

13 April 2018

NZX Annual Meeting

Chairman's Address from James Miller

[Slide: Welcome to NZX's Annual Meeting]

Good morning and thank you for joining us. My name is James Miller, Chair of the NZX board.

On behalf of your board, leadership team, and everyone at NZX, welcome to the 2018 annual meeting of New Zealand's exchange here in Christchurch. A special mention to those shareholders who are following the meeting online via our webcast.

As part of the board's ongoing customer engagement plan we held our board meeting in Christchurch this week, which included a series of customer visits. Christchurch is also the home of one of our newest directors, Nigel Babbage. It has been a productive couple of days for our team here in Christchurch – thank you to all our customers and stakeholders who have taken time to meet with us.

Now, to today's agenda.

Let me first address you as Chair, followed by our CEO Mark Peterson. We'll then move to the formal business of the meeting.

There are four resolutions for you to consider and vote on today, which are set out in the Notice of Meeting.

After this there will be a chance to ask questions, and at the end of the meeting we look forward to hosting you for morning tea.

Before we formally begin, I would like to introduce you to your directors.

From my far right:

- Jon Macdonald;
- Lindsay Wright;
- Nigel Babbage; and
- Next to me our chief executive Mark Peterson

From my far left:

- Anna Molloy, our future director, who joined us last year;
- Richard Bodman;
- Frank Aldridge; and
- Patrick Strange.

Dame Therese Walsh is unfortunately not able to be here today due to a prior commitment. Dame Therese retires by rotation today and is not standing for re-election. I will formally acknowledge Dame Therese's contribution to our business a little later.

Seated in the front row, and also assisting us today are:

- Graham Law, the company's Chief Financial Officer; and
- Hamish Macdonald, Company Secretary and General Counsel.

We also have several members of our leadership team, our share registry, Link Market Services, and our auditors KPMG, here today.

Now, with those formalities out of the way I am pleased to confirm that we have a quorum and therefore declare the 2018 annual shareholders meeting of NZX open.

[Slide: Address from Chairman James Miller]

Shareholders, it is my pleasure to again present the Chair's report at this meeting.

In my address last year, change was a significant theme for our organisation. This has continued, with another busy year for NZX driven by a vital reset of our exchange, as the board established the right leadership, and implemented a renewed strategy to ensure we maximise shareholder returns.

For your board and leadership team, this year is about delivering on the initiatives outlined in our strategy.

2017 financial performance

[Slide: Operating Earnings of \$29 million in 2017]

Let me start with our financial performance.

As we reported in February, operating earnings were \$29 million in 2017, at the higher end of our guidance range, revenues were more than \$75 million. Net Profit After Tax was \$14.8 million, an improvement on our 2016 result.

We paid out 6.1 cents per share in dividends to shareholders – the first increase since 2013 – and announced the implementation of a new dividend policy and dividend reinvestment plan.

Shareholder returns remain front of mind for the board, and for me personally. We remain highly conscious of the need to keep lifting our performance as we work with the NZX team to execute on our strategy for the benefit of our shareholders.

Areas of focus for the board in 2018

[Slide: Areas of focus for the board]

Last year, the board supported Mark and the leadership team to reset the strategic direction of our exchange.

Mark will expand on the key pillars of the strategy, but what's clear is that it delivers a compelling vision for NZX to build scale, and provide a better service offering for our customers. It includes initiatives that will assist in driving commercial and market growth and improved performance.

This year, the board is focused on supporting the leadership team to deliver initiatives that will keep advancing growth in our core market's business. This includes divesting our non-core assets, resetting our capital structure, and achieving scale by progressing alliances with global exchanges.

With that in mind, I can confirm that the transaction to sell Farmers Weekly is progressing and we will update the market further as soon as we can. The process to sell our grain business based in Melbourne, is also underway.

[Slide: Improving the quality of our business]

Divesting these non-core businesses, along with disciplined cost control, will improve NZX's operating margin relative to international benchmarks.

In February, the board announced it had completed a review of NZX's capital structure, an important step in ensuring our exchange has the right risk model to support growth.

