



NEW ZEALAND'S EXCHANGE

Interim Report 2018



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Highlights from the first half*

Total operating earnings**

\$13.9
million



3.8%

Funds under management

\$2.9
billion



21.7%

On-market value traded

\$10.9
billion



33%

Total market capitalisation
(equity and debt)

\$164.6
billion



8.8%

Dividend

Interim

3.0



Special

1.5



cents per share

Dairy derivatives



MILLIONTH
LOT TRADED IN MAY

* financial results for the six months ended 30 June 2018, comparisons are to the six months ended 30 June 2017

**includes operating earnings from continuing operations of \$13.2 million and discontinued operations of \$0.7 million



Word from the CEO

Six months into reshaping our business

Six months into the delivery of our five-year strategy we have advanced the business materially. We have divested our non-core businesses, improved the exchange's customer service and business efficiency, increased liquidity in the secondary market, and progressed plans to simplify the New Zealand market's structure and rule set.

We are pleased with progress being made across the key strategic areas fundamental to our future growth, and remain on track to deliver within the earnings guidance range provided in February 2018.

Delivering on the plan to build a stronger core market for New Zealand

Non-core businesses divested

Since 1 January we have sold rural newspaper Farmers Weekly, the red meat and forestry components of AgriHQ, and the remainder of our Melbourne agribusiness – Australian Crop Forecasters and Profarmer Australia. 41 staff transitioned with the sale of these businesses and we now have just two offices in Auckland and Wellington.

The divestment of these businesses takes us a step closer towards our underlying strategic goal of creating a leaner and more focused NZX. This reinforces the commitment we made to shareholders to pursue a strategy that refocuses back on our core business – the operation of New Zealand's equity, debt, funds and derivatives markets.

Focusing on the core - customers come first

Focusing on our core markets business meant we needed to immediately step up our service offering and put our listed customers first.

We have created a dedicated team to better manage the relationships with our current and prospective issuers. This team was formed in December, and have already engaged with all their customers and are using this feedback to enhance NZX's service offering. Individual customer plans have been created and opportunities are now being identified to cross sell our data and other products. The team is also working alongside market players to proactively seek out new customers.

We have improved our service offering to provide an increased range of opportunities for our listed issuers to showcase their stories to investors in New Zealand and overseas. We now sponsor investor roadshows, host retail investor evenings, and work alongside our existing customers to promote the benefits of listing with masterclasses held across the country for prospective customers.

Our issuer relationships team, in conjunction with the dairy derivatives team, will host our first event in

Singapore this October to market New Zealand as an investment destination, and showcase the stories of several of our listed customers. Companies presenting at this event include Synlait Milk, Pushpay Holdings, Meridian Energy, Heartland Bank and Pacific Edge.

This event underpins our global alliance strategy outlined to shareholders at April's annual meeting. Global connectivity is key to the success of NZX, and we signed Memoranda of Understanding with the Hong Kong and Singapore exchanges earlier this year. We want to increase the value our customers receive from being listed in New Zealand by making it easier for them to have a presence on like-minded international exchanges. This will support their access to global capital and help to lift their profile in those markets.

Our regulatory function also recognised the Hong Kong, Singapore and Toronto Stock Exchanges in April, complementing agreements already in place with the Australian Securities Exchange and the London Stock Exchange Group.

While the market for equity initial public offerings (IPOs) remains challenging at present, \$4.4 billion of primary and secondary capital was raised in the first half of 2018 across equity, debt and funds products. Since 1 January we have welcomed three new listed customers to the market. QEX Logistics joined the equity market with a compliance listing, and Christchurch International Airport and WEL Networks joined the debt market. We recognise equity IPOs are important, and as mentioned above, are working with market players to widely promote the benefits of being publicly listed to prospective companies.

Debt issuance remained strong in the first six months with 10 new issuances raising \$1.7 billion on listing. Our listed fund customers raised \$698 million on the secondary market over the same period.

Auckland Council listed the exchange's inaugural green bond, endorsing the strategic commitment we made last year to grow our country's environmental markets. Today we have four green bonds listed on the exchange, reinforcing the growing appetite for investments that have positive environmental outcomes.

Finally, our policy function has been leading work to simplify the market’s structure and rule set to reduce complexity for investors and companies. This work has been supported by the issuer relationships team who have been engaging with our current and prospective customers on the proposed rule changes.

We recognised we needed to be bold when completing the first holistic review of the exchange’s rule set in more than 15 years, and through this review we have taken the rules from 450 pages to approximately 95.

Changes will be finalised before November, and we will be removing our current junior equity boards and creating a single equity market structure – but we are carefully considering the minimum listing requirements to ensure we have a pathway for small to medium size businesses to list. We are also delivering updated settings to facilitate the listing of funds and to continue the strong momentum in the debt market.

These changes will make additional capital raising across the equity, debt and funds markets simpler and faster for issuers, while ensuring we maintain strong

investor protections and integrity in the New Zealand market.

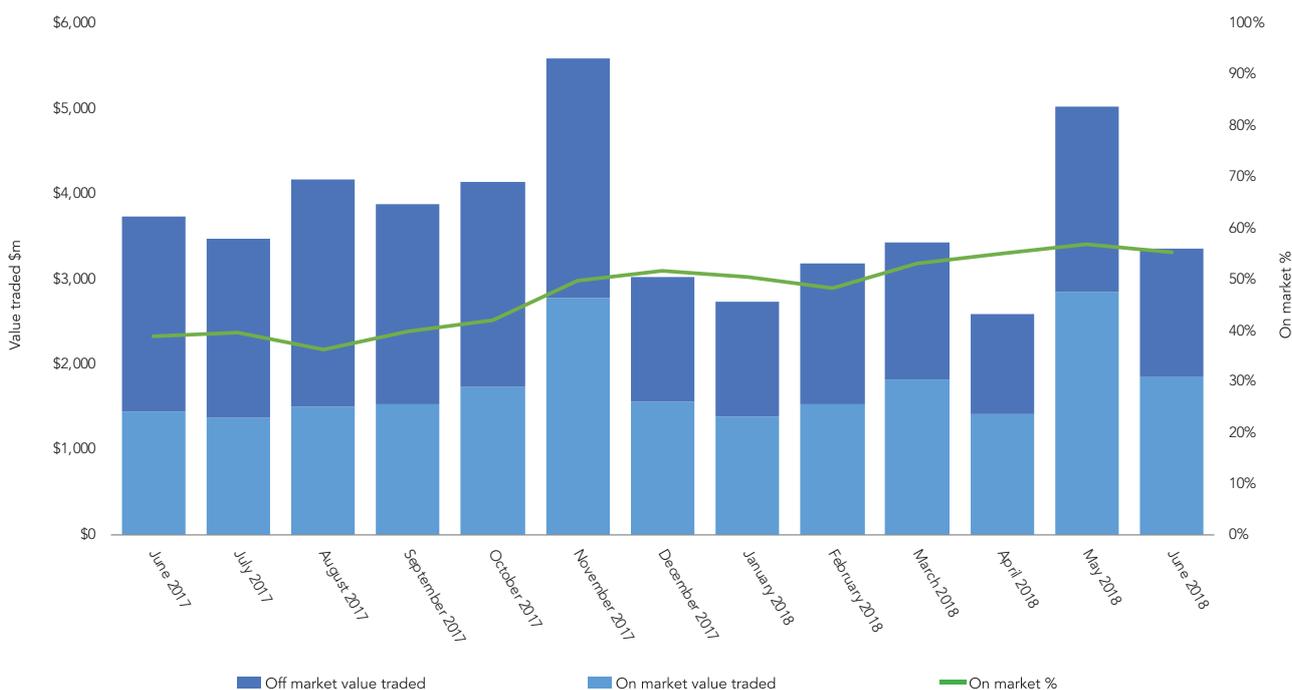
Actions underway to drive secondary market development

There are several actions underway across this team to develop the secondary market and drive liquidity growth.

Customer engagement has again been a key focus of the markets development team with more than 270 meetings with current and prospective participants, brokers and investors in the first half of 2018. These meetings are being used to market our market and sell the story of New Zealand’s exchange to a wider group of investors. As a wider range of investors gain an understanding of our market it is important their brokers have connectivity to NZX’s markets. The team is focused on growing the number of participants accessing the New Zealand market.

As a first step, we welcomed Hobson Wealth Partners as an NZX cash market trading and clearing participant in June. Hobson Wealth is the first New Zealand based participant to join NZX since the Clearing House started in 2010.

Strong growth in on-market value traded over past 12 months



A revised trading and clearing pricing structure was also announced last week and will be introduced alongside targeted policy changes and improved trading system functionality in October. These changes aim to further improve on-market liquidity and enhance price transparency in the equity market, delivering on several strategic initiatives from NZX's strategy, and lay the foundation for long term future growth in the secondary markets.

These changes follow a successful trial of a new pricing structure in the secondary market over the past 12 months, which has helped contribute to an additional 33% in on-market value traded since August 2017. At the beginning of 2017, on-market activity was 39.8%, it is now 53.4%. This compares to 23% on-market value traded ten years ago, and 28.8% five years ago.

All of this work is underpinned by projects to enhance and further modernise our IT infrastructure, improve operational efficiencies and broaden the suite of trading tools for our customers. The addition of new trading functionality and extended trading hours in the dairy derivatives market was delivered in March and July respectively, in response to demand from customers based in Asia and Europe. More information on how our dairy derivatives market has delivered on the actions set out in our strategy last year is available on page nine.

Maximising growth in businesses that support the core market

New Zealand's fund management sector has significant growth potential, with a large unmet need amongst kiwi investors to participate in the local market beyond their involvement in KiwiSaver. For this reason, maximising the growth of our superannuation, KiwiSaver and exchange traded funds (ETFs) products is a priority. Growth in these passive products also supports the development of New Zealand's broader public capital market, and in turn our core exchange business.

Under the new leadership of Hugh Stevens, Smartshares is exploring collaborative and innovative ways to extend its customer base to be more relevant to a wider range of retail and institutional investors.

Kiwis attitudes towards investing

Smartshares and NZX think it is important that New Zealanders understand how the share market works and that they are comfortable participating in it.

So, we teamed up with Sharesies to commission a retail investor research project through market research company Colmar Brunton. They surveyed 1,000 New Zealanders about their attitudes towards shares, investing and money. Many New Zealanders aren't aware how simple investing in shares can be and many assume it is out of reach for them.

Only 18% of New Zealanders own shares. The biggest reasons cited for not investing are:

- A lack of cash to spare (36%)
- Not knowing how to invest in the share market (34%)
- A belief that investing in shares is risky (31%)
- A belief that the share market is only for people with lots of money (35%)

Shares are the fifth most popular investment for New Zealanders. Savings accounts are the most popular (72% of New Zealanders have one), followed by KiwiSaver (65%), property (59%) and term deposits (30%). There are huge opportunities for Smartsharesto shape our offerings in ways which give New Zealanders a helping hand into the share market. We think we are in a great position as the leading provider of exchange traded funds in New Zealand. Not only is this a great opportunity for our business but it adds liquidity to the market overall and should create wealth for more New Zealanders.

The wider NZX Group will benefit from these findings too. We are committed to making the market more accessible to retail investors.

Total funds under management is up 21.7% on this time last year, while SuperLife member numbers increased 6.3%, and total unitholders and member numbers (including the number of investors in each ETF) grew 30.8%.

Our Wealth Technologies business finished its core platform development in June, and its first large customer is scheduled to go live in October. This will be a significant milestone for the business as it seeks to extend its client base and product offering.

Funding future growth

Capital review completed

The board completed a review of the company's capital structure in the first half.

The outcome was the issue and listing of \$40 million of subordinated notes, consultation on a mutualised default fund for the Clearing House which will be implemented later this year, and the establishment of a dividend reinvestment plan.

The subordinated notes have several innovative features which NZX believe will advance New Zealand's debt market. These include a 15-year maturity with election dates after five and 10 years, a retail liquidity support facility, and penalty rate in the event interest is deferred. The offer was well supported by the market, and all shareholders were offered a preference facility, we thank those of you who took up this offer.

These actions will help to ensure the exchange has a balance sheet risk profile appropriate for a business, which is a critical component of New Zealand's capital markets infrastructure.

Dividend

The Board has declared an interim ordinary dividend, fully imputed, of 3.0 cents per share. Following the divestment of our non-core agri businesses, each shareholder will also receive a special dividend, fully imputed, of 1.5 cents per share.

As outlined in our annual report, a dividend reinvestment plan will be established and apply to the 2018 interim and special dividends. It will be paid on 14 September 2018 and a discount rate of 2.5% will apply.

The next six months

This has so far been a year of transition for NZX. We are pleased with progress being made across the key strategic areas fundamental to our growth, and the growth of New Zealand's wider capital markets. Six months into our five-year strategy the team at NZX are optimistic about what the future holds.

On behalf of the whole team, we thank you for your continued support, and hope you find our progress encouraging.



Mark Peterson, Chief Executive



NZX Head of Derivatives Nick Morris presenting to delegates at the NZX/GDT Showcase held in Shanghai last month.

Spotlight on NZX's dairy derivatives markets: going global



Accelerating the global presence of our dairy derivatives market forms a key pillar of our strategy to support New Zealand's position as a global leader in the dairy industry.

So far in 2018 the derivatives team has delivered on the actions promised in our strategy last year which we believe will drive this market to a global scale.

Last month we extended the market's trading hours to 20 from 14 hours in response to customer demand in Asia and Europe.

Expanded global access has been supported by additional trading functionality launched in March. This has helped improve on screen liquidity, by tightening the bid-ask spread in the order book. For example, there has been a 43% decrease in the spread for Whole Milk Powder (WMP) futures compared to the prior period.

In December, NZX launched Skim Milk Powder (SMP) options, again in response to customer demand on the back of growing volumes of SMP futures volumes, with participants needing more tools to

help manage price volatility. SMP options reached a new record in June with 1,300 lots changing hands.

Our team has also been on the road stepping up our sales efforts as we aggressively market our market – particular in Asia where customer demand is high. We have been hosting education events with stakeholders in China and South East Asia, and are upping our presence at industry events in Europe and the United States.

Alongside this, our website has been redesigned and will soon include Mandarin translation, and bespoke marketing materials to create a reference point for our global customer base. Preparations continue to progress for our Singapore office, which will likely open in 2019.

We are also leveraging our annual dairy derivatives seminar held in Singapore each October to promote our broader public market. Five of our listed companies will travel to the city for a sideline event designed to promote more Asian investment into New Zealand.

To support future market growth and ensure capital is used efficiently, our Clearing House developed a risk management model in the form of a mutualised default fund which will be rolled out later this year. The addition of this fund provides a platform for future growth in trading volumes and participation by international clearers.

Records on records

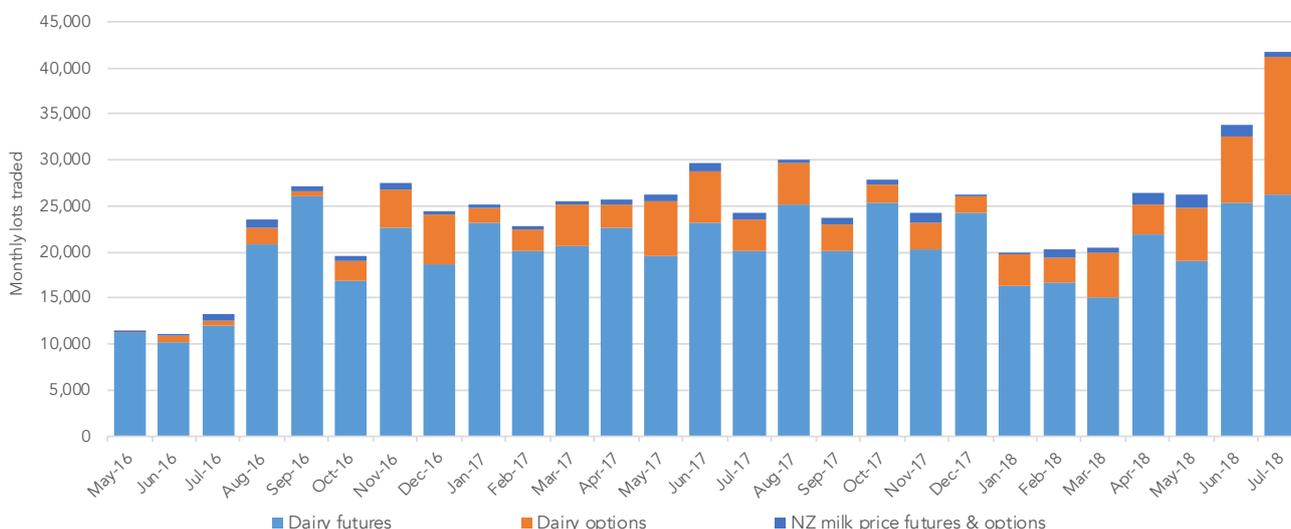
The market traded its millionth lot in May, a significant milestone in its journey to maturity.

This record was supported by a rise in positions being held further out, a key sign of improved market liquidity as traders become more confident in extending their positions into the dairy season.

In the second quarter record volume was traded at 86,386 lots. This is a solid result given volatility was subdued over the first half of 2018 compared to normal market conditions, and WMP prices being bounced round by low price fluctuations over the past 12 months, and low price movements at Global Dairy Trade (GDT) events.

Wednesday 27 June was a record day for New Zealand milk price futures volumes, with 310 lots traded in a single day, or 1.86 million kilograms of milk solids. It was also a record breaking second quarter for this product with higher prices driving increased farmer interest in hedging. Volume traded in milk price derivatives increase more than 54% in the first six months on 2018 – and are on track to trade more than 10,000 lots in 2018. This is an equivalent of 60 million kilograms of milk solids or 3% of New Zealand’s total annual milk supply.

Total dairy futures and options volumes traded by month



Note: graph above shows monthly volume data for NZX dairy derivatives contract suite from May 2016 when NZ milk price futures was launched

Management Commentary

Financial results for the half year ended 30
June 2018



FOUNDERS OF QEX LOGISTICS DOREEN AND RONNIE XUE WITH THEIR CHILDREN OUTSIDE NZX ON THE COMPANY'S LISTING DAY IN FEBRUARY 2018.



Overview

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

Six months ended 30 June 2018 \$000	Issuer Relationships	Secondary Markets	Data & Insights	Funds	Wealth Technologies	Corporate	Total continuing operations	Agri	Total including discontinued operations
Revenue	11,500	8,546	5,574	7,320	483	-	33,423	3,803	37,226
Expenses	(2,544)	(2,640)	(850)	(4,820)	(1,091)	(8,261)	(20,206)	(3,088)	(23,294)
Operating earnings	8,956	5,906	4,724	2,500	(608)	(8,261)	13,217	715	13,932

Six months ended 30 June 2017 \$000	Issuer Relationships	Secondary Markets	Data & Insights	Funds	Wealth Technologies	Corporate	Total continuing operations	Agri	Total including discontinued operations
Revenue	12,001	7,927	5,524	6,590	721	-	32,763	3,799	36,562
Expenses	(2,669)	(2,478)	(657)	(4,354)	(1,522)	(7,148)	(18,828)	(3,249)	(22,077)
Operating earnings	9,332	5,449	4,867	2,236	(801)	(7,148)	13,935	550	14,485

Issuer Relationships

This team was established in December 2017. It is tasked with creating a compelling and attractive proposition for our current and prospective equity, debt and funds customers.

Operating results and strategic metrics for this division are below:

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Annual listing fees	5,082	4,996	1.7%
Initial listing fees	434	452	(4.0%)
Secondary issuance fees	1,158	1,101	5.2%
Other issuer services	313	293	6.8%
Consulting and development revenue	155	728	(78.7%)
Contractual revenue	4,358	4,431	(1.6%)
Total revenue	11,500	12,001	(4.2%)
Total expenses	(2,544)	(2,669)	4.7%
Operating earnings	8,956	9,332	(4.0%)
Strategic metrics			
Number of unique issuers	200	209	(4.3%)
Equity market capitalisation	137.0 billion	123.8 billion	10.6%
Debt market capitalisation (including green bonds)	27.6 billion	27.4 billion	0.6%
Number of new equity listings	1	1	-
Number of new debt listings	10	10	-
Value of new equity listed	0.02 billion	0.48 billion	(95.9%)
Value of new debt listed	1.67 billion	1.53 billion	9.0%
Total secondary capital raised	2.75 billion	2.44 billion	12.5%

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:

- an increase in the number and market capitalisation of listed debt instruments; and
- the growth in equity market capitalisation.

While the number of equity issuers declined in the period 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. There has been one initial listing during the period with initial listing fees being comparable to 2017.

Secondary issuance fees are paid by existing issuers when a company raises additional capital through placements, warrants, 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. Total capital raised in the period was of a lower value, however capital activity was more complex in nature resulting in increased fees.

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 consulting and development revenue arises from the operation of New Zealand's electricity market, under long-term contract from the Electricity Authority, and the Fonterra Shareholders' Market, under a long term contract from Fonterra. Consulting and development revenue arises on a time and materials basis; the focus on the energy market software upgrade resulted in lower consulting activity.

Secondary Markets

This team is tasked with driving secondary market development across our equity, debt, funds and derivatives markets, and managing participant relationships.

Operating results and strategic metrics for this division are below.

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Participant services revenue	1,935	1,886	2.6%
Securities trading revenue	2,962	2,728	8.6%
Securities clearing revenue	3,105	2,751	12.9%
Dairy derivatives revenue	544	562	(3.2%)
Total revenue	8,546	7,927	7.8%
Total expenses	(2,640)	(2,478)	(6.5%)
Operating earnings	5,906	5,449	8.4%

	June 2018	June 2017	Change Fav/(unfav)
Strategic metrics			
Number of trades	1.6 million	0.9 million	75.7%
Total value traded	20.3 billion	19.8 billion	2.4%
% of value on market	53.4%	40.3%	32.5%
Dairy lots traded	147,180	155,222	(5.2%)
Number of participants	36	34	5.9%

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 increased during the period.

Securities trading revenue comes from the execution of trades on the equity and debt markets operated by NZX. Trading fees are currently a combination of a fixed fee per trade (approximately 70% of revenue) and a variable fee based on the value of the trade.

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 value traded by participants on the pricing trial was greater in the period resulting in additional clearing revenue.

Changes to the securities trading and clearing pricing structure will be implemented alongside participant rule changes in October. These changes seek to encourage greater on-market liquidity and price transparency, in line with NZX’s strategic commitment to develop the secondary market.

Dairy derivatives revenue relates to trading, clearing and settlement fees for trading NZX dairy futures and options. Fees are largely charged in USD (reflecting the global nature of the market) per lot traded. Trading on the dairy derivatives market has been relatively flat in the period. Post the 30 June balance date, extended trading hours were implemented in the dairy derivatives market, and July was a record month for lots traded.

Data & Insights

This team is tasked with growing existing data revenues, and turning raw data into insights that drive decisions, particularly those which will support the equity, debt, funds and derivatives markets operated by NZX.

Operating results and strategic metrics for this division are below:

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Royalties from terminal	3,335	3,175	5.0%
Subscriptions and licenses	1,802	1,922	(6.2%)
Dairy data subscriptions	343	341	0.6%
Other	94	86	9.3%
Total revenue	5,574	5,524	0.9%
Total expenses	(850)	(657)	(29.4%)
Operating earnings	4,724	4,867	(2.9%)

Strategic metrics	June 2018	June 2017	Change Fav/(unfav)
Terminal numbers (12 month average)	7,295	7,426	(1.8%)
Number of licences	96	94	2.1%
Number of proprietary security products subscriptions	395	389	1.5%
Number of dairy data products subscriptions	1,031	801	28.7%

Royalties from terminals relate to the provision of capital markets data to global data resellers who incorporate NZX data into their own subscription products. Terminal numbers declined in the period which has been offset by receipts from royalty audits.

Subscription and licenses relate to the provision of capital markets data to market participants and stakeholders. The mix between low and high value subscriptions has resulted in lower fees.

Dairy data subscriptions relate to the sale of dairy data and analytical products.

Funds Management

This business comprises SuperLife superannuation and KiwiSaver and Smartshares Exchange Traded Funds products.

Operating results and strategic metrics for this business are detailed below:

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
SuperLife revenue	4,189	3,902	7.4%
Smartshares revenue	3,131	2,688	16.5%
Total revenue	7,320	6,590	11.1%
Total expenses	(4,820)	(4,354)	(10.7%)
Operating earnings	2,500	2,236	11.8%
	June 2018	June 2017	Change Fav/(unfav)
Strategic metrics			
SuperLife member numbers	51,963	48,888	6.3%
SuperLife external FUM	2.1 billion	1.8 billion	16.0%
Smartshares external FUM	0.8 billion	0.6 billion	39.3%
Smartshares SuperLife FUM	1.7 billion	1.3 billion	32.5%
Total Smartshares FUM	2.5 billion	1.9 billion	34.6%
Total FUM (external)	2.9 billion	2.4 billion	21.7%

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 (which are received net of fund costs); and
- the Smartshares Exchange Traded Funds (ETFs) business, being variable FUM fees.

Growth in SuperLife member numbers and total external FUM was a driver of the significant increase in funds management revenue, with member numbers up 6.3% on the prior comparable period.

Smartshares unitholders (the number of investors in each ETF) increased 30.8% on the comparable period.

Wealth Technologies

This business is a platform that enables advisers and brokers to manage client investments. It is the newest addition to NZX. Operating results and strategic metrics for this business are detailed below:

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Administration fees	393	631	(37.7%)
Development fees	90	90	0.0%
Total revenue	483	721	(33.0%)
Total expenses	(1,091)	(1,522)	28.3%
Operating earnings	(608)	(801)	24.1%
Strategic metrics	June 2018	June 2017	Change Fav/(unfav)
FUA (external)	1.1 billion	1.2 billion	(7.9%)

Revenue in this business is generated from administration services provided on the existing wealth management platform, 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 resulted in lower revenue in the period.

Core platform development was completed in the second quarter and a large customer is scheduled to go live in October.

Operating Expenses

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Gross personnel costs	(13,625)	(12,402)	(9.9%)
Less capitalised labour	2,065	1,435	43.9%
Personnel costs	(11,560)	(10,967)	(5.4%)
Information technology costs	(3,712)	(3,646)	(1.8%)
Professional fees	(936)	(676)	(38.5%)
Marketing	(205)	(144)	(42.4%)
Funds expenditure	(1,965)	(1,573)	(24.9%)
Other expenses	(1,828)	(1,822)	(0.3%)
Total expenses	(20,206)	(18,828)	(7.3%)
Strategic metrics	June 2018	June 2017	Change Fav/(unfav)
Staff numbers (FTEs) - continuing	217	203	(6.9%)
Staff numbers (FTEs) - discontinuing	28	29	3.4%

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
- Less capitalised labour (where employees or contractors are engaged on capital projects).

Personnel costs have increased due to:

- additional development resources (on fixed term contracts) for the Wealth Technologies and energy market capital software projects have increased gross personnel costs and capitalised labour;
- Targeted new roles to assist with strategy execution in cyber security, dairy derivatives and marketing.
- Introduction of CEO LTI scheme back dated to 6 April 2017 and an LTI scheme for the Head of Funds Management;
- No Head of Issuer Relationships role in June 2017 period; and
- Issue of NZX shares (\$1,000 gross) to each employee.

Information Technology 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. Savings from the 2017 project to modernise and rationalise the data centre hosting, have been used in the current period to support further business initiatives to deliver cost savings in future years. These included increased maturity of cyber security, creating modernised and resilient Australian connectivity to the New Zealand market, internet and market participant modernisation and Wealth Technologies network, power reticulation modernisation and data hosting costs relating to new client projects.

Professional fees were made up of legal expenses and advisory and consultancy fees. Additional legal costs were incurred from the issue of shares to employees and the set-up of the dividend reinvestment plan and LTI schemes. Financial consulting costs were incurred in relation to an Australian GST audit and the internal audit program. Royalty commission costs also increased in line with increased receipts from royalty audits.

Marketing costs relate to Smartshares and the NZX corporate centre. Smartshares have increased their marketing campaigns to attract new investors/members. NZX increased its investor relations deliverables and broader communications and marketing efforts to support core strategic initiatives to establish a concerted sales effort and market the market internationally.

Fund expenditure primarily represents the cost of operating the Smartshares schemes. The majority of costs fluctuate relative to FUM (eg. custodian fees, trustee fees, index fees, settlement costs and third party manager fees) and some costs are fixed (outsourced fund accounting and administration costs and registry fees). The increase in fund expenditure arises from the growth in Smartshares FUM.

Other expenses include general and administrative expenditure such as rent, travel, insurance, directors' fees, audit fees and general overheads.

Other Income and Expenses

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Interest income	391	471	(17.0%)
Interest expense	(608)	(566)	(7.4%)
Net gain/(loss) on foreign exchange	33	30	10.0%
Net finance expense	(184)	(65)	(183.1%)
Depreciation of PP&E	(428)	(557)	23.1%
Amortisation of intangibles	(2,686)	(2,430)	(10.5%)
Total depreciation and amortisation	(3,114)	(2,987)	(4.3%)
Adjustment to provision for earnout	15	-	-
Tax expense	(3,001)	(3,071)	2.3%
Total net finance expenses, tax, depreciation and amortisation and gain on sale	(6,284)	(6,123)	(2.6%)
Profit/(loss) from discontinued operations (net of tax)	(2,524)	142	(1877.5%)

Net finance expense comprises interest income (on cash balances, Clearing House risk capital and regulatory working capital), interest expenses (on loans, overdrafts, the subordinated note and earn out) and foreign exchange gains/(losses). The subordinated note listed on 20 June 2018 will increase interest expenses in the second half of 2018.

The effective tax rate is higher than the statutory rate of 28% due to non-deductible items.

Discontinued activities relate to the non-dairy agri businesses (including Farmers Weekly, AgriHQ and the Australian based Grain Information Unit Agreements). NZX has entered into agreements to sell each of these businesses. The current period includes impairments of \$2.9 million.

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NZX HEAD OF ISSUER RELATIONSHIPS JOANNA LAWN PRESENTING AT OUR INAUGURAL RETAIL INVESTOR EVENING IN WELLINGTON.

Income statement

For the six months ended 30 June 2018

	Note	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Total operating revenue	6	33,423	32,763	67,141
Total operating expenses	7	(20,206)	(18,828)	(39,895)
Earnings before net finance income, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, and gain/(loss) on disposal of businesses and property, plant and equipment		13,217	13,935	27,246
Net finance expense	8	(184)	(65)	(261)
Gain/(loss) on disposal of businesses and property, plant and equipment		-	-	6
Depreciation and amortisation expense		(3,114)	(2,987)	(6,531)
Adjustment to provision for earnout	5	15	-	(390)
Profit before income tax		9,934	10,883	20,070
Income tax expense		(3,001)	(3,071)	(5,720)
Profit from continuing operation		6,933	7,812	14,350
Profit/(loss) from discontinued operations (net of tax)	3	(2,524)	142	487
Profit for the Period		4,409	7,954	14,837
Earnings per share				
Basic (cents per share)		2.8	3.0	5.5
Diluted (cents per share)		2.8	2.9	5.5

Statement of comprehensive income

For the six months ended 30 June 2018

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Profit for the period	4,409	7,954	14,837
Other comprehensive income recognised through equity			
Foreign currency translation differences	(125)	-	(53)
Total other comprehensive income	(125)	-	(53)
Total comprehensive income for the period	4,284	7,954	14,784

Statement of changes in equity

For the six months ended 30 June 2018

	Note	Share Capital \$000	Retained Earnings \$000	Translation Reserve \$000	Total Equity \$000
Balance at 1 January 2017		47,556	21,941	178	69,675
Profit for the period		-	7,954	-	7,954
Total comprehensive income for the period		-	7,954	-	7,954
Transactions with owners recorded directly in equity:					
Dividends paid	11	-	(8,050)	-	(8,050)
Share based payments		174	-	-	174
Cancellation of non-vesting shares		(90)	90	-	-
Total transactions with owners recorded directly in equity		84	(7,960)	-	(7,876)
Unaudited closing balance at 30 June 2017		47,640	21,935	178	69,753
Profit for the period		-	6,883	-	6,883
Foreign currency translation differences		-	-	(53)	(53)
Total comprehensive income for the period		-	6,883	(53)	6,830
Transactions with owners recorded directly in equity:					
Dividends paid	11	-	(8,054)	-	(8,054)
Share based payments		194	-	-	194
Cancellation of non-vesting shares		(383)	383	-	-
Total transactions with owners recorded directly in equity		(189)	(7,671)	-	(7,860)
Audited closing balance at 31 December 2017		47,451	21,147	125	68,723
Profit for the period		-	4,409	-	4,409
Foreign currency translation differences		-	-	(125)	(125)
Total comprehensive income for the period		-	4,409	(125)	4,284
Transactions with owners recorded directly in equity:					
Dividends paid	11	-	(8,323)	-	(8,323)
Issue of shares		283	-	-	283
Share based payments		291	-	-	291
Cancellation of non-vesting shares		(120)	120	-	-
Total transactions with owners recorded directly in equity		454	(8,203)	-	(7,749)
Unaudited closing balance at 30 June 2018		47,905	17,353	-	65,258

Statement of financial position

As at 30 June 2018

	Note	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 Dec 2017 \$000
Current assets				
Cash and cash equivalents	9	18,307	7,243	14,881
Cash and cash equivalents - restricted	9	20,000	20,000	20,000
Funds held on behalf of third parties		89,373	89,009	58,890
Receivables and prepayments		21,846	26,256	10,940
Current tax asset		-	3	-
Assets held for sale	4	5,606	-	2,415
Total current assets		155,132	142,511	107,126
Non-current assets				
Property, plant & equipment		2,195	2,780	2,444
Goodwill		30,222	35,764	33,929
Other intangible assets		34,335	37,684	36,290
Total non-current assets		66,752	76,228	72,663
Total assets		221,884	218,739	179,789
Current liabilities				
Funds held on behalf of third parties		89,373	89,009	58,890
Trade payables		6,508	7,159	3,810
Other liabilities		16,399	28,571	23,536
Current tax liability		467	-	666
Liabilities held for sale	4	1,055	-	-
Total current liabilities		113,802	124,739	86,902

Statement of financial position (continued)

As at 30 June 2018

	Note	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 Dec 2017 \$000
Non-current liabilities				
Non-current other liabilities		109	30	44
Interest bearing liabilities	10	38,770	20,000	20,000
Deferred tax liability		3,945	4,217	4,120
Total non-current liabilities		42,824	24,247	24,164
Total liabilities		156,626	148,986	111,066
Net assets		65,258	69,753	68,723
Equity				
Share capital		47,905	47,640	47,451
Retained earnings		17,353	21,935	21,147
Translation reserve		-	178	125
Total equity attributable to shareholders		65,258	69,753	68,723
Net tangible assets per share (cents per share)		(1.68)	(1.36)	(1.50)

Approved on behalf of the Board of Directors on 14 August 2018.



J B Miller
Chair of the Board

Lindsay Wright
Chair of the Audit and
Risk Committee

Statement of cash flows

For the six months ended 30 June 2018

	Note	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Cash flows from operating activities				
Receipts from customers		30,495	34,947	78,942
Net interest paid		(211)	(41)	(92)
Payments to suppliers and employees		(20,957)	(23,448)	(48,394)
Income tax paid		(3,671)	(3,843)	(6,072)
Net cash provided by operating activities		5,656	7,615	24,384
Cash flows from investing activities				
Cash (paid on acquisition)/received on disposal of businesses	5	(9,419)	-	7
Payments for property, plant and equipment		(209)	(112)	(302)
Payments for intangible assets		(3,049)	(3,014)	(5,782)
Net cash used in investing activities		(12,677)	(3,126)	(6,077)
Cash flows from financing activities				
Proceeds from former CEO share scheme settlement		-	-	1,874
Loan facility cancellation	10	(20,000)	-	-
Issue of subordinated note	10	40,000	-	-
Transaction costs relating to subordinated note	10	(1,230)	-	-
Dividends paid	11	(8,323)	(8,050)	(16,104)
Net cash provided by/(used in) financing activities		10,447	(8,050)	(14,230)
Net increase/(decrease) in cash and cash equivalents		3,426	(3,561)	4,077
Cash and cash equivalents at the beginning of the year		34,881	30,804	30,804
Cash and cash equivalents at the end of the year		38,307	27,243	34,881

Notes to the Financial Statements

For the six months ended 30 June 2018

1. Reporting entity and statutory base

Reporting entity

These consolidated interim financial statements are for NZX Limited (the Company) and its subsidiaries (together referred to as the Group) as at and for the six months ended 30 June 2018.

