Leading a sustainable capital market for New Zealand

NZX FULL YEAR 2018 RESULTS
INVESTOR PRESENTATION

15 FEBUARY 2019

NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Today's agenda

- Our year in review
- Financial performance
- Strategy update and outlook
- Questions
- Appendices

Important notice

This full year investor presentation should be read in conjunction with the financial statements in the 2018 annual report, which provides additional information on many areas covered in this presentation.

This presentation contains forward looking information, statements and targets. These reflect our current assumptions, which are subject to market outcomes, particularly with respect to market capitalisation, total capital raised, secondary market value and derivatives volumes traded, and funds under management growth. Additionally they assume no material adverse events, significant one-off expenses, major accounting adjustments, other unforeseeable circumstances, or future acquisitions or divestments.

Actual outcomes could be materially different. We give no warranty or representation as to our future performance (financial or otherwise) or any future matter. Except as required by law or NZX listing rules, we are not obliged to update this presentation after its release.

Our year in review

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

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One year into the delivery of our five year strategy we are making good progress

✓ In place

✓ Progressed, work to do

NEW ZEALAND'S EXCHANGE

Refocus core

- ✓ Transformed Issuer Relationships & Secondary Market service offering
- ✓ Growing listed customers & market participants
- ✓ On-market liquidity increasing, new pricing structure implemented, total value traded down due to delistings & excluding international crossings
- ✓ Completed review of market structure and rule set
- ✓ Global alliance strategy underway

Growth opportunities

- ✓ Dairy derivatives market – extended trading hours, additional trading functionality and sales resource added, annual trading volumes up 10.9%
- ✓ Debt market – primary issuance up 51.1%. Extended product suite to include wholesale debt

Maximise options

- ✓ Smartshares – new leadership in place, strategic review of operating model completed, funds under management (FUM) up 8.1% year on year
- ✓ Wealth Technologies – core platform development complete & inaugural customer on-boarded. Focus now on sales and marketing

Get fit

- ✓ Divested non-core businesses
- ✓ Reset capital structure – subordinated notes issued, mutualised default fund implemented and dividend reinvestment plan established
- ✓ Continued automation of operational processes
- ✓ Further progression on IT infrastructure programme

We shared our strategic priorities and are delivering against them

OVER THE PAST YEAR WE HAVE ACTIVELY TRANSFORMED NZX STRATEGICALLY, OPERATIONALLY AND CULTURALLY

Core markets

Issuer Relationships $9.5 billion capital raised in 2018, +10.0% on 2017	**Customer engagement**	• Team formed, proactive customer management plans implemented, 100% customer engagement • Five new customers joined the NZX across equity, funds and debt • Nine customer events hosted (including in Singapore), connecting issuer and investor communities local and globally
	Framework	• Updated market structure and rule set finalised, making it easier for customers to raise capital • Website content enhanced, providing greater information for existing and prospective customers
	Product suite	• First green bond listed (July), currently four listed • First Carbon fund listed • New rules facilitating a growing pipeline for equity, funds and debt (includes wholesale debt)
Secondary Markets On-market trading reached record high of 57.2% in December 2018	**Marketing the market**	• 100% engagement with market participants, Hobson Wealth Partners accredited as cash trading, clearing and settling participant (July), pipeline developing strongly • Increased engagement with all stakeholders, stepped up presence at industry events in Asia, U.S. and Europe
	On-market liquidity	• Revised trading and clearing pricing structure implemented alongside targeted rule and technology changes (October) • Total value traded ($38.2 billion) down 13.1% due to international crossings ($5 billion) and delisting ($1 billion) • On-market value traded increased 27.4%, averaged 53.4% of total trade in 2018
	Functionality	• Trading and clearing systems changes: four decimal place pricing (October) • Mutualised default fund implemented to support dairy derivatives growth (November)
Data & Insights 45% growth in non-display application data licensing billing in 2018	**Internal**	• Initiation and delivery of internal data process, more than 1,000 hours spent on core market data requests
	B2B	• 45% growth in non-display application data licensing billings as algorithmic trading volumes increased
	End user	• Dairy information service developed following divestment of agri businesses to support dairy derivatives market
	Capability	• Customer management data platform delivery underway, includes subscription management. Customer relationship management provider selected for implementation early FY19

We shared our strategic priorities and are delivering against them

OVER THE PAST YEAR WE HAVE ACTIVELY TRANSFORMED NZX STRATEGICALLY, OPERATIONALLY AND CULTURALLY

Growth opportunities	**Dairy Derivatives** 2018 volumes 345,651 lots traded (FY18 target: 400,000 – 500,000)	**Expand global access**	• Calendar spread trading functionality launched (March), significantly improving bid-offer spreads in futures markets (WMP futures spread tightened 41% since implementation) • Extended trading hours delivered (July), 40% of volumes or 70,375 lots traded in extended session
		Boost sales and marketing	• Additional FTE hired to develop NZ milk price future and options contracts, trading up 39% • New website launched, includes Chinese translation, charting functionality, upgraded quotes • Expanded sales activity, events hosted in Asia, U.S. and Europe • Local licensing for Singapore sales office underway • Marketing collateral revamped
		Extend product set	• Market consultation completed on options market margining and exercise style
Maximise options	**Smartshares** 2018 FUM growth +8.1% to $2.919 billion (achieved FY18 target of 7%)	**Grow end users**	• Launched institutional sales channel. New sales process across three client segments: institutional, retail and corporate • Retail member numbers up 10%. Smartshares ETF net cashflow up 26%. Smartshares' total net cashflow up 22%
		Cross-sell & innovatively market	• Funds distributed through new platforms (including Sharesies and InvestNow) up 350%
		Target corporate super	• New corporate super clients added, automated member onboarding, member numbers up 2.2%
	Wealth Technologies 2018 FUA growth +70.2% to $1.988 billion	**Go-live**	• Core platform development required by inaugural customer completed (Q2) • Platform development required specifically for inaugural customer completed (Q3) • Large customer went live (November), focus now on product refinement and sales
Get fit		**Clarity and alignment**	• Divested non-core agri businesses, returned proceeds to investors with special dividend
		Efficiency improvements	• Continued automation of operational processes • Further progression on IT infrastructure programme
		Capital structure	• Subordinated notes issued, mutualised default fund implemented, dividend reinvestment plan established

Our people are critical to our delivery

WE HAVE TRANSFORMED OUR CULTURE AND BUILT A REPUTATION THAT IS OUTWARD ORIENTATED AND CUSTOMER CENTRIC. THIS WILL CONTINUE IN 2019 AS WE STRENGTHEN OUR FOCUS ON SALES AND MARKETING

Culture

- Last year spent ensuring we have right skills and structure in place to deliver
- Teams restructured to get closer to our customers and understand what they need to add more value
- Transitioned to a more outward-orientated and customer focused NZX

Engagement & Staff Attrition

- Staff engagement has improved 6.2% over the last two years
- Staff attrition improved 17.3% over the last year

Diversity & Inclusion

- 85% of employees think everyone at NZX is treated fairly, regardless of ethnic background, race, gender, age or disability
- Started recording diversity of shortlisted candidates for roles

Results at a glance

Financials

- Revenue from continuing operations $67.5 million up 0.5%
- Expenses from continuing operations of $40.2 million up 0.8%
- Operating earnings from continuing operations* $27.3 million up 0.1%
- NPAT $11.6 million is lower than 2017 due to the strategic decision to focus on our core capital markets business, resulting in the disposal of non-core businesses (and the related impairments of $3.0 million**). Disposal proceeds were returned to shareholders through a special dividend of 1.5 cents per share

Dividend

• Interim	3.0 cents per share
• Special	1.5 cents per share
• Final	3.1 cents per share
• Total	7.6 cents per share

Key metrics

Core markets

- Total capital raised (new capital and secondary capital raised) up 10.0% to $9.5 billion
- On-market trading up 27.4% to 53.4%, total value traded down 13.1% to $38.2 billion
- Dairy data licence products up 24.4% to 963
- Funds under management up 8.1% to $2.9 billion
- Funds under administration up 70.2% to $2.0 billion

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

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

Financial performance

Auckland Sky Tower and CBD at sunset

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Income Statement

	Continuing operations 2018 $000	Discontinued operations 2018 $000	Total 2018 $000	Continuing operations 2017 $000	Discontinued operations 2017 $000	Total 2017 $000
Operating revenue	67,493	4,329	**71,822**	67,141	8,184	**75,325**
Operating expenses	(40,210)	(3,483)	**(43,693)**	(39,895)	(6,427)	**(46,322)**
Operating earnings	**27,283**	**846**	**28,129**	**27,246**	**1,757**	**29,003**
Net finance expense	(831)	(32)	**(863)**	(261)	(67)	**(328)**
Gain/(loss) on disposal of property, plant and equipment	(1)	9	**8**	6	-	**6**
Depreciation and amortisation expense	(6,425)	(185)	**(6,610)**	(6,531)	(511)	**(7,042)**
Impairment expense	(352)	(2,662)	**(3,014)**	-	(353)	**(353)**
Adjustment to provision for earnout	15	-	**15**	(390)	-	**(390)**
Income tax expense	(6,045)	-	**(6,045)**	(5,720)	(339)	**(6,059)**
Net profit after tax	**13,644**	**(2,024)**	**11,620**	**14,350**	**487**	**14,837**
Operating margin	**40.4%**	**19.6%**	**39.2%**	**40.6%**	**21.5%**	**38.5%**

Operating earnings from continuing operations are 0.1% higher than 2017

- operating revenue from continuing operations increased 0.5%; and
- operating expenses from continuing operations increased 0.8%.

Operating revenue and expenses from continuing operations are discussed in detail on the following slides.

Other expenses:

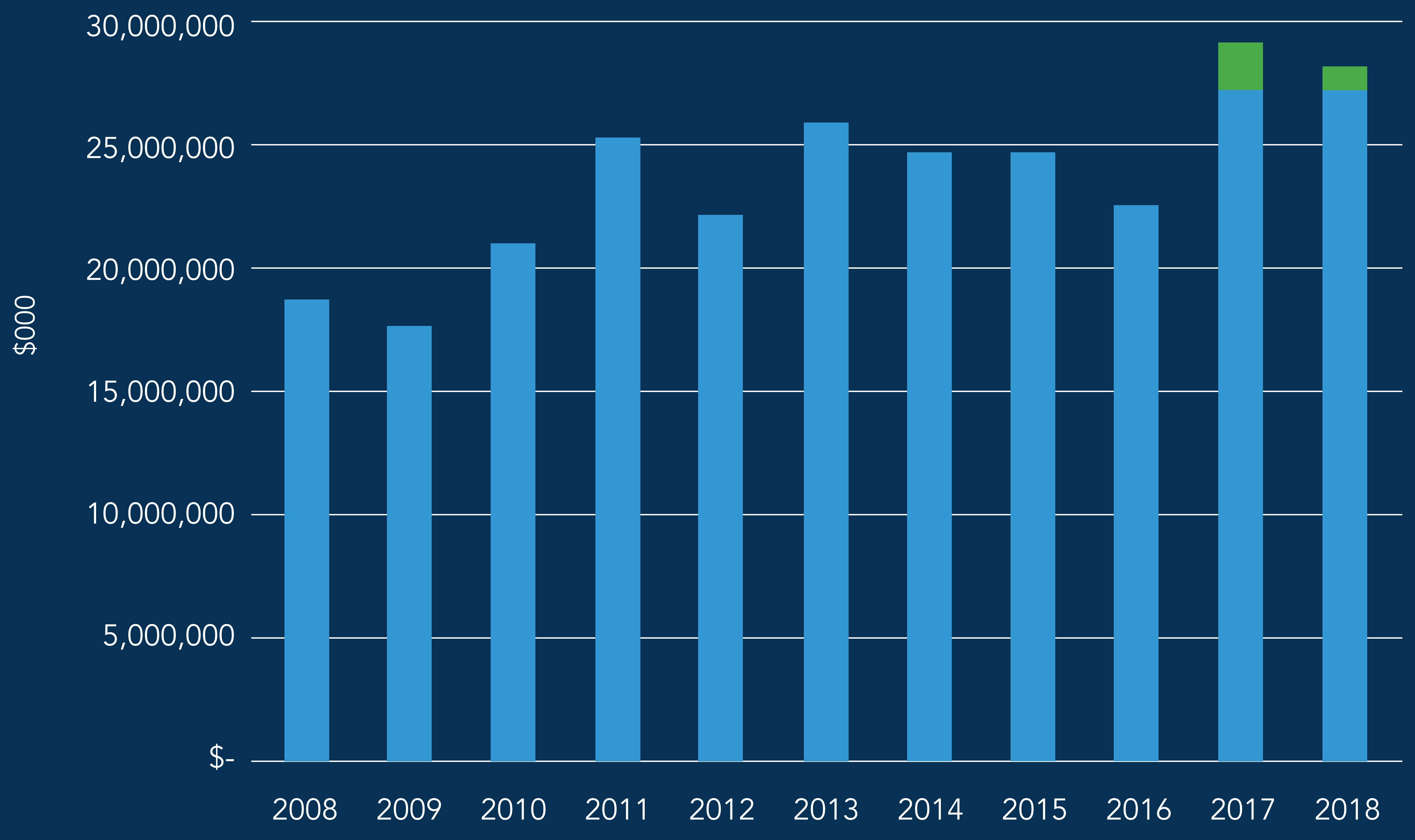
- net finance expenses increased due to subordinated note interest; and
- impairment expense relates to non-core business disposals.

