



NZX LIMITED INTERIM REPORT 2017

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# CEO's Report

## Focused on delivering for our customers, our stakeholders, and our shareholders

The past six months have been an important time for NZX. Our team has been focused on improving business performance, market development, and creating a five year strategy, which will strengthen NZX's commercial position, and deliver improved outcomes for our customers and stakeholders, and value for you, our shareholders.

We have also seen the benefits of the hard work completed in 2016 to align the organisation for growth with a strong uplift in half year 2017 earnings.

## Our strategic review

At our Annual Meeting of Shareholders in June, we outlined the key themes NZX has adopted as part of an extensive review of our strategy to deliver growth. This review requires us to apply fresh thinking to our business so we can unlock the opportunities that are in front of us.

This is an important piece of work. It will provide a platform to define our future and determine where we can generate the most value for our customers, our stakeholders, and our shareholders. We will be setting out the results of this review in November.

## Six months in review

### *Financial highlights*

We are pleased to report an improved set of financial results for the six months to 30 June 2017. This result demonstrates NZX is in a strong position to grow as we continue to tighten our focus on capital and cost effectiveness in the second half of the year.

- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 34.4% to \$14.5 million;
- Revenues were down 3.6% on the prior year due to the disposals in our Agri business, but on a like-for-like basis revenues were up 1.1%;
- Operating expenses decreased 18.7%, due to the absence of costs associated with the Ralec litigation, the Financial Markets Conduct Act (FMCA) transition, and our exited Agri magazine publishing and Clear Grain Exchange businesses; and

- Net profit increased to \$8.0 million, up 98% on the equivalent period in 2016 excluding impairment charges and earnout adjustments from the prior year result.

This result was achieved despite a relatively subdued capital raising environment, with funds management the standout performer amongst NZX businesses. When 2016 full year results were released in February 2017, the Board advised that it expected full year 2017 EBITDA to be within a range of \$27.0 million to \$30.0 million. The Board remains comfortable with this guidance range.

In line with the previous year, the Board has declared an interim dividend of 3.0 cents per share, fully imputed. The record date will be 1 September 2017, with a payment date of 15 September 2017.

Business highlights are below. More financial information is provided in the management commentary.

### ***Markets – focusing on our core***

Enhancing the service offering of our Markets team and better promoting the benefits of listing is a key focus of mine – and something I know we need to keep working on. With operating earnings in our Markets business only up 1.6% to \$19.5 million, we have been considering how to effectively structure this team to improve these results.

Since becoming CEO I have focused on creating a dedicated listings team responsible for improving our service offering and selling the benefits of listing on the NZX. This is already generating results, with our recent IPO masterclass attended by more than 30 owners and managers of private companies seeking to learn about the benefits that a listing creates.

We are trialling a tailored trade pricing structure in our secondary market to attract new on-market local and international trading flow to improve price discovery and add further depth and liquidity. It is pleasing to report that initial trial uptake has been encouraging, with the percentage of on-market trading value up 5%.

A substantial uplift in trading volumes on our derivatives market, due to volatility underlying commodity prices and market development activities, has seen this market become a true point of difference for NZX. We are now home to the fastest growing derivatives market for global dairy ingredients, with a five year compound annual growth rate in lots traded of 62.3%, and growth in the current year of 147.0%. It is encouraging to see this market having a positive impact on our bottom line.

### ***Funds Services – generating growth***

Operating earnings in our Funds Services business, which comprises SuperLife superannuation and KiwiSaver, Smartshares Exchange Traded Funds (ETFs), and NZX Wealth Technologies businesses, experienced growth of 300.8%.

This strong result was the combination of sound revenue growth, reflecting the benefit of continued growth in funds under management, and the absence of costs associated with the FMCA transition in 2016.

Smartshares was the stand out performer of this segment in the first half, achieving record growth in direct retail sales of ETF products, with application numbers in the first half of 2017 up 100% on the previous year.

In contrast, NZX Wealth Technologies continued to focus on completing development work and preparing to transition two major clients onto the platform, so there was little change in funds under administration.

### ***Agri – lifting performance***

Operating earnings from our Agri business were up 72.2% after we exited the Clear Grain Exchange and magazine publishing businesses in late 2016.

Jeremy Anderson started as Head of NZX Agri in March, and has been focused on lifting the performance of this business by improving operational efficiencies. Jeremy is also working to better align our Agri business with our core markets business to ensure we are maximising relevant growth opportunities.

Farmers Weekly saw an increase in advertising spend, as the improved outlook for the dairy sector lifted advertising page equivalents by 6.4%.

### **Project delivery & market development**

With increased clarity on project priorities, delivery is a key focus of the organisation. Over the past six months we have completed a major life-cycle upgrade to the clearing and settlement system, implemented changes to the way administrative trading halts are applied, and upgraded our flagship website NZX.com.

The renewed electricity market operator contracts are now well embedded, and the multi-year project to upgrade the systems that support these contracts remains on track.

We have also announced several initiatives to develop the operation of our market, including a review of NZX's equity market structure, with the likely outcome to consolidate our three equity boards into one. This consultation process will start in September and run alongside the first holistic review of NZX's Main Board Listing Rules since 2003.

