NZX defies the odds: Consistent profit growth continues

23 February 2009 - NZX has released its 2008 full year result showing NPAT up 17% to $10.18 million for 2008.

NZX CEO, Mark Weldon said, "Under extremely difficult trading conditions, NZX has delivered very strong profit growth in 2008. NZX has operated in an environment of de-leveraging, declining asset values, reduced listing activity in the face of volatility, and the reshaping of global financial institutions - yet a strong financial performance has still been achieved.

"The 2008 financial result, with NPAT up by 17%, is a very strong performance, and reflects the success of the strategic reshaping of the business that has been underway for the last three years. The best indication of the strength of the underlying franchise and strategy is that excluding TZ1, NZX operating EBITDA was up 28% in 2008, while the TZ1 Registry, an NZX investment, is currently in the due diligence stage of a sale for NZ $66 million."

For comparison, the last results released by regional peer exchanges all show declining profitability. ASX NPAT was down over 8%, Singapore Exchange NPAT was down 37% and Bursa Malaysia NPAT was down 57%.

This release contains four sections:

I. NZX Group Financial Result 2008: Performance Summary
II. NZX Group 2008: Detailed Performance Summary
III. NZX Group 2009: Outlook
IV. Capital Management

I. <u>NZX Group Financial Result 2008: Performance Summary</u>

	2008	2007	% Change (PCP*)
Operating Revenue	$32.16 million	$31.45 million	2%
Operating Expenses	$15.51 million	$16.71 million	(7%)
Operating EBITDA	$16.66 million	$14.75 million	13%
NPAT	$10.18 million	$8.71 million	17%
EBITDA Margin	51.78%	46.87%	10%
NPAT Margin	31.66%	27.70%	14%
Fully Diluted EPS	41.44 cents	36.17 cents	15%

*- Previous comparative period (PCP)

NZX's key investments in 2008 were predominantly offshore. NZX acquired two Australian agricultural businesses, became the largest shareholder in the Bond Exchange of South Africa, and grew a wholly-owned subsidiary, TZ1 Registry, that is now a global leader for the provision of environmental markets infrastructure.

“NZX is no longer solely an exchange business. Our operating footprint spans a range of sectors and international markets. For example, NZX is now the leading provider of dairy and agricultural financial information and research, under its NZX Agrifax and Dairy Week brands.

“Global capital market volatility has thus impacted NZX's revenue growth to a much lesser extent than our exchange peers, and NZX has come through 2008 in a position of significant financial strength.

“NZX also expanded margins for the sixth year in a row. This is a result of a very effective cost management and productivity programme,” said Weldon.

Consistent long-term profit growth

Over the last six years, NZX has performed consistently, delivering strong profit growth year on year. As at the end of 2008, NZX total return to shareholders since listing in June 2003 was 255%, annualised at 26%. The table below summarises NZX’s financial performance since listing in June 2003.

Year	NPAT	% Change (PCP*)	Operating EBITDA	% Change (PCP)
2003	$2.94 million	n/a	$3.56 million	n/a
2004	$3.68 million	25%	$5.92 million	66%
2005	$4.89 million	33%	$7.33 million	24%
2006	$6.50 million	33%	$10.44 million	43%
2007	$8.71 million	34%	$14.75 million	41%
2008	$10.18 million	17%	$16.66 million	13%

Strategic reshaping of the business

At the time of the 2007 NZX Annual Result it was highlighted that a key focus of 2008 would be further developing international niche businesses to leverage NZX skills and knowledge. NZX made two further data business acquisitions in the agricultural sector in 2008: Dairy Marketing Group, publisher of “Dairy Week,” and Profarmer Australia, a leading provider of agricultural news, commodity market information and strategic grain market analysis. These acquisitions have positioned NZX as a leading independent agricultural data and information provider across Australasia. The customers of NZX's agribusiness subsidiaries include players right along the global agricultural commodity supply chain. With the increasing volatility and uncertainty in the current markets, accurate and timely information is even more critical for industry participants to keep in touch with the market.

