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SFE Announces 2005 Full Year Result

Sydney, Australia, 22 February 2006 – SFE Corporation Limited, holding company for the Sydney Futures Exchange, today released its financial results for the year ended 31 December 2005. The complete Annual Report, including the audited financial statements, has been released to the ASX and is available on the SFE website as set out at the end of this release. The highlights include:

- Net profit after tax (NPAT) of $69.2 million, up 27% from $54.5 million for 2004. The profit growth resulted from record exchange traded volumes, higher net interest income and reductions in cash operating expenses.
- Revenue (excluding interest) of $134.9 million reflected an increase of 15% on the prior year.
- Total expenses (excluding interest paid to participants) reduced by 2% from 2004.
- The 18% growth in exchange traded volumes resulted in a record 64.3 million contracts traded in 2005. The average fee earned by SFE per exchange traded contract rose to $1.49, up from $1.45 in 2004.
- A final, fully franked, dividend of 22.4 cents per share (up from 16.7 cents in 2004) was declared, bringing the total dividend for the year to 43.7 cents per share (fully franked).

In releasing the results, SFE's Managing Director and CEO, Robert Elstone said

"Very satisfactory operating and financial performance in 2005 reflected a strong growth trend across the SFE group's activities, with both exchange trading volumes and depository holdings continuing at record levels.

These factors resulted in increased returns to shareholders with the ordinary dividend increasing 29% over 2004 (SFE pays out 85% of NPAT).

Whilst the average fee earned on exchange traded contracts increased, many users of the exchange were again rewarded with significant rebates and the abolition of participation fees. Rebates paid to users of the exchange were at record levels in 2005 with over $20 million paid.

Since balance date trading volumes have been strong, with year to date volumes up 6% over the comparable period in 2005.

We have continued with best practice in releasing the full Annual Report for 2005 today and recommend it to shareholders and analysts wishing to track SFE's progress. The Annual Report has been prepared under the new Australian equivalents to International Financial Reporting Standards. The effect of the new standards has not been particularly significant.

For further information please refer to the full report on SFE's website (www.sfe.com.au\2005annualreport), or contact:

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SFE Corporation Limited

annual report 2005

Who We Are

SFE CORPORATION LIMITED (SFE) and its subsidiary companies, Sydney Futures Exchange Limited, SFE Clearing Corporation Pty Ltd and Austraclear Limited, provide exchange traded and over the counter (OTC) services throughout the Asia Pacific region and in other major financial cities in the world.

SFE offers trading, risk management, clearing and settlement products and services to banking, funds management and government users of the exchange traded and OTC markets of Australia and New Zealand. SFE has a fully electronic 24 hour trading capability and a network of communication hubs to service the needs of its trading and clearing customers. Leveraging this infrastructure and expertise, SFE provides outsourcing services to industry bodies wishing to develop, underwrite and promote risk management products for their own market participants. SFE also operates the major fixed income securities depository in Australia.

Users of SFE products and services include trading and investment banks, large corporations, state based borrowing authorities, fund managers, brokers, exporters, primary producers and proprietary and retail traders.

SFE's exchange traded derivatives franchise covers four major markets – equities, interest rates, commodities and energy. During 2005, over 250,000 futures and options contracts were traded each day, with an annual turnover exceeding 64 million contracts, positioning SFE as one of the major derivatives exchanges in the Asia Pacific region.

Approximately A$96 billion nominal value of futures and options contracts were traded on average through SFE each business day in 2005. The annual nominal value of this trading activity exceeds A$24 trillion – significantly larger than the turnover of the Australian equity market and second only in turnover to the Australian foreign exchange market.

SFE Clearing and SFE Austraclear operate a significant clearing and settlement service in Australia and New Zealand. Together, they provide the full range of clearing services including central counterparty clearing for exchange traded derivative obligations, central securities depository (CSD) services, Real Time Gross Settlement (RTGS) of cash, and the registration and transfer of A$ denominated securities. At the end of 2005, SFE Austraclear held in excess of A$600 billion of securities in safe custody. SFE Austraclear settles on average A$16 billion in securities on a daily basis.

The price discovery generated by its trading operations and the breadth of its clearing and settlement capabilities, including its role as a central counterparty clearer, make SFE an integral part of the Australian and New Zealand financial systems and a major service provider to the Asia Pacific region.

SFE is a public company whose shareholders comprise a mixture of institutional and retail investors. Its shares were listed on the Australian Stock Exchange (ASX) in April 2002, having previously been exempt market listed, and the stock is included in the S&P/ASX 200 index.

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Chairman's Foreword

RICK HOLLIDAY-SMITH
February 2006

I am pleased to present another annual report which records a year of positive progress for SFE, and one in which the shareholder returns have been substantial in terms of dividends and the increase in the share price.

As in previous years, the details of the company's results are recorded in a very transparent way in the Managing Director's Report and Chief Financial Officer's Report that follow. I recommend these reports to you.

In 2005 SFE achieved a strong profit after tax of $69.16 million, an increase of 27% on the previous year. This result largely reflected the continuing growth in traded contract volumes, increased depository holdings and well managed costs.

During the year the Board spent considerable time reviewing strategic direction and alternatives. We continued to develop and enhance our corporate governance frameworks and we looked closely at the structure and composition of our various boards.

On the strategy front we reviewed the global growth experienced by most derivative exchanges and considered a range of potential new initiatives. These included Contracts for Difference and Electronic Conveyancing, which we believe have the potential to be valuable activities in the longer term. We also continued our efforts to ensure our core activities are well supported and that we have sound long-term plans for our important system and technology capabilities.

We carried out a detailed review of the performance of the Board and of the individual directors, and of our overall board structures and processes. This review involved a professional consultant and is the second review since ASX listing in 2002. It allowed us to reassess existing Board competencies and to further refine the criteria to be adopted in any near-term selection process. This helps ensure we maintain a suitable level of skills and experience on the Board.

Following the review we decided to align more closely the composition of the various Group boards, comprising the parent and listed holding company (SFE Corporation Limited), and its three licensed subsidiaries, Sydney Futures Exchange Limited, SFE Clearing Corporation Pty Ltd and Austraclear Limited.

While the previous board structures served the Group well, the close integration of the exchange and clearing operations led us to conclude it is preferable to have all parent board directors on the boards of the three main licensed subsidiaries. This has now been implemented. At the same time we maintained the invaluable input of the existing external directors who sit only on the boards of the clearing subsidiaries as we believe it is appropriate to retain their specialist skills and experience.

Over the next year we will further assess and review director competencies and the size of the Board to ensure strong governance, efficiency and effectiveness. I intend to use external consultants to advise us regarding non-executive director fee levels. We will consider both individual and aggregate fee levels and I expect to discuss this in more detail next year. In the early months of 2006 the Board will also devote significant attention to a review of risk and capital management in relation to the derivatives clearing operations.

It is important to note that during the year the Board and the Human Resources and Remuneration Committee worked to design and implement a new Executive Equity Plan. The details of the plan are set out in the Directors' Report and Financial Statements. The directors were encouraged by, and appreciative of, the positive shareholder support at the extraordinary general meeting in October 2005 to approve this plan. In the Board's view the plan will be valuable and important in attracting and retaining highly skilled executives for SFE.

As we approach the Annual General Meeting, I encourage shareholders to submit any questions they may wish to raise. These should be submitted on the forms that will be mailed to you with this Annual Report (and which are also available on the website), or emailed to investorrelations@sfe.com.au.

Finally, I would like to express my thanks, on behalf of the Board, to all of the SFE executives and staff for their hard work and commitment over the course of the year.

Managing Director and CEO's Report

ROBERT ELSTONE
February 2006

Very satisfactory operating and financial performance in 2005 reflected a strong growth trend across the SFE group's activities, with both exchange trading volumes and depository holdings continuing at record levels. Performance highlights for 2005, as well as trend data over a comparative five year period, are shown below. More comprehensive performance highlights are provided in the summaries of activities and initiatives and transaction levels and statistics for 2005 on pages 6 to 9 of this Annual Report, as well as in the Chief Financial Officer's Report.

Key Performance Indicators		2005	2004	2003	2002	2001	2000
Exchange Trading Volumes (contracts, millions)		**64.31**	54.47	45.25	36.87	36.89	32.16
Settlement and Depository Volumes (transactions, millions)		**1.40**	1.39	1.41	1.38	1.29	1.28
Depository Holdings ($bn) – average		**569**	489	426	388	295	270
Revenue ($m) *		**133.64**	116.19	101.55	92.44	88.47	84.96
Cash Operating Expenses ($m) *		**48.18**	48.52	49.14	53.76	60.52	70.17
NPAT ($m) *		**69.16**	54.52	40.28	28.25	22.95	11.42
Dividends	– ordinary	**43.7**	33.9	22.1	15.4	12.0	n/a
(cents per share)	– special	**–**	15.0	–	–	–	n/a

* Proforma results – refer page 10.

Australian derivative markets operated by SFE were extremely buoyant throughout 2005 as were domestic primary issuance markets for fixed income securities held in the SFE Austraclear depository. External impacts on the Australian economy were dominated by the oil price rises in 2005, compounded by Hurricane Katrina and its aftermath. The domestic agenda was dominated by anti-terrorism and industrial reform legislation and the passage of legislation for sale of the Government's remaining stake in Telstra. In early December the Government introduced the enabling legislation into the Parliament to establish the Future Fund as an arm's length investment fund destined to become a major feature of the financial landscape of Australia.

While these events played out during the year, corporate earnings remained strong, bank balance sheet growth was buoyant and inflows into managed investments and superannuation funds were extremely healthy. Equity returns in Australia were also very strong and the year drew to a close with the RBA's Statement on Monetary Policy describing a robust global economy continuing to provide a favourable environment for the Australian economy to maintain a healthy growth path into 2006/7.

The 2005 Annual Report of the Australian Financial Markets Association, released in December 2005, bore testimony to the growth of Australian derivative markets, both exchange traded and OTC, as risk management tools to minimise the transaction costs of achieving required financial exposures.

Macro and micro market structure factors continue to contribute to the growth of SFE's franchise as the operator of the pre-eminent market for exchange traded risk transfer activity (Sydney Futures Exchange), as a major central counterparty (SFE Clearing Corporation) and as a significant clearing and settlement facility provider (SFE Austraclear) to the OTC wholesale financial markets in Australia.

In the past five years SFE has:

- successfully converted from a floor based exchange under a mutual governance model to a mature, publicly listed holding company that, at the current share price, is approaching inclusion in the S&P/ASX 100 index, having entered the S&P/ASX 200 index only in October 2002;
- absorbed and embraced the demands of a more stringent regulatory regime that prevails over its own governance structure as well as the tests that apply to meeting its licence conditions in respect of its market operator and clearing and settlement roles;
- pursued a successful global distribution strategy and recorded a doubling of the trading volumes on the fully electronic Sydney Futures Exchange from a daily average of around 125,000 contracts in 2000 to just over 250,000 in 2005;
- correspondingly, doubled the daily volume of risk transfer novated by the SFE Clearing Corporation from an average notional value of $50 billion per day in 2000 to nearly $100 billion per day in 2005. This volume of risk transfer each day underpins the SFE Clearing Corporation's systemic importance within the Australian financial system;

- acquired (in 2000) and grown its registry and depository franchise in the wholesale payments infrastructure space in SFE Austraclear, at the same time as investing in a 'state of the art' CSD technology platform (EXIGO) that will benefit Australia's wholesale markets for many years to come. SFE Austraclear has also positioned itself in the mortgage sector as an agent of change in the planned migration from paper-based to electronic conveyancing of property settlements.

Over the same period costs have been tightly controlled, operational practices have been improved and system availabilities, including the SYCOM® trading platform which operates for 22½ hours per day, have been comparable to global peers. Distribution of price discovery has been expanded and diversified both geographically and by user type as well as proliferated via all of the world's major independent software vendors. The 'in principle' decision to migrate from a proprietary hub network to the LIFFE Net global distribution network is designed to grow offshore distribution, widen bandwidth capacity and provide greater redundancy and seamless failover capability to offshore market makers and users generally.

In future years SFE's growth is likely to come from the combination of ongoing improvement in its core derivative product and OTC clearing franchises as well as modest 'step-out' product, market and service initiatives. In the fourth quarter of 2005, SFE successfully concluded the regulatory approval processes and contractual negotiations that enabled it to plan to list contracts for difference (CFDs) which currently trade in the OTC market. The proximity of CFDs to cash settled futures contracts is such that SFE believes it has identified an opportunity to bring the transparency benefits of an exchange traded market as well as the comparative efficiency of a centrally cleared market (compared to bilateral margin lending arrangements) to this growing trading sector. SFE plans to launch this initiative in conjunction with CommSec, the leading on-line brokerage firm in Australia, as well as other on-line brokers.

Important as the CFD listing initiatives and the potential franchise extension into electronic settlement of mortgage conveyancing are to the future growth options available to SFE, the Board and executive management are mindful of the need to continue to manage the day-to-day operational, regulatory and growth activities within the existing businesses with vigilance. To this end I restructured the organisation during 2005 to give effect to fewer direct reports and a fully integrated business development function, as well as an integrated operations/technology function. The executive management group has clear responsibilities for day-to-day management of the SFE group.

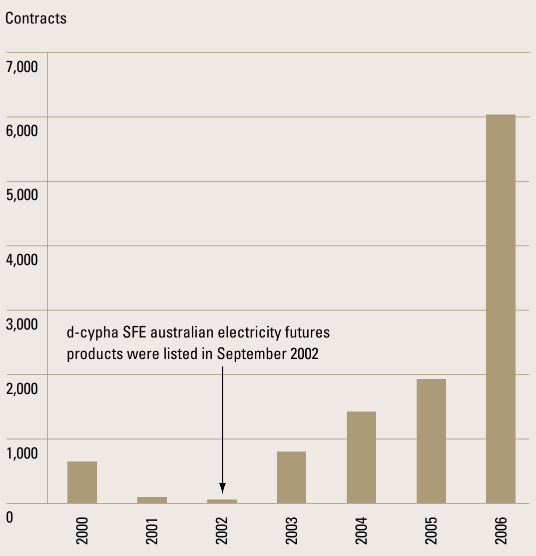
It was particularly pleasing to see shareholders approve a second generation executive equity plan in October 2005 which will underpin our ability to attract, motivate and retain key human resources on which SFE's success has been and will become even more dependent. Over a third of SFE's staff received performance shares under this plan in December 2005, meeting one of the plan's key objectives of wide participation in aligning key staff interests with the longer term interests of shareholders.

On the regulatory front, we seek to enhance our own and market wide risk management practices and to nurture and improve our regulatory relationships with our own regulators, the Australian Securities and Investments Commission (ASIC) and Reserve Bank of Australia (RBA), as well as with the compliance functions of the market participants that we regulate. We also endeavour to enhance our market oversight and operational practices and business continuity capabilities. Our progress on these fronts will be detailed in our Annual Regulatory Report to be lodged with ASIC and simultaneously posted on SFE's website at the end of March 2006, as well as in ASIC's publicly available compliance assessments of SFE's conformance with its licence obligations. In December 2005 SFE took part in the IMF/World Bank Financial Sector Assessment Program, which involves an international benchmarking of Australia's observance of various financial sector 'best practice' codes and standards.

In December 2005 SFE received approval from the Parliamentary Secretary to the Treasurer to apply excess moneys from its fidelity fund to a Futures Market Research Centre initiative, in conjunction with the Securities Industry Research Centre of Asia Pacific (SIRCA). This will entail the provision of five doctoral scholarships to undertake applied research in the field of Australian exchange traded derivative markets under the supervision of Dr Alex Frino, Chair and Professor of Finance at The University of Sydney, who was also a Fulbright scholar at the Commodity Futures Trading Commission (the US industry regulator) in Washington DC during 2005.

Since balance date trading volumes have been strong, with year to date volumes up 6% over the comparable opening weeks of 2005 and open interest contracts up 22% since the comparable period last year and up 21% since December 2005. Electricity contract volumes, in particular, during the first two months of 2006 have exhibited not only strong growth over the prior comparable period but, encouragingly, a rising percentage of contract volume being executed through SYCOM® screen prices as opposed to off market via block trade facilities.

YTD electricity contract volumes to 21 February



It is anticipated that during 2006 SFE will list a coal futures contract to further add to its localised commodity and energy products.

In the second quarter of 2006, in conjunction with the Chicago Board of Trade (CBOT), SFE plans to list a one day option on the CBOT's mini-sized Dow Jones Industrial Average futures contract. As the first product of its kind to be listed, this option contract will provide opportunities for Australian investors to gain exposure to the US equity market through an existing relationship with SFE, whilst gaining access to the deeply liquid futures market at the CBOT.

SFE Austraclear will initiate industry-wide testing of the new technology platform (EXIGO) during the second quarter of 2006 with all of the major bank, nominee company and custodian users of the system, including the RBA, based on an exhaustive functional and technical testing regime carried out during 2005. It is anticipated this new system will 'go live' around the middle of the year (but avoiding our customers' 30 June financial year end commitments) .

Finally, I would like to thank the Board and executive management and staff for their contribution to a strong 2005 result and I look forward to reporting further progress on what is shaping to be a busy current year at the AGM in early May 2006.

Activities and Initiatives

SYDNEY FUTURES EXCHANGE

Customers and Distribution

- Continued targeting of domestic and off-shore investment groups by the SFE sales team resulted in 16 new commodity trading advisors and hedge funds and five off-shore offices of investment banks trading SFE for the first time during 2005.
- Five new executing brokers connected directly to the SFE trading engine in 2005, leveraging their existing relationships with SFE Clearing Participants. A further 13 off-shore offices of existing brokers and their customers connected to SFE indirectly via third party systems or Participant platforms.
- Traded volumes via the international hubs in the US, Europe and Asia increased 30% compared to the previous year. This compares with 18% for the Exchange as a whole, illustrating the significant growth opportunities in overseas markets and SFE's global standing.
- Overnight volumes grew by 15% and represent 21% of the total exchange volumes, illustrative of the attractiveness and liquidity of SFE's overnight trading session to off-shore users.
- With agreement reached with the last of the major independent software vendors (ISVs) that had not previously connected to SFE, Trading Technologies, SFE will shortly be available on every major ISV platform serving the exchange traded derivatives market world-wide.
- In July 2005 SFE launched a new derivatives education program in partnership with the Securities Institute of Australia (SIA). In addition to the PS146 (ASIC compliant) course for derivatives, there are introductory and expert level courses for professional users of derivatives products. A retail educational service was also introduced offering free, on-line, introductory courses and trading simulators for users to learn in a 'risk-free' environment.

Products and Markets

- The SFE trading system (SYCOM®) availability in 2005 was 99.7%.
- The domestic 'Participant' network was significantly upgraded in 2005 to ensure improved user connectivity, resilience and recovery in the event of a system interruption.
- In June 2005 SFE launched the Listed Property Trust (LPT) Futures contract based on the Dow Jones Australian LPT index. With multiple market makers providing on screen liquidity, the LPT contract has become the most transparent and tightly priced derivatives instrument available for LPT investors in Australia.
- In August 2005 post-trade anonymity was introduced on all equity and interest rate products, a move designed to level the playing field for all users and to bring SFE in line with international best practice.
- In September 2005 post-trade anonymity was extended to d-cypha SFE electricity futures contracts.
- In October 2005 SFE, Chicago Board of Trade and Dow Jones agreed to enable SFE to list a one day option over the CBOT mini-sized Dow Jones Industrial Average Futures contract. The SFE CBOT mini-sized Dow One Day Option will be listed on SFE in the second quarter of 2006.
- The 30 Day Interbank Cash Rate Futures achieved market acceptance in 2005 as the benchmark derivative product for hedging and taking positions on the RBA Overnight Cash Rate. At least 17 new customers started trading the product in 2005.

Market Data

- In August 2005 SFE launched an internet delivered, real-time, streaming data service to international data vendors wishing to sell SFE data but unable to justify the cost of international circuits.
- In September 2005 agreement was reached with BT Radianz, an international network provider, to deliver SFE data via its global network thereby reducing costs to access and sell that data.
- The number of subscribers to SFE market data increased by 2%.
- During the year, the number of full service/internet vendors decreased by one from 21 to 20 and historical data vendors remained at 15.

SFE CLEARING CORPORATION AND SFE AUSTRACLEAR

Services

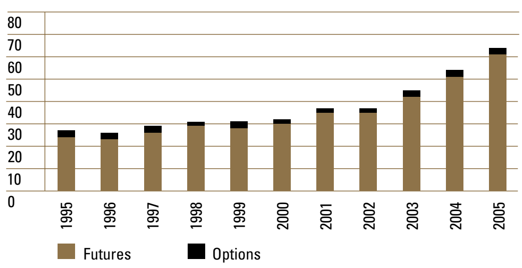
- Servicing the SFE futures and options market, the SFE Clearing system (SECUR) availability in 2005 was 100%.
- Servicing the Australian OTC interest rate and cash markets, the SFE Austraclear system (FINTRACS) availability in 2005 was 99.9%.
- The new SFE Austraclear clearing and settlement system (EXIGO) encountered further delays and is now scheduled to ‘go live’ around the middle of the year (but avoiding our customers’ 30 June financial year end), with design changes made to the application and network capacity, redundancy and seamless failover characteristics of the new system.
- Average participant holdings of securities within SFE Austraclear was $569 billion in 2005, peaking at over $605 billion during December.
- The value of securities traded on the Austraclear system increased 21% on 2004. Reduced fixed income transaction fees and a rebate scheme on increased cash transfer volumes on 2005 levels were implemented for 2006 to encourage potential and existing participants to leverage further on the efficient and robust SFE Austraclear infrastructure.
- The Victorian Department of Sustainability and Environment electronic conveyancing project received backing from two major banks with SFE Austraclear confirmed as the provider of Financial Settlement Management services to the Victorian initiative, which may prove to be the precursor to a national scheme. This proposed service provides additional opportunities for the application of RTGS cash transfers.

Customers and Distribution

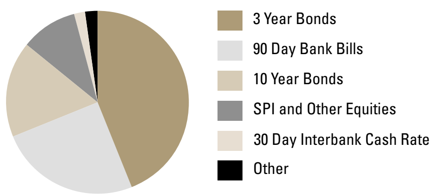
- Continued targeting of major Australian corporate entities in 2005 resulted in 28 new participants joining SFE Austraclear.
- SFE Austraclear signed 12 new organisations to its Issuing and Paying Agency service in 2005 and settled 36 new programs during the year.
- Preparatory work done in 2005 facilitated the launch of the SFE Austraclear Education Program in February 2006. The on-line program allows SFE Austraclear system users to become accredited in each of the products available on the SFE Austraclear system. Comprised of 14 courses, users are able to tailor their education program to their own requirements and also qualify for Australian Financial Operations Association’s Continuous Education (CE) hours on successfully completing a course.

Transaction Levels and Statistics

Sydney Futures Exchange annual volume 1995 to 2005
Contracts in millions



Sydney Futures Exchange volume by contract type 2005



Sydney Futures Exchange
(contracts 000)

	2005	2004	2003	2002	2001	2000	% Change# 2004-2005
FUTURES							
SFE SPI 200™	**5,597**	4,622	4,289	3,762	3,882	3,825	21%
30 Day Interbank Cash Rate*	**1,400**	660	53	n/a	n/a	n/a	112%
90 Day Bank Bills	**16,119**	14,213	11,435	8,487	9,108	7,700	13%
3 Year Bonds	**25,862**	22,805	19,247	16,459	15,718	12,359	13%
10 Year Bonds	**11,021**	8,558	6,706	5,200	5,296	4,982	29%
AUD Futures	**4**	42	26	29	41	n/a	-89%
NZ Interest Rate**	**983**	492	486	615	1,010	793	100%
Other Interest Rate	**1**	12	1	2	n/a	n/a	-90%
Agricultural***	**20**	14	15	19	18	24	41%
Electricity***	**21**	13	13	1	0	3	50%
NZ Equity	**0**	0	0	0	1	1	-100%
Share Futures and Other Equity	**48**	30	47	29	13	9	62%
Total Futures	**61,076**	**51,461**	**42,318**	**34,603**	**35,087**	**29,696**	**19%**
OPTIONS							
SFE SPI 200™	**674**	519	586	415	516	1,099	30%
SFE SPI 200™ Intra-Day Cash Settled	**6**	5	n/a	n/a	n/a	n/a	30%
90 Day Bank Bills	**245**	175	251	227	268	328	40%
3 Year Bonds	**478**	370	220	238	302	320	29%
Overnight 3 Year Bonds	**1,213**	1,263	1,151	1,049	618	477	-4%
Intra-day 3 Year Bonds	**509**	534	584	278	n/a	n/a	-5%
10 Year Bonds	**40**	61	39	24	36	105	-34%
Overnight 10 Year Bonds	**68**	71	86	23	30	47	-5%
Intra-day 10 Year Bonds	**1**	2	6	2	n/a	n/a	-59%
NZ Interest Rate	**3**	5	7	11	20	23	-37%
Electricity and Commodities***	**1**	1	0	1	0	0	-54%
NZ Equity	**n/a**	n/a	n/a	1	15	65	n/a
Total Options	**3,238**	**3,006**	**2,930**	**2,268**	**1,805**	**2,464**	**8%**
TOTAL SFE GROUP	**64,314**	**54,467**	**45,248**	**36,871**	**36,892**	**32,160**	**18%**
Daily Average	***252.21***	*211.94*	*177.48*	*144.08*	*145.85*	*127.14*	*19%*
Average Fee per contract	**$1.49**	$1.45	$1.52	$1.60	$1.55	$1.66	3%

*** Agricultural and Electricity contracts attract an average fee higher than the total average fee above.

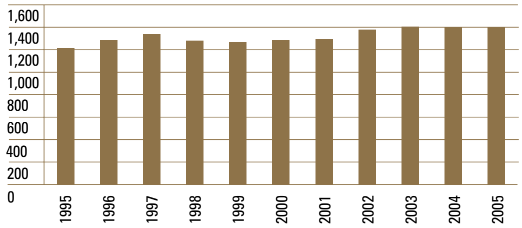
\# Volumes have been rounded to the nearest thousand. However, the percentage change is based on actual volumes.

* 30 day interbank cash rate futures contract was listed in August 2003.

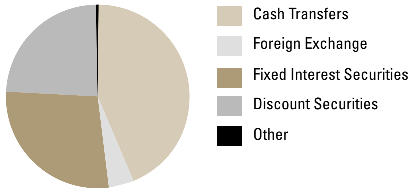
** On 27 July 2002 the principal value of the NZ 90 day Bank Bills contract was doubled to NZ $1m.

Prior to 11 March 2004 NZ$ denominated contracts were transacted on New Zealand Futures and Options Exchange, a wholly owned subsidiary.

SFE Austraclear settlement volumes 1995 to 2005
Transactions in thousands



SFE Austraclear settlement volumes by product 2005



Settlement and Depository Volumes

(transactions 000)	**2005**	2004	2003	2002	2001	2000	% Change# 2004-2005
Cash Transfers	**612**	630	670	671	719	738	-3%
Foreign Exchange	**42**	33	20	10	13	21	26%
Interest Rate Swaps	**11**	11	11	11	11	10	5%
Forward Rate Agreements	**7**	8	9	13	19	15	-12%
Fixed Interest Securities	**390**	414	414	410	242	194	-6%
Discount Securities	**335**	298	281	265	287	302	12%
Global Securities	**1**	1	1	0	1	1	48%
Total Transactions	**1,398**	**1,394**	**1,406**	**1,380**	**1,292**	**1,281**	**0%**
Average Daily Settlement Volumes	**5.55**	5.49	5.56	5.46	5.11	5.09	1%
Average Settlement and Depository Fee (including portfolio holding)	**$9.41**	$8.19	$7.19	$7.65	$8.27	$7.97	15%
Securities holdings ($bn)	**$569**	$489	$426	$388	$295	$270	16%
Securities holding turnover (times pa)	**10.6**	10.1	8.8	9.9	12.3	9.9	5%

Other Trading Statistics

	2005	2004	2003	2002	2001	2000
Number of participants						
SFE Clearing	**15**	15	20	20	21	23
SFE Full	**22**	22	25	26	25	24
SFE Local	**50**	47	47	61	94	100
Austraclear	**693**	665	680	607	606	619
No. of SYCOM® workstations	**210**	213	228	230	319	356
No. of SYCOM® interfaces	**149**	152	140	125	83	60
System Uptime						
SYCOM® (Derivatives trading)	**99.7%**	99.9%	99.8%	99.9%	99.9%	n/a
SECUR (Derivatives clearing)	**100.0%**	99.8%	99.9%	99.8%	n/a	n/a
FINTRACS (Austraclear)	**99.9%**	99.8%	100%	100%	100%	n/a
Market data – End users	**17,597**	17,304	16,566	17,449	20,560	23,158
Market data – Vendors	**35**	36	20	22	25	24

Additional financial and operating statistics are included on page 22.
\# Volumes have been rounded to the nearest thousand. However, the percentage change is based on actual volumes.

Chief Financial Officer's Report

MARTIN DAVEY
February 2006

SFE CORPORATION LIMITED
Consolidated Proforma Income Statement for the Year ended 31 December

	2005 $000	2004 $000	2003 $000	2002 $000	2001 $000
Revenue					
Exchange fees	**95,688**	78,726	68,628	59,108	57,042
Market data fees	**8,409**	8,016	7,568	7,645	7,079
Settlement and depository fees	**13,154**	11,410	10,105	10,553	10,692
Registry fees	**4,191**	3,707	2,341	1,728	1,786
Participation fees	**2,516**	3,097	2,080	2,117	2,364
Technology infrastructure fees	**7,574**	7,952	7,420	6,458	3,288
Other revenue	**2,112**	3,277	3,407	4,830	6,218
Total revenue excluding interest	**133,644**	116,185	101,549	92,439	88,469
Expenses					
Employee related expenses	**24,030**	22,791	23,140	24,389	30,132
Premises expenses	**2,918**	2,957	2,605	4,173	4,510
Computer related expenses	**13,222**	13,399	14,388	15,275	13,141
Clearing guarantee expenses	**1,203**	1,980	1,924	2,045	3,740
Insurance, legal, accounting and bank fees	**3,099**	3,365	3,171	2,988	4,113
Other expenses	**3,705**	4,024	3,913	4,892	4,880
Total cash operating expenses	**48,177**	48,516	49,141	53,762	60,516
EBITDA	**85,467**	67,669	52,408	38,677	27,953
Depreciation	**5,077**	6,044	6,760	6,908	5,467
EBIT	**80,390**	61,625	45,648	31,769	22,486
Investment income	**9,163**	8,634	6,800	5,781	5,655
Net interest income on participant balances	**8,310**	6,618	4,867	3,344	4,868
Profit before income tax	**97,863**	**76,877**	**57,315**	**40,894**	**33,009**
Income tax expense	**28,700**	22,355	17,038	12,648	10,064
Net profit after tax	**69,163**	**54,522**	**40,277**	**28,246**	**22,945**

Less Goodwill amortisation			1,445	1,439	1,719
Plus Employee options			13		
Plus Other (significant and one-off items)					205
Statutory net profit after tax*	**69,163**	**54,522**	**38,845**	**26,807**	**21,431**
Less Goodwill amortisation		1,442			
Plus Employee options		113			
Profit as reported under Australian GAAP	**69,163**	**53,193**	**38,845**	**26,807**	**21,431**

*** Statutory net profit after tax:**
2005 and 2004 are presented under AIFRS (ie. in the case of 2004, as restated in the financial statements).
2001-2003 are as reported under previous Australian GAAP.

The proforma statement has not been audited but has been based on the audited financial reports.

Non cash options expenses of $0.568m in 2005 has been included in employee related expenses.

A reclassification has been made between revenue and expense items related to the OMX Technology outsourcing transaction, and revenue sharing transactions in certain products. The effect is to reduce the proforma revenue and expense items by $1.239m in 2005.

AIFRS (Australian equivalents to International Financial Reporting Standards)
The 2004 and 2003 comparative columns have been adjusted to include, in 'Employee related expenses', an amount calculated to reflect the expense on employee options as if AIFRS had applied to this item in those periods (applicable to options issued after 7 November 2002 only, in accordance with the standard). Similarly, the amount previously expensed as goodwill amortisation has been excluded from the comparatives.

For further details of the adjustments in prior years and a reconciliation to statutory net profit after tax, refer to the 2001-2004 Annual Reports.

Set out in this report is a discussion and analysis of financial performance and the balance sheet position of the SFE group for the year ended 31 December 2005. Analysis and commentary on the outlook for certain revenue and expense items are also included. This report should be read in conjunction with the Financial Report, and the Managing Director's report, which further discusses the Group's financial results, strategies and business development activities, as well as operational and regulatory performance.

Proforma Income Statement

The proforma income statement has been presented to aid analysis and assist comparisons over the past five years. Whilst the proforma statement has not been audited it is based on the audited financial reports. Adjustments included in the proforma statement are detailed in the notes. The following analysis is based on the proforma statement with comparisons to the prior year.

