	<b>2006 \$'000</b>	<b>2006 \$'000</b>	<b>2006 \$'000</b>	<b>2006 \$'000</b>
ASX listings	56,355	-	-	56,355
ASX cash market	76,527	-	-	76,527
SFE derivatives	56,741	-	-	56,741
ASX derivatives	16,069	-	-	16,069
Information services	25,867	-	-	25,867
Settlement and depository fees	-	6,529	-	6,529
Registry fees	-	2,956	-	2,956
Technology infrastructure fees	10,640	716	-	11,356
Dividend	-	-	1,200	1,200
Other revenue	1,627	1,457	2,282	5,366
<b>Total revenues</b>	<b>243,826</b>	<b>11,658</b>	<b>3,482</b>	<b>258,966</b>
Interest income	107,780	-	11,746	119,526
Interest expense	(100,160)	-	-	(100,160)
<b>Net interest income</b>	<b>7,620</b>	<b>-</b>	<b>11,746</b>	<b>19,366</b>
<b>Total segment revenues</b>	<b>251,446</b>	<b>11,658</b>	<b>15,228</b>	<b>278,332</b>
<b>Segment result</b>	<b>196,140</b>	<b>7,963</b>	<b>-</b>	<b>204,103</b>
Unallocated revenue less unallocated expenses				(29,743)
Profit before income tax expense				174,360
Income tax expense				(49,642)
Net profit				124,718

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

	Exchange Traded	Non- Exchange Traded	Unallocated	Consolidated
Half-year ended 31 December 2005	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000
ASX listings	41,834	-	-	41,834
ASX cash market	59,269	-	-	59,269
ASX derivatives	14,771	-	-	14,771
Information services	17,307	-	-	17,307
Technology infrastructure	8,326	-	-	8,326
Dividend	-	-	975	975
Other revenue	2,191	-	5,136	7,327
<b>Total revenues</b>	<b>143,698</b>	<b>-</b>	<b>6,111</b>	<b>149,809</b>
Interest income	7,236	-	7,259	14,495
Interest expense	(6,612)	-	-	(6,612)
<b>Net interest income</b>	<b>624</b>	<b>-</b>	<b>7,259</b>	<b>7,883</b>
<b>Total segment revenue</b>	<b>144,322</b>	<b>-</b>	<b>13,370</b>	<b>157,692</b>
<b>Segment result</b>	<b>97,759</b>	<b>-</b>	<b>-</b>	<b>97,759</b>
Unallocated revenue less unallocated expenses				2,085
Profit before income tax expense				99,844
Income tax expense				(28,779)
Net profit				71,065

3. Earnings per share

	31 Dec 2006	31 Dec 2005
<b>Basic earnings per share (cents)</b>	<b>77.0</b>	69.2
<b>Diluted earnings per share (cents)</b>	<b>76.8</b>	68.8

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

Earnings used in calculating basic and diluted earnings per share (\$000's)	124,718	71,065
Weighted average number of ordinary shares used in calculating basic earnings per share	161,903,908	102,729,450
Number of contingently issuable shares	426,322	487,908
Weighted average number of ordinary shares used in calculating diluted earnings per share	162,330,230	103,217,358



**ASX Limited and its controlled entities**  
**Notes to the financial statements**

4. Acquisition of subsidiary

On 11 July 2006 the consolidated entity acquired 100% of the shares of SFE Corporation Limited (SFE), via a Scheme of Arrangement. SFE and its subsidiary companies provides exchange traded and over the counter (OTC) services throughout the Asia Pacific region and in other major financial cities in the world.

The components of the cost of the combination are as follows:

	<b>\$'000</b>
Shares consideration 68,004,817 shares @ \$34.63*	2,355,007
Cash	33,308
Directly attributable costs	16,515
Former CEO termination payment	7,779
Consideration for transfer of vested SFE options of former SFE CEO and other senior executives	6,430
Deferred consideration for transfer of vested SFE options of former SFE CEO	4,450
<b>Total cost of combination</b>	<b>2,423,489</b>