A strong business line to emerge in 2008 was TZ1 Registry. TZ1 Registry has built a recognised brand and has a rapidly growing global customer base with particular strength in the US and UK markets. In late January it was announced that NZX is in discussions with global information business Markit to acquire 100% of TZ1 Registry.

In October 2008, NZX made a $5.58 million investment in the Bond Exchange of South Africa. NZX became the largest BESA shareholder, with 22% of the total issued capital and two seats on the BESA board. Six weeks after NZX made this investment, BESA received an unsolicited takeover offer from the Johannesburg Stock Exchange (JSE). JSE subsequently revised its initial offer to Rand 125 per share, representing a 71% premium to the price at which NZX acquired the BESA shares.

Expense discipline and productivity focus

NZX continues to focus intensely on cost management and productivity. Disciplined cost management has enabled NZX to achieve a group wide reduction in operating expenses of 7%, notwithstanding significant ongoing investment in the Market Supervision function. Excluding TZ1, NZX Group expenses fell 20%.

All NZX Group subsidiaries and investments implemented strong cost control procedures during the year. Operating expenditure for the NZX Markets business was down 20% and expenses for Smartshares were down 20% in 2008.

Also, in 2008 NZX was named the Central Region, Emerging Large and Corporate Business of the Year at the Sustainable Business Network awards for initiatives around sustainable practices in day-to-day operations. Sustainability is an everyday focus for NZX in both strategic and operational decision-making.

II. NZX Group 2008: Detailed Performance Summary

NZX Markets Business - 2008 Performance

- Total NZX Markets operating revenue grew to $29.80 million from $28.55 million in 2007, an increase of 4%.
- The NZX Information business generated $12.30 million in revenue, an increase of 17% on 2007.
- Operating expenditure for the NZX Markets business was down 20% at $11.51 million, the result of broad cost discipline and streamlining of operations across the six data businesses.
- Listings revenue was $8.36 million, an 8% decrease on 2007. Initial, Secondary and Other listings revenue was $2.23 million.
- Both debt issuance and investor demand for debt products were strong in 2008. The NZDX market grew 20% in 2008, with market capitalisation at $12 billion at the end of the year. This is a uniquely successful market globally, of real importance to New Zealand Issuers which were able to access debt via the NZDX at a time when global debt markets were "closed". It is also of vital importance to NZX Participants in terms of ongoing deal flow.
- Trading, clearing and settlement revenue was down 7% on 2007 at $4.51 million, reflecting the fact that NZX trading revenue is based predominantly on number of trades rather than value traded. Average daily trades were down 5% and average daily value traded was down 18% in 2008.

NZX Subsidiaries and Strategic Investments - 2008 Performance

NZX's wholly-owned subsidiaries are Smartshares and TZ1. The registry arm of the TZ1 business holds a customer base and growth prospects which are largely based offshore. Strategic investments are 50%-owned Link Market Services Limited, 30%-owned Appello

Services Limited, a 50% stake in AXE ECN in Australia and a 22% stake in the Bond Exchange of South Africa (BESA).

- Operating EBITDA reached $765,000, an increase of 14% on 2007, which is a very strong result from this business in a very difficult trading environment.
- During 2008 the New Zealand and Australian indices tracked by the five Smartshares funds fell between 33% and 48%. Funds under management declined 13%, but to a lesser degree than the indices because of regular savings and dividend re-investment plans.
- Disciplined expense management resulted in a 20% decrease in operating expenditure for Smartshares in 2008.

- Given ongoing uncertainty around emissions trading policy, the TZ1 management team focused primarily on building the TZ1 Registry to become one of the top two environmental registry brands globally.
- Establishing a physical presence in London and New York in 2008 was critical to enable consistent engagement with key stakeholders and customers. Winning various RFP's and initiating new global directions in emerging biodiversity markets also built the brand a market position.
- TZ1 Registry currently has 92 registered customers and another 16 Registry applications in progress. This is from a standing start in 2H 2008 when the registry infrastructure went live.
- The delay in launch of the VCS Registry Network will see revenue previously forecasted for Q4 2008 realised in Q1 2009.
- The impending TZ1Registry/Markit transaction, announced on January 29 2009, is discussed later in this release.

