NZX LIMITED

Financial Statements

For the year ended 31 December 2015

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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 2015 and the results of their operations and cash flows for the year ended 31 December 2015.

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 2015.

The financial statements were authorised for issue for and on behalf of the Directors on 23 February 2016.

J B Miller	N Paviour-Smith
Chairman of Directors	Director and Chairman of Audit and Risk Committee

NZX Limited
Income Statement
For the year ended 31 December 2015

	Note	2015 $000	2014 $000
Operating revenue			
Securities information		10,558	10,406
Listing fees		13,390	13,155
Other issuer services		770	1,013
Securities trading		4,976	4,424
Participant services		3,526	3,479
Securities clearing		5,365	4,653
Commodities trading		877	1,251
Dairy derivatives		684	254
Agri information		11,690	12,204
Wealth platform fees		689	-
Funds management		9,995	2,716
Market operations		10,631	11,634
Total operating revenue	8	**73,151**	**65,189**
Operating expenses			
Personnel costs		(26,051)	(21,975)
Information technology		(6,242)	(5,828)
Professional fees		(5,599)	(3,437)
Marketing, printing and distribution		(3,549)	(3,827)
Funds expenditure		(2,280)	(1,063)
Other expenses		(4,851)	(4,458)
Total operating expenses	**9**	**(48,572)**	**(40,588)**
Earnings before net finance income, income tax, depreciation and amortisation, share of profit of associate and gain on sale of associate		**24,579**	**24,601**
Interest income		1,218	615
Interest expense		(1,197)	(407)
Net gain/(loss) on foreign exchange		149	(121)
Net finance income		170	87
(Loss)/gain on disposal of property, plant and equipment		(29)	42
Depreciation and amortisation expense		(6,990)	(5,490)
Gain on sale of associate	11	11,807	-
Share of profit of associate		411	673
Profit before income tax		**29,948**	**19,913**
Income tax expense	12	(6,076)	(6,802)
Profit for the year		**23,872**	**13,111**
Earnings per share			
Basic (cents per share)	13	9.1	5.1
Diluted (cents per share)	13	9.0	5.1

The accompanying notes form an intergral part of these financial statements

NZX Limited
Statement of Comprehensive Income
For the year ended 31 December 2015

	2015 $000	2014 $000
Profit for the year	23,872	13,111
Other comprehensive income recognised through equity		
Foreign currency translation differences	(14)	93
Total other comprehensive income	(14)	93
Total comprehensive income for the year	**23,858**	**13,204**

The accompanying notes form an intergral part of these financial statements

NZX Limited
Statement of Changes in Equity
For the year ended 31 December 2015

	Note	Share Capital $000	Retained Earnings $000	Translation Reserve $000	Total Equity $000
Balance at 1 January 2014		**29,850**	**19,572**	**94**	**49,516**
Profit for the year		-	13,111	-	13,111
Foreign currency translation differences		-	-	93	93
Total comprehensive income for the year		**-**	**13,111**	**93**	**13,204**
Transactions with owners recorded directly in equity:					
Dividends paid	20	-	(11,756)	-	(11,756)
Share based payments	19	313	-	-	313
Non-vesting shares	19	(188)	-	-	(188)
Total transactions with owners recorded directly in equity		**125**	**(11,756)**	**-**	**(11,631)**
Balance at 31 December 2014		**29,975**	**20,927**	**187**	**51,089**
Profit for the year		-	23,872	-	23,872
Foreign currency translation differences		-	-	(14)	(14)
Total comprehensive income for the year		**-**	**23,872**	**(14)**	**23,858**
Transactions with owners recorded directly in equity:					
Dividends paid	20	-	(15,834)	-	(15,834)
Issue of shares	19	10,000	-	-	10,000
Share based contingent consideration	19	5,000	-	-	5,000
Dividend accrued on contingent consideration shares		-	(248)	-	(248)
Share based payments	19	2,341	-	-	2,341
Non-vesting shares	19	(88)	50	-	(38)
Total transactions with owners recorded directly in equity		**17,253**	**(16,032)**	**-**	**1,221**
Balance at 31 December 2015		**47,228**	**28,767**	**173**	**76,168**

The accompanying notes form an intergral part of these financial statements

NZX Limited
Statement of Financial Position
As at 31 December 2015

	Note	2015 $000	2014 $000
Current assets			
Cash and cash equivalents		40,293	20,160
Funds held on behalf of third parties	10	61,786	34,361
Receivables and prepayments	15	11,569	9,522
Total current assets		**113,648**	**64,043**
Non-current assets			
Non-current receivables	15	1,827	-
Investment in associate	11	-	2,930
Property, plant & equipment	16	3,507	2,282
Goodwill	3	35,764	13,233
Other intangible assets	2	39,001	23,363
Total non-current assets		**80,099**	**41,808**
Total assets		**193,747**	**105,851**
Current liabilities			
Funds held on behalf of third parties	10	61,786	34,361
Trade payables	17	5,882	6,305
Other liabilities	18	13,588	11,238
Current tax liability	12	2,113	195
Total current liabilities		**83,369**	**52,099**
Non-current liabilities			
Non-current other liabilities	18	8,272	-
Term loan	7	20,000	-
Deferred tax liability	12	5,938	2,663
Total non-current liabilities		**34,210**	**2,663**
Total liabilities		**117,579**	**54,762**
Net assets		**76,168**	**51,089**
Equity			
Share capital		47,228	29,975
Retained earnings		28,767	20,927
Translation reserve		173	187
Total equity attributable to shareholders		**76,168**	**51,089**
Net tangible assets per share (cents per share)		0.53	5.66

Included within the cash and cash equivalent balance at 31 December 2015 is $20.0 million (31 December 2014: $10.0 million) that is held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

The accompanying notes form an integral part of these financial statements.

