Serving New Zealand's capital markets

NZX Limited
Annual Report
2016

Contents

Chairman's Report

Dear fellow shareholder,

On behalf of the Board, I am pleased to present NZX's Annual Report for 2016, and welcome this opportunity to communicate with you, our shareholders.

NZX sits at the heart of New Zealand's capital markets. As the operator of the local stock exchange it is a privilege to serve at the centre of this network – and as the Chairman of NZX it is a role on which I place tremendous importance.

2016 was a year of repositioning for NZX. The Ralec litigation concluded, we reshaped our Agri business, and transitioned our SuperLife and Smartshares businesses to the Financial Markets Conduct Act (FMCA). The costs associated with these activities weighed on earnings. The Funds Services business remains in an investment phase and the Agri business did not meet expectations in a difficult market. As a result, earnings for the year are well below the Board's desired level. Nevertheless, our efforts during the year created a solid foundation for future earnings growth.

Market health

In a year headlined by global economic uncertainties and volatility, the New Zealand equity market remained in good health. This is evident in the increase in the S&P/NZX 50 Index (Gross) which was up 8.8% for the year to 31 December 2016. It is worth noting that the five year return of this index to the end of 2016 was 110.1%, which equates to an exceptional compound annual growth rate over the same period of 16.0% p.a.[1]

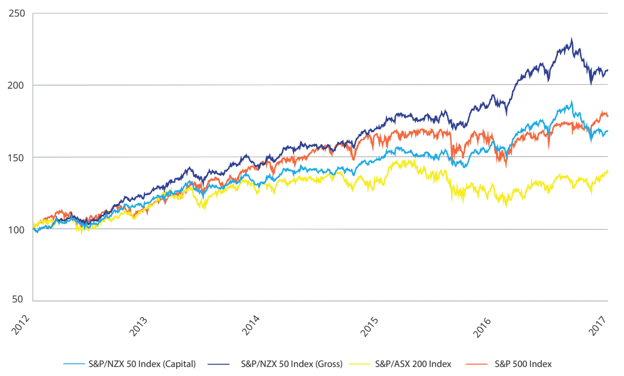
This illustrates the strong performance of the New Zealand market compared to major international market indices, including the Hong Kong Hang Seng Index (annualised return of 6.1% over the same five year period), the Australian S&P/ASX 200 Accumulation Index (6.7%), the UK FTSE 100 Total Return Index (6.7%), and the USA S&P 500 Total Return Index (17.4%).

The 12 month forward weighted PE ratio for the New Zealand market is currently 18.9x, which is 10% above the five year historic average.[2] These combined figures indicate that New Zealand's capital markets remain open for business, particularly during a period of global economic uncertainty.

On this note, I am pleased to welcome Tegel Group Holdings, NZME, Investore Property, New Zealand King Salmon and Tilt Renewables, all of which listed on the NZX Main Board in 2016.

1 Source: Bloomberg
2 Source: Forsyth Barr

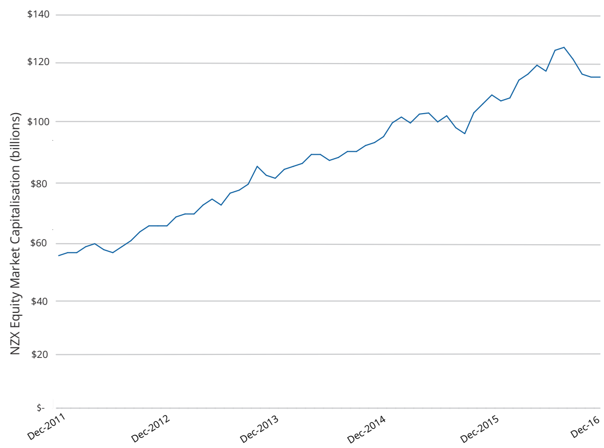
S&P/NZX 50 Index performance compared to S&P/ASX 200 and S&P 500 Indices



Source: IRESS

Progress with creating stronger and deeper capital markets is more graphically illustrated by the increase in the ratio of equity market capitalisation to Gross Domestic Product, which peaked at 50.1% in July. This is a significant milestone given this ratio was as low as 25.0% in February 2009 and in mid-2012 had still only risen to 27.6%. In addition, our benchmark index, the S&P/NZX 50 Gross Index exceeded 7,000 points for the first time in May.

NZX Equity Market Capitalisation

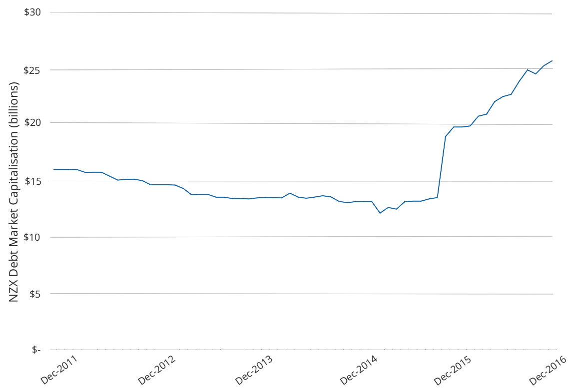


Source: NZX Data

The performance of New Zealand's listed debt market was another notable highlight of 2016. Debt market capitalisation was up 29.7% to $25.7 billion following the listing of $6.4 billion of new debt in 2016, demonstrating that this product is meeting the needs of the market extremely well, and highlighting its attractiveness as a capital raising option for corporates, banks and local and central government.

I would like to acknowledge the wide range of loyal supporters of the market who have issued further debt and welcome The Co-operative Bank who joined the NZX Debt Market in 2016.

NZX Debt Market Capitalisation



Source: NZX Data

The above statistics are impressive and validate the sustained run and competitive advantage of NZX's equity and debt markets. The markets have benefited from several large, high quality companies listing, raising capital and diversifying their funding sources here in recent years, a low interest rate environment, and the investment of significant KiwiSaver funds.

2016 in review

Financial performance

NZX's Earnings Before Interest, Tax, Depreciation and Amortisation (EDITDA) were $22.5 million in 2016, at the bottom of the guidance range that NZX provided in February 2016 and consistent with the update provided in October 2016. Growth in operating expenses of 13.3% reflected several one-time costs, including professional fees for the Ralec litigation, Financial Markets Conduct Act (FMCA) and CEO transition costs, and the targeted investments made in our Funds Services business.

Reported net earnings in 2015 included a gain of $11.8 million realised on the sale of the Group's 50% stake in Link Market Services (NZ). Excluding this gain, the decline in 2016 net earnings was 23.9%, reflecting lower operating earnings, the loss on sale of businesses sold during the year and increased depreciation and amortisation expenses.

I acknowledge the Group's financial performance is not satisfactory. It failed to meet the Board's expectations and those of our shareholders. The Board and executive team are determined to drive earnings growth for shareholders as we operate an increasingly integrated set of businesses. Our 2017 earnings guidance reflects this.

More information about NZX's 2016 financial and operational performance is provided in the CEO Report and Management Commentary.

Business performance

Our Markets business demonstrated pleasing growth with revenue up 6.0% to $52.9 million, while operating costs were down 4.5%. This operating leverage resulted in 9.5% growth in segment earnings.

Our Fund Services business remained in investment mode, reflecting the deliberate strategic investments made to grow our SuperLife, Smartshares and NZX Wealth Technologies businesses for the long-term. The momentum of the Funds Services business accelerated in Q3 when NZX Wealth Technologies announced two major new clients, Craigs Investment Partners and Hobson Wealth (formerly Macquarie Equities New Zealand). These developments reinforce the Board's high-level of confidence in NZX's decision to increase its presence within the passive funds management sector and the provision of funds services infrastructure. The focus for this business in 2017 is on translating customer growth into earnings growth.

It was a difficult year for NZX Agri, as we repositioned our New Zealand and Australia businesses and market conditions adversely impacted advertising revenues. Our reshaped Trans-Tasman business now has a greater focus on data and analytics, which have more attractive earnings prospects and stronger linkages to our Markets business.

In addition, we finally concluded the Ralec litigation in November, which the Judge described as 'a nil all draw'. This litigation was again a drain on corporate earnings and management attention in 2016. Although we had hoped to resolve the matter without needing to go to a costly trial, we are very pleased to have it conclusively behind us, with all outstanding matters resolved, and no further costs going forward.

With the key deliverables of the Ralec litigation, the Agri business restructure, major client wins by NZX Wealth Technologies and SuperLife and Smartshares' transition to the FMCA (which required a significant short-term investment of resources), all successfully delivered in 2016, the stage has been set for a step change in earnings in 2017.

As such, NZX expects full year 2017 EBITDA to be in the range of $27 million to $30 million, compared to $22.5 million in 2016. This represents expected growth in EBITDA of 20% to 33%. This is subject to market outcomes, particularly with respect to initial public offerings, secondary capital raising, and equity and derivatives trading volumes. This guidance assumes no material adverse events, significant one-off expenses or major accounting adjustments. It also assumes no acquisitions or divestments.

Capital structure and dividend

The company continues to maintain a gearing position that the Board considers is consistent with its role as a systemically important financial institution at the centre of the New Zealand capital markets. The Board continues to monitor the company's capital position in light of the future growth potential of our derivatives business, and contingent earnout payments for previous acquisitions. The Board remains comfortable with current capital levels.

The Board declared fully imputed dividends of 6 cents per share in respect of the 2016 year. While this significantly exceeds the target payout ratio of 80% of free cash flow in NZX's current dividend policy, the Board considers this to be an appropriate level of payout in light of the non-recurring factors that reduced 2016 earnings, and NZX's balance sheet and cash position. Total shareholder return for NZX in the year to 31 December 2016 was 4.02%. As I mentioned above, our share price underperformed in 2016. Improving the Group's future earnings and our share price will continue to have the full focus of the Board and executive team in 2017.

Regulation and Policy update

The quality of NZX's regulatory function, core technology and operations was formally recognised in June when NZX received a clean bill of health from the Financial Markets Authority (FMA) as part of its annual Market Operator Obligations Review. It concluded NZX complied with all of its market operator obligations and was not required to take any specific actions.

My thanks goes to our Head of Market Supervision Joost van Amelsfort who has managed our relationship with the FMA very well. We have seen a huge improvement in NZX's regulatory practices under his leadership as he ensures the highest standards are maintained.

Effective market regulation is a by-product of the positive working relationship we have with the FMA and Special Division. We are grateful for their efforts and it is a privilege to serve our markets alongside them.

Under the leadership of Head of Policy and Legal Hamish Macdonald, our policy team will shortly publish the updated NZX Corporate Governance Best Practice Code. This is the first substantive update to the Code since 2003 and represents a significant step forward in reducing fragmentation between various reporting practices among Main Board listed issuers. I am a strong supporter of listed companies exhibiting good corporate governance as organisations can have a huge impact on the communities in which they operate. I hope this updated Code will lead to increased investor education and confidence in the broader marketplace. Feedback received as part of this review exceeded our expectations. Thank you to everyone who took the time to make a submission.

I would also like to acknowledge our former Minister for Commerce and Consumer Affairs the Hon Paul Goldsmith. On behalf of the Board, we have all benefited from your open working relationship and look forward to working with your successor the Hon Jacqui Dean in 2017.

Looking forward

Our people

As the Board looks to 2017 we remain acutely aware of the importance of not just running a well-functioning exchange that operates fair, orderly and transparent markets, but also a commercial business that delivers profitable growth for shareholders.

To achieve this, the first half of 2017 will see the Board focus on ensuring we have the right leadership in place to make the best decisions to drive future earnings growth. The Board has made good progress in its search for a new CEO, engaging global recruitment firm Korn Ferry to lead this process.

To ensure the characteristics of the successful candidate meet the needs of NZX and the markets we operate in, the Board appointed Propero Consulting to survey 80 of its stakeholders to ensure a very broad perspective on the skills needed for a role at the heart of our capital markets.

Feedback consistently emphasised that the most important leadership qualities were strong financial acumen, the ability to create wealth and seasoned judgement. Participants stated it was imperative the CEO was empathetic to markets needs and committed to working alongside stakeholders to build a healthy marketplace at the core of our economy.

Proactive engagement with the market remains a priority for the Board. Thank you to everyone who completed the survey for your invaluable insights. We will provide a further update to the market once the recruitment process is finalised.

Given the timeframes associated with the search for a new CEO, the Board appointed Head of Markets, Mark Peterson, as Interim CEO, effective 1 January 2017. On behalf of the Board I would like to thank Mark for leading NZX through this transition. Mark is a capable leader with a passion for NZX. We are confident that under his leadership earnings growth will be delivered.

We farewelled Tim Bennett at the end of 2016 following his resignation as CEO in October. The Board thanks Tim for his dedicated service.

I would also like to acknowledge former Chief Operating Officer Mandy Simpson and Head of Corporate Affairs Kate McLaughlin, who left in October 2016 and January 2017 respectively, for their contribution to NZX.

Closing remarks

NZX recognises the importance of its position at the heart of New Zealand's capital markets network.

We operate in a dynamic industry and the Board are grateful for the efforts of Mark Peterson and the executive team who delivered several important initiatives in 2016.

I would particularly like to thank all NZX employees and their families for their commitment to the organisation and enthusiasm.

I would also like to thank our customers, particularly our listed issuers and market participants. We look forward to working with you in 2017.

Finally, thank you to our shareholders for your loyal support as the Board and executive team worked through a year of significant transition. As our guidance reflects, I am confident we will execute on our growth opportunities and deliver growing profits for shareholders in the years to come.

James Miller, Chairman

CEO Report

To our shareholders,

On behalf of our staff, I am pleased to report on the progress we have made over the past year.

There is little doubt that 2016 was a pivotal year for NZX. A great deal was achieved to establish a foundation for future earnings growth across the Group and operate a more integrated set of businesses going forward.

In January 2017, I took over as Interim CEO. I look forward to making a broader contribution to the New Zealand economy above and beyond my role as Head of Markets.

While I am pleased to report on our progress, I want to acknowledge the context in which our financial results were achieved. In 2016, a significant amount of cost and resource went into the Ralec litigation, our transition to the Financial Markets Conduct Act (FMCA), and the repositioning of our Agri business, putting downward pressure on earnings. These distractions are now behind us and our business is well positioned for future earnings growth.

Our clear focus for 2017 is on driving profitable growth from our existing businesses, serving our customers, and delivering for our shareholders.

Below is a summary of our performance by business. I hope you find our results encouraging.

Year in review

Markets

It was a good year for our markets business, which produced sound financial results with revenues up 6.0% to $52.9 million, while operating costs were down 4.5%, delivering 9.5% growth in segment earnings. This result was underpinned by:

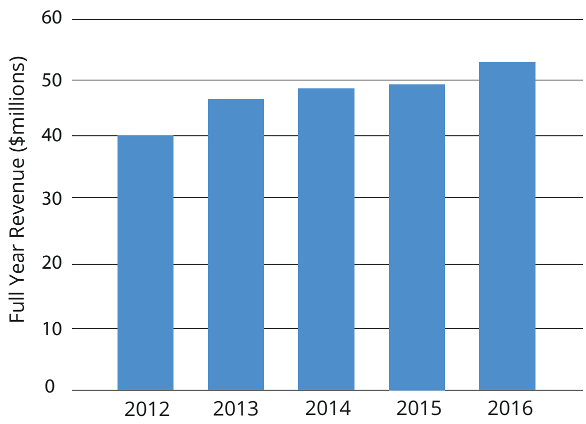
- The impressive growth of NZX's listed debt market, with debt market capitalisation up 29.7%, and the number of listed debt products up 20.2% on the prior year;
- The number of equity trades, up 19.8% on 2015 as overseas investors turned to New Zealand in search of lower volatility and higher yields;
- The performance of the S&P/NZX 50 Index, which fared well despite ongoing global economic uncertainties, up 8.8% as at 31 December 2016;
- The popularity of NZX's Dairy Derivatives Market, with participation (measured by the number of active trading accounts) up 67.0% on 2015; and
- The launch and subsequent take up of NZ Milk Price Futures and Options, with early trading in these products exceeding expectations.

Technology remained a priority for the executive team as we worked alongside market participants to improve infrastructure as we prepare to deliver an upgrade to our clearing system in 2017.

In addition to this, the executive team have a renewed focus on improving operational efficiencies in 2017.

This is to ensure our teams are efficiently supporting the foundations we have put in place for future earnings growth across the Group.