- Link continued to deliver strong revenue growth, with an increase of 11% over 2007.
- Strong cost management saw EBITDA increase by 23% to $1.25 million.
- Link continued to redeem preference shares, paying back $550,000 in cash to NZX as a shareholder over the year. There remains $5.12 million in redeemable preference shares.

APPELLO
SERVICES

- Appello made a small loss of $107,000, well in line with expectations as it grew the customer base and invested in core infrastructure. In excess of $1.5 billion dollars of FUM was on the platform by the end of 2008, including two major New Zealand fund managers.

AXE
The Australian ECN

- After lodging a complete application for an Australian Market licence in Q1 2007, AXE ECN, along with Chi-X, has been waiting for the Australian government to process this application. NZX understands that ASIC provided its recommendation to the Australian government in a timely manner, and the process is now within the Australian government cabinet. As the timing of a licence, and the shape of the regulatory environment into which an ECN will be launched, both remain uncertain, AXE has reduced its operational cost basis. The shareholders of AXE remain committed to the market opportunity and are confident of AXE's positioning.

BOND EXCHANGE OF SOUTH AFRICA

- BESA contributed a three-month equity accounted loss of $265,000 to the NZX Group result. Included in this result is significant expenditure undertaken by BESA in relation to the JSE takeover offer.

III. NZX Group 2009: Outlook

NZX has three priorities in 2009. First, continuing to reshape NZX's offering to grow the financial resilience of the franchise. Second, a detailed focus on improving medium-term liquidity prospects for the NZX Markets. Third, delivering a robust Clearing and Settlement system that improves the risk profile and product set offered in the New Zealand capital market.

The detailed outlook for 2009 is discussed below.

NZX Markets Business - 2009 Outlook

The NZDX Market listing pipeline for the first half of 2009 is very strong. Additionally, in the second half of 2009, with credit tightening up from traditional sources such as banks and the capital market providing better valuations for companies, the environment for equity capital raising is looking more favourable than in the previous 24 months. The world is swinging away from high-gearing debt-only models to more traditional balance sheets that improve each corporate's financial health and flexibility in terms of its capital structure.

Improving the underlying liquidity of NZX Markets at every level of listed product will continue to be a priority in 2009. Currently, the derivatives team is working with key customer and stakeholder groups on product planning and development. During 2009 these groups will be focused on building the market structure to launch equity options, index futures and dairy commodity derivatives. A virtual equity and derivatives trading platform (http://virtual.nzx.com) has been launched to educate and familiarise investors with these products.

The NZX Information business includes the core data business, where the majority of revenue is derived from the sale of real-time market data, and six businesses offering data and information products across the market, agricultural, managed fund and media sectors. In 2009, further cost management and product development and consolidation is planned across the set of NZX Information businesses. Additionally, NZX plans to continue making bolt-on acquisitions to further grow the breadth of the offering and the profit contribution of this area of the business.

NZX Subsidiaries and Strategic Investments - 2009 Outlook

The key events of the first half of 2009 in this area are already evident. The JSE's takeover offer for the Bond Exchange of South Africa (BESA), of which NZX owns 22%, and Markit's proposed acquisition of wholly-owned subsidiary TZ1 Registry, are transactions currently underway for NZX. Both transactions hold strong potential upside for NZX.

The BESA transaction is expected to be finalised in 2009 and the most likely outcome at this stage is a sale of NZX's stake to the JSE at a significant premium. Through the Markit transaction, with confirmation of acquisition expected by the end of March, NZX will retain an economic interest in the success of TZ1 Registry until the end of 2011.

As NZX’s infrastructure, product offerings and expertise expands, new networks are formed, providing exposure to opportunities in new high growth sectors and countries. NZX will continue to apply resource to evaluating domestic and international strategic investment opportunities in 2009.

Smartshares

Smartshares begins 2009 with funds under management 13% lower than 12 months prior, which largely reflects a fall in index values.