Following this, Mark and the team have been consulting on a mutualised default fund. The second round of consultation is underway and we are aiming to implement this in September. This fund will advance our Clearing House's risk model and align it with global standards.

As part of the capital review, the use of a capital bond is also being explored by the board to ensure the organisation has a more appropriate balance sheet to protect NZX in the unlikely case of a major market event. More details will be provided shortly.

As I touched on earlier, we will implement a dividend reinvestment programme in response to shareholder feedback, which will come into effect for the 2018 interim result this August.

These final reset initiatives will be delivered in 2018, and as such the board consider this a year of transition for NZX.

As a result, we expect operating earnings to be in the range of \$28 million to \$31 million, reflecting the work our team must still complete to ensure our organisation is well placed to deliver meaningful long term results for investors.

Accessing scale and scope with alliances

[Slide: Accessing scale and scope with alliances]

It is a privilege to be the Chair of NZX, and is a job I take very seriously.

Given the responsibility your board has to act in the best interest of its shareholders, we wanted to acknowledge there has been a legitimate challenge from a small group of shareholders asking us to seek out more efficient ways to expand the scale and scope of our exchange. This is a theme that is consistent with other small exchanges throughout the world.

While most of our shareholders – like our team – are passionate about maintaining a vibrant New Zealand capital market, there is a small group who have expressed some frustration with the speed and scale of our progress.

The board sympathise with their frustration, and agree we must maximise the exchange's wealth. But, we must remain disciplined and achieve our longer term objectives within the legal and social framework under which the exchange operates.

Unlike other listed companies, we are subject to a 10% ownership limit. This is to ensure the Crown – who acts on behalf of all New Zealanders – has the opportunity to act as a safe keeper of our national exchange.

Research we conducted showed that a strongly performing public market adds significant value to the local economy, creating jobs and improving productivity.

Our refreshed strategy not only marked a vital reset for our exchange as we renewed our focus on our core market, but it reinforced the board's belief that we can achieve scale and scope by progressing alliances with our peers.

This is a major-step change for NZX as we break away from the regional stock exchange model to build a network of global alliances, while maintaining our sovereignty and identity as a national exchange.

We believe that the fortress or local exchange model, does not provide high value opportunities for long term shareholder wealth creation.

NZX already has reciprocal relationships on many fronts with the ASX. In addition, we signed a Memorandum of Understanding with the Hong Kong Exchange, and more recently with the Singapore Exchange. Shareholders should expect further announcements with other exchanges to follow.

[Slide: We have many options]

I am energised by the scale and scope of this opportunity. It will open the New Zealand market up to new investors, and provide our local businesses with the opportunity to access new markets and capital.

We have many different options on how to progress this, which is why these alliances are intended to have several layers, starting with:

- Co-marketing opportunities, and I am pleased to update you that plans are already being made to host a joint customer event with SGX in Singapore this October;
- A second layer is mutual recognition and alignment of the exchange's regulatory regimes and requirements. As announced yesterday, NZX Regulation has now recognised the Singapore, Hong Kong and Toronto exchanges. This complements agreements we have with the ASX;

- This is then followed by the promotion of market development initiatives, across a range of areas such as, dual and secondary listings, exchange traded funds, derivatives products and investor participation;
- A fourth layer is technology sharing. For example, NZX efficiently accessing another exchange's technology instead of building our own. We already do that with Nasdaq today;
- Then operational practices will be standardised to connect trading and clearing systems to offer a seamless experience for all customers; and
- Finally, where possible, exchanges would integrate back-end automation.

As I mentioned just before, it is early days, but the alliance approach has been tested elsewhere – airlines in fact do this very well.

For our listed issuers this could potentially translate listing on the NZX to having the ability to achieve a secondary listing on another international market, with minimal regulatory burden and cost. We believe that the unfortunate delisting of Xero would not occur under this model.

[Slide: Alliances are efficient and effective]

Alliances are an efficient and effective way to create scale and scope beyond the go it alone model. They are low cost, and have a high degree of potential.