\* Closing ASX share price on 11 July 2006

In accordance with AASB 3 Business Combinations, the acquiree's identifiable assets, liabilities and contingent liabilities have been measured at fair value at the date of exchange:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
	\$'000	\$'000	\$'000
Cash	82,886	-	82,886
Available-for-sale financial assets	3,169,763	-	3,169,763
Receivables	145,364	-	145,364
Other current assets	4,966	-	4,966
Investments	1	-	1
Plant and equipment	9,218	71	9,289
Intangibles	22,400	6,980	29,380
Goodwill	24,391	(24,391)	-
Current payables	(171,923)	-	(171,923)
Current financial liabilities	(3,012,007)	-	(3,012,007)
Current provisions	(48,646)	-	(48,646)
Current tax liabilities	(10,362)	-	(10,362)
Deferred income	(4,901)	-	(4,901)
Non-current payables	(114)	-	(114)
Non-current provisions	(797)	-	(797)
Net deferred tax (liabilities) / assets	(4,448)	9,084	4,636
Non-current financial liabilities	(36,430)	-	(36,430)
	169,361	(8,256)	161,105
Goodwill on acquisition			2,262,384
Consideration paid			2,423,489

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

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The goodwill recognised on the acquisition is due to a number of factors which were highlighted in the explanatory memorandum to the proposed merger of SFE Corporation Limited with ASX, dated 29 May 2006. These are as follows:

- Increased size and financial strength of the merged entity
- Broader product coverage and improved earnings diversity
- Cost synergies
- Improved positioning for global exchange consolidation

In the period from 11 July 2006 to 31 December 2006, the subsidiary contributed net profit after tax of \$34.4 million. If the acquisition had occurred on 1 July 2006, consolidated revenue would have been \$262.7 million and consolidated net profit after tax for the period would have been \$122.1 million.

As outlined in the pro-forma income statement on page 15, the net loss after tax of SFE for the period 1 – 11 July 2006 was \$2.6 million including \$4.7 million of significant expenses after tax related to the merger.

**5. Disposal of Investment in Subsidiary**

On 31 August 2006, the consolidated entity disposed of its 100% interest in Orient Capital Pty Limited. Details of the sale in the consolidated entity are as follows:

	<b>2006</b>
	<b>\$'000</b>
Consideration received	<b>14,748</b>
Costs of disposal	<b>(26)</b>
Carrying amount of net assets sold	<b>(7,641)</b>
Gain on sale before income tax	<b>7,081</b>
Tax effect	<b>(2,699)</b>
<b>Gain on sale after income tax</b>	<b>4,382</b>

**6. Disposal of Investment in Associate**

On 17 August 2005, the consolidated entity announced the sale of its 50% interest in ASX-Perpetual Registrars Limited (APRL). The impact of the sale on the prior year result is as follows:

	<b>2005</b>
	<b>\$'000</b>
Consideration received	<b>60,678</b>
Costs of disposal	<b>(1,751)</b>
Carrying amount of asset sold	<b>(49,167)</b>
Gain on sale before income tax	<b>9,760</b>
Tax effect	<b>(1,939)</b>
<b>Gain on sale after income tax</b>	<b>7,821</b>

**7. Capital return**

On 20 October 2006, ASX made a capital return on 170,782,432 shares of 58.5 cents per share. This resulted in a payment of \$99.9 million. Refer to Statement of Changes in Equity for impact on ASX capital and the Cash Flow Statement for the impact on cash.

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

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8. Contingent Liabilities

*Novation*

The Group comprises two operating subsidiaries, Australian Clearing House Pty Limited (ACH) and SFE Clearing Corporation Pty Limited (SFEC), which provide novation of certain financial assets and liabilities.

*Australian Clearing House Pty Limited*

ACH, a controlled entity of ASX, provides contract guarantee support for clearing across all ASX markets which includes derivatives; comprising exchange traded options, futures, and warrants; and cash market securities comprising equities and managed investments. 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.

As at 31 December 2006 ACH had a right to receive from participants payments of \$387.0 million (2005: \$455.3m) and a corresponding obligation to make payments of \$387.0 million (2005: \$455.3m) relating to cash market securities. Furthermore, total collateral required by ACH to cover participants derivatives exposures was \$887.1 million (2005: \$818.1m). This was made up of cash of \$240.0 million (2005: \$255.8m), bank guarantees of \$111.8 million (2005: \$108.9m) and the remainder in equity and debt securities. As at that date, participants had lodged collateral with ACH in the form of equity and debt securities of \$2,733.7 million (2005: \$2,008.5m)

At the date of this financial report, all net delivery and net payment obligations relating to cash market securities owing to or by participants at 31 December 2006 were settled.