NZX Markets Revenue



Source: NZX Data

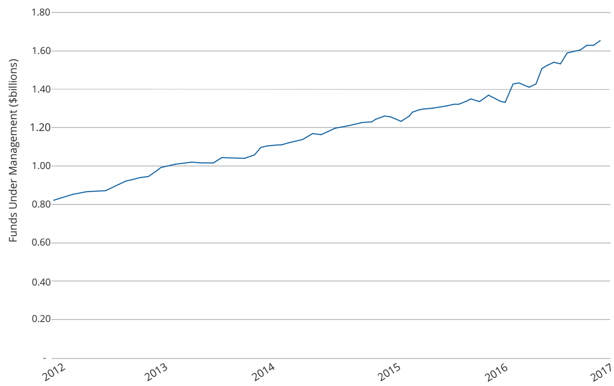
Our policy team earned a great deal of positive feedback from the broader market as we actively engaged with stakeholders as part of NZX's corporate governance review. This feedback extended to our regulation team who continued to work diligently to ensure the operation of fair, orderly and transparent markets. Both teams continue to pro-actively address market trends, changes in technology and law, and developments in international best practice to ensure we are operating markets with a strong reputation for integrity.

Funds Services

Our Funds Services business maintained good growth momentum during 2016. This was evident in:

- Funds Under Management (FUM) growth in SuperLife's KiwiSaver business up 21.1% on the prior year, while total SuperLife FUM increased 15.8%;
- SuperLife winning four new group corporate superannuation mandates;
- Growth in direct retail sales of Smartshares Exchange Traded Funds (ETFs) products, with total external FUM up 10.7% on 2015;
- SuperLife and Smartshares completing their FMCA compliance transition. While this impacted segment earnings, these were one-off costs associated with a significant regulatory change; and
- NZX Wealth Technologies securing two major new clients. These were Hobson Wealth (formerly Macquarie Equities New Zealand) and Craigs Investment Partners, who will use the platform for their KiwiSaver, superannuation and self-select products. Both clients are expected to transition onto the platform in the first half of 2017, bringing approximately $2.5 billion in Funds Under Administration.

Total Funds Under Management in SuperLife schemes



Source: NZX Data

The SuperLife and Smartshares teams will now focus tightly on marketing and generating earnings growth, after spending much of 2015 on product development, and 2016 on integration and compliance. We are confident our Funds Services business will grow significantly in 2017 as it moves out of investment mode, and builds on its strategic investments made in passive funds management over the past two years.

Agri

Market conditions were difficult for NZX Agri, which provided challenges for the publishing component of this business in 2016. The performance of this business is summarised below:

- Low commodity prices for dairy products impacted farmer returns resulting in a 20.8% reduction in paid advertising page equivalents, which directly correlated to a 20.1% reduction in publishing revenues;

- Low advertising returns were also driven by NZX's decision to exit the magazine publishing and Clear Grain Exchange businesses, instead focusing on parts of the Agri business that have broader links to the markets we operate in; and

- While publishing revenue declined, total data revenues grew 11.5% in 2016, driven by a 36.0% increase in the New Zealand based AgriHQ and iFarm revenue.

We believe steps taken to reshape NZX Agri in 2016, with a stronger focus on data and analytics, have put this business on a firmer financial footing, and position it better for the long-term, especially as the outlook for the dairy sector appears to be improving.

To lead our streamlined Agri business, we have appointed Jeremy Anderson, effective 1 March 2017. Jeremy joins NZX with broad experience from across New Zealand and Australia's agricultural sectors, and we look forward to welcoming him to the Group and growing this business.

Overall Group performance

A summary of NZX's Group financial performance is below. More information is provided in the Management Commentary.

- Revenues increased 6.0% to $77.5 million

- Operating expenses increased 13.3%, driven by a mix of deliberate investments in NZX's Funds Services business, and onetime FMCA regulatory and CEO transition costs

- Earnings Before Interest, Tax, Depreciation and Amortisation (EDITDA) of $22.5 million came within the previously guided range

- Reported 2015 Net Profit included an $11.8 million gain on sale of the Group's 50% investment in Link Market Services (NZ). 2016 net earnings were 23.9% down on the prior year excluding this gain

Creating value

NZX plays a critical role in supporting the development of New Zealand's capital markets. To be an effective player at the heart of this network our team must proactively engage to address the needs of our customers.

In 2017, our team remains focused on meeting the needs of market participants, and seeking new ways to engage and deliver. The team at NZX are committed to continuing to build a collaborative culture at the core of New Zealand's markets ecosystem. This is an NZX that engages, which seeks feedback, and delivers in a timely and professional manner. This is a market that needs to work for everyone.

I believe that if we can achieve this, then we can achieve our underlying goal of improving returns for our shareholders.

Acknowledgements

I would like to acknowledge the support I have received from the Board and executive team as Interim CEO and the positive working relationship that has resulted.

It is a privilege to lead our team through this period – a group of very capable, dedicated and talented individuals. Thank you for your hard work.

A final word of thanks to our shareholders. I am passionate about four things – customers, quality, delivery and staff – and making the right decisions in these areas will ensure better returns for you.

We have some fantastic opportunities in front of us to grow NZX. I look forward to leading our business and working with everyone involved.

Mark Peterson, Interim CEO

Management Commentary

Financial results for the year ended 31 December 2016

Overview

NZX's reported earnings are summarised in the table below.

	2016 $000	2015 $000	2014 $000	Change 2016 v 2015
Total revenue	77,544	73,151	65,189	6.0%
Operating expenses	(55,027)	(48,572)	(40,588)	13.3%
Earnings before net finance expense, tax, depreciation and amortisation and gain on sale (Operating Earnings)	22,517	24,579	24,601	(8.4%)
Net finance income	(373)	170	87	(319.4%)
Depreciation and amortisation	(7,936)	(6,990)	(5,490)	13.5%
(Loss)/gain on disposal of businesses and property, plant and equipment	(467)	(29)	42	1510.3%
Gain on sale of associate	-	11,807	-	(100.0%)
Share of profit of associate	-	411	673	(100.0%)
Impairment expense	(793)	-	-	NM
Adjustment to provision for earnout	731	-	-	NM
Tax expense	(4,497)	(6,076)	(6,802)	(26.0%)
Net profit after tax – reported	9,182	23,872	13,111	(61.5%)
Earnings excluding Link gain	9,182	12,065	13,111	(23.9%)

Total revenues increased 6.0% as a result of an increase in activity levels in the capital markets (particularly debt listing and securities trading), growth in funds management activities and a full year of wealth platform fees, partly offset by a drop in advertising revenue in agri publications as a result of weak market conditions in the dairy sector.

This revenue growth was more than offset by growth in operating expenses of 13.3%. A portion of the $6.5 million growth in costs resulted from factors that related solely to 2016, including costs associated with CEO transition and costs associated with the transition to the Financial Markets Conduct Act (FMCA) in the

Funds Services business. The remainder of the increase was the result of a full year of costs of operating new Exchange Traded Funds (ETFs) launched in 2015, a full year of NZX Wealth Technologies costs, and growth in IT and employee costs.

The combined impact of these factors was a decline in EBITDA of 8.4%. Depreciation and amortisation expense increased as a result of reclassifying some of the Group's intangible assets as fixed life rather than indefinite life assets, together with a full year of amortisation on software in NZX Wealth Technologies.

Reported net earnings declined by 61.5%. However, reported 2015 results included a gain of $11.8 million realised on the sale of the Group's 50% stake in Link Market Services (NZ). Excluding this gain, the decline in net earnings was 23.9%.

Segment earnings
The breakdown of Operating Earnings by business segment is set out in the table below.

($000)	2016	2015	2014	Change 2016 v 2015
Segment earnings:				
Markets	41,067	37,512	36,180	9.5%
Funds Services	(316)	1,726	752	(118.3%)
Agri	855	1,040	1,303	(17.8%)
Corporate	(19,089)	(15,699)	(13,634)	21.6%
Group Operating Earnings	22,517	24,579	24,601	(8.4%)

The Markets division saw earnings grow by 9.5% due to increased listings and transaction volumes, while costs declined. Listings growth came from the debt market which saw a nearly 30% increase in market capitalisation during the year, while the number of securities traded was up nearly 20%.

Funds Services earnings dropped by $2.0 million due to costs incurred during 2016 in order to achieve compliance with the requirements of the FMCA, a full year of costs associated with NZX Wealth Technologies and the new ETFs launched in 2015. Both NZX Wealth Technologies and a number of the new ETFs are currently loss-making as they grow their customer base in order to achieve the necessary scale to reach profitability.

NZX's Agri business was impacted by a downturn in the New Zealand agricultural sector. This flowed through into a notable reduction in advertising volumes.

Corporate costs increased due to costs associated with the CEO transition, a $0.4 million short-term increase in rent expense as the company reorganised its office accommodation, higher IT costs and increased employee costs.

Revenue

Markets

Securities information revenue
Securities information revenue is derived from the sale of capital markets data to global data resellers, as well as a broad range of subscription products to other participants in the capital markets. Sales to resellers

represents the largest source of revenue within this category. These resellers incorporate this data into their own subscription products delivered via data terminals. The reseller pays NZX based on the number of terminal licences they have with their end customers that include NZX data. Thus the number of data terminals is the most significant revenue driver for this category.

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
Securities information revenue	10,406	10,558	10,406	(1.4%)
Terminal numbers (12 month average)	7,407	7,222	7,291	2.6%

While terminal numbers increased 2.6%, a change in the mix of terminals towards lower value products resulted in a small decline in data from securities terminals. A reduction in revenue from other data products added to the decrease in securities information revenue.

Listing fees
There are three components to listing fees:

- Annual listing fees paid by equity and debt issuers on NZX's securities markets. The primary drivers of this revenue are the number of listed issuers and any changes in the fee schedule;
- Initial listing fees, which are paid by equity and debt issuers upon their initial listing on NZX's securities markets. The primary driver of this revenue is the number of new listings and the value of new capital listed (as fees are based on the opening market capital of the newly listed entity); and
- Secondary issuance fees, which are paid by existing issuers when they raise additional capital through placements, rights issues, the exercise of options, dividend reinvestment plans, further debt issues, etc. The primary driver for this revenue is the value of secondary capital raised.

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
Annual listing fees	9,226	8,584	7,936	7.5%
Initial listing fees	2,330	764	2,800	205.0%
Secondary issuance fees	3,341	4,042	2,419	(17.3%)
Total listing fees	14,897	13,390	13,155	11.3%
Number of listed issuers	232	231	215	0.4%
Equity market capitalisation	$115.5b	$110.2b	$96.5b	4.9%
Debt market capitalisation	$25.7b	$19.8b	$13.2b	29.7%
Number of new equity listings	7	6	19	16.7%
Value of new equity listed	$2.1b	$1.7b	$4.7b	24.5%
Value of new debt listed	$6.4b	$8.1b	$1.7b	(20.8%)
Total secondary capital raised	$4.6b	$12.9b	$2.4b	(64.2%)

Annual listing fees were up $0.6 million. More than half of this increase came from the debt market, where there has been a substantial increase in the number and value of listed debt instruments over the past 18 months. The remainder of the increase resulted from growth in equity market capitalisation and changes to the fee schedule increasing fees for existing issuers. While there were seven new equity listings in 2016 (three

NZX Main Board IPOs, two NXT market IPOs and two new entities split out of existing issuers), several delistings meant that the number of listed issuers was almost unchanged.

Initial listing fees increased $1.6 million. Although there was little increase in equity raising activity compared to 2015, there was substantial listing of new debt products in 2016, which was the primary driver of the tripling of initial listing fees. The $8.1 billion of debt raised in 2015 was mostly the result of the compliance listing of $5.6 billion of existing debt by the Local Government Funding Authority, while in the current year new debt listed reflected higher-value new debt issues.

Despite a 64.2% decrease in the value of secondary capital raised, secondary issuance fees only declined 17.3% ($0.7 million). The issuance fee as a percentage of capital raised decreases the larger a capital raising is and 2015 secondary capital raising was dominated by a small number of very large capital raisings by dual-listed Australian banks. By contrast, in 2016 secondary capital raising was spread over a number of smaller to medium sized transactions which resulted in a higher yield as a percentage of capital raised.

Other issuer services
This revenue represents fees billed for time spent by NZX's market supervision team reviewing listing and secondary capital raising documents, requests for waivers from NZX Listing Rules and other significant issuer matters.

($000)	**2016**	**2015**	**2014**	**Change 2016 v 2015**
Other issuer services revenue	1,144	770	1,013	48.6%

The increase in revenue resulted from more complex transactions occurring in 2016 coupled with the increase in listing activity in the debt market.

Securities trading revenue
This represents fees billed for the execution of trades on NZX's equity and debt markets. Trading fees are a combination of a fixed fee per trade and a variable fee based on the value of the trade. The fixed fee component accounts for approximately 70% of NZX's trading revenues, hence the number of trades is the most significant revenue driver.

($000 unless otherwise stated)	**2016**	**2015**	**2014**	**Change 2016 v 2015**
Securities trading revenue	5,765	4,976	4,424	15.9%
Number of trades	1.75m	1.46m	1.31m	19.8%

The number of securities traded increased just under 20% in 2016, which resulted in a corresponding increase in fixed per-trade fees. Approximately 30% of securities trading revenue is derived from variable fees based on the value traded which only increased only 5.5%, meaning the increase in total securities trading revenue was lower than the growth in the number of trades.

Participant services revenue
This represents fees billed to broking and advisory firms who are accredited participants in NZX's equity and debt markets.

($000)	2016	2015	2014	Change 2016 v 2015
Participant services revenue	3,592	3,526	3,479	1.9%

Participant services revenues were stable, with no significant changes to fee structures or number of market participants to whom these fees were charged.

Securities clearing revenue
This revenue represents fees for clearing and settlement activities and a range of related services such as custody and stock lending undertaken by NZX's subsidiary New Zealand Clearing and Depository Corporation. The largest component is clearing fees, which are billed based on the value of the transactions settled. Hence total value traded is the most significant revenue driver for this category.

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
Securities clearing revenue	5,663	5,365	4,653	5.6%
Total value traded	$44.0b	$41.7b	$35.0b	5.5%

The increase in securities clearing revenue almost exactly reflected the growth in total value traded during the year. The 5.5% growth in value traded was noticeably lower than the 19.8% increase in the number of trades as much of the volume growth came from "algorithmic" trading, which is characterised by a large number of low value trades.

Dairy derivatives revenue
This is trading, clearing and settlement fees for trading in NZX dairy futures and options. Fees are calculated per lot traded, hence the total number of lots traded is the most significant revenue driver. These fees are largely billed in USD reflecting the global nature of the market, hence changes in the NZD:USD exchange rate also have an impact on reported revenues.

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
Dairy derivatives revenue	706	684	254	3.2%
Lots traded	198k	214k	101k	(7.2%)

The number of lots traded declined 7.2% in 2016 due to low volatility through the first half of the year reducing the incentive for buyers of dairy products to hedge their price exposure. This particularly manifested in a significant reduction in the volume of milk powder options traded, which had been a significant driver of volumes in 2015. Increased volatility in the latter part of 2016 saw trading momentum return somewhat.

Despite the fall in the number of lots traded, revenue increased 3.2% as a result of the weakening of the NZD relative to the USD over the period.

Market operations revenue
NZX operates a number of aspects of the New Zealand electricity market under long term contracts from the Electricity Authority and operates the Fonterra Shareholders' Market on behalf of Fonterra. Market operations revenue has two components:

- Fixed annual fees for market operator contracts; and

- Fees for development projects related to the market operator contracts, which are generally billed on a time and materials basis.

($000)	2016	2015	2014	Change 2016 v 2015
Development revenue	1,493	1,375	2,560	8.6%
Contractual revenue	9,236	9,256	9,074	(0.2%)
Total market operations revenue	10,729	10,631	11,634	0.9%

NZX successfully retendered in 2015 for the four market operator contracts that it has with the Electricity Authority and the new contracts commenced in 2016. While the fees for the basic service operation decreased in the new contracts, this was offset by additional annual contracted revenue for the enhancement of the systems used to provide these services. Accordingly, the total contractual revenue was almost unchanged in 2016.

Development revenues also remained at similar levels to 2015, with a similar portfolio of development and consulting activities undertaken in 2016.

Funds Services

Funds management revenue
NZX has two sources of funds management income:

- Funds management fees derived by SuperLife's superannuation and KiwiSaver activities. NZX acquired SuperLife Limited effective 1 January 2015, which was amalgamated with Smartshares Limited in November 2016. These fees are a mix of membership fees (a flat fee charged on a per member basis) and Funds Under Management (FUM) fees (calculated based on a percentage of funds under management). Thus the key revenue drivers are number of members and FUM.