In terms of revenue, Smartshares is well placed to benefit from any growth in equity index values, with FUM expansion expected to come from both funds inflows and unit price expansion upon such an event. Smartshares should benefit from investors' attraction to higher yielding products over 2009.

NZX is confident of achieving continued cost savings and efficiency improvements in the Smartshares business over 2009, although not to the same level as 2008.

TZ1

Under the terms of the proposed transaction announced on 29 January, NZX will sell Markit 100% of the shares of TZ1 Registry in exchange for consideration payable in Markit shares. Markit believes that the TZ1 team have created a world-class brand in environmental credit registries and recognise that the business is now a leading player in the development of standards in the US and UK.

The TZ1 Registry product complements Markit's independent data offering which spans all major asset classes and is used by over 1,500 financial institutions worldwide to manage risk, improve operational efficiency and meet regulatory requirements. The acquisition of TZ1 Registry by Markit is expected to be completed in the first quarter of 2009, and is subject to relevant Board approvals, completion of bilateral due diligence and final documentation.

NZX will bring in-house, at the end of Q2, the TZ1 carbon trading business. Prospects for this are dependent on the timing and details of the New Zealand government's emission trading scheme.

Link Market Services

The focus for 2009 for Link will continue to be on execution of the core business model, providing registry services to existing, and acquiring new, Issuer clients. In 2009 the focus is on growing profitability and strategic positioning for a change in market conditions.

In 2009 Link is expected to again return over $1 million in Redeemable Preference Shares to its shareholders, driven by again improved EBITDA and NPAT results. Link has some sensitivity to the IPO market, so the actual EBITDA outcome will be impacted by market events.

Appello Services Limited

Appello Services Limited delivered an equity accounted loss of $107,000 in 2008. As this is the first year of operations, this was expected, and to plan. Over 2009, NZX expects Appello to make a positive NPAT and a positive contribution to NZX at an equity accounted level. Appello currently has six customers on its platform, representing $1.8 billion in funds under management. Appello's pricing model is such that both customer and funds under management numbers are important to financial performance.

Appello is a fund management services business which provides a set of fully electronic administrative and compliance services for New Zealand fund managers. Over 2008, Appello Services infrastructure has proven robust, with all current customers looking to expand their use of the functionality and services that it provides.

The focus for 2009 is to further expand the capabilities of the operating platform and associated services, grow the customer base and and begin to deliver a profit. It is expected that customers, managing a total of $4 billion funds under management, will be on the Appello platform by end of 2009.

AXE ECN

AXE ECN submitted an Australian Market Licence (AML) application in Q1 2007. This licence application is submitted under the Australian Corporations Act, under which ASX currently operates. In the 22 months since lodging the application, AXE ECN has received neither a response from the Australian government to its application, nor a timeline for the consideration of its application. AXE ECN believes that ASIC provided a supportive recommendation to the Australian government.

In summary, AXE ECN lacks clarity as to the nature or timing of the Australian government's processes.

AXE ECN continues to request of the Australian government that it makes a positive announcement regarding AXE ECN's licence application, as AXE ECN is seeking the right to operate as the ASX does under current law. AXE ECN also notes that the ASX recently submitted rules to ASIC for approval that are substantially similar to those of AXE ECN.

In all capital markets where electronic competition has arisen, the benefits have been clear. AXE's strategic position remains very strong.

Bond Exchange of South Africa (BESA)

The revised takeover offer for the Johannesburg Stock Exchange (JSE) for BESA at Rand 125 per share is a 71% premium to the 73.17 Rand per share at which NZX acquired the shares. This revised offer has now been approved by 100% of shareholders who attended the Scheme of Arrangement meeting of shareholders or voted by proxy on 6 February 2009.

The offer is now only subject to review by the competition authorities in South Africa and a decision is expected by June. If this takeover proceeds it will result in a profit of $4.5 million for NZX at current exchange rates.

IV. Capital Management

The NZX Board will review capital policy at their next meeting on March 6 2009. An announcement will be made following this meeting.

ENDS

Download NZX Statements of Financial Performance and Operating Metrics for 2008 here:
http://www.nzx.com/about_nzx/investor_relations

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