Connecting capital so New Zealand can grow

NZX HALF YEAR 2019 RESULTS
INVESTOR PRESENTATION

13 AUGUST 2019

NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Today’s agenda

Important notice

This full year investor presentation should be read in conjunction with the financial statements in the 2019 interim report, which provides additional information on many areas covered in this presentation.

This presentation contains forward looking information, statements and targets. These reflect our current assumptions, which are subject to market outcomes, particularly with respect to market capitalisation, total capital raised, secondary market value and derivatives volumes traded, and funds under management growth.

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

Actual outcomes could be materially different. We give no warranty or representation as to our future performance (financial or otherwise) or any future matter. Except as required by law or NZX listing rules, we are not obliged to update this presentation after its release.

Highlights from the first half

NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

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

Growth drivers are starting to gain traction. Proof points are…

IN 2018 WE FOCUSED ON REMOVING BLOCKAGES TO GROWTH, IN 2019 IT IS ABOUT DELIVERING ON THE PROOF POINTS

CORE MARKETS

Issuer Relationships
Capital raised YTD $7.7 billion (2019 FY target $9.1 billion)

Customer engagement	• Focus on customers across all products, aligned customer service proposition with other areas of NZX • Held 6 retail investor evenings, and enhanced communications, to showcase current customers and the benefits of listing on NZX
Framework	• Implemented revised market structure and rule set, supporting customer transition to new rules • Positioning to secure new revenue opportunities in the energy and emissions markets • Awaiting the Capital Markets 2029 report to determine the role NZX can play in implementing the recommendations
Product suite	• Introduction of new products, including wholesale debt, with $1.5 billion listed in H1-19 • New rules allow for simplified listing of fund securities, 8 new funds listed in H1-19

Secondary Markets
Total value traded YTD $18.4 billion (2019 FY target $41.0 billion)

Marketing the market & participation	• Focus on customers, embedded relationship management programme for participants and institutional investors • Growing trading, clearing and depository participant numbers (e.g. BNP Paribas Securities Services Australia and Sharesies accredited). Strong pipeline building
Increase on-market liquidity	• Record on-market trading activity in June 2019 at 61.1% for the month of June 2019 • Price improved crossings generated over $150K benefit for investors
Functionality	• Optimised NZX fees architecture (new fees effective 1 July 2019) • Engaged with market for input on trading tools and system upgrade commenced in 2019, target for delivering in 2020 • SWIFT upgrade completed to enhance service for depository business and achieve global best practise

Data & Insights
Subscription & Licence growth YTD 22.9% (2019 FY target 10%)
Dairy subscription growth YTD 2.3% (2019 FY target 24%)

Commercial	• Moving revenue mix from reliance on terminal royalties to recurring revenue products (e.g. licenses) • Capturing new revenue opportunities associated with changes in trading behaviours
Insights	• Continued delivery of internal business insights to support core markets growth • Delivery of deep insights into dairy market with focus on New Zealand milk production • Exploring further growth opportunities for deeper insight into core markets
Platform	• Continued work with IT function to ensure database management architecture is fit for purpose • Delivered subscription management platform and implementing customer relationship management platform • Delivery of first components of proprietary data platform (e.g. website widgets)

Growth drivers are starting to gain traction. Proof points are…

IN 2018 WE FOCUSED ON REMOVING BLOCKAGES TO GROWTH, IN 2019 IT IS ABOUT DELIVERING ON THE PROOF POINTS

GROWTH OPPORTUNITIES

Dairy Derivatives

Lots traded YTD 187,610 growth YTD 27.5% (2019 FY target: 400,000 – 500,000 lots)

Expand global access	• Undertaking review of derivatives market rules and market hours, changes to be implemented in H2-19
Boost sales and marketing	• Transformed online offering – charting, margin calculator, investor videos • Building industry reach globally via untouched trading regions and with key domestic partners
Extend product set	• Exploring partnerships to improve participation

MAXIMISE OPTIONS

Smartshares

FUM growth YTD 19.4% (2019 FY target 14%)

Lead in systematic investment management	• Investment team in place with the hiring of a Chief Investment Officer • Launched eight new ETFs including first thematic funds • Brands refresh progressing for launch in H2-19
Expand offer for institutional investors	• Built institutional investor client service offering and sales capability • First institutional investor reporting delivered
Develop financial well-being for customers	• Cross-selling KiwiSaver with voluntary savings. 19 investor seminars in 2019 YTD
Develop Corporate Super Master Trust	• Three corporate superannuation scheme wins in H1-19 (including extending the SuperLife Pacific Series to other pacific nations) • Building employer relationships and brand. Improve service quality, automation and cost efficiency
Accelerate growth	• Continuing to explore inorganic opportunities to accelerate growth

Wealth Technologies

(2019 FY target: win significant new customer)

Grow customer pipeline	• Foundation client preparing for phase two • Managing prospective customer pipeline, embedded sales culture • Transition current customers to new platform dependent on timing of prospective new clients
Widen platform offering	• Extending core platform to facilitate future growth opportunities (e.g. DIMs functionality)

GET FIT

Efficiency improvements to fund investment for growth	• Continuing the automation of operational processes and further progression on IT infrastructure programme • Reinvesting efficiency savings into revenue growing activities and system enhancements

Our people are critical to our delivery

WE HAVE TRANSFORMED OUR CULTURE AND BUILT A REPUTATION THAT IS OUTWARD ORIENTED AND CUSTOMER CENTRIC. IN 2019 WE ARE STRENGTHENING OUR SALES AND MARKETING

Culture & Engagement

- Engagement of our staff continues to climb, with a sixth successive increase in our latest survey
- NZX now ranks in the top half of New Zealand companies for staff engagement (in Gallup's survey)
- Strong focus on values and performance is driving collaboration across functions
- Performance culture is being supported by a new performance management system

Resourcing

- Continued focus on making operational teams more efficient and automating processes
- Continued progress in reallocating resources to customer-facing roles
- Resourcing in progress will lift capability in value-creating roles in H2