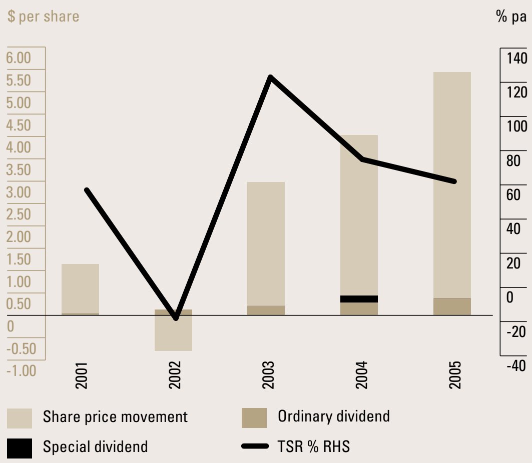
Financial Performance

Summary financial performance for the year includes:

- net profit after tax (NPAT) increased 27% to $69.2m
- revenue (excluding interest) increased 15% to $133.6m
- net interest income was $17.5m, an increase of 15%
- cash operating expenses were $48.2m, a decrease of 1%
- return on equity was 38%, up from 30%.

A final dividend of 22.4 cents per share has been declared, bringing total dividends for the year to 43.7 cents per share, all fully franked. This represents an increase of 29% in the value of ordinary dividends per share paid year on year (excluding the special dividend in 2004) and represents a distribution of 85% of NPAT.

Total shareholder returns

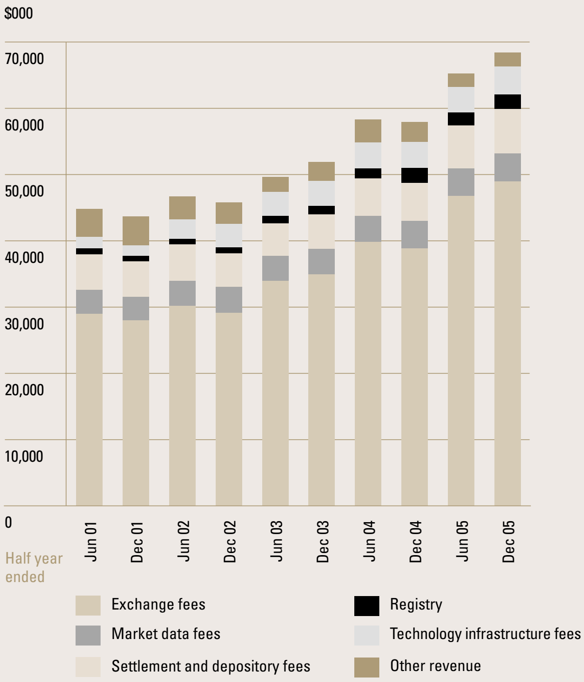


The preceding graph shows total shareholder returns (TSR), being dividends paid and share price movements over the past five years since demutualisation. The annual TSR for 2005 was 62% or $5.44 per share, which compares favourably with the TSR of previous years of $4.03 in 2004 (including special dividend) and $2.98 in 2003. Please refer to the investor relations section on page 108 for additional analysis of shareholder returns.

Revenue 15% ↑

Total revenue (excluding interest) increased 15% with increases across all major product groups.

SFE Group: revenue (proforma)



The preceding graph shows the pattern of revenue by half year period over the past five years. Whilst aggregate annual revenue has increased each year, the revenue in the second half has been lower than in the first half in three of the five years (2003 and 2005 being the exceptions). In the years 2001 and 2002 this reflected higher exchange traded volumes in the first half (a fact observed in eight of the nine years to 2002). However, since 2003, higher volumes have been recorded in the second half.

Even allowing for higher rebates to customers, which resulted in a lower average exchange fee, the second half of 2005 yielded higher aggregate exchange fees, as detailed more fully overleaf.

Exchange fees

Exchange revenues increased 22% as a result of an 18% increase in total exchange volumes. Total exchange traded volumes were 64.3m contracts compared to 54.5m in 2004, with futures contracts growing 19% and options increasing by 8%. The increases were across all major products. Overnight volumes accounted for 21% (2004: 21%) of total volumes traded.

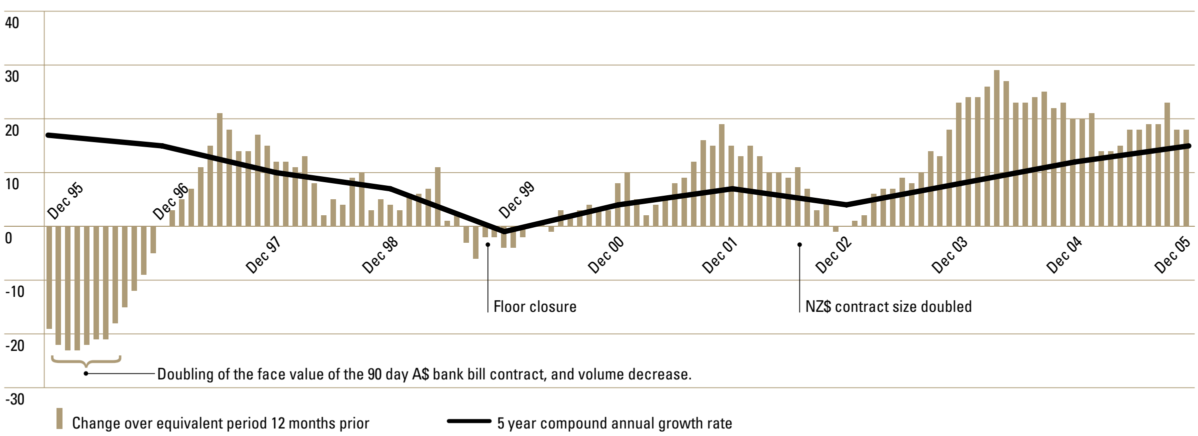
Volume growth (over preceding period) for Futures Contracts 2001 to 2005

	1H01	2H01	1H02	2H02	1H03	2H03	1H04	2H04	1H05	2H05
90 Day Bank Bills	27%	-10%	0%	-4%	**40%**	-3%	**24%**	3%	5%	10%
3 Year Bonds	**30%**	1%	**6%**	-4%	14%	**9%**	13%	1%	9%	8%
10 Year Bonds	21%	**9%**	-4%	-4%	26%	9%	15%	**12%**	14%	**14%**
SFE SPI 200™	8%	5%	-13%	**18%**	4%	3%	3%	7%	**17%**	-2%
All SFE Contracts	24%	-2%	2%	-2%	21%	5%	15%	5%	10%	9%

The preceding chart highlights the products which provided the highest growth in each period. The distribution demonstrates the diversification benefits of SFE's 'portfolio' of contracts in terms of reducing volatility of exchange volumes, and therefore revenue.

Growth in annual volumes Moving average

% Change



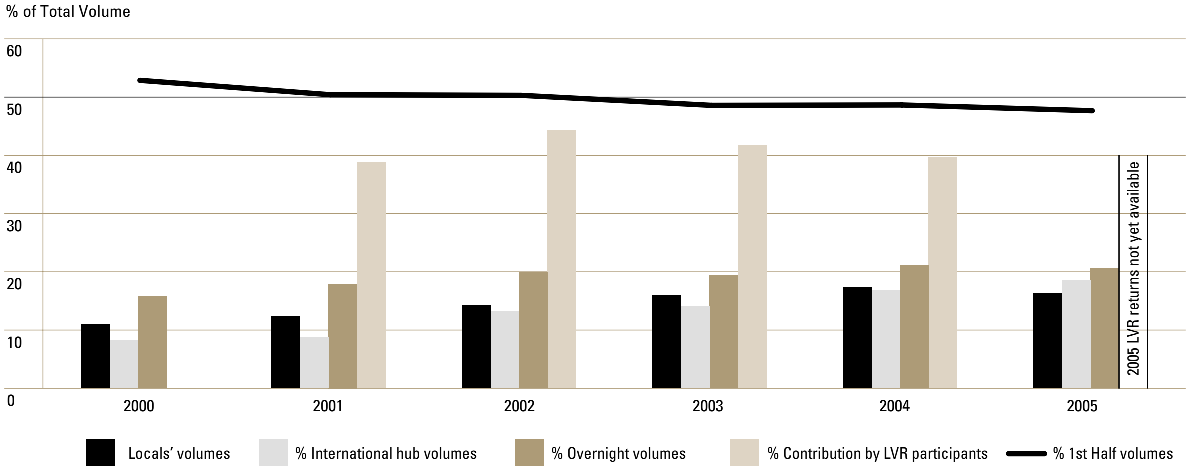
The preceding graph depicts the percentage change in annualised yearly volumes compared to the equivalent period ended 12 months earlier (eg year to September 2005 versus year to September 2004) over the past 10 years. This shows that the long-term trend in total volumes is one of positive growth. Volumes have only declined three times in the past ten years and on each occasion the decline was associated with significant changes occurring (ie. doubling the face value of the 90 Day Bank Bill futures contract in May 1995, the closure of floor trading in November 1999, and doubling the face value of the NZ Bank Bill futures contract in July 2002).

The compound rate of growth over the past ten years has been 9.3% pa, and over the past five years 14.9% pa.

In 2005, SFE's interest rate based derivative products achieved high volume growth, particularly the 3 Year Bond futures contract which increased 13% and the associated options, up 29%. The 90 Day Bank Bill options contracts increased 40% and the futures contracts grew 13%. The 10 Year Bond futures contract grew 29% although the options contract decreased 34%. The New Zealand 90 Day Bank Bill futures contract volumes increased 100%, which was the highest growth rate of any product.

Equity derivative contracts maintained their growth, with the SFE SPI 200™ futures contract increasing by 21% and options growing by 30%, over the prior year. Individual share futures, which contribute relatively modest volumes, grew by 27% over the period.

Derivative Volumes – Composition



The graph above shows that where previously first half volumes were greater than the second half, this has reversed over the past three years. At a participant level, volumes transacted via SFE's overseas hubs (London, Chicago, Hong Kong, Wellington and previously, Tokyo) have increased as a percentage of total volumes over the past few years. The percentage of volumes contributed by Large Volume Rebate (LVR) participants has reduced comparatively in recent years, although LVR participant volumes have increased in absolute terms. Similarly, the percentage of volumes contributed by local participants decreased marginally in 2005, although in absolute volume terms these grew by 11%. The volumes transacted in the overnight trading session have consistently increased in absolute terms over the years, although as a percentage of total volumes, have fluctuated somewhat over the same period.

Transaction fees

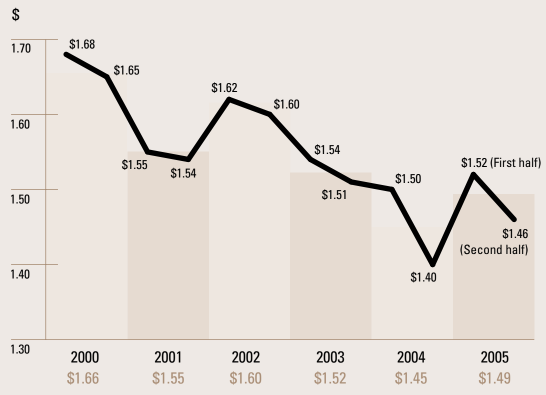
The average exchange fee across all SFE derivative products was $1.49 per contract, up 3% from the 2004 average of $1.45. Total rebates paid in 2005 continued to increase with the LVR scheme again accounting for the majority of rebates paid. There was no change to the headline exchange fee on debt and equity products of $0.90 per contract side and this fee is being maintained in 2006, for the seventh consecutive year.

The LVR (including the proprietary trading scheme – see below) operates by rebating to large users a proportion of the aggregate revenue earned by the Exchange. For 2005, below 49m contracts (rising to 58.5m in 2006) no rebate accrued. Between 49m and 54m contracts (rising to 68.75m in 2006) approximately 80% of the revenue was rebated and, beyond 54m (beyond 68.75m in 2006), approximately 50% of revenue was rebated. In each case NZ$ denominated contracts are excluded from these volume thresholds.

Volumes transacted in the proprietary trading scheme, which was introduced during 2004, were also strong (up 56%), and were representative of one of the fastest growing groups of users. In 2006, as in 2005, rebates payable under the proprietary trading scheme will be funded from the combined pool which includes the LVR scheme.

Local participants continued to receive dedicated volume related rebates and the average fee paid by this category of users also decreased as a result of increased volumes. The average fee to locals continues to be significantly lower than the overall average fee earned from all users.

Sydney Futures Exchange average fee 2000 to 2005



The preceding graph shows that over the past six years following closure of the trading floor, the annual average fee has reduced by 10% from $1.66 in 2000 to $1.49 in 2005.

The average transaction fee in the second half of 2005 was $1.46 compared to $1.52 in the first half. This fall reflects the relatively high transaction volume in the second half which drove large volume rebates higher, and the increase in volumes contributed by local participants. Local participants accounted for approximately 16% of the total exchange volumes in 2005.

Looking forward, it is estimated that volume growth of 10% is required in 2006 in order for the LVR (in absolute dollars) to remain at the 2005 level. This is however dependant on many factors and SFE makes no forecast as to the volumes that will be traded in 2006. However, it is estimated, based upon recent experience (including the recent growth in NZ product volumes), that the average transaction fee per contract in 2006 would be approximately $1.60 at similar trading volume levels to 2005. If volumes are 10% lower or higher, it is estimated that the average fee would be approximately $1.71 or $1.50 respectively. The actual average transaction fee will ultimately depend on factors such as the relative proportion of volumes contributed by different contract types and different participant groups. In addition, total exchange fees will also include revenue from non-volume related items such as delivery fees on deliverable contracts.

Market data fees

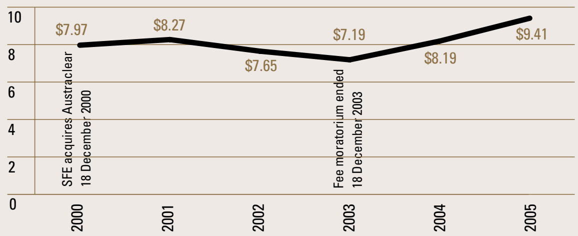
Revenue received from the dissemination of market data increased by 5% to $8.4m, consistent with the growth achieved over the previous year. During the year, subscriber numbers increased 2%. Fees for these services remained constant in 2005 and are unchanged for 2006.

Settlement and depository fees

Settlement and depository revenue increased 15% as the average fee (transaction and holding fee) increased from $8.19 to $9.41. SFE Austraclear transaction volumes have remained relatively flat, increasing less than 1%, whilst the average fees have risen, due to price increase and product mix changes.

Settlement and depository average fees 2000 to 2005

Fee per transaction ($)



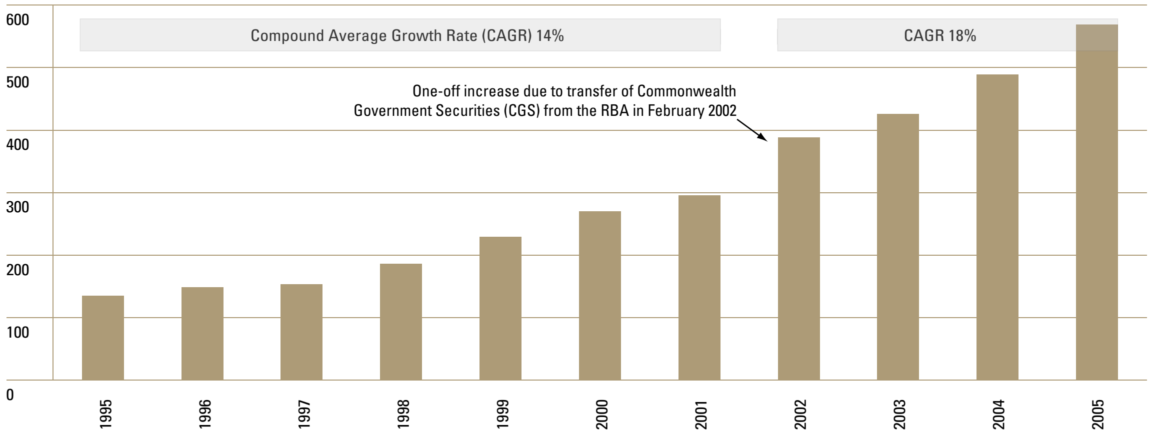
Whilst the preceding graph reflects average fees per transaction across all settlement and depository products, the cost to many customers of transacting has reduced as the average size of individual depository transactions has increased significantly. The average cost of trading $1m of securities has fallen by 37% since 2000.

As recently announced, transaction fees in 2006 reflect few changes. Transaction costs on two main transaction types have changed – fixed interest securities down 21% and cash transactions up 7%, but with a 100% rebate on a customers volume increase over 2005, while the fixed fee scale associated with security holdings has been increased.

While total volumes for settlement and depository were relatively flat, average security holdings increased 16% to $569bn and the turnover rate increased from 10.1 times to 10.6 times pa.

SFE Austraclear Average Security Holdings

Face value of securities ($bn)



Registry fees

The registry services business continued its strong growth during 2005 with registry revenue increasing 13% year on year. This revenue growth reflects continued interest from international issuers ('Kangaroo' bonds) and local investors as a result of a stable economy and a strong currency. Significant issuers such as Wells Fargo, which issued the largest ever single tranche of $2bn in July 2005, commissioned SFE Austraclear to maintain the complete range of registry, issuing, paying and calculation agency activities.

Participation fees

Due to admission and participation fees being abolished as detailed in the 2004 report, participation fee revenue decreased 19% for SFE exchange trading and clearing in 2005. Fees for membership in SFE Austraclear remained unchanged in 2005 and 2006.

Technology infrastructure fees

Technology infrastructure revenue decreased 5% compared to the previous year. This is as a result of SFE reducing the monthly charge for SYCOM® workstations from $1,500 to $1,250 in 2005 in order to align it with the approved interface charge and to lower further overall costs to exchange users. These charges are unchanged in 2006.

Other revenue

Other revenue reduced by 36% mainly due to one-off and initial listing fees earned in the prior year. Ongoing revenue from listing and advisory services included the d-cypha SFE electricity contracts, the MLA/SFE cattle futures and NZX equity index futures and share options. This category also includes many miscellaneous revenue items such as training fees and access to SFE's SYCOM® test bed environment.

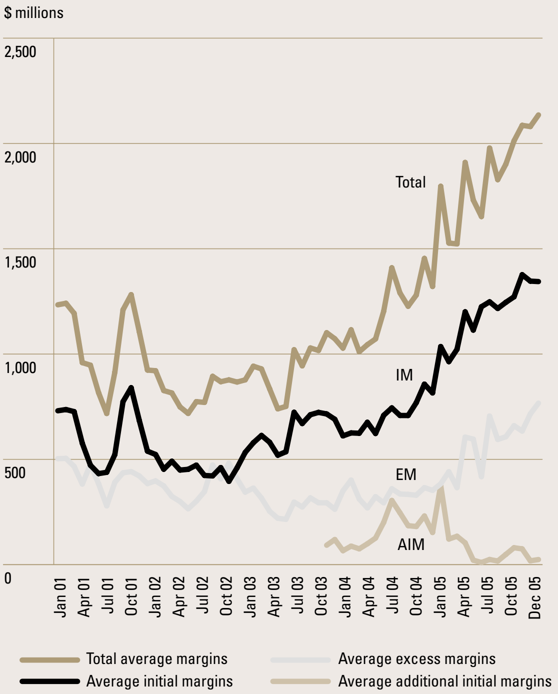
Net interest income

Net interest income increased 15% with both investment income and net interest income on participant balances increasing.

Investment income increased 6% as a result of higher official interest rates earned on an average cash balance for the year that was 1% higher than in 2004 ($164m versus $163m).This modest increase resulted from increased profitability and lower capital expenditure offset by dividend payments of 85% of NPAT and the special dividend of $20m in September 2004.

Net interest income retained from earnings on participant margin balances increased 26% despite lower spreads earned, due to higher average balances. Total balances during 2005 averaged $2.0bn compared to $1.5bn in 2004.

SFE average margins held



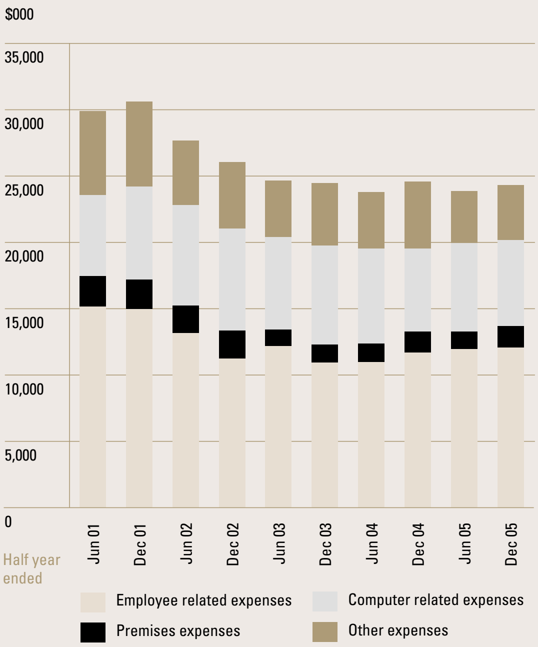
Margins earned on cash balances decreased from 17 (2004 average) to 12 basis points in 2005. The decline is a consequence of the flatter yield curve that prevailed in 2005 as compared to 2004. SFE Clearing also retains a spread from initial margins (IMs) deposited as part of its risk management process. In 2005 the amount retained was reduced by 25 basis points on all 'house' IM balances delivering a reduction in the cost of clearing to participants. This has been further reduced in 2006 by an additional 15 basis points. House accounts contribute approximately 20% of total IM balances.

As shown in the above graph, IMs and excess margins (EMs) trended up during the year whilst additional initial margins (AIMs) declined from early highs in January to more modest levels for the remainder of the year, particularly during the fourth quarter when initial margin rates were increased.

Expenses 2% ↓

Total operating expenses (including depreciation) continued to decline during 2005, decreasing 2% with cash operating expenses reducing 1% over the prior year.

SFE Group: expenses (proforma)



The graph above demonstrates the half yearly expense trend over the past five years with the trend of decreasing annual expenses continuing into 2005. However the annual rate of decline reduced, as had been expected, and second half expenses were slightly (approximately 1%) above the first half.

Employee related expenses

Employment costs increased 5%, despite average headcount reducing from 176 to 172 year on year, principally due to higher bonus payments and the adoption of international accounting standards (requiring the expensing of executive options). Redundancy payments of $0.5m were incurred during the year ($0.7m in 2004).

Full time equivalent headcount	2005	2004	2003	2002	2001
Average for the year	**172**	176	189	215	254
At year end	**166**	172	182	198	248

During the year $2.1m of internal employment costs were capitalised, which was 19% lower than the $2.6m in 2004. These costs relate to technical and project staff working on major projects, principally the EXIGO application (SFE Austraclear clearing system replacement). Capitalised employment costs are expected to be similar in 2006.

In 2005, as a result of applying Australian equivalents to International Financial Reporting Standards (AIFRS), this expense category includes for the first time a (non cash) expense attributable to equity based remuneration for executives (options granted to senior executives in previous years). This portion of employment costs is expected to increase following the implementation in December 2005 of the Executive Equity Plan. The 2005 grant of employee shares under the new plan has resulted in the purchase of 246,000 shares in SFE which may vest in 2009, subject to conditions, and is expected to result in an expense of approximately $0.6m in 2006. The plan is intended to result in annual grants of shares. As a consequence, this component of employment expenses is expected to rise over the next three years. Adjusting for the above change in accounting policy, the small (4%) increase in employment costs year on year reflects an increase in average cost per head (including higher bonus payments) as a result of modest salary increases as staff with specialist skills have replaced less specialised and lower remunerated staff.

Further details of the share and option plans are provided in the AIFRS comments on page 21 and the Remuneration Report included in the Directors' Report.

Premises expenses

Premises expenses reduced 1% year on year. Other than a move of a small Melbourne office to even smaller premises, there has been no major change.

The apparent increase in costs between the first and second halves of 2005 is attributable to the timing of receipt of outgoings accounts from the landlord. The annual increase, which included a one-off adjustment relating to outgoings in the second half, was more than offset by other savings.

Computer related expenses

Computer related expenses decreased 1%. The main factors contributing to the reduction were savings in discretionary maintenance costs, reduced facilities management costs and a reduction in licence fees following renegotiation of commercial terms with OMX Technology in June 2005.

While 2006 will benefit from the full year effect of these reductions, computer related expenses are not expected to further reduce overall as communications costs may increase for upgrades made to the SFE Austraclear network, in order to facilitate the transition from FINTRACS to the EXIGO system, as well as the intention to migrate onto the LIFFE Net distribution network, which will greatly upgrade SFE's overseas communication network.

Clearing guarantee expenses

Clearing guarantee expenses reduced by 39% year on year, as the fee paid on commitments decreased from 3% pa to 2% pa. This fee will reduce further to 1% pa resulting in a saving of $0.6m in 2006 compared to 2005.

Insurance, legal, accounting and bank fees

Insurance, legal, accounting and bank fees reduced by 8% from 2004 as a result of a 16% decrease in insurance expenses due to a favourable renegotiation of terms for equivalent cover, offset by modest increases in accounting and bank fees and legal fees.

Other expenses

Other expenses decreased 8%. Royalties paid on the SPI index increased due to the growth in traded volumes and this was more than offset by corresponding decreases in discretionary expenditure items.

Depreciation

Depreciation expense reduced 16% reflecting a run-off of depreciation on older assets, and very modest expenditure on new fixed assets. In line with accounting standards, the derivatives clearing system's useful life was reassessed in July 2005 and extended by three and a half years, resulting in reduced depreciation which will continue into 2006 (refer to note 6 of the Financial Report).

With the pending commissioning of the SFE Austraclear replacement system (EXIGO), due around the middle of the year (but avoiding our customers' 30 June financial year-end), depreciation will increase in the second half of 2006 as project expenditure will begin to be depreciated over seven years. (The existing system was fully depreciated many years ago.)

Income tax expense

The Group's income tax expense is approximately 29% of profit before income tax reflecting some permanent tax benefits on new systems project development.

The Group entered the tax consolidation regime from 2004 and a small one-off positive adjustment has been finalised and included in the current year's tax expense.

Balance sheet

Share capital

During the year 1,392,500 new ordinary shares were issued (subscription proceeds $4.1m) as a result of executive options being exercised. A further 5,410 new shares were issued to staff under the Employee Share Acquisition Plan (fully explained in note 25 of the Financial Report). At the end of 2005, there were 1,287,500 options over ordinary shares remaining, the majority of which are not eligible to vest until 2008 (refer note 25 of the Financial Report).

In October, shareholders approved a new long-term equity incentive plan for SFE staff and in December 2005 246,000 shares were purchased at a cost of $3.1m and are held on trust. The terms of the plan are fully disclosed in the Remuneration Report included in the Directors' Report. These 'treasury shares' are disclosed as a reduction in shareholders' equity in the balance sheet under the heading 'equity compensation reserve' in accordance with AIFRS (refer to page 21 and note 24 of the Financial Report).

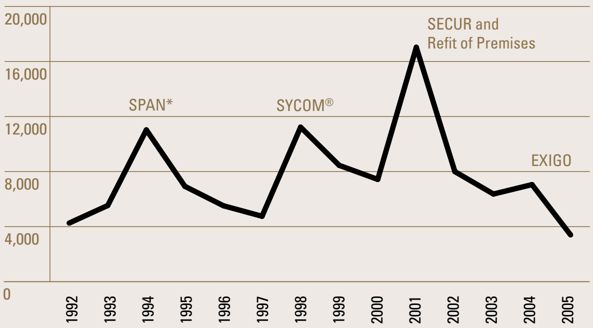
Capital expenditure

During the year $3.5m (cash) was spent on capital expenditure, including $2.1m of internally capitalised staff costs. In addition, SFE expects to pay $6.3m to OMX Technology in 2006 in relation to the new EXIGO system upon achievement of certain project milestones.

The following graph depicts capital expenditure since 1992 and illustrates the peaks in expenditure related to major system upgrades. EXIGO has a projected capital cost of approximately $22m. A large portion of these project costs ($16m) has been incurred to date (but not necessarily paid – refer above) and represents work in progress assets on the balance sheet.

Annual capital expenditure 1992 to 2005

Expenditure $000



*SPAN (Standard Portfolio Analysis of Risk)

Cash Flows and Dividends

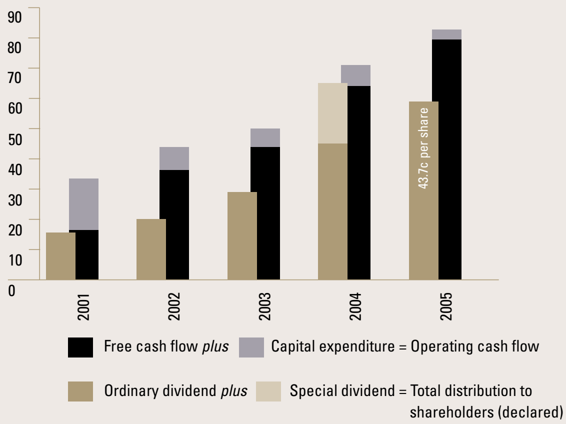
During the year the SFE group generated $77.2m of cash from normal operating activities and approximately $73.7m of free cash flow. The following chart shows free cash flow and total dividends paid for the past five years. This illustrates SFE's strong free cash flow which has supported an increase in the dividend payout ratio to 85% (previously 75%) of NPAT over the past two years.

While it is the Board's near-term objective to strive to raise the dividend payout ratio to reflect the company's strong cash flow, it has determined that it would be premature to make any change in the current period, pending resolution of the issues described in more detail under 'Capital Management'.

Accordingly, it remains the Board's current policy to pay interim and final dividends which represent 85% of the NPAT for the period, subject to the company's capital needs at the time, and to the general desire to see the total annual dividend increase consistently year on year. SFE expects to be able to fully frank dividends for the foreseeable future.

SFE Group dividends, free cash flow and capital expenditure

$ in millions



The Group will continue to maintain sufficient cash resources for capital management requirements (refer below) and expects to continue to generate sufficient free cash flow for working capital requirements. The Group currently has no debt and cash reserves of approximately $143m (after allowing for the payment of annual rebates and the final dividend) to support its activities.

Capital Management

SFE recognises the importance of prudent and efficient capital management. However, it is an aspect of SFE's business that is difficult for external observers to assess. To a large degree this is an unavoidable consequence of the nature of SFE's business and the fact that the company's risk profile is extremely dynamic and, accordingly, is not subject to the more formulaic capital adequacy requirements that would apply to other licensed financial institutions such as banks and insurance companies. The same is also true of SFE's equivalent central counterparty organisations in other highly developed capital markets around the world.

Prudential capital

A large part of SFE's capital stems from the requirement to maintain adequate resources to absorb an unexpected loss 'prudential capital'. Prudential capital is required to withstand the potential default by one of SFE's market participants 'counterparty risk' in relation to futures contracts executed on the Sydney Futures Exchange, all such contracts having been automatically novated, with the effect that SFE Clearing Corporation (SFECC) is the buyer to each seller and the seller to each buyer. Capital is also required to protect against the possibility of losses arising from operational risk.

Counterparty risk

SFE's need for prudential capital to meet counterparty risk cannot be divorced from the overall risk management framework embedded in futures markets around the world, which operates by setting conditions upon the parties with whom the central counterparty (in this case, SFECC) is prepared to contract, ie the admission criteria for Clearing Participants, and the extent to which SFECC is prepared to be bound to those Clearing Participants, ie trading exposure limits. The result of this framework is that SFECC only operates within strict limits with a relatively small number of counterparties (15 Clearing Participants), ranging from large approved deposit-taking institutions to branches of overseas institutions as well as a small domestic broker. (A list is available on SFE's website at www.sfe.com.au).

Since the financial value of the derivative contracts novated to SFECC through the operation of the Sydney Futures Exchange is very large (over $96bn in nominal value on an average daily basis), SFECC is required to ensure that adequate financial resources are available to enable it to meet its licence obligations. These resources are summarised in the table below.