It is an effective approach because it widens the footprint of New Zealand companies to new markets, giving our customers access to new investors and participants, and vice versa.

I am excited by the benefits this opportunity will create for our customers and the market.

Your Board

[Slide: Your Board]

I would like to conclude by making a few comments on the governance structure of NZX.

Since our last meeting we have welcomed Nigel Babbage and Lindsay Wright to the board.

Nigel has a strong clearing, derivatives and financial markets background, which complements the rest of the board. He joined our team in December.

Nigel is a former member of the Foreign Exchange Committee of the Federal Reserve Bank of New York, and previously held executive roles with BNP Paribas, BP and Citibank.

Lindsay was appointed to the board in February.

Lindsay is an international expert in passive funds management and is currently Head of Distribution and Co-Head of APAC at BNY Mellon Investment Management, one of the world's largest financial services companies.

Lindsay brings more than 30 years' of global fund management and finance experience to NZX and her skills closely align with the growth plans for Smartshares and SuperLife.

Nigel and Lindsay are seeking election today. Both have the full support of the board.

Their appointment process emphasised that Nigel and Lindsay's respective skill sets will ensure your board is well equipped to support our leadership team to accelerate the dairy derivatives market to global benchmark status, and maximise the value of our Smartshares business, as outlined in November's strategy.

Jon Macdonald, who joined the board in 2013, also seeks re-election today. His re-election also has the board's full support.

Jon is an experienced CEO leading one of New Zealand's top 10 listed companies. He has an extensive background in engineering and technology, and his insights are vital in ensuring we create a world-class offering for our current and prospective listed companies.

I mentioned earlier that Dame Therese Walsh is stepping down from the board today.

Dame Therese was unable to be here today, but we wish to thank her for the energy and rigour she has brought to the board table over the last five years, and for her efforts as Chair of the Conflicts Committee, and more recently the Audit and Risk Committee.

Lastly on governance – during 2017 your board participated in the Future Director programme, which aims to promote diversity of leadership around the board table. The programme is actively supported by the Institute of Directors and the New Zealand Shareholders' Association and participants include many leading listed companies.

Anna Molloy is our inaugural future director and joined the board as an observer in May 2017.

Closing remarks

In closing, on behalf of the board, thank you to Mark, the leadership team, and everyone who works for our company.

One of the highlights I spoke about last year was the successful transition of Mark into the CEO role. The leadership of a business is important and we are encouraged by the progress made over the past 12 months to put strategic building blocks in place to generate long-term shareholder value.

It has been a very busy year and everyone in the team has worked hard on our behalf. Thank you for your efforts.

This year of transition is a critical time for our organisation as we deliver on our strategy to improve the quality of your business and extend the reach of our exchange globally.

Thank you. I'll now hand over to Mark.

CEO Address from Mark Peterson

[Slide: Address from CEO Mark Peterson]

Kia ora, and good morning.

Thank you for joining us in person and online.

It's a pleasure to be in Christchurch today. We are New Zealand's exchange, and with our previous two annual meetings held in Auckland and Wellington, it is great to bring the NZX to Christchurch.

It was also great to host the Christchurch capital markets community last night – and see our listed customers, advisors and investors in the region.

There is no doubt that 2017 was a demanding year for New Zealand's exchange, and I am pleased to be able to update you on the progress of our company.

Since speaking to you at the last annual meeting we have released our refreshed strategy and reported a sound financial result.

[Slide: Our refreshed strategy]

Our strategy identified the non-core areas of our business which we will exit, it highlighted the growth areas we will focus on, and it highlighted a necessary lift in efficiency in within our operations and project delivery.

As you will see on the screen beside me, the strategy is made up of four parts:

- Refocusing back on our core markets business. This is the exchange's fundamental growth platform and the basis of our licence to operate;
- Our success is linked to New Zealand's success, and we are focused on growing opportunities aligned to our country's advantage. This is our debt, dairy, environmental and energy markets;
- Maximising options that will pay off. We are committed to continuing to grow our Smartshares, SuperLife and Wealth Technologies businesses; and
- Underpinning all of this, we must get fit and earn the right to grow through disciplined cost management and clarity of vision.

