

NZX Annual Report 2018

LEADING A SUSTAINABLE
CAPITAL MARKET FOR
NEW ZEALAND



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Bird's eye view of river braiding,
Aoraki Mt Cook National Park, New Zealand

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A GLANCE

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CORPORATE
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Results at a glance

REVENUE FROM CONTINUING OPERATIONS

\$67.5 million

up 0.5%

EXPENSES FROM CONTINUING OPERATIONS

\$40.2 million

up 0.8%

OPERATING EARNINGS FROM CONTINUING OPERATIONS*

\$27.3 million

up 0.1%

NPAT**

\$11.6 million

is lower than 2017 due to the strategic decision to focus on our core capital markets business, resulting in the disposal of non-core businesses (and the related impairments of \$3.0 million). Disposal proceeds were returned to shareholders through a special dividend of 1.5 cents per share

*Operating earnings are before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, gain and loss on disposal of business and property, plant and equipment. Total operating earnings are \$28,129,000 (being \$27,283,000 from continuing activities and \$846,000 from discontinued activities).

**Continuing and discontinued activities and includes impairment write downs of \$3.01 million (continuing activities \$0.35 million and discontinued activities \$2.66 million) relating to the disposal of non core businesses.

INTERIM

3.0

cents per share

SPECIAL

1.5

cents per share

FINAL

3.1

cents per share

TOTAL

7.6

cents per share

DIVIDEND

Total capital raised (new capital and secondary capital raised) up 10.0% to

\$9.5 billion

KEY METRICS

On-market trading up

27.4% to 53.4%

total value traded down 13.1% to

\$38.2 billion

Dairy data license products up 24.4% to

963

FUNDS UNDER MANAGEMENT UP 8.1% TO

\$2.9 billion

FUNDS UNDER ADMINISTRATION UP 70.2% TO

\$2.0 billion

Strategy

Execution

We shared our strategic priorities and are delivering against them.

Over the past year we have actively transformed NZX strategically, operationally and culturally.



CORE MARKET

Issuer Relationships \$9.5 billion capital raised in 2018, +10.0% on 2017	Customer engagement	- Team formed, proactive customer management plans implemented, 100% customer engagement - Five new customers joined the NZX across equity, funds and debt - Nine customer events hosted (including in Singapore), connecting issuer and investor communities local and globally
	Framework	- Updated market structure and rule set finalised, making it easier for customers to raise capital - Website content enhanced, providing greater information for existing and prospective customers
	Product suite	- First green bond listed (July), currently four listed - First Carbon fund listed - New rules facilitating a growing pipeline for equity, funds and debt (includes green bonds and wholesale debt)
Secondary Markets On-market trading reached record high of 57.2% in December 2018	Marketing the market	100% engagement with market participants, Hobson Wealth Partners accredited as cash trading, clearing and settling participant (July), pipeline developing strongly - Increased engagement with all stakeholders, stepped up presence at industry events in Asia, U.S. and Europe
	On-market liquidity	- Revised trading and clearing pricing structure implemented alongside targeted rule and technology changes (October) - Total value traded (\$38.2 billion) down 13.1% due to international crossings (\$5 billion) and delisting (\$1 billion) - On-market value traded increased 27.4%, averaged 53.4% of total trade in 2018
	Functionality	- Trading and clearing systems changes: four decimal place pricing (October) - Mutualised default fund implemented to support dairy derivatives growth (November)
Data & Insights 45% growth in non-display application data licensing billings in 2018	Internal	Initiation and delivery of internal data process, more than 1,000 hours spent on core market data requests
	B2B	45% growth in non-display application data licensing billings as algorithmic trading volumes increased
	End user	Dairy information service developed following divestment of agri businesses to support dairy derivatives market
	Capability	- Customer management data platform delivery underway, includes subscription management - Customer relationship management provider selected for implementation early 2019



GROWTH OPPORTUNITIES

Dairy Derivatives 2018 volumes 345,651 lots traded (achieved 2018 target: 400,000 – 500,000)	Expand global access	- Calendar spread trading functionality launched (March), significantly improving bid-offer spreads in futures markets - Extended trading hours delivered (July), 40% of volumes or 70,375 lots traded in extended session
	Boost sales and marketing	- Additional FTE hired to develop NZ milk price future and options contracts, trading up 39% - New website launched, includes Chinese translation, charting functionality, upgraded quotes - Expanded sales activity, events hosted in Asia, U.S. and Europe - Local licensing for Singapore sales office underway - Marketing collateral revamped
	Extend product set	Market consultation completed on options market margining and exercise style



MAXIMISE OPTIONS

Smartshares 2018 FUM growth +8.1% to \$2.919 billion (achieved 2018 target of 7%)	Grow end users	- Launched institutional sales channel. New sales process across three client segments: institutional, retail and corporate - Retail member numbers up 10%. Smartshares ETF net cashflow up 26%. Smartshares' total net cashflow up 22%
	Cross-sell and innovatively market	Funds distributed through new platforms (including Sharesies and InvestNow) up 350%
	Target corporate super	New corporate super clients added, automated member on boarding, member numbers up 2.2%
Wealth Technologies 2018 FUA growth +70.2% to \$1.988 billion	Go-live	- Core platform development required by inaugural customer completed (Q2) - Platform development required specifically for inaugural customer completed (Q3) - Large customer went live (November), focus now on product refinement and sales



GET FIT

Clarity and alignment	Divested non-core agri businesses, returned proceeds to investors with special dividend
Efficiency improvements	- Continued automation of operational processes - Further progression on IT infrastructure programme
Capital structure	Subordinated notes issued, mutualised default fund implemented, dividend reinvestment plan established



Kia ora, welcome to our annual report.

2018 was a transition year for NZX, in which we made significant progress implementing our five-year strategy. Your board, executive team and all staff have worked tirelessly to deliver on the initial stages of the strategy to ensure we successfully embed the customer centric culture that is now at the heart of our organisation. This was achieved while also delivering our second best operating earnings in the company's history. At the same time, we have lowered the risk profile of our capital structure.

Over the past 12 months, we have made significant progress in the execution of our five-year strategy to develop a stronger public capital market for New Zealand, while advancing the focus of our funds management and wealth technologies businesses from an integration and development phase to one more focused on sales execution and product refinement.

We are leading efforts to create a sustainable capital market for New Zealand

NZX operates at the centre of New Zealand's capital markets. The market plays an important role in enabling sustainable economic growth for New Zealand. While the New Zealand capital markets have performed well in several areas, such as return performance, KiwiSaver growth and debt issuance, equity listings remained subdued as we experienced similar issues to our global peers, with public market issuances facing global headwinds. We have identified this as a material issue.

With significant progress made to improve the platform and growth prospects of our core markets business, it is now the right time for us to take an increasingly active leadership role in the industry and plan for its future, last month announcing an industry led review of New Zealand's capital markets.

Capital Markets 2029 is designed to bring the industry together and deliver a ten-year growth agenda for the sector. It is modelled on the successful Tourism 2020 initiative. Discussions on this initiative started more than 15 months ago in response to industry concerns about the low number of equity listings. The purpose of Capital Markets 2029 is to consider opportunities to improve the effectiveness of the capital markets ecosystem, and in particular, to remove blockages in the capital formation process in respect of initial equity public offerings.

The initiative has Government support, but is industry led, initiated by NZX and the Financial Markets Authority (FMA). Martin Stearne, a capital markets veteran with deep experience in equity capital markets, will chair a steering committee comprising of industry leaders who will bring a breadth of experience and perspectives. EY has been appointed as a consultant to support the work and produce the final report, which will be released in the third quarter of 2019.

We thank the industry for its encouragement and support of Capital Markets 2029 and look forward to

hearing your views as it progresses. A particular thanks to the Minister of Commerce, Rob Everett, Simone Robbers and Garth Stanish of the FMA and former NZX directors Neil Paviour-Smith and Dame Therese Walsh for your support in ensuring this initiative started.

Capital Markets 2029 will also build on efforts undertaken by NZX in 2018 to improve our market's long-term sustainability. One of the most significant actions was the first holistic review of our market's structure and rule set in 15 years, released last October. The refreshed structure and rules will enhance our competitive advantage, and encourage the listing of a broader range of financial products for New Zealanders, particularly in the areas of debt and funds.

Driving secondary market development, further improving liquidity levels and enhancing price transparency were also important initiatives outlined in the strategy and achieved during 2018. A revised trading and clearing pricing structure took effect in October, alongside targeted policy changes, and improved trading system functionality. These changes again lay the foundation for improved price discovery and market integrity.

Seeking new ways to retain and attract customers has been a priority for the board. Over the past 12 months, we progressed alliances with global peers to ensure that an NZX listing connects New Zealand issuers with the world. Our relationships with the Nasdaq, Singapore, Hong Kong and Shanghai exchanges, along with the transformation in our service offering to issuers, ensures we are developing a product that is relevant and competitive.

We are committed to increased transparency

This year we have adopted the principles of a formal sustainability-reporting framework, the Global Reporting Initiative (GRI). Integrating this information into our reporting is intended to provide a more comprehensive view of how we create value for our customers, community, and people, and create a clearer picture of how we are tackling material issues affecting NZX through progressing our strategy.

To support this and provide increased clarity for shareholders and the market on our financial performance and strategy execution, a series of five-year targets are now being externally communicated. Alongside our monthly metrics, these will improve the

assessment of our performance and delivery. Further information on these targets can found in the investor presentation.

Against the backdrop of delivery, revenues and expenses for continuing operations were relatively flat at \$67.5 million and \$40.2 million respectively. Net profit after tax from all operations (continuing and discontinued) was \$11.6 million, down 21.7% due to the strategic decision to focus on our core capital markets business, resulting in the disposal of non-core assets.

The intense focus on transforming our business was reflected in this result. With substantial effort made over the past 12 months to reshape the business to focus on core markets and lay the foundation for long-term growth, these steps have established the platform for NZX to keep delivering in 2019 and beyond.

NZX expects full year 2019 EBITDA to be in the range of \$28.0 million to \$31.0 million. This guidance takes into account the impacts from the disposal of non-core businesses, the changes to the exchange's clearing and trading pricing structure and the implementation of IFRS 16 Leases.

The guidance is subject to market outcomes, particularly with respect to market capitalisation, total capital raised, secondary market value and derivatives volumes traded and funds under management growth. Additionally, this guidance assumes no material adverse events, significant one-off expenses, major accounting adjustments, other unforeseeable circumstances, or future acquisitions or divestments.

Further information about NZX's financial performance and 2019 guidance is included in the investor presentation, which now incorporates information previously found in the management commentary of this report.

Our performance over the past year

Your board was pleased to declare a final ordinary dividend of 3.1 cents per share, fully imputed. The dividend reinvestment plan announced at the half-year result will apply to this dividend.

Together with the interim ordinary dividend, fully imputed, of 3.0 cents per share, and the special, dividend, fully imputed, of 1.5 cents per share, the total 2018 dividend, fully imputed, was up 24.6% to 7.6 cents per share. As at 31 December 2018, NZX's dividend

yield (gross of imputation credits) was 10.8%, excluding the special dividend it was 8.5%. The dividend policy is to pay between 80% to 110% of adjusted Net Profit After Tax. Continuing to improve our Total Shareholder Return (TSR) remains front of mind for the board.

Building strong governance talent is also a priority for the board. We continue to support the Future Directors Programme, with our second participant Anna Scott joining us last month. Initiatives such as this help to address board diversity, while widening New Zealand's director talent pool.

Anna Molloy completed her term with us in November 2018 and on behalf of the board and executive team, I would like to thank her for the contribution she made.

Dr Patrick Strange resigned as a director following his appointment as Chair of NZX listed issuer Auckland International Airport. My colleagues and I acknowledge the contribution Patrick made to the development of NZX, particularly in the energy and dairy derivatives markets, and more recently in the divestment of our non-core businesses.

Lindsay Wright joined us in February 2018, with the election confirmed by shareholders at the Annual Meeting in April. Lindsay brings extensive global fund management (active and passive) and finance experience to the team. Her skills align with growth plans for our Smartshares business. Lindsay was appointed Chair of Smartshares' board in December 2018.

Your directors have a genuine passion to develop New Zealand's capital markets and I would like to acknowledge their ongoing support of our strategy and vision. While strong progress was made last year to get our house in order, there have been challenges; I thank the board for their relentless energy and support of the executive team.

A strong foundation, a bright future

The New Zealand stock exchange has a long history of continuous operation, and a wonderful whakapapa, which is well known. However, a clear foundation date had, to our knowledge, never been firmly established. Aware that we were around the 150 year mark, and wanting to acknowledge and celebrate that milestone, the board engaged a writer and historian for two purposes: to establish, once and for all, a clear beginning point and, secondly, to write a contemporary account of New Zealand's capital markets and NZX's place within them.

In terms of the foundation date, the question was: what can New Zealand point to as a "year zero" for share market trading activity, and, crucially, when and where did it really begin?

A number of avenues were explored in an effort to unearth a clear beginning. Various resources articulated a range of activity amongst early businessmen and women in the area of stocks and shares. This activity reflected the boom in gold and associated businesses, especially in Dunedin, and also in Reefton, Thames and, by extension, Auckland. Using as our benchmark the idea that a market is established when two different people buy and sell shares at an agreed price, one date stood out.

Before formalised stock exchanges were established, the country had a number of forerunner organisations, known as shareholders associations. The first of these was in Dunedin, formed by two men, Moodie & Connell, the first to meet and trade shares in a commercial sense. Emeritus Professor at Victoria University, is a vital part of the NZX story, Don Trow, points to the association set up by these two men, in 1866, as New Zealand's first stock exchange, while historian David Grant, in his academic account of the various Exchanges, Bulls, Bears & Elephants, himself calls this association "the earliest group of men specifically set up to deal in shares with the public", again citing 1866 as the year.

If we settle on the formation of the stock exchange in Thames, or in Auckland, as a starting point, we are ignoring the huge burst of commercial activity that preceded both those entities. Critically, we are consigning to history the fact that people were coming together to trade shares well before these were established. The activities of Moodie & Connell was captured in the entity known as "The Dunedin Brokers Association" formed on June 30th, 1866. This, then, is our firm foundation date.

With this established, we had a launch pad to articulate our history. This history has been captured in a book, which will be released later in 2019. Through comprehensive interviews with a wide selection of key people throughout the markets' eco system, the book updates and debates the markets from a broad range of perspectives, with a strong emphasis on the last three decades. Critical to the content, also, is a lens on the future, of the markets, and the key people and organisations within it, including the NZX. How can

the different market players and organisations work together to take the country forward into the next decades and beyond?

With the comprehensive initiative, Capital Markets 2029, being launched this year, it seemed appropriate timing to celebrate the exchange's bright future and firm foundation in one celebratory year, through both the book, and key events in 2019.

2019 is our year, and the annual meeting in April, is appropriately, being held in Dunedin, where the exchange was born. This celebratory get-together will be the first of many events through the year and throughout New Zealand to mark 150 years of the exchange in this country, as the NZX and the capital markets celebrate what has gone before and look forward confidently to what lies ahead.

We hope you can join and engage with us throughout this celebratory year.

To staff and shareholders

The board acknowledge the work of Mark, and his team in what was a significant year of delivery and execution against strategy. Throughout this time, the team have worked relentlessly to deliver on the initiatives we outlined in our 2017 strategy, and we are extremely pleased with the commitment they have shown and the results achieved to date.

Shareholders should expect this progress to continue in 2019 as we keep building on our customer centric culture, and orientate our organisation to be increasingly sales led. Capital Markets 2029 and our 150th celebrations will support this as we take an increasingly active leadership role in bringing New Zealand's capital markets community together.

Shareholders, thank you for your continued interest and support of our company in 2018. We look forward to continuing to update you on our progress.



James Miller
CHAIR

OUR YEAR IN REVIEW

Strengthening what NZX stands for through sustained delivery



Our five-year strategy reset outlined a growth pathway for our business, and New Zealand's capital markets.

One year on, we have strengthened what we stand for and who we are, while making significant progress to lay the foundation for long-term growth through sustained delivery.

WE HAD SIX OBJECTIVES
IN 2018. THESE WERE TO:

1

DIVEST NON-CORE BUSINESSES

Farmers Weekly, AgriHQ,
and red meat, forestry and
Australia data businesses sold

2



REFOCUS ON THE CUSTOMER

Dedicated relationship
management teams
implemented in Issuer
Relationships and
Secondary Markets

3



Smartshares
net cash flows
up 21.8%

Service offering transformed,

100%

customer engagement,
more than 1,000 interactions

Strong
customer
pipeline
building

FOCUS ON TARGETED GROWTH OPPORTUNITIES¹

Debt primary issuance up

51.1%

Funds under
management
up 8.1%

Dairy derivatives annual
volumes up

10.9%

largest trading year on record

Funds under administration up

70.2%,

inaugural customer on-boarded
to Wealth Technologies platform

4



LEAD AND GROW A SUSTAINABLE CAPITAL MARKET

Updated market structure
and rule set released

Product set extended to
funds and wholesale debt

On-market value traded
reached record high of

57.2%

Implemented pricing, rules and
technology changes to enhance
secondary market development



IMPROVE BALANCE SHEET RISK AND BUSINESS EFFICIENCY

Mutualised default
fund implemented
for derivatives
market

Issued subordinated
note to refinance bank
debt and diversify
funding sources

Eliminated cost wastage, reinvested
back into the business to enable growth

5

TO SUPPORT THIS, WE LIFTED DELIVERY AND BUILT A COLLABORATIVE CUSTOMER FOCUSED CULTURE.

6

78

projects delivered,
up 90% on 2017

6.2%

increase in staff
engagement over
the past two years



¹ Comparisons to 2017 calendar year

Over the past 12 months, we have completed the first phase of actively transforming NZX, strategically, operationally and culturally.

We delivered strongly on our 2018 objectives and our strategy. The business is now well placed to capitalise on the opportunities ahead.

We transformed our culture to one that is outward orientated and customer centric. Expect to see this continue as we strengthen our focus on sales and marketing in 2019.

We have built our foundation; now growth momentum is building

As I look back over the past 12 months, it strikes me that it was a milestone year of delivery.

We sharpened our focus onto core activities, creating a more focused NZX – reinforcing the commitment made to shareholders to develop and grow our core business – the operation of New Zealand's equity, funds, debt, and derivatives markets.

With dedicated customer facing teams and account management programmes, listed issuers and market participants have acknowledged and appreciated the transformation in our core markets service offering and the strengthened relationship with NZX. This was a critical step to ensure customers sit at our heart.

On this note, I would like to welcome QEX Logistics, Christchurch Airport, WEL Networks, Salt Funds Management and PaySauce who were first time issuers in 2018.

Momentum is already building following the important work completed by our policy team to simplify the market's structure and rule set. The collaborative process used to develop the updated rule set has been a positive hallmark of the process. We are already seeing encouraging interest from prospective equity, debt and fund issuers looking to take advantage of the enhanced rule settings, particularly in our fund and wholesale debt markets as we actively extend the available product set.

Our issuer relationship team is encouraged by early conversations with prospective equity customers and the pipeline looks promising for 2019. 2018 was a low point in the cycle, and we acknowledge that new equity issuance has been subdued.

We have also observed increased activity from private capital providers, which resulted in more M&A activity impacting the number of listed NZX securities. This is a headwind for NZX and is one of the reasons for initiating the industry-led review of our capital markets. The objective of Capital Markets 2029 is to review all aspects of the ecosystem and unlock greater growth opportunities.

Core market growth will come from having a wider range of listed products and increased market activity. It will also be supported by the global alliances we have initiated and are continuing to build with the Hong Kong, Singapore, Shanghai and Nasdaq exchanges.

Increasing participation is a critical element to growth in our market. We have pursued new market participants, with Hobson Wealth Partners joining as a cash market participant in June. The prospect pipeline is the strongest it has been in several years, as we target more additions in 2019.

A number of prospects are based offshore, supporting our strategic aims of marketing our market internationally, and increasing secondary trading activity, initiatives critical to market health and growth.

Materially moving on-market trading levels over the past 18 months has assisted in removing a barrier for overseas participants looking to access the New Zealand market. This is supported by the high quality of companies already listed here and the strong returns on offer.

We continued our investment in the dairy derivatives market, with the extension of trading hours into the Asian and European time zones, and the addition of greater trading functionality. Our marketing efforts helped continue to grow our customer base with increasing volumes and active participation. While volatility was lower than previous years, which did not assist volumes, it was still a record-trading year for the market.

Our funds management business had another very good year. Our Smartshares and SuperLife brands are core to growing market participation in the exchange business, so it was pleasing to see an increase in both underlying members and corporate superannuation customers. We reshaped this business in 2018 to develop more operating leverage, and shareholders should expect

this to continue in 2019. Maximising shareholder returns remains front of mind, this means the board remain open minded about Smartshares' future ownership structure.

More information on our Smartshares business is available on page 20.

A major milestone was achieved when Wealth Technologies successfully launched its new core platform in November for Craigs Investment Partners. This platform is a leading piece of market infrastructure that enables advisers and brokers to manage customer investments. Core platform development did take longer than expected and resulted in a drag on operating earnings, but the platform's successful launch achieves our core objective to create a leading piece of New Zealand financial markets infrastructure.

The team are now reaching out to the pipeline of potential customers who have shown a strong interest in the platform as we pursue opportunities to leverage our investment in this business.

In addition to the customer and market development activities mentioned above, we adjusted the risk profile of our balance sheet, introducing a mutualised default fund for the derivatives market and issued a subordinated note. This was initiated to ensure our capital structure is appropriate for our business.

Technology remained a priority with meaningful progress made to modernise our infrastructure, automate operational activities and improve business efficiency. We continue to work to achieve accuracy, uptime and resilience levels that the market would expect from New Zealand's exchange operator.

Looking forward

Key strategic projects such as the market structure and rules review, and pricing changes to support secondary market development required investment into the markets infrastructure. With these one-off projects behind us, we can now focus on taking a more active leadership role in our industry to promote market development.

Our team now has greater capacity to input into meaningful issues affecting our capital markets. Facilitating and contributing to Capital Markets 2029 will be an important component of 2019. This review

responds to concerns expressed about the depth and breadth of New Zealand's capital markets and will bring the industry together to focus on the structural blockages of the equity IPO ecosystem.

Defining what we stand for and who we want to be

Behind the delivery, defining what we stand for and who we want to be, was an important internal focus of 2018.

Our purpose at NZX is to connect investors and business so they can grow. We are committed to bringing investors and businesses together to create opportunities for New Zealand in an environment they can have confidence in.

Defining who we are and who we want to be uncovered the need to ensure we tell our story more widely and more often. This is front of mind for me in 2019 as we build on efforts made to improve our customer centricity and overlay it with an increased focus on sales and marketing and industry leadership.