Price movement giving rise to a financial obligation	Financial resources available to meet the obligation	Amount	Comments
A. 'Normal' day-to-day price fluctuations	Net assets of: 1 Clearing Participants 2 Broker 'Full Participants' 3 The end clients who placed the trade Note that all losses are required to be settled within 18 hours of end-of-day ('Variation Margins'). Many participants also hold significant cash balances at SFECC in excess of their margin requirements ('Excess Margins').	1 Very large and monitored quarterly by SFE 2 Very large and monitored quarterly by SFE 3 Unknown to SFE, but also very large (Participants are obliged to monitor the creditworthiness of their clients). In 2005 Participants held an average in excess of $800m in Excess Margin balances.	The combination of the admission criteria, trading limits and daily settlement of losses is designed to ensure that SFE can be very confident that Participants are able to meet their obligations. Since the inception of SFECC in 1991 no Participant has defaulted.
B. 'Unusually large' price fluctuations	The financial resources noted against 'A' above plus Initial Margins, based on observed (historical and implied) recent contract volatility.	Average balance over 2005 of approximately $1.3bn.	As an added level of security, Participants are required to lodge margins that are calculated at a level that would cover the vast majority (typically at 99% confidence interval) of one day price movements that could be expected on the basis of historical and implied price volatility.
C. 'Extreme' price fluctuations	The resources noted against 'A' and 'B' above, plus 1 Additional Initial Margins, based on stress testing across the extent and concentration of positions within a Participant's account relative to its financial standing 2 Clearing Guarantee Fund: – SFECC designated capital commitment. – Clearing Participants' commitments – Insurance 3 The remaining net assets of SFECC	1 Average balance over 2005 $50m 2 Total $150m, comprised of: – $30m (guaranteed by SFE Corporation) – $60m (of which $37m is held in cash and the balance $23m is provided by Letter of Credit.) – $60m provided by an 'AA' rated specialist insurance company. 3 As at 31 December 2005 SFECC had additional net assets of $5.9m	SFE models extreme price movements using 'stress tests' that have been developed to very high confidence limits. Additional Initial Margins were introduced in late 2003. Based on stress testing, they are collected to limit the potential impact of any single Participant's default to no more than 50% of the Clearing Guarantee Fund (CGF) under all but the most extreme circumstances. The CGF is the 'last line of defence' in the event that a default occurs and all prior sources of capital have been exhausted. The fund was established at $100m in 1991 and increased to $150m in 1997. The fund remains at $150m in 2006, albeit margin holdings have increased commensurately with the evolving risk profile of the Group. The Financial Stability Standards under which SFECC operates as a condition of its licence exclude any requirement to withstand defaults resulting from the 'most extreme' market movements.

It should be clear from the above that SFE's need for prudential capital is dependent upon the exposures taken by its market participants and the extent to which SFE holds adequate margins, the primary source of capital to meet extreme price movements. It is also important to recognise that the risks to which SFE is exposed vary in real time while Participant derivative positions are changing and market prices are moving. For these reasons it is impossible to be definitive about the level of prudential capital that is 'adequate', and equally importantly, to predict with accuracy what level is likely to be adequate in the foreseeable future. Ultimately, it comes down to the judgment of management and the Board. In this assessment, the apparent success to date of the AIM regime has been a significant factor because it adjusts margins daily and limits the potential exposure remaining for the Clearing Guarantee Fund (CGF). In the absence of this additional layer of margining, there would have been increasing need to expand the CGF and impose a permanent cost of capital on what is a highly variable underlying requirement for capital.

As part of a process of continuing refinement of SFE's risk management practices, during 2005 SFE commissioned PricewaterhouseCoopers Actuarial Services to conduct a major review of the methodology and stress test scenarios that SFE uses to manage risk and to calculate AIM. The preliminary report was received in early November and was presented to the Board. Work is continuing to assess capital adequacy and to ensure conservative compliance with Financial Stability Standards. However, it is likely that the implementation of the updated methodology, involving contemporary and more robust stress tests, will mean that AIMs will be required to increase during 2006.

Operational risk

SFE has also specifically reserved prudential capital to meet its operational risks. In the absence of a superior method appropriate to SFE's circumstances (and in the absence of a specific requirement under its licence) SFE has chosen to adopt the standardised method promulgated by the UK Financial Services Authority for recognised exchanges and clearing houses. This method requires the company to hold in cash reserves the equivalent of six months operating expenses. In SFE's case this amounts to approximately $25m.

Treasury counterparty risk

Finally, SFE applies a 'Basel equivalent' approach to reserve capital against the possibility of loss in respect of its cash investments (margin moneys) portfolio. While the term of these investments is very short and the counterparties (banks) very creditworthy, the overall size of the portfolio (2005 average $2.0bn) means that SFE has allocated capital against this area of its operations.

Fixed and working capital

SFE's needs in this area are not great – the majority of revenue is settled by customers within days of month-end, and, with the exception of the EXIGO project, the majority of which has now been paid for, there are no major items of capital expenditure (eg a major system refresh) on the horizon in the short-term. However, as a consequence of the relatively high dividend payout ratio and the annual cycle of Large Volume Rebate payments, SFE is required to hold significant amounts of cash, particularly at year end.

Outlook

As a consequence of the uncertainties inherent in the drivers of SFE's needs for prudential capital, as discussed above, SFE is obliged to, and does, maintain a very cautious approach to capital adequacy. In the context of the current stress testing review, SFE is not in a position to consider any capital management initiatives in the short-term. The results of the review will take some time to be analysed by the Board and discussed with the relevant regulator (RBA). As a consequence, it is not possible to give any guidance as to the outlook for SFE's capital needs until this work is completed.

Australian Equivalents to International Financial Reporting Standards (AIFRS)

SFE has adopted AIFRS from 1 January 2005. Details of the AIFRS impact were provided in the notes to the financial statements for the half year report to 30 June 2005 and are also contained in note 35 of the Financial Report.

SFE has been fully compliant with AIFRS, and the values in the Financial Report for the prior year (2004) have been restated to comply with AIFRS. A summary of the changes is set out below, with full details included in the Financial Report.

- Amortisation no longer occurs on the goodwill resulting from the Austraclear purchase in 2000, giving rise to a modest NPAT improvement (refer to the proforma income statement on page 10).

  The carrying value of goodwill, which is $24.4m, will be subject to regular impairment testing. Any diminution in value will be required to be taken through the income statement in the relevant period. At the end of 2005, no write-down is required.
- The fair value of executive options and ordinary shares issued as part of employee incentive schemes is being expensed through the income statement, giving rise to a higher reported employment cost figure. (Previously, no expense had been recorded although the value was included in the remuneration note in the Financial Report). The amount to be expensed will be the fair value of the relevant equity instruments spread over the expected life of the instruments.
- The financial instruments standard has two impacts on SFE:

  Firstly, cash invested in the money market (primarily in bank accepted bills and certificates of deposit) is subject to mark-to-market revaluations with profits or losses taken directly to equity. As cash is invested short-term this impact is not material at the end of 2005.

  Secondly, as a result of a process known as 'novation', SFE Clearing is a central counterparty to all derivative contracts traded on Sydney Futures Exchange and records through the income statement the mark-to-market movement on all outstanding derivative contracts (net of daily settlements received). However as SFE is always perfectly hedged (because it holds equal buy and sell contracts through the novation process) the net impact is always zero. The balance sheet reflects an equivalent asset and a liability. This movement in the market value of the open positions (which represent a one day exposure) is relatively small given SFE settles daily market movements each following day.
- With respect to tax effect accounting, SFE's balances are calculated using the balance sheet as opposed to the income statement method. There has not been any significant change to the balances previously reported as a result of this policy change.

Whilst the foregoing summarise the financial performance and position of the SFE group, please refer to the Financial Report for the complete audited financial statements. SFE remains committed to a high standard of disclosure in its financial report and the prudent financial management of the Group.

Key Performance Indicators

	2005	2004	2003	2002	2001
Earnings per share (cents)					
Earnings per share	**51.6**	41.0	29.4	20.6	16.5
Earnings per share (diluted)	**51.3**	40.8	29.1	29.1	15.9
Dividends per share (fully franked, cents)					
– Interim	**21.3**	17.2	10.5	4.9	4.3
– Final	**22.4**	16.7	11.6	10.5	7.7
– Special	**–**	15.0	–	–	–
Return on equity pa*					
– Period opening	**37.6%**	29.8%	23.0%	18.1%	15.0%
– Monthly average	**36.1%**	29.7%	22.3%	16.9%	14.5%

* The 2002 opening balance sheet includes the provision for dividend (not applicable from 2003) and has not been restated.

	2005	2004	2003	2002	2001
Key ratios					
EBITDA/operating revenue #	**63.4%**	57.8%	51.2%	40.7%	33.9%
EBIT/operating revenue #	**59.6%**	52.7%	43.2%	31.9%	23.5%
Total expenses/operating revenue #	**40.4%**	47.3%	56.8%	68.1%	76.5%
NPBT/operating revenue #	**72.6%**	65.7%	54.6%	41.5%	35.3%
NPAT/operating revenue #	**51.3%**	46.6%	37.9%	28.2%	24.0%
Capital expenditure/operating revenue #	**2.7%**	6.0%	15.5%	8.4%	23.4%
Net asset backing per share	**$1.51**	$1.37	$1.39	$1.30	$1.21
Net tangible asset backing per share	**$1.17**	$1.02	$1.20	$1.10	$1.00
Equity as a percentage of total assets (excluding participants' balances)	**56.6%**	67.5%	78.0%	82.5%	77.8%
Equity as a percentage of total assets (including participants' balances)	**7.0%**	8.3%	11.6%	11.3%	11.5%

Excludes interest revenue

	2005	2004	2003	2002	2001
Share capital					
Share price at period end	**$13.84**	$8.78	$5.19	$2.42	$3.10
Ordinary shares on issue at end of period	**135,229,868**	133,831,958	131,905,737	130,207,924	130,207,924
Weighted average number of ordinary shares	**134,070,515**	132,826,931	130,919,196	130,207,924	130,188,604
Options over ordinary shares on issue	**1,287,500**	1,680,000	3,682,500	5,160,000	5,560,000
Market value of ordinary shares on issue	**$1,871,581,373**	$1,175,044,591	$684,590,775	$315,103,176	$403,644,564
Market to book value	**9.2:1**	6.4:1	3.7:1	1.9:1	2.6:1
No. of shareholders – external	**7,994**	5,095	2,889	1,480	696
– Employee Share Acquisition Plan	**69**	66	90	75	97
Liquidity of SFE shares (average traded per day)	**500,211**	446,057	508,690	254,961	55,218
Exchange fee revenue					
Percentage of revenue from exchange fees	**72%**	68%	67%	62%	64%
Percentage of revenue from exchange activities	**88%**	85%	84%	80%	76%
Interest revenue					
Average margin earned on cash investments over cash rates	**0.12%**	0.17%	0.09%	0.07%	0.09%

Corporate Governance

SFE has a position in the Australian financial and payments system, as well as being a listed public company, which requires a commitment to maintaining the highest standards of corporate governance.

The principal features of SFE's corporate governance regime are set out in this section. Further details on corporate governance matters are set out on SFE's website (www.sfe.com.au) and in notes to the financial statements. SFE believes that, throughout the reporting period, the governance arrangements have been consistent with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

The Board is accountable to shareholders for the performance of SFE. The disciplines and values which characterise the approach by members of the Board to their responsibilities to shareholders are carried through in their roles as directors of the major operating companies. In this capacity, Board members have a responsibility to ensure that the affairs of the Group are also conducted consistently with public policy objectives directed at financial market and payments system integrity and the interests of market users.

Throughout 2005, the Board was comprised of the following directors:
Mr R Holliday-Smith (Chairman)
Mr AJ Cameron (Deputy Chairman)
Mr KC Borda
Mr RG Elstone (Managing Director and CEO)
Dr SA Grenville
Mr IK Payne
Mr PB St George
Ms MM Waller
Mr PH Warne
Mr WP Wilson.

The major subsidiaries through which SFE conducts its trading and clearing businesses are (all wholly owned):

SYDNEY FUTURES EXCHANGE LIMITED

- Licensed operator of derivatives market
- Regulated by ASIC.

SFE CLEARING CORPORATION PTY LTD

- Licensed clearing and settlement facility – central counterparty
- Regulated by ASIC
- Regulated by RBA.

AUSTRACLEAR LIMITED

- Licensed clearing and settlement facility – securities settlement
- Regulated by ASIC
- Regulated by RBA.

Throughout 2005 all of these subsidiary companies were directed by boards which comprised:

- the Chairman of SFE
- the Managing Director and CEO of SFE
- some other members of the SFE Board
- in the case of the clearing subsidiaries (SFE Clearing Corporation and Austraclear), some external non-executive directors, independent of the SFE Board.

This structure, involving no executive directors other than the SFE Managing Director and CEO, reflects the special position which these subsidiaries have in the financial markets. Throughout all of 2005 the board of the exchange subsidiary (Sydney Futures Exchange Limited) comprised all directors of SFE except Mr Borda. Mr Borda has been appointed a director of the Exchange with effect from 1 January 2006.

The boards of the two SFE Clearing subsidiaries, SFE Clearing Corporation Pty Ltd and Austraclear Limited, have the same directors. Throughout all of 2005 these boards comprised Messrs Holliday-Smith (Chairman), Elstone, Grenville, Payne and Warne (all members of the SFE Board), and external directors Messrs Robertson and Gray. Mr Cameron was appointed a director of the SFE Clearing subsidiaries with effect from 1 July 2005. Mr Borda, Mr Wilson, Mr St George and Ms Waller have also been appointed as directors with effect from 1 January 2006. The result is that all directors of SFE Corporation are now directors of each of the major subsidiaries.

The following corporate governance practices are in place to enable the Board to oversee shareholder value growth while ensuring that SFE's market activities are properly managed and that the value of its brand and its standing within the financial and payments system are maintained.

BOARD OF DIRECTORS
Role and Responsibilities

The functions of the Board include:

- reviewing and approving corporate strategies, the annual budget and financial plans
- overseeing and monitoring organisational performance and the achievement of the Group's strategic goals and objectives
- monitoring financial performance and liaising with the Group's auditor
- appointing and assessing the performance of the Managing Director and CEO and other senior executives
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- ensuring the significant risks facing the Group have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place
- reporting to, and communicating with, shareholders.

The Board has specifically reserved to itself authority for certain matters. Matters not expressly reserved to the Board have been delegated to the Managing Director and CEO.

The matters specifically reserved to the Board are:

- Appointments to the position of Managing Director and CEO, remuneration of Managing Director and CEO and approval of executives reporting to him/her
- Approval of corporate strategy and the annual budget
- Determinations that are required by the Group's constitutional documents, by statute or by external regulation.

Delegation to the Managing Director and CEO of the majority of functions associated with the conduct of the operating companies is achieved in contractual arrangements with market participants that constitute the operating rules for the Sydney Futures Exchange and the SFE Clearing subsidiaries. Some functions are reserved to the boards of those subsidiaries under these operating rules, generally with scope for these powers to be delegated to executive management or board committees. These operating rules are set out on SFE's website.

SFE's Constitution provides for the Board to comprise a minimum of three and a maximum of 10 directors, unless otherwise determined by the company in a general meeting. The company determined, at an extraordinary general meeting on 15 December 2000 that the number of directors should be not more than 12. As at 22 February 2006, the Board comprised 10 directors; nine of these, including the Chairman and Deputy Chairman, are non-executive directors. The Managing Director and CEO is the only executive director.

Any casual vacancy on the Board may be filled by the remaining directors, subject to election at the next annual general meeting. The tenure of the Managing Director and CEO is linked to his executive office while one third of all other directors are subject to re-election by rotation each year. The Managing Director and CEO is responsible for the efficient and effective operation of the SFE group.

BOARD OF DIRECTORS
Composition, Structure and Remuneration

The Board considers that individually and collectively the directors bring a level of skills, knowledge and experience that enables the Board to discharge its responsibilities. Each director is required to ensure that no decision or action is taken that involves putting their interests before those of the company. Where boards within the SFE group (notably the Sydney Futures Exchange Limited and SFE Clearing Corporation Pty Ltd boards) include a director or directors who are executives of Full Participants and/or Clearing Participants, the boards have established protocols for ensuring that those directors and boards act consistently with statutory requirements relating to identification and management of conflicts of interest. This involves ensuring that such directors are able to participate fully in deliberations affecting Participants generally but not in deliberations which relate specifically to the Participant with which they are associated. These arrangements supplement the obligations of all directors to disclose to their colleagues any matters which may give rise to a conflict of interest.

The Board has considered, in relation to each director, whether their relationships could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement. The Board has considered, in particular, associations with customers and tenure as a director.

Because SFE has obligations to monitor and enforce compliance with its Operating Rules in relation to the organisations that directly participate in the markets and clearing and settlement facilities in respect of which SFE group companies are licensed, the Board has chosen to adopt materiality standards which are likely to be more rigorous than the norm. It treats all Full Participants of

Sydney Futures Exchange Limited and Clearing Participants of SFE Clearing Corporation Pty Ltd as material customers of SFE, for purposes of assessing a director's independence from material customers. In the event that another entity – including a subsidiary or a customer of a Participant – accounted for more than 5% of SFE group revenues, it would also be treated by the Board as a material customer for purposes of assessing a director's independence, notwithstanding that the particular director's relationship with the customer may not interfere with the exercise of their unfettered and independent judgement.

After taking these factors into account, the Board has determined that it has a majority of independent directors. The only directors not considered independent as a result of this approach are Mr Elstone and Mr Borda. Mr Elstone is a director of National Australia Bank Limited which is a Full Participant of Sydney Futures Exchange Limited, a Clearing Participant of SFE Clearing Corporation Pty Ltd and a Participant of Austraclear Limited. In any event, Mr Elstone is not considered independent by virtue of his executive office. Mr Borda (holder of director and executive positions affiliated with Deutsche Bank AG which is a Full Participant of Sydney Futures Exchange Limited, a Clearing Participant of SFE Clearing Corporation Pty Ltd and a Participant of Austraclear Limited) is also not considered independent.

The combination of a limited number of directors who currently hold executive positions with a material customer (currently one, Mr Borda) and a large number who have held such positions in the past, is seen as an appropriate way of ensuring the availability of skills that are critical to the business. None of the company's directors has been appointed primarily because of their current or past associations with a particular organisation.

The Board has a majority of directors with either current or past executive experience with financial market institutions. The extensive financial markets experience within the Board spans involvement in managing a diverse range of trading, asset management, financing, corporate advisory and public policy activities.

The nine non-executive directors of SFE Corporation received aggregate annual remuneration of $867,847 for their services as directors. Shareholders in 2004 approved annual payments being made up to $1m in respect of the aggregate of:

- the directors fees
- fees paid to any of these directors or other subsidiary company directors in respect of services provided in another capacity (namely as members of SFE's Business Conduct Committee dealing with market supervision issues – currently paid to three directors) *and*
- fees paid to other persons for services as directors of subsidiary companies (currently paid to two non-executive directors of the SFE Clearing boards that are not directors of the parent company).

The Board is not proposing to seek shareholder approval in 2006 for an increase in this $1m cap.

BOARD OF DIRECTORS
Renewal

The Board recognises that long involvement as a director could impact on independence from management and, therefore, warrants consideration. The Board has not set any 'bright line' tests as to the number of terms or years on the Board that should be regarded as creating scope for a loss of independence. One member of the Board, Mr Peter Warne, has served as a director for two separate periods, totalling 14 years. The Board is aware that this involvement considerably pre-dates that of the entire executive management group and considers that Mr Warne has not formed associations with management or others that compromise his ability to effectively monitor the performance of the Group. Furthermore, the other members of the Board consider that Mr Warne continues to bring a level of expertise, judgment, dedication and breadth of perspective to the performance of his responsibilities which is of very great value to the Board, management and shareholders.

Following an extensive board evaluation process conducted with the assistance of an independent consultant in late 2003, the Board again engaged an independent consultant during 2005 to assist with a Board performance evaluation focusing on the Board responsibility to only recommend re-election of directors after a careful assessment of a range of factors. These include the contribution made to achieving shareholder value, clarity of guidance to management, identification and understanding of risks and breadth of perspective.

The Board also undertook a formal process of reviewing the Managing Director and CEO's performance.

In the course of reviewing its own performance during 2005, the Board adopted a policy that each director should have at least some equity interest in SFE. As at 22 February 2006, each non-executive director had at least 5,000 shares in SFE.

SHARE TRADING POLICY

The share trading policy applying to directors (including directors of the main operating subsidiaries) restricts buying or selling of SFE securities without the prior consent of the Chairman to three 4-week 'window periods' following the release of annual results, the release of half yearly results and the close of the AGM. Changes to the interests of directors in SFE securities are publicly notified in accordance with legislative and listing requirements. Senior management is subject to the same restrictions on buying or selling without the prior consent of the Managing Director and CEO.

BOARD COMMITTEES

The Board is supported by several committees, whose responsibilities extend to matters affecting the conduct of the SFE group activities. Current standing committees include the Audit Committee, the Nomination Committee, and the Human Resources and Remuneration Committee.

The Audit Committee comprises Messrs Payne (Chairman), Grenville, Warne, Wilson and Gray (a non-executive director of SFE Clearing Corporation Pty Ltd and Austraclear Limited) and other directors are welcome to attend. Mr Elstone and other senior executives and the external auditor attend meetings by invitation. The Audit Committee's core responsibilities are as follows:

- Financial reporting – to review and make recommendations as to whether financial disclosures made by management reasonably portray the SFE group's financial condition, results of operations and plans and long-term commitments.
- Corporate control – to review and make recommendations regarding the adequacy and integrity of the SFE group's operational risk management framework and system of internal control, and the monitoring of the control process through internal auditing.
- Compliance – to review and make recommendations as to whether the company is in compliance with pertinent laws and regulations, is conducting its affairs ethically and is maintaining effective controls against employee conflict of interest and fraud.
- Other responsibilities – institute and oversee special investigations as needed, including direct referrals from employees relating to improper conduct under the terms of the staff policy covering 'Reporting and Investigating Improper Conduct'.

These core responsibilities include review and approval of internal and external audit work plans and review of significant accounting/reporting issues and financial statements, and involve regular reporting to the Board.

The Audit Committee reviews the external auditor's terms of engagement and audit plan in accordance with its charter and obtains written confirmation that applicable Australian Auditing and Assurance Standards with respect to audit independence, together with PricewaterhouseCoopers' global internal standards, have been met. The Audit Committee meets with the external auditor without management in attendance at the time of reviewing the half yearly and annual results and at other times if necessary. It satisfies itself that the level of non-audit service provision by the external auditor is compatible with maintaining audit independence, taking into account the guidelines which it has set. PricewaterhouseCoopers and a predecessor firm have acted as auditors of SFE for over 11 years. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years, with the most recent rotation having taken place in May 2001.

When considering the Audit Committee's review of financial reports, the Board also receives a written statement, signed by the Managing Director and CEO and by the Chief Financial Officer, that the company's financial reports give a true and fair view, in all material respects, of the company's financial position and performance and comply in all material respects with relevant accounting standards. This statement also confirms that the above statements about the company's financial reports are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board. In a separate written statement, the Managing Director and CEO and the General Manager, Risk and Compliance have also stated to the Board that the company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects for the period, and that nothing has occurred since period end that would materially change the position.

The Nomination Committee comprises Messrs Cameron (Chairman), Holliday-Smith, Elstone and Payne.

The Nomination Committee's responsibilities are:
- assessment of the necessary and desirable competencies of Board members
- review of Board succession plans
- evaluation of the Board's performance
- review of remuneration of SFE group directors
- recommendations for the appointment and removal of directors
- making of appointments to subsidiary boards in exercise of powers delegated by the Board.

The Human Resources and Remuneration Committee comprises Messrs Wilson (Chairman), Holliday-Smith, Elstone, St George and Ms Waller. Its responsibilities are to:
- Ensure that the aggregate level and composition of employee remuneration is fair and reasonable and aligned with overall group strategy and objectives and has regard to performance.
- Make recommendations to the Board concerning remuneration policy and packages and incentive schemes for SFE executives and senior management.
- Make recommendations to the Board concerning remuneration package and incentive scheme for the Managing Director and CEO.
- Periodically review performance and succession planning for senior executives and other key staff
- Periodically review performance and succession planning for the Managing Director and CEO
- Review company policies regarding recruitment, retention and termination policies (including redundancy).
- Review company superannuation arrangements.

Other committees are appointed from time to time to deal with issues associated with the conduct of SFE's various businesses. During the year, these have included committees dealing with development and maintenance of various market integrity policies.

CONTINUOUS DISCLOSURE

SFE has policies in place for satisfying its continuous disclosure obligations, including processes for authorising media releases and standing agenda items for senior management meetings to consider whether any matters require disclosure.

The internal policy framework includes the following elements designed to ensure provision of equal access to material information:
- All discussions with analysts to be conducted by (or, with the prior sanction of) the Managing Director and CEO or the Chief Financial Officer and to be limited to explanation of previously published material and general discussion of non-price sensitive information.
- Where information likely to be price sensitive is to be released for the first time on the day that an analyst briefing is scheduled, making a market announcement no later than the start of the briefing.
- Where it is not anticipated that the material to be distributed is price sensitive, making a market announcement to ASX of any material distributed (eg: at formal presentations to analysts etc) by the end of the day on which the presentation is conducted.
- As a general rule, meetings with analysts will not be held within a four week 'blackout' period in advance of the annual or half year results announcement.

In addition to the information provided to the market via ASX, SFE posts all market notices onto its company website together with other information considered to be of interest to investors. Of particular note is the posting of monthly exchange traded volumes which provide investors with a useful guide to current period exchange trading revenues. Exchange traded volumes are also published daily in The Australian Financial Review and other major Australian newspapers.

INDEPENDENT PROFESSIONAL ADVICE

Any director, with the approval of the Chairman, can seek independent professional advice at the company's expense on matters relating to their role as an SFE director.

COMMUNICATING WITH SHAREHOLDERS

At the core of the Board's approach to reporting to shareholders is a commitment to disclosing as much information as possible, particularly in the Annual Report and in public disclosure of data on a daily and monthly basis as to trading volumes. Extensive information is set out in the Annual Report including the Directors' Report and Financial Report enabling shareholders to understand the costs and benefits of various company policies, including the linkage in remuneration policies between payments and performance. Shareholders are encouraged to attend the AGM at which the external auditor will be available to answer shareholder questions about the conduct of the audit and preparation and content of the Independent Audit Report.

CODE OF CONDUCT

Various corporate policies are collected together in a Code of Conduct which is set out on the SFE website. Included in these policies is a prohibition on SFE employees acquiring or disposing of futures or options contracts traded on any market operated by SFE unless the Board or the Managing Director and CEO forms the view that to do so would be reasonable in the circumstances and would not involve a conflict of interest.

SUPERVISORY RESPONSIBILITIES

SFE subsidiaries are authorised operators of futures and options markets (Sydney Futures Exchange Limited) and clearing and settlement facilities (SFE Clearing Corporation Pty Ltd and Austraclear Limited). In these capacities, SFE has obligations to promote and maintain market integrity, which it considers is entirely consistent with and critical to its role and objectives (both prudential and commercial) as an operator of robust and efficient market and clearing and settlement facilities.

This principally involves real-time monitoring and post-trade analysis of trading activity and enforcement of SFE rules. This role complements the investigative and enforcement roles of regulatory agencies established by government.

As the market operator, SFE is subject to oversight by ASIC directed at ensuring that:

- SFE conducts a fair, orderly and transparent market, ie ensuring that SFE's procedures for monitoring of trading activity and for taking appropriate disciplinary action are effective
- SFE complements ASIC's function of ensuring that licensed financial service providers act fairly, honestly and efficiently, ie by ensuring that SFE enforces its own requirements of market participants as to their 'fitness and propriety' to deal with clients.

As an operator of clearing and settlement facilities, SFE is subject to oversight by both ASIC and RBA. SFE's central counterparty clearing service became subject to the RBA's Financial Stability Standards during 2003 and SFE Austraclear became subject to comparable Financial Stability Standards relating to securities settlement systems as from conferral of its new licence pursuant to the Financial Services Reform (FSR) provisions of the Corporations Act 2001 with effect from 11 March 2004. The SFE group of companies is also subject to oversight involving various market regulators in other jurisdictions including the US and UK.

The Board has established various committees, comprising a mix of current trading participants (on the Market Practices Committee) and others with wide financial market experience (on the more independent Business Conduct Committee) to exercise the disciplinary powers associated with enforcement of SFE rules. The involvement of peer review by trading participants is at the ground level in a hierarchy of regulatory committees (with the board of the Exchange at the apex) as disciplinary powers escalate.

Like other shareholder-owned market operators with oversight responsibility, SFE faces the challenge of demonstrating that it has adequately addressed any conflicts of interest which may arise. However, the predominantly wholesale character of SFE's markets and the absence of any role in regulating issuing/listed companies no doubt contribute to general acceptance of the value provided by SFE as both an operator and a supervisor complementing the work of other agencies.

The various SFE group boards, comprising significant financial market skills and experience, help to ensure that operating fair, orderly and transparent markets and providing clearing and settlement services fairly and effectively involve simultaneously meeting regulatory obligations and producing shareholder value growth.

DETAILS OF DIRECTORS
as at 22 February 2006

RICK HOLLIDAY-SMITH, BA (Hons), *Chairman and independent non-executive director.*

Mr Holliday-Smith was appointed to the Boards of SFE Corporation in May 1998, of Sydney Futures Exchange in November 1998, of SFE Clearing Corporation in June 1999, and of Austraclear in December 2000. He is currently Chairman of all these companies and a member of SFE's Nomination and Human Resources and Remuneration Committees.

Mr Holliday-Smith is a specialist in capital markets, derivatives and venture capital activities. He is a director of Servcorp Limited, DCA Group Limited, Cochlear Limited and a number of private companies and was a director of MIA Group Limited before it was taken over by DCA Group Limited in September 2004. For six years until November 2005 he was a director of Exco Resources NL. Prior to 1998, Mr Holliday-Smith spent 11 years in Chicago, firstly as CEO of Chicago Research and Trading (CRT), and then as President of NationsBanc-CRT. During the 1980s, he was an executive director with Wardley Australia Limited and Managing Director of Hong Kong Bank Limited, London.

ALAN J CAMERON, AM, BA, LLM (Hons), *Deputy Chairman and independent non-executive director.*

Mr Cameron was appointed to the Board of SFE Corporation in March 2001, of Sydney Futures Exchange in September 2001 and of SFE Clearing Corporation and Austraclear in July 2005. He is Chairman of SFE's Nomination Committee, and from July 2005 a member of SFE's Business Conduct Committee.

Mr Cameron is currently a director of Cameron Ralph Pty Limited, Public Interest Advocacy Centre Limited and Audit Quality Review Board Limited. He is a member of the NSW Judicial Commission and Chairman of the NSW Growth Centres Commission. He was Chairman of the Australian Securities and Investments Commission and its predecessor, the Australian Securities Commission, from January 1993 to November 2000. Prior to 1993, he held the position of Commonwealth Ombudsman and before that he was the National Executive Partner of Blake Dawson Waldron, solicitors. Until December 2004 he was a director at Westpac Financial Service Group Limited, Ronin Funds Management Limited, and Chairman of the Ronin Property Group. He is also an advisor on regulatory and corporate matters in Australia and overseas and is a member of the International Advisory Council of the China Securities Regulatory Commission.

ROBERT G ELSTONE, BA (Hons), MA (Econ), MCom, *Managing Director and CEO.*

Mr Elstone was appointed CEO of SFE Corporation and to the Boards of SFE Corporation and SFE Clearing Corporation in May 2000, of Austraclear in December 2000 and of Sydney Futures Exchange in September 2001. Between October 2000 and December 2003 he was Chairman of the Group's clearing entities (SFE Clearing Corporation and Austraclear). He is a member of SFE's Human Resources and Remuneration and Nomination Committees.

Mr Elstone's appointment to SFE was made after he had spent 10 years as Chief Financial Officer of two major Australasian companies, Pioneer International Limited and prior to that Air New Zealand Limited. During the 1980s, he ran the Australian office of Paribas' international capital markets activities. Mr Elstone is a graduate of the Universities of London, Manchester and Western Australia, and has completed the advanced management programs at both the Harvard and Stanford graduate schools of business.

Mr Elstone is an Honorary Fellow of the Finance and Treasury Association and a non-executive director of the National Australia Bank Limited (NAB). In that capacity he is also Chairman of the Risk Committee of the NAB Board.

KENNETH C BORDA, BA, LLB, *non-executive director.*

Mr Borda was appointed a director of SFE Corporation in September 2000 and appointed to the boards of Sydney Futures Exchange Limited, SFE Clearing Corporation Pty Ltd and Austraclear Limited in January 2006. He is currently Chairman of Deutsche Bank Asia Pacific (ex Japan), and Chief Executive Officer, Deutsche Bank Middle East and North Africa. He is based in Dubai. He was previously CEO of Deutsche Bank Australia and New Zealand. Prior to that, he held the position of Head of the Bank's Investment Banking Division for Australia and North Asia. Mr Borda joined Deutsche Bank (then Bain & Co) in 1983 from private and corporate legal practice.

STEPHEN A GRENVILLE, AO, PhD, *independent non-executive director.*

Dr Grenville was appointed to the Boards of SFE Corporation, Sydney Futures Exchange, SFE Clearing Corporation and Austraclear on 4 March 2004 and is a member of SFE's Audit Committee.

Dr Grenville works as a consultant to the World Bank, the International Monetary Fund and the Asian Development Bank on financial sector issues in East Asia. He is a director of AMP Capital Investors Limited and an Adjunct Professor at the Australian National University in Canberra and visiting Fellow of the Lowy Institute for International Policy. Between 1982 and 2001 he worked at the Reserve Bank of Australia, for the last five years as Deputy Governor, Board member and Chairman of the Audit Committee. Before that, he was with the Organisation for Economic Co-operation and Development in Paris, the International Monetary Fund in Jakarta, the Australian National University and the Department of Foreign Affairs.