- Funds management fees derived by Smartshares, a provider of ETFs. These fees are calculated as a percentage of FUM, therefore FUM is the key revenue driver for Smartshares.

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
SuperLife revenue	7,038	6,433	-	9.4%
Smartshares revenue	4,589	3,562	2,716	28.8%
Total funds management revenue	11,627	9,995	2,716	16.3%
SuperLife member numbers	48,015	43,713	-	9.8%
SuperLife FUM	$1,660m	$1,433m	-	15.8%
Smartshares external FUM	$487m	$440m	$411m	10.7%
Smartshares SuperLife FUM	$1,218m	$1,050m	$88m	16.0%
Total Smartshares FUM	$1,705m	$1,490m	$499m	14.4%

A combination of 15.8% growth in FUM and 9.8% growth in member numbers resulted in a 9.4% increase in SuperLife revenue. SuperLife added 4,302 new members during the year. Three quarters of these were added in November 2016 with the migration of new superannuation mandates to SuperLife. As they came on late in the year, their impact on 2016 revenues was small, hence the growth in revenues is not as large as the growth in year-end member numbers would suggest.

Smartshares revenue increased 28.8% as a result of a full year of revenue from the new ETFs launched during 2015 compared to only a part year in the prior period, as well as growth in FUM during 2016 of 14.4%.

Wealth platform fees
Wealth platform fees are earned by NZX Wealth Technologies (formerly Apteryx), a business that NZX acquired effective 1 July 2015. Fees are calculated based on the amount of Funds Under Administration (FUA), therefore this is the key revenue driver for this business.

($000 unless otherwise stated)	**2016**	**2015**	**2014**	**Change 2016 v 2015**
Administration fees	1,365	689	-	98.1%
Development fees	40	-	-	NM
Total wealth platform fees	1,405	689	-	103.9%
FUA	$1,292m	$1,317m	-	(1.9%)

Growth in administration fees reflects 12 months of revenue in 2016 compared to only six months in the prior year. FUA remained stable throughout 2016.

Development fees represent amounts payable by new customers for work to customise the NZX Wealth Technologies platform for their requirements. This work is on track to be completed in the first half of 2017, enabling the transfer of substantial additional FUA onto the platform.

Agri

Agri information revenue
This revenue falls into two categories:

- Publishing revenues – advertising and subscription revenues from the publication of rural newspapers and magazines. Advertising is the most significant contributor to revenue and hence the volume of advertising, measured by advertising page equivalents, is the most important revenue driver.

- Data revenues – revenue from the sale of subscription data and analytical products in the New Zealand agri sector and Australian grain industry.

($000)	**2016**	**2015**	**2014**	**Change 2016 v 2015**
Publishing revenue	6,451	8,069	8,953	(20.1%)
Agri data revenue	4,038	3,621	3,251	11.5%
Total agri information revenue	10,489	11,690	12,204	(10.3%)
Total paid advertising page equivalents	1,679	2,120	2,483	(20.8%)

The adverse conditions that began impacting the New Zealand rural sector in 2015 persisted in 2016 with low commodity prices for dairy products impacting farm returns causing advertisers to cut back their spending. This was evident in the 20.8% reduction in paid advertising page equivalents which directly correlated with the 20.1% reduction in publishing revenues. Another factor in the reduction in paid advertising page equivalents was the sale of the Group's two remaining magazine titles, effective 1 October 2016.

While publishing revenues declined, data revenues were up 11.5% as a result of strong growth in the New Zealand business. New Zealand data revenues were up 36% due to growth in sales of existing products, the development of AgriHQ Pulse (an online news service) and a full year of revenue from the iFarm business that was acquired in 2015. Conversely, Australian data revenues declined 0.9% in reported NZD terms as a result of a reduction in farmer subscribers and changes in the NZD:AUD exchange rate adversely impacting reported NZD revenue.

Commodities trading revenue
This revenue came from trade fees on NZX's Australian online grain trading market, the Clear Grain Exchange. A fixed fee was billed per tonne traded on the exchange, hence the number of tonnes traded was the primary driver of revenue.

NZX sold the Clear Grain Exchange effective 1 December 2016, so no grain trading revenue will be reported in future periods.

($000 unless otherwise stated)	**2016**	**2015**	**2014**	**Change 2016 v 2015**
Commodities trading revenue	1,121	877	1,251	27.8%
Total tonnes traded	543k	452k	595k	19.9%

Higher tonnes were traded in 2016 relative to 2015 due to the 2015/16 harvest seeing a greater proportion of grain sold later in the harvest (which fell into NZX's 2016 financial year) than was the case in the previous harvest. This resulted in a 27.8% increase in commodities trading revenue.

Operating Expenses

Personnel costs
Gross personnel costs are made up of:

- Wages and salaries, comprising base remuneration of permanent and fixed term employees, leave expense, short-term incentive costs (bonuses and commissions), long-term incentive costs (employee share schemes), ACC and KiwiSaver contributions;

- Contractor costs, comprising the cost of all individuals on short term contracts (including freelance contributors to agricultural publications); and

- Other personnel costs, including training and development, recruitment and staff benefits.

Where employees or contractors are engaged on capital projects, a proportion of their time is capitalised to capital work in progress, resulting in a credit to personnel costs.

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
Wages and salaries	(29,198)	(24,424)	(18,320)	19.5%
Contractor costs	(2,325)	(2,138)	(2,872)	8.7%
Other personnel costs	(1,185)	(1,127)	(1,034)	5.1%
Gross personnel costs	(32,708)	(27,689)	(22,226)	18.1%
Less capitalised labour	2,855	1,638	251	74.3%
Reported personnel costs	(29,853)	(26,051)	(21,975)	14.6%
Staff numbers (FTEs)	237	237	188	0.0%

Wages and salaries costs increased by $4.8 million. Of this amount, $1.7 million related to NZX Wealth Technologies with a full 12 months of expense in 2016 compared to six months in 2015, as well as additional staff recruited to service major new clients won during 2016. The remainder of the increase was due to costs associated with the CEO transition, additional staff recruited on a fixed term basis to support major projects (the clearing system upgrade, the energy systems upgrade and the FMCA compliance project) and additional leave accruals. This was offset by an increase in capitalised labour reflecting capitalisation of staff time on the clearing system and energy projects as well as development work undertaken by NZX Wealth Technologies.

Contractor costs increased 8.7% due to additional contract resource engaged on energy projects and increased use of contractors for covering short term vacancies.

Information technology costs

This includes software licence fees, software and hardware support and maintenance fees, telecommunications and data network costs and the cost of IT services provided by third parties.

($000)	2016	2015	2014	Change 2016 v 2015
Information technology costs	(7,303)	(6,242)	(5,828)	17.0%

IT costs increased by $1.1 million. This increase resulted from increased costs of data feeds used in the securities and agri data businesses, increased NZD cost of annual software maintenance fees billed in USD as a result of changes in the exchange rate, additional software licence costs in the energy business that were previously borne directly by the Electricity Authority, and miscellaneous price increases and additional services acquired from external suppliers.

Professional fees

This includes legal expenses and advisory and consultancy fees.

($000)	2016	2015	2014	Change 2016 v 2015
Ralec litigation expenditure	(2,984)	(3,094)	(956)	(3.6%)
Other professional fees	(2,609)	(2,505)	(2,481)	4.2%
Total professional fees	(5,593)	(5,599)	(3,437)	(0.1%)

Ralec litigation costs were in line with the previous year. The trial was completed in 2016 with neither party successful in its claim for damages. No further costs will be incurred in respect of this matter in future with an agreement being reached that neither party would appeal the judgement.

Other professional fees increased slightly by 4.2%. While 2015 costs included costs associated with the launch of 16 new ETFs and the acquisition of Apteryx (now NZX Wealth Technologies) which were not repeated in 2016, this was offset by additional legal fees and other expenditure incurred in the FMCA compliance project within the funds management business.

Marketing, print and distribution

This includes marketing and promotional expenditure and print and distribution costs for the Group's agricultural publications.

($000)	2016	2015	2014	Change 2016 v 2015
Marketing, print and distribution	(3,064)	(3,549)	(3,827)	(13.7%)

Print and distribution costs declined in line with the reduction in agri publications revenue, as reduced advertising volumes meant the production of smaller publications. The Group also sold its two remaining magazine titles, effective 1 November 2016, and as a result there are only 10 months of print and distribution costs for these publications in the current year compared to a full year in 2015.

Fund expenditure

This represents the cost of operating the Smartshares ETFs. They are a mixture of costs that are effectively fixed in the short term (principally outsourced fund accounting and administration costs and registry fees) and costs that vary in proportion to FUM (principally custodian fees, trustee fees, index fees, settlement costs and third party manager fees).

($000)	2016	2015	2014	Change 2016 v 2015
Fund expenditure	(3,660)	(2,280)	(1,063)	60.5%

There were 16 new ETFs launched during the course of 2015 and the increase in costs was largely driven by having a full year of the cost of operating these funds in 2016 as opposed to a part year in 2015. There was also a further increase in variable costs due to 14.4% growth in total FUM between 31 December 2015 and 31 December 2016.

Other expenses

This comprises general and administrative expenditure, including rent, travel, insurance, directors fees, audit fees and general overheads.

($000)	2016	2015	2014	Change 2016 v 2015
Other expenses	(5,554)	(4,851)	(4,458)	14.5%

The increase in other expenses was principally the result of a $0.4 million increase in rent and associated premises costs. NZX had previously sublet approximately half its Auckland office to Link Market Services, which moved to larger premises in 2016 to support business growth. NZX moved its SuperLife business into this space however there was a period of approximately six months where NZX effectively incurred lease costs on two premises. NZX also has surplus space in its Wellington offices that it subleases. This was vacant for approximately half of 2016 during which time NZX was bearing the full rental cost.

There was also an increase in statutory fees and compliance costs associated with the FMCA compliance regime and an increase in doubtful debts expense, however these were largely offset by an increase in capitalised overheads in line with the increase in labour capitalisation.

Other Income and Expenses

Net finance income/(expense)
This comprises net interest and foreign exchange gains/losses.

($000)	2016	2015	2014	Change 2016 v 2015
Interest income	943	1,218	615	(22.6%)
Interest expense	(1,233)	(1,197)	(407)	3.0%
Net gain/(loss) on foreign exchange	(83)	149	(121)	(155.7%)
Net finance (expense)/income	(373)	170	87	(319.4%)

Interest income from cash and interest expense was relatively stable year on year. The $0.2 million decrease in interest income largely resulted from use of money interest credits in 2015.

The largest factor in the change from net finance income in 2015 to a net finance expense in 2016 was the foreign exchange loss recognised in 2016 compared to a gain recognised in 2015.

Gain/(loss) on disposal

($000)	2016	2015	2014	Change 2016 v 2015
Gain on disposal of associate	-	11,807	-	NM
Other (loss)/gain on disposal	(467)	(29)	42	1510.3%
Total (loss)/gain on disposal	(467)	11,778	42	NM

NZX sold its 50% stake in Link on 30 June 2015 with a gain of $11.8 million recognised in 2015 on this sale.

In 2016, the Group sold its two rural magazine titles in New Zealand and the Clear Grain Exchange business in Australia, realising a combined loss on disposal of these businesses of $469,000.

Depreciation and amortisation

($000)	2016	2015	2014	Change 2016 v 2015
Depreciation of PP&E	(1,294)	(1,189)	(1,073)	8.8%
Amortisation of intangibles	(6,642)	(5,801)	(4,417)	14.5%
Total depreciation and amortisation	(7,936)	(6,990)	(5,490)	13.5%

The increase in depreciation resulted from capital expenditure during the period.

Amortisation expense increased by $0.8 million. Of this amount $0.4 million results from a change in classification of certain intangible assets in 2016 from indefinite lived (which are not amortised) to finite lived (which are amortised). The remainder reflects amortisation of software development completed in 2015 and 2016 (principally by SuperLife and NZX Wealth Technologies).

Impairment

($000)	2016	2015	2014	Change 2016 v 2015
Impairment expense	(793)	-	-	NM

In its half year results to 30 June 2016 the Group wrote down the carrying value of certain of its brand assets, including those of the rural magazine publications that were subsequently sold. This resulted in an impairment charge of $0.8 million.

Adjustment to provision for earnout

($000)	2016	2015	2014	Change 2016 v 2015
Adjustment to provision for earnout	731	-	-	NM

NZX acquired Apteryx (which it subsequently renamed NZX Wealth Technologies) in 2015 for an initial payment of $1.5 million. A further $2.5 million was payable in the event that the business achieved Funds Under Administration of $3.0 billion and monthly revenues of $0.25 million by 31 March 2017. Based on a probability assessment NZX recognised a provision for 50% of the earnout (discounted to present value) at 31 December 2015.

The earnout targets will not be met and accordingly the earnout provision has been reversed in 2016 resulting in a credit to earnings of $1.3 million.

Offsetting this is an adjustment to increase to the provision for the SuperLife earnout, to record an increase in the likelihood of the full earnout being paid to 95% (previously accrued at 90%).

Share of profit of associate

($000)	2016	2015	2014	Change 2016 v 2015
Share of profit of associate	-	411	673	(100.0%)

The share of profit of associates came from NZX's 50% interest in Link. This ceased upon the sale of the Link stake on 30 June 2015.

Tax expense

($000 unless otherwise stated)	2016	2015	2014	Change 2016 v 2015
Tax expense	(4,497)	(6,076)	(6,802)	(26.0%)
Effective tax rate (excluding non-assessable gain on disposal of Link)	32.9%	33.5%	35.4%	(1.9%)

The decrease in tax expense reflects lower earnings before tax. The effective tax rate is higher than the statutory rate of 28% due to the significant expenditure on the Ralec litigation which is not deductible for tax purposes.

Board of Directors

As at 31 December 2016

1. James Miller

CHAIRMAN: BCOM, FCA

James Miller, NZX Chairman, was appointed to the Board in August 2010. James is a director of Mercury (formerly Mighty River Power), ACC and Auckland International Airport. He was previously on the ABN AMRO Securities Board, INFINZ Board, and Financial Reporting Standards Board. James brings 14 years' direct experience in the New Zealand capital markets with Craigs Investment Partners, and prior to that ABN AMRO and Barclays de Zoete Wedd. James is a qualified chartered accountant and is a Fellow of the Institute of Chartered Accountants of New Zealand, a Certified Securities Analyst Professional and an accredited director of the Institute of Directors in NZ Inc. He holds a Bachelor of Commerce from Otago University and is a graduate of The Advanced Management Program, Harvard Business School (USA).

James is a member of NZX's Human Resources Committee, and an ex officio member of the Audit and Risk Committee.

2. Neil Paviour-Smith

BCA, FCA, AFA, ACIS, FCFIP, MSAA

Neil Paviour-Smith is Managing Director of Forsyth Barr and a director of various related companies. He is also a director of Chartered Accountants Australia New Zealand and a Councillor of Victoria University of Wellington.

He has more than 25 years' experience in the New Zealand securities and funds management industries.

Neil is an NZX Adviser and an Authorised Financial Adviser, a Fellow of the Institute of Finance Professionals NZ Inc (INFINZ) and former Chairman of the NZ Society of Investment Analysts. He is a Fellow Chartered Accountant, an accredited Master Stockbroker of the Stockbrokers Association of Australia and a member of the Institute of Directors, Governance New Zealand and the CFA Institute.

Neil is Chair of NZX's Audit and Risk Committee and a member of the Human Resources Committee.

3. Alison Gerry

MAPPFIN, BMS (Hons)

Alison Gerry became an NZX director in February 2012. She has been a professional director since 2007 and is currently on the boards of Spark, Infratil, Vero and Wellington Airport. Alison has more than 20 years' experience working for both corporates and financial institutions in Auckland, Sydney, Hong Kong, Tokyo and London in trading, finance and risk roles. Alison was also a Visiting Fellow at Macquarie University in Sydney for 12 years until 2011. Alison has a first class honours degree in Management Studies from Waikato University and a Masters of Applied Finance from Macquarie University.

Alison is Chair of the Board of wholly owned NZX subsidiary New Zealand Clearing and Depository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Corporation Limited, a member of the Regulatory Governance Committee and member of the Human Resources Committee.

4. Dame Therese Walsh

DNZM, BCA, FCA

Dame Therese Walsh joined the Board in February 2013. She is a professional director and is currently Deputy Chairperson of TVNZ, a director of ASB Bank Limited and Air New Zealand Limited, a Trustee of Wellington Regional Stadium, and is a Victoria University Council Member. She also sits on a number of Government panels, including the Major Events Investment Panel. Previously she was Head of New Zealand for the ICC Cricket World Cup 2015, and Chief Operating Officer for Rugby New Zealand 2011. She has been a director of New Zealand Cricket and Save the Children NZ, a member of the New Zealand Rugby Union executive team, and held a senior role with KPMG.

Dame Therese is a qualified chartered accountant, and a Fellow of the Institute of Chartered Accountants of New Zealand. She holds a Bachelor of Commerce and Administration from Victoria University.

She is a member of NZX's Audit and Risk Committee, the Regulatory Governance Committee, and Chair of the Conflicts Committee.

5. Jon Macdonald

BE (Hons)

Jon Macdonald joined the Board in May 2013. Jon is CEO of NZX/ASX listed Trade Me Group. Jon has a background in engineering and technology. He joined Trade Me in 2003 and was appointed CEO in 2008. Prior to joining Trade Me, Jon worked in London for HSBC Investment Bank in a variety of technical and management positions, and has worked for Deloitte Consulting with a focus on telecommunications and financial services. He is a Trustee of NZ Technology Training Charitable Trust.

Jon has a Bachelor of Engineering (Hons) from the University of Canterbury.

Jon is Chair of NZX's Human Resources Committee, and a member of the Conflicts Committee and the Regulatory Governance Committee.

6. Dr Patrick Strange

BE (Hons), PHD

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

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

Patrick is Chair of Chorus, and a director of Mercury (formerly Mighty River Power), Auckland International Airport and of Endeavour Energy and Essential Energy in Australia.

Corporate Governance

Corporate Governance environment

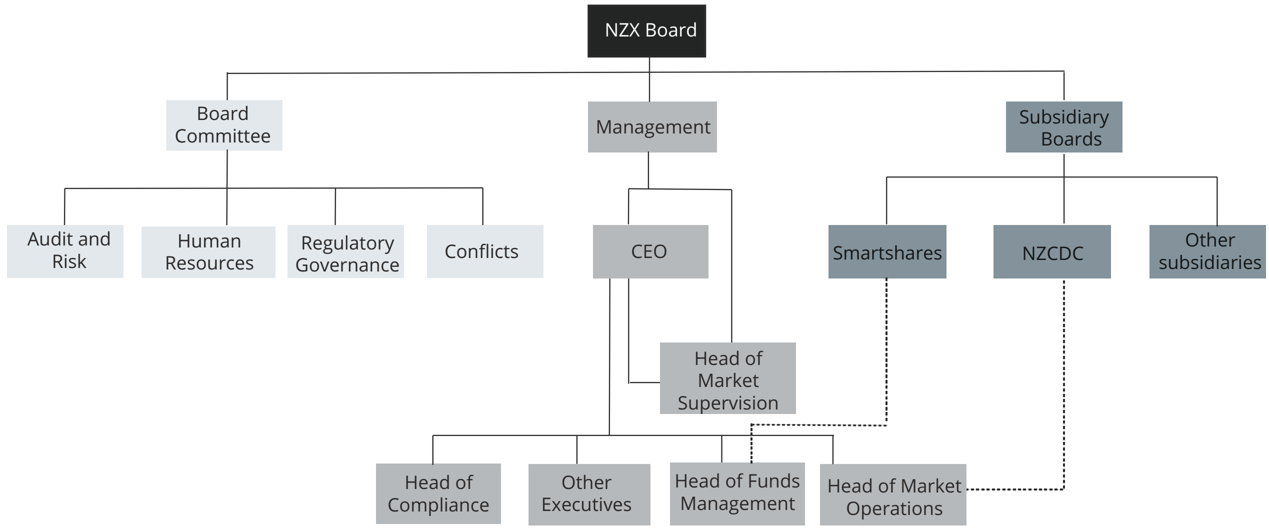
By virtue of the industries in which it operates and its critical role within New Zealand's capital markets, the NZX Group is subject to a more complex corporate governance environment than most New Zealand listed companies.

The overarching regulatory and compliance framework within which the NZX Group operates is summarised in the table below.

Company/division	Principal source of compliance obligations	Regulator/oversight	External assurance activities
NZX Limited (as a listed entity)	Companies Act, FMCA	FMA	Annual statutory audit by KPMG
	NZX Main Board Listing Rules	Special Division	Ongoing Special Division surveillance and the Tribunal annual report on Special Division activities
Capital markets	FMCA	FMA	Market Operator Obligations Review by FMA
Capital markets – clearing house	RBNZ designation	RBNZ and FMA jointly	Annual operational audit of clearing house by KPMG
Funds management	FMCA	FMA	
	Fund trust deeds	Supervisor	Annual compliance report to Supervisor by KPMG
Energy	Electricity Authority Industry Participation Code	Electricity Authority	Annual compliance audits by various external providers

As a listed entity, NZX is required to comply with the NZX Main Board Listing Rules (the Rules) (including in relation to the Exchange Traded Funds (ETFs) managed by its wholly owned subsidiary Smartshares Limited). For all other listed entities, NZX is charged with the monitoring and enforcement of compliance with these Rules. As NZX cannot regulate itself, the monitoring and enforcement of NZX's own compliance with the listing rules is undertaken by the Special Division, an independent division of the New Zealand Markets Disciplinary Tribunal (the Tribunal). Members of the Special Division are appointed by the Chair of the Tribunal and confirmed by the Financial Markets Authority (FMA).

Corporate Governance framework



Against this backdrop, the NZX Group's governance framework is summarised in the diagram above.

NZX Board

The Board is responsible for the overall direction and strategy of NZX. It appoints the Chief Executive and delegates the day-to-day operation of NZX's business (excluding NZX's regulatory functions) to the Chief Executive.

As at 31 December 2016, the Board comprised six directors, all of whom were non-executive directors and all of whom were independent directors in accordance with the Rules, with the exception of James Miller, who was non-independent by virtue of also being a director of Accident Compensation Corporation, which is a substantial product holder in NZX. The directors are James Miller (Chair), Neil Paviour-Smith, Alison Gerry, Dame Therese Walsh, Jon Macdonald and Dr Patrick Strange. Profiles of directors are provided on page 24.

In accordance with NZX's constitution and the Rules, one third of the directors are required to retire by rotation every year and may offer themselves for re-election by shareholders. Nominations for directors may also be made in accordance with NZX's constitution.

The Board holds regular scheduled meetings. The Board also holds ad hoc meetings to consider time sensitive or specific issues (including via teleconference).

The Board has access to executive management, who are invited to attend and participate in appropriate sessions of Board meetings.

Directors may seek their own independent professional advice to assist with their responsibilities.

The Board has established a Code of Ethics that provides a set of principles for directors to apply in their conduct and work for NZX. The principles include the management of conflicts of interest, the required skills of directors, trading in NZX's shares, and maintaining confidentiality of information received in their capacity as directors of NZX.

The Board has in place a Conflict Management Policy. The purpose of this policy is to identify possible conflicts that might arise between NZX's commercial and regulatory roles and to describe the processes in place at a management and Board level to ensure that these potential conflicts are appropriately managed.

Board Committees

The Board has four standing committees: the Audit and Risk Committee, the Regulatory Governance Committee, the Human Resources Committee and the Conflicts Committee. No additional remuneration has to date been paid to any director for additional duties associated with membership of any committee. The non-director members of the Regulatory Governance Committee and the Conflicts Committee are paid separate fees for their services on these committees.

The terms of reference for each of the Board committees can be downloaded at: www.nzxgroup.com/investor-centre/corporate-governance

Information on attendances at committee meetings during 2016 is disclosed in a table on the next page.

Audit and Risk Committee

The purpose of the Audit and Risk Committee is to assist the Board with financial reporting and corporate financial matters. The Audit and Risk Committee also assists the Board in fulfilling its risk management responsibilities, other than with respect to regulation which is addressed by the Regulatory Governance Committee and clearing house risk which is addressed by the Board of New Zealand Clearing and Depository Corporation Limited. The Audit and Risk Committee also oversees internal and external audit processes.

The Audit and Risk Committee may only comprise independent directors and at least one member must have expertise in accounting or a financial background. As at 31 December 2016, the members of the Audit and Risk Committee were: Neil Paviour-Smith (Chair), Dame Therese Walsh and Dr Patrick Strange. Neil Paviour-Smith and Dame Therese Walsh are considered by the Board to have expertise in accounting and a financial background.

The Audit and Risk Committee has a clear line of communication with the independent external auditor (KPMG), independent internal auditor (EY) and the internal finance and audit team, and it may, at its discretion, meet with the independent auditors without management being present.

Regulatory Governance Committee

The Regulatory Governance Committee's core function is to assist the Board with its governance responsibilities relating to NZX's regulatory function. The Committee does not have any authority to make regulatory decisions and is not involved in day-to-day operations, management, or decision making except where specific delegations of authority may be made by the Board. No such delegations were made in the financial year to 31 December 2016.

The Regulatory Governance Committee comprises non-executive directors and an independent non-director member (Derek Johnston). As at 31 December 2016, the members of the Regulatory Governance Committee were: Derek Johnston (Chair), Alison Gerry, Jon Macdonald and Dame Therese Walsh.

Human Resources Committee

The core function of the Human Resources Committee is to ensure that human resource policy and practices support NZX in achieving its commercial and stakeholder goals.

As at 31 December 2016, members of the Human Resources Committee were Jon Macdonald (Chair), Alison Gerry, James Miller and Neil Paviour-Smith.

Conflicts Committee

The Conflicts Committee's core function is to monitor the adequacy of the company's conflicts arrangements and make recommendations to the Board on conflicts management policies and procedures, including recommendations to address any perceived or actual conflicts of interest between NZX's regulatory responsibilities and its commercial interests.

The Conflicts Committee is appointed by the NZX Board, and comprises directors who are deemed by the Board to be sufficiently independent of conflicts in relation to NZX Group activities and an independent non-director member (David Flacks, who is also chairman of the Tribunal). The members of the Conflicts Committee are Dame Therese Walsh (Chair), Alison Gerry, Jon Macdonald and David Flacks.

2016 Board and Committee attendance

	Board	Audit and Risk Committee	Regulatory Governance Committee	HR Committee	Conflicts Committee
James Miller	8/8	–	–	3/3	–
Neil Paviour-Smith	8/8	4/5	–	3/3	–
Alison Gerry	7/8	–	4/4	3/3	1/2
Dame Therese Walsh	8/8	4/5	4/4	–	2/2
Jon Macdonald	8/8	–	4/4	3/3	2/2
Dr Patrick Strange	8/8	5/5	–	–	–
Derek Johnston	–	–	4/4	–	–
David Flacks	–	–	–	–	2/2

The Chief Executive is not a member of any Committee but attended a number of meetings as an invited attendee.

Management

The Chief Executive is responsible for implementing policies and strategies set by the Board and is accountable to it. The Chief Executive and senior management operate under specific delegations of authority from the Board. In October 2016 the Chief Executive resigned, effective 31 December. NZX has appointed an Interim Chief Executive while a search for a new Chief Executive is undertaken.

The Board has made a separate direct delegation to the Head of Market Supervision in respect of NZX's regulatory functions. Accordingly, the Head of Market Supervision has a direct reporting line to both the Chief Executive (in respect of operational matters) and the Board (in respect of regulatory matters).

In addition, the Head of Compliance is responsible for ensuring that NZX's compliance frameworks and policies remain fit for purpose and that these are duly followed in practice.

NZX's Head of Funds Management has a direct line of reporting to the Chief Executive as well as a secondary line of reporting to the Board of Smartshares.

During 2016 the Chief Operating Officer role was replaced by a Head of Market Operations role. NZX's Head of Market Operations has a direct line of reporting to the Chief Executive as well as a secondary line of reporting to the Board of New Zealand Clearing and Depository Corporation Limited in respect of the activities of the NZX Group's clearing house.

Profiles of all the senior managers of NZX are available at: www.nzxgroup.com/who-we-are/management-profiles

Insurance and Indemnification

NZX provides insurance cover and indemnities to directors and executive employees. Further detail is set out on page 73.

Gender and Diversity

NZX is committed to building and maintaining diversity of skills and perspectives across the organisation. We believe that diversity of thought at all levels, in an inclusive environment, leads to improved outcomes for our employees, our customers and our shareholders. The NZX Diversity Policy requires:

- Transparent, merit-based, recruitment and reward decisions;
- Identification and support of talented individuals; and
- Use of flexible work practices to encourage broad workforce participation.

NZX established a Diversity and Inclusion employee committee in 2016. Its objective is to implement improved diversity and inclusion initiatives across the organisation.

As part of NZX's annual employee engagement survey, measurements are taken on employees' views of NZX as an equal opportunity employer and as an employer that cares about its employees' wellbeing. The results of this survey are reported to the Board.

The Diversity Policy does not set quantitative targets for workforce composition, but does require an age and gender breakdown to be provided to the Board quarterly. The Board will consider whether further measurement is appropriate over time and will consider updates to the current policy as part of transitioning to the updated NZX Corporate Governance Best Practice Code.

The gender balance of NZX directors, officers and all permanent employees (excluding officers) for the years ended 31 December 2016 and 2015 was as follows:

	31 DECEMBER 2016		31 DECEMBER 2015	
Directors	Number	%	Number	%
Female	2	33%	2	33%
Male	4	67%	4	67%
Total	**6**	**100%**	**6**	**100%**
Officers[1]				
Female	2	18%	2	18%
Male	9	82%	9	82%
Total	**11**	**100%**	**11**	**100%**
All employees				
Female	110	47%	109	46%
Male	124	53%	129	54%
Total	**234**	**100%**	**238**	**100%**

1 An officer means a person, however designated, who is concerned or takes part in the management of the issuer's business, but excludes a person who does not: a) report directly to the Board; or b) report directly to a person who reports to the Board.

The board has evaluated NZX's performance against its 2016 diversity objectives.

Objective	Evaluation
Key people managers will receive diversity training.	Achieved. Senior management are due to complete refresher training in 2017.
HR metrics based on gender and age will be presented to the Board quarterly for their consideration.	Achieved. Further, the Human Resources Committee reviewed the diversity policy and its application across all of the organisation.
Management will consider whether there are other measures which may be appropriate for understanding the composition of the NZX workforce and, if such measures are identified, will present these to the Board for its consideration.	Achieved. Although no additional measures have currently been identified, this will continue to be kept under review.
NZX will undertake a review to ensure that remuneration is fair and equitable across all levels of the organisation to minimise inadvertent discrimination.	Achieved. In addition to internal assessments, NZX continued to utilise the services of the Hay Group to provide independent benchmarking.
During 2016 NZX undertook the Gallup Work Survey. This included a question on whether staff consider NZX an equal opportunity employer.	Achieved. 72% of all NZX employees either agreed or strongly agreed that NZX was an equal opportunity employer.
In addition, a survey question was asked about employees overall work satisfaction.	A rating of 3.76 out of a possible 5 was achieved.

Governance Policies

As noted above, the Board has adopted a Code of Ethics, Delegated Authority Policy and Diversity Policy. In addition to these policies, the Board has adopted a formal Securities Trading Policy and Conflict Management Policy.

Securities Trading Policy

NZX has a Securities Trading Policy to assist in compliance with insider trading provisions of the FMCA. The policy is administered by NZX's Chief Financial Officer. The policy restricts directors and officers trading in a number of ways including:

- Prohibiting trading by NZX senior managers and directors in NZX's securities during "black-out" periods set out in the policy. These occur prior to the release to the market of NZX financial results and prior to the release to the market of any prospectus for a general offer of securities issued by NZX or a subsidiary of NZX (excluding Smartshares).
- If a director, or officer or employee of NZX wishes to trade NZX securities outside a blackout period, that person must first apply for and obtain, consent from NZX's Corporate Counsel.
- If the Chief Executive wishes to trade NZX securities, additional arrangements, including approval by the Chair of the Board apply.

Because of the nature of NZX's business, any employee who wishes to buy or sell any financial product listed on NZX's markets must follow the policy and apply for consent to trade. This policy is reinforced through individual employment agreements.

Conflict Management Policy

As a licensed market operator, NZX is required to undertake the supervision of the markets that it operates. This dual role as market operator and regulator may lead to a perception of conflict between NZX's regulatory and commercial functions.

For this reason, it is important for NZX to effectively and demonstrably manage any conflicts that might arise between its commercial and regulatory roles. Accordingly, NZX has developed a Conflict Management Policy. The purpose of this policy is to identify possible conflicts and to describe the processes in place at a management and Board level to manage potential conflicts.

NZX staff receive training on both NZX's securities trading policy and conflict management arrangements periodically. Copies of both policies can be downloaded at: www.nzxgroup.com/investor-centre/corporate-governance

Other Governance practices

Nominations

Given the size of the Board, there is no nominations and succession committee. Rather the full Board is involved in the director nomination process.

Disclosure

NZX has internal procedures to ensure that key financial and material information is communicated to the market in a clear and timely manner. In addition to its disclosure obligations under the Rules, NZX has adopted a quarterly revenue reporting regime and produces operating metrics monthly. This additional information is intended to provide transparency and assist the market in evaluating NZX’s performance. NZX also maintains a website which provides contact points for the public, and is updated with information regarding NZX, and its releases. This information is available at: www.nzxgroup.com/investor-centre/reports-information

Corporate social responsibility

NZX has outlined its approach to corporate social responsibility on the corporate governance section of its website: www.nzxgroup.com/investor-centre/corporate-governance/corporate-social-responsibility

Risk management

The Board is responsible for ensuring that key financial and business risks are identified and appropriate controls and procedures are in place to effectively manage those risks.

Corporate Governance best practice

NZX is committed to ensuring it employs best practice governance structures and principles in keeping with Appendix 16 of the NZX Main Board Listing Rules (the Rules) and the Corporate Governance in New Zealand Principles and Guidelines published by the FMA in December 2014. As noted above, during 2015 - 2016 NZX undertook extensive industry consultation to update its current version of Appendix 16 which is planned for publication in 2017. NZX will be undertaking a process to update its policies and practices to reflect the new corporate governance standards and this will be reflected in future reporting.

Directors' Responsibility Statement

The directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of NZX Limited and its subsidiaries (the NZX Group) as at 31 December 2016 and the results of their operations and cash flows for the year ended 31 December 2016.

The directors consider that the financial statements of the NZX Group have been prepared using accounting policies appropriate to the NZX Group's circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards have been followed.

The directors are pleased to present the financial statements of the NZX Group for the year ended 31 December 2016.

The financial statements were authorised for issue for and on behalf of the directors on 13 February 2017.

J B Miller
Chairman of Directors

N Paviour-Smith
Director and Chairman of Audit and Risk Committee

Financial Statements

Income Statement

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Operating revenue			
Securities information		10,406	10,558
Listing fees		14,897	13,390
Other issuer services		1,144	770
Participant services		3,592	3,526
Securities trading		5,765	4,976
Securities clearing		5,663	5,365
Dairy derivatives		706	684
Market operations		10,729	10,631
Commodities trading		1,121	877
Agri information		10,489	11,690
Wealth platform fees		1,405	689
Funds management		11,627	9,995
Total operating revenue	9	**77,544**	**73,151**
Operating expenses			
Personnel costs		(29,853)	(26,051)
Information technology		(7,303)	(6,242)
Professional fees	10	(5,593)	(5,599)
Marketing, printing and distribution		(3,064)	(3,549)
Funds expenditure		(3,660)	(2,280)
Other expenses	10	(5,554)	(4,851)
Total operating expenses		**(55,027)**	**(48,572)**
Earnings before net finance income, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, share of profit of associate, gain on sale of associate and loss on disposal of business and property, plant and equipment		**22,517**	**24,579**
Interest income		943	1,218
Interest expense		(1,233)	(1,197)
Net (loss)/gain on foreign exchange		(83)	149
Net finance income		(373)	170
Loss on disposal of businesses and property, plant and equipment	6	(467)	(29)
Depreciation and amortisation expense		(7,936)	(6,990)
Impairment expense	7	(793)	-
Adjustment to provision for earnout	8	731	-
Gain on sale of associate	12	-	11,807
Share of profit of associate		-	411
Profit before income tax		**13,679**	**29,948**
Income tax expense	13	(4,497)	(6,076)
Profit for the year		**9,182**	**23,872**
Earnings per share			
Basic (cents per share)	14	3.4	9.1
Diluted (cents per share)	14	3.4	9.0

The accompanying notes form an integral part of these financial statements

Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 $000	2015 $000
Profit for the year	9,182	23,872
Other comprehensive income recognised through equity		
Foreign currency translation differences	5	(14)
Total other comprehensive income	5	(14)
Total comprehensive income for the year	**9,187**	**23,858**

Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Share Capital $000	Retained Earnings $000	Translation Reserve $000	Total Equity $000
Balance at 1 January 2015		**29,975**	**20,927**	**187**	**51,089**
Profit for the year		-	23,872	-	23,872
Foreign currency translation differences		-	-	(14)	(14)
Total comprehensive income for the year		**-**	**23,872**	**(14)**	**23,858**
Transactions with owners recorded directly in equity:					
Dividends paid	22	-	(15,834)	-	(15,834)
Issue of shares	21	10,000	-	-	10,000
Share based contingent consideration	21	5,000	-	-	5,000
Dividend accrued on contingent consideration shares		-	(248)	-	(248)
Share based payments	21	2,341	-	-	2,341
Cancellation of non-vesting shares	21	(88)	50	-	(38)
Total transactions with owners recorded directly in equity		**17,253**	**(16,032)**	**-**	**1,221**
Balance at 31 December 2015		**47,228**	**28,767**	**173**	**76,168**
Profit for the year		-	9,182	-	9,182
Foreign currency translation differences		-	-	5	5
Total comprehensive income for the year		**-**	**9,182**	**5**	**9,187**
Transactions with owners recorded directly in equity:					
Dividends paid	22	-	(16,094)	-	(16,094)
Issue of shares	21	69	-	-	69
Share based payments	21	345	-	-	345
Cancellation of non-vesting shares	21	(86)	86	-	-
Total transactions with owners recorded directly in equity		**328**	**(16,008)**	**-**	**(15,680)**
Balance at 31 December 2016		**47,556**	**21,941**	**178**	**69,675**

Statement of Financial Position

As at 31 December 2016

	Note	2016 $000	2015 $000
Current assets			
Cash and cash equivalents		30,804	40,293
Funds held on behalf of third parties	11	70,847	61,786
Receivables and prepayments	16	15,923	11,569
Total current assets		**117,574**	**113,648**
Non-current assets			
Non-current receivables	16	-	1,827
Property, plant & equipment	17	3,259	3,507
Goodwill	3	35,764	35,764
Other intangible assets	2	37,367	39,001
Total non-current assets		**76,390**	**80,099**
Total assets		**193,964**	**193,747**
Current liabilities			
Funds held on behalf of third parties	11	70,847	61,786
Trade payables	18	5,632	5,882
Other liabilities	19	13,803	13,588
Current tax liability	13	591	2,113
Total current liabilities		**90,873**	**83,369**
Non-current liabilities			
Non-current other liabilities	19	9,093	8,272
Term loan	20	20,000	20,000
Deferred tax liability	13	4,323	5,938
Total non-current liabilities		**33,416**	**34,210**
Total liabilities		**124,289**	**117,579**
Net assets		**69,675**	**76,168**
Equity			
Share capital		47,556	47,228
Retained earnings		21,941	28,767
Translation reserve		178	173
Total equity attributable to shareholders		**69,675**	**76,168**
Net tangible assets per share (cents per share)		-1.28	0.53

Included within the cash and cash equivalent balance at 31 December 2016 is $20.0 million (31 December 2015: $20.0 million) that is held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from customers		74,784	72,688
Net interest received		77	178
Payments to suppliers and employees		(53,463)	(48,038)
Income tax paid		(7,824)	(6,533)
Net cash provided by operating activities	15	**13,574**	**18,295**
Cash flows from investing activities			
Receipts from associate		-	850
Proceeds from the sale of associate		563	13,800
Cash (paid)/acquired on acquisition/disposal of businesses		(541)	59
Payments for property, plant and equipment		(1,105)	(2,097)
Payments for intangible assets		(5,886)	(3,440)
Acquisition of businesses		-	(11,500)
Net cash used in investing activities		**(6,969)**	**(2,328)**
Cash flows from financing activities			
Proceeds from term loans		-	20,000
Dividends paid	22	(16,094)	(15,834)
Net cash provided by/(used in) financing activities		**(16,094)**	**4,166**
Net increase/(decrease) in cash and cash equivalents		(9,489)	20,133
Cash and cash equivalents at the beginning of the year		40,293	20,160
Cash and cash equivalents at the end of the year		**30,804**	**40,293**
Cash comprises:			
Cash at bank		20,804	32,793
Bank deposits		10,000	7,500
Net cash and cash equivalents and bank overdraft		**30,804**	**40,293**

Included within the cash and cash equivalent balance at 31 December 2016 is $20.0 million (31 December 2015: $20.0 million) that is held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

Of the $20.0 million proceeds from term loans in 2015, $10.0 million was used to fund the acquisition of SuperLife Limited, with the remaining $10.0 million used to fund the $10.0 million increase in Clearing House risk capital.

Notes to the Financial Statements

For the year ended 31 December 2016

1. Reporting entity and statutory base

Reporting entity

These financial statements are for NZX Limited (the Company) and its subsidiaries (together referred to as the Group).

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

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. The Company is listed and its ordinary shares are quoted on the NZX Main Board.

Basis of preparation

These are the Group financial statements for the year ended 31 December 2016. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The measurement basis adopted in the preparation of these financial statement is historical cost, modified by the revaluation of certain financial instruments as identified in the accompanying notes. These financial statements are presented in New Zealand Dollars ($), which is the Company's functional currency. All financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The Group financial statements are prepared by consolidating the financial statements of all the entities that comprise the Group, being the Company and its subsidiaries. Consistent accounting policies across the parent and all subsidiaries and associates are employed in the preparation and presentation of the Group financial statements.

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. In determining the fair value of assets acquired, NZX assesses identifiable intangible assets including brands, intellectual property, software, management rights and any other identifiable intangible assets using recognised valuation methodologies and with reference to suitably qualified experts. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

ii. Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the Group financial statements all intercompany balances and transactions, and unrealised profits arising within the Group are eliminated in full.

iii. Investment in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group’s share of its associates' post-acquisition profits or losses is recognised in the Income Statement. Since the sale of its investment in Link Market Services Limited in June 2015, the Group has no investment in associates.

Accounting policies

Accounting policies that summarise the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

There are no new standards, amendments or interpretations that have been issued and are not yet effective, that are expected to have a significant impact on the Group.

Accounting estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The principal areas of judgement, including information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, for the Group in preparing these financial statements are set out in:

- note 2 - intangible assets
- note 3 - goodwill
- note 23 - share based payments

2. Intangible assets

Intangible assets are initially measured at cost. The direct costs associated with the development of software and website assets for internal use are capitalised where success is probable and the capitalisation criteria of NZX's accounting policy and NZ IFRS are met. The cost of intangible assets acquired in a business combination is their fair value at the date of the acquisition. Intangible assets with a finite life are amortised from the date the asset is ready for use on a straight-line basis over its estimated life which is as follows:

- Software and websites: 3-9 years
- Management rights: 20 years

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. This is outlined in note 4 below.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated.

	Software and websites $000	Brands, Trademarks and rights to use Brands $000	Data archives, customer lists, databases, and other IP $000	Management rights $000	Intangible work in progress $000	Total $000
Gross carrying amount						
Balance at 1 January 2015	**37,654**	**7,906**	**3,132**	**2,344**	**384**	**51,420**
Additions	-	-	255	-	3,263	3,518
Disposals	(133)	-	-	-	-	(133)
Acquired on acquisition of businesses	2,273	-	-	15,772	-	18,045
Transfer from WIP	1,276	-	-	-	(1,276)	-
Balance at 31 December 2015	**41,070**	**7,906**	**3,387**	**18,116**	**2,371**	**72,850**
Additions	198	-	-	-	5,762	5,960
Disposals	(10,161)	-	-	-	-	(10,161)
Transfer from WIP	2,406	-	-	-	(2,406)	-
Balance at 31 December 2016	**33,513**	**7,906**	**3,387**	**18,116**	**5,727**	**68,649**
Accumulated amortisation & impairment						
Balance at 1 January 2015	**23,075**	**4,982**	-	-	-	**28,057**
Amortisation expense	5,016	-	-	789	-	5,805
Disposals	(13)	-	-	-	-	(13)
Balance at 31 December 2015	**28,078**	**4,982**	-	**789**	-	**33,849**
Amortisation expense	5,474	208	167	793	-	6,642
Impairment expense	-	793	-	-	-	793
Disposals	(10,002)	-	-	-	-	(10,002)
Balance at 31 December 2016	**23,550**	**5,983**	167	**1,582**	-	**31,282**
Net Book Value						
As at 31 December 2015	**12,992**	**2,924**	**3,387**	**17,327**	**2,371**	**39,001**
As at 31 December 2016	**9,963**	**1,923**	**3,220**	**16,534**	**5,727**	**37,367**

3. Goodwill

Carrying amount	2016 $000	2015 $000
Balance at beginning of the year	35,764	13,233
Acquired on acquisition of SuperLife Limited	-	20,730
Acquired on acquisition of Apteryx business	-	1,494
Acquired on acquisition of other business	-	307
Balance at end of the year	**35,764**	**35,764**

A cash generating unit (CGU) to which goodwill has been allocated is tested for impairment annually, and whenever there is an indicator of impairment based on the performance of the CGU relative to expected future performance and other relevant factors. For the year ended 31 December 2016, the directors have reviewed the carrying value of goodwill for impairment and determined that no impairment exists. A description of the impairment tests carried out and the key assumptions used is set out in note 4.

4. Impairment tests

Indefinite life intangible assets are reviewed for impairment annually. They are also reviewed for impairment whenever there are indicators of impairment, as are finite life intangible assets.

A summary of the CGUs to which intangible assets have been allocated as at 31 December 2016 is outlined below:

	Software & websites $000	Other finite life intangible $000	Indefinite life intangible $000	Work in progress $000	Total other intangible $000	Goodwill $000	TOTAL $000
Cash generating unit							
Clearing House	3,873	-	-	3,887	**7,760**	-	**7,760**
Agri	54	1,777	-	21	**1,852**	2,489	**4,341**
Grain Information Unit	263	1,774	6	-	**2,043**	3,009	**5,052**
Funds Management	962	14,192	2,344	13	**17,511**	20,729	**38,240**
Wealth Technologies	960	-	-	1,154	**2,114**	1,494	**3,608**
Energy	826	-	-	573	**1,399**	7,720	**9,119**
Direct data	18	126	1,458	-	**1,602**	323	**1,925**
Other							
Other intangible assets	477	-	-	-	**477**	-	**477**
Other computer software	2,530	-	-	79	**2,609**	-	**2,609**
	9,963	**17,869**	**3,808**	**5,727**	**37,367**	**35,764**	**73,131**

Impairment test

For the year ended 31 December 2016, the directors have reviewed all intangible assets for impairment using discounted cash flow analysis, comparable EBITDA multiple analysis and/or other factors as appropriate to the asset being tested. All impairment tests have been undertaken on a value in use basis.

Key assumptions used in the calculation of recoverable amounts in discounted cash flow analysis are consistent with those used and disclosed in the financial statements for the year ended 31 December 2015 unless indicated otherwise. Discounted cash flow analysis using a forecast period of five years was used for all CGUs, other than Agri where a ten year forecast period was used, and Energy where a forecast period of eight years was used to match the remaining contractual period. The analysis also used an independently assessed WACC of 10.35% (2015: 10.4%) for New Zealand CGUs and 12.76% (2015: 12.3%) for Australian CGUs (and were stress tested at higher rates). A terminal growth rate of 2.0% p.a. has been used to extrapolate cash flow projections beyond five years in New Zealand and 2.5% p.a. in Australia. Management has assessed the long term economic outlook data available, and assessed that the use of a 2% p.a. and 2.5% p.a. terminal growth rate in 2016 were appropriate, consistent with the prior year. Where relevant, EBITDA multiples were used to cross-check the discounted cash flow analysis for established businesses.

The review of the carrying values of goodwill and intangible assets has determined that all the CGUs have recoverable amounts exceeding their carrying values. Therefore no impairment charges are required at

31 December 2016. An impairment expense of $793,000 on Agri brand assets was recognised in the current financial year as a result of impairment testing completed at the 30 June 2016 half year reporting period (refer note 7).

Further information on specific assumptions underlying the CGU discounted cash flow analysis is set out below.

a. Clearing House

Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows for this CGU are dependent is the future revenue growth rate. Future revenue growth is dependent on growth in equity and dairy derivatives markets. Growth in equity markets has been forecast based on historical growth rates, while dairy derivatives are expected to trade within a range of 3% to 36% (2015: 5% to 25%) of their respective underlying markets by the end of the forecast period (currently this range is 1% to 8%). This assumption is based on trading statistics for similar derivative products in overseas markets.

b. Agri

Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows for the Agri CGU is dependent is the future revenue growth rate which is assumed to be up to 10% during the explicit forecast period. The Company considers this reasonable based on historical experience. The value of the Agri information business was cross checked against the EBITDA multiples of listed media entities.

c. Grain Information Unit

Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows for the Grain Information Unit CGU are dependent is the future revenue growth rate which is assumed to be 2%. The Company considers this reasonable based on historical experience.

d. Funds Management

Smartshares Limited acquired the management rights for SmartOZZY, SmartMOZY, and the SmartMIDZ funds for a total value of $2,344,000. These are held in the Group accounts with an indefinite life, as there is no expiry date for these rights and they are expected to apply indefinitely. Additionally the acquisition of SuperLife Limited has resulted in additional management rights acquired of $15,772,000, which are held in the Group accounts as a finite life asset to be amortised over 20 years and goodwill of $20,730,000. Other than the general assumptions outlined above, the principal assumption on which the discounted cash flows are dependent is the future level of funds under management which is assumed to grow between 10.0% pa to 20.0% pa during the explicit forecast period.

e. Energy

The carrying value of the Energy CGU is comprised mainly of a goodwill amount of $7,720,000. This business has a significant reliance on service provider contracts it has in place with the Electricity Authority (EA) which were renewed in late 2015 for the eight year period 1 May 2016 to April 2024, with the EA having an option to renew for a further 3 years. As a result of this renewal, NZX has certainty of minimum cash flows to be received over the contract period which, and along with additional uncontracted consulting revenue, support the current carrying value of the CGU.

5. Segment reporting

The Group has three revenue generating segments, as described below, which are the Group’s strategic business areas, and a Corporate segment which has no revenue but includes all costs that are shared across the organisation. In prior periods the Group had five reportable segments and the change to three distinct groups is to better reflect each business's growth prospects and investment requirements. 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 the energy markets business, which comprises the contracts operated on behalf of the Electricity Authority;

- Funds Services - provider of superannuation, KiwiSaver and Exchange Traded Funds (ETF) and funds administration platforms; and

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

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

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

Segmental information for the year ended 31 December 2016

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

Segmental information for the year ended 31 December 2015

	Markets $000	Agri $000	Funds Services $000	Corporate $000	Total $000
Operating revenue	49,902	12,567	10,682	-	73,151
Operating expenses	(12,390)	(11,527)	(8,956)	(15,699)	(48,572)
Total segment result	**37,512**	**1,040**	**1,726**	**(15,699)**	**24,579**
Segment assets	110,480	15,225	44,702	23,340	193,747
Segment liabilities	(68,329)	(2,763)	(16,015)	(30,472)	(117,579)
Net assets	**42,151**	**12,462**	**28,687**	**(7,132)**	**76,168**

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment non-current assets are based on the geographical location of the assets.

Revenue	2016 $000	2015 $000
New Zealand	63,000	59,838
Australia	6,139	6,402
Other	8,405	6,911
Total revenue	**77,544**	**73,151**

Non-current assets	2016 $000	2015 $000
New Zealand	72,491	75,886
Australia	3,899	4,213
Total non-current assets	**76,390**	**80,099**

6. Loss on disposal of businesses and property, plant and equipment

	2016 $000	2015 $000
Gain on disposal of property, plant and equipment	2	29
Loss on disposal of business - Clear Grain Exchange	(469)	-
	(467)	**29**

During the period the Group disposed of the business and assets of:

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

7. 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 as part of the disposal of the Group's rural magaine titles, refer note 6.

8. Adjustment to provision for earnout

The provision for the Apteryx (now NZX Wealth Technologies) earnout was calculated at 31 December 2015 based on a probability weighted range of possible outcomes against the earnout targets required to be met, at the latest by 31 March 2017, for any payment to be made. The Group has reassessed the probability of meeting the targets at 31 December 2016 and with only a short time left to the final earnout deadline it has become clear that the targets will not be met. Accordingly, the earnout provision has been adjusted to nil.

The earnout receivable from the sale of Link Market Services was received during the period and accordingly no accrual remains in respect of this item at 31 December 2016.

A provision for the final earnout payment for the acquisition of SuperLife was initially recognised in 2015 at 90% of the amount payable. In 2016 the provision has been increased to 95% reflecting the fact that funds under management are currently ahead of the earnout target (refer note 19).

9. Operating revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to NZX and the revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. The specific revenue recognition criteria for the classes of revenue are as follows:

i. *Markets*:

(1) Securities information revenue is recognised over the period the service is provided.

(2) Issuer services consists of revenue from annual listing fees, initial listing fees, subsequent capital raisings and regulatory services. Initial and subsequent listing fees are recognised when the listing or subsequent capital raising event has taken place. Annual listing fees are billed on 30 June for the following 12 month period and are recognised on a straight line basis over this 12 month period. Fees for regulatory services are recognised when the service is provided.

(3) Trading fees, from the trading of debt and equities securities, are recognised at trade date.

(4) Participant services consist of annual participant fees and initial participant fees. Initial participant fees are recognised when the participant's application has been approved. Annual participant fees are billed on 30 June for the following 12 month period and are recognised on a straight line basis over this 12 month period.

(5) Fees for debt and equity clearing and settlement, which are recognised at settlement date (currently two days after initial trade date).

(6) Fees for the trading of derivatives and commodities are recognised at trade date. Fees for derivative market clearing and settlement are recognised at settlement date.

(7) Revenue from the provision of energy post-trade systems and technology services and advisory and related services is recognised over the period the service is provided.

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

iii. *Agri* - agricultural information revenue consists of subscriptions and advertising fees. Subscription revenues are recognised on a straight line basis over the subscription period. Advertising revenues are recognised when the advertisement is published.

10. Operating expenses

Professional fees comprise:

	2016 $000	**2015 $000**
Legal expenses	(3,560)	(3,604)
Other professional fees	(2,033)	(1,995)
Total professional fees	**(5,593)**	**(5,599)**

Legal expenses for the current year includes $3.0 million (2015: $3.1 million) incurred in relation to the Ralec litigation, refer to note 27. Other significant legal costs in 2016 related to the FMCA compliance project. Other significant legal costs in 2015 related to the cost of establishing new Smartshares ETFs and the acqusition of Apteryx (now NZX Wealth Technologies).

Other expenses comprise:

	2016 $000	**2015 $000**
Operating lease rental expense	(1,832)	(1,421)
Directors' fees	(370)	(406)
Remuneration paid to Group auditors	(321)	(306)
Remuneration paid to other auditors	(3)	(3)
Other operating expenses	(3,028)	(2,715)
Total other expenses	**(5,554)**	**(4,851)**

The directors' fees have declined this year as the number of board members reduced from seven to six following the Annual Meeting in May 2015.

Remuneration paid to Group auditors

	2016 $000	2015 $000
Audit and review of NZX Group and subsidiary statutory financial statements	(128)	(134)
Audit of statutory financial statements for Funds managed by Smartshares Limited, an NZX subsidiary	(153)	(104)
Total audit fees	**(281)**	**(238)**
Prospectus extraction reports and operation reviews for Funds managed by Smartshares Limited	-	(29)
Annual operational audit of the Clearing House	(35)	(34)
Annual depository assurance engagement of New Zealand Depository Limited	(5)	(5)
Total other audit related services	**(40)**	**(68)**
Total fees paid to the auditor	**(321)**	**(306)**

11. Funds held on behalf of third parties

	2016 $000	2015 $000
Bond deposits	1,506	1,346
Collateral deposits	57,794	55,287
Funds held on behalf of clients	11,547	5,153
	70,847	**61,786**

The collateral deposits represent balances deposited by participants to cover margins on outstanding settlement obligations for cash market, stock lending transactions and derivative contracts. Funds lodged as margin collateral are interest bearing and are carried at the amounts deposited which represent fair value. Interest earned on collateral deposits is returned to participants and a collateral management fee is charged. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to participants.

The funds held on behalf of clients represent balances deposited by participants in addition to their cash collateral requirements. The funds are lodged in a non interest bearing account and are carried at the amount deposited which represents fair value. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to participants.

The bond deposits represent balances deposited by issuers, required as a condition of listing on NZX's markets. Funds lodged as bond deposits are interest bearing and are carried at the amounts deposited which represent fair value. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to issuers.

12. Gain on sale of associate

Effective 1 July 2015 the Group sold its 50% stake in Link Market Services Limited (Link) to the other 50% shareholder for $14.3 million. The net sale proceeds comprised:

- $13.8 million of initial consideration received on settlement on 30 June 2015;

- $623,000 of contingent consideration payable based on the future performance of Link, which was received during 2016; less
- A liability to issue NZX shares to the value of $125,000 as a retention amount in respect of key employees of Link Market Services in three years time if these employees remain with Link.

A gain on sale of $11.8 million was recognised in 2015, calculated as follows:

	2016 $000	2015 $000
Disposal of associate		
Proceeds from sale of associate	-	14,298
Less carrying value	-	(2,491)
Gain on sale of associate	**-**	**11,807**

13. Taxation

a. Income tax expense recognised in profit or loss

	2016 $000	2015 $000
Tax expense comprises:		
Current tax expense	6,119	7,507
Prior period adjustment	-	47
Deferred tax relating to the origination and reversal of temporary differences	(1,622)	(1,478)
Total tax expense	**4,497**	**6,076**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2016 $000	2015 $000
Profit before income tax expense	13,679	29,948
Income tax calculated at 28%	**(3,830)**	**(8,385)**
Non-deductible expenses	(667)	(1,398)
Non-taxable gain on sale of associate	-	3,306
Equity accounted earnings of associate	-	115
	(4,497)	**(6,362)**
Under provision of income tax in prior year	-	(45)
Tax credits	-	331
	(4,497)	**(6,076)**

b. Current tax liabilities

	2016 $000	2015 $000
Balance at beginning of the year	(2,113)	(195)
Current year charge	(6,165)	(7,507)
Prior period adjustment	(137)	(944)
Tax paid	7,824	6,533
Balance at end of year	**(591)**	**(2,113)**

c. Deferred tax liability

	2016 $000	2015 $000
Balance at beginning of the year	(5,938)	(2,663)
Current year movement	1,622	1,478
Deferred tax on acquisition	-	(4,724)
Prior period adjustments	(7)	(29)
Balance at end of the year	**(4,323)**	**(5,938)**
Deferred tax balance comprises:		
Employee entitlements	867	761
Doubtful debts	147	85
Property, plant and equipment, and software	(5,643)	(6,920)
Other	306	136
	(4,323)	**(5,938)**

d. Imputation credit account

	2016 $000	2015 $000
Imputation credits available for use in subsequent reporting periods	**12,694**	**14,830**

14. Earnings per share

Basic earnings per share at 31 December 2016 is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the period. An adjustment to take into account the shares issued under the Team and Results share plans (refer note 23) is made to weighted average number of shares used in the calculation of the diluted earnings per share at 31 December 2016.

a. Basic earnings per share

	2016 $000	2015 $000
Profit for the year ($000)	9,182	23,872
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	267,914	263,539
Basic earnings per share (cents per share)	**3.4**	**9.1**

b. Diluted earnings per share

	2016 $000	2015 $000
Profit for the year ($000)	9,182	23,872
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	269,696	263,941
Fully diluted earnings per share (cents per share)	**3.4**	**9.0**

15. Bank overdraft and cash flow reconciliation

a. Bank overdraft facility

The Group has access to an overdraft facility which was established in 2015 to allow the Group flexibility in its working capital management. The facility limit is $10.0 million and has no fixed expiry date. The bank may cancel the facility by giving 30 days written notice. The effective interest rate of the facility at 31 December 2016 was 3.85% (2015: 4.15%).

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

	2016 $000	2015 $000
Profit for the year	**9,182**	**23,872**
Share of profit of associate	-	(411)
Gain on sale of associate	-	(11,807)
Share based payment bonus accrual	470	653
Non cash interest expense on investing activity	357	343
Depreciation and amortisation expense	7,936	6,990
Impairment in intangible and goodwill	793	-
Disposal of assets	365	-
Adjustment to provision for earnout	(731)	-
	9,190	**(4,232)**
(Increase) in receivables and prepayments	(3,118)	(1,324)
Increase in trade payables and other liabilities	1,457	436
Increase in current tax liability	(1,522)	992
(Decrease) in deferred tax liability	(1,615)	(1,449)
	(4,798)	**(1,345)**
Net cash provided by operating activities	**13,574**	**18,295**

16. Receivables and prepayments

Receivables and prepayments are initially recognised at the fair value of the amounts to be received. They are subsequently measured at amortised cost (using the effective interest method) less impairment losses, if any.

	2016 $000	2015 $000
Trade receivables	9,807	7,022
Provision for doubtful debts	(560)	(302)
	9,247	**6,720**
Sundry debtors	1,791	2,013
Prepayments	2,204	2,094
Accrued proceeds for disposal of Link Market Services	-	623
Accrued interest	76	90
Accrued income	746	29
Financial asset - current amount	1,859	-
Total current receivables and prepayments	**15,923**	**11,569**
Financial asset - non current amount	-	1,827
Total receivables and prepayments	**15,923**	**13,396**

The current financial asset at 31 December 2016 (2015: non current financial asset) represents the loan owed by the former CEO under the CEO share plan, as described in note 23.

a. Movement in provision for doubtful debts

The Company maintains a provision for doubtful debts when there is objective evidence of its customers being unable to make required payments and also makes a provision for doubtful debts on all balances greater than 90 days overdue which have not been subject to review.

	2016 $000	2015 $000
Balance at beginning of the year	(302)	(278)
Amounts written off during the year	-	54
(Increase)/decrease in provision recognised in profit or loss	(258)	(78)
Balance at end of the year	**(560)**	**(302)**

17. Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. The cost of assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended use.

Depreciation is recognised in the Income Statement and is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Computer equipment: 3 - 7 years
- Furniture and equipment: 3 - 10 years
- Leasehold improvements: 5 - 10 years
- Motor vehicles: 3 years

	Computer equipment $000	Furniture and equipment $000	Leasehold improvements $000	Motor Vehicles $000	Capital work in progress $000	Total $000
Net book value at 1 January 2016	**791**	**745**	**1,905**	**45**	**21**	**3,507**
Additions during the year	802	167	38	25	73	1,105
Transfers from WIP during the year	14	-	70	-	(84)	-
Depreciation expense for the year	(694)	(320)	(239)	(41)	-	(1,294)
Disposals during the year	(37)	(9)	-	(6)	(7)	(59)
Net book value at 31 December 2016	**876**	**583**	**1,774**	**23**	**3**	**3,259**

18. Trade payables

Trade payables and accruals are initially recognised at fair value less transaction costs (if any). They are subsequently measured at amortised cost using the effective interest method.

	2016 $000	2015 $000
Trade payables	607	248
Goods and services tax payable	1,090	727
Accrued expenses	3,834	4,807
Accrued interest	101	100
	5,632	**5,882**

19. Other liabilities

	2016 $000	2015 $000
Employee benefits	5,530	4,430
Unearned income	8,273	7,860
Deferred consideration payable on Apteryx acquisition	-	1,223
Earn out accrual	-	75
Total current other liabilities	**13,803**	**13,588**
Non current - Deferred consideration on SuperLife acquisition	9,093	8,272
Total other liabilities	**22,896**	**21,860**

Deferred consideration on SuperLife acquisition

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

In addition to the initial consideration of $20 million, the sale and purchase agreement provided for additional consideration of up to $15.0 million dependent on the retention and growth of SuperLife's Funds Under Management (FUM) over a three year period ending 31 December 2017. These further payments, if targets are achieved, were $5.0 million of NZX ordinary shares at an issue price of $1.21 per share (issued January 2016) and up to $10.0 million in cash.

Up to $10.0 million in cash will become payable after 31 December 2017, with the amount payable dependant on the rate of growth in FUM over the three year earnout period. No additional amount is payable if FUM is less than $1.41 billion at 31 December 2017 (equivalent to a 7% compound annual growth rate). The full $10.0 million is payable if FUM exceeds $1.57 billion (equivalent to an 11% compound annual growth rate). Partial payment of the earnout amount will result if FUM at 31 December 2017 is between $1.41 billion and $1.57 billion.

Based on the expected probabilities of achieving the earnout, taking into account historic growth rates, the Group has accrued for 95% (2015: 90%) of the $10.0 million of contingent consideration (present valued) that will be paid at the end of the three year period if the 11% growth target is met.

20. Term loan

	2016 $000	2015 $000
Current	-	-
Non-current	20,000	20,000
Total term loans	**20,000**	**20,000**

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 31 December 2016 was 2.60% (31 December: 3.62%).