Our 2023 aspirations, which are in the accompanying investor presentation, are unashamedly ambitious. I am proud to lead a team focused on our strategic priorities and committed to delivering for our shareholders, our customers and New Zealand's capital markets. Our team take immense pride in working for NZX, and I thank all staff for their hard work and commitment.

To our shareholders, while it has taken time to get the foundations right we have now created the right platform for sustainable growth and momentum is building. We all share a mutual goal of growing New Zealand's capital markets and quickly lifting the performance of the business.

Tē tōia, tē haumatia



Mark Peterson
CHIEF EXECUTIVE

Smartshares

Bringing the exchange traded fund revolution to New Zealand investors

Smartshares is a growth engine for NZX and 2018 was an outstanding year. More than 85,000 New Zealanders have entrusted more than \$2.9 billion to our investment schemes, which are growing fast, as investors discover the benefits of low fees and a reliable and passive investment philosophy.

Investors find us online or through our distribution partners who include Sharesies, InvestNow, other KiwiSaver and workplace saving schemes, and financial advisers.

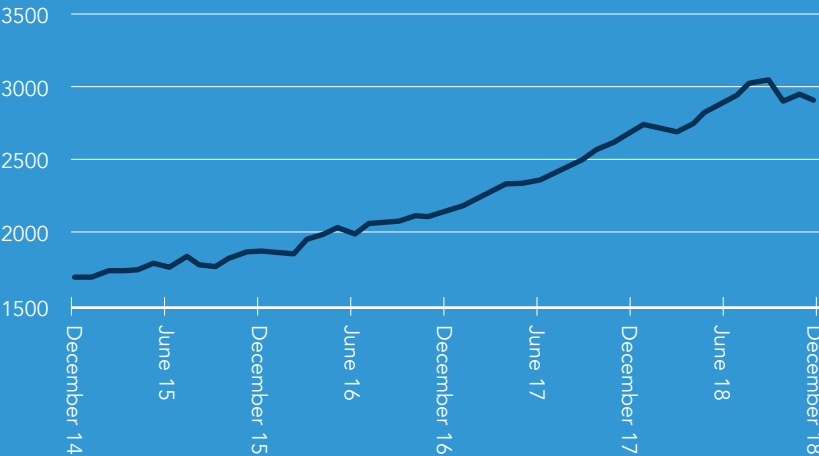
In 2018, our funds under management and member numbers grew strongly ahead of forecasts, allowing us to lower fees for some funds, provide certainty to members by fixing total fund charges, and increase margins. Due to this growth, and to operational changes made during the year, Smartshares results for the year were exceptional with operating earnings up 29% and total expenses held to a 5.4% increase (excluding direct fund costs).

OUR NEW STRATEGY

Smartshares developed a new five-year strategy in 2018 that builds on NZX's refreshed strategy released in November 2017. It has five key ambitions to:

- lead the market in systematic, index-tracking investment management**
Smartshares is the only New Zealand issuer of Exchange Traded Funds (ETFs). Net, new cash flows into our passive, index-tracking funds are growing rapidly. To accelerate faster, there is now an opportunity to extend to smart beta and other, more sophisticated strategies.
- lead the market in financial well-being solutions**
KiwiSaver is a great product. New Zealanders will get ahead financially with Smartshares' innovative solutions for financial stability.
- lead the market in corporate superannuation services**
Many New Zealand companies support their employees' financial wellbeing. Smartshares' superannuation master trust will build from its top three position in the market by demonstrating the benefits to a new generation of employers.
- build an institutional investor market offering**
Retail investors have been early adopters of New Zealand ETFs. Now we're investing to bring institutional investors on board.
- transform our operations to a low-cost operating model with great customer outcomes**
With scale, we are now delivering lower fund charges, operating costs and new digital tools to our customers.

FUNDS UNDER MANAGEMENT



THE NEW ZEALAND MARKET

Smartshares is ideally placed as New Zealanders catch on to the cost and performance benefits of passive investing. In 2018, S&P Dow Jones Indices reported that only 2.6% of New Zealand's open-ended fund assets were passively invested. Globally this average is more than 20%, and more than 30% in the U.S.

With the launch of new online fund platforms, greater regulation, and a stronger focus on ensuring investors get value for money, New Zealanders are joining the passive investment revolution. Smartshares exceeded growth targets in 2018 and remains perfectly positioned for growth.

BUILDING INTERNATIONAL PARTNERSHIPS: THE ASIA REGION FUNDS PASSPORT

Like NZX, Smartshares has been building international partnerships via the Asia Pacific Economic Cooperation Forum. We have teamed up with the Financial Markets Authority and relevant government agencies to establish the Asia Region Funds Passport in New Zealand. This new scheme will provide a passport to approved fund managers allowing them to sell their fund products across the region.

Smartshares was the only New Zealand fund manager in the 2018 pilot programme, joining peers from Australia, Japan, South Korea and

Thailand. Once fully implemented, the Asia Region Funds Passport is expected to challenge the well-established European UCITS regime.

BUILDING INTERNATIONAL REACH: GROWTH IN THE PACIFIC

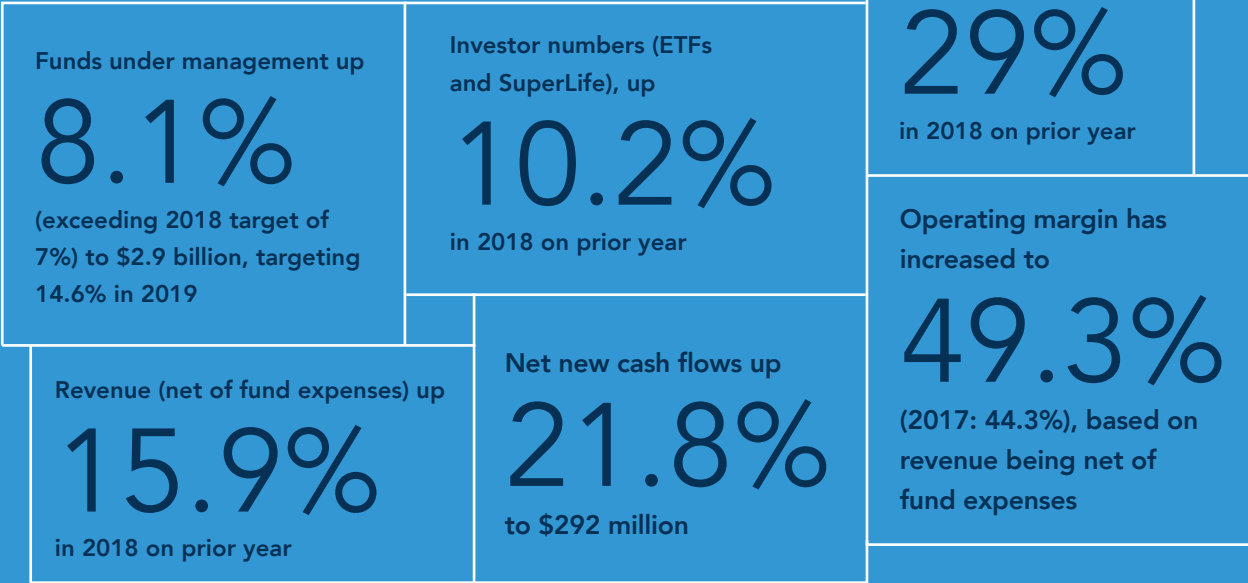
We have also expanded our reach into the Pacific, working with the Government of Nauru to establish the country's first compulsory employee superannuation scheme. All employers are now required to contribute to a SuperLife scheme managed by Smartshares. Nauru residents are already benefiting from the strong regulatory oversight of the Financial Markets Authority, the cost effectiveness of the scheme's administration, and its ease of establishment and ongoing management.

LOOKING AHEAD TO 2019

The NZX team believe this business is a key growth pillar for the organisation. Passive investing is accelerating in New Zealand as investors switch from active strategies. Our costs are well controlled as Smartshares introduces further operating efficiencies (for example, through renegotiated services agreements with custodians and administrators, and through the rollout of our operational workflow system), and 2018's achievements will provide more growth for NZX shareholders in 2019.

For more information on Smartshares, please see the accompanying investor presentation.

KEY METRICS



Congratulations to PaySauce (NZX:PYS) for listing on the NZX Main Board today!

"Ever since I was a young boy, I wanted to be a business owner and list my company on New Zealand's exchange. Thanks to the hard work of the PaySauce team, I have been able to achieve my life-long goal of ringing the listing bell."

PaySauce, CEO & Co-founder,
Asantha Wijeyeratne.

The PaySauce team outside
NZX Auckland on the company's
listing day, 21 December 2018



Sustainability AND NZX

Blue pools in Mount Aspiring National Park,
Wanaka, New Zealand. Photo by: Cory Woodruff

OUR APPROACH

As a listed company, we must ensure we are earning meaningful revenue decades from now, and provide increased transparency for our investors on material issues and how these impact our strategy.

Sustainable financing is becoming more important for our core customers – issuers of equity, fund and debt securities – and for investors in these products. A vital part of our role as an exchange is to enable a well-understood and viable flow of capital into investments that our country needs for sustainable growth.

With these two roles in mind, we contribute to sustainability in four key ways:

- we ensure our behaviour is consistent with international best practice, while creating a sustainable business and long-term value for our shareholders;
- we connect businesses and investors so they can grow;
- we promote good governance in business, including greater environmental, social and governance disclosure among listed companies; and
- we facilitate investment in sustainability-themed products, leading to sustainable economic and environmental outcomes.



Salt Funds Management, Managing Director, Paul Harrison at the company's listing event on 8 November 2018

"Listing on the NZX provided our investors with a trusted, transparent and dynamic trading environment for their units in the Carbon Fund. For Salt Funds, the NZX's high profile and ease of access for investors meant that we could rapidly build a stronger and deeper investor understanding of the market for carbon. We started working on bringing a Carbon Fund to market more than six years ago – and 2018 was the right time to list. NZX's Issuer Relationships team were instrumental in ensuring this process was as seamless as possible."

Salt Funds Management, Managing Director, Paul Harrison

ABOUT THE SUSTAINABILITY SECTION OF THIS REPORT

We have prepared this section using the principles of the Global Reporting Initiative (GRI) sustainability reporting standards.

Before reporting, all 2018 corporate activities and sustainability initiatives were assessed for their materiality to NZX and our stakeholders. We use the GRI materiality definition to determine and fine tune corporate sustainability relevance. We have reported on topics that have material and significant impact on our business and stakeholders. By stakeholders, we mean our shareholders, employees, customers, investors, regulators, suppliers and civil society.

OUR MATERIAL ISSUES FOR 2018

Our purpose is to bring investors and businesses together in an environment they can have confidence in. In this, our first sustainability report, we engaged with a range of stakeholders (internally and externally) to identify material issues which affect our ability to deliver on this purpose and create value. Material issues inform our strategic priorities, sustainability approach and reporting. They are:

- the New Zealand market: equity listings, market size and secondary market liquidity
- people: diversity and inclusion
- governance: role as a market operator and listed company in promoting high standards of market behaviour

In addition, NZX's responsible and ethical business practices, community engagement, and environmental impact is covered in this section.

Our profile

KEY BUSINESS SEGMENTS



FULL-TIME EMPLOYEES

(FTES EXCLUDING CONTRACTORS AND CONSULTANTS)

2018

214

AS AT 31 DECEMBER 2018

2017

239

AS AT 31 DECEMBER 2017

2016

243

AS AT 31 DECEMBER 2016

GENDER DIVERSITY

(FTES)

ALL EMPLOYEES



EXECUTIVE TEAM



MALE FEMALE

GENDER VS EMPLOYMENT TYPE*

FULL TIME

Gender	Number of employees	Percentage of employees
Female	73	36.32
Male	128	63.68
Total	201	100

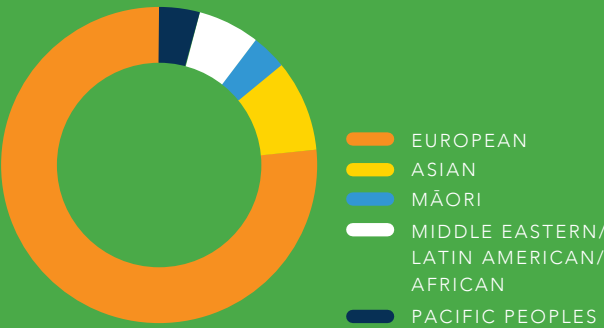
PART TIME

Gender	Number of employees	Percentage of employees
Female	15	83.33
Male	3	16.67
Total	18	100

*Note this excludes employees on parental leave, data based on headcount.

ETHNIC DIVERSITY

Based on results of the inaugural 2018 diversity and inclusion survey voluntarily completed by 117 employees. The below shows the results of 115 employees, two survey respondents did not state their ethnicity.



NZX BOARD GOVERNANCE AND DIVERSITY

BOARD STRUCTURE	Single tier
NUMBER OF DIRECTORS	Six
GENDER DIVERSITY	Five men, one woman ¹
AVERAGE DIRECTOR TENURE	2.41 years
AVERAGE DIRECTOR AGE	54.5
DIVERSITY CHARACTERISTICS	Educational qualifications Professional experience Personal achievements Geography Gender Age

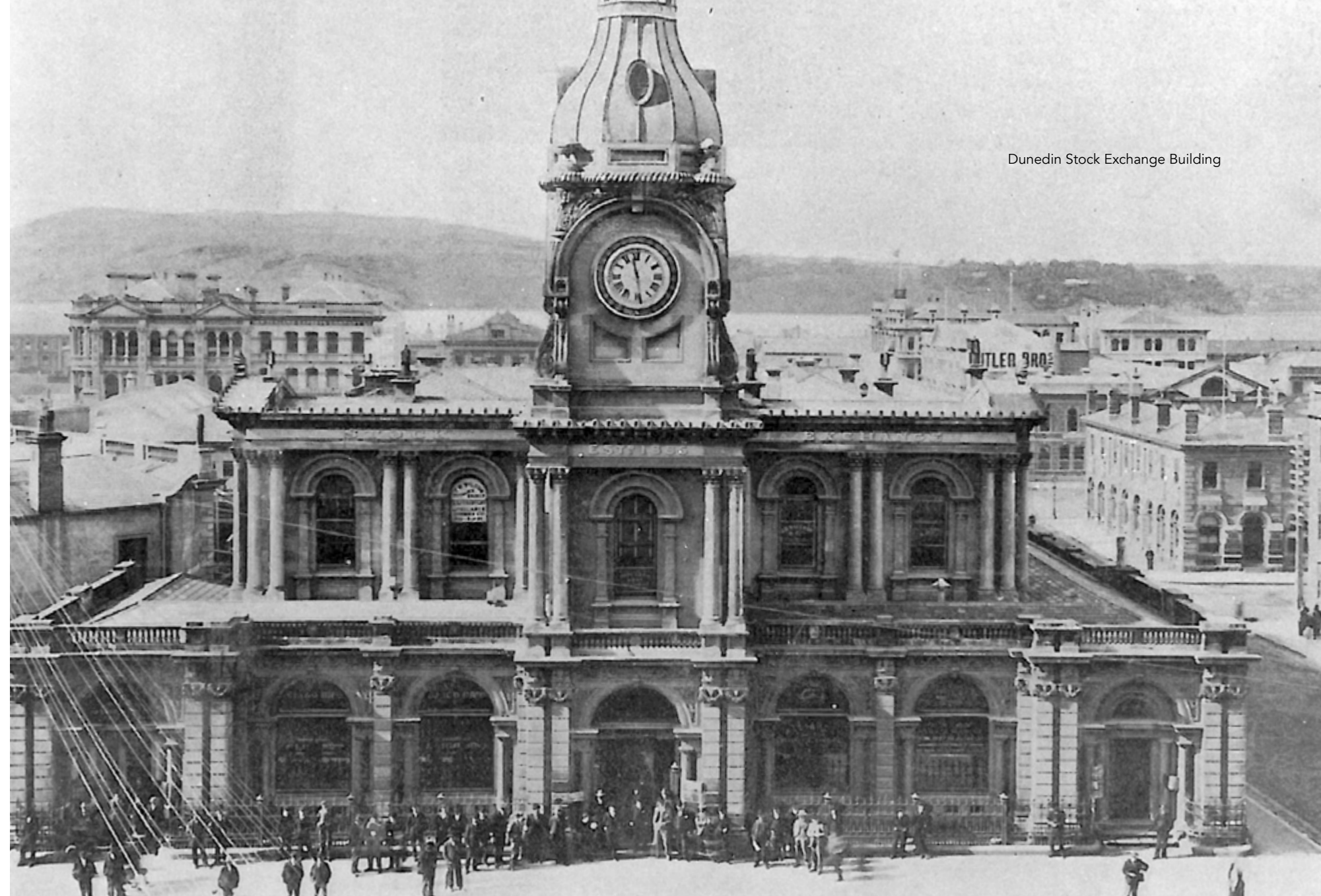
AGE BREAKDOWN*

December		2016	2017	2018
Under 20	Female	-	1	-
	Male	-	-	-
20-29	Female	24	25	21
	Male	28	31	31
	Non Specified	1	-	-
30-39	Female	30	28	18
	Male	31	28	41
	Non Specified	-	1	-
40-49	Female	30	31	27
	Male	44	39	33
50-59	Female	22	21	15
	Male	28	23	20
60-69	Female	5	4	4
	Male	5	5	1
70-79	Female	0	0	0
	Male	1	2	1
Non Specified	Female	9	9	3
	Male	5	10	4
	Non Specified	10	-	-

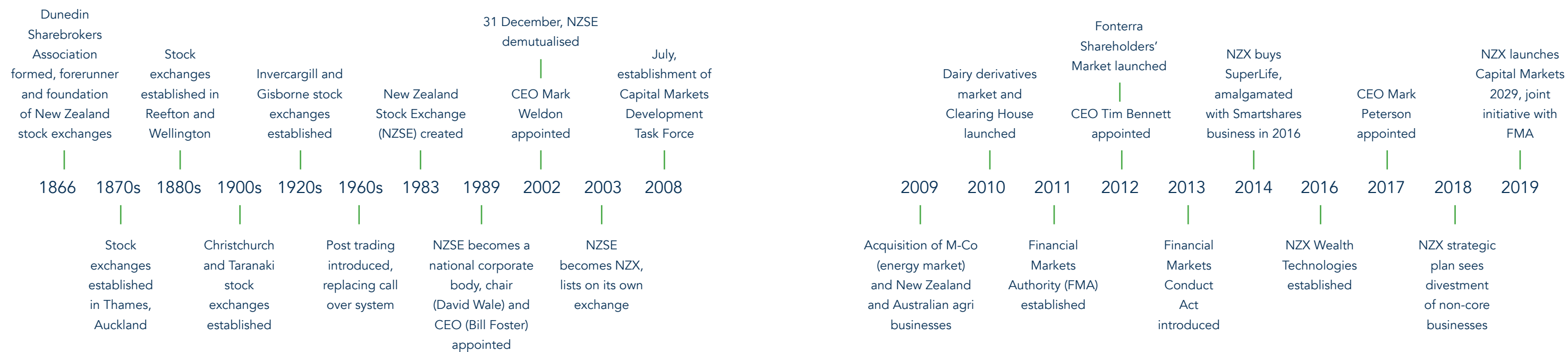
*Excluded casual employees and employees on parental leave. In 2016, there was no age and gender details for NZX's Melbourne based business, these employees are included in the non-specified row.

1 In addition, Anna Molloy was NZX's inaugural future director from May 2017 to November 2018. Anna Scott was appointed as NZX's future director, effective 1 January 2019.

NZX History



Dunedin Stock Exchange Building



The New Zealand Market

EQUITY LISTINGS AND MARKET SIZE

In recent years, the number of primary equity listings has declined.

Conversely, the debt and derivatives markets have improved and we are generating new revenue and earnings streams from our funds management and wealth technologies businesses.

The issue of declining equity listings is a global phenomenon as public markets internationally compete with an abundance of private capital. A key issue facing exchanges is the readiness of asset owners – private equity, venture capital and institutions – to hold their capital in unlisted companies for considerably longer than in the past. Institutions and superannuation funds are also investing in private companies accessing returns for investors.

To secure long-term economic sustainability, exchanges globally are developing new strategies to build stakeholder confidence, shore up core markets, and develop new revenue streams. Exchanges are also looking to form stronger partnerships with each other as pressure to rationalise markets increases.

NZX is no different. We face the same headwinds and structural issues as our global peers.

When we created our five-year strategic plan in 2017, our team extensively consulted with stakeholder groups, conducting more than 200 interviews. We also undertook global analysis of peers, markets and key trends. The result was a strategy reset with four key pillars. Our refreshed strategy was designed to address issues within NZX's control and the next step is to work with others in the capital markets community to address industry issues, including through Capital Markets 2029.



Refocus core



Grow opportunities



Maximise options



Get fit

SUSTAINABLE PRODUCTS

There is a long-term opportunity in environmental markets and sustainable investment products. Government policies are shifting to become increasingly aligned with international trends and treaties such as The Paris Agreement on climate change and the United Nation's Sustainable Development Goals.

As more companies adopt sustainable policies and invest in our country's environment, we hope to see more companies use NZX to allocate a greater segment of their investable income to green investment activities.

In June 2018, Auckland Council listed New Zealand's first Green Bond to fund electric trains and associated infrastructure finance, and in November Salt Fund Management listed New Zealand's first Carbon Fund, designed to trade carbon credits and provide investors (large and small) with exposure to the carbon market price.

NZX has also been working with the World Federation of Exchanges (WFE) to identify characteristics of sustainable commodity derivatives. This work is ongoing.

BUILDING INTERNATIONAL PARTNERSHIPS

As mentioned above, NZX can no longer sail alone as a regional exchange. Our belief is that we can help New Zealand companies realise their potential by building partnerships with global peers. This way, local companies can grow globally while maintaining a connection to their home exchange.

This strategy allows us to explore global opportunities and create options for ourselves in future.

We signed Memoranda of Understandings (MoUs) with Hong Kong and Singapore in early 2018, the Nasdaq in September and the Shanghai Stock Exchange in October.

IMPROVING INVESTMENT ACCESS

As well as supporting issuers and institutional investors, NZX provides low-cost investment options for individual New Zealanders, who in the past may not have been able to participate in the share market. Many working New Zealanders now indirectly invest in our capital markets via their KiwiSaver funds. However, direct access to equities has remained limited.

ETFs, offered by NZX subsidiary Smartshares, mean smaller investors can invest directly in a fund that tracks the performance of a major market index. An ETF is an investment fund quoted on a stock exchange, its units can be bought or sold like shares in listed companies. ETFs own a set of financial products, such as shares or bonds, which may be issued by a handful of issuers on a local exchange to those issued by several thousand issuers in multiple countries.