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

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). The Company is listed and its ordinary shares are quoted on the NZX main board. The Company also has listed debt which is quoted on the NZX debt market.

Basis of preparation

The Group financial statements have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These Group financial statements do not include all the information required for full annual financial statements prepared in accordance with NZ IFRS.

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.

In preparing these Group financial statements, significant judgements are made by management in applying the Group's accounting policies. The key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017.

Functional and presentation currency

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.

Accounting policies

Except as described below, these Group financial statements have been prepared using the same accounting policies as, and should be read in conjunction with, the financial statements and related notes included in the Group's Annual Report for the year ended 31 December 2017.

The Group has initially adopted NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 9 *Financial Instruments* from 1 January 2018. The effect of initially applying these new standards is not material on the Group's financial statements. Refer note 6 and note 10 for further detail.

Presentational changes

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

2. Segment reporting

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

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

The following segment is now presented as a discontinued operation (refer note 3):

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

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

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

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

Segmental information for the six months ended 30 June 2018

Unaudited	Issuer Relationships \$000	Secondary Markets \$000	Data & Insights \$000	Funds \$000	Wealth Technologies \$000	Corporate \$000	Total continuing operations \$000	Agri \$000	Total including discontinued operations \$000
Operating revenue	11,500	8,546	5,574	7,320	483	-	33,423	3,803	37,226
Operating expenses	(2,544)	(2,640)	(850)	(4,820)	(1,091)	(8,261)	(20,206)	(3,088)	(23,294)
Total segment result	8,956	5,906	4,724	2,500	(608)	(8,261)	13,217	715	13,932
Segment assets	24,694	119,234	4,517	40,328	8,452	19,488	216,713	5,171	221,884
Segment liabilities	(11,613)	(88,405)	(791)	(5,668)	825	(49,919)	(155,571)	(1,055)	(156,626)
Net assets	13,081	30,829	3,726	34,660	9,277	(30,431)	61,142	4,116	65,258

Segmental information for the six months ended 30 June 2017

Unaudited	Issuer Relationships \$000	Secondary Markets \$000	Data & Insights \$000	Funds \$000	Wealth Technologies \$000	Corporate \$000	Total continuing operations \$000	Agri \$000	Total including discontinued operations \$000
Operating revenue	12,001	7,927	5,524	6,590	721	-	32,763	3,799	36,562
Operating expenses	(2,669)	(2,478)	(657)	(4,354)	(1,522)	(7,148)	(18,828)	(3,249)	(22,077)
Total segment result	9,332	5,449	4,867	2,236	(801)	(7,148)	13,935	550	14,485
Segment assets	25,028	122,550	4,795	42,893	4,930	7,412	207,608	11,131	218,739
Segment liabilities	(13,008)	(89,011)	(504)	(16,126)	(213)	(27,830)	(146,692)	(2,294)	(148,986)
Net assets	12,020	33,539	4,291	26,767	4,717	(20,418)	60,916	8,837	69,753

Segmental information for the twelve months ended 31 December 2017

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

3. Discontinued operations

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

Management has committed to a plan to sell various parts of the business, detailed in note 4. The combined operations of Farmers Weekly, AgriHQ and the Grain Information Unit represent the Agri reportable segment, the assets of which are classified as held for sale.

The results for the period and comparatives have been re-presented to show the Agri results as a discontinued operation, separately from the Group's continuing operations.

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

	Note	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Total operating revenue		3,803	3,799	8,184
Total operating expenses		(3,088)	(3,249)	(6,427)
Earnings before net finance income, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, and gain/(loss) on disposal of businesses and property, plant and equipment		715	550	1,757
Net finance expense		(14)	(35)	(67)
Depreciation and amortisation expense		(189)	(301)	(511)
Impairment expense	4	(2,893)	-	(353)
Profit/(loss) before income tax		(2,381)	214	826
Income tax expense		(143)	(72)	(339)
Profit/(loss) from discontinued operation (net of tax)		(2,524)	142	487

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

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Net cash used in operating activities	480	505	1,388
Net cash from investing activities	-	(25)	(28)
	480	480	1,360

4. Assets held for sale

Management has committed to a plan to sell the following parts of the business:

- Farmers Weekly - an agreement to sell this business has been entered into, with an effective sale date of 1 July 2018;
- AgriHQ - subsequent to balance date, an agreement to sell this business has been entered into, with an effective sale date of 31 August 2018. Refer to note 15;
- Australian based Grain Information Unit (GIU) - subsequent to balance date, an agreement to sell this business has been entered into, with an effective sale date of 31 August 2018. Refer to note 15;
- FundSource - efforts to sell this business have started and a sale is expected before the end of 2018.

Accordingly, each of the assets and liabilities of the above disposal groups are presented as held for sale.

a. Impairment losses relating to disposal group

Each of the above disposal groups have been reviewed for impairment. Impairment losses of \$18,000 for Farmers Weekly, \$823,000 for AgriHQ and \$2,052,000 for GIU have been recognised to write-down each disposal group to the lower of carrying amount and fair value less estimated costs to sell. The impairment losses have been applied to reduce the carrying amount of goodwill and other intangible assets.

At December 2017 NZX recognised an impairment loss of \$353,000 in relation to the Agri business.

b. Assets and liabilities of disposal groups held for sale

As at 30 June 2018, each disposal group was stated at fair value less estimated costs to sell and comprised the following assets:

	GIU \$000	AgriHQ \$000	Farmers Weekly \$000	Data Services \$000	Total \$000
Unaudited 30 June 2018					
Property, plant & equipment	3	-	10	-	13
Goodwill	891	-	1,436	323	2,650
Other intangible assets	1,579	451	583	112	2,725
Receivables and prepayments	112	106	-	-	218
Assets held for sale	2,585	557	2,029	435	5,606
Trade payables	36	18	-	-	54
Other liabilities	566	489	99	-	1,154
Current tax liability	(130)	-	-	-	(130)
Deferred tax liability	(23)	-	-	-	(23)
Liabilities held for sale	449	507	99	-	1,055
Net Assets held for sale	2,136	50	1,930	435	4,551

As at 31 December 2017 the following assets were held for sale:

	Farmers Weekly \$000	Data Services \$000	Total \$000
Audited 31 December 2017			
Goodwill	1,436	323	1,759
Intangible assets	544	112	656
Assets held for sale	1,980	435	2,415

No assets were held for sale at 30 June 2017.