21. Shares on issue

The Company had 268,315,689 fully paid ordinary shares as at 31 December 2016 (2015: 263,919,546 fully paid ordinary shares). The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings. Included within this total is 1,575,000 fully paid ordinary shares (2015: 1,575,000 fully paid ordinary shares) issued under the CEO share plan as outlined in note 23.

At 31 December 2016 the Company has 2,018,493 restricted shares (2015: 315,889 restricted shares) on issue under the NZX Limited employee share plan - Team and Results held by entities within the Group. All shares issued under the employee share plan are subject to transfer conditions and eligibility criteria before they are able to vest as ordinary shares. Until those transfer conditions and/or eligibility criteria are met, none are quoted on the NZX Main Board.

Movement in share capital

	Number	$000
Balance at 1 January 2015	**255,613,669**	**29,975**
Issue of fully paid ordinary shares	8,305,877	10,000
Share based contingent consideration accrued	-	5,000
Share based payments	-	2,341
Non-vesting shares	-	(88)
Balance at 31 December 2015	**263,919,546**	**47,228**
Issue of fully paid ordinary shares	4,396,143	69
Share based payments	-	345
Non-vesting shares	-	(86)
Balance at 31 December 2016	**268,315,689**	**47,556**

22. Dividends

		2016		2015	
	For year ended	Cents per share	Total $000	Cents per share	Total $000
Dividends declared and paid					
March 2015	31 Dec 14			3.00	7,916
September 2015	31 Dec 15			3.00	7,918
March 2016	31 Dec 15	3.00	8,043		
September 2016	31 Dec 16	3.00	8,051		
Total dividends paid for the year		**6.00**	**16,094**	**6.00**	**15,834**

Refer to note 29 for details of the second half 2016 dividend.

23. Share based payments

a. CEO share plan

A CEO share scheme was in place under the former CEO's employment contract. The scheme runs for a period of five years expiring mid 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.

Pursuant to the terms of the scheme, 1,575,000 new ordinary shares were issued on 31 December 2012 at an issue price of $1.19 per share, being the volume weighted average price of NZX shares for the 10 business days ended on Friday 4 May 2012 (the business day immediately preceding the CEO's start date).

The issue price of the shares is funded by a loan from NZX, which bears interest at NZX's cost of bank funding. The shares are entitled to dividends and are held by a nominee wholly owned by NZX for the duration of the scheme.

If over the period of the scheme NZX's total shareholder return (TSR) exceeds a margin of 1% over NZX's weighted average cost of capital (to be determined annually by the Board), the former CEO will receive a taxable bonus equivalent to the amount of the loan and will receive a transfer of the shares on full repayment of the loan and any accrued interest. For the purposes of determining the hurdle rate, the initial 2012 issue price has been set at $1.10 which was the price on the day of the release of the 1H results (20/8/2012) under the previous CEO. If the hurdle rate is not met, then on expiry of the scheme the former CEO will not receive the bonus, will be required to repay the loan from his own resources and will receive a transfer of shares.

The Group historically accounted for the scheme in accordance with NZ IFRS 2 by calculating the fair value of the shares and recognising this as an expense on a straight line basis over the five year term of the plan. The total fair value was determined to be $383,000. The fair value was calculated by reference to an independent valuation which was based on the following assumptions:

- Grant date: 2 August 2012
- Share price on grant date: $1.19

- Historic volatility (NZX share price): 29%

As a result of the former CEO ceasing employment on 31 December 2016, the remaining unrecognised balance of $38,300 has been recognised in the current period.

b. Employee and other restricted shares

NZX Limited employee share plan - Team and Results

The NZX Limited employee share plan – team and results (Team and Results Plan) was implemented in May 2010.

Under the terms of the Team and Results Plan, NZX offers selected employees (Participants) non-participating redeemable shares (Restricted Shares) which will be reclassified as NZX ordinary shares at the completion of the term of the Team and Results Plan, subject to certain eligibility and transfer conditions.

Both the Team and Results components of the Team and Results Plan are offered on terms of three years.

If the eligibility or transfer conditions are not met, the Restricted Shares are redeemed by NZX. The proceeds from the redemption of the Restricted Shares will be applied in repayment of the Loan, which will discharge any obligation on the Participant to repay the Loan. Following redemption, the Participant will not receive any entitlements, such as distributions or dividends, issued in respect of the Restricted Shares. The effect of this is that the Participant receives no shares or cash and the Loan is repaid.

Details of Restricted Shares issued under the Team and Results Plan, transfers of shares to NZX employees and redemptions of shares during the period are set out below:

	Number of shares 000	**Average share price $**
Balance at 1 January 2015	**496**	**1.23589**
Shares transferred to NZX employees	(41)	1.34146
Redemptions	(139)	1.25899
Balance at 31 December 2015	**316**	**1.21203**
Shares issued	2,311	1.09303
Shares transferred to NZX employees	(196)	1.21429
Redemptions	(412)	1.06796
Balance at 31 December 2016	**2,019**	**1.10500**

Total financial assistance provided by NZX under the Team & Results Plan as at 31 December 2016 was $2,231,000 (2015: $383,000).

24. Financial instruments

The Group's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk).

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including the management of financial risk. The Board has established an Audit and Risk Committee (Committee), which is responsible for developing and monitoring the Group's financial risk management policies (except for those relating to clearing and settlement activities discussed below). The Committee reports regularly to the Board of directors on its activities.

The NZX Group undertakes securities clearing and settlement activities for the listed equities, debt and derivatives markets through its clearing house New Zealand Clearing and Depository Corporation Limited (NZCDC or the Clearing House). These activities expose NZCDC and the NZX Group to several significant financial risks. Management of these risks is the responsibility of the Board of directors of NZCDC. The NZCDC Board reports to the main NZX Board on a regular basis on its risk management activities.

The specific financial risks faced by the Group, the way in which they are managed and their impact on the financial statements are discussed below:

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from three principal sources:

- Receivables from customers arising in the normal course of business;
- Investment of surplus cash and Clearing House risk capital with financial institutions;
- Credit risk arising from the activities of the Clearing House, which is discussed separately in section (g).

Excluding Clearing House activities, NZX has no significant concentrations of credit risk from general customers, with balances receivable spread across a broad portfolio of customers. NZX does not require collateral to be provided against receivables incurred in the ordinary course of business, although listed issuers and participants in NZX's equity and debt markets are required to provide a bond that may be called upon in the event of default on financial obligations.

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

	2016 $000	2015 $000
Not past due	4,818	5,148
Past due 0 - 30 days	1,514	540
Past due > 30 days	3,475	1,334
	9,807	**7,022**

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

	2016 $000	2015 $000
Gross trade receivables	9,807	7,022
Individual impairment	(153)	(155)
Collective impairment	(407)	(147)
	9,247	**6,720**

The movement in the allowance for impairment in respect of trade and other receivables during the year is set out in note 16(a).

For investment of risk capital and surplus cash balances, NZX follows a treasury policy that requires investments to be held only with high credit quality counterparties and sets limits on NZX's exposure to individual counterparties. The counterparty limits are as follows:

- The greater of $10 million or 60% of cash and cash equivalents for registered banks that operate in New Zealand with a minimum credit rating of AA-; and
- 30% of total cash and cash equivalents for other institutions with a minimum credit rating of A- (the total exposure for other institutions cannot exceed 50% of the total cash and cash equivalents).

b. Foreign exchange risk

NZX primarily derives revenues and incurs expenses in local currencies (NZD for New Zealand operations and AUD for Australian operations). In a minority of cases however, receipts and payments are in foreign currencies (principally USD). NZX utilises foreign currency receipts to offset purchases denominated in foreign currencies. The Company determines forward exposures, and considers these in line with internal policies and procedures. It may enter into forward exchange agreements to keep any exposure to an acceptable level, though no such contracts were considered necessary in the current or prior financial year. Monetary assets and liabilities are kept to an acceptable level by buying or selling foreign currencies at the spot rate.

Foreign exchange risk also arises on the translation of NZX's investment in its Australian operations and intercompany balances between the parent and these entities. NZX does not attempt to hedge this risk.

c. Interest rate risk

NZX is exposed to interest rate risk in that future interest rate movements will affect the interest that it pays on borrowings and the cash flows and the market value of investment assets. NZX does not currently use any derivative products to manage interest rate risk.

The Group's investment assets, particularly those designated as risk capital, are generally required to be readily convertible into cash. These are therefore invested in short term interest bearing assets or held as bank deposits at floating rates of interest. This reduces the risk of movements in the market value of financial investments, but increases the Group's exposure to changes in cash flows as a result of shot term movements in interest rates.

During 2015, the group drew down $20 million of term debt. $10 million of this was to fund the acquisition of SuperLife Limited, while $10 million was to provide for additional risk capital in the Clearing House. The interest period for the debt utilised to provide risk capital is set to match as closely as possible the interest period for the related short term investments in which the risk capital is held, thus minimising the net interest rate risk to the Group.

As at balance date, none of the Group's investments or term debt were subject to interest periods of greater than three months.

An analysis of the sensitivity of the Group's earnings to movements in interest rates is shown below. As at both 31 December 2016 and 2015 the Group's interest bearing assets exceeded its interest bearing liabilities, hence an increase in interest rates would have had a positive impact on earnings.

	2016 $000	2015 $000
Effect on net interest income:		
1% increase in interest rate	274	398
1% decrease in interest rate	(274)	(398)

This above information is calculated using the Group's cash balances (less the $20.0 million held as risk capital for Clearing House), the Group's term debt, and the bank balances of $15.7 million (2015: $18.2 million) held by the Funds managed by the Group's subsidiary, Smartshares Limited. The Funds' bank balances are included in Smartshares Limited as the manager of these Funds is entitled to interest on amounts held in respect of distributions received (including distributions in respect of securities on loan under any securities lending programme undertaken by the Fund) and interest earned on application monies.

d. Liquidity risk management

Liquidity risk is the risk that the Group will be unable to realise its assets on a sufficiently timely basis to meet its financial liabilities as they fall due. Liquidity risk arises from the general activities of the Group as well as in specific situations in the operation of the Clearing House. Clearing House liquidity risk is discussed in section (g).

The Group manages its general liquidity risk by maintaining adequate cash reserves, maintaining a sufficient term to maturity for its term borrowings and maintaining adequate overdraft facilities to provide it the flexibility to absorb predicted variability in cash flows. It continuously monitors forecast and actual cash flows to assist with determining the appropriate levels of cash reserves and borrowing capacity.

The table below summarises the Group's exposure to liquidity risk based on the undiscounted contractual cash flows and maturities of term debt.

Term loan	Total contractual cash flows $000	Less than 1 year $000	1-2 years $000	2-5 years $000	More than 5 years $000
31 December 2016	(21,040)	(520)	(20,520)	-	-
31 December 2015	(21,448)	(724)	(20,724)	-	-

e. Accounting classification and fair values

The fair value of the financial instruments, which comprise cash and cash equivalents, funds held on behalf of third parties, receivables, trade payables, other liabilities and term loans, approximates their carrying amounts in these accounts.

f. Energy Clearing House

NZX, through its subsidiary Energy Clearing House Limited (ECH), is the electricity-market operation service provider responsible for ensuring that market participants pay or are paid the correct amount for the electricity they generated or consumed during the previous month. ECH also manages the prudential security requirements of participants, intended to ensure payers can meet their obligations in the market.

At 31 December 2016, ECH has outstanding payables and receivables for the purchase and sale of electricity, and the settlement of transmission losses. These items are not recorded in the Group's statement of financial position, because the energy market participants have accepted the risks associated with electricity settlement.

In discharging its obligations under the Electricity Industry Participation Code, ECH is required to ensure that purchasers maintain adequate levels of prudential security. Participants can comply with this obligation in a number of ways, including third party guarantees, letters of credit and deposits of cash with the ECH.

ECH holds cash deposit security on trust, and does not recognise the security provided in its statement of financial position. There was $11,789,209 cash held from such deposits at 31 December 2016 (2015: $9,743,875).

g. Clearing House counterparty credit risk

The Clearing House acts as a central counterparty to trades on NZX's securities and derivatives markets. Trades that enter the Clearing House are immediately novated such that the Clearing House becomes the buyer to every sell trade and the seller to every buy trade. As buy and sell settlement transactions that are novated to the Clearing House offset each other, the Group is not directly exposed to price movements in the underlying equities or derivatives.

For the period between trade date and settlement date, the Clearing House is exposed to credit risk on the buy trade as participants could default on their obligations to deliver cash in exchange for the securities acquired by the Clearing House on the buy side of the trade.

Should the buying participant fail to deliver cash, the Clearing House must still meet its obligation to buy the securities from the selling participant. In this instance the Clearing House is subject to liquidity risk as it may be unable to realise sufficient cash to pay for the securities it is acquiring.

If the buying participant defaults on its obligation to deliver cash and the Clearing House acquires the securities, it then becomes exposed to market price risk on the securities acquired. If the price of the securities falls, the Clearing House would incur a loss on the disposal of those securities.

Credit risk

Counterparty credit risk is primarily managed in two ways. Firstly, through imposing requirements on participants, including minimum capital adequacy requirements, that aim to ensure that participants maintain sufficient capital and liquidity to meet their obligations to the Clearing House on an ongoing basis. Secondly, through calculating margin requirements on participants' open positions and requiring participants to post this margin as collateral as security for the trades. Margin requirements are calculated for each participant based on that participant's unsettled transaction in each security. Margin rates for each security are based on the underlying characteristics of the security and its price volatility. Margin requirements are calculated on a daily basis using current market prices. Each day, margin requirements are compared to collateral held and a margin call made where necessary. Participants are then required to post additional eligible collateral. Eligible collateral includes cash, bank performance bonds, and securities (including New Zealand and US government securities and NZX 50 listed securities). Securities provided as collateral are subject to a prudential value discount, commonly referred to as a "haircut".

The Group is also exposed to counterparty credit risk through New Zealand Clearing Limited (NZCL) by acting as central counterparty for securities lending transactions. As NZCL is exposed to the full principal value of each loan, NZCL requires collateral to be posted equal to 105% of the loan. All loans are revalued on a daily basis and additional collateral required where appropriate.

Liquidity risk

Liquidity risk is managed through a combination of the collateral held from participants, the Clearing House's own cash reserves and a specific liquidity facility which provides short term liquidity in the event of a participant default.

Collateral from the defaulting participant would be applied towards meeting the settlement obligations on the other side of the trade. The Clearing House also holds risk capital in cash and highly liquid investments, which is available to meet the buy side obligations of defaulted transactions. As at 31 December 2016 the Clearing House held risk capital of $20 million (31 December 2015: $20 million). Finally, on 30 December 2014 the Clearing House entered into an agreement with a major New Zealand fund manager to provide liquidity support in the form of $50 million of securities or cash. Use of this facility is limited to situations where a participant default has occurred. The Clearing House may access the facility to obtain liquidity in the form of securities or cash, collateralised against cash or eligible securities provided by the Clearing House to the Fund Manager. The facility was for an initial term of two years ending December 2016. This has been extended for another two years ending December 2018.

Market risk

The risk that the Clearing House will realise a loss from liquidating securities that it becomes the owner of as a result of a participant default is managed by maintaining sufficient participant collateral and risk capital to absorb projected losses. Any losses incurred are initially funded from the defaulting participant's margin collateral. Should this be insufficient to cover the losses, then these must be met from the Clearing House's own risk capital. The Clearing House regularly stress tests clearing participant exposures against the total amount of margin collateral and risk capital resources.

Clearing balances outstanding

As at 31 December 2016, NZCL has a right to receive $5.610 million (2015: $13.872 million) from Clearing Participants and an obligation to pay $5.610 million (2015: $13.872 million) to Clearing Participants for the settlement of cash market transactions. All of these outstanding transactions were settled subsequent to 31 December 2016. The aggregate absolute value of all net outstanding cash market settlement transactions at 31 December 2016 was $58.613 million (2015: $111.193 million). In addition, at 31 December 2016, the total value of outstanding securities loans was $1.605 million (2015: $5.205 million) and the absolute notional value of open derivative contracts was US$128.71 million (2015: US$57.560 million) and NZD$103.06 million (2015:NZD$nil).

Cash collateral held to cover these outstanding settlement positions at 31 December 2016 was $35.707 million (2015: $35.542 million). In addition, at 31 December 2016 no collateral (2015: $5.5 million) was held by way of performance bonds.