SECONDARY MARKET LIQUIDITY

A material issue to many of our stakeholders, and NZX, was the depth of liquidity in the secondary market. In the past, off-screen trades have dominated trading. Listed companies want to be part of a liquid, open and sustainable market, and retail investors need access to an ethical, honest and transparent market.

On-market trading has been steadily increasing. In 2017 and 2018, growth in on-market liquidity was achieved through a new pricing structure trial, which incentivised on-market order placement. Following the trial's success, a new transactional pricing structure was announced, alongside rule and technology changes.



CUSTOMER CASE STUDY

Kathmandu

While there are benefits to maintaining a dual listing on NZX and the ASX, Kathmandu is committed to the New Zealand exchange.

It is very important to have a robust local stock exchange. As a local issuer, we need a vibrant equities market with a reasonable depth of liquidity. Also, as KiwiSaver continues to grow, the country needs a strong local market to invest those funds.

It is quite clear that the NZX is getting more customer-friendly. Since the arrival of Mark Peterson as Chief Executive, it feels like there is a different approach. We now have far more contact with the NZX and our account manager than we did in the past.

With a dual listing, it's helpful to have similar listings rules. We welcomed the recent amendments to the NZX listing rules as they move to closer alignment. That's really helpful to us and also to trans-tasman investors. In this aspect I hope to see even closer co-operation between the ASX and NZX in the future.

*Reuben Casey Chief Operating and Financial Officer
and Company Secretary*



CUSTOMER CASE STUDY

Sanford

The NZX has a huge role to play as a regulator, market provider and influencer for New Zealand businesses. We couldn't imagine the New Zealand economy without it.

Through its governance rules and guidelines, NZX has pushed issuers to be more transparent on non-financial performance and to report on ethical and sustainability matters. NZX is a force for change in this regard.

The NZX guideline on Environmental, Social and Governance (ESG) reporting was a step in the right direction. It was not necessarily specific in recommending a reporting framework to use. That's fine as not all firms are ready for a prescriptive reporting framework. However, NZX has a key role to play in terms of pushing firms to be more specific about the impact and risks of climate change to their business.

We're not advocating a rigid regime that forces companies to collate and disclose data for data's sake. It must be meaningful and relate to an individual business' material issues and key risks.

If businesses are more sustainable their owners do benefit at the end of the day. Sustainability is now a pre-requisite for long term business success. Companies that are focused on creating business-excellence frameworks understand how sustainability is very much interconnected.

We are thinking about the future of our natural resources and future human resources for our business. When we talk to university students, we see the stark difference between baby boomers and millennials. We are a fishing company and that can draw hostility. Today's students and graduates ask hard questions about ethical investment and sustainability. We have to position ourselves as agile and mindful of the bigger picture, not just the bottom line.

As a listed company with a 94-year history on the exchange we also think about our investors and the cost of capital. We see the attraction of the new ethical funds and green bonds. There is a benefit to the business if you can deliver a sustainable project at a lower financial cost.

Overall, we have been happy with NZX in the past two or three years. We have noticed its increased focus on customers and issuer development. We have attended forums and received good advice when we asked for it. They are far more proactive now – there is a good relationship between us and the exchange.

Lisa Martin *General Manager Sustainability*

Dean McIntosh *General Manager Risk and Corporate Affairs*

Auckland Fish Market, Wynyard Quarter,
Auckland, New Zealand

Our People

85% of employees think everyone at NZX is treated fairly, regardless of ethnic background, race, gender, age, or disability.

CORPORATE CULTURE

The diversity and engagement of our people is central to our organisation. We rely on their skills and determination to deliver our strategy and to bring our values to life.

We have spent the past year, since announcing our strategy reset, ensuring we have the right skills and the necessary structure to deliver on our strategic intent. As we transition to become a more outward-orientated organisation, we are building a culture focused on customer needs and outcomes. We have restructured our teams so we can get closer to our customers and understand what they need and add more value for them.

We value fresh ideas and thinking that drives growth and productivity. We achieved a great deal in 2018 by being better organised, by communicating a clear direction and, in turn, having more engaged employees.

We are constantly innovating to meet the evolving needs of our customers, and are committed to driving unnecessary bureaucracy from our services and processes.

We are committed to building a diverse, engaged, skilled and responsible workforce.

OUR VALUES

INTEGRITY

Resilient  OPEN *Creative* *DELIVER*

EMPLOYEE ENGAGEMENT

Employee engagement surveys measure the cultural health of an organisation and have been annually monitored at NZX since 2011.

From low levels of engagement and a high degree of ambivalence in 2011/2012, engagement levels have improved significantly, particularly in 2018.

More than half of our employees who responded to the engagement survey in 2018 said they were fully engaged at work.

Staff attrition, another indicator of engagement, improved by 17.3% last year.

A range of initiatives designed to ensure we have a fully engaged workforce have been implemented. These include a range of internal committees, a fair and reasonable remuneration policy and rewards for high performance, such as quarterly NZX values awards, and short and long-term incentives.

As a listed company and a market leader, we want our employees to experience the market and have a stake in our business. Share ownership encourages staff to think like a shareholder and supports engagement. The board granted each staff member \$1,000 worth of shares in 2018. Going forward all new staff members will also receive \$1,000 worth of shares upon starting at NZX.

ANTI-BRIBERY AND CORRUPTION

A protected disclosures policy protects employees if they disclose information about serious wrongdoing in good faith from dismissal, demotion, harassment or any other form of retaliatory action. The policy is in place to facilitate the disclosure and investigation of wrongdoing and to protect directors or employees who make such disclosures.

DIVERSITY AND INCLUSION

We recognise that a diverse workforce, where each employee brings unique experience and knowledge to their work, is a competitive advantage. In addition, an inclusive workplace leads to higher employee engagement, which in turn results in more innovation, better decision-making and improved productivity.

Diversity at NZX is measured regularly by the diversity and inclusion committee, which reports to the board's human resources committee.

The board has set the following measurable objectives for achieving diversity and inclusion:

- Establish a diversity and inclusion education programme, which includes compulsory unconscious bias training for hiring managers, which has a 100% completion rate in 2018;
- Recruit diverse and skilled employees based on merit while continuously measuring and reviewing recruitment metrics (quarterly) and demonstrating improvement over the course of the year to ensure we have a diverse pool of talented candidates (see statistics below); and
- Improve engagement across diverse groups, including gender, ethnicity, and age to be measured by our bi-annual engagement surveys.

From the third quarter of 2018, NZX started recording the diversity of shortlisted candidates for roles.

GENDER	
Female	13
Male	10
Not specified	20
STATED ETHNICITY/NATIONALITY	
European	13
Chinese	3
Filipino	1
Māori	3
Not specified	23
AGE	
20-29	8
30-39	5
40-49	3
50-59	3
Not specified	24
Total responses	43

We have established internal initiatives to support our diversity and inclusion policy and LGBTQI policy. These include:

- a diversity education programme for employees on topics including unconscious bias, bullying and harassment and wellness and inclusion;
- a transparent recruitment process, including reporting on diversity of candidates as shown above, that ensures the widest possible range of candidates are considered for roles at all levels; and
- recognising same-sex spouses, partners and their families in the way that opposite sex spouses and their families are recognise.

REMUNERATION

NZX must attract and retain high quality employees to achieve its objectives and create shareholder value. Employee remuneration plays an important role in mitigating operational risk in this area. NZX ensures its remuneration practices are fair, reasonable and linked to performance. We conduct annual remuneration reviews and promote pay equity at all levels.

Further information on company remuneration is in the corporate governance section of page 56.

LEARNING AND DEVELOPMENT

In 2014, NZX established a university graduate intake programme, which started with three graduates. Since then, 16 graduates have been recruited, including eight females. By the end of 2018, 10 graduates had completed the programme and of those, five remain in the business.

Graduates work within the core markets, data and insight, surveillance, participant compliance, issuer regulation, policy and legal, and fund management teams across all our offices.

We also established a leadership programme to give up and coming employees' opportunities to develop as leaders.

EMPLOYEE WELLBEING

Safety and wellbeing

We recognise the need to provide a safe and healthy workplace for our employees, contractors and customers. We make all reasonable efforts in the areas of accident prevention, injury management and improving the well-being of our employees. As well as maintaining processes and practices to prevent manage and monitor safety incidents, we have a health and safety committee to facilitate consultation with staff. We also provide support and annual training in the areas of bullying, harassment, and mental health.

Family-friendly workplace

Raising children and working is often a balancing act. Supporting our employees by providing family-friendly practices, such as working from home when domestic situations arise is a priority, with staff feedback captured regularly via our diversity and inclusion committee.

Governance

TRANSPARENT ACCESS TO INFORMATION

NZX's board is committed to maintaining the highest standards of governance by implementing a framework of structures, practices and processes that reflect best practice. A detailed summary of NZX's corporate governance practices is on page 56 of this report.

As mentioned in the Chair report on page 10, we have provided increased clarity on our financial performance and strategy execution now externally communicating a series of three to five year metrics. Further information on these targets is in the investor presentation.

Below is how NZX as a market operator promotes high standards in the New Zealand market.

NZX REGULATION IS A FRONT-LINE REGULATOR

NZX Regulation (NZXR) is required to regulate the conduct of issuers and participants. To be an effective regulator, NZXR pro-actively addresses market trends, changes in technology and law and developments in international best practice. This is key to maintaining the attractiveness of NZX's listing franchise and strengthening the investment market in New Zealand.

NZX POLICY DEVELOPS REGULATORY SETTINGS

NZX Policy is responsible for developing and enhancing the market rules and policies under which NZX's markets operate. In recent years, NZX has progressed a number of important policy initiatives, including a comprehensive review of its rule set delivered in late 2018 and corporate governance code in 2017. In 2019, the policy team is focused on a review of the derivatives market rules and on supporting the government's initiatives for a productive, sustainable and climate-resilient economy.

ESG GUIDANCE FOR LISTED ISSUERS

We actively encourage and support listed issuers to report on environmental, social and governance impacts (ESG), initiatives and risks via principal four of the NZX Corporate Governance Code.

In 2016, the Sustainable Stock Exchange (SSE) invited NZX to be a partner exchange and make a voluntary public commitment to encourage our issuers to promote ESG disclosures. NZX Policy has published a guidance note to help issuers to report on ESG.



FUTURE DIRECTOR PROFILE

Anna Molloy

Sitting as a future director on the NZX board was a hugely valuable and rewarding experience for me. From my first board meeting, there was a clear expectation that I was there to contribute not only to observe.

NZX has influence and a massive footprint as it occupies the centre of a complex financial ecosystem. It really is an important institution and, as such, the board takes on a responsibility beyond just the company to the broader market.

I was incredibly fortunate to sit at the board table with highly capable and experienced board directors. It holds a unique position in the governance space. All boards have increasing governance requirements, but the NZX board has a big load in that regard.

The NZX board is clearly focused on the financial returns of its shareholders and the performance of the company. But it is also a self-regulating and rule-setting organisation.

There was a huge volume of issues and topics to consider as well as regulation, compliance and conflicts of interest to manage. NZX has complicated business units – the operation of derivative, equity and debt markets, fund management and wealth technologies – so the directors had to be across those.

The work load of the directors is significant and goes well beyond the monthly board and committee meetings. They need a lot of time and dedication to the company to understand how value is created, for mentoring and coaching senior executives, and for digesting and understanding financial and non-financial information.

In my view, directors need to work together towards a common goal. At the same time, they need to have a willingness to voice opposing views. It is also helpful to have specialists on the board.

Given the rate of change in the corporations and the economy I believe it is important to have a range of ages, experience and skills on a board to reflect a customer base and represent all stakeholders. I like to think that the NZX board discussion was enriched by having a different perspective at the table.

Rather than being a fund manager or broker, that is more concerned with the mechanics or structure of a market or fund, I brought a more direct investment view from my background as a securities analyst at an investment firm.

It is well understood that there is a great deal of value added by having diversity at the management and board level. But directors should be there on merit not because of quotas.

This is where the Future Directors programme has a role to play, in helping broaden the pool of directors and enabling people like me to build our board experience and skills. The Future Directors programme goes a long way towards building capability across a more diverse group to enable diversity within New Zealand governance to grow.

I would recommend the Future Directors programme to colleagues who are interested in a governance career. I don't think there is any course or reading that could equal sitting around the table with experienced directors and dealing with issues in real time.

Responsible and ethical business practices

We are committed to operating in a socially responsible way. In addition to practices outlined above, this is reflected in our approach to fraud and cyber security, and taxation.

FRAUD AND CYBER SECURITY

In one sense, as an operator of digital-based markets, wealth management platforms and data services, NZX is a technology company. Many of our services depend on the operational excellence of our IT management and the ability of our digital suppliers to deliver a secure and reliable network and platform.

Over the past two years, we have modernised and simplified our data centre and network infrastructure to create a more flexible and robust mechanism for market participants to connect to NZX's core markets and wealth technologies platforms.

Fraud and cyber-security impact customer satisfaction and service quality. As a market operator and provider of clearing and settlement facilities, we must be mindful of the risk of fraud – either internally by employees or externally by third parties targeting customers using NZX's name or infrastructure.

We have undertaken an in-depth cyber security analysis, aligned to a best practice framework (taking a risk-based approach) and are investing in our cyber security ability, people, tools and services. We see this as a continuous improvement process, with regular threat and risk reviews, and appropriate adjustments to the approach on an ongoing basis.

TAXATION AND CONTRIBUTION TO THE NEW ZEALAND ECONOMY²

NZX makes a substantial direct contribution to the New Zealand economy. According to an independent report on NZX by economic consultancy, NZIER, in 2016 NZX directly contributed \$52.4 million to New Zealand's GDP. NZX directly employs 214 full and part-time staff and pays more than \$29 million in salaries.

NZX spends \$23 million on procuring goods and services from other parts of the economy, supporting other firms' revenue and employment.

The NZX Main Board and the NZX debt market covers 198 unique issuers with a total market capitalisation of \$164 billion served by nine cash market participants.

It is supported by around 340 authorised financial advisers at NZX firms, 68 fund managers and close to 200,000 individual investors. It is difficult to determine the exact number of workers supported by NZX activities but around 34,000 people are employed in closely related sectors.

The total gross domestic product contribution of S&P/NZX 50 companies was \$24.6 billion in 2016. They had a combined revenue of \$61.9 billion and paid a combined \$2.5 billion in taxes in the 2016/2017 financial year.

² NZX data as at 31 December 2018, NZIER Report: The economic contribution of NZX dated 31 December 2017

Community engagement

EDUCATION

Academic research

NZX is a supporter of the financial academic community. It currently sponsors the New Zealand Finance Colloquium, a joint initiative by New Zealand universities to promote the development of finance-related research. The sponsorship comprises two financial awards and a prize for research papers relating to the NZX markets, corporate governance, trading practices and the cost of capital. One award is for a PhD student and a second for any student or member of the academic staff.

Retail investor evenings

Recognising a desire from retail investors to learn more about stock markets, economic trends and individual listed companies, we organised two series of investor evenings in 2018. The two-hour events in Auckland, Wellington and Christchurch were heavily attended, and in some cases over-subscribed. Attendees received presentations from research analysts and representatives from listed companies. The second series, in October, took place during World Investor Week, a global campaign to raise awareness about the importance of investor education and protection.

School visits

NZX hosted more than ten school visits in 2018 – one of these visits is part of a financial literacy programme of an Auckland school. We have also participated in the High School Gateway Programme where a student interned with NZX one day a week across the year to gain exchange work experience.

First Foundation

The First Foundation partners with corporates to provide tertiary fee assistance and part-time work for academically talented New Zealanders who are unable to meet the costs associated with university education. NZX sponsored three students in 2018.

Invested.co.nz

NZX launched a retail investor education website called invested.co.nz with the Commission For Financial Capability (CFFC) in 2015. This partnership has continued, with additional video content added to the website on an ongoing basis.

NZX Head of Issuer Relationships Joanna Lawn speaking at our retail investor evening in Wellington



Given our leadership role in the market, we foster and value our constructive working relationship with Government, engaging with policy development and meeting regularly on a range of business issues.

FUNDRAISING INITIATIVES

Shares for Good

Shares for Good, is a collaboration between NZX, JBWere, Computershare and Link Market Services that allows investors to donate small parcels of shares to a charity. All partners waive the fees associated with donations to ensure the viability of the programme. Variety - the Children's Charity NZ is the current Shares for Good recipient.

New Zealand Financial Markets Charity Golf Classic

In 2018, NZX was the lead sponsor of the New Zealand Financial Markets Association's annual charity golf tournament. The event both raises funds for a charity and provides networking and stakeholder engagement for our team. The nominated charity, The Neonatal Trust, received a \$55,000 contribution towards its work supporting neonatal families and for neonatal research.

ENGAGING WITH GOVERNMENT

Given our leadership role in the market, we foster and value our constructive working relationship with Government, engaging with policy development and meeting regularly on a range of business issues.

In 2018, NZX and the Securities Industry Association (SIA) jointly responded to the Tax Working Group's Interim Report on the Future of Tax. In the submission, concerns were raised that the Tax Working Group was considering extending taxation to capital income. NZX and SIA are concerned that extending capital income taxation to investments in New Zealand shares has the capacity to discourage direct investment and damage our capital markets.

As mentioned in the Chair report, NZX and the Financial Markets Authority initiated an industry led review of New Zealand's capital markets, Capital Markets 2029 last month, and will consider the current structure and regulatory settings of the market, and outline recommendations for Government and industry to harness opportunities for its long-term development.

Environmental Impact

We are also committed to utilising resources in ways that ensure the long-term sustainability and profitability of our business, while benefiting the environment.

Our primary environmental impacts arise from our offices in Auckland and Wellington, data centres, staff travel and indirectly from our supply chain. We have used the operational control boundary for our greenhouse gas emissions and environmental reporting in this report. An organisation has operational control if it has full authority to introduce and implement operating policies in the area of health, safety and environment.

METHODOLOGY

We report all our emissions that fall within our operational control. We do not have responsibility for any emission sources that are not included in our operations. We have disclosed emissions from scope 1 (emissions from owned sources e.g. car transport), scope 2 (indirect emission from the purchase of electricity) and scope 3 (other indirect emissions from electricity transmission, air travel and waste to landfill) sources. Our emissions are calculated using the Ministry for the Environment's Guidance for Voluntary Greenhouse Gas Reporting.

GREENHOUSE GAS INVENTORY

Scope	GHG emissions sources	Tonnes CO ₂ -e*
Scope 1	Kms travelled	2.8
Scope 2	Electricity	9.9
Scope 3	Air travel	
	• domestic	84.6
	• Short haul international (<3700Km)	24.7
	• Long haul international (>3700Km)	92.9
	Transmission and distribution losses for purchased electricity	0.8
	Paper disposal	1.0
Total		216.70

* CO₂ – equivalent emissions calculated using Ministry for the Environment 2016 Emissions Factors. This data has been independently calculated.

CLIMATE CHANGE

As stated above, we support the Government's target for net zero greenhouse gas emissions by 2050 and encourage a bi-partisan climate change policy. As the deployment of capital will be essential to meeting climate change targets, NZX has recommended to government that a Climate Change Commission should include a financial markets expert. We also believe that a sound understanding of the capital markets and green finance will be key to engaging with the private sector.

MECHANISMS TO ADDRESS CLIMATE CHANGE

NZX supports strengthening and improving the NZ Emissions Trading Scheme. We support market mechanisms to set the price of carbon to ensure capital is efficiently allocated to projects with the lowest cost of abatement. We believe international carbon units should be contemplated so that if New Zealand is not able to meet its carbon budget with domestic emissions reductions, appropriate alternatives are available. A market price should be set for emissions and linked with international markets and mechanisms.

The availability of 'green' finance will be vital in growing low emissions industries. Green investment will be required for the research and development of practical solutions in the agriculture sector, which both dominates New Zealand's economy and is a substantial contributor to greenhouse gases.

GRI Content Index

GRI Standard Disclosures	Disclosure		Description and Page Number	Omission
Organisational profile	102-1	Name of the organisation	NZX Limited	
	102-2	Operations	Core Market, page 7	
	102-3	Head office	Directory, page 125	
	102-4	Locations	Directory, page 125	
	102-5	Legal form	NZX listed New Zealand liability company	
	102-6	Markets served	Pages 7 - 9	
	102-7	Scale of organisation	Results at glance, page 4	
	102-8	Workforce	Our profile, page 28	
	102-9	Supply chain		Not in scope
	102-10	Business changes	Business operations, page 116	
	102-11	Precautionary principle	Risk management, pages 67, 68	
	102-12	Charters	Governance, page 58	
	102-13	Memberships		Not disclosed
Strategy	102-14	Chairman, CEO statement	Strategy Execution, pages 6 - 19	
Ethics and integrity	102-16	Values, principles	Our People, page 38	
	102-18	Governance	Governance, page 58	
Stakeholder engagement	102-40	Stakeholders	Stakeholder case studies, pages 22, 26, 34, 36, 42	Not disclosed
	102-41	Collective agreements	Remuneration, page 40	
	102-42	Stakeholders - basis		Not disclosed
	102-43	Approach to stakeholder engagement	Our year in review, pages 14 - 19	
	102-44	Key topics	Material topics, page 27	
Reporting practice	102-45	Entities included	Segment reporting, page 85	
	102-46	Report content	Page 27	
	102-47	Material topics	Material issues, page 27	
	102-48	Restatements of information		Not applicable
	102-49	Changes	Business operations, page 116	
	102-50	Report period	12 months to 31 December 2018	
	102-51	Report date	NZX Annual Report 2018	
	102-52	Reporting cycle	Annual	
	102-53	Contact	Directory, page 125	
	102-54	GRI compliance		Not claimed
	102-55	GRI content index	This page	



GRI Standard Disclosures	Disclosure		Description and Page Number	Omission
Material topics	Related indicators			
Economic performance	201-1	Economic value	Results at a Glance, pages 4, 5	
			Responsible business, page 44	
	203-1	Infrastructure investments	Core market, pages 7 - 9	
	203-2	Significant indirect economic impacts	Responsible business, page 44	
Environmental	302-1	GHG (scope 1) emissions	Page 49	
	302-2	GHG (Scope 2) emissions	Page 49	
	305-3	GHG (Scope 3) emissions	Page 49	
Social	401-1	Diversity of governance bodies and employees	Our profile, page 28	
			Our people, pages 38, 39	



NZX directors from left to right: Richard Bodman, Jon Macdonald, James Miller (Chair), Nigel Babbage, Lindsay Wright and Frank Aldridge

RICHARD BODMAN

DIRECTOR

Richard has spent more than 25 years working in the financial services sector, primarily at FNZC where he held several executive roles, including Managing Director, Head of Compliance. Prior to this, he was an inspector at the Securities & Futures Authority in London. Today, he is based in Wellington, and is an independent director of Forsyth Barr Custodians and Forsyth Barr Cash Management Nominees. He is also a member of the GRC (Governance Risk Compliance) Institute and the Institute of Directors. Richard joined the NZX board in 2017.