NZX Limited
Statement of Cash Flows
For the year ended 31 December 2015

	Note	2015 $000	2014 $000
Cash flows from operating activities			
Receipts from customers		72,688	63,684
Net interest received		178	194
Payments to suppliers and employees		(48,038)	(40,835)
Income tax paid		(6,533)	(6,952)
Net cash provided by operating activities	14	**18,295**	**16,091**
Cash flows from investing activities			
Receipts from associate		850	500
Proceeds from the sale of associate		13,800	-
Cash acquired on acquisiton of subsidiary		59	-
Payments for property, plant and equipment		(2,097)	(1,181)
Payments for intangible assets		(3,440)	(910)
Acquisition of businesses		(11,500)	-
Net cash used in investing activities		**(2,328)**	**(1,591)**
Cash flows from financing activities			
Proceeds from term loans		20,000	-
Dividends paid	20	(15,834)	(11,756)
Net cash provided by/(used in) financing activities		**4,166**	**(11,756)**
Net increase in cash and cash equivalents		20,133	2,744
Cash and cash equivalents at the beginning of the year		20,160	17,416
Cash and cash equivalents at the end of the year		**40,293**	**20,160**
Cash comprises:			
Cash at bank		32,793	12,660
Bank deposits		7,500	7,500
Net cash and cash equivalents and bank overdraft		**40,293**	**20,160**

Included within the cash and cash equivalent balance at 31 December 2015 is $20.0 million (31 December 2014: $10.0 million) that is held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

Of the $20.0 million proceeds from term loans, $10.0 million was used to fund the acquisition of SuperLife Limited, with the remaining $10.0 million used to fund the $10.0 million increase in Clearing House risk capital. In addition to the $10.0 million cash payment for the purchase of SuperLife Limited, $10.0 million of NZX shares were issued to the vendors, refer to note 6.

The accompanying notes form an integral part of these financial statements.

NZX Limited
Notes to the financial statements
For the year ended 31 December 2015

1 Reporting entity and statutory base

Reporting entity

These financial statements are for NZX Limited (the "Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The Group operates New Zealand securities, derivatives and energy markets and an Australian grain commodity market. The Group also builds and maintains the infrastructure on which they operate, provides funds management services, and provides a range of information and data to support market growth and development.

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. The Company is listed and its ordinary shares are quoted on the NZX main board.

Basis of preparation

These are the Group financial statements for the year ended 31 December 2015. They 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 statement 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 and associates 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) Investment 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.

1 Reporting entity and statutory base (continued)

iii) Investment in associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement

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.

There are no new standards, amendments or interpretations that have been issued and are not yet effective, that are expected to have a significant impact on the Group.

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

- note 2 - other intangible assets
- note 3 - goodwill
- note 21 - employee share ownership plans

NZX Limited
Notes to the financial statements
For the year ended 31 December 2015

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
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 below.

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

	Software and websites	Brands, Trademarks and rights to use Brands	Data archives, customer lists, databases, and other IP	Management rights	Intangible work in progress	Total
	$000	$000	$000	$000	$000	$000
Gross carrying amount						
Balance at 1 January 2014	**36,971**	**8,318**	**3,132**	**2,344**	**258**	**51,023**
Additions	238	-	-	-	762	1,000
Disposals	(191)	(412)	-	-	-	(603)
Transfer from WIP	636	-	-	-	(636)	-
Balance at 31 December 2014	**37,654**	**7,906**	**3,132**	**2,344**	**384**	**51,420**
Additions	-	-	255	-	3,263	3,518
Disposals	(133)	-	-	-	-	(133)
Acquired on acquisition of businesses	2,273	-	-	15,772	-	18,045
Transfer from WIP	1,276	-	-	-	(1,276)	-
Balance at 31 December 2015	**41,070**	**7,906**	**3,387**	**18,116**	**2,371**	**72,850**
Accumulated amortisation & impairment						
Balance at 1 January 2014	**18,982**	**5,171**	-	-	**-**	**24,153**
Amortisation expense	4,193	223	-	-	**-**	4,416
Disposals	(100)	(412)	-	-	**-**	(512)
Balance at 31 December 2014	**23,075**	**4,982**	**-**	**-**	**-**	**28,057**
Amortisation expense	5,016	-	-	789	-	5,805
Disposals	(13)	-	-	-	-	(13)
Balance at 31 December 2015	**28,078**	**4,982**	**-**	**789**	**-**	**33,849**
Net Book Value						
As at 31 December 2014	**14,579**	**2,924**	**3,132**	**2,344**	**384**	**23,363**
As at 31 December 2015	**12,992**	**2,924**	**3,387**	**17,327**	**2,371**	**39,001**

3 Goodwill

Carrying amount	2015 $000	2014 $000
Balance at beginning of the year	13,233	13,233
Acquired on acquisition of SuperLife Limited	20,730	-
Acquired on acquisition of Apteryx business	1,494	-
Acquired on acquisition of other business	307	-
Balance at end of the year	**35,764**	**13,233**

A 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. For the year ended 31 December 2015, the directors have reviewed the carrying value of goodwill for impairment and determined that no impairment exists. A description of the impairment tests carried out and the key assumptions used is set out in note 4.

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 CGU's to which intangible assets have been allocated as at 31 December 2015 is outlined below:

	Software & websites $000	Other finite life intangible $000	Indefinite life intangible $000	Work in progress $000	Total other intangible assets $000	Goodwill $000	TOTAL $000
Cash generating unit							
Clearing House	5,270	-	-	1,496	**6,766**	-	**6,766**
Agri	207	-	2,742	-	**2,949**	2,488	**5,437**
Grain Information Unit	401	-	1,971	-	**2,372**	3,009	**5,381**
Clear Grain Exchange	1,267	-	-	-	**1,267**	-	**1,267**
Funds Management	914	14,983	2,344	155	**18,396**	20,730	**39,126**
Energy	144	-	-	26	**170**	7,720	**7,890**
Direct Data	-	-	-	-	**-**	323	**323**
Other							
Other intangible assets	688	-	1,598	10	**2,296**	-	**2,296**
Other computer software	4,101	-	-	684	**4,785**	1,494	**6,279**
	12,992	**14,983**	**8,655**	**2,371**	**39,001**	**35,764**	**74,765**

4 Impairment tests (continued)

Impairment test

For the year ended 31 December 2015, 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 2014 unless indicated otherwise. Discounted cash flow analysis using a forecast period of 5 years for all CGUs other than Energy where a forecast period of 11 years was used to match the contractual period (including extensions). The analysis also used an independently assessed WACC of 10.4% for New Zealand CGUs and 12.3% for Australian CGUs (and were stress tested at higher rates). A terminal growth rate of 2.0% pa has been used to extrapolate cash flow projections beyond five years in New Zealand and 2.5% pa in Australia. Management has assessed the long term economic outlook data available, and assessed that the use of a 2% pa and 2.5% pa terminal growth rate in 2015 were appropriate, whereas in the prior year a 3% rate had been used. Where relevant, EBITDA multiples were used to cross-check the discounted cash flow analysis for established businesses.