Diversity & Inclusion

- Diversity & Inclusion objectives for 2019 focus on attracting and measuring a diverse recruitment pipeline; exploring engagement by ethnicity; and expanding the reach of our unconscious bias training
- Inclusion is also shown by similar levels of engagement between employees by age or gender

Financial performance

Income Statement

	June 2019 $000	June 2018 $000	Change Fav/(unfav)
Operating revenue	32,863	33,423	(1.7%)
Operating expenses	(18,418)	(19,567)	5.9%
Operating earnings	**14,445**	**13,856**	**4.3%**
Net finance expense	(984)	(408)	(141.2%)
Loss on disposal of business and property, plant and equipment	(91)	-	N/A
Depreciation and amortisation expense	(4,281)	(3,509)	(22.0%)
Adjustment to provision for earnout	-	15	(100.0%)
Income tax expense	(2,641)	(3,006)	12.1%
Profit from continuing operation	**6,448**	**6,948**	**(7.2%)**
Loss from discontinued operations (net of tax)	-	(2,524)	100.0%
Profit for the period	**6,448**	**4,424**	**45.8%**
Operating margin from continuing operation	**44.0%**	**41.5%**	**6.0%**

The June 2018 Income Statement has been restated for the adoption of the new accounting standard NZ IFRS 16 Leases. Consequently operating lease expenses (i.e. property leases) have been reclassified to a 'right of use asset' (which is depreciated i.e. depreciation expense) and a lease liability (which includes an interest unwind i.e. interest expense). Refer to the financial statements in the Interim Report for details

Operating Earnings from continuing operations are 4.3% higher than 2018.

The decreases in operating revenue and operating expenses are primarily driven by Smartshares' FUM based revenue which is now received net of fund expenses (since the operating model change in October 2018). The comparable movements (with fund expenses netted against revenue in both periods – refer slide 12) is:

- operating revenue increasing 4.5%; and
- operating expenses increasing 4.6%

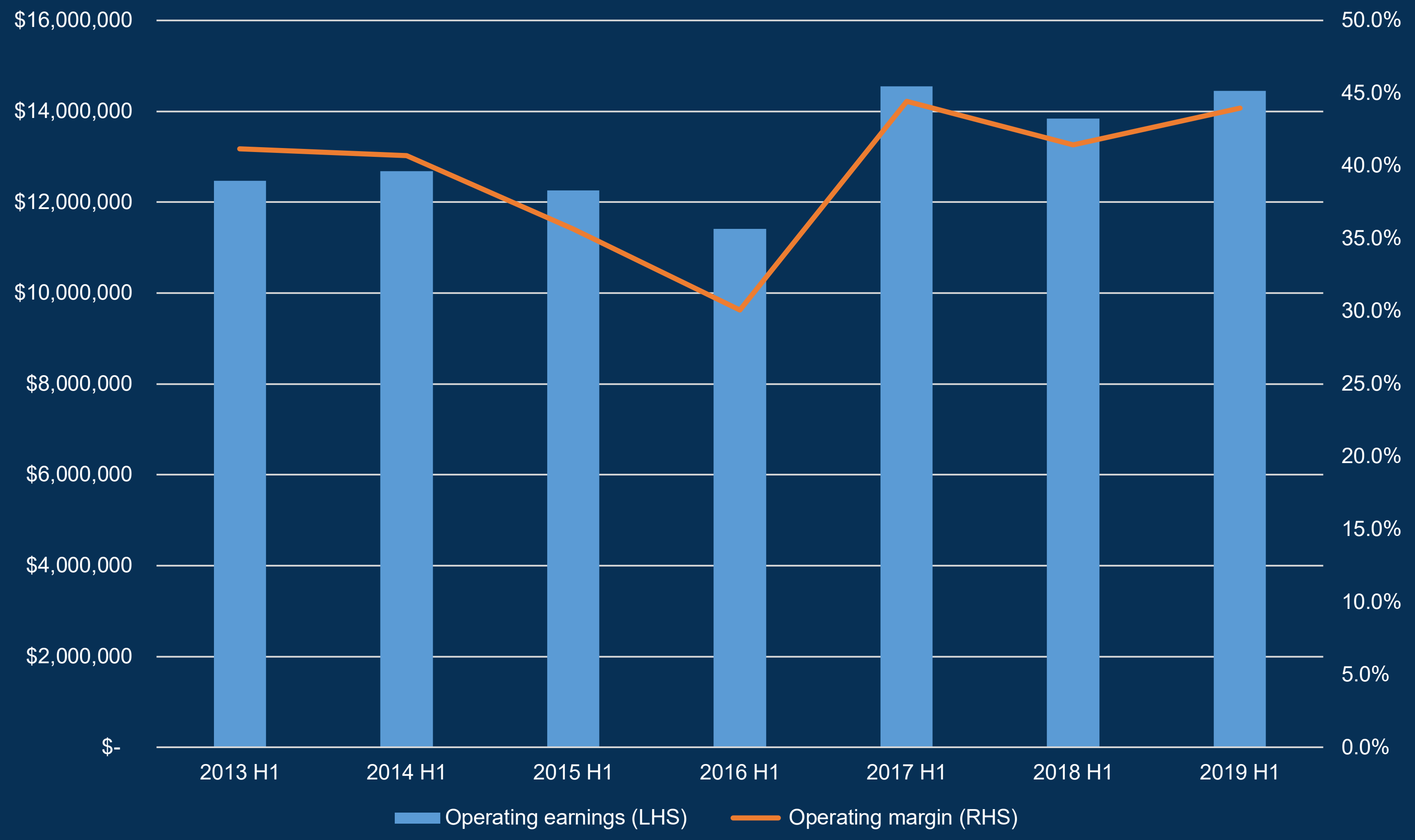
The operating earnings from continuing operations are discussed in detail on the following slides.

Non-operating expenses have changed by factors foreshadowed at our FY18 full year results, including:

- net finance expenses increased due to subordinated note interest; and
- amortisation expenses increased due to commencement of amortisation of Wealth Technologies core platform.

Net Profit After Tax is higher due to the prior year including the disposal of non core businesses (i.e. discontinued operations) and the increase in non-operating expenses noted above.