This follows the publication of the NZX Corporate Governance Code in May, which was a significant step forward for reporting requirements in New Zealand. Engagement during this review was extensive and constructive; we aim to build on this in upcoming consultations.

### **A very encouraging start, but more work to do**

The last six months have been a very encouraging first step for NZX, but we still have lots to do.

To make New Zealand's capital markets prosper we need to better work alongside our market players, who include listed companies, market participants, brokers, regulators, policy makers, industry bodies, and investors – we also want to ensure that NZX delivers improved returns for you, our shareholders.

I hope you are encouraged by our progress over the past six months. We look forward to updating you on our progress, and outlining a new five year strategy for NZX in November. Thank you to all shareholders, stakeholders, customers, and staff for your ongoing support of NZX.



**Mark Peterson**  
Chief Executive Officer

# Management Commentary

Financial results for the six months ended 30 June 2017

## Overview

NZX's reported earnings for the six months ended 30 June 2017 (HY2017) are summarised in the table below.

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Total revenue		36,562	37,925	34,396	-3.6%
Operating expenses		-22,077	-27,149	-22,685	-18.7%
Earnings before net finance expense, tax, depreciation and amortisation and gain on sale		14,485	10,776	11,711	34.4%
Net finance (expense)/income		-100	-157	278	-36.3%
Depreciation, amortisation and gain/loss on sale of PP&E		-3,288	-3,893	-3,297	-15.5%
Gain on sale of associate		-	-	11,807	-
Share of profit of associate		-	-	411	-
Impairment/earnout adjustment		-	-441	-	-100.0%
Tax expense		-3,143	-2,708	-2,937	16.4%
Net profit after tax – reported		7,954	3,577	17,973	122.4%
Net profit after tax – excluding gain on sale of associate and impairment/earnout adjustment		7,954	4,018	6,166	98.0%

The 3.6% decrease in reported revenue was the result of the disposal of the unprofitable Clear Grain Exchange and agri magazines businesses in Q4 2016. These businesses contributed \$1.8 million of revenue in 1H2016. Excluding revenues associated with the businesses that were sold, total NZX Group revenue was up \$0.4 million (1.1%) in HY2017. This was reflective of:

- Continued strong growth in funds under management (FUM) in the SuperLife and Smartshares businesses, driving 13.2% growth in funds management revenues;
- Very rapid growth in dairy derivatives volumes, with revenues up 154.3% as a result;
- A relatively subdued period in the capital markets, with reduced listing and trading activity compared to the prior comparable period resulting in total listing fees being down 1.8%, and combined trading and clearing fees down 5.5%; and

- A modest decline in residual Agri information revenues, which were down 4.1% excluding the impact of the magazines disposal.

While total revenues were relatively stable, operating expenses decreased significantly, down \$5.1 million (18.7%). The main features of this were:

- An absence of Ralec litigation costs, which contributed \$2.9 million to HY2016 expenses;
- The removal of costs of the Clear Grain Exchange and agri magazines businesses totalling \$1.8 million;
- Reduced operating costs within the funds management business as a result of completing the work to transition to the Financial Markets Conduct Act (FMCA) with a resulting streamlining of the business;
- These cost reductions were partly offset by growth in the cost base of NZX Wealth Technologies as this business grows towards at scale operations.

The resulting increase in earnings before net finance expense, tax, depreciation and amortisation and gain on sale (EBITDA) was 34.4%.

Included in prior year earnings was an impairment charge against brand values in the Agri segment, and an adjustment to the value of the provision for the earnout payment in the NZX Wealth Technologies acquisition. Excluding these items, HY 2017 net earnings were 98% up on net earnings for the equivalent period in 2016.

## Segment results

The breakdown of operating earnings by business segment is shown in the table below:

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Segment earnings:					
Markets		19,457	19,146	17,371	1.6%
Funds Services		1,435	358	1,611	300.8%
Agri		501	291	462	72.2%
Corporate		-6,908	-9,019	-7,733	-23.4%
Earnings before net finance expense, tax, depreciation and amortisation and gain on sale		14,485	10,776	11,711	34.4%

Growth in Markets earnings was the result of lower operating expenses.

The substantial growth in earnings for the Funds Services segment was due to a combination of strong revenue growth, the absence of costs associated with the FMCA compliance project, and lower funds expenditure as a result of a streamlined structure of funds activities. This was achieved despite increased operating losses in NZX Wealth Technologies as the business focused on completing new client transition onto the platform.

Growth in Agri earnings was the result of the restructuring of this business in 2016.

Lower corporate expenses reflected the completion of the Ralec litigation in 2016.

Further details of revenue and expense movements are set out below.

## Markets

### *Securities information revenue*

	HY2017	HY2016	HY2015	Change 2017 v 2016
Securities information revenue (\$000)	5,183	5,063	5,430	2.4%
Terminal numbers (six month average)	7,463	7,425	7,157	0.5%

Growth in securities information revenue came from an increase in indices revenue, while terminal numbers remained stable.