IAN K PAYNE, MEcon, *independent non-executive director.*

Mr Payne was appointed to the Boards of SFE Corporation in November 1999, of SFE Clearing Corporation in April 1998 and of Austraclear in December 2000 and was Chairman of the Board of SFE Clearing Corporation from November 1999 until October 2000. He was appointed to the Board of Sydney Futures Exchange in September 2001. He is Chairman of SFE's Audit Committee and a member of SFE's Nomination Committee.

Mr Payne was Executive Director and Deputy CEO of Commonwealth Bank of Australia until July 1997. He is a director of Espreon Limited and Zurich Financial Services Australia and a member of the advisory board of Acreis Australia Pty Ltd. He was a director of Legalco Limited until it merged with BH Shelf Companies Pty Ltd and Independent Corporate Services to form Espreon Limited, in September 2005, and was Chairman of Investa Property Group between June 1999 and October 2005.

PETER B ST GEORGE, CA (SA), MBA, *independent non-executive director.*

Mr St George was appointed to the Boards of SFE Corporation in September 2000, Sydney Futures Exchange in January 2003, SFE Clearing Corporation Pty Ltd and Austraclear Limited in January 2006, and is a member of SFE's Human Resources and Remuneration Committee.

Mr St George was CEO and later Co-CEO of Salomon Smith Barney Australia (SSB), a member of Citigroup, between 1998 and 2001, and was CEO of NatWest Markets Australia from 1995 until its acquisition by SSB in 1998. He is Chairman of the Walter Turnbull Group (Chartered Accountants) and is also a director of First Quantum Minerals Limited and Spark Infrastructure Group.

Between 1974 and 1994, Mr St George worked in London in investment banking, initially with Hill Samuel & Co Limited (to 1986) and then NatWest Markets Group, most recently as a member of the Management Committee and Head of the Corporate Finance Division.

MARGARET M WALLER, BA Bus, *independent non-executive director.*

Ms Waller was appointed to the Boards of SFE Corporation and Sydney Futures Exchange in January 2003, and to the boards of SFE Clearing Corporation Pty Ltd and Austraclear Limited in January 2006. She is a member of SFE's Human Resources and Remuneration Committee. Ms Waller is currently Managing Director, Australasia Marketing and Business Development for Pareto Partners Australia Pty Limited, where she provides support to clients in Australia and the Asia Pacific. Ms Waller is a founder of Pareto Partners, a UK-based investment management organisation, specialising in currency management. Pareto Partners was established in 1991.

Prior to joining Pareto Partners, Ms Waller worked with County NatWest Investment Management in New York and London, and in 1989, she became Deputy Head of the Global Quantitative Group for that company and later became Head of the Group in London. Before she joined County NatWest, Ms Waller spent six years managing equity portfolios on behalf of Australian superannuation clients for National Mutual and Chase NBA.

PETER H WARNE, BA, *independent non-executive director.*

Mr Warne was appointed to the Board of SFE Corporation in September 2000 and is also on the Boards of SFE's clearing entities and Sydney Futures Exchange. He is a member of SFE's Audit and Business Conduct Committees. He was a director of SFE Corporation from 1990 to 1999 (including a period as Deputy Chairman) and was Chairman of SFE Clearing Corporation between 1991 and 1994.

Mr Warne is a former Executive Vice President of Bankers Trust Australia Limited and acted as a consultant for Macquarie Bank Limited during 1999. He is chairman of Capital Markets CRC Limited, Next Financial Pty Limited and Australian Leisure and Entertainment Property Management Limited and an independent director of Macquarie Capital Alliance Limited and Macquarie Capital Alliance Management Limited. He is also a member of the advisory Board of the Australian Office of Financial Management.

WILLIAM P WILSON, BEcon, *independent non-executive director.*

Mr Wilson was elected to the Board of SFE Corporation in April 1997 and to the boards of SFE Clearing Corporation Pty Ltd and Austraclear Limited in January 2006. He is on the Board of Sydney Futures Exchange and is Chairman of SFE's Human Resources and Remuneration Committee and a member of the Audit Committee. He was Deputy Chairman of SFE Corporation between February 2000 and January 2002.

Mr Wilson is a consultant for the Gerson Lehrman Group, which provides independent research services to the investment management community and a director of Forbes Management International LLC. Until 2002, he was Managing Director of Merrill Lynch (Australia) Futures Limited and Head of the Securities Services Division for Australia, Japan and the Asia Pacific. He joined Merrill Lynch as Manager of Global Financial Futures and Options in 1994. Prior to that, he held various positions in the derivatives area of ANZ Banking Group.

Mr Holliday-Smith, Mr St George, and Ms Waller will be retiring in accordance with the Constitution at the AGM in May 2006. Mr Holliday-Smith and Mr St George intend to offer themselves for re-election.

DETAILS OF OTHER DIRECTORS of SFE Clearing Subsidiaries (additional to the parent board directors) as at 22 February 2006

PHILLIP D GRAY, MEc (Hons), *independent non-executive director.*

Mr Gray was appointed to the Board of SFE Clearing Corporation Pty Ltd in April 1998, having previously served as an elected director. He now serves on the boards of the SFE Clearing entities, and is a member of the Audit Committee and Business Conduct Committee.

Mr Gray is a former executive of Colonial Group where he served as Group Treasurer for Colonial State Bank, and headed the core banking systems replacement program.

He is an external member of the funds management compliance committees with the CBA Group and a former director of Colonial First State, Colonial Investment Management and Recruitment Solutions Ltd.

PAUL ROBERTSON, AM, BComm, *non-executive director.*

Mr Robertson has been on the boards of SFE Clearing Corporation Pty Ltd since January 2001, and Austraclear Limited since 1999.

Mr Robertson has been an Executive Director (Treasury and Commodities Group) of Macquarie Bank Limited since 1984, and is a director of Macquarie Australia International Limited, Macquarie International Capital Markets Limited, Macquarie Asia Limited, Macquarie Finance Ltd, National Basketball League and the Financial Markets Foundation for Children.

DETAILS OF MEMBERS OF BUSINESS CONDUCT COMMITTEE as at 22 February 2006

MESSRS CAMERON, GRAY AND WARNE

(Refer to details above).

EVE CRESTANI, DipLaw (BAB)

Ms Crestani is a professional director and business consultant. Her board positions include directorships of Australian Unity Group (where she is Chair of Australian Unity General Insurance), State Superannuation Administration Corporation (trading as Pillar Corporation) and Mercer Investment Nominees Limited. She is also Chair of the Compliance Committees of Invesco and Navra Invest. Her consulting clients include large financial institutions and professional services firms.

PETER MARSHMAN, B.Comm

Following a variety of domestic and international management and executive positions within the Unilever Group, Mr Marshman was appointed General Manager of the then Sydney Stock Exchange in 1974. He became Managing Director in 1984 and following a re-structure of the organisation resulting in the birth of ASX, he became an executive director of ASX, a position which he held until 1992. He is a Senior Fellow of the Financial Services Institute of Australasia.

PIETER FRANZEN, B.Ec

Mr Franzen held a number of management and executive positions within the Australian insurance industry during the 1980s and early 1990s, including CEO of Prudential Assurance and subsequently, CEO of the MMI Group in 1993. He became Chairman of Matrix Planning Solutions in 1998. Mr Franzen is also currently a director of Pillar Corporation and Chair of its Human Resources Committee and holds a number of other directorial and consulting positions.

The directors, and subsidiary company directors, listed above attended the following board and committee meetings during the year:

Corporate Governance continued

BOARD MEETINGS ATTENDED BY DIRECTORS DURING 2005

	SFE CORPORATION BOARD		SYDNEY FUTURES EXCHANGE BOARD		SFE CLEARING CORPORATION BOARD		AUSTRACLEAR BOARD	
	Entitled to attend	Meetings attended	Entitled to attend	Meetings attended	Entitled to attend	Meetings attended	Entitled to attend	Meetings attended
Mr R Holliday-Smith	8	8	8	8	7	7	7	7
Mr AJ Cameron*	8	8	8	8	3	3	3	3
Mr RG Elstone	8	8	8	8	7	7	7	7
Mr KC Borda	8	7	–	–	–	–	–	–
Mr PD Gray	–	–	–	–	7	7	7	7
Dr SA Grenville	8	8	8	8	7	7	7	7
Mr IK Payne	8	8	8	8	7	7	7	7
Mr P Robertson	–	–	–	–	7	6	7	6
Mr PB St George	8	8	8	8	–	–	–	–
Ms MM Waller	8	8	8	7	–	–	–	–
Mr PH Warne	8	7	8	7	7	6	7	6
Mr WP Wilson	8	8	8	8	–	–	–	–

COMMITTEE MEETINGS ATTENDED BY DIRECTORS DURING 2005

	AUDIT COMMITTEE		HUMAN RESOURCES AND REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	Entitled to attend	Meetings attended	Entitled to attend	Meetings attended	Entitled to attend	Meetings attended
Mr R Holliday-Smith	–	–	6	6	6	6
Mr AJ Cameron	–	–	–	–	6	6
Mr RG Elstone	–	–	–	–	6	6
Mr KC Borda	–	–	–	–	–	–
PD Gray	10	10	–	–	–	–
Dr SA Grenville	10	10	–	–	–	–
Mr IK Payne	10	10	–	–	6	5
Mr P Robertson	–	–	–	–	–	–
Mr PB St George	–	–	6	6	–	–
Ms MM Waller	–	–	6	6	–	–
Mr PH Warne	10	9	–	–	–	–
Mr WP Wilson	10	9	6	6	–	–

* Joined the SFE Clearing Corporation and Austraclear Boards 1 July 2005.

Statutory Report

31 December 2005
Financial Report of SFE Corporation Limited and Controlled Entities

(ABN 74 000 299 392)

CONTENTS

This financial report covers both SFE Corporation Limited as an individual entity and the consolidated entity consisting of SFE Corporation Limited and its subsidiaries. The financial report is presented in Australian dollars.

SFE Corporation Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

SFE Corporation Limited
30 Grosvenor Street
Sydney NSW 2000 Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the 'Who We Are', 'Activities and Initiatives' on pages 6 to 7 and in the Directors' Report on pages 35 to 54, which are not part of this financial report.

The financial report was authorised for issue by the directors on 22 February 2006. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.sfe.com.au.

Directors' Report

The directors present their report on the consolidated entity 'SFE' consisting of SFE Corporation Limited ('parent entity' or 'the company') and the entities that it controlled at the end of, and during, the year ended 31 December 2005.

Directors

The following persons were directors of SFE Corporation Limited during the whole of the financial year and up to the date of this report:

Mr R Holliday-Smith (Chairman)
Mr AJ Cameron (Deputy Chairman)
Mr KC Borda
Mr RG Elstone (Managing Director and CEO)
Dr SA Grenville
Mr IK Payne
Mr PB St George
Ms MM Waller
Mr PH Warne
Mr WP Wilson

Principal activities

SFE is a major financial exchange and central counterparty clearing organisation in the Asia Pacific region. It is fully electronic, has a 24-hour trading capability and a network of communication hubs distributed across the globe to service the needs of its trading and clearing customers.

SFE offers financial market trading products for investment and risk management, disseminates real-time and historical market data information and acts as a centralised clearing and settlement service provider for a wide range of financial and commodity derivatives as well as a settlement and depository service provider for over-the-counter debt products in Australia and New Zealand.

Meetings of directors

The Board held eight meetings in 2005. The number of meetings attended by each director is disclosed in the Corporate Governance Statement on page 32 of the Annual Report.

Consolidated results

The consolidated net profit after income tax of SFE for the year ended 31 December 2005 was $69,163,064 (2004: $54,522,187).

Dividends

Dividends to ordinary shareholders of the parent entity totalling $58,836,127 have been paid or declared in relation to the year ended 31 December 2005 (2004: $65,129,533), as follows:

	2005 $000	2004 $000
Interim ordinary dividend of 21.3 cents (2004: 17.2 cents) per fully paid share paid on 21 September 2005	**28,545**	22,845
Special dividend of nil (2004: 15.0 cents)	–	19,923
Final ordinary dividend of 22.4 cents (2004: 16.7 cents) per fully paid share declared by directors on 22 February 2006 to be paid on 22 March 2006	**30,291**	22,362
Total dividends of 43.7 cents (2004: 48.9 cents) per fully paid share in respect of the full year	**58,836**	65,130

All dividends are fully franked at the company tax rate of 30%.

Review of operations

A review of operations during the year is discussed in the 'Managing Director's Report' (page 3 of the Annual Report) and 'Chief Financial Officer's Report' (page 10 of the Annual Report) which are to be read in conjunction with this report.

A summary of consolidated revenues (including interest) and results for the year by significant industry segments is set out below:

	Segment revenues		Segment results	
	2005 $000	2004 $000	**2005 $000**	2004 $000
Exchange traded	**228,586**	174,048	**98,515**	78,862
Non-exchange traded	**21,142**	21,770	**11,951**	8,055
Unallocated	**9,383**	9,113	**–**	–
	259,111	204,931	**110,466**	86,917
Unallocated revenue less unallocated expenses			**(12,603)**	(10,040)
Profit from continuing operations before income tax expense			**97,863**	76,877
Income tax expense			**(28,700)**	(22,355)
Net profit attributable to members of SFE Corporation Limited			**69,163**	54,522

Comments on the operations and the result of those operations are set out below:

(a) Exchange traded

This segment includes all the activities associated with trading and clearing futures and options contracts. Results of this segment are affected by the volume of derivative contracts traded on the Sydney Futures Exchange, as well as the level of participant margins held.

The increase in revenue (excluding interest) from the prior year resulted from a 18% increase in exchange traded volumes. Income from the dissemination of real-time data was also higher due to increased subscriber numbers. Interest income increased as a result of higher participant margin balances held as collateral. The percentage interest margin earned on these balances reduced from the previous year due to a change in pricing (rate paid to participants) and a flatter yield curve, compared to the prior year.

(b) Non-exchange traded

This segment includes all settlement, depository and registry services associated with 'delivery versus payment' clearing of financial debt securities such as fixed interest securities and bonds. Results of this segment are affected by the value of holdings and the respective transaction volumes of these products in the underlying cash markets.

The increase in revenue (excluding interest) resulted mainly from increased holdings, increases in transaction fees and increases in the registry business activity. Transaction volumes remained relatively flat whilst securities holdings and turnover activity both increased.

(c) Unallocated revenue and unallocated expenses

This includes the cost of corporate, administrative and support functions as well as interest earned on the Group's cash balances. Revenue is affected by the level of interest rates and the magnitude of cash balances.

The increase in interest income resulted from higher average Group cash throughout the year and higher interest rates.

Earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	**51.6**	41.0
Diluted earnings per share	**51.3**	40.8

Diluted earnings per share include the effect of unexercised options over 1,287,500 (2004: 1,680,000) ordinary shares issued under the SFE Executive Option Plan more fully described in note 25 to the financial statements.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity in the current year.

Matters subsequent to the end of the financial year

There are no other matters or circumstances which have arisen since 31 December 2005 that have significantly affected, or may significantly affect:
(a) the consolidated entity's operations in future financial years; or
(b) the results of those operations in future financial years; or
(c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

In the opinion of the directors, it would be prejudicial to the interests of the consolidated entity to provide additional information relating to likely developments in the operations of the consolidated entity and the expected results of those operations in financial years subsequent to 31 December 2005, other than as disclosed in the Managing Director's Report on page 3 and in the Chief Financial Officer's Report on page 10, of the Annual Report.

Information on directors

Biographical details for each of the parent entity's directors are set out in the 'Corporate Governance Statement' on page 28 of the Annual Report.

Information on secretaries

The following person was Company Secretary of the parent entity during the whole of the year and up to the date of this report:
Mr M Starr
Mr Malcolm Starr BA, LLB has been the Company Secretary and General Counsel since 2000. He was admitted as a Solicitor in 1977.

The following persons were assistant company secretaries of the parent entity during the whole year and up to the date of this report.
Ms B Jones MA (Hons), DipLaw, ASIA
Mr P Baranov LLB, GradDipFinMgt, FCIS.

REMUNERATION REPORT

(a) Directors

The persons who were directors of SFE Corporation Limited during the financial year are disclosed on page 35 of this Directors' Report. All are non-executive directors with the exception of Mr RG Elstone, Managing Director and CEO.

(b) Executives

The following persons were key management personnel with authority and responsibility for planning, directing and controlling the activities of the consolidated entity during the financial year:

Name	Position	Employer
Ms AT Brown	General Manager, Risk and Compliance	SFE Corporation Limited
Mr ME Davey	Chief Financial Officer	SFE Corporation Limited
Mr PH Galvin	Executive General Manager Business Operations	SFE Corporation Limited
Mr PD Hiom	Executive General Manager Business Development	SFE Corporation Limited
Mr MD Starr	General Counsel and Company Secretary	SFE Corporation Limited

All of the above persons were also key management personnel executives during the year ended 31 December 2004.

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objectives of the company's executive reward framework are to attract and retain appropriately skilled staff and to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment with shareholders' interests

The remuneration framework:

- has economic profit as a core component of plan design, and
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and
- rewards improving return on assets, and focuses the executive on key non-financial drivers of value, and
- attracts and retains high calibre executives.

Alignment with program participants’ interests

The remuneration framework:

- rewards capability and experience, and
- reflects competitive reward for contribution to growth in shareholder wealth, and
- provides a clear structure for earning rewards, and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of ‘at risk’ rewards.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors’ fees and payments are reviewed annually by the Board. The Chairman’s fees are determined independently from the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or shares as remuneration.

Directors’ fees

The current base remuneration cap was last reviewed with effect from 1 January 2004. Additional fees are also payable to directors for their membership of certain subsidiary boards and market disciplinary committees. With the exception of the Audit Committee, additional fees are generally not paid for membership or chairmanship of board committees.

Non-executive directors’ fees are determined within an aggregate directors’ fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $1,000,000 as approved at the Annual General Meeting on 19 May 2004. This is inclusive of payments for subsidiary board membership (including payments to directors who are not on the SFE Corporation Limited board), superannuation, relevant board committee membership and disciplinary committee membership.

Retirement allowances for directors

Non-executive directors are not entitled to retirement allowances other than amounts previously contributed to complying superannuation funds.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the Executive Option Plan and/or Executive Equity Plan, and
- other remuneration such as superannuation.

The combination of these comprises the executive’s total remuneration.

Base pay

This is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives’ discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive’s pay is competitive with the market. An executive’s pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executive’s contracts.

Benefits

Executives may receive salary sacrifice benefits including car expenses and superannuation as part of their employment package.

Retirement benefits

Retirement benefits are delivered either through the SFE Corporation Limited Superannuation Plan or a complying superannuation plan at the choice of the employee. The SFE Corporation Limited Superannuation Plan provides accumulation benefits based on (employer and employee) contributions and plan earnings.

Short-term incentives (STI)

The Board may set a pool of STI available for executives for allocation by the Human Resources and Remuneration Committee during the annual review based on recommendations by the Managing Director and CEO. Cash incentives (bonuses) are payable in December each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for superior executive performance.

Each year, the Committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 31 December 2005, the KPIs linked to short-term incentive plans were based on group, individual business and personal objectives. The KPIs required performance in reducing operating costs and achieving specific targets, as well as other key strategic non-financial measures linked to drivers of performance in future reporting periods. These KPIs are generic across the senior executive team.

The Human Resources and Remuneration Committee is responsible for assessing whether the KPIs are met. To help make this assessment, the Committee receives detailed reports on performance from management.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Human Resources and Remuneration Committee.

The STI target annual payment is reviewed annually. In recent years the STI (bonus) pool has been approximately 11 – 13% of fixed remuneration in total. In the same period 50 – 75% of employees (in the current year 70%) have received a cash bonus in any one year.

Long-term incentives (LTI)

Information on the SFE Executive Option Plan and the Executive Equity Plan is contained in note 25 to the financial statements.

(i) CEO Option Plan

A conditional grant to the Managing Director (MD) and Chief Executive Officer (CEO) of 1,000,000 options over SFE shares was agreed in November 2004, subject to approval at the AGM in April 2005. Approval was so granted. The terms of the options are set out in detail in note 25.

The award of these options was negotiated by the Chairman, and approved by the Human Resources and Remuneration Committee and the Board. The award was designed to:

(a) Secure and retain the services of the MD and CEO over the option period, ie to 2008, and

(b) Provide an incentive to the MD and CEO to pursue strategies and deliver outcomes which would result in SFE achieving for its shareholders a Total Shareholder Return (TSR), as measured by pre-tax dividends and share price appreciation, which is in excess of 12% pa (being a conservative estimate of the company's cost of equity capital as at the date of issue), or in excess of the median company in the S&P ASX200 stock index, or preferably both.

The Committee satisfied itself that the award was reasonable as compared to industry benchmarks for CEO's in equivalent companies, and that the performance hurdles were significantly challenging such that the ultimate value (if any) of the options to the MD and CEO would represent only a very small proportion of the increase in shareholder value delivered over the measurement period of approximately three years (a maximum of 0.75% in the most optimistic scenario).

(ii) Executive Equity Plan and Executive Option Plan

SFE previously used options issued under the Executive Option Plan to provide LTI's for senior executives. No options have been issued to executives (other than the Managing Director and CEO; refer note (i) above) since 2003. However options previously issued under the plan have lives that extend into 2005 and beyond. The Executive Option Plan was established at the time of demutualisation. Under this plan, almost all the options were issued in 2000 and 2001 with lives of five years and vesting dates of up to four years. SFE implemented a replacement Executive Equity Plan following approval by shareholders in October 2005.

Following the effective expiry (for all executives but the Managing Director and CEO and one other, who joined in 2003) of the Executive Option Plan, the first shares in the Executive Equity Plan were allotted on 30 December 2005. In the 2005 Executive Equity Plan issue, 35% of SFE staff participated.

Full details of the plan and the first issue are set out in note 25 and included in this remuneration report.

The objectives of the plan are to:

(a) Secure and retain appropriately skilled executives over the medium to long-term, because it is upon these executives that the company relies day-to-day for its operational stability, for compliance with its licence obligations and for its capacity to develop and enhance its business.

(b) Motivate and align these executives with the company's shareholders in the pursuit of long-term growth in shareholder value, as measured by TSR.

The plan comprises three tranches of shares, which in 2005 were allotted in equal proportion:

Tranche A of the shares awarded, which carry no financial performance hurdle, are aimed particularly at retention. Generally, adverse movements in the overall stock market can materially reduce the effectiveness of equity-based LTI plans. This is particularly the case when financial hurdles are linked to the share price. Mindful of the overall objectives, SFE has determined that a proportion of the LTI shares should be free of financial performance hurdles. Even if the share price is underperforming, the company requires the services of these key executives (perhaps even more so) and in this case the Tranche A shares will retain some value and continue to serve to reward loyalty. Under the terms of the shareholder approval obtained at the General Meeting in October 2005, no more than one third of any grant can be of Tranche A shares (ie without financial performance hurdles).

Tranches B and C (incorporating absolute and relative TSR hurdles) are aimed at motivating executives to superior performance in the same way as the CEO's options, albeit that the minimum absolute TSR hurdle has been set slightly lower (at 10% pa) to make it more likely that value will accrue in the Tranche B shares, reflecting the relatively lower award value as compared to the CEO.

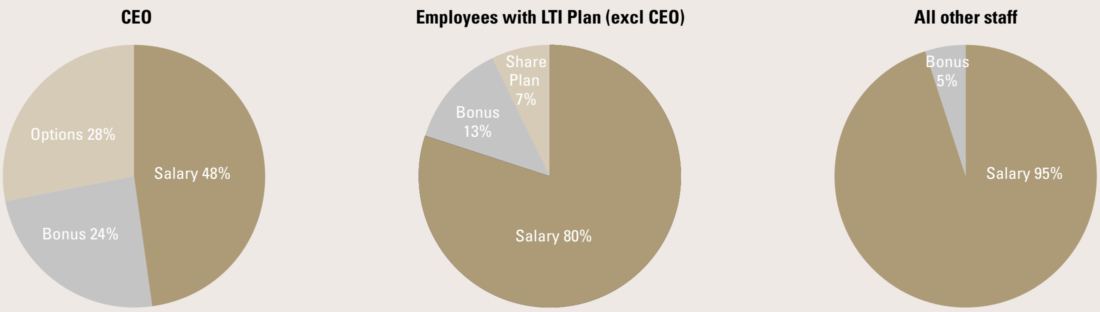
The structure of the scheme was developed internally and then subjected to review by external consultants, who advised that the plan was consistent with SFE's objectives and reasonable as compared to market practice and norms.

By structuring the plan as an annual grant, SFE has ensured that there is a considerable degree of flexibility in the distribution and amounts of the awards. However, one result of this approach is that the effect on the income statement in 2005 is minimal, and that the impact will increase over the period until 2007/8 when the number of shares awarded under the plan which have not vested or been forfeited will likely start to plateau.

Accordingly the financial disclosures required in this remuneration report are not representative of the situation going forward. SFE expects that over time the proportion of executive remuneration delivered by Long-Term Incentives (eg this Executive Equity Plan) will be approximately 10% of Fixed Remuneration for participating staff.

For the granted shares to vest fully requires the achievement of both the relative and absolute TSR hurdles; this means that the 3 year TSR is greater than 18% pa and SFE's TSR over the same period is in the top quartile of S&P/ASX200 companies. It is possible that the relative TSR test would be achieved even if the absolute TSR is low or negative, in circumstances where, for example, share prices in general had fallen over the period but SFE's share price had fallen less than average. However, for illustration, in the TSR range of 5 to 15% pa it is expected that the value delivered each year to executives would be of the order of 0.1% to 0.5% of the value delivered to shareholders through dividends and share price appreciation. Assuming equal annual allocations (with a 3 year vesting period) and a constant TSR, approximately 0.2% to 1.5% of shareholder value increment could be paid to executives through this plan.

Projected 2006 Remuneration Analysis



The preceding charts reflect the projected percentage at-risk of remuneration for the Managing Director and CEO, executives participating in the Executive Equity Plan and all other staff, assuming similar bonus payments as the current year.

SFE's performance

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years, with greater emphasis given to the current and prior year. Over the past 5 years, the consolidated entity's profit from continuing operations after income tax has grown at an average rate of 34% per annum, and shareholder wealth has grown at an average rate of 54% per annum. During the same period, average staff remuneration per head has grown by approximately 3% per annum.

In assessing the interrelationship between the company's remuneration policy and, in particular, the components that relate to the company's performance, it is relevant to record the following statistics which document the generally satisfactory outcomes over the last five years:

The following table summarises returns to shareholders over the past five years.

	2005#	2004#	2003	2002	2001
Dividends per share (cents)					
– Total	**43.7**	48.9	22.1	15.4	12.0
– Ordinary	**43.7**	33.9	22.1	15.4	12.0
– Special	**–**	15.0	–	–	–
Earnings per share (cents)	**51.6**	41.0	29.4	20.6	16.5
Net assets per share	**$1.51**	$1.37	$1.39	$1.30	$1.21
TSR (price movement plus dividends)	**$5.44**	$4.03	$2.98	-$0.55	$1.14
TSR – as a percentage of opening share price	**62%**	78%	123%	-18%	57%
TSR pa – cumulative since 1 January 2001 (assuming 100% reinvestment)	**54%**	–	–	–	–
Share price – 1 January*	**$8.78**	$5.19	$2.42	$3.10	$2.00
Share price – Low	**$8.72**	$5.17	$2.21	$1.99	$1.88
Share price – High	**$14.43**	$8.85	$5.29	$4.00	$3.40
Share price – 31 December	**$13.84**	$8.78	$5.19	$2.42	$3.10

\# 2005 and 2004 reported under AIFRS, prior years under AGAAP.

* Listed on Austock on 1 November 2000 and ASX on 16 April 2002.

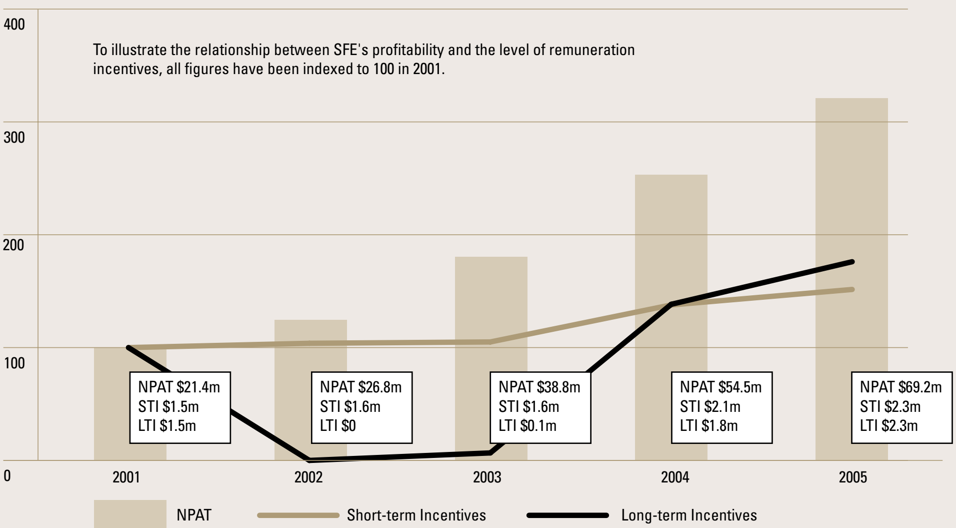
Share prices refer to daily closing prices.

In general terms, the financial success of the company as recorded in these statistics has meant that internal targets have been met or exceeded and SFE has been able to increase the amount of money allocated to the STI pool in each of the last five years, as compared to the amount which would have been paid if targets had not been met. (Targets are reassessed each year in light of recent experience.)

The financial outcomes have also meant that the share price hurdles embodied in the terms of issue of the executive options, described in detail in this section, have been met and the options have vested in every case in which the service period condition has also been met. At the same time shareholders have enjoyed a five year TSR which would have ranked SFE 2nd out of all companies in the S&P/ASX200 index.

The graph below outlines the performance of SFE over the past five years and shows the total remuneration allocated in each year to short-term (cash bonus payments) and long-term (value of equity schemes issued in each year) incentives.

NPAT vs Remuneration Incentives



B Details of remuneration

Information presented in this section applies to both the consolidated entity and the parent entity unless specified otherwise.

Amounts of remuneration

Details of the remuneration of each director of SFE Corporation Limited, each of the five executives of the company and the consolidated entity who received the highest remuneration and the five other key management personnel for the year ended 31 December 2005 are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-term incentives above, and the options and shares are granted at the discretion of the Human Resources and Remuneration Committee. All other elements of remuneration are not directly related to performance.

(i) Directors of SFE Corporation Limited (All are non-executive other than the Managing Director and CEO)

2005	Short-term			Post-employment	Other long-term	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options $	Total $
Mr R Holliday-Smith (Chairman) 1	160,320	–	–	14,429	–	–	174,749
Mr AJ Cameron (Deputy Chairman) 1,4	92,500	–	–	8,325	–	–	100,825
Mr KC Borda*	50,000	–	–	–	–	–	50,000
Mr RG Elstone (Managing Director and CEO) 1	816,154	450,000	13,374	–	75,056	530,370	1,884,954
Dr SA Grenville 1,2	85,000	–	–	7,650	–	–	92,650
Mr IK Payne 1,3	87,500	–	–	7,875	–	–	95,375
Mr PB St George	50,000	–	–	4,500	–	–	54,500
Ms MM Waller	50,000	–	–	4,500	–	–	54,500
Mr PH Warne 1,2,4	85,000	–	–	7,650	–	–	92,650
Mr WP Wilson 2	52,500	–	–	4,725	–	–	57,225
Total	1,528,974	450,000	13,374	59,654	75,056	530,370	2,657,428

Additionally remunerated positions:

1) Director of SFE Clearing Corporation Pty Ltd. Included in the cash salary and fees and superannuation for these directors are $32,500 and $2,950 respectively, except for Mr RG Elstone
2) Member of the Board Audit Committee
3) Chairman of the Board Audit Committee
4) Member of the Business Conduct Committee, a market disciplinary committee for exchange traded activities. Mr PH Warne received an additional $35,425 for his participation on this committee. Mr AJ Cameron received an additional $17,713 for his participation on this committee (from 1 July 2005).

* Mr KC Borda was entitled to annual director's fees of $50,000, which he directed be donated to charity.

Cash salary, fees and superannuation are non-performance related whilst cash bonus and share-based payments are performance related.

Please refer to the Corporate Governance section on page 23 of the Annual Report for a complete listing of all board and committee memberships.