JON MACDONALD

BE (HONS)

DIRECTOR

Jon lives in Wellington and has more than 15 years' experience in New Zealand's technology sector. He is the CEO of NZX/ASX listed Trade Me Group. Jon joined Trade Me in 2003, and was appointed CEO in 2008. Before this, Jon worked for HSBC Investment Bank in London and Deloitte Consulting with a focus on telecommunications and financial services. Jon is a director of Contact Energy, and a Trustee of NZ Technology Training Charitable Trust. He joined NZX's board in 2013 and is a Chartered Member of the Institute of Directors.

The Board

JAMES MILLER

BCOM, FSA

CHAIR

James joined NZX's board in 2010 and has held the role of chair since 2015. After 14 years in the share-broking industry with Craigs Investment Partners, ABN AMRO, Barclays de Zoete Wedd and ANZ Securities, James became a professional director. Based in Auckland, he is currently a director of Mercury NZ, the Accident Compensation Corporation and the New Zealand Refining Company. James is a qualified chartered accountant, New Zealand Institute of Chartered Accountants fellow, Certified Securities Analyst Professional, Institute of Directors member, and a graduate of Harvard Business School's Advanced Management Programme.

NIGEL BABBAGE

BCOM, BSC (HONS)

DIRECTOR

Nigel lives in Christchurch and brings extensive clearing and derivatives experience to NZX. He joined the NZX board in 2017 and previously held executive roles with British Petroleum (now BP) and Citibank, managing the New York currency derivatives desk. He also worked for BNP Paribas where he took on the joint role of Global Head of Currency Derivatives Trading and Head of North American Foreign Exchange. Nigel served on the Foreign Exchange Committee of the Federal Reserve Bank of New York for three years and is today CEO of Mohua Investments.

LINDSAY WRIGHT

BCOM

LEAD INDEPENDENT DIRECTOR

Lindsay lives in Hong Kong and is Head of Asia and Global Chief Operating Officer at Matthews Asia. She has more than 30 years' financial services and fund management experience, and prior to Matthews Asia was Managing Director, Head of Distribution and Co-Head of Investment Management Asia Pacific for BNY Mellon Investment Management. Lindsay joined the NZX board in 2018, and has also held executive roles at Invesco Hong Kong, Harvest Capital Management and Deutsche Asset Management. Her prior governance roles include Deputy Chair of the Guardians and Chair of the Audit Committee of the New Zealand Superannuation Fund and director of Kiwibank. Lindsay is also a current Fellow of the Hong Kong Institute of Directors. Lindsay has worked in New York, Singapore, Hong Kong, Beijing, Tokyo and Australia and started her career in New Zealand at Bankers Trust.

FRANK ALDRIDGE

BBS

DIRECTOR

Based in Tauranga, Frank is Managing Director of Craigs Investments Partners and has an extensive understanding of New Zealand's capital markets having spent more than 20 years with the company. Frank joined NZX's board in 2017, and is also chair of Australian-based Wilsons Advisory and Stockbroking, a former member and chair of New Zealand Securities Association, and sits on several of Craigs Investment Partners' subsidiary boards. He is an accredited NZX Advisor, Authorised Financial Adviser, and a Chartered Member of the Institute of Directors.

Executive Team



MARK PETERSON
CHIEF EXECUTIVE
OFFICER

Mark joined NZX in May 2015 and is based in Wellington. He has 25 years' experience in financial services covering the capital markets, private wealth, institutional and retail banking, and insurance. Mark previously worked as the Managing Principal of ANZ Securities, and before that held senior management roles with First NZ Capital, ANZ and The National Bank of NZ.



GRAHAM LAW
CHIEF FINANCIAL
OFFICER

Graham joined NZX in November 2017, and leads the finance team in Wellington. He has experience working across the financial and professional service sectors in New Zealand and the UK, and brings expertise in strategic leadership, corporate governance, and risk and financial management to NZX. Graham was previously Managing Director and Chief Financial Officer at AMP Capital New Zealand and Head of Finance at ACC.



JOANNA LAWN
HEAD OF ISSUER
RELATIONSHIPS

Joanna joined NZX in September 2017, and leads the Issuer Relationships team in Auckland. She has extensive banking and corporate finance experience previously working at ANZ, in the Institutional Banking Division, with responsibilities in New Zealand and overseas, as Head of Client Insights & Solutions, and Head of Business Management. Prior to this Joanna worked in the UK and Australia for Deutsche Bank and Lazard Brothers, in their M&A and markets divisions.



BENJAMIN PHILLIPS
HEAD OF MARKETS
DEVELOPMENT &
CLEARING

Benjamin joined NZX in 2014. He leads the development of the secondary cash and derivatives markets, its Clearing House and energy operations in Wellington. Benjamin has worked in New Zealand and Australia's financial markets, and was previously Senior Operations Manager at Citi Australia. Prior to this, he was at ANZ E*Trade and led its wholesale execution, clearing and settlement business, and held several senior positions including Head of Broking Services.



JEREMY ANDERSON
HEAD OF DATA
& INSIGHTS

Jeremy joined NZX in March 2017 and leads the Data & Insights team in Wellington. Jeremy has extensive experience working in agribusiness sectors across Australia and New Zealand. Prior to joining NZX, he led and executed Vodafone New Zealand's agribusiness strategy and has had experience working in a number of sales management roles for fertiliser and rural merchandise businesses.



HUGH STEVENS
HEAD OF FUNDS
MANAGEMENT

Hugh joined NZX in February 2018 and leads the funds management business in Auckland. He has extensive industry experience gained in New Zealand and abroad. Hugh is the former Head of Private Equity and Real Estate Fund Services for BNP Paribas based in France, and prior to that was Head of BNP Paribas Securities Services New Zealand. Before BNP Paribas, Hugh worked for JP Morgan in London.



LISA BROCK
HEAD OF WEALTH
TECHNOLOGIES

Lisa joined NZX in November 2016 and leads the Wealth Technologies business in Auckland. Lisa has more than 25 years' experience in financial services covering investments, insurance and banking. She previously worked for the ASB Bank and Sovereign Insurance holding leadership roles across finance, investments and operations. Prior to that Lisa started her career as an auditor with PwC.



HAMISH MACDONALD
GENERAL COUNSEL,
COMPANY SECRETARY

Hamish joined NZX in July 2013 and leads the corporate legal, policy and government relations team from Auckland and is NZX's Company Secretary. He has extensive experience in financial regulation and policy development work including with the UK Listing Authority, the body that regulates issuers listed on the London Stock Exchange. Before joining NZX, Hamish held legal roles in New Zealand, Australia and the United Kingdom, most recently with a superannuation fund in Melbourne.



**JOOST VAN
AMELSFORT**
HEAD OF MARKET
SUPERVISION

Joost joined NZX in 2014 and leads the regulation team in Wellington. He has extensive experience working in New Zealand, the United Kingdom and Dubai in the financial regulation and professional service sectors Joost previously held senior roles at Simpson Grierson and Linklaters LLP, advising on corporate governance, capital markets, mergers and acquisitions, public and private partnerships and capital markets issuance.



DAVID GODFREY
CHIEF INFORMATION
OFFICER

David joined NZX in 2009 and is based in Wellington. He has responsibility for the delivery of technology solutions and the project management office. He has more than 25 years of management experience in IT, from development, including vendor product based solutions, to enterprise level business critical in house and consumer based, and "24x7" operations. David previously worked for a FTSE 100 Property company, a major UK newspaper, in telecommunications, technology consultancies and software houses.



Corporate Governance

Corporate governance

NZX's shares are quoted on the NZX Main Board. NZX also has subordinated notes quoted on the NZX Debt Market. In this part of the annual report, we disclose the extent to which we have followed the recommendations set out in the NZX Corporate Governance Code 2017 (NZX Code). The information in this section is current as at 31 December 2018 and has been approved by the board of directors of NZX.

NZX's board is committed to maintaining the highest standards of governance by implementing a framework of structures, practices and processes that it considers reflect best practice. NZX's corporate governance policies and procedures, and its board and committee charters, document the framework and have been approved by the board.

The framework has been guided by the recommendations set out in the NZX Code and the requirements set out in the listing rules. The board's view is that NZX's corporate governance framework has followed these recommendations and requirements in the year to 31 December 2018 (reporting period).

The corporate governance framework is regularly reviewed by the board against the corporate governance standards set by NZX, any regulatory changes, and developments in corporate governance practices.

The key corporate governance documents referred to in this section are available from NZX's [investor centre](#).

NZX Code

Principle 1 – code of ethical behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Conduct

NZX's Code of Conduct sets out the standards of conduct expected of directors (including members of committees) and employees (including secondees, contractors and consultants). The purpose of the code is to underpin and support the values that govern our individual and collective behaviour.

Training on the code is included as part of the induction process for new directors and employees.

The code requires directors and employees to promptly report material breaches of the code and sets out the procedure for doing so.

The code is reviewed at least every two years and was last reviewed in August 2017.

Financial Products Trading Policy

NZX's Financial Products Trading Policy sets out NZX's restrictions on its directors and employees buying or selling financial products. In particular:

- directors and employees may not buy or sell NZX's shares in the "blackout" periods set out in the policy (these periods occur prior to the release of NZX's financial results to the market); and
- outside of a blackout period, directors and employees must obtain consent to buy or sell NZX's shares.

Because NZX is a licensed market operator, NZX's senior managers and employees with access to market sensitive information must obtain consent to buy or sell financial products quoted on a market operated by NZX.

Training on the policy is included as part of the induction process for new directors and employees.

The policy is reviewed at least annually and was last reviewed in June 2018.

Principle 2 – board composition and performance

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Board charter

NZX's board operates under a written charter, which sets out the responsibilities and framework for the operation of the board.

The charter is reviewed at least every two years and was last reviewed in July 2017.

Management of NZX on a day-to-day basis is undertaken by the Chief Executive Officer and senior managers through a set of delegated authorities that clearly define the Chief Executive Officer's and senior managers' responsibilities and those retained by the board. The delegated authorities are set out in NZX's Delegated Authority Policy. The policy is reviewed at least annually and was last reviewed and updated in November 2018.

The board meets its responsibilities by receiving reports and plans from management and through its annual work programme. The board uses committees to address issues that require detailed consideration. Committee-work is undertaken by directors (and, in the case of the Conflicts Committee and Regulatory Governance Committee, non-director members who have specialist knowledge and experience), however, the board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

Nomination and appointment of directors

NZX has a Nomination Committee, which is responsible for reviewing candidates for appointment and re-election to the board and committees, and making recommendations to the board. An independent recruitment consultant provides assistance in preparing a list of candidates for the committee's consideration. The committee meets with preferred candidates before making a recommendation to the board. Checks are done on candidates in accordance with NZX's Fit and Proper Policy. Key information about candidates is provided to shareholders in the notice of annual meeting.

At each annual meeting, current directors retire by rotation as required by the NZX Listing Rules and are eligible for re-election. Under the updated Listing Rules a director must seek re-election at least every three years. Any directors appointed since the previous annual meeting must also retire and are eligible for election.

NZX uses a skills matrix when selecting candidates for appointment and re-election to the board. The board developed the skills matrix in 2016 and it was last updated in 2019. The skills matrix outlines the ideal mix of skills, experience and diversity needed to ensure the board is equipped to provide the high standard of corporate governance required to lead NZX. If the board determines that new or additional skills are required, training is completed or a formal recruitment process is undertaken.

The matrix assesses directors against the following criteria:

- strategy and performance – expertise in respect of stock exchanges, data information, media, technology and business operations;
- quality committee leadership – skills to serve on NZX's committees; and
- connectivity to stakeholder groups – connectivity to stakeholder groups such as regulators or government, the Electricity Authority, listed issuers, brokers or institutional and retail investors.

The current NZX skills matrix is on the next page.

NZX BOARD SKILLS EXPERIENCE MATRIX – 2018



Based on these criteria, the board considers that its members currently have the balance of independence, skills, knowledge, experience and perspectives necessary to lead NZX.

Written agreement

NZX provides a letter of appointment to each newly appointed director setting out the terms of their appointment. The letter includes information regarding expected time commitments, the board’s responsibilities, remuneration, independence requirements, disclosure requirements, confidentiality obligations, indemnity and insurance provisions, intellectual property rights and cessation of appointment.

Director information

The board currently comprises six directors with diverse backgrounds, skills, knowledge, experience and perspectives. All directors are non-executive and independent. At the reporting date James Miller was deemed to be non-independent under the NZX Main Board Listing Rules because he is also a director of ACC, which was a substantial product holder of NZX during the period. ACC is no longer a substantial product holder of NZX and subsequent to the period end the NZX board has assessed James Miller as an independent director under the NZX Listing Rules.

Information in respect of directors’ ownership interests is available on pages 119. NZX’s directors are not formally required to own NZX shares, but are encouraged to do so.

Lead independent director

Lindsay Wright is NZX’s lead-independent director in the event that James Miller is conflicted on any matters that arise.

Further information about NZX’s directors is available on pages 52.

Diversity

NZX’s Diversity and Inclusion Policy sets out how NZX will set measurable objectives for achieving diversity and inclusion, and how it will assess its progress towards achieving these objectives. The policy also sets out the diversity and inclusion initiatives NZX currently has in place, together with the initiatives it is currently implementing.

The policy is reviewed at least annually and was last reviewed in February 2019. Further details on NZX’s diversity and inclusion is outlined on page 39 of the Sustainability Report.

Director Training

Directors are expected to understand NZX’s operations and undertake training and education to enable them to effectively perform their duties. This includes:

- attending management presentations in respect of NZX’s operations
- attending presentations on changes in governance, legal and regulatory frameworks
- attending technical and professional development courses
- attending presentations from industry experts and key advisers
- attending the World Federation of Exchanges (WFE) conferences of which NZX is a member
- receiving regular educational materials

Assessment of director performance

Evaluations are conducted to review the performance of the board and each director, and the effectiveness of board processes and committees. This is undertaken using a variety of techniques including external consultants, questionnaires and board discussions.

The last full board and individual director performance review was undertaken by an independent board review expert (Propero Consulting) during 2018. The review found that NZX’s board has made significant progress since the last full external review in 2014 in its drive towards a high-performance culture. Opportunities were also identified for the board to continue to develop and enhance performance.

Each committee reviews its performance at least annually. The board also reviews each committee’s performance at least annually.

Separation of the Chairperson and Chief Executive Officer

NZX’s board chair is a different person to NZX’s Chief Executive Officer.

Principle 3 – committees

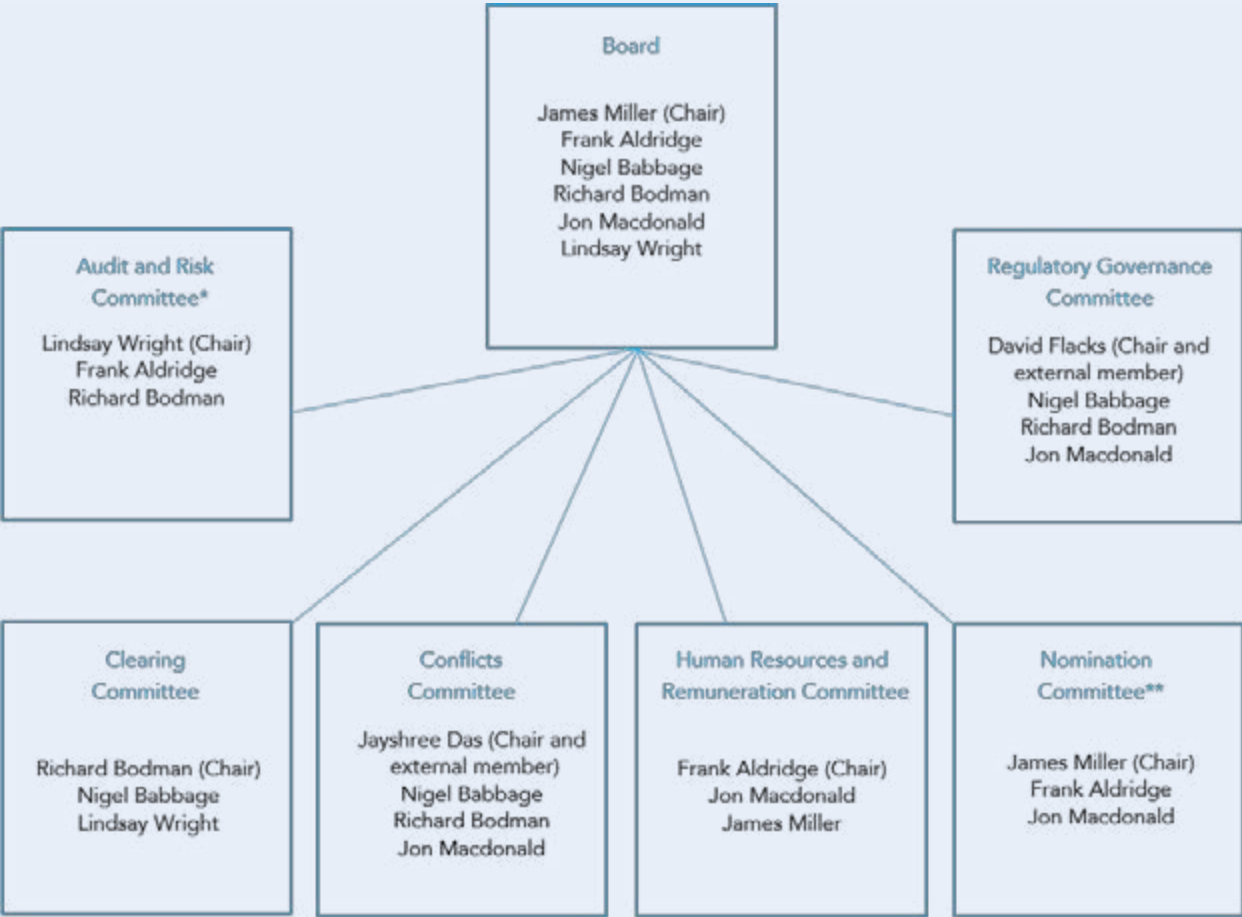
The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

Committees and members

The board uses committees where specialist skills and experience is required. Six standing committees have been established to assist the board on matters falling within their areas of responsibility. Each committee has authority to undertake any activity set out in its charter or as authorised by a separate resolution of the board.

The board and six committees and the members of each as at 31 December 2018 are set on the following page.

Board and committees (as at 31 December 2018)



* James Miller attends Audit and Risk Committee meetings in an ex-officio capacity
**This committee was established in February 2018

Director meeting attendance

Director	Board	Audit and Risk Committee	Clearing Committee	Conflicts Committee	Human Resources and Remuneration Committee	Nomination Committee ¹	Regulatory Governance Committee
Frank Aldridge	6/7	8/8	–	–	3/3	2/2	–
Nigel Babbage ²	7/7	2/2	4/4	1/1	–	–	2/3
Richard Bodman ³	7/7	6/6	4/4	2/2	–	–	4/4
Jon Macdonald	7/7	–	–	2/2	3/3	2/2	4/4
James Miller	7/7	–	–	–	3/3	2/2	–
Dr Patrick Strange	6/6	5/5	1/1	–	–	–	–
Dame Therese Walsh ⁴	1/2	3/3	–	1/1	–	–	0/1
Lindsay Wright ⁵	6/6	5/5	3/3	–	–	–	–

1 The Nomination Committee was established in February 2018
2 Nigel Babbage was appointed to the Conflicts Committee in April 2018
3 Richard Bodman was re-appointed to ARC on 10 September 2018
4 Dame Therese Walsh resigned as a director effective 13 April 2018
5 Lindsay Wright was appointed as a director effective 20 February 2018

External committee member meeting attendance

Committee member	Board	Audit and Risk Committee	Clearing Committee	Conflicts Committee	Human Resources and Remuneration Committee	Nomination Committee	Regulatory Governance Committee
Jayshree Das	–	–	–	2/2	–	–	–
David Flacks	–	–	–	–	–	–	4/4

Audit and Risk Committee

NZX’s Audit and Risk Committee assists the board to fulfil its responsibilities in relation to the NZX Group’s financial practices and reporting, internal control environment, internal audit, external audit and risk management. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in February 2018.

The committee must be comprised solely of NZX directors, have a minimum of three members, have a majority of members that are independent directors and have at least one director with an accounting or financial background. The makeup of the current members of this committee complies with this recommendation.

The committee’s chair, Lindsay Wright, holds a bachelor of commerce degree from Auckland University majoring in finance and accounting and has previously held the role of CFO of Deutsche New Zealand (Previously Bankers Trust) and was also formerly Chair of the Audit Committee for the New Zealand Superannuation fund. Lindsay’s full biography is on page 53.

The committee chair and the board chair are different people.

Management may only attend meetings at the invitation of the committee and the committee routinely has committee-only time and time with the external and internal auditors without management present.

Human Resources and Remuneration Committee

NZX's Human Resources and Remuneration Committee assists the board in overseeing the management of the human resources activities of NZX, including the remuneration of employees. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in February 2018.

The committee must have a majority of members that are independent directors. The makeup of the current members of this committee complies with this recommendation.

Management may only attend meetings at the invitation of the committee.

Nomination Committee

NZX's Nomination Committee assists the board in identifying and recommending to the board individuals for nomination as directors and members of committees. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was adopted in February 2018.

The committee was established in February 2018.

Prior to this, the board was responsible for identifying individuals for nomination as directors and members of committees.

The committee must have a majority of members that are independent directors. The makeup of the current members of this committee complies with this recommendation.

Management may only attend meetings at the invitation of the committee.

Other Committees

Clearing Committee

The Clearing Committee assists the board in ensuring that New Zealand Clearing Limited has adequate risk capital to meet its obligations as the central counterparty clearing house for NZX Clearing. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in February 2018.

The committee must have a minimum of three members. The committee may have a non-director as a member (who must have skills and experience relevant to the operation of the committee). The makeup of the current members of this committee complies with this recommendation.

Conflicts Committee

The Conflicts Committee assists the board in overseeing the effectiveness of NZX's policies and procedures for ensuring that any conflicts of interest within the NZX Group are appropriately managed, including any conflicts between NZX's regulatory responsibilities and its commercial interests. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in February 2018.

The committee must have a minimum of three members, have a minimum of two directors as members and must have one non-director as a member (who has skills and experience relevant to the operation of the committee). The makeup of the current members of this committee complies with this recommendation.

The committee's non-director member is Jayshree Das.

Regulatory Governance Committee

The Regulatory Governance Committee assists the board in reviewing and providing feedback in respect of the governance of NZX's regulatory function. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in February 2018.

