



NEW ZEALAND'S EXCHANGE

Annual Report 2017

# NEW ZEALAND'S EXCHANGE





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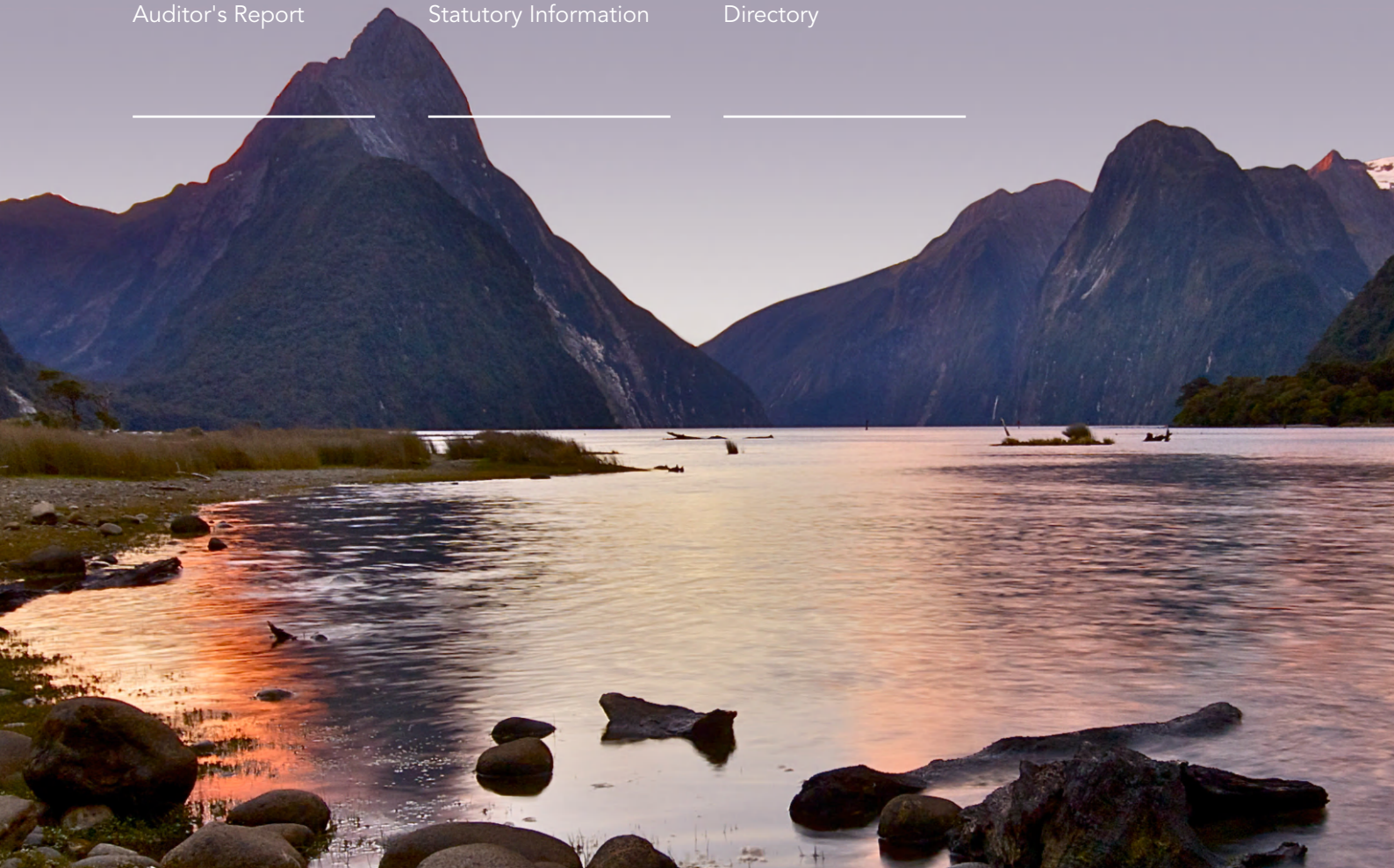
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# Highlights 2017

NPAT  
**\$14.8**  
million

**61.6%**

Operating earnings\*\*  
**\$29.0**  
million

**31.3%\***

Operating costs  
**\$46.3**  
million

**11.6%\***

Dairy lots  
traded  
**57.2%**

Funds Under  
Management  
**25.8%**

Smartshares  
retail applications  
**84%**

More  
than  
**220**  
active derivatives  
traders

More  
than  
**500**  
customer meetings  
in 2017

More  
than  
**70**  
listing rule  
review responses

\* Excluding impact of 2016 Agri disposals

\*\* 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



## Word from the Chair

It has been a busy year for our company driven by a vital reset of the exchange, as the board established the right leadership and a renewed strategy to deliver sustainable growth for our shareholders over the coming years.

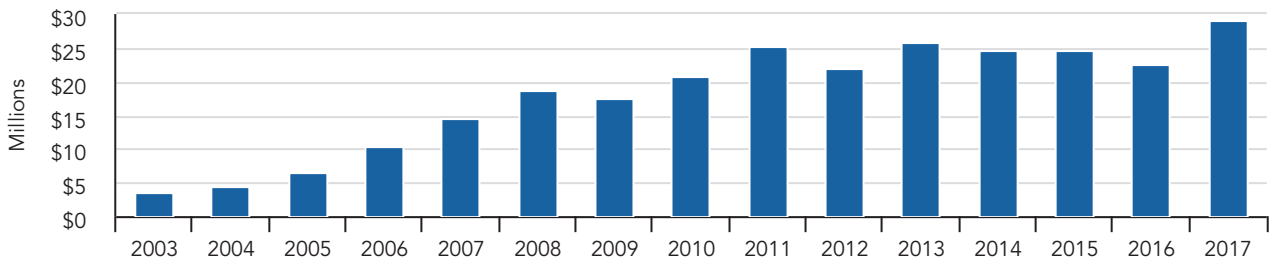
Against the backdrop of Mark Peterson's appointment as Chief Executive in April, and the subsequent development of our strategy, we delivered a strong financial result with operating earnings of \$29.0 million in 2017, which was at the higher end of our guidance range. On a like-for-like basis this was 31.3% above the prior year.

On a like-for-like<sup>1</sup> for basis revenues increased 1.1% to reach \$75.3 million and Net Profit After Tax was \$14.8 million, up 61.6% on 2016.

The 2017 financial year was aided by the absence of the one-off costs associated with previous financial years and significant permanent cost savings, which

<sup>1</sup> Like-for-like excludes impact of 2016 Agri business disposals

**2017 operating earnings of \$29.0 million**



saw operating expenses decline by 11.6% on a like-for-like basis. Further financial information is included in the [management commentary](#) of this report.

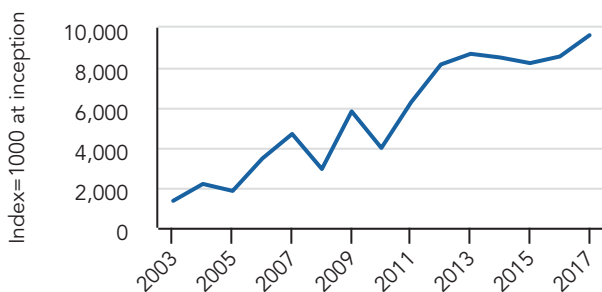
**Strategic review**

The highlight of 2017, and the board’s number one focus, was to reset the strategic direction of our company to provide management with a clear direction for the next five years.

The board was fully engaged in the redevelopment of the strategy, and played a central role in the complete review of NZX’s business, analysing global market trends and the performance and activities of our peers. The strategy which resulted from this process delivers a compelling vision for NZX, with initiatives that will drive growth, and deliver improved performance for you, our shareholders.

Continuing to improve our Total Shareholder Return (TSR) performance remains front of mind for the board as we work alongside the management team to execute on our strategy to the benefit of our shareholders, and our customers in the New Zealand market.

**Total Shareholder Returns**



\*TSR based on 2003 start point of 1000

The board commissioned a review of the company’s capital structure and dividend policy as part of the strategic review. A number of recommendations flowed from the review and the board has carefully considered these.

**Dividend**

The board has declared a final ordinary dividend of 3.1 cents per share, which is fully imputed and brings the total ordinary dividend declared for this financial year to 6.1 cents per share.

The board has determined that it is appropriate to introduce a new dividend policy which will come into effect for the 2018 financial year onwards. The new policy is to pay between 80% to 110% of adjusted Net Profit After Tax, subject to maintaining a prudent level of capital to meet regulatory requirements. The board considers that a policy based on Net Profit After Tax is comparable with peers, and provides sufficient headroom to manage the ongoing capital structure requirements of the exchange, and pursue future relevant opportunities should they arise.

The board is pleased to announce it will offer a dividend reinvestment plan (DRP) which will be in place for the 2018 interim dividend in response to shareholder feedback. The board recognises the important role DRP’s play in rewarding investors for their loyal support, and it is a convenient way of reinvesting dividends back into the company’s shares. Further details, including the full offer document will follow in due course.

**Capital management**

The board has completed a review of the company’s capital structure. We have been consulting on a



mutualised default fund which will advance our Clearing House's risk model to meet global standards. This is important to ensure we have the appropriate Clearing House risk structure to meet the anticipated growth of our dairy derivatives market.

The board will explore the use of a capital note to ensure NZX has a more robust balance sheet to protect the business in the unlikely case of a major market event.

### **Divestment of non-core businesses**

As part of the strategic review, the board and leadership are focused on developing opportunities which are aligned to, and support growth in, our core market's business. As such, rural newspaper Farmers Weekly, and the grain data business based in Australia were deemed non-core.

The strategic focus on our core has resulted in NZX entering into a non-binding indicative term sheet for the sale of Farmers Weekly. We will provide the market with a further update shortly but I would like to take this opportunity to thank all the staff for their commitment and enthusiasm to this business.

### **New Zealand's exchange**

A key outcome of the strategy was to ensure that our customers and their needs remained core to the operation and effectiveness of the New Zealand exchange.

Given this focus we remain disappointed in Xero's decision to leave the S&P/NZX 50. The team at NZX is focused on ensuring our customers have the support of a world class exchange that enables them to deliver outstanding investable products and services globally, while creating wealth for New Zealand, and value for shareholders.

I would like to take this opportunity to acknowledge the companies, brokers, policy makers, industry bodies and investors, who have committed to working alongside NZX to improve the operation and effectiveness of the local market. Our refreshed strategy is a major step change for NZX as we shift our focus away from a regional stock exchange model to create strong linkages and partnerships with global

exchanges who are committed to promoting confidence and co-operation in their respective markets.

We are already executing on this vision and were pleased to sign a Memorandum of Understanding with Hong Kong Exchanges and Clearing Limited (HKEX) in January. The terms of the memorandum will seek to further promote confidence and cooperation in Asia-Pacific markets through a range of market development, green finance and sustainability initiatives.

I look forward to updating you on our progress as we increase the international presence of the exchange, and as a result the reach and connection of the market. This offers an opportunity for our listed issuers to expand into new markets, our participants will benefit from better connected markets and capital flows, and investors will enjoy a broader product offering.

### **Your board**

At last year's annual shareholders' meeting, long-serving director Neil Paviour-Smith retired by rotation. Neil was an inaugural director when the company listed in 2003 and during this time made an outstanding contribution to the market which extended far beyond his role at NZX. Throughout his tenure New Zealand's capital market experienced significant growth and I personally thank him for his service and contribution to our company.

Alison Gerry also stood down in April after serving NZX through an exciting, but challenging time, in our history.

We welcomed Richard Bodman, Frank Aldridge and Nigel Babbage to the board in 2017, with these appointments bringing fresh experience and skills in key areas of clearing, risk management, equity markets, funds management and derivatives to NZX.

As I mentioned at our annual meeting in June 2017, the board has employed a disciplined approach to ensuring it has the right skills to operate effectively for shareholders. We remain committed to regularly assessing the skills and experience needed to run your business, and are pleased our comprehensive

skills matrix could be used to identify and appoint Richard, Frank and Nigel.

Board composition goes to the heart of a board's effectiveness and we were pleased to announce last week that Lindsay Wright will join NZX as a director. Lindsay is an exceptional talent and brings to the board more than 30 years' financial service and funds management experience both locally and globally. I am delighted that NZX and the New Zealand market will benefit from her strong skill set.

I would like to acknowledge the dedication of each of my fellow directors over the past year. I believe NZX has a strong and capable board with an extensive and complimentary set of skills and experience to support the management team in the execution of our strategy.

As a board we are also committed to growing the next generation of New Zealand directors and were pleased to announce our participation in the Future Directors Programme in May, welcoming our inaugural participant, Anna Molloy, a former fund manager and sell-side equity analyst. The programme has the active support of the New Zealand Shareholders' Association, and NZX is pleased to participate alongside other leading listed companies. Anna will continue to attend our board meetings as an observer for an 18 month term.

## People and culture

Culture change is key to delivering our strategy and the improved result of our annual employee engagement survey in September reflects the progress being made under Mark's leadership. This bodes well for the future as we continue to build an engaged, delivery focused team.

Having your employees as owners of the business, no matter how small that ownership may be, is very rewarding. Share ownership encourages staff to think like a shareholder and supports engagement. As such the board will grant each staff member \$1,000 worth of shares, reflecting the significant work undertaken in respect of the strategy and culture we are creating. Going forward all new staff members will also receive \$1,000 of shares upon starting at NZX.

We look forward to working alongside Mark and the leadership team to grow NZX in 2018 and are confident that as a business, we have prepared and invested sensibly to position ourselves well for the future.

## Guidance

2018 will set the platform for NZX's future growth. The divestment of non-core assets, including Farmers Weekly, and changes to the clearing and trading pricing structure in the second half of this year will rebase the 2018 operating result. For the 2018 financial year the board expect operational earnings to be in the range of \$28.0 million to \$31.0 million. This is subject to market outcomes, particularly with respect to initial public offerings, secondary capital raising, equity trading and derivatives trading volumes. This guidance assumes no material adverse events, significant one-off expenses or major accounting adjustments. It also assumes no further acquisitions or divestment.

To all the staff at NZX who are serving our customers – on behalf of the board I thank you for your commitment to our strategy. At times we operate in a demanding environment, but I am encouraged by the passion and enthusiasm you show daily.

Thank you to all our customers and stakeholders across the capital markets network we appreciate your support.

