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Congratulations



Listing on NZX to



Powered Up
NZX Annual Report
2020

About this report

For more than 150 years we have been enabling Kiwi success - creating opportunities for New Zealanders to grow their personal wealth and helping businesses prosper. As New Zealand's Exchange, we are proud of our record in supporting the growth and global ambitions of local companies.

Our 2020 Annual Report "*Powered Up*" recognises the importance of aligning the way we do business with the expectations of our key stakeholders to create sustainable value - for our shareholders, across the capital markets ecosystem, for our customers and New Zealand. This report includes our full Financial Statements (and Notes to the Financial Statements) for the year ended 31 December 2020, along with commentary on the company's financial results and operational performance.

The business overview (Who we are) and our business model (How we create value) provide information about NZX, our strategic goals and the pillars that are fundamental to sustaining and growing value into the future. The Corporate Governance section of this report describes how we set the objectives and direction for the business, and the framework for identifying and managing risks is outlined in the Risk Report. Our corporate governance policies are available online at: <https://www.nzx.com/about-nzx/investor-centre/governance/policies>. NZX Limited is registered with the New Zealand Companies Office and our New Zealand Business Number (NZBN) is 9429036186358.

This report is dated 17 February 2021 and is signed on behalf of the Board of NZX Limited by Chair, James Miller, and Chair of the Audit and Risk Committee, Lindsay Wright.

Contents

Our performance this year	8
Who we are	10
Letter from the Chair	12
Chief Executive's update	16
Our Board	20
Our Leadership Team	22
How we create value	26
- Our Customers	28
- Strategic Partnerships	30
- People & Capability	32
- Sustainable Environment	34
- Market Performance	36
Corporate Governance	41
Risk Reporting	51
Management Commentary	54
Directors' Responsibility Statement	60
Financial Statements	61
Independent Auditor's Report	100
Statutory Information	105
Getting in touch	112



▶ Supporting



As New Zealand's Exchange, we are driven by a big ambition for our country. We take pride in helping to support and drive a healthy economy, thriving businesses and helping Kiwis succeed. Every day our people and passion are focused on our role delivering information, insights and the tools needed to connect investors with the right investment opportunities.

We enable investors at home and around the world to grow and protect their wealth by accessing investment opportunities in the companies and industries that power our economy and compete on the world stage. We operate markets that enable businesses to access the capital they need to keep growing, creating new jobs and solutions that are shaping the future.



▶ Ambition





We're a Kiwi company working hard to grow New Zealand's economy, supporting the resilience and long-term success of our customers as a strength for our country.

▶ Resilience



► Our thanks to Auckland International Airport (NZX: AIA) for the use of this photograph. The New Zealand travel and tourism sector faced some significant challenges in 2020 and we were pleased to be able to support the need for equity capital, which has never been more acute.

Our performance this year

TOTAL CAPITAL RAISED (new + secondary)

\$17.6b

↓ 5.5%

TOTAL VALUE TRADED

\$53.7b

↑ 41.8%

DATA & INSIGHTS REVENUE

\$16.1m

↑ 8.1%

DAIRY DERIVATIVES LOTS TRADED

360,887

↑ 0.5%

FUNDS UNDER MANAGEMENT

\$5.08b

↑ 28.0%

FUNDS UNDER ADMINISTRATION

\$7.19b

↑ 213.4%

DIVIDEND (FULLY IMPUTED)

6.1
cents per share

Data highlighted on pages 8 to 11 is "for the financial year ended 31 December 2020", or "as at 31 December 2020" (as applicable). Percentage changes represent the movement from 2019 to 2020.

* Operating earnings are before net finance expense, income tax, depreciation, amortisation, loss on disposal of business and property, plant and equipment, and gain on lease modification. Operating earnings is not a defined performance measure in NZ IFRS. The Group's definition of operating earnings may not be comparable with similarly titled performance measures and disclosures by other entities.

The 2020 deliverable targets are detailed in the Management Commentary section on page 55 of this Report.

OPERATING EARNINGS*

\$34.4m

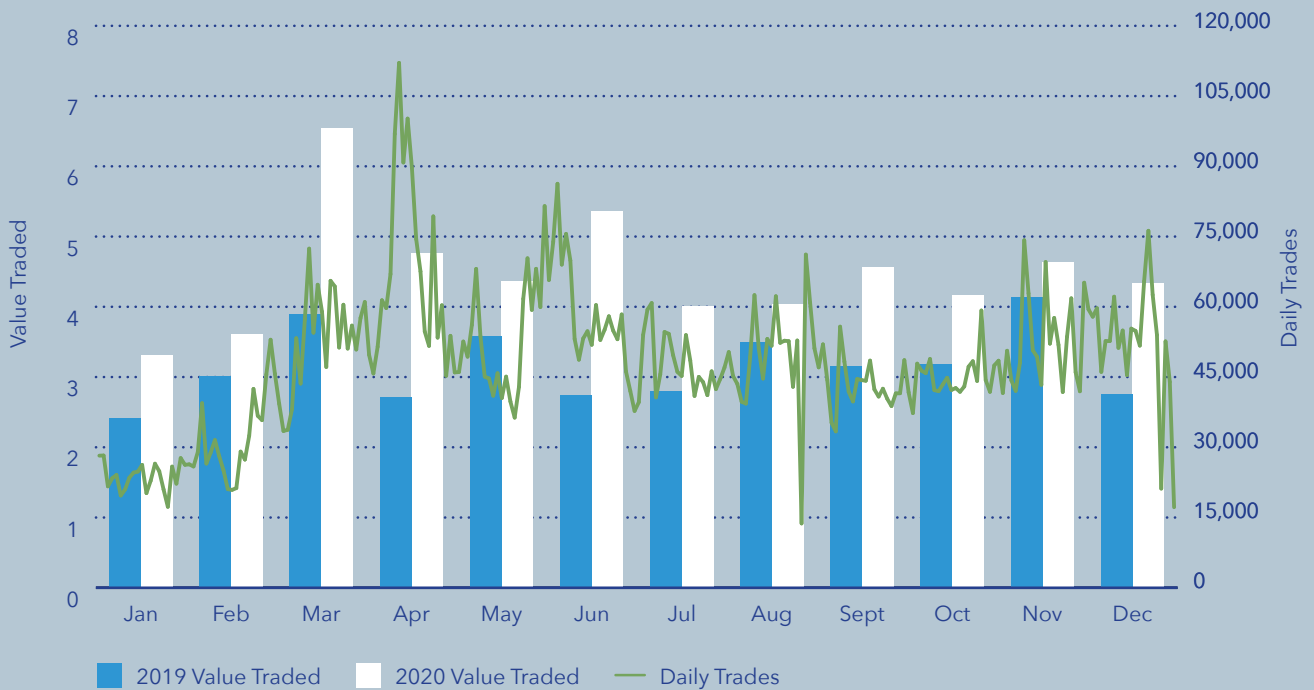
↑ 9.7%

NET PROFIT AFTER TAX

\$17.6m

↑ 20.1%

TRADED VALUE



Who we are

TOTAL MARKET CAPITALISATION

\$232b

Listed equity, debt and funds

SECONDARY MARKETS

12.1m

Trades in 2020, with a total value of \$53.7b

SMARTSHARES

79,871

Investors in Smartshares products (directly and indirectly), with total Funds Under Management of \$5.08b

ISSUER RELATIONSHIPS

334

Total listed equity, debt, funds & other securities

DATA & INSIGHTS

8,720

Data terminals

NZX WEALTH TECHNOLOGIES

28,185

Investor portfolios, with total Funds Under Administration of \$7.19b

MEASURABLE PROGRESS ON DIVERSITY AND INCLUSION

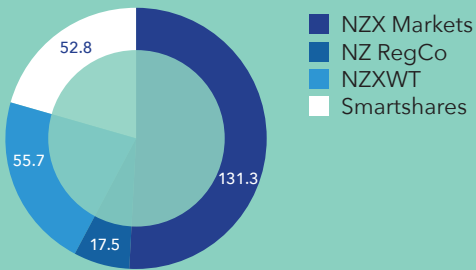
Our commitment to building a diverse workforce and an inclusive workplace gained new ground in 2020. This is reflected in our Chief Executive's participation in Champions for Change, the revised Diversity & Inclusion Policy, and enhanced transparency of our performance in this area. NZX also announced a commitment to NZ Living Wage for all employees.

NZX leaders took a focused look at gender pay equality in 2020 and through the annual remuneration review process made changes required to achieve pay equality - eliminating pay gaps in like-for-like roles across our entire organisation. This is a significant step toward equitable opportunities for our workforce and sustainably resourcing our business.

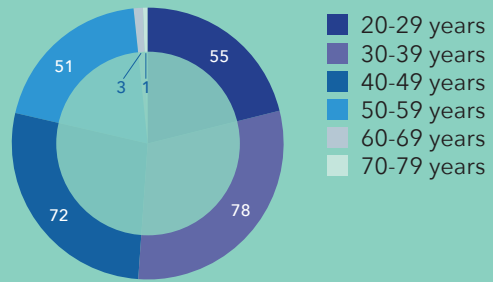
Our attention now turns to the structural elements that drive the remaining gender pay gap, which we will improve with continued efforts to increase the number of women in senior roles.

Other Diversity & Inclusion objectives for 2020 included a commitment to youth employment - we recognise the responsibility we have to help build the financial services workforce of tomorrow. This objective was met through recruitment activity including the Graduate Programme where our 2020 intake is making a great contribution already. We have a diverse and talented group of graduates in the February 2021 intake for this three-year programme. Progress toward broadening diversity measures, and strengthening how we measure our recruitment pipeline, is ongoing and will be continued in 2021.

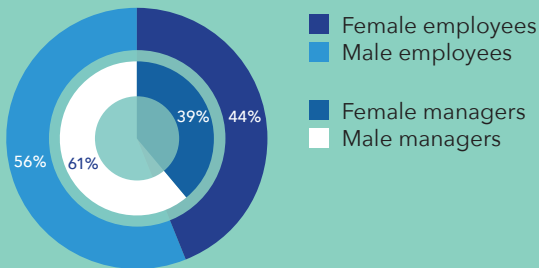
Employees by Business Unit



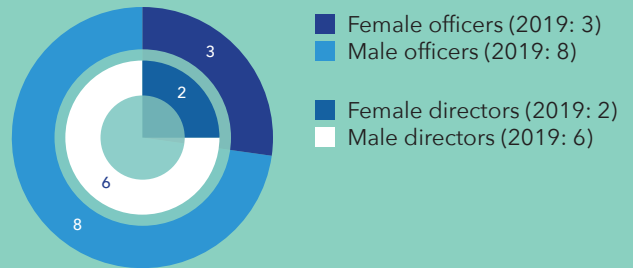
Employee headcount (permanent and fixed term, excludes parental leave)



Gender Diversity All Employees



Gender Diversity Officers & Board



New Zealand presence connecting a world of investments to NZ businesses



James Miller
NZX Chair



Letter from the Chair

2020 was a difficult year for many sectors of the economy, but the challenges presented by COVID provided the opportunity for New Zealand's capital markets to provide essential capital funding to businesses in need.

Never before has the value of having access to capital been so evident for New Zealand businesses. We have also seen the most significant re-engagement with equities as an investment class in the past 30 years.

With a record level of activity in the market and a healthy number of new listings, FY2020 showcased the vital role of capital markets to a well-functioning and resilient economy. Our financial results reflect these factors.

The S&P/NZX 50 (Gross) finished 2020 at 13,092 - up a further 14% on the substantial lift we saw the previous year.

What has been most pleasing is the repositioning of NZX and our strategic direction under Mark Peterson's leadership. This has been recognised by the market with strong appreciation in the NZX share price, and a total shareholder return (TSR) of 50.3% for the year ended 31 December 2020.

I want to thank our shareholders for their patience and support during the early stages of repositioning the company.

This has been another year of financial delivery, and the environment has supported the growth in NZX's operating earnings to a new high of \$34.4 million, slightly above our guidance range.

Your Board has declared a final dividend of 3.1 cents per share to be paid on 26 March 2021, contributing to a FY2020 dividend of 6.1 cents per share, fully imputed.

I especially want to acknowledge the effort and flexibility from our people. The year has been incredibly challenging and the outcomes for our customers and ourselves have come from teamwork and collaboration across the entire capital markets ecosystem.

It is important to note that 2020 also provided NZX with some challenges which has given us pause for thought in how we can improve the way we manage risk and embed the learnings we gained for the future.

Emerging stronger



“The NZX has enabled Kiwi companies to access billions of dollars of much-needed equity and debt capital, giving them strength in a very tough and uncertain economic environment.”

Separate regulatory model

Given the significance of the establishment of NZ RegCo, I wanted to begin by acknowledging this successful transition to a new regulatory model for NZX’s listed markets. NZ RegCo was launched in early December, completing the structural separation of the Exchange’s commercial and regulatory roles.

Along with the outstanding support from the team, I am also grateful to Elaine Campbell for the expertise she applied to breathing life into NZ RegCo - a ground-breaking development in the 150-year history of New Zealand’s capital markets - in terms of the structure, governance and the operating model. We also had positive engagement from the Financial Markets Authority (FMA) and the Reserve Bank.

Headed by Chief Executive, Joost van Amelsfort, the new regulatory operating and governance model enhances independence of this function, is less complex and aligns with global best practice. NZ RegCo is governed by an independent establishment board chaired by Trevor Janes, with board members Elaine Campbell, Mike Heron QC, John Hawkins and Annabel Cotton.

Enabling strength and success

The NZX has enabled Kiwi companies to access billions of dollars of much-needed equity and debt capital, giving them strength in a very tough and uncertain economic environment. Trading volumes and value reached new



Auckland Real Estate (NZX: AKL) welcomed to our Exchange under the new foreign exempt listing rules.

levels, and the benchmark S&P/NZX 50 ended 2020 in record territory - delivering once again another strong result particularly relative to other global markets.

I am also pleased to report that we have been busy ringing the listing bell this year to welcome a new cohort of companies to New Zealand’s Exchange.

The support and innovation across the capital markets ecosystem from lead managers, banks and advisers behind new listings and secondary issuance has been especially encouraging.

As part of our refreshed strategy, we have made ecosystem development a priority through our Head of Issuer Relationships, Sarah Minhinnick. This includes dedicating more resources into deepening our pool of prospects - along with widening and lifting the promotion and awareness of the pathways for companies to list.

During the year, we saw the first listings under the new direct and foreign exempt rules. We expect direct listings to now be a popular pathway for accessing the benefits of the listed market, with evidence in the very recent listing of Third Age Health.

At a time when we are investing for growth, it is extremely satisfying to see our Smartshares and Wealth Technologies businesses tracking ahead of our expectations, topping \$5 billion FUM (Funds Under Management) and \$7 billion FUA (Funds Under Administration) respectively. This gives us real confidence not only in these businesses delivering value for NZX shareholders but also - as we focus on broader market development initiatives, including those identified in the Capital Markets 2029 report - in the role they can play in further developing our capital markets.

The partnership we are exploring with SGX, with regard to our dairy derivatives suite, is also a tangible example of the potential to commercialise NZX’s international alliance strategy to propel future growth.

Operational challenges

NZX did not expect the scale of escalation in trading activity during the COVID-19 March/April lockdown period that peaked at six times prior year average daily volumes.

We have publicly acknowledged that we did not meet our own high standards in certain areas of our technology systems, and also with regard to the unrelated cyber-attacks in August that fundamentally changed expectations about this sort of risk for the industry and for New Zealand.

We know the integrity and performance of our Information Technology (IT) systems is vital to all market Participants along with the ongoing need to plan for rising demands and risks.

The NZX Board acted decisively post these events. We commissioned two separate external reviews, from EY and InPhySec, and are taking forward and will act on their recommendations to ensure our IT and cybersecurity processes are stable and secure. We shared our external reports with the FMA.



“Today we have a more robust NZX that has real impetus and is creating sustainable value for our shareholders. We have also taken some very important steps towards our long-term goal of becoming a more vibrant and diverse participant in New Zealand’s capital markets ecosystem.”

In November last year we also announced the permanent establishment of a Technology Committee to provide specialist governance oversight of the role and use of technology in executing NZX’s strategy. I would particularly like to thank the members of this specialist subcommittee of the Board, for their attention to what has been a considerable workload since the committee was established as an immediate measure in April 2020.

We have also confirmed commitment to create an industry-wide IT working group to improve engagement and communication with the wider market ecosystem on technology matters.

NZX has recognised the need for further technology investment above our current programme of work to enhance stability and resilience and deliver other improvements, confirming additional spend on people and systems in 2021.

NZX has closely reviewed the findings of the *Market Operator Obligations Targeted Review* undertaken by FMA. NZX accepts that we did not meet the high standards we set for ourselves in key areas of technology resources. We also agree that improvements are required and we are committed to delivering these improvements via an action plan that will be agreed with the FMA.

Our relationship with the regulator is important to us, and we will be working constructively with the FMA through this important process.

Outlook for 2021

NZX expects full year 2021 operating earnings to be in the range of \$31.5 million to \$35.5 million, with guidance subject to market outcomes, particularly with respect to market capitalisation, total capital raised, secondary market value and derivatives volumes traded, funds under management and administration growth and technology costs.

Additionally, this guidance assumes no material adverse events, significant one-off expenses, major accounting adjustments, other unforeseeable circumstances, or future acquisitions or divestments.

NZX’s FY2021 guidance incorporates the expected incremental technology costs in addition to changes to NZX’s ongoing structural technology costs that have already been implemented.

Leadership continuity

In December we announced that the NZX Board had exercised the option to extend Mark Peterson’s employment term as Chief Executive to April 2024. The NZX Board’s decision to exercise this option early reflects the desire for stability in executive leadership. At a time when we are looking at the further evolution of our governance to align with NZX’s strategy, and also Board succession, having this continuity of leadership will be vital to maintaining strong momentum in the business.

Our company has made significant progress over the first three years of Mark’s tenure - particularly in cultivating a culture to support strategic delivery, along with strong financial performance (with a TSR of 22% per annum).

Today we have a more robust NZX that has real impetus and is creating sustainable value for our shareholders.

We have also taken some very important steps towards our long-term goal of becoming a more vibrant and diverse participant in New Zealand’s capital markets ecosystem.

I want to also pay tribute to Mark’s leadership in genuinely caring for our people through these challenging and uncertain times, while keeping an unwavering focus on the needs of our customers.

A special thanks also to my Board, who have shouldered an immense workload through the year - in very trying circumstances where governance has been to the fore.

There have been some important learnings in 2020 but, as Chair, I could not be more proud of what our team at NZX has delivered for our shareholders, our customers and our country.

James Miller

NZX Chair

Chief Executive's update

2020 was an extraordinary year for NZX. It was not the year we planned for, but our performance reflects the strength we have built in our business through deliberate strategic change.

The momentum that has been building over the last three years was accelerated by the impact of COVID-19. This helped produce a step change in growth for NZX, albeit the rapid expansion of trading volumes caused challenges to parts of our technology infrastructure.

This growth is reflected in our operating results and financial performance for FY2020 - and we have taken the lessons from the operational challenges, acting on them to improve.

Operating earnings (EBITDA) of \$34.4 million was up almost 10% on the growth we achieved in FY2019, with the operating margin at 43.9%.

Revenue growth came from across our three main business areas - Capital Markets, Smartshares and NZX Wealth Technologies. Securities trading and clearing revenues were up strongly, with listing and data revenues also showing good growth. Higher costs in 2020 were driven by increased spend in technology, alongside investing in our people to support the growth and sales opportunities that are being created.

Net profit after tax for the year (NPAT) was \$17.6 million. Capital expenditure continues to be focused on NZX Wealth Technologies' core platform and NZX's trading system upgrade, together with strengthening our cybersecurity protection.

We have detailed our financial results in the Management Commentary (on page 54).

A year of records

Global volatility, a low interest rate environment and greater post-COVID interest in investing helped push trading volumes to record levels.

By June 2020 NZX's secondary markets had eclipsed the total number of trades executed for the full year 2019 and by early September the total value traded had also surpassed 2019.

The health and vitality of our markets in 2020 is reflected in the 149% increase in the volume traded, and 42% increase in the value traded for the full year to \$53.7 billion compared with \$37.8 billion the previous year. This increased activity did pose some challenges for NZX.

We laid the foundations for this progress in our 2017 strategy to deliver improved liquidity to the market - removing the fixed-fee elements of trade fees, improving rules to support price transparency and attracting new Participants and investors to the NZX.

This has opened up access to a broader range of investors, lifted on-market activity and delivered improved liquidity to our Exchange.

Alongside the increase in value traded across the NZX, we continue to observe growth in on-market liquidity levels which have now normalised above 60%.

While the value of retail trading increased from \$4.1 billion to \$9.7 billion, the overall share of trading by investor type during this period remained reasonably consistent with historical averages.

The value of traded liquidity originating from retail, institutional and proprietary sources accounted for approximately 18%, 70% and 12% respectively. This is encouraging as it indicates that growth in the market was across all investor segments.

Together with the growth in market liquidity we have also seen a significant expansion of our Depository business, with assets under custody up 38% for the year to \$4.8 billion. This has been an important strategic focus and the continued growth has increased efficiencies for the New Zealand market and enabled NZX to participate in the final stage of the securities settlement value chain.

Fuelling our momentum ▲



Mark Peterson
NZX Chief Executive

“We laid the foundations for this success in our 2017 strategy to deliver improved liquidity to the market – removing the fixed-fee elements of trade fees, improving rules to support price transparency and attracting new Participants and investors to the NZX.”

Following a COVID-related delay to the Trading System Upgrade and the recent decision to undertake additional market-wide testing, the project is now scheduled to go live later in the first half of 2021. This will enable market functionality in line with other international markets, and will support the subsequent launch of our exchange-based mid-point pricing trading venue, which should further lift on-market traded liquidity.