2004	Short-term			Post-employment	Other long-term	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options $	Total $
Mr R Holliday-Smith (Chairman) 1	160,320	–	–	14,429	–	–	174,749
Mr AJ Cameron (Deputy Chairman)	60,000	–	–	5,400	–	–	65,400
Mr KC Borda*	50,000	–	–	–	–	–	50,000
Mr RG Elstone (Managing Director and CEO) 1	707,067	400,000	13,129	–	–	58,594	1,178,790
Dr SA Grenville 1,2 (appointed 4 March 2004)	69,888	–	–	6,290	–	–	76,178
Mr IK Payne 1,3	87,500	–	–	7,875	–	–	95,375
Mr PB St George	50,000	–	–	4,500	–	–	54,500
Ms MM Waller	50,000	–	–	4,500	–	–	54,500
Mr PH Warne 1,2,4	105,000	–	–	7,650	–	–	112,650
Mr WP Wilson 2	52,500	–	–	4,725	–	–	57,225
Total	1,392,275	400,000	13,129	55,369	–	58,594	1,919,367

Additionally remunerated positions:

1) Director of SFE Clearing Corporation Pty Ltd. Included in the cash salary and fees and superannuation for these directors are $32,500 and $2,950 respectively, except for Mr RG Elstone.
2) Member of the Board Audit Committee
3) Chairman of the Board Audit Committee
4) Member of the Business Conduct Committee, a market disciplinary committee for exchange traded activities. Mr PH Warne received an additional $35,425 for his participation on this committee.

* Mr KC Borda was entitled to annual director's fees of $50,000, which he directed be donated to charity.

(ii) Other key management personnel of the Group

The following persons were either key management personnel (denoted as 1) and/or the five officers receiving the highest remuneration (denoted as 2) of the Group.

Ms AT Brown – General Manager Risk and Compliance 1
Mr KM Chapman – General Manager Strategy Development 2
Mr ME Davey – Chief Financial Officer 1,2
Mr PH Galvin – Executive General Manager Business Operations 1,2
Mr PD Hiom – Executive General Manager Business Development 1,2
Mr MD Starr – General Counsel and Company Secretary 1,2

2005	Short-term			Post-employment	Other long-term	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options $	Total $
Ms AT Brown 1	228,865	75,000	–	26,376	3,807	9,625	343,673
Mr KM Chapman 2	272,560	50,000	–	41,285	–	37,458	401,303
Mr ME Davey 1,2	305,299	100,000	–	46,789	–	33,875	485,963
Mr PH Galvin 1,2	310,235	100,000	–	27,661	27,529	28,875	494,300
Mr PD Hiom 1,2	283,843	100,000	–	24,771	4,573	21,175	434,362
Mr MD Starr 1,2	246,084	100,000	–	37,844	4,199	22,138	410,265
Total	1,646,886	525,000	–	204,726	40,108	153,146	2,569,866

2004	Short-term			Post-employment	Other long-term	Share-based payments	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options $	Total $
Ms AT Brown 1	215,596	60,000	–	19,404	5,476	16,359	316,835
Mr KM Chapman 2	268,735	50,000	–	41,093	–	46,500	406,328
Mr ME Davey1,2	307,188	120,000	–	46,789	–	46,500	520,477
Mr PH Galvin 1,2	295,554	100,000	–	26,422	–	39,313	461,289
Mr PD Hiom 1,2	278,748	100,000	–	24,771	4,598	38,725	446,842
Mr MD Starr 1,2	248,971	100,000	–	37,842	4,216	33,916	424,945
Total	1,614,792	530,000	–	196,321	14,290	221,313	2,576,716

1) Key management personnel other than directors of the Group
2) Five officers receiving the highest remuneration within the Group other than the Managing Director and CEO

Cash salary, superannuation and long service leave are non-performance related whilst cash bonus and share-based payments are performance related.

In accordance with AASB1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* only the fair value of options issued after 7 November 2002 has been recognised in the income statement and the balance sheet, whilst the amounts disclosed above relate to all options granted to key management personnel.

Compensation by category: Key management personnel

Category	2005 $000	2004 $000
Short-term	3,841,674	3,631,461
Post-employment	223,095	210,597
Other long-term	115,164	14,290
Termination	–	–
Share-based payments	646,058	233,407
	4,825,991	4,089,755

Cash bonuses and options

For each cash bonus and grant of options and shares included in the above tables, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below.

	Cash bonus		Options/Shares		
Name	Paid %	Forfeited %	Vested %	Forfeited %	Payable in future years %
Mr RG Elstone	100	0	0	0	100
Ms AT Brown	100	0	100	0	100
Mr KM Chapman	100	0	50	0	50
Mr ME Davey	100	0	100	0	100
Mr PH Galvin	100	0	100	0	100
Mr PD Hiom	100	0	100	0	100
Mr MD Starr	100	0	100	0	100

C Service agreements

Remuneration and other terms of employment for the Managing Director and CEO, and the key management personnel are formalised in service agreements as varied from time to time, including regular annual reviews. Each contract is for an indefinite term. Major provisions of the agreements relating to remuneration are set out below.

Mr RG Elstone, Managing Director and CEO
- Salary package from 1 January 2006 of $900,000 pa
- Payment of termination benefit on early termination in the event of a material adverse change to his position equal to eighteen months' remuneration.
- Payment of termination benefit on early termination by SFE, other than for gross misconduct, equal to six months' remuneration.
- Provision of six months' notice by Mr Elstone required in the event of resignation.

Ms AT Brown, General Manager Risk and Compliance
- Salary package from 1 January 2006 of $250,000 pa
- Provision of three months' notice by Ms Brown required in the event of resignation.

Mr ME Davey, Chief Financial Officer
- Salary package from 1 January 2006 of $350,000 pa
- Payment of termination benefit on early termination in the event of a change in ownership of SFE resulting from a corporate action, equal to twelve months' remuneration.
- Payment of termination benefit on early termination by SFE, other than for gross misconduct, equal to six months' remuneration.
- Provision of three months' notice by Mr Davey required in the event of resignation.

Mr PH Galvin, Executive General Manager Business Operations
- Salary package from 1 January 2006 of $335,000 pa
- Payment of termination benefit on early termination in the event of a change in ownership of SFE resulting from a corporate action, equal to twelve months' remuneration.
- Provision of three months' notice by Mr Galvin required in the event of resignation.

Mr PD Hiom, Executive General Manager Business Development
- Salary package from 1 January 2006 of $325,000 pa
- Payment of termination benefit on early termination in the event of a change in ownership of SFE resulting from a corporate action, equal to twelve months' remuneration.
- Provision of three months' notice by Mr Hiom required in the event of resignation.

Mr MD Starr, General Counsel and Company Secretary
- Salary package from 1 January 2006 of $285,000 pa
- Provision of three months' notice by Mr Starr required in the event of resignation.

D Share-based compensation

Share-based compensation – Executive Option Plan

Options are granted under the SFE Executive Option Plan. Staff eligible to participate in the plan are determined by the Human Resources and Remuneration Committee. The grant of options to the Managing Director and CEO under this plan was approved by shareholders at the annual general meeting held 28 April 2005. No other options were granted under this plan during the year. Options are granted under the plan for no consideration. The options granted to the Managing Director and CEO are granted for approximately a four year period. Other options granted under this plan were granted for a five year period, and 50% of each tranche vests and is exercisable after each of the second and fourth anniversaries of the date of grant.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
23 April 2001	23 April 2006	$2.25	$0.60	After 23 April 2005
30 November 2001	30 November 2006	$3.00	$0.84	after 30 November 2005
15 September 2003	15 September 2008	$4.10	$0.86	50% after 15 September 2005
			$0.62	50% after 15 September 2007
2 May 2005	28 February 2009	$8.03	$1.79	After 1 March 2008

Options granted under the plan carry no dividend or voting rights. Details of performance hurdle conditions are set out in note 25 to the financial statements.

When exercisable, each option is convertible into one ordinary share of SFE Corporation Limited. The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted. In the case of the 2 May 2005 grant the exercise price is based on the weighted average price in November 2004, when the grant, conditional on shareholder approval, was agreed. Performance measurement targets also apply from November 2004 for this issue.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to the Managing Director and CEO and other executives, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model and Monte-Carlo simulation that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 31 December 2005 included:
(a) options are granted for no consideration and have a three and a quarter year life,
(b) exercise price: $8.03
(c) grant date: 2 May 2005
(d) vesting date: 1 March 2008
(e) expiry date: 29 February 2009
(f) share price at grant date: $9.10
(g) expected price volatility of the company's shares: 25%
(h) expected dividend yield: 4.1%
(i) risk-free interest rate: 5.2%.

Further details relating to options are set out below.

	A	B	C	D	E
Name	Remuneration consisting of options	Value at grant date $	Value at exercise date $	Value at lapse date $	Total of columns B to D $
Mr RG Elstone	29.3%	1,790,000	–	–	1,790,000
MS AT Brown	2.9%	–	–	–	–
Mr KM Chapman	9.4%	–	776,000	–	776,000
Mr ME Davey	7.0%	–	2,187,000	–	2,187,000
Mr PH Galvin	6.2%	–	1,507,500	–	1,507,500
Mr PD Hiom	4.9%	–	1,137,400	–	1,137,400
Mr MD Starr	5.5%	–	1,075,250	–	1,075,250

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Share-based compensation – Executive Equity Plan

Performance shares and restricted shares are granted under the SFE Executive Equity Plan. Staff eligible to participate in the plan are determined by the Human Resources and Remuneration Committee. Performance shares and restricted shares are granted under the plan for no consideration. The performance shares and restricted shares are granted for approximately a three year period.

The terms and conditions of each grant of shares affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Value per share at grant date	Date exercisable
30 December 2005	March 2009	$9.26	6 March 2009*

* Actual date will be the last business day of the first week following release of SFE's preliminary full year financial results for the year ending 31 December 2008.

Shares granted under the plan carry full entitlements to dividend and voting rights. When exercisable, each performance or restricted share is convertible into one ordinary share of SFE Corporation Limited.

Share-based compensation – Employee Share Acquisition Plan

None of the directors of SFE Corporation Limited, except for the Managing Director and CEO, is eligible to participate in the company's Employee Share Acquisition Plan (refer note 25). All other key management personnel are eligible to participate.

Equity instrument disclosures relating to directors and executives

(i) Options and shares provided as remuneration

Details of options over ordinary shares and performance and restricted shares in the company provided as remuneration to each director of SFE Corporation Limited and each of the key management personnel of the Group are set out below. When exercisable, each option, performance share and restricted share is convertible into one ordinary share of SFE Corporation Limited. Further information on the options and shares is set out in note 25 to the financial statements.

Key management personnel are also eligible to participate in the Employee Share Acquisition Plan as detailed in note 25 to the financial statements. Participation in this plan is not included in the key management personnel remuneration.

	Options		Shares	
Name	Number of options granted during the year	Number of options vested during the year	Number of shares granted during the year	Number of shares vested during the year
Executive director of SFE Corporation Limited				
Mr RG Elstone	1,000,000	–	–	–
Other key management personnel of the group				
Ms AT Brown	–	50,000	7,000	–
Mr ME Davey	–	250,000	15,000	–
Mr PH Galvin	–	150,000	15,000	–
Mr PD Hiom	–	110,000	15,000	–
Mr MD Starr	–	115,000	8,000	–

The assessed fair value at grant date of options and shares granted to key management personnel is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Refer to item D Share-based compensation for the fair value of the share-based payments.

(ii) Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to the executive director of SFE Corporation Limited and the other key management personnel of the Group are set out below.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year
Executive director of SFE Corporation Limited		
Mr RG Elstone	–	–
Other key management personnel of the group		
Ms AT Brown	–	–
Mr ME Davey	2 May 2005 and 30 November 2005	250,000
Mr PH Galvin	30 November 2005	150,000
Mr PD Hiom	30 November 2005	110,000
Mr MD Starr	30 November 2005	115,000

There were no ordinary shares issued as a result of performance shares or restricted shares exercised during the year.

The amounts paid per ordinary share by each executive on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
2 May 2005	$2.25
15 September 2005	$4.10
30 November 2005	$3.00

No amounts are unpaid on any shares issued on the exercise of options.

(iii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by the executive director of SFE Corporation Limited and each of the other key management personnel of the Group, including their personally related entities, are set out below.

Name	Balance at start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Executive directors of SFE Corporation Limited						
Mr RG Elstone	–	1,000,000	–	–	1,000,000	–
Other key management personnel of the Group						
Ms AT Brown	50,000	–	–	–	50,000	50,000
Mr ME Davey	250,000	–	250,000	–	–	–
Mr PH Galvin	150,000	–	150,000	–	–	–
Mr PD Hiom	110,000	–	110,000	–	–	–
Mr MD Starr	115,000	–	115,000	–	–	–

(iv) Share holdings

The numbers of shares in the company held during the financial year by each director of SFE Corporation Limited and each of the other key management personnel of the Group, including their personally related entities, are set out below.

Name	Balance at start of the year	Received during the year on the exercise of options	Received during the year as remuneration	Other changes during the year	Balance at the end of the year
Directors of SFE Corporation Limited					
Ordinary shares					
Mr R Holliday-Smith (Chairman)	3,000	–	–	4,500	7,500
Mr AJ Cameron (Deputy Chairman)	5,000	–	–	–	5,000
Mr KC Borda	10,000	–	–	–	10,000
Mr RG Elstone (Managing Director and CEO)	–	–	–	–	–
Dr SA Grenville	5,000	–	–	–	5,000
Mr IK Payne	4,000	–	–	5,000	9,000
Mr PB St George	5,000	–	–	–	5,000
Ms MM Waller	2,000	–	–	3,000	5,000
Mr PH Warne	3,000	–	–	8,000	11,000
Mr WP Wilson	15,500	–	–	2,500	18,000
Other key management personnel of the Group					
Ordinary shares including restricted shares					
Ms AT Brown	45,000	–	7,000	(45,000)	7,000
Mr ME Davey	189,463	250,000	15,000	(112,483)	341,980
Mr PH Galvin	150,000	150,000	15,000	–	315,000
Mr PD Hiom	310,000	110,000	15,000	(25,000)	410,000
Mr MD Starr	170,000	115,000	8,000	(85,000)	208,000

(f) Loans to directors and executives

No loans have been made to any key management personnel.

(g) Other transactions with key management personnel

There are no other transactions with key management personnel, including their related parties.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of SFE Corporation Limited granted during or since the end of the financial year to any of the directors or the five most highly remunerated officers of the company and consolidated entity as part of their remuneration were as follows:

Executive Director	Options Granted
MR RG Elstone Managing Director and CEO	1,000,000

The options were granted under the SFE Executive Option Plan on 2 May 2005.

Shares under option

Unissued ordinary shares of SFE Corporation Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
30 November 2001	30 November 2006	$3.00	50,000
15 September 2003	15 September 2008	$4.10	100,000
2 May 2005	29 February 2009	$8.03	1,000,000

Shares issued on the exercise of options

The following ordinary shares of SFE Corporation Limited were issued during the year ended 31 December 2005 on the exercise of options granted under the SFE Executive Option Plan. Since balance sheet date a further 137,500 shares have been issued on the exercise of options, related to the 30 November 2001 grant. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
31 October 2000	$1.32	75,000
23 April 2001	$2.25	100,000
30 November 2001	$3.00	1,117,500
15 September 2003	$4.10	100,000
		1,392,500

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2005 was $10.91 (2004: $6.63).

Insurance of and indemnity for officers

During the financial year, SFE paid premiums to insure certain officers of the parent entity and its controlled entities.

The officers of the parent entity covered by the insurance include the directors and former directors, and the secretary and assistant secretaries. Other officers covered by the insurance are directors and secretaries of controlled entities who are not also directors or secretaries of the parent entity, and executive officers of the parent entity and its controlled entities. The insurance policies also provide cover to members of committees established by entities within the group.

The insurance policies prohibit disclosure of the amount of the premiums and the nature of the liabilities insured against.

SFE has also, subject to some exceptions, agreed to indemnify, to the limit of the liability incurred, those officers mentioned above against liability to third parties and for any costs and expenses incurred by them in defending civil or criminal proceedings which may be brought against them in their capacity as officers.

Environmental regulation

The operations of the consolidated entity are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 30 of the financial statements.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermines the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Where indicated, amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars or in certain cases, to the nearest dollar in accordance with that Class Order.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.

RICK HOLLIDAY-SMITH
Chairman of the Board of Directors

ROBERT G ELSTONE
Managing Director and CEO

Sydney, 22 February 2006

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of SFE Corporation Limited for the year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of SFE Corporation Limited and the entities it controlled during the period.

DH ARMSTRONG
Partner
PricewaterhouseCoopers

Sydney, 22 February 2006

Income Statements for the year ended 31 December 2005

		Consolidated		Parent Entity	
		2005	2004	**2005**	2004
	Notes	**$000**	$000	**$000**	$000
Revenue					
Revenue from continuing operations		**134,883**	117,030	**84,569**	71,503
Interest income		**124,228**	87,901	**6,505**	6,127
	5	**259,111**	204,931	**91,074**	77,630
Expenses					
Employee related expenses	7(a)	**24,030**	22,791	**17,852**	17,908
Premises expenses	7(b)	**2,918**	2,957	**2,791**	2,224
Computer related expenses		**13,433**	13,661	**1,308**	1,369
Clearing guarantee expenses		**1,203**	1,980	**–**	–
Insurance, legal, accounting and bank fees		**3,099**	3,365	**1,863**	2,136
Finance costs	1(r)	**106,755**	72,649	**–**	–
Depreciation and amortisation	7(c)	**5,077**	6,044	**2,196**	2,288
Other expenses	7(d)	**4,733**	4,607	**2,724**	3,513
		161,248	128,054	**28,734**	29,438
Profit from continuing operations before income tax expense		**97,863**	76,877	**62,340**	48,192
Income tax expense	8	**(28,700)**	(22,355)	**(1,524)**	(1,274)
Net profit attributable to members of SFE Corporation Limited		**69,163**	54,522	**60,816**	46,918
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:					
Basic earnings per share (cents)	33	**51.6**	41.0		
Diluted earnings per share (cents)	33	**51.3**	40.8		

The above income statements should be read in conjunction with the accompanying notes.

Balance Sheets as at 31 December 2005

		Consolidated		Parent Entity	
		2005	2004	2005	2004
	Notes	$000	$000	$000	$000
Current assets					
Cash	9	**168,192**	108,222	**12,231**	3,109
Available-for-sale financial assets	9	**2,577,125**	1,994,435	**112,383**	106,333
Receivables	10	**110,871**	47,940	**45,844**	9,834
Other	11	**5,740**	2,923	**1,731**	2,409
Total current assets		**2,861,928**	2,153,520	**172,189**	121,685
Non-current assets					
Investments	12	**1**	1	**91,878**	91,878
Plant and equipment	13	**9,328**	10,488	**7,141**	8,768
Intangibles	14	**21,397**	23,299	**402**	464
Goodwill	15	**24,391**	24,391	**–**	–
Deferred tax assets	16	**–**	–	**–**	973
Total non-current assets		**55,117**	58,179	**99,421**	102,083
Total assets		**2,917,045**	2,211,699	**271,610**	223,768
Current liabilities					
Payables	17	**127,522**	59,999	**74,037**	57,162
Financial liabilities	18	**2,521,918**	1,903,018	**–**	–
Provisions	19	**3,830**	3,774	**2,448**	2,545
Current tax liabilities		**9,312**	6,112	**25,501**	6,285
Deferred income		**5,582**	4,923	**–**	91
Total current liabilities		**2,668,164**	1,977,826	**101,986**	66,083
Non-current liabilities					
Payables	17	**114**	6,836	**114**	303
Provisions	19	**665**	466	**665**	466
Deferred tax liabilities	20	**7,335**	6,343	**198**	–
Financial liabilities	21	**36,940**	36,480	**–**	–
Total non-current liabilities		**45,054**	50,125	**977**	769
Total liabilities		**2,713,218**	2,027,951	**102,963**	66,852
Net assets		**203,827**	183,748	**168,647**	156,916
Equity					
Contributed equity	25	**51,913**	47,777	**51,896**	47,759
Retained profits	24	**154,067**	135,811	**118,939**	109,028
Reserves	24	**(2,153)**	160	**(2,188)**	129
Total equity		**203,827**	183,748	**168,647**	156,916
Net assets per share ($)		**1.51**	1.37	**1.25**	1.17

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity as at 31 December 2005

	Notes	Consolidated 2005 $000	Consolidated 2004 $000	Parent Entity 2005 $000	Parent Entity 2004 $000
Total equity at the beginning of the financial year		**183,748**	183,049	**156,916**	163,961
Change in the fair value of available-for-sale financial assets, net of tax		**4**	134	**3**	5
Exchange differences on translation of foreign operations		**–**	11	**–**	–
Movement in equity compensation reserves		**(2,886)**	–	**(2,886)**	–
Employee share options		**568**	113	**568**	113
Net income recognised directly in equity		**(2,314)**	258	**(2,315)**	118
Net profit for the year		**69,163**	54,522	**60,816**	46,918
Total recognised income and expense for the year		**66,849**	54,780	**58,501**	47,036
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	25	**4,137**	4,076	**4,137**	4,076
Dividends paid	34	**(50,907)**	(58,157)	**(50,907)**	(58,157)
		(46,770)	(54,081)	**(46,770)**	(54,081)
Total equity at the end of the financial year		**203,827**	183,748	**168,647**	156,916
Total recognised income and expense for the year is attributable to:					
Members of SFE Corporation Limited		**66,849**	54,780	**58,501**	47,036

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows for the year ended 31 December 2005

		Consolidated		Parent Entity	
		2005	2004	**2005**	2004
	Notes	**$000**	$000	**$000**	$000
Cash flows from operating activities					
Receipts from participants and customers (inclusive of goods and services tax)		**140,726**	127,795	**3,030**	3,146
Payments to suppliers, participants and employees (inclusive of goods and services tax)		**(56,782)**	(51,744)	**(760)**	(643)
		83,944	76,051	**2,270**	2,503
Dividends received from controlled entities		**–**	–	**57,000**	42,796
Interest received		**124,211**	87,611	**6,483**	6,127
Finance costs paid		**(106,755)**	(72,649)	**–**	–
Income taxes (paid)/received		**(24,248)**	(20,390)	**10,363**	(13,702)
Reimbursement received from tax consolidation activities		**–**	–	**8,762**	24,858
Net cash inflow from operating activities	31	**77,152**	70,623	**84,878**	62,582
Cash flows from investing activities					
Increase in financial liabilities		**619,360**	600,495	**–**	–
Proceeds from sale of plant and equipment		**–**	14	**–**	–
(Payments to)/receipts from related parties		**–**	–	**(18,909)**	1,170
Payments for non-current assets		**(3,581)**	(6,562)	**(507)**	(1,406)
Net cash inflow/(outflow) from investing activities		**615,779**	593,947	**(19,416)**	(236)
Cash flows from financing activities					
Repayment of lease liability		**(377)**	(713)	**(377)**	(698)
Purchase of treasury shares		**(3,145)**	–	**(3,145)**	–
Issue of new share capital		**4,137**	4,076	**4,137**	4,076
Payment of dividends		**(50,907)**	(58,157)	**(50,907)**	(58,157)
Net cash outflow from financing activities		**(50,292)**	(54,794)	**(50,292)**	(54,779)
Net increase in cash and cash equivalents		**642,639**	609,776	**15,170**	7,567
Fair value increase of available-for-sale financial assets		**21**	134	**2**	5
Cash and cash equivalents at the beginning of the financial year		**2,102,657**	1,492,747	**109,442**	101,870
Cash and cash equivalents at the end of the financial year	9	**2,745,317**	2,102,657	**124,614**	109,442
Net increase in cash and cash equivalents held comprises:					
Net increase in participant balances		**617,360**	600,495	**–**	–
Net increase in SFE cash reserves		**25,300**	9,415	**15,172**	7,572
Net increase in total cash and cash equivalents at fair value		**642,660**	609,910	**15,172**	7,572
Total cash and cash equivalents comprises:					
Participants' margins and commitments		**2,556,858**	1,939,498	**–**	–
SFE cash reserves		**188,459**	163,159	**124,614**	109,442
Total cash and cash equivalents	9	**2,745,317**	2,102,657	**124,614**	109,442

Total cash and cash equivalents comprises cash and available-for-sale financial assets.

The above statements of cash flows should be read in conjunction with the accompanying notes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for SFE Corporation Limited as an individual entity and the consolidated entity consisting of SFE Corporation Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of SFE Corporation Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that the parent entity has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

The Group has not elected to early adopt AASB 7 *Financial Instruments: Disclosures* in this financial report.

AASB 7 applies to annual reporting periods beginning on or after 1 January 2007. SFE Corporation Limited intends to apply this standard on 1 January 2007.

Application of AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards

Financial statements of SFE Corporation Limited until 31 December 2004 were prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the SFE Corporation Limited financial report for the year ended 31 December 2005, certain accounting and valuation methods applied in the previous AGAAP financial statements were amended to comply with AIFRS. The comparative figures were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net profit are given in note 35.

The Group has elected to use the exemption in AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards,* with respect to:

1 Share-based payments – options issued prior to 7 November 2002 have not been recognised in the income statement or balance sheet in accordance with the previous GAAP.
2 Business Combinations – acquisitions made prior to the adoption of AIFRS have not been restated.

The Group has elected not to apply the exemptions in AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards,* relating to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement,* in respect of the comparative information.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SFE Corporation Limited (''company" or ''parent entity") as at 31 December 2005 and the results of all subsidiaries for the year then ended. SFE Corporation Limited and its subsidiaries together are referred to in this financial report as 'the Group' or 'the consolidated entity'.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is SFE Corporation Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised in the period earned. Revenue is recognised for the major business activities as follows:

(i) Exchange traded – revenue sourced from the activities associated with trading and clearing futures and options is recognised in the period earned (on trade date)

(ii) Non-exchange traded – revenue sourced from all settlement, depository and registry services associated with 'delivery versus payment' clearing of financial securities such as fixed interest securities and bonds is recognised in the period earned including the deferral of revenue to future periods, where services provided cover more than the current period.

Interest income on available-for-sale financial assets is recognised over the assets' terms to maturity.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

SFE Corporation Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004. The head entity, SFE Corporation Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. In addition to its own current and deferred tax amounts, SFE Corporation Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. SFE group entities have entered into a tax sharing agreement, which in the opinion of directors, limits the joint and several liability of the wholly-owned entities in the case of default by the head entity, SFE Corporation Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate SFE Corporation Limited for any current tax payable assumed and are compensated by SFE Corporation Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SFE Corporation Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

(g) Leases

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Minimum payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)).

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Receipts and payments processed daily from futures and options contract settlements and from margin deposits have been netted off.

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Receivables are due for settlement no more than 30 days, from the date of recognition. Receivables include margins receivable from clearing participants, which are due for settlement on the next business day (refer note 10). Margins receivable include the fair value of derivative positions and are recognised on trade-date, the date on which the derivative contracts are registered.

Collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement.

(l) Investments and other financial assets

The Group classifies its investments in money market securities as available-for-sale financial assets. The classification is based on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. They are included in current assets as they all have maturities less than 12 months of the balance sheet date.

Purchases and sales of available-for-sale financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised at fair value and are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the income statement.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of matched derivative positions held by the Group as a result of the novation process (note 1(w)) has been based on the fair value used for settlement under the Operating Rules (for liquid contracts this is effectively the mid price).

(n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

– Computer and office equipment	3 years
– SYCOM® trading system infrastructure	Minimum term of vendor support
– Non-trading system infrastructure	5 years
– Leasehold improvements	Term of lease

Depreciation of leasehold improvements is calculated so as to depreciate the cost over its expected useful life, not exceeding the period of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

Computer software

Computer systems development projects, which are expected to provide future benefits, are capitalised at cost and amortised over their expected useful life. Capitalised project costs are amortised from the time the project assets are in use. Where IT and project staff are engaged in major software development projects, the applicable employment costs related directly to the development and implementation (project phase expenditure) are capitalised and amortised in line with the useful lives of the software.

The estimated useful lives for the Group's computer software are as follows:

– Core derivatives trading system	Minimum term of vendor support
– Core derivatives clearing systems	10 years (Refer note 6)
– Core delivery versus payment clearing system	7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(p) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Finance costs

Finance costs are calculated using the effective interest method and are expensed. Interest payments to participants on margins and commitment balances are recorded as finance costs.

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Employees of the Group may be entitled to benefits on retirement, disability or death from the Group's superannuation plan. The plan is an accumulation fund. Employees contribute to the fund at various percentages of their salaries and wages and the company also contributes at various levels. Contributions to the plan are recognised as an employee related expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the SFE Executive Option Plan, the SFE Executive Equity Plan and the Employee Share Acquisition Plan.

Share options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Share options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the SFE Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the expected period until the employees become unconditionally entitled to exercise the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model and Monte-Carlo simulation that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

The fair value of shares issued under the Executive Equity Plan is expensed over the vesting period.

The fair value of shares issued to employees under the Employee Share Acquisition Plan is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses taking into consideration the performance of the company and staff. The Group recognises a provision where contractually obliged or where there is a past practice that gives clear evidence of the amount of the obligation.

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(u) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance sheet date. Typically, the final dividend in respect of a financial year is declared after the end of the year, and is therefore not provided for until declared.

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Novation

Under a process known as novation, a controlled entity, SFE Clearing Corporation Pty Ltd (SFECC), legally becomes the principal in all market contracts executed on Sydney Futures Exchange. Therefore all novated positions are, by definition, matched. Accordingly SFECC is not exposed to any net profit or loss arising from movements in the market price of the derivative contracts.

The fair values of the derivative contracts that result from the novation process are recognised on balance sheet as equal receivables and payables. The consolidated income statement and statement of cash flow do not include any net effect from the novated contracts. However the consolidated balance sheet reflects the fair value of these contracts at balance date. Under the Operating Rules of SFECC, the movement in the fair value of derivative positions is required to be settled the following business day (variation margins).

(x) Participant balances

Derivative Clearing Participants are required to deposit cash or other accepted security as margins in relation to their open positions on Sydney Futures Exchange. Cash received is held on deposit with financial institutions in the name of SFECC or used to acquire interest bearing securities. These funds have been recorded as available-for-sale financial assets or cash of SFECC with an offsetting liability to the participant who deposited the funds. Where security other than cash is deposited as margins it is similarly recorded as an asset with an offsetting liability. Margins due and receivable the following business day are recognised as a receivable with an offsetting liability.

(y) Participant financial backing

Under the Operating Rules of SFECC, Clearing Participants are required to provide financial backing to SFECC by way of cash or other acceptable commitments (eg letter of credit issued by a major Australian licensed bank). If provided in cash, this backing is recorded as an asset of SFECC (cash or available-for-sale financial asset where interest bearing securities have been acquired with the cash) with an offsetting (non-current) liability.

(z) Treasury shares

Treasury shares are shares in the parent entity held in a special purpose trust, until vesting, for the benefit of employees under the Executive Equity Plan as described in the Remuneration Report in the Directors' Report. Treasury shares, net of any permanent tax effect, are included in the equity compensation reserve – treasury shares and are deducted from equity.

(aa) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by a central risk department and a Group treasury function under policies approved by the board of directors. The central risk department manages credit risk with counterparties and the Group treasury function manages credit, market liquidity and cash flow interest rate risks.

(a) Market risk

For the Group, market risk on contracts traded on Sydney Futures Exchange is negligible as the novation process ensures that the Group is not exposed to any price movements on the contracts (refer to note 1(w)).

(b) Credit risk

The Group has policies in place to manage credit risk with Clearing Participants including the requirement for Participants to lodge margins on open contracts and the daily settlement of market price movements in all contracts traded on the Sydney Futures Exchange. The credit risk is further managed by way of the clearing guarantee fund (refer note 21). With respect to the financial assets of the Group the board has implemented policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The board has implemented policies that specify maximum average maturity limits in order to manage the liquidity risk which is managed by the Group treasury function.

(d) Interest rate risk

The Group has significant interest bearing assets and liabilities. Interest rate risk on the assets is managed by policies that enable the Group to pay a variable rate on its interest bearing liabilities.

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

	Notes	Floating interest rate 2005 $000	Fixed interest rate maturing in 1 year or less 2005 $000	Fixed interest rate maturing in 1-5 years 2005 $000	Non-interest bearing 2005 $000	Total 2005 $000
Financial assets						
Cash	9	168,192	–	–	–	168,192
Receivables	10	–	–	–	110,871	110,871
Bank bills, certificates of deposit and fixed rate notes	9	–	2,577,125	–	–	2,577,125
		168,192	**2,577,125**	**–**	**110,871**	**2,856,188**
Weighted average interest rate		5.50%	5.59%	–	–	5.37%
Financial liabilities						
Payables	17	–	–	–	127,636	127,636
Margins, financial backing repayable to clearing participants and project development liabilities	18, 21	2,556,858	–	–	2,000	2,558,858
Deferred income		–	–	–	5,582	5,582
		2,556,858	**–**	**–**	**135,218**	**2,692,076**
Weighted average interest rate		5.20%	–	–	–	4.94%
Net financial assets/(liabilities)		**(2,388,666)**	**2,577,125**	**–**	**(24,347)**	**164,112**

	Note	Floating interest rate 2004 $000	Fixed interest rate maturing in 1 year or less 2004 $000	Fixed interest rate maturing in 1-5 years 2004 $000	Non-interest bearing 2004 $000	Total 2004 $000
Financial assets						
Cash	9	108,169	53	–	–	108,222
Receivables	10	–	–	–	47,940	47,940
Bank bills, certificates of deposit and fixed rate notes	9	–	1,994,435	–	–	1,994,435
		108,169	**1,994,488**	**–**	**47,940**	**2,150,597**
Weighted average interest rate		5.00%	5.29%	–	–	5.23%
Financial liabilities						
Payables	17	–	–	6,533	60,302	66,835
Margins and financial backing repayable to clearing participants	18, 21	1,939,498	–	–	–	1,939,498
Deferred income		–	–	–	4,923	4,923
		1,939,498	**–**	**6,533**	**65,225**	**2,011,256**
Weighted average interest rate		4.82%	–	4.75%	–	4.73%
Net financial assets/(liabilities)		**(1,831,329)**	**1,994,488**	**(6,533)**	**(17,285)**	**139,341**

3 CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated impairment of intangibles

The Group tests annually whether intangibles (software assets) have suffered any impairment, in accordance with the accounting policy stated in note 1 (i). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 for details of these assumptions and the potential impact of changes to the assumptions.