Net Profit After Tax

- total net profit after tax ($11.6 million) is lower than 2017 due to the strategic decision to focus on our core capital markets business, resulting in the disposal of non-core businesses (and the related impairments of $3.0 million). Disposal proceeds were returned to shareholders through a special dividend of 1.5 cents per share; and
- continuing operations net profit after tax is down 4.9%; impacted by the FundSource impairment and increased subordinated note interest cost.

Total operating earnings of $28.1 million (2017: $29.0 million)

SIGNIFICANT AMOUNT OF ENERGY SPENT IMPLEMENTING THE INITIAL STAGES OF OUR FIVE-YEAR STRATEGY

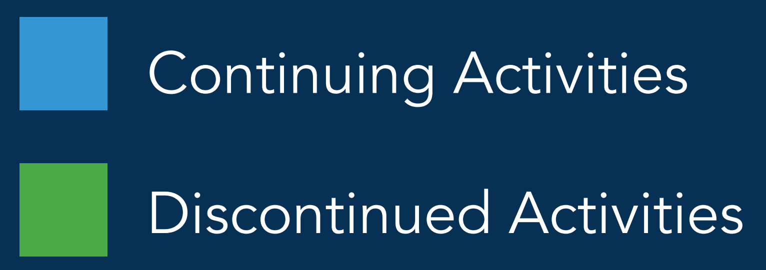


Total operating earnings from:

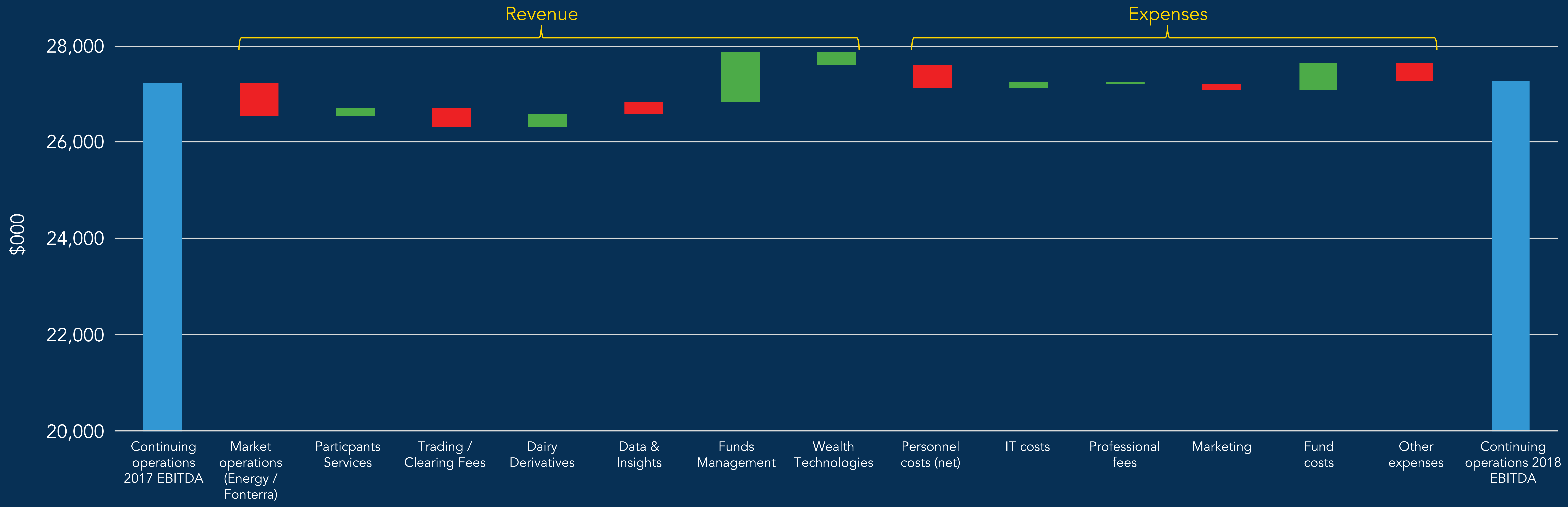
- continuing operations $27.3 million (2017 $27.2 million); and
- discontinued operations $0.85 million (2017 $1.8 million).*

Operating earnings from discontinued operations are included in this analysis to ensure consistency with prior years.

*Discontinued operations relate to recently divested agri businesses (Farmers Weekly sale effective 1 July 2018 and Australian Crop Forecasters, Profarmer Australia and AgriHQ sales effective 31 August 2018.)



Operating earnings (from continuing operations) waterfall

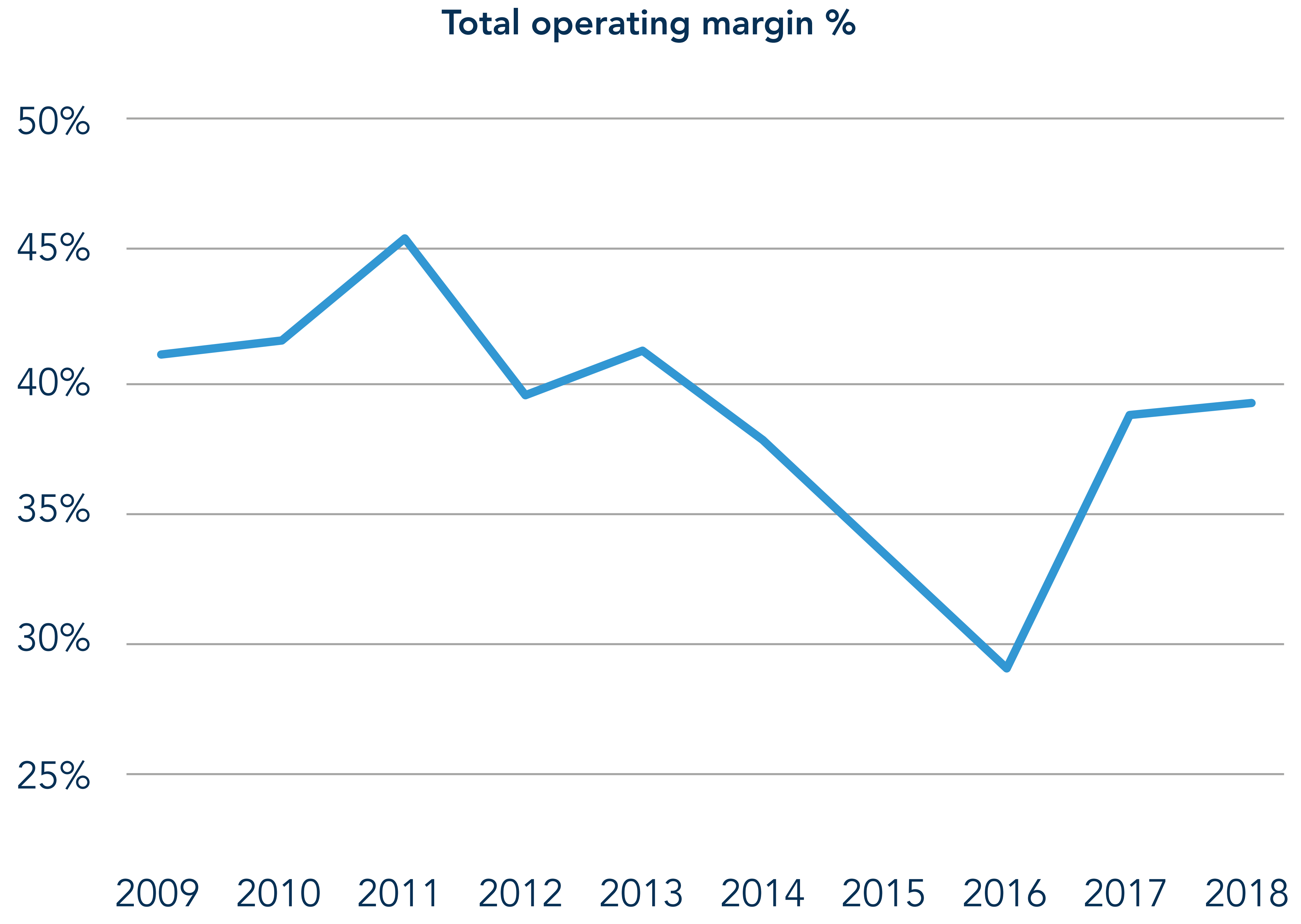


A high level summary of continuing operations operating earnings:

- Revenue from continuing activities has increased due to an increase in funds management, participant services, dairy derivatives and data revenues, partially offset by decreases in trading and clearing fees and Wealth Technologies revenues
- Movements in expenses from continuing activities include a reduction in IT and fund expenditure costs, offset by additional cost related to four roles created to drive strategy in cyber security, dairy derivatives, indices, and marketing teams

Operating earnings (from continuing operations) and total operating margin percentage

	2018 $000	2017 $000	Change Fav/(unfav)
Revenue			
Issuer Relationships	23,567	24,257	(2.8%)
Secondary Markets	16,653	16,629	0.1%
Data & Insights	11,728	11,464	2.3%
Funds Management	14,472	13,448	7.6%
Wealth Technologies	1,073	1,343	(20.1%)
Total revenue (continuing operations)	**67,493**	**67,141**	**0.5%**
Expenses			
Gross personnel costs	27,321	25,556	(6.9%)
Less capitalised labour	(4,376)	(3,074)	42.3%
Personnel costs	22,945	22,482	(2.1%)
Information technology	7,357	7,474	1.6%
Professional fees	2,239	2,197	(1.9%)
Marketing	532	405	(31.4%)
Funds expenditure	2,934	3,489	15.9%
Other expenses	5,283	4,742	(11.4%)
Capitalised overheads	(1,080)	(894)	20.8%
Total expenses (continuing operations)	**40,210**	**39,895**	**(0.8%)**
Operating earnings (continuing operations)	**27,283**	**27,246**	**0.1%**



Operating margin has improved to 39.2% (2017: 38.5%) and is expected to improve further in 2019 with the disposal of non-core businesses and the alignment of the funds management operating models.

The Group's revenue and expenses are discussed in the following slides

Operating earnings (from continuing operations)

REVENUE

Issuer Relationships:

- annual listing, primary listing and secondary issuance fees are slightly lower than last year, impacted by delisitings, equity IPOs remaining subdued, offset by growth in number and value of debt instruments, and equity market capitalisation; and
- consulting and development revenue is lower as the Energy market software upgrade (completed in September) impacted resources available for consulting and development activities.

Secondary Markets:

- new securities trading and clearing pricing structure implemented 1 October, and lower trading and clearing levels impacted trading and clearing fees; and
- dairy derivatives revenue increased with growth in lots traded.

Data & Insights:

- royalties from terminals included significant audit receipts;
- mix of low and high value subscriptions and licenses resulted in lower fees from securities data product subscriptions; and
- dairy data product subscriptions have been a focus to support dairy derivatives market trading.

Funds Management:

- FUM based revenue driven by high average FUM over the year, a combination of market returns and positive net cash flows; and
- change to Smartshares operating model (from October 2018) to align with SuperLife, and FUM based revenue is now received net of fund expenses. The full year would be:

	2018 $000	2017 $000
Revenue	67,493	67,141
Less fund expenses	2,934	3,489
Revenue (net of fund expenses)	64,559	63,652
Expense (excluding fund expenses)	37,276	36,406
Operating earnings	27,283	27,246

Wealth Technologies:

- administration (FUA based) fees driven by:
- OE platform – number of customers unchanged, however there has been a decrease in their FUA; off set by
- new platform – started earning fees in November 2018 when new customer transitioned to new platform increasing FUA to $2.0 billion.

Operating earnings (from continuing operations)

EXPENSES

Personnel costs:

- FTEs (2018: 214; 2017: 210) have increased largely due to:
  - specifically created (or extended) roles to drive strategic execution in dairy derivatives (e.g. to cover extended trading hours, develop deeper data insights);
  - strengthen cyber security and marketing capabilities;
  - address recommendations set out in the Financial Markets Authority is Annual Market Operator Review; offset by
  - reduced development resources due to completion of the energy systems software upgrade and Wealth Technologies core platform implementation
- capitalisation of internal development resources (2018: $4.376 million; 2017: $3.074 million) primarily relates to the energy systems software upgrade and Wealth Technologies core platform

Information Technology:

- efficiencies gained in recent years via modernised and rationalised data centre hosting. Cost savings used to increase capabilities (e.g. improving cyber security) and support initiatives aimed at delivering future savings (e.g. Australian connectivity to NZ market); and
- increase in clearing system IT costs from extended trading hours, SWIFT costs from clearing system upgrades and Wealth Technologies core platform's data hosting, data feeds, software licensing and security.

Professional fees include:

- the assurance programme including internal audits, energy audits and consulting obligations under the Electricity Authority contracts, annual conflicts review, and Smartshares funds conduct risk assessment review.
- legal and tax advice (relating to, for example, the issue of staff shares, dividend reinvestment plan, long term incentive schemes set up, the implementation of the mutualised default fund and Smartshares funds related matters)
- non-annual reviews including the funds management strategic review, director search/ assessment, and board evaluation bi-annual review; and
- stock lending and borrowing costs and terminal royalty audit fees both vary in proportion to their related revenues; with costs and revenues recognised on a gross basis

Marketing:

- cost increases relate to an enhanced investor relations programme to support strategic initiatives to market the market internationally, and increase marketing of funds management products
- fund expenditure
- fund expenses operating model changed (on slide 14), additionally there are positive impacts from renegotiated external provider price arrangements

Other expenses:

- relate to premises costs, insurance, directors' fees, travel, external audit costs, outsourced payroll system, corporate memberships, statutory/compliance costs and non recoverable GST (on the funds management and Wealth Technologies businesses)

Capitalised overheads

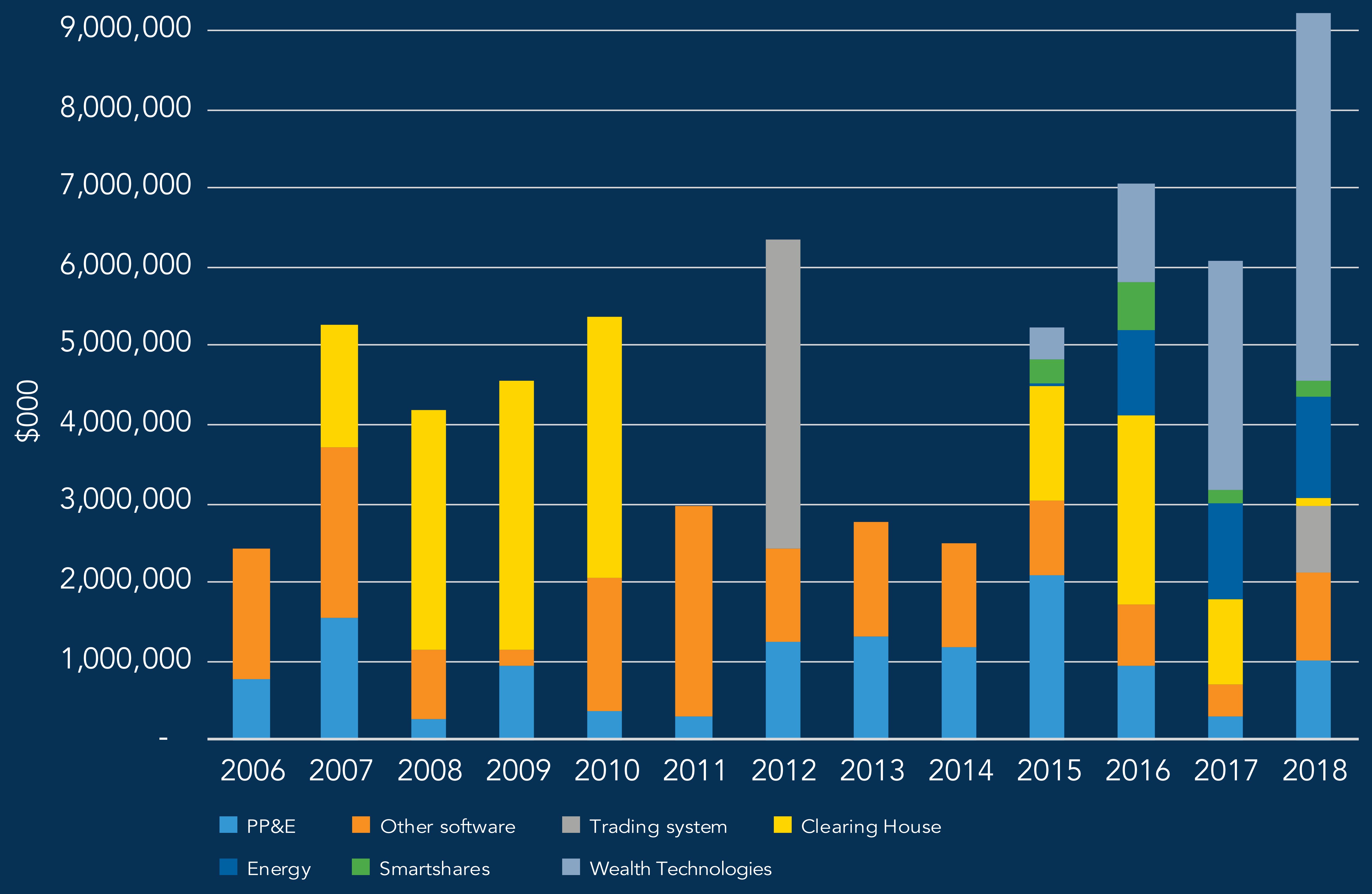
- the portion of all expense categories which relate to capital activities such as the energy systems' software upgrade and Wealth Technologies core platform implementation

Other income and expenses

	2018 $000	2017 $000	Change Fav/(unfav)
Interest income	1,005	878	14.5%
Interest expense	(1,867)	(1,238)	(50.8%)
Net gain/(loss) on foreign exchange	31	99	(68.7%)
Net finance income / (expense)	**(831)**	**(261)**	**(218.4%)**
Depreciation of PP&E	(802)	(1,051)	23.7%
Amortisation of intangibles	(5,623)	(5,480)	(2.6%)
Total depreciation and amortisation	**(6,425)**	**(6,531)**	**1.6%**
Impairment expense	(352)	-	(100.0%)
Adjustment to provision for earnout	15	(390)	103.8%
Other gains and (losses)	(1)	6	(116.7%)
Tax expense	(6,045)	(5,720)	(5.7%)
Total other income and expenses (from continuing operations)	**(13,639)**	**(12,896)**	**(5.8%)**
Profit/(loss) from discontinued operations (net of tax)	**(2,024)**	**487**	**(515.6%)**

- Net finance expense relates to:
  - interest income on cash balances, Clearing House risk capital and regulatory working capital;
  - interest expense on the subordinated notes, loans, overdrafts and earn out; and
  - foreign exchange gains/losses.
- Subordinated notes issued on 20 June 2018; increased net finance costs in second half. Estimated full year impact of the subordinated notes interest an additional $400,000 interest
- Amortisation of Wealth Technologies core platform intangible asset commenced in November 2018 when first customer migrated to the platform. Estimated full year impact of the Wealth Technologies core platform amortisation an additional $1.35 million amortisation (refer to normalised 2018 Income Statement).
- FundSource business has been written down by $352,000
- Effective tax rate is higher than statutory rate of 28% due to non-deductible items (for example impairments).
- Discontinued operations relate to operating results, plus other income and expenses for agri businesses (Farmers Weekly, AgriHQ and the Australian based Grain Information Unit Agreements), including impairment of goodwill and intangibles of $2.662 million

CAPEX activity



- Capex driven by specific system life cycles which result in large multi-year projects
- Wealth Technologies core platform development and customisation for inaugural customer phase I completed during 2018. Inaugural customer phase II and future customers may require degree of customisation (subject to appropriate economic returns)
- Energy systems software upgrade completed in September 2018. Future Electricity Authority agreed projects aren't as significant
- Trading system upgrade required in 2019/2020. Total spend will be comparable to 2012, with most to be incurred in 2019
- Normal life cycle replacements for IT equipment and software are expected in 2019. Additionally we expect some system changes, for example due to the updated listing rules

Balance sheet

	2018 $000	2017 $000	Change Fav/(unfav)
Current assets			
Cash and cash equivalents	45,385	34,881	30.1%
Receivables and prepayments	9,217	10,940	(15.7%)
Funds held on behalf of third parties	56,705	58,890	(3.7%)
Total current assets	**111,307**	**104,711**	**6.3%**
Total non-current assets	**69,487**	**75,078**	**(7.4%)**
Current liabilities			
Trade payables	3,798	3,810	0.3%
Other current liabilities	13,958	24,246	42.4%
Funds held on behalf of third parties	56,705	58,890	3.7%
Liabilities held for sale	20	-	(100.0%)
Total current liabilities	**74,481**	**86,946**	**14.3%**
Non-current liabilities			
Interest bearing liabilities	38,797	20,000	(94.0%)
Other non-current liabilities	4,034	4,120	2.1%
Total non-current liabilities	**42,831**	**24,120**	**(77.6%)**
Net assets/equity	**63,482**	**68,723**	**(7.6%)**

- Cash and cash equivalents includes:
  - Clearing House risk capital ($20 million) which is not available for general use
  - Clearing House also complies with International Organisation of Securities Commission's principles requiring retention of sufficient working capital (including cash of approximately $3.0 million)
  - funds management maintains sufficient net tangible assets (including cash of approximately $2.5 million)
- Focused on receivables collection and working capital management
- Funds held on behalf of third parties (assets and liabilities) offset. These relate to issuer bond deposits, participants' collateral deposits and deposited funds. Amounts are repayable to issuers and participants and not available for general use
- Other current liabilities included 2017 SuperLife earn out ($9.97 million), paid February 2018

Capital Structure review resulted in:

- subordinated notes (net of issue costs) listed on 20 June 2018 replacing term loans. Ensures NZX has a more robust balance sheet to protect business in unlikely case of a major market event. Offer extremely well supported by the market; and
- mutualised default fund implemented in October 2018. Advances Clearing House's risk model to global standards. Important in ensuring appropriate Clearing House risk structure to meet anticipated dairy derivatives market growth, approximatively five years before additional risk capital required

These actions have helped ensure NZX has a balance sheet risk profile appropriate for a business which is a critical component of New Zealand's capital markets infrastructure.

Cash flows

	Dec 2018 $000			Dec 2018 $000			Change Fav/ (unfav)
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations
Operating activities	22,954	1,122	24,076	22,996	1,388	24,384	(0.2%)
Investing activities	(19,235)	4,401	(14,834)	(6,049)	(28)	(6,077)	(218.0%)
Financing activities	1,262	-	1,262	(14,230)	-	(14,230)	108.8%
Net increase / (decrease) in cash and cash equivalents	**4,981**	**5,523**	**10,504**	**2,717**	**1,360**	**4,077**	**83.3%**

- Cash flow from operating activities reflect decreased operating earnings and working capital movements
- Investing activities relates to software development: Clearing House, Wealth Technologies and energy systems, payment of SuperLife earn out, and receipts from divestments
- Financing activities includes:
  - subordinated note receipts net of debt repayment and dividends paid
  - dividends (including the special dividend), and are net of participation in the dividend reinvestment plan

Final dividend

Policy

- The policy is to pay between 80% to 110% of adjusted Net Profit After Tax over time, subject to maintaining a prudent level of capital to meet regulatory requirements
- Adjustments include reversing the impact of intangible asset impairments

Dividend

- Final dividend (fully imputed) of 3.1 cents per share for the 2018 financial year (2017: 3.1 cents per share)
- Together with the interim dividend of 3.0 cents per share and the special dividend of 1.5 cents per share (both fully imputed) the total fully imputed dividends for the 2018 financial year are 7.6 cents per share (2017: 6.1 cents per share)
- Dividend to be paid on 22 March 2019 to shareholders registered as at 8 March 2019

Dividend reinvestment plan

- Available for final dividend, shares will be issued at 2.0% discount

Impact of IFRS 16 Leases

Income statement	Actual 2018 $000	IFRS 16 Adjust$000	Adjusted 2018 $000
Operating revenue	67,493	-	67,493
Operating expenses	(40,210)	1,277	(38,933)
Operating earnings	**27,283**	**1,277**	**28,560**
Net finance expense	(831)	(421)	(1,252)
Depreciation & amortization	(6,425)	(820)	(7,245)
Other gains / losses and impairments	(338)	-	(338)
Income tax expense	(6,045)	(10)	(6,055)
Profit from continuing operations	**13,644**	**26**	**13,670**

Statement of financial position	Actual 2018 $000	IFRS 16 Adjust$000	Adjusted 2018 $000
Current assets	111,308	-	111,308
Non current assets	69,487	-	69,487
Non current assets – right of use asset	-	7,147	7,147
Non current assets – sublease receivable	-	196	196
Current liabilities	(74,481)	-	(74,481)
Current liabilities – right of use lease	-	(1,052)	(1,052)
Non current liabilities (inc. deferred tax)	(42,832)	815	(42,017)
Non current liabilities – right of use lease	-	(9,203)	(9,203)
Net assets	**63,482**	**(2,097)**	**61,385**
Equity	**63,482**	**(2,097)**	**61,385**

New accounting standard IFRS 16 Leases comes into effect for accounting periods commencing 1 January 2019. High level impact of accounting standard is to bring applicable operating leases on balance sheet, with

- ‘right of use asset’ – which is depreciated; and a corresponding
- lease liability – which has an interest unwind (i.e. interest expense) and reduces with lease payments

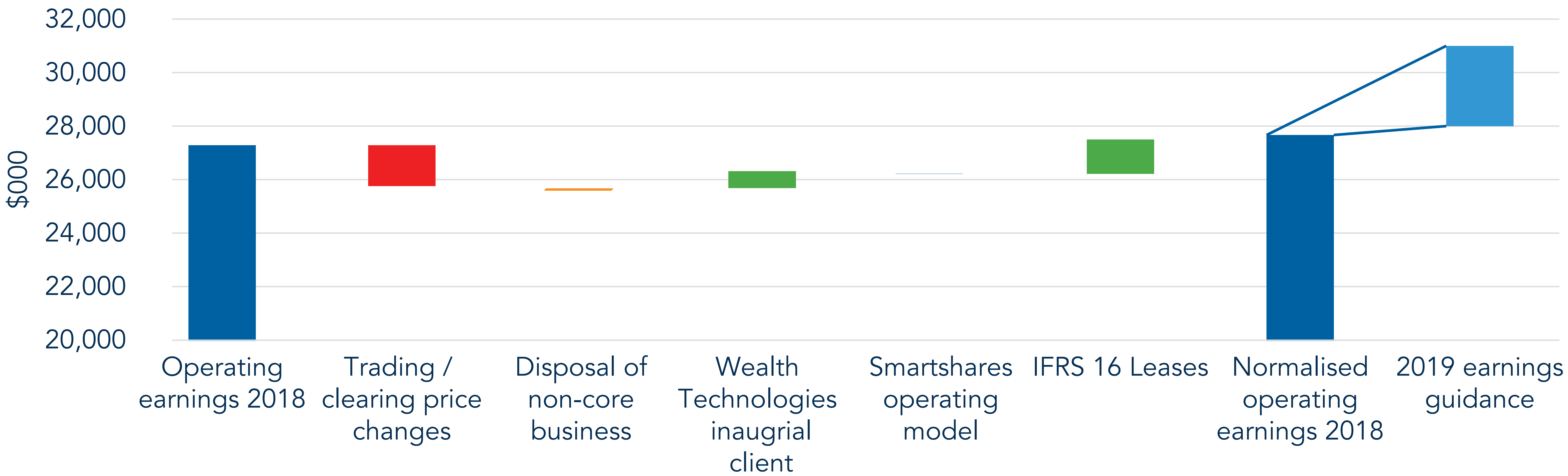
NZX has completed an initial assessment and determined that predominantly its property lease and some other leases (i.e. office equipment) are impacted by the new accounting standard. The new accounting standard will be implemented in the 2019 financial statements with the comparative period (i.e. 2018 financial statements) being restated.

The table to the left summarises the restatement of 2018 financials statements.

Normalised 2018 income statement

IT WAS A YEAR OF TRANSITION FOR THE BUSINESS, WITH THE FINANCIAL IMPACT OF SOME SIGNIFICANT CHANGES ONLY PARTIALLY RECOGNISED IN THIS RESULT. THE NORMALISED 2018 OPERATING EARNINGS RECOGNISES THE FULL YEAR IMPACT OF THESE CHANGES

	Actual 2018 $000	Trading/ clearing pricing $000	Disposal non-core $000	Wealth Technologies $000	Smartshares operating model $000	IFRS 16 Leases $000	Normalised 2018 $000
Operating revenue	67,493	(1,521)	(319)	630	(2,934)	-	63,349
Operating expenses	(40,210)	-	232	-	2,934	1,277	(35,767)
Operating earnings	27,283	(1,521)	(87)	630	-	1,277	27,582



The following changes occurred or were implemented from varying dates:

- changes to trading and clearing pricing structure;
- anticipated disposal of non-core business (FundSource);
- Wealth Technologies inaugural client revenue; and
- Smartshares operating model changed to align with SuperLife

Additionally, IFRS 16 Leases will be implemented on 1 January 2019.

The financial impacts of these events were only partially recognised in the 2018 financial statements (i.e. from date of occurrence or implementation).

To understand overall impact and provide context for 2019 earnings guidance, normalised 2018 operating earnings are estimated in this table, which reflects the operating earnings for NZX as if all changes were in place for the full 2018 year.

Strategy update and outlook


Sunset at Lake Tekapo, New Zealand

NZX
NEW ZEALAND'S EXCHANGE
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We are committed to increased transparency

- Adopted principles of a formal sustainability-reporting framework, the global reporting initiative and published company's first sustainability report. This can be found in the 2018 Annual Report
- Disclosure of 2019 deliverables and five-year aspirational targets to help shareholders measure our financial performance and strategy execution. These are unashamedly ambitious, and support annual guidance and the monthly shareholder metrics already in place
- Further strategy execution update to be provided at our Investor Day, Tuesday 30 April 2019 in Auckland

Summary of 2019 strategic deliverables

WE HAVE BUILT OUR FOUNDATION, NOW FOCUS SHIFTS TO SALES AND MARKETING

Core markets

Issuer Relationships Capital raised $9.1 billion (average two years prior)	**Customer engagement**	• Continued focus on the customer across all products • Align customer service proposition with other areas of NZX • Enhanced marketing events and publications to showcase current customers, attract new ones
	Framework	• Implement revised market structure and rule set, supporting customer transition to new rules by 1 July 2019 • Build on alliances with global exchanges • Contribute to Capital Markets 2029
	Product suite	• Grow equity, funds and debt issuance, includes green finance and wholesale debt
Secondary Markets Total value traded $41 billion	**Marketing the market & participation**	• Continue focus on the customer, embed relationship management programme for participants and institutional investors • Grow trading, clearing and depository participant numbers
	Increase on-market liquidity	• Revisit rules related to threshold for mandatory price improvement crossings • Explore indices as vehicles for liquidity
	Functionality	• Optimise NZX price architecture • Engage with market for input on trading tools and system upgrade commencing in 2019, delivering in 2020 • SWIFT upgrade to better service depositary business to be delivered in HY19
Data & Insights License growth 10% Dairy subscription product growth 24%	**Commercial**	• Move revenue mix from reliance of terminal royalties to recurring revenue products • Capture new revenue opportunities associated with changes in trading behaviours
	Insights	• Continued delivery of internal business insights to support core markets growth • Delivery of deep insights into dairy market with focus on New Zealand milk production • Exploration of further growth opportunities for deeper insight into core markets
	Platform	• Continued work with IT function to ensure database management architecture is fit for purpose • Deliver customer management components of data platform including CRM/subscription management system by H219 • Prioritisation of functionality required to deliver proprietary data platform

Summary of 2019 strategic deliverables

WE HAVE BUILT OUR FOUNDATION, NOW FOCUS SHIFTS TO SALES AND MARKETING

Growth opportunities	**Dairy Derivatives** 2019 volume target: 400,000 – 500,000 lots	**Expand global access**	• Review derivatives market rules and market hours by June 2019
		Boost sales and marketing	• Transform online offering – phase two charting, margin calculator, investor videos • Continue to build industry reach globally via untouched trading regions and domestically with key partners • Continue working towards setting up Singapore office
		Extend product set	• Explore partnerships to improve participation
Maximise options	**Smartshares** 2019 target FUM growth 14%	**Lead in systematic investment management**	• Build investment team by 30 June 2019 • Develop systematic & index-tracking investment capability ongoing over the next few years • Relaunch brands in Q2/Q3 2019
		Expand offer for institutional investors	• Build institutional investor client service and sales capability in Q1 2019
		Develop financial well-being for customers	• Cross-sell KiwiSaver with voluntary savings. Support our members to achieve financial sustainability
		Develop corporate super master trust	• Target consolidation options including stand-alone schemes and sub-scale master trusts • Build employer relationships and brand. Improve service quality, automation and cost efficiency
		Accelerate growth	• Explore inorganic opportunities to accelerate growth
	Wealth Technologies 2019 target: win significant new customer	**Grow customer pipeline**	• Craigs Investment Partners phase two is expected to commence in Q2 2019 • Transition current customers to new platform over an 18 month period commencing Q2 2019 • Actively manage prospective customer pipeline, embed sales culture Q1 and beyond
		Widen platform offering	• Extend core platform to allow for market growth
Get fit		**Efficiency improvements to fund investment for growth**	• Continued automation of operational processes and further progression on IT infrastructure programme • Targeted investments into core markets revenue growing activities and system enhancements

What success looks like for NZX

		External dependencies	2019 deliverables	Five-year aspirational target ranges (2023)**	
				Low	High
NZX Group	Total shareholder return (percentage)*	• Dependant on external factors outlined below		TSR average of 9.29% p.a. to 11.29% p.a. by December 2022	
	Earnings per share*	• Dependant on external factors outlined below		EPS average of 8% p.a. to 16% p.a. by December 2022	
	Operating earnings	• See earnings guidance	\$28 - \$31 million	\$42 million	\$54 million
Core Markets					
Issuer Relationships	Capital raised (total primary and secondary capital issued or raised for equity, funds and debt)	• Listing ecosystem dependent on others • No major market correction	\$9.1 billion (average of two prior years)	Three year rolling average: \$11 billion	Three year rolling average: \$12 billion
Secondary Markets	Total value traded	• Participant activity levels drive value traded • No major market correction	\$41.0 billion	\$42.5 billion	\$45.0 billion
	Dairy derivatives lots traded	• Participant activity levels drive lots traded	0.45 million lots	0.85 million lots	1.4 million lots
Data & Insights	Revenue growth (in subscriptions, licenses and dairy subscriptions changing revenue mix)	• Dependent on core markets growth	• License growth: 10% • Dairy subscription product growth: 24%	Three year rolling average revenue growth: 2.0% p.a.	Three year rolling average revenue growth: 4.2% p.a.
Funds Management	Total Funds under management	• Investment market returns impacts FUM (all asset classes) • No major market correction	Continue three year rolling average growth: 14%	2023 average FUM: \$5.0 billion	2023 average FUM: \$5.75 billion
Wealth Technologies	Total Funds under administration	• Investment market returns impacts FUA (all asset classes) • No major market correction	Prepare for new client phase two migration and transition of current clients	2023 average FUA: \$35 billion	2023 average FUA: \$50 billion

The impact from Capital Markets 2029 has not yet been factored into our core markets aspirational targets

* Consistent with CEO long term incentive programme, see share based payments note in the financial statements for more information.

** These are not financial forecasts

2019 earnings guidance

- For NZX the 2018 year set the platform for future growth. The significant changes implemented during the year rebased operating earnings as noted on slide 22.
- NZX expects full year 2019 EBITDA to be in the range of $28.0 million to $31.0 million.
- This guidance takes into account the impacts from the disposal of non-core businesses, the changes to the exchange's clearing and trading pricing structure and the implementation of IFRS 16 Leases.
- The guidance is subject to market outcomes, particularly with respect to market capitalisation, total capital raised, secondary market value and derivatives volumes traded, and funds under management growth.
- Additionally, this guidance assumes no material adverse events, significant one-off expenses, major accounting adjustments, other unforeseeable circumstances, or future acquisitions or divestments.

Appendices

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

Appendix 1: divisional results

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

NZX
NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Operating earnings divisional results

Year ended 31 December 2018 $000	Issuer Relationships	Secondary Markets	Data & Insights	Funds Management	Wealth Technologies	Corporate Services	Total continuing operations	Agri (discontinued operations)	Total
Operating revenue	23,567	16,653	11,728	14,472	1,073	-	67,493	4,329	71,822
Operating expenses	(4,939)	(5,682)	(1,831)	(8,786)	(2,112)	(16,860)	(40,210)	(3,483)	(43,693)
Operating earnings	**18,628**	**10,971**	**9,897**	**5,686**	**(1,039)**	**(16,860)**	**27,283**	**846**	**28,129**
FTEs	37.6	28.6	8.0	44.5	33.7	61.7	214.1	-	214.1
Operating margin	79.0%	65.9%	84.4%	39.3%	(96.9)%	N/A	40.4%	19.6%	39.2%

Year ended 31 December 2017 $000	Issuer Relationships	Secondary Markets	Data & Insights	Funds Management	Wealth Technologies	Corporate Services	Total continuing operations	Agri (discontinued operations)	Total
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)
Operating earnings	**19,229**	**11,269**	**10,065**	**4,408**	**(1,683)**	**(16,042)**	**27,246**	**1,757**	**29,003**
FTEs	35.2	24.9	10.0	44.0	35.3	60.9	210.2	28.6	238.8
Operating margin	79.3%	67.8%	87.8%	32.8%	(125.4)%	N/A	40.6%	21.5%	38.5%

Notes:

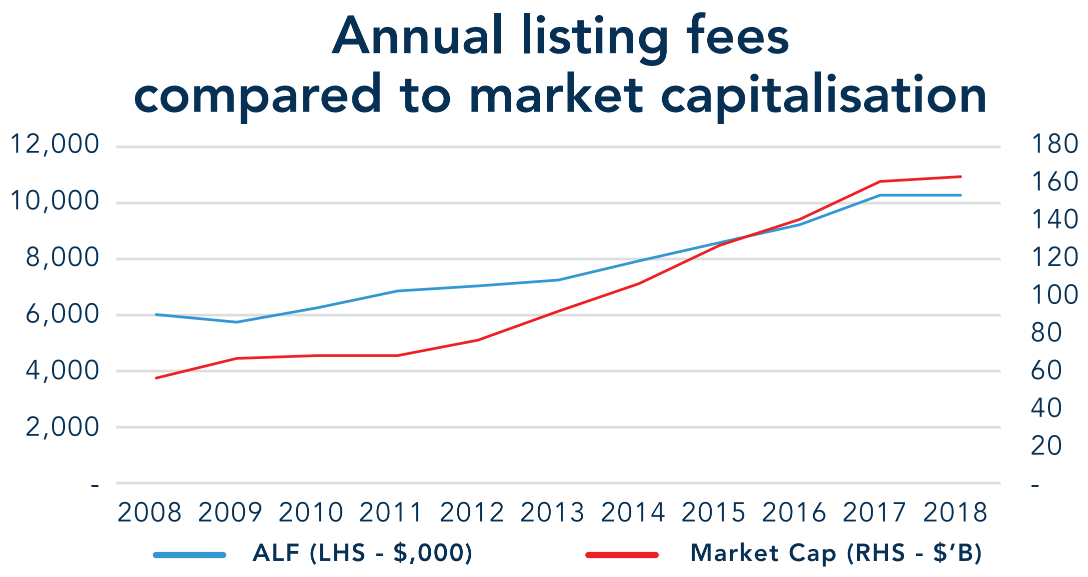
- Issuer Relationships includes the Issuer Relationship, Energy and Issuer Compliance teams (for the equity, energy and Fonterra shareholders' markets) for financial segmental reporting purposes.
- Secondary Markets includes the Secondary Markets, Clearing House, Dairy Derivatives, Surveillance and Participant Compliance teams for financial segmental reporting purposes.
- Corporate Services provides legal, accounting, IT, HR and communications and marketing support to the Funds Management and Wealth Technology businesses. Related costs are currently not recharged to these businesses.

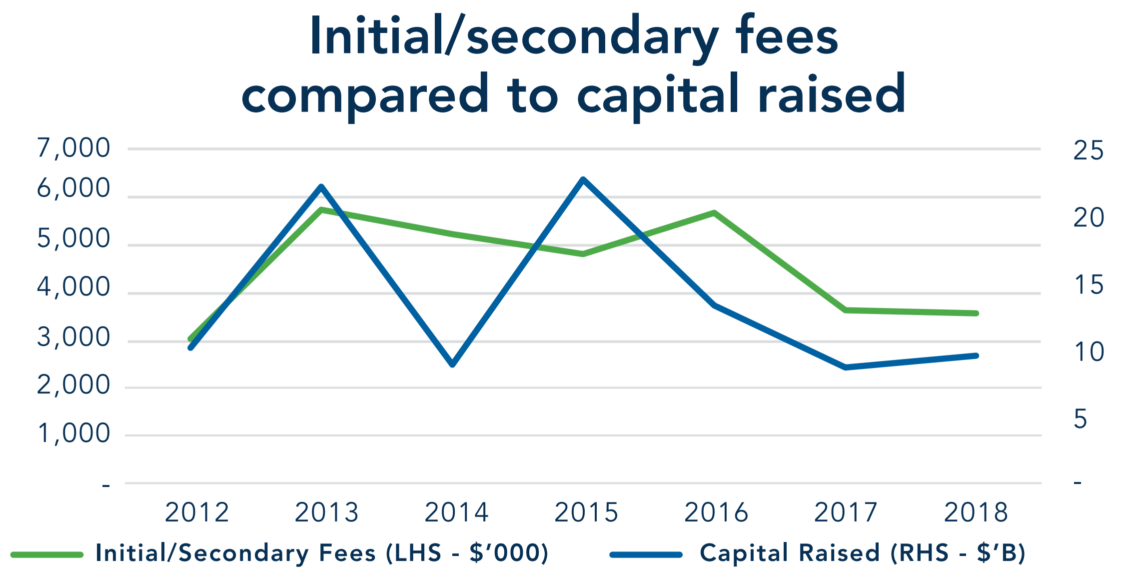
Issuer Relationships

TASKED WITH CREATING A COMPELLING AND ATTRACTIVE PROPOSITION FOR OUR CURRENT AND PROSPECTIVE EQUITY, FUND AND DEBT CUSTOMERS

Strategic metrics

	Dec 2018	Dec 2017	Change Fav/(unfav)
Number of unique issuers	198	202	(2.0%)
Equity market capitalisation	$129.573 billion	$131.417 billion	(1.4%)
Funds market capitalisation	$3.673 billion	$3.753 billion	(2.1%)
Debt market capitalisation (incl. green bonds)	$30.821 billion	$26.371 billion	16.9%
Number of capital raising events	1,309	1,201	9.0%
Value of new capital listed	$4.897 billion	$3.709 billion	32.0%
Value of secondary capital raised	$4.642 billion	$4.959 billion	(6.4%)





Highlights

- Proactive customer management plans implemented, 100% engagement with current customers, five new customers joined the market
- Nine customer events hosted, connecting issuer and investor communities
- Updated market structure and rule set finalised, making it easier for customers to raise capital; permit the listing of funds and wholesale debt
- First green bond listed; first carbon fund listed
- Website content enhanced, providing greater information for all customers
- New capital listed was predominantly debt, $4.876 billion
- Secondary capital raised was equity $2.177 billion, funds $1.017 billion, and debt $1.448 billion

Targets for 2019 and beyond

- Support Capital Market 2029 to remove blockages in equity IPO process
- Targeting $9 billion in capital raised (total initial and secondary) – through:
  - continued focus on prospective and current customers, working with other areas of NZX to align offering, up sell/cross sell to issuer base;
  - step up in marketing efforts to showcase current customers, attract new customers; and
  - extend debt products (wholesale, foreign and green bonds) and build funds pipeline
- Building on global alliances with global exchanges
- Promoting new rule set to accelerate foreign exempt market

Issuer Relationships

Operating earnings

	2018 $000	2017 $000	Change Fav/(unfav)
Revenue			
Annual listing fees	10,160	10,280	(1.2%)
Primary listing fees	1,181	931	26.8%
Secondary issuance fees	2,379	2,696	(11.8%)
Other issuer services	774	586	32.1%
Consulting and development revenue	380	894	(57.5%)
Contractual revenue	8,693	8,870	(2.0%)
Total revenue	**23,567**	**24,257**	**(2.8%)**
Expenses			
Gross personnel costs	4,497	4,640	3.1%
Less capitalised labour	(455)	(824)	(44.8%)
Personnel costs	4,042	3,816	(5.9%)
Information technology costs	728	1,235	41.1%
Professional fees	160	132	(21.1%)
Marketing	58	34	(68.1%)
Other expenses	128	132	0.8%
Capitalised overhead	(177)	(321)	(44.8%)
Total expenses	**4,939**	**5,028**	**1.7%**
Operating earnings	**18,628**	**19,229**	**(3.2%)**
FTEs	**37.6**	**35.2**	**(6.8)%**

Highlights

Revenue

- Annual listing fees have been impacted by delistings offset by the growth in number and value of debt instruments and equity market capitalisation
- Strong debt listings resulted in primary listing / secondary issuance fees being slightly lower, equity IPOs remain subdued
- Other issuer services revenue relates to NZX Regulation (excluding compliance and surveillance functions)
- Contractual, consulting and development revenue relate to operation of electricity and Fonterra shareholders' markets. Energy market software upgrade was completed in September, impacting resources available for consulting and development

Expenses

- Personnel costs (net) increased due to the impact of:
  - Issuer Relationships team being formed in December 2017 (Head of Issuer Relationships started September 2017);
  - increased regulation staffing to cover extended derivatives trading hours and recommendations set out in Financial Markets Authority Annual Market Operator Review; and
  - reduced energy development contractors working on market software upgrade, corresponding reduction in capitalised labour (and overheads)
- Energy IT costs benefited from consolidation projects completed in 2017; resulting in efficiencies and centralisation of costs to Corporate Services
- Professional fees relate to:
  - NXT research provider costs (will cease when NXT consolidated into Main Board); and
  - energy audit and consulting obligations under Electricity Authority contract
  - professional fees includes financial consultancy (for example Corporate Trust ISAE 3402 Custodian Reports), tax and legal advice

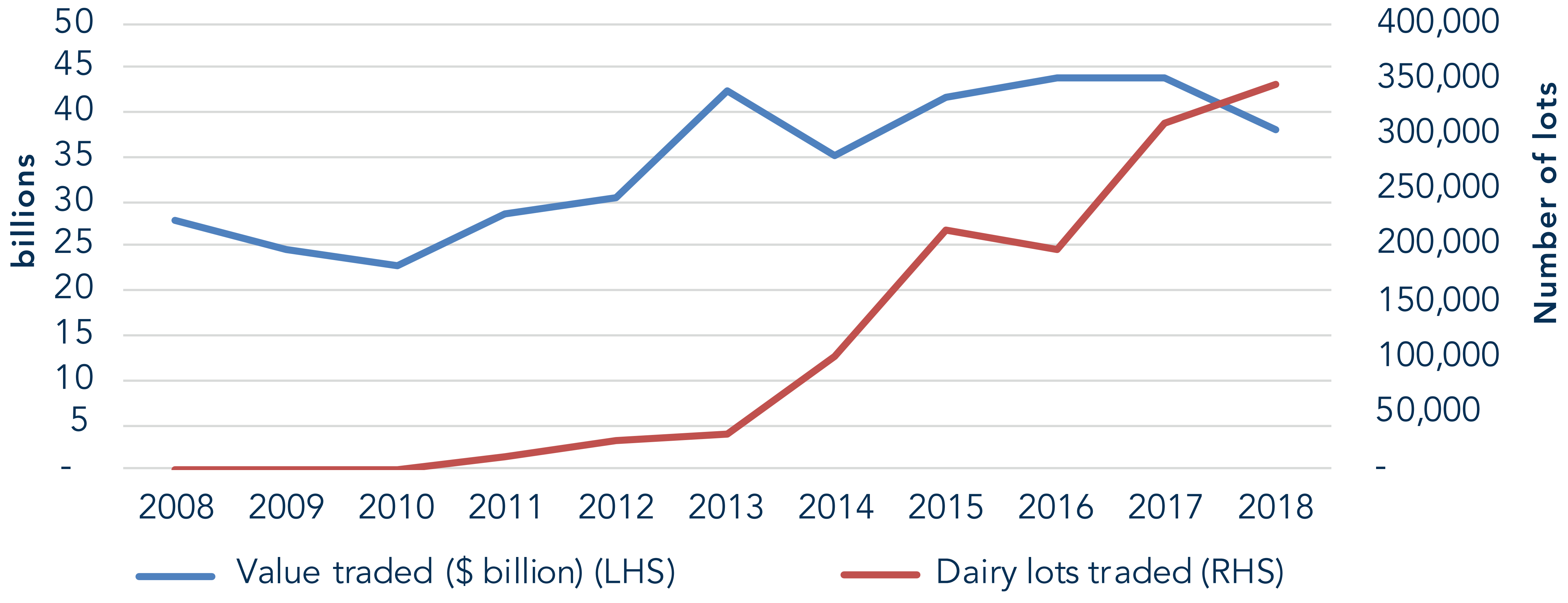
Secondary Markets

TASKED WITH DRIVING SECONDARY MARKET DEVELOPMENT ACROSS ALL MARKETS AND MANAGING PARTICIPANT RELATIONSHIPS

Strategic metrics

	Dec 2018	Dec 2017	Change Fav/(unfav)
Number of trades	3.25 million	2.05 million	58.3%
Total value traded	38.2 billion	44.0 billion	(13.1%)
Percentage of value on-market	53.4%	41.9%	27.4%
Dairy derivatives lots traded	345,651	311,675	10.9%
Number of participants	37	36	2.7%

Value traded and dairy lots traded



Highlights

- On-market value traded up 27.4%, averaged 53.4% of total trades in 2018, an increase of $2 billion on 2017
- 100% engagement with market participants, stepped up presence with industry in Asia, U.S. and Europe
- New cash trading and clearing participant (July), upgraded from advising participant
- Revised trading and clearing pricing structure implemented alongside targeted rule and technology changes (October)
- Total value traded ($38.2 billion) down 13.1% due to international crossings no longer being included within value traded from 1 April 2018 ($5 billion) and delistings ($1 billion)
- Derivatives lots traded up 10.9%; HY18 was impacted by a lack of volatility with lots traded down 5.2%; H218 had increased volatility and extended trading hours with lots traded up 26.9%
- Mutualised default fund to support dairy derivatives growth implemented (October)
- Trading and clearing systems upgrades in derivatives market: additional trading functionality (March) and extended trading hours (July)
- Local licensing for Singapore dairy derivatives sales office underway

Targets for 2019 and beyond

- Grow trading, clearing and depository participant numbers
- Traded value 2019 target is $41 billion – achieved through re-introduction of international trade reporting, improved market sentiment and new issuance
- Percentage of value traded on-market to grow over the next five years
- Derivatives lots traded 2019 target 400,000 – 500,000, supported by improved market risk management from default fund, improved trading functionality, and extension of trading hours
- Grow trading, clearing and depository participant numbers

Secondary Markets

Operating earnings

	2018 $000	2017 $000	Change Fav/(unfav)
Revenue			
Participant services revenue	3,915	3,768	4.0%
Securities trading revenue	5,311	5,817	(8.7%)
Securities clearing revenue	6,032	5,911	2.0%
Dairy derivatives revenue*	1,395	1,133	23.1%
Total revenue	**16,653**	**16,629**	**0.1%**
Gross personnel costs	2,921	2,870	(1.8%)
Less capitalised labour	(43)	(30)	43.7%
Personnel costs	2,878	2,840	(1.3%)
Information technology costs	2,177	1,858	(17.2%)
Professional fees	321	286	(12.2%)
Marketing	14	8	(86.1%)
Other expenses	309	380	18.7%
Capitalised overhead	(17)	(12)	43.7
Total expense	**5,682**	**5,360**	**(6.0%)**
Total operating earnings	**10,971**	**11,269**	**(2.6%)**
FTEs	**28.6**	**24.9**	**(14.9)%**

*Dairy derivatives revenue only includes trading and clearing fees

Highlights

Revenue

- Participant services revenue and number of market participants increased
- New securities trading and clearing pricing structure (implemented 1 October). Estimated impact, based on the value traded January – September, would have been a reduction of $1.521 million in net revenues. This was also impacted by lower trading and clearing levels in 2018
- Securities clearing revenue includes reduced stock lending and borrowing revenue of $256,000 (2017 $345,000)
- Dairy derivatives revenue increase relates to growth in lots traded

Expenses

- Increase in FTEs and personnel costs due to new or extended roles to drive strategy execution in dairy derivatives (also note Secondary Markets includes participant compliance and surveillance teams)
- Information technology costs were due to an increase in:
  - clearing system supplier cost from extended trading hours; and
  - SWIFT costs from clearing system upgrade, expected to reduce in 2019
- Professional fees include:
  - mutualised default fund implementation costs (legal $50,000);
  - Clearing House annual operations audit; and
  - stock lending and borrowing costs $140,000 (2017 $192,000), vary according to activity levels (revenues and costs recognised on gross basis)