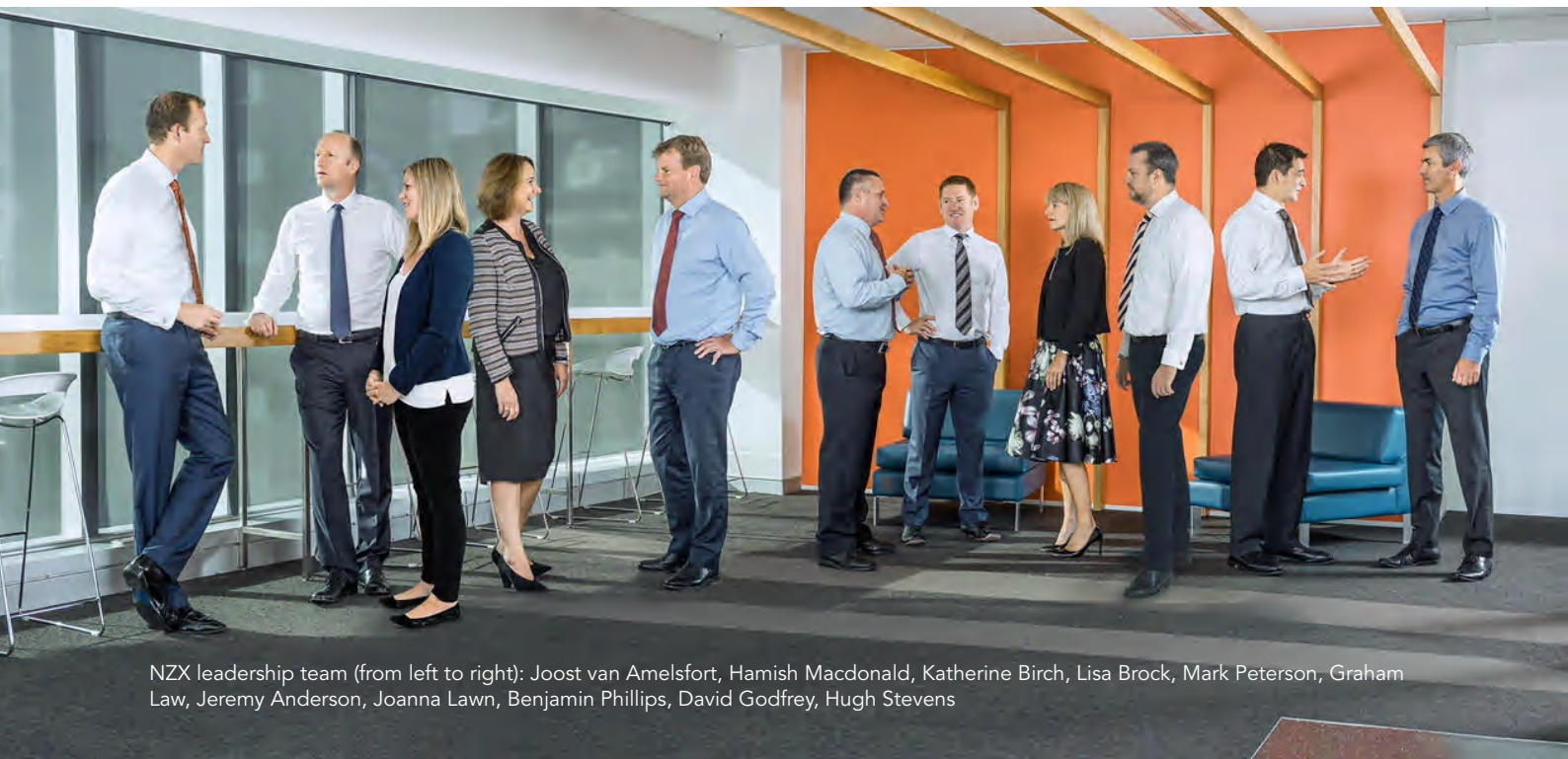
I want to close by thanking our shareholders for trusting and supporting the exchange with their investment. I believe NZX is well positioned for continued growth and the refreshed strategy has given us positive momentum and a clear course to pursue in the years ahead.

I look forward to updating you on the implementation and delivery of our strategy at our annual meeting in Christchurch on 13 April 2017.

Best,



James Miller, **Chairman**



NZX leadership team (from left to right): Joost van Amelsfort, Hamish Macdonald, Katherine Birch, Lisa Brock, Mark Peterson, Graham Law, Jeremy Anderson, Joanna Lawn, Benjamin Phillips, David Godfrey, Hugh Stevens

# CEO Report

Standing behind our business in 2017 were more than 13,800 customers, almost 3,700 shareholders, and 237 dedicated employees.

2017 marked a fundamental reset of New Zealand’s exchange as we refreshed our strategy to renew our focus on the core markets division and the customer – many of which are leaders in their own industries and sit at the heart of our business.

The public capital market plays a vital and active role in New Zealand’s economy – and a healthy market is one with wide participation, a growing range of investable products, and data and insights which support investment decisions. It was therefore logical that NZX decided to pursue a strategy that would refocus back on its core business – the operation of New Zealand’s equity, debt and derivatives markets.

I am passionate about New Zealand’s capital markets and am keen to make a difference as NZX’s CEO by ensuring we play our part in creating a strong exchange, with a global reach, that delivers for its customers, stakeholders and shareholders.



We are committed to delivering for you and for New Zealand. I hope you find our progress in this report encouraging.

### Delivering on the plan

I am pleased to report a strong financial result for NZX in 2017. We achieved this result through solid growth in both our Funds Management and Dairy Derivatives businesses, and an improved Agri result. This was against the backdrop of our Core Markets business, which had lower new issuance revenues, but improved data growth. The result was also underpinned by an unrelenting focus on cost management and efficiency gains.

The development of our strategy was a critical piece of work in 2017, as was the delivery of several necessary projects to ensure our business has an efficient platform to grow from in the years ahead.

To further support our increased delivery efforts and customer focus, we made positive changes to the organisation’s structure, and realigned our remuneration, reward and recognition programme. We welcomed Joanna Lawn as Head of Issuer Relationships and Graham Law as Chief Financial Officer in September and November respectively, while Hugh Stevens joined earlier this month to lead the funds management business. All bring strong capital markets experience, and new energy and drive to our leadership team.

Our listed issuers are a central pillar of our business and one of my first priorities as CEO was to create a dedicated issuer relationship team with two areas of focus: to provide exceptional service to our equity, debt and funds issuers, and; to grow the investable products we have in the New Zealand market.

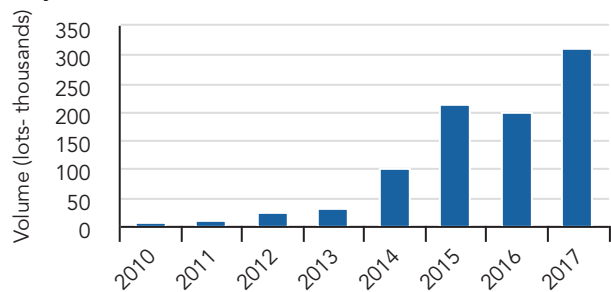
Our customer engagement levels have already lifted considerably, with the team engaging with more than 100 customers since Joanna joined in September 2017. While we recognise last year was a quiet year for new equity issuance, we were pleased to welcome Oceania Healthcare and TIL Logistics Group to the Main Board, and Summerset Group Holdings, Heartland Bank, Property for Industry and Christchurch

City Holdings to the debt market, where \$3.2 billion of new debt was listed through 20 separate issues.

A dedicated secondary market team was also created to ensure our participants receive a higher level of engagement, and to ensure that we effectively deliver initiatives that will lift the liquidity and participation in the equity, debt and derivatives markets. While developing our strategy it became clear we needed to boost our efforts in the secondary market to align with global standards. Following a successful trial in 2017, NZX will move to a revised pricing structure in the second half of 2018, which we believe will assist in attracting new liquidity and participation.

NZX’s dairy derivatives market finished the year with record trading volumes achieved across its full suite of futures and options contracts. Volumes traded were up 57.2% and the number of active traders accessing our market increased 60% on the prior year. We see a significant opportunity for sustained and profitable long term growth in this market. The product set was extended in December to meet customer demand with the launch of Skim Milk Powder Options.

### Dairy derivatives volume since launch

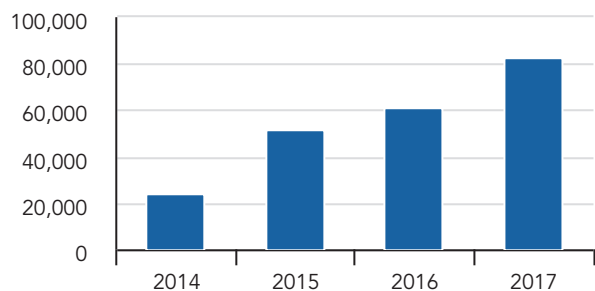


The Smartshares and SuperLife businesses are core to our strategy of growing equity market participation and providing low cost investment options in the local share market. Our Smartshares Exchange Traded Funds (ETF) business had a strong year delivering 43.9% growth in Funds Under Management and record retail application numbers which were 84% higher than the prior year. Of particular note, 49% of these applications were received from first time investors.

We farewelled SuperLife’s previous owner Michael Chamberlain in December, and acknowledge the very important contribution he has made to this business.

Wealth Technologies is the newest addition to NZX. The team is building a wealth management platform that will enable advisers and brokers to manage their clients’ investments. Despite the dedication of the team, progress on-boarding our first large customer to the platform has been delayed, however core platform development is expected to be completed in Q2 and to go live with that customer in Q3.

**Smartshares ETFs total unitholders**



Maintaining our reputation as a provider of trusted and reliable market infrastructure will continue as a key priority and there was significant effort within the business during 2017 to deliver several key technology projects. We completed a major life-cycle upgrade to the clearing and settlement system, moved our New Zealand based capital market participants to a modern and robust telecommunications infrastructure, implemented changes to the way administrative trading halts are applied, and upgraded our website NZX.com. These initiatives are already contributing to the improved efficiency and resilience of our business and the wider market.

The listing rules under which our core customers – issuers – operate, form the foundations of the public market. These rules and the structure of the market are a key element which NZX can use to grow our product base and increase participation, and these are currently under review, having not been holistically updated since 2003.

Industry feedback is critical to ensuring the changes to our rules meet the needs of the market, and we were extremely pleased with the high level of engagement during phase one of the listing rule review which closed in November, with approximately 70 quality submissions and survey responses received.

**NZIER Report – the economic contribution of NZX**

As part of the background to developing our strategy, NZX commissioned specialist consulting firm, NZIER to undertake an independent assessment of the public market and its direct and indirect value to the New Zealand economy.

The report confirmed the vital contribution the public market makes to the local economy, and the active role the exchange plays in supporting market health and participation.

It highlighted that the economic and employment footprint of the public market was significant, with the combined revenue of S&P/NZX 50 companies totalling more than \$61 billion. Collectively these companies generated \$24.6 billion of Gross Domestic Product – some 10% of the entire New Zealand economy – and paid \$2.5 billion in tax annually which was available to fund Government initiatives.

NZIER’s analysis reinforced the importance of a public market to the health and wealth of a nation. This was further validated through a wide range of market feedback, which stated that a local exchange plays a critical role in making an economy function efficiently and effectively, while providing an opportunity for thousands of New Zealanders to invest.

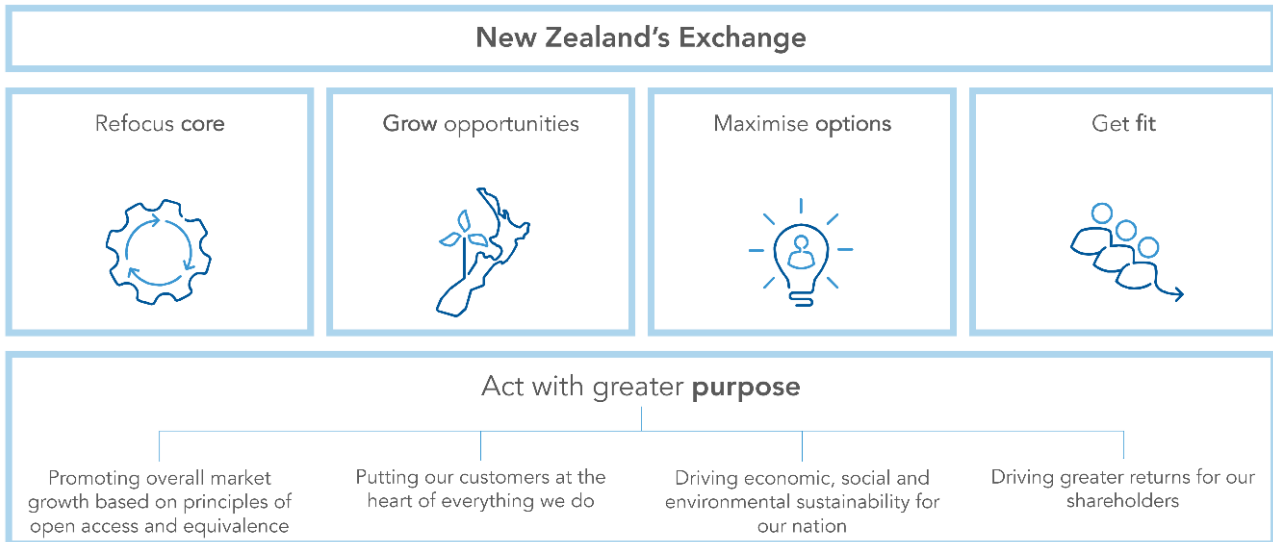
The report served to further reinforce NZX’s strategic decision to refocus on its core markets business and grow its funds management business to deliver initiatives to widen participation, grow investable product, deepen liquidity and expand the market’s global presence.

In addition, the publication of the NZX Corporate Governance Code in May was a significant step forward for the reporting requirements of New Zealand listed companies, along with the delivery of the revised Participant Rules in December.

Our policy team has also taken steps to promote the growth of a local green bond market releasing a guidance note in December, and has engaged with the market as part of the listing rules review, to

improve the accessibility of this investment option to encourage the development and access of this emerging product within the market.

## Delivering on our strategy — 2018 and beyond



### Refocusing on our core

We recognise that our core markets business is NZX's fundamental growth platform.

Having a dedicated issuer relationship team in place means we can focus on promoting the benefits of listing, improving issuer retention and maximise listings throughout the economic cycle. On this note, we are pleased to welcome QEX Logistics as our first new listed customer in 2018.

Our efforts to develop the secondary market will increase as we implement a globally competitive pricing structure, supported by efficient regulation, broadened participation, and active marketing of the benefits of our exchange to a global audience – the New Zealand market has a great story to tell, we just need to share it more.

Data is an area of increasing opportunity as we take raw data and develop insights that match customer demand to help grow our core markets business. We have a unique opportunity to expand our dairy data offering and are scoping requirements to create a

dairy information service to support our derivatives market. In Q2 we will partner with Bloomberg to hold our first joint marketing events to drive growth and extend our reach into Asia. We are also exploring opportunities with other global data vendors.

### Growth opportunities

A strong core market provides NZX with an opportunity to extend and grow our existing capabilities in additional areas related to our core strengths. These are New Zealand's dairy derivatives, debt and environmental and energy markets.

The progress of the dairy derivatives market confirms our strategic decision to accelerate it to benchmark status. Our derivatives business is already competing globally and making a meaningful contribution to our revenue and operating earnings lines. In 2018 our priorities are to boost our sales and marketing efforts and expand global access and the product set to deliver the opportunity.

This team is already delivering, with the extension of market trading hours to meet global requirements on



track for July, and the addition of further trading functionality following customer feedback set to be released in March.

With widespread retail participation already being achieved in the debt market this product offering has the ability to assist in setting NZX apart internationally – recent growth reinforces New Zealanders appetite for these products. We are exploring several opportunities which include a wholesale market and green bond growth to support infrastructure funding, and we intend to expand on the product set following the completion of the listing rules review.

### Maximise options

There is a significant opportunity in front of our Funds Management business, with a large unmet need amongst New Zealand investors to participate in the local market beyond their involvement in KiwiSaver. NZX began helping to meet that need more than three years ago when we extended our suite of Smartshares ETFs. 2018 is about enhancing this growth, and building on 2017's record numbers under fresh leadership.

We look forward to welcoming our first client to the Wealth Technologies platform in 2018 and growing this business.

### Closing remarks

Our core market must deliver more investable product, deeper liquidity levels, greater participation rates, and achieve a global presence. We have a strong focus on these elements, and it is imperative that our team continues to progress our initiatives to grow New Zealand's public market. This is critical not only to success of our company – but the success of our economy.

NZX delivered a strong financial result in a very busy year. It was underpinned by a strong customer focus, efficiency improvements, and a disciplined approach to cost savings. Our refreshed strategy was a significant and important piece of work that puts our business on a strong footing to deliver into the future. We know we have a lot to do, but are optimistic about our growth prospects, and most importantly, we are

passionate about playing our part to deliver for the market and our shareholders.

As I transitioned into my first year as CEO I would like to take this opportunity to thank the NZX team for the way they embraced our strategy and the changes to the organisation that supports it.

I would also like to thank Bevan Miller and Aaron Jenkins for their service to NZX and wish them well for the future. Both resigned in 2017 and made tremendous contributions to our business during their time here.

To the Board, on behalf of the wider business, thank you for your support and engagement through what was a busy and demanding time.

To our shareholders, thank you for your continued support of our business. I look forward to updating you on our delivery throughout 2018.



Mark Peterson, **Chief Executive**

# Management Commentary

Financial results for the year ended  
31 December 2017

## Overview

A breakdown of NZX's financial results by business segment is summarised in the table below.

<b>Year ended 31 December 2017</b>	<b>Markets \$000</b>	<b>Agri \$000</b>	<b>Funds Services \$000</b>	<b>Corporate \$000</b>	<b>Total \$000</b>
Operating revenue	52,350	8,184	14,791	-	75,325
Operating expenses	(12,317)	(6,427)	(12,066)	(15,512)	(46,322)
<b>Operating earnings</b>	<b>40,033</b>	<b>1,757</b>	<b>2,725</b>	<b>(15,512)</b>	<b>29,003</b>
Net finance expenses, tax, depreciation and amortisation and gain on sale					(14,166)
<b>Net profit after tax</b>					<b>14,837</b>

<b>Year ended 31 December 2016</b>	<b>Markets \$000</b>	<b>Agri \$000</b>	<b>Funds Services \$000</b>	<b>Corporate \$000</b>	<b>Total \$000</b>
Operating revenue	53,574	10,938	13,032	-	77,544
Operating expenses	(12,442)	(10,148)	(13,348)	(19,089)	(55,027)
<b>Operating earnings</b>	<b>41,132</b>	<b>790</b>	<b>(316)</b>	<b>(19,089)</b>	<b>22,517</b>
Net finance expenses, tax, depreciation and amortisation and gain on sale					(13,335)
<b>Net profit after tax</b>					<b>9,182</b>

<b>Year ended 31 December 2015</b>	<b>Markets \$000</b>	<b>Agri \$000</b>	<b>Funds Services \$000</b>	<b>Corporate \$000</b>	<b>Total \$000</b>
Operating revenue	50,375	12,094	10,682	-	73,151
Operating expenses	(12,874)	(11,043)	(8,956)	(15,699)	(48,572)
<b>Operating earnings</b>	<b>37,501</b>	<b>1,051</b>	<b>1,726</b>	<b>(15,699)</b>	<b>24,579</b>
Net finance expenses, tax, depreciation and amortisation and gain on sale					(707)
<b>Net profit after tax</b>					<b>23,872</b>



## Core Markets

Core Markets revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
Issuer Relationships revenue	24,257	26,770	24,791	(9.4%)
Secondary Markets revenue	16,629	15,726	14,551	5.7%
Data & Insights revenue	11,464	11,078	11,031	3.5%
<b>Total Core Markets revenue</b>	<b>52,350</b>	<b>53,574</b>	<b>50,373</b>	<b>(2.3%)</b>

Revenue and strategic metrics for the Core Markets division are detailed below.

### Issuer Relationships

Revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
<b>Issuer Relationships</b>				
Annual listing fees	10,280	9,226	8,584	11.4%
Initial listing fees	931	2,330	764	(60.0%)
Secondary issuance fees	2,696	3,341	4,042	(19.3%)
Other issuer services	586	1,144	770	(48.8%)
Development revenue	428	1,493	1,375	(71.3%)
Contractual revenue	9,336	9,236	9,256	1.1%
<b>Total Issuer Relationships revenue</b>	<b>24,257</b>	<b>26,770</b>	<b>24,791</b>	<b>(9.4%)</b>
<b>Strategic metrics</b>				
Number of listed issuers	223	232	231	(3.9%)
Equity market capitalisation	\$135.2b	\$115.5b	\$110.2b	17.1%
Debt market capitalisation	\$26.4b	\$25.7b	\$19.8b	2.7%
Number of new equity listings	1	7	6	(85.7%)
Number of new debt listings	20	37	26	(45.9%)
Value of new equity listed	\$0.48b	\$2.1b	\$1.7b	(77.1%)
Value of new debt listed	\$3.2b	\$6.4b	\$8.1b	(50.0%)
Total secondary capital raised	\$4.4b	\$4.6b	\$12.9b	(4.3%)

Annual listing fees paid by NZX's equity, debt and fund issuers is driven by the number of listed issuers and equity and debt market capitalisations. Growth in annual listing fees came from:

- a substantial increase in the number and value of listed debt instruments over the past few years; and
- the growth in equity market capitalisation.

The number of equity issuers declined in 2017 due to delistings as a result of takeovers and liquidations. The number of debt issuers continued to increase.

Initial listing fees are paid by all issuers at the time of listing. The primary driver of this revenue is the number of new listings and the value of capital listed. The substantial listing of new debt products in 2016 was not fully replicated in 2017 resulting in a decrease in initial listing fees.

Secondary issuance fees are paid by existing issuers when the company raises additional capital through placements, rights issues, the exercise of options, dividend reinvestment plans, or further debt issues. The primary driver for this revenue is the number of secondary issuances and the value of secondary capital raised. Secondary capital raised in 2017 was dominated by new debt listed which came from 20 separate issues.

Other issuer services revenue arises from time spent by NZX Regulation reviewing listing and secondary capital raising documents, requests for listing rule waivers, and other significant issuer matters.

Contractual and development revenue arises from the operation of New Zealand's electricity market (under a long term contract from the Electricity Authority) and the Fonterra Shareholders' Market (under a long term contract from Fonterra). Development revenue arises on a time and materials basis, there was a lower level of development and consulting activity in 2017.

The Issuer Relationship team was established in 2017 and is tasked with better servicing NZX's current and prospective equity, debt and funds customers. This will contribute to the strategic metrics outlined above and ensure that New Zealand's companies are better enabled for growth and are aware of the opportunities that a public listing creates.

### Secondary Markets

Revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
<b>Secondary Markets</b>				
Participant services revenue	3,768	3,592	3,526	4.9%
Securities trading revenue	5,817	5,765	4,976	0.9%
Securities clearing revenue	5,911	5,663	5,365	4.4%
Dairy derivatives revenue	1,133	706	684	60.5%
<b>Total Secondary Markets revenue</b>	<b>16,629</b>	<b>15,726</b>	<b>14,551</b>	<b>5.7%</b>
<b>Strategic metrics</b>				
Number of trades	2.05m	1.75m	1.46m	17.1%
Total value traded	\$44.0b	\$44.0b	\$41.7b	-
Dairy lots traded	311,675	198,303	213,677	57.2%
Number of participants	36	35	36	2.9%

Participant services revenue is charged to market participants (broking, clearing and advisory firms) that are accredited for NZX's equity, debt and derivatives markets. The number of market participants remained constant in 2017.

Securities trading revenue comes from the execution of trades on NZX's equity and debt markets. Trading fees are currently a combination of a fixed fee per trade (approximately 70% of the revenue) and a variable fee based on the value of the trade. NZX commenced a trial to increase electronic trading flow in July, and this is reflected in the 2017 trading numbers, with the number of trades out-pacing actual value traded. The trial did not include a fixed fee per trade component, hence the number of trades exceeds the increase in revenue.

Securities clearing revenue relates to clearing and settlement activities, and a range of securities related services such as stock lending undertaken by NZX's subsidiary New Zealand Clearing and Depository Corporation. The largest component is clearing fees which are based on the value of settled transactions. The total value traded was similar to 2016 with a slight increase in on-market trading.

NZX announced changes to its securities trading and clearing pricing structure in December 2017, which will be implemented alongside rule changes in the second half of 2018. This was in response to market feedback, and the positive results of the pricing trial. These changes seek to encourage greater on-market liquidity and price transparency, which is in line with NZX’s strategic commitment to develop the secondary market. The intention is to migrate to a trading and clearing pricing model in line with global practice and provide participants greater price certainty when negotiating with their clients. This will lead to securities trading and clearing revenue being variable based on the value of each trade.

Dairy derivatives revenue relates to trading, clearing and settlement fees for trading NZX dairy futures and options. The fees are largely charged in USD (reflecting the global nature of the market) per lot traded. There was a significant increase in trading on the dairy derivatives market in 2017, with traded volumes up 57.2% on the prior year to 311,675 lots, resulting in a revenue increase of 60.5%. Growth was also reflected in a 60% increase in the number of active traders accessing the market in 2017.

The Markets Development & Clearing team is tasked with developing the secondary market. This requires action on multiple fronts, and includes but is not limited to, growing participation, optimising pricing models, broadening the product suite, and developing efficient regulation.

*Data & Insights*

Revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
<b>Data &amp; Insights</b>				
Royalties from terminal	6,367	6,965	7,038	(8.6%)
Subscriptions and licenses	4,099	3,288	3,279	24.7%
Dairy data subscriptions	693	672	473	3.1%
Other	305	153	241	99.3%
<b>Total Data &amp; Insights revenue</b>	<b>11,464</b>	<b>11,078</b>	<b>11,031</b>	<b>3.5%</b>
<b>Strategic metrics</b>				
Terminal numbers (12 month average)	7,379	7,407	7,222	(0.4%)
Number of licences	97	92	83	5.4%
Number of proprietary security products subscription	404	395	381	2.3%
Number of dairy data products subscription	774	584	442	32.5%

Royalties from terminals relate to the provision of capital markets data to global data resellers who incorporate the data into their own subscription products. Terminal numbers remained relatively flat in 2017.

Subscription and licenses relate to the provision of capital markets data to other participants in the capital markets. Increased revenue from licence fees has been the result of the implementation of new pricing policy around Non-Display Applications.

Dairy data subscriptions relate to the sale of dairy data and analytical products. Additional Data & Insights revenue comes from FundSource and the annual dairy derivatives risk management conference.

The Data & Insights team is tasked with growing existing data revenues, and turning raw data into insights that drive decisions, particularly those which will support NZX’s Core Markets and dairy derivatives businesses.



## Funds Services

Revenue and strategic metrics for the Funds Services division are detailed in the table below.

Revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
<b>Funds Management</b>				
SuperLife revenue	7,846	7,038	6,433	11.5%
Smartshares revenue	5,602	4,589	3,562	22.1%
<b>Total Funds Management revenue</b>	<b>13,448</b>	<b>11,627</b>	<b>9,995</b>	<b>15.7%</b>
<b>Wealth Technologies</b>				
Administration fees	1,163	1,365	689	(14.8%)
Development fees	180	40	-	350.0%
<b>Total Wealth Technologies revenue</b>	<b>1,343</b>	<b>1,405</b>	<b>689</b>	<b>(4.4%)</b>
<b>Total Funds Services revenue</b>	<b>14,791</b>	<b>13,032</b>	<b>10,684</b>	<b>13.5%</b>
<b>Strategic metrics</b>				
SuperLife member numbers	50,304	48,015	43,713	4.8%
SuperLife external FUM	\$1,999m	\$1,660m	\$1,433m	20.4%
Smartshares external FUM	\$701m	\$487m	\$440m	43.9%
Smartshares SuperLife FUM	\$1,430m	\$1,218m	\$1,050m	17.4%
<b>Total Smartshares FUM</b>	<b>\$2,131m</b>	<b>\$1,705m</b>	<b>\$1,490m</b>	<b>25.0%</b>
<b>Total Fund Management FUM (external)</b>	<b>\$2,700m</b>	<b>\$2,147m</b>	<b>\$1,873m</b>	<b>25.8%</b>
<b>Total Wealth Platform FUA (external)</b>	<b>\$1,167m</b>	<b>\$1,292m</b>	<b>\$1,317m</b>	<b>(9.7%)</b>

Funds management revenue is generated from:

- the SuperLife superannuation and KiwiSaver business, being a mix of fixed membership fees and variable Funds Under Management (FUM) fees; and
- the Smartshares Exchange Traded Funds (ETFs) business, being variable FUM fees.

The growth in SuperLife member numbers and total external FUM has been a driver of the significant increase in funds management revenue, with the number of members now exceeding 50,000, up 4.8% on 2016.

Smartshares unitholders (the number of investors in each ETF) increased 37.6% in 2017. This was aided by growth in Smartshares retail business, which saw applications to invest directly in the product increase 84% on the corresponding period.

Wealth Technologies revenue is generated from administration services provided on the existing wealth management platform, which NZX acquired on 1 July 2015, and development fees received for part of the new platform that is in production. The administration fees are based on Funds Under Administration (FUA).

Client numbers remain the same, however there was a decrease in FUA which drove down revenue. Wealth Technologies is on track to complete implementation of its first client onto the new platform in 2018.

## Agri

Revenue and strategic metrics for the Agri division are detailed in the table below.

Revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
Publishing revenue	5,164	6,451	8,069	(20.0%)
Agri data (non dairy) revenue	3,020	3,366	3,148	(10.3%)
Commodities trading revenue	-	1,121	877	(100.0%)
<b>Total Agri revenue</b>	<b>8,184</b>	<b>10,938</b>	<b>12,094</b>	<b>(25.2%)</b>
<b>Strategic metrics</b>				
Total paid advertising page equivalents	1,382	1,679	2,120	(17.7%)
Number of NZ Agri (non dairy) products subscription	2,348	1,857	1,744	26.4%
Number of Australian agri products subscription	1,514	1,820	1,842	(16.8%)
Total tonnes traded	-	543k	452k	(100.0%)

Publishing revenue relates to advertising and subscription revenues from the publication of rural newspapers and magazines. NZX's two magazine titles were sold effective, 1 November 2016. Subsequent to balance date, NZX has entered into a non-binding indicative Term Sheet for the disposal of its rural newspaper (Farmers Weekly), expected to be effective, 1 April 2018. No gain or loss is expected to result from the sale, should all conditions be met.

Agri data (non-dairy) revenue relates primarily to the sale of subscription data and analytical products in the Australian grain industry.

Commodities trading revenue related to NZX's Australian online grain trading market, the Clear Grain Exchange, which was sold in December 2016.

## Operating Expenses

	2017 \$000	2016 \$000	2015 \$000	Changes 2017 v 2016
Gross personnel costs	28,912	32,708	27,689	11.6%
Less capitalised labour	(3,075)	(2,855)	(1,638)	7.7%
Personnel costs	25,837	29,853	26,051	13.5%
Information technology costs	7,807	7,303	6,242	(6.9%)
Professional fees	2,296	5,593	5,599	58.9%
Marketing, print and distribution	2,594	3,064	3,549	15.3%
Fund expenditure	3,489	3,660	2,280	4.7%
Other expenses	4,299	5,554	4,851	22.6%
<b>Total operating expenses</b>	<b>46,322</b>	<b>55,027</b>	<b>48,572</b>	<b>15.8%</b>
<b>Key metrics revenue drivers</b>				
Staff numbers (FTEs)	238	237	237	-

Personnel costs were made up of:

- Salary costs (including bonuses, commissions, ACC levies and KiwiSaver contributions); and
- Contractor and other personnel costs (including training, recruitment and staff benefits); and
- Net of capitalised labour (where employees or contractors are engaged on capital projects).

Personnel costs reduced significantly due to the completion of several non-capital major projects in 2016 and the absence of costs associated with the former CEO transition.

IT costs were made up of software licence fees, hardware support and maintenance fees, telecommunications and data network costs, and IT services provided by third parties.

The increase in costs came from one-off costs relating to IT infrastructure, remediation, migration and consolidation projects completed in 2017, which will deliver cost savings in future years, and Wealth Technology data hosting costs relating to new client projects.

Professional fees were made up of legal expenses and advisory and consultancy fees.

The Ralec litigation was completed in 2016 and no costs were incurred in 2017. Other professional fees decreased slightly, with the Financial Markets Conduct Act transition project completed in 2016, with only minimal costs incurred in 2017, and these decreases were offset by costs incurred during the company's strategic review.

Marketing, print and distribution costs primarily relate to NZX's agricultural publications. NZX's two magazine titles were sold in November 2016. As noted above, NZX has entered into a non-binding indicative Term Sheet for the disposal of its rural newspaper (Farmers Weekly), expected to be effective, 1 April 2018.



Fund expenditure represents the cost of operating the SuperLife, and Smartshares schemes, some costs are fixed (principally outsourced fund accounting and administration costs and registry fees), and some are variable in proportion to FUM (principally custodian fees, trustee fees, index fees, settlement costs and third party manager fees). The reduction in fund expenditure was due to the renegotiation of some variable costs, which more than offset the cost increase arising from growth in FUM.

Other expenses comprise general and administrative expenditure, including rent, travel, insurance, directors' fees, audit fees and general overheads. There was a significant decrease in rent as duplicate Auckland rents incurred in 2016 have now ceased, and surplus Wellington office space was sublet in 2017. Management also applied disciplined cost control across the business in 2017.

## Other Income and Expenses

	2017 \$000	2016 \$000	2015 \$000	Changes 2017 v 2016
Interest income	(880)	(943)	(1,218)	(6.7%)
Interest expense	1,303	1,233	1,197	(5.7%)
Net (gain)/loss on foreign exchange	(95)	83	(149)	214.5%
Net finance expense/(income)	328	373	(170)	12.1%
Depreciation of PP&E	1,116	1,294	1,189	13.8%
Amortisation of intangibles	5,926	6,642	5,801	10.8%
Total depreciation and amortisation	7,042	7,936	6,990	11.3%
Gain on disposal of associate	-	-	(11,807)	NM
Other (gain)/loss on disposal	(6)	467	29	101.3%
Total (gains)/losses	(6)	467	(11,778)	101.3%
Share of profit of associate	-	-	(411)	NM
Impairment expense	353	793	-	55.5%
Adjustment to provision for earnout	390	(731)	-	(153.4%)
Tax expense	6,059	4,497	6,076	(34.7%)
<b>Total Net finance expenses, tax, depreciation and amortisation and gain on sale</b>	<b>14,166</b>	<b>13,335</b>	<b>707</b>	<b>(6.2%)</b>

Net finance expense/(income) comprises interest income (on cash balances, Clearing House risk capital and regulatory working capital), interest expenses (on loans, overdrafts and earn out) and foreign exchange (gains)/losses.

The depreciation of property, plant and equipment (\$1.116 million) and the amortisation of intangible assets (\$5.926 million) are detailed in notes 16 and 2 of the financial statements.

Gains and losses on disposals and associates in 2016 relate to the sale of the New Zealand rural magazine titles and the Australian Clear Grain Exchange business (loss: \$0.467 million), and in 2015 to the sale of Link Market Services (gain \$11.807 million).

The share of profit of associates relates to NZX's 50% interest in Link Market Services.

In 2016 NZX impaired the carrying value of the rural magazine publications that were subsequently sold. Likewise, in 2017 NZX has impaired the carrying value of the Agri businesses that are now in the process of being sold.

An adjustment to the earn-out provision was required as the acquired SuperLife achieved earn out targets (based on FUM) resulting in a 100% earn out.

The effective tax rate is higher than the statutory rate of 28% due to non-deductible items. In prior years the Ralec litigation costs were not tax deductible resulting in higher effective tax rate.

# Corporate Governance





# Board of Directors



**James Miller**  
BCOM, FCA

James was appointed a director in August 2010 and NZX's Chair in May 2015. He spent 14 years working in the share-broking industry, with Craigs Investment Partners, ABN AMRO, Barclays de Zoete Wedd and ANZ Securities.

He is a qualified chartered accountant and is a Fellow of the New Zealand Institute of Chartered Accountants, a Certified Securities Analyst Professional, a member of the Institute of Directors in New Zealand, and is a graduate of the Advanced Management Program at Harvard Business School in the United States of America.

James is a director of the Accident Compensation Corporation, Auckland International Airport and Mercury NZ. He was an inaugural director of the Financial Markets Authority, and previously a member of the ABN AMRO Securities, INFINZ and Financial Reporting Standards Boards.



**Dame Therese Walsh**  
DNZM, BCA, FCA

Dame Therese was appointed as a director in February 2013. She is currently Chair of TVNZ, a director of ASB Bank, Air New Zealand, and Antarctica NZ, a Trustee of Wellington Regional Stadium, and Pro-Chancellor of Victoria University. She also sits on the Government's Major Events Investment Panel. Previously Dame Therese was Head of New Zealand for the ICC Cricket World Cup 2015, and Chief Operating Officer for Rugby New Zealand 2011. She has been a director of New Zealand Cricket and Save the Children NZ, a member of the New Zealand Rugby Union executive team, and held a senior role with KPMG.

Dame Therese is a qualified chartered accountant, and a Fellow of the Institute of Chartered Accountants of New Zealand.



**Frank Aldridge**  
BBS

Frank was appointed as a director in May 2017. Frank has an extensive understanding of New Zealand's capital markets having spent more than 20 years working for Craigs Investments Partners where he is now Managing Director.

He is currently Chair of Australian-based Wilsons Advisory and Stockbroking, former member and Chair of New Zealand Securities Association, and sits on several of Craigs Investment Partners' subsidiary Boards.

Frank is an accredited NZX Advisor, Authorised Financial Adviser (AFA), and a Chartered Member of the Institute of Directors.



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### **Nigel Babbage** BCOM, BSC (HONS)

Nigel was appointed as a director in December 2017. Nigel has spent more than 30 years working in financial and capital markets locally and globally, and brings to NZX extensive clearing and derivatives experience.

Nigel previously held executive roles with British Petroleum (now BP) and Citibank, managing the New York currency derivatives desk, and 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. He served on the Foreign Exchange Committee of the Federal Reserve Bank of New York for three years.

Nigel is currently CEO of Christchurch-based investment company Mohua Investments Limited.

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### **Richard Bodman**

Richard was appointed as a director in April 2017. Richard has spent more than 25 years working in the financial services sector, including 17 years at FNZC (previously First NZ Capital) where he held several executive roles, such as Managing Director, Head of Compliance. Prior to this Richard spent seven years as an inspector for the Securities & Futures Authority in London.

Richard is an independent director of Forsyth Barr Custodians Limited and Forsyth Barr Cash Management Nominees Limited, and a member of the GRC (Governance Risk Compliance) Institute and the Institute of Directors.

He is a trustee of the Scots College Foundation. Richard has been a director of FNZC Securities and a NZX registered Compliance Manager.

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### **Jon Macdonald** BE (HONS)

Jon was appointed as a director in May 2013. Jon is CEO of NZX/ASX listed Trade Me Group and has an extensive background in engineering and technology. He joined Trade Me in 2003 and was appointed CEO in 2008. Under Jon's stewardship over the last 10 years, Trade Me has grown from revenues of \$80 million to \$235 million, and now has a market capitalisation of approximately \$2 billion.

Prior to joining Trade Me, Jon worked in London for HSBC Investment Bank in a variety of technical and management positions, and has worked for Deloitte Consulting with a focus on telecommunications and financial services. He is a Trustee of NZ Technology Training Charitable Trust, which runs the Summer of Tech programme.

Jon is a Chartered Member of the Institute of Directors.



### Dr Patrick Strange

BE (HONS), PHD

Dr Patrick was appointed as a director in May 2015. Patrick has spent 30 years working as a senior executive and director in both private and listed companies, particularly in the energy sector, including more than six years as Chief Executive of Transpower, where he oversaw \$3.8 billion of essential investment in the National Grid. Previously, he had also been Chief Executive of Vector.

Patrick holds a doctorate in civil engineering from the University of Auckland, and worked in senior roles in Europe and the USA before returning to New Zealand.

Patrick is Chair of Chorus, a director of Mercury NZ, Auckland International Airport and Essential Energy in Australia.



### Anna Molloy

BCOM, BE

Anna was appointed as NZX's inaugural future director in May 2017. Anna is well known in the New Zealand market place having spent almost 15 years working in equity capital markets, private equity, and business development roles.

Anna is a former buy-side equity analyst for Masfen Securities and Artemis Capital, and prior to that was a sell-side equity analyst for ABN AMRO New Zealand, where she initiated research coverage of NZX when the company demutualised and listed in 2003.

Anna is a Chartered Financial Analyst and graduated from the University of Auckland with undergraduate degrees in Commerce and Engineering.

## Corporate governance

NZX's shares are quoted on the NZX Main Board. 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 19 February 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 NZX Main Board Listing Rules. The board's view is that NZX's corporate governance structures, practices and processes have followed these recommendations and requirements in the year to 31 December 2017 (**reporting period**), with one exception. That exception relates to recommendation 3.6 (takeover protocols). The board expects to be able to confirm full compliance as at 31 December 2018.

The corporate governance policies and procedures, and board and committee charters, are 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. Employees are required to reconfirm their understanding of the code as part of their annual performance assessment.

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)
- 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 July 2017.

## 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 in December 2017.

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 recently established 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 (prior to the establishment of the committee, the board was responsible for this). 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, one-third of the current directors retire by rotation and are eligible for re-election. 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 skills matrix outlines the experience needed to ensure the board is equipped to provide the high standard of corporate governance required to lead NZX.

The board developed the skills matrix in 2016 in conjunction with governance services firm Propero Consulting. 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
- connectivity to stakeholder groups – connectivity to stakeholder groups such as regulators or government, the Electricity Commission, listed issuers, brokers or institutional and retail investors

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.

Further information about the skills matrix is set out in NZX's 2017 annual meeting materials, which are available from NZX's [investor centre](#).

**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 comprises seven directors with diverse backgrounds, skills, knowledge, experience and perspectives. All directors are non-executive and independent (except for James Miller, who is deemed to be non-independent under the NZX Main Board Listing Rules because he is also a director of ACC, which is a substantial product holder of NZX). Further information about NZX's directors is available on pages [24](#) to [26](#).

Information in respect of directors' ownership interests is available on pages [80](#). NZX's directors are not formally required to own NZX shares, but are encouraged to do so.

**Diversity**

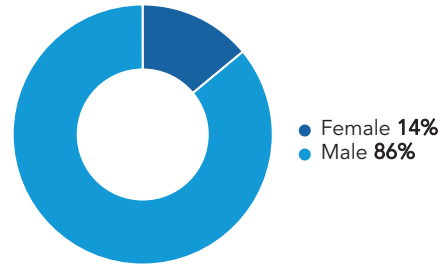
NZX's Diversity and Inclusion Policy sets out how NZX will set measurable objectives for achieving diversity and inclusion, and how it will assess its progress towards achieving these objectives. The policy also sets out the diversity and inclusion initiatives NZX currently has in place, together with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

The board has not yet set measurable objectives for achieving diversity and inclusion. NZX will set such objectives in the first half of 2018. The policy is reviewed at least annually and was last reviewed in October 2017.

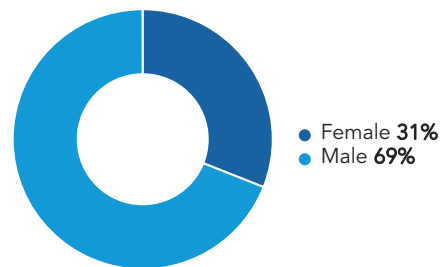
NZX's board is made up of seven directors (2016: six), of which six are male (2016: four) and one is

female (2016: two)<sup>2</sup>. NZX's executive team is made up 16 members (2016: 11) of which ten are male (2016: nine) and six are female (2016: two).

**Board gender diversity**



**Executive team gender diversity**



**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) of which NZX is a member
- receiving regular educational materials

<sup>2</sup> Another female director has been appointed with effect, 20 February 2018. In addition, Anna Molloy is NZX's future director and was appointed in May 2017.

### Assessment of director performance

Every second year, director (and committee member) performance is assessed by a process which includes:

- each director discussing with the board chair, that director’s contribution to the proceedings of the board and the performance of the board and its committees generally
- the rest of the board discussing with the board chair, the chair’s contribution to the proceedings of the board and the performance of the board and its committees generally

A board and individual director performance review will be undertaken by an independent board review expert in 2018.

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**

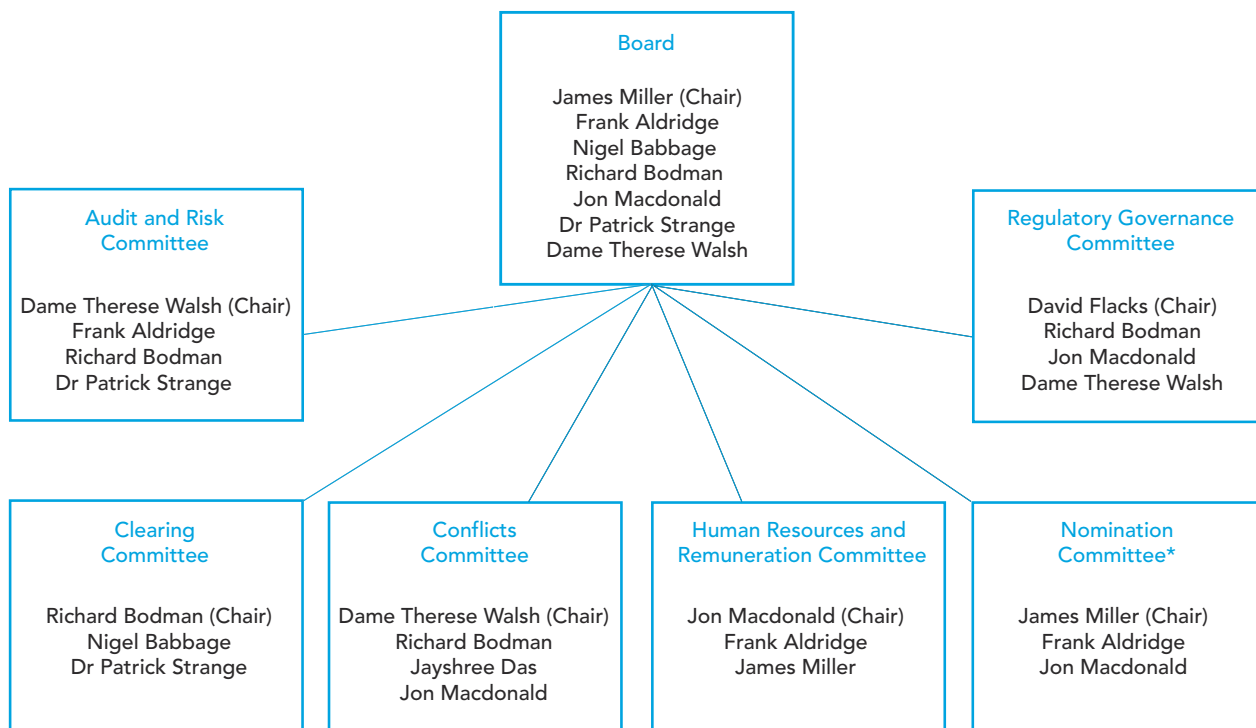
The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

### 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 are set below.

Board and committees (as at 31 December 2017)



\*This committee was established in February 2018

## Director meeting attendance

Director	Board	Audit and Risk	Clearing	Conflicts	Human Resources and Remuneration	Nomination <sup>1</sup>	Regulatory Governance
Frank Aldridge	5/5	2/2	–	–	2/2	–	–
Nigel Babbage <sup>2</sup>	–	–	1/1	–	–	–	–
Richard Bodman <sup>3</sup>	6/6	3/3	1/1	1/1	–	–	4/4
Alison Gerry <sup>4</sup>	2/2	–	–	1/1	–	–	–
Jon Macdonald	8/8	–	–	2/2	3/3	–	4/4
James Miller	8/8	–	–	–	3/3	–	–
Neil Paviour-Smith <sup>5</sup>	3/3	4/4	–	–	1/1	–	–
Dr Patrick Strange <sup>6</sup>	8/8	6/6	1/1	–	–	–	–
Dame Therese Walsh	7/8	6/6	–	2/2	–	–	4/4

1 The Nomination Committee was established in February 2018

2 Nigel Babbage was appointed as an NZX director effective 19 December 2017. Prior to that date, Nigel was an independent member of the Clearing Committee

3 Richard Bodman also attended 2/2 meetings as a director of New Zealand Clearing and Depository Corporation Limited

4 Alison Gerry resigned as an NZX director effective 13 April 2017. Alison also attended 2/2 meetings as a director of New Zealand Clearing and Depository Corporation Limited

5 Neil Paviour-Smith resigned as an NZX director effective 30 June 2017

6 Dr Patrick Strange also attended 3/3 meetings as a director of New Zealand Clearing and Depository Corporation Limited

## External committee member meeting attendance

Committee member	Board	Audit and Risk	Clearing	Conflicts	Human Resources and Remuneration	Nomination <sup>1</sup>	Regulatory Governance
Jayshree Das	–	–	–	1/1	–	–	–
David Flacks <sup>2</sup>	–	–	–	–	–	–	1/1
Derek Johnston <sup>3</sup>	–	–	–	–	–	–	3/3

1 The Nomination Committee was established in February 2018

2 David Flacks also attended a Regulatory Governance Committee meeting in his previous capacity as NZ Markets Disciplinary Tribunal chair

3 Derek Johnston resigned as a member of the Regulatory and Governance Committee effective 1 September 2017

### Audit 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, Dame Therese Walsh, is a qualified chartered accountant, and a Fellow of the Institute of Chartered Accountants of New Zealand.

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.

### 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 have a minimum of one 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.

The committee's non-director member, Jayshree Das, is Craigs Investment Partners' Process Excellence & Governance Advisor.

#### **Regulatory Governance committee**

The Regulatory Governance Committee assists the board in reviewing and providing feedback in respect of the governance of the 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 have a minimum of one 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 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 Main Board 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 in July 2017.

### 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. These are set out on pages 39 to 73.

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.

At this time, NZX does not have a formal environmental, social and governance (ESG) reporting framework. However it is in development and will be progressed for the 2018 financial statements.

Information about NZX's corporate social responsibility initiatives is available from NZX's [investor centre](#).

Information about NZX's refreshed strategy, delivery plan and role within New Zealand's capital markets is set out in the NZX Investor Day Presentation 2017, which is available from NZX's [investor centre](#).

## Director remuneration

Director	Director fees
Frank Aldridge	\$33,276
Nigel Babbage <sup>1</sup>	\$1,785
Richard Bodman <sup>2</sup>	\$35,926
Alison Gerry <sup>3</sup>	\$14,306
Jon Macdonald	\$50,000
James Miller	\$100,000
Neil Paviour-Smith <sup>4</sup>	\$25,000
Dr Patrick Strange <sup>5</sup>	\$50,000
Dame Therese Walsh	\$50,000

1 Nigel Babbage was appointed as an NZX director effective 19 December 2017. Prior to that date, Nigel was a member of the Clearing Committee and received committee member fees of \$3,985

2 Richard Bodman also received \$7,185 as a director of New Zealand Clearing and Depository Corporation Limited

3 Alison Gerry resigned as an NZX director effective 13 April 2017. Alison also received \$2,861 as a director of New Zealand Clearing and Depository Corporation Limited

4 Neil Paviour-Smith resigned as an NZX director effective 30 June 2018

5 Dr Patrick Strange also received \$6,032 as a director of New Zealand Clearing and Depository Corporation Limited

## External committee member remuneration

Committee member	Committee member fees
Jayshree Das	\$1,500
David Flacks	\$7,905
Derek Johnston <sup>1</sup>	\$15,717

1 Derek Johnston resigned as a member of the Regulatory Governance Committee effective 1 September 2017

### Principle 5 – remuneration

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

## Directors' remuneration

The total remuneration available for directors is fixed by shareholders. 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 Daas 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 (and committee member) in 2017 is set out in the table above.

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)
- commission (which is available to employees in sales roles)

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

Mark's base salary for 2017 was \$500,000.

Mark's potential short-term incentive plan payment for 2017 was \$500,000 (\$250,000 for on-target

performance). Mark's actual short-term incentive plan payment for 2017 was \$288,768 this will be paid in February 2018. Mark's 2017 STI comprised two components. This first component was based on NZX's financial performance against target. The second component was based against against a small number of individual objectives, including the development of the five year strategy, improving capital markets engagement, strengthening the senior team and generating organisational efficiencies. Mark achieved ahead of target in both components.

Mark 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 remaining an employee at the applicable vesting date. The performance hurdles are currently being finalised by the board.

### 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.

## Key risks

### Business

NZX's key business risks, together with its strategy to manage these risks, are set out in the NZX Investor Day Presentation 2017, which is available from NZX's [investor centre](#).

### Health and safety

NZX's Human Resources and Remuneration Committee is responsible for reviewing and making recommendations to the board in respect of NZX's health and safety policies. The committee ensures that the systems used to identify and manage health and safety risks are fit for purpose, and are being effectively implemented, regularly reviewed and

continuously improved. The committee receives reports each quarter from the Head of Human Resources.

### Information technology security

NZX considers there is a risk that the security of its information technology systems could be compromised. To manage such a risk, NZX's systems have been moved to a cloud-based server with access, security and backups managed by an independent service provider.

### 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 2017 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 will be prepared in 2018 to set 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 2017 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, its media releases, 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 Main Board 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 30 June 2017. The notice of the meeting was released to the market on 2 June 2017.

From 2018, the notice of the annual meeting will also be posted on NZX's [investor centre](#) at least 28 days prior to the meeting. The 2018 meeting will be held on 13 April 2018 in Christchurch. 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 2017 and the results of their operations and cash flows for the year ended 31 December 2017.

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 2017.

The financial statements were authorised for issue for and on behalf of the directors on 16 February 2018.



**J B Miller**  
Chairman of the Board

**Dame Therese Walsh**  
Chairman of the Audit  
and Risk Committee



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## Income Statement

For the year ended 31 December 2017

	Note	2017 \$000	2016 \$000
<b>Total operating revenue</b>	9	<b>75,325</b>	<b>77,544</b>
<b>Operating expenses</b>			
Personnel costs		(25,837)	(29,853)
Information technology		(7,807)	(7,303)
Professional fees	10	(2,296)	(5,593)
Marketing, printing and distribution		(2,594)	(3,064)
Funds expenditure		(3,489)	(3,660)
Other expenses	10	(4,299)	(5,554)
<b>Total operating expenses</b>		<b>(46,322)</b>	<b>(55,027)</b>
<b>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</b>		<b>29,003</b>	<b>22,517</b>
Interest income		880	943
Interest expense		(1,303)	(1,233)
Net gain/(loss) on foreign exchange		95	(83)
Net finance expense		(328)	(373)
Gain/(loss) on disposal of businesses and property, plant and equipment	6	6	(467)
Depreciation and amortisation expense		(7,042)	(7,936)
Impairment expense	4	(353)	(793)
Adjustment to provision for earnout	8	(390)	731
<b>Profit before income tax</b>		<b>20,896</b>	<b>13,679</b>
Income tax expense	12	(6,059)	(4,497)
<b>Profit for the year</b>		<b>14,837</b>	<b>9,182</b>
<b>Earnings per share</b>			
Basic (cents per share)	13	5.5	3.4
Diluted (cents per share)	13	5.5	3.4

## Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 \$000	2016 \$000
Profit for the year	14,837	9,182
<b>Other comprehensive income recognised through equity</b>		
Foreign currency translation differences	(53)	5
Total other comprehensive income	(53)	5
<b>Total comprehensive income for the year</b>	<b>14,784</b>	<b>9,187</b>

## Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share Capital \$000	Retained Earnings \$000	Translation Reserve \$000	Total Equity \$000
<b>Balance at 1 January 2016</b>		<b>47,228</b>	<b>28,767</b>	<b>173</b>	<b>76,168</b>
Profit for the year		-	9,182	-	9,182
Foreign currency translation differences		-	-	5	5
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>9,182</b>	<b>5</b>	<b>9,187</b>
<b>Transactions with owners recorded directly in equity:</b>					
Dividends paid	21	-	(16,094)	-	(16,094)
Issue of shares	20	69	-	-	69
Share based payments	20	345	-	-	345
Cancellation of non-vesting shares	20	(86)	86	-	-
<b>Total transactions with owners recorded directly in equity</b>		<b>328</b>	<b>(16,008)</b>	<b>-</b>	<b>(15,680)</b>
<b>Balance at 31 December 2016</b>		<b>47,556</b>	<b>21,941</b>	<b>178</b>	<b>69,675</b>
Profit for the year		-	14,837	-	14,837
Foreign currency translation differences		-	-	(53)	(53)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>14,837</b>	<b>(53)</b>	<b>14,784</b>
<b>Transactions with owners recorded directly in equity:</b>					
Dividends paid	21	-	(16,104)	-	(16,104)
Share based payments	20	368	-	-	368
Cancellation of non-vesting shares	20	(473)	473	-	-
<b>Total transactions with owners recorded directly in equity</b>		<b>(105)</b>	<b>(15,631)</b>	<b>-</b>	<b>(15,736)</b>
<b>Balance at 31 December 2017</b>		<b>47,451</b>	<b>21,147</b>	<b>125</b>	<b>68,723</b>

## Statement of Financial Position

As at 31 December 2017

	Note	2017 \$000	2016 \$000
<b>Current assets</b>			
Cash and cash equivalents	14	14,881	10,804
Cash and cash equivalents - restricted	14	20,000	20,000
Funds held on behalf of third parties	11	58,890	70,847
Receivables and prepayments	15	10,940	15,923
<b>Total current assets</b>		<b>104,711</b>	<b>117,574</b>
<b>Non-current assets</b>			
Property, plant & equipment	16	2,444	3,259
Goodwill	3	33,929	35,764
Other intangible assets	2	36,290	37,367
Assets held for sale	7	2,415	-
<b>Total non-current assets</b>		<b>75,078</b>	<b>76,390</b>
<b>Total assets</b>		<b>179,789</b>	<b>193,964</b>
<b>Current liabilities</b>			
Funds held on behalf of third parties	11	58,890	70,847
Trade payables	17	3,810	5,632
Other liabilities	18	23,580	13,803
Current tax liability	12	666	591
<b>Total current liabilities</b>		<b>86,946</b>	<b>90,873</b>
<b>Non-current liabilities</b>			
Non-current other liabilities	18	-	9,093
Term loan	19	20,000	20,000
Deferred tax liability	12	4,120	4,323
<b>Total non-current liabilities</b>		<b>24,120</b>	<b>33,416</b>
<b>Total liabilities</b>		<b>111,066</b>	<b>124,289</b>
<b>Net assets</b>		<b>68,723</b>	<b>69,675</b>
<b>Equity</b>			
Share capital		47,451	47,556
Retained earnings		21,147	21,941
Translation reserve		125	178
<b>Total equity attributable to shareholders</b>		<b>68,723</b>	<b>69,675</b>

## Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 \$000	2016 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		78,942	74,784
Net interest (paid)/received		(92)	77
Payments to suppliers and employees		(48,394)	(53,463)
Income tax paid	12b	(6,072)	(7,824)
<b>Net cash provided by operating activities</b>	<b>14</b>	<b>24,384</b>	<b>13,574</b>
<b>Cash flows from investing activities</b>			
Proceeds from the sale of associate		-	563
Cash acquired/(paid) on acquisition/disposal of businesses		7	(541)
Payments for property, plant and equipment		(302)	(1,105)
Payments for intangible assets		(5,782)	(5,886)
<b>Net cash used in investing activities</b>		<b>(6,077)</b>	<b>(6,969)</b>
<b>Cash flows from financing activities</b>			
Proceeds from former CEO share scheme settlement	22a	1,874	-
Dividends paid	21	(16,104)	(16,094)
<b>Net cash used in financing activities</b>		<b>(14,230)</b>	<b>(16,094)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		4,077	(9,489)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>30,804</b>	<b>40,293</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>14</b>	<b>34,881</b>	<b>30,804</b>



# Notes to the Financial Statements

For the year ended 31 December 2017

## 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).

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 agricultural 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.

### Basis of preparation

These are the Group financial statements for the year ended 31 December 2017. 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 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 2018, 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 9 Financial instruments - effective for reporting periods beginning on or after 1 January 2018*

This standard has three main areas:

- Classification and measurement of financial assets and liabilities;
- Impairment of financial assets; and
- Hedge accounting

The Group has performed an initial assessment and based on the nature of its financial assets and financial liabilities does not expect there to be any significant effect on the financial statements from adopting this standard.

- ii. NZ IFRS 15 Revenue from Contracts with Customers - effective for reporting periods beginning on or after 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 performed an initial assessment of revenue recognition for a sample of its more complex contracts which did not result in any change in the current revenue recognition for these contracts. Based on this assessment the Group does not expect there to be any significant effect on the financial statements from adopting this standard.

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

This standard requires recognition of leases in the Statement of Financial Position through recognising a right to use asset and corresponding lease liability. This also results in changes in the Income Statement with an interest expense on the liability and depreciation of the asset replacing the rental expense.

An indication of the potential impact is derived from Note 25 Lease commitments as lease. This shows future lease payments that will be classified differently in the Income Statement following application of the standard.

### **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, 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 out in:

- note 2 - intangible assets
- note 3 - goodwill
- note 22 - 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: 0 —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 below.

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
<b>Gross carrying amount</b>						
Balance at 1 January 2016	41,070	7,906	3,387	18,116	2,371	72,850
Additions	198	-	-	-	5,762	5,960
Disposals	(10,161)	-	-	-	-	(10,161)
Transfer from WIP	2,406	-	-	-	(2,406)	-
<b>Balance at 31 December 2016</b>	<b>33,513</b>	<b>7,906</b>	<b>3,387</b>	<b>18,116</b>	<b>5,727</b>	<b>68,649</b>
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)
<b>Balance at 31 December 2017</b>	<b>39,785</b>	<b>2,570</b>	<b>3,387</b>	<b>18,116</b>	<b>4,636</b>	<b>68,494</b>
<b>Accumulated amortisation &amp; impairment</b>						
Balance at 1 January 2016	28,078	4,982	-	789	-	33,849
Amortisation expense	5,474	208	167	793	-	6,642
Impairment expense	-	793	-	-	-	793
Disposals	(10,002)	-	-	-	-	(10,002)
<b>Balance at 31 December 2016</b>	<b>23,550</b>	<b>5,983</b>	<b>167</b>	<b>1,582</b>	<b>-</b>	<b>31,282</b>
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)
<b>Balance at 31 December 2017</b>	<b>27,677</b>	<b>1,517</b>	<b>639</b>	<b>2,371</b>	<b>-</b>	<b>32,204</b>
<b>Net Book Value</b>						
As at 31 December 2016	9,963	1,923	3,220	16,534	5,727	37,367
As at 31 December 2017	12,108	1,053	2,748	15,745	4,636	36,290

### 3. Goodwill

Carrying amount	2017 \$000	2016 \$000
Balance at beginning of the year	35,764	35,764
Agri impairment	(76)	-
Transfer to assets held for sale	(1,759)	-
<b>Balance at end of the year</b>	<b>33,929</b>	<b>35,764</b>

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. For the year ended 31 December 2017, the directors have carried out impairment tests (the key assumptions used are set out in note 4), which resulted in a \$76,000 impairment of goodwill in the Agri business which has been classified as assets held for sale.

#### 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 2017 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
<b>Cash generating unit</b>							
Clearing House	6,942	-	-	-	6,942	-	6,942
Grain information unit	175	1,577	6	-	1,758	3,008	4,766
Funds management	346	13,406	2,344	151	16,247	20,730	36,977
Wealth Technologies	411	-	-	4,069	4,480	1,494	5,974
Energy	2,247	-	-	346	2,593	7,720	10,313
Direct data	31	755	1,458	-	2,244	977	3,221
<b>Other</b>							
Other intangible assets	301	-	-	-	301	-	301
Other computer software	1,655	-	-	70	1,725	-	1,725
	12,108	15,738	3,808	4,636	36,290	33,929	70,219

#### Impairment test

For the year ended 31 December 2017, 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 2016 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 seven years (match the remaining contractual period) and ten years (match the remaining contractual period plus three years potentially to be renewed) were both used. The analysis also used an independently assessed WACC of 10.35% (2016: 10.35%) for New Zealand CGUs and 12.76% (2016: 12.76%) for Australian CGUs (and were stress tested at higher rates). Terminal growth rate used to extrapolate cash flow projections beyond five years is between 1.75% and 2%. Management has assessed the long term economic outlook data available, and assessed that the use of a terminal growth rate between 1.75% and 2% in 2017 were appropriate, consistent with the prior year. 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, with the exception of the Agri business. NZX recognised

an impairment expense of \$353,000 (being \$76,000 for Goodwill and \$277,000 for intangible assets) in relation to the Agri business. No other impairment charges are required at 31 December 2017. In 2016, NZX recognised an impairment expense of \$793,000 in relation to part of Agri publication business, which were subsequently sold as part of the disposal of the Group's rural magazine titles sold in November 2016.

Further information on specific assumptions underlying the 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 1% to 50% (2016: 3% to 36%) of their respective underlying markets by the end of the forecast period (currently this range is 1% to 58%). This assumption is based on trading statistics for similar derivative products in overseas markets and NZX's five year strategic plan.

b. Grain information unit

Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows for the Grain Information Unit CGU are dependent is the future revenue growth rate which is assumed to be 2.1%. The Company considers this reasonable based on historical experience.

c. 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 3.0% pa to 18.0% pa during the explicit forecast period.

d. Wealth Technologies

Other than the general assumptions outlined above, the principal assumptions on which the discounted cash flows for the Wealth Technologies CGU are dependent is the future revenue growth rate which is assumed to be within a range of 10% to 195% during the forecast period. The Company considers this reasonable given the start-up nature of Wealth Technologies and based on the continued interest from potential customers.

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 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 uncontracted consulting revenue, support the current carrying value of the CGU.

f. Direct data

Other than the general assumptions outlined above, 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 be within a range of 1.5% to 2% during the explicit forecast period. The Company considers this reasonable based on historical experience.

## 5. Segment reporting

The Group has three 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:

- Markets - operator and regulator of securities and derivatives markets and provider of trading, post-trade and data services for securities, derivatives and dairy products, as well as the provider of a central securities depository. It also includes the Fonterra Shareholders' Market and the energy market business, which comprises the contracts operated on behalf of the Electricity Authority. Following a strategy review completed in November 2017, the Markets segment is further split into three main reportable business units: Issuer Relationships, Secondary Markets, and Data & Insights. The new reporting structure will be effective from January 2018.
- Funds Services - provider of superannuation, KiwiSaver and Exchange Traded Funds (ETF) and funds administration platforms; and
- Agri - provider of information, news, data and analysis relating to the agriculture sectors in New Zealand and Australia through printed publications and online services.

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 these segments only if they are direct and specific expenses to one of the three segments. The remaining expenses that relate to activities shared across the group are reported in a 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 2017*

	Markets \$000	Agri \$000	Funds Services \$000	Corporate \$000	Total \$000
Operating revenue	52,350	8,184	14,791	-	75,325
Operating expenses	(12,317)	(6,427)	(12,066)	(15,512)	(46,322)
<b>Total segment result</b>	<b>40,033</b>	<b>1,757</b>	<b>2,725</b>	<b>(15,512)</b>	<b>29,003</b>
Segment assets	110,836	9,404	49,531	10,018	179,789
Segment liabilities	(66,047)	(1,798)	(15,471)	(27,750)	(111,066)
<b>Net assets</b>	<b>44,789</b>	<b>7,606</b>	<b>34,060</b>	<b>(17,732)</b>	<b>68,723</b>

*Segmental information for the year ended 31 December 2016*

	Markets \$000	Agri \$000	Funds Services \$000	Corporate \$000	Total \$000
Operating revenue	53,574	10,938	13,032	-	77,544
Operating expenses	(12,442)	(10,148)	(13,348)	(19,089)	(55,027)
<b>Total segment result</b>	<b>41,132</b>	<b>790</b>	<b>(316)</b>	<b>(19,089)</b>	<b>22,517</b>
Segment assets	124,734	10,617	46,822	11,791	193,964
Segment liabilities	(77,875)	(1,925)	(15,525)	(28,964)	(124,289)
<b>Net assets</b>	<b>46,859</b>	<b>8,692</b>	<b>31,297</b>	<b>(17,173)</b>	<b>69,675</b>

*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.

	2017 \$000	2016 \$000
<b>Revenue</b>		
New Zealand	61,465	63,000
Australia	4,876	6,139
Other	8,984	8,405
<b>Total revenue</b>	<b>75,325</b>	<b>77,544</b>
<b>Non-current assets</b>		
New Zealand	71,347	72,491
Australia	3,731	3,899
<b>Total non-current assets</b>	<b>75,078</b>	<b>76,390</b>

**6. Gain and loss on disposal of businesses and property, plant and equipment**

	2017 \$000	2016 \$000
Gain on disposal of property, plant and equipment	6	2
Loss on disposal of business - Clear Grain Exchange	-	(469)
	<b>6</b>	<b>(467)</b>

In 2016, the Group disposed of the business and assets of:

- Rural magazine publications Dairy Exporter and Country-Wide, effective 1 November 2016; and
- The Clear Grain Exchange, effective 1 December 2016.



## 7. Assets held for sale

During 2017, management committed to a plan to sell part of the Agri and data services businesses. Accordingly, those assets are presented as a disposal group held for sale. Efforts to sell the disposal group have started and a sale is expected by mid 2018.

### a. Impairment losses relating to the disposal group

Impairment losses of \$353,000 for write-downs of the disposal group to the lower of its carrying amount and its fair value have been recognised (refer to note 4).

### b. Assets of disposal group held for sale

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

	2017 \$000	2017 \$000	2017 \$000
	NZ Agri	Data Services	Total
Goodwill	1,436	323	1,759
Intangible assets	544	112	656
<b>Assets held for sale</b>	<b>1,980</b>	<b>435</b>	<b>2,415</b>

## 8. Adjustment to provision for earnout

At 30 June 2016, the Group reassessed the probability of meeting the earnout targets for NZX Wealth Technologies and reduced the provision by \$352,000. The Group subsequently reduced the provision by \$903,000 to nil at 31 December 2016 when it became clear that the targets would not be met. The earnout deadline passed during the current year with no amount payable.

The earnout receivable from the sale of Link Market Services in 2015 was received in 2016 and \$60,000 of earnout provision was recognised to adjust the accrued earnout receivable in December 2016. No accrual remains in respect of this item at 31 December 2016.

A provision for the final earnout payment for the acquisition of SuperLife was initially recognised in 2015 at 90% of the amount payable. At 31 December 2016 the provision was increased by \$464,000 to 95%. As 31 December 2017 the provision was further increased by \$390,000 to 100% reflecting the fact that funds under management were greater than the 100% of the earnout target (refer note 18).

## 9. 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. Markets:*

- (1) Issuer services 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.
- (2) 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.
- (3) 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.
- (4) Trading fees, from the trading of debt and equities securities, are recognised at trade date.
- (5) Fees for debt and equity clearing and settlement, which are recognised at settlement date (currently two days after initial trade date).
- (6) Fees for the trading and clearing of derivatives and commodities are recognised at trade date. Fees for derivative market settlement are recognised at settlement date (currently one day after contract expiry date).
- (7) Securities information revenue is recognised over the period the service is provided.

*ii. Funds Services* - revenue for the provision of funds services is recognised when the services are rendered.

*iii. Agri* - 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.

	2017 \$000	2016 \$000
Listing fees	13,907	14,897
Other issuer services	586	1,144
Market operations	9,764	10,729
<b>Total Issuer Relationships revenue</b>	<b>24,257</b>	<b>26,770</b>
Participant services	3,768	3,592
Securities trading	5,817	5,765
Securities clearing	5,911	5,663
Dairy derivatives	1,133	706
<b>Total Secondary Markets revenue</b>	<b>16,629</b>	<b>15,726</b>
Securities information	10,771	10,406
Dairy data subscriptions	693	672
<b>Total Data &amp; Insights revenue</b>	<b>11,464</b>	<b>11,078</b>
<b>Markets operating revenue</b>	<b>52,350</b>	<b>53,574</b>
Commodities trading	-	1,121
Agri information	8,184	9,817
<b>Agri operating revenue</b>	<b>8,184</b>	<b>10,938</b>
Wealth platform fees	1,343	1,405
Funds management	13,448	11,627
<b>Funds Services operating revenue</b>	<b>14,791</b>	<b>13,032</b>
<b>Total operating revenue</b>	<b>75,325</b>	<b>77,544</b>

## 10. Operating expenses

Professional fees comprise:

	2017 \$000	2016 \$000
Legal expenses	(263)	(3,560)
Other professional fees	(2,033)	(2,033)
<b>Total professional fees</b>	<b>(2,296)</b>	<b>(5,593)</b>

Legal expenses for 2016 includes \$3.0 million incurred in relation to the Ralec litigation. Final settlement was reached between the parties to the dispute on 1 December 2016. No further legal expenses for Ralec occurred in 2017.

Other expenses comprise:

	2017 \$000	2016 \$000
Operating lease rental expense	(1,530)	(1,832)
Directors' fees	(377)	(370)
Remuneration paid to Group auditors	(270)	(321)
Remuneration paid to other auditors	(3)	(3)
Other operating expenses	(2,119)	(3,028)
<b>Total other expenses</b>	<b>(4,299)</b>	<b>(5,554)</b>

#### *Remuneration paid to Group auditors*

	2017 \$000	2016 \$000
Audit and review of NZX Group and subsidiary statutory financial statements	(122)	(128)
Audit of statutory financial statements for funds managed by Smartshares Limited, an NZX subsidiary	(105)	(153)
<b>Total audit fees</b>	<b>(227)</b>	<b>(281)</b>
Annual operational audit of the Clearing House	(33)	(35)
Annual depository assurance engagement of New Zealand Depository Limited	(5)	(5)
Funds registry audit	(2)	-
Net Tangible Assets procedures engagement of Smartshares Limited	(3)	-
<b>Total other audit related services</b>	<b>(43)</b>	<b>(40)</b>
<b>Total fees paid to the auditor</b>	<b>(270)</b>	<b>(321)</b>

## 11. Funds held on behalf of third parties

	2017 \$000	2016 \$000
Bond deposits	1,486	1,506
Collateral deposits	41,902	57,794
Funds held on behalf of clients	15,502	11,547
	<b>58,890</b>	<b>70,847</b>

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.

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.

## 12. Taxation

### a. Income tax expense recognised in profit or loss

	2017 \$000	2016 \$000
<b>Tax expense comprises:</b>		
Current tax expense	6,438	6,119
Prior period adjustment	14	-
Deferred tax relating to the origination and reversal of temporary differences	(393)	(1,622)
<b>Total tax expense</b>	<b>6,059</b>	<b>4,497</b>

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:

	2017 \$000	2016 \$000
Profit before income tax expense	20,896	13,679
<b>Income tax calculated at 28%</b>	<b>(5,851)</b>	<b>(3,830)</b>
Non-deductible expenses	(194)	(667)
	<b>(6,045)</b>	<b>(4,497)</b>
Under provision of income tax in prior year	(14)	-
	<b>(6,059)</b>	<b>(4,497)</b>

### b. Current tax liabilities

	2017 \$000	2016 \$000
<b>Balance at beginning of the year</b>	(591)	(2,113)
Current year charge	(6,402)	(6,165)
Prior period adjustment	255	(137)
Tax paid	6,072	7,824
<b>Balance at end of year</b>	<b>(666)</b>	<b>(591)</b>



## c. Deferred tax liability

	2017 \$000	2016 \$000
<b>Balance at beginning of the year</b>	(4,323)	(5,938)
Current year movement	392	1,622
Prior period adjustments	(189)	(7)
<b>Balance at end of the year</b>	<b>(4,120)</b>	<b>(4,323)</b>
<b>Deferred tax balance comprises:</b>		
Employee entitlements	691	867
Doubtful debts	111	147
Property, plant and equipment, and software	(5,026)	(5,643)
Other	104	306
	<b>(4,120)</b>	<b>(4,323)</b>

## d. Imputation credit account

	2017 \$000	2016 \$000
Imputation credits available for use in subsequent reporting periods	11,332	12,694

### 13. Earnings per share and net tangible assets per share

## i. Earnings per share

Basic earnings per share at 31 December 2017 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 Team and Results share plans (refer note 22) is made to weighted average number of shares used in the calculation of the diluted earnings per share at 31 December 2017.

## a. Basic earnings per share

	2017 \$000	2016 \$000
Profit for the year (\$000)	14,837	9,182
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	268,437	267,914
<b>Basic earnings per share (cents per share)</b>	<b>5.5</b>	<b>3.4</b>

## b. Diluted earnings per share

	2017 \$000	2016 \$000
Profit for the year (\$000)	14,837	9,182
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	270,867	269,696
<b>Fully diluted earnings per share (cents per share)</b>	<b>5.5</b>	<b>3.4</b>

ii. Net tangible assets per share

Basic net tangible assets per share at 31 December 2017 is calculated by dividing the net tangible assets at 31 December 2017 by the weighted average number of ordinary shares outstanding during the period. An adjustment to take into account the shares issued under the Team and Results share plans (refer note 22) is made to weighted average number of shares used in the calculation of the diluted net tangible assets per share at 31 December 2017.

a. Basic net tangible assets per share

	2017 \$000	2016 \$000
Net assets	68,723	69,675
Less:		
Goodwill	(33,929)	(35,764)
Other intangible assets	(36,290)	(37,367)
Assets held for sale	(2,415)	-
<b>Net tangible assets</b>	<b>(3,911)</b>	<b>(3,456)</b>
Weighted average number of ordinary shares for the purpose of net tangible assets per share (in thousands)	268,437	267,914
<b>Basic net tangible assets per share (cents per share)</b>	<b>(1.5)</b>	<b>(1.3)</b>

b. Diluted net tangible assets per share

	2017 \$000	2016 \$000
Net assets	68,723	69,675
Less:		
Goodwill	(33,929)	(35,764)
Other intangible assets	(36,290)	(37,367)
Assets held for sale	(2,415)	-
<b>Net tangible assets</b>	<b>(3,911)</b>	<b>(3,456)</b>
Weighted average number of ordinary shares for the purpose of net tangible assets per share (in thousands)	270,867	269,696
<b>Fully diluted net tangible assets per share (cents per share)</b>	<b>(1.4)</b>	<b>(1.3)</b>

## 14. Cash and cash equivalents, bank overdraft and cash flow reconciliation

### a. Cash and cash equivalents

	2017 \$000	2016 \$000
<b>Cash comprises:</b>		
Cash at bank	14,881	10,804
<b>Cash and cash equivalents</b>	<b>14,881</b>	<b>10,804</b>
Cash at bank - restricted	10,000	10,000
Bank deposits - restricted	10,000	10,000
<b>Cash and cash equivalents - restricted</b>	<b>20,000</b>	<b>20,000</b>
<b>Cash and cash equivalents - total</b>	<b>34,881</b>	<b>30,804</b>

The restricted cash and cash equivalent balance at 31 December 2017 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. 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 \$10.0 million 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 2017 was 3.93% (2016: 3.85%). The overdraft is undrawn at 31 December 2016 and 2017.