Unsettled cash market securities are not recognised until settlement date which means that trades occurring in the last three trading days before balance date have not been recognised as a financial asset or liability. As a consequence, revenue on cash market securities traded in the last three trading days before balance date is not recognised. The fair value of derivative trades at trade date is zero. Movements in the fair value of derivatives after trade date are margined (closed out) and the fair value of the derivatives is again zero. Cash margins received are recognised on the balance sheet and a corresponding liability to the participant is also recognised. Bank guarantees and non cash collateral are recorded off balance sheet.

*Support*

Historically, if a participant failed to meet its net delivery or net payment obligations to ACH, ACH had recourse to the National Guarantee Fund (NGF) maintained by the Securities Exchanges Guarantee Corporation Limited (SEGC) under the Corporations Act 2001 and could make a claim on the NGF to cover its loss. However, ACH's right to claim on the NGF in these circumstances ended on 31 March 2005 due to a restructuring of the NGF under section 891A of the Act. As a result of this restructure, ACH received a payment of \$71.5 million from the NGF and the Corporations Regulations 2001 were amended to remove ACH's ability to make a claim on the NGF for Clearing Losses arising after 31 March 2005. Any losses incurred as a result of default by a participant default may have to be met from ACH's own financial resources including the restricted capital.

In the event of such a loss, the financial resources available to ACH include:

1. Collateral or other margin or contributions lodged by the defaulting participant with ACH under the ACH Clearing Rules.

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

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2. The funds obtained from the NGF. ACH received approximately \$71.5 million from the NGF which is “ring-fenced” and held by it in a Restricted Capital Reserve. In accordance with the terms of ACH’s Australian Clearing and Settlement Facility Licence, unless the Treasurer agrees otherwise, these funds can only be used by ACH for clearing and settlement support.
3. ASX has funded the initial difference between the amount that ACH received from the NGF and the capital amount required to be held by ACH to meet the RBA Stability Standard for Central Counterparties from time to time (the “Reserve Requirement”). Currently the Reserve Requirement is \$110 million. As the Reserve Requirement may vary from time to time, ASX has an ongoing obligation to provide additional capital to ACH, if required, to cover the difference between the Reserve Requirement and the total of the ASX’s existing capital in ACH and the Restricted Capital Reserve amount remaining at that time. Alternatively, ACH may decide to replace some of the capital contributed by ASX with contributions obtained from participants under the ACH Clearing Rules, thereby reducing the amount of capital which ASX is obliged to provide to ACH. As at 31 December 2006, ACH held reserves of \$131.4 million.

However, ASX is not obliged to contribute additional capital to recapitalise ACH following a Clearing Loss. ASX will continue to support the day to day operations of ACH (e.g. by the provision of staff, facilities and funds to meet expenses (other than a Clearing Loss)). Other than as set out above, ASX has no obligations to fund ACH. For example, it is not obliged to provide additional capital to ACH beyond the RBA capital requirements.

4. External insurance cover up to \$100 million, in addition to the cash support of \$110 million, with an insurer rated AA by Standard and Poor’s.
5. Contributions obtained from participants under the ACH Clearing Rules.
6. Emergency Assessments levied on participants under the ACH Clearing Rules.

The order in which these resources may be applied is set out in detail in the ACH Clearing Rules.

*Fidelity risk*

If the amount of the NGF falls below the minimum amount determined in accordance with the Act, SEGC may determine that ASX must pay a levy to SEGC. Where a levy becomes payable, ASX may determine that participants in the market must pay a levy, provided that the total amounts payable under this levy do not exceed that amount payable by ASX to SEGC. However, the amount in the NGF has not fallen below the applicable minimum amount since the NGF was formed and SEGC has not imposed any levies. Failure by either ASX or a participant in the market to pay a levy may give rise to a civil action, but does not constitute an offence under the Act.

