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NSX Corporate Governance Statement

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1. INTRODUCTION

The National Stock Exchange of Australia (“NSX”) is Australia’s second official stock exchange approved under Corporations Law in Australia (and also licenced under the FSR Act 2001). The NSX has responsibilities under its Australian Markets Licence (“AML”) to provide a high integrity, efficient and transparent market place.

1.1 The NSX Market

The NSX focuses on being the premier Stock Exchange for small to medium sized and regionally based companies as well as providing a market place for niche, securitised assets.

The NSX Listing Rules have been fashioned to reflect the requirements and capital needs of a variety of corporate structures and security issuers. For a company to have its securities listed for quotation on the NSX, it has to meet the general listing criteria.

The NSX is able to list other entities such as mutual and cooperative entities without the need for changes to the constitution to remove the one member one vote requirement. This allows for a market where members can trade their memberships. Also capital units that are issued by the cooperative can also be traded. Miscellaneous Investment Schemes, Pooled Development Funds and other instruments that securitise a set of assets can all be traded. Debt instruments can be traded as a separate class.

1.2 Trading on the NSX

Trading on the NSX is easy, effective and secure as it is conducted on NETS. Settlement of all transactions occurs via CHESS on a T+3 basis.

1.3 An Efficient, Transparent and High Integrity Market

The NSX reduces the cost of capital for smaller entities wishing to raise smaller amounts of capital than would otherwise be the case on larger financial markets. The NSX Markets are fully regulated under the Corporations Act 2001 and therefore the market operates with the same controls in many respects that are required for larger financial markets.

By reducing the cost of capital then the depth of the Australian capital markets can be increased and the choices that entities and their prospective investors have in raising capital and progressing their business greatly increases. This also adds to the efficiency of the markets as the entities come under a regulated environment for the trading of their securities and have access to enhanced disclosure and investor compensation regimes.

NSX’s is committed to adopting best governance practice as a public company which reflects the underlying approach that we have to maintaining the integrity of the NSX market, namely improvements disclosure. Disclosure is the best tool, both to equip investors with the information they need in judging the suitability of an investment and to equip companies with the flexibility to carry out their business in the best possible way.

1.4 Corporate Governance Guidelines

In March 2003, the ASX Corporate Governance Council published the ‘Principles of Good Corporate Governance and Best Practice Recommendations’ (“guidelines”). This publication is the basis for the NSX’s own corporate governance statement.

The NSX is progressively reviewing its existing policies and codifying new policies in line with the published corporate governance guidelines. However, the NSX does not believe in a one size fits all approach and consequently has responded to the guidelines appropriately with respect to the size of its markets, the size of the entities listed on its markets and also the size of its business.

This document is structured along the same lines as the Council's guidelines, with sections dealing in turn with each of the Council's ten corporate governance principles. The various codes, policies and charters are available on request from the NSX.

2. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

NSX has adopted a formal Board Charter that sets out the functions reserved to the Board and those delegated to the Chief Executive Officer. Specifically, the Board is responsible for:

- (a) setting strategic direction of the NSX Group and monitoring management's performance within that framework;
- (b) ensuring there are adequate resources available to meet NSX Group objectives;
- (c) appointing and removing the Chief Executive Officer/CEO and overseeing succession plans for the senior executive team;
- (d) approving and monitoring financial reporting and capital management;
- (e) approving and monitoring the progress of business objectives;
- (f) ensuring that adequate risk management procedures exist and are being used;
- (g) ensuring that the NSX Group has appropriate corporate governance structures in place including standards of ethical behaviour and a culture of corporate and social responsibility; and
- (h) ensuring that the Board is and remains appropriately skilled to meet the changing needs of the company.
- (i) The Board has no operational involvement in the supervision of the market. Its role in that area is confined to setting and reviewing policy.
- (j) The Board has delegated market compliance activities to the Compliance and Audit Committee.
- (k) The Board has delegated Audit review responsibilities to the Compliance and Audit Committee.
- (l) The Board has delegated review of listing applications to the Listing Committee.
- (m) The Board retains overall responsibility for approval of recommendations from the Compliance and Audit Committee and the Listing Committee as well as an other committee that may be established by the Board from time to time.