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

	2017 \$000	2016 \$000
<b>Profit for the year</b>	<b>14,837</b>	<b>9,182</b>
Adjustments for:		
Share based payment bonus accrual	406	470
Non cash interest expense on investing activity	501	357
Depreciation and amortisation expense	7,042	7,936
Impairment in intangible and goodwill	353	793
Disposal of assets	(6)	365
Provision for earnout	390	(731)
Decrease/(increase) in receivables and prepayments	3,124	(3,118)
(Decrease)increase in trade payables and other liabilities	(2,135)	1,457
Increase/(decrease) in current tax liability	75	(1,522)
(Decrease) in deferred tax liability	(203)	(1,615)
<b>Net cash provided by operating activities</b>	<b>24,384</b>	<b>13,574</b>

## 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.

	2017 \$000	2016 \$000
Trade receivables	7,141	9,807
Provision for doubtful debts	(403)	(560)
	<b>6,738</b>	<b>9,247</b>
Sundry debtors	1,553	1,791
Prepayments	2,284	2,204
Accrued interest	66	76
Accrued income	299	746
Financial asset - current amount	-	1,859
<b>Total current receivables and prepayments</b>	<b>10,940</b>	<b>15,923</b>

The current financial asset at 31 December 2016 represented the loan owed by the former CEO under the CEO share plan, as described in note 22. The loan and interest were fully repaid by the former CEO in October 2017.

### 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.

	2017 \$000	2016 \$000
Balance at beginning of the year	(560)	(302)
Amounts written off during the year	22	-
Decrease/(increase) in provision recognised in profit or loss	135	(258)
<b>Balance at end of the year</b>	<b>(403)</b>	<b>(560)</b>

## 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 \$000	Furniture and equipment \$000	Leasehold improvements \$000	Motor Vehicles \$000	Total \$000
<b>Net book value at 1 January 2016</b>	<b>791</b>	<b>745</b>	<b>1,926</b>	<b>45</b>	<b>3,507</b>
Additions during the year	819	167	94	25	1,105
Depreciation expense for the year	(694)	(320)	(239)	(41)	(1,294)
Disposals during the year	(37)	(9)	(7)	(6)	(59)
<b>Net book value at 31 December 2016</b>	<b>879</b>	<b>583</b>	<b>1,774</b>	<b>23</b>	<b>3,259</b>
Additions during the year	238	64	-	-	302
Depreciation expense for the year	(536)	(319)	(243)	(18)	(1,116)
Disposals during the year	(1)	-	-	-	(1)
<b>Net book value at 31 December 2017</b>	<b>580</b>	<b>328</b>	<b>1,531</b>	<b>5</b>	<b>2,444</b>

## 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.

	2017 \$000	2016 \$000
Trade payables	556	607
Goods and services tax payable	586	1,090
Accrued expenses	2,663	3,834
Accrued interest	5	101
	<b>3,810</b>	<b>5,632</b>



## 18. Other liabilities

	2017 \$000	2016 \$000
Employee benefits	5,050	5,530
Unearned income	8,560	8,273
Deferred consideration on SuperLife acquisition	9,970	-
<b>Total current other liabilities</b>	<b>23,580</b>	<b>13,803</b>
Non current - deferred consideration on SuperLife acquisition	-	9,093
<b>Total other liabilities</b>	<b>23,580</b>	<b>22,896</b>

### *Deferred consideration on SuperLife acquisition*

NZX acquired 100% ownership of SuperLife Limited, a provider of superannuation, KiwiSaver, and managed investments products, effective 1 January 2015.

In addition to the initial consideration of \$20 million, the sale and purchase agreement provided for additional consideration of up to \$15.0 million dependent on the retention and growth of SuperLife Funds Under Management (FUM) over a three year period ending 31 December 2017. These further payments, if targets were achieved, were \$5.0 million of NZX ordinary shares at an issue price of \$1.21 per share (issued January 2016) and up to \$8.0 million together with any interest payable in cash, dependant on the growth in FUM over the three year earnout period.

The average FUM for December 2017 was \$1.98 billion, which was greater than the 100% earnout target of \$1.57 billion, and the Group has accrued for 100% (2016: 95%) of the full \$8.0 million together with \$1.97 million interest payable at 31 December 2017.

## 19. Term loan

	2017 \$000	2016 \$000
Current	-	-
Non-current	20,000	20,000
<b>Total term loans</b>	<b>20,000</b>	<b>20,000</b>

The \$20.0 million term loan has an expiry date of 15 January 2020. 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 2017 was 2.735% (31 December 2016: 2.60%).

## 20. Shares on issue

The Company had 268,476,385 fully paid ordinary shares as at 31 December 2017 (2016: 268,315,689 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 (2016: 1,575,000 fully paid ordinary shares) originally issued under the CEO share plan as outlined in note 22.

At 31 December 2017 the Company has 2,546,533 restricted shares (2016: 2,018,493 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
<b>Balance at 1 January 2016</b>	<b>263,919,546</b>	<b>47,228</b>
Issue of fully paid ordinary shares	4,396,143	69
Share based contingent consideration accrued	-	345
Non-vesting shares	-	(86)
<b>Balance at 31 December 2016</b>	<b>268,315,689</b>	<b>47,556</b>
Issue of fully paid ordinary shares	160,696	-
Share based payments	-	368
Non-vesting shares	-	(473)
<b>Balance at 31 December 2017</b>	<b>268,476,385</b>	<b>47,451</b>

## 21. Dividends

	For year ended	2017		2016	
		Cents per share	Total \$000	Cents per share	Total \$000
<b>Dividends declared and paid</b>					
March 2016	31 Dec 15			3.00	8,043
September 2016	31 Dec 16			3.00	8,051
March 2017	31 Dec 16	3.00	8,050		
September 2017	31 Dec 17	3.00	8,054		
<b>Total dividends paid for the year</b>		<b>6.00</b>	<b>16,104</b>	<b>6.00</b>	<b>16,094</b>

Refer to note 28 for details of the final 2017 dividend.

## 22. Share based payments

### a. 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.

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 was funded by a loan from NZX, which incurred interest at NZX's cost of bank funding. The shares were entitled to dividends and were 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) exceeded a margin of 1% over NZX's weighted average cost of capital (to be determined annually by the board), the former CEO would have received a taxable bonus equivalent to the amount of the loan and would have received a transfer of the shares on full repayment of the loan and any accrued interest. For the purposes of determining the hurdle rate, the initial 2012 issue price was set at \$1.10, which was the price on the release day of the Interim results for the period ended 30 June 2012 (20 August 2012) under the previous CEO. If the hurdle rate was not met, then on expiry of the scheme the former CEO would not receive the bonus, would be required to repay the loan from his own resources, and would receive a transfer of shares, or elect not to receive the shares and they would be disposed of to repay the loan.

The Group historically 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 five year term of the plan. 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%

In October 2017, the Group assessed the CEO share scheme on vesting. The TSR over the scheme period was 51.07%, which was below the 76.20% of WACC Hurdle over the scheme period. The Performance Target (TSR less the WACC Hurdle) was negative 25.13%. 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.

## 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.

Both the Team and Results components of the Team and Results Plan are 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 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	Average share price \$
<b>Balance at 1 January 2016</b>	<b>316</b>	<b>1.21203</b>
Shares issued	2,311	1.09303
Shares transferred to NZX employees	(196)	1.21429
Redemptions	(412)	1.06796
<b>Balance at 31 December 2016</b>	<b>2,019</b>	<b>1.10500</b>
Shares issued	959	1.01668
Shares transferred to NZX employees	(161)	1.22981
Redemptions	(271)	1.19926
<b>Balance at 31 December 2017</b>	<b>2,546</b>	<b>1.05381</b>

The Group reclassified within Equity \$90,000 fair value of the Restricted Shares issued under the Result Plan for 2014, which was recognised prior to 2017, as the performance target has not been met.

Total financial assistance provided by NZX under the Team & Results Plan as at 31 December 2017 was \$2,683,000 (2016: \$2,231,000).

**23. 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 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 (g).

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.

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

	<b>2017 \$000</b>	<b>2016 \$000</b>
Not past due	4,706	4,818
Past due 0 - 30 days	984	1,514
Past due > 30 days	1,451	3,475
	<b>7,141</b>	<b>9,807</b>

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

	<b>2017 \$000</b>	<b>2016 \$000</b>
Gross trade receivables	7,141	9,807
Individual impairment	(94)	(153)
Collective impairment	(309)	(407)
	<b>6,738</b>	<b>9,247</b>



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-; 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.

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.

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 short term movements in interest rates.

The interest period for the Term Debt (\$20m) 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 2017 and 2016 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.

	2017 \$000	2016 \$000
<b>Effect on net interest income:</b>		
1% increase in interest rate	386	274
1% decrease in interest rate	(386)	(274)

This above information is calculated using the Group's cash balances, the Group's term debt, and the bank balances of \$22.2 million (2016: \$15.7 million) 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) 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 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 summarises the Group's exposure to liquidity risk based on the undiscounted contractual cash flows and maturities of term debt.

Term loan	Total contractual cash flows \$000	Less than 1 year \$000	1-2 years \$000	2-5 years \$000	More than 5 years \$000
31 December 2017	(20,571)	(547)	(20,024)	-	-
31 December 2016	(21,040)	(520)	(20,520)	-	-

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. 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 2017, 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 \$7,954,222 cash held from such deposits at 31 December 2017 (2016: \$11,789,209).

g. Clearing House counterparty credit risk

The Clearing House acts as a central counterparty to trades 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 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.

*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 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 and securities (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".

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.

### *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 obligations of defaulted transactions. As at 31 December 2017 the Clearing House held risk capital of \$20 million (31 December 2016: \$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 was for an initial term of two years ending December 2016. This has been extended for another two years ending December 2018.

### *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 2017, NZCL has a right to receive \$6.328 million (2016: \$5.610 million) from Clearing Participants and an obligation to pay \$6.328 million (2016: \$5.610 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2017. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2017 was \$58.047 million (2016: \$58.613 million). In addition, at 31 December 2017, the total value of outstanding securities loans was \$0.862 million (2016: \$1.605 million) and the absolute notional value of open derivative contracts was US\$124.31 million (2016: US\$128.71 million) and NZD\$187.71 million (2016: NZD\$103.06 million).

Cash collateral held to cover these outstanding settlement positions at 31 December 2017 was \$29.790 million (2016: \$35.707 million). In addition, at 31 December 2017 no collateral (2016: \$nil) was held by way of performance bonds.

## **24. 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:

	2017 \$000	2016 \$000
Short-term employee benefits	3,741	4,177
Share-based payments	156	141
Resignation benefits	138	1,305
	<b>4,035</b>	<b>5,623</b>

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 \$377,000 (2016: \$370,000) and have been included in other expenses (note 10).

c. Transactions with other related parties

	2017 \$000	2016 \$000
<b>Transactions with related parties</b>		
Interest on receivable from former CEO	66	106
Settlement for former CEO share scheme	1,874	-
<b>Balances with related parties</b>		
Current receivable from former CEO	-	1,877

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. Management fees were also received from the funds managed by wholly owned subsidiary SuperLife Limited which was amalgamated into Smartshares Limited on 9 November 2016.

## 25. Lease commitments as lessee

### Non-cancellable operating lease payments

	2017 \$000	2016 \$000
<b>Non-cancellable operating lease payments:</b>		
Up to 1 year	1,831	1,927
1 - 2 years	1,748	1,827
2 - 5 years	2,136	3,852
> 5 years	-	-
	<b>5,715</b>	<b>7,606</b>



The Group leases a number of office premises under operating leases. The leases have a remaining period of between one to five years, with options to renew beyond the initial expiry date.

## 26. 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.

## 27. Capital commitments

	2017 \$000	2016 \$000
<b>Capital expenditure commitments:</b>		
Software development	34	710
	34	710

## 28. Subsequent events

### *Dividend*

Subsequent to balance date the board declared a second half 2017 dividend of 3.10 cents per share, to be paid on 23 March 2018 (with a record date of 9 March 2018).

### *SuperLife earnout*

The Group and the Aventine Group Limited reached an agreement in January 2018 that the Superlife earnout payment amount is \$9,969,932 (being \$8,000,000 earnout plus \$1,969,932 interest). The Group paid \$9,418,351 to the Aventine Group Limited on 1 February 2018 net of \$551,581 resident withholding tax on the interest, which the Group will pay to the IRD in March 2018. Refer to Note 18 for details of SuperLife earnout calculation.

### *Farmers Weekly*

As noted above, NZX has entered into a non-binding indicative term sheet in relation to a possible disposal of Farmers Weekly. No gain or loss is expected to result from the sale, should all the conditions be met.

# 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 40 to 73:

- i. present fairly in all material respects the Group's financial position as at 31 December 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. 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 2017;
- 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. 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 \$1 million 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 (\$70 million, note 4 of the financial statements)**

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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.

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 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, Agri, Funds Management and Wealth Technologies.

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 budgets covered one year but the forecasts used in the valuation models generally extend to five years. The period beyond the budgets were therefore of particular focus for our additional procedures described below.

We reviewed and tested the significant assumptions applied to the revenue forecasts including comparing the forecasts to contractually receivable amounts, industry/market statistics or forecast inflation rates.

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 2017 of \$69 million to its market capitalisation of \$301 million at 31 December 2017, and noted implied headroom of \$232 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.

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## 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 2017 Highlights, Chairman's report, CEO's Report, Management Commentary, 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.