5. Adjustment to provision for earnout

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

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

6. Operating revenue

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

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Listing fees	6,674	6,549	13,907
Other issuer services	313	293	586
Market operations	4,513	5,159	9,764
Total Issuer Relationships revenue	11,500	12,001	24,257
Participant services	1,935	1,886	3,768
Securities trading	2,962	2,728	5,817
Securities clearing	3,105	2,751	5,911
Dairy derivatives	544	562	1,133
Total Secondary Markets revenue	8,546	7,927	16,629
Securities information	5,231	5,183	10,771
Dairy data subscriptions	343	341	693
Total Data & Insights revenue	5,574	5,524	11,464
Funds Management revenue	7,320	6,590	13,448
Wealth Technologies revenue	483	721	1,343
Total operating revenue	33,423	32,763	67,141

7. Operating expenses

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Operating expenses			
Personnel costs	(11,560)	(10,967)	(22,482)
Information technology	(3,712)	(3,646)	(7,474)
Professional fees	(936)	(676)	(2,197)
Marketing	(205)	(144)	(405)
Funds expenditure	(1,965)	(1,573)	(3,489)
Other expenses	(1,828)	(1,822)	(3,848)
Total operating expenses	(20,206)	(18,828)	(39,895)

8. Net finance expense

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Interest income	391	471	878
Interest expense	(608)	(566)	(1,238)
Net gain on foreign exchange	33	30	99
Net finance income	(184)	(65)	(261)

9. Bank facilities

a. Cash and cash equivalents

The restricted cash and cash equivalents balance relates to balances held for risk capital required 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 \$5.0 million (30 June 2017: \$10.0 million, 31 December 2017: \$10.0 million) and has an expiry date of 15 January 2020 (extendable by mutual agreement). The bank may require repayment by making written demand. The effective interest rate of the facility at 30 June 2018 was 4.43% (30 June 2017: 4.00%, 31 December 2017: 3.93%).

c. *Working capital facility*

During the period a revolving credit facility was established to provide the Group with additional flexibility in its working capital management. The facility limit is \$5.0 million and has an expiry date of 15 January 2020 (extendable by mutual agreement). No amount was drawn down at 30 June 2018.

10. Interest bearing liabilities

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

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

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

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

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

On 20 June 2018 NZX paid down and cancelled its \$20 million term loans.

	Unaudited as at 30 June 2018 \$000	Unaudited as at 30 June 2017 \$000	Audited as at 31 Dec 2017 \$000
Term loans	-	20,000	20,000
Subordinated note	40,000	-	-
Total drawn debt	40,000	20,000	20,000
Capitalised borrowing costs	(1,230)	-	-
Net interest bearing liabilities	38,770	20,000	20,000

11. Dividends

	For year ended	Unaudited 6 months ended 30 June 2018		Unaudited 6 months ended 30 June 2017		Audited 12 months ended 31 Dec 2017	
		Cents per share	Total \$000	Cents per share	Total \$000	Cents per share	Total \$000
Dividends declared and paid							
March 2017	31 Dec 16			3.00	8,050	3.00	8,050
September 2017	31 Dec 17					3.00	8,054
March 2018	31 Dec 17	3.10	8,323				
Total dividends paid during the year		3.10	8,323	3.00	8,050	6.00	16,104

Refer to note 15 for details of the 2018 interim dividend.

12. Share based payments

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

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

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

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

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

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

Shares that were issued, transferred to NZX employees or redeemed during the period under the Team and Results share plan were on terms consistent with the prior year.

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

13. 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:

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Short-term employee benefits	1,990	1,689	3,741
Share-based payments	158	76	156
Resignation benefits	-	-	138
	2,148	1,765	4,035

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

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

Directors fees for the six month period to 30 June 2018 were \$208,000 (30 June 2017: \$194,000, 31 December 2017: \$377,000) and have been included in other expenses. An additional director was appointed in April 2017 resulting in the increased amount paid in the current period.

c. Transactions with other related parties

	Unaudited 6 months ended 30 June 2018 \$000	Unaudited 6 months ended 30 June 2017 \$000	Audited 12 months ended 31 Dec 2017 \$000
Transactions with related parties			
Interest on receivable from former CEO	-	53	66
Settlement for former CEO share scheme	-	-	1,874
Balances with related parties			
Current receivable from former CEO	-	1,893	-

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.

14. Contingent liabilities

There are no contingent liabilities as at 30 June 2018 (nil at 30 June 2017 and 31 December 2017).

15. Subsequent events

Dividend

Subsequent to balance date the Board declared the following fully imputed dividends, to be paid on 14 September 2018 (with a record date of 31 August 2018). This is in line with the NZX dividend policy adopted on 19 February 2018.

Special dividend

Subsequent to balance date the Board declared a special dividend, to return the proceeds from disposals of non-core businesses to shareholders, of 1.5 cents per share, to be paid on 14 September 2018 (with a record date of 31 August 2018).

Divestments

Subsequent to balance date the Group entered into agreements to sell the following disposal groups:

- AgriHQ - the red meat and forestry components of AgriHQ have been sold to GlobalHQ Limited, effective 31 August 2018. The assets of this disposal group have been written down to fair value less estimated costs to sell at 30 June 2018, resulting in an impairment of goodwill of \$823,000. Refer note 4.
- GIU - the Australian based Australian Crop Forecasters and Profarmer Australia have been sold to Rural Bank, effective 31 August 2018. The assets of this disposal group have been written down to fair value less estimated costs to sell at 30 June 2018, resulting in an impairment of goodwill of \$2,052,000. Refer note 4.



Independent Review Report

To the shareholders of NZX Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 21 to 37 do not:

- i. present fairly in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of NZX Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the group in relation to regulatory assurance and vendor due diligence. 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 reviewer of the group. The firm has no other relationship with, or interest in, the group.



Use of this Independent Review Report

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



Responsibilities of the Directors for the interim consolidated financial statements

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

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim consolidated 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 review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG
Wellington

14 August 2018

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