The review of the carrying values of goodwill and intangible assets has determined that all the CGUs have recoverable amounts exceeding their carrying values. Therefore no impairment charges are required for the year ended 31 December 2015. Further information on specific assumptions underlying CGU discounted cash flow analysis is set out below.

a) *Clearing House*

Other than the general assumptions outlined above, 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 trade within a range of 5% to 25% (2014: 5% to 25%) of their respective underlying markets by the end of the forecast period (currently this range is 0% to 5%). This assumption is based on trading statistics for similar derivative products in overseas markets.

b) *Agri and Grain Information Unit*

Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows for the Agri and Grain Information unit CGU are dependent is the future revenue growth rate which is assumed to be 2.0% during the explicit forecast period for Agri and 2.5% for Grain Information Unit. The Company considers this reasonable based on historical experience. The value of the Agri information business was cross checked against the EBITDA multiples of listed media entities. The 31 December 2016 implied multiple was 3.9x compared to market multiples of 3.2x to 7.9x.

c) *Clear Grain Exchange (CGX)*

The revenues generated by CGX are directly related to the fees charged per tonne, and the number of tonnes traded. To assess the appropriateness of the carrying value of the CGX CGU significant emphasis was placed, in particular, on the long-run assumptions. To support CGX's carrying value on the Group balance sheet, the CGX business is expected to need to achieve market share around 5.0% (2014: 5.0%) for new market segments it is entering into, and 10% (2014: 14.3%) in the market segments operated in by GrainCorp Operations Limited ("GrainCorp") with which NZX has a formal operating agreement in place. GrainCorp markets currently provide the majority of CGX's revenue. The operating arrangement between CGX and GrainCorp is governed by an agreement which expires on 30 October 2017.

d) *Funds Management*

Smartshares Limited acquired the management rights for SmartOZZY, SmartMOZY, and the SmartMIDZ funds 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 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. Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows are dependent is the future level of funds under management which is assumed to grow between 6.0% pa to 11.0% pa during the explicit forecast period.

4 Impairment tests (continued)

e) *Energy*

The carrying value of the Energy CGU is comprised mainly of 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 April 2024. As a result of this renewal, NZX has certainty of minimum cash flows to be received over the next eight years which, and along with additional uncontracted consulting revenue, support the current carrying value of the CGU.

5 Segment reporting

The Group has five reportable segments, as described below, which are the Group's strategic business areas.

- Capital Markets - Operator and regulator of securities markets and provider of trading, post-trade and data services, as well as the provider of a central securities depository;
- Soft Commodities- Operator of an electronic grain trading platform through Clear Grain Exchange, and operator of a dairy derivatives market;
- Agricultural Information - Provider of information, news and data relating to the agriculture sectors in New Zealand and Australia through printed publications and online services;
- Funds Services - Provider of superannuation, KiwiSaver and Exchange Traded Funds and funds administration platforms; and
- Market Operations - Market operator for New Zealand's wholesale electricity market and the Fonterra Shareholders Market.

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. However, expenses incurred are not allocated to the segments as resource allocation decisions are made across the Group in totality to optimise the consolidated Group's financial results.

The Group also utilises a shared asset base, with assets and liabilities not specifically allocated to the reportable segments, with the exception of intangible assets and goodwill. Intangible assets and goodwill are allocated to the reportable segments to which these assets relate. There have been no changes to the allocation of intangible assets and goodwill to reportable segments since the last financial year.

Segmental information for the year ended 31 December 2015

	Capital Markets	Soft Commodities	Agricultural information	Funds Services	Market Operations	Other	Total
	$000	$000	$000	$000	$000	$000	$000
Revenue	38,585	1,561	11,690	10,684	10,631	-	73,151
Unallocated expenditure	-	-	-	-	-	(48,572)	(48,572)
Total segment result	**38,585**	**1,561**	**11,690**	**10,684**	**10,631**	**(48,572)**	**24,579**
Segment assets:							
Goodwill	323	-	5,498	22,223	7,720	-	35,764
Other intangible assets	11,350	1,918	5,209	19,747	170	607	39,001
Total segment assets	**11,673**	**1,918**	**10,707**	**41,970**	**7,890**	**607**	**74,765**
Unallocated assets:							
Cash and cash equivalents	-	-	-	-	-	40,293	40,293
Other assets	-	-	-	-	-	78,689	78,689
Unallocated liabilities	-	-	-	-	-	(117,579)	(117,579)
Net assets	**11,673**	**1,918**	**10,707**	**41,970**	**7,890**	**2,010**	**76,168**

NZX Limited
Notes to the financial statements
For the year ended 31 December 2015

5 Segment reporting (continued)

Segmental information for the year ended 31 December 2014

	Capital Markets	Soft Commodities	Agricultural information	Funds Services	Market Operations	Other	Total
	$000	$000	$000	$000	$000	$000	$000
Revenue	37,130	1,505	12,204	2,716	11,634	-	65,189
Unallocated expenditure	-	-	-	-	-	(40,588)	(40,588)
Total segment result	**37,130**	**1,505**	**12,204**	**2,716**	**11,634**	**(40,588)**	**24,601**
Segment assets:							
Goodwill	323	-	5,190	-	7,720	-	13,233
Other intangible assets	11,536	3,608	4,921	2,344	-	954	23,363
Total segment assets	**11,859**	**3,608**	**10,111**	**2,344**	**7,720**	**954**	**36,596**
Unallocated assets:							
Cash and cash equivalents	-	-	-	-	-	20,160	20,160
Other assets	-	-	-	-	-	49,095	49,095
Unallocated liabilities	-	-	-	-	-	(54,762)	(54,762)
Net assets	**11,859**	**3,608**	**10,111**	**2,344**	**7,720**	**15,447**	**51,089**

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	2015 $000	2014 $000
New Zealand	59,838	53,483
Australia	6,402	4,764
Other	6,911	6,942
Total revenue	**73,151**	**65,189**

Non-current assets	2015 $000	2014 $000
New Zealand	75,886	37,814
Australia	4,213	3,994
Total non-current assets	**80,099**	**41,808**

6 Acquisition of businesses

Acquisition of SuperLife Limited

On 16 January 2015 NZX acquired 100% ownership of SuperLife Limited ("SuperLife"), a provider of superannuation, Kiwisaver, and managed investments products with approximately $1.2 billion in funds under management at that date. The effective date of acquisition was 1 January 2015.

The acquisition of SuperLife enables NZX to grow the scale of its passive funds management business and accelerate the development of its portfolio of Exchange Traded Funds (ETFs).