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## 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

16 February 2018



# Statutory Information

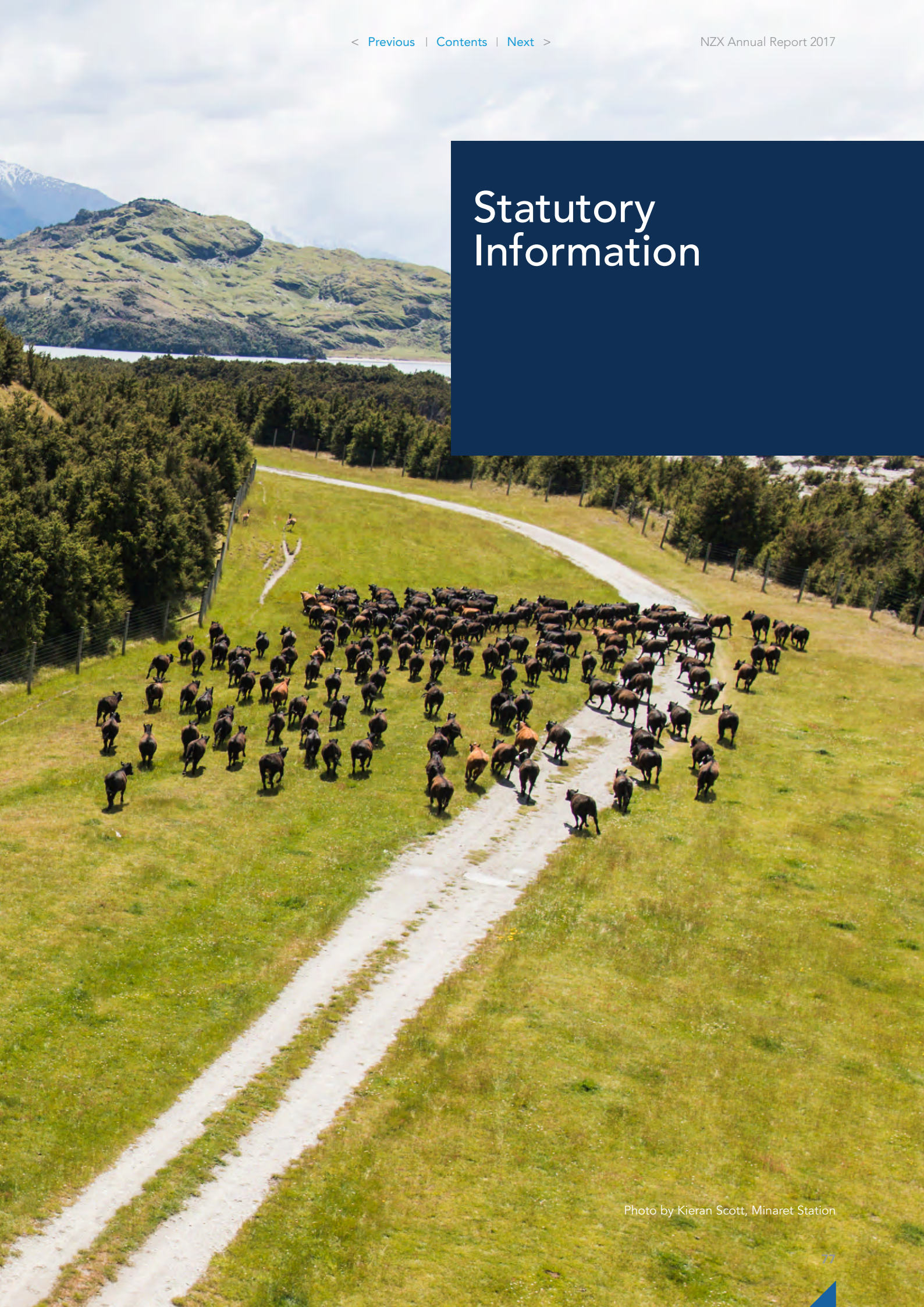


Photo by Kieran Scott, Minaret Station



## 1. Business operations

There have been no changes in the core business undertakings of the Company or its subsidiaries during the year. Subsequent to balance date, NZX has entered into a non-binding indicative Term Sheet for the disposal of its rural newspaper (Farmers Weekly), expected to be effective, 1 April 2018.

## 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 (R) is shown next to an entity, this denotes that the director has ceased to have that interest during 2017.

Director	Interest	Entity
Frank Aldridge	Director	CIP Cash Management Nominees Limited
	Director	CIP Holdings Limited
	Director	CIP Nominees No 1 Limited
	Director	Claybrook Holdings Limited (Personal)
	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	QuayStreet Asset Management Limited
Chairman	Wilson's Holding Co Pty Limited	

Director	Interest	Entity
Nigel Babbage	Vice Chairman & Founder	Mohua Charitable Trust
	Chair	New Zealand Conservation Trust
	Vice Chairman & Founder	South Island Kokako Charitable Trust
	Director	Forsyth Barr Cash Management Nominees Limited
Richard Bodman	Director	Forsyth Barr Custodians Limited
	Compliance consultant	General
	Director	New Zealand Clearing and Depository Corporation Limited
	Director	Asteron Life Limited
Alison Gerry*	Director	Infratil Limited
	Trustee	Michael Hill International Violin Competition
	Director	New Zealand Clearing and Depository Corporation Limited
	Director	Spark New Zealand Limited
	Director	Vero Insurance New Zealand Limited
	Director	Vero Liability New Zealand Limited
	Trustee	New Zealand Technology Training Charitable Trust
	Director	Old Friends Limited
Jon Macdonald	Director	Paystation Limited
	Director	TMG Trustee Limited
	Director	Trade Me Comparison Limited
	CEO	Trade Me Group Limited
	Director	Trade Me Limited
	Director	Accident Compensation Corporation
	Director	Auckland International Airport Limited
James Miller	Director	Mercury NZ Limited
	Director	Mighty River Power Limited (R)
	Director	Chartered Accountants Australia and New Zealand
	Director	Forsyth Barr Limited
Neil Paviour-Smith**	Director	Forsyth Barr Group Limited and Associated Companies



Director	Interest	Entity
	Director	Leveraged Equities Finance Limited
	Board Member	New Zealand Institute of Chartered Accountants Regulatory Board
	Pro Chancellor	Victoria University of Wellington
Dr Patrick Strange	Director	Auckland International Airport Limited
	Chairman	Chorus Limited
	Director	Endeavour Energy (NSW, Australia) (R)
	Director	Essential Energy (NSW, Australia)
	Director	Mercury NZ Limited
	Director	New Zealand Clearing and Depository Corporation Limited (R)
Dame Therese Walsh	Director	Air New Zealand Limited
	Director	ASB Bank Limited
	Director	Freeview Television Limited
	Member	Major Events Investment Panel, MBIE
	Director	NZOOM Limited
	Member	Strategic Risk and Resilience Advisory Board, DPMC (R)
	Director and Chairman	Television New Zealand Limited
	Director	TVNZ International Limited
	Director	TVNZ Investments Limited
	Council Member	Victoria University of Wellington
Ambassador	Wellington Homeless Woman's Trust	
Trustee	Wellington Regional Stadium Trust	

\* Alison Gerry resigned as a director of NZX Limited on 13 April 2017

\*\* Neil Paviour-Smith resigned as a director of NZX Limited on 30 June 2017

\*\*\* Lindsay Wright's appointment as a director of NZX Limited is effective 20 February 2018 and therefore interests have not been disclosed

#### 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. During 2017 Nigel Babbage, acted as a non-director member of the NZX Clearing Committee, prior to his appointment as a director of NZX Limited. Nigel was paid \$3,985 during 2017, this was not paid out of the directors' annual fee pool.

Director	Role	Board fees	NZCDC fees	Clearing Committee fees	Total
Frank Aldridge	Director	\$33,276	–	–	\$33,276
Nigel Babbage	Director	\$1,785	–	\$3,985	\$5,770
Richard Bodman	Director	\$35,926	\$7,185	–	\$43,111
Alison Gerry*	Director	\$14,306	\$2,861	–	\$17,167
Jon Macdonald	Director	\$50,000	–	–	\$50,000
James Miller	Chairman	\$100,000	–	–	\$100,000
Neil Paviour-Smith**	Director	\$25,000	–	–	\$25,000
Dr Patrick Strange***	Director	\$50,000	\$6,032	–	\$56,032
Dame Therese Walsh	Director	\$50,000	–	–	\$50,000
<b>Total</b>		<b>\$360,293</b>	<b>\$16,078</b>	<b>\$3,985</b>	<b>\$380,356</b>

\* Alison Gerry resigned as a director of NZX Limited on 13 April 2017

\*\* Neil Paviour-Smith resigned as a director of NZX Limited on 30 June 2017

\*\*\* Dr Patrick Strange resigned as a director of New Zealand Clearing and Depository Limited on 7 August 2017

## 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 directors of all NZX subsidiaries during the year are as follows.

### Clearing House entities

#### *New Zealand Clearing and Depository Corporation Limited*

Alison Gerry – (Independent director, ceased to hold office 13 April 2017)

Richard Bodman – (Ceased to hold office 7 August 2017; reappointed 27 October 2017)

Dr Patrick Strange – (Independent director, ceased to hold office 7 August 2017)

Bevan Miller – (Ceased to hold office 27 October 2017)

Mark Peterson

Benjamin Phillips

#### *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*

Bevan Miller – (Ceased to hold office 27 October 2017)

John Williams – (Independent director)

Guy Elliffe – (Independent director)

Mark Peterson

Paul Baldwin

*NZX Wealth Technologies Limited*

Bevan Miller – (Ceased to hold office 27 October 2017)  
Paul Baldwin  
Mark Peterson

*NZX Profarmer Australia Pty Limited*

Ron Storey – (Ceased to hold office 1 July 2017)  
Bevan Miller – (Ceased to hold office 27 October 2017)  
Hannah Janson  
Jeremy Anderson

*NZX Agri Advisors Pty Limited*

Ron Storey – (Ceased to hold office 1 July 2017)  
Bevan Miller – (Ceased to hold office 27 October 2017)  
Hannah Janson  
Jeremy Anderson

*NZX Rural Limited*

Bevan Miller – (Ceased to hold office 27 October 2017)  
Jeremy Anderson

*New Zealand Exchange Limited*

Bevan Miller – (Ceased to hold office 27 October 2017)  
Hamish Macdonald

*NZX Executive Share Plan Nominees Limited*

Mark Reese (Independent director)

*NZX Holding No. 4 Limited*

Bevan Miller – (Ceased to hold office 27 October 2017)  
Hamish Macdonald

*NZX Share Scheme Nominee Limited*

Bevan Miller – (Ceased to hold office 27 October 2017)  
Hamish Macdonald

*TZ1 Limited*

Bevan Miller – (Ceased to hold office 27 October 2017)  
Shane Dinnan

*Mandela Investments Limited*

Deregistered 7 July 2017

*MXF Nominees Limited*

Deregistered 10 July 2017

*Fundsource Limited*

Deregistered 1 May 2017

*NZX CPL Nominee Limited*

Deregistered 10 July 2017

*NZX Holding No. 3 Limited*

Deregistered 10 July 2017

*Tane Nominees Limited*

Deregistered 10 July 2017

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	Interest	Entity
Guy Elliffe	Corporate Governance Manager	Accident Compensation Corporation
Mark Reese	Partner	Chapman Tripp
John Williams	Investment Manager	Trust 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 2017 is as follows:

Subsidiary director	Remuneration
Guy Elliffe	\$30,000
John Williams	\$30,000

Fees earned by NZX Limited directors for acting as independent directors of New Zealand Clearing and Depository Corporation Limited are set out in section five.

## 8. Donations

During the year NZX made donations to charitable organisations of \$16,370.

## 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 2016 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	14
110,000 – 119,999	17
120,000 – 129,999	7
130,000 – 139,999	5
140,000 – 149,999	5
150,000 – 159,999	7
160,000 – 169,999	6
170,000 – 179,999	4
180,000 – 189,999	3
190,000 – 199,999	2
200,000 – 209,999	2
210,000 – 219,999	4
220,000 – 229,999	3
230,000 – 239,999	1
240,000 – 249,999	1
250,000 – 259,999	1
290,000 – 299,999	2
300,000 – 309,999	1
340,000 – 349,999	1
370,000 – 379,999	1
480,000 – 489,999	1
530,000 – 539,999	1
620,000 – 629,999	1

## 10. Director transactions in securities of the Parent Company

Director	Securities held (legally and beneficially) at 31 December 2017
Frank Aldridge	50,000
Nigel Babbage	11,700,000
Richard Bodman	10,000
Jon Macdonald	75,000
James Miller	120,000
Dr Patrick Strange	35,000
Dame Therese Walsh	50,000

## 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 2017 was as follows:

	Group \$000
Audit of the financial statements	227
Other audit related fees	43
Non-audit services	–
<b>Total</b>	<b>270</b>

## 12. Top 20 security holders

The following table shows the names and holdings of the 20 largest holdings of the securities of the Company at 31 December 2017.

Investor name	Shares held	% of issued shares
HSBC Nominees (New Zealand) Limited	26,477,265	9.86
Citibank Nominees (NZ) Ltd	18,130,236	6.75
Accident Compensation Corporation	13,730,319	5.11
Aventine Group Limited	12,396,695	4.62
HSBC Nominees (New Zealand) Limited	11,724,386	4.37
Nigel Babbage & Philippa Babbage	11,700,000	4.36
Premier Nominees Limited	10,846,175	4.04
FNZ Custodians Limited	9,041,364	3.37
BNP Paribas Nominees NZ Limited	6,093,217	2.27
David Mitchell Odlin	5,848,000	2.18
Investment Custodial Services Limited	4,906,004	1.83
New Zealand Permanent Trustees Limited	3,926,366	1.46
Forsyth Barr Custodians Ltd	3,922,261	1.46
JPMorgan Chase Bank	3,563,338	1.33
Custodial Services Limited	3,423,747	1.28
New Zealand Superannuation Fund Nominees Limited	2,815,293	1.05
Custodial Services Limited	2,211,530	0.82
National Nominees New Zealand Limited	2,195,375	0.82
Tea Custodians Limited	2,123,456	0.79
Leveraged Equities Finance Limited	2,012,796	0.75
<b>Total</b>	<b>157,087,823</b>	<b>58.52</b>

### 13. Spread of ordinary shareholders as at 31 December 2017

Size of holding	SHAREHOLDERS		SHARES	
	Number	%	Number	%
1-1,000	287	7.78	175,615	0.07
1,001-5,000	701	19.00	2,322,579	0.87
5,001-10,000	942	25.54	7,564,287	2.82
10,001-50,000	1,386	37.57	30,734,671	11.45
50,001-100,000	210	5.69	15,007,405	5.59
Greater than 100,000	163	4.42	212,671,828	79.20
<b>Total</b>	<b>3,689</b>	<b>100</b>	<b>268,476,385</b>	<b>100</b>

### 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 2017. The total number of voting securities on issue as at 31 December 2017 was 268,476,385.

	Class	Relevant interest	% of Issued shares
Accident Compensation Corporation	Ordinary shares	16,909,611	6.30
Highclere International Investors LLP	Ordinary shares	16,183,718	6.03
ANZ New Zealand Investments Limited	Ordinary shares	15,529,120	5.78

### 15. Waivers from Listing Rules and independent director certificates

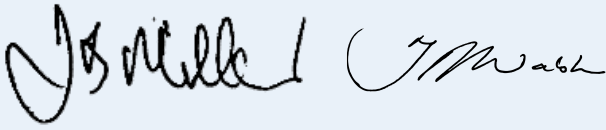
The following waiver has been granted to NZX or relied upon by NZX in the 12 month period ended 31 December 2017:

Waiver from the application of Rule 7.6.1 to allow NZX to redeem its own Equity Securities where, under the terms of the NZX Employee Share Plan – Team and Results, it is obliged or entitled to do so.

### 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 CEO LTI Share Scheme (implemented January 2013) and 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.

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

Handwritten signatures of J B Miller and Dame Therese Walsh.

**J B Miller**  
Chairman of the Board

**Dame Therese Walsh**  
Chairman of the Audit  
and Risk Committee



# Directory

## Registered office

NZX Limited  
Level 1 / NZX Centre  
11 Cable Street  
PO Box 2959  
WELLINGTON  
Tel: +64 4 472 7599

[info@nzx.com](mailto:info@nzx.com)  
[www.nzx.com](http://www.nzx.com)

## Auditors

KPMG  
10 Customhouse Quay  
WELLINGTON  
Tel: +64 4 816 4500  
Fax: +64 816 4600

## Board of Directors

Frank Aldridge  
Nigel Babbage  
Richard Bodman  
Jon Macdonald  
James Miller  
Dr Patrick Strange  
Dame Therese Walsh

## Share register

Link Market Services Limited  
PO Box 91976  
Auckland 1142

Investor enquiries: +64 9 375 5998  
Fax: +64 9 375 5990

[enquiries@linkmarketservices.co.nz](mailto:enquiries@linkmarketservices.co.nz)  
[www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)



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