Operating earnings from continuing operations of $14.4 million (2018: $13.9 million)

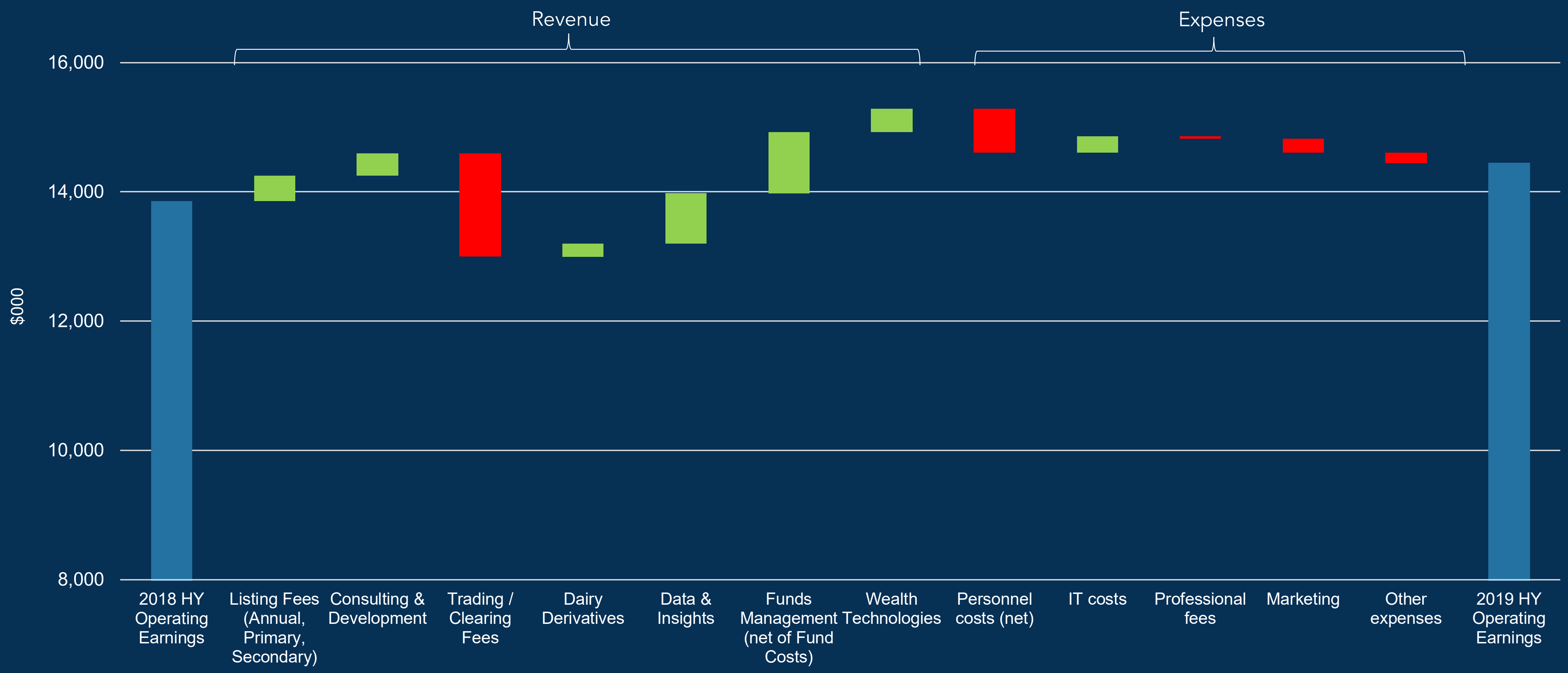


All prior years operating earnings have been restated for the adoption of the new accounting standard NZ IFRS 16 Leases

Total operating earnings from continuing operations $14.4 million (2018: $13.9 million)

Operating Margin has improved to 44.0% (2018: 41.5%). The increase is due to funds management revenue is now being received net of fund expenses (refer to slide 12)

Operating earnings (from continuing operations) waterfall



A high level summary of operating earnings from continuing operations:

- Revenue movements due to an increase in listing fees, consulting, funds management (net of fund expenses), dairy derivatives and data revenues, partially offset by decreases in trading and clearing fees; and
- Expense movements include a reduction in IT offset by additional personnel and marketing costs

Operating earnings (from continuing operations)

	June 2019 $000	June 2018 $000	Change Fav/(unfav)
Operating revenue			
Issuer Relationships	12,115	11,500	5.3%
Secondary Markets	7,070	8,546	(17.3%)
Data & Insights	6,349	5,574	13.9%
Funds Management	6,305	7,320	(13.9%)
Wealth Technologies	838	483	73.5%
Corporate	186	-	N/A
Total operating revenue (continuing operations)	**32,863**	**33,423**	**(1.7%)**
Operating expenses			
Gross personnel costs	(14,302)	(13,625)	(5.0%)
Less capitalised labour	2,070	2,065	0.2%
Personnel costs	(12,232)	(11,560)	(5.8%)
Information technology	(3,456)	(3,702)	6.6%
Professional fees	(1,009)	(936)	(7.8%)
Marketing	(421)	(205)	(105.4%)
Funds expenditure	-	(1,965)	100.0%
Other expenses	(1,714)	(1,694)	(1.2%)
Capitalised overheads	414	495	(16.4%)
Total operating expenses (continuing operations)	**(18,418)**	**(19,567)**	**5.9%**
Operating earnings (continuing operations)	**14,445**	**13,856**	**4.3%**

The June 2018 Operating Earnings has been restated for the adoption of the new accounting standard NZ IFRS 16 Leases.