In addition to all the activity and progress you can see on the surface with our strategy and financial performances, lots changed behind the scenes, with significant progress made by our team to establish the platform for our future growth.

I will take you through these key areas today, but first I would like to introduce you to my direct reports.

Meet the team

[Slide: Meet the team]

Our core markets team was created to focus on our customer groups, and leading these teams we have:

- Joanna Lawn, Head of Issuer Relationships. Joanna's team is responsible for our current and prospective issuing customers, across equity, debt and funds;
- Benjamin Philips, Head of Markets Development and Clearing. Ben's team manages our participant relationships, and is responsible for secondary market development in the cash and derivative markets; and
- Jeremy Anderson, Head of Data & Insights. Jeremy leads our cash, derivatives and agri data offering.

Leading our fund and platform businesses we have:

- Hugh Stevens, who leads Smartshares and SuperLife; and
- Lisa Brock, Head of NZX Wealth Technologies.

In our corporate office we have:

- Graham Law, our CFO;
- Hamish Macdonald, our General Counsel, Company Secretary and Head of Policy;
- Joost van Amelsfort, our Head of Market Supervision;
- David Godfrey, who leads our technology team; and
- Katherine Birch our Head of HR.

With introductions made, I would like to now talk about some of the key areas of our delivery in 2017.

This week I have been CEO of NZX for a year. When I took on the role, three key areas were identified that we needed to work on.

The first was reshaping our exchange for growth. This means improving operational efficiencies, exiting non-core businesses, and building earnings momentum.

The second was advancing New Zealand's market structure. This includes initiatives such as the listing rules review, simplifying the market structure, and increasing liquidity in the secondary market.

The third, as James mentioned, is to establish our position on the global stage. We need to build strong relationships at a commercial and regulatory level with other exchanges.

Reshaping our exchange for growth

Reshaping our exchange for growth has been the board and management's focus over the past 10 months.

Since June we have completed a rigorous review of our organisation, refreshed our leadership team, aligned our organising principles to our customers, and reallocated our resources to higher value areas.

Putting in place a new organisational structure with refreshed leadership has helped to accelerate cultural change. Our teams are developing:

- Stronger customer ethic in everything they do;
- Greater focus on sales, growth and quality execution; and
- Far better clarity and ownership of the initiatives we are focused on.

Ensuring effective cost management and improving operational efficiencies form a key part of our strategy, and we did not delay in looking for savings.

We found a number of opportunities to make improvements. This included completing two technology projects in 2017, which have delivered a consolidated and modern infrastructure platform for our market participants, and considerable annual cost savings.

We have recently initiated two follow on projects to further modernise this infrastructure. Both of these will deliver further cost savings.

More efficiency gains have been made through the automation of operational processes. Implementing changes to the way administrative trading halts are applied is a good example, and more changes to automate the market announcement platform are planned for later this year.

Before we move on, I wanted to acknowledge that our Wealth Technologies business has taken longer to on-board its first client than originally envisaged. It has also taken more resource than first thought.

I can tell you, that today we are on track to have the core system ready in June, with platform transition occurring at the end of Q3. We are committed to delivering a quality product.

Finally, in this section, we continue to make progress to exit our non-core businesses, and will update the market further on this shortly.

Issuer customer engagement

[Slide: Issuer engagement]

Now, moving to issuing customers ... reshaping our exchange for growth means we are committed to developing opportunities that will advance our core markets business.

I am proud to tell you that our issuer relationships team has engaged with all our listed customers since the team was formed in December 2017.

The team have also met with a range of market influencers, and has proactively engaged with potential new issuers to help drive more issuance both locally and from offshore.

As an exchange we play a role in influencing the demand for new listings. We have a responsibility to sell our story and the benefits of sourcing capital from the public markets – and we are stepping up our efforts in this area.

But the reality is, we don't control the outcome of whether a company lists on our market or not. It is the collective effort of the capital markets ecosystem, which finally determines whether a company goes public in New Zealand.

One of the key outputs of the strategy was to reallocate our resources to the highest value areas and the issuer relationship team is a good example of this.