The committee must have a minimum of three members, have a minimum of two directors as members and must have a minimum of one non-director as a member (who has skills and experience relevant to the operation of the committee). The makeup of the current members of this committee comply with this recommendation.

The committee's non-director member, David Flacks, is a former NZ Markets Disciplinary Tribunal chair.

Takeover protocol

NZX's Takeover Protocol sets out the procedure to be followed if there is a takeover offer for NZX.

The protocol is reviewed at least every two years and was adopted in February 2018.

Principle 4 – reporting and disclosure

The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Continuous disclosure

NZX's Continuous Disclosure Policy sets out NZX's arrangements to ensure material information is identified, reported, assessed and, where required, disclosed to the market in a timely manner.

NZX is committed to ensuring the timely disclosure of material information about the NZX Group and to ensuring that NZX complies with the NZX Listing Rules.

It is the responsibility of the board to monitor compliance with the Continuous Disclosure Policy. The

board considers at each board meeting whether any information discussed at the meeting requires disclosure.

The policy is reviewed at least annually and was last reviewed and updated in July 2018.

Charters and policies

The key corporate governance documents referred to in this section, including policies and charters, are available from NZX's [investor centre](#).

Financial reporting

NZX is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on its present and future prospects.

The Audit and Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews NZX's full and half-year financial statements and makes recommendations to the board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the committee has responsibility were addressed during the reporting period.

NZX has published its full and half-year financial statements that were prepared in accordance with relevant financial standards. The full year financial statements are set out on pages 74 to 110.

The Chief Executive and Chief Financial Officer have confirmed in writing to the board that NZX's external financial reports present a true and fair view in all material aspects.

Non-financial reporting

NZX releases data on its non-financial performance metrics each month through its monthly shareholder metrics publications. It also releases quarterly revenue and shareholder metrics, and regulation metrics representing the key features of NZX's activities in regulating its markets.

This year NZX has adopted the principles of a formal sustainability-reporting framework, the Global Reporting Initiative (GRI). A separate Sustainability Report is set out at pages 24 to 51 which includes a description of business strategy. To support this, and provide increased clarity for shareholders and the market on our financial performance and execution of strategy a series of five year financial and non-financial targets are now being externally communicated. Further information can found in the investor presentation.

Principle 5 – remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

Directors’ remuneration
Shareholders fix the total remuneration available for directors. The annual fee pool limit is \$435,000 and was approved by shareholders at the annual meeting in April 2012.

The current fees paid to NZX’s directors are \$50,000 per annum for directors and \$100,000 for the chair. Directors are not paid additional fees for being members of committees.

Jayshree Das and David Flacks, being non-director members of committees, are paid \$465 per hour for work on committee business.

Total remuneration received by each director in 2018 is set out in Note 5 of the Statutory Information section on page 117.

External committee member remuneration set out below.

External committee member remuneration	
Committee member	Committee member fees
Jayshree Das	\$9,940
David Flacks	\$16,973

Directors do not receive any performance or equity based remuneration, or superannuation or retirement benefits. This reflects the differences in the role of the directors, which is to provide oversight and guide strategy, and the role of management, which is to operate the business and execute NZX’s strategy.

Remuneration policy
NZX’s Remuneration Policy sets out the principles, which apply to the remuneration of NZX’s directors and employees. In particular, director remuneration is paid in the form of director fees, while employee remuneration will include a mix of the following components:

- fixed remuneration (which includes base salary and employer KiwiSaver contributions)
- short-term incentive plan (which is available to senior employees)
- long-term incentive plan (which is available to members of NZX’s executive team and senior management)
- a one-off grant of \$1,000 of NZX shares when an employee starts at NZX to ensure that all employees are shareholders

The policy is reviewed at least annually and was reviewed in February 2018.

NZX’s short-term incentive plan is performance based, with any short-term incentive plan payment being conditional on (1) NZX’s financial performance and the employee’s business unit’s performance; and (2) the employee’s individual performance.

Potential short-term incentive plan payments are generally between 15% and 45% of base salary, depending upon the employee’s seniority and role.

Under NZX’s long-term incentive plan, executive team members and senior managers may be awarded NZX shares based on NZX’s long-term (generally three year) performance. The plan is designed to:

- align managers’ rewards with improvement in shareholder value
- achieve business plans and corporate strategies
- reward performance improvement
- retain key skills and competencies

Chief Executive Officer remuneration
Mark Peterson commenced his role as NZX’s Chief Executive Officer on 10 April 2017.

Mark Peterson’s remuneration is a mix of base salary and short term and long-term incentive plan components.

Mark Peterson’s base salary for 2018 was \$500,000.

Mark Peterson’s potential short-term incentive plan payment for 2018 was \$500,000 (\$250,000 for on-target performance). Mark Peterson’s actual short-term incentive plan payment for 2018 was \$280,000. This will be paid in February 2019. Mark Peterson’s 2018 STI comprised two components. The first component was based on NZX’s financial performance against target. The second component was based on delivery against the key elements of the five year strategic plan which included refocusing the business back on the core markets business, building on the growth opportunities, leading the business effectively and further developing our market engagement.

Mark Peterson is currently allocated a long-term incentive performance share rights plan to the value of \$250,000 each year. Vesting is dependent on NZX meeting performance hurdles in respect of NZX’s total return to shareholders and its earnings per share for the prior five year period, and on Mark Peterson remaining an employee at the applicable vesting date.

Principle 6 – risk management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Risk management framework
The board is responsible for the establishment and oversight of NZX’s risk management framework, together with setting NZX’s overall risk tolerance.

Significant risks are discussed at each board meeting, or as required.

The board has established an Audit and Risk Committee with responsibility to:

- review and provide feedback in respect of the principal risks set out in NZX’s risk register
- ensure that management has established a risk management framework which includes policies and procedures to effectively identify, manage and monitor NZX’s principal risks
- monitor compliance with, and assess the effectiveness of, the risk management framework

The committee reviews the risk register every quarter. The committee also reviews the risk management framework annually. The committee receives reports on the operation of risk management policies and procedures.

The executive team and senior management are required to regularly identify the major risks affecting the business, record them in the risk register and develop structures, practices and processes to manage and monitor these risks.

NZX maintains insurance policies that it considers adequate to meet its insurable risks.

The board is satisfied that NZX has in place a risk management framework to effectively identify, manage and monitor NZX's principal risks, including a Conflict Management Policy, Continuous Disclosure Policy, Delegated Authority Policy, Financial Products Trading Policy, Fit and Proper Policy, IT Acceptable Use Policy and Protected Disclosures Policy.

NZX engages EY to carry out internal audit functions on various parts of its operations, including assessing the effectiveness of NZX's risk management policies and procedures. Additionally, independent assurance is provided, and reviews are undertaken on matters such as risk capital, operational controls, IT/software security and anti-money laundering procedures.

Key risks

NZX's material issues for 2018 are outlined and discussed at pages 24 to 51 of the Sustainability Report.

Chief Executive Officer and Chief Financial Officer assurance

The Chief Executive Officer and Chief Financial Officer have provided the board with written confirmation that NZX's 2018 financial statements are founded on a sound system of risk management and internal compliance and control; and that all such systems are operating efficiently and effectively in all material respects.

Principle 7 – auditors

The board should ensure the quality and independence of the external audit process.

NZX's Audit and Risk Committee makes recommendations to the board on the appointment and removal of the external auditor. The committee also monitors the independence and effectiveness of the external auditor and reviews and approves any non-audit services performed by the external auditor. An External Auditor Independence Policy was approved by the NZX board in July 2018 setting out the services that may or may not be performed by the external auditor.

The committee regularly meets with the external auditor to approve their terms of engagement, audit partner rotation (at least every five years) and audit fee, and to review and provide feedback in respect of the annual audit plan. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The committee routinely has time with NZX's external auditor, KPMG, without management present.

KPMG attends the annual meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. KPMG attended the 2018 annual meeting.

KPMG has provided the Audit and Risk Committee with written confirmation that, in their view, they were able to operate independently during the year.

NZX has appointed EY to perform a number of internal audit functions. The Audit and Risk Committee is responsible for overseeing the independence and objectivity of the internal audit function and for reviewing and monitoring the internal audit work plan, reports from internal audit and management responses. The committee routinely has time with EY without management present.

Principle 8 – shareholder rights and relations

The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

Information for shareholders

NZX seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information.

The key information channels are NZX's website, announcements and media releases, social media channels, the annual and interim report, and the annual meeting.

NZX's [investor centre](#) contains annual and interim reports, investor presentations, dividend information and other information relating to NZX (including key corporate governance documents).

Communicating with shareholders

NZX's [investor centre](#) sets out NZX's Chief Financial Officer's and Company Secretary's contact details for communications from shareholders. NZX responds to all shareholder communications within a reasonable timeframe.

NZX provides options for shareholders to receive and send communications electronically, to and from both NZX and its share registrar.

Shareholder voting rights

In accordance with the Companies Act 1993, NZX's Constitution and the NZX Listing Rules, NZX refers major decisions which may change the nature of NZX to shareholders for approval.

NZX conducts voting at its shareholder meetings by way of a poll and on the basis of one share, one vote. Further information on shareholder voting rights is set out in NZX's Constitution.

Notice of annual meeting

NZX's annual meeting was held on 13 April 2018. The notice of the meeting was released to the market on 16 March 2018 and was posted on NZX's [investor centre](#). The 2019 meeting will be held on 5 April 2019 in Dunedin. An audio webcast of the meeting will be made available to shareholders.

Directors' Responsibility Statement

The directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of NZX Limited and its subsidiaries (the NZX Group) as at 31 December 2018 and the results of their operations and cash flows for the year ended 31 December 2018.

The directors consider that the financial statements of the NZX Group have been prepared using accounting policies appropriate to the NZX Group's circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The directors are pleased to present the financial statements of the NZX Group for the year ended 31 December 2018.

The financial statements were authorised for issue for and on behalf of the directors on 14 February 2019.



James Miller
Chair of the Board

Lindsay Wright
Chair of the Audit and
Risk Committee

Financials

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Income Statement

For the year ended 31 December 2018

	Note	2018 \$000	2017 \$000
Total operating revenue	9	67,493	67,141
Total operating expenses	10	(40,210)	(39,895)
Earnings before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, gain and loss on disposal of business and property, plant and equipment		27,283	27,246
Net finance expense	11	(831)	(261)
Gain/(loss) on disposal of property, plant and equipment		(1)	6
Depreciation and amortisation expense		(6,425)	(6,531)
Impairment expense	4	(352)	-
Adjustment to provision for earnout	8	15	(390)
Profit before income tax		19,689	20,070
Income tax expense	13	(6,045)	(5,720)
Profit from continuing operations		13,644	14,350
Profit/(loss) from discontinued operations (net of tax)	6	(2,024)	487
Profit for the year		11,620	14,837
Earnings per share			
Basic (cents per share)	14	4.3	5.5
Diluted (cents per share)	14	4.3	5.5
Earnings per share - continuing operations			
Basic (cents per share)	14	5.1	5.3
Diluted (cents per share)	14	5.0	5.3

Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 \$000	2017 \$000
Profit for the year	11,620	14,837
Other comprehensive income recognised through equity		
Foreign currency translation differences	(170)	(53)
Total other comprehensive income	(170)	(53)
Total comprehensive income for the year	11,450	14,784

Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Share Capital \$000	Retained Earnings \$000	Translation Reserve \$000	Total Equity \$000
Balance at 1 January 2017		47,556	21,941	178	69,675
Profit for the year		-	14,837	-	14,837
Foreign currency translation differences		-	-	(53)	(53)
Total comprehensive income for the year		-	14,837	(53)	14,784
Transactions with owners recorded directly in equity:					
Dividends paid	22	-	(16,104)	-	(16,104)
Share based payments	21	368	-	-	368
Cancellation of non-vesting shares	21	(473)	473	-	-
Total transactions with owners recorded directly in equity		(105)	(15,631)	-	(15,736)
Balance at 31 December 2017		47,451	21,147	125	68,723
Profit for the year		-	11,620	-	11,620
Foreign currency translation differences		-	-	(170)	(170)
Total comprehensive income for the year		-	11,620	(170)	11,450
Transactions with owners recorded directly in equity:					
Dividends paid	22	-	(20,426)	-	(20,426)
Issue of shares	21	3,201	-	-	3,201
Share based payments	21	534	-	-	534
Cancellation of non-vesting shares	21	(120)	120	-	-
Total transactions with owners recorded directly in equity		3,615	(20,306)	-	(16,691)
Balance at 31 December 2018		51,066	12,461	(45)	63,482

Statement of Financial Position

As at 31 December 2018

	Note	2018 \$000	2017 \$000
Current assets			
Cash and cash equivalents	15	25,385	14,881
Cash and cash equivalents - restricted	15	20,000	20,000
Funds held on behalf of third parties	12	56,705	58,890
Receivables and prepayments	16	9,217	10,940
Total current assets		111,307	104,711
Non-current assets			
Property, plant & equipment	17	2,760	2,444
Goodwill	3	30,222	33,929
Intangible assets	2	36,505	36,290
Assets held for sale	7	-	2,415
Total non-current assets		69,487	75,078
Total assets		180,794	179,789
Current liabilities			
Funds held on behalf of third parties	12	56,705	58,890
Trade payables	18	3,798	3,810
Other liabilities	19	11,736	23,580
Current tax liability	13	2,222	666
Liabilities held for sale	7	20	-
Total current liabilities		74,481	86,946
Non-current liabilities			
Other liabilities	19	161	-
Interest bearing liabilities	20	38,797	20,000
Deferred tax liability	13	3,873	4,120
Total non-current liabilities		42,831	24,120
Total liabilities		117,312	111,066
Net assets		63,482	68,723
Equity			
Share capital	21	51,066	47,451
Retained earnings		12,461	21,147
Translation reserve		(45)	125
Total equity attributable to shareholders		63,482	68,723

Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 \$000	2017 \$000
Cash flows from operating activities			
Receipts from customers		73,782	78,942
Net interest paid		(782)	(92)
Payments to suppliers and employees		(44,124)	(48,394)
Income tax paid	13	(4,800)	(6,072)
Net cash provided by operating activities	15	24,076	24,384
Cash flows from investing activities			
Cash (paid on acquisition)/received on disposal of businesses		(5,449)	7
Payments for property, plant and equipment		(1,181)	(302)
Payments for intangible assets		(8,204)	(5,782)
Net cash used in investing activities		(14,834)	(6,077)
Cash flows from financing activities			
Proceeds from former CEO share scheme settlement	23	-	1,874
Loan facility cancellation	20	(20,000)	-
Issue of subordinated notes	20	40,000	-
Transaction costs relating to subordinated notes		(1,230)	-
Dividends paid		(17,508)	(16,104)
Net cash provided by/(used in) financing activities		1,262	(14,230)
Net increase in cash and cash equivalents		10,504	4,077
Cash and cash equivalents at the beginning of the year		34,881	30,804
Cash and cash equivalents at the end of the year	15	45,385	34,881

Notes to the Financial Statements

For the year ended 31 December 2018

1. Reporting entity and statutory base

Reporting entity

These consolidated financial statements are for NZX Limited (the Company) and its subsidiaries (together referred to as the Group) as at and for the year ended 31 December 2018.

The Group operates New Zealand securities, derivatives and energy markets, including building and maintaining the infrastructure on which they operate. It provides funds management services including superannuation and Exchange Traded Funds (ETFs), as well as building and operating wealth management platforms for other providers. It also provides a range of information and data to support market growth and development in the securities and dairy sectors.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013. The Company is listed and its ordinary shares are quoted on the NZX Main Board. The company also has listed debt which is quoted on the NZX debt market.

Basis of preparation

The Group financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain financial instruments as identified in the accompanying notes. These financial statements are presented in New Zealand Dollars (\$), which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The Group financial statements are prepared by consolidating the financial statements of all the entities that comprise the Group, being the Company and its subsidiaries. Consistent accounting policies across the parent and all subsidiaries are employed in the preparation and presentation of the Group financial statements.

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. In determining the fair value of assets acquired, NZX assesses identifiable intangible assets including brands, intellectual property, software, management rights and any other identifiable intangible assets using recognised valuation methodologies and with reference to suitably qualified experts. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

ii. Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the Group financial statements all intercompany balances and transactions, and unrealised profits arising within the Group are eliminated in full.

Accounting policies

Accounting policies that summarise the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. The standards which are relevant to the Group are as follows:

i. NZ IFRS 16 Leases - effective for reporting periods beginning on or after 1 January 2019

This standard requires the recognition of operating leases in the Statement of Financial Position through recognising a right to use asset and corresponding lease liability. This also results in a change in the Income Statement, with rental expense being replaced with depreciation of the asset and interest expense on the discounted lease liability.

The Group has completed an initial assessment of its operating leases in relation to the standards requirements and determined that predominately property leases and certain other leases are applicable for restatement.

The Group has elected to adopt the full retrospective approach, which means the 2018 comparative information will be restated for 2019 reporting. The Group will recognise the cumulative historic effect of initially applying the standard as an adjustment to equity as at the 1 January 2018 initial date of application.

The Statement of Financial Position 1 January 2018 opening balances will be adjusted as follows:

Increase/(decrease)	2018 \$000
Right of use asset	7,147
Sublease receivable	196
Deferred tax liability	(815)
Right to use lease liability - current	1,052
Right to use lease liability - non-current	9,203
Equity	(2,097)

This adjustment to opening Equity represents the accumulated asset depreciation and the lease liability interest in prior years in excess of the standard lease expense reported in previous periods.

The impact on the Income Statement for current qualifying leases can be summarised as follows:

Increase/(decrease)	2018 \$000
Other expenses	(1,277)
Depreciation of right to use assets	820
Net interest expense on lease liability/sublease	421
Profit before income tax	36
Income tax expense	10
Profit from continuing activities	26

Presentational changes

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

Accounting estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The principal areas of judgement for the Group in preparing these financial statements that have a significant risk of resulting in a material adjustment within the next financial year, including information about assumptions and estimation uncertainties, are set out in:

- note 2 - intangible assets
- note 3 - goodwill
- note 23 - share based payments

2. Intangible assets

Intangible assets are initially measured at cost. The direct costs associated with the development of software and website assets for internal use are capitalised where success is probable and the capitalisation criteria of NZX's accounting policy and NZ IFRS are met. The cost of intangible assets acquired in a business combination is their fair value at the date of the acquisition. Intangible assets with a finite life are amortised from the date the asset is ready for use on a straight-line basis over its estimated life which is as follows:

- Software and websites: 3 — 9 years
- Brands, Trademarks, and rights to use Brands: 10 years
- Data archives, customer lists, databases, and other IP: 10 years
- Management rights: 20 years

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. This is outlined in note 4.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated.

	Software and websites \$000	Brands, Trademarks and rights to use Brands \$000	Data archives, customer lists, databases, and other IP \$000	Management rights \$000	Intangible work in progress \$000	Total \$000
Gross carrying amount						
Balance at 1 January 2017	33,513	7,906	3,387	18,116	5,727	68,649
Additions	-	-	-	-	5,782	5,782
Disposals	(601)	-	-	-	-	(601)
Transfer from WIP	6,873	-	-	-	(6,873)	-
Transfer to assets held for sale	-	(5,336)	-	-	-	(5,336)
Balance at 31 December 2017	39,785	2,570	3,387	18,116	4,636	68,494
Additions	2	-	-	-	8,202	8,204
Disposals	(1,138)	(2,388)	(1,929)	-	-	(5,455)
Transfer from WIP	10,168	-	-	-	(10,168)	-
Transfer to assets held for sale	(58)	-	-	-	-	(58)
Balance at 31 December 2018	48,759	182	1,458	18,116	2,670	71,185
Accumulated amortisation & impairment						
Balance at 1 January 2017	23,550	5,983	167	1,582	-	31,282
Amortisation expense	4,728	214	195	789	-	5,926
Impairment expense	-	-	277	-	-	277
Disposals	(601)	-	-	-	-	(601)
Transfer to assets held for sale	-	(4,680)	-	-	-	(4,680)
Balance at 31 December 2017	27,677	1,517	639	2,371	-	32,204
Amortisation expense	4,925	83	-	784	-	5,792
Impairment expense	-	136	-	-	-	136
Disposals	(1,074)	(1,681)	(639)	-	-	(3,394)
Transfer to assets held for sale	(58)	-	-	-	-	(58)
Balance at 31 December 2018	31,470	55	-	3,155	-	34,680
Net Book Value						
As at 31 December 2017	12,108	1,053	2,748	15,745	4,636	36,290
As at 31 December 2018	17,289	127	1,458	14,961	2,670	36,505

3. Goodwill

Carrying amount	2018 \$000	2017 \$000
Balance at beginning of the year	33,929	35,764
Agri impairment	(2,526)	(76)
Goodwill sold	(1,181)	-
Transfer to assets held for sale	-	(1,759)
Balance at end of the year	30,222	33,929

A cash generating unit (CGU) to which goodwill has been allocated is tested for impairment annually, and whenever there is an indicator of impairment based on the performance of the CGU relative to expected future performance and other relevant factors.

The directors have carried out impairment testing with the key assumptions set out in note 4. In 2017 the goodwill impairment (\$76,000) related to the Farmers Weekly business. The Farmers Weekly and FundSource businesses were transferred to assets and liabilities held for sale in 2017. During 2018 the remaining Agri businesses (AgriHQ and the Grain Information Unit) have been sold, resulting in a goodwill impairment of \$2,526,000.

4. Impairment tests

Indefinite life intangible assets are reviewed for impairment annually. They are also reviewed for impairment whenever there are indicators of impairment, as are finite life intangible assets.

A summary of the CGUs to which intangible assets have been allocated as at 31 December 2018 is outlined below:

	Software & websites \$000	Other finite life intangible \$000	Indefinite life intangible \$000	Work in progress \$000	Total other intangible \$000	Goodwill \$000	Total \$000
Cash generating unit							
Clearing House	4,839	-	-	5	4,844	-	4,844
Funds management	176	12,617	2,344	259	15,396	20,730	36,126
Wealth Technologies	7,912	-	-	576	8,488	1,494	9,982
Energy	2,953	-	-	444	3,397	7,720	11,117
Direct data	-	127	1,458	-	1,585	278	1,863
Other							
Other intangible assets	584	-	-	127	711	-	711
Other computer software	824	-	-	1,260	2,084	-	2,084
	17,288	12,744	3,802	2,671	36,505	30,222	66,727

Impairment test

For the year ended 31 December 2018, the directors have reviewed all intangible assets for impairment using discounted cash flow analysis, comparable EBITDA multiple analysis and/or other factors as appropriate to the asset being tested. All impairment tests have been undertaken on a value in use basis.