### *Listing and other issuer fees*

	HY2017	HY2016	HY2015	Change 2017 v 2016
Annual listing fees (\$000)	4,995	4,486	4,232	11.3%
Initial listing fees (\$000)	452	960	199	-52.9%
Secondary issuance fees (\$000)	1,101	1,223	1,047	-10.0%
Other issuer services (\$000)	293	479	382	38.8%
Total listing and other issuer fees (\$000)	6,842	7,148	5,860	-4.3%
Number of listed issuers	227	232	214	-2.2%
Equity market capitalisation	\$123.8b	\$117.8b	\$100.2b	5.1%
Debt market capitalisation	\$27.4b	\$22.5b	\$13.2b	21.8%
Number of new listings	1	4	2	-75.0%
Value of new equity listed	\$0.5b	\$0.8b	\$0.2b	-42.9%
Total secondary capital raised	2.3b	\$1.3b	\$1.2b	85.3%

An 11.3% increase in annual listing fees was the result of listing growth in 2016, primarily in the debt market, coupled with changes to listing fees and growth in market capitalisation resulting in higher annual listing fees.

A 52.9% decline in initial listing fees was in line with a 42.9% decrease in the value of new equity listed.

While the value of total secondary capital raised increased substantially, this was due to transactions by secondary issuers that generated lower fees than the mix of transactions completed in 2016. As a result, secondary issuance fees were 10.0% lower than HY2016

Other issuer services revenue represents billing by NZX Regulation for review of transaction documents, waiver applications etc. The decrease in this revenue was in line with a reduction in initial listing activity and domestic secondary capital raising.

### *Participant services revenue*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Participant services revenue		1,886	1,762	1,738	7.0%

Participant services revenues increased 7.0% as a result of growth in fees for derivatives participants.

#### *Securities trading revenue*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Securities trading revenue (\$000)	2,728	2,971	2,330	-8.2%
Number of trades	0.92m	0.92m	0.68m	0.0%

Trading fees decreased largely as a result of a 12.7% reduction in the total value traded (which drives a portion of trading fees).

#### *Securities clearing revenue*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Securities clearing revenue	2,751	2,829	2,441	-2.8%
Total value traded	\$19.8b	\$22.7b	\$18.3b	-12.7%

While value traded declined 12.7%, clearing revenues only declined 2.8% as increased fees that are not aligned to value traded (such as margin fees and option exercise fees) partly offset lower clearing and settlement fees.

#### *Dairy Derivatives revenue*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Dairy derivatives revenue (\$000)	562	221	215	154.3%
Lots traded	155k	63k	79k	147.0%

There has been a very substantial lift in the volume of derivatives trading due to a combination of increased volatility in underlying commodity prices and ongoing market development activities bringing more participants into the market. This directly translated into derivatives revenue growth of 154.3%.

#### *Market operations revenue*

	<b>\$000</b>	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Development revenue		484	851	735	-43.1%
Contractual revenue		4,675	4,451	4,693	5.0%
Total market operations revenue		5,159	5,302	5,428	-2.7%

Development revenue comes from projects completed for the Electricity Authority (EA). The major project underway at the moment is a lifecycle refresh of the systems used to deliver the electricity market operator contracts. The fee for this is built into the eight year contracts that commenced in May 2016, so this project does not generate separate development revenue. Other development revenue decreased as major projects were completed in the period or moved into phases of less intensive activity.

Conversely, contract revenue increased due to the inclusion of the fee for the systems upgrade referred to in the previous paragraph and NZX's charges for the provision of IT infrastructure that was directly owned by the EA under the previous contracts, but is now provided by NZX under the new agreements. This results in both

an increase in NZX's revenues and its IT costs and depreciation expense as a result of the cost of providing this infrastructure.

## Funds services

### *Funds management revenue*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
SuperLife revenue (\$000)	3,902	3,426	3,150	13.9%
Smartshares revenue (\$000)	2,688	2,393	1,691	12.3%
Total funds management revenue (\$000)	6,590	5,819	4,841	13.2%
SuperLife member numbers	48,888	44,948	42,197	8.8%
SuperLife FUM	\$1,805m	\$1,502m	\$1,328m	20.2%
Smartshares external FUM	\$574m	\$468m	\$438m	22.6%

SuperLife revenue comes from a combination of membership fees and fees billed based on a percentage of Superlife Funds Under Management (FUM). The 13.2% increase in revenue reflects a blend of member growth and FUM growth. Member growth reflects new schemes joining SuperLife's workplace savings scheme and growth in KiwiSaver members. Growth in FUM is a combination of net funds inflow and market growth.

The 13.9% increase in SuperLife revenue is the result of a 33% increase in Superlife FUM fees and a 15% decrease in member fees. This was the result of pricing changes in the second half of 2016 where member fees were reduced, and FUM fees were rebalanced across different products, with an overall net increase in FUM fees.

Smartshares recorded strong growth in retail investment, with the number of retail applications in HY2017 exceeding the total number for the full 2016 year. There has also been 12.2% growth in the number of new units applied for by financial advisors. Coupled with market growth, these factors resulted in 22.6% growth in period end external FUM. However, a material transfer of wholesale FUM out of one Exchange Traded Fund (ETF) in June 2016 lowered the closing balance at 30 June 2016, meaning that the increase in average Smartshares FUM is less than the period end movement. This is the primary reason why the growth in revenue is less than the movement in period end FUM.

### *Wealth platform fees*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Wealth platform fees (\$000)	721	720	-	0.1%
Funds Under Administration	\$1,229m	\$1,311m	-	-6.3%

The sole focus of the NZX Wealth Technologies business during HY2017 has been on completing development work and commencing the transition of new major clients onto the system. Accordingly, there was little change in average Funds Under Administration during the period and therefore revenues were likewise unchanged from the previous period.

## Agri

### *Agri information revenue*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Publishing revenue (\$000)	2,434	3,342	4,028	-27.2%
Agri data revenue (\$000)	1,706	1,979	1,636	-13.8%
Total agri information revenue (\$000)	4,139	5,321	5,664	-22.2%
Total paid advertising page equivalents	651	889	1,000	-26.8%

As set out earlier, the reason for a reduction in publishing revenue was the disposal of NZX's Agri magazines business in November 2017. Excluding the revenues associated with this business, publishing revenue increased 1.4%. Farmers Weekly revenue was up 4.6% on 6.4% growth in advertising page equivalents as an improving outlook for the dairy sector saw an uptick in advertising spend. This was offset by reduced online revenues.

The decline in Agri data revenue related to the Australian business, where reduced customer numbers for farmer reports, coupled with a higher average exchange rate in 2017, resulted in lower reported New Zealand dollar revenue. This was accentuated by credit notes issued in 2017, which had an offsetting reduction in other operating expenses as these had previously been provided for through via doubtful debts provisions that were reversed at the same time.

### *Commodities trading revenue*

	<b>HY2016</b>	<b>HY2015</b>	<b>HY2014</b>	<b>Change 2017 v 2016</b>
Commodities trading revenue (\$000)	-	769	449	-100.0%
Total tonnes traded	-	389k	242k	-100.0%

Commodities trading revenue came from the Clear Grain Exchange. NZX sold this business in December 2016. Accordingly, there was no commodities trading revenue recorded in the current period.

## Operating expenses

### *Personnel costs*

	<b>\$000</b>	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Wages and salaries		-13,021	-13,420	-11,523	-3.0%
Contractor costs		-671	-1,353	-1,033	-50.4%
Other personnel costs		-486	-506	-476	-4.0%
Gross personnel costs		-14,178	-15,279	-13,032	-7.2%
Less capitalised labour		1,435	1,395	522	2.9%
Reported personnel costs		-12,743	-13,884	-12,510	-8.2%

The \$0.4 million decrease in wages and salaries was the result of \$0.9 million reduction from the disposal of the Clear Grain Exchange and Agri magazines businesses, offset by a \$0.5 million increase in wages in salaries in the NZX Wealth Technologies business, as development and operational resource geared up for new clients coming on board. The \$0.7 million reduction in contractor costs was due to \$0.3 million less paid to freelance journalists following the sale of the magazines, with the remainder of the decrease due to lower

consulting activity in the energy area, a reduction in contract resource in the NZX Wealth Technologies business (partly offsetting the increase in permanent staff), and reduced cover for staff absences.

The principal components of labour capitalisation were costs associated with the upgrade of the company's clearing systems (which was completed in July 2017), the project to upgrade the systems used to deliver the electricity market operator contracts, and the development of solutions for new clients of the NZX Wealth Technologies business.

#### *Information technology costs*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Information technology costs		-3,852	-3,615	-2,946	6.6%

Information technology costs increased by \$0.2 million. Costs in the energy business were \$0.2 million higher due to the cost of providing IT infrastructure under the new EA contracts (for which there is an offsetting increase in revenue). Hosting costs increased \$0.1 million in preparation for new NZX Wealth Technologies contracts, and data transmission costs increased \$0.1 million due to temporary duplication of services as NZX moves to new data infrastructure that will deliver savings in future years.

Partly offsetting these increases were lower support and maintenance costs for core capital markets systems due to favourable exchange rate changes and various other miscellaneous savings.

#### *Professional fees*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Ralec litigation expenditure		-	-2,930	-1,309	-100.0%
Other professional fees		-721	-1,054	-1,233	-31.6%
Total professional fees		-721	-3,984	-2,542	-81.9%

The Ralec litigation was concluded in 2016 and therefore a substantial reduction in professional fees resulted from the cessation of these legal costs. Other professional fees reduced \$0.3 million due to the completion of the FMCA compliance project in 2016, and various other minor savings.

#### *Marketing, print and distribution*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Marketing, print and distribution		-1,181	-1,605	-1,676	-26.4%

Print and distribution costs declined as a result of the disposal of NZX's Agri magazines in 2H 2016.

#### *Fund expenditure*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Fund expenditure		-1,573	-1,681	-773	-6.4%

Fund expenditure primarily represents the direct costs of operating the Smartshares ETFs. Despite the strong increase in the value of ETF FUM, funds expenditure dropped 6.4% in HY2017. This reflects the benefits of

more streamlined operations post FMCA transition, including reduced trustee fees, as a result of consolidating the schemes under a single supervisor, and reduced brokerage costs.

#### *Other expenses*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Other expenses		-2,007	-2,380	-2,238	-15.7%

Other expenses decreased by \$0.4 million. Of this amount, \$0.1 million was due to the disposal of the Clear Grain Exchange and magazines businesses, with the remainder due to savings in travel and telecommunications together with reduced doubtful debts provisions.

### Other income and expense items

#### *Net finance income/(expense)*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Interest income		472	521	506	-9.4%
Interest expense		-593	-625	-533	-5.1%
Net gain/(loss) on foreign exchange		21	-53	305	-139.6%
Net finance (expense)/income		-100	-157	278	-36.3%

The decrease in net finance expense resulted from favourable foreign exchange movements. Interest income decreased due to a lower average cash balance over the period, while the reduction in interest expense reflected lower use of money interest.

#### *Depreciation and amortisation*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Depreciation of PP&E		-591	-653	-590	10.7%
Amortisation of intangibles		-2,697	-3,241	-2,675	21.2%
Gain/(loss) on sale of PP&E		-	1	-32	-100.0%
Total depreciation and amortisation		-3,288	-3,893	-3,297	-15.5%

The reduction in amortisation expense reflects the absence of amortisation on Clear Grain Exchange software.

#### *Impairment expense and earnout adjustment*

	\$000	HY2017	HY2016	HY2015	Change 2017 v 2016
Impairment expense		-	-793	-	-100.0%
Adjustment to provision for earnout		-	352	-	-100.0%

NZX recognised an impairment of part of the residual value of brand assets in relation to NZX's Agri business in the prior year. Partly offsetting this was a downwards adjustment to the provision for earnout on the NZX Wealth Technologies acquisition. This earnout expired unpaid in the current period. There was no impairments or adjustments to earnout provisions in HY2017.

*Tax expense*

	<b>HY2017</b>	<b>HY2016</b>	<b>HY2015</b>	<b>Change 2017 v 2016</b>
Tax expense (\$000)	-3,143	-2,708	-2,937	16.1%
Effective tax rate (excluding non-assessable gain on disposal of Link in 2015)	28.3%	43.0%	32.3%	-34.1%

The effective tax rate in HY2016 was considerably higher than the statutory rate of 28% due to the significant expenditure on the Ralec litigation, which was not deductible for tax purposes. The completion of this litigation in 2016 resulted in the cessation of these costs. Consequently the HY2017 effective tax rate was in line with the statutory rate.

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## Income statement

For the six months ended 30 June 2017

	Note	Unaudited 6 months ended 30 June 2017 \$000	Unaudited 6 months ended 30 June 2016 \$000	Audited 12 months ended 31 Dec 2016 \$000
<b>Operating revenue</b>				
Securities information		5,183	5,063	10,406
Listing and other issuer fees		6,842	7,148	16,041
Participant services		1,886	1,762	3,592
Securities trading		2,728	2,971	5,765
Securities clearing		2,751	2,829	5,663
Dairy derivatives		562	221	706
Market operations		5,159	5,302	10,729
Commodities trading		-	769	1,121
Agri information		4,140	5,321	10,489
Wealth platform fees		721	720	1,405
Funds management		6,590	5,819	11,627
<b>Total operating revenue</b>	<b>2</b>	<b>36,562</b>	<b>37,925</b>	<b>77,544</b>
<b>Operating expenses</b>				
Personnel costs		(12,743)	(13,884)	(29,853)
Information technology		(3,852)	(3,615)	(7,303)
Professional fees		(721)	(3,984)	(5,593)
Marketing, printing and distribution		(1,181)	(1,605)	(3,064)
Funds expenditure		(1,573)	(1,681)	(3,660)
Other expenses		(2,007)	(2,380)	(5,554)
<b>Total operating expenses</b>	<b>2</b>	<b>(22,077)</b>	<b>(27,149)</b>	<b>(55,027)</b>
<b>Earnings before net finance income, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, and gain/(loss) on disposal of business and property, plant and equipment</b>		<b>14,485</b>	<b>10,776</b>	<b>22,517</b>
Interest income		472	521	943
Interest expense		(593)	(625)	(1,233)
Net (loss)/gain on foreign exchange		21	(53)	(83)
<b>Net finance income</b>		<b>(100)</b>	<b>(157)</b>	<b>(373)</b>
Gain/(loss) on disposal of businesses and property, plant and equipment	3	-	1	(467)
Depreciation and amortisation expense		(3,288)	(3,894)	(7,936)
Impairment expense	4	-	(793)	(793)
Adjustment to provision for earnout	5	-	352	731
<b>Profit before income tax</b>		<b>11,097</b>	<b>6,285</b>	<b>13,679</b>
Income tax expense		(3,143)	(2,708)	(4,497)
<b>Profit for the period</b>		<b>7,954</b>	<b>3,577</b>	<b>9,182</b>
<b>Earnings per share</b>				
Basic (cents per share)		3.0	1.3	3.4
Diluted (cents per share)		2.9	1.3	3.4

## Statement of comprehensive income

For the six months ended 30 June 2017

	<b>Unaudited 6 months ended 30 June 2017 \$000</b>	<b>Unaudited 6 months ended 30 June 2016 \$000</b>	<b>Audited 12 months ended 30 Dec 2016 \$000</b>
Profit for the period	7,954	3,577	9,182
<b>Other comprehensive income recognised through equity</b>			
Foreign currency translation differences	-	2	5
Total other comprehensive income	-	2	5
<b>Total comprehensive income for the period</b>	<b>7,954</b>	<b>3,579</b>	<b>9,187</b>