4 SEGMENT INFORMATION

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 derivatives exchange, Sydney Futures Exchange and associated clearing activities conducted by SFECC. This includes fees for trading, clearing and settlement of derivative contracts, together with revenues from market data services, participation and technology infrastructure, and interest on participant margin balances held.

Non-exchange traded activities

These include settlement, depository and registry services for debt securities.

Unallocated revenue and unallocated expenses

Unallocated revenue includes interest earned on group capital. 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.

Primary reporting – Business segments	Exchange traded 2005 $000	Non-exchange traded 2005 $000	Inter-segment eliminations/ unallocated 2005 $000	Consolidated 2005 $000
Exchange fees	96,716	–	–	96,716
Market data fees	8,409	–	–	8,409
Settlement and depository fees	–	13,154	–	13,154
Registry fees	–	4,191	–	4,191
Participation fees	–	2,516	–	2,516
Technology infrastructure fees	6,793	781	–	7,574
Other revenue	1,603	500	220	2,323
Revenue from continuing operations	113,521	21,142	220	134,883
Interest income	115,065	–	9,163	124,228
Total segment revenue	228,586	21,142	9,383	259,111
Segment result	98,515	11,951	–	110,466
Unallocated revenue less unallocated expenses				(12,603)
Profit from continuing operations before income tax expense				97,863
Income tax expense				(28,700)
Net profit				69,163
Segment assets	2,682,031	18,508	–	2,700,539
Unallocated corporate assets				216,506
Total assets				2,917,045
Segment liabilities	2,675,466	5,135	–	2,680,601
Unallocated corporate liabilities				32,617
Total liabilities				2,713,218
Acquisitions of plant and equipment and intangibles	321	2,756	507	3,584
Depreciation and amortisation expense	2,090	217	2,301	4,608
Impairment losses on intangibles	–	469	–	469
Net cash inflow from operating activities	40,445	9,146	27,561	77,152

Notes to the Financial Statements for the year ended 31 December 2005 continued

Primary reporting – Business segments	Exchange traded 2004 $000	Non-exchange traded 2004 $000	Inter-segment eliminations/ unallocated 2004 $000	Consolidated 2004 $000
Exchange fees	79,310	–	–	79,310
Market data fees	8,016	–	–	8,016
Settlement and depository fees	–	11,410	–	11,410
Registry fees	–	3,707	–	3,707
Participation fees	529	2,568	–	3,097
Technology infrastructure fees	7,182	770	–	7,952
Other revenue	2,447	612	479	3,538
Revenue from continuing operations	97,484	19,067	479	117,030
Interest income	76,564	2,703	8,634	87,901
Total segment revenue	174,048	21,770	9,113	204,931
Segment result	78,862	8,055	–	86,917
Unallocated revenue less unallocated expenses				(10,040)
Profit from continuing operations before income tax expense				76,877
Income tax expense				(22,355)
Net profit				54,522
Segment assets	1,988,876	21,672	–	2,010,548
Unallocated corporate assets				201,151
Total assets				2,211,699
Segment liabilities	1,988,548	13,222	–	2,001,770
Unallocated corporate liabilities				26,181
Total liabilities				2,027,951
Acquisitions of plant and equipment and intangibles	1,498	4,318	2,010	7,826
Depreciation and amortisation expense	2,854	314	1,751	4,919
Impairment losses on intangibles	–	1,125	–	1,125
Net cash inflow from operating activities	43,286	7,478	19,859	70,623

Notes to and forming part of the segment information

Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard, AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of participant margin cash balances, receivables, and property plant and equipment. Segment liabilities consist primarily of participant margin balances, trade and other creditors. Segment assets and liabilities do not include income tax related balances.

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
5 REVENUE				
From continuing operations				
Exchange fees	**96,716**	79,310	**–**	–
Market data fees	**8,409**	8,016	**–**	–
Settlement and depository fees	**13,154**	11,410	**–**	–
Registry fees	**4,191**	3,707	**–**	–
Participation fees	**2,516**	3,097	**–**	–
Technology infrastructure fees	**7,574**	7,952	**–**	–
Dividends received	**–**	–	**57,000**	42,796
Management and support charges to controlled entities	**–**	–	**27,345**	27,067
Other revenue	**2,323**	3,538	**224**	1,640
Total revenue from continuing operations (excluding interest)	**134,883**	117,030	**84,569**	71,503
Interest income	**124,228**	87,901	**6,505**	6,127
Total revenue from continuing operations	**259,111**	204,931	**91,074**	77,630

6 REVISION OF ESTIMATES

During the year the estimated useful life of the derivatives clearing system was revised from seven to 10 years. The net effect of the revision in the current financial year was a decrease in depreciation expense of the Group of $491,834. Assuming this asset is held until the end of its estimated useful life, depreciation expense of the Group in future years will (reduce)/increase by the following amounts.

	Consolidated	Parent Entity
Year ending 31 December	**$000**	**$000**
2006	**(728)**	–
2007	**(728)**	–
2008	**(607)**	–
2009	**730**	–
2010	**730**	–
2011	**730**	–
2012	**365**	–

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
7 EXPENSES				
(a) Defined contribution superannuation expense	**2,186**	2,053	**1,564**	1,550
(b) Premises expenses				
Minimum lease payment	**1,982**	2,022	**1,896**	1,845
Sub-lease income	**(5)**	(70)	**–**	–
Total rental expense relating to operating leases	**1,977**	1,952	**1,896**	1,845
Other premises costs	**941**	1,005	**895**	379
	2,918	2,957	**2,791**	2,224
(c) Impairment losses recognised in depreciation and amortisation	**595**	1,125	**–**	–
Depreciation and amortisation	**4,482**	4,919	**2,196**	2,288
(d) Other expenses				
Other expenses include:				
Bad and doubtful debts	**23**	31	**50**	–
Marketing	**442**	564	**407**	563
Royalties	**1,511**	883	**–**	226
Travel	**607**	553	**456**	435
Contractors and Consultants	**780**	792	**645**	763
Postage and Printing	**393**	484	**301**	449
Other	**1,043**	1,342	**882**	1,034
Foreign currency translation (gains)/losses	**(66)**	(42)	**(17)**	43
	4,733	4,607	**2,724**	3,513

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
8 INCOME TAX EXPENSE				
(a) Income Tax Expense				
Current tax	**26,871**	19,294	**239**	1,362
Deferred tax	**1,849**	3,416	**1,285**	221
Over provided in prior years	**(20)**	(355)	**–**	(309)
	28,700	22,355	**1,524**	1,274
Deferred income tax (revenue)/expense included in income tax expense comprises:				
(Increase)/decrease in deferred tax assets (note 16)	**(763)**	228	**(47)**	148
Increase in deferred tax liabilities (note 20)	**2,612**	3,188	**1,332**	73
	1,849	3,416	**1,285**	221
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**97,863**	76,877	**62,340**	48,192
Tax at the Australian tax rate of 30% (2004 – 30%)	**29,359**	23,063	**18,702**	14,458
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Exempt income	**–**	–	**(17,100)**	(12,839)
Effect of higher tax rates on overseas income	**27**	28	**–**	–
Share based payments	**170**	–	**170**	–
Non deductible expenses	**36**	79	**31**	74
Additional deductions	**(872)**	(460)	**(279)**	(110)
Over provision in previous year	**(20)**	(355)	**–**	(309)
Income tax expense	**28,700**	22,355	**1,524**	1,274
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Current tax – credited directly to equity	**(261)**	–	**(261)**	–
Net deferred tax – debited directly to equity	**17**	–	**2**	–
	(244)	–	**(259)**	–

Tax consolidation legislation

SFE Corporation Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004. The accounting policy in relation to this legislation is set out in note 1(f).

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
9(a) CASH AND CASH EQUIVALENTS				
Cash and funds on deposit	**168,192**	108,222	**12,231**	3,109
Bank bills, bank certificates of deposit and fixed interest notes held at fair value	**2,577,125**	1,994,435	**112,383**	106,333
Total cash and available-for-sale financial assets	**2,745,317**	2,102,657	**124,614**	109,442
Less : Participant balances	**2,556,858**	1,939,498	**–**	–
Balances as per statement of cash flows of SFE's cash reserves, bills of exchange and bank certificates of deposit	**188,459**	163,159	**124,614**	109,442

Clearing Participants are required to deposit cash or eligible securities to satisfy margins on outstanding positions on Sydney Futures Exchange. Cash deposited is adjusted daily, ensuring the minimum requirements are maintained. In the event of default by a clearing participant on its obligations under contracts SFECC has the authority to retain any balances deposited by the defaulting clearing participant to satisfy its obligations.

Deposits at call

The deposits earn floating interest rates between 0% and 7.25% (2004: 0% and 6.50%). These deposits have an average maturity of one day (2004: one day).

9(b) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated 2005 $000	Consolidated 2004 $000	Parent Entity 2005 $000	Parent Entity 2004 $000
Bank bills, certificates of deposit and fixed rate notes – at amortised cost	**2,577,070**	1,994,401	**112,378**	106,330
Revaluation surplus transferred to equity	**55**	34	**5**	3
Bank bills, certificates of deposit and fixed rate notes – at fair value	**2,577,125**	1,994,435	**112,383**	106,333

a) Transition to AASB 132 and AASB 139

The Group has not taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 January 2005 in respect of comparative information.

b) Unlisted Securities

Unlisted securities, including bank bills, certificates of deposit and fixed rate notes are traded in active markets. Refer to note 1(l) and (m) for the accounting policy on available-for-sale financial assets. These securities all have maturities less than one year and carry fixed interest rates between 5.60% and 7.62% (2004: 5.38% and 6.69%). The average interest rate across the entire group of available-for-sale securities is 5.64% (2004: 5.29%).

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
10 RECEIVABLES				
Current				
Trade debtors	**17,325**	19,025	**43**	472
Less: provision for doubtful debts	**(248)**	(540)	**–**	–
Net debtors	**17,077**	18,485	**43**	472
Interest receivable	**658**	654	**35**	13
Amounts due from controlled entities	**–**	–	**8,540**	4,134
Fair value of derivative contract positions*	**54,845**	22,697	**–**	–
Participant margins receivable*	**38,291**	6,104	**–**	–
Tax related amounts due from controlled entities	**–**	–	**37,226**	5,215
	110,871	47,940	**45,844**	9,834

* Refer to note 17.

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
11 OTHER ASSETS				
Prepayments	**5,739**	2,920	**1,477**	2,097
Other	**1**	3	**254**	312
	5,740	2,923	**1,731**	2,409
12 INVESTMENTS				
Shares in unlisted entity	**1**	1	**1**	1
Shares in controlled entities (refer note 27)	**–**	–	**91,877**	91,877
	1	1	**91,878**	91,878
13 PLANT AND EQUIPMENT				
Leasehold improvements – at cost	**11,103**	11,108	**11,082**	11,087
Less: accumulated depreciation	**(5,093)**	(4,226)	**(5,072)**	(4,205)
	6,010	6,882	**6,010**	6,882
Computer and office equipment – at cost	**8,981**	7,979	**2,527**	2,460
Less: accumulated depreciation	**(5,962)**	(5,008)	**(1,695)**	(1,209)
	3,019	2,971	**832**	1,251
Computer hardware under finance lease	**1,431**	1,390	**1,431**	1,390
Less: accumulated depreciation	**(1,132)**	(755)	**(1,132)**	(755)
	299	635	**299**	635
Motor vehicles leased/owned	**–**	61	**–**	61
Less: accumulated depreciation	**–**	(61)	**–**	(61)
	–	–	**–**	–
Total plant and equipment – at cost	**21,515**	20,538	**15,040**	14,998
Less: accumulated depreciation	**(12,187)**	(10,050)	**(7,899)**	(6,230)
	9,328	10,488	**7,141**	8,768

Reconciliation

Reconciliation of the carrying amounts of each class of plant and equipment at the beginning and end of the financial year is set out below.

Consolidated	Leasehold improvement $000	Computer and office equipment $000	Leased computer hardware $000	Total $000
Carrying amount at 1 January 2005	6,882	2,971	635	10,488
Additions	–	1,202	41	1,243
Depreciation	(872)	(1,028)	(377)	(2,277)
Impairment losses	–	(126)	–	(126)
Carrying amount at 31 December 2005	6,010	3,019	299	9,328

Parent entity	Leasehold improvement $000	Computer and office equipment $000	Leased computer hardware $000	Total $000
Carrying amount at 1 January 2005	6,882	1,251	635	8,768
Additions	–	156	41	197
Depreciation	(872)	(575)	(377)	(1,824)
Carrying amount at 31 December 2005	6,010	832	299	7,141

14 INTANGIBLES

	Consolidated Computer Software $000	Parent Computer Software $000
At 1 January 2004		
Cost	36,330	1,568
Accumulated amortisation and impairment	(12,193)	(663)
Net book amount	24,137	905
Year ended 31 December 2004		
Opening net book amount	24,137	905
Additions	2,887	(138)*
Amortisation charge	(2,600)	(303)
Impairment loss	(1,125)	–
Closing net book amount	23,299	464

* Includes assets reclassified to plant and equipment.

	Consolidated Computer Software $000	Parent Computer Software $000
At 31 December 2004		
Cost	39,217	1,430
Accumulated amortisation and impairment	(15,918)	(966)
Net book amount	23,299	464
Year ended 31 December 2005		
Opening net book amount	23,299	464
Additions	2,341	310
Amortisation charge	(2,205)	(372)
Write-down to committed NPV*	(1,569)	–
Impairment loss	(469)	–
Closing net book amount	21,397	402
At 31 December 2005		
Cost	39,742	1,737
Accumulated amortisation and impairment	(18,345)	(1,335)
Net book amount	21,397	402

* Reflects reduction in asset and corresponding reduction in liability following renegotiation of contract terms.

15 GOODWILL

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Opening balance	**24,391**	24,391	**–**	–
Movements	**–**	–	**–**	–
Closing balance	**24,391**	24,391	**–**	–

(a) Impairment test for goodwill and intangibles

Goodwill is allocated to the Group's cash-generating-units (CGU's) identified according to business segment. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial estimates reviewed by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates (non exchange traded). No impairment charge arose in the current year (2004: Nil).

(b) Key assumptions used for value-in-use calculations

Management determined budgeted gross margin based on past performance and the fees applicable from 1 January 2006, and its expectations for the future. The growth rates, used for revenue and expense projections are consistent with or lower than historical trends for the business segment. The pre-tax discount rate used is 15.8% (2004: 17.0%) and reflects risk estimates for the business segment. The growth rate used to extrapolate cash flow projections beyond five years is 1% pa (2004: 1%). This rate is lower than the historical growth rate experienced and reflects a conservative estimate of the minimum growth required to support the carrying values.

16 DEFERRED TAX ASSETS

The balance comprises temporary difference attributable to:				
Amounts recognised in profit or loss:				
Expense accrual	**485**	315	**233**	251
Doubtful debts	**74**	70	**–**	–
Employee benefits	**934**	607	**934**	607
Write down in unlisted investment	**60**	60	**60**	60
ASX listing	**19**	44	**19**	44
Depreciation	**1,104**	535	**66**	125
Finance leases	**111**	173	**111**	173
Asset disposal	**(43)**	(43)	**(43)**	(43)
	2,744	1,761	**1,380**	1,217
Set-off of deferred tax liabilities pursuant to set-off provision (note 20)	**(2,744)**	(1,761)	**(1,380)**	(244)
Net deferred tax assets	**–**	–	**–**	973
Movements:				
Opening balance at 1 January	**1,761**	2,034	**1,217**	1,359
Credit/(charged) to the income statement (note 8)	**763**	(228)	**47**	(148)
Prior year adjustment	**220**	(45)	**116**	6
Closing balance as at 31 December prior to set-off	**2,744**	1,761	**1,380**	1,217

17 PAYABLES

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Current				
Trade creditors	**27,903**	29,494	**1,593**	2,038
Other creditors	**6,300**	1,333	**–**	–
Amounts due to controlled entities	**–**	–	**72,261**	54,753
Fair value of derivative contract positions*	**54,845**	22,697	**–**	–
Participant margins payable*	**38,291**	6,104	**–**	–
Lease liability	**183**	371	**183**	371
	127,522	59,999	**74,037**	57,162

* Refer note 10.

Non Current				
Other creditors	**–**	6,533	**–**	–
Lease liability	**114**	303	**114**	303
	114	6,836	**114**	303

18 FINANCIAL LIABILITIES – Current

Amounts owing to participants	**2,519,918**	1,903,018	**–**	–
Project development liabilities	**2,000**	–	**–**	–
	2,521,918	1,903,018	**–**	–

Amounts owning to clearing participants represent balances to cover margins on futures and options contracts on the Sydney Futures Exchange and are repayable to clearing participants on the closure of contracts (refer note 9). These interest bearing balances are carried at the amounts deposited which represent fair value.

Project development liabilities are contingent and linked to future revenue. No repayment is due within one year. The project development liabilities are contracted to increase by up to $3,000,000 with a corresponding contingent asset.

Interest rate risk exposure

Interest rate risk exposure is minimal for the group as all interest-bearing-liabilities incur variable interest rates determined daily by the Group. All liabilities are at floating rates due for repayment within one year.

19 PROVISIONS

Current				
Employee entitlements	**2,448**	2,485	**2,448**	2,485
Other provisions	**1,382**	1,289	**–**	60
	3,830	3,774	**2,448**	2,545
Non Current				
Employee entitlements	**665**	466	**665**	466
	665	466	**665**	46

Movement in Other provisions		
Current		
Carrying amount at start of year	**1,289**	**60**
Additional provisions recognised	**153**	**–**
Unused amounts reversed	**(60)**	**(60)**
Carrying amount at end of year	**1,382**	**–**

Other provisions relate to GST.

20 DEFERRED TAX LIABILITIES

	Consolidated		Parent Entity	
	2005 $000	2004 $000	**2005 $000**	2004 $000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Interest receivable	**3,984**	3,183	**285**	217
FBT instalment	**15**	12	**15**	12
Depreciation	**1,270**	1,986	**–**	–
Project expenditure including capitalised employment costs	**4,050**	2,923	**593**	15
Employee share plan	**683**	–	**683**	–
Prepaid licence fee	**57**	–	**–**	–
Foreign currency revaluation	**3**	–	**–**	–
	10,062	8,104	**1,576**	244
Amounts recognised directly in equity				
Mark to market on available-for-sale financial assets	**17**	–	**2**	–
	10,079	8,104	**1,578**	244
Set-off of deferred tax liabilities pursuant to set-off provisions (note 16)	**(2,744)**	(1,761)	**(1,380)**	(244)
Net deferred tax liabilities	**7,335**	6,343	**198**	–
Movements:				
Opening balance at 1 January	**8,104**	4,507	**244**	171
Charged to the income statement (note 8)	**2,612**	3,188	**1,332**	73
Charged to equity	**17**	–	**2**	–
Prior year adjustment	**(654)**	409	**–**	–
Closing balance as at 31 December prior to set-off	**10,079**	8,104	**1,578**	244

21 FINANCIAL LIABILITIES – Non-current

Participant financial backing – cash	**36,940**	36,480	**–**	–

A subsidiary (SFECC) is liable for the settlement of all futures and options contracts between clearing participants and is supported by specific financial commitments totalling $150,000,000 (2004: $150,000,000), referred to as the 'Clearing Guarantee Fund'. This would normally be applied to meet a participant default in the following priority:

SFECC equity	**30,000**	30,000	**–**	–
Participant financial backing	**60,000**	60,000	**–**	–
External insurance	**60,000**	60,000	**–**	–
	150,000	150,000	**–**	–

Participant financial backing comprises cash ($36,940,000) and non-cash commitments (eg letter of credit drawn on a major Australian licensed bank $23,060,000) (2004: cash $36,480,000 and non-cash $23,520,000). In the event of a default in excess of the $150 million commitment referred to above, the balance of SFECC's net assets would be at risk. At 31 December 2005 SFECC had total net assets of $35,940,000 (2004: $36,061,000).

In the event that the net assets of SFECC are less than $30 million, SFE Corporation has undertaken to pay to SFECC such amount of money as SFECC certifies is necessary to meet the shortfall in its net assets below $30 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.

22 BORROWINGS

Other than the financial liabilities in notes 18 and 21, the consolidated entity does not have any outstanding borrowings.

23 COMMITMENTS FOR EXPENDITURE

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
(a) Lease expenditure contracted for:				
Non-cancellable operating leases:				
Within 1 year	**1,952**	2,009	**1,952**	1,983
Later than 1 year but not later than 5 years	**6,855**	6,639	**6,855**	6,639
Later than 5 years	**4,136**	5,911	**4,136**	5,911
	12,943	14,559	**12,943**	14,533
(b) Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within 1 year	**183**	371	**183**	371
Later than 1 year but not later than 5 years	**114**	303	**114**	303
	297	674	**297**	674
The weighted average interest rate implicit on the finance leases is 2.63% p.a (2004: 2.63%)				
(c) Operating expenditure				
Commitments in relation to computer system facilities management are payable as follows:				
Within 1 year	**4,784**	5,642	**–**	–
Later than 1 year but not later than 5 years	**15,859**	24,454	**–**	–
Later than 5 years	**–**	1,621	**–**	–
	20,643	31,717	**–**	–

24 RETAINED PROFITS AND RESERVES

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
(a) Retained profits				
Retained profits at the beginning of the financial year	**135,811**	139,564	**109,028**	120,266
Net profit attributable to members of SFE Corporation Limited	**69,163**	54,522	**60,816**	46,918
Dividends provided for or paid to ordinary shareholders	**(50,907)**	(58,157)	**(50,905)**	(58,156)
Transfer from foreign currency translation reserve	**–**	(118)	**–**	–
Retained profits at the end of the financial year	**154,067**	135,811	**118,939**	109,028
(b) Reserves				
Foreign currency translation reserve	**–**	–	**–**	–
Available-for-sale investments revaluation reserve	**39**	34	**4**	3
Equity compensation reserve – options	**694**	126	**694**	126
Equity compensation reserve – treasury shares	**(2,886)**	–	**(2,886)**	–
	(2,153)	160	**(2,188)**	129
Movements				
(i) Foreign currency translation reserve				
Balance at beginning of financial year	**–**	(130)	**–**	–
Net exchange differences on translation of foreign controlled entities	**–**	11	**–**	–
Transfer reserve to retained earnings	**–**	119	**–**	–
Balance at end of financial year	**–**	–	**–**	–

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
(ii) Available-for-sale investments revaluation reserve				
Balance at beginning of year	**34**	100	**3**	(2)
Revaluation	**5**	(66)	**1**	5
Balance at end of year	**39**	34	**4**	3
(iii)Equity compensation reserve – options				
Balance at beginning of year	**126**	13	**126**	13
Option expense	**568**	113	**568**	113
Balance at end of year	**694**	126	**694**	126
(iv)Equity compensation reserve – treasury shares				
Balance at beginning of year	**–**	–	**–**	–
Purchase treasury shares	**(2,886)**	–	**(2,886)**	–
Balance at end of year	**(2,886)**	–	**(2,886)**	–

(c) Nature and purpose of reserves

Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities were previously taken to the foreign currency translation reserve. Refer to note 1(d) for the policy on foreign currency translation.

Available-for-sale investments revaluation reserve

Changes in the fair value of financial assets classified as available-for-sale are taken to the available-for-sale investment revaluation reserve as described in note 1(m). Amounts are recognised in the income statement when the associated assets are sold or impaired.

Equity compensation reserves

The equity compensation reserve – options is used to recognise the fair value of options issued under the Executive Option Plan. The equity compensation reserve – treasury shares is used to recognise shares bought on-market and held in trust to effect share-based payments under the Executive Equity Plan.

25 CONTRIBUTED EQUITY

(a) Share capital

	Parent Entity			
	2005 Shares 000	2004 Shares 000	**2005 $000**	2004 $000
Ordinary shares fully paid	**135,230**	133,832	**51,896**	47,759

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$000
January 2005	Opening balance	133,831,958		47,759
February 2005	Exercise of 2000 options	75,000	$1.32	99
May 2005	Exercise of 2001 options	100,000	$2.25	225
May 2005	Employee share plan issue	5,410	$9.22	50
September 2005	Exercise of 2003 options	100,000	$4.10	410
November 2005	Exercise of 2001 options	192,500	$3.00	578
December 2005	Exercise of 2001 options	925,000	$3.00	2,775
	Total ordinary shares issued	1,397,910		
December 2005	Closing balance	135,229,868		51,896

During the year 246,000 (2004: Nil) ordinary shares were acquired and held on trust for employees under the Executive Equity Plan. These ordinary shares are held in a special purpose trust.

(c) During the year (2 May 2005) 1,000,000 options over unissued ordinary shares were granted as described in the Remuneration Report included in the Directors' Report.

(d) Unissued ordinary shares of the parent entity under option as at 31 December 2005 are as follows:

	Number	Issue price of shares	Issue date	Expiry date
SFE Executive Option Plan	187,500	$3.00	30 November 2001	30 November 2006
SFE Executive Option Plan	100,000	$4.10	15 September 2003	15 September 2008
SFE Executive Option Plan	1,000,000	$8.03	2 May 2005	28 February 2009
	1,287,500			

The key terms of the SFE Executive Option Plan are:

- Options were granted over unissued shares and are exercisable, subject to the achievement of performance hurdles, as follows:
  With respect to the 2001 and 2003 issues, 50% no sooner than two years and no later than five years from issue date, with the remaining 50% exercisable no sooner than four years and no later than five years from issue date.
  With respect to the options under the 2005 issue are all exercisable from 1 March 2008 to 28 February 2009.
- The performance hurdles to be achieved before unexercised options can be exercised are share prices on exercise dates as follows:
  - November 2001 issue $4.50 for the second tranche which was achieved.
  - September 2003 issue, $5.35 for the first 50% (achieved) and $6.00 for the second 50% (exercise dates September 2005 and September 2007).
  - The performance hurdles on the May 2005 issue are as follows:
    a) In respect of 50% of the options:
    If an absolute hurdle is achieved, being a Total Shareholder Return (TSR) greater than 12% pa over the period from 8 November 2004 to 1 March 2008, the options will vest at a rate of 6.25% (62,500 options) for each percentage point exceeding 12% such that all 50% are vested if a TSR of 20% or more is achieved.
    b) In respect of the other 50% of the options:
    If a relative hurdle is achieved, being a TSR greater than the 50th percentile ranking among ASX 200 companies over the period 8 November 2004 to 1 March 2008, the options will vest at a rate of 2.00% (20,000 options) for each percentile point above 50% such that all 50% are vested if the total TSR achieved ranks in the 75th percentile or above.

In the event that no options vest at 1 March 2008 certain retest provisions are applicable over the remaining life of the options.

Timing and performance hurdles have been reached on the 2001 and first tranche of the 2003 issues respectively and details of shares issued in the current year on the exercise of options are set out above.

- 2,380,000 options were issued to 18 executives in 2000, 3,280,000 options were issued to 26 executives in 2001, 200,000 options were issued to one executive in 2003 and 1,000,000 options were issued to the Managing Director and CEO in 2005. Options were issued based on the executive's performance and criticality to the consolidated entity's future business.
- No options have been issued to non-executive directors.
- Options are forfeited on resignation or termination.
- The provisions of the plan include an acceleration clause for redundancy or termination triggered by a change in control.
- During the year 1,392,500 options were exercised into ordinary shares.

The Employee Share Acquisition Plan entitles staff of at least 12 months standing to acquire SFE shares up to a value of $1,000, at a discount to the weighted average share price. An issue was made in 2005 at a 5% discount. (An issue was also made in 2004 at a 5% discount.) Shares acquired by staff are fully vested immediately but do not become available for transfer for three years or until the employee leaves the organisation.

26 KEY MANAGEMENT PERSONNEL DISCLOSURES

The consolidated entities has applied Class order 06/50 issued by the Australian Securities and Investments Commission to transfer remuneration information required by AASB 124 *Related Party Disclosures* to the Remuneration Report on page 38 of the Directors' Report.

(i) Compensation by category: Key management personnel

Category	Consolidated 2005 $000	Consolidated 2004 $000	Parent Entity 2005 $000	Parent Entity 2004 $000
Short-term	**3,841,674**	3,631,461	**3,576,024**	3,417,283
Post-employment	**223,095**	210,597	**202,620**	194,754
Other long-term	**115,164**	14,290	**115,164**	14,290
Termination	**–**	–	**–**	–
Share-based payments	**646,058**	233,407	**646,058**	233,407
	4,825,991	4,089,755	**4,539,866**	3,859,734

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by the executive director of SFE Corporation Limited and each of the other key management personnel of the Group, including their personally related entities, are set out below.

Name	Balance at start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Executive directors of SFE Corporation Limited						
Mr RG Elstone	–	1,000,000	–	–	1,000,000	–
Other key management personnel of the Group						
Ms AT Brown	50,000	–	–	–	50,000	50,000
Mr ME Davey	250,000	–	250,000	–	–	–
Mr PH Galvin	150,000	–	150,000	–	–	–
Mr PD Hiom	110,000	–	110,000	–	–	–
Mr MD Starr	115,000	–	115,000	–	–	–

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of SFE Corporation Limited and each of the other key management personnel of the Group, including their personally related entities, are set out below.

Name	Balance at start of the year	Received during the year on the exercise of options	Received during the year as remuneration	Other changes during the year	Balance at the end of the year
Directors of SFE Corporation Limited					
Ordinary shares					
Mr R Holliday-Smith (Chairman)	3,000	–	–	4,500	7,500
Mr AJ Cameron (Deputy Chairman)	5,000	–	–	–	5,000
Mr KC Borda	10,000	–	–	–	10,000
Mr RG Elstone (Managing Director and CEO)	–	–	–	–	–
Dr SA Grenville	5,000	–	–	–	5,000
Mr IK Payne	4,000	–	–	5,000	9,000
Mr PB St George	5,000	–	–	–	5,000
Ms MM Waller	2,000	–	–	3,000	5,000
Mr PH Warne	3,000	–	–	8,000	11,000
Mr WP Wilson	15,500	–	–	2,500	18,000
Other key management personnel of the Group					
Ordinary shares including restricted shares					
Ms AT Brown	45,000	–	7,000	(45,000)	7,000
Mr ME Davey	189,463	250,000	15,000	(112,483)	341,980
Mr PH Galvin	150,000	150,000	15,000	–	315,000
Mr PD Hiom	310,000	110,000	15,000	(25,000)	410,000
Mr MD Starr	170,000	115,000	8,000	(85,000)	208,000

(iv) Loans to directors and executives

No loans have been made to any key management personnel.

(v) Other transactions with key management personnel

There are no other transactions with key management personnel, including their related parties.

27 INVESTMENT IN CONTROLLED ENTITIES

	Incorporated in	Class of shares	Cost of parent entity's investment	
			2005 $000	2004 $000
100% Controlled Entities				
SFE Clearing Corporation Pty Limited	Australia	Ordinary	**30,000**	30,000
Sydney Futures Exchange Limited	Australia	Ordinary	**20,000**	20,000
Sydney Futures Exchange (US) Inc	USA	Ordinary	–	–
Austraclear Limited *	Australia	Ordinary	**41,726**	41,726
Austraclear Services Limited	Australia	Ordinary	–	–
Equityclear Pty Limited	Australia	Ordinary	–	–
Australian Clearing Corporation Limited	Australia	Ordinary	–	–
SFE Executive Equity Plan Trust	Australia	Ordinary	–	–
New Zealand Futures and Options Exchange Limited	NZ	Ordinary	**151**	151
New Zealand Futures Exchange Limited	NZ	Ordinary	–	–
New Zealand Options Exchange Limited	NZ	Ordinary	–	–
New Zealand Securities Exchange Limited	NZ	Ordinary	–	–
New Zealand Financial Instruments Futures Market Limited	NZ	Ordinary	–	–
New Zealand Interest Rate Futures Limited	NZ	Ordinary	–	–
			91,877	91,877

* Austraclear Limited is subject to certain restrictions resulting from its licence obligations including the requirement to maintain a minimum level of capital.