Key assumptions used in the calculation of recoverable amounts in discounted cash flow analysis are consistent with those used and disclosed in the financial statements for the year ended 31 December 2017 unless indicated otherwise. Discounted cash flow analysis using a forecast period of five years was used for all CGUs, other than Energy where forecast periods of six years (to match the remaining contractual period) and nine years (to match the remaining contractual period plus three years potentially to be renewed) were both used. The analysis also uses an independently assessed WACC of 10.00% for the New Zealand CGUs (2017: 10.35% for New Zealand CGUs and 12.76% for Australian CGUs) and were stress tested at higher rates. The terminal growth rate used to extrapolate cash flow projections beyond five years was 1.75% (2017 between 1.75% and 2%). Management has assessed the long term economic outlook data available, and assessed that the use of this terminal growth rate was appropriate, consistent with the prior year. Where relevant, EBITDA multiples were used to cross-check the discounted cash flow analysis for established businesses.

During 2018 the Agri businesses (Farmers Weekly, AgriHQ and the Grain Information Unit) were sold, resulting in goodwill and intangible assets impairment charges totalling \$2,662,000 on disposal (2017: \$353,000).

Additionally the FundSource business, within the Direct Data CGU, has incurred an impairment charge of \$352,000.

The review of the carrying values of goodwill and intangible assets has determined that all the CGUs have recoverable amounts exceeding their carrying values.

Further information on specific assumptions (other than the general assumptions outlined above) underlying the CGU discounted cash flow analysis is set out below.

a. Clearing House

The principal assumption on which the discounted cash flows for this CGU are dependent is the future revenue growth rate. Future revenue growth is dependent on growth in equity and dairy derivatives markets. Growth in equity markets has been forecast based on historical growth rates, while dairy derivatives are expected to grow at 33% p.a. (2017: 1% to 50% p.a.). This assumption is based on trading statistics for similar derivative products in overseas markets and NZX's five year strategic plan.

b. Funds Management

Smartshares Limited acquired the management rights for SmartOZZY, SmartMOZY, and the SmartMIDZ funds during 2004 - 2006 for a total value of \$2,344,000. These are held in the Group accounts with an indefinite life, as there is no expiry date for these rights and they are expected to apply indefinitely. Additionally the acquisition of SuperLife Limited, effective 1 January 2015 has resulted in additional management rights acquired of \$15,772,000, which are held in the Group accounts as a finite life asset to be amortised over 20 years and goodwill of \$20,730,000. The principal assumption on which the discounted cash flows are dependent is the future level of funds under management (FUM), which is assumed to grow through both net cash flows and market growth, driving FUM based revenue. FUM based revenue would have to reduce by 46% in the forecast period to potentially indicate an impairment in the intangibles carrying value. The company considers this reasonable based on historic experience and NZX's five year strategic plan.

c. Wealth Technologies

The principal assumptions on which the discounted cash flows for the Wealth Technologies CGU are dependent is the future level of funds under administration (FUA) which is assumed to grow through both bringing new clients on to the platforms and current client growth, driving FUA based revenue. FUA based revenue would have to reduce by 21% in the forecast period to potentially indicate an impairment in the intangibles carrying value. The Company considers this reasonable given the start-up nature of Wealth Technologies and based on the continued interest from current and potential customers.

d. Energy

The carrying value of the Energy CGU includes a goodwill amount of \$7,720,000. This business has a significant reliance on service provider contracts it has in place with the Electricity Authority (EA) which were renewed in late 2015 for the eight year period 1 May 2016 to 30 April 2024, with the EA having an option to renew for a further 3 years. As a result of this renewal, NZX has certainty of minimum cash flows to be received over the contract period which, and along with additional contracted consulting revenue, support the current carrying value of the CGU.

e. Direct data

The principal assumptions on which the discounted cash flows for the Direct Data CGU are dependent is the future revenue growth rate which is assumed to grow (through increased volumes and price increases) at 4.2% p.a. to 4.5% p.a. (2017: 1.5% p.a. to 2.0% p.a.) during the explicit forecast period. The Company considers this reasonable based on historical experience and NZX's five year strategic plan.

5. Segment reporting

The Group has five revenue generating segments, as described below, which are the Group's strategic business areas, and a corporate segment which has no revenue but includes all costs that are shared across the organisation. The reportable segments are:

- Issuer Relationships - provider of issuer services for current and prospective customers and market operator for Fonterra Co-Operative Group and the Electricity Authority. For segmental reporting purposes regulatory services is also included in this division;
- Secondary Markets - provider of trading and post-trade services for securities and derivatives markets operated by NZX, as well as the provider of a central securities depository;
- Data & Insights - provider of data services for securities and derivatives markets and data and analysis for New Zealand's dairy sector;
- Funds Management - provider of SuperLife superannuation and KiwiSaver and Smartshares exchange traded funds; and
- Wealth Technologies - funds administration provider.

The following segment is now presented as a discontinued operation (refer note 6):

- Agri - provider of information, news, data and analysis relating to the agriculture sectors (other than dairy) in New Zealand and Australia through printed publications and online services.

In prior periods the Group had three reportable segments - Markets (comprising Issuer Relationships, Secondary Markets and Data & Insights), Funds Services (comprising Funds Management and Wealth Technologies) and Agri (now presented as a discontinued operation). The change in reportable segments is a result of a strategy review completed in November 2017.

The Group's CEO (the chief operating decision maker) reviews internal management reports for each of these strategic areas on a regular basis. The Group's revenue is analysed into each of the reportable segments. Expenses incurred are allocated to the segments only if they are direct and specific expenses to one of the segments. The remaining expenses that relate to activities shared across the group are reported in the corporate segment.

The Group's assets and liabilities are analysed into each of the revenue generating segments, apart from those assets and liabilities that are utilised on a shared basis, which are allocated to the corporate segment.

Segmental information for the year ended 31 December 2018

Unaudited	Issuer Relationships \$000	Secondary Markets \$000	Data & Insights \$000	Funds \$000	Wealth Technologies \$000	Corporate \$000	Total continuing operations \$000	Agri \$000	Total including discontinued operations \$000
Operating revenue	23,567	16,653	11,728	14,472	1,073	-	67,493	4,329	71,822
Operating expenses	(4,939)	(5,682)	(1,831)	(8,786)	(2,112)	(16,860)	(40,210)	(3,483)	(43,693)
Total segment result	18,628	10,971	9,897	5,686	(1,039)	(16,860)	27,283	846	28,129
Segment assets	15,104	86,248	3,968	40,954	10,627	23,803	180,704	90	180,794
Segment liabilities	(8,223)	(56,248)	(1,174)	(6,758)	61	(44,970)	(117,312)	-	(117,312)
Net assets	6,881	30,000	2,794	34,196	10,688	(21,167)	63,392	90	63,482

Segmental information for the year ended 31 December 2017

Audited	Issuer Relationships \$000	Secondary Markets \$000	Data & Insights \$000	Funds \$000	Wealth Technologies \$000	Corporate \$000	Total continuing operations \$000	Agri \$000	Total including discontinued operations \$000
Operating revenue	24,257	16,629	11,464	13,448	1,343	-	67,141	8,184	75,325
Operating expenses	(5,028)	(5,360)	(1,399)	(9,040)	(3,026)	(16,042)	(39,895)	(6,427)	(46,322)
Total segment result	19,229	11,269	10,065	4,408	(1,683)	(16,042)	27,246	1,757	29,003
Segment assets	13,823	91,366	5,352	42,561	6,568	10,326	169,996	9,793	179,789
Segment liabilities	(6,665)	(58,606)	(876)	(15,936)	465	(27,650)	(109,268)	(1,798)	(111,066)
Net assets	7,158	32,760	4,476	26,625	7,033	(17,324)	60,728	7,995	68,723

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment non-current assets are based on the geographical location of the assets.

Revenue	2018 \$000	2017 \$000
New Zealand	55,174	55,318
Australia	3,109	3,268
Other	9,210	8,555
Total revenue from continuing operations	67,493	67,141
Non-current assets	2018 \$000	2017 \$000
New Zealand	69,487	71,347
Australia	-	3,731
Total non-current assets	69,487	75,078

6. Discontinued operations

A discontinued operation is a component of the Group's business that represents a single major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Management has sold Farmers Weekly, AgriHQ and the Grain Information Unit, the combined operations of which represent the Agri reportable segment. The results for the year and comparatives have been re-presented to show the Agri results as a discontinued operation, separately from the Group's continuing operations.

The results of the discontinued operation for the years presented in the income statement are as follows:

Note	2018 \$000	2017 \$000
Total operating revenue	4,329	8,184
Total operating expenses	(3,483)	(6,427)
Earnings before net finance income, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, and gain/(loss) on disposal of businesses and property, plant and equipment	846	1,757
Net finance expense	(32)	(67)
Gain/(loss) on disposal of businesses and property, plant and equipment	9	-
Depreciation and amortisation expense	(185)	(511)
Impairment expense	(2,662)	(353)
Profit/(loss) before income tax	(2,024)	826
Income tax expense	-	(339)
Profit/(loss) from discontinued operation (net of tax)	(2,024)	487

The cash flows of the discontinued operations for the years presented in the cash flow statement are as follows:

	2018 \$000	2017 \$000
Net cash used in operating activities	1,122	1,388
Net cash from investing activities	4,401	(28)
	5,523	1,360

7. Assets and liabilities held for sale

In 2017 management committed to a plan to sell the Farmers Weekly business and the FundSource investment research business. Accordingly, those businesses assets and liabilities were presented as a disposal group held for sale at 31 December 2017. Farmers Weekly was sold during 2018 (refer note 6). The assets and liabilities of Fundsource are presented as a disposal group held for sale at 31 December 2018.

a. Impairment losses relating to the disposal group

Impairment losses of \$352,000 relating to FundSource for the write-down of the disposal group to the lower of its carrying amount and its fair value less estimated costs to sell have been recognised in the current year (refer to note 4). The impairment losses have been applied to reduce the carrying amount of goodwill and other intangible assets (presented as held for sale) and is recognised within continuing operations. Impairment losses recognised in 2017 of \$353,000 related to Farmers Weekly and are presented within discontinued operations.

b. Assets and liabilities of disposal group held for sale

As at 31 December 2018, the disposal group was stated at fair value and comprised the following liabilities:

	Data Services \$000	2018 Total \$000
Other current liabilities	20	20
Liabilities held for sale (current)	20	20

As at 31 December 2017, the disposal group was stated at fair value and comprised the following assets:

	Farmers Weekly \$000	Data Services \$000	2017 Total \$000
Goodwill	1,436	323	1,759
Intangible assets	544	112	656
Assets held for sale (non-current)	1,980	435	2,415

8. Adjustment to provision for earnout

During the year the Group satisfied the Retention Agreements entered into when NZX sold its 50% stake in Link Market Services Limited (in 2015) through the issue of 124,540 NZX shares to key employees of Link Market Services Limited. The value of shares issued was less than the provision held, resulting in a \$15,000 adjustment to the provision for earnout.

At 31 December 2017, the Group increased the provision for the final earnout payment for the acquisition of SuperLife to 100% of amounts payable (an increase of \$390,000) to recognise that funds under management were greater than the 100% earnout target. The earnout was paid (gross amount of \$9,970,000) in February 2018.

9. Operating revenue

The Group has initially adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 January 2018. This standard contains new requirements for the recognition of revenue and involves an assessment of performance obligations within contracts, allocation of the contract price to those performance obligations and recognition of revenue as the performance obligations are satisfied. The Group has undertaken a review of contracts and determined that no changes were required to the way revenue is recognised.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to NZX and the revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. The specific revenue recognition criteria for the classes of revenue are as follows:

i. Issuer Relationships

- Issuer fees consists of revenue from annual listing fees, initial listing fees and subsequent capital raisings. Initial and subsequent listing fees are recognised when the listing or subsequent capital raising event has taken place. Annual listing fees are billed on 30 June for the following 12 month period and are recognised on a straight line basis over this 12 month period.
- Other issuer services fees are for regulatory services are recognised when the service is provided.
- Market Operations revenue arises from the provision of post-trade systems and technology services for both the energy and the Fonterra Shareholders markets, and energy advisory and development services which are recognised over the period the service is provided.

ii. Secondary Markets

- Participant services consist of annual participant fees and initial participant fees. Initial participant fees are recognised when the participant's application has been approved. Annual participant fees are billed on 30 June for the following 12 month period and are recognised on a straight line basis over this 12 month period.
- Securities trading fees arise from the trading of debt and equities securities, which are recognised at trade date.
- Securities clearing fees relate to debt and equity clearing and settlement, which are recognised at settlement date (currently two days after initial trade date).

- Dairy Derivatives fees relate to the trading and clearing of derivatives and commodities, which are recognised at trade date. Fees for derivative market settlement are recognised at settlement date (currently one day after contract expiry date).

iii. *Data & Insight*

- Securities information revenue relates to the provision of equity and debt market data, which is recognised over the period the service is provided.
- Dairy data subscription revenue relates to the provision of dairy market data, which is recognised over the period the service is provided.

iv. *Funds Management*

- Funds management revenue relates to funds under management based fees and administration fees, which are recognised over the period the service is provided.

v. *Wealth Technologies*

- Wealth technologies revenue relates to platform administration fees and development fees, which are recognised over the period the service is provided.

	2018 \$000	2017 \$000
Listing fees	13,720	13,907
Other issuer services	774	586
Market operations	9,073	9,764
Total Issuer Relationships revenue	23,567	24,257
Participant services	3,915	3,768
Securities trading	5,311	5,817
Securities clearing	6,032	5,911
Dairy derivatives	1,395	1,133
Total Secondary Markets revenue	16,653	16,629
Securities information	10,991	10,771
Dairy data subscriptions	737	693
Total Data & Insights revenue	11,728	11,464
Funds Management revenue	14,472	13,448
Wealth Technologies revenue	1,073	1,343
Total operating revenue	67,493	67,141

10. Operating expenses

Operating expenses	2018 \$000	2017 \$000
Personnel costs	(22,945)	(22,482)
Information technology	(7,357)	(7,474)
Professional fees	(2,239)	(2,197)
Marketing	(532)	(405)
Funds expenditure	(2,934)	(3,489)
Other expenses	(4,203)	(3,848)
Total operating expenses	(40,210)	(39,895)

Other expenses comprise:

	2018 \$000	2017 \$000
Rental expense	(1,396)	(1,345)
Directors' fees	(399)	(377)
Remuneration paid to Group auditors	(276)	(270)
Other operating expenses	(2,132)	(1,856)
Total other expenses	(4,203)	(3,848)

The increase in directors' fees is due to an increase in the average number of directors. There has been no change to the annual fee per director.

Remuneration paid to Group auditors

	2018 \$000	2017 \$000
Audit and review of NZX Group and subsidiary statutory financial statements	(115)	(122)
Audit of statutory financial statements for funds managed by Smartshares Limited, an NZX subsidiary	(95)	(105)
Total audit fees	(210)	(227)
Annual operational audit of the Clearing House	(35)	(33)
Annual depository assurance engagement of New Zealand Depository Limited	(5)	(5)
Funds registry audit	-	(2)
Net Tangible Assets procedures engagement of Smartshares Limited	-	(3)
Total other audit related services	(40)	(43)
Disposal sell-side assistance	(26)	-
Total non-audit services	(26)	-
Total fees paid to the auditor	(276)	(270)

11. Net finance expense

	2018 \$000	2017 \$000
Interest income	1,005	878
Interest expense	(1,867)	(1,238)
Net gain/(loss) on foreign exchange	31	99
Net finance expense	(831)	(261)

12. Funds held on behalf of third parties

	2018 \$000	2017 \$000
Bond deposits	1,586	1,486
Collateral deposits	40,080	41,902
Funds held on behalf of clients	15,039	15,502
	56,705	58,890

The bond deposits represent balances deposited by issuers, required as a condition of listing on NZX's markets. Funds lodged as bond deposits are interest bearing and are recognised at the amounts deposited which represent fair value. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to issuers.

The collateral deposits represent balances deposited by participants to cover margins on outstanding settlement obligations for cash market, stock lending transactions and derivative contracts, as well as default fund contributions. Funds lodged as margin collateral and default fund contributions are interest bearing and are recognised at the amounts deposited which represent fair value. Interest earned on collateral deposits and default fund contributions is returned to participants. A collateral management fee is charged for collateral deposits only. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to participants.

The funds held on behalf of clients represent balances deposited by participants in addition to their cash collateral requirements or default fund contributions. The funds are lodged in a interest bearing account and are recognised at the amount deposited which represents fair value. Interest earned on these funds is returned to participants. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to participants.

13. Taxation

a. Income tax expense recognised in profit or loss

	2018 \$000	2017 \$000
Tax expense comprises:		
Current tax expense	6,012	6,139
Prior period adjustment	328	(41)
Deferred tax relating to the origination and reversal of temporary differences	(295)	(378)
Total tax expense on continuing operations	6,045	5,720

The income tax expense on continuing operations excludes the income tax expense relating to discontinued operation of \$nil (2017: \$339,000), which is recognised within profit/(loss) from discontinued operation (net of tax), refer to note 6.

The prima facie income tax expense on pre-tax accounting profit from continuing operations reconciles to the income tax expense in the financial statements as follows:

	2018 \$000	2017 \$000
Profit before income tax expense	19,689	20,070
Income tax calculated at 28%	(5,513)	(5,620)
Non-deductible expenses	(204)	(141)
	(5,717)	(5,761)
Under provision of income tax in prior year	(328)	41
	(6,045)	(5,720)

b. Current tax liabilities

	2018 \$000	2017 \$000
Balance at beginning of the year	(666)	(591)
Current year charge	(6,110)	(6,402)
Prior period adjustment	(246)	255
Tax paid	4,800	6,072
Balance at end of year	(2,222)	(666)

c. Deferred tax liability

	2018 \$000	2017 \$000
Balance at beginning of the year	(4,120)	(4,323)
Current year movement	240	392
Prior period adjustments	7	(189)
Balance at end of the year	(3,873)	(4,120)
Deferred tax balance comprises:		
Employee entitlements	619	691
Doubtful debts	88	111
Property, plant and equipment, and software	(4,735)	(5,026)
Other	155	104
	(3,873)	(4,120)

d. Imputation credit account

	2018 \$000	2017 \$000
Imputation credits available for use in subsequent reporting periods	10,959	11,332

14. Earnings per share and net tangible assets per share

i. Earnings per share

Basic earnings per share at 31 December 2018 is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the period. An adjustment to take into account the shares and rights issued under the various employee share plans (refer note 23) is made to weighted average number of shares used in the calculation of the diluted earnings per share at 31 December 2018.

a. Basic earnings per share

	2018			2017		
	Continuing operations \$000	Discontinued operations \$000	Total \$000	Continuing operations \$000	Discontinued operations \$000	Total \$000
Profit for the year (\$000)	13,644	(2,024)	11,620	14,350	487	14,837
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	269,621	269,621	269,621	268,437	268,437	268,437
Basic earnings per share (cents per share)	5.1	(0.8)	4.3	5.3	0.2	5.5

b. Diluted earnings per share

	2018			2017		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit for the year (\$000)	13,644	(2,024)	11,620	14,350	487	14,837
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	272,906	272,906	272,906	270,867	270,867	270,867
Fully diluted earnings per share (cents per share)	5.0	(0.7)	4.3	5.3	0.2	5.5

ii. Net tangible assets per share

Basic net tangible assets per share at 31 December 2018 is calculated by dividing the net tangible assets at 31 December 2018 by the weighted average number of ordinary shares outstanding during the period. An adjustment to take into account the shares and rights issued under the various employee share plans (refer note 23) is made to weighted average number of shares used in the calculation of the diluted net tangible assets per share at 31 December 2018.

a. Basic net tangible assets per share

	2018 \$000	2017 \$000
Net assets	63,482	68,723
Less:		
Goodwill	(30,222)	(33,929)
Other intangible assets	(36,505)	(36,290)
Assets held for sale	-	(2,415)
Net tangible assets	(3,245)	(3,911)
Weighted average number of ordinary shares for the purpose of net tangible assets per share (in thousands)	269,621	268,437
Basic net tangible assets per share (cents per share)	(1.2)	(1.5)

b. Diluted net tangible assets per share

	2018 \$000	2017 \$000
Net assets	63,482	68,723
Less:		
Goodwill	(30,222)	(33,929)
Other intangible assets	(36,505)	(36,290)
Assets held for sale	-	(2,415)
Net tangible assets	(3,245)	(3,911)
Weighted average number of ordinary shares for the purpose of net tangible assets per share (in thousands)	272,906	270,867
Fully diluted net tangible assets per share (cents per share)	(1.2)	(1.4)

15. Cash and cash equivalents and cash flow reconciliation

a. Cash and cash equivalents

	2018 \$000	2017 \$000
Cash comprises:		
Cash at bank	25,385	14,881
Cash and cash equivalents	25,385	14,881
Cash at bank - restricted	10,000	10,000
Bank deposits - restricted	10,000	10,000
Cash and cash equivalents - restricted	20,000	20,000
Cash and cash equivalents - total	45,385	34,881

Restricted cash and cash equivalent relates to balances held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

b. Reconciliation of profit for the year to net cash provided by operating activities

	2018 \$000	2017 \$000
Profit for the year	11,620	14,837
Adjustments for:		
Share based payment arrangements	703	406
Non cash interest expense on investing activity	-	501
Depreciation and amortisation expense	6,610	7,042
Amortisation of borrowing costs	27	-
Impairment in intangible and goodwill	3,014	353
Disposal of assets	(8)	(6)
Provision for earnout adjustment	(15)	390
Decrease in receivables and prepayments	1,540	3,124
(Decrease) in trade payables and other liabilities	(669)	(2,135)
Increase in current tax liability	1,503	75
(Decrease) in deferred tax liability	(249)	(203)
Net cash provided by operating activities	24,076	24,384

16. Receivables and prepayments

Receivables and prepayments are initially recognised at the fair value of the amounts to be received. They are subsequently measured at amortised cost (using the effective interest method) less impairment losses, if any.

	2018 \$000	2017 \$000
Trade receivables	5,091	7,141
Provision for doubtful debts	(319)	(403)
	4,772	6,738
Sundry debtors	2,005	1,553
Prepayments	1,712	2,284
Accrued interest	92	66
Accrued income	636	299
Total current receivables and prepayments	9,217	10,940

a. Movement in provision for doubtful debts

The Group maintains a provision for doubtful debts when there is objective evidence of its customers being unable to make required payments and also makes a provision for doubtful debts on all balances greater than 90 days overdue which have not been subject to review.

	2018 \$000	2017 \$000
Balance at beginning of the year	(403)	(560)
Amounts written off during the year	18	22
Decrease in provision recognised in profit or loss	66	135
Balance at end of the year	(319)	(403)

17. Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. The cost of the assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended use.

