



MARKET ANNOUNCEMENT

2008 ANNUAL GENERAL MEETING

ADDRESSES BY THE CHAIRMAN AND MANAGING DIRECTOR & CEO

24 September 2008

ADDRESS BY THE CHAIRMAN – Maurice Newman

Ladies and gentlemen. This is my last address to you as Chairman of ASX. It has been an enormous pleasure and privilege to have been able to serve in this role for 14 years. I thank you for the trust you have placed in me.

As Chairman, I have been able to observe first-hand the great strides forward our company has made and the important contribution we have played, and continue to play, in the development of the Australian economy.

Australia's capital markets are highly regarded around the world for their depth and sophistication, and they have helped underpin Australia's robust economic growth. As Australia's financial markets have matured, so has ASX as a market operator.

We received positive reinforcement of this in the latest issue of the US magazine *Futures and Options Week*, which, in a survey of buy-side users, rated ASX overall third in the world and number one for choice of access and risk control.

We are amongst the top-8 global exchange groups and top-50 Australian listed companies by market capitalisation. This, from a company that demutualised and listed only 10 years ago.

ASX has regularly been at the leading edge of global exchange practice, in terms of its uptake of technology, progressing from a mutual structure, encouraging the development of new products, and operating a horizontally and vertically integrated business model, delivering strong returns for our almost 50,000 shareholders.

An innovative culture is still alive and well within ASX.

This past year has thrown up more than its fair share of challenges, coming on the back of an extended period of prosperity for global markets.

These experiences remind us that, while there are many things we are able to control, the globalisation of financial markets will, on occasion, create forces that can cascade rapidly across the world's capital markets and test even the most developed regulatory structures.

The tremors that started back in August 2007 in the US mortgage market rapidly developed into today's global credit crisis, and the equity market falls of early 2008 have gathered pace. Losses on the world's top-20 markets,

since the start of 2008, have reached US\$13.3 trillion - the combined GDP of Japan, Germany, Canada, Spain and Australia.

The impact of the sub-prime crisis has eclipsed the episodes experienced in the wake of the various disruptions of the past decade, including the Asian financial crisis, the Russian debt default, the LTCM debacle, the bursting of the technology bubble and 9/11 by a significant margin.

In January, the 12 consecutive daily declines in the All Ordinaries were the most consecutive declines since early 1982 and the 18 per cent fall in the index was the largest over a 12-day period since the aftermath of the October 1987 stock market crash.

On Wall Street, according to Lowry Research Corporation, the massive selling we have seen since the decline began has been the most for any period in the 75 years of Lowry's studies.

Such sharp movements reflect an enormous swing in the pricing of risk following unprecedented leverage in the boom years and a growth in the range of financial products available to investors. It would appear some of these were not always well understood, even by sophisticated market professionals.

This has resulted in America's largest financial institutions and oldest investment banks suffering significant write-downs, and in the case of Bear Stearns, a bailout financed through the official discount window. And, in the last couple of weeks, US taxpayers have, temporarily at least, taken control of US mortgage finance institutions, Freddie Mac and Fannie Mae, in what could become the world's biggest bailout. Even more recently, Lehman Brothers has been forced into bankruptcy and, after being pressured into a deal by Federal regulators, Merrill Lynch has agreed to be purchased by the Bank of America. And now American International Group (AIG), one of the world's biggest insurers, is being effectively nationalised. In the UK one of the country's largest mortgage lenders, Northern Rock, was also nationalised after being confronted with a serious funding shortfall. Last week, the UK Government facilitated the acquisition of HBOS by Lloyds TSB, while in the latest development, the Bush Administration announced plans to invest hundreds of billions of taxpayers' dollars to buy bad loans to take the pressure off banks and other financial institutions, which sparked a rally in the world's equity markets.

The moral hazards created by these actions raise serious issues for governments and market analysts. Government bailouts and the oversight of even more rules and regulations should not be the automatic default option. Rather, recent events have highlighted, among other things, the asymmetrical relationship between, on the one hand, the risk appetite of shareholders, superannuants and home buyers and, on the other, the rewards of institutions and their employees and their single-minded pursuit of short-term, absolute returns.

This is why we are where we are. But it is not so much because of a failure of regulatory oversight, but rather an uncritical trust, built up over 30 years, reinforced by the regulators themselves and underwritten by the 'Greenspan Put', which has led investors to believe they will be protected, come what may.

That said, here in Australia the financial damage has been largely contained, although there were some large write-offs in the banking sector. In addition, a small number of specialist brokers and some highly geared entities, especially in the property and financial services sectors, have run into serious difficulties.

Despite this severe market turbulence, ASX's underlying corporate performance has remained strong. Corporate activity and capital raisings remained healthy in the first half of FY08 before trailing off as the effects of the credit crunch flowed through into equity markets. Trading activity in equities and derivatives were both up over the year.

Recent volumes have been extraordinary. Last week we handled nearly 800,000 trades in a day, 20 per cent higher than the previous daily record.

These factors translated into a strong increase in revenue and profits and our ability to pay an increased dividend.

Unsurprisingly, the same positive story does not extend to the ASX share price over FY08. While the first half of the financial year saw it reach a peak of over \$60, the sell-off in global financial stocks in the first half of 2008 saw ASX's share price slide to around \$30 by the end of June 2008.

To put these movements into some context, after outperforming S&P's benchmark global and Australian financial sector indices in 2006-07, the fall in 2007-08 mirrored similar movements in those indices. Averaged over the two-year period, the ASX share price has outperformed the broader financial sector.

The impact of the credit crisis not only hit the performance of our shares. The general downturn in equity prices also saw our supervisory role come under attack, especially from the press. Much of our time has been spent separating truth from falsehood. Being held to account is one thing, but undeserved public vilification is something quite different.

We accept that market supervision is of significant public policy importance given the central role we play in helping to maintain Australia's reputation for financial market integrity. However, what has been disappointing about the unprecedented level of criticism we have received this year is that so much of it has been mischievous, misinformed, and/or just plain wrong – and much of it has come from people who know or should know better. Their criticism has inflicted damage to our reputation and potentially the reputation of Australia's capital markets. I expect these effects will be relatively short lived as our peers begin to more widely understand the reality of our supervisory arrangements.

We are not deaf to criticism and, of course, we can appreciate people's frustration and anger at steep falls in asset prices, particularly if malpractice or rumourage has occurred. But some of the sweeping statements laying unwarranted blame at ASX's or ASIC's door are simplistic in the extreme and, in most cases, simply wrong.

For example, ASX has been criticised for:

- failing to monitor and supervise in areas where we have no supervisory responsibility;
- failing to manage conflicts of interest between our corporate and supervisory activities - when there is an extreme clinical separation between supervision and commercial operations;
- failing to devote enough resources to supervisory activities - when we have been actively increasing staffing and technical resources to enhance our monitoring of markets. We added 19 people in the past 12 months, with 8 more to be added this financial year.

We have been accused of:

- granting waivers to facilitate the listing of entities, by allowing the details of management agreements to go undisclosed, when no waivers were granted and the essential content for informed investment decisions is set out in the prospectus;
- not addressing weaknesses in the short-selling rules until the market turmoil of the first half of 2008, when we pushed the relevant authorities for legislative action in mid-2007;
- failing to settle, when all ASX novated trades settled on the day. A delay of a few hours occurred to allow one broker's non-ASX trades, or 'off market' transactions to be backed out for settlement the next day, rather like re-presenting a cheque. This happened and the potential damage from a broker default was averted;
- failing to prevent insider trading, when our responsibility is to detect suspicious conduct and then refer those matters to ASIC for further investigation. We are the Neighbourhood Watch and ASIC is the policeman. The fact that ASIC does not give 'ball by ball' descriptions of its progress should not be taken as no action; and
- failing to monitor director trading compliance, when ASX's jurisdiction is over the listed entity, not the director. There is a requirement for listed entities to advise ASX within five business days when a director has dealt in

securities. Directors who don't lodge notices within 14 calendar days are in breach of the Corporations Act and subject to ASIC's processes. Since 2005, ASIC and ASX have stepped up their pressure on director notices with public reminders being issued. ASX conducts annual reviews of directors' trading for **all** listed entities. Where breaches of the ASX Listing Rule are found, ASX warns the listed entity of its obligation and in the more serious cases publishes the name of the director and the reasons for the late filing of the notice. Where there is a breach of the Corporations Act, ASIC decides whether to take prosecution action.

The constant repetition of these erroneous assertions carries the danger that the Government will act on them to the long-term detriment of the market.

The ASX Markets Supervision Board and management are continually reviewing supervisory performance and critically analysing outcomes where weaknesses are observed or alleged, to see how our performance can be improved. It is a never-ending process and we work proactively with Government, ASIC and the Reserve Bank on important policy issues, present and future.

On top of this there is ASIC's oversight, which has once again found that ASX has met its supervisory obligations, after the most extensive and intensive review. Journalists and other spectators, who devalue these assessments, except when they may be critical of us, do not understand the rigour, thoroughness and scope of the process and that the most senior people on both sides are involved.

The recent appointment of former ASIC chairman, Alan Cameron, as Chairman of ASX Market Supervision, will bring a wealth of experience to this vital role.

We are constantly ensuring that the culture of ASX is appropriate to its pivotal role in the Australian economy. Our people, from top to bottom, take their responsibilities very seriously, and their compensation and code of conduct policies reinforce good behaviour. We are concerned with more than making money. Yes, we are commercial and work very hard for our shareholders, but I like to think we make money the old fashioned way, more Peter Drucker than Bear Stearns.

The last financial year saw continued debate about the introduction of competition into the trading of ASX-listed securities. At last year's AGM I spoke about the serious public policy issues that need to be addressed to minimise risks that competition could increase market fragmentation, and undermine the efficiency of the country's equity market.

It is worth noting reports from both the United States and Europe that some end-users are now saying the promised benefits of competition have been outweighed by the additional costs of having to connect to and monitor prices on a growing number of alternative trading platforms.

In any event, ASX is well placed to deal with the challenges that may arise should the Government issue new licences, and we will continue to deliver reliable, efficient and cost effective services, whatever the environment.

Of course, ASX already has competition. Our major listings and the demand for our savings are vigorously contested and, as markets continue to consolidate, the pressure on ASX to remain regionally and globally relevant is intensifying. That is the real competition.

I was recently reminded of how vulnerable we are to global markets and how they render countries and businesses which lack scale, irrelevant. Today our six largest listed companies each have a market capitalisation greater than the entire New Zealand share market. New Zealand's nominal GDP has grown by 20.3 per cent since 2004, yet the size of its stock market in nominal terms has contracted significantly. Some of you may remember when ASX had merger talks with New Zealand and how a provincial pre-occupation with sovereignty meant we were unsuccessful. The question is now being asked in the New Zealand press, 'Can NZX be saved?', and many New Zealanders may be questioning the wisdom of not proceeding. But rather than feeling smug about this situation, we should remember that we too could go the way of New Zealand if we don't recognise the risks inherent in over-representing the interests of consumers in a prosperous community with a small population. I

understand the politics, but, as with New Zealand, limiting critical mass and becoming internationally irrelevant is a most unattractive option and is the ultimate pathway to becoming a poor branch economy.

The latest attempts to fragment our markets by potential new operators will do little, if anything, to increase competition. Leaving aside that ASX is, on any global comparison, already competitive and that the proclaimed benefits from these alternative platforms are for a select few, not managed funds or the public, the danger is they will create unnecessary and costly structural rigidities and less efficient supervision. This is all to satisfy a small group of brokers and risk arbitrageurs who want to cherry-pick the central market operated by ASX. Liquidity begets liquidity so that consolidation at a local level would most likely occur only through the demise of one or more operator. In the meantime, to the extent that fragmentation impacts on ASX's liquidity and increases demands on supervision, capital costs will rise and be directly and indirectly passed on to all Australians.

ASX has never been opposed to competition, but we believe that it is appropriate for us to show concern about apparently informed comments which talk about a re-architecture of the supervisory arrangements of our markets. The intellectual capital and the best vantage point for market supervision lie within ASX itself and, the more this is changed, the more it may weaken our markets, and be to the detriment of end-users.

Given the Government's financial services hub aspiration, in my view, this is not in the national interest.

Meanwhile, global consolidation continues apace and, as Qantas - which is the world's tenth largest airline - said about the inevitability of airline consolidation, ASX may also ultimately have to merge with another major operator as part of global restructuring.

We congratulate the Government for its ambitions to promote the export of financial services to the region, and to back up these ambitions with specific proposals in areas such as taxation. In the past year the Government has successfully negotiated with Chinese authorities to remove barriers to inbound institutional investment into Australia and with US authorities to establish a mutual recognition regime to facilitate two-way investment flows. Both of these moves make it easier for Australia to tap into two of the largest savings pools in the world.

ASX looks forward to working with the Treasury team tasked with coordinating the Government's policy actions and with the Financial Sector Advisory Council who will be overseeing the process.

As an operator of an efficient suite of listing, trading, clearing and settlement services, ASX is well placed to build its business in a range of areas. For example, ASX will be offering services and products to support the Government's proposed carbon emissions trading scheme. We will also be bringing the benefits of an exchange-traded and centrally-cleared environment to managed funds and structured products (through the soon to be established AQUA market).

When the dust settles on the global financial crisis, and it will, and when the reality of Australia's relative economic, financial and regulatory strength receives appropriate attention, we should anticipate this to be reflected in higher asset prices and growth prospects. The truth is there are few developed economies which are in as good shape as ours or that have the ability to recover as quickly from any global contraction. ASX will benefit from this.

After the close of this AGM, my colleague, David Gonski, will take the chair of a fine organisation. In Robert Elstone, he will have an outstanding and experienced chief executive, and a team of fantastic people who have risen to every occasion despite an often hostile external environment. They have never shirked difficult assignments or challenges.

In David Gonski, shareholders are getting a Chairman of more modest years who has already established himself as one of Australia's foremost company directors. With Alan Cameron chairing ASXMS, it will prove an impressive combination and ASX and market users will be well served.

Finally, for me to be part of an organisation the performance of which has, by any measure, been impressive and which has been so true to its core values, is something to celebrate and I feel genuinely honoured to have been

its Chairman. No matter the present turmoil in global financial markets, you will understand that, after so long, I do feel a sense of sadness at the loss of my day-to-day involvement. It has been a privilege in every sense of the word and again, I thank shareholders for their continued support and confidence.

I wish ASX all the very best for the future.

ADDRESS BY THE MANAGING DIRECTOR & CEO – Robert Elstone

Thank you, Maurice. Good morning, ladies and gentlemen.

Having released a fulsome (2008) Annual Report to shareholders just a few weeks ago I will keep my comments today quite brief in order to avoid repetition of my year-in-review commentary in the MD & CEO's section of that Annual Report.

As we approach the close of the first quarter of FY09, IPO activity for the first 12 weeks is well down on the prior comparable period (70%), in line with trends in overseas markets. Secondary capital raising, whilst more subdued than the same period last year, remains robust as recapitalisation (particularly in the banking sector) takes place in response to the ongoing process of deleveraging and asset value impairment that has been in train for the past 12 months or so.

Trade execution volumes in the cash equities market have maintained their extraordinary growth (up 56%) whilst traded value in that market is down on the prior period (14%), less than the fall in the overall value of the index. On a two-year comparison basis, trade execution volumes in cash equities have risen a staggering 205%, illustrative of the extent to which the efficiency of the central market operated by ASX is minimising market impact costs for users.

Whilst global equity values have fallen materially over the past 12 months, for Australian equity investors the relatively large weighting Australian banks, diversified financials, and listed property and infrastructure trusts have in the benchmark index has translated into a disproportionate negative wealth effect impacting on investor and (downstream) consumer confidence. This is notwithstanding the reality that the financial institution risk environment in Australia has been, and remains, more stable than that in the US or Europe. But in a globalised world our institutions are not immune from contagion risk.

Single stock option traded volumes have suffered from competition from both 'over the counter' equity and CFD markets, as well as from a reduction in the appetite for leverage. Index option traded volumes have grown over the prior comparable period (up 18%), as have SPI 200 index futures volumes (up 8%). Interest rate futures market volumes are well down (22%) on the prior period, for understandable reasons, albeit month-to-date volumes for September point to more buoyant trading volume based on a more fluid outlook for the official cash rate over coming months.

With the benefit of hindsight, interest rate derivative volumes were disproportionately buoyed by a global expansion of liquidity, which became particularly pronounced from the middle of the current decade onwards (boosted by overt central bank liquidity provision around the world in the third quarter of 2007). But they have been adversely impacted by inertia in domestic term debt and securitisation activity from the onset of the sub-prime crisis in August 2007. This domestic trend for interest rate derivatives has been mirrored in June 08 quarterly global derivatives data published by the Bank for International Settlements.

These overall capital raising and trading activity levels for most of the first quarter of FY09 are reflective of the subdued state of credit markets, and the nervous state of equity markets. These markets remain characterised by conservative asset allocations in terms of both asset class and time horizon of investment, and extremely volatile in terms of asset prices and risk premia. The past year or so, since the onset of the US mortgage market crisis, has witnessed the most difficult period in the global financial system for many decades, indeed, in living memory. It has renewed focus on capital adequacy standards for a range of financial institutions, both bank and non-bank,

as well as redefined consciousness of counterparty risk in 'over the counter' secondary and derivative markets to the point of periodically undermining interbank lending confidence.

Events of the past 12 months or so, in particular those of the past 10 days on Wall Street, ought to sheet home to policy makers and regulators the benefits of transparent price discovery, central counterparty clearing and daily mark-to-market valuation embedded in the business model of vertically integrated exchange groups such as ASX.

During the tumultuous 12 months since the last AGM (with the exception of a delayed start to equity trading on Monday morning pending clarification of advice to market participants from ASIC), our trading and clearing platforms have delivered 100% availability to market users, and our risk management systems and processes have been robust during a period of record risk transfer activity. When one considers the fact that ASX is one of the few exchanges in the world to operate a 24 hour futures market, such a record is particularly noteworthy. Whilst market users and other observers may take such operating performance for granted, we do not. It is a product of diligence, old fashioned hard work and financial investment in robust technology platforms.

Whilst constantly quizzed by analysts for views on the likely duration of this current period of asset price weakness, it is not my (or ASX's) role to add to the myriad of private sector economic forecasts of the outlook for economic growth, the interest rate cycle or asset prices. Nor is it our role to engage in guesswork as to the length of time it will take for global banks to fully recapitalise and finance the next phase of economic recovery, or for less conservative asset allocation to resume. Instead, I would restate that a combination of product and service initiatives outlined in our last Annual Report signal an ongoing investment by ASX in human and technology resources to support future growth that bodes well for its medium term outlook and competitive position.

On the issue of competition, ASX's position remains that the costs and risks associated with alternative market operators trading ASX-listed securities are likely to substantially outweigh the benefits, and that there is no published evidence of those costs and risks having been adequately analysed or modelled. Should the Government be predisposed to facilitating competition for market services irrespective of the costs and risks (an interesting decision at a time when other western governments are clearly prioritising financial system stability over competition issues), it has a public policy obligation to ensure that adequate and equivalent supervisory and financial (capital) obligations are imposed on such aspirants (as are borne by ASX); and that the necessary legislative and regulatory amendments pointed at maintaining market integrity and investor protection are in place prior to any licence operability.

Any faltering on this obligation would be to the detriment of domestic retail and superannuation investors, and to Australia's reputation in international capital markets, at a time when the Government is working hard to position Australia as a regional financial services hub.

Fostering new execution venues that are designed to establish competitive liquidity pools has the potential to lead, in the absence of new regulatory mechanisms, to a deterioration in bid/offer spread efficiency in the central market and to regulatory gaming behaviour, to the detriment particularly of retail investors and listed companies. The public policy challenge for Government is at two levels: firstly, being satisfied that the cost/risk and benefit analysis has been thorough and, secondly, that the public interest in preserving bid/offer spread efficiency for the benefit of a wide range of stakeholders is not subjugated in the quest to permit new liquidity pools designed to meet the interests of a more limited group of stakeholders.

The risk of any new regulatory mechanisms not working as intended is substantially greater for a market of Australia's modest scale, than for those of Europe and North America. It is interesting to note the Government's recognition of the scale factor in the decision last weekend to impose a temporary ban on short selling of all ASX-listed stocks; hopefully, that will also apply in its deliberations on competition issues.

It is not yet clear what new mechanisms are envisaged or what level of public consultation of such mechanisms will take place, if at all. The stakes for the Government and users of the Australian market are extremely high on this issue, given the global turmoil in financial markets and the downside risks of unintended consequences flowing from any re-architecture of the current regulatory framework. Any re-architecture will involve technically complex issues of equity market microstructure (borne out by the market aftermath earlier this week of ASIC's

short selling prohibition last weekend). These issues are poorly understood by most financial commentators, let alone retail investors and superannuants. It is therefore imperative that adequate public scrutiny occurs. This has not happened to date.

ASX's preoccupation has never been with the possibility of competition for market services but with the necessity (from a public policy perspective) of achieving a level playing field at no cost to overall market integrity, in terms of the quality and stability of existing market supervision arrangements and the integrity of the systemically critical clearing and settlement systems operated by ASX. Satisfactory compliance assessments of ASX's performance under its licence obligations (from ASIC, in August 2008) and conformity under Financial Stability Standards (from the Reserve Bank of Australia, in January 2008) underline the criticality of both supervisory and clearing/settlement arrangements to the efficient functioning of the Australian financial system. Adding to their complexity on competition grounds requires thorough checks and balances to be in place if confusion, risks and reputational damage are to be avoided.

ASX continues to work closely with both its regulators in relation to its performance as a market operator and facility provider, as well as with Treasury on enhancements to legislation aimed at improving market transparency and the evolution of the regulatory framework. ASX Markets Supervision's referrals pipeline to ASIC for forensic investigation of potential market misconduct remains active, and ASX fully supports ASIC's commitment to upgrade its skills and capabilities in the markets space, particularly as it relates to 'over the counter' market activities.

The ASX Annual Report released last month foreshadowed a number of trade execution enhancements pointed at maintaining ASX at the global forefront of trade execution services. Further elaboration on those developments will be made in coming weeks and months. More innovation in the area of listings services is imminent, based on new market rules designed to attract structured products and unlisted funds onto the exchange's platforms. As also foreshadowed, a 'rounding out' of a suite of energy derivative products, including derivative contracts on carbon emission permits (subject to the passing of ETS legislation) is also scheduled to commence in the first half of 2009.

As indicated in my Annual Report commentary, we have no intention of allowing the global market turmoil of the past 12 months, or potentially the next few months, to distract us from our need to innovate, to continue to invest in our platforms and people, and grow our scale organically as well as (if necessary) by corporate action, in a sector which is likely to continue to consolidate. Nor will we lower our commitment to meet our supervisory and corporate governance obligations; but we will seek to balance the interests of various stakeholders with often diametrically opposed views. Invariably, in so doing, we will be criticised by those who disagree with our position on specific issues, or are looking for a scapegoat during a period of global credit market-induced crisis in investor confidence. Worse still, we will be criticised by others who are often blissfully ignorant of our mandate and powers when offering up such criticism.

In closing, let me reiterate that the financial health, and regional and global relevance of ASX is inextricably linked to public policy aspirations for Australia to grow as a financial services hub. The latter is unlikely to be fulfilled by populist or editorially driven policy initiatives which inadvertently (or deliberately) erode the scale or health of the ASX, or impair the integrity of the markets and facilities it operates.

As I hand the floor back to the Chairman I would add a personal acknowledgement to the contribution Maurice Newman has made to the health and scale of the ASX of today. As I said at a private function last evening, during my tenure as MD & CEO I have enjoyed Maurice's counsel, his humour and his support. Whilst the incoming Chairman (David Gonski) will have more to say after the meeting formally closes, Maurice, on behalf of the management team and staff of ASX, we wish you all the best for the future.

I will now hand back to the Chairman of the meeting.