28 EMPLOYEE ENTITLEMENTS

	Consolidated		Parent Entity	
	2005 $000	2004 $000	**2005 $000**	2004 $000
Provision for employee entitlements				
Current	**2,448**	2,485	**2,448**	2,485
Non-current	**665**	466	**665**	466
Aggregate employee entitlement liability	**3,113**	2,951	**3,113**	2,951
Average number of employees during the financial year (full time equivalents)	**172**	176	**171**	174

29 RELATED PARTIES

	Parent Entity 2005 $000	Parent Entity 2004 $000
The ultimate parent entity within the consolidated entity is SFE Corporation Limited		
Wholly-owned group		
Transactions between SFE Corporation Limited and its wholly-owned controlled entities		
Support charges by the parent entity to entities in the wholly-owned group:		
SFE Clearing Corporation Pty Ltd	**2,307**	3,624
Sydney Futures Exchange Limited	**19,524**	18,996
Austraclear Limited	**4,759**	3,751
Austraclear Services Limited	**755**	427
New Zealand Futures and Options Exchange Limited	**–**	269
Current income tax assumed by the parent entity under tax consolidation legislation:		
SFE Clearing Corporation Pty Ltd	**4,024**	(322)
Sydney Futures Exchange Limited	**30,083**	5,949
Austraclear Limited	**1,672**	(746)
Austraclear Services Limited	**1,447**	334

Under the terms of the Tax Funding Agreement (TFA), the wholly-owned entities reimburse SFE for any current income tax payable by SFE arising in respect of their activities. The TFA covers the funding, accounting and calculation of the tax liability by each individual entity, and also caters for entities joining and exiting the group.

	2005 $000	2004 $000
Dividends received by the parent entity from entities in the wholly-owned group:		
SFE Clearing Corporation Pty Ltd	**10,000**	5,000
Sydney Futures Exchange Limited	**40,000**	35,000
Austraclear Limited	**7,000**	2,000
New Zealand Futures and Options Exchange Limited	**–**	796
Amounts receivable from/(payable to) entities in the wholly-owned group		
Current –		
SFE Clearing Corporation Pty Ltd	**8,231**	3,374
Sydney Futures Exchange Limited	**(66,812)**	(49,646)
Sydney Futures Exchange (US) Inc	**305**	756
Austraclear Limited	**(2,272)**	(130)
Austraclear Services Limited	**(3,044)**	(4,846)
Equityclear Pty Limited	**4**	4
New Zealand Futures and Options Exchange Limited	**(133)**	(131)

	Consolidated and Parent Entity 2005 $000	2004 $000
Other related parties		
Transactions with related parties		
Support charges by the parent entity to related parties:		
SFE Corporation Limited Fidelity Fund*	**–**	24
Sydney Futures Exchange Limited Fidelity Fund	**190**	166

* Fund wound up in 2005.

Amounts receivable from related parties		
Sydney Futures Exchange Limited Fidelity Fund	**8**	253

Directors

Disclosures relating to directors and key management personnel are set out in the Directors' Report.

Transactions with Directors and Director Related Entities

The company, on a daily basis, enters into transactions under normal commercial terms and conditions with corporations that some of the directors are either related to or employed by.

The Group maintains a fidelity fund for Sydney Futures Exchange against claims for the defalcation of moneys in relation to futures and options trading. Sydney Futures Exchange Limited acts as trustee to the Sydney Futures Exchange Limited Fidelity Fund, which had net assets of $19,895,517 at 31 December 2005 (2004: $19,389,412).

The New Zealand Futures and Options Exchange Limited Fidelity Fund was wound up on 26 July 2005 with net assets of $418,885 (2004: $445,754) as NZFOE is no longer operating a market. The net amount of the funds were transferred to be held in trust by another SFE group entity.

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
30 REMUNERATION OF AUDITORS				
During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:				
Audit services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Audit and review of the financial reports and other audit work under the *Corporations Act 2001*	**200,800**	199,000	**95,000**	94,150
Audit of clearing system and processes*	**53,600**	–	**–**	–
Total remuneration for audit services	**254,400**	199,000	**95,000**	94,150
* Previously performed by another audit firm.				
Taxation services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Tax compliance and advisory services, including review of company income tax returns	**94,490**	98,610	**94,490**	98,610
Fees paid to related practices of PricewaterhouseCoopers Australian firm	**10,345**	22,925	**–**	–
Total remuneration for taxation services	**104,835**	121,535	**94,490**	98,610
Advisory services				
Fees paid to PricewaterhouseCoopers Australian firm and related practices:	**67,993**	12,850	**67,993**	12,850
Total remuneration	**427,228**	333,385	**257,483**	205,610

Advisory services include fees related to actuarial services, maintaining business names in various states in Australia, compliance in relation to financial services licences and other audit services.

The consolidated entity has implemented a policy governing the employment of the auditors (PricewaterhouseCoopers). The Board Audit Committee must approve other services provided by the auditors and related practices, above certain limits and for all major consulting assignments. It is the consolidated entity's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience are of particular value. This is typically for tax advice and compliance.

31 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2005 $000	2004 $000	2005 $000	2004 $000
Profit after income tax	**69,163**	54,522	**60,816**	46,918
Non-cash items:				
Depreciation/amortisation of plant and equipment	**5,077**	6,044	**2,196**	2,288
Non-cash employee benefits expense – share based payments	**568**	113	**568**	113
Increase in deferred income tax recognised directly in equity	**262**	–	**262**	–
Change in operating assets and liabilities				
(Increase)/decrease in receivables	**(9,291)**	(2,074)	**407**	94
Increase/(decrease) in other assets	**(2,817)**	1,098	**678**	859
Increase in employee entitlements provisions	**162**	74	**162**	86
Increase/(decrease) in deferred income	**659**	1,385	**(91)**	1
Increase/(decrease) in payables	**9,199**	7,497	**(505)**	(208)
Increase/(decrease) in income tax provision	**3,200**	(1,906)	**19,216**	4,900
Increase/(decrease) in provision for deferred income tax	**970**	3,870	**1,169**	7,531
Net cash inflow from operating activities	**77,152**	70,623	**84,878**	62,582

32 DERIVATIVE FINANCIAL INSTRUMENTS

The consolidated entity holds no off-balance sheet financial instruments. However, the treatment of derivatives contracts traded on Sydney Futures Exchange and novated to SFECC is outlined in note 1(w). The fair value changes arising from these contracts is zero as SFECC holds equal and offsetting contracts resulting in a perfect economic hedge.

33 EARNINGS PER SHARE

	Consolidated	
	2005 Cents	2004 Cents
Basic earnings per share	**51.6**	41.0
Diluted earnings per share	**51.3**	40.8

	Consolidated	
	2005	2004
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**134,070,515**	132,826,931
Adjustments for calculation of diluted earnings per share:		
Options	**824,405**	763,047
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**134,894,920**	133,589,978

No adjustment has been made to the calculation of earnings per share in relation to the 'treasury shares' held by a special purpose entity which forms part of the consolidated entity. These shares are held on behalf of SFE employees under the Executive Equity Plan. Dividends paid to the special purpose entity are passed through to eligible employees.

Diluted earnings per share include the potential effect of unexercised options over ordinary shares, issued as part of the Executive Option Plan.

The basic and diluted earnings per share amounts have been calculated on the basis of net profit after tax of $69,163,064 (2004: $54,522,187).

The diluted earnings per share have been calculated in accordance with note 1(v).

Information concerning the classification of securities

(a) Fully paid ordinary shares

Fully paid ordinary shares carry the right to participate in dividends. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. At 31 December 2005 all ordinary shares issued were fully paid. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Options

Options granted to employees under the Executive Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in the Remuneration Report included in the Directors' Report on page 38.

34 DIVIDENDS

	Consolidated		Parent Entity	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Dividends paid to the holders of ordinary shares in relation to the profit of the year				
Interim dividend of 21.3 cents (2004: 17.2 cents) and	**28,545**	22,845	**28,545**	22,845
Special dividend of nil (2004: 15.0 cents)	–	19,923	–	19,923
per fully paid share paid 21 September 2005				
fully franked at an imputation credit rate of 30%	**28,545**	42,768	**28,545**	42,768
Dividends not recognised at the end of the financial year				
Since the end of the financial year the directors have declared a final dividend of 22.4 cents (2004: 16.7 cents) per fully paid ordinary share, fully franked at an imputation credit rate of 30%. The aggregate amount of the final dividend expected to be paid on 22 March 2006 (2004: paid 23 March 2005) out of retained profits at 31 December 2005, but not recognised as a liability at the end of the financial year is	**30,291**	22,362	**30,291**	22,362
Franking credits available for dividends paid in 2006 and subsequent financial years based on a tax rate of 30% (2004: 30%)				
Imputation credits	**20,114**	14,787	**20,114**	14,787
equivalent to:				
Frankable dividends	**46,933**	34,502	**46,933**	34,502

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date (Note: 2005 final dividend not recognised as a liability), and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $12,982,000 (2004: $9,579,000).

35 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS.

a. At the date of transition to AIFRS: 1 January 2004

Consolidated	Notes 35(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets				
Cash		102,003	–	102,003
Interest bearing securities	(a)	1,390,844	(1,390,844)	–
Available-for-sale financial assets	(a)	–	1,390,744	1,390,744
Receivables	(b),(e)	17,065	21,273	38,338
Other		4,021	–	4,021
Total current assets		1,513,933	21,173	1,535,106
Non-current assets				
Investments		1	–	1
Plant and equipment	(f)	33,426	(23,403)	10,023
Intangibles	(f)	–	23,403	23,403
Goodwill	(c)	24,391	–	24,391
Deferred tax assets	(g)	2,034	(2,034)	–
Total non-current assets		59,852	(2,034)	57,818
Total assets		1,573,785	19,139	1,592,924
Current liabilities				
Payables	(b),(e)	24,023	21,273	45,296
Interest bearing liabilities		1,298,263	–	1,298,263
Provisions		3,841	–	3,841
Current tax liabilities		8,018	–	8,018
Deferred income		3,538	–	3,538
Total current liabilities		1,337,683	21,273	1,358,956
Non-current liabilities				
Payables		7,235	–	7,235
Provisions		471	–	471
Deferred tax liabilities	(g)	4,507	(2,034)	2,473
Participant financial backing		40,740	–	40,740
Total non-current liabilities		52,953	(2,034)	50,919
Total liabilities		1,390,636	19,239	1,409,875
Net assets		183,149	(100)	183,049
Equity				
Contributed equity		43,701	–	43,701
Retained profits	(d)	139,578	(13)	139,565
Reserves	(a),(d)	(130)	(87)	(217)
Total equity		183,149	(100)	183,049

a. At the date of transition to AIFRS: 1 January 2004

Parent	Notes 35(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets				
Cash		2,261	–	2,261
Interest bearing securities	(a)	99,611	(99,611)	–
Available-for-sale financial assets	(a)	–	99,609	99,609
Receivables		10,541	–	10,541
Other		3,268	–	3,268
Total current assets		115,681	(2)	115,679
Non-current assets				
Investments		91,878	–	91,878
Plant and equipment		9,512	–	9,512
Deferred tax assets	(g)	1,359	(171)	1,188
Total non-current assets		102,749	(171)	102,578
Total assets		218,430	(173)	218,257
Current liabilities				
Payables		49,677	–	49,677
Interest bearing liabilities		–	–	–
Provisions		2,454	–	2,454
Current tax liabilities		1,385	–	1,385
Deferred income		90	–	90
Total current liabilities		53,606	–	53,606
Non-current liabilities				
Payables		219	–	219
Provisions		471	–	471
Deferred tax liabilities	(g)	171	(171)	–
Participant financial backing		–	–	–
Total non-current liabilities		861	(171)	690
Total liabilities		54,467	(171)	54,296
Net assets		163,963	(2)	163,961
Equity				
Contributed equity		43,683	–	43,683
Retained profits	(d)	120,280	(13)	120,267
Reserves	(a),(d)	–	11	11
Total equity		163,963	(2)	163,961

b. At the end of the last reporting period under previous AGAAP: 31 December 2004

Consolidated	Notes 35(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets				
Cash		108,222	–	108,222
Interest bearing securities	(a)	1,994,401	(1,994,401)	–
Available-for-sale financial assets	(a)	–	1,994,435	1,994,435
Receivables	(b),(e)	19,139	28,801	47,940
Other		2,923	–	2,923
Total current assets		2,124,685	28,835	2,153,520
Non-current assets				
Investments		1	–	1
Plant and equipment	(f)	33,787	(23,299)	10,488
Intangibles	(f)	–	23,299	23,299
Goodwill	(c)	22,949	1,442	24,391
Deferred tax assets	(g)	1,761	(1,761)	–
Total non-current assets		58,498	(319)	58,179
Total assets		2,183,183	28,516	2,211,699
Current liabilities				
Payables	(b),(e)	31,198	28,801	59,999
Interest bearing liabilities		1,903,018	–	1,903,018
Provisions		3,774	–	3,774
Current tax liabilities		6,112	–	6,112
Deferred income		4,923	–	4,923
Total current liabilities		1,949,025	28,801	1,977,826
Non-current liabilities				
Payables		6,836	–	6,836
Provisions		466	–	466
Deferred tax liabilities	(g)	8,104	(1,761)	6,343
Participant financial backing		36,480	–	36,480
Total non-current liabilities		51,886	(1,761)	50,125
Total liabilities		2,000,911	27,040	2,027,951
Net assets		182,272	1,476	183,748
Equity				
Contributed equity		47,777	–	47,777
Retained profits	(c),(d)	134,495	1,316	135,811
Reserves	(a),(d)	–	160	160
Total equity		182,272	1,476	183,748

b. At the end of the last reporting period under previous AGAAP: 31 December 2004

Parent	Notes 35(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets				
Cash		3,109	–	3,109
Interest bearing securities	(a)	106,330	(106,330)	–
Available-for-sale financial assets	(a)	–	106,333	106,333
Receivables	(g)	17,150	(7,316)	9,834
Other		2,409	–	2,409
Total current assets		128,998	(7,313)	121,685
Non-current assets				
Investments		91,878	–	91,878
Plant and equipment	(f)	9,232	(464)	8,768
Intangibles	(f)	–	464	464
Deferred tax assets	(g)	1,761	(788)	973
Total non-current assets		102,871	(788)	102,083
Total assets		231,869	(8,101)	223,768
Current liabilities				
Payables		57,162	–	57,162
Interest bearing liabilities		–	–	–
Provisions		2,545	–	2,545
Current tax liabilities		6,285	–	6,285
Deferred income		91	–	91
Total current liabilities		66,083	–	66,083
Non-current liabilities				
Payables		303	–	303
Provisions		466	–	466
Deferred tax liabilities	(g)	8,104	(8,104)	–
Participant financial backing		–	–	–
Total non-current liabilities		8,873	(8,104)	769
Total liabilities		74,956	(8,104)	66,852
Net assets		156,913	3	156,916
Equity				
Contributed equity		47,759	–	47,759
Retained profits	(d)	109,154	(126)	109,028
Reserves	(a),(d)	–	129	129
Total equity		156,913	3	156,916

(2) Reconciliation of profit for the year ended 31 December 2004.

Consolidated	Notes 35(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue				
Revenue from continuing operations		117,030	–	117,030
Interest income		87,901	–	87,901
Revenue from continuing operations		204,931	–	204,931
Expenses				
Employee related expenses	(d)	22,678	113	22,791
Premises expenses		2,957	–	2,957
Computer related expenses		13,661	–	13,661
Clearing guarantee expenses		1,980	–	1,980
Insurance, legal, accounting and bank fees		3,365	–	3,365
Finance costs		72,649	–	72,649
Depreciation		6,044	–	6,044
Goodwill amortisation	(c)	1,442	(1,442)	–
Other expenses from ordinary activities		4,607	–	4,607
		129,383	(1,329)	128,054
Profit before income tax		75,548	1,329	76,877
Income tax expense		(22,355)	–	(22,355)
Net profit attributable to members of SFE Corporation Limited		53,193	1,329	54,522

(2) Reconciliation of profit for the year ended 31 December 2004.

Parent	Notes 35(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue				
Revenue from continuing operations		71,503	–	71,503
Interest income		6,127	–	6,127
Revenue from continuing operations		77,630	–	77,630
Expenses				
Employee related expenses	(d)	17,795	113	17,908
Premises expenses		2,224	–	2,224
Computer related expenses		1,369	–	1,369
Clearing guarantee expenses		–	–	–
Insurance, legal, accounting and bank fees		2,136	–	2,136
Finance costs		–	–	–
Depreciation		2,288	–	2,288
Goodwill amortisation	(c)	–	–	–
Other expenses from ordinary activities		3,513	–	3,513
		29,325	113	29,438
Profit before income tax		48,305	(113)	48,192
Income tax expense		(1,274)	–	(1,274)
Net profit attributable to members of SFE Corporation Limited		47,031	(113)	46,918

(3) Reconciliation of cash flow statement for the year ended 31 December 2004.

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement, other than the fair value increase of available-for-sale financial assets detailed below.

	Consolidated		Parent Entity	
	2004	2004	2004	2004
	$000	$000	$000	$000
	Previous AGAAP	AIFRS	Previous AGAAP	AIFRS
Available-for-sale financial assets	–	134	–	5

(4) Notes to the reconciliations

a Available-for-sale financial assets

Under AGAAP there was no requirement to recognise 'interest bearing securities' at fair value and accordingly they were recorded at amortised cost. Under AASB 139 *Financial Instruments: Recognition and Measurement,* from 1 January 2004 the Group is required to reclassify 'Interest bearing securities' as 'available-for-sale financial assets' and to measure them at fair value. The changes in the fair value are recognised directly in equity. The effect is:

(i) *At 1 January 2004*

For the Group, the balance of $1,390,844,000 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $1,390,744,000 and reserves decreased by $100,000.

For the parent, the balance of $99,611,000 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $99,609,000 and reserves decreased by $2,000.

(ii) *At 31 December 2004*

For the Group, the balance of $1,994,401,000 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $1,994,435,000 and reserves increased by $34,000.

For the parent, the balance of $106,330 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $106,333,000 and reserves increased by $3,000.

b Fair value of derivative contract positions

Under the novation process a subsidiary of SFE Corporation Limited (SFECC) assumes the credit responsibility for settlement of all derivative contracts traded on the Sydney Futures Exchange. Under AGAAP there was no requirement to record derivative contracts novated to SFECC on balance sheet and given that all positions are by definition matched there was no recognition on balance sheet of these contracts and no impact on the income statement. Under AIFRS the fair value of derivative contracts is recognised on balance sheet. Therefore recognised in receivables is the increase in fair value of outstanding derivative contracts with a corresponding increase in the income statement, whilst recognised as an increase in payables is the decrease in fair value on outstanding derivative contracts with a corresponding decrease in the income statement. As the Group's derivative contracts are always matched, as a result of the novation process, the increases in receivables and payables are equal and the impact on the income statement is zero. Under the Operating Rules of SFE Clearing Corporation, the movement in the fair value of derivative positions is required to be settled the following business day (variation margin). The effect is:

(i) At 1 January 2004

For the Group the balances in receivables and payables are increased by $11,683,000.

(ii) At 31 December 2004

For the Group the balances in receivables and payables are increased by $22,697,000.

c Intangible assets – Goodwill

Under AGAAP goodwill arising from business combinations was amortised over 20 years. Under AASB 3 *Business Combinations,* amortisation of goodwill is prohibited. The effect is:

(i) At 1 January 2004

For the Group there is no change to either retained earnings or goodwill.

(ii) At 31 December 2004

For the Group there is an increase in retained earnings of $1,442,000 and a corresponding increase in goodwill.

(iii) For the year ended 31 December 2004

For the Group, goodwill amortisation expense of $1,442,000 is reduced to zero.

d Share-based payments

Under AGAAP there was no requirement to recognise an expense for the fair value of options issued to executives as remuneration. Under AASB 2 *Share-based Payment* from 1 January 2004 the Group is required to recognise an expense for those options that were issued to employees after 7 November 2002 under the SFE Executive Option Plan and not vested by 1 January 2005. The effect is:

(i) At 1 January 2004
For the Group and the parent there has been a decrease in retained earnings of $13,000 and a corresponding increase in reserves.

(ii) At 31 December 2004
For the Group and the parent there has been a decrease in retained earnings of $126,000 and a corresponding increase in reserves.

(iii) For the year ended 31 December 2004
For the Group and the parent there has been an increase in employee benefits expense of $113,000.

e Participant margins receivable/payable

Under AGAAP there are no standards covering trade date versus settlement date accounting and in the absence of generally accepted market practices the Group recognised margins on the day received. These balances have not been material in relation to total participant margins held. Under AIFRS the Group has adopted trade date accounting. Accordingly, at balance date, initial margins receivable from participants are recognised in receivables. Settlement of these margins is required by the following business day under the Operating Rules of SFECC.

The effect is:

(i) At 1 January 2004
For the Group the balances in receivables and payables are increased by $9,590,000.

(ii) At 31 December 2004
For the Group the balances in receivables and payables are increased by $6,104,000.

f Intangibles

Under AASB 138 *Intangible Assets,* from 1 January 2004 the Group is required to reclassify all 'computer software' previously reported in 'plant and equipment' under AGAAP to 'intangibles'. The effect is:

(i) At 1 January 2004
For the Group the balance in plant and equipment is decreased by $23,403,000 and intangibles is increased by $23,403,000.

(ii) At 31 December 2004
For the Group the balance in plant and equipment is decreased by $23,299,000 and intangibles is increased by $23,299,000.

g Deferred tax assets and liabilities

SFE Corporation Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 January 2004. Under previous AGAAP, the parent entity recognised current and deferred tax amounts relating to transactions, events and balances of the tax consolidated entities as if those transactions, events and balances were its own.

Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. The difference between the amounts payable under the tax funding agreement and the amounts assumed by the head entity in relation to current tax payable and tax losses or tax credits are recognised as equity contribution, to or distributions from, tax consolidated entities.

The tax funding agreement between the entities in the tax consolidated group was revised as set out in note 1(f) to permit the entities to apply the transitional provisions in UIG 1052 paragraph 65. Under these rules, the parent entity reclassifies the deferred tax balances relating to tax consolidated entities into the relevant intercompany account on the date of transition to AIFRS.

(i) At 1 January 2004
There is no effect on the parent entity or the Group.

(ii) At 31 December 2004
For the parent entity the balance in receivables is decreased by $7,316,000, deferred tax assets is decreased by $544,000 and deferred tax liabilities is decreased by $7,860,000. There is no effect on the Group.

AASB112 *Income Taxes* also requires set off of deferred tax assets and liabilities if, and only if,

a) there is a legally recognised right to set off current tax assets and liabilities, and

b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either:
   (i) the same taxable entity, or
   (ii) different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

At 1 January 2004

	Consolidated $000	Parent $000
Deferred tax assets	2,034	1,359
Set-off deferred tax liabilities pursuant to set-off provisions	(2,034)	(171)
	–	1,188
Deferred tax liabilities	4,507	171
Set-off deferred tax assets pursuant to set-off provisions	(2,034)	(171)
	2,473	–
At 31 December 2004		
Deferred tax assets	1,761	1,761
Reclassify from the parent to the relevant subsidiary	–	(544)
Set-off deferred tax liabilities pursuant to set-off provisions	(1,761)	(244)
	–	973
Deferred tax liabilities		
	8,104	8,104
Reclassify from the parent to the relevant subsidiary	(1,761)	(7,860)
Set-off deferred tax assets pursuant to set-off provisions	–	(244)
	6,343	–

Directors' Declaration for the year ended 31 December 2005

In the directors' opinion:

(a) the financial statements and notes set out on pages 56 to 102 are in accordance with the *Corporations Act 2001,* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 38 to 53 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and Class Order 06/50 issued by the Australian Securities and Investments Commisssion.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

RICK HOLLIDAY-SMITH
Chairman of the Board of Directors

ROBERT G ELSTONE
Managing Director and CEO

Sydney, 22 February 2006

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Independent audit report to the members of SFE Corporation Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of SFE Corporation Limited (the company) and the SFE Corporation Group (defined below) for the financial year ended 31 December 2005 included on SFE Corporation Limited's website. The Company's directors are responsible for the integrity of SFE Corporation Limited's website. We have not been engaged to report on the integrity of this website. The audit report refers only to the Financial Report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the Financial Report or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited Financial Report and remuneration disclosures to confirm the information included in the audited Financial Report and remuneration disclosures presented on this website.

AUDIT OPINION

In our opinion:

1 the Financial Report of SFE Corporation Limited:

gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of SFE Corporation Limited and the SFE Corporation Group (defined below) as at 31 December 2005, and of their performance for the year ended on that date, and

is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001;* and

2 the remuneration disclosures that are contained in pages 38 to 53 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and Class Order 06/50 issued by the Australian Securities and Investments Commission.

This opinion must be read in conjunction with the rest of our audit report.

SCOPE

The Financial Report, remuneration disclosures and directors' responsibility

The Financial Report comprises the balance sheets, income statements, cash flow statements, statements of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both SFE Corporation Limited (the company) and the SFE Corporation Group (the consolidated entity), for the year ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading 'Remuneration Report' on pages 38 to 53 of the Directors' Report, as permitted by Class Order 06/50.

The directors of the company are responsible for the preparation and true and fair presentation of the Financial Report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the Financial Report. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Independent audit report to the members of SFE Corporation Limited continued

PRICEWATERHOUSECOOPERS

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the Financial Report is free of material misstatement and the remuneration disclosures comply with AASB 124 and Class Order 06/50. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the *Corporations Act 2001,* Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and Class Order 06/50.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the Financial Report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the Financial Report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

DH ARMSTRONG
Partner

Sydney
22 February 2006

Shareholder Information

Distribution of Shareholdings (as at 31 January)

	2006		2005	
Number of shares held	No. of holders	% of issued capital	No. of holders	% of issued capital
1 – 1,000 *	3,171	1.52	1,767	0.91
1,001 – 5,000	3,908	7.07	2,962	5.61
5,001 – 10,000	541	3.02	476	2.70
10,001 – 100,000	404	9.26	371	9.14
100,001 – and over	93	79.13	102	81.64
Total	8,117	100.00	5,678	100.00

* Number of shareholders holding less than a marketable parcel ($500) based on the market price of $13.85 as at 31 January 2006 was 15.

Top 20 Shareholders of SFE Corporation Limited Ordinary Fully Paid Shares (as at 31 January 2006)

Total issued ordinary shares at 31 January 2006 - 135,329,868 shares

Name	Number of shares	% of issued capital
JP Morgan Nominees Australia Limited	16,717,562	12.35
National Nominees Limited	14,064,755	10.39
Westpac Custodian Nominees Limited	13,470,063	9.95
ANZ Nominees Limited (Cash income a/c)	10,167,567	7.51
UBS Nominees Pty Ltd (Prime broking a/c)	7,268,670	5.37
Citicorp Nominees Pty Limited	4,827,215	3.57
Cogent Nominees Pty Limited	3,705,340	2.74
Cogent Nominees Pty Limited (SMP accounts)	2,004,137	1.48
UBS Wealth Management Australia Nominees Pty Ltd	1,919,144	1.42
Citicorp Nominees Pty Limited (CFS Future Leaders Fund a/c)	1,655,890	1.22
RBC Global Services Australia Nominees Pty Ltd (bkcust a/c)	1,586,269	1.17
AMP Life Limited	1,555,112	1.15
Deutsche Australia Limited	1,428,558	1.06
HSBC Custody Nominees (Australia) Limited	1,355,842	1.00
ABN Amro Bank NV	1,229,169	0.91
Macquarie Bank Limited	1,204,328	0.89
Citicorp Nominees Pty Limited (CFS WSLE Imputation fnd a/c)	1,167,620	0.86
IAG Nominees Pty Limited	1,025,160	0.76
Queensland Investment Corporation c/- National Nominees Limited	932,768	0.69
RBC Global Services Australia Nominees Pty Limited	895,042	0.66
Total	88,180,211	65.15

The top 20 shareholders are updated on the SFE website monthly (www.sfe.com.au).

Distribution of Shareholders – Registered Address

Location	Number of shares	% of issued capital
Australia	132,424,441	97.85
USA	1,309,731	0.97
Asia	832,065	0.62
United Kingdom	191,071	0.14
New Zealand	560,130	0.41
Other	12,430	0.01
Total	**135,329,868**	**100.00%**

Shareholder Information continued

Substantial Shareholders

At 31 January 2006 the following shareholders had lodged substantial shareholder notices with the company:

Name	Date	Number of Shares	%*
Caledonia Investments Limited and its associated entities	6 June 2003	9,340,762	7.13
Australia and New Zealand Banking Group Limited	18 January 2005	8,108,995	6.06
ING Australia Holdings Limited (and related companies)	25 January 2005	10,957,501	8.18
UBS Nominees Pty Ltd and its related bodies corporate	25 January 2005	6,934,468	5.18
ABN Amro Bank NV	2 September 2005	8,291,637	6.18
Commonwealth Bank of Australia and subsidiaries	25 November 2005	11,739,867	8.75

* Percentage of shares on issue at date of notice.

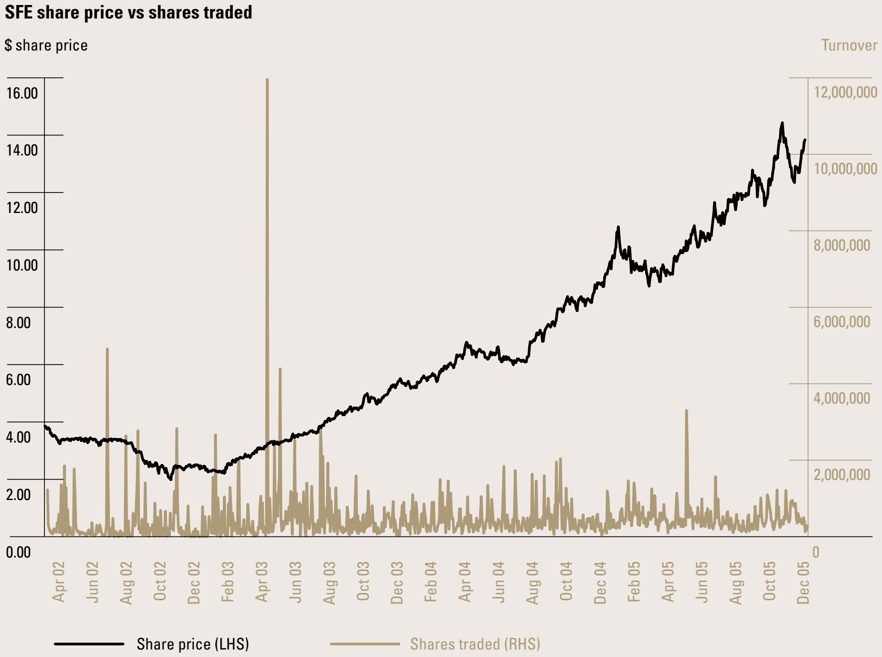
An updated record of substantial shareholder notices is available on the SFE website (www.sfe.com.au).

Shareholding Restrictions

By virtue of SFE Corporation being the holding company of a licensed market operator and of two licensed clearing and settlement facilities, the Corporations Act restricts any single shareholder from holding more than 15% of the voting shares in SFE Corporation unless approval is obtained from the Minister.

Provisions in SFE Corporation's Constitution complement the statutory provision by establishing processes for the Board to arrange for the disposal of any shares held which exceed the limits on voting power set by law (www.sfe.com.au/content/aboutsfe/sfecorp_rules/sferules_002.pdf).

Trading turnover of SFE shares



The company demutualised in September 2000 and listed on the Austock exempt market in November 2000 and on the ASX in April 2002. Turnover of trading in SFE shares, including off-market trades, was approximately 500,000 per day during 2005.

Indices Inclusion

100% of SFE's shares are classified as 'free float' and SFE is included in the S&P ASX 200 index (ranked 110th at the end of January 2006), and the FTSE All World – Australia Index.

Investor Relations

Shareholders' Returns

The following table summarises returns to shareholders over the past five years.

	2005	2004	2003	2002	2001
Dividends per share (cents)					
– Total	**43.7**	48.9	22.1	15.4	12.0
– Interim	**21.3**	17.2	10.5	4.9	4.3
– Final	**22.4**	16.7	11.6	10.5	7.7
– Special	**–**	15.0	–	–	–
Dividend payout ratio (% of NPAT)	**85%**	85%	75%	75%	75%
Franking %	**100%**	100%	100%	100%	100%
Earnings per share (cents)	**51.6**	41.0	29.7	20.6	16.5
Net assets per share	**$1.51**	$1.37	$1.39	$1.30	$1.21
TSR (price movement plus dividends)	**$5.44**	$4.03	$2.98	-$0.55	$1.14
TSR – as a percentage of opening share price	**62%**	78%	123%	18%	57%
TSR – cumulative since listing on ASX (Apr 2002)	**273%**				
TSR pa – cumulative since listing on ASX (assuming 100% reinvestment)	**47%**				
Share price – 1 January *	**$8.78**	$5.19	$2.42	$3.10	$2.00
Share price – Low	**$8.72**	$5.17	$2.21	$1.99	$1.88
Share price – High	**$14.43**	$8.85	$5.29	$4.00	$3.40
Share price – 31 December	**$13.84**	$8.78	$5.19	$2.42	$3.10

* Listed on Austock on 1 November 2000 and ASX on 16 April 2002.

Share prices refer to daily closing prices.

2006 Annual General Meeting

Tuesday 2 May 2006 at 2.30 pm

Location – Shangri-la Hotel
176 Cumberland Street
The Rocks

Shareholders' Timetable

2005 annual results announced	22 February 2006
Shares commence trading ex-dividend	28 February 2006
Record date for the 2005 final dividend	6 March 2006
Payment date for 2005 final dividend	22 March 2006
2006 Annual General Meeting	2 May 2006
2006 interim results announced	23 August 2006
Shares commence trading ex-dividend	29 August 2006
Record date for the 2006 interim dividend	4 September 2006
Payment date for the 2006 interim dividend	20 September 2006

Continuous Disclosure

Listed entities such as SFE have an obligation to keep the market continuously informed of developments likely to have a material impact on share price. SFE complies with its obligations by sending announcements to the Australian Stock Exchange (ASX) which are posted on the ASX's website. These announcements include SFE's exchange traded volumes on a monthly basis which are an indicator of exchange revenues. These, and other important announcements are also available on SFE's website www.sfe.com.au, and are an important means of keeping shareholders continuously informed about the company and its activities.

SFE's website contains copies of all media releases, exchange traded volume data, financial results and briefings to analysts. It also provides details on SFE as well as SFE's products and services.

During 2005, SFE implemented an email based information service which allows interested parties, such as shareholders and customers, to register and select the types of information about SFE that they would like to receive. This service is free of charge. To register go to www.sfe.com.au and click 'email updates' under 'quick links' in the top right hand corner and follow the prompts.

In addition, SFE's exchange traded volumes are published daily in the Australian Financial Review and other major Australian newspapers.

The Corporate Governance Statement on page 23 provides further details of SFE's continuous disclosure policy.

Annual Report Distribution

If you do not wish to receive a copy of the Annual Report in the mail, please notify the share registry, Computershare (details below), in writing quoting your SRN/HIN. A form is also available online at www.computershare.com.au. SFE's Annual Reports are also available online at SFE's website www.sfe.com.au.

Change of Address

If you have changed your address please promptly notify our share registry, Computershare (details below), in writing quoting your SRN/HIN and your old address. A form is also available online at www.computershare.com.au. Updating your address will ensure future correspondence including dividend payments reach you promptly.

Dividends

Dividends can be electronically paid into an Australian account of banks, building societies or credit unions on the dividend payment date. The details of the dividend are also confirmed by an advice mailed to your nominated address. This is an efficient and secure way to receive dividend payments. If you have not yet registered and wish to, please contact the share registry, Computershare (details below) quoting your SRN/HIN. A form is also available online at www.computershare.com.au.

If you wish to change your banking details please notify the share registry in writing quoting your SRN/HIN.

Shareholder Information and Enquiries

All enquiries and correspondence regarding shareholdings should be directed to SFE's share registry:

Computershare Investor Services Pty Ltd
GPO Box 7045
Sydney NSW 2001
Australia
Telephone 1300 855 080
or 61 3 9611 5711 (overseas callers)

Website www.computershare.com.au

If you have a query in relation to the performance or management of SFE please direct your enquiry to investorrelations@sfe.com.au or telephone 02 9256 0555.

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Directory

Offices

SFE Corporation Limited and Sydney Futures Exchange Limited
30 Grosvenor Street
Sydney NSW 2000 Australia
Telephone: +61 2 9256 0555
Facsimile: +61 2 9256 0666

SFE Clearing Corporation Pty Ltd and Austraclear Limited
30 Grosvenor Street
Sydney NSW 2000 Australia
Telephone: +61 2 9256 0555
Facsimile: +61 2 9256 0666

Auditor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000 Australia
Telephone: +61 2 8266 0000
Facsimile: +61 2 8266 9999

Share Registry

Computershare
GPO Box 7045
Sydney NSW 2001 Australia
Telephone: 1300 855 080
Facsimile: +61 2 8234 5050
sydney.services@computershare.com.au

SFE website: www.sfe.com.au
SFE investor contact: investorrelations@sfe.com.au

Appendix 4E

Preliminary final report

Name of entity

SFE CORPORATION LIMITED

1. Details of the reporting period and the previous corresponding period.

ABN or equivalent company reference	FinalReport *(tick)*	Financial year ended ('current period')	Previous corresponding ended ('prior period')
74 000 299 392	✓	31 December 2005	31 December 2004

2. Results for announcement to the market

				$A'000
Revenues from continuing operations	Up	26%	to	259,111
Profit (loss) from continuing operations after tax attributable to members	Up	27%	to	69,163
Profit (loss) from extraordinary items after tax attributable to members	Gain (loss) of	-		-
Net profit (loss) for the period attributable to members	Up	27%	to	69,163

Dividends (distributions)	Amount per security	Franked amount per security
Current Period		
Final dividend	22.4¢	22.4¢
Interim dividend (paid)	21.3¢	21.3¢
Prior Period		
Final dividend	16.7¢	16.7¢
Interim dividend	17.2¢	17.2¢
Special dividend	15.0¢	15.0¢

Record date for determining entitlements to the dividend	(final) 6 March 2006

3. Consolidated income statement

	Current period - $A'000	Previous corresponding period - $A'000
Revenues from continuing operations	259,111	204,931
Expenses from continuing operations	(54,493)	(55,405)
Finance costs	(106,755)	(72,649)
Profit (loss) from ordinary activities before tax	**97,863**	**76,877**
Income tax expense	(28,700)	(22,355)
Profit (loss) from continuing operations after tax	**69,163**	**54,522**
Profit (loss) from extraordinary items after tax	-	-
Net profit (loss)	**69,163**	**54,522**
Net profit (loss) attributable to outside equity interests	-	-
Net profit (loss) for the period attributable to members	**69,163**	**54,522**
Non-owner transaction changes in equity		
Changes in fair value of available-for-sale financial assets	4	134
Net exchange differences recognised in equity	-	11
Movement in equity compensation reserve	(2,318)	113
Total transactions and adjustments recognised directly in equity	(2,314)	258
Total changes in equity not resulting from transactions with owners as owners	66,849	54,780

Please refer to the attached Financial Report for further details including notes to the Income Statement.

4. Consolidated balance sheet

	As at the end of the current period $A'000	As at the end of the previous corresponding period $A'000
Current assets		
Cash	168,192	108,222
Available-for-sale financial assets	2,577,125	1,994,435
Receivables	110,871	47,940
Other	5,740	2,923
Total current assets	**2,861,928**	**2,153,520**
Non-current assets		
Investments	1	1
Plant and equipment	9,328	10,488
Intangibles	21,397	23,299
Goodwill	24,391	24,391
Deferred tax assets	-	-
Total non-current assets	**55,117**	**58,179**
Total assets	**2,917,045**	**2,211,699**
Current liabilities		
Payables	127,522	59,999
Financial liabilities	2,521,918	1,903,018
Provisions	3,830	3,774
Tax liabilities	9,312	6,112
Other	5,582	4,923
Total current liabilities	**2,668,164**	**1,977,826**
Non-current liabilities		
Payables	114	6,836
Provisions	665	466
Deferred tax liabilities	7,335	6,343
Participant financial backing	36,940	36,480
Total non-current liabilities	**45,054**	**50,125**
Total liabilities	**2,713,218**	**2,027,951**
Net assets	**203,827**	**183,748**

Consolidated balance sheet (continued)

Equity		
Contributed equity	51,913	47,777
Retained profits	154,067	135,811
Reserves	(2,153)	160
Total equity	**203,827**	**183,748**

Please refer to the attached Financial Report for further details including notes to the Balance Sheet.

5. Consolidated statement of cash flows

	Current period $A'000	Previous corresponding period - $A'000
Cash flows from operating activities		
Receipts from customers	140,726	127,795
Payments to suppliers and employees	(56,782)	(51,744)
Interest received	124,211	87,611
Interest and other costs of finance paid	(106,755)	(72,649)
Income taxes paid	(24,248)	(20,390)
Net operating cash flows	**77,152**	**70,623**
Cash flows related to investing activities		
Payment for non-current assets	(3,581)	(6,562)
Proceeds from sale of property, plant and equipment	-	14
Net increase in participant balances	619,360	600,495
Net cash flows from investing activities	**615,779**	**593,947**
Cash flows from financing activities		
Proceeds from issues of securities	4,137	4,076
Repayment of lease liability	(377)	(713)
Dividends paid	(50,907)	(58,157)
Purchase of treasury shares	(3,145)	-
Net cash flows from financing activities	**(50,292)**	**(54,794)**
Net increase (decrease) in cash held	**642,639**	**609,776**
Fair value increase of available-for-sale financial assets	21	134
Cash at beginning of period	2,102,657	1,492,747
Cash at end of period	2,745,317	2,102,657

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current period $A'000	Previous corresponding Period - $A'000
Cash	188,459	163,159
Available-for-sale financial assets	2,556,858	1,939,498
Total cash at end of period	**2,745,317**	**2,102,657**

Please refer to the attached Financial Report for further details including notes to the Statement of Cash Flows.

6. Dividends

Date the final dividend (distribution) is payable	**22 March 2006**
Record date to determine entitlements to the dividend	**6 March 2006**
If it is a final dividend, has it been declared?	**YES**

Amount per security

			Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Final dividend:	Current year		22.4¢	22.4¢	-
	Previous year	(paid)	16.7¢	16.7¢	-
Interim dividend:	Current year	(paid)	21.3¢	21.3¢	-
	Previous year	(paid)	17.2¢	17.2¢	-
Special dividend:	Current year	(paid)	-	-	-
	Previous year	(paid)	15.0¢	15.0¢	-

Total dividend (distribution) per security (interim *plus* final *plus* special)

	Current year	Previous year
Ordinary securities	43.7¢	48.9¢

7. Details of any dividend or distribution reinvestment plans in operation

There are no dividend or distribution reinvestment plans in operation

8. Consolidated statement of retained profits

	Current period - $A'000	Previous corresponding period - $A'000
Retained profits at the beginning of the financial period	135,811	139,564
Net profit attributable to members	69,163	54,522
Net transfers from (to) reserves – *Foreign Currency Translation Reserve*	-	(118)
Dividends and other equity distributions paid or payable	(50,907)	(58,157)
Retained profits at end of financial period	**154,067**	**135,811**

9. Net Tangible Assets per security	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	**$1.17**	$1.02

10. Control gained over entities having material effect/Loss of control of entities having material effect

Control of subsidiaries has not changed during the period (ie none gained or lost).

11. Details of aggregate share of profits (losses) of associates and joint venture entities

Nil

12. Significant information

Nil

13. Commentary

For a full commentary on the results refer to the 'Chief Financial Officer's Report' section of the attached Annual Report.

	Current year	Previous year
Earnings Per Share (EPS)	51.6¢	41.0¢
Diluted Earnings Per Share (Diluted EPS)	51.3¢	40.8¢

- There has been no return of shares to shareholders by way of distributions or share buy backs.

14. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for SFE Corporation Limited as an individual entity and the consolidated entity consisting of SFE Corporation Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs
Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of SFE Corporation Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

The Group has not elected to early adopt AASB 7 *Financial Instruments: Disclosures* in this financial report.

Application of AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards
Financial statements of SFE Corporation Limited until 31 December 2004 were prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the SFE Corporation Limited financial report for the year ended 31 December 2005, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 15.

The Group has elected to use the exemption in AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards,* with respect to:
1 Share-based payments - options issued prior to 7 November 2002 have not been recognised in the income statement or balance sheet in accordance with the previous GAAP.
2 Business Combinations – acquisitions made prior to the adoption of AIFRS have not been restated.

The Group has elected not to apply the exemptions in AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards,* relating to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement,* in respect of the comparative information.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

(b) Principles of consolidation

Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SFE Corporation Limited ("company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the year then ended. SFE Corporation Limited and its subsidiaries together are referred to in this financial report as “the Group” or “the consolidated entity”.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is SFE Corporation Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and recognised in the period earned. Revenue is recognised for the major business activities as follows:

(i) Exchange traded – revenue sourced from the activities associated with trading and clearing futures and options is recognised in the period earned (on trade date)

(ii) Non-exchange traded – revenue sourced from all settlement, depository and registry services associated with "delivery versus payment" clearing of financial securities such as fixed interest securities and bonds is recognised in the period earned including the deferral of revenue to future periods, where services provided cover more than the current period.

Interest income on available-for-sale financial assets is recognised over the assets term to maturity.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

SFE Corporation Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 January 2004.

The head entity, SFE Corporation Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, SFE Corporation Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

SFE Group entities have entered into a tax sharing agreement, which in the opinion of directors, limits the joint and several liability of the wholly-owned entities in the case of default by the head entity, SFE Corporation Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate SFE Corporation limited for any current tax payable assumed and are compensated by SFE Corporation Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SFE Corporation limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

(g) Leases

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Minimum payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)).

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Receipts and payments processed daily from futures and options contract settlements and from margin deposits have been netted off.

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Receivables are due for settlement no more than 30 days, from the date of recognition. Receivables include margins receivable from clearing participants, which are due for settlement on the next business day. Margins receivable include the fair value of derivative positions and are recognised on trade-date, the date on which the derivative contracts are registered.

Collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement.

(l) Investments and other financial assets

The Group classifies its investments in money market securities as available-for-sale financial assets. The classification is based on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date. They are included in current assets as they all have maturities less than 12 months of the balance sheet date.

Purchases and sales of available-for-sale financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised at fair value and are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current mid price between the bid and the ask price.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of matched derivative positions held by the Group as a result of the novation process (Note 1(w)) has been based on the fair value used for settlement under the Operating Rules (for liquid contracts this is effectively the mid price).

(n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Computer and office equipment	3 years
- SYCOM trading system infrastructure	Minimum term of vendor support
- Non-trading system infrastructure	5 years
- Leasehold improvements	Term of lease

Depreciation of leasehold improvements is calculated so as to depreciate the cost over its expected useful life, not exceeding the period of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

Computer software
Computer systems development projects, which are expected to provide future benefits, are capitalised at cost and amortised over their expected useful life. Capitalised project costs are amortised from the time the project assets are in use. Where IT and project staff are engaged in major software development projects, the applicable employment costs related directly to the development and implementation (project phase expenditure) are capitalised and amortised in line with the useful lives of the software.

The estimated useful lives for the Group's computer software are as follows:

- Core derivatives trading system	Minimum term of vendor support
- Core derivatives clearing systems	10 years (Refer note 6)
- Core delivery versus payment clearing system	7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(p) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Finance costs

Finance costs are calculated using the effective interest method and are expensed. Interest payments to participants on margins and commitment balances are recorded as finance costs.

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations
Employees of the Group may be entitled to benefits on retirement, disability or death from the Group's superannuation plan. The plan is an accumulation fund. Employees contribute to the fund at various percentages of their salaries and wages and the company also contributes at various levels. Contributions to the plan are recognised as an employee related expense as they become payable.

(iv) Share-based payments
Share-based compensation benefits are provided to employees via the SFE Executive Option Plan, the SFE Executive Share Plan and the Employee Share Acquisition Plan.

Share options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Share options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the SFE Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the expected period until the employees become unconditionally entitled to exercise the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model and Monte-Carlo simulation that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

The fair value of shares issued under the Executive Share Plan is expensed over the vesting period.

The fair value of shares issued to employees under the employee share acquisition plan is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(v) Bonus plans
The Group recognises a liability and an expense for bonuses taking into consideration the performance of the company and staff. The Group recognises a provision where contractually obliged or where there is a past practice that gives clear evidence of the amount of the obligation.

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(u) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance sheet date. Typically, the final dividend in respect of a financial year is declared after the end of the year, and is therefore not provided for until declared.

(v) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Novation

Under a process known as novation, a controlled entity, SFE Clearing Corporation Pty Ltd (SFECC), legally becomes the principal in all market contracts executed on Sydney Futures Exchange. Therefore all novated positions are, by definition, matched. Accordingly SFECC is not exposed to any net profit or loss arising from movements in the market price of the derivative contracts.

The fair values of the derivative contracts that result from the novation process are recognised on balance sheet as equal receivables and payables. The consolidated income statement and statement of cash flow do not include any net effect from the novated contracts. However the consolidated balance sheet reflects the fair value of these contracts at balance date. Under the Operating Rules of SFECC, the movement in the fair value of derivative positions is required to be settled the following business day (variation margins).

(x) Participant balances

Derivative Clearing Participants are required to deposit cash or other accepted security as margins in relation to their open positions on Sydney Futures Exchange. Cash received is held on deposit with financial institutions in the name of SFECC or used to acquire interest bearing securities. These funds have been recorded as available-for-sale financial assets or cash of SFECC with an offsetting liability to the participant who deposited the funds. Where security other than cash is deposited as margins it is similarly recorded as an asset with an offsetting liability. Margins due and receivable the following business day are recognised as a receivable with an offsetting liability.

(y) Participant financial backing

Under the Operating Rules of SFECC, Clearing Participants are required to provide financial backing to SFECC by way of cash or other acceptable commitments (eg letter of credit issued by a major Australian licenced bank). If provided in cash, this backing is recorded as an asset of SFECC (cash or available-for-sale financial asset where interest bearing securities have been acquired with the cash) with an offsetting (non-current) liability.

(z) Treasury shares

Treasury shares are shares in the parent entity held in a special purpose trust, until vesting, for the benefit of employees under the Executive Share Plan as described in the remuneration report in the Directors' Report. Treasury shares, net of any permanent tax effect, are included in the equity compensation reserve and are deducted from equity.

(aa) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

15. Explanation of transition to Australian equivalent to International Financial Reporting Standards (AIFRS)

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS.

a. At the date of transition to AIFRS: 1 January 2004

Consolidated	Notes 15(4):	**Previous AGAAP** $'000	**Effect Of Transition to AIFRS** $'000	**AIFRS** $'000
Current assets				
Cash		102,003	-	102,003
Interest bearing securities	(a)	1,390,844	(1,390,844)	-
Available-for-sale financial assets	(a)	-	1,390,744	1,390,744
Receivables	(b),(e)	17,065	21,273	38,338
Other		4,021	-	4,021
Total current assets		1,513,933	21,173	1,535,106
Non-current assets				
Investments		1	-	1
Plant and equipment	(f)	33,426	(23,403)	10,023
Intangibles	(f)	-	23,403	23,403
Goodwill	(c)	24,391	-	24,391
Deferred tax assets		2,034	(2,034)	-
Total non-current assets		59,852	(2,034)	57,818
Total assets		1,573,785	19,139	1,592,924
Current liabilities				
Payables	(b),(e)	24,023	21,273	45,296
Interest bearing liabilities		1,298,263	-	1,298,263
Provisions		3,841	-	3,841
Current tax liabilities		8,018	-	8,018
Deferred income		3,538	-	3,538
Total current liabilities		1,337,683	21,273	1,358,956
Non-current liabilities				
Payables		7,235	-	7,235
Provisions		471	-	471
Deferred tax liabilities		4,507	(2,034)	2,473
Participant financial backing		40,740	-	40,740
Total non-current liabilities		52,953	(2,034)	50,919
Total liabilities		1,390,636	19,239	1,409,875
Net assets		183,149	(100)	183,049
Equity				
Contributed equity		43,701	-	43,701
Retained profits	(d)	139,578	(13)	139,565
Reserves	(a),(d)	(130)	(87)	(217)
Total equity		183,149	(100)	183,049

a. At the date of transition to AIFRS: 1 January 2004

Parent	Notes 15(4):	**Previous AGAAP** $'000	**Effect of transition to AIFRS** $'000	**AIFRS** $'000
Current assets				
Cash		2,261	-	2,261
Interest bearing securities	(a)	99,611	(99,611)	-
Available-for-sale financial assets	(a)	-	99,609	99,609
Receivables		10,541	-	10,541
Other		3,268	-	3,268
Total current assets		115,681	(2)	115,679
Non-current assets				
Investments		91,878	-	91,878
Plant and equipment		9,512	-	9,512
Deferred tax assets		1,359	(171)	1,188
Total non-current assets		102,749	(171)	102,578
Total assets		218,430	(173)	218,257
Current liabilities				
Payables		49,677	-	49,677
Interest bearing liabilities		-	-	-
Provisions		2,454	-	2,454
Current tax liabilities		1,385	-	1,385
Deferred income		90	-	90
Total current liabilities		53,606	-	53,606
Non-current liabilities				
Payables		219	-	219
Provisions		471	-	471
Deferred tax liabilities		171	(171)	-
Participant financial backing		-	-	-
Total non-current liabilities		861	(171)	690
Total liabilities		54,467	(171)	54,296
Net assets		163,963	(2)	163,961
Equity				
Contributed equity		43,683	-	43,683
Retained profits	(d)	120,280	(13)	120,267
Reserves	(a),(d)	-	11	11
Total equity		163,963	(2)	163,961

b. At the end of the last reporting period under previous AGAAP: 31 December 2004

Consolidated	Notes 15(4):	**Previous AGAAP** $'000	**Effect of transition to AIFRS** $'000	**AIFRS** $'000
Current assets				
Cash		108,222	-	108,222
Interest bearing securities	(a)	1,994,401	(1,994,401)	-
Available-for-sale financial assets	(a)	-	1,994,435	1,994,435
Receivables	(b),(e)	19,139	28,801	47,940
Other		2,923	-	2,923
Total current assets		2,124,685	28,835	2,153,520
Non-current assets				
Investments		1	-	1
Plant and equipment	(f)	33,787	(23,299)	10,488
Intangibles	(f)	-	23,299	23,299
Goodwill	(c)	22,949	1,442	24,391
Deferred tax assets	(g)	1,761	(1,761)	-
Total non-current assets		58,498	(319)	58,179
Total assets		2,183,183	28,516	2,211,699
Current liabilities				
Payables	(b),(e)	31,198	28,801	59,999
Interest bearing liabilities		1,903,018	-	1,903,018
Provisions		3,774	-	3,774
Current tax liabilities		6,112	-	6,112
Deferred income		4,923	-	4,923
Total current liabilities		1,949,025	28,801	1,977,826
Non-current liabilities				
Payables		6,836	-	6,836
Provisions		466	-	466
Deferred tax liabilities	(g)	8,104	(1,761)	6,343
Participant financial backing		36,480	-	36,480
Total non-current liabilities		51,886	(1,761)	50,125
Total liabilities		2,000,911	27,040	2,027,951
Net assets		182,272	1,476	183,748
Equity				
Contributed equity		47,777	-	47,777
Retained profits	(c),(d)	134,495	1,316	135,811
Reserves	(a),(d)	-	160	160
Total equity		182,272	1,476	183,748

b. At the end of the last reporting period under previous AGAAP: 31 December 2004

Parent	Notes 15(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Current assets				
Cash		3,109	-	3,109
Interest bearing securities	(a)	106,330	(106,330)	-
Available-for-sale financial assets	(a)	-	106,333	106,333
Receivables	(g)	17,150	(7,316)	9,834
Other		2,409	-	2,409
Total current assets		128,998	(7,313)	121,685
Non-current assets				
Investments		91,878	-	91,878
Plant and equipment	(f)	9,232	(464)	8,768
Intangibles	(f)	-	464	464
Deferred tax assets	(g)	1,761	(788)	973
Total non-current assets		102,871	(788)	102,083
Total assets		231,869	(8,101)	223,768
Current liabilities				
Payables		57,162	-	57,162
Interest bearing liabilities		-	-	-
Provisions		2,545	-	2,545
Current tax liabilities		6,285	-	6,285
Deferred income		91	-	91
Total current liabilities		66,083	-	66,083
Non-current liabilities				
Payables		303	-	303
Provisions		466	-	466
Deferred tax liabilities	(g)	8,104	(8,104)	-
Participant financial backing		-	-	-
Total non-current liabilities		8,873	(8,104)	769
Total liabilities		74,956	(8,104)	66,852
Net assets		156,913	3	156,916
Equity				
Contributed equity		47,759	-	47,759
Retained profits	(d)	109,154	(126)	109,028
Reserves	(a),(d)	-	129	129
Total equity		156,913	3	156,916

(2) Reconciliation of profit for the year ended 31 December 2004.

Consolidated	Notes 15(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue				
Revenue from ordinary operations		117,030	-	117,030
Interest income		87,901	-	87,901
Revenue from continuing operations		204,931	-	204,931
Expenses				
Employee related expenses	(d)	22,678	113	22,791
Premises expenses		2,957	-	2,957
Computer related expenses		13,661	-	13,661
Clearing guarantee expenses		1,980	-	1,980
Insurance, legal, accounting and bank fees		3,365	-	3,365
Finance costs		72,649	-	72,649
Depreciation		6,044	-	6,044
Goodwill amortisation	(c)	1,442	(1,442)	-
Other expenses from ordinary activities		4,607	-	4,607
		129,383	(1,329)	128,054
Profit before income tax		75,548	1,329	76,877
Income tax expense		(22,355)	-	(22,355)
Net profit attributable to members of SFE Corporation Limited		53,193	1,329	54,522

(2) Reconciliation of profit for the year ended 31 December 2004.

Parent	Notes 15(4):	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue				
Revenue from ordinary operations		71,503	-	71,503
Interest income		6,127	-	6,127
Revenue from continuing operations		77,630	-	77,630
Expenses				
Employee related expenses	(d)	17,795	113	17,908
Premises expenses		2,224	-	2,224
Computer related expenses		1,369	-	1,369
Clearing guarantee expenses		-	-	-
Insurance, legal, accounting and bank fees		2,136	-	2,136
Finance costs		-	-	-
Depreciation		2,288	-	2,288
Goodwill amortisation	(c)	-	-	-
Other expenses from ordinary activities		3,513	-	3,513
		29,325	113	29,438
Profit before income tax		48,305	(113)	48,192
Income tax expense		(1,274)	-	(1,274)
Net profit attributable to members of SFE Corporation Limited		47,031	(113)	46,918

(3) Reconciliation of cash flow statement for the year ended 31 December 2004.

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement, other than the fair value increase of available-for-sale financial assets detailed below.

	Consolidated		**Parent Entity**	
	2004 $000 Previous AGAAP	2004 $000 AIFRS	2004 $000 Previous AGAAP	2004 $000 AIFRS
Available-for-sale financial assets	-	134	-	5

(4) Notes to the reconciliations

a. Available-for-sale financial assets.

Under AGAAP there was no requirement to recognise "interest bearing securities" at fair value and accordingly they were recorded at amortised cost. Under *AASB 139 Financial Instruments: Recognition and Measurement*, from 1 January 2004 the Group is required to reclassify "Interest bearing securities" as "available-for-sale financial assets" and to measure them at fair value. The changes in the fair value are recognised directly in equity. The effect is:

(i) *At 1 January 2004*
For the Group, the balance of $1,390,844,000 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $1,390,744,000 and reserves decreased by $100,000.
For the parent, the of $99,611,000 balance in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $99,609,000 and reserves decreased by $2,000.

(ii) *At 31 December 2004*
For the Group, the balance of $1,994,401,000 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $1,994,435,000 and reserves increased by $34,000.
For the parent, the balance of $106,330 in the interest bearing securities is reduced to zero. Available-for-sale financial assets have increased by $106,333,000 and reserves increased by $3,000.

b. Fair value of derivative contract positions.

Under the novation process a subsidiary of SFE Corporation Limited (SFECC) assumes the credit responsibility for settlement of all derivative contracts traded on the Sydney Futures Exchange. Under AGAAP there was no requirement to record derivative contracts novated to SFECC on balance sheet and given that all positions are by definition matched there was no recognition on balance sheet of these contracts and no impact on the income statement. Under AIFRS the fair value of derivative contracts is recognised on balance sheet. Therefore recognised in receivables is the increase in fair value of outstanding derivative contracts with a corresponding increase in the income statement, whilst recognised as an increase in payables is the decrease in fair value on outstanding derivative contracts with a corresponding decrease in the income statement. As the Group's derivative contracts are always matched, as a result of the novation process, the increases in receivables and payables are equal and the impact on the income statement is zero. Under the Operating Rules of SFE Clearing Corporation, the movement in the fair value of derivative positions is required to be settled the following business day (variation margin). The effect is:

(i) *At 1 January 2004*
For the Group the balances in receivables and payables are increased by $11,683,000.

(ii) *At 31 December 2004*
For the Group the balances in receivables and payables are increased by $22,697,000.

c. Intangible assets - Goodwill

Under AGAAP goodwill arising from business combinations was amortised over 20 years. Under *AASB 3 Business Combinations*, amortisation of goodwill is prohibited. The effect is:

(i) *At 1 January 2004*
For the Group there is no change to either retained earnings or goodwill.

(ii) *At 31 December 2004*
For the Group there is an increase in retained earnings of $1,442,000 and a corresponding increase in goodwill.

(iii) *For the year ended 31 December 2004*
For the Group, goodwill amortisation expense of $1,442,000 is reduced to zero.

d. Share-based payments

Under AGAAP there was no requirement to recognise an expense for the fair value of options issued to executives as remuneration. Under *AASB 2 Share-based Payment* from 1 January 2004 the Group is required to recognise an expense for those options that were issued to employees after 7 November 2002 under the SFE Executive Option Plan and not vested by 1 January 2005. The effect is:

(i) *At 1 January 2004*
For the Group and the parent there has been a decrease in retained earnings of $14,000 and a corresponding increase in reserves.

(ii) *At 31 December 2004*
For the Group and the parent there has been a decrease in retained earnings of $126,000 and a corresponding increase in reserves.

(iii) *For the year ended 31 December 2004*
For the Group and the parent there has been an increase in employee benefits expense of $113,000.

e. Participant margins receivable/payable

Under AGAAP there are no standards covering trade date versus settlement date accounting and in the absence of generally accepted market practices the Group recognised margins on the day received. These balances have not been material in relation to total participant margins held. Under AIFRS the Group has adopted trade date accounting. Accordingly, at balance date, initial margins receivable from participants are recognised in receivables. Settlement of these margins is required by the following business day under the Operating Rules of SFECC.

The effect is:

(i) *At 1 January 2004*
For the Group the balances in receivables and payables are increased by $9,590,000.

(ii) *At 31 December 2004*
For the Group the balances in receivables and payables are increased by $6,104,000.

f. Intangibles

Under *AASB 138 Intangible Assets*, from 1 January 2004 the Group is required to reclassify all “Computer Software” previously reported in “Plant and Equipment” under AGAAP to “Intangibles”. The effect is:

(i) *At 1 January 2004*
For the Group the balance in plant and equipment is decreased by $23,403,000 and intangibles is increased by $23,403,000.

(ii) *At 31 December 2004*
For the Group the balance in plant and equipment is decreased by $23,299,000 and intangibles is increased by $23,299,000.

g. Deferred tax assets and liabilities

SFE Corporation Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 January 2004. Under previous AGAAP, the parent entity recognised current and deferred tax amounts relating to transactions, events and balances of the tax consolidated entities as if those transactions, events and balances were its own.

Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. The difference between the amounts payable under the tax funding agreement and the amounts assumed by the head entity in relation to current tax payable and tax losses or tax credits are recognised as equity contribution, to or distributions from, tax consolidated entities.

The tax funding agreement between the entities in the tax consolidated group was revised as set out in note 1 (f) to permit the entities to apply the transitional provisions in UIG 1052 paragraph 65. Under these rules, the parent entity reclassifies the deferred tax balances relating to tax consolidated entities into the relevant intercompany account on the date of transition to AIFRS.

(i) *At 1 January 2004*
There is no effect on the parent entity or the Group.

(ii) *At 31 December 2004*
For the parent entity the balance in receivables is decreased by $7,316,000, deferred tax assets is decreased by $544,000 and deferred tax liabilities is decreased by $7,860,000. There is no effect on the Group.

AASB112 *Income Taxes* also requires set off of deferred tax assets and liabilities if, and only if,

a) there is a legally recognised right to set off current tax assets and liabilities, and
b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either:
i) the same taxable entity, or
ii) different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

At 1 January 2004

	Consolidated $000	Parent $000
Deferred tax assets	2,034	1,359
Set-off deferred tax liabilities pursuant to set-off provisions	(2,034)	(171)
	-	1,188
Deferred tax liabilities	4,507	171
Set-off deferred tax assets pursuant to set-off provisions	(2,034)	(171)
	2,473	-

At 31 December 2004

	Consolidated	Parent
Deferred tax assets	1,761	1,761
Reclassify from the parent to the relevant subsidiary		(544)
Set-off deferred tax liabilities pursuant to set-off provisions	(1,761)	(244)
	-	973
Deferred tax liabilities	8,104	8,104
Reclassify from the parent to the relevant subsidiary	(1,761)	(7,860)
Set-off deferred tax assets pursuant to set-off provisions	-	(244)
	6,343	-

16. Audit details

The Financial Report has been audited and an unqualified independent audit report is attached to the Financial Report.

Robert G Elstone
Managing Director and CEO   Date: 22 February 2006