## Statement of changes in equity

For the six months ended 30 June 2017

	Note	Share Capital \$000	Retained Earnings \$000	Translation Reserve \$000	Total Equity \$000
<b>Balance at 1 January 2016</b>		<b>47,228</b>	<b>28,767</b>	<b>173</b>	<b>76,168</b>
Profit for the period		-	3,577	-	3,577
Foreign currency translation differences		-	-	2	2
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>3,577</b>	<b>2</b>	<b>3,579</b>
<b>Transactions with owners recorded directly in equity:</b>					
Dividends paid	9	-	(8,043)	-	(8,043)
Share based payments		99	(65)	-	34
Cancellation of non-vesting shares		(86)	86	-	-
<b>Total transactions with owners recorded directly in equity</b>		<b>13</b>	<b>(8,022)</b>	<b>-</b>	<b>(8,009)</b>
<b>Unaudited closing balance at 30 June 2016</b>		<b>47,241</b>	<b>24,322</b>	<b>175</b>	<b>71,738</b>
Profit for the period		-	5,605	-	5,605
Foreign currency translation differences		-	-	3	3
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>5,605</b>	<b>3</b>	<b>5,608</b>
<b>Transactions with owners recorded directly in equity:</b>					
Dividends paid	9	-	(8,051)	-	(8,051)
Issue of shares		69	-	-	69
Share based payments		246	65	-	311
<b>Total transactions with owners recorded directly in equity</b>		<b>315</b>	<b>(7,986)</b>	<b>-</b>	<b>(7,671)</b>
<b>Audited closing balance at 31 December 2016</b>		<b>47,556</b>	<b>21,941</b>	<b>178</b>	<b>69,675</b>
Profit for the period		-	7,954	-	7,954
Foreign currency translation differences		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>7,954</b>	<b>-</b>	<b>7,954</b>
<b>Transactions with owners recorded directly in equity:</b>					
Dividends paid	9	-	(8,050)	-	(8,050)
Share based payments		174	-	-	174
Cancellation of non-vesting shares		(90)	90	-	-
<b>Total transactions with owners recorded directly in equity</b>		<b>84</b>	<b>(7,960)</b>	<b>-</b>	<b>(7,876)</b>
<b>Unaudited closing balance at 30 June 2017</b>		<b>47,640</b>	<b>21,935</b>	<b>178</b>	<b>69,753</b>

## Statement of financial position

As at 30 June 2017

	Note	Unaudited 30 June 2017 \$000	Unaudited 30 June 2016 \$000	Audited 31 Dec 2016 \$000
<b>Current assets</b>				
Cash and cash equivalents		7,243	7,949	10,804
Restricted cash <sup>1</sup>		20,000	20,000	20,000
Funds held on behalf of third parties		89,009	58,318	70,847
Receivables and prepayments	7	26,256	12,447	15,923
Current tax asset		3	183	-
<b>Total current assets</b>		<b>142,511</b>	<b>98,897</b>	<b>117,574</b>
<b>Non-current assets</b>				
Non-current receivables		-	1,843	-
Property, plant & equipment		2,780	3,819	3,259
Goodwill		35,764	35,764	35,764
Other intangible assets		37,684	38,186	37,367
<b>Total non-current assets</b>		<b>76,228</b>	<b>79,612</b>	<b>76,390</b>
<b>Total assets</b>		<b>218,739</b>	<b>178,509</b>	<b>193,964</b>
<b>Current liabilities</b>				
Funds held on behalf of third parties		89,009	58,318	70,847
Trade payables		7,159	7,340	5,632
Other liabilities	7	28,601	6,885	13,803
Current tax liability		-	-	591
<b>Total current liabilities</b>		<b>124,769</b>	<b>72,543</b>	<b>90,873</b>
<b>Non-current liabilities</b>				
Non-current other liabilities		-	8,450	9,093
Term loan	8	20,000	20,000	20,000
Deferred tax liability		4,217	5,778	4,323
<b>Total non-current liabilities</b>		<b>24,217</b>	<b>34,228</b>	<b>33,416</b>
<b>Total liabilities</b>		<b>148,986</b>	<b>106,771</b>	<b>124,289</b>
<b>Net assets</b>		<b>69,753</b>	<b>71,738</b>	<b>69,675</b>
<b>Equity</b>				
Share capital		47,640	47,241	47,556
Retained earnings		21,935	24,322	21,941
Translation reserve		178	175	178
<b>Total equity attributable to shareholders</b>		<b>69,753</b>	<b>71,738</b>	<b>69,675</b>
Net tangible assets per share (cents per share)		- 1.36	- 0.82	- 1.28

<sup>1</sup> Restricted cash is held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