Depreciation is recognised in the Income Statement and is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Computer equipment: 3 - 7 years
- Furniture and equipment: 3 - 10 years
- Leasehold improvements: 5 - 10 years
- Motor vehicles: 3 years

	Computer equipment \$000	Furniture and improvements equipment \$000	Leasehold improvements \$000	Motor Vehicles \$000	Capital work in progress \$000	Total \$000
Net book value at 1 January 2017	879	583	1,774	23	-	3,259
Additions during the year	238	64	-	-	-	302
Depreciation expense for the year	(536)	(319)	(243)	(18)	-	(1,116)
Disposals during the year	(1)	-	-	-	-	(1)
Net book value at 31 December 2017	580	328	1,531	5	-	2,444
Additions during the year	268	26	31	-	856	1,181
Depreciation expense for the year	(387)	(184)	(242)	(5)	-	(818)
Disposals during the year	(26)	(21)	-	-	-	(47)
Net book value at 31 December 2018	435	149	1,320	-	856	2,760

18. Trade payables

Trade payables and accruals are initially recognised at fair value less transaction costs (if any). They are subsequently measured at amortised cost using the effective interest method.

	2018 \$000	2017 \$000
Trade payables	1,434	556
Goods and services tax payable	393	586
Accrued expenses	1,900	2,663
Accrued interest	71	5
	3,798	3,810

19. Other liabilities

	2018 \$000	2017 \$000
Employee benefits	3,953	5,050
Unearned income	7,783	8,560
Deferred consideration on SuperLife acquisition	-	9,970
Total current other liabilities	11,736	23,580
Non-current employee benefits	161	-
Total non-current other liabilities	161	-
Total other liabilities	11,897	23,580

The deferred consideration on SuperLife acquisition related to the final payment for NZX's acquisition of SuperLife Limited, a provider of superannuation, Kiwisaver, and managed investment products.

20. Interest bearing liabilities

	2018 \$000	2017 \$000
Term loans	-	20,000
Subordinated notes	40,000	-
Total drawn debt	40,000	20,000
Capitalised borrowing costs (net of amortisation)	(1,203)	-
Net interest bearing liabilities	38,797	20,000

a. Subordinated notes

On 20 June 2018 NZX raised \$40 million through a subordinated notes issue. The purpose of the offer was to enable NZX to repay existing debt and provide funding for general corporate purposes.

The subordinated notes have a 15 year term, maturing 20 June 2033, with election dates at 5 yearly intervals from the issue date until maturity. The current interest rate (5.40%) is fixed until the first election date, at which point it may be reset. Investors will also have the option to redeem their subordinated notes on each election date.

NZX may defer the payment of interest at any time at its discretion, but will be subject to penalty interest of an additional 4.00% per annum until the next interest payment date at which unpaid and deferred interest is paid.

The terms of the subordinated notes offer include a financial covenant requiring that debt that ranks in priority to the subordinated notes, less unrestricted cash may not exceed 1.5 times operating earnings (being EBITDA and non-cash items, and capital gains/losses). A breach of the financial covenant is not an event of default, but may prevent NZX paying dividends to shareholders, if it has failed on two consecutive test dates. The subordinated notes financial covenant has been met throughout the year.

The subordinated notes have been recognised initially at fair value less directly attributable transaction costs, and will be subsequently measured at amortised cost using the effective interest method, as required by NZ IFRS 9.

b. Term loan

On 20 June 2018 NZX paid down and cancelled its \$20 million term loans. At 31 December 2017 the term loans weighted effective interest rate was 2.735%.

c. Bank overdraft and revolving credit facilities

The Group has access to an overdraft facility which was established in 2015 to allow the Group flexibility in its working capital management. The facility limit is \$5.0 million (2017: \$10.0 million) and has an expiry date of 15 January 2020 (extendable by mutual agreement). The bank may require repayment by making a written demand. The effective interest rate of the facility at 31 December 2018 was 3.90% (2017: 3.93%). The overdraft is undrawn at 31 December 2017 and 2018.

During the year a revolving credit facility was established to provide the Group with additional flexibility in its working capital management. The facility limit is \$5.0 million and has an expiry date of 15 January 2020 (extendable by mutual agreement). No amount was drawn down at 31 December 2018.

The bank overdraft and revolving credit facilities are unsecured and contain two financial covenants which have been met throughout the year:

- The ratio of interest bearing debt to EBITDA shall not exceed 3.5 times; and
- The ratio of EBITDA to interest shall exceed 4.0 times.

21. Shares on issue

The Company had 271,771,369 fully paid ordinary shares as at 31 December 2018 (2017: 268,476,585 fully paid ordinary shares). The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings.

At 31 December 2018 the Company has 2,331,908 restricted shares (2017: 2,546,533 restricted shares) on issue under the NZX Limited employee share plan - Team and Results held by entities within the Group. All shares issued under the employee share plan are subject to transfer conditions and eligibility criteria before they are able to vest as ordinary shares. Until those transfer conditions and/or eligibility criteria are met, none are quoted on the NZX Main Board.

During 2018 NZX introduced a replacement NZX Employee Long Term Incentive Plan and CEO Long Term Incentive Plan based on the issue of performance rights, which are subject to certain entitlement criteria before performance rights may vest and the holder can acquire shares in NZX. For as long as performance rights issued under these schemes are subject to these restrictions they, and any shares which may be issued following the exercise of performance rights, are not quoted on any market and will not be quoted on any market until such time as they vest in the relevant participants. As at 31 December 2018 the Company has 2,011,933 performance rights on issue under the replacement NZX Employee Long Term Incentive Plan and CEO Long Term Incentive Plan.

Movement in share capital

	Number	\$000
Balance at 1 January 2017	268,315,689	47,556
Issue of ordinary shares	160,696	-
Share based payments	-	368
Cancellation of non-vesting shares	-	(473)
Balance at 31 December 2017	268,476,385	47,451
Issue of ordinary shares	3,294,984	3,201
Share based payments	-	534
Cancellation of non-vesting shares	-	(120)
Balance at 31 December 2018	271,771,369	51,066

22. Dividends

		2018		2017	
	For year ended	Cents per share	Total \$000	Cents per share	Total \$000
Dividends declared and paid					
March 2017 - Final	31 Dec 16			3.00	8,050
September 2017 - Interim	31 Dec 17			3.00	8,054
March 2018 - Final	31 Dec 17	3.10	8,323		
September 2018 - Interim	31 Dec 18	3.00	8,069		
September 2018 - Special	31 Dec 18	1.50	4,034		
Total dividends paid for the year		7.60	20,426	6.00	16,104

In 2018 a Dividend Reinvestment Plan was introduced and applied to the interim and special dividends paid in September 2018.

Refer to note 29 for details of the final 2018 dividend.

23. Share based payments

a. CEO Long Term Incentive Plan

On 10 May 2018, the CEO was issued 1,177,894 performance rights under a long term incentive plan (CEO Long Term Incentive Plan), backdated to commence on 6 April 2017, being the date of CEO appointment. Each of these performance rights will give the CEO an option to acquire one ordinary share in NZX. The CEO may exercise the options if the performance rights vest. Vesting of the performance rights is dependent on NZX meeting performance hurdles in respect of total shareholder return (TSR) growth and earnings per share (EPS) growth, and on the CEO remaining an employee of the NZX Group for the duration of the five year vesting period.

Vesting of half the performance rights is dependent on TSR growth over the vesting period of at least 9.29% per annum resulting in 50% of the performance rights being vested (with 100% being vested at 11.29% TSR growth and 50.1% to 99.9% being vested on a linear, pro-rata basis).

Vesting of the other half of the performance rights is dependent on EPS growth over the period from 1 January 2018 to 31 December 2021 of at least 8% per annum resulting in 50% of the performance rights being vested (with 100% vesting at 16% EPS growth and 50.1% to 99.9% being vested on a linear, pro-rata basis).

The five year vesting period is from 6 April 2017 to 6 April 2022.

There is a \$4,000,000 cap on the maximum value of performance rights that can vest.

The cost of the performance rights is measured based on the fair value at the date granted using an appropriate pricing model. The cost is recognised over the five year term, with a corresponding increase in equity. The cumulative expense at each reporting date reflects the extent to which the vesting period has expired and is the best estimate of the number of performance rights that will vest. The expense or credit in the reporting period is the movement in cumulative expense and is recognised in personnel costs.

b. Former CEO share plan

A CEO share scheme was in place under the former CEO's employment contract. The scheme continued in place until its conclusion as part of the transition for the former CEO who resigned as an employee, effective 31 December 2016.

In October 2017, the Group assessed the former CEO share scheme on vesting. In accordance with the former CEO's employment contract, as the Performance Target had not been met, the former CEO elected for the shares to be sold and for the loan of \$1,874,250 to be repaid with the proceeds in October 2017.

The Group reclassified within Equity the \$383,000 fair value of the shares which was fully recognised prior to 2017. The former CEO share scheme was fully closed by 31 December 2017.

c. Employee and other restricted shares

NZX Limited employee share plan - Team and Results

The NZX Limited employee share plan – team and results (Team and Results Plan) was implemented in May 2010 and was replaced in 2018 by the NZX Employee Longer Term Incentive Plan as explained below.

Under the terms of the Team and Results Plan, NZX offered selected employees (Participants) non-participating redeemable shares (Restricted Shares) which will be reclassified as NZX ordinary shares at the completion of the term of the Team and Results Plan, subject to certain eligibility and transfer conditions.

Both the Team and Results components of the Team and Results Plan were offered on terms of three years.

If the eligibility or transfer conditions are not met, the Restricted Shares are redeemed by NZX. The proceeds from the redemption of the Restricted Shares will be applied in repayment of the Loan, which will discharge any obligation on the Participant to repay the Loan. Following redemption, the Participant will not receive any entitlements, such as distributions or dividends, issued in respect of the Restricted Shares. The effect of this is that the Participant receives no shares or cash and the Loan is repaid.

Details of transfers of shares to NZX employees and redemptions of shares under the Team and Results Plan during the year are set out below:

	Number of shares 000	Average share price \$
Balance at 1 January 2017	2,019	1.10500
Shares issued	959	1.01668
Shares transferred to NZX employees	(161)	1.22981
Redemptions	(271)	1.19926
Balance at 31 December 2017	2,546	1.05381
Shares transferred to NZX employees	(215)	1.16512
Balance at 31 December 2018	2,331	1.04354

The Group reclassified within Equity \$120,000 fair value of the Restricted Shares issued under the Result Plan for 2015, which was recognised prior to 2018, as the performance target has not been met.

Total financial assistance provided by NZX under the Team & Results Plan as at 31 December 2018 was \$2,432,000 (2017: \$2,683,000).

NZX Employee Long Term Incentive Plan

A replacement NZX employee long term incentive plan was implemented in October 2018 (NZX Employee Long Term Incentive Plan). Under the terms of the NZX Employee Long Term Incentive Plan, NZX offers selected employees performance rights, which are subject to certain entitlement criteria before performance rights may vest and the holder can acquire shares in NZX. Once vested and exercised the performance rights entitle the holder to receive one share for each performance right. If the vesting conditions are not met or waived, the performance rights will lapse.

NZX Employee Long Term Incentive Plan is offered on a three year term, with 2,011,933 performance rights issued to participants during 2018.

NZX Employee Shares

During the year \$1,000 (gross) worth of NZX ordinary shares were issued to current New Zealand employees to encourage staff engagement and shareholder alignment.

24. Financial instruments

The Group's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk).

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including the management of financial risk. The board has established an Audit and Risk Committee (Committee), which is responsible for developing and monitoring the Group's financial risk management policies (except for those relating to clearing and settlement activities discussed below). The Committee reports regularly to the board of directors on its activities.

The Group undertakes securities clearing and settlement activities for the listed equities, debt and derivatives markets through its clearing house New Zealand Clearing and Depository Corporation Limited (NZCDC or the Clearing House). These activities expose NZCDC and the Group to several significant financial risks. Management of these risks is the responsibility of the Clearing Committee of the NZX Board as well as the board of directors of NZCDC. Regular reporting is provided to the NZX Board on the risk management activities.

The specific financial risks faced by the Group, the way in which they are managed and their impact on the financial statements are discussed below:

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from three principal sources:

- Receivables from customers arising in the normal course of business;
- Investment of surplus cash with financial institutions;
- The activities of the Clearing House, which is discussed separately in section (g).

Excluding Clearing House activities, NZX has no significant concentrations of credit risk from general customers, with receivable balances spread across a broad portfolio of customers. NZX does not require collateral to be provided against receivables incurred in the ordinary course of business, although listed issuers and participants in NZX's equity and debt markets are required to provide a bond that may be called upon in the event of default on financial obligations.

The status of trade receivables at the reporting date was as follows:

	2018 \$000	2017 \$000
Not past due	2,796	4,706
Past due 0 - 30 days	1,016	984
Past due > 30 days	1,279	1,451
	5,091	7,141

In summary, trade receivables are determined to be impaired as follows:

	2018 \$000	2017 \$000
Gross trade receivables	5,091	7,141
Individual impairment	(147)	(94)
Collective impairment	(172)	(309)
	4,772	6,738

The movement in the provision for doubtful debts in respect of trade and other receivables during the year is set out in note 16(a).

For investment of surplus cash balances, NZX follows a treasury policy that requires investments to be held only with high credit quality counterparties and sets limits on NZX's exposure to individual counterparties. The counterparty limits are as follows:

- The greater of \$10 million or 60% of cash and cash equivalents for registered banks that operate in New Zealand with a minimum credit rating of AA-; and
- 30% of total cash and cash equivalents for other institutions with a minimum credit rating of A- (the total exposure for other institutions cannot exceed 50% of the total cash and cash equivalents).

b. Foreign exchange risk

NZX primarily derives revenues and incurs expenses in local currencies (NZD for New Zealand operations and AUD for Australian operations). In a minority of cases however, receipts and payments are in foreign currencies (principally USD). NZX utilises foreign currency receipts to offset purchases denominated in foreign currencies. The Company determines forward exposures, and considers these in line with internal policies and procedures. It may enter into forward exchange agreements to keep any exposure to an acceptable level, though no such contracts were considered necessary in the current or prior financial year. Monetary assets and liabilities are kept to an acceptable level by buying or selling foreign currencies at the spot rate.

In the prior year, foreign exchange risk also arose on the translation of NZX's investment in its Australian operations and intercompany balances between the parent and these entities. NZX did not attempt to hedge this risk.

c. Interest rate risk

NZX is exposed to interest rate risk in that future interest rate movements will affect the interest that it pays on interest bearing liabilities and the cash flows and the market value of investment assets. NZX does not currently use any derivative products to manage interest rate risk.

The Group's investment assets, particularly those designated as risk capital, are generally required to be readily convertible into cash. These are therefore invested in short term interest bearing assets for up to 12 months or held as bank deposits at floating rates of interest. This reduces the risk of movements in the market value of financial investments, but increases the Group's exposure to changes in cash flows as a result of short term movements in interest rates.

The interest period for the Subordinated Note (\$40m) is fixed until the first election date (20 June 2023) at which point the interest rate may be reset (refer to note 20).

As at balance date, none of the Group's investments were subject to interest periods of greater than twelve months.

An analysis of the sensitivity of the Group's earnings to movements in interest rates is shown below. As at both 31 December 2018 and 2017 the Group's interest bearing assets exceeded its interest bearing liabilities, hence an increase in interest rates would have had a positive impact on earnings.

	2018 \$000	2017 \$000
Effect on net profit before income tax:		
1% increase in interest rate	310	386
1% decrease in interest rate	(310)	(386)

This above information is calculated using the Group's cash balances, the Group's interest bearing liabilities, and the bank balances of \$24.0 million (2017: \$22.2 million) held by the funds managed by the Group's subsidiary, Smartshares Limited. The funds' bank balances are included as Smartshares Limited, as the manager of these funds, is entitled to interest on amounts held in respect of distributions received (including distributions in respect of securities on loan under any securities lending programme undertaken by the fund) and interest earned on application monies.

d. Liquidity risk management

Liquidity risk is the risk that the Group will be unable to realise its assets on a sufficiently timely basis to meet its financial liabilities as they fall due. Liquidity risk arises from the general activities of the Group as well as in specific situations in the operation of the Clearing House. Clearing House liquidity risk is discussed in section (g).

The Group manages its general liquidity risk by maintaining adequate cash reserves, maintaining a sufficient term to maturity for its interest bearing liabilities and maintaining adequate overdraft and working capital facilities to provide it the flexibility to absorb predicted variability in cash flows. It continuously monitors forecast and actual cash flows to assist with determining the appropriate levels of cash reserves and borrowing capacity.

The table below summarises the Group's exposure to liquidity risk based on the undiscounted contractual cash flows and maturities of term debt.

	Total contractual cash flows \$000	Less than 1 year \$000	1-2 years \$000	2-5 years \$000	More than 5 years \$000
Interest bearing liabilities					
31 December 2018	(71,320)	(2,160)	(2,160)	(6,480)	(60,520)
31 December 2017	(20,571)	(547)	(20,024)	-	-

e. Accounting classification and fair values

The fair value of the financial instruments, which comprise cash and cash equivalents, funds held on behalf of third parties, receivables, trade payables, other liabilities and interest bearing liabilities, approximates their carrying amounts in these accounts, with the exception of the subordinated notes, which have a fair value of \$41.53 million.

f. Energy Clearing House

NZX, through its subsidiary Energy Clearing House Limited (ECH), is the electricity-market operation service provider responsible for ensuring that market participants pay or are paid the correct amount for the electricity they generated or consumed during the previous month. ECH also manages the prudential security requirements of participants, intended to ensure payers can meet their obligations in the market.

At 31 December 2018, ECH has outstanding payables and receivables for the purchase and sale of electricity, and the settlement of transmission losses. These items are not recorded in the Group's statement of financial position, because the energy market participants have accepted the risks associated with electricity settlement.

In discharging its obligations under the Electricity Industry Participation Code, ECH is required to ensure that purchasers maintain adequate levels of prudential security. Participants can comply with this obligation in a number of ways, including third party guarantees, letters of credit and deposits of cash with the ECH.

ECH holds cash deposit security on trust, and does not recognise the security provided in its statement of financial position. There was \$10,080,277 cash held from such deposits at 31 December 2018 (2017: \$7,954,222).

g. Clearing House counterparty credit risk

The Clearing House acts as a central counterparty to trades undertaken on NZX's financial products markets. Trades that enter the Clearing House are immediately novated such that the Clearing House becomes the buyer to every sell trade and the seller to every buy trade. As buy and sell settlement transactions that are novated to the Clearing House offset each other, the Group is not directly exposed to price movements in the underlying equities or derivatives.

For the period between trade date and settlement date, the Clearing House is exposed to credit risk on the buy trade as participants could default on their obligations to deliver cash in exchange for the financial products acquired by the Clearing House on the buy side of the trade.

Should the buying participant fail to deliver cash, the Clearing House must still meet its obligation to buy the financial products from the selling participant. In this instance the Clearing House is subject to liquidity risk as it may be unable to realise sufficient cash to pay for the financial products it is acquiring.

If the buying participant defaults on its obligation to deliver cash and the Clearing House acquires the financial products, it then becomes exposed to market price risk on the financial products acquired. If the price of the financial products falls, the Clearing House may incur a loss on the disposal of those financial products.

Credit risk

Counterparty credit risk is primarily managed in two ways. Firstly, through imposing requirements on participants, including minimum capital adequacy requirements, that aim to ensure that participants maintain sufficient capital and liquidity to meet their obligations to the Clearing House on an ongoing basis. Secondly, through calculating margin requirements on participants' open positions and requiring participants to post this margin as collateral as security for the trades. Margin requirements are calculated for each participant based on that participant's unsettled transactions in each financial product. Margin rates for each financial product are based on the underlying characteristics of the financial product and its price volatility. Margin requirements are calculated on a daily basis using current market prices. Each day, margin requirements are compared to collateral held and a margin call made where necessary. Participants are then required to post additional eligible collateral. Eligible collateral includes cash and financial products (including S&P/NZX 50 listed securities). Financial products provided as collateral are subject to a prudential value discount, commonly referred to as a "haircut".

In addition, counterparty credit risk for the derivatives market is also managed through the mutualised default fund. Derivatives Clearing Participants are required to make contributions to the default based on the level of their uncovered stress losses. Contributions are recalculated on a quarterly basis, or as required.

Contributions must be provided in NZD or USD. The default fund can be applied to meeting settlement obligations of a defaulting participant on the derivatives market.

The Group is also exposed to counterparty credit risk through New Zealand Clearing Limited (NZCL) by acting as central counterparty for securities lending transactions. As NZCL is exposed to the full principal value of each loan, NZCL requires collateral to be posted equal to 105% of the loan. All loans are revalued on a daily basis and additional collateral required where appropriate.

The Clearing House is also subject to credit risk relating to the investment of cash with financial institutions, including the Clearing House's own surplus cash and risk capital as well as the collateral and mutualised default fund contributions. The Clearing House has its own treasury policy and investment policy to manage the credit risk, including limits on the Clearing Houses' exposure to individual counterparts as follows:

- Up to \$300 million and 50% of total exposure with registered banks with a minimum credit rating of AA
- Up to \$200 million and 40% of total exposure with registered banks with a minimum credit rating of AA-
- Up to \$75 million and 30% of total exposure with registered banks with a minimum credit rating of A+
- Up to \$50 million and 20% of total exposure with registered banks with a minimum credit rating of A

The Clearing House must only invest in New Zealand registered banks, except that foreign currency can be invested in foreign bank branches that are appointed as a settlement bank

Liquidity risk

Liquidity risk is managed through a combination of the collateral held from participants, the Clearing House's own cash reserves, a mutualised default fund applicable to the derivatives market and a specific liquidity facility which provides short term liquidity in the event of a participant default.

Collateral from the defaulting participant would be applied towards meeting the settlement obligations on the other side of the trade. The Clearing House also holds risk capital in cash and highly liquid investments, which is available to meet the obligations of defaulted transactions. Additionally, derivatives Clearing Participants provide contributions to a mutualised default fund which can be applied to meeting settlement obligations of a defaulting participant on the derivatives market. As at 31 December 2018 the Clearing House held risk capital of \$20 million (31 December 2017: \$20 million). In addition, on 30 December 2014 the Clearing House entered into an agreement with a major New Zealand fund manager to provide liquidity support in the form of \$50 million of securities or cash. Use of this facility is limited to situations where a participant default has occurred. The Clearing House may access the facility to obtain liquidity in the form of securities or cash, collateralised against cash or eligible securities provided by the Clearing House to the Fund Manager. The facility has been extended until 30 December 2020.