*SFE Clearing Corporation Pty Limited*

SFECC provides clearing for Sydney Futures Exchange derivatives’ markets. 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 SFECC, and a contract between SFECC and the buying participating organisation. Through the novation process, all positions are matched.

**ASX Limited and its controlled entities**  
**Notes to the financial statements**

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SFECC is liable for the settlement of all futures and options contracts traded on the Sydney Futures Exchange between clearing participants, and is supported by specific financial commitments totalling \$200,000,000 (2005: \$150,000,000), referred to as the "Clearing Guarantee Fund". This would normally be applied to meet a participant default in the following priority:

	2006	2005
	\$'000	\$'000
SFECC equity	80,000	30,000
Participant financial backing	60,000	60,000
External insurance	60,000	60,000
	<u>200,000</u>	<u>150,000</u>

Participant financial backing comprises cash (\$38,650,000) and non-cash commitments (eg letter of credit drawn on a major Australian licensed bank \$21,350,000) (2005: cash \$36,940,000 and non-cash \$23,060,000). In the event of a default in excess of the \$200 million commitment referred to above, the balance of SFECC's net assets would be at risk. At 31 December 2006 SFECC had total net assets of \$88,628,000 (2005: \$35,940,000).

In the event that the net assets of SFECC are less than \$80 million, SFE Corporation Limited (a subsidiary of ASX) has undertaken to pay to SFECC such amount of money as SFECC certifies is necessary to meet the shortfall in its net assets below \$80 million, other than shortfall directly attributable to a default by a Clearing Participant, thereby underwriting SFECC's commitment to the Clearing Guarantee Fund.

The external insurance has been taken out with an insurer rated AA by Standard & Poor's.

9. Subsequent events

**Interim dividend**

Since period-end, an interim dividend of 72.3 cents per share has been declared. This dividend is fully franked.

Other than the matters noted above, no matter or circumstance has arisen since the end of the half-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.

**ASX Limited and its controlled entities**  
**Directors' declaration**

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**DIRECTORS' DECLARATION**

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In the opinion of the directors of ASX Limited

1. the financial statements and notes, set out on pages 42 to 53, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows, for the half-year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that ASX Limited will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 14th day of February 2007.

Signed in accordance with a resolution of the directors:

Maurice L Newman ac  
Chairman

Robert G Elstone  
Managing Director and CEO

## INDEPENDENT REVIEW REPORT to the members of ASX Limited

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We have reviewed the accompanying half-year financial report of ASX Limited consolidated entity, which comprises the consolidated balance sheet as at 31 December 2006, and the consolidated interim income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 9 and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As auditor of the ASX Limited consolidated entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ASX Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

J F Teer  
Partner  
Sydney, 14th day of February 2007

**APPENDIX 4D (Rule 4.2A.3)**  
**HALF-YEAR REPORT**  
*for the half-year ended 31 December 2006*

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
*(All comparisons to half-year ended 31 December 2005)*

	\$'000	up/down	% movement
Revenues from ordinary activities <sup>1,2</sup>	258,966	up	72.9%
Net profit after tax from ordinary activities including significant items <sup>1,2</sup>	124,718	up	75.5%
Normal net profit after income tax excluding significant items <sup>1,2</sup>	137,136	up	113.8%

**Dividend information**

	amount per share (cents)	franked amount per share (cents)	tax rate for franking
Interim dividend per share (to be paid 16 March 2007)	72.3	72.3	30%
Final dividend per share (paid 9 August 2006)	63.9	63.9	30%

**Interim dividend dates**

Ex dividend date	21 February 2007
Record date	27 February 2007
Payment date	16 March 2007

	31 Dec 06	31 Dec 05
Net tangible assets per security	\$2.15	\$3.14

Additional Appendix 4D disclosure requirements can be found in the notes to this half-year financial report and the Chief Financial Officer report attached thereto.

This report is based on the consolidated half-year financial report which has been subject to a review by KPMG.

<sup>1</sup>On 11 July 2006, ASX Limited purchased 100% of SFE Corporation Limited. The results of SFE have been incorporated from this date.

<sup>2</sup>On 31 August 2006, ASX Limited sold its 100% investment in Orient Capital Pty Limited. This generated an after-tax gain on sale of \$4,382,000 (\$7,081,000 pre-tax), which is non-recurring in nature.