NZX Interim Report 2019

CONNECTING CAPITAL SO NEW ZEALAND CAN GROW

NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Contents

First half results at a glance

Operating earnings from continuing operations*
$14.4 million
▲ 4.3%

Net Profit After Tax**
$6.4 million
▲ 45.8%

Dividend

Interim
3.0 cents per share

Capital raised (total new capital and secondary capital raised)
$7.7 billion
▲ 73.5%

Total Data & Insights revenue
$6.3 million
▲ 13.9%

Total value traded
$18.4 billion
▼ 9.7%

Dairy derivatives
▲ 187,610 lots traded
27.5%

Funds under management
$3.5 billion
▲ 19.4%

Funds under administration
$2.1 billion
▲ 86.4%

* Operating earnings are before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, gain and loss on disposal of business and property, plant and equipment.

** From continuing and discontinued operations

The 2019 deliverable targets are detailed in the management commentary section of the 2019 Interim Report

Percentage changes represent the movement from June 2018 to June 2019

MOMENTUM IS BUILDING

CEO Report

Group results at a glance

Operating earnings from continuing operations
$14.4 million, up 4.3%

Net Profit After Tax
$6.4 million, up 45.8%

Capital raised
$7.7 billion, up 73.5%

Value traded
$18.4 billion, down 9.7%

Derivatives lots traded
187,610, up 27.5%

Data & Insights revenue
$6.3 million, up 13.9%

Funds under management
$3.5 billion, up 19.4%

Funds under administration
$2.1 billion, up 86.4%

Nau mai haere mai ki te Paehoko o Aotearoa.

Welcome to the 2019 interim report of New Zealand's Exchange.

The first six months of 2019 demonstrate we remain on track and are delivering for shareholders.

The overall performance of the New Zealand market has been strong, with the S&P/NZX 50 up 17.4% at the end of June 2019. The S&P/NZX50 reached an all-time high of 10,501 in June, which has since been surpassed.

NZX's growth opportunities are gaining traction

Nau mai haere mai ki te Paehoko o Aoteroa.

NZX's first half FY2019 result indicates the company is gaining traction with a number of its growth initiatives. Furthermore, the changes NZX has implemented to improve market structure, rules and pricing are progressively beginning to manifest in improved operational metrics. As can be seen from the first half results at a glance on page 3, the company's key operational metrics were generally very positive. Equity markets were strong – the S&P/NZ50 Gross index increased by 19.3% during the first six months and hit an all-time high in June 2019 – the number of trades on NZX increased by 15.1% but this did not translate through into the value traded on NZX which declined 9.7%. A number of factors influence value traded, including periodic re-weightings of NZX stocks in large global indices, so this metric can be volatile.

In addition to the changes NZX has introduced to improve market operations and efficiency, the company is supporting Capital Markets 2029, an industry-driven review aimed at removing blockages to market growth and investor participation. NZX is one of the key financial infrastructure providers to New Zealand's capital markets ecosystem and we expect Capital Market 2029 initiatives should benefit public markets and the company.

The company and directors remain extremely focused on improving shareholder returns through both revenue growth initiatives and managing costs.

Financial Commentary
NZX's operating earnings from continuing operations have increased to $14.4 million which is up 4.3% over the same period last year. The management commentary provides a breakdown of NZX's financial results by business unit.

NZX's revenue is showing solid growth across all business units, with the exception of Trading. This was impacted by two factors. Firstly, as anticipated, the changes to our fee structure in October 2018 is facilitating increased levels of automation that trading firms are employing. We expect this to continue delivering growth over time as new trading firms, and trading volumes, are attracted to NZX's markets. The price changes also support the continued improvement in the proportion of on-market trading. Secondly, there was a reduction in overall traded value over the first six months (as noted in the results at a glance on page 3) mainly due to fewer large re-weightings of NZX stocks in large global indices. Operating expenses have been well managed, with overhead costs in Corporate Services decreasing. Expenses have risen in Funds Management to support growth (new ETFs and investor numbers up 10.1%) and in Secondary Markets as part of meeting NZX's regulatory obligations to FMA.

The net result was an increase of 4.3% in operating earnings, a pleasing result given the revenue headwind created by the drag from lower trading value and the changes to trading and clearing fees made in October 2018. NZX's amortisation charge is rising as a result of investments in the Wealth Technologies' platform and net finance expenses increased due to the subordinated note (issued in June 2018 to provide regulatory capital required to support NZX's Clearing House operation). The combined effect of the increases in amortisation and net finance costs resulted in a net profit after tax from continuing operations of $6.4 million.

Dividend
An interim dividend of 3.0 cents per share has been declared by the Board, fully imputed. It will be paid on 13 September 2019. The dividend reinvestment plan is available at a discount rate of 1%.

Listed Issuers
The first half saw an updated market structure and rule set introduced from 1 January with a six month transition period. This allowed closure of the NZAX and NXT boards on 30 June and those companies migrated to the Main Board, simplifying markets from both a regulatory and investor perspective. The new rules facilitated an easier process for raising capital and this has already been utilised by a broad range of issuers.

The first half saw buoyant issuance, particularly for debt:

- 10 retail debt issues to raise $2.5 billion, including:
  - 2 green bonds issued to raise $200 million
- 5 wholesale bonds totaling $1.5 billion, including:
  - 1 sustainability bond for $500 million
- 8 funds, all ETFs by Smartshares (with BlackRock)
- 1 equity IPO
- secondary equity capital raised increased 32.6%

The wholesale bond issuance was made possible by the updated market structure and rule set, an initiative from NZX's 2017 strategic plan. The burgeoning retail debt market provides issuers with a credible alternative to bank debt and this aspect of the market is likely to see ongoing growth.

The new ETF issuance has been facilitated by a bespoke set of rules for funds, which significantly lowered fund listing costs. The increased range of ETFs offers investors access to a broader range of sectors and asset classes. Further new ETF issuance to extend the current product range is expected.

NZX is looking forward to the listing of Napier Port which is anticipated later in August 2019. The company is aware of other potential listings.

NZX's long term goal is to become a diverse capital raising centre, not just an IPO centre. There has been $7.7 billion of capital raised across NZX's equity, debt and funds markets in the first half of the year. NZX will continue to market the benefits of listing across all product classes to support this momentum in the second half of the year.

Trading (Secondary Markets)

A key objective for secondary markets has been to improve on-market liquidity to enhance market integrity and price transparency. Pricing changes during 2018, along with broker trading policy amendments, were aimed at improving the proportion of value that is traded on-market and these, along with greater automated computer (algorithmic) trading, are the main drivers behind the increase in the number of trades.

The proportion of trading on-market is increasing and it reached a record high of 61.1% of total market value traded in the month of June 2019. This assists market efficiency and price discovery along with providing improved liquidity for smaller investors.

One aspect of the trading policy change required brokers to deliver a price improvement for any crossing below $50,000. This has succeeded with more than 3,000 trades creating more than $140,000 in price improved outcomes for investors.

Another aspect of the changes was to make NZX's markets more attractive to a broader range of participants and investors. To illustrate this, NZX was pleased to welcome Sharesies as a trading and clearing participant in June. We expect Sharesies will enable wider engagement with a newer generation of investors and service a market that is different from that historically reached by existing brokers. BNP Paribas Securities was accredited as a depository participant in May. FlexTrade, an independent software vendor, will improve NZX's access and connectivity options for professional traders and brokers to both the cash and derivatives markets.

The pipeline for new market participants is strong, as we continue to target and work with prospects that will connect NZX to a wider range of investors and capital pools.

Trading includes Dairy Derivatives. Volume growth of lots traded of 27.5% means NZX's business is the fastest growing dairy derivatives business globally. The current year has seen the highest volume trading day, week and month in the businesses' history. A new extended-hours trading session was introduced to capture additional volume from Asia and Europe and more than 50% of trades have taken place in that session.

NZX has undertaken national roadshows to educate farmers on how milk price risk can be managed, and has created a series of videos covering derivative concepts, along with a derivative margin calculator. Milk price futures and options contracts were introduced in 2016; volumes have grown 19% and unique end users have risen 36% annually.

NZX Interim Report 2019

Data & Insights

The provision of market information (such as pricing, depth, company news releases) to domestic and international users is an important aspect of NZX's business. Data is an area that is growing for many stock exchanges globally and NZX is no exception. Royalties from terminals increased 5.6% and subscription and licence revenue has grown 22.9%.

Funds Management

Smartshares' funds under management grew 19.4% to $3.5 billion and member numbers increased 10.1%. Net cash inflows rose 8.1% to $174.4 million. Eight new ETFs were listed late in the half enabling New Zealanders to invest based on global sectors, environmentally and socially responsible factors, and global bonds for the first time. Further ETFs are planned.

Smartshares is building a presence in the Pacific. The Nauru Superannuation Scheme has over 3,600 employees and two new funds have been established to support retirement savings in Tonga.

The major trends that should provide future growth in funds management are the steady move to low-cost, passive funds and growth in KiwiSaver. Additionally, Smartshares should gain additional revenue growth on top of these trends as it adds further ETF products, all subject to market movements affecting funds under management. This structural growth outlook for funds management will require ongoing additional investment for product development, distribution, staffing to manage growing member numbers, and IT infrastructure to efficiently service this growth.

Wealth Technologies

Wealth Technologies is a business that now has $2.1 billion of funds under administration. The foundation customer is progressively moving to use Wealth Technologies' new platform in a phased approach and a healthy pipeline of potential customers exists. The platform is continually being developed to offer further functionality and administrative capability in order to take advantage of the current market opportunity. This business is highlighted further on page 8.

NZX People

NZX's engagement level with staff continues to improve, rising for the sixth successive survey since 2016.

The Wider Investment Community

NZX holds retail investor evenings across New Zealand. These involve presentations from listed issuers and are attracting increasing numbers of attendees. NZX's objective is to encourage awareness of capital markets and investment options and improve investor education. NZX has over 50,000 MyNZX subscribers to whom we regularly supply market updates, company profiles and news about NZX, its clients and events.

To recognise that the antecedent stock exchanges in New Zealand – that developed into NZX – are now over 150 years old (the first was most likely in Dunedin in 1866) we have commissioned a book covering the more recent history of NZX.

NZX looks forward to the release of the Capital Markets 2029 report to determine the role NZX can play in implementing the recommendations.

FY2019 Earnings Outlook

NZX's first half results are in line with the board's expectations. NZX reiterates its expectation for full year EBITDA to be in the range of $28 to $31 million.

This guidance is subject to the usual caveats around market outcomes, particularly market capitalisation, total capital raised, secondary market value and derivatives volume traded and funds under management growth, along with no material adverse events, significant one-off expenses, major accounting adjustments, other unforeseeable circumstances or future acquisitions or divestments.

Mark Peterson, Chief Executive

SPOTLIGHT ON

NZX Wealth Technologies

NZX Wealth Technologies' Chief Executive Lisa Brock provides an update on the wealth platform business and its growth over the past 18 months.

Wealth Technologies is one of NZX's growth engines

Wealth Technologies delivers online platform functionality to enable New Zealand investment advisers and providers to efficiently manage, trade and administer their client's assets. Wealth Technologies provides custom built platforms for larger organisations and a turn-key solution for boutique organisations. Wealth Technologies also provides a comprehensive range of web reporting services and investment administrative services.

Wealth Technologies entered the market in 2018 with a scalable platform that offers comprehensive functionality and a first class service offering.

This industry is ready for new solutions, and our team is currently managing a strong sales pipeline opportunity in excess of $40 billion in funds under administration.

Our growth so far

2018 was a standout year for Wealth Technologies, launching its core platform and developing its highly skilled team with the on-boarding of its foundation customer.

In 2019, we have continued to build capability to execute new customer projects going forward. Growth in funds under administration increased 70% in 2018 to $1.9 billion, and in the first half of 2019 by 6% to $2.1 billion.

Our competitive advantage

The New Zealand opportunity is significant because our platform helps to enable capital markets. The key points of difference include:

- fully integrated New Zealand tax and sole wrap provider offering KiwiSaver;
- solution flexibility caters to different business models;
- technology allows for agile development; and
- strong integrated reporting functionality allows customisation of look and feel for brand consistency.

Our platform provides wealth managers with significant efficiencies when maintaining, and reporting, on their customers' investment portfolios.

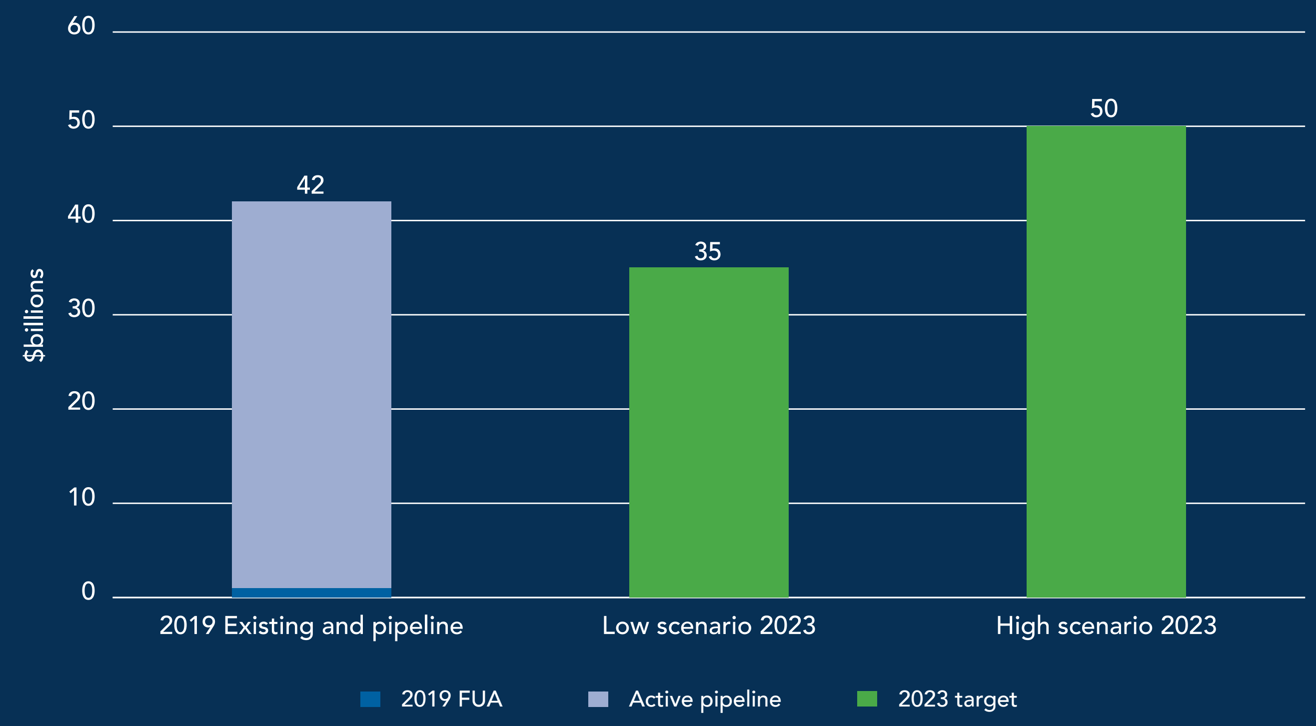
Our offering is unique in New Zealand because we offer access to the platform via a:

- custody and operations services: we operate the platform for our customers; or
- technology services: our customers operate the platform, we support it.

Our growth aspirations

The funds under administration opportunity for Wealth Technologies is significant. We estimate the total size of the market is approximated $87 billion, which provides plenty of potential future growth.

Funds under administration opportunity



Management Commentary

Financial results for the half year ended 30 June 2019

Mark Peterson, Brooke Roberts, Alison Gerry, Leighton Roberts, Benjamin Phillips and Sonya Williams at the Sharesies accreditation event in Wellington.

Overview

A breakdown of NZX's financial results by business unit (adjusting 2018 fund expenses to be netted against revenue for comparability - refer to footnote 3 below) is summarised in the following table:

Six months ended 30 June 2019 $000	Issuer Relationships	Secondary Markets	Data & Insights	Funds	Wealth Technologies	Corporate Services[1]	Total continuing operations	Agri (discontinued operations)	Total
Operating revenue	12,115	7,070	6,349	6,305	838	186	32,863	-	32,863
Operating expenses	(2,667)	(3,156)	(927)	(3,120)	(1,024)	(7,524)	(18,418)	-	(18,418)
Operating earnings[2]	**9,448**	**3,914**	**5,422**	**3,185**	**(186)**	**(7,338)**	**14,445**	**-**	**14,445**
FTEs	36.6	29.7	9.5	47.5	36.0	60.3	219.6	-	219.6
Operating margin	**78.0%**	**55.4%**	**85.4%**	**50.5%**	**(22.2%)**	**N/A**	**44.0%**	**-**	**44.0%**

Six months ended 30 June 2018 $000	Issuer Relationships	Secondary Markets	Data & Insights	Funds[3]	Wealth Technologies	Corporate Services[1]	Total continuing operations Restated[4]	Agri (discontinued operations)	Total Restated[4]
Operating revenue	11,500	8,546	5,574	5,355	483	-	31,458	3,803	35,261
Operating expenses	(2,544)	(2,640)	(850)	(2,855)	(1,034)	(7,679)	(17,602)	(3,088)	(20,690)
Operating earnings[2]	**8,956**	**5,906**	**4,724**	**2,500**	**(551)**	**(7,679)**	**13,856**	**715**	**14,571**
FTEs	36.4	28.4	10.0	45.1	38.5	61.9	220.3	18.5	238.8
Operating margin	77.9%	69.1%	84.8%	46.7%	(114.1%)	N/A	44.0%	18.8%	41.3%

1 Corporate Services provides legal, accounting, IT, HR and communications and marketing support to the other business units. Related costs are currently not recharged to these businesses.
2 Operating earnings are before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, gain and loss on disposal of business and property, plant and equipment.
3 The funds management operating model for Smartshare changed (October 2018) to align with SuperLife; fund expenses are now incurred by the funds and FUM based revenue is now received net of fund expenses. Consequently June 2018 has been restated in the table above to ensure comparability of operating revenue and expenses (both restated by $1.965m).
4 The June 2018 financial results have been restated for the adoption of the new accounting standard NZ IFRS16 Leases (operating expense restated for Wealth Technologies $0.0576m and Corporate Services $0.582m). Refer to Note 5 in the interim financials statements).

Operating Earnings from continuing operations has increased 4.3% to $14.445 million, with:

- operating revenue increasing 4.5% to $32.863 million; and
- operating expenses increasing 4.6% to $18.418 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 2019 are summarised in the table below:

		External dependencies	2019 deliverables	2019 YTD Actual
NZX Group	Operating earnings[1]		$28 - $31 million	$14.4 million (up 4.3%)
Core Markets				
Issuer Relationships	Capital raised (total primary and secondary capital issued or raised for Equity, Funds and Debt)	• Listing ecosystem dependent on others • No major market correction	$9.1 billion (average of two prior years)	$7.7 billion (up 73.5%)
Secondary Markets	Total value traded	• Participant activity levels drive value traded • No major market correction	$41.0 billion	$18.4 billion (down 9.7%)
	Dairy Derivatives lots traded	• Participant activity levels drive lots traded	0.45 million lots	187,610 lots (up 27.5%)
Data & Insights	Revenue growth (in subscriptions, licenses and dairy subscriptions changing revenue mix)	• Dependent on core markets growth	License growth: 10% Dairy subscription product growth: 24%	Subscriptions and license revenue growth: 22.9% Dairy subscription revenue growth: 2.3%
Funds Management	Total Funds Under Management	• Investment market returns impacts FUM (all asset classes) • No major market correction	Continue three year rolling average growth: 14%	$3.5 billion (up 19.4%)
Wealth Technologies	Total Funds Under Administration	• Investment market returns impacts FUA (all asset classes) • No major market correction	Extending core platform to allow for market growth (e.g. Phase 2 including DIMs advisor functionality)	$2.1 billion (up 86.4%)

1 Operating earnings are from continuing operations and before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, gain and loss on disposal of business and property, plant and equipment.

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 despite delistings.

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 period have been driven by strong debt listings (retail and wholesale); with total new capital listed of $4.05 billion up 140.3% on the comparative period.

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 raised; with total additional capital raised of $3.65 billion up 32.6% on the comparative period.

Other issuer services revenue arises from time spent by NZX Regulation reviewing listing and secondary capital raising documents, requests for listing rule waivers, and other significant issuer matters.

Contractual and 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). Earning consulting and development revenue through systems enhancements has been a focus post completion of the electricity market operator upgrade program in late 2018.

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 remained unchanged, with BNP Paribas Securities Services Australia becoming accredited for cash market depository services, Sharesies being accredited as a cash trading and clearing participant, and the consolidation of markets (i.e. NZAX and NXT into the Main Board) resulting in the removal of NZAX Sponsors and NXT Advisors.

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, as anticipated, been impacted by the fee changes effective 1 October 2018; which were implemented to improve market liquidity and attract new participants, which in time will deliver growth. Additionally the total value traded and cleared ($18.4 billion) is 9.7% lower than the comparative period. Revenue was adversely impacted by trading patterns which have seen large peaks across index rebalance periods and lower turnover in-between relative to the comparative period, resulting in:

- The trading fees cap resulting in greater uncharged value traded; and
- The clearing fees tiered structure resulting in lower average clearing fees.

The fee structure has been updated (from 1 July 2019) to address these issues (e.g. trading fee cap has been raised).

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 increased in line with the 27.5% growth in lots traded.

Data & Insights

Royalties from terminals relate to the provision of capital markets data to global data resellers who incorporate the data into their own subscription products. Royalties from terminals increased revenue relates to growth in terminal numbers.

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 22.9% relates to the growth in high value subscription and licence numbers.

Dairy data subscriptions relate to the sale of dairy data and analytical products. Dairy data subscription arrangements have been renegotiated resulting in a lower number of higher value subscriptions,generating a 2.3% increase in revenue.

Funds Management

Funds management revenue is generated from:

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

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

FUM based revenue has only been recognised net of fund expenses since the operating model change in October 2018 (to align the Smartshares and SuperLife operating models). The comparable funds FUM based revenue has increased 23.3% driven by:

- higher average FUM over the period, arising from a combination of market returns and positive net cash flows ($175.4 million). FUM at 30 June 2019 has grown to $3.455 billion up 19.4% on the comparative period; and

- fund expense efficiencies achieved through the changed operating model and improvements to supplier arrangements.

Investor numbers (ETFs and SuperLife) have increased 10.1% resulting in an increase in member based revenue.

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 – started earning fees in November 2018 when the foundation customer transitioned phase one to the new platform, increasing the FUA; offset by

- OE platform – the number of customers unchanged, however there has been a decrease in their FUA.

FUA at 30 June 2019 has grown to $2.109 billion up 86.4% on the comparative period.

Operating Expenses

Personnel costs

Personnel costs are made up of:

- Salary costs (including bonuses, commissions, ACC levies and KiwiSaver contributions); and

- Contractor and other personnel costs (including training, recruitment and staff benefits); and

- Less capitalised labour (where employees or contractors are engaged on capital projects).

Personnel costs have increased due to a combination of wage inflation, short term contractor resources (e.g. assisting with the delivery of increased energy consulting activity) and the movement in average FTEs arising from:

- the vacancy numbers at each period end;

- the additional strategic roles created through 2018; including the refocus to be client centric, plus additional FTEs to strengthen cyber security and marketing capabilities, and address recommendations set out in the Financial Markets Authority Annual Market Operator Obligations Review; and

- Smartshares additional sales resources and to on board new business; in line with the strategic focus.

Capitalisation of internal development resources (2019: $2.07 million; 2018: $2.06 million) primarily relates to Wealth Technologies' core platform and NZX's trading system upgrade.

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.

Efficiency gains from prior year projects (e.g. through modernised and rationalised data centre hosting) have been used to support further business initiatives (e.g. increased cyber security) and produced lower costs in the current period.

Professional Fees

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

- Smartshares investments for growth e.g. costs associated with the SuperLife Invest unitisation, setting up the Blackrock iShare new ETFs and the extension of the SuperLife Pacific Series;

- 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, and the NZX corporate centre (which supports the core exchange businesses). Smartshares has increased its marketing campaigns to attract new investors/ members and is assessing its branding awareness. NZX increased its investor relations deliverables and broader communications and marketing efforts to support sales.

Fund Expenditure

The fund expenses (e.g. custodian fees, trustee fees, index fees, settlement costs and third party manager fees) are now incurred directly by the funds since the operating model change in October 2018.

Other Expenses

Other expenses relate to premises costs, insurance, directors fees, travel, external audit costs, outsourced payroll system, corporate memberships, statutory/compliance costs and non recoverable GST (on the funds management and Wealth Technologies businesses). Other expenses have had inflationary increases.

Capitalised overheads

The portion of all expense categories which relate to capital activities (e.g. Wealth Technologies core platform) has decreased slightly.

Non-operating Income and Expenses

Net finance expense comprises interest income (on cash balances, Clearing House risk capital and regulatory working capital), interest expenses (on the subordinated note, loans, overdrafts and lease liabilities), unrealised fair value gain on investment and foreign exchange gains/(losses). Increased net finance costs result from the subordinated notes issued on 20 June 2018.

Depreciation and amortisation expenses have increased due to the commencement of amortisation of the Wealth Technologies core platform from November 2018 when the first customer migrated to the platform.

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

Discontinued operations relate to the operating results (including impairment of goodwill and intangibles) of the non-dairy agri businesses (Farmers Weekly, AgriHQ and the Australian based Grain Information Unit Agreements).

Minister Kris Faafoi addressing the audience at an NZX 150 year celebration event in Wellington.

Financial Statements

Notes to the Financial Statements

Income statement

For the six months ended 30 June 2019

	Note	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 Restated* $000	Audited 12 months ended 31 Dec 2018 Restated* $000
Operating revenue	6	32,863	33,423	67,493
Operating expenses	7	(18,418)	(19,567)	(38,931)
Earnings before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, loss on disposal of businesses and property, plant and equipment		**14,445**	**13,856**	**28,562**
Net finance expense	8	(984)	(408)	(1,279)
Depreciation and amortisation expense		(4,281)	(3,509)	(7,216)
Loss on disposal of businesses and property, plant and equipment	4	(91)	-	(1)
Impairment expense	4	-	-	(352)
Adjustment to provision for earnout		-	15	15
Profit before income tax		**9,089**	**9,954**	**19,729**
Income tax expense		(2,641)	(3,006)	(6,056)
Profit from continuing operations		**6,448**	**6,948**	**13,673**
Loss from discontinued operations (net of tax)	3	-	(2,524)	(2,024)
Profit for the period		**6,448**	**4,424**	**11,649**
Earnings per share				
Basic (cents per share)		2.4	1.6	4.3
Diluted (cents per share)		2.3	1.6	4.3
Earnings per share - continuing operations				
Basic (cents per share)		2.4	2.6	5.1
Diluted (cents per share)		2.3	2.6	5.0

Statement of comprehensive income

For the six months ended 30 June 2019

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 Restated* $000	Audited 12 months ended 31 Dec 2018 Restated* $000
Profit for the period	6,448	4,424	11,649
Other comprehensive income recognised through equity			
Foreign currency translation differences	(2)	(125)	(170)
Total other comprehensive income	(2)	(125)	(170)
Total comprehensive income for the period	**6,446**	**4,299**	**11,479**

* Restated for the adoption of the new accounting standard NZ IFRS 16 *Leases,* see Note 5.

The accompanying notes form an integral part of these financial statements

Statement of changes in equity

For the six months ended 30 June 2019

	Note	Share Capital $000	Retained Earnings $000	Translation Reserve $000	Total Equity $000
Balance at 1 January 2018, as previously reported		**47,451**	**21,147**	**125**	**68,723**
Impact of adoption of NZ IFRS 16 - Leases	5	-	(2,104)	-	(2,104)
Restated balance at 1 January 2018		**47,451**	**19,043**	**125**	**66,619**
Profit for the period		-	4,424	-	4,424
Foreign currency translation differences		-	-	(125)	(125)
Restated total comprehensive income for the period		**-**	**4,424**	**(125)**	**4,299**
Transactions with owners recorded directly in equity:					
Dividends paid	12	-	(8,323)	-	(8,323)
Issue of shares		283	-	-	283
Share based payments		291	-	-	291
Cancellation of non-vesting shares		(120)	120	-	-
Total transactions with owners recorded directly in equity		**454**	**(8,203)**	**-**	**(7,749)**
Restated unaudited closing balance at 30 June 2018		**47,905**	**15,264**	**-**	**63,169**
Profit for the period		-	7,225	-	7,225
Foreign currency translation differences		-	-	(45)	(45)
Restated total comprehensive income for the period		**-**	**7,225**	**(45)**	**7,180**
Transactions with owners recorded directly in equity:					
Dividends paid	12	-	(12,103)	-	(12,103)
Issue of shares		2,918	-	-	2,918
Share based payments		243	-	-	243
Total transactions with owners recorded directly in equity		**3,161**	**(12,103)**	**-**	**(8,942)**
Restated audited closing balance at 31 December 2018		**51,066**	**10,386**	**(45)**	**61,407**
Profit for the period		-	6,448	-	6,448
Foreign currency translation differences		-	-	(2)	(2)
Total comprehensive income for the period		**-**	**6,448**	**(2)**	**6,446**
Transactions with owners recorded directly in equity:					
Dividends paid	12	-	(8,424)	-	(8,424)
Issue of shares		2,459	-	-	2,459
Share based payments		274	-	-	274
Cancellation of non-vesting shares		(72)	72	-	-
Total transactions with owners recorded directly in equity		**2,661**	**(8,352)**	**-**	**(5,691)**
Unaudited closing balance at 30 June 2019		**53,727**	**8,482**	**(47)**	**62,162**

The accompanying notes form an integral part of these financial statements

Statement of financial position

As at 30 June 2019

	Note	Unaudited 30 June 2019 $000	Unaudited 30 June 2018 Restated* $000	Audited 31 Dec 2018 Restated* $000
Current assets				
Cash and cash equivalents		15,785	18,307	25,385
Cash and cash equivalents - restricted	9	20,000	20,000	20,000
Funds held on behalf of third parties		71,309	89,373	56,705
Current investment	10	83	-	-
Receivables and prepayments		22,258	21,944	9,217
Assets held for sale	4	-	5,606	-
Total current assets		**129,435**	**155,230**	**111,307**
Non-current assets				
Property, plant & equipment		2,870	2,195	2,760
Right-of-use lease assets	5	6,421	6,673	6,277
Goodwill		30,222	30,222	30,222
Other intangible assets		36,716	34,335	36,505
Total non-current assets		**76,229**	**73,425**	**75,764**
Total assets		**205,664**	**228,655**	**187,071**
Current liabilities				
Funds held on behalf of third parties		71,309	89,373	56,705
Trade payables		4,489	6,508	3,798
Other liabilities - current		15,355	16,332	11,683
Lease liabilities	5	1,390	1,099	1,145
Current tax liability		806	467	2,222
Liabilities held for sale	4	-	1,055	20
Total current liabilities		**93,349**	**114,834**	**75,573**

* Restated for the adoption of the new accounting standard NZ IFRS 16 *Leases,* see Note 5.

Statement of financial position (continued)

As at 30 June 2019

	Note	Unaudited 30 June 2019 $000	Unaudited 30 June 2018 Restated* $000	Audited 31 Dec 2018 Restated* $000
Non-current liabilities				
Non-current other liabilities		242	109	161
Lease liabilities	5	7,887	8,640	8,067
Interest bearing liabilities	11	38,824	38,770	38,797
Deferred tax liability		3,200	3,133	3,066
Total non-current liabilities		**50,153**	**50,652**	**50,091**
Total liabilities		**143,502**	**165,486**	**125,664**
Net assets		**62,162**	**63,169**	**61,407**
Equity				
Share capital		53,727	47,905	51,066
Retained earnings		8,482	15,264	10,386
Translation reserve		(47)	-	(45)
Total equity attributable to shareholders		**62,162**	**63,169**	**61,407**
Net tangible assets per share (cents per share)		(1.75)	(2.51)	(1.97)

* Restated for the adoption of the new accounting standard NZ IFRS 16 *Leases,* see Note 5.

Approved on behalf of the Board of Directors on 12 August 2019.

J B Miller
Chair of the Board

Lindsay Wright
Chair of the Audit and
Risk Committee

Statement of cash flows

For the six months ended 30 June 2019

	Note	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 Restated* $000	Audited 12 months ended 31 Dec 2018 Restated* $000
Cash flows from operating activities				
Receipts from customers		24,696	30,495	73,782
Net interest paid		(902)	(421)	(1,203)
Payments to suppliers and employees		(18,720)	(20,319)	(42,846)
Income tax paid		(3,923)	(3,671)	(4,800)
Net cash provided by operating activities		**1,151**	**6,084**	**24,933**
Cash flows from investing activities				
Lease payments received from finance leases	5	-	98	196
Net cash (paid on acquisition)/received on disposal of businesses		-	(9,419)	(5,449)
Payments for investment	10	(80)	-	-
Payments for property, plant and equipment		(494)	(209)	(1,181)
Payments for intangible assets		(3,585)	(3,049)	(8,204)
Net cash used in investing activities		**(4,159)**	**(12,579)**	**(14,638)**
Cash flows from financing activities				
Payment of lease liabilities	5	(608)	(526)	(1,053)
Loan facility cancellation	11	-	(20,000)	(20,000)
Issue of subordinated note	11	-	40,000	40,000
Transaction costs relating to subordinated note	11	-	(1,230)	(1,230)
Dividends paid	12	(5,984)	(8,323)	(17,508)
Net cash (used in)/provided by financing activities		**(6,592)**	**9,921**	**209**
Net (decrease)/increase in cash and cash equivalents		(9,600)	3,426	10,504
Cash and cash equivalents at the beginning of the year		45,385	34,881	34,881
Cash and cash equivalents at the end of the year		**35,785**	**38,307**	**45,385**

* Restated for the adoption of the new accounting standard NZ IFRS 16 *Leases,* see Note 5.

Notes to the Financial Statements

For the six months ended 30 June 2019

1. Reporting entity and statutory base

Reporting entity

The interim financial statements presented are for NZX Limited (the Company) and its subsidiaries (together referred to as the Group) as at and for the six months ended 30 June 2019.

The Company is a for-profit entity incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). The Company is listed and its ordinary shares are quoted on the NZX Main Board. The Company also has listed debt which is quoted on the NZX Debt Market.

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

Basis of preparation

The interim financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP), the requirements of the FMCA and the Main Board/Debt Market Listing Rules of NZX Limited. The interim financial statements comply with New Zealand equivalent to International Accounting Standards NZ IAS 34 and IAS 34 Interim Financial Reporting.

These interim financial statements do not disclose all the information required for annual financial statements prepared in accordance with NZ IFRS. Consequently, the interim financial statements should be read in conjunction with the financial statements and related notes included in the Annual Report for the year ended 31 December 2018.

Accounting policies

These interim financial statements have consistently applied the accounting policies set out in the Group's Annual Report for the year ended 31 December 2018, except as described below.

The Group has initially adopted NZ IFRS 16 *Leases* from 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed in Note 5.

The Group has elected to adopt the full retrospective approach, which means the 2018 comparative information has been restated. The impact of changes is disclosed in Note 5.

Accounting estimates and judgements

The key sources of estimation uncertainty have not changed from those used in preparing the annual financial statements for the year ended 31 December 2018.

Functional and presentation currency

These interim financial statements are presented in New Zealand dollars ($), which is the Group's functional currency, and are rounded to the nearest thousand dollars unless otherwise indicated.

Presentational changes

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

2. 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 includes all costs that are shared across the organisation. The reportable segments are:

- Issuer Relationships - provider of issuer services for current and prospective customers and market operator for Fonterra Co-Operative Group and the Electricity Authority. For segmental reporting purposes regulatory issuer compliance services are also included in this segment;
- Secondary Markets - provider of trading and post-trade services for securities and derivatives markets operated by NZX, as well as the provider of a central securities depository. For segmental reporting purposes regulatory participant compliance and surveillance services are also included in this segment;
- Data & Insights - provider of data services for securities and derivatives markets, and data and analysis for New Zealand's dairy sector;
- Funds Management - provider of SuperLife superannuation and KiwiSaver funds, and Smartshares exchange traded funds; and
- Wealth Technologies - funds administration provider.

The Agri segment was recognised as a discontinued operation and disposed of during 2018 (refer Note 3).

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

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

Segmental information for the six months ended 30 June 2019

Unaudited	Issuer Relationships $000	Secondary Markets $000	Data & Insights $000	Funds $000	Wealth Technologies $000	Corporate $000	Total continuing operations $000	Agri $000	Total including discontinued operations $000
Operating revenue	12,115	7,070	6,349	6,305	838	186	**32,863**	-	**32,863**
Operating expenses	(2,667)	(3,156)	(927)	(3,120)	(1,024)	(7,524)	**(18,418)**	-	**(18,418)**
Total segment result	**9,448**	**3,914**	**5,422**	**3,185**	**(186)**	**(7,338)**	**14,445**	-	**14,445**
Segment assets	26,906	100,338	3,749	41,445	12,538	20,688	**205,664**	-	**205,664**
Segment liabilities	(14,491)	(70,218)	(875)	(5,847)	(314)	(51,757)	**(143,502)**	-	**(143,502)**
Net assets	**12,415**	**30,120**	**2,874**	**35,598**	**12,224**	**(31,069)**	**62,162**	-	**62,162**

Restated segmental information for the six months ended 30 June 2018

Unaudited restated	Issuer Relationships $000	Secondary Markets $000	Data & Insights $000	Funds $000	Wealth Technologies $000	Corporate $000	Total continuing operations Restated $000	Agri $000	Total including discontinued operations Restated $000
Operating revenue	11,500	8,546	5,574	7,320	483	-	**33,423**	3,803	**37,226**
Operating expenses	(2,544)	(2,640)	(850)	(4,820)	(1,034)	(7,679)	**(19,567)**	(3,088)	**(22,655)**
Total segment result	**8,956**	**5,906**	**4,724**	**2,500**	**(551)**	**(7,679)**	**13,856**	**715**	**14,571**
Segment assets	24,694	119,234	4,517	40,328	9,138	25,573	**223,484**	5,171	**228,655**
Segment liabilities	(11,613)	(88,405)	(791)	(5,668)	19	(57,973)	**(164,431)**	(1,055)	**(165,486)**
Net assets	**13,081**	**30,829**	**3,726**	**34,660**	**9,157**	**(32,400)**	**59,053**	**4,116**	**63,169**

Restated segmental information for the twelve months ended 31 December 2018

Audited restated	Issuer Relationships $000	Secondary Markets $000	Data & Insights $000	Funds $000	Wealth Technologies $000	Corporate $000	Total continuing operations Restated $000	Agri $000	Total including discontinued operations Restated $000
Operating revenue	23,567	16,653	11,728	14,472	1,073	-	**67,493**	4,329	**71,822**
Operating expenses	(4,939)	(5,682)	(1,831)	(8,786)	(1,999)	(15,694)	**(38,931)**	(3,483)	**(42,414)**
Total segment result	**18,628**	**10,971**	**9,897**	**5,686**	**(926)**	**(15,694)**	**28,562**	**846**	**29,408**
Segment assets	15,104	86,248	3,968	40,954	11,268	29,439	**186,981**	90	**187,071**
Segment liabilities	(8,223)	(56,248)	(1,174)	(6,758)	(705)	(52,556)	**(125,664)**	-	**(125,664)**
Net assets	**6,881**	**30,000**	**2,794**	**34,196**	**10,563**	**(23,117)**	**61,317**	**90**	**61,407**

3. Discontinued operations

During 2018 management sold Farmers Weekly, AgriHQ and the Grain Information Unit, the combined operations represented the Agri segment. The results of the Agri segment, which are recognised as discontinued operations in the income statement, are as follows:

	Note	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Total operating revenue		-	3,803	4,329
Total operating expenses		-	(3,088)	(3,483)
Earnings before net finance expense, income tax, depreciation, amortisation and impairment, and gain on disposal of businesses and property, plant and equipment		-	**715**	**846**
Net finance expense		-	(14)	(32)
Gain on disposal of businesses and property, plant and equipment		-	-	9
Depreciation and amortisation expense		-	(189)	(185)
Impairment expense	4	-	(2,893)	(2,662)
Loss before income tax		-	**(2,381)**	**(2,024)**
Income tax expense		-	(143)	-
Loss from discontinued operation (net of tax)		-	**(2,524)**	**(2,024)**

The cash flows of the discontinued operations for the periods presented in the cash flow statement are as follows:

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Net cash used in operating activities	-	480	1,122
Net cash from investing activities	-	-	4,401
	-	**480**	**5,523**

4. Assets and liabilities held for sale, impairment and disposals

In prior periods management committed to plans to sell, and have now sold, several business units. Accordingly the assets and liabilities of the following business units had been recognsied as held for sale in the period up until sale:

- Farmers Weekly - sold effective 1 July 2018;
- AgriHQ - sold effective 31 August 2018;
- Australian based Grain Information Unit (GIU) - sold effective 31 August 2018; and
- FundSource - sold effective 21 June 2019.

a. *Impairment losses*

There are no impairment losses for the period ended 30 June 2019.

Impairment losses for the period ended 30 June 2018 (discontinued operations: $2,893,000) and for the year ended 31 December 2018 (continuing operations: $352,000; discontinued operations: $2,662,000) were recognised to write-down each business unit to the lower of carrying amount and fair value less estimated costs to sell. The impairment losses were applied to reduce the carrying amount of goodwill and other intangible assets.

b. *Loss on disposal of business and property, plant and equipment*

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
(Loss) on disposal of property, plant and equipment	(6)	-	(1)
(Loss) on disposal of business — Fundsource	(85)	-	-
	(91)	**-**	**(1)**

During the period the Group disposed of the business and assets of FundSource.

c. *Assets and liabilities held for sale*

No assets or liabilities were held for sale at 30 June 2019.

As at 30 June 2018 the following assets and liabilities were held for sale:

Unaudited 30 June 2018	GIU $000	AgriHQ $000	Farmers Weekly $000	Data Services $000	Total $000
Property, plant & equipment	3	-	10	-	13
Goodwill	891	-	1,436	323	2,650
Other intangible assets	1,579	451	583	112	2,725
Receivables and prepayments	112	106	-	-	218
Assets held for sale	**2,585**	**557**	**2,029**	**435**	**5,606**
Trade payables	36	18	-	-	54
Other liabilities	566	489	99	-	1,154
Current tax liability	(130)	-	-	-	(130)
Deferred tax liability	(23)	-	-	-	(23)
Liabilities held for sale	**449**	**507**	**99**	-	**1,055**
Net Assets held for sale	**2,136**	**50**	**1,930**	**435**	**4,551**

As at 31 December 2018 the following assets were held for sale:

Audited 31 December 2018	Data Services $000	Total $000
Other current liabilities	20	20
Liabilities held for sale	**20**	**20**

5. 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 2018 (restated)	7,021	47	7,068
Depreciation expense for the period (restated)	(388)	(7)	(395)
Balance at 30 June 2018 (restated)	**6,633**	**40**	**6,673**
Depreciation expense for the period (restated)	(389)	(7)	(396)
Balance at 31 December 2018 (restated)	**6,244**	**33**	**6,277**
Additions during the year	-	673	673
Depreciation expense for the period	(485)	(44)	(529)
Balance at 30 June 2019	**5,759**	**662**	**6,421**

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Other leases includes leases of IT and office equipment.

Lease liabilities

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Maturity analysis - contractual undiscounted cash flows			
Up to one year	1,784	1,509	1,533
One to two years	1,587	1,557	1,562
Two to five years	3,688	3,645	3,461
More than five years	3,996	5,174	4,586
Total undiscounted lease liabilities at period end	**11,055**	**11,885**	**11,142**
Lease liabilities included in the statement of financial position at period end	**9,277**	**9,739**	**9,212**
Current	1,390	1,099	1,145
Non-current	7,887	8,640	8,067

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 sublease 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 sub-leases part of one of its property leases. The current sub-lease is for a short term period and therefore does not transfer substantially all of the risks and rewards of the underlying asset and has been classified as an operating lease accordingly. A maturity analysis of operating lease payments, showing the undiscounted lease payments to be received after the reporting date is set out below:

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Maturity analysis - contractual undiscounted cash flows			
Up to one year	69	-	-
One to two years	-	-	-
Total undiscounted lease liabilities at period end	**69**	**-**	**-**

Prior property sub-leases had longer terms, and were assessed as finance leases. The following table sets out a maturity analysis of finance lease receivables, showing the undiscounted lease payments to be received after the reporting period:

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Maturity analysis - contractual undiscounted cash flows			
Up to one year	-	102	-
One to two years	-	-	-
Total undiscounted lease payments receivable	**-**	**102**	**-**
Unearned finance income	-	(4)	-
Net investment in the lease	**-**	**98**	**-**

Impact of initial application on financial statements

The Group has undertaken an assessment of existing operating leases on initial application of NZ IFRS 16 *Leases* and determined that property leases and certain IT and office equipment leases meet the right-of-use definitions.The Group has elected to adopt the full retrospective approach, and the 2018 comparative information has therefore been restated. The Group has recognised the cumulative historic effect of initially applying the standard as an adjustment to equity as at 1 January 2018.

The Group has recognised leases subject to NZ IFRS 16 in the Statement of Financial Position through recognising a right-to-use asset and a corresponding lease liability. This has resulted in changes to the Income Statement, recognising an interest expense as the liability is unwound over the term of the lease and depreciation of the right of use asset (over the remaining term of the lease). These expenses replace the previous reported operating rental expense in the restated financial statements.

The following tables summarise the impacts of adopting IFRS 16 on the Group's consolidated financial statements:

Statement of financial position

	30 June 2018			31 December 2018		
$000	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Right-of-use lease assets	-	6,673	6,673	-	6,277	6,277
Receivables and prepayments	21,846	98	21,944	9,217	-	9,217
Others assets	200,038	-	200,038	171,577	-	171,577
Total assets	**221,884**	**6,771**	**228,655**	**180,794**	**6,277**	**187,071**
Lease liabilities - current	-	1,099	1,099	-	1,145	1,145
Lease liabilities - non-current	-	8,640	8,640	-	8,067	8,067
Deferred tax liability	3,945	(812)	3,133	3,873	(807)	3,066
Other liabilities	152,681	(67)	152,614	113,439	(53)	113,386
Total liabilities	**156,626**	**8,860**	**165,486**	**117,312**	**8,352**	**125,664**
Net assets	**65,258**	**(2,089)**	**63,169**	**63,482**	**(2,075)**	**61,407**
Retained earnings	17,353	(2,089)	15,264	12,461	(2,075)	10,386
Other	47,905	-	47,905	51,021	-	51,021
Net equity attributable to shareholders	**65,258**	**(2,089)**	**63,169**	**63,482**	**(2,075)**	**61,407**

Income statement and Other Comprehensive Income

$000	30 June 2018 Previously reported	30 June 2018 Adjustments	30 June 2018 Restated	31 December 2018 Previously reported	31 December 2018 Adjustments	31 December 2018 Restated
Operating revenue	33,423	-	33,423	67,493	-	67,493
Operating expenses	(20,206)	639	(19,567)	(40,210)	1,279	(38,931)
Earnings before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, loss on disposal of businesses and property, plant and equipment	**13,217**	**639**	**13,856**	**27,283**	**1,279**	**28,562**
Net finance expense	(184)	(224)	(408)	(831)	(448)	(1,279)
Loss on disposal of businesses and property, plant and equipment	-	-	-	(1)	-	(1)
Depreciation and amortisation expense	(3,114)	(395)	(3,509)	(6,425)	(791)	(7,216)
Impairment expense	-	-	-	(352)	-	(352)
Adjustment to provision for earnout	15	-	15	15	-	15
Profit before income tax	**9,934**	**20**	**9,954**	**19,689**	**40**	**19,729**
Income tax expense	(3,001)	(5)	(3,006)	(6,045)	(11)	(6,056)
Profit from continuing operation	**6,933**	**15**	**6,948**	**13,644**	**29**	**13,673**
Loss from discontinued operations (net of tax)	(2,524)	-	(2,524)	(2,024)	-	(2,024)
Profit for the Period	**4,409**	**15**	**4,424**	**11,620**	**29**	**11,649**
Total other comprehensive income	(125)	-	(125)	(170)	-	(170)
Total comprehensive income for the period	**4,284**	**15**	**4,299**	**11,450**	**29**	**11,479**

NZX Interim Report 2019

Statement of cash flows

$000	30 June 2018 Previously reported	30 June 2018 Adjustments	30 June 2018 Restated	31 December 2018 Previously reported	31 December 2018 Adjustments	31 December 2018 Restated
Cash flows from operating activities						
Payments to suppliers and employees	(20,957)	638	(20,319)	(44,124)	1,278	(42,846)
Net interest paid	(211)	(210)	(421)	(782)	(421)	(1,203)
Other cash flows from operating activities	26,824	-	26,824	68,982	-	68,982
Net cash provided by operating activities	**5,656**	**428**	**6,084**	**24,076**	**857**	**24,933**
Cash flows from investing activities						
Lease payments received from finance leases	-	98	98	-	196	196
Other cash flows from investing activities	(12,677)	-	(12,677)	(14,834)	-	(14,834)
Net cash used in investing activities	**(12,677)**	**98**	**(12,579)**	**(14,834)**	**196**	**(14,638)**
Cash flows from financing activities						
Payment of lease liabilities	-	(526)	(526)	-	(1,053)	(1,053)
Other cash flows from financing activities	10,447	-	10,447	1,262	-	1,262
Net cash provided by/(used in) financing activities	**10,447**	**(526)**	**9,921**	**1,262**	**(1,053)**	**209**
Net increase in cash and cash equivalents	**3,426**	**-**	**3,426**	**10,504**	**-**	**10,504**

There is no material impact on the Group's basic or diluted earnings per share for the six months ended 30 June 2018 or year ended 31 December 2018.

6. Operating revenue

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Listing fees	7,066	6,674	13,720
Other issuer services	223	313	774
Market operations	4,826	4,513	9,073
Total Issuer Relationships revenue	**12,115**	**11,500**	**23,567**
Participant services	1,851	1,935	3,915
Securities trading	1,763	2,962	5,311
Securities clearing	2,713	3,105	6,032
Dairy derivatives	743	544	1,395
Total Secondary Markets revenue	**7,070**	**8,546**	**16,653**
Securities information	5,998	5,231	10,991
Dairy data subscriptions	351	343	737
Total Data & Insights revenue	**6,349**	**5,574**	**11,728**
Funds Management revenue	**6,305**	**7,320**	**14,472**
Wealth Technologies revenue	**838**	**483**	**1,073**
Other Corporate revenue	**186**	**-**	**-**
Total operating revenue	**32,863**	**33,423**	**67,493**

Effective 1 October 2018, the funds management operating model for Smartshares changed to align with SuperLife resulting in FUM based revenue now being received net of fund expenses (refer to Note 7).

7. Operating expenses

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 Restated $000	Audited 12 months ended 31 Dec 2018 Restated $000
Operating expenses			
Gross personnel costs	(14,302)	(13,625)	(27,321)
Less capitalised labour	2,070	2,065	4,376
Personnel costs	(12,232)	(11,560)	(22,945)
Information technology	(3,456)	(3,702)	(7,336)
Professional fees	(1,009)	(936)	(2,239)
Marketing	(421)	(205)	(532)
Funds expenditure	-	(1,965)	(2,934)
Other expenses	(1,714)	(1,694)	(4,025)
Capitalised overheads	414	495	1,080
Total operating expenses	**(18,418)**	**(19,567)**	**(38,931)**

Effective 1 October 2018, the funds management operating model for Smartshares changed to align with SuperLife resulting in FUM based revenue now being received net of fund expenses (refer to Note 6).

8. Net finance expense

	Note	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 Restated $000	Audited 12 months ended 31 Dec 2018 Restated $000
Interest income		500	382	986
Interest on lease liabilities		(200)	(215)	(429)
Other interest expense		(1,237)	(608)	(1,867)
Unrealised fair value gain on investment	10	3	-	-
Net gain/(loss) on foreign exchange		(50)	33	31
Net finance expense		**(984)**	**(408)**	**(1,279)**

A subordinated note was issued in June 2018 resulting in an increase to interest expense (refer to Note 11).

9. Cash and cash equivalents

The restricted cash and cash equivalents balance relates to Clearing House balances held for risk capital purposes and are not available for general cash management use by the Group.

10. Current investment

During the period the Group has invested $80,000 as short term seed capital for the 8 new ETF's launched by Smartshares in June 2019.

This investment has been classified as a financial asset at fair value with changes in fair value being recognised through profit and loss. The investment has been revalued based on quote prices on the NZX Main Board as at 30 June 2019 and a fair value gain of $3,000.

11. Interest bearing liabilities

	Unaudited as at 30 June 2019 $000	Unaudited as at 30 June 2018 $000	Audited as at 31 Dec 2018 $000
Subordinated note	40,000	40,000	40,000
Capitalised borrowing costs	(1,176)	(1,230)	(1,203)
Net interest bearing liabilities	**38,824**	**38,770**	**38,797**

a. *Subordinated notes*

On 20 June 2018 NZX raised $40 million through a subordinated note issue. The terms of the subordinated note offer are set out in the Group's Annual Report for the year ended 31 December 2018 and include a financial covenant that has been met throughout the period.

The subordinated note is 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 with a limit of $5.0 million (30 June 2018: $5.0 million, 31 December 2018: $5.0 million). The effective interest rate of the facility at 30 June 2019 was 4.14% (30 June 2018: 4.43%, 31 December 2018: 4.28%).

The Group also has a revolving credit facility with a limit of $5.0 million. No amount was drawn down at 30 June 2019 (none at 30 June 2018 and 31 December 2018).

The terms of these facilities are set out in the Group's Annual Report for the year ended 31 December 2018. Both facilities are unsecured and contain financial covenants which have been met throughout the period.

12. Dividends

		Unaudited 6 months ended 30 June 2019		Unaudited 6 months ended 30 June 2018		Audited 12 months ended 31 Dec 2018	
	For year ended	Cents per share	Total $000	Cents per share	Total $000	Cents per share	Total $000
Dividends declared and paid							
March 2018 - Final	31 Dec 17			3.10	8,323	3.10	8,323
September 2018 -Interim	31 Dec 18					3.00	8,069
September 2018 - Special	31 Dec 18					1.50	4,034
March 2019	31 Dec 18	3.10	8,424				
Total dividends paid during the year		**3.10**	**8,424**	**3.10**	**8,323**	**7.60**	**20,426**

Refer to note 16 for details of the 2019 interim dividend.

13. Share based payments

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

Shares that were issued, transferred to NZX employees or redeemed under the NZX Limited employee share plan - Team and Results, and rights that were issued or redeemed under the NZX Employee Long Term Incentive Plan during the period were on terms consistent with the prior period.

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

14. Related party transactions

a. Transactions with key management personnel

Key management personnel comprises the Group’s senior management team. Key management personnel compensation comprised the following:

	Unaudited 6 months ended 30 June 2019 $000	Unaudited 6 months ended 30 June 2018 $000	Audited 12 months ended 31 Dec 2018 $000
Short-term employee benefits	2,374	1,912	4,047
Long-term employee benefits	81	78	161
Share-based payments	143	158	239
	2,598	**2,148**	**4,447**

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

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

Directors fees for the six month period to 30 June 2019 were $194,000 (30 June 2018: $208,000, 31 December 2018: $399,000) and have been included in other expenses.

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.

In addition Smartshares Limited has invested $80,000 as short term seed capital for the 8 new ETF's launched in June 2019.

15. Contingent liabilities

In the normal course of business the company may be subject to actual or possible claims and court proceedings. There are no contingent liabilities as at 30 June 2019 (none at 30 June 2018 and 31 December 2018).

16. Subsequent events

Dividend

Subsequent to balance date the Board declared an interim dividend of 3.00 cents per share (fully imputed), to be paid on 13 September 2019 (with a record date of 30 August 2019).

Independent Review Report

To the shareholders of NZX Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 18 to 38 do not:

i. present, in all material respects the Group's financial position as at 30 June 2019 and its financial performance and cash flows for the 6 month period ended on that date and

ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2019;
- the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of NZX Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

Use of this Independent Review Report

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

Responsibilities of the Directors for the interim consolidated financial statements

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

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim consolidated financial statements that is 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 review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Wellington

12 August 2019

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Elaine Campbell
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