Market risk

The risk that the Clearing House will realise a loss from liquidating securities that it becomes the owner of as a result of a participant default is managed by maintaining sufficient participant collateral and default capital (i.e. risk capital and mutualised default fund capital) to absorb projected losses. Any losses incurred are initially funded from the defaulting participant's margin collateral. Should this be insufficient to cover the losses, then these must be met from the Clearing House's own risk capital. For the derivatives market, the mutualised default fund will also be applied, with the defaulting participants contributions used first, followed by \$10m of the Clearing House's risk capital, then non-defaulting participants contributions, before the final

amount of the Clearing House's risk capital will be applied. The Clearing House regularly stress tests clearing participant exposures against the total amount of margin collateral and default capital resources.

Clearing balances outstanding

As at 31 December 2018, NZCL has a right to receive \$15.532 million (2017: \$6.328 million) from Clearing Participants and an obligation to pay \$15.532 million (2017: \$6.328 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2018. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2018 was \$62.341 million (2017: \$58.047 million). In addition, at 31 December 2018, the total value of outstanding securities loans was \$1.515 million (2017: \$0.862 million) and the absolute notional value of open derivative contracts was US\$150.810 million (2017: US\$124.31 million) and NZD \$236.330 million (2017: NZD\$187.71 million).

Cash collateral held to cover these outstanding settlement positions at 31 December 2018 was \$35.403 million (2017: \$29.790 million). In addition at 31 December 2018 no collateral (2017: \$nil) was held by way of performance bonds.

At 31 December 2018, cash held in the form of default fund contributions was \$5,108,812 (2017:\$nil).

25. Related party transactions

a. Transactions with key management personnel

Key management personnel comprises the Group's senior management team. Key management personnel compensation comprised the following:

	2018 \$000	2017 \$000
Short-term employee benefits	4,208	3,741
Share-based payments	239	156
Resignation benefits	-	138
	4,447	4,035

b. Transactions with directors and other entities NZX directors are associated with

The Company regularly enters into transactions under normal commercial terms and conditions with other entities that some of the directors may sit on the board of or are employed by.

Directors fees for the year were \$399,000 (2017: \$377,000) and have been included in other expenses (note 10).

c. Transactions with other related parties

	2018 \$000	2017 \$000
Transactions with related parties		
Interest on receivable from former CEO	-	66
Settlement for former CEO share scheme	-	1,874

d. Transactions with managed funds

Management fees are received from the funds managed by wholly owned subsidiary Smartshares Limited and are shown in the Income Statement as funds management revenue.

26. Lease commitments as leasee

Non-cancellable operating lease payments

	2018 \$000	2017 \$000
Non-cancellable operating lease payments:		
Up to 1 year	1,741	1,831
1 - 2 years	1,622	1,748
2 - 5 years	589	2,136
> 5 years	-	-
	3,952	5,715

The Group leases a number of office premises under operating leases. The leases have a remaining period of between one to three years, for some leases there is the option to renew beyond the initial expiry date.

27. Contingent liabilities

In the normal course of business the company may be subject to actual or possible claims and court proceedings. An assessment of the likely losses that may arise from these matters has been made and no provision is deemed necessary.

28. Capital commitments

	2018 \$000	2017 \$000
Capital expenditure commitments:		
Software development	617	34
	617	34

29. Subsequent events

Dividend

Subsequent to balance date the board declared a final 2018 dividend of 3.10 cents per share, to be paid on 22 March 2019 (with a record date of 8 March 2019).



Independent Auditor's Report

To the shareholders of NZX Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of NZX Limited (the company) and its subsidiaries (the group) on pages 74 to 110:

- present fairly in all material respects the Group's financial position as at 31 December 2018 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to regulatory assurance and disposal sell-side assistance. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$900,000 determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.



 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
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Goodwill and other intangible assets impairment assessment (\$67 million, note 4 of the financial statements)

NZX's goodwill and other intangible assets arise from acquisitions and subsequent IT investments and relate to a number of different cash generating units (CGU's) as described in note 4 of the financial statements.	For the CGUs we determined to have a higher risk of impairment, we compared the cash flow forecasts to budgets and assessed forecasting accuracy by comparing current year actual performance to prior year budgets. The assumptions applied both as part of and beyond the budgets were of particular focus for our additional procedures described below.
The goodwill and other intangible assets are quantitatively significant and the valuation models used in the impairment tests include a range of subjective assumptions about the future performance of the cash generating units.	We reviewed and tested the significant assumptions applied to the revenue forecasts including comparing the forecasts to contractually receivable amounts or forecast inflation rates and performed stress-testing over the forecasts.
We focussed on the impairment tests for the CGUs that we considered to have a higher risk of impairment. This assessment was primarily based on the level of judgement involved in the underlying valuation model and market conditions for the relevant CGU. The CGUs we considered to be higher risk were Energy, Funds Management and Wealth Technologies.	We assessed the cost forecasts against forecast inflation rates and managements business plans for the CGUs. We also compared the discount rate used to our own independently determined rate and compared terminal growth rates to long term forecast inflation rates. As a cross check we compared the valuations to the market, using comparable businesses (where available) and their earnings or funds under management multiples. As an overall test we also compared the Group's net assets as at 31 December 2018 of \$63 million to its market capitalisation of \$274 million at 31 December 2018, and noted implied headroom of \$211 million. Based on our analysis, the assumptions and judgements used by the Directors in the Group's impairment assessment were within acceptable ranges and in line with the current market views. We did not identify any material issues with the carrying value of the goodwill or intangible assets.

 Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the 2018 Highlights, Chair report, CEO Report, Sustainability, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



 Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

 Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

 Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of



KPMG
Wellington

14 February 2019



Statutory Information

1. Business operations

The company's business undertakings changed during the year due to execution of the updated strategy with divestment of non-core businesses. During the year the Company disposed of its Farmers Weekly business, the red meat and forestry components of AgriHQ and the remainder of its Melbourne agribusiness – Australian Crop Forecasters and Profarmer Australia. There have been no other changes in the core business undertakings of the Company or its subsidiaries during the year.

2. Interests register

NZX is required to maintain an interests register in which particulars of certain transactions and matters involving the directors must be recorded.

3. Directors interests

The directors have declared interests in the following entities. Where (retired from) is shown next to an entity, this denotes that the director has ceased to have that interest during 2018.

Director	Interest	Entity
Frank Aldridge	Director	Craigs Investment Partners Limited
	Related entities below	
	Director	CIP Holdings Limited
	Director	CIP Nominees No 1 Limited
	Director	Craigs Investment Partners Limited
	Director	Craigs Investment Partners Portfolio Lending Limited
	Director	Craigs Investment Partners Superannuation Limited
	Director	DEL Management Limited
	Director	Deutsche Craigs Limited
	Director	Greenslades Limited
	Director	Hendry Nominees Limited
	Director	Hotwater Nominees Limited
	Director	NZSIF Management Limited
	Director	Pohutukawa Nominees Limited

Director	Interest	Entity
Nigel Babbage	Director	Quay Street Asset Management Limited
	Chairman	Wilsons Holding Co Pty Limited
	Director	Orbell Vineyards Limited
	Chair and CEO	Mohua Investments Limited
	Director	Mohua Limited
Richard Bodman	Director	Forsyth Barr Cash Management Nominees Limited
	Director	Forsyth Barr Custodians Limited
	Director	New Zealand Clearing and Depository Corporation Limited (retired from)
	Director	Contact Energy Limited
Jon Macdonald	CEO	Trade Me Group Limited
	Related entities below	
	Director	Old Friends Limited
	Director	Paystation Limited
	Director	TMG Trustee Limited
	Director	Trade Me Comparison Limited
James Miller	Director	Trade Me Limited
	Director	Accident Compensation Corporation
	Director	Mercury NZ Limited
	Director	The New Zealand Refining Company Limited
Dr Patrick Strange ¹	Director	Auckland International Airport Limited (retired from)
	Chairman	Chorus Limited
	Director	Chorus New Zealand Limited
	Director	Essential Energy (NSW, Australia)
Dame Therese Walsh ²	Director	Mercury NZ Limited
	Director	Freeview Television Limited (retired from)
	Director	NZOOM Limited (retired from)
	Director and Chairperson	Television New Zealand Limited

Director	Interest	Entity
Lindsay Wright ³	Director	TVNZ International Limited (retired from)
	Director	TVNZ Investments Limited (retired from)
	Director	ASB Bank Limited
	Director	Air New Zealand Limited
	Director	Matthews International Capital Management, LLC
		Guard of the New Zealand Superannuation Fund (retired from)
	Director	BNY Mellon (APAC) Holdings Limited (retired from)
	Related entities below	
	Director	BNY Mellon IM Hong Kong Limited (retired from)
	Director	BNY Mellon IM Korea Limited (retired from)
	Director	BNY Mellon Asset Management Japan Limited (retired from)
	Director	BNY Mellon Investment Management Australia Limited (retired from)
	Director	BNY Mellon Investment Management (Shanghai) Limited (retired from)

1 Patrick Strange resigned as a director of NZX Limited on 20 October 2018
2 Dame Therese Walsh resigned as a director of NZX Limited on 13 April 2018
3 Lindsay Wright was appointed as a director of NZX Limited on 20 February 2018

4. Information used by director

There were no notices from directors of the Company requesting to disclose or use Company Information received in their capacity as directors that as directors that would not otherwise have been available by them.

5. Directors’ remuneration

The total remuneration available for directors is fixed by shareholders. The annual fee pool limit is \$435,000 and has not been increased since it was approved by shareholders at the annual meeting in April 2012. In accordance with the Listing Rules, this amount may be proportionately increased to pay additional directors an amount that does not exceed the average amount paid to directors.

The current fees paid to NZX directors are \$50,000 per annum for directors and \$100,000 for the Chair. No additional fees are paid for Committee memberships.

Director	Role	Board fees	NZCDC fees	Total
Frank Aldridge	Director	\$50,000	-	\$50,000
Nigel Babbage	Director	\$50,000	-	\$50,000
Richard Bodman ¹	Director	\$50,000	\$1,000	\$51,000
Jon Macdonald	Director	\$50,000	-	\$50,000
James Miller	Chairman	\$100,000	-	\$100,000
Dr Patrick Strange ²	Director	\$40,217	-	\$40,217
Dame Therese Walsh ³	Director	\$14,286	-	\$14,286
Lindsay Wright ⁴	Director	\$43,056	-	\$43,056
Total		\$397,559	\$1,000	\$398,559

1 Richard Bodman resigned as a director of New Zealand Clearing and Depository Limited on 5 February 2018
2 Patrick Strange resigned as a director of NZX Limited on 20 October 2018
3 Dame Therese Walsh resigned as a director of NZX Limited on 13 April 2018
4 Lindsay Wright was appointed as a director of NZX Limited on 20 February 2018

6. Indemnification and insurance of directors and officers

NZX pays premiums in respect of directors' liability insurance. The policies do not specify a premium for individuals.

The insurance provides cover against costs and expenses involved in defending legal actions and any damages or judgments awarded or entered against the individual, settlements negotiated and any legal costs or expenses awarded against the individual arising from a liability to persons (other than the company or a related body corporate) incurred in their position as a director unless the conduct involves a wilful breach of duty, improper use of inside information or position to gain any profit or advantage or any criminal, dishonest, fraudulent or malicious acts or omissions or any knowing or wilful violation of any statute or regulation.

NZX has granted indemnities to NZX directors and NZX appointed directors of operating subsidiaries in relation to potential liabilities and costs they may incur for acts or omissions in their role as a director of NZX or an NZX subsidiary. Similar exclusions to those described in the previous paragraph on insurance apply.

7. Subsidiary company directors

The director of all NZX subsidiaries during the year are as follows

Clearing House entities

New Zealand Clearing and Depository Corporation Limited

- Richard Bodman – (ceased to hold office 5 February 2018)
- Mark Peterson
- Benjamin Phillips
- Graham Law

New Zealand Clearing Limited

- Mark Peterson

New Zealand Depository Limited

- Mark Peterson

New Zealand Depository Nominee Limited

- Benjamin Phillips

Other NZX subsidiaries

Energy Clearing House Limited

- Benjamin Phillips

Smartshares Limited

- John Williams – (independent director)
- Guy Elliffe – (independent director)
- Mark Peterson
- Paul Baldwin (ceased to hold office 17 December 2018)
- Lindsay Wright (appointed 26 June 2018)

NZX Wealth Technologies Limited

- Paul Baldwin (ceased to hold office 17 December 2018)
- Mark Peterson

NZX Profarmer Australia Pty Limited (subsidiary disposed of as at 31 August 2018)

- Hannah Janson
- Jeremy Anderson

NZX Agri Advisors Pty Limited (subsidiary disposed of as at 31 August 2018)

- Hannah Janson
- Jeremy Anderson

NZX Rural Limited

- Jeremy Anderson

New Zealand Exchange Limited

- Hamish Macdonald

NZX Executive Share Plan Nominees Limited

- Mark Reese (independent director)

NZX Holding No. 4 Limited

- Hamish Macdonald

NZX Share Scheme Nominee Limited

- Hamish Macdonald

TZ1 Limited

- Shane Dinnan

The directors of NZX's subsidiary companies who are not NZX employees or directors of NZX Limited, have declared interests in the following entities:

Subsidiary director (Non-NZX directors)	Interest	Entity
Guy Elliffe	Corporate Governance	Accident Compensation Corporation
	Member of Investment Committee	Todd Corporation Limited
Mark Reese	Partner	Chapman Tripp
John Williams	Investment Manager	Trusts Investments Management Limited

NZX employees do not receive additional remuneration for acting as directors of subsidiary companies.

The total amount of remuneration and other benefits to which independent directors of an NZX subsidiary was entitled during 2018 is as follows:

Subsidiary director (Non-NZX directors)	Remuneration
Guy Elliffe	\$30,000
John Williams	\$30,000
Total	\$60,000

Fees previously earned by NZX Limited directors for acting as independent directors of New Zealand Clearing and Depository Corporation Limited are set out in section 5. These fees ceased being paid in early 2018.

8. Donations

During the year NZX made donations to charitable organisations of \$11,500. NZX does not make political donations.

9. Employee remuneration

The table below sets out the number of NZX Group employees and former employees who received remuneration and other benefits, including non-cash benefits and share-based remuneration in excess of

\$100,000 per annum. This information is based on all amounts received by the employees during the calendar year and therefore includes bonus payments that relate to the 2017 year (where applicable). Directors are not included in the table below. Their remuneration is set out separately in section 5.

Remuneration range	Employees
100,000 – 109,999	23
110,000 – 119,999	13
120,000 – 129,999	11
130,000 – 139,999	7
140,000 – 149,999	3
150,000 – 159,999	5
160,000 – 169,999	14
170,000 – 179,999	2
180,000 – 189,999	2
190,000 – 199,999	1
200,000 – 209,999	2
210,000 – 219,999	3
220,000 – 229,999	2
240,000 – 249,999	4
250,000 – 259,999	2
270,000 – 279,000	1
280,000 – 289,999	1
320,000 – 329,999	1
330,000 – 339,999	3
800,000 – 809,999	1

10. Director transactions in securities of the parent company

Director	Securities held (legally and beneficially) at 31 December 2018 (Subordinated Notes)	Securities held (legally and beneficially) at 31 December 2018 (Ordinary Shares)
Frank Aldridge	Nil	50,000
Nigel Babbage	Nil	11,700,000
Richard Bodman	15,000	10,000
Jon Macdonald	47,000	75,000
Lindsay Wright	Nil	Nil
James Miller	8,000	120,000

11. Auditors

The external auditor of the parent company and the Group is KPMG. They provide audit and other services, for which their remuneration in 2018 was as follows:

	Group \$000
Audit of the financial statements	210
Other audit related fees	40
Non-audit services	26
Total	276

Other audit related fees relates to operational audit of NZCDC and the annual depository assurance engagement of New Zealand Depository Limited.

Non-audit services relates to disposal sell-side assistance.

12. Top 20 security holders

The following table shows the names and holdings of the 20 largest holders of NZX ordinary shares as 31 December 2018:

Investor name	Shares held	% of issued shares
HSBC Nominees (New Zealand) Limited	22,637,771	8.33
Citibank Nominees (NZ) Limited	19,759,991	7.27
HSBC Nominees (New Zealand) Limited	14,465,210	5.32
Rome Partnership	12,369,695	4.56
Accident Compensation Corporation	12,199,587	4.49
Nigel Babbage & Philippa Babbage	11,700,000	4.31
Premier Nominees Limited	9,955,384	3.66
BNP Paribas Nominees NZ Limited	8,715,222	3.21
FNZ Custodians Limited	7,566,865	2.78
JPMORGAN Chase Bank	7,472,241	2.75
BNP Paribas Nominees NZ Limited	6,515,269	2.4
David Mitchell Odlin	5,832,000	2.15
Forsyth Barr Custodians Limited	4,446,163	1.64
Michael Walter Daniel & Nigel Geoffrey Burton & Michael Murray Benjamin	3,710,000	1.37

Investor name	Shares held	% of issued shares
Custodial Services Limited	3,036,385	1.12
New Zealand Depository Nominee Limited	2,518,931	0.93
Michael Walter Daniel & Elizabeth Beatty Benjamin & Michael Murray Benjamin	2,500,000	0.92
Cogent Nominees Limited	2,435,283	0.9
Custodial Services Limited	2,165,524	0.8
New Zealand Permanent Trustees Limited	1,994,392	0.73

The following table shows the names and holdings of the 20 largest holders of NZX Subordinated Notes as at 31 December 2018:

Investor Name	Notes held	% of issued shares
Forsyth Barr Custodians Limited	9,739,000	24.35
New Zealand Central Securities Depository Limited	4,892,000	12.23
FNZ Custodians Limited	4,860,000	12.15
JBWere (NZ) Nominees Limited	2,962,000	7.41
Graeme Laurence Beckett & Janine Dale Beckett & Alan Murray Paterson	850,000	2.13
Custodial Services Limited	796,000	1.99
Custodial Services Limited	742,000	1.86
Forsyth Barr Custodians Limited	613,000	1.53
Custodial Services Limited	419,000	1.05
Investment Custodial Services Limited	300,000	0.75
Custodial Services Limited	244,000	0.61
Rodney Gavin Shayle Callender	200,000	0.50
Forsyth Barr Custodians Limited	127,000	0.32
Investment Custodial Services Limited	125,000	0.31
Custodial Services Limited	101,000	0.25
Janine Dale Beckett	100,000	0.25
Chilcotin Investments Limited	100,000	0.25
Investment Custodial Services Limited	100,000	0.25
Investment Custodial Services Limited	100,000	0.25
Investment Custodial Services Limited	100,000	0.25
Investment Custodial Services Limited	100,000	0.25

Investor Name	Notes held	% of issued shares
JBWere (NZ) Nominees Limited	100,000	0.25
Ian Dallas Leggat	100,000	0.25
Somsmith Nominees Limited	100,000	0.25
Craig John Thompson	100,000	0.25

13. Spread of ordinary shareholders as at 31 December 2018

The following table shows the spread of NZX Ordinary Shares as at 31 December 2018:

SHAREHOLDERS			SHARES	
Size of holding	Number	%	Number	%
1 - 1,000	416	10.98	251,553	0.09
1,001 - 5,000	719	18.98	2,253,421	0.83
5,001 - 10,000	914	24.13	7,327,840	2.7
10,001 - 50,000	1,366	36.06	30,599,845	11.26
50,001 - 100 000	213	5.62	15,017,224	5.52
Greater than 100,000	160	4.22	216,321,486	79.6
Total	3,788	100	271,771,369	100

The following table shows the spread of NZX Subordinated Notes as at 31 December 2018:

Noteholders			NOTES	
Size of holding	Number	%	Number	%
1 - 1,000	0	0	-	0
1,001 - 5,000	82	12.35	410,000	1.02
5,001 - 10,000	186	28.01	1,686,000	4.22
10,001 - 50,000	350	52.71	8,500,000	21.25
50,001 - 100 000	31	4.67	2,434,000	6.09
Greater than 100,000	15	2.26	26,970,000	67.43
Total	664	100	40,000,000	100

14. Substantial product holders

The following information is given pursuant to section 293 of the Financial Markets Conduct Act 2013 (FMCA). According to NZX’s records and disclosures made pursuant to section 280 (1)(b) of the FMCA, the following were substantial product holders in NZX as

at 31 December 2018. The total number of voting securities on issue as at 31 December 2018 was 271,771,369.

	Class	Relevant Interest	% of Issued shares
Aberdeen Standard Investments (Asia) Limited	Ordinary shares	24,738,959	9.1
Highclere International Investors LLP	Ordinary shares	17,010,488	6.3

15. Waivers from listing rules and independent director certificates

The following waiver has been granted to NZX or relied upon by NZX in the 12 month period ended 31 December 2018:

Waiver from Rule 7.12.1, allowing NZX to provide monthly disclosure notices regarding any NZX010s acquired through a retail liquidity support facility, rather than providing these notices forthwith after any acquisition.

NZX transitioned to the updated Listing Rules on 1 January 2019, at which time this waiver was no longer required and has fallen away.

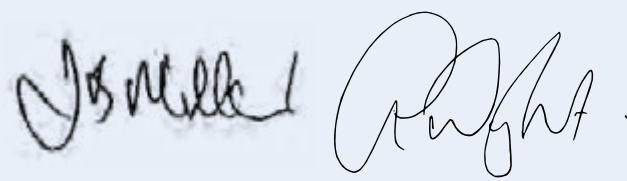
16. Securities issued by NZX

NZX's ordinary shares are quoted on the NZX Main Board. Shares issued under the various employee share schemes, such as the NZX Employee Share Plan – Team and Results (implemented in May 2010), are subject to certain transfer conditions and entitlement criteria. For as long as shares issued under these schemes are subject to these restrictions they are not quoted on any market and will not be quoted on any market until such time as they vest in the relevant participants. During 2018 NZX introduced a replacement employee share scheme and CEO share scheme based on the issue of performance rights, which are subject to certain entitlement criteria before performance rights may vest and the holder can acquire shares in NZX. For as long as performance rights issued under these schemes are subject to these restrictions they, and any shares which may be

issued following the exercise of performance rights, are not quoted on any market and will not be quoted on any market until such time as they vest in the relevant participants.

In 2018 NZX issued \$40 million of unsecured, subordinated notes with a coupon rate of 5.4%. These notes are quoted and traded on the NZX Debt Market as NZX010s.

This report is signed by and on behalf of the board of NZX Limited by:

The image shows two handwritten signatures in black ink. The signature on the left is 'James Miller' and the signature on the right is 'Lindsay Wright'.

James Miller
Chair of the Board

Lindsay Wright
Chair of the Audit and
Risk Committee

The Rt Hon Sir Bill English KNZM presenting at NZX's Global Dairy Seminar in Singapore in October. This event attracted more than 160 delegates from the dairy industry including commodity traders, market participants, Global Dairy Trade buyers, investment bankers and senior executives from across 15 countries. It has become a landmark risk management event for the dairy industry.



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NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA