



3 May 2013

NZX Annual Meeting 2013 Chairman's Address

As my letter in the annual report says - 2012 was another full and active year - and a critical year to get right with our CEO change and board renewal process.

Chris Moller and Therese Walsh would probably appreciate the analogy - business can seem like a one day cricket innings - to get a winning score requires consistency, minimisation of low scoring periods, maintenance of momentum with bouts of high scoring.

Changes of batsmen often lead to a loss of momentum and a period of low scoring - and in the corporate world - ensuring a seamless CEO change and managing the associated risk of a loss of momentum, with an appropriate plan, are key governance imperatives.

NZX has achieved that and credit for it goes to our new CEO and our hardworking and dedicated management team. Warren Buffett's annual shareholder letters are generally full of praise for the efforts of his group of CEO's - a quality CEO and management team makes a board's job that much easier. I thank Tim, the management team and the wider organisation for that.

So with Tim having nearly completed a year in the role, the management team now largely in place and, subject to your support at the next stage of this meeting, our board composition set, I thought this was a timely opportunity to articulate in a broad way our vision for the business.

New Zealand has a regional and global edge in the primary sector, and we see NZX as well placed to enjoy global relevance in the financial market offerings that are key to participants in the New Zealand and Australian rural sectors and the global dairy sector, wherever in the world they are based. Our dairy derivative, rural information and Australian grain trading platform represent the tools - both risk mitigation for farmers & others and trading for financial market participants in those sectors - with which we are looking to achieve growth. They are our established platforms from which we will build out further offerings. Building scale – liquidity and volume - in those businesses, having the most relevant and informative data, and first class infrastructure remain the key priorities.

The on-going success of Fonterra's global trading platform and the integrity of its operation and data are key to attracting more global participants into our dairy derivative products. Our relationships across the rural sector, the information we have and gather through those relationships and our reach, are strategically very important to NZX. So we aim to have a strong regional and global presence in those areas where New Zealand and NZX in particular has an edge.



Domestically, we are, to a degree, a vertically integrated provider of products and services to participants in the financial and capital markets. By vertically integrated, I mean that we have our own product offerings in the form of our Smartshares products – obviously a very small but valuable part of the product universe for investors - through to offering the listing and trading infrastructure for debt, equities and other products, data products for information which that trading produces, a share registry function and then “post trade” settlement and clearing with our wholly-owned clearing house.

There is ample scope to expand our suite of offerings and gain market share in our established ones. We are working on that with equity derivative products, our relationships in the energy sector, and to help ease access to public capital for smaller companies, designing new market offerings. We are active in supporting complementary and well-targeted activities such as financial literacy and the promotion of gender diversity initiatives - all of which, done well, are value adding, increase participation in markets – and are just the right thing to do. Domestically we aim to be at the core or hub of the many spokes that make up the public capital markets.

As I have said now on a number of occasions, those public capital markets are in the best shape I can remember them being. KiwiSaver and growth in savings generally, for the first time have the critical companion of a reasonable flow of quality product. The Mixed Ownership process may introduce many many tens of thousands of new investors to the markets – this contribution to building relevance of financial products for New Zealanders is a huge opportunity for New Zealand, our capital markets and people. Markets and financial investments are becoming almost as mainstream in conversations and media as is the irrelevant – and that’s progress.

A savings and investment culture, with quality product and good results will do much to remove the hard to fathom still-lingering doubts caused by the 1987 era and legacy of poorly structured privatisations and hot air balloon companies. It really is time for this country to move on from that period and the excuses for inactivity and suspicion of financial markets that still lurk in that cave. The reality is that financial security and wealth are created by ownership of financial and other assets – not salary and wages alone. That needs to be understood and people encouraged to structure their affairs accordingly. The analogy of teaching people to fish, rather than giving them someone else’s catch, is pertinent.

The health of our markets is demonstrated not only by pre-registration interest in Mighty River Power, but also by the successful execution of a large number of other primary and secondary market transactions – including some of real scale and others in the pipeline. Quality outcomes and confidence in regulatory frameworks and their consistent application are key to this continuing.