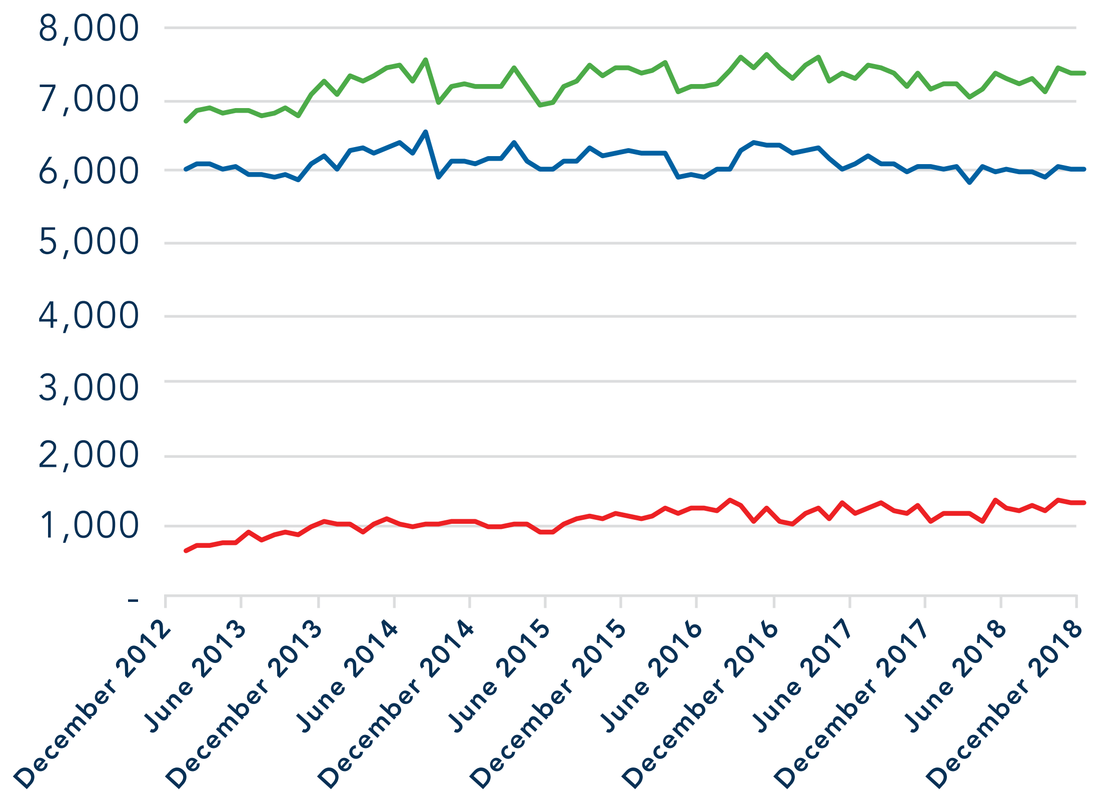
Data & Insights

TASKED WITH GROWING EXISTING DATA REVENUES AND TURNING RAW DATA INTO INSIGHTS THAT SUPPORTS GROWTH IN ALL MARKETS

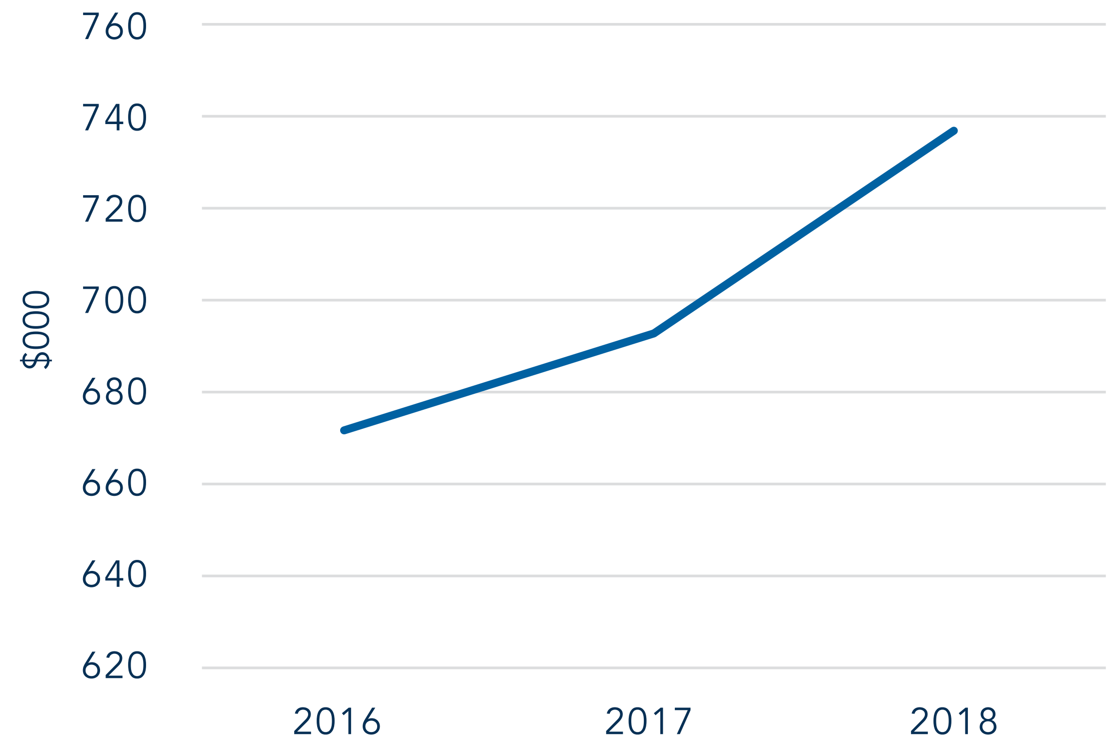
Strategic metrics

	Dec 2018	Dec 2017	Change Fav/(unfav)
Terminal numbers (12 month average)	7,380	7,379	0.0%
Number of licences	105	97	8.2%
Number of proprietary security products subscription	402	404	(0.5%)
Number of dairy data products subscription	963	774	24.4%

Terminal numbers



Dairy data revenue



Highlights

- Restructured team and initiated delivery of internal data process to support wider business
- 5.6% growth in data licensing revenues, driven by greater sales activity
- Dairy information services developed following the divestment of agri businesses to support dairy derivatives market growth
- Customer management data platform delivery underway, includes subscription management
- Customer relationship management provider selected, implementation on track for early FY19

Targets for 2019 and beyond

- Move revenue mix from reliance on terminals' royalties to recurring revenue products
- Capture new revenue opportunities associated with changes in trading behaviour
- 10% growth in licensing revenues via increased focus on non-display application license products
- Delivery of deeper insights into dairy market with focus on New Zealand milk production, 24% growth in dairy subscription product revenues

Data & Insights

Operating earnings

	2018 $000	2017 $000	Change Fav/(unfav)
Revenue			
Royalties from terminals	6,849	6,367	7.6%
Subscriptions and licenses	3,832	4,099	(6.5%)
Dairy data subscriptions	737	693	6.3%
Other	310	305	1.6%
Total revenue	**11,728**	**11,464**	**2.3%**
Gross personnel costs	1,041	923	(12.8%)
Less capitalised labour	-	-	-
Personnel costs	1,041	923	(12.8%)
Information technology costs	224	226	1.2%
Professional fees	395	195	(102.0%)
Marketing	12	5	(158.2%)
Other Expenses	159	50	(220.7%)
Total expense	**1,831**	**1,399**	**(30.9%)**
Total operating earnings	**9,897**	**10,065**	**(1.7%)**
FTEs	8.0	10.0	20.0%

Highlights

Revenue

- Royalties from terminal comparable to 2017, revenue increased due to significant audit receipts $727,000 (2017 $92,000)
- Mix of low and high value subscriptions and licenses resulted in lower fees from securities data product subscriptions
- Dairy data product subscriptions have been a focus to support dairy derivatives market trading
- Subscriptions and licenses revenue includes S&P indices revenue, also a strategic focus with additional dedicated resource added in 2018
- Other revenue includes Fundsource revenue

Expenses

- Personnel costs are higher due to a combination of new roles to drive strategy focus on developing deeper insights, plus a role switching to be an external contributor providing dairy insights, offset by vacancies at year end
- Information technology costs relate primarily to software licenses associated with the delivery of customer management data platforms
- Professional fee increases related to increased audit fees of $226,000 (2017 $11,000). Fees are charged as a proportion of the audit receipts. Royalty audit receipts and audit fees are recognised on a gross basis

Funds Management

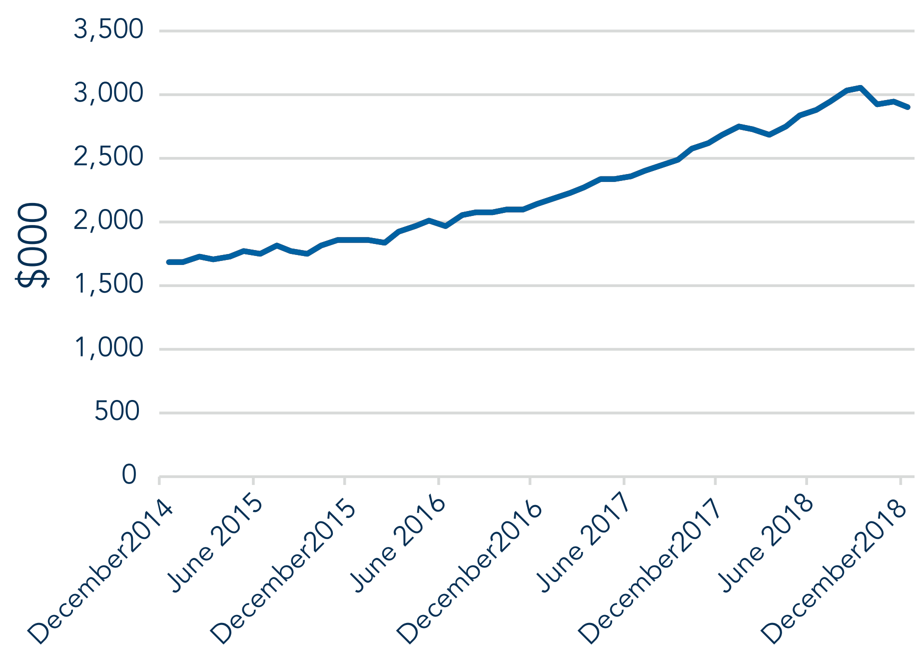
THIS BUSINESS COMPRISES THE SUPERLIFE SUPERANNUATION AND KIWISAVER PRODUCTS AND SMARTSHARES EXCHANGE TRADED FUNDS

Strategic metrics

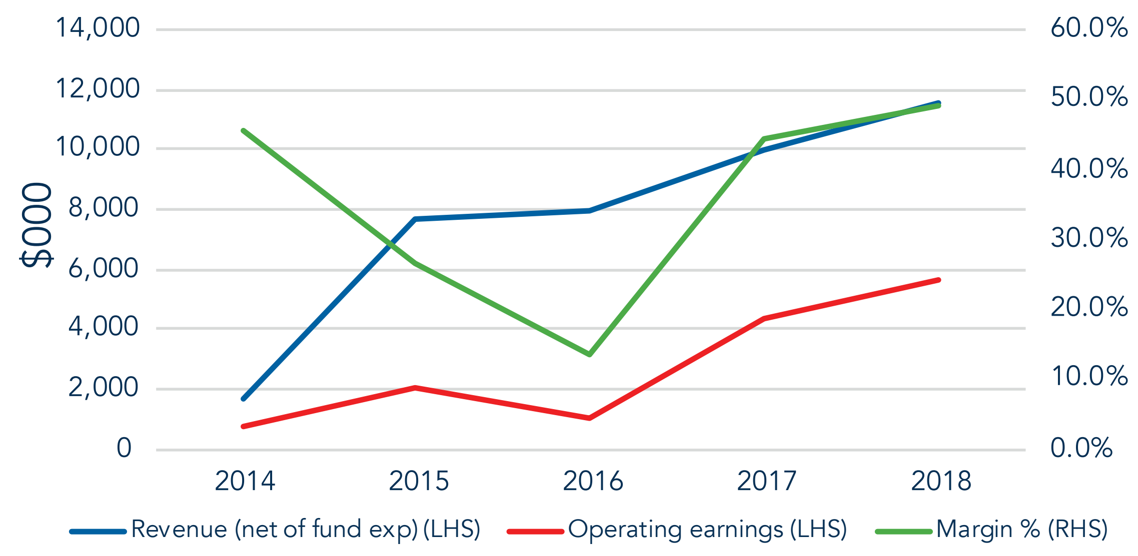
	Dec 2018	Dec 2017	Change Fav/(unfav)
Investor numbers (ETFs and SuperLife)	64,284	58,314	10.2%
Net cash flow	$292 million	$240 million	21.8%
Total external FUM	$2.919 billion	$2.700 billion	8.1%
Operating margin % *	49.3%	44.3%	11.3%

* Adjusted to reflect the operating model change for the full year i.e. fund expenses are netted against revenue (refer to next slide)

Funds under management



Operating results



The month-end average FUM in 2018 was 19.3% higher at $2.864 billion (2017: $2.401 billion).

Historic operating results presented in accordance with the new operating model (i.e. fund expenses netted against revenue). 2016 operating results impacted by Financial Markets Conduct Act (FMCA) compliance costs.