In the year ended 31 December 2015 SuperLife contributed revenue of $6.4 million and profit after tax of $1.7 million to the Group's results.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred/payable

	Note	$000
Cash		10,000
Equity instruments (being 8,264,463 ordinary shares)		10,000
Contingent equity consideration (being 4,132,232 ordinary shares)	27	5,000
Present value of contingent cash consideration		7,931
Total consideration		**32,931**

Equity instruments issued

The value of the ordinary shares issued was based on the volume weighted average price during the 20 business days prior to 8 December 2014 (the date of the sale and purchase agreement), with the issue price being $1.21 per ordinary share. These shares were subject to a lock up period of 12 months that expired on 16 January 2016.

Contingent consideration

In addition to the initial consideration of $20 million, the sale and purchase agreement provides for additional consideration of up to $15.0 million dependent on the retention and growth of SuperLife's Funds Under Management (FUM) over a three year period ending 31 December 2017. These further payments, if targets are achieved, will be $5.0 million of NZX ordinary shares at an issue price of $1.21 per share and up to $10.0 million in cash.

Up to $10.0 million in cash will become payable at 31 December 2017, with the amount payable dependant on the rate of growth in FUM over the three year earnout period. No additional amount is payable if FUM is less than $1.41 billion at 31 December 2017 (equivalent to a 7% compound annual growth rate). The full $10.0 million is payable if FUM exceeds $1.57 billion (equivalent to an 11% compound annual growth rate). Partial payment of the earnout amount will result if FUM at 31 December 2017 is between $1.41 billion and $1.57 billion.

Based on the expected probabilities of achieving the earnout, taking into account historic growth rates, the Group has accrued for 90% of the $10.0 million of contingent consideration that will be paid at the end of the three year period if the 11% growth target is met. The contingent cash consideration shown in the table of consideration transferred above is based on the present value of this amount.

6 Acquisition of businesses (continued)

The allocation of the purchase price to the identifiable assets acquired and liabilities assumed is set out in the table below.

Identifiable assets acquired and liabilities assumed

	$000
Cash and cash equivalents	59
Trade and other receivables	100
Property, plant and equipment	79
Management rights	15,772
IT Systems	1,099
Deferred tax liability	(4,724)
Trade and other payables	(184)
Total identifiable net assets acquired	**12,201**
Less total consideration paid/payable	(32,931)
Goodwill	**20,730**

Acquisition-related costs

NZX incurred acquisition-related costs of $426,000 related to consultancy, legal fees and due diligence costs. $342,000 of these acquisition-related costs were included in the 2014 Income Statement within professional fees and the balance of $84,000 of these acquisition-related costs are included in the current period's Income Statement.

Acquisition of Apteryx business

On 7 August 2015 NZX completed its acquisition of the Apteryx business, which is a provider of funds administration platforms for an initial consideration of $1.5 million.

In the year ended 31 December 2015 the Apteryx business contributed revenue of $0.69 million and a loss after tax of $0.24 million to the Group's results.

The following table summaries the cash consideration paid and payable under this acquisition, along with the allocation of this purchase price to the identifiable assets acquired and liabilities assumed at the acquisition date.

	$000
Property, plant and equipment	224
IT Systems	1,176
Trade and other payables	(189)
Total identifiable net assets acquired	**1,211**
Less total consideration paid/payable	(2,705)
Goodwill	**1,494**

Contingent consideration

In addition to the initial consideration of $1.5 million, the sale and purchase agreement provides for additional consideration of up to $2.5 million dependent on the level of Funds Under Administration and monthly operating revenue at September 2016. Up to $2.5 million in cash will become payable at 30 September 2016 if the business has Funds Under Administration of $3.0 billion and monthly revenue of $0.25 million, with this amount reducing over a six month period to nil if these two targets are not met by 31 March 2017.

6 Acquisition of businesses (continued)

Based on the expected probabilities of achieving the earnout, the Group has accrued for 50% of the $1.5 million of contingent consideration that will be paid. The contingent cash consideration shown in the table of consideration transferred above is based on the present value of this amount.

Acquisition-related costs
NZX incurred acquisition-related costs of $55,000 related to legal fees which are included within professional fees in the current year's Income Statement.

7 Term loan

	2015 $000	2014 $000
Current	-	-
Non-current	20,000	-
Total term loans	**20,000**	**-**

The $20.0 million term loan has an expiry date of 16 January 2019. The facility is unsecured and contains 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.

The weighted effective interest rate at 31 December 2015 was 3.62%.

8 Operating revenue

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) Capital markets

Capital markets revenue includes five broad categories.

(1) Securities information revenue is recognised over the period the service is provided.

(2) Issuer services, which consists of revenue from annual listing fees, initial listing fees, subsequent capital raisings and regulatory services. 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. Fees for regulatory services are recognised when the service is provided.

(3) Trading fees from the trading of debt and equities securities, are recognised at trade date.

(4) Participant services, which 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.

(5) Fees for debt and equity clearing and settlement, which are recognised at settlement date (currently three days after initial trade date).

ii) Soft commodities markets

Fees for the trading of derivatives and commodities are recognised at trade date. Fees for derivative market clearing and settlement are recognised at trade date.

8 Operating revenue (continued)

iii) Agricultural information

Agricultural information revenue consists of subscriptions and advertising fees. Subscription revenues are recognised on a straight line basis over the subscription period. Advertising revenues are recognised when the advertisement is published.

iv) Funds services

Revenue for the provision of fund services, which is recognised when the services are rendered.

v) Market operations

Revenue from the provision of energy post-trade systems and technology services and advisory and related services is recognised over the period the service is provided.

	2015 $000	2014 $000
Securities information	10,558	10,406
Listing fees	13,390	13,155
Other issuer services	770	1,013
Securities trading	4,976	4,424
Participant services	3,526	3,479
Securities clearing	5,365	4,653
Commodities trading	877	1,251
Dairy derivatives	684	254
Agri information	11,690	12,204
Wealth platform fees	689	-
Funds management	9,995	2,716
Market operations	10,631	11,634
Total operating revenue	**73,151**	**65,189**

9 Operating expenses

	2015 $000	2014 $000
Personnel costs	(26,051)	(21,975)
Information technology	(6,242)	(5,828)
Legal expenses	(3,604)	(1,751)
Other professional fees	(1,995)	(1,686)
Marketing, printing and distribution	(3,549)	(3,827)
Funds expenditure	(2,280)	(1,063)
Operating lease rental expense	(1,421)	(1,179)
Directors' fees	(406)	(469)
Remuneration paid to Group auditors	(306)	(237)
Remuneration paid to other auditors	(3)	(3)
Other expense	(2,715)	(2,570)
Total operating expense	**(48,572)**	**(40,588)**

9 Operating expenses (continued)

The directors' fees have declined this year as the number of board members has reduced from 7 to 6 following the AGM in May 2015. 2014 also included director fees paid to independent directors on the Clearing House board who resigned in September 2014.
Legal expenses for the current year includes $3.1 million (2014: $1.0 million) incurred in relation to the Ralec litigation, refer to note 25.