And on the theme of consistency and certainty, we hope that all political parties consider carefully the impact of regulatory change and uncertainty on



New Zealand's ability to deliver the stability and consistency that markets require to provide capital at the lowest cost to our businesses. Global capital allocators have choice as to where to invest. Yes, uncertainty around the regulatory framework for Mixed Ownership Model companies is the most recent, but by no means the only, example of regulatory uncertainty and change that have affected a number of our leading companies. KiwiSaver providers, managing money for New Zealanders of all generations and circumstances, are already sending large proportions of their funds offshore because of a perceived lack of suitable opportunities here. In so doing, they are providing capital to economies and businesses other than our own. It would be a tragedy if this is perpetuated and domestic first time investors are also put off investment here because of perceived risks in investment in New Zealand - the very environment which we should support and have home advantage - especially now that product choice is emerging.

Some positive acknowledgments. NZX's own performance as a company and market operator relies heavily on our technology group and a special thanks goes to the hard work and world-class outcomes delivered in 2012 by our Head of Technology David Godfrey and his team. This includes the successful NASDAQ X Stream systems implementation – a credit to David and his team and the broker community, all of which worked together for the good of the industry. It has been a year of change in our regulatory approach and structures with further steps taken to separate, and separate accountability for, regulatory and commercial activities. Our Head of Regulation Robyn Dey has worked very effectively with Tim and the board in driving and leading significant enhancements in that area, and these are continuing. Our relationship with the FMA and our shared aspirations continue to strengthen.

We are in an on-going phase of process improvement at NZX, across all areas of the business - our new CFO Bevan Miller and Head of Operations, Mandy Simpson are at the forefront of those activities. While we are conscious of what is right and right-sized for our business, we are acutely aware of NZX's particular need to show leadership and excellence in those areas, in particular those that we set rules for and enforce in others. Kathryn Jaggard, our Head of Derivatives, continues to drive that global business with huge energy and commitment – and the results show it. Thanks go to Erich Livengood, Sam Stanley and Tony Leggett for the leadership of the Energy, Smartshares and Agri information businesses – Marcelle Ashcroft for Link share registry's continued success and Ron Storey for our Australian rural operations.

Pip Dunphy and Peter Lockery as independent chair and director of our clearing house operation have again added much value.

June 2013 will see the retirement of some long-serving members of the NZ Markets Disciplinary Tribunal. Thanks go to Peter Wilson, Phillip Meyer, Tim Williams, Falcon Clouston and William Stevens for their contributions. We look forward to welcoming new members to the Tribunal, thank those continuing in office and also acknowledge the work of the members of the



Special Division of the Tribunal, chaired by Peter Wilson, that also regulates NZX itself.

And, it doesn't go without saying – a thank you to you, our shareholders, for your continued support.

Some comments on the board. There has been more change in board composition over the last two years or so than normal and than any of us expect to see continue. That said, we are fortunate to continue to have a well set board of highly committed and talented individuals. Neil Paviour-Smith's leadership of the Audit and Financial Risk Committee has been outstanding over what has been a demanding year. New directors Alison Gerry, Therese Walsh and Simon Power have made impressive starts to their time with us and are already valuable contributors. Deputy Chairman James Miller continues to bring his extensive capital markets experience to bear to our board deliberations and we are looking forward to the contribution we know Jon Macdonald will bring. We will miss Rod Drury's enthusiasm, energy and endless list of ideas – Rod will say a few words to you later in the meeting. Sincere thanks go to my fellow board members and I ask for your support for their election.

Dividend Policy

We have indicated that an update on dividend policy will be provided at this meeting. Our current policy of a fixed amount per share, increasing by a pre-split minimum of one cent per share, expires at the end of this year. On our current post-split basis, a dividend of not less than 5.6 cents per share is payable in respect of the current year, and I confirm that, absent unforeseen events, we will at least meet this over our four quarterly dividend payments. The board anticipates that from next year we will move to a more conventional pay out ratio policy, with the normal solvency, working capital, capital expenditure caveats. More on that later in the year.

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