The Funds Management operating model for Smartshares changed in October 2018 to align with SuperLife. Fund expenses are now incurred directly by the funds and funds management revenue is now received net of fund expenses. The following table restates June 2018 to ensure comparability of operating revenue and operating expenses:

	June 2019 $000	June 2018 $000	Change Fav/(unfav)
Total operating revenue (continuing operations)	32,863	33,423	
Less fund expenses	-	(1,965)	
Total operating revenue (net of fund expenses)	32,863	31,458	4.5%
Total operating expenses (continuing operations)	(18,418)	(19,567)	
Less fund expenses	-	(1,965)	
Total operating expenses (net of fund expenses)	(18,418)	(17,602)	(4.6%)
Operating earnings (continuing operations)	**14,445**	**13,856**	**4.3%**

The Group's revenue and expenses are discussed in the following slides

Operating earnings (from continuing operations)

OPERATING REVENUE

Issuer Relationships:

- 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 driven by strong debt listings (retail and wholesale). Secondary issuance fees driven by equity raised; and
- 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:

- 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 is 9.7% lower, and revenue was also adversely impacted by trading patterns which have seen large peaks across index rebalance periods and lower turnover in-between, 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 increased with growth in lots traded (27.5%)

Data & Insights:

- Royalties from terminal revenue increase relates to growth in terminal numbers;
- Subscriptions and licences revenue increase relates to the growth in high value subscriptions and licences numbers; and
- Dairy data subscription arrangements have been renegotiated resulting in a lower number of higher value subscriptions and generating an increase in revenue.

Funds Management

- FUM based revenue is recognised net of fund expenses (since the operating model change in October 2018). 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 ($175.4m); and
  - fund expenses efficiencies achieved through the changed operating model and improvements to supplier arrangements.
- Member based revenue has increased as investor numbers increase over the period by 10.1%

Wealth Technologies

- Administration (FUA based) fees driven by:
  - New platform – started earning fees in November 2018 when the foundation customer transitioned phase one to new platform, increasing the FUA; off set by
  - OE platform – number of customers unchanged, however there has been a decrease in their FUA

Corporate Services

- Other corporate revenue primarily relates to the short term sub lease of part of the Wellington premises and NZX.com advertising revenue

Operating earnings (from continuing operations)

OPERATING EXPENSES

Personnel costs

- Personnel costs are driven by the average FTEs in the period and the capitalisation of internal development resources
- 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:
  - movements in vacancy numbers at period end;
  - The additional strategic roles created through 2018; including the refocus to be client centric and 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

- IT costs are lower than the comparable period due to the efficiency impacts from prior year projects (e.g. through modernised and rationalised data centre hosting)

Marketing

- Marketing costs increases relate to an enhanced investor relations programme (to support strategic initiative to market the market domestically) and increased marketing of funds management products (including a branding assessment)

Professional Fees

- Professional fees include those relating to:
  - Smartshares investments for growth e.g. SuperLife Invest unitization, setting up the Blackrock iShare new ETFs, 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

Fund Expenditure

- The fund expenses are now incurred directly by the funds since the operating model change in October 2018.

Other Expenses

- Other expenses have had inflationary increases; these costs 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)