Remuneration paid to Group auditors

	2015 $000	2014 $000
Audit and review of NZX Group and subsidiary statutory financial statements	(134)	(121)
Audit of statutory financial statements for Funds managed by Smartshares Limited, an NZX subsidiary	(104)	(39)
Total audit fees	**(238)**	**(160)**
Trust account reporting for Energy Clearing House	-	(10)
Prospectus extraction reports and operation reviews for Funds managed by Smartshares Limited	(29)	(32)
Annual operational audit of the Clearing House	(34)	(30)
Annual depository assurance engagement of New Zealand Depository Limited	(5)	(5)
Total other audit related services	**(68)**	**(77)**
Total fees paid to the auditor	**(306)**	**(237)**

10 Funds held on behalf of third parties

	2015 $000	2014 $000
Bond Deposits	1,346	1,296
Collateral Deposits	55,287	25,462
Funds held on behalf of clients	5,153	7,603
	61,786	**34,361**

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

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 carried 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.

11 Investment in associate

During the year the Group sold its 50% stake in Link Market Services Limited to the other 50% shareholder for $14.3 million. The net sale proceeds is comprised of:

- $13.8 million was the initial consideration received on settlement on 30 June 2015.

- $173,000 is a further amount receivable as a purchase price adjustment following the finalisation of the settlement accounts for Link Market Services.
- $450,000 is receivable in the second half of 2016 depending on Link Market Services financial performance over the 12 month period to 30 June 2016.

- The Group is liable to issue shares to the value of $125,000 as a retention amount in respect of key employees of Link Market Services in three years time if these employees remain with Link at that time.

The Group has assessed that the requirements for these payments to be made are expected to be achieved.

	2015 $000	2014 $000
Disposal of associate		
Proceeds from sale of associate	14,298	-
Less carrying value	(2,491)	-
Gain on sale of associate	**11,807**	**-**

12 Taxation

(a) Income tax expense recognised in profit or loss

	2015 $000	2014 $000
Tax expense comprises:		
Current tax expense	7,507	6,225
Prior period adjustment	47	958
Deferred tax relating to the origination and reversal of temporary differences	(1,478)	(381)
Total tax expense	**6,076**	**6,802**

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

	2015 $000	2014 $000
Profit before income tax expense	29,948	19,913
Income tax calculated at 28%	**(8,385)**	**(5,576)**
Non-deductible expenses	(1,398)	(652)
Non-taxable gain on sale of associate	3,306	-
Equity accounted earnings of associate	115	189
	(6,362)	**(6,039)**
Under provision of income tax in prior year	(45)	(958)
Tax credits	331	195
	(6,076)	**(6,802)**

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12 Taxation (continued)

(b) Current tax liabilities

	2015 $000	2014 $000
Balance at beginning of the year	(195)	(975)
Current year charge	(7,507)	(6,225)
Prior period adjustment	(944)	53
Tax paid	6,533	6,952
Balance at end of year	**(2,113)**	**(195)**

(c) Deferred tax liability

	2015 $000	2014 $000
Balance at beginning of the year	(2,663)	(3,025)
Current year movement	1,478	381
Deferred tax on acquisition	(4,724)	-
Prior period adjustments	(29)	(19)
Balance at end of the year	**(5,938)**	**(2,663)**
Deferred tax balance comprises:		
Employee entitlements	761	467
Doubtful debts	85	78
Property, plant and equipment, and software	(6,920)	(3,349)
Other	136	141
	(5,938)	**(2,663)**

(d) Imputation credit account

	2015 $000	2014 $000
Imputation credits available for use in subsequent reporting periods	**14,830**	**10,128**

13 Earnings per share

Basic earnings per share at 31 December 2015 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 issued under the shares plans is made to weighted average number of shares used in the calculation of the diluted earnings per share at 31 December 2015.

(a) Basic earnings per share

	2015	2014
Profit for the year ($000)	23,872	13,111
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	263,539	255,579
Basic earnings per share (cents per share)	**9.1**	**5.1**

(b) Diluted earnings per share

	2015	2014
Profit for the year ($000)	23,872	13,111
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	263,941	256,068
Fully diluted earnings per share (cents per share)	**9.0**	**5.1**

14 Bank overdraft and cash flow reconciliation

(a) Bank overdraft facility

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 $10.0m and has no fixed expiry date. The bank may cancel the facility by giving 30 days written notice. The effective interest rate of the facility at 31 December 2015 was 4.15% (2014: 5.09%).

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

	2015 $000	2014 $000
Profit for the year	**23,872**	**13,111**
Share of profit of associate	(411)	(673)
Gain on sale of associate	(11,807)	-
Share based payment bonus accrual	653	125
Non cash interest expense on investing activity	343	-
Depreciation and amortisation expense	6,990	5,490
	(4,232)	**4,942**
(Increase) in receivables and prepayments	(1,324)	(2,489)
Increase in trade payables and other liabilities	436	437
Increase in current tax liability	992	452
(Decrease) in deferred tax liability	(1,449)	(362)
	(1,345)	**(1,962)**
Net cash provided by operating activities	**18,295**	**16,091**

15 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.

	2015 $000	2014 $000
Trade receivables	7,022	7,451
Provision for doubtful debts	(302)	(278)
	6,720	**7,173**
Sundry debtors	2,013	860
Prepayments	2,094	1,358
Accrued proceeds for disposal of Link Market Services	623	-
Accrued interest	90	59
Accrued income	29	72
Total current receivables and prepayments	**11,569**	**9,522**
Financial asset - non current amount	1,827	-
Total receivables and prepayments	**13,396**	**9,522**

The non current financial asset at 31 December 2015 represents the loan owed by the CEO under the CEO share plan, as described in note 21.

(a) Movement in provision for doubtful debts

The Company 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.

	2015 $000	2014 $000
Balance at beginning of the year	(278)	(283)
Amounts written off during the year	54	30
(Increase)/decrease in provision recognised in profit or loss	(78)	(25)
Balance at end of the year	**(302)**	**(278)**

16 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. The cost of 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	Furniture and equipment	Leasehold improvements	Motor Vehicles	Capital work in progress	Total
	$000	$000	$000	$000	$000	$000
Net Book Value at 1 January 2015	**1,015**	**428**	**574**	**70**	**195**	**2,282**
Additions during the year	449	531	173	29	1,263	2,445
Transfers from WIP during the year	29	-	1,408	-	(1,437)	-
Depreciation expense for the year	(702)	(214)	(215)	(54)	-	(1,185)
Disposals during the year	-	-	(35)	-	-	(35)
Net Book Value at 31 December 2015	**791**	**745**	**1,905**	**45**	**21**	**3,507**

17 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.

	2015	2014
	$000	$000
Trade payables	248	271
Goods and services tax payable	727	1,199
Accrued expenses	4,807	4,777
Accrued interest	100	58
	5,882	**6,305**

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18 Other liabilities

	2015 $000	2014 $000
Employee benefits	4,430	3,523
Unearned income	7,860	7,715
Deferred consideration payable on Apteryx acquisition	1,223	-
Earn out accrual	75	-
Total current other liabilities	**13,588**	**11,238**
Non current - Deferred consideration on SuperLife acquisition	8,272	**-**
Total other liabilities	**21,860**	**11,238**

19 Shares on issue

The Company had 263,919,546 fully paid ordinary shares as at 31 December 2015 (2014: 255,613,669 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. Included within this total is 1,575,000 fully paid ordinary shares (2014: 1,575,000 fully paid ordinary shares) issued under the CEO Share Plan as outlined in note 21.

At 31 December 2015 the Company has 315,889 restricted shares (2014: 496,254 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.

Movement in share capital

	Number	$000
Balance at 1 January 2014	**255,572,949**	**29,850**
Issue of fully paid ordinary shares	40,720	49
Share based payments	-	264
Non-vesting shares	-	(188)
Balance at 31 December 2014	**255,613,669**	**29,975**
Issue of fully paid ordinary shares	8,305,877	10,000
Share based contingent consideration accrued	-	5,000
Share based payments	-	2,341
Non-vesting shares	-	(88)
Balance at 31 December 2015	**263,919,546**	**47,228**

20 Dividends

		2015		2014	
	For year ended	**Cents per share**	**Total $000**	**Cents per share**	**Total $000**
Dividends declared and paid					
March 2014	31 Dec 13			1.60	4,089
September 2014	31 Dec 14			3.00	7,667
March 2015	31 Dec 14	3.00	7,916		
September 2015	31 Dec 15	3.00	7,918		
Total dividends paid for the year		**6.00**	**15,834**	**4.60**	**11,756**

Refer to note 27 for details of the second half 2015 dividend.

21 Share based payments

(a) CEO Share Plan

A CEO share scheme is in place under the CEO's employment contract. The scheme runs for a period of 5 years expiring mid 2017.

Pursuant to the terms of the scheme, 1,575,000 new ordinary shares were issued on 31 December 2012 at an issue price of $1.19 per share, being the volume weighted average price of NZX shares for the 10 business days ended on Friday 4 May 2012 (the business day immediately preceding the CEO's start date).

The issue price of the shares is funded by a loan from NZX, which bears interest at NZX's cost of bank funding. The shares are entitled to dividends and are held by a nominee wholly owned by NZX for the duration of the scheme.

If over the period of the scheme NZX's total shareholder return (TSR) exceeds a margin of 1% over NZX's weighted average cost of capital (to be determined annually by the Board), the CEO will receive a taxable bonus equivalent to the amount of the loan and will receive a transfer of the shares on full repayment of the loan and any accrued interest. If the hurdle rate is not met, then on expiry of the scheme the CEO will not receive the bonus and will be required to repay the loan from his own resources and will receive a transfer of shares.

The Group has accounted for the scheme in accordance with NZ IFRS 2 by calculating the fair value of the shares and recognising this as an expense on a straight line basis over the 5 years. The total fair value was determined to be $383,000. The fair value was calculated by reference to an independent valuation which was based on the following assumptions:

- Grant date: 2 August 2012
- Share price on grant date: $1.19
- Historic volatility (NZX share price): 29%

The Board has determined that it is likely the performance hurdle will not be met and has accordingly recognised a loan to the CEO as a non current receivable with a corresponding increase in equity in accordance with the terms of the scheme.

(b) 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. Under the terms of the Team and Results Plan, NZX offers 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.

The Team component of the Team and Results Plan is offered on terms of one, two or three years, whereas the Results component of the Team and Results Plan is offered on terms of three years.

21 Share based payments (continued)

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 Restricted Shares issued under the Team and Results Plan, transfers of shares to NZX employees and redemptions of shares during the period are set out below.

	Number of shares 000's	Average share price $
Balance at 1 January 2014	**374**	**0.95794**
Share issued	519	1.23988
Shares transferred to NZX employees	(41)	1.20732
Redemptions	(356)	0.95225
Balance at 31 December 2014	**496**	**1.23589**
Shares transferred to NZX employees	(41)	1.34146
Redemptions	(139)	1.25899
Balance at 31 December 2015	**316**	**1.21203**

Total financial assistance provided by NZX under the Team & Results Plan as at 31 December 2015 was $2,257,250 (2014: $2,487,250).

22 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 NZX 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 NZX Group to several significant financial risks. Management of these risks is the responsibility of the Board of Directors of NZCDC. The NZCDC Board reports to the main NZX Board on a regular basis on its 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 and Clearing House risk capital with financial institutions;
- Credit risk arising from the activities of the Clearing House, which is discussed separately in section (e).

Excluding Clearing House activities, NZX has no significant concentrations of credit risk from general customers, with balances receivable 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.

22 Financial instruments (continued)

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

	2015 $000	2014 $000
Not past due	5,148	5,497
Past due 0 - 30 days	540	763
Past due > 30 days	1,334	1,191
	7,022	**7,451**

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

	2015 $000	2014 $000
Gross trade receivables	7,022	7,451
Individual impairment	(155)	(138)
Collective impairment	(147)	(140)
	6,720	**7,173**

The movement in the allowance for impairment in respect of trade and other receivables during the year is set out in note 15(a).

For investment of risk capital and 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-.

- 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 enters 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.

Foreign exchange risk also arises on the translation of NZX's investment in its Australian operations and intercompany balances between the parent and these entities. NZX does 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 borrowings and the cash flows and the market value of investment assets. NZX does not currently use any derivative products to manage interest rate risk.

22 Financial instruments (continued)

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 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 shot term movements in interest rates.

During 2015, the group drew down $20 million of term debt. $10 million of this was to fund the acquisition of SuperLife Limited, while $10 million was to provide for additional risk capital in the Clearing House. The interest period for the debt utilised to provide risk capital is set to match as closely as possible the interest period for the related short term investments in which the risk capital is held, thus minimising the net interest rate risk to the Group.

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

An analysis of the sensitivity of the Group's earnings to movements in interest rates is shown below. As at both 31 December 2015 and 2014 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.

	2015 $000	2014 $000
Effect on net interest income:		
1% increase in interest rate	398	328
1% decrease in interest rate	(398)	(328)

This above information is calculated using the Group's cash balances (less the $20.0 million held as risk capital for Clearing House), the Group's term debt, and the bank balances of $18.2 million (2014: $11.3m) held by the Funds managed by the Group's subsidiary, Smartshares Limited. The Funds' bank balances are included in 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), interest earned on monies in the Regular Savings Plan and cash application account.

(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 (e).

The Group manages its general liquidity risk by maintaining adequate cash reserves, maintaining a sufficient term to maturity for its term borrowings and maintaining adequate overdraft 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 summaries 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
Term loan	(21,448)	(724)	(20,724)	-	-

22 Financial instruments (continued)

(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 term loans, approximates their carrying amounts in these accounts.

(f) Fair value hierarchy

The discussion below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(g) 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 2015, 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 $9,743,875 cash held from such deposits at 31 December 2015 (2014: $8,712,619).

(h) Clearing House counterparty credit risk

The Clearing House acts as a central counterparty to trades on NZX's securities and derivatives 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 securities 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 securities 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 securities it is acquiring.

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

22 Financial instruments (continued)

Credit risk

Counterparty credit risk is managed 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 transaction in each security. Margin rates for each security are based on the underlying characteristics of the security 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, bank performance bonds, and securities (including NZ and US government securities and NZX50 listed securities). Securities provided as collateral are subject to a prudential value discount, commonly referred to as a "haircut".

The Group is also exposed to counterparty credit risk through 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.

Liquidity risk

Liquidity risk is managed through a combination of the collateral held from participants, the Clearing House's own cash reserves 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 buy side obligations of defaulted transactions. As at 31 December 2015 the Clearing House held risk capital of $20 million (31 December 2014 $10 million). Finally, 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 $50m 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 is for an initial term of two years ending December 2016.

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 risk 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. The Clearing House regularly stress tests clearing participant exposures against the total amount of margin collateral and risk capital resources.

Clearing balances outstanding

As at 31 December 2015, NZCL has a right to receive $13.872 million (2014: $15.129 million) from Clearing Participants and an obligation to pay $13.872 million (2014: $15.129 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2015. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2015 was $111.193 million (2014: $75.511 million). In addition, at 31 December 2015, the total value of outstanding securities loans was $5.205 million (2014: $2.176 million) and the absolute notional value of open derivative contracts was US$57.560 million (2014: US$23.070 million).

Cash collateral held to cover these outstanding settlement positions at 31 December 2015 was $35.542 million (2014: $25.462 million). In addition, at 31 December 2015 an additional $5.5 million collateral (2014: $5.5 million) was held by way of performance bonds.

23 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:

	2015 $000	2014 $000
Short-term employee benefits	3,758	4,197
Share-based payments	218	(37)
	3,976	**4,160**

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 $406,000 (2014: $469,000) and have been included in other expenses (note 9).

c) Transactions with other related parties

During the year, the Group made sales to and purchases from its associate. The amounts of sales and purchases between the Group and its associate, and any outstanding balances as at reporting date, are set out below. The Group has no associates at year end following the disposal of Link Market Services Limited in June 2015.

	2015 $000	2014 $000
Transactions with related parties		
Sales to Link Market Services Limited	275	638
Interest on receivable from CEO	16	-
Purchases from Link Market Services Limited	(184)	(341)
Balances with related parties		
Receivable from Link Market Services Limited	-	8
Non current receivable from CEO	1,827	-
Payable to Link Market Services Limited	-	(66)

d) Transactions with managed funds

Two of the Company's subsidiaries (Smartshares Limited and SuperLife Limited) are involved in funds management. Management fees are received from the funds and are shown in the Income Statement as Funds management revenue.

24 Lease commitments as lessee

Non-cancellable operating lease payments	2015 $000	2014 $000
Non-cancellable operating lease payments:		
Up to 1 year	2,020	1,673
1 - 2 years	1,851	1,656
2 - 5 years	4,996	4,757
> 5 years	491	1,920
	9,358	**10,006**

The Group leases a number of office premises under operating leases. The leases run for a period of between 1 to 7 years, with an option to renew the lease after that date.

25 Contingent liabilities and commitments

Ralec Litigation

NZX filed proceedings in 2011 against Ralec Commodities Pty Limited, Ralec Interactive Pty Limited, Grant Thomas, Dominic Pym and other related parties (together "Ralec") in the New Zealand High Court. The proceedings relate to claims under the sale and purchase agreement (the "SPA") entered into in 2009 with Clear Commodities Pty Limited and Clear Interactive Pty Limited ("Clear") for breach of warranty and associated claims. NZX filed an updated claim in December and an associated claim against certain shareholders in the Ralec companies in July last year. The updated claim seeks damages of at least AU$20.7 million against Ralec. Ralec denies NZX's claim.

Ralec has recently filed an amended counterclaim against NZX in December. The quantum of the counterclaim remains inadequately particularised. The claims against NZX are primarily for damages in respect of the following payments contingently payable to Ralec under the Clear SPA:

(a) An earn-out payment (the Grain Software Market Payment) of AU$7m (payable in cash and/or NZX shares valued at the date of the SPA) and a possible unquantified ancillary bonus payment, if particular grain tonnages and revenues were achieved by Clear during 2009 and 2012. Between these periods, Clear traded between approximately 13% and 17% of the various tonnage targets. Ralec alleges this was because NZX failed properly to resource and finance Clear. NZX denies this.