Approved on behalf of the Board of Directors on 14 August 2017

 James Miller  
Chairman

 Dame Therese Walsh  
Director and Chair of Audit & Risk Committee

## Statement of cash flows

For the six months ended 30 June 2017

	Note	Unaudited 6 months ended 30 June 2017 \$000	Unaudited 6 months ended 30 June 2016 \$000	Audited 12 months ended 31 Dec 2016 \$000
<b>Cash flows from operating activities</b>				
Receipts from customers		34,947	31,736	74,784
Net interest (paid)/received		(41)	103	77
Payments to suppliers and employees		(23,448)	(26,718)	(53,463)
Income tax paid		(3,843)	(5,164)	(7,824)
<b>Net cash provided by/(used in) operating activities</b>		<b>7,615</b>	<b>(43)</b>	<b>13,574</b>
<b>Cash flows from investing activities</b>				
Proceeds from the sale of associate		-	-	563
Cash paid on acquisition/disposal of businesses		-	-	(541)
Payments for property, plant and equipment		(112)	(965)	(1,105)
Payments for intangible assets		(3,014)	(3,293)	(5,886)
<b>Net cash used in investing activities</b>		<b>(3,126)</b>	<b>(4,258)</b>	<b>(6,969)</b>
<b>Cash flows from financing activities</b>				
Dividends paid	9	(8,050)	(8,043)	(16,094)
<b>Net cash used in financing activities</b>		<b>(8,050)</b>	<b>(8,043)</b>	<b>(16,094)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,561)</b>	<b>(12,344)</b>	<b>(9,489)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>30,804</b>	<b>40,293</b>	<b>40,293</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>27,243</b>	<b>27,949</b>	<b>30,804</b>
<b>Cash comprises:</b>				
Cash at bank/(bank overdraft)		243	(1,051)	804
Restricted cash		20,000	20,000	20,000
Bank deposits		7,000	9,000	10,000
<b>Net cash and cash equivalents</b>		<b>27,243</b>	<b>27,949</b>	<b>30,804</b>

# Notes to the Financial Statements

For the six months ended 30 June 2017

## 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 2017.

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

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

### 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 2016. 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 2016.

### **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**

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 2016.

## **2. Segment reporting**

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

- **Markets** — operator and regulator of securities and derivatives markets and provider of trading, post-trade and data services for securities and derivatives, as well as the provider of a central securities depository. It also includes the Fonterra Shareholders' Market and our energy markets business, which comprises the contracts operated on behalf of the Electricity Authority;
- **Funds Services** — provider of superannuation, KiwiSaver and ETFs and funds administration platforms; and
- **Agri** — provider of information, news, data and analysis relating to the agriculture sectors in New Zealand and Australia through printed publications and online services.

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

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

*Segmental information for the six months ended 30 June 2017*

<b>Unaudited</b>	<b>Markets \$000</b>	<b>Agri \$000</b>	<b>Funds Services \$000</b>	<b>Corporate \$000</b>	<b>Total \$000</b>
Operating revenue	25,110	4,141	7,311	-	36,562
Operating expenses	(5,653)	(3,640)	(5,876)	(6,908)	(22,077)
<b>Total segment result</b>	<b>19,457</b>	<b>501</b>	<b>1,435</b>	<b>(6,908)</b>	<b>14,485</b>
Segment assets	152,926	11,703	47,822	6,288	218,739
Segment liabilities	(102,384)	(2,433)	(16,339)	(27,830)	(148,986)
<b>Net assets</b>	<b>50,542</b>	<b>9,270</b>	<b>31,483</b>	<b>(21,542)</b>	<b>69,753</b>

*Segmental information for the six months ended 30 June 2016*

<b>Unaudited</b>	<b>Markets \$000</b>	<b>Agri \$000</b>	<b>Funds Services \$000</b>	<b>Corporate \$000</b>	<b>Total \$000</b>
Operating revenue	25,296	6,090	6,539	-	37,925
Operating expenses	(6,150)	(5,799)	(6,181)	(9,019)	(27,149)
<b>Total segment result</b>	<b>19,146</b>	<b>291</b>	<b>358</b>	<b>(9,019)</b>	<b>10,776</b>
Segment assets	108,357	14,450	44,735	10,967	178,509
Segment liabilities	(58,762)	(3,104)	(15,769)	(29,136)	(106,771)
<b>Net assets</b>	<b>49,595</b>	<b>11,346</b>	<b>28,966</b>	<b>(18,169)</b>	<b>71,738</b>

*Segmental information for the twelve months ended 31 December 2016*

<b>Audited</b>	<b>Markets \$000</b>	<b>Agri \$000</b>	<b>Funds Services \$000</b>	<b>Corporate \$000</b>	<b>Total \$000</b>
Operating revenue	52,902	11,610	13,032	-	77,544
Operating expenses	(11,835)	(10,755)	(13,348)	(19,089)	(55,027)
<b>Total segment result</b>	<b>41,067</b>	<b>855</b>	<b>(316)</b>	<b>(19,089)</b>	<b>22,517</b>
Segment assets	123,360	11,991	46,822	11,791	193,964
Segment liabilities	(77,788)	(2,012)	(15,525)	(28,964)	(124,289)
<b>Net assets</b>	<b>45,572</b>	<b>9,979</b>	<b>31,297</b>	<b>(17,173)</b>	<b>69,675</b>

### 3. Gain/(loss) on disposal of businesses and property, plant and equipment

	Unaudited 6 months ended 30 June 2017 \$000	Unaudited 6 months ended 30 June 2016 \$000	Audited 12 months ended 31 Dec 2016 \$000
Gain on disposal of property, plant and equipment	-	1	2
Loss on disposal of business — Clear Grain Exchange	-	-	(469)
	-	1	(467)

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

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

### 4. Impairment expense

At 30 June 2016, NZX recognised an impairment of part of the residual value of brand assets in relation to NZX's Agri business, reflecting future expectations for rural publications. These assets were subsequently sold in November 2016 as part of the disposal of the Group's rural magazine titles, refer note 3.