This team wasn't formed by adding new headcount. Staff that previously supported issuers in roles across the exchange were brought together to form one team.

I am encouraged by our customer engagement programme, and confident it will continue to deliver improved customer service levels, and uncover new growth opportunities for brokers to work with the investor community to bring these companies to market.

Looking ahead to 2018, it has become increasingly evident to us that New Zealand has a natural advantage in the primary sector and we want to take advantage of that.

This sector generates a significant portion of our country's wealth, and our exchange is home to several high profile names.

To give these companies the exposure they deserve we will launch a primary sector index in Q2 so that local and global investors can better track the performance of this growing part of the market.

There will initially be 15 companies in this index and will include companies such as A2 Milk, Fonterra, Comvita, New Zealand King Salmon, Scales, Sanford and Seeka.

It's also important that we develop commercial relationships with Maori businesses. Our issuer relationships team is establishing a Maori engagement strategy, which will be launched later this year. We have already met with several key stakeholders in the Maori economy to better understand their needs so we can best support their growth.

As well as ensuring our issuers have an efficient and straightforward relationship with us, this team will be providing an increased range of opportunities for our listed companies to showcase their stories to retail and institutional investors.

We have supported one investor day for small to mid-cap companies this year, and the second is in June. These events give our customers exposure to a wider pool of investors, and improves our service offering. These events will now occur regularly and many will be jointly hosted with our participant customers.

Participant customer engagement

[Slide: Already making progress to improve liquidity]

Alongside our issuer relationship team, a dedicated team focusing on our participant customers was also created in December.

These customers include advising, trading and clearing participants across the cash, debt and derivatives markets.

The objective of this team is simple. To build strong relationships, grow the participant base, and deepen secondary market liquidity.

Already Benjamin and his team have been engaging with the market on proposed changes to the trading and clearing pricing structure. Changes will be implemented in the second half of 2018 and this will see a cost structure more aligned to the needs of the market, and we expect this to unlock further on-market liquidity.

A number of market commentators have for some time been demanding increased on-market liquidity, and we are making very good progress in this area.

The trial of the tailored pricing structure we have been running in the secondary market, which I spoke about at our last meeting has gone very well.

The pilot has continued into 2018, and has contributed an additional 16% to on-market liquidity this year, helping on-market value traded to surpass 50% in the first quarter. This is up 19% on this time last year, and compares to only 23% on-market value traded ten years ago.

Maximising the value of Smartshares and SuperLife

[Slide: Maximising the value]

There are two reasons why our passive funds management business is strategically important to NZX at present.

There is growth in the value of this business to maximise and it assists with the growth of our core markets business.

This business grew strongly in 2017. Overall fund under management grew 25% last year. Smartshares funds under management increased 45% and SuperLife KiwiSaver grew 23%.

Underneath these numbers, SuperLife member numbers increased 4.8%, and Smartshares exchange traded funds retail applications climbed by a record 84%, of which 49% of applications were received from first time investors.

More than 60% of first time investors also signed up for our regular savings plan, which is now contributing substantial fund inflows.

The team also generated material cost savings by moving to a single trustee as we start to consolidate the operating model.

Hugh Stevens joined us in February to lead our funds management business, and is already seeing plenty of opportunities to grow this business and its earnings contribution.

The Smartshares team continue to focus on online and digital sales, directly and via partnerships.

In 2017, 99.5% of applications were completed online, and agreements were signed with start-up fund distributors, Sharesies and InvestNow to sell our products, and are attracting thousands of new investors.

The availability of financial advice is a key concern of government and regulators, and Smartshares has been innovating in this area. The team launched a KiwiSaver structure this month that allows advisers to set the fee their clients pay for their advice – and have Smartshares collect it on their behalf.

Our SuperLife team has also maintained their strong reputation for providing excellent customer service, securing a new corporate super client in March.

Spotlight on dairy derivatives

[Slide: Spotlight on dairy derivatives]

While our strategy focuses on the next five years, our dairy derivatives market is already delivering, with lots traded up 57.2% in 2017 and active end users accessing the market up 60%.

We are also delivering on several initiatives designed to accelerate it to global benchmark status.

Additional trading functionality was launched in March. This will attract important proprietary traders to the market, which will lift volume growth and increase liquidity.

An extension of the derivatives trading hours is on track for July. This will provide more opportunities for European and Asian firms to participate in the market, which was previously closed for the majority of their trading day.

The team have also accelerated collaboration with market participants and industry stakeholders to aggressively market our market, hosting joint education events with stakeholders in China and South East Asia. We are also upping our presence at industry events in globally relevant dairy producing regions like Europe and the United States.

Alongside these efforts we are in the process of redesigning our derivatives website, which will include Mandarin translation, and marketing materials to create a reference point for our global customer base. Preparations are also underway to open a new Singapore office.

As planned, we have added an additional local sales resource to promote the NZ milk price futures and options contracts. This follows the popularity of the product since launch, with trading volumes up 43% in the first quarter of 2018.

The rapid growth of our dairy derivatives market represents a significant global opportunity for NZX, as this market supports New Zealand's position as a global leader in the dairy industry. We are exploring the possibility of a global partnership that will help drive the market to scale and deliver a global benchmark product over a shorter timeframe.

Our dairy derivatives and funds management businesses are significant growth engines and present an opportunity for sustained growth in profitability for NZX. It is critical we maximise the value of both opportunities and I look forward to continuing to update you on our progress.

Advancing the New Zealand market

[Slide: Advancing the New Zealand market]

Earlier I said we needed to execute on three initiatives to achieve success – the second is advancing the market structure.

New Zealand's market structure, and the listing and participant rule sets must promote integrity and assist in delivering more investable product, deeper liquidity levels, and greater participation rates.

This encourages a more sophisticated public market, and provides the exchange with the ability to reach out to a wider global audience as we market our market, and drive growth.

The structure of the New Zealand market needs to be simple, logical, and in line with global standards, and our team is actively addressing what we can control to achieve this through two critical pieces of work.

Firstly, earlier this week, our policy team released an exposure draft of updated listing rules.

We want to simplify the rules under which our listed customers operate – without compromising quality or integrity.

This work is critical to the development of our exchange, and continued input from our customers, and broader market stakeholders will be vital to getting the future foundations of the market right and promote long term development.

We had superb feedback from the market during the first consultation round and welcome future engagement.

And then secondly, we also provided a further update on the rule changes needed to improve liquidity and increase price transparency in the secondary market.

We are also seeking feedback from the market on these changes, which cover two areas. The first is the speed with which orders should be brought to market and the second covers off market crossings.

The aim here is to more closely align our exchange's secondary market on a policy and commercial front with global peers, and encourage even greater price discovery and market liquidity, by ensuring that retail and institutional client orders are executed to promote price transparency.

Global exchange alliances

The third step key to the success of our exchange is global connectivity.

It is early days, but as we embark on building these alliances I am encouraged by the conversations and intentions to date, and certainly value the alignment of thinking as we work with our global peers.



As James mentioned, there are a number of layers to this, but the fundamental rationale for forming a series of alliance partners is to create value for our customers through innovative thinking.

We all know the compliance requirements of being a public company are significant – but if we can align the requirements of various international markets, it should be possible for companies to achieve wider access to capital, while minimising additional regulatory burden.

In addition, New Zealand has many points of difference and areas of strength grounded in its economy. We will be marketing these areas of strength with a view to trying to extend our competitive positioning.

Our ambition is to make it easier for our customers to access local and international capital.

We want to continue to build an exchange, which thrives off being connected, and that creates value for our customers.

Looking ahead, New Zealand's exchange has a lot of opportunity in front of it.

We changed a number of fundamental elements of our business in 2017. We still have much more to deliver, but we believe in, and are committed to, our growth strategy, which will support our customers' growth, our shareholders' growth, and our country's growth.

Thank you to the team at NZX who are committed to delivering on these objectives.

Thank you for your attendance today.

I hope you are encouraged by what we are beginning to achieve.

ENDS.