Capitalised overheads

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

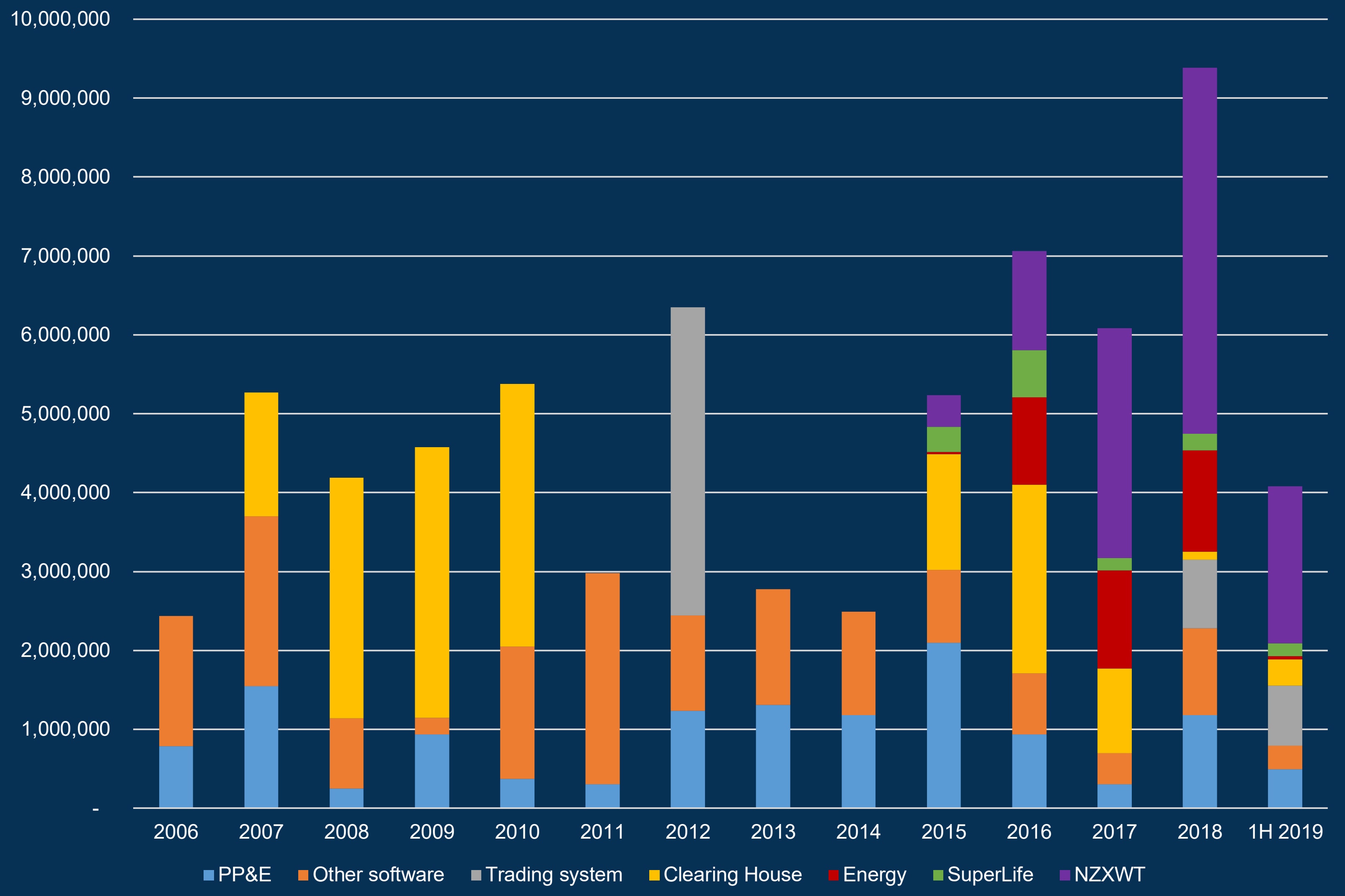
Non-operating income and expenses

	June 2019 $000	June 2018 $000	Change Fav/(unfav)
Interest income	500	382	30.9%
Other interest expense	(1,237)	(608)	(103.5%)
Interest on lease liabilities	(200)	(215)	7.0%
Unrealised gain on investment	3	-	N/A
Net gain/(loss) on foreign exchange	(50)	33	(251.5%)
Net finance expense	**(984)**	**(408)**	**(141.2%)**
Depreciation of PP&E	(379)	(257)	(47.5%)
Amortisation of lease assets	(529)	(395)	(33.9%)
Amortisation of other intangibles	(3,373)	(2,857)	(18.1%)
Total depreciation and amortisation	**(4,281)**	**(3,509)**	**(22.0%)**
Loss on disposal of business and property, plant and equipment	(91)	-	N/A
Adjustment to provision for earnout	-	15	(100.0%)
Tax expense	(2,641)	(3,006)	12.1%
Total net other expenses (from continuing operations)	**(7,997)**	**(6,908)**	**(15.8%)**
Loss from discontinued operations (net of tax)	**-**	**(2,524)**	**100.0%**

- Increased net finance costs result from the Subordinated notes issued on 20 June 2018
  - interest income on cash balances, Clearing House risk capital and regulatory working capital
  - interest expenses on the subordinated notes, loans, overdrafts, lease liabilities and earn out
- Amortisation increased due to the commencement of amortisation of the Wealth Technologies core platform from November 2018 when first customer migrated to the platform.
- Effective tax rate is higher than statutory rate of 28% due to non-deductible items.
- Discontinued operations relate to operating results (including impairment of goodwill and intangibles) of the agri businesses (Farmers Weekly, AgriHQ and the Australian based Grain Information Unit)

The June 2018 Other Income and Expenses has been restated for the adoption of the new accounting standard NZ IFRS 16 Leases.

CAPEX activity



- Capex driven by specific system life cycles which result in large multi-year projects
- Wealth Technologies continues product refinement and extension of core platform to allow for market growth, for example DIMs functionality including pre and post trade compliance.
- Trading system upgrade required in 2019/2020. Total spend will be comparable to 2012, with most to be incurred in 2019
- Normal life cycle replacements for IT equipment and software are expected in 2019. Additionally we expect some system changes, for example with the updated listing rules
- 2019 CAPEX guidance range continues to be $7.5 million to $8.5 million

Balance Sheet

	June 2019 $000	June 2018 $000	Change Fav/(unfav)
Current assets			
Cash and cash equivalents	35,785	38,307	(6.6%)
Receivables and prepayments	22,258	21,944	1.4%
Current investment	83	-	N/A
Funds held on behalf of third parties	71,309	89,373	(20.2%)
Assets held for sale	-	5,606	(100.0%)
Total current assets	**129,435**	**155,230**	**(16.6%)**
Non-current assets			
Right-of-use lease assets	6,421	6,673	(3.8%)
Other non-current assets	69,808	66,752	4.6%
Total non-current assets	**76,229**	**73,425**	**3.8%**
Current liabilities			
Trade payables	4,489	6,508	31.0%
Other current liabilities	16,161	16,799	3.8%
Lease liabilities	1,390	1,099	(26.5%)
Funds held on behalf of third parties	71,309	89,373	20.2%
Liabilities held for sale	-	1,055	100.0%
Total current liabilities	**93,349**	**114,834**	**18.7%**
Non-current liabilities			
Interest bearing liabilities	38,824	38,770	(0.1%)
Lease liabilities	7,887	8,640	8.7%
Other non-current liabilities	3,442	3,242	(6.2%)
Total non-current liabilities	**50,153**	**50,652**	**1.0%**
Net assets/equity	**62,162**	**63,169**	**(1.6%)**

The June 2018 Balance Sheet has been restated for the adoption of the new accounting standard NZ IFRS 16 Leases.

- Cash and cash equivalents includes:
  - Clearing House risk capital ($20 million) which is not available for general use
  - Clearing House also complies with International Organisation of Securities Commissions principles requiring retention of sufficient working capital (including cash of approximately $2.0 million)
  - Funds management maintains sufficient net tangible assets (including cash of approximately $1.7 million)
- Receivables balances are higher each half year due to the timing of annual listing fee invoicing. We continue to be focused on receivables collection and working capital management
- Funds held on behalf of third parties (assets and liabilities) offset. These relate to issuer bond deposits, participants' collateral deposits and deposited funds. Amounts are repayable to issuers and participants and not available for general use
- Right-of-use lease assets and lease liabilities relate to the adoption of NZ IFRS 16 Leases; which required operating leases to be recognised on balance sheet as:
  - Right-of-use asset – which is depreciated; and a corresponding
  - Lease liability – which has an interest unwind (i.e. interest expense) and reduces with lease payments
- Other current liabilities includes income in advance related to the annual listing fee invoicing. Other non-current liabilities mainly relate to deferred tax

Cash flows

	June 2019 $000			June 2018 $000			Change Fav/ (unfav)
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations
Operating activities	1,151	-	1,151	5,604	480	6,084	(79.5%)
Investing activities	(4,159)	-	(4,159)	(12,579)	-	(12,579)	66.9%
Financing activities	(6,592)	-	(6,592)	9,921	-	9,921	(166.5%)
Net increase / (decrease) in cash and cash equivalents	**(9,600)**	**-**	**(9,600)**	**2,946**	**480**	**3,426**	**(425.9%)**

- Cash flow from operating activities includes net interest and income tax paid. The decrease reflects lower Net Profit After Tax and working capital movements (e.g. timing of receivables receipts and trade payables payments)
- Investing activities relates to CAPEX; primarily software development for Wealth Technologies and the trading system upgrade. Prior year included payment of SuperLife earnout
- Financing activities includes dividends which are net of participation in the dividend reinvestment plan. Prior year included receipts from subordinated note issue net of bank debt repayment

The June 2018 Cash Flows has been restated for the adoption of the new accounting standard NZ IFRS 16 Leases.

Interim dividend

Policy

- The policy is to pay between 80% to 110% of adjusted Net Profit After Tax over time, subject to maintaining a prudent level of capital to meet regulatory requirements
- Adjustments include reversing the impact of intangible asset impairments

Interim Dividend

- The Board has declared an interim dividend (fully imputed) of 3.0 cps (2018: 3.0 cps)
- Dividend to be paid on 13 September 2019 to shareholders registered as at 30 August 2019

Dividend reinvestment plan

- Available for interim dividend, shares will be issued at 1.0% discount

2019 earnings guidance

The board reiterates the 2019 full year guidance, NZX expects full year 2019 EBITDA to be in the range of $28.0 million to $31.0 million.

The guidance is subject to market outcomes, particularly with respect to market capitalisation, total capital raised, secondary market value and derivatives volumes traded, and funds under management growth.

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

Questions?

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Appendices

NEW ZEALAND'S EXCHANGE
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Operating earnings divisional results

PROFORMA: 2018 FUND EXPENSES ADJUSTED TO NET AGAINST REVENUE FOR COMPARABILITY

Six months ended 30 June 2019 $000	Issuer Relationships(1)	Secondary Markets (2)	Data & Insights	Funds Management	Wealth Technologies	Corporate Services (3)	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	**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 (Proforma) $000	Issuer Relationships	Secondary Markets	Data & Insights	Funds Management (4)	Wealth Technologies	Corporate Services	Total continuing operation (4)/(5)	Agri (discontinued operations)	Total (4)/(5)
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	**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	220.2	18.5	238.7
Operating margin	77.9%	69.1%	84.7%	46.7%	(114.1%)	N/A	44.0%	18.8%	41.3%

Notes:
1. Issuer Relationships includes the Issuer Relationship, Energy and Issuer Compliance teams (for the equity, energy and Fonterra shareholders' markets)
2. Secondary Markets includes the Secondary Markets, Clearing House, Dairy Derivatives, Surveillance and Participant Compliance teams
3. 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
4. The Funds Management operating model for Smartshares changed (October 2018) to align with SuperLife; fund expenses now incurred by the funds and FUM based revenue is now received net of fund expenses. Consequently June 2018 has been restated to ensure comparability of operating revenue and operating expenses (both restated by $1.965m).
5. The June 2018 divisional 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.

Issuer Relationships

TASKED WITH CREATING A COMPELLING AND ATTRACTIVE PROPOSITION FOR OUR CURRENT AND PROSPECTIVE EQUITY, FUND AND DEBT CUSTOMERS AND DELIVERING ON OUR CONTRACTED SERVICE PROVIDER OFFERINGS

Operating earnings	June 2019	June 2018	Change Fav/(unfav)
Operating revenue			
Annual listing fees	5,148	5,082	1.3%
Primary listing fees	370	434	(14.7%)
Secondary issuance fees	1,548	1,158	33.7%
Other issuer services	223	313	(28.8%)
Consulting and development revenue	499	155	221.9%
Contractual revenue	4,327	4,358	(0.7%)
Total operating revenue	**12,115**	**11,500**	**5.3%**
Total operating expenses	**(2,667)**	**(2,544)**	**(4.8%)**
Operating earnings	**9,448**	**8,956**	**5.5%**
FTEs	36.6	36.4	(0.5%)

Strategic metrics	June 2019	June 2018	Change Fav/(unfav)
Number of unique issuers	202	200	1.0%
Equity market capitalisation	$149 billion	$133 billion	12.1%
Funds market capitalisation	$4.3 billion	$3.9 billion	8.2%
Debt market capitalisation (incl. green bonds)	$32.5 billion	$27.6 billion	17.9%
Value of primary capital listed	$4.0 billion	$1.7 billion	140.3%
Value of secondary capital raised	$3.6 billion	$2.8 billion	32.6%

Highlights

- NZX Regulation assisted issuers with the transition to the updated market structure and rules
- Enhanced marketing events and communications to showcase current customers, demonstrate benefits of listing on NZX and enhance financial knowledge of investors
- Total capital (primary and secondary) raised $7.7 billion; including 9 IPOs of equity and funds and $4 billion of new debt listing
- Awaiting the Capital Markets 2029 report to determine the role NZX can play in implementing the recommendations
- Positioning to secure new revenue opportunities in the energy and emissions markets

Operating revenue

- 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 driven by strong debt listings (retail and wholesale)
- Secondary issuance fees driven by equity and funds raised
- Other issuer services revenue relates to NZX Regulation issuer compliance function
- Earning consulting and development revenue through systems enhancements has been a focus post completion of the electricity market operator upgrade program in late 2018
- Contractual revenue in line with long term contracts

Operating expenses

- Personnel costs are higher due to the use of short term contractors to assist with the delivery of increased energy consulting revenue. Note Issuer Relationships includes the energy and NZX Regulation issuer compliance teams.
- Energy IT costs benefited from consolidation projects completed in prior years; resulting in efficiencies and centralisation of costs to Corporate Services

Secondary Markets

TASKED WITH DRIVING SECONDARY MARKET DEVELOPMENT ACROSS ALL MARKETS AND MANAGING PARTICIPANT RELATIONSHIPS

Operating earnings	June 2019	June 2018	Change Fav/(unfav)
Operating revenue			
Participant services revenue	1,851	1,935	(4.3%)
Securities trading revenue	1,763	2,962	(40.5%)
Securities clearing revenue	2,713	3,105	(12.6%)
Dairy derivatives revenue	743	544	36.6%
Total operating revenue	**7,070**	**8,546**	**(17.3%)**
Total operating expenses	**(3,156)**	**(2,640)**	**(19.5%)**
Operating earnings	**3,914**	**5,906**	**(33.7%)**
FTEs	29.7	28.4	(4.6%)

Strategic metrics	June 2019	June 2018	Change Fav/(unfav)
Number of trades	1.9 million	1.6 million	15.1%
Total value traded	18.4 billion	20.3 billion	(9.7%)
Percentage of value on-market	51.5%	51.8%	(0.6%)
Dairy derivatives lots traded	187,610	147,180	27.5%
Number of participants	36	36	-

Highlights

- The total number of trading, clearing and depository participants remained unchanged, with:
  - BNP Paribas Securities Services Australia accredited for cash market depository services
  - Sharesies accredited as a cash trading and clearing participant, providing investment platform services to retail investors
  - The consolidation of markets (i.e. NZAX and NXT into the main Board) resulting in the loss of NZAX Sponsors and NXT Advisors
- SWIFT upgrade completed to better service depository business
- Record on-market trading activity in June 2019 at 61.1% for the month
- Dairy derivative lot numbers increased 27.5%

Operating revenue

- Participant services revenue decrease relates to on charges for data networks reducing due to IT cost savings initiatives
- Securities trading and clearing revenues have been impacted, as anticipated, by the new fee structure (implemented 1 October 2018), the total value traded and cleared being 9.7% lower, and trading patterns have seen large peaks across index rebalance periods and lower turnover in-between, 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 increase relates to growth in lots traded

Operating expenses

- Headcount and personnel costs have increased with the NZX Regulation staff increases (to cover derivatives extended trading hours and the FMA's Annual Market Operator Obligations Review required action). Note Secondary Markets includes NZX Regulation participant compliance and surveillance teams
- Information technology costs relating to the clearing system have increased due to extended trading hours

Data & Insights

TASKED WITH GROWING EXISTING DATA REVENUES AND TURNING RAW DATA INTO INSIGHTS THAT SUPPORTS GROWTH IN ALL MARKETS

Operating earnings	June 2019	June 2018	Change Fav/(unfav)
Operating revenue			
Royalties from terminals	3,521	3,335	5.6%
Subscriptions and licences	1,956	1,591	22.9%
Dairy data subscriptions	351	343	2.3%
Indices	422	212	99.1%
Other	99	93	6.5%
Total operating revenue	**6,349**	**5,574**	**13.9%**
Total operating expenses	**(927)**	**(850)**	**(9.1%)**
Operating earnings	**5,422**	**4,724**	**14.8%**
FTEs	9.5	10.0	5.0%

Strategic metrics	June 2019	June 2018	Change Fav/(unfav)
Terminal numbers (12 month average)	7,629	7,200	6.0%
Licences	116	96	20.8%
Proprietary security products subscriptions	314	359	(12.5%)
Dairy data products subscriptions	946	1,031	(8.2%)

Highlights

- Non-display usage licensing continues to outperform; with demand being driven from changing data usage
- Sales execution processes have improved e.g. following up audits to ensure direct licensing arrangements with clients on a go forward basis
- Joint project focused on ESG data with Bloomberg and Wright Communications commissioned
- Customer relationship management platform delivery underway; subscription management system implemented
- Indices being co-marketed with S&P to drive market awareness and liquidity

Operating revenue

- Royalties from terminal revenue increase relates to growth in terminal numbers
- Subscriptions and licences revenue increase relates to the growth in high value subscriptions and licences.
- Dairy data subscriptions affected by shift to a lower number of higher value subscriptions, resulting in an increase in revenue
- Other revenue includes Fundsource revenue which was sold on 31 May 2019

Operating expenses

- Personnel costs are higher due to new roles introduced in 2018 to drive strategy focus on developing deeper insights, partially offset by a role being filled by a dairy insights external contributor
- Professional fees are higher due to external content for the dairy insight reports and increased audit fees of $104,000 (2018: $80,000). Fees are charged as a proportion of the audit receipts. Royalty audit receipts and audit fees are recognised on a gross basis

Funds Management

THIS BUSINESS COMPRISES THE SUPERLIFE SUPERANNUATION AND KIWISAVER PRODUCTS AND SMARTSHARES EXCHANGE TRADED FUNDS

Operating earnings	June 2019	June 2018	Change Fav/(unfav)
Operating revenue		(note 1)	
FUM based revenue	4,901	5,940	(17.5%)
Fund expenses	-	(1,965)	100.0%
FUM based revenue (net of fund expenses)	4,901	3,975	23.3%
Member based revenue	1,125	1,019	10.4%
Other revenue	279	361	(22.7%)
Total operating revenue (net of fund expenses)	**6,305**	**5,355**	**17.7%**
Total operating expenses (excluding fund expenses)	**(3,120)**	**(2,855)**	**(9.3%)**
Operating earnings	**3,185**	**2,500**	**27.4%**
FTEs	47.5	45.1	(5.3%)

Strategic metrics	June 2019	June 2018	Change Fav/(unfav)
Investors numbers (ETFs and SuperLife)	72,911	66,228	10.1%
Net cash flow	$175.4 million	$162.3 million	8.1%
Total external FUM	**$3.5 billion**	**$2.9 billion**	**19.4%**

The Funds Management operating model for Smartshares changed (October 2018) to align with SuperLife; fund expenses now incurred directly by the funds and FUM based revenue is now received net of fund expenses. Consequently June 2018 has been restated to ensure comparability of operating revenue and operating expenses.

Highlights

- Continued growth in member numbers, unitholders, positive cash flows and Funds Under Management (FUM) produced increased operating earnings of 27.4%
- The Smartshares business has been investing for growth:
  - SuperLife Invest unitisation, supports multi rate and foreign investor PIE capability, and administration outsourcing. Overall this has reduced operations risk and widened the product offering;
  - Blackrock iShare ETFs – 8 new funds listed 6 June 2019;
  - SuperLife Pacific Series – extended to other pacific nations; and
  - Brand refresh – is currently being developed

Operating revenue

- FUM based revenue positively impacted by:
  - Higher average FUM over the period which is a combination of market returns and positive net cash flows; and
  - Fund expenses efficiencies achieved through the changed operating model and improvements to supplier arrangements
- Member based revenue has increased as investor numbers increased over the period

Operating expenses

- Headcount has increased with additional sales resources and to on board new business in line with the strategic focus
- Investing for growth (refer above) has incurred one off professional fees and marketing costs estimated at $235,000.