Highlights

- Fresh leadership in place, strategic review of operating model completed
- Operatings earnings up 29.0%
- Total investor numbers up 10.2%:
  - SuperLife members (number of SuperLife investors) up 9.2%; and
  - Smartshares unitholders (number of investors in each ETF) up 13.8%.
- Net cash flows for the Funds are up 21.8% on corresponding period
- Total external Funds Under Management (FUM) has grown to $2.90 billion from $2.7 billion, reflecting an increased retail and adviser utilisation of the funds
- Revenue (net of funds expenses) increase 15.9%
- Operating margin improved to 49.3% (adjusted for operating model change)

Targets for 2019 and beyond

- Targeted average annual FUM growth on average of approximately 14% over the next five years
- This will be achieved through positive net cash flows, market returns and target consolidation options (including stand-alone schemes and sub-scale master trusts), resulting in a doubling of average FUM to $5.75 billion by 2023

Funds Management

Operating earnings

	2018 $000	2017 $000	Change Fav/(unfav)
Revenue			
FUM based revenue	11,797	10,654	10.7%
Member based revenue	2,237	2,416	(7.4%)
Other revenue	438	378	15.9%
Total revenue	**14,472**	**13,448**	**7.6%**
Gross personnel costs	4,663	4,690	0.6%
Less capitalised labour	(191)	(141)	35.8%
Personnel costs	4,472	4,549	1.7%
Information technology costs	34	28	(20.1%)
Professional fees	428	246	(73.7%)
Marketing	241	198	(21.4%)
Fund expenses	2,934	3,489	15.9%
Other expenses	696	544	(27.9))
Capitalised overhead	(19)	(14)	35.8%
Total expense	**8,786**	**9,040**	**(2.8%)**
Total operating earnings	**5,686**	**4,408**	**29.0%**
FTEs	44.5	44.0	(1.1%)

Highlights

FUM based revenue impacted by:

- High average FUM over the year which is a combination of market returns and positive net cash flows; and
- Change to Smartshares operating model (October 2018) to align with SuperLife and FUM based revenue is now received net of fund expenses
- Operating earnings under the new model for the full year would be:

	2018 $000	2017 $000	Change Fav/(unfav)
Total revenue	14,472	13,448	7.6%
Fund expenses	2,934	3,489	15.9%
Revenue (net of fund expenses)	11,538	9,959	15.9%
Total expense (excluding fund expenses)	(5,852)	(5,551)	(5.4%)
Total operating earnings	**5,686**	**4,408**	29.0%
Operating margin %	**49.3%**	**44.3%**	11.3%

Member based revenue has decreased as the ETF's administration fee changed to be per investor (rather than per fund)

Expenses

- Corporate Services provides legal, accounting, IT, HR and communications and marketing support at a no transfer pricing charge
- Personnel being transitioned to sales focus, following review of operating model
- Professional fees include tax and legal advice, independent conduct risk assessment, and business' strategic review
- Fund expenses operating model changed (see above), additionally there are positive impacts from renegotiated external provider price arrangements
- There is an increased focus on marketing in the Smartshares business

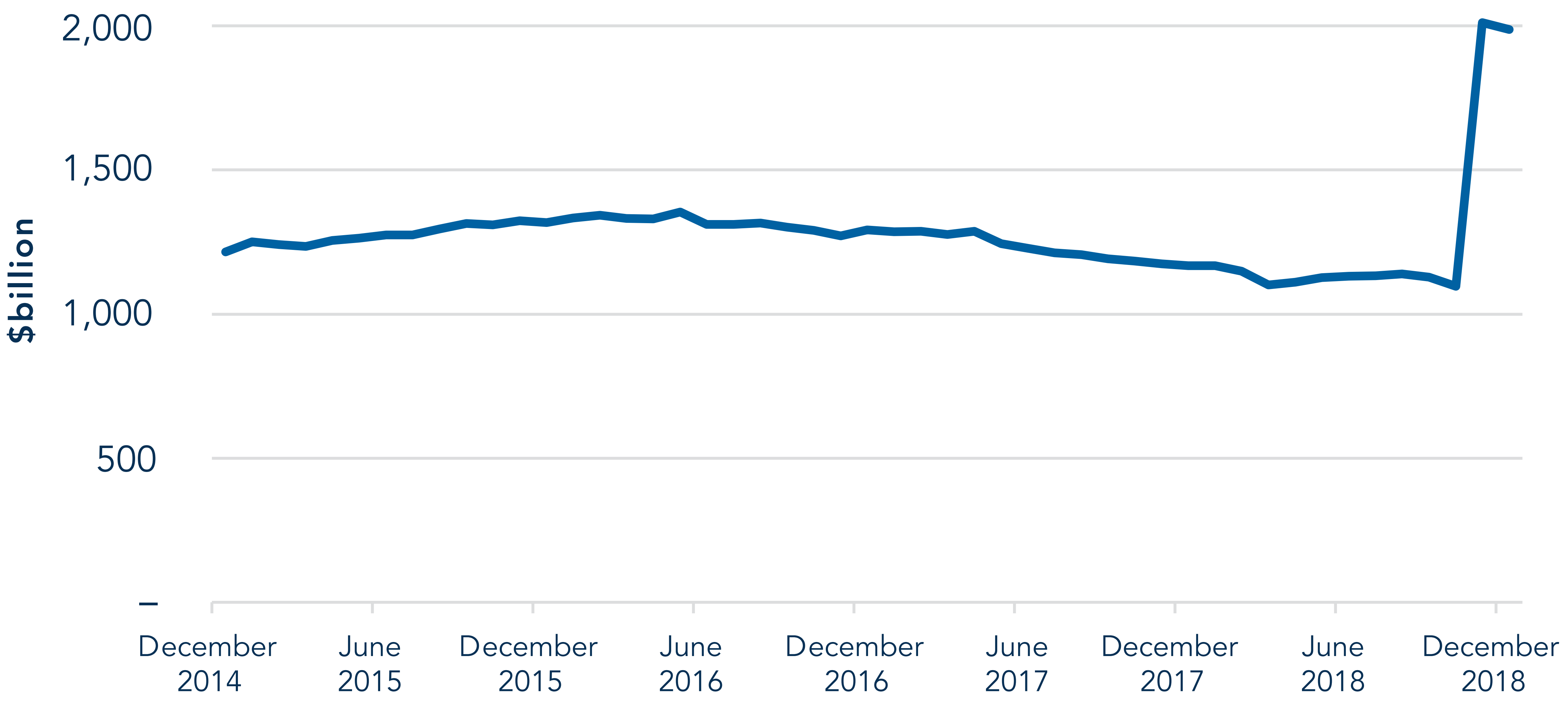
Wealth Technologies

THIS BUSINESS IS A PLATFORM THAT ENABLES ADVISERS AND BROKERS TO MANAGE CLIENT INVESTMENTS

Strategic metrics

	2018 $000	2017 $000	Change Fav/(unfav)
Funds Under Administration (FUA)	1.988 billion	1.167 billion	70.2%

Funds under Administration



Highlights

- Core platform development required by inaugural client completed Q2; included trading, valuation, cash and asset reconciliation, corporate actions, and investor and management reporting
- Platform development required specifically for inaugural client completed Q3
- Large customer went live 1 November; planning for another large migration has commenced, go live timing for this will be determined on completion of project scoping, indicative estimate mid-2020
- Focus now on product refinement and sales, pipeline remains strong
- The number of clients on the old platform remains unchanged however FUA from existing clients has reduced during the current year

Targets for 2019 and beyond

- Negotiation for second phase of the new large customer is underway, analysis and design expected to commence April 2019, go-live estimated mid-2020 (subject to customer timeframes)
- Transition current customers to new platform by mid-2020 (subject to customer timeframes)
- Extend core platform to allow for market growth, actively manage prospective customer pipeline, embed sales culture, customise platform for future customers (as required)
- Target winning new customer; note may require degree of customisation (subject to appropriate economic returns)
- Target FUA of $30 billion by 2023

Wealth Technologies

Operating earnings

	2018 $000	2017 $000	Change Fav/(unfav)
Revenue			
Administration (FUA based) fees	899	1,163	(22.7%)
Development fees / deferred income release	174	180	(3.3%)
Total revenue	**1,073**	**1,343**	**(20.1%)**
Gross personnel costs	4,925	4,232	(16.4%)
Less capitalised labour	(3,133)	(1,804)	73.7%
Personnel costs	1,792	2,428	26.2%
Information technology costs	684	560	(22.0%)
Professional fees	69	67	(3.5%)
Marketing	3	-	-
Other expenses	215	411	(47.6%)
Capitalised overhead	(651)	(440)	48.2%
Total expense	**2,112**	**3,026**	**30.2%**
Total operating earnings	**(1,039)**	**(1,683)**	**38.3%**
FTEs	33.7	35.3	4.5%

Highlights

Revenue

- Administration (FUA based) fees driven by:
  - OE platform – number of customers unchanged, however there has been a decrease in their FUA; off set by
  - new platform – started earning fees in November 2018 when new customer transitioned to new platform, increasing FUA to $1.98 billion at year end
  - development fees are specific to customer requirements and deferred income release started when customer transitioned

Expenses

- Corporate Services provides legal, accounting, IT, data and HR services to this business at a no transfer pricing charge
- Personnel costs saw a significant level of capitalisation in current year:
  - focus on completing development of the core platform development and migrating the inaugural client;
  - capitalisation expected to continue in 2019 with further core product refinement and specific customer development (as required); and
  - Information technology costs arise from data hosting, data feeds, software licensing, security and other third party services. Increase relates to the new platform development and ongoing requirements
- Professional fees includes financial consultancy (for example Corporate Trust ISAE 3402 Custodian Reports), tax and legal advice

Corporate Services

THIS FUNCTION PROVIDES FINANCE, HR, LEGAL, IT AND COMMUNICATIONS AND MARKETING SUPPORT TO THE BUSINESS

Operating earnings

	2018 $000	2017 $000	Change Fav/(unfav)
Expenses			
Gross personnel costs	9,273	8,202	(13.1%)
Less capitalised labour	(552)	(275)	100.8%
Personnel costs	8,721	7,927	(10.0%)
Information technology costs	3,510	3,566	1.6%
Professional fees	866	1,274	32.0%
Marketing	203	159	(27.4%)
Other expenses	3,775	3,223	(17.1%)
Capitalised overhead	(215)	(107)	100.8%
Total expense	**16,860**	**16,042**	**(5.1%)**
Total operating earnings	**16,860**	**16,042**	**(5.1%)**
FTEs	61.7	60.9	(1.4%)

Note: Corporate Services provides legal, accounting, IT, HR and communications and marketing support to the Funds Management and Wealth Technologies businesses. Related costs are currently not recharged to these businesses

Highlights

- Function provides services to all divisions
- Personnel costs were impacted by:
  - the introduction of CEO LTI scheme (back dated to April 2017);
  - deliberately created or extended roles to drive strategic execution in cyber security and marketing; and
  - capitalisation of staff time (predominately in IT and project management office)
- Several IT costs were centralised in recent years with efficiencies gained via modernised and rationalised data centre hosting. Cost savings used to increase business capabilities (e.g. improving cyber security) and support initiatives aimed at delivering future savings (e.g. Australian connectivity to the New Zealand market)
- Professional fees include internal audit fees, director search/assessment, annual conflicts and board evaluation reviews. Legal and financial consulting costs incurred from issue of staff shares, dividend reinvestment plan and LTI schemes set up
- Enhanced investor relations programme to support strategic initiative to market the market internationally
- Other expenses relate to premises, insurance, directors' fees, travel, external audit costs, outsourced payroll system, corporate memberships, and statutory and compliance costs

Targets for 2019 and beyond

- Continued automation of operational processes and further progression on IT infrastructure programme
- Targeted investments into core markets revenue growing activities and system enhancements

Appendix 2: revenue definitions

Issuer Relationships

Annual listing fees paid by NZX's equity, fund and debt issuers is driven by the number of listed issuers, and equity, debt and fund market capitalisations as at 31 May each year.

Primary 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.

Secondary issuance fees are paid by existing issuers when a company raises additional capital through placements, rights issues, the exercise of options, dividend reinvestment plans, or subsequent debt issues. The primary driver for this revenue is the number of secondary issuances and the value of secondary capital raised.

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 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.

Secondary Markets

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

Securities trading revenue comes from the execution of trades on the equity and debt markets operated by NZX. Trading fees are 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.

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.

Data & Insights

Royalties from terminals relate to the provision of capital markets data to global data resellers who incorporate NZX data into their own subscription products.

Subscription and licenses relate to the provision of capital markets data to market participants and stakeholders.

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

Funds Management

Funds under management based revenue relates to variable Funds Under Management (FUM) fees, which are now received net of fund expenses for all funds. Fund expenses include a combination of fixed costs (principally outsourced fund accounting and administration costs and registry fees), and some variable costs proportionate to FUM (principally custodian fees, trustee fees, index fees, settlement costs and third party manager fees).

Member based revenue includes fixed membership administration fees and other member services.

Wealth Technologies

Administration (funds under administration based) fees relates to administration fees for the wealth management platforms and are proportionate to Funds Under Administration (FUA).

Development fees / deferred income release relates to customisation of the wealth management platform specific to client requirements.

Appendix 3: contacts

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