(b) A second earn-out of AU$7m (payable in cash and/or NZX shares valued at the date of the SPA) comprising the Agri-Portal Purchase Payment and an ancillary payment (the Agri-Portal Payment), if an Agri-Portal had been completed and put into operation to the satisfaction of NZX by the end October 2012. The core of the Agri-Portal was to be a spot market and associated data based around the Clear Grain Exchange and at least one other commodity. Ralec alleges NZX failed properly to resource and fund the development of the Agri-Portal. NZX denies it breached its obligations and says that because the Clear Grain Exchange did not trade at the anticipated or required levels, the Agri-Portal could not be completed or put into operation to the satisfaction of NZX.

The Ralec's counterclaim also alleges related misrepresentation and breach of duty claims, as well as claims under the Fair Trading Act. Ralec's damages claims are for the loss of the opportunity to earn these payments, together with associated benefits, interest and costs. The total amount of Ralec's counterclaim against NZX remains difficult to assess but NZX believes it is in the vicinity of AU$19-20m.

NZX's claim and Ralec's counterclaim are set down to be heard in the High Court in New Zealand for an 8 week trial starting on 2 May 2016.

Based on the Company's assessment of the circumstances and information available to it, it does not believe it is probable that a loss will be incurred and accordingly no provision has been recognised.

26 Capital commitments

	2015 $000	2014 $000
Capital expenditure commitments:		
Software development	1,368	104
	1,368	104

27 Subsequent events

Dividend

Subsequent to balance date the Board declared a second half 2015 dividend of 3.00 cents per share, to be paid on 30 March 2016 (with a record date of 16 March 2016). This is in line with the NZX dividend policy adopted on 21 February 2014.

Issue of ordinary shares

On 29 January 2016 the Company issued 4,132,232 fully paid ordinary shares at $1.21 per share as the deferred consideration owed to the vendors for the acquisition of SuperLife Limited, as outlined in note 6, as the condition was met for the issue of these shares.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of NZX Limited

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of NZX Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in the 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 Company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm has also provided other assurance services to the Company and Group. 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.

Audit 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 $892,000, determined with reference to a benchmark of Group profit before tax adjusted to exclude the gain on sale of the Group's investment in Link Market Services Limited as disclosed in the consolidated income statement. We chose adjusted profit before tax on the basis it is the benchmark against which the performance of the Group is commonly measured. Materiality represents 5% of the adjusted benchmark.

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, our key audit procedures to address those matters and our findings from those procedures in order that the Group's shareholders as a body may better understand the process by which we arrived at our audit opinion. Our findings are the result of procedures 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.

Key audit matter	**Our procedures to address the key audit matter and findings**
Impairment assessments for goodwill and other intangible assets As disclosed in note 4 of the consolidated financial statements, the Group has goodwill and other intangible assets of $74.8 million (2014: $36.6 million) which is allocated across cash generating units (CGUs). Goodwill and other intangible assets with an indefinite useful life are required to be tested for impairment annually. Impairment of intangible assets is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and due to the judgement involved in the assessment of the 'value in use' of the Group's CGUs performed by the directors. The judgement relates to the future results of the CGU and the discount rates applied to future cash flow forecasts.	To focus our audit procedures on the higher risk areas we made an assessment using our professional judgement of the CGUs we considered to be subject to a higher risk of impairment. This assessment was based on the level of judgement and assumptions involved in the valuation model, the excess of assessed value over the carrying value reflected in the consolidated financial statements, market conditions and materiality. The CGUs we considered to be higher risk were Energy, Agri and SuperLife. For the higher risk assessed CGUs, our procedures included: • Evaluating the logic of the discounted cash flow valuation models; • Revenue forecasts – for the explicit period forecast in the valuation models we compared the forecasts to Board approved forecasts, contracted revenue amounts, historic revenue amounts/growth rates or historic industry statistics; • Cost forecasts – for the explicit period forecast in the valuation models we compared the forecasts to Board approved forecasts and assessed the reasonableness of cost growth by comparing it to historic long run inflation rates; • Assessing the reasonableness of the terminal growth rate by comparing it to the long run inflation rate; and • Assessing the reasonableness of the discount rates applied by comparing them to the current market conditions for the CGU. As a cross-check we compared the valuations to the market for comparable businesses and

transactions. The market valuations had headroom above the CGU carrying values when applied to actual CGU earnings or funds under management.

As an overall test we compared the Group’s net assets as at 31 December 2015 of $76.2 million to its market capitalisation of $282.4 million at 31 December 2015 and noted implied headroom of $206.2 million.

We also assessed whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and intangible assets.

We found the assumptions and resulting estimates used in each of the impairment assessments to be balanced. We found the Group’s disclosures to be proportionate in their description of the assumptions and estimates made by the Group and the sensitivity to changes thereon.

Acquisition accounting

The acquisition of SuperLife Limited as disclosed in note 6 of the consolidated financial statements is a key audit matter due to the size of the acquisition (purchase price of $32.9 million) and complexities inherent in business acquisitions.

Management has completed a process to allocate the purchase price to tangible assets, goodwill and separately identifiable intangible assets such as management rights. This process involves estimation and judgement of future performance of the business and discount rates applied to future cash flow forecasts.

Our procedures to assess the accounting treatment of the acquisition included:

- Reading the sale and purchase agreement to understand the key terms and conditions, and confirming our understanding of the transaction with management;
- Evaluating the recognition of the contingent consideration included in the purchase price. We assessed the probability of achieving the funds under management growth targets by comparing these against historic industry statistics;
- Evaluating the assets and liabilities identified in the acquisition accounting against the terms of the sale and purchase agreement; and
- Evaluating the cash flow forecasts used in the measurement of the identifiable intangible assets. This included assessing the growth in funds under management, changes in member numbers and the discount rate against historic industry statistics and current market data.

We found the assumptions and resulting estimates used in the measurement of the acquired assets and liabilities to be balanced.

Information other than the Consolidated Financial Statements and Auditor's Report

The directors are responsible for all other information included in an entity's Annual Report. Other information may include the Chairman's report, CEO's Report, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we will not express any form of audit opinion or assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this auditor's report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears misstated. If so we are required to report such matters to the directors.

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible on behalf of the entity for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are 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 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 and 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 detailed description of the auditors' responsibilities including those related to assessment of risk of material misstatement, evaluation of appropriateness of going concern assumptions and determining key audit matters are available on the External Reporting Board website: https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

KPMG

Brent Manning (Partner)

For and on behalf of KPMG

Wellington

23 February 2016