The Chairman is responsible for leading the Board in those duties, while the Chief Executive Officer is responsible for the efficient and effective operation of the NSX Group, including

bringing material matters to the attention of the Board. The roles of Chairman and Chief Executive Officer are separated. The Chief Executive Officer is supported in these duties by the General Manager.

3. STRUCTURE THE BOARD TO ADD VALUE

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

NSX’s Board is so structured, and the Board believes that its directors adequately discharge their responsibilities and duties to the benefit of shareholders.

3.1 Skills.

A fundamental requirement for NSX Board members is a deep understanding of financial markets. All Board members meet this threshold requirement. They also bring a diverse range of skills and backgrounds including accountancy, auditing, financial services including investment banking and stock broking, financial regulation, technology, law and public policy as well as business acumen including international business skills.

3.2 Experience.

The NSX Board believes that the rules of tenure for director’s given by the NSX Constitution best serves the Board structure by requiring one third of the board to retire each year. Board members are eligible to be re-elected, but the rotational basis affords directors the ability to review their contribution to the NSX at the appropriate time. Given the nature of NSX’s business, involvement and experience in Australia’s capital markets is essential to bring the skills, the experience and the judgement required for effective decision making, ability to manage the cyclical nature of our markets and accommodate changing regulatory requirements.

The Board is also of the view that progressive and orderly renewal of its membership is important and therefore a new director has been appointed at the last AGM and two directors retired.

3.3 Stakeholder Perspectives.

An important function of directors is to bring the perspective of stakeholders to the oversight of a company. NSX directors bring many perspectives to the Board’s deliberations including those of customers such as listed companies, nominated advisers and participants, members of the broader investment community and service providers such as lawyers and accountants and the views and interests of employees.

3.4 Independence.

Recognising that the perspective of customers is vital to the running of a company, the ASX Corporate Governance Council guidelines and the IFSA Blue Book both employ the concept of materiality when judging whether a non-executive director’s relationship with a customer, supplier, consultant or professional adviser affects their independence. NSX believes that employing this materiality concept is essential in judging whether customer, supplier, consultant or professional adviser relationships affect the independence of NSX directors. In the absence of a materiality criterion, no person with a past or present association with the broking industry, a nominated adviser or a listed company would be deemed capable of bringing independent judgement to bear as a director on the NSX Board. This is not a view that NSX believes to be reasonable, widely supported, or in the best interests of shareholders.

The Board has adopted AASB standard 1031 to determine levels of materiality. A relationship is presumed immaterial when it generates less than 5%, and presumed material when it generates more than 10%, of revenue over a twelve-month period in the absence of evidence or convincing argument to the contrary. In considering such evidence or argument NSX considers the strategic value and other material but not non-quantitative aspects of the relationship in question.

The threshold for materiality for the purpose of assessing the materiality of relationships between a non-executive director and NSX (other than as a director) will be judged according to the significance of the relationship to the director in the context of their activities as a whole.

At each meeting of the Board, directors table their current directors interests both for entities associated with the NSX Market and also outside interests. Where appropriate the relevant director absents him or herself from voting where there is a conflict of interest. All interests are registered in the Register of Director's Interests which is circulated to the Board at each meeting. NSX applies a similar concept at an executive level to ensure that supervisory responsibilities are not compromised by any commercial discussions concerning NSX listed entities.

3.6 Board Committees.

The Board has constituted two committees, Compliance & Audit Committee and the Listing Committee.

The Compliance and Audit Committee is comprised a majority of independents either as independent directors or independent panel members of the committee.

The Listing Committee is comprised of the Chief Executive Officer, the Compliance Officer, the General Manager and a panel of experts who are required to review publicly available offer documents.

3.7 Independent advice.

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

4. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

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

NSX has formally adopted a Code of Ethics and Conduct, which promotes ethical and responsible decision making by directors, executives and employees.

The Code requires high standards of honesty, integrity, fairness and equity in all aspects of employment with NSX. The Code also sets the task for management of delivering shareholder value, with the oversight of the Board, through the sustainable and efficient operation of the company. Specific obligations regarding fitness for office also apply to NSX directors and management by virtue of its role as market operator.

NSX also has formal Dealing Rules that set the parameters for dealing in the securities of NSX and prohibit insider trading. Any dealing in the securities of NSX requires prior sign off from a nominated officer. The Dealing Rules apply to all NSX employees and directors.

5. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

NSX believes its practices in this regard are in accordance with this principle given the relative size of the NSX group. The NSX undertakes an annual audit of its financial performance according to Corporations Act 2001 requirements. For the period ending 31st December 2004 the NSX will also begin half yearly reporting.

The NSX has appointed an independent Compliance Officer who is also the Chair of the Compliance and Audit Committee. The Compliance and Audit Committee is composed of a majority of independents. The independents receive fees for attendance and review of material discussed at each meeting.

Amongst other things, the Compliance and Audit Committee has specific responsibility for monitoring and reviewing any audit and non-audit work carried by the external audit firm. No director has any association, past or present, with NSX’s external auditors.

The Compliance and Audit Committee currently meets monthly.

5.1 External audits.

The external auditor, Lawler Partners, under the scrutiny of the Compliance and Audit Committee, presently conducts financial audits in return for reasonable fees.

NSX is audited each year by ASIC to ensure satisfactory compliance with its licence obligations to provide a market that is fair, orderly and transparent. The audit report is provided to the Parliamentary Secretary to the Treasurer for review and approval.

5.2 Internal audit.

Given the size of the NSX group there is no separate internal audit function. The NSX General Manager reviews NSX systems and process based on the Management Review Report provided by the auditor, Lawler Partners, each May. The Management Review is circulated to the NSX Board. Improvements identified in the Management Review are discussed at Board level and appropriate action is taken by NSX employees.

6. MAKE TIMELY AND BALANCED DISCLOSURE

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

The Chief Executive Officer has ultimate authority and responsibility for approving market disclosure, which in practice is exercised in consultation with the Chairman and General Manager.

NSX considers its disclosure of financial results falls within the scope outlined in the Corporations Act.

7. RESPECT THE RIGHTS OF SHAREHOLDERS

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

NSX has for the first time documented a shareholder communication policy, as recommended in the guidelines which represents a formalised summary of longstanding practices and aims.

The policy identifies disclosure and transparency as important qualities for NSX’s investors and prospective investors. NSX therefore aims to ensure the quality and clarity of communication with shareholders, using available methods and technologies.

As for any public company, shareholder meetings are an opportunity for shareholders to hear from and question the board and management of NSX. The NSX meetings are held in Newcastle and shareholders are informed of each AGM via correspondence from the Board of Directors.

The Chairman and Chief Executive Officer may make presentations separately before attending to voting on resolutions and general business. The chair of the meeting, usually the Chairman, is responsible for the conduct of the meeting. NSX’s auditor attends its annual general meeting and is available to answer any questions regarding the conduct of and any issues arising from NSX’s audit.

NSX accepts nominations for the board of NSX that are made to the Company Secretary in accordance with the NSX’s constitution. NSX conducts annual and extraordinary general meetings in accordance with the Corporations Act and NSX’s constitution.

8. RECOGNISE AND MANAGE RISK

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

NSX takes this responsibility seriously and has put in place appropriate means of risk and compliance management applicable to the size of its markets and business.

The Compliance and Audit Committee, specifically the NSX Compliance Officer, has responsibility for reviewing the compliance and risk management framework and policies within NSX. The Board assesses compliance and risk associated with the NSX.

Risk is broadly considered anything that may impede the achievement of effective market operation and NSX’s strategic goals.

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

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

9. ENCOURAGE ENHANCED PERFORMANCE

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

Prior to each financial year, the Board agrees to its key result areas (KRAs) and performance targets against each KRA. After each financial year, an analysis is presented to the Board for their discussion setting out performance against the KRAs. The Chairman also meets with non-executive directors individually to discuss their performance.

All new NSX staff, executives and directors undertake induction programs run by NSX management and directors. Upon joining NSX, they receive a director’s information kit containing copies of all policies and procedures. Directors also receive a Manager’s report each month with information relevant to the operation of NSX.

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

10. REMUNERATE FAIRLY AND RESPONSIBLY

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

The NSX Board has responsibility for the remuneration of directors and employees. A separate remuneration committee does not exist at present.

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11. RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

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

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

The NSX Code of Ethics and Conduct guides compliance with legal requirements and ethical responsibilities. The Code also sets a standard for employees dealing with NSX’s obligations to other external stakeholders. The Code applies equally to employees, executives and directors.

NSX’s Code formally addresses the privacy of information given to NSX, conflict escalation, occupational health and safety, and Trade Practices Act compliance training for relevant staff.