Further technology investment

As reported in our Interim Results and referenced by the Chair, the Board-commissioned reports from EY and InPhySec identified the need for further technology investment in 2021 to enhance the stability, resilience and capacity within aspects of our technology framework.

This will further build on the \$12 million technology infrastructure modernisation programme underway since 2017, which has focused on clearing, network infrastructure and the trading system along with capacity improvements.

This additional capital investment programme will be led by our incoming Chief Information Officer, Robert Douglas, who will also be spearheading NZX’s engagement with market Participants and the market ecosystem to deliver a technology roadmap for the capital markets.

Since the technology disruptions in March and April, NZX has made changes to increase the resilience and stability of its systems. We have also strengthened our Distributed Denial of Service (DDoS) defences following the cyber-attacks.

As noted by the Chair, the NZX Board considers the investment required to deliver on the recommendations of the reports from external reviewers will have an ongoing impact on technology costs.

Focus on customers

While we had a strong tail-wind during the year, NZX’s results in 2020 have come from the strategic platform we now have in place.

Throughout this extraordinary year, we have had a unique opportunity to demonstrate to other businesses the value of having access to capital through the public markets.

The environment in the wake of the COVID-19 lockdown in New Zealand alongside the international

travel restrictions created an immediate need for businesses to either strengthen their balance sheets or to raise capital to take advantage of the opportunities that were presenting themselves.

In our 2020 Interim Results we reported a total of more than \$5 billion of capital raised on the secondary market in the 90 days from the beginning of April – dwarfing capital raisings in the early months following the 2008 Global Financial Crisis.

This need, and the greater attractiveness of equity funding, has seen the value of capital raised for the year total \$17.6 billion – more than 50% above our expectations for 2020.

The price volatility created by COVID-19 did impact new debt market issuance materially from March through to July. However, the market came back strongly from August through to December with 12 new securities issued, \$2.7 billion of debt issuance raised, and \$825 million of this was in green bonds issued by Mercury, Argosy and Auckland Council. We also welcomed three new debt issuers to the market being Kiwibank, Ryman Healthcare and Oceania Healthcare.

The current environment has emphasised the strong value of an NZX listing and the ready access to equity or debt capital that listing provides. Our sales and marketing focus has been on promoting the market to companies who may benefit from having access to capital or to owners who may want to release capital for other purposes. We now have a strong pipeline of potential listings across equity, debt and funds.

Since the release of our first-half results in August when we reported on the reverse listing of Me Today, we have had the opportunity to welcome five new companies to the NZX.

The spectrum of these mirrors the pathways we have been opening up for issuers – from the Rua Bioscience IPO (RUA), to Radius Healthcare (RAD) as the first under new direct listing rules, along with the ASX-listed Auckland Real Estate (AKL) under our new foreign exempt provisions and Harmony (HMY) a new dual listed IPO. The final listing for 2020, New Zealand Rural Land Co (NZL) was another NZX



The current environment has emphasised the strong value of an NZX listing and the ready access to capital that listing provides.

IPO providing exposure to the rural sector for investors to be able to invest in the land that underpins this country's strength and expertise in farming and food production.

All of this activity has highlighted that the listed market can deliver reliable, liquid, and open access to investment in New Zealand for all investors, so everyone can support and benefit from the success of Kiwi companies.

NZX has also been considering the next stage of its strategy. As part of this, we have explored the business models of other exchanges globally and how those might apply here in New Zealand. We will continue to build a more diversified exchange.

The power of partnership

Beyond our operational focus in New Zealand, we maintained impetus in 2020 on our global strategy to secure partnerships that offer complementary capabilities and strength as we grow NZX's business.

As reported at the half year, BNP Paribas is expected to become a General Clearing Participant during the first half of 2021. This is a positive signal about the potential in our markets, to have another high-quality global bank, with a strong regional clearing footprint, strengthening its commitment to assist in growing New Zealand's capital markets.

NZX has also signed a Heads of Agreement with the Singapore Exchange in relation to a global partnership to grow NZX's dairy derivatives market together.

We are also continuing to work in partnership with the European Energy Exchange to develop the managed auction service for the New Zealand Emissions Trading Scheme (NZ ETS) - one of the Government's main tools for meeting domestic and international climate policy targets. Following the successful bid to the Ministry for the Environment, we have been engaging Participants in the next steps of progress with the managed auction platform, which will be completed for the first scheduled NZ ETS auction on 17 March 2021.

As we continue to focus on products that deliver clear value for prioritised customer segments, our Data & Insights business had another year of strong growth with revenue up 8%, coming from both retail and professional terminal users. Subscription and licence revenue also grew from increased client data usage. We are also pleased to report an excellent response to the research solution we have implemented, supplied by Smartkarma specifically to support coverage of small cap stocks.

Smartshares continues to grow. Funds Under Management increased to more than \$5 billion at year-end, up 28% and exceeding the 2023 goal we set under our growth strategy.

During the year, we attracted more than \$800 million in net investor cash flows. Key initiatives included the launch of the Smartshares Core Series, with New Zealand's lowest cost fund tracking the S&P/NZX 50, and Select KiwiSaver our first third-party hosted scheme.

As the market leader in Exchange Traded Funds (ETF), it has been encouraging to see some institutional investors starting to move into passive investment products through the Smartshares ETFs and its unlisted passive products - mirroring global trends.

A range of leading NZ wholesale and advisor platforms now utilise Smartshares, enabling financial advisors to access our unlisted passive funds for the first time.

Our NZX Wealth Technologies (NZXWT) business recorded growth of more than 210% this year with Funds Under Administration reaching more than \$7 billion. The successful onboarding of Hobson Wealth Partners, completed in November, added \$3 billion. We now have more than 28,000 portfolios being managed through our wealth management platform.

The addition of Hobson Wealth is a significant milestone and reflects confidence that we have a path for continued long-term growth - following JBWere and Saturn Advice joining Craigs Investment Partners on NZXWT's new platform this year. Late in the year, NZX Wealth Technologies was also proud to announce that it retained the Public Trust business after participating in a competitive process.

NZXWT is currently engaged with a number of new prospects for project activity, and expects to see continued growth again in 2021.

Planning for the new normal

2020 created significant opportunities and learnings for NZX, closely aligned with our purpose of *"Helping build New Zealand's tomorrow"*. We have been able to reset our business for the 'new normal' and, with this performance, refocus our business with both an operational excellence and a growth mindset.

Our team has been energised by the vital role we have been able to play in supporting others and ensuring the Exchange and our country can successfully adapt and move forward.

In the year ahead, we will be building on the lessons from an extraordinary 2020 to further strengthen our infrastructure and drive growth and health in our markets. We are also aiming to leverage our funds management and wealth technology businesses, which we see as core to market development and future revenue generation.

Thank you again to our customers for your support, our business partners for working shoulder-to-shoulder with us, and particularly to our team at NZX.

We have all been put to an enormous test this year and have shown that we are absolutely up to the challenge.



Mark Peterson
NZX Chief Executive

Our Board



James Miller

Chair

James was appointed as a director in August 2010, and NZX Chair in May 2015. He has spent 14 years working in the share-broking industry, with Craigs Investment Partners, ABN AMRO, Barclays de Zoete Wedd and ANZ Securities.

He is a qualified chartered accountant and is a Fellow of the New Zealand Institute of Chartered Accountants, a Certified Securities Analyst Professional, and a member of the Institute of Directors in New Zealand.

James is deputy chair of the Accident Compensation Corporation, a director of Mercury NZ, New Zealand Refining Company and Vista Group, and a former director of Auckland International Airport. He was an inaugural director of the Financial Markets Authority, and previously a member of the ABN AMRO Securities, INFINZ and Financial Reporting Standards Boards.



Frank Aldridge

Director

Frank was appointed as a director in May 2017. Frank has an extensive understanding of New Zealand's capital markets having spent more than 20 years working for Craigs Investments Partners where he is now Managing Director.

He is currently Chair of Australian-based Wilsons Advisory and Stockbroking, former member and Chair of New Zealand Securities Association, and sits on several of Craigs Investment Partners' subsidiary Boards.

Frank is an accredited NZX Adviser, Authorised Financial Adviser (AFA), and a Chartered Member of the Institute of Directors.



Nigel Babbage

Director

Nigel was appointed as a director in December 2017. Nigel has spent more than 35 years working in financial and capital markets locally and globally, and brings to NZX extensive clearing and derivatives experience.

Nigel previously held executive roles with British Petroleum (now BP) and Citibank, managing the New York currency derivatives desk, and worked for BNP Paribas, where he took on the joint role of Global Head of Currency Derivatives Trading and Head of North American Foreign Exchange. He served on the Foreign Exchange Committee of the Federal Reserve Bank of New York for three years.

Nigel is currently CEO of Christchurch-based investment company Mohua Investments Limited.



Richard Bodman

Director

Richard was appointed as a director in April 2017. Richard has spent more than 25 years working in the financial services sector, including 17 years at Jarden (previously First NZ Capital) where he held several executive roles, such as Managing Director and Head of Compliance. Prior to this Richard spent seven years as an inspector for the Securities & Futures Authority in London.

Richard is an independent director of Forsyth Barr Custodians Limited, Forsyth Barr Cash Management Nominees Limited and Te Ahumairangi Investment Management Limited, and a member of the Institute of Directors.

Richard has been a director of First NZ Capital and a NZX registered Compliance Manager.



Elaine Campbell

Director

Elaine was appointed as a director in February 2019. She has more than 20 years' legal experience, primarily focusing on financial and capital markets, IT and telecommunications law.

Elaine is currently Chief Corporate Officer & General Counsel of NZX-listed Chorus. During her time on the executive team at NZX from 2002 to 2008, Elaine led the legal workstream for the demutualisation and listing of NZX and was responsible for the insourcing of regulatory functions, along with chairing Smartshares.

Elaine spent five years at the Financial Markets Authority as Director of Compliance before joining AMP as an executive director and General Counsel. She has previously worked in the UK and USA for multinational Sun Microsystems.



Jon Macdonald

Director

Jon was appointed as a director in May 2013. He has a strong background in technology, and between 2008 and 2019 was CEO of Trade Me - recognised as one of New Zealand's best-loved brands. Over that time, Trade Me's revenue trebled to \$250 million, with a market capitalisation of \$2.5 billion.

In addition to NZX, Jon is on the boards of Contact Energy, Mitre 10, Sharesies, Trade Me (through its parent company) and My Food Bag. Earlier in his career, Jon worked in London for HSBC Investment Bank, and for Deloitte Consulting with a focus on telecommunications and financial services. He has a Bachelor of Engineering (Hons) from the University of Canterbury, and is a Chartered Member of the NZ Institute of Directors.



John McMahon

Director

John was appointed a director in June 2019. He has spent more than 20 years in the Australasian equity markets, predominantly as an equity analyst covering a range of industries including telecommunications, media, gaming, transport, industrials. He had held a wide range of roles in the financial sector including Head of the Equities at ABN AMRO and Managing Director of ASB Securities. John has also worked for CS First Boston (now Jarden), BZW and Morgan Stanley.

Today John manages his own investment portfolio, is Chair of NZX listed Solution Dynamics and a director of Wellington Drive Technologies.

John has a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charterholder.



Lindsay Wright

Lead Independent Director

Lindsay was appointed as a director in February 2018. She has more than 30 years' financial services and funds management experience locally and globally.

Lindsay is CEO of Funds Management at Sun Hung Kai & Co. She has held a range of senior roles in the funds management sector both globally and regionally (APAC) for Matthews Asia, BNY Mellon Investment Management, Invesco Hong Kong, Harvest Funds and Deutsche Asset Management. Lindsay started her career with Bankers Trust, becoming CFO/COO before moving to Deutsche Asset Management.

From a governance perspective she has served as Deputy Chair of the Board and Chair of the Audit and Risk Committee of the Guardians of the NZ Super Fund, and as a director of Kiwibank. Lindsay has a Bachelor of Commerce from the University of Auckland and is a Fellow of the Hong Kong Institute of Directors.

Our Leadership Team



Mark Peterson

Chief Executive

Mark joined NZX in May 2015 and became Chief Executive in April 2017. He has 30 years' experience in financial services covering the capital markets, private wealth, institutional and retail banking, and insurance. Mark previously worked as the Managing Principal of ANZ Securities, and before that held senior management roles with First NZ Capital, ANZ and The National Bank of NZ.



Graham Law

Chief Financial Officer

Graham joined NZX in November 2017. He has considerable experience working across the financial and professional service sectors in New Zealand and the United Kingdom. Graham previously worked as Head of Finance at ACC, and prior to this was Managing Director and Chief Financial Officer at AMP Capital Limited. Graham brings expertise in strategic leadership, corporate governance, and risk and financial management.



Jeremy Anderson

Executive Director, Data & Insights

Jeremy joined NZX in March 2017. He has significant experience working in the agribusiness, technology and financial service sectors across Australia and New Zealand. Prior to joining NZX, Jeremy led and executed Vodafone New Zealand's agribusiness strategy. His areas of expertise include market data, strategy development, sales management and innovation.



Robert Douglas

Chief Information Officer

Robert joined NZX as the Chief Information Officer in February 2021. He has over 27 years' experience in financial services. Prior to joining NZX, Robert was the Chief Operating Officer at Verifone NZ and has held previous roles as Head of ANZ Bank Institutional, Corporate and Commercial Operations, the Head of Technology at First NZ Capital and the Chief Information Officer of Markets Business Technology for ANZ Bank based in Australia. Throughout his career he has also managed several large change programs. Robert has expertise in leading large teams in real-time technology environments and is passionate about quality and delivery.



Hamish MacDonald
Head of External Relations
& General Counsel

Hamish joined NZX in July 2013 and leads the legal, policy, government relations, communications and marketing functions at NZX. Before joining NZX, Hamish held legal roles in New Zealand, Australia and the United Kingdom, most recently with a superannuation fund in Melbourne. Hamish holds an LLB and BCA (accounting major) from Victoria University of Wellington.



Sarah Minhinnick
Head of Issuer
Relationships

Sarah joined NZX in February 2020. She has deep experience in capital markets – most recently as a Director of Capital Markets at Bank of New Zealand, and began her career as a lawyer with Freshfields Bruckhaus Deringer LLP New York and Russell McVeagh. She has a Bachelor of Commerce (majoring in Economics), and a Bachelor of Laws with Honours, both from the University of Auckland. Sarah also holds a Master of Laws (in Corporate Law and Finance) from New York University.



Benjamin Phillips
Executive Director,
Secondary Markets
& Clearing

Benjamin Phillips is NZX's Executive Director for Markets Development and Clearing, a position he has held since 2017. He leads NZX's secondary markets (cash and derivatives) and Energy businesses. Within the secondary markets responsibilities, Benjamin is mandated to lead the Exchange's commercial, operational and development agenda across the trade and post-trade functions. Benjamin joined NZX in September 2014 as Head of its clearing house, New Zealand Clearing and Depository Corporation Limited.



Lara Robertson
Head of Human Resources

Lara joined NZX in April 2019. She brings extensive experience in strategic and operational human resources management across a wide range of industries. Before joining NZX, Lara held HR roles in Contact Energy and Creative New Zealand. For ten years prior, she advised NZ companies in executive search and leadership development with Korn/Ferry International. Lara holds a Master of Commerce (Dist) and a Bachelor of Commerce (Hons) from the University of Otago.

Our Leadership Team (cont.)



Lisa Turnbull

CEO - Wealth Technologies

Lisa joined NZX in November 2016. She has more than 25 years' experience in financial services covering investments, insurance and banking. Lisa previously worked for the ASB Bank and Sovereign Insurance holding leadership roles across finance, investments, distribution and operations. Lisa is a Chartered Accountant.



Hugh Stevens

CEO - Smartshares

Hugh joined NZX in February 2018 with extensive fund management industry experience gained in New Zealand and abroad. Hugh is the former Head of Private Equity and Real Estate Fund Services for BNP Paribas based in Paris, France, and prior to that was Head of BNP Paribas Securities Services New Zealand. Before BNP Paribas, Hugh worked for JP Morgan in London where he held several executive roles including Vice President, Applications Development Director and Vice President, Head of Analytics. Hugh holds an MBA from London Business School, a Bachelor of Engineering (Hons) from the University of Canterbury, and a Bachelor of Science from Victoria University of Wellington.



Joost van Amelsfort

CEO - NZ RegCo

With the establishment and structural separation of NZX's new regulatory agency NZ RegCo on 10 December 2020, Joost, formally Head of Market Supervision became Chief Executive of NZ RegCo. Joost has 20 years' legal experience advising capital markets Participants, including roles with Simpson Grierson and Linklaters LLP, London and Dubai. Joost's particular areas of expertise include corporate governance, equity and debt capital markets, and mergers and acquisitions.





How we create value

As New Zealand's Exchange, we are proud of our record in supporting the growth and global ambitions of local companies for more than 150 years. We recognise that our future success, and delivering on our strategic goals, requires integrated thinking within our business and alignment with the expectations of our key stakeholders.

Consistent with the guiding principles of Integrated Reporting we have highlighted five pillars (Our Customers, Strategic Partnerships, Sustainable Environment, People & Capability, and Market Performance), which are of primary importance to creating sustainable value for our shareholders, across the capital markets ecosystem, for Kiwis and New Zealand as a whole.

BUSINESS ACTIVITIES



*Helping build
New Zealand's
tomorrow*

WHAT MATTERS MOST

- ▶ Our Customers
- ▶ Strategic partnerships
- ▶ People & capability
- ▶ Sustainable environment
- ▶ Market performance

Financial markets
Infrastructure

Capital
Flow

OUR PURPOSE *By combining the needs of our customers, with innovation and modern technology we build enduring markets to deliver capital pathways, investment opportunities and economic success for New Zealand.*

Product

Liquidity

**Data &
Insights**

THE VALUE WE CREATE

- ▶ Capital to fuel growth
- ▶ Resilient, vibrant markets
- ▶ Empowered performance
- ▶ Healthy planet
- ▶ Economic prosperity

Our Customers

TOTAL LISTED EQUITY, DEBT & FUND SECURITIES

334

2019: 323

TOTAL VALUE TRADED

\$53.7b

2019: \$37.8b

INVESTORS IN SMARTSHARES

79,871

2019: 75,377

Direct and indirect investment in products

NZXWT INVESTOR PORTFOLIOS

28,185

2019: 24,937

Through Funds Under Administration

We supply a wide range of quality financial services to our customers in New Zealand and around the world – from operating capital markets infrastructure to managing investors’ assets, and providing unique insights.

Capital raising

The events of 2020 reinforced the value of being listed on New Zealand’s Exchange – enabling ready access to equity capital to help companies weather the impacts of COVID-19. To assist, NZX also moved swiftly, introducing a lift in capital raising capacity under share purchase plans, which supported retail participation in these offers, along with measures to allow greater flexibility in the types of offer structures and in the timeframes for financial reporting.

This year there were also some clear learnings in how we can ensure the highest possible level of reliability of our services to customers, and investors in our markets.

Service commitment

The integrity and performance of our IT systems is vital to all market Participants, and there is an ongoing need to continually respond to rising demands and risks. The Risk Report (on page 52) identifies the critical role of information technology for NZX. This relates to the interdependence on other Participants in the capital markets ecosystem, and vulnerabilities that were highlighted by the clearing and settlement incidents. These occurred at the height of the market volatility, created by the COVID global pandemic over March/April 2020, and the Distributed Denial of Service (DDoS) cyberattacks that began in August 2020.

One of the fundamentals of the service commitment to our Participants and their investing customers, is getting the basics right – ensuring that our markets are open and fully functioning during normal trading hours. As referenced in the Chair’s report, it was disappointing that in 2020 we did not live up to our expectations. While unrelated, there have been learnings for NZX from both of these issues and we have committed to delivering improvements via an action plan to be agreed with the FMA. We also see collaboration and planning across the financial ecosystem as a crucial step in strengthening NZX’s, and the market’s, ability to meet future threats.

Staying connected

In responding to the COVID-19 restrictions, which limited direct customer contact for significant periods, we have kept a clear focus on connecting with our customers – particularly through our Issuer Relationships team. We immediately recognised the opportunity to use video-conferencing and webinars, which has proved extremely successful for hosting retail investor events – where we have increased reach and with a broader audience. This

has also been case with our digital newsletters to issuers, prospective customers and retail investors all enjoying strong engagement. Along with the support for current listed companies, we achieved strong momentum in the second half of the year with five new companies joining the NZX and other listings taking the total of listed securities to 334, up 3.4% in 2020.

NZX Wealth Technologies continued to win new customers, growing Funds Under Administration to \$7.19 billion at year-end. Smartshares also recorded further strong gains in Funds under Management and has also made progress on key strategic milestones. This includes launching institutional investment management including an S&P/NZX50 segregated mandate. Institutional investors are starting to move into passive through Smartshares ETFs and unlisted investment products – mirroring a global trend. Smartshares has also opened accounts for leading NZ wholesale and advisor platforms – giving financial advisors access to Smartshares unlisted passive funds for the first time. We were also the first in Asia-Pacific to launch the Bloomberg BSKT basket creation and redemption functionality, which automates the interaction between brokers, Smartshares and custodian for creating and redeeming ETF units. The uncertainty around the pandemic, and market volatility, was reflected in a SuperLife key customer satisfaction measure, with Net Promoter Score falling from +34 in 2019 to +19. Customer insights are driving plans to expand the offering of ethical funds, together with enhancement to financial advice and digital tools.



▶ CASE STUDY

Supporting success

There is nothing we like more at NZX than supporting and celebrating the success of Kiwi businesses – and particularly when it is a company with truly inspiring foundations, reflected in their ethos of providing a true Kiwi touch to aged care.

Radius Care (NZX: RAD) has grown through the vision of Chairman, Brien Cree, and his personal experience caring for his mother – shaping a business that, in his own words, aims to always “put residents and families first”, delivering services to Kiwis in rest homes, through to specialised dementia, respite and palliative care.

Driven by the needs of New Zealand’s aging population and a focus on ‘Caring is our Calling’, Radius Care’s decision to list on the NZX – under the new simpler direct listing process – will allow the company access to capital for growth.

Described as a “truly exciting and proud day for Radius Care”, the listing celebration with NZX was a opportunity to reflect on the company’s achievements to date, and the promise for the future as Brien and his team are able to extend their special touch to make a difference working with more families and their loved ones.

Strategic Partnerships

NZX actively focuses on building strategic partnerships and affiliations in New Zealand and around the world to drive our own business growth and support key global initiatives, recognising the value of what can be achieved by working together.

Boosting capital flows

We are continuing to work with BNP Paribas Securities Services (BNP Paribas) on a new initiative focused on boosting offshore capital flows into NZX to further develop the New Zealand capital market. BNP Paribas has been working towards becoming a General Clearing Participant - expected to be completed within the first half of 2021, fulfilling one of the Exchange's key strategic goals of ensuring the long-term health of New Zealand's capital markets. We see this as a hugely positive signal about the untapped potential in our markets, with a high-quality clearer and custodian, with an unparalleled regional clearing footprint and global credentials, committing its innovation and expertise to New Zealand.

Stronger together

NZX has announced the formation of a potential global partnership with Singapore Exchange (SGX) to grow NZX's dairy derivatives market together. Under the current non-binding agreement signed between both exchanges we are exploring the listing of NZX's suite of dairy derivatives contracts on SGX's trading and clearing platforms. This would see NZX bring our dairy product development expertise and client relationships, while leveraging SGX's global market connectivity, strong Asian presence and international distribution, to scale growth and liquidity in the trading of dairy derivatives. The partnership builds on the Memorandum of Understanding signed between the two exchanges in 2018, to expand co-operation in the Asia-Pacific region and promote market development initiatives across multiple product sectors.

Our joint bid with the European Energy Exchange (EEX) was selected in October 2020 to develop and operate the managed auction service for the New Zealand Emissions Trading Scheme (NZ ETS) - one of the Government's main tools for meeting domestic and international climate policy targets. This success showcases the value of bringing together the deep experience and capabilities of NZX and EEX to implement and operate a solution tailored to meet the needs of New Zealand and NZ ETS Participants - and aligned with the design of other emissions markets globally. NZX and EEX announced our Co-operation Agreement in December 2019, and we see new opportunities opening up as the New Zealand market matures.

Market development

Our partnership with Syndex will support long-term success of local companies, providing joint education to help



BNP PARIBAS



companies develop shareholder management and reporting practices, mature governance - and establish appropriate organisational structures - while providing access to capital. This will help to grow a pipeline of companies with the confidence and readiness to springboard into public markets over time. The listing of New Zealand Rural Land Company (NZX: NZL) shows this partnership in action, enabling the company to raise initial capital via wholesale investors in private markets before moving to NZX.

We have also recently contracted independent investment research network, SmartKarma, to offer coverage to companies as they list and strengthened our relationship with CMC Markets, providing more trading opportunities and liquidity for our listed companies.

NZX has a range of other global affiliations, including with the World Federation of Exchanges, and we were proud to be the first Stock Exchange in the world to ring the bell for Financial Literacy in 2020.

Supplier relationships critical

A well-functioning market cannot operate without the contribution of a range of service providers to NZX. We see these relationships as important strategic partnerships and invest time and resources to ensure these operate effectively. Key supplier relationships for NZX which contribute to the operation of NZX's market infrastructure include Nasdaq, Tata Consultancy Services, Spark, RedShield, Akamai, Datacom and Eagle Technologies.



▶ CASE STUDY

Nurturing Kiwi companies

In July 2020 we announced our partnership with private capital market specialists, Syndex to support the growth and long-term success of New Zealand companies - enabling access to capital throughout their business life cycles.

Founded by Mike Jenkins and Ross Verry, Syndex is focused on solving the issues that limit the private market from its true potential, eliminating the challenges and risks that private investors face.

Working together, we see the opportunity to do more to power-up the New Zealand economy by building-out the pool of mid-stage companies - connecting them with the financial backing they need, as well as the tools to provide efficiencies and management of shareholders.

The Syndex and NZX partnership will also provide a springboard into the public markets, with planned services including a registry that will enable businesses to list directly on the NZX without changing out service partners. Quantitative frameworks and insights will allow investors to understand the track record of these private companies - from their first private capital raise, through to public listing when the time is right.

People & Capability

EMPLOYEE ENGAGEMENT (GALLUP SCORE)

4.28

2019: 4.15

HEALTH & SAFETY (TRIR)

0.89

2019: 1.54 TRIR

SKILLS FOR THE FUTURE

\$1,255

2019: \$991

NZX has built a positive and dynamic culture, where our people have clear direction and purpose, open communication and diverse opinions are encouraged, and delivering for customers is celebrated. Our culture is instrumental in driving performance and delivery of our strategic goals.

In 2020 our people showed enormous commitment, resilience and flexibility to deliver against strategic priorities and find new ways to support customers and investors through the COVID-19 pandemic, extraordinary trading volumes and severe, persistent cyber-attacks.

Transforming our culture

The fantastic commitment displayed by our workforce during 2020 is a testament to the highly engaged workforce and positive culture NZX has built in recent years. For the eighth successive survey since 2016, employee engagement increased, and the company's goal of 4.25 was met in May and again in October. This was an essential ingredient in maintaining high productivity throughout the year. Retaining highly-skilled people has been a focus of management attention and the positive impact of this effort was realised in 2020. Employee turnover dropped significantly, to 9.35% for 2020 (compared with 24.70% in 2019).

Customer focus

Enhancing our sales capability is a key ingredient for sustained growth. As we continue to grow a truly customer-oriented culture, we are delivering a two-year programme to embed consistent, repeatable sales processes across NZX. Customer focus is also reflected in recruitment where we are building capability in key operational areas, while also streamlining operational processes. New roles were added in Market Technology and Energy IT to enhance capacity, along with nine new roles in NZX Wealth Technologies to support growth.

Compelling employee experience

The success of our efforts to provide a compelling employee experience is seen in both engagement and retention this year. NZX provides a comprehensive suite of employee benefits to support wellbeing, flexibility, professional growth, and financial wellbeing. Ongoing professional development ensures we keep evolving capability to meet changing business requirements and employees' career aspirations. During 2020 we supported employees to complete external qualifications in financial analysis (CFA) and financial services (NZCFS), as well as professional credentials in accountancy and law. We deliver an ongoing programme of learning to build employees' knowledge of our business and our industry.

Flexible working

Our workforce quickly switched to operate remotely when New Zealand went into lockdown in March 2020, armed with the right technology and tools. Business continuity plans were current and well-rehearsed. Flexible working was already a common business practice, with 74% of our people accessing flexibility in some way before the March lockdown, and this seamlessly increased to 97% of our workforce working remotely while providing essential services for New Zealand.

Pandemic protocols

Actively managing the pandemic risks took centre stage for health and safety in 2020. Clear health and safety protocols and enhanced communications enabled us to continue operating safely throughout each alert level. This is reflected in NZX's Total Recordable Injury Rate (TRIR) of 0.89 for 2020 (number of recordable incidents per 200,000 hours worked), and low absence for illness. The strength of our health and safety management was also reflected in employees' feedback that NZX cares about them, and provided clear and frequent guidance about how to keep operating safely.

Supporting mental health of our employees was more relevant than ever through the uncertainty of the pandemic. We offered workshops for employees and their families on building resilience in uncertain times, and other mental health topics. Morale-boosting initiatives helped our teams stay connected with each other through the lockdowns. EAP Services were available to all employees and their families to access confidential advice and support for work or personal issues.



▶ CASE STUDY

Growing on the job

At NZX we're always looking for opportunities to nurture talent, ignite the passion of our people and help build the capability we need for the future.

There's no better example than our 2020 Supreme Chair Award winner, Emma Dent, who not only took out the year's top honour but has continued to grow her career with a recent promotion to the role of Associate Operations Manager in our Markets Development and Clearing team.

Joining NZX in 2015 with a Masters in Ecology and Biodiversity, the prospect of joining NZX's Graduate Programme with no previous financial markets experience was, as Emma describes: "one of my biggest life decisions at the time - and the best thing to happen in my career".

For someone who thrives on professional challenges, Emma knew she needed to find a path that suited her naturally energetic outlook.

From the first week with NZX as a Forestry Analyst she was involved in "work that matters". Six years later, still constantly learning, Emma applies her skills at the heart of New Zealand's capital markets, and loves nothing more than solving problems for our customers. An award is just the icing on the cake!

Sustainable Environment

The nature of NZX’s business means our use of resources and emissions is relatively small, however we have a key role in supporting the growth of sustainable finance that is necessary to address climate change and deliver a step-change in environmental outcomes for New Zealand.

Sustainable finance growth

NZX has continue to support the work undertaken by the Aotearoa Circle’s Sustainable Finance Forum, along with promoting the further development of the issuance of green and sustainability-related securities.

With an increasing domestic policy agenda, and action internationally on climate change, it has been encouraging to see a further increase in the issuance of sustainability-related financial products, such as wellbeing bonds, green Exchange Traded Funds (ETFs) and green bonds – responding to the growing global trend towards sustainable investment and demand from investors who are more conscious of where they put their money.

NZX has recorded strong growth in issuance over the past five years – with nearly \$1 billion of green bonds listed in 2020 by issuers such as Mercury NZ supporting New Zealand’s transition to a low emissions future, Auckland Council’s Green Bonds driving the electrification of transport and cycleway projects, and Argosy whose environmental strategy reflects an ambition to create vibrant sustainable workplaces for their tenants. Precinct Property is another example of a listed company taking an innovative approach to its commitment, by transferring existing retail bonds through the company’s Sustainable Debt Programme. This issuance will increasingly be complemented by other sustainable and ethical investment opportunities, such as the \$500 million from Housing New Zealand (Kāinga Ora) supporting the development of sustainable, inclusive and thriving communities that provide people with good quality, affordable housing choices that meet diverse needs.

This is reflected in the 2020 Environmental, Social and Governance report produced by our Data & Insights team, which showed an increasing proportion of New Zealand companies are moving to disclose and discuss their approach to sustainability and consistently report on how they are addressing ESG risks and opportunities.

Greenhouse Gas (GHG) emissions

With the COVID-19 restrictions, particularly on international travel, NZX recorded a 64% drop in our Greenhouse Gas emissions (CO₂-e calculated using Ministry for the Environment 2020 Emissions Factors). Emissions related to long-haul flights dropped from more than 207 tonnes in 2019 to 32 tonnes in 2020, along with substantial reductions in short-haul international and domestic travel. As we consider our approach to the

NZX EMISSIONS

171.6 Tonnes
CO₂-e

2019: 481.6 Tonnes CO₂-e

SUSTAINABILITY ISSUANCE

\$2.40b

2019: \$1.56b

pending Taskforce on Climate-related Financial Disclosures (TCFD) framework and carry out a full assessment of climate-related risks and opportunities, 2020 has demonstrated the potential to reduce our environmental impact and deliver complementary benefits. Our Board who are located across three countries hosted a virtual Annual Meeting for the first time last year, as well as holding our annual Global Dairy Seminar online – an event traditionally located in Singapore. In both cases this allowed for greater participation without the requirement for travel for presenters or attendees, and with our Dairy Seminar there was a three-fold increase in attendance.

Wellbeing and sustainability benefits

We have also successfully embedded flexible working arrangements across the business, with nearly all of our employees now having accessed this opportunity to date. From the enforced lock-down requirement due to COVID-19, we are now seeing not only the well-being benefits for our team but also productivity gains in some areas, along with the sustainability benefits from reduced personal commuting – and feedback that this is attractive as part of our employee value proposition and could translate into greater diversity in our workforce over time. This has also helped with designing our new Auckland office building in the second half of 2021, which will offer a more modern and purpose-built workspace with sustainability elements including an additional end-of-trip facility to encourage and support cycling and e-mobility.

NZX 2020 Greenhouse Gas inventory

Scope	Emissions sources CO ₂ -e	2020 Tonnes	2019 Tonnes
Scope 1	Rental Cars	1.2	3.6
Scope 2	Electricity purchased	47.5	48.0
Scope 3	Air Travel		
	– Domestic	75.6	167.5
	– Short haul international	4.8	35.3
	– Long haul international	31.8	206.5
	Accommodation	5.4	15.3
	Transmission and distribution losses for purchased electricity	4.0	4.1
	Paper disposal	1.3	1.3
Total		171.6	481.6

CO₂-equivalent emissions calculated using Ministry for the Environment 2020 Emissions Factors. Air travel emissions are calculated with radiative forcing.



CASE STUDY

Powering renewable energy

Mercury NZ (NZX: MCY) is helping build a brighter future with the vision of ‘Energy Freedom’, and we welcomed the listing of the company’s first Green Bond in 2020.

With a clear focus on investment in renewable electricity and supporting New Zealand’s transition to a low emissions future, it’s fantastic to see Mercury join a growing community of Issuers offering sustainable and ethical investment opportunities to Kiwis. The launch of Mercury’s first Green Bond is another significant milestone for the company, which operates 100% renewable electricity hydro, geothermal and now wind generation – with some of the proceeds earmarked for the construction of the Turitea wind farm near Palmerston North.

Listed in 2013, Mercury has been a leading voice in the electrification of transport – promoting the compelling opportunity in New Zealand’s renewable electricity to decarbonise the domestic economy and address climate change. This green bond, to refinance existing debt and to fund future renewables projects, reflects a core focus on kaitiakitanga, and the guardianship of natural resources.

Market Performance

TOTAL MARKET CAPITALISATION

77% of GDP

2019: 67%

NET ECONOMIC CONTRIBUTION

\$159m

2019: \$141m

COMMUNITY INVESTMENT

\$226,000

2019: \$434,000

At the core of the capital markets ecosystem, we offer businesses access to capital in order to prosper and future-proof the country's economy. That creates jobs and opportunities, alongside facilitating growth in personal wealth through investment and savings.

The past year, and the impacts of the COVID-19 pandemic, has demonstrated the importance of the listed market for New Zealand - not only in supporting Kiwi businesses but also in providing investment opportunities into New Zealand for all investors.

These two proven benefits have reinforced the significant opportunity to develop our listed market to support New Zealand's longer-term growth and success. This is where we need to turn our attention, to create further resilience and sustainable value for our country.

Market development

In terms of broader market development initiatives, we are focused on progressing the recommendations of the Capital Markets 2029 report (see page 39). Given the value of listing which has been highlighted in the current environment, our focus is on promoting the market to other companies who may need to access capital or to owners who may want to release capital for other purposes.

A strong pipeline of potential listings is building across equity, debt and funds as companies recognise the benefits of having access to capital and look to attract the large pool of investible cash that is available. We expect direct listings - where companies seek a listing without raising capital immediately - to be a pathway of choice for accessing the listed market.

A direct listing allows a company to access a liquid secondary market immediately to trade its shares, and allows access to capital after an initial stand-down period. NZX has been consulting on potential changes which would clarify the regulatory treatment of these listings to support this pathway to market - recognising the different risk profile from an IPO (Initial Public Offering). We are encouraged by the opportunity to promote this pathway to market because it allows a broader range of entities to promote a company for listing. The absence of an initial capital raising also reduces the costs of a direct listing.

Non-Government funding

The listed market also offers an avenue to support the New Zealand Government's balance sheet, to take the strain off taxpayers by directing available pools of non-Government funding to areas that need additional capital. The Napier Port listing last year is an excellent blueprint for what is possible in this space - with a local New Zealand listing allowing the company to raise \$234 million of equity capital, which is assisting the funding of a new wharf development that will flow through to the regional

economy. This was achieved while allowing its owner Hawkes Bay Regional Council to retain a 55% majority interest in the company, while prioritising the interests of local iwi, ratepayers and Port staff by inclusion in a priority offer.

COVID-19 has both tested our listed market and revealed the compelling value that can be delivered when we connect our businesses in need with private sector capital, and open up new investment opportunities for all Kiwis into New Zealand.

Separate regulatory model (NZ RegCo)

A new regulatory model for NZX's listed markets (NZ RegCo) was established in December, completing the structural separation of the Exchange's commercial and regulatory roles. This now stand-alone, independently-governed agency is performing all of NZX's frontline regulatory functions, with the NZ RegCo Board providing enhanced strategic and real-time support. The independent Board also acts as a point of escalation for key "bright line" regulatory decisions. The NZ RegCo model, shaped from a full review of NZX's regulatory operating model completed in 2019, was prompted by the increasing complexity of governance arrangements. NZ RegCo represents an important milestone in the continuing evolution of New Zealand's capital markets and is aligned with global best practice - in terms of the structure, governance and the operating model.



▶ CASE STUDY

Building our community

At the heart of a healthy financial market is capable, confident and well-informed investors – and a growing opportunity for NZX to engage with and strengthen our community.

Alongside our focus on connecting retail investors with listed issuers – helping grow awareness and understanding of our listed companies – one of our key areas of focus is education through our support of share clubs, such as at Otago University and the AUT with NZX virtual trading competitions.

The AUT Investor Club competition has been extremely popular – allowing students to learn DIY investing in a real-world trading environment, with the financial risk taken out. This year's winner, business student Brent Gentil, achieved a healthy 36% return, and more importantly, gained exposure to share investing while also confirming his plans to pursue a career in finance.

With record numbers of retail investors Participating in our capital markets in 2020, we're pleased to be able to support and complement a range of initiatives, alongside Government agencies, market participants, and community organisations, to lift investor knowledge and equip Kiwis to make informed investment decisions.

Capital Markets 2029

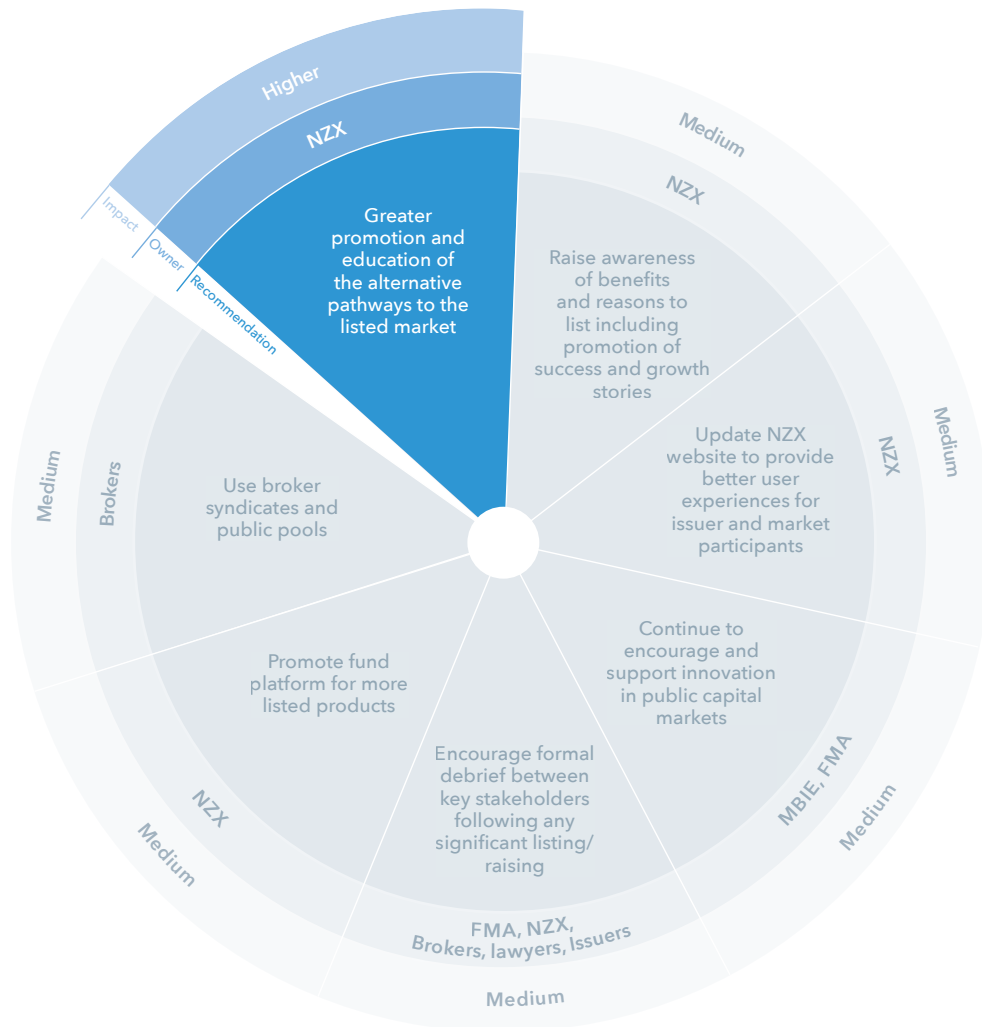
A vision & growth agenda to grow New Zealand's capital markets

The *Growing New Zealand's Capital Markets 2029* report was released in September 2019. The report identified areas for all stakeholders to address to grow the capital markets to support New Zealand, reflecting the views of market experts and industry leaders.

The focus for NZX is to progress the recommendations for which NZX has exclusive responsibility, in particular the promotion and education of the alternative pathways to access the listed market. NZX is also committed to engaging on public policy initiatives and acting alongside other stakeholders in relation to the other recommendations in the report that relate to the broader settings for New Zealand's capital markets.

The report highlights a significant opportunity for NZX to develop the listed market in New Zealand by targeting the estimated 1,200 private companies with annual revenues greater than \$30 million, to highlight the options and benefits of listing.

COVID-19 has reinforced the value of the listed market which has enabled efficient access to capital and strong secondary market liquidity for investors. This has provided a strong platform from which to promote the listed market as a support mechanism for New Zealand companies.



NZX's progress so far against recommendations within the report

GREATER PROMOTION AND EDUCATION OF THE ALTERNATIVE PATHWAYS TO THE LISTED MARKET



- Amendment to the Listing Rules to enable prospective financial information for Direct Listings to be included on a voluntary basis - making it significantly cheaper and simpler to list via this pathway while ensuring an appropriate level of disclosure is provided to investors
- Running targeted educational campaigns to promote updated Direct Listing regime
- Introduced a framework that allows NZX to prescribe disclosure document templates for Foreign Exempt listings
- Showcasing Foreign Exempt and Direct Listings via social media and other forums - for example, Radius and Auckland Real Estate

RAISE AWARENESS OF BENEFITS AND REASONS TO LIST INCLUDING PROMOTION OF SUCCESS AND GROWTH STORIES



- Updated pitch pack introduced highlighting the benefits, reasons and options for listing
- Increased activity via sponsorships and industry events
- Introduced a marketing package for all new listings
- Stronger social media presence
- Retail Investor Forums to connect issuers with investors

ENCOURAGE FORMAL DEBRIEF FOLLOWING ANY SIGNIFICANT LISTING OR RAISING



- Intend to coordinate with market participants to arrange on upcoming significant listings

UPDATE NZX WEBSITE TO PROVIDE BETTER USER EXPERIENCES FOR ISSUER AND MARKET PARTICIPANTS



- NZX weekly diary now available in a video format
- Project is underway to update nzx.com

PROMOTE FUND PLATFORM FOR MORE LISTED PRODUCTS



- Fund pitch pack under development
- Webinars to educate and support existing and prospect fund issuers
- Increased promotion of recent fund listings including Smartshares and Booster



Corporate Governance

Corporate governance

NZX's shares are quoted on the NZX Main Board. NZX also has a subordinated note quoted on the NZX Debt Market. In this part of the annual report, we disclose the extent to which we have followed the recommendations set out in the NZX Corporate Governance Code 2020 (NZX Code). The information in this section is current as at 31 December 2020 and has been approved by the board of directors of NZX.

NZX's board is committed to maintaining the highest standards of governance by implementing a framework of structures, practices and processes that it considers reflect best practice. NZX's corporate governance policies and procedures, and its board and committee charters, document the framework and have been approved by the board.

The framework has been guided by the recommendations set out in the NZX Code and the requirements set out in the listing rules. The board's view is that NZX's corporate governance framework has followed these recommendations and requirements in the year to 31 December 2020 (reporting period), except for recommendation 8.5 of the NZX Code as explained below.

The corporate governance framework is regularly reviewed by the board against the corporate governance standards set by NZX, any regulatory changes, and developments in corporate governance practices.

The key corporate governance documents referred to in this section are available from NZX's investor centre.

NZX introduced a significant change to its governance framework during the reporting period with the restructure of NZX's regulation function. Following a transition period, NZ RegCo was formally established on 10 December 2020 as an independently-governed agency to perform all of NZX's frontline regulatory functions. NZ RegCo is governed by an independent establishment board chaired by Trevor Janes, with board members Elaine Campbell, Mike Heron QC, John Hawkins and Annabel Cotton. Further information on NZ RegCo and its activities can be found here: <https://www.nzx.com/regulation/nzregco/about-nzregco>.

NZX Code

Principle 1 - code of ethical behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Conduct

NZX's Code of Conduct sets out the standards of conduct expected of directors (including members of committees) and employees (including secondees, contractors and consultants). The purpose of the code is to underpin and support the values that govern our individual and collective behaviour.

Training on the code is included as part of the induction process for new directors and employees.

The code requires directors and employees to promptly report material breaches of the code and sets out the procedure for doing so.

The code is reviewed at least every two years and was last reviewed in November 2019.

Financial Products Trading Policy

NZX's Financial Products Trading Policy sets out NZX's restrictions on its directors and employees buying or selling financial products. In particular:

- directors and employees may not buy or sell NZX's shares in the "blackout" periods set out in the policy (these periods occur prior to the release of NZX's financial results to the market); and
- outside of a blackout period, directors and employees must obtain consent to buy or sell NZX's shares.

Because NZX is a licensed market operator, NZX's senior managers and employees with access to market sensitive information must obtain consent to buy or sell financial products quoted on a market operated by NZX.

Training on the policy is included as part of the induction process for new directors and employees.

The policy is reviewed at least annually and was last reviewed in December 2020.

Principle 2 - board composition and performance

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Board charter

NZX's board operates under a written charter, which sets out the responsibilities and framework for the operation of the board.

The charter is reviewed at least every two years and was last reviewed in December 2020.

Management of NZX on a day-to-day basis is undertaken by the Chief Executive Officer and senior managers through a set of delegated authorities that clearly define the Chief Executive Officer's and senior managers' responsibilities and those retained by the board. The delegated authorities are set out in NZX's Delegated Authority Policy. The policy is reviewed at least annually and was last reviewed in December 2020.

The board meets its responsibilities by receiving reports and plans from management and through its annual work programme. The board uses committees to address issues that require detailed consideration. Committee-work is undertaken by directors. However, the board retains ultimate responsibility for the functions of its committees and determines their responsibilities.

Nomination and appointment of directors

NZX has a Nomination Committee, which is responsible for reviewing candidates for appointment and re-election to the board and committees, and making recommendations to the board. An independent recruitment consultant may provide assistance in preparing a list of candidates for the committee's consideration. The committee meets with preferred candidates before making a recommendation to the board. Checks are done on candidates in accordance with NZX's Fit and Proper Policy. Key information about candidates is provided to shareholders in the notice of annual meeting.

At each annual meeting, current directors retire by rotation at least every three years as required by the NZX

Listing Rules and are eligible for re-election. Any directors appointed since the previous annual meeting must also retire and are eligible for re-election.

NZX uses a skills matrix when selecting candidates for appointment and re-election to the board. The skills matrix outlines the ideal mix of skills, experience and diversity needed to ensure the board is equipped to provide the high standard of corporate governance required to lead NZX. If the board determines that new or additional skills are required, training is completed or a formal recruitment process is undertaken.

The matrix assesses directors against the following criteria:

- strategy and performance - expertise in respect of stock exchanges, data information, media, technology and business operations;
- quality committee leadership - skills to serve on NZX's committees; and
- connectivity to stakeholder groups - connectivity to stakeholder groups such as regulators or government, the Electricity Authority, listed issuers, brokers or institutional and retail investors.

Based on these criteria, the board considers that its members currently have the balance of independence, skills, knowledge, experience and perspectives necessary to lead NZX.

Written agreement

NZX provides a letter of appointment to each newly appointed director setting out the terms of their appointment. The letter includes information regarding expected time commitments, the board's responsibilities, remuneration, independence requirements, disclosure requirements, confidentiality obligations, indemnity and insurance provisions, intellectual property rights and cessation of appointment.

Director information

The board currently comprises eight directors with diverse backgrounds, skills, knowledge, experience and perspectives. All directors are non-executive and independent.

Information in respect of directors' ownership interests is available on page 106. NZX's directors are not formally required to own NZX shares, but are encouraged to do so.

Board Composition

Board Structure	Number of Directors	Gender Diversity	Average Director Tenure	Average Director Age	Diversity Characteristics
Single tier	8	6 men, 2 women	3 years, 9 months	54.1	Education qualifications, professional experience, personal achievements, geography, gender, age

Lead independent director

Lindsay Wright is NZX's lead independent director in the event that James Miller is conflicted on any matters that arise.

Further information about NZX's directors is available on pages 20 and 21.

Diversity

NZX's Diversity and Inclusion Policy sets out how NZX will set measurable objectives for achieving diversity and inclusion, and how it will assess its progress towards achieving these objectives.

The policy is reviewed at least annually and was last reviewed in December 2020. Further details on NZX's diversity and inclusion are outlined on pages 10 and 11.

DIRECTOR TRAINING

Directors are expected to understand NZX's operations and undertake training and education to enable them to effectively perform their duties. This can include:

- attending management presentations in respect of NZX's operations;
- attending presentations on changes in governance, legal and regulatory frameworks;
- attending technical and professional development courses;
- attending presentations from industry experts and key advisers;
- attending the World Federation of Exchanges (WFE) conferences of which NZX is a member; and
- receiving regular educational materials.

NZX continues to support the Institute of Directors' Future Director Programme, with Hayley Buckley appointed as NZX's Future Director for 2020 until 30 June 2021.

ASSESSMENT OF BOARD PERFORMANCE

A detailed board evaluation was conducted in 2020 to review the performance of the board and committees across key areas, including strategy, risk management, board processes and monitoring organisational performance. This process was run by external and independent governance experts. The key findings of the process, including questionnaire responses, were reviewed by the board.

The review found that NZX's board and management are aligned strategically, including with respect to growth businesses. The review also found that progress had been made since the 2018 review in a number of governance areas including board committees, stakeholder engagement and risk management. In addition, a number of opportunities were also identified for the board to continue to develop and enhance performance.

SEPARATION OF THE CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

NZX's board chair is a different person to NZX's Chief Executive Officer.

Principle 3 - committees

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

COMMITTEES AND MEMBERS

The board uses committees where specialist skills and experience are required. As at 31 December 2020, five standing committees have been established to assist the board on matters falling within their areas of responsibility. Each committee has authority to undertake any activity set out in its charter or as authorised by a separate resolution of the board. During the reporting period two committees (the Regulatory Governance Committee and Conflicts Committee) were disestablished as part of the restructure of NZX's regulation function.

The board and five committees and the members of each as at 31 December 2020 are set below.

Board and committees (as at 31 December 2020)

Board of Directors

- James Miller (Chair)
- Frank Aldridge
- Nigel Babbage
- Richard Bodman
- Elaine Campbell
- Jonathan Macdonald
- John McMahon
- Lindsay Wright

Committees

Core Committees				
Audit and Risk Committee	Human Resources and Remuneration Committee	Nomination Committee	Clearing Committee	Technology Committee
Lindsay Wright (Chair) Richard Bodman Jon Macdonald John McMahon	Frank Aldridge (Chair) Jon Macdonald James Miller Elaine Campbell	James Miller (Chair) Frank Aldridge Lindsay Wright	Nigel Babbage (Chair) Richard Bodman Elaine Campbell John McMahon	John McMahon (Chair) Richard Bodman Jon Macdonald

Director meeting attendance

Director	Board	Core Committees				Regulatory Committees		
		Audit and Risk Committee	Human Resources and Remuneration Committee	Nomination Committee	Technology Committee	Clearing Committee	Regulatory Governance Committee	Conflicts Committee
Frank Aldridge	7/8	-	4/4	1/1	-	-	-	
Nigel Babbage	8/8	-	-	-	-	4/4	3/3	3/3
Richard Bodman	8/8	7/7	-	-	17/19	4/4	-	2/2
Elaine Campbell	8/8	-	1/1	-	-	4/4	3/3	3/3
Jon Macdonald	8/8	7/7	4/4	-	18/19	-	-	-
John McMahon	8/8	7/7	2/2	-	19/19	4/4	-	-
James Miller	8/8	7/7	4/4	1/1	-	-	-	-
Lindsay Wright	8/8	7/7	-	1/1	-	-	-	-

- The Technology Committee was established on 21 April 2020. In addition to the separate committee meetings, the members also attended a number of additional Joint Steering Committees (JSC) with management. There were 41 JSC meetings during the period - John McMahon attended 39, Richard Bodman 34 and Jon Macdonald 32.
- As part of the restructure of NZX's regulatory function, the NZ RegCo establishment board (Trevor Janes (Chair), Elaine Campbell, Mike Heron QC, John Hawkins and Annabel Cotton) was formed on 10 December 2020 and replaced the Regulatory Governance Committee and Conflicts Committee. David Flacks, Nigel Babbage and Elaine Campbell were previously members of the Regulatory Governance Committee. Jayshree Das, Nigel Babbage, Elaine Campbell and Richard Bodman were previously members of the Conflicts Committee. As part of transition arrangements, members of the NZ RegCo Establishment Board were appointed to the Regulatory Governance Committee and Conflicts Committee for the period August 2020 - 10 December 2020. Elaine Campbell also attended 3/3 NZ RegCo board meetings.
- Elaine Campbell joined the Human Resources and Remuneration Committee on 17 September 2020. John McMahon retired from the Human Resources and Remuneration Committee on 17 September 2020.
- In addition to the scheduled full day board meetings, the board held 10 additional meetings via VC during the year in response to COVID-19, technology issues and consideration of strategic initiatives.
- The Clearing Committee held weekly meetings during March and April 2020 to monitor the impact of market volatility arising from COVID-19.
- In addition to committee attendance, NZX directors may also sit on subsidiary boards. Lindsay Wright is director and chair of Smartshares Limited and attended 12/12 board meetings. John McMahon and Richard Bodman are directors of NZX Wealth Technologies Limited (Mr Bodman as chair) and attended 12/12 board meetings.

External committee member meeting attendance

Committee member	Board	Audit and Risk Committee	Human Resources and Remuneration Committee	Nomination Committee	Clearing Committee	Regulatory Governance Committee	Conflicts Committee
Jayshree Das	-	-	-	-	-	-	2/2
David Flacks	-	-	-	-	-	2/2	-

Audit and Risk Committee

NZX's Audit and Risk Committee assists the board to fulfil its responsibilities in relation to the NZX Group's financial practices and reporting, internal control environment, internal audit, external audit and risk management. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in December 2020.

The committee must be comprised solely of NZX directors, have a minimum of three members, have a majority of members that are independent directors and have at least one director with an accounting or financial background. The makeup of the current members of this committee complies with these requirements.

The committee's chair, Lindsay Wright, holds a bachelor of commerce degree from the University of Auckland majoring in finance and accounting, and has previously held the role of CFO of Deutsche New Zealand (previously Bankers Trust) and was also formerly Chair of the Audit Committee for the New Zealand Superannuation Fund. Lindsay's full biography is on page 21.

The committee chair and the board chair are different people.

Management may only attend meetings at the invitation of the committee and the committee routinely has committee-only time and time with the external and internal auditors without management present.

Human Resources and Remuneration Committee

NZX's Human Resources and Remuneration Committee assists the board in overseeing the management of the human resources activities of NZX, including the remuneration of employees. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in December 2020.

The committee must have a majority of members that are independent directors. The makeup of the current members of this committee complies with this requirement.

Management may only attend meetings at the invitation of the committee.

Nomination Committee

NZX's Nomination Committee assists the board in identifying and recommending to the board individuals for nomination as directors and members of committees. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in December 2020.

The committee must have a majority of members that are independent directors. The makeup of the current members of this committee complies with this requirement.

Management may only attend meetings at the invitation of the committee.

Technology Committee

NZX's Technology Committee was formed in 2020 and assists the board in oversight of the role and use of technology in executing NZX's strategy (including ICT recommendations from Capital Markets 2029), meeting regulatory requirements and standards and in supporting the function of the markets operated and cleared by NZX Clearing. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter was approved in November 2020.

The committee must have a minimum of three members. The committee may have a non-director as a member (who must have skills and experience relevant to the operation of the Committee). The makeup of the current members of the committee complies with these requirements.

Clearing Committee

The Clearing Committee assists the board in ensuring that New Zealand Clearing Limited has adequate risk capital to meet its obligations as the central counterparty clearing house for NZX Clearing. The committee operates under a written charter, which sets out the responsibilities and framework for the operation of the committee. The charter is reviewed at least every two years and was last reviewed in December 2020.

The committee must have a minimum of three members. The committee may have a non-director as a member (who must have skills and experience relevant to the operation of the committee). The makeup of the current members of this committee complies with these requirements.

TAKEOVER PROTOCOL

NZX's Takeover Protocol sets out the procedure to be followed if there is a takeover offer for NZX.

The protocol is reviewed at least every two years and was last reviewed in August 2020.

Principle 4 - reporting and disclosure

The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

CONTINUOUS DISCLOSURE

NZX's Continuous Disclosure Policy sets out NZX's arrangements to ensure material information is identified, reported, assessed and, where required, disclosed to the market in a timely manner.

NZX is committed to ensuring the timely disclosure of material information about the NZX Group and to ensuring that NZX complies with the NZX Listing Rules.

It is the responsibility of the board to monitor compliance with the Continuous Disclosure Policy. The board considers at each board meeting whether any information discussed at the meeting requires disclosure.

The policy is reviewed at least annually and was last reviewed and updated in November 2020.

CHARTERS AND POLICIES

The key corporate governance documents referred to in this section, including policies and charters, are available from NZX's investor centre.

FINANCIAL REPORTING

NZX is committed to ensuring integrity and timeliness in its financial reporting and in providing information to the market and shareholders which reflects a considered view on its present and future prospects.

The Audit and Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, balance and timeliness of financial statements. It reviews NZX's full and half-year financial statements and makes recommendations to the board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed and for which the committee has responsibility were addressed during the reporting period.

NZX has published its full and half-year financial statements that were prepared in accordance with relevant financial standards. The full year financial statements are set out on pages 62 to 99.

The Chief Executive and Chief Financial Officer have confirmed in writing to the board that NZX's external financial reports present a true and fair view in all material aspects.

NON-FINANCIAL REPORTING

NZX releases data on its non-financial performance metrics each month through its monthly shareholder metrics publications. It also releases quarterly revenue and shareholder metrics, and regulation metrics representing the key features of NZX's activities in regulating its markets.

This year NZX has continued to integrate its non-financial reporting and disclosures to align with its financial performance and strategy.

To support this, and provide increased clarity for shareholders and the market on our financial performance and execution of strategy, a series of five year financial and non-financial targets are now being reported.

Further information is available from the NZX investor centre.

Principle 5 - remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

DIRECTORS' REMUNERATION

Shareholders fix the total remuneration available for directors. The annual fee pool limit is \$435,000 and was approved by shareholders at the annual meeting in April 2012.

The current fees paid to NZX's directors are \$50,000 per annum for directors and \$100,000 for the chair. Directors are not paid additional fees for being members of committees or directors of subsidiaries. The number of NZX directors has increased to 8 since the fee pool was initially set.

Jayshree Das and David Flacks, being non-director members of committees, were paid \$465 per hour for work on committee business as external members of the Conflicts Committee and Regulatory Governance Committee. These two committees have now been disestablished as part of the restructure of NZX's regulation function.

Total remuneration received by each director in 2020 is set out in Note 5 of the Statutory Information section on page 107.

External committee member remuneration is set out below.

External committee member remuneration

Committee member	Committee member fees
Jayshree Das	\$6,409
David Flacks	\$11,393

Directors do not receive any performance or equity based remuneration, or superannuation or retirement benefits. This reflects the difference in the role of the directors, which is to provide oversight and guide strategy, and the role of management which is to operate the business and execute NZX's strategy.

REMUNERATION POLICY

NZX's Remuneration Policy sets out the principles which apply to the remuneration of NZX's directors and employees. In particular, director remuneration is paid in

the form of director fees, while employee remuneration will include a mix of the following components:

- fixed remuneration (which includes base salary and employer KiwiSaver contributions);
- short-term incentive plan (which is available to senior employees);
- long-term incentive plan (which is available to members of NZX’s executive team and senior management); and
- a one-off grant of \$1,000 of NZX shares when an employee starts at NZX to ensure that all employees are shareholders.

The policy is reviewed at least annually and was last reviewed in December 2020.

NZX’s short-term incentive plan is performance based, with any short-term incentive plan payment being conditional on (1) NZX’s financial performance and the employee’s business unit’s performance; and (2) the employee’s individual performance.

Potential short-term incentive plan payments are generally between 15% and 25% of base salary, depending upon the employee’s seniority and role.

Under NZX’s long-term incentive plan, executive team members and senior managers may be awarded NZX shares based on NZX’s long-term (generally three year) performance. The plan is designed to:

- align managers’ rewards with improvement in shareholder value;
- achieve business plans and corporate strategies;
- reward performance improvement; and
- retain key skills and competencies.

Chief Executive Officer remuneration

Mark Peterson commenced his role as NZX’s Chief Executive Officer on 10 April 2017. In December 2020, the board exercised its option to extend the initial 5 year term by 2 years through to April 2024.

Mark Peterson’s remuneration is a mix of base salary and short term and long-term incentive plan components.

Mark Peterson’s base salary for 2020 was \$500,000.

Mark Peterson’s potential short-term incentive plan payment for 2020 was \$500,000 (\$250,000 for on-target performance). Mark Peterson’s actual short-term incentive plan payment for 2020 was \$360,000, this will be paid in February 2021. Mark Peterson’s 2020 STI comprised two components. The first component was based on NZX’s financial performance against target. The second component was based on delivery against the key elements of the five year strategic plan which included refocusing the business back on the core markets business, building on the growth opportunities, leading the business effectively and further developing our market engagement.

Mark Peterson is currently allocated a long-term incentive performance share rights plan to the value of \$250,000 each year. Vesting is dependent on NZX meeting performance hurdles in respect of NZX’s total return to

shareholders and its earnings per share for the prior five year period, and on Mark Peterson remaining an employee at the applicable vesting date.

Principle 6 - risk management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

RISK MANAGEMENT FRAMEWORK

The board is responsible for the establishment and oversight of NZX’s risk management framework, together with setting NZX’s overall risk tolerance.

Significant risks are discussed at each board meeting, or as required.

The board has established an Audit and Risk Committee with responsibility to:

- review and provide feedback in respect of the principal risks set out in NZX’s risk register;
- ensure that management has established a risk management framework which includes policies and procedures to effectively identify, manage and monitor NZX’s principal risks; and
- monitor compliance with, and assess the effectiveness of, the risk management framework.

The committee reviews the risk register every quarter. The committee also reviews the risk management framework annually. The committee receives reports on the operation of risk management policies and procedures.

The executive team and senior management are required to regularly identify the major risks affecting the business, record them in the risk register and develop structures, practices and processes to manage and monitor these risks.

NZX maintains insurance policies that it considers adequate to meet its insurable risks.

The board is satisfied that NZX has in place a risk management framework to effectively identify, manage and monitor NZX’s principal risks, including a Risk Appetite Statement, Conflict Management Policy, Continuous Disclosure Policy, Delegated Authority Policy, Financial Products Trading Policy, Fit and Proper Policy, IT Acceptable Use Policy and Protected Disclosures Policy.

NZX engages EY to carry out internal audit functions on various parts of its operations, including assessing the effectiveness of NZX’s risk management policies and procedures. Additionally, independent assurance is

provided and reviews are undertaken on matters such as risk capital, operational controls, IT/software security and anti-money laundering procedures.

KEY RISKS

NZX's material risks for 2020 and how these are being managed are outlined and discussed on pages 52 to 53.

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER ASSURANCE

The Chief Executive Officer and Chief Financial Officer have provided the board with written confirmation that NZX's 2020 financial statements are founded on a sound system of risk management and internal compliance and control; and that all such systems are operating efficiently and effectively in all material respects.

Principle 7 - auditors

The board should ensure the quality and independence of the external audit process.

NZX's Audit and Risk Committee makes recommendations to the board on the appointment and removal of the external auditor. The committee also monitors the independence and effectiveness of the external auditor, and reviews and approves any non-audit services performed by the external auditor. An External Auditor Independence Policy sets out the services that may or may not be performed by the external auditor. This policy was last reviewed in June 2020.

The committee regularly meets with the external auditor to approve their terms of engagement, audit partner rotation (at least every five years) and audit fee, and to review and provide feedback in respect of the annual audit plan. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The committee routinely has time with NZX's external auditor, KPMG, without management present.

KPMG attends the annual meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. KPMG attended the 2019 virtual annual meeting.

KPMG has provided the Audit and Risk Committee with written confirmation that, in their view, they were able to operate independently during the year.

NZX has appointed EY to perform a number of internal audit functions. The Audit and Risk Committee is responsible for overseeing the independence and objectivity of the internal audit function and for reviewing and monitoring the internal audit work plan, reports from internal audit and management responses. The committee routinely has time with EY without management present.

Principle 8 - shareholder rights and relations

The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

INFORMATION FOR SHAREHOLDERS

NZX seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information.

The key information channels are NZX's website, announcements and media releases, social media channels, the annual and interim report, investor days and the annual meeting.

NZX's investor centre contains annual and interim reports, investor presentations, dividend information and other information relating to NZX (including key corporate governance documents).

COMMUNICATING WITH SHAREHOLDERS

NZX's investor centre sets out NZX's Chief Financial Officer's and Company Secretary's contact details for communications from shareholders. NZX responds to all shareholder communications within a reasonable timeframe.

NZX provides options for shareholders to receive and send communications electronically, to and from both NZX and its share registrar.

SHAREHOLDER VOTING RIGHTS

In accordance with the Companies Act 1993, NZX's Constitution and the NZX Listing Rules, NZX refers major decisions which may change the nature of NZX to shareholders for approval.

NZX conducts voting at its shareholder meetings by way of a poll and on the basis of one share, one vote. Further information on shareholder voting rights is set out in NZX's Constitution.

NOTICE OF ANNUAL MEETING

NZX's annual meeting was held on 31 March 2020. The notice of the meeting was released to the market on 9 March 2020 and was posted on NZX's investor centre i.e. 16 working days' notice. This did not meet recommendation 8.5 of the NZX Code to provide at least 20 working days' notice of the meeting. NZX's planning for its 2020 annual meeting was impacted by COVID-19. NZX expects to provide at least 20 working days notice for its 2021 annual meeting. The 2021 meeting will be held on 8 April 2021 in Tauranga. A webcast of the meeting will be made available to shareholders.



Risk Reporting

Risk Reporting

Risk	The risk and its impact	How we are responding
Strategic	Strategic risks that NZX faces include the composition of our business and the strategic direction we choose to take, changes in financial markets and the business environment to adapt our strategy and, where appropriate, react	<ul style="list-style-type: none"> – We set a five-year strategy in 2017 which established our strategic direction through 2022. We regularly revisit this strategy, most recently in 2020 and we report progress annually – Our strategy includes diversifying operating earnings and building resilience into our business model – We engage with a broad range of stakeholders and monitor changes in the business environment to adapt our strategy and react as a 'fast follower' as needed – We monitor business unit performance to identify issues and opportunities early and address any people and resourcing risks – We publish monthly operating metrics and quarterly revenue and operating metrics to enhance monitoring of performance
Financial	Financial risks arise through various sources including: adverse strategic decisions (including inappropriate resource allocation); general market risk - including lower numbers of listed issuers, less listing and capital raisings, lower levels of trading activity, market capitalisation declines; counterparty credit risk in operating the clearing house; and operational errors, undetected fraud or poor execution of projects that are designed to deliver the strategy	<ul style="list-style-type: none"> – We assess our financial risks from both a strategic and operational perspective – We manage balance sheet and counterparty risks to an acceptable level through a framework of policies and financial controls – We regularly monitor an extensive range of financial metrics and risks across our businesses – The counterparty credit risk associated with NZX's clearing function is managed by the clearing house's risk management framework, which is aligned to international practice. This model ensures that the clearing house holds sufficient prefunded capital to manage the default of the largest Participant in extreme but plausible conditions. – We have a governance framework including a delegated authority policy which sets limits and outlines authority for committing NZX to expenditure – We have people, policies, processes, systems, controls and procedures in place designed to meet our operational expectations and benchmarks, and ensure project delivery effectiveness
Information Technology / Cybersecurity Risk	Information technology plays a critical role for our business. We recognise we are an important component to the New Zealand Capital Markets. IT risk arises when the technology is not reliable or available and/or does not operate accurately. The technology environment must also be secure and resilient to external cyber threats which are evolving at an ever-increasing pace. The technology environment is also dependent on other Participants in the capital markets ecosystem	<ul style="list-style-type: none"> – We seek to have appropriate processes, procedures and resources in place to manage IT/cybersecurity risks. We acknowledge the impact of technology related issues experienced in 2020 and this remains an area of critical focus and ongoing investment. – We will continue to manage against cyber risks; acknowledging that cybersecurity activities and mitigation activities need to continually evolve in a constantly changing environment. We provide staff with cybersecurity training at regular intervals throughout the year – Within the context of a need for continuous improvement, we now actively monitor our key systems with regular reviews of availability against service levels (where applicable) and targets. Regular testing is performed on key systems / services to determine throughput and capacity and we aim to enhance our systems in a timely manner – We seek to have contingency plans in place for disruptions or a loss of service to Tier 1 technology systems. As part of our enhancement plans, we intend to hold crisis planning across the capital markets ecosystem and improve our crisis incident management and communications with the market and other stakeholders – We replace ageing technology as part of lifecycle management; this is undertaken in a planned / phased approach to system architecture with security, future capacity, growth and supportability driving key design decisions – We seek to maintain active engagement with our vendor partners who provide critical systems and applications, with a key focus on ensuring partners and suppliers understand our business, objectives and criticality of all market operations – We have a disaster recovery testing program in place, including at least annually for financial markets systems / operations – We have a board Technology Committee, Cybersecurity Management Committee and a cybersecurity strategy and response plans – We have measures in place to identify and protect against data security threats – We are progressing engagement with the capital markets ecosystem to develop an IT roadmap for the future and to improve our engagement with the market on technology issues – We train our staff and seek to have suitably qualified and experienced information technology staff

Risk	The risk and its impact	How we are responding
Compliance, Legal & Regulatory	Risk that NZX breaches its compliance, legal and ethical conduct obligations (including for example NZX's licensed market operator license, MIS license, supervisor, regulatory and customer commitments) leading to reputational damage, adverse regulatory outcomes, fines or breach of contract	<ul style="list-style-type: none"> – We seek to mitigate compliance, legal and regulatory risks through adherence to internal policies and procedures as well as good corporate governance – We train and educate our operational staff so they understand the obligations applicable to their role, and the related requirements, policies and procedures – We have regular independent audits and periodic reviews of our adherence to compliance, legal and regulatory obligations – We aim to engage with government, regulators and industry Participants, at management, CEO and Board level, on market structure issues to promote the best industry-wide efficiency outcomes – Where appropriate, we address regulatory concerns by developing and implementing action plans with the regulators – We implemented a new regulatory model in 2020 for the structural separation of NZX's commercial and regulatory roles. The regulation function is now carried out by an independently-governed agency and enhances existing conflicts management arrangements in this area
Customer & Stakeholder	Risk that NZX does not focus on customers to ensure appropriate customer outcomes	<ul style="list-style-type: none"> – We acknowledge the importance of customers within our strategy. The group is structured around key customer segments – We aim to consider the impact of NZX-driven changes on our customers – We aim to have regular and open engagement with customers and wider stakeholders to seek feedback on our performance – We recognise the balance that is required between the requirements of the market and the cost to our customers
Operational / Business Continuity	The risk of unexpected failure in the day-to-day operations caused by technical failure or people or processes	<ul style="list-style-type: none"> – We routinely review and refine our operational procedures and controls – We routinely assess how we can make improvements to the resilience and reliability of our operations, with an ongoing focus on automation – We have regular training and suitably qualified and experienced operational staff – We have regular independent audits and periodic reviews of our operational processes and activities – We have business continuity plans that are tested at regular intervals and have in place remote working procedures – We have an incident management framework requiring that timely attention be paid to rectifying incidents as they occur. Post incident review ensures learnings from incidents are implemented
Reputational	Confidence in the market is critical, hence the risk arising from negative perception on the part of both existing and prospective customers, employees, counterparties, regulators or other stakeholders can adversely affect NZX's ability to maintain existing, or establish new, customer relationships	<ul style="list-style-type: none"> – We recognise NZX has a leadership role to perform across the capital markets ecosystem – Understanding the importance of our reputation and protecting it is a core component of our decision making and actions – We aim to have regular and open engagement with customers and wider stakeholders to seek feedback on our performance – Where appropriate, we interact with our regulators and government at management, CEO and Board level to facilitate thorough coverage of issues – We sponsored Capital Markets 2029 which was an industry-led initiative to identify opportunities to grow New Zealand's capital markets. This included receiving feedback from market Participants on the perception of NZX and its role as market operator
Human Resources (including Culture, Conduct and Health & Safety)	Culture influences how management and staff behave on a daily basis, and enables NZX to deliver on strategy. An effective culture within NZX includes consistently putting customers at the centre of decision-making, product design, sales and advice processes, and all day-to-day activities	<ul style="list-style-type: none"> – We seek to operate a healthy, open, respectful culture. One where teamwork, diverse thought, challenge and clarity of decisions are all embraced – Our company values are based on Integrity, Resilient, Open, Creative and Deliver behaviours. – We seek to operate to best practice HR standards (including health & safety) – We are committed to continually evolving and promoting an effective risk management culture and one that creates an environment of risk awareness and responsiveness – Our expectations are that our people will uphold a high standard of professionalism and integrity. Employees must adhere to a Code of Conduct setting out our company values, legal obligations and policies – We regularly measure and monitor staff engagement via staff engagement surveys which have measured a consistent increase in engagement in recent years

Management Commentary

Overview

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

	Operating Revenue			Operating Expenses			Operating Earnings (EBITDA) ¹			Operating Margin		FTEs	
	2020	2019	Change	2020	2019	Change	2020	2019	Change	2020	2019	2020	2019
	\$000	\$000	%	\$000	\$000	%	\$000	\$000	%				
Issuer Relationships	15,192	14,887	2.0%										
Secondary Markets	27,343	21,870	25.0%										
Data & Insights	16,146	14,934	8.1%										
Markets Sub-total	58,681	51,691	13.5%	15,253	12,890	(18.3%)	43,428	38,801	11.9%	74.0%	75.1%	74.7	64.5
Funds Management	13,669	12,881	6.1%	8,071	6,833	(18.1%)	5,598	6,048	(7.4%)	41.0%	47.0%	52.8	45.2
Wealth Technologies	2,425	1,693	43.2%	2,689	2,573	(4.5%)	(264)	(880)	70.0%	(10.9%)	(52.0%)	55.7	45.1
Corporate Services ²	205	475	N/A	15,072	13,010	(15.8%)	(14,867)	(12,535)	(18.6%)	N/A	N/A	56.6	50.9
NZX Commercial Operations Sub-total	74,980	66,740	12.3%	41,085	35,306	(16.4%)	33,895	31,434	7.8%	45.2%	47.1%	239.8	205.7
Regulation	3,446	2,808	22.7%	2,945	2,878	(2.3%)	501	(70)	(815.7%)	N/A	N/A	17.5	20.5
NZX Group Total	78,426	69,548	12.8%	44,030	38,184	(15.3%)	34,396	31,364	9.7%	43.9%	45.1%	257.3	226.2

¹ Operating earnings (EBITDA) are before net finance expense, income tax, depreciation, amortisation, loss on disposal of business and property, plant and equipment and gain on lease modification. Operating earnings is not a defined performance measure in NZ IFRS. The Group's definition of operating earnings may not be comparable with similarly titled performance measures and disclosures by other entities.

² Corporate Services provides accommodation, legal, accounting, IT, HR and communications and marketing support to the other business units. Related costs are currently not recharged to these commercial business units and subsidiaries.

Operating Earnings (EBITDA) has increased 9.7% to \$34.396 million, with:

- operating revenue increasing 12.8% to \$78.426 million; and

- operating expenses increasing 15.3% to \$44.030 million.

The operating revenue and operating expenses are discussed in the following pages.

The Investor Presentation (refer <https://www.nzx.com/about-nzx/investor-centre/reports-and-disclosure>) provides a detailed summary of the financial results by business unit.

Key Metrics

The key metrics for 2020 as outlined in the Investor Presentation in February 2020 are summarised in the table below:

		External dependencies	2020 full year deliverables	2020 full year actual
NZX Group	Operating earnings (EBITDA) ¹		\$30 - \$33.5 million	\$34.4 million (up 9.7%)
Core Markets				
Issuer Relationships	Capital raised (total primary and secondary capital issued or raised for Equity, Funds and Debt)	<ul style="list-style-type: none"> Listing ecosystem dependent on others No major market correction 	\$9.5 billion (average of 2017/18)	\$17.6 billion (down 5.5%)
Secondary Markets	Total value traded	<ul style="list-style-type: none"> Participant activity levels drive value traded No major market correction 	\$38.6 billion	\$53.7 billion (up 41.8%)
	Dairy Derivatives lots traded	<ul style="list-style-type: none"> Participant activity levels drive lots traded 	0.45 - 0.55 million lots	360,887 lots (up 0.5%)
Data & Insights	Revenue growth (in subscriptions, licenses and dairy subscriptions changing revenue mix)	<ul style="list-style-type: none"> Dependent on core markets growth 	Average revenue growth: 3.0%	\$16.1 million (up 8.1%)
Funds Management	Total Funds Under Management	<ul style="list-style-type: none"> Investment market returns impacts FUM (all asset classes) No major market correction 	Continue 3-year rolling average growth: 14%	\$5.08 billion (up 28.0%. Average FUM for year up 20.4%)
Wealth Technologies	Total Funds Under Administration	<ul style="list-style-type: none"> Investment market returns impacts FUA (all asset classes) No major market correction 	Migrate new clients onto the platform	\$7.19 billion (up 213.4%) three new customers

¹ Operating earnings (EBITDA) are before net finance expense, income tax, depreciation, amortisation, loss on disposal of business and property, plant and equipment and gain on lease modification. Operating earnings is not a defined performance measure in NZ IFRS. The Group's definition of operating earnings may not be comparable with similarly titled performance measures and disclosures by other entities.

Operating Revenue

Issuer Relationships

Annual listing fees paid by NZX's equity, debt and fund issuers are driven by the number of listed issuers and equity, debt and fund market capitalisations. Annual listing fees have been positively impacted by the growth in number and value of debt instruments, and the growth in equity market capitalisation.

Primary listing fees are paid by all issuers at the time of listing. The primary drivers of this revenue are the number of new listings and the value of capital listed. Primary listing fees in the year have been driven by strong debt listings (retail and wholesale); with total new capital listed of \$5.98 billion down 16.4% on last year.

Secondary issuance fees are paid by existing issuers when the company raises additional capital through placements, rights issues, the exercise of options, dividend reinvestment plans, or further debt issues. The primary drivers for this revenue are the number of secondary issuances and the value of secondary capital raised. Secondary issuance fees in the period have been driven by equity recapitalisations, with total additional capital raised of \$11.65 billion up 1.2% on last year.

Secondary Markets

Participant services revenue is charged to market participants (broking, clearing and advisory firms) that are accredited for NZX's equity, debt and derivatives markets. The total number of market participants decreased to 34 (2019: 35), with the resignation of Deutsche Securities Australia, in line with its global withdrawal from its equities businesses, the resignation of Straits Financial from the Derivatives market, and the accreditation of Snowball Effect as a Sponsor Participant.

Securities trading revenue comes from the execution of trades on NZX's equity and debt markets. Securities clearing revenue relates to clearing and settlement activities, and related services such as stock lending undertaken by NZX's subsidiary New Zealand Clearing and Depository Corporation Limited. The largest

component is clearing fees which are based on the value of settled transactions.

Securities trading and clearing revenue has been positively impacted by the fee changes effective 1 July 2019, when the trading fee cap level was raised and the clearing fees tiers reduced. Additionally the total value traded and cleared (\$53.7 billion) is 41.8% higher than last year.

Dairy derivatives revenue relates to trading, clearing and settlement fees for trading NZX dairy futures and options. The fees are largely charged in USD (reflecting the global nature of the market) per lot traded. Dairy derivatives revenue decreased, whilst the number of lots traded grew 0.5% the revenue was adversely impacted by lower margin fees due to the reduced OCR rate.

Contractual and consulting and development revenue arises from the operation of New Zealand's electricity market (under a long term contract with the Electricity Authority) and the Fonterra Shareholders' Market (under a long term contract with Fonterra). Consulting and development revenue includes enhancements to the electricity market systems, including the market real time pricing project, which is due for completion in 2022. Additionally we are developing the carbon managed auction service for the Ministry for the Environment, the operation of which will commence in 2021.

Data & Insights

Royalties from terminals relate to the provision of capital markets real time data for display on terminals (retail and professional). Royalties from terminals increased revenue relates to higher retail terminal numbers and increased pricing of professional terminals.

Subscription and licences relate to the provision of capital markets data to other participants in the capital markets (e.g. non-display applications). The subscriptions and licences revenue increase of 21.9% is driven by increased non-display usage. Audit and back dated licencing revenue remained high at \$1.07 million (2019: \$1.29 million).

Dairy data subscriptions relate to the sale of dairy data and analytical products. Dairy data subscription revenue has decreased 16.5% impacted by churn of dairy subscriptions and the deferral of the 2020 dairy conference.

Connectivity revenue relates to the provision of connectivity and access to the NZX operated markets for market participants and data vendors.

Connectivity revenue has increased in line with increased connectivity requirements from both market participants and data vendors.

Funds Management

Funds management revenue is generated from:

- Funds under management based revenue which relates to variable funds under management (FUM) fees net of fund expenses. Fund expenses include a combination of fixed costs (principally outsourced fund accounting and administration costs, registry fees and audit fees), and variable costs proportionate to FUM (principally custodian fees, trustee fees, index fees, settlement costs and third party manager fees); and
- Member based revenue which includes fixed membership administration fees and other member services.

The FUM based revenue has increased 19.1% driven by:

- higher average FUM over the period (up 20.4%), arising from a combination of market returns and positive net cash flows (\$803 million), including from the first institutional investor into a separately managed portfolio. FUM at 31 December 2020 has grown to \$5.08 billion up 28.0% on last year; offset by
- fund expense increases associated with new ETFs, and the segregation and unitisation of SuperLife Invest in 2019 (which provided access for wholesale clients); partially reduced by efficiencies from the changed operating model in late 2019 (including changing custodian for some funds and internalising

management of the Cash Funds) and improvements to supplier arrangements.

Investor numbers (ETFs and SuperLife) have increased 6.0%, however member based revenue has been adversely impacted by a historical pricing adjustment.

Wealth Technologies

Wealth Technologies' revenue is generated from administration services provided on both the original (OE) and new wealth management platforms, and development fees received for part of the new platform that is in production. The administration service fees are based on funds under administration (FUA) and have been driven by:

- New platform – FUA continues to increase, with three new clients migrated onto the platform through 2020; and
- OE (legacy) platform – the number of customers is unchanged, with 23% growth in FUA.

FUA at 31 December 2020 has grown to \$7.19 billion up 213.4% on last year.

Corporate

Other corporate revenue primarily relates to the short term sub lease of part of the Wellington premises which ceased in June 2020 and nzx.com advertising revenue which ceased in May 2020.

Regulation (NZ RegCo)

Regulatory fees relate to issuer compliance, participant compliance and market surveillance activities. Issuer compliance services comprise time spent by NZ RegCo reviewing listing and secondary capital raising documents, requests for listing rule waivers, and other significant issuer matters.

Participant compliance services comprise time spent by NZ RegCo reviewing participant applications. Market surveillance activities are recoverable from market participants. In 2020 NZ RegCo undertook a higher level of recoverable fee based work than in the previous year.

Additionally NZ RegCo receives an internal allocation of annual listing fees and annual participants fees, which is set in advance based on the services expected to be provided by NZ RegCo.

Operating Expenses

The Markets businesses have invested to deliver technology solutions to both increase trading and clearing system capacity and to maintain market stability. We continue to invest for customer growth in the Funds Management and Wealth Technologies businesses.

Personnel costs

Personnel costs are made up of:

- Salary costs (including bonuses, ACC levies and KiwiSaver contributions); plus
- Contractor and other personnel costs (including training, recruitment and staff benefits); less
- Capitalised labour (where employees or contractors are engaged on capital projects).

Personnel costs have increased due to a combination of wage inflation, lower levels of annual leave taken (a COVID-19 lockdown impact) and the movement in average FTEs arising from:

- Securities IT team additional resources to deliver technology solutions to increase trading and clearing system capacity and maintaining market stability;
- Issuer Relationships additional sales roles focused on origination, with active pipeline development and conversion;
- Energy contractors to assist with delivering consulting and development revenue including the electricity market real time pricing project and the carbon managed auction service;
- Smartshares additional sales and operational resources to support the client and FUM growth in 2020, plus the full year cost impact from the

strengthening of the leadership team in 2019 (COO and CIO).

- Wealth Technologies additional sales and operational resources to support the new clients migrated onto the platform in 2020;
- Corporate Services additional legal, HR and communications resources to support the Smartshares and Wealth Technologies businesses. As well as additional project management resources for energy's increased development revenue generating projects; and
- the number of vacancies throughout the year.

Capitalisation of internal development resources (2020: \$5.93 million; 2019: \$4.29 million) primarily relates to Wealth Technologies' core platform, NZX's trading system upgrade and the Network Transformation project.

Information Technology

Information Technology costs were made up of software licence fees, hardware support and maintenance fees, telecommunications and data network costs, and IT services provided by third parties.

The current year focus has been on increasing trading and clearing system capacity and maintaining market stability, consequently IT costs are higher than last year due to:

- Network Transformation project costs (which strengthened NZX's cyber security);
- additional license costs to improve resilience of NZX's clearing and settlement system (BaNCS); and
- the modification of existing security services plus the implementation of additional Denial of Service (DDoS) security services.

Additionally the Smartshares business has implemented the Bloomberg AIM and BSKT (front and middle office) operating system during the year.

Professional Fees

Professional fees, including legal expenses, assurance costs and advisory / consultancy fees, include those relating to:

- Independent / external reviews of:
 - NZX clearing and settlement system (BaNCS) technical issues arising from significantly increased trading volumes, messaging, notifications and shareholder balance enquiries; and
 - DDoS attacks on the nzx.com website.
- Smartshares investments for growth e.g. four new ETF funds (launched July 2020), set up of stock lending and borrowing services, the Asia Region Funds Passport application, and the enhancement of Smartshares digital tools. Plus costs associated with the historical pricing matters;
- the assurance programme – internal audits, energy audits and consulting obligations under the Electricity Authority contracts, annual conflicts review, funds conduct risk assessment review; and
- stock lending and borrowing (SLB) costs and terminal royalty audit fees; both vary in proportion to their related revenues, with costs and revenues recognised on a gross basis.

Marketing

Marketing costs relate primarily to Smartshares, marketing the core exchange businesses and the investor relations programme. Marketing spend during 2020 was lower due to the impact of the COVID-19 lockdown.

Other Expenses

Other expenses relate to premises related costs, insurance, directors fees, travel, external audit costs, outsourced payroll system, corporate memberships, statutory/compliance costs and non recoverable GST (on the Clearing House, Funds Management and Wealth Technologies businesses). Other expenses

were lower due to reduced travel during the COVID-19 lockdown, offset by higher insurance and compliance costs.

Capitalised overheads

The portion of all expense categories which relate to capital activities (e.g. Wealth Technologies core platform and NZX's trading system upgrade) has decreased slightly.

Non-operating Income and Expenses

Net finance expense comprises interest income (on operational cash balances, Clearing House risk capital and regulatory working capital), interest expenses (on the subordinated note, loans, overdrafts facility and lease liabilities), unrealised fair value gain on investment and foreign exchange gains/(losses). Increased net finance costs result from the reduced interest income due to the lower OCR interest rate.

Depreciation and amortisation expenses have decreased due to:

- the clearing system (BaNCS) being fully amortised in September 2019; offset by
- additional Wealth Technologies amortisation of the core platform and on migrations of new clients during the year; and
- new lease of IT equipment from May 2019.

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

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 2020 and the results of their operations and cash flows for the year ended 31 December 2020.

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 2020.

The financial statements were authorised for issue for and on behalf of the directors on 15 February 2021.



James Miller
Chair of the Board



Lindsay Wright
Chair of the Audit and
Risk Committee

Financial Statements

Group Income Statement

For the year ended 31 December 2020

	Note	2020 \$000	2019 \$000
Operating revenue	8	78,426	69,548
Operating expenses	9	(44,030)	(38,184)
Earnings before net finance expense, income tax, depreciation, amortisation, loss on disposal of businesses and property, plant and equipment, and gain on lease modification (EBITDA)¹		34,396	31,364
Net finance expense	10	(2,037)	(2,153)
Loss on disposal of businesses and property, plant and equipment		-	(83)
Depreciation and amortisation expense		(8,293)	(8,595)
Gain on lease modification	6	558	-
Profit before income tax		24,624	20,533
Income tax expense	12	(7,038)	(5,888)
Profit for the year		17,586	14,645
Earnings per share			
Basic (cents per share)	13	6.3	5.3
Diluted (cents per share)	13	6.3	5.3

¹ EBITDA is not a defined performance measure in NZ IFRS. Please refer to Note 2 for more information.

Group Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 \$000	2019 \$000
Profit for the year	17,586	14,645
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	-	(1)
Total other comprehensive income	-	(1)
Total comprehensive income for the year	17,586	14,644

Group Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Share Capital \$000	Retained Earnings \$000	Translation Reserve \$000	Total Equity \$000
Balance at 1 January 2019		51,066	10,386	(45)	61,407
Profit for the year		-	14,645	-	14,645
Foreign currency translation differences		-	-	(1)	(1)
Total comprehensive income for the year		-	14,645	(1)	14,644
Transactions with owners recorded directly in equity:					
Dividends paid	21	-	(16,662)	-	(16,662)
Issue of shares	20	3,834	-	-	3,834
Share based payments	20	695	-	-	695
Cancellation of non-vesting shares	20	(72)	72	-	-
Total transactions with owners recorded directly in equity		4,457	(16,590)	-	(12,133)
Balance at 31 December 2019		55,523	8,441	(46)	63,918
Profit for the year		-	17,586	-	17,586
Foreign currency translation differences		-	-	-	-
Total comprehensive income for the year		-	17,586	-	17,586
Transactions with owners recorded directly in equity:					
Dividends paid	21	-	(16,867)	-	(16,867)
Issue of shares	20	2,148	-	-	2,148
Share based payments	20	976	-	-	976
Cancellation of non-vesting shares	20	(130)	-	-	(130)
Total transactions with owners recorded directly in equity		2,994	(16,867)	-	(13,873)
Balance at 31 December 2020		58,517	9,160	(46)	67,631

Group Statement of Financial Position

As at 31 December 2020

	Note	31 December 2020 \$000	31 December 2019 \$000
Current assets			
Cash and cash equivalents	14	32,775	27,740
Cash and cash equivalents - restricted	14	20,000	20,000
Funds held on behalf of third parties	11	104,684	79,667
Receivables and prepayments	15	10,840	9,006
Total current assets		168,299	136,413
Non-current assets			
Property, plant & equipment	16	2,146	2,612
Right-of-use lease assets	6	5,108	5,826
Goodwill	4	30,222	30,222
Other intangible assets	3	40,879	37,498
Total non-current assets		78,355	76,158
Total assets		246,654	212,571
Current liabilities			
Funds held on behalf of third parties	11	104,684	79,667
Trade payables	17	7,684	3,782
Other liabilities - current	18	14,176	12,276
Lease liabilities	6	1,388	1,439
Current tax liability	12	2,274	1,776
Total current liabilities		130,206	98,940
Non-current liabilities			
Non-current other liabilities	18	484	323
Lease liabilities	6	5,716	7,172
Interest bearing liabilities	19	38,911	38,852
Deferred tax liability	12	3,706	3,366
Total non-current liabilities		48,817	49,713
Total liabilities		179,023	148,653
Net assets		67,631	63,918
Equity			
Share capital	20	58,517	55,523
Retained earnings		9,160	8,441
Translation reserve		(46)	(46)
Total equity attributable to shareholders		67,631	63,918

Group Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 \$000	2019 \$000
Cash flows from operating activities			
Receipts from customers		78,104	69,944
Net interest paid		(1,823)	(2,091)
Payments to suppliers and employees		(38,847)	(37,029)
Income tax paid	12	(6,200)	(6,034)
Net cash provided by operating activities	14	31,234	24,790
Cash flows from investing activities			
Net cash paid on disposal of businesses and acquisition		-	(4)
Cash received from short term investment		2	6
Payments for property, plant and equipment	16	(483)	(708)
Payments for intangible assets	3	(9,489)	(7,594)
Net cash used in investing activities		(9,970)	(8,300)
Cash flows from financing activities			
Payment of lease liabilities		(1,467)	(1,288)
Dividends paid		(14,762)	(12,847)
Net cash (used in)/provided by financing activities		(16,229)	(14,135)
Net increase in cash and cash equivalents			
		5,035	2,355
Cash and cash equivalents at the beginning of the year		47,740	45,385
Cash and cash equivalents at the end of the year	14	52,775	47,740

Notes to the Group Financial Statements

For the year ended 31 December 2020

1. Reporting entity and statutory base

Reporting entity

These consolidated financial statements are for NZX Limited (the Company) and its subsidiaries (together referred to as the Group) as at and for the year ended 31 December 2020.

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

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

Basis of preparation

The Group financial statements have been prepared in accordance with 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 statements 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.

The Group notes that the COVID-19 pandemic in the year had no material adverse impact on the Group.

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 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, the Group 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.

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.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. None of these standards are expected to have a significant effect on the financial statements of the Group.

Presentational changes

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

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 for the Group in preparing these financial statements that have a significant risk of resulting in a material adjustment within the next financial year, including information about assumptions and estimation uncertainties, are set out in:

- note 3 - intangible assets
- note 4 - goodwill
- note 22 - share based payments

2. Non-GAAP measures

EBITDA is a non-GAAP performance measure and differs from the NZ IFRS profit for the year. The Group's definition of EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Reconciliation of EBITDA to NZ IFRS profit for the year:

	2020 \$000	2019 \$000
Profit for the Year	17,586	14,645
Income tax expense	7,038	5,888
Profit before income tax	24,624	20,533
Adjustments for:		
- Net finance expense	2,037	2,153
- Loss on disposal of businesses and property, plant and equipment	-	83
- Depreciation and amortisation expense	8,293	8,595
- Gain on lease modification	(558)	-
EBITDA	34,396	31,364

The Group has presented the EBITDA performance measure in addition to NZ IFRS profit for the year, as this performance measure is used internally in conjunction with other measures to monitor performance and make investment decisions. EBITDA is calculated by adjusting profit from operations to exclude the impact of taxation, net finance expense, depreciation, amortisation, loss on disposal of businesses and property, plant and equipment, and gain on lease modification.

3. 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 only if the expenditure can be measured reliably, the development of intangible asset is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete the development of the asset. Otherwise, it is recognised in profit or loss as incurred. 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
- Brands, Trademarks, and rights to use Brands: 10 years
- Data archives, customer lists, databases, and other IP: 10 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 5.

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 2019	48,759	182	1,458	18,116	2,670	71,185
Additions	13	-	-	-	7,581	7,594
Transfer from WIP	3,997	-	-	-	(3,997)	-
Balance at 31 December 2019	52,769	182	1,458	18,116	6,254	78,779
Additions	574	-	-	-	8,915	9,489
Transfer from WIP	11,098	-	-	-	(11,098)	-
Balance at 31 December 2020	64,441	182	1,458	18,116	4,071	88,268
Accumulated amortisation & impairment						
Balance at 1 January 2019	31,470	55	-	3,155	-	34,680
Amortisation expense	5,794	18	-	789	-	6,601
Balance at 31 December 2019	37,264	73	-	3,944	-	41,281
Amortisation expense	5,301	18	-	789	-	6,108
Balance at 31 December 2020	42,565	91	-	4,733	-	47,389
Net Book Value						
As at 1 January 2019	17,289	127	1,458	14,961	2,670	36,505
As at 31 December 2019	15,505	109	1,458	14,172	6,254	37,498
As at 31 December 2020	21,876	91	1,458	13,383	4,071	40,879

4. Goodwill

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.

The directors have carried out impairment testing with the key assumptions set out in Note 5. No impairment was required in 2020.

5. 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 2020 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	2,547	-	-	-	2,547	-	2,547
Funds management	691	11,040	2,344	336	14,411	20,730	35,141
Wealth Technologies	13,058	-	-	1,595	14,653	1,494	16,147
Energy	2,107	-	-	161	2,268	7,720	9,988
Direct data	-	91	1,458	-	1,549	278	1,827
Other							
Other intangible assets	153	-	-	1,307	1,460	-	1,460
Other computer software	3,321	-	-	670	3,991	-	3,991
	21,877	11,131	3,802	4,069	40,879	30,222	71,101

Impairment test

For the year ended 31 December 2020, 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 2019 unless indicated otherwise. Discounted cash flow analysis using a forecast period of five years was used for all CGUs, other than Energy where forecast periods of three and a half years (to match the remaining contractual period) and six and a half years (to match the remaining contractual period plus three years potentially to be renewed) were both used. The analysis also uses a WACC rate of 8.6% (2019: 8.8%) and were stress tested at higher rates. The terminal growth rate used to extrapolate cash flow projections beyond five years was 1.75% (2019: 1.75%). Management has assessed the long term economic outlook data available, and assessed that the use of this terminal growth rate was 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 and no impairment is therefore required.

In 2019 the FundSource business was sold effective 21 June 2019, within the Direct Data CGU, resulting in an impairment charge of \$352,000.

Further information on specific assumptions (other than the general assumptions outlined above) underlying the CGU discounted cash flow analysis is set out below.

a. Clearing House

The Clearing House intangible assets relate to the clearing and depository systems software.

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 clearing values, central securities depository services and the dairy derivatives markets. Growth in equity clearing values and central securities depository services has been forecast based on historical growth rates. Dairy derivatives revenues are expected to grow between 0% to 50% p.a. (2019: 20% p.a.) during the explicit forecast period. This assumption is based on the successful implementation of the global dairy derivative partnership outlined in NZX's five year strategic plan.

b. Funds Management

The Group's funds management business, Smartshares Limited, acquired the management rights for the Smartshares exchange traded funds between 2004 - 2006 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, effective 1 January 2015, resulted in additional management rights of \$15,772,000, which are held in the Group accounts as a finite life asset amortised over 20 years, and goodwill of \$20,730,000.

The principal assumption on which the discounted cash flows are dependent is the future level of funds under management (FUM), which is assumed to grow through both net cash flows and market growth, driving FUM based revenue. FUM based revenue would have to reduce by 45% (2019: 46%) in the forecast period (where FUM is expect to increase 86%) to indicate an impairment in the intangibles carrying value. The company considers the FUM growth assumption reasonable based on historic experience and NZX's five year strategic plan.

c. Wealth Technologies

The carrying value of the Wealth Technologies CGU includes platform development and client migration costs of \$14,653,000, and related goodwill of \$1,494,000.

The principal assumptions on which the discounted cash flows for the Wealth Technologies CGU are dependent is the future level of funds under administration (FUA) which is assumed to grow through both bringing new clients on to the platforms and current client growth, driving FUA based revenue. FUA based revenue would have to reduce by 21% (2019: 24%) in the forecast period (where FUA is expect to increase 880%) to indicate an impairment in the intangibles carrying value. The Company considers the FUA growth assumptions reasonable given the start-up nature of Wealth Technologies and based on the continued interest from current, future and potential customers.

d. Energy

The carrying value of the Energy CGU includes software costs of \$2,268,000 relating to the trading, pricing, clearing and reconciliation of spot market electricity, and related goodwill of \$7,720,000.

This business has a significant reliance on service provider contracts it has in place with the Electricity Authority (EA) over the period to mid 2024, with the EA having an option to renew for a further 3 years. As a result of these service provider contracts, NZX has certainty of minimum cash flows to be received over the

contract period, along with additional contracted consulting revenue, and a reasonable expectation of contract renewal based on previous contract renewals, which supports the current carrying value of the CGU.

e. Direct data

The carrying value of the Direct Data CGU includes Company Research management rights of \$1,458,000, which are held in the Group accounts as indefinite life, as there is no expiry date for these rights and they are expected to apply indefinitely, and goodwill of \$278,000.

The principal assumptions on which the discounted cash flows for the Direct Data CGU are dependent is the future revenue growth rate which is assumed to grow (through increased volumes and price increases) at 4.6% p.a. to 7.1% p.a. (2019: 2.6% p.a. to 7.4% p.a.) during the explicit forecast period. The Company considers the revenue growth assumption reasonable based on historical experience and NZX's five year strategic plan.

6. Leases

On entering into a contract, the Group determines whether the contract contains a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Determining whether there is a right of control involves the assessment of whether the contract involves the use of an identified asset, whether the Group has the right to obtain substantially all of the economic benefits from use of that asset through the period of use, and whether the Group has the right to direct the use of the asset.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost net of any lease incentives received and is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the Group's incremental borrowing rate or the interest rate implicit in the lease, if this can be determined. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option, with a corresponding adjustment made to the carrying value of the right-of-use asset.

The Group has elected not to recognise right-of-use assets and lease liabilities for short term leases (lease term less than 12 months) or leases of low-value assets.

Detail of leases for which the Group is a lessee is presented below:

Right-of-use assets

	Property leases \$000	Other leases \$000	Total \$000
Balance at 1 January 2019	6,244	33	6,277
Additions during the year	14	673	687
Depreciation expense for the year	(974)	(164)	(1,138)
Balance at 31 December 2019	5,284	542	5,826
Additions during the year	1,830	-	1,830
Derecognition during the year	(1,312)	-	(1,312)
Depreciation expense for the year	(997)	(239)	(1,236)
Balance at 31 December 2020	4,805	303	5,108

Other leases includes leases of IT and office equipment.

During the year, the Group:

- renewed the Albany office lease, which resulted in an addition to the right-of-use assets and lease liabilities; and
- renewed its Wellington office leases. One lease was renewed with an extended lease term, which resulted in an addition to the right-of-use assets and lease liabilities. The remaining lease was renewed with a reduction in lease term, which resulted in a derecognition from the right-of-use assets and lease liabilities. The derecognition impact was a net gain on lease modification which is recognised in the income statement.

The Group also entered into a new office lease agreement commencing 1 August 2021 as a lessee, to replace the existing Auckland office lease which expires on 31 August 2021. An addition to the right-of-use assets and lease liabilities will be recognised on commencement of the lease.

Lease liabilities

	31 December 2020 \$000	31 December 2019 \$000
Maturity analysis - contractual undiscounted cash flows		
Up to one year	1,627	1,801
One to two years	1,047	1,379
Two to five years	2,605	3,591
More than five years	2,880	3,406
Total undiscounted lease liabilities	8,159	10,177
Lease liabilities included in the statement of financial position	7,104	8,611
Current	1,388	1,439
Non-current	5,716	7,172

Property leases for the Group's Wellington and Auckland offices give the Group the right to renew the lease at the end of the current contracted period for a further 6 year term.

As a lessor

On entering into a lease as a lessor, the Group assesses whether the lease transfers to the lessee substantially all of the risk and rewards of ownership of the underlying asset. Where such a transfer is assessed to occur, the lease is recognised as a finance lease; otherwise it is recognised as an operating lease.

Where the Group is an intermediate lessor, its interest in the head lease and the sub-lease are accounted for separately, with the sub-lease classification assessed with reference to the right-to-use asset arising from the head lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other corporate revenue.

The Group had sub-leased part of one of its property leases until June 2020. The sub-lease was for a short term period and therefore did not transfer substantially all of the risks and rewards of the underlying asset and was classified as an operating lease accordingly. Income related to this short term sub-lease for the current year was \$142,000 (2019: \$278,000). A maturity analysis of operating lease payments, showing the undiscounted lease payments to be received after the reporting date is set out below:

	31 December 2020 \$000	31 December 2019 \$000
Maturity analysis - contractual undiscounted cash flows		
Up to one year	-	69
Total undiscounted lease liabilities at period end	-	69

7. Segment reporting

The Group has five revenue generating segments, as described below, which are the Group's strategic business areas, and a corporate segment which has limited revenue but includes all costs that are shared across the organisation.

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group CEO. The CODM assesses performance of the combined Markets businesses (i.e. the Issuer Relationships, Secondary Markets and Data & Insights revenue generating segments) as a single segment, being an integrated business that supports the growth of New Zealand capital markets. The performance of Funds Management, Wealth Technologies and Corporate businesses are assessed separately.

Additionally, during the year the Group introduced a new regulatory model and incorporated NZX Regulation Limited, as a stand-alone, independently-governed agency which performs all of NZX's front line regulatory functions, resulting in the structural separation of the Group's commercial and regulatory roles. Consequently the CODM for the Regulation business is the NZX Regulation Limited CEO.

The reportable segments are:

- Markets:
 - Issuer Relationships - provider of issuer services for current and prospective customers;
 - Secondary Markets - provider of trading and post-trade services for securities and derivatives markets operated by NZX, and the provider of a central securities depository. As well as, Market operator for Fonterra Co-Operative Group, the Electricity Authority and the Ministry for the Environment;
 - Data & Insights - provider of information services for the securities and derivatives markets, and analytics for New Zealand's dairy sector;
- Funds Management - provider of superannuation funds, KiwiSaver funds and exchange traded funds; and
- Wealth Technologies - funds administration provider and custodian.

The Group's revenue is allocated into each of the reportable segments (including an internal allocation of annual listing fees and annual participants fees to NZ RegCo). Expenses incurred are allocated to the segments only if they are direct and specific expenses to one of the segments. The remaining expenses that relate to activities shared across the group are reported in the corporate segment.

The Group's assets and liabilities are allocated 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 2020

	Issuer Relation ships \$000	Secondary Markets \$000	Data & Insights \$000	Markets sub-total \$000	Funds \$000	Wealth Tech. \$000	Corporate \$000	NZX Commercial Operations sub-toal \$000	Regulation \$000	NZX Group Total \$000
Operating revenue	15,192	27,343	16,146	58,681	13,669	2,425	205	74,980	3,446	78,426
Operating expenses				(15,253)	(8,071)	(2,689)	(15,072)	(41,085)	(2,945)	(44,030)
Operating earnings (EBITDA)¹				43,428	5,598	(264)	(14,867)	33,895	501	34,396
Segment assets				154,746	43,090	17,495	31,026	246,357	297	246,654
Segment liabilities				(117,716)	(7,244)	(71)	(53,694)	(178,725)	(298)	(179,023)
Net assets				37,030	35,846	17,424	(22,668)	67,632	(1)	67,631

¹ EBITDA is not a defined performance measure in NZ IFRS. Please refer to Note 2 for more information.

Segmental information for the year ended 31 December 2019

Restated	Issuer Relation ships \$000	Secondary Markets \$000	Data & Insights \$000	Markets sub-total \$000	Funds \$000	Wealth Tech. \$000	Corporate \$000	NZX Commercial Operations sub-toal \$000	Regulation \$000	NZX Group Total \$000
Operating revenue	14,887	21,870	14,934	51,691	12,881	1,693	475	66,740	2,808	69,548
Operating expenses				(12,890)	(6,833)	(2,573)	(13,010)	(35,306)	(2,878)	(38,184)
Operating earnings (EBITDA)¹				38,801	6,048	(880)	(12,535)	31,434	(70)	31,364
Segment assets				127,768	40,828	13,319	30,429	212,344	227	212,571
Segment liabilities				(89,347)	(5,656)	(885)	(52,494)	(148,382)	(271)	(148,653)
Net assets				38,421	35,172	12,434	(22,065)	63,962	(44)	63,918

¹ EBITDA is not a defined performance measure in NZ IFRS. Please refer to Note 2 for more information.

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	2020 \$000	2019 \$000
New Zealand	65,050	53,781
Australia	3,438	4,135
Other	9,938	11,632
Total revenue	78,426	69,548

Non-current assets	2020 \$000	2019 \$000
New Zealand	78,355	76,158
Total non-current assets	78,355	76,158

8. Operating revenue

Revenue is recognised when an entity satisfies the performance obligation and transfers control of goods or services to a customer. Revenue is recognised at the amount of transaction price allocated to the performance obligation. The specific revenue recognition criteria for the classes of revenue are as follows:

i. Issuer Relationships

- Issuer fees consists of revenue from annual listing fees (net of an allocation to NZ RegCo), initial listing fees and subsequent capital raising fees. 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.

ii. Secondary Markets

- Participant services consist of annual participant fees (net of an allocation to NZ RegCo) 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.
- Securities trading fees arise from the trading of debt and equities securities, which are recognised at trade date.
- Securities clearing fees relate to debt and equity clearing and settlement, which are recognised at settlement date (currently two days after initial trade date).
- Dairy Derivatives fees relate to the trading and clearing of derivatives and commodities, which are recognised at trade date. Fees for derivative market settlement are recognised at settlement date (currently one day after contract expiry date).
- Market Operations revenue arises from the provision of post-trade systems and technology services for both the energy and the Fonterra Shareholders markets, and from the provision of advisory and development services for both the energy market and New Zealand's Emissions Trading Scheme managed auction services. Revenues are recognised over the period the service is provided.

iii. Data & Insight

- Securities information revenue relates to the provision of securities and derivatives market data, which is recognised over the period the service is provided.
- Dairy data subscription revenue relates to the provision of data and analysis for New Zealand's dairy sector, which is recognised over the period the service is provided.
- Connectivity revenue relates to the provision of connectivity and access to the NZX operated markets for market participants and data vendors, which is recognised over the period the service is provided.

iv. Funds Management

- Funds management revenue relates to funds under management based fees and administration fees, which are recognised over the period the service is provided.

v. Wealth Technologies

- Wealth Technologies revenue relates to platform administration fees and development fees, which are recognised over the period the service is provided.

vi. Regulation

- Regulatory services fees (including Issuer Compliance, Participant Compliance and Surveillance services) are recognised when the service is provided. Additionally, there is an allocation of annual listing fees and annual participant fees for regulatory services provided to Issuer Relationships and Secondary Markets.

vii. Corporate

- Other Corporate revenue relates to miscellaneous services provided by the Group (including advertising on nzx.com and sublease of excess office space), which is recognised over the period the service is provided.

	2020 \$000	2019 \$000
Listing fees	15,192	14,887
Total Issuer Relationships revenue	15,192	14,887
Participant services	738	687
Securities trading	5,532	3,831
Securities clearing	8,746	6,045
Dairy derivatives	1,306	1,528
Market operations	11,021	9,779
Total Secondary Markets revenue	27,343	21,870
Securities information	13,166	12,102
Dairy data subscriptions	607	727
Connectivity revenue	2,373	2,105
Total Data & Insights revenue	16,146	14,934
Funds Management revenue	13,669	12,881
Wealth Technologies revenue	2,425	1,693
Issuer compliance	727	524
Participant compliance	157	144
Surveillance	791	566
Listing fees & participants services	1,771	1,574
Total Regulation revenue	3,446	2,808
Other Corporate revenue	205	475
Total operating revenue	78,426	69,548

9. Operating expenses

	2020 \$000	2019 \$000
Gross personnel costs	(34,015)	(28,927)
Less capitalised labour	5,925	4,288
Personnel costs	(28,090)	(24,639)
Information technology	(9,292)	(7,047)
Professional fees	(3,262)	(2,180)
Marketing	(1,076)	(1,308)
Directors' fees	(450)	(418)
Remuneration paid to Group auditors	(224)	(200)
Other operating expenses	(2,994)	(3,308)
Capitalised overheads	1,358	916
Total operating expenses	(44,030)	(38,184)

There has been no change to the annual fee per director and number of directors in 2020. The increase in directors' fees is due to the appointment of two directors during 2019.

Remuneration paid to Group auditors

	2020 \$000	2019 \$000
Audit and review of NZX Group and subsidiary statutory financial statements	(177)	(156)
Total audit fees	(177)	(156)
Annual operational audit of the Clearing House	(39)	(36)
Annual depository assurance engagement of New Zealand Depository Limited	(5)	(5)
Net Tangible Assets procedures engagement of Smartshares Limited	(3)	(3)
Total other audit related services	(47)	(44)
Total remuneration paid to Group auditors	(224)	(200)

10. Net finance expense

	2020 \$000	2019 \$000
Interest income	839	1,033
Interest on lease liabilities	(395)	(414)
Other interest expense	(2,377)	(2,572)
Amortised borrowing costs	(77)	(77)
Realised gain on investment	2	6
Net (loss)/gain on foreign exchange	(29)	(129)
Net finance expense	(2,037)	(2,153)

11. Funds held on behalf of third parties

	31 December 2020 \$000	31 December 2019 \$000
Bond deposits	1,735	1,385
Collateral deposits	88,127	62,519
Funds held on behalf of clients	14,822	15,763
	104,684	79,667

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 recognised 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.

The collateral deposits represent balances deposited by participants to cover margins on outstanding settlement obligations for cash market and derivative contracts, as well as mutualised default fund contributions. Funds lodged as margin collateral and mutualised default fund contributions are interest bearing and are recognised at the amounts deposited which represent fair value. Interest earned on collateral deposits and mutualised default fund contributions is returned to participants. A collateral management fee is charged for collateral deposits only. 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 collateral deposits or mutualised default fund contributions. The funds are lodged in an interest bearing account and are recognised at the amount deposited which represents fair value. Interest earned on these funds is returned to participants. There is an equal and opposite amount disclosed under current liabilities for the total amount repayable to participants.

12. Taxation

Tax expense comprises current and deferred tax. Current and deferred tax is recognised as an expense or income in the Income Statement, as there is no current or deferred tax related to items credited or debited directly to equity or other comprehensive income.

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is recognised in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable income will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither

taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

a. Income tax expense recognised in profit or loss

	2020 \$000	2019 \$000
Tax expense comprises:		
Current tax expense	6,759	5,623
Prior period adjustment	-	5
Deferred tax relating to the origination and reversal of temporary differences	279	260
Total tax expense	7,038	5,888

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

	2020 \$000	2019 \$000
Profit before income tax expense	24,624	20,533
Income tax calculated at 28%	(6,895)	(5,749)
Non-deductible expenses	(143)	(134)
	(7,038)	(5,883)
Under provision of income tax in prior year	-	(5)
	(7,038)	(5,888)

b. Current tax liabilities

	2020 \$000	2019 \$000
Balance at beginning of the year	(1,776)	(2,222)
Current year charge	(6,759)	(5,623)
Prior period adjustment	61	35
Tax paid	6,200	6,034
Balance at end of year	(2,274)	(1,776)

c. Deferred tax liability

	2020 \$000	2019 \$000
Balance at beginning of the year	(3,366)	(3,066)
Current year movement	(279)	(260)
Prior period adjustments	(61)	(40)
Balance at end of the year	(3,706)	(3,366)
Deferred tax balance comprises:		
Employee entitlements	1,089	734
Doubtful debts	65	74
Property, plant and equipment, and software	(5,455)	(5,091)
Leases	521	772
Other	74	145
	(3,706)	(3,366)

d. Imputation credit account

	2020 \$000	2019 \$000
Imputation credits available for use in subsequent reporting periods	12,725	9,942

13. Earnings per share and net tangible assets per share

i. Earnings per share

Basic earnings per share 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 and rights issued under the various employee share plans (refer to Notes 20 and 22) is made to the weighted average number of shares used in the calculation of the diluted earnings per share.

a. Basic earnings per share

	2020	2019
Profit for the year (\$000)	17,586	14,645
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	277,201	274,293
Basic earnings per share (cents per share)	6.3	5.3

b. Diluted earnings per share

	2020	2019
Profit for the year (\$000)	17,586	14,645
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	280,228	277,313
Fully diluted earnings per share (cents per share)	6.3	5.3

ii. Net tangible assets per share

Basic net tangible assets per share is calculated by dividing the net tangible assets at year end by the weighted average number of ordinary shares outstanding during the period. An adjustment to take into account the shares and rights issued under the various employee share plans (refer to Notes 20 and 22) is made to the weighted average number of shares used in the calculation of the diluted net tangible assets per share.

a. Basic net tangible assets per share

	2020 \$000	2019 \$000
Net assets	67,631	63,918
Less:		
Goodwill	(30,222)	(30,222)
Intangible assets	(40,879)	(37,498)
Net tangible assets	(3,470)	(3,802)
Weighted average number of ordinary shares for the purpose of net tangible assets per share (in thousands)	277,201	274,293
Basic net tangible assets per share (cents per share)	(1.25)	(1.39)

b. Diluted net tangible assets per share

	2020 \$000	2019 \$000
Net assets	67,631	63,918
Less:		
Goodwill	(30,222)	(30,222)
Other intangible assets	(40,879)	(37,498)
Net tangible assets	(3,470)	(3,802)
Weighted average number of ordinary shares for the purpose of net tangible assets per share (in thousands)	280,228	277,313
Fully diluted net tangible assets per share (cents per share)	(1.24)	(1.37)

14. Cash and cash equivalents and cash flow reconciliation

a. Cash and cash equivalents

	31 December 2020 \$000	31 December 2019 \$000
Cash comprises:		
Cash at bank	18,975	12,940
Bank deposits	13,800	14,800
Cash and cash equivalents	32,775	27,740
Cash at bank - restricted	10,000	10,000
Bank deposits - restricted	10,000	10,000
Cash and cash equivalents - restricted	20,000	20,000
Cash and cash equivalents - total	52,775	47,740

Restricted cash and cash equivalents relates to balances held for risk capital requirements by the Clearing House and is not available for general cash management use by the Group.

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

	31 December 2020 \$000	31 December 2019 \$000
Profit for the year	17,586	14,645
Adjustments for:		
Share based payment arrangements	889	714
Depreciation and amortisation expense	8,293	8,595
Amortisation of borrowing costs	57	55
Disposal of business	-	77
Gain on lease modification	(558)	-
Decrease/(Increase) in receivables and prepayments	(1,834)	161
Increase in trade payables and other liabilities	5,963	689
Increase/(Decrease) in current tax liability	498	(446)
Increase in deferred tax liability	340	300
Net cash provided by operating activities	31,234	24,790

15. 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.

	31 December 2020 \$000	31 December 2019 \$000
Trade receivables	5,626	4,516
Provision for doubtful debts	(233)	(265)
Net trade receivables	5,393	4,251
Prepayments	2,920	2,260
Accrued interest	132	236
Accrued income	2,395	2,259
Total current receivables and prepayments	10,840	9,006

Movement in provision for doubtful debts

The Group 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 60 days overdue.

	2020 \$000	2019 \$000
Balance at beginning of the year	(265)	(319)
Amounts written off during the year	(4)	116
(Increase)/decrease in provision recognised in profit or loss	36	(62)
Balance at end of the year	(233)	(265)

16. Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. The cost of the 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: 2 - 10 years

- Leasehold improvements: 5 - 10 years
- Motor vehicles: 3 years

	Computer equipment \$000	Furniture and equipment \$000	Leasehold and improvements \$000	Motor Vehicles \$000	Capital work in progress \$000	Total \$000
Gross carrying amount						
Balance at 1 January 2019	4,651	1,559	2,328	-	856	9,394
Additions	234	76	-	45	353	708
Transfers from WIP	679	-	405	-	(1,084)	-
Balance at 31 December 2019	5,564	1,635	2,733	45	125	10,102
Additions	430	39	-	-	138	607
Reclassified to Intangible	-	-	-	-	(124)	(124)
Transfer from WIP	1	1	-	-	(2)	-
Balance at 31 December 2020	5,995	1,675	2,733	45	137	10,585
Accumulated depreciation						
Balance at 1 January 2019	4,216	1,410	1,008	-	-	6,634
Depreciation expense	453	92	296	15	-	856
Balance at 31 December 2019	4,669	1,502	1,304	15	-	7,490
Depreciation expense	541	83	307	18	-	949
Balance at 31 December 2020	5,210	1,585	1,611	33	-	8,439
Net Book Value						
As at 1 January 2019	435	149	1,320	-	856	2,760
As at 31 December 2019	895	133	1,429	30	125	2,612
As at 31 December 2020	785	90	1,122	12	137	2,146

17. 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.

	31 December 2020 \$000	31 December 2019 \$000
Trade payables	1,567	586
Goods and services tax payable	639	534
Accrued expenses	5,395	2,585
Accrued interest	83	77
	7,684	3,782

18. Other liabilities

	31 December 2020 \$000	31 December 2019 \$000
Employee benefits	5,937	4,277
Unearned income	7,761	7,899
Other current liabilities	478	100
Total current other liabilities	14,176	12,276
Non-current employee benefits	484	323
Total non-current other liabilities	484	323
Total other liabilities	14,660	12,599

19. Interest bearing liabilities

	31 December 2020 \$000	31 December 2019 \$000
Subordinated notes	40,000	40,000
Total drawn debt	40,000	40,000
Capitalised borrowing costs (net of amortisation)	(1,089)	(1,148)
Net interest bearing liabilities	38,911	38,852

a. Subordinated notes

The subordinated notes have a 15 year term, maturing 20 June 2033, with election dates at 5 yearly intervals from the issue date until maturity. The current interest rate (5.40%) is fixed until the first election date (20 June 2023), at which point it may be reset. Investors will also have the option to redeem their subordinated notes on each election date.

NZX may defer the payment of interest at any time at its discretion, but will be subject to penalty interest of an additional 4.0% per annum until the next interest payment date at which unpaid and deferred interest is paid.

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

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

b. Bank overdraft and revolving credit facilities

The Group has access to an overdraft facility to allow the Group flexibility in its working capital management. The facility limit is \$3.0 million (2019: \$3.0 million) and has an expiry date of 15 January 2022 (extendable by

mutual agreement). The bank may require repayment by making a written demand. The effective interest rate of the facility at 31 December 2020 was 3.19% (2019: 4.28%). The overdraft facility was undrawn at 31 December 2019 and 2020.

The Group also has access to a revolving credit facility to provide the Group with additional flexibility in its working capital management. The facility limit is \$3.0 million (2019: \$3.0 million) and has an expiry date of 15 January 2022 (extendable by mutual agreement). No amount was drawn down at 31 December 2020 and 2019.

The bank overdraft and revolving credit facilities are unsecured and contain 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.

20. Shares on issue

The Company had 278,001,131 fully paid ordinary shares as at 31 December 2020 (2019: 275,684,278 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.

The Dividend Reinvestment Plan applied to all dividends paid during the year (2019: all dividends) resulting in the issue of 1,504,877 ordinary shares (2019: 3,614,484). Additionally 811,976 shares (2019: 298,425) were issued as share based payments - refer to Note 22.

At 31 December 2020 the Company has nil restricted shares (2019: 796,938 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. Refer to Note 22.

As at 31 December 2020, the Company has 4,994,624 performance rights on issue under the Long Term Incentive Plan (2019: 3,053,459) to the members of its executive and management teams and to its CEO pursuant to its Long Term Incentive Plan. The performance rights give the holder options to acquire ordinary shares in the Company, which may be exercised if certain performance hurdles are met and the performance rights vest. Until the performance rights vest, none are quoted on the NZX Main Board. Refer to Note 22.

Movement in share capital:

	Number	\$000
Balance at 1 January 2019	271,771,369	51,066
Issue of ordinary shares	3,912,909	3,834
Share based payments accrual	-	695
Cancellation of non-vesting shares	-	(72)
Balance at 31 December 2019	275,684,278	55,523
Issue of ordinary shares	2,316,853	2,148
Share based payments accrual	-	976
Cancellation of non-vesting shares	-	(130)
Balance at 31 December 2020	278,001,131	58,517

21. Dividends

	For year ended	2020		2019	
		Cents per share	Total \$000	Cents per share	Total \$000
Dividends paid					
March 2019 - Final	31 Dec 18			3.1	8,425
September 2019 - Interim	31 Dec 19			3.0	8,237
March 2020 - Final	31 Dec 19	3.1	8,546		
September 2020 - Interim	31 Dec 20	3.0	8,321		
Total dividends paid for the year		6.1	16,867	6.1	16,662

The Dividend Reinvestment Plan applied to all dividends (fully imputed) paid during the year (2019: all dividends).

Refer to Note 27 for details of the final 2020 dividend.

22. Share based payments

a. CEO Long Term Incentive Plan

During the period there were no changes in the CEO Long Term Incentive Plan.

In 2018, the CEO was issued 1,177,894 performance rights under a long term incentive plan (CEO Long Term Incentive Plan). Each of these performance rights will give the CEO an option to acquire one ordinary share in NZX. The CEO may exercise the options if the performance rights vest. Vesting of the performance rights is dependent on NZX meeting performance hurdles in respect of total shareholder return (TSR) growth and earnings per share (EPS) growth, and on the CEO remaining an employee of the NZX Group for the duration of the five year vesting period.

Vesting of half the performance rights is dependent on TSR growth over the vesting period. TSR growth of 9.29% per annum would result in 50% of the TSR growth related performance rights being vested; TSR

growth of 11.29% would result in 100% being vested; and TSR growth between 9.29% and 11.29% results in between 50.1% to 99.9% being vested on a linear, pro-rata basis.

Vesting of the other half of the performance rights is dependent on EPS growth over the performance period from 1 January 2018 to 31 December 2021. EPS growth of 8% per annum would result in 50% of the EPS growth related performance rights being vested; EPS growth of 16% would result in 100% being vested; and EPS growth between 8% and 16% results in between 50.1% to 99.9% being vested on a linear, pro-rata basis.

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

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

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

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 and was replaced in 2018 by the NZX Employee Longer Term Incentive Plan as explained below.

Under the terms of the Team and Results Plan, NZX offered 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 were 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 transfers of shares to NZX employees and redemptions of shares under the Team and Results Plan during the year are set out below:

	Number of shares 000	Average share price \$
Balance at 1 January 2019	2,331	1.04354
Redemptions	(1,256)	1.06489
Shares transferred to NZX employees	(279)	1.02151
Balance at 31 December 2019	796	1.01759
Redemptions	(59)	1.01638
Shares transferred to NZX employees	(737)	1.01638
Balance at 31 December 2020	-	-

Total financial assistance provided by NZX under the Team and Results Plan as at 31 December 2020 was \$nil (2019: \$810,000).

NZX Employee Long Term Incentive Plan

A replacement NZX employee long term incentive plan was implemented in 2018 (NZX Employee Long Term Incentive Plan). Under the terms of the NZX Employee Long Term Incentive Plan, NZX offers selected employees performance rights, which are subject to certain entitlement criteria before performance rights may vest and the holder can acquire shares in NZX. Once vested and exercised the performance rights entitle the holder to receive one share for each performance right. If the vesting conditions are not met or waived, the performance rights will lapse.

NZX Employee Long Term Incentive Plan is offered on a three to five year term, with 1,981,961 performance rights issued to participants during 2020 (2019: 1,041,526).

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

NZX Employee Shares

During the year \$1,000 (gross) worth of NZX ordinary shares were issued to each new employee to encourage staff engagement and shareholder alignment.

23. 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 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 Group to several significant financial risks. Management of these risks is the responsibility of the Clearing Committee of the NZX Board as well as the board of directors of NZCDC. Regular reporting is provided to the NZX Board on the 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 with financial institutions;
- 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 receivable balances 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:

	31 December 2020 \$000	31 December 2019 \$000
Not past due	5,265	3,944
Past due 0 - 30 days	142	157
Past due > 30 days	219	415
Gross trade receivables	5,626	4,516

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

	31 December 2020 \$000	31 December 2019 \$000
Gross trade receivables	5,626	4,516
Individual impairment	(228)	(221)
Collective impairment	(5)	(44)
Net trade receivables	5,393	4,251

The movement in the provision for doubtful debts in respect of trade and other receivables during the year is set out in note 15.

For investment of surplus cash balances, the Group follows treasury policies that require investments to be held only with high credit quality counterparties and sets limits on the Group's exposure to individual counterparties. The individual counterparty limits are set 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 NZD. 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 Group 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.

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 interest bearing liabilities. 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 held as bank deposits at floating rates of interest or invested in short term interest bearing assets for up to 12 months. 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 short term movements in interest rates.

The interest period for the Subordinated Note (\$40m) is fixed until the first election date (20 June 2023) at which point the interest rate may be reset (refer to note 19).

As at balance date, none of the Group's investments were subject to interest periods of greater than 12 months.

An analysis of the sensitivity of the Group's earnings to movements in interest rates is shown below. As at both 31 December 2020 and 2019 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.

	2020 \$000	2019 \$000
Effect on net profit before income tax:		
1% increase in interest rate	242	403
1% decrease in interest rate	(242)	(403)

This above information is calculated using the Group's cash balances, the Group's interest bearing liabilities, and the bank balances of \$10.3 million (2019: \$31.2 million) held by the funds managed by the Group's

subsidiary, Smartshares Limited. The funds' bank balances are included as Smartshares Limited, as the manager of these funds, is entitled to a fee equivalent to the 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 interest bearing liabilities and maintaining adequate overdraft and working capital 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.

Interest bearing liabilities	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 2020	(67,000)	(2,160)	(2,160)	(6,480)	(56,200)
31 December 2019	(69,160)	(2,160)	(2,160)	(6,480)	(58,360)

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 interest bearing liabilities, approximates their carrying amounts in these accounts, with the exception of the subordinated notes, which have a fair value of \$42.73 million (2019: \$42.41 million).

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 2020, 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 \$13,943,292 cash held from such deposits at 31 December 2020 (2019: \$9,593,377).

g. Clearing House counterparty credit risk

The Clearing House acts as a central counterparty to trades undertaken on NZX's financial products 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 financial products 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 financial products 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 financial products it is acquiring.

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

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 transactions in each financial product. Margin rates for each financial product are based on the underlying characteristics of the financial product 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 and financial products (including S&P/NZX 50 listed securities). Financial products provided as collateral are subject to a prudential value discount, commonly referred to as a "haircut".

In addition, counterparty credit risk for the derivatives market is also managed through the mutualised default fund. Derivatives Clearing Participants are required to make contributions to the mutualised default fund based on the level of their uncovered stress losses. Contributions are recalculated on a quarterly basis, or as required. Contributions must be provided in NZD or USD. The mutualised default fund can be applied to meeting settlement obligations of a defaulting participant on the derivatives market.

The Group was also exposed to counterparty credit risk through New Zealand Clearing Limited (NZCL) by acting as central counterparty for securities lending transactions. As NZCL was exposed to the full principal value of each loan, NZCL required collateral to be posted equal to 105% of the loan. All loans were revalued on a daily basis and additional collateral required where appropriate. NZCL ceased offering securities borrowing and lending in March 2020.

The Clearing House is also subject to credit risk relating to the investment of cash with financial institutions, including the Clearing House's own surplus cash and risk capital as well as the collateral and mutualised default fund contributions. The Clearing House has its own treasury policy and investment policy to manage the credit risk, including limits on the Clearing Houses' exposure to individual counterparts as follows:

- Unlimited for amounts held within New Zealand Depository Limited (NZDL) Exchange Settlement Accounts (ESAS) at the Reserve Bank of New Zealand
- Up to \$300 million and 50% of total exposure with registered banks with a minimum credit rating of AA
- Up to \$200 million and 40% of total exposure with registered banks with a minimum credit rating of AA-
- Up to \$75 million and 20% of total exposure with registered banks with a minimum credit rating of A+
- Up to \$50 million and 20% of total exposure with registered banks with a minimum credit rating of A

The Clearing House must only invest in Reserve Bank of New Zealand or New Zealand registered banks, except that foreign currency can be invested in foreign bank branches that are appointed as a settlement bank.

Liquidity risk

Liquidity risk is managed through a combination of the collateral held from participants, the Clearing House's own cash reserves, a mutualised default fund applicable to the derivatives market 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 obligations of defaulted transactions. Additionally, derivatives Clearing Participants provide contributions to a mutualised default fund which can be applied to meeting settlement obligations of a defaulting participant on the derivatives market. As at 31 December 2020 the Clearing House held risk capital of \$20 million (31 December 2019: \$20 million). In addition, 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 has been extended until 30 December 2021.

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 default capital (i.e. risk capital and mutualised default fund 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. For the derivatives market, the mutualised default fund will also be applied, with the defaulting participants contributions used first, followed by \$10m of the Clearing House's risk capital, then non-defaulting participants contributions, before the final amount of the Clearing House's risk capital will be applied. The Clearing House regularly stress tests clearing participant exposures against the total amount of margin collateral and default capital resources.

Clearing balances outstanding

	31 Dec 2020 \$000	31 Dec 2019 \$000
Cash market transactions¹		
NZCL to receive from Clearing Participants - in NZD	25,562	18,294
NZCL to pay to Clearing Participants - in NZD	25,562	18,294
Aggregate absolute value of all net outstanding cash market settlement transactions - in NZD	66,426	64,243
Securities loans		
Total value of outstanding securities loans - in NZD	-	3,685
Derivative contracts		
Absolute notional value of open derivative contracts - in USD	98,872	73,127
Absolute notional value of open derivative contracts - in NZD	525,458	440,553
Collateral held to cover outstanding settlement positions		
Cash - in NZD	66,824	45,461
By way of performance bonds - in NZD	-	-
Cash held in the form of mutualised default fund contributions - in NZD	6,456	3,692

¹ All of these outstanding transactions were settled subsequent to 31 December 2020.

24. 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:

	2020 \$000	2019 \$000
Short-term employee benefits	4,640	4,548
Long-term employee benefits	161	161
Share-based payments	497	416
Resignation benefits	116	-
	5,414	5,125

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 \$450,000 (2019: \$418,000) (refer to Note 9).

c. Transactions with managed funds

Management fees are received from the funds managed by wholly owned subsidiary Smartshares Limited and are shown in the Income Statement as funds management revenue (refer to Note 8).

25. Contingent liabilities

In New Zealand there has been increased regulatory focus on market participant compliance for entities such as the Group. Accordingly, there has been an increase in the number of matters on which the Group engages with its regulators including matters such as financial market conduct, reporting and disclosure obligations, tax treatments, and product disclosure documentation. In the normal course of business the Group may be subject to actual or possible claims and court proceedings. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate are made.

There were no contingent liabilities as at 31 December 2020 and 31 December 2019.

26. Capital commitments

	31 December 2020 \$000	31 December 2019 \$000
Capital expenditure commitments:		
Software development	70	21
Hardware development	-	964
	70	985

27. Subsequent events

Dividend

Subsequent to balance date the board declared a final 2020 dividend (fully imputed) of 3.1 cents per share, to be paid on 26 March 2021 (with a record date of 12 March 2021).



Independent Auditor's Report

To the shareholders of NZX Limited

Report on the audit of 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 62 to 99:

- i. present fairly in all material respects the group's financial position as at 31 December 2020 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 2020;
- the consolidated income statement, statements of comprehensive income, changes in equity and 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) ('ISAs (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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) 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 services to the group in relation to regulatory assurance. 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 \$1,000,000 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 & other intangible assets impairment assessment

Refer to Note 5 to the Financial Report.

NZX Limited's goodwill and other intangible assets arise from acquisitions and subsequent IT investments and relate to a number of different cash generating units (CGUs) as described in Note 5 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 are 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, Funds Management and Wealth Technologies.

For the CGUs we determined to have a higher risk of impairment, we performed a combination of the below procedures:

- We compared the cash flow forecasts to budgets and assessed forecasting accuracy by comparing current year actual performance to prior year budgets. The assumptions applied both as part of and beyond the budgets were 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 or forecast inflation rates and performed stress-testing over the forecasts.
- We assessed the cost forecasts against forecast inflation rates and management's business plans for the CGUs.
- We 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 2020 of \$68 million to its market capitalisation of \$545 million at 31 December 2020, and noted implied headroom of \$477 million.

Based on our analysis, the assumptions and judgements used by the Directors in the group's impairment assessments 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.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the 2020 Highlights, Chair report, CEO report, Sustainability report, risk reporting, management commentary, 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 independent auditor's report

This independent auditor's 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 independent 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 independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, 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 a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the 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 independent 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 ISAs (NZ) 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.

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

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards

For and on behalf of

A handwritten signature in blue ink that reads 'KPMG'.

KPMG
Wellington

15 February 2021



Statutory Information

1. BUSINESS OPERATIONS

The Company's business undertakings were changed during the year with the introduction of a new regulatory model. NZX Regulation Limited was incorporated as a stand-alone, independently-governed subsidiary which performs all of NZX's frontline regulatory functions, resulting in the structural separation of the Company's commercial and regulatory roles.

There have been no other changes in 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

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

Director	Interest	Entity
Frank Aldridge	Managing Principal and Director	Craigs Investment Partners Limited
		Related entities below
	Director	CIP Holdings Limited
	Director	CIP Nominees No 1 Limited
	Director	CIP Cash Management Nominees Limited
	Director	Craigs Investment Partners Portfolio Lending Limited
	Director	DEL Management Limited
	Director	Deutsche Craigs Limited
	Director	Greenslades Limited
	Director	Hendry Nominees Limited
	Director	Hotwater Nominees Limited
	Director	NZSIF Management Limited
	Director	Pohutukawa Nominees Limited
	Director	Quaystreet Asset Management Limited
	Chairman	Wilson's Holding Co Pty Limited
Nigel Babbage	Director	Orbell Vineyards Limited
	Chair and CEO	Mohua Investments Limited
	Director	Mohua Limited

Director	Interest	Entity
Richard Bodman	Director and shareholder	Te Ahumairangi Investment Management Limited
	Director	Forsyth Barr Cash Management Nominees Limited
	Director	Forsyth Barr Custodians Limited
Elaine Campbell	General Counsel and Company Secretary	Chorus Limited
Jon Macdonald	Director	Contact Energy Limited
	Director	Mitre 10 Holdings Limited and subsidiaries
	Director	Titan Parent New Zealand Limited (Ultimate Holding Company for Trade Me Group Limited)
	Director	Sharesies Limited and subsidiaries
John McMahon	Director and Chair	Solutions Dynamics Limited
	Director	Wellington Drive Technologies Limited
James Miller	Director	Accident Compensation Corporation
	Director	Mercury NZ Limited
	Director	The New Zealand Refining Company Limited
Lindsay Wright	Director and employee	Matthews International Capital Management (Hong Kong) LLC (retired from)
	Director	Matthews International Capital Management (Shanghai) LLC (retired from)
	Director	Matthews International Capital Management (Singapore) LLC (retired from)
	CEO Funds Management	Sun Hung Kai & Co.

4. INFORMATION USED BY DIRECTORS

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 by 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 (when NZX had seven directors). In accordance with the Listing Rules, this amount may be proportionately increased to pay additional directors an amount that does not exceed the average amount paid to directors. The number of NZX directors remained at eight during the year.

Director	Role	Board fees	Total
Frank Aldridge	Director	\$50,000	\$50,000
Nigel Babbage	Director	\$50,000	\$50,000
Richard Bodman	Director	\$50,000	\$50,000
Elaine Campbell	Director	\$50,000	\$50,000
Jon Macdonald	Director	\$50,000	\$50,000
John McMahon	Director	\$50,000	\$50,000
James Miller	Chair	\$100,000	\$100,000
Lindsay Wright	Director	\$50,000	\$50,000
Total		\$450,000	\$450,000

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

- Mark Peterson
- Benjamin Phillips
- Graham Law

New Zealand Clearing Limited

- Mark Peterson

New Zealand Depository Limited

- Mark Peterson

New Zealand Depository Nominee Limited

- Benjamin Phillips

Other NZX subsidiaries

Energy Clearing House Limited

- Benjamin Phillips

Smartshares Limited

- John Williams (independent director)
- Guy Elliffe (independent director)
- Mark Peterson
- Lindsay Wright

NZX Wealth Technologies Limited

- Richard Bodman
- Mark Peterson
- Graham Law
- John McMahon
- Kathryn Jaggard

NZX Regulation Limited

- Trevor Janes
- Michael Heron QC
- Elaine Campbell
- Annabel Cotton
- John Hawkins

New Zealand Exchange Limited

- Hamish Macdonald

NZX Executive Share Plan Nominees Limited (subsidiary deregistered on 25 August 2020)

- Mark Reese (independent director)

NZX Holding No. 4 Limited

- Hamish Macdonald

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

Subsidiary director (Non-NZX directors)	Interest	Entity
Annabel Cotton	Principal	Merlin IR Consulting
Guy Elliffe	Corporate Governance	Accident Compensation Corporation
	Member of Investment Committee	Todd Corporation Limited
John Hawkins	Director	The Pines Limited
Michael Heron QC	Barrister	MHQC
Trevor Janes	Director/Chair	TIL Logistics Limited
Kathryn Jaggard	Consultant	NZX Limited
John Williams	Investment Manager	Trusts Investments Management Limited

NZX employees and directors 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 2020 is as follows:

Subsidiary director (Non-NZX directors)	Remuneration
Kathryn Jaggard	\$20,000
John Williams	\$50,000
Guy Elliffe	\$50,000
Annabel Cotton*	\$22,411
John Hawkins*	\$22,527
Michael Heron QC*	\$22,527
Trevor Janes*	\$28,151
Total	\$215,616

* All directors were appointed as a director of NZX Regulation Limited on the 12th of August 2020

8. DONATIONS

During the year NZX made donations to charitable organisations of \$4,000. NZX does not make political donations.

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 2019 year (where applicable). Directors are not included in the table below. Their remuneration is set out separately in section 5.

Remuneration range	# of Employees
100,000 - 109,999	12
110,000 - 119,999	9
120,000 - 129,999	15
130,000 - 139,999	9
140,000 - 149,999	13
150,000 - 159,999	7
160,000 - 169,999	9
170,000 - 179,999	3
180,000 - 189,999	7
190,000 - 199,999	1
200,000 - 209,999	2
210,000 - 219,999	4
220,000 - 229,999	2
230,000 - 239,999	1
240,000 - 249,999	3
250,000 - 259,999	2
260,000 - 269,999	1
270,000 - 279,999	1
290,000 - 299,999	2
300,000 - 309,999	1
330,000 - 339,999	2
360,000 - 369,999	2
370,000 - 379,999	1
430,000 - 439,999	1
600,000 - 609,999	1
1,000,000 - 1,100,000	1

10. DIRECTOR TRANSACTIONS IN SECURITIES OF THE PARENT COMPANY

Director	Securities held (legally and beneficially) at 31 December 2020 (Subordinated Notes)	Securities held (legally and beneficially) at 31 December 2020 (Ordinary Shares)
Frank Aldridge	Nil	50,000
Nigel Babbage	Nil	11,700,000
Richard Bodman	15,000	10,297
Elaine Campbell	Nil	10,405
Jon Macdonald	47,000	75,000
John McMahon	Nil	90,000
James Miller	8,000	160,000
Lindsay Wright	Nil	Nil

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 2020 was as follows:

	Group \$000
Audit of the financial statements	177
Other audit related fees	47
Total	224

Other audit-related fees relate to operational audit of NZCDC, the annual depository assurance engagement of New Zealand Depository Limited and the Net Tangible Assets procedures engagement of Smartshares Limited.

12. TOP 20 SECURITY HOLDERS

The following table shows the names and holdings of the 20 largest holders of NZX ordinary shares as at 31 December 2020:

Investor name	Shares held	% of issued shares
BNP Paribas Nominees (NZ) Limited	22,121,455	7.96
HSBC Nominees (New Zealand) Limited	17,176,294	6.18
Citibank Nominees (New Zealand) Limited	16,619,054	5.98
Forsyth Barr Custodians Limited	15,379,959	5.53
Accident Compensation Corporation	15,036,159	5.41
Nigel Charles Babbage	11,700,000	4.21
FNZ Custodians Limited	8,949,304	3.22
HSBC Nominees (New Zealand) Limited	7,333,691	2.64
David Mitchell Odlin	6,710,104	2.41
JPMORGAN Chase Bank	6,467,952	2.33
Premier Nominees Limited	5,297,899	1.91
New Zealand Depository Nominee	5,138,695	1.85
Wairahi Investments Limited	4,000,000	1.44
Custodial Services Limited	3,540,912	1.27
Mirrabooka Investments Limited	3,500,000	1.26
Elizabeth Beatty Benjamin & Michael Murray Benjamin	3,214,000	1.16
Custodial Services Limited	2,765,808	0.99
Forsyth Barr Custodians Limited	2,185,945	0.79
BNP Paribas Nominees (NZ) Limited Bpss40	2,157,158	0.78
Cogent Nominees Limited	2,035,051	0.73

The following table shows the names and holdings of the 20 largest holders of NZX Subordinated Notes as at 31 December 2020:

Investor Name	Notes held	% of issued notes
Forsyth Barr Custodians Limited	8,397,000	20.99
FNZ Custodians Limited	6,074,000	15.19
New Zealand Permanent Trustees Limited	2,680,000	6.7
JBWERE (NZ) Nominees Limited	2,517,000	6.29
Hobson Wealth Custodian Limited	1,822,000	4.56
Tea Custodians Limited	1,400,000	3.5
Custodial Services Limited	1,223,000	3.06
Custodial Services Limited	1,057,000	2.64
Graeme Laurence Beckett & Janine Dale Beckett & Alan Murray Paterson	917,000	2.29
Custodial Services Limited	858,000	2.15
Forsyth Barr Custodians Limited	473,000	1.18
Investment Custodial Services Limited	470,000	1.18
Custodial Services Limited	344,000	0.86
Rodney Gavin Shayle Callender	200,000	0.5
Custodial Services Limited	155,000	0.39
Enft Limited	150,000	0.38
Forsyth Barr Custodians Limited	127,000	0.32
FNZ Custodians Limited	126,000	0.32
Graham Nicholas Law	113,000	0.28
Craig John Thompson	100,000	0.25
Janine Dale Beckett	100,000	0.25
JBWERE (NZ) Nominees Limited	100,000	0.25
Erudite Holdings Limited	100,000	0.25
Somsmith Nominees Limited	100,000	0.25
William Robert Mortlock & Joanne Elizabeth Mortlock	100,000	0.25

13. SPREAD OF ORDINARY SHAREHOLDERS AS AT 31 DECEMBER 2020

The following table shows the spread of NZX Ordinary Shares as at 31 December 2020:

Size of holding	Shareholders		Shares	
	Number	%	Number	%
1-1000	574	12.98	333,453	0.12
1001-5000	857	19.38	2,687,830	0.97
5001-10000	1,018	23.03	8,091,261	2.91
10001-50000	1,573	35.58	35,026,201	12.60
50001-100000	232	5.25	16,527,416	5.94
Greater than 100000	167	3.78	215,334,970	77.46
Total	4,421	100	278,001,131	100

The following table shows the spread of NZX Subordinated Notes as at 31 December 2020:

Size of holding	Noteholders		Notes	
	Number	%	Number	%
1-1000	-	-	-	-
1001-5000	66	11.66	330,000	0.83
5001-10000	155	27.39	1,410,000	3.53
10001-50000	310	54.77	7,638,000	19.09
50001-100000	17	3.00	1,353,000	3.38
Greater than 100000	18	3.18	29,269,000	73.17
Total	566	100	40,000,000	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 2020. The total number of voting securities on issue as at 31 December 2020 was 278,001,131.

	Class	Relevant Interest	% of Issued shares
Aberdeen Standard Investments (Asia) Pty	Ordinary shares	24,378,860	8.77
Accident Compensation Corporation (ACC)	Ordinary shares	14,628,316	5.26

15. WAIVERS FROM LISTING RULES AND INDEPENDENT DIRECTOR CERTIFICATES

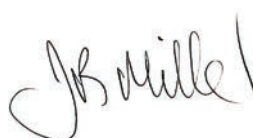
Not applicable.

16. SECURITIES ISSUED BY NZX

NZX's ordinary shares are quoted on the NZX Main Board. In 2018 NZX introduced an employee share scheme and CEO share scheme based on the issue of performance rights, which are subject to certain entitlement criteria before performance rights may vest and the holder can acquire shares in NZX. For as long as performance rights issued under these schemes are subject to these restrictions they, and any shares which may be issued following the exercise of performance rights, are not quoted on any market and will not be quoted on any market until such time as they vest in the relevant participants.

In 2018 NZX issued \$40 million of unsecured, subordinated notes with a coupon rate of 5.4%. These notes are quoted and traded on the NZX Debt Market as NZX010.

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



James Miller
Chair of the Board



Lindsay Wright
Chair of the Audit and Risk Committee

Corporate directory

Getting in touch

Board of Directors

James Miller (Chair)
Frank Aldridge
Nigel Babbage
Richard Bodman
Elaine Campbell
Jon Macdonald
John McMahon
Lindsay Wright

Chief Executive Officer

Mark Peterson

Chief Financial Officer

Graham Law

General Counsel and Company Secretary

Hamish Macdonald

Registered Office

NZX Limited
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Auditors

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Share Register

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