25. 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:

	2016 $000	**2015 $000**
Short-term employee benefits	4,177	3,758
Share-based payments	141	218
Resignation benefits	1,305	-
	5,623	**3,976**

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

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

Directors fees for the year were $370,000 (2015: $406,000) and have been included in other expenses (note 10).

c. Transactions with other related parties

During 2015, the Group made sales to and purchases from its associate, Link Market Services Limited (Link), the amounts of which are set out below. The Group had no associates in 2016 following the disposal of Link in June 2015.

	2016 $000	**2015 $000**
Transactions with related parties		
Sales to Link Market Services Limited	-	275
Interest on receivable from former CEO	106	104
Purchases from Link Market Services Limited	-	(184)
Balances with related parties		
Receivable from Link Market Services Limited	-	-
Current receivable from former CEO	1,877	34
Non current receivable from former CEO	-	1,827
Payable to Link Market Services Limited	-	-

d. Transactions with managed funds

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

26. Lease commitments as lessee

Non-cancellable operating lease payments

	2016 $000	2015 $000
Non-cancellable operating lease payments:		
Up to 1 year	1,927	2,020
1 - 2 years	1,827	1,851
2 - 5 years	3,852	4,996
> 5 years	-	491
	7,606	**9,358**

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

27. Contingent liabilities

Ralec Litigation

The Ralec litigation, disclosed as a contingent liability in the period year, was heard in the High Court in New Zealand between May 2016 and July 2016. The final judgement was released on 16 November 2016. No damages or compensation were awarded to either party.

Final settlement was reached between the parties to the dispute on 1 December 2016. As a result, there will be no appeal by either party of the High Court's decision.

There are therefore no contingent liabilities as at 31 December 2016.

28. Capital commitments

	2016 $000	2015 $000
Capital expenditure commitments:		
Software development	710	1,368
	710	1,368

29. Subsequent events

Dividend

Subsequent to balance date the Board declared a second half 2016 dividend of 3.00 cents per share, to be paid on 24 March 2017 (with a record date of 10 March 2017). This is in line with the NZX dividend policy adopted on 21 February 2014.

Independent Auditor's Report

To the shareholders of NZX Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of NZX Limited (the company) and its subsidiaries (the Group) on pages 36 to 67:

i. Present fairly in all material respects the Group's financial position as at 31 December 2016 and its financial performance and cash flows for the year ended on that date; and

ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under International Standards on Auditing (New Zealand) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

Our firm has also provided other 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 auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $0.8 million determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Goodwill and other intangible assets impairment assessment ($73 million, note 4 of the financial statements)	
NZX's goodwill and other intangible assets arise from acquisitions and subsequent IT investments and relate to a number of different cash generating units (CGU's) as described in note 4 of the financial statements. The goodwill and other intangible assets are quantitatively significant and the valuation models used in the impairment tests include a range of subjective assumptions about the future performance of the cash generating units. We focussed on the impairment tests for the CGUs that we considered to have a higher risk of impairment. This assessment was primarily based on the level of judgement involved in the underlying valuation model and market conditions for the relevant CGU. The CGUs we considered to be higher risk were Energy, Agri, Funds management, Wealth Technologies and the Grain Information Unit.	For the CGUs we determined to have a higher risk of impairment, we compared the cash flow forecasts to Board approved budgets and assessed forecasting accuracy by comparing current year actual performance to prior year budgets. The budgets covered one year but the forecasts used in the valuation models generally extend to five years. The period beyond the budgets were therefore of particular focus for our additional procedures described below. We reviewed and tested the significant assumptions applied to the revenue forecasts including comparing the forecasts to contractually receivable amounts, industry/market statistics or forecast inflation rates. We assessed the cost forecasts against forecast inflation rates and managements business plans for the CGUs. We also compared the discount rate used to our own independently determined rate and compared terminal growth rates to long term forecast inflation rates. As a cross check we compared the valuations to the market, using comparable businesses (where available) and their earnings or funds under management multiples. As an overall test we also compared the Group's net assets as at 31 December 2016 of $70 million to its market capitalisation of $282 million at 31 December 2016, and noted implied headroom of $212 million. Based on our analysis, the assumptions and judgements used by the Directors in the Group's impairment assessment were within acceptable ranges and in line with the current market views. We did not identify any material issues with the carrying value of the goodwill or intangible assets.

KPMG

Other Information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's report, CEO's Report, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this Audit Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards,;
- implementing necessary internal control to enable the preparation of 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.

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

KPMG

A further description of our responsibilities for the Audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx.

This description forms part of our Auditor's Report.

KPMG

Brent Manning - Partner

KPMG
Wellington

13 February 2017

Statutory Information

1. Business operations

The Company sold its Australian grain market operator Clear Grain Exchange, effective 1 December 2016. It also sold its two remaining rural magazines on 1 November 2016. There have been no other changes in the core business undertakings of the Company or its subsidiaries during the year.

2. Interests register

NZX is required to maintain an interests register in which particulars of certain transactions and matters involving the directors must be recorded.

3. Directors interests

The directors have declared interests in the following entities. Where (R) is shown next to an entity, this denotes that the director has ceased to have that interest during 2016.

Director	Interest	Entity
Alison Gerry	Director	Kiwibank Limited
	Director	Television New Zealand Limited (R)
	Director	New Zealand Clearing and Depository Corporation Limited
	Trustee	Michael Hill International Violin Competition
	Director	Infratil Limited
	Director	Asteron Life Limited
	Director	Vero Insurance New Zealand Limited
	Director	Vero Liability New Zealand Limited
	Director	Spark New Zealand Limited
Dr Patrick Strange	Chairman	Chorus Limited
	Director	Mercury NZ Limited
	Director	Auckland International Airport Limited
	Director	Ausgrid
	Director	Endeavour Energy
	Director	Essential Energy (Australia)
	Director	New Zealand Clearing and Depository Corporation Limited
Dame Therese Walsh	Deputy Chairman	Television New Zealand Limited
	Chair	International Development and Selection Panel, MFAT
	Member	Major Events Investment Panel, MBIE
	Member	Strategic Risk and Resilience Advisory Board, DPMC
	Trustee	Wellington Regional Stadium Trust
	Director	ASB Bank Limited
	Council Member	Victoria University of Wellington

Director	Interest	Entity
	Chair	New Zealand Rugby Diversity Committee
	Director	Air New Zealand Limited
	Ambassador	Wellington Homeless Woman's Trust
James Miller	Director	Auckland International Airport Limited
	Director	Mercury NZ Limited
	Director	Accident Compensation Corporation
	Director	New Zealand Clearing and Depository Corporation Limited (R)
Jon Macdonald	CEO	Trade Me Group Limited
	Director	Trade Me Limited
	Director	TMG Trustee Limited
	Director	Old Friends Limited
	Director	Trade Me Comparisons Limited
	Trustee	New Zealand Technology Trading Charitable Trust
Neil Paviour-Smith	Director	Forsyth Barr Limited and Associated Companies
	Director	Forsyth Barr Limited
	Director	Leveraged Equities Finance Limited
	Board Member	New Zealand Institute of Chartered Accountants Regulatory Board
	Director	Chartered Accountants Australia and New Zealand
	Pro Chancellor	Victoria University of Wellington

4. Information used by director

There were no notices from directors of the Company requesting to disclose or use Company information received in their capacity as directors that would not otherwise have been available to them.

5. Directors' remuneration

The total remuneration available for directors is fixed by shareholders. The annual fee pool limit is $435,000 and has not been increased since it was approved by shareholders at the annual meeting in April 2012.

The current fees paid to NZX directors are $50,000 per annum for directors and $100,000 for the Chair. No additional fees are paid for Committee Memberships. An additional $10,000 per annum is paid to non-executive directors of NZX's wholly owned subsidiary New Zealand Clearing and Depository Corporation Limited (NZCDC). Total remuneration received by each Director in 2016 is set out in the table below.

Director	Role	Board fees	NZCDC fees	Total remuneration
Alison Gerry	Director	$50,000	$10,000	$60,000
Jon Macdonald	Director	$50,000	–	$50,000
James Miller	Chairman	$100,000	$3,984	$103,984
Neil Paviour-Smith	Director	$50,000	–	$50,000
Dr Patrick Strange	Director	$50,000	$6,071	$56,071
Dame Therese Walsh	Director	$50,000	–	$50,000
Total		**$350,000**	**$20,055**	**$370,055**

6. Indemnification and insurance of directors and officers

NZX pays premiums in respect of directors' liability insurance. The policies do not specify a premium for individuals.

The insurance provides cover against costs and expenses involved in defending legal actions and any damages or judgments awarded or entered against the individual, settlements negotiated and any legal costs or expenses awarded against the individual arising from a liability to persons (other than the company or a related body corporate) incurred in their position as a director unless the conduct involves a wilful breach of duty, improper use of inside information or position to gain any profit or advantage or any criminal, dishonest, fraudulent or malicious acts or omissions or any knowing or wilful violation of any statute or regulation.

NZX has granted indemnities to NZX directors and NZX appointed directors of operating subsidiaries in relation to potential liabilities and costs they may incur for acts or omissions in their role as a director of NZX or an NZX subsidiary. Similar exclusions to those described in the previous paragraph on insurance apply.

7. Subsidiary Company directors

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

Clearing House entities

New Zealand Clearing and Depository Corporation Limited
Timothy Bennett (Ceased to hold office 30 December 2016)
Mark Peterson
James Miller (Non-executive director, ceased to hold office 30 December 2016)
Alison Gerry (Independent director)
Dr Patrick Strange (Independent director)

New Zealand Clearing Limited
Timothy Bennett (Ceased to hold office 30 December 2016)
Mark Peterson

New Zealand Depository Limited
Timothy Bennett (Ceased to hold office 30 December 2016)
Mark Peterson

New Zealand Depository Nominee Limited
Amanda Simpson (Ceased to hold office 30 December 2016)
Benjamin Phillips

Other NZX Subsidiaries

Energy Clearing House Limited
Amanda Simpson (Ceased to hold office 30 December 2016)
Benjamin Phillips

Fundsource Limited
Bevan Miller

Smartshares Limited
Timothy Bennett (Ceased to hold office 30 December 2016)
Bevan Miller
Paul Baldwin
Guy Elliffe (Independent director)
John Williams (Independent director)

NZX Wealth Technologies Limited
Bevan Miller
Mark Peterson

NZX Profarmer Australia Pty Limited
Timothy Bennett (Ceased to hold office 30 December 2016)
Nathan Cattle (Ceased to hold office 30 December 2016)
Ron Storey
Bevan Miller

NZX Agri Advisors Pty Limited
Nathan Cattle (Ceased to hold office 30 December 2016)
Ron Storey

NZX Rural Limited
Timothy Bennett (Ceased to hold office 30 December 2016)
Bevan Miller

Mandela Investments Limited
Bevan Miller

MXF Nominees Limited
Bevan Miller

New Zealand Exchange Limited
Bevan Miller

NZX CPL Nominee Limited
Bevan Miller

NZX Executive Share Plan Nominees Limited
Mark Reese (Independent Director)

NZX Holding No. 3 Limited
Bevan Miller

NZX Holding No. 4 Limited
Timothy Bennett – (Ceased to hold office 30 December 2016)

NZX Share Scheme Nominee Limited
Bevan Miller

Tane Nominees Limited
Bevan Miller

TZ1 Limited
Bevan Miller

The directors of NZX's subsidiary companies who are not NZX employees have declared interests in the following entities:

Subsidiary director	Interest	Entity
Guy Elliffe	Corporate Governance Manager	Accident Compensation Corporation
John Williams	Investment Manager	Trust Investments Management Limited

NZX employees do not receive additional remuneration for acting as directors of subsidiary companies.

The total amount of remuneration and other benefits to which independent directors of an NZX subsidiary was entitled during 2016 is as follows:

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

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

8. Donations

During the year NZX made donations to charitable organisations of $16,591.

9. Employee Remuneration

The table below sets out the number of NZX Group employees and former employees who received remuneration and other benefits, including non-cash benefits and share-based remuneration in excess of $100,000 per annum. This information is based on all amounts received by the employees during the calendar year and therefore includes bonus payments that relate to the 2015 year (where applicable). Directors are not included in the table below. Their remuneration is set out separately in section 5.

Remuneration range	Employees
100,000 – 109,999	13
110,000 – 119,999	8
120,000 – 129,999	6
130,000 – 139,999	7
140,000 – 149,999	5
150,000 – 159,999	6
160,000 – 169,999	2
170,000 – 179,999	3
190,000 – 199,999	5
200,000 – 209,999	1
210,000 – 219,999	2
220,000 – 229,999	1
240,000 – 249,999	2
250,000 – 259,999	1
260,000 – 269,999	1
270,000 – 279,999	3
280,000 – 289,999	1
310,000 – 319,999	2
380,000 – 389,999	1
400,000 – 409,999	1
2,860,000 – 2,869,999	1

10. Director transactions in securities of the Parent Company

Director	Securities held (legally and beneficially) at 31 December 2016
Alison Gerry	–
Jon Macdonald	50,000
James Miller	40,083
Neil Paviour-Smith	500,105
Dr Patrick Strange	5,000
Dame Therese Walsh	50,000

There were no changes in these relevant interests during the year.

11. Auditors

The external auditor of the parent company and the Group is KPMG. They provide audit and other services, for which their remuneration in 2016 was as follows:

	Group $000
Audit of the financial statements	281
Other audit related fees	40
Non-audit services	–
Total	**321**

12. Top 20 security holders

The following table shows the names and holdings of the 20 largest holdings of the securities of the Company at 31 December 2016.

Investor name	Shares held	% of issued shares
HSBC Nominees (New Zealand) Limited	19,978,250	7.5
Citibank Nominees (NZ) Ltd	18,381,549	6.9
Accident Compensation Corporation	16,909,611	6.3
FNZ Custodians Limited	12,495,379	4.7
Aventine Group Limited	12,396,695	4.6
Nigel Babbage & Philippa Babbage	11,700,000	4.4
Premier Nominees Limited	10,166,030	3.8
HSBC Nominees (New Zealand) Limited	9,380,933	3.5
Investment Custodial Services Limited	6,023,684	2.2
David Mitchell Odlin	5,988,681	2.2
Forsyth Barr Custodians Ltd	5,901,048	2.2
BNP Paribas Nominees NZ Limited	5,199,734	1.9
Custodial Services Limited	3,954,632	1.5
Leveraged Equities Finance Limited	2,680,826	1.0
New Zealand Superannuation Fund Nominees Limited	2,248,393	0.8
Custodial Services Limited	2,105,783	0.8
Cogent Nominees Limited	2,050,582	0.8
Custodial Services Limited	1,656,203	0.6
Premier Nominees Limited	1,642,731	0,6
JPMorgan Chase Bank	1,632,501	0,6
Total	**152,493,245**	**56.8**

13. Spread of ordinary shareholders as at 31 December 2016

	SHAREHOLDERS		SHARES	
Size of Holding	**Number**	**%**	**Number**	**%**
1-1,000	279	7.17	74,988	0.07
1,001-5,000	759	19.51	2,506,948	0.93
5,001-10,000	1,008	25.91	8,107,674	3.02
10,001-50,000	1,441	37.04	32,109,436	11.97
50,001-100,000	225	5.78	16,055,188	5.98
Greater than 100,000	178	4.58	209,361,455	78.03
Total	**3,890**	**100**	**268,315,689**	**100**

14. Substantial product holders

The following information is given pursuant to section 293 of the Financial Markets Conduct Act 2013 (FMCA). According to NZX's records and disclosures made pursuant to section 280 (1)(b) of the FMCA, the following were substantial product holders in NZX as at 31 December 2016. The total number of voting securities on issue as at 31 December 2016 was 268,315,689.

	Class	Relevant interest	% of Issued shares
Highclere International Investors LLP	Ordinary shares	16,183,718	6.03
Accident Compensation Corporation	Ordinary shares	16,909,611	6.30
ANZ New Zealand Investments Limited	Director	15,529,120	5.79

15. Waivers from Listing Rules and independent director certificates

The following waiver has been granted to NZX or relied upon by NZX in the 12 month period ended 31 December 2016:

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

16. Securities issued by NZX

NZX's ordinary shares are quoted on the NZX Main Board. Shares issued under the various employee share schemes, such as the CEO LTI Share Scheme (implemented January 2013) and the NZX Employee Share Plan – Team and Results (implemented in May 2010), are subject to certain transfer conditions and entitlement criteria. For as long as shares issued under these schemes are subject to these restrictions they are not quoted on any market and will not be quoted on any market until such time as they vest in the relevant participants.

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

James Miller

Neil Paviour-Smith

Directory

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Board of Directors

Alison Gerry
Dame Therese Walsh
Dr Patrick Strange
James Miller
Jon Macdonald
Neil Paviour-Smith

Share Register

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