Wealth Technologies

THIS BUSINESS IS A PLATFORM THAT ENABLES ADVISERS AND BROKERS TO MANAGE CLIENT INVESTMENTS

Operating earnings	June 2019	June 2018	Change Fav/(unfav)
Operating revenue			
Administration (FUA based) fees	761	393	93.6%
Development fees / deferred income release	77	90	(14.4%)
Total operating revenue	**838**	**483**	**73.5%**
Total operating expenses	**(1,024)**	**(1,034)**	**1.0%**
Operating earnings	**(186)**	**(551)**	**66.3%**
FTEs	36.0	38.5	6.5%

Strategic metrics	June 2019	June 2018	Change Fav/(unfav)
Funds Under Administration (FUA)	$2.1 billion	$1.1 billion	86.4%

The June 2018 balances have been restated for the adoption of the new accounting standard NZ IFRS 16 Leases.

Highlights

- Continued product refinement and extension of core platform to facilitate future growth opportunities, for example DIMs functionality including pre and post trade compliance .
- Embedding sales culture and actively managing prospective customers; pipeline remains strong. We are managing a number of prospects for which we expect decisions within the next six months.
- Foundation customer's timeframes for second phase commencement have moved to Q4-19 to allow their internal analysis and design completion with go-live dates to be determined.

Operating revenue

- Administration (FUA based) fees driven by:
  - New platform – started earning fees in November 2018 when the foundation customer transitioned phase one to new platform, increasing the FUA; off set by
  - OE platform – number of customers unchanged, however there has been a decrease in their FUA
- Development fees are specific to customer requirements and deferred income release started when customer transitioned

Operating expenses

- Headcount is dependent at any point in time on the levels of platform investment required for current and potential clients.
- Personnel costs are slightly down on the corresponding period reflecting the levels of continued product refinement and extension of core platform; with Wealth Technologies' capitalised labour being $1.6m (2018: $1.5m) and capitalised overhead being $0.3m (2018: $0.3m)

Corporate Services

THIS FUNCTION PROVIDES FINANCE, HR, LEGAL, IT AND COMMUNICATIONS AND MARKETING SUPPORT TO THE BUSINESS

Operating earnings	June 2019	June 2018	Change Fav/(unfav)
Total operating revenue	**186**	**-**	**NA**
Total operating expenses	**(7,524)**	**(7,679)**	**2.0%**
Operating earnings	(7,338)	**(7,679)**	**4.4%**
FTEs	60.3	61.9	2.6%

Highlights

- Consultation on NZX Policy's proposed amendments to the NZX Participant Rules relating to market integrity and liquidity
- Submissions in relation to the OIA proposed reforms and RBNZ prudential capital requirements
- Awaiting the Capital Markets 2029 recommendations to facilitate growth of the capital markets
- NZX was accredited by the SEC as a designated offshore securities market
- Continued focus on fitness and automation, for example our Edge Protection project will deliver new VPN and firewall capabilities

Operating revenue

- Revenue relates to the sublease of spare office space and NZX.com advertising revenue

Operating expenses

- Headcount has remained static within corporate services with movements representing changes in vacancies
- Personnel costs relative to the comparable period were impacted by:
  - New or extended roles to drive strategic execution in cyber security and marketing; and
  - Lower levels of capitalised staff time (predominately in IT and project management office).
- Corporate IT costs are lower than the comparable period due to the efficiency impacts from prior year projects (e.g. through modernised and rationalised of networks and data centre hosting)

1. Corporate Services provides legal, accounting, IT, HR and communications and marketing support to all divisions (including the Funds Management and Wealth Technologies businesses). Related costs are currently not recharged to these businesses
2. The June 2018 balances have been restated for the adoption of the new accounting standard NZ IFRS 16 Leases.

Appendix 2: operating revenue definitions

Issuer Relationships

Annual listing fees paid by NZX's equity, fund and debt issuers is driven by the number of listed issuers, and equity, debt and fund market capitalisations as at 31 May each year.

Primary listing fees are paid by all issuers at the time of listing. The primary driver of this revenue is the number of new listings and the value of capital listed.

Secondary issuance fees are paid by existing issuers when a company raises additional capital through placements, rights issues, the exercise of options, dividend reinvestment plans, or subsequent debt issues. The primary driver for this revenue is the number of secondary issuances and the value of secondary capital raised.

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 development revenue arises from the operation of New Zealand's electricity market, under long-term contract from the Electricity Authority, and the Fonterra Shareholders' Market, under a long term contract from Fonterra. Consulting and development revenue arises on a time and materials basis.

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.

Securities trading revenue comes from the execution of trades on the equity and debt markets operated by NZX. Trading fees are a variable fee based on the value of the trade.

Securities clearing revenue relates to clearing and settlement activities, and a range of securities related services such as stock lending undertaken by NZX's subsidiary New Zealand Clearing and Depository Corporation. The largest component is clearing fees, which are based on the value of settled transactions.

Dairy derivatives revenue relates to trading, clearing and settlement fees for trading NZX dairy futures and options. Fees are largely charged in USD (reflecting the global nature of the market) per lot traded.

Data & Insights

Royalties from terminals revenue relate to the provision of capital markets data to global data resellers who incorporate NZX data into their own subscription products.

Subscription and licenses revenue relate to the provision of capital markets data to market participants and stakeholders.

Dairy data subscriptions revenue relate to the sale of dairy data and analytical products.

Funds Management

Funds under management based revenue relates to variable Funds Under Management (FUM) fees, which are now received net of fund expenses for all funds. 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 includes fixed membership administration fees and other member services.

Wealth Technologies

Administration (funds under administration based) fees relates to administration fees for the wealth management platforms and are proportionate to Funds Under Administration (FUA).

Development fees / deferred income release relates to customisation of the wealth management platform specific to client requirements.

Appendix 3: contacts

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