### 5. Adjustment to provision for earnout

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

A provision for the final earnout payment for the acquisition of SuperLife was initially recognised in 2015 at 90% of the amount payable. At 31 December 2016 the provision was increased to 95% reflecting the fact that funds under management were ahead of the earnout target. No change to the provision has been made in the current period.

### 6. Bank overdraft

The Group has access to an overdraft facility which was established in 2015 to allow the Group flexibility in its working capital management. The facility limit is \$10.0 million and has no fixed expiry date. The bank may cancel the facility by giving 30 days written notice. The effective interest rate of the facility at 30 June 2017 was 4.00% (30 June 2016: 3.95%, 31 December 2016: 3.85%).

### 7. Receivables and prepayments, and other liabilities

In 2017, annual listing fees were invoiced on 30 June 2017. This resulted in an increase in both Receivables and Other Liabilities (unearned income).

## 8. Term loan

	Unaudited as at 30 June 2017 \$000	Unaudited as at 30 June 2016 \$000	Audited as at 31 Dec 2016 \$000
Current	-	-	-
Non-current	20,000	20,000	20,000
<b>Total term loans</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>

The \$20.0 million term loan has an expiry date of 16 January 2019. The facility is unsecured and contains two financial covenants which have been met throughout the year:

- The ratio of interest bearing debt to EBITDA shall not exceed 3.5 times; and
- The ratio of EBITDA to interest shall exceed 4.0 times.

The weighted effective interest rate at 30 June 2017 was 2.80% (30 June 2016: 3.10%, 31 December 2016: 2.6%).

## 9. Dividends

	For year ended	Unaudited 6 months ended 30 June 2017		Unaudited 6 months ended 30 June 2016		Audited 12 months ended 31 Dec 2016	
		Cents per share	Total \$000	Cents per share	Total \$000	Cents per share	Total \$000
<b>Dividends declared and paid</b>							
March 2016	31 Dec 15			3.00	8,043	3.00	8,043
September 2016	31 Dec 16					3.00	8,051
March 2017	31 Dec 16	3.00	8,050				
<b>Total dividends paid for the year</b>		<b>3.00</b>	<b>8,050</b>	<b>3.00</b>	<b>8,043</b>	<b>6.00</b>	<b>16,094</b>

Refer to note 13 for details of the first half 2017 dividend.

## 10. Share based payments

A CEO share scheme was in place under the former CEO's employment contract. The scheme runs for a period of five years expiring August 2017 and will continue in place until its conclusion as part of the agreed transition for the former CEO who resigned as an employee effective 31 December 2016. Details of the scheme are set out in the Group's Annual Report for the year ended 31 December 2016. The share based payments expense related to the CEO share scheme was fully recognised at 31 December 2016 as a result of the former CEO's resignation. Accordingly, no further amounts have been recognised in relation to the scheme in the current period.

During the current period, there were no changes in the CEO share scheme plan and shares that were issued, transferred to NZX employees or redeemed under the Team and Results share plan were on consistent terms with the prior year.

## 11. 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 2017 \$000	Unaudited 6 months ended 30 June 2016 \$000	Audited 12 months ended 31 Dec 2016 \$000
Short-term employee benefits	1,689	2,329	4,177
Share-based payments	76	145	141
Resignation benefits	-	-	1,305
	<b>1,765</b>	<b>2,474</b>	<b>5,623</b>

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

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

Directors fees for the six month period to 30 June 2017 were \$194,000 (30 June 2016: \$185,000, 31 December 2016: \$370,000) and have been included in other expenses.

### c. Transactions with other related parties

	Unaudited 6 months ended 30 June 2017 \$000	Unaudited 6 months ended 30 June 2016 \$000	Audited 12 months ended 31 Dec 2016 \$000
<b>Transactions with related parties</b>			
Interest on receivable from former CEO	53	53	106
<b>Balances with related parties</b>			
Current receivable from former CEO	1,893	-	1,877
Non current receivable from former CEO	-	1,843	-

### d. Transactions with managed funds

Management fees are received from the funds managed by wholly owned subsidiary Smartshares Limited and are shown in the Income Statement as funds management revenue. Management fees were also received from the funds managed by wholly owned subsidiary SuperLife Limited which was amalgamated into Smartshares Limited on 9 November 2016.

## 12. Contingent liabilities

There are no contingent liabilities as at 30 June 2017.

## 13. Subsequent events

### *Dividend*

Subsequent to balance date the Board declared a first half 2017 dividend of 3.0 cents per share, to be paid on 15 September 2017 (with a record date of 1 September 2017). This is in line with the NZX dividend policy adopted on 21 February 2014.



# 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 17 to 28 do not:

- i. present fairly in all material respects the Group's financial position as at 30 June 2017 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 interim consolidated statement of financial position as at 30 June 2017;
- the interim consolidated income statement and statements of 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 regulatory assurance services to the group. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as 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 are 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.



## Assurance Practitioner's Responsibilities for the review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim consolidated 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 consolidated 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 2017

# Directory

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## Board of Directors

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

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