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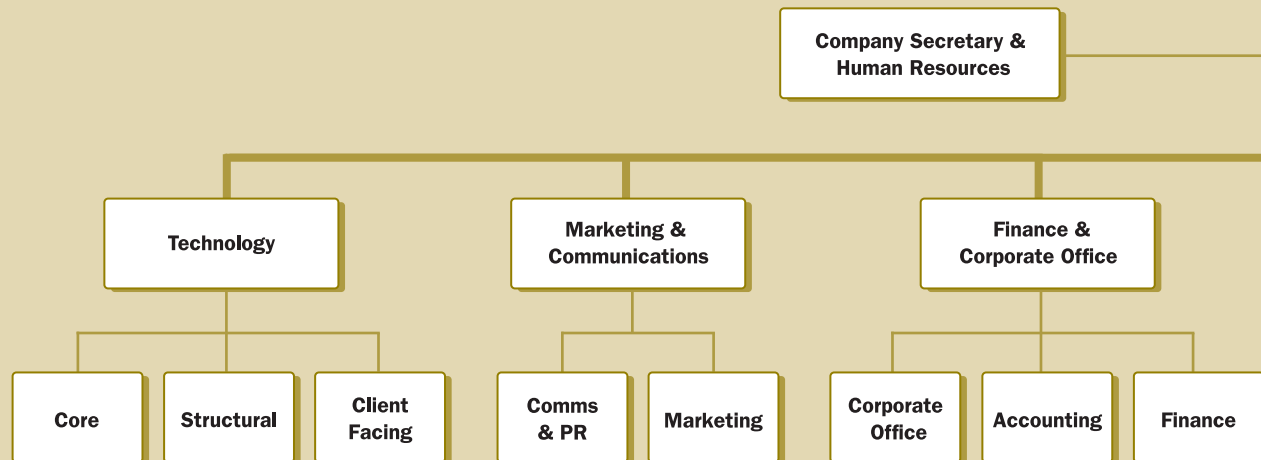


FIVE THINGS
YOU
SHOULD KNOW ABOUT
YOUR COMPANY

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NEW ZEALAND EXCHANGE LIMITED ANNUAL REPORT

ONE

NZX Organisation Chart – 2003



Technology provides the backbone of the exchange. It is dedicated to systems integrity and creating a robust network platform for NZX's markets.

Clearly, the most visible of all changes in 2003 was the re-brand to NZX in May. The new name and branding reflects a more modern and fresh approach and a greater relevance to NZX's mandate to be more than a stock exchange. Marketing & Communications also runs a programme of updates to keep all participants informed in a more constant and consistent manner.

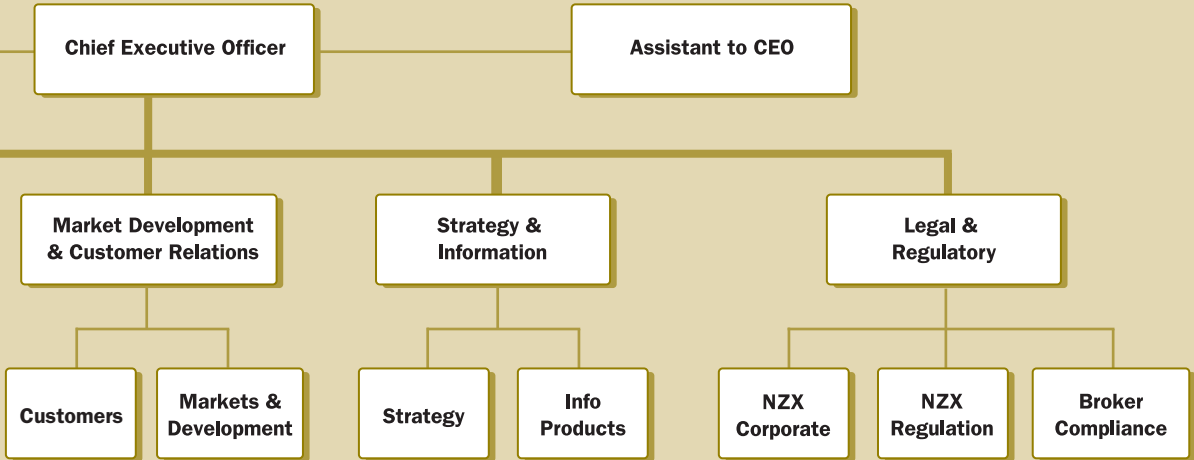
Finance plays an important role in any organisation. 2003 saw the consolidation of accounts and the streamlining of our systems to provide more efficient financial reporting mechanisms. Publicly available monthly NZX metrics and quarterly financial reporting has also been introduced.

NZX has two main roles – one as operator of New Zealand's only registered securities exchange and the second as a company accountable to its shareholders for creating value. These two roles are equally important and very much integrated within NZX. They are reflected in our constitution, our organisational structure and our internal priorities. We believe that the success of one reinforces the other, in that we can't be successful as a company without being an efficient market operator and a regulator of the utmost integrity.

To this end, we've put a lot of energy into restructuring NZX and its markets, which include the NZSX Market, the NZAX Market and the NZDX Market. A significant amount of work, previously out-sourced, has been brought in-house to capture intellectual property and expertise. NZX has also, through the introduction



OPERATIONS



Market Development was responsible for the restructuring of our markets in 2003, which saw the development and launch of the new NZAX Market. Listed issuers are a priority for Listed Company Relations, and NZX introduced dedicated issuer representatives to aid the announcement processes. This team provides a critical link between NZX and listed companies.

Knowledge and information are clearly critical to any efficient market. The Data & Strategy team have further developed our core data products based on specific customer requirements and have strengthened relationships with key vendors.

The Legal & Regulatory team is responsible for the front line regulation of NZX's markets, as well as for providing corporate legal support to NZX. The Legal and Regulatory Group are charged with developing, implementing and enforcing the regulatory environment for NZX's markets, and liaise with the Securities Commission in discharging their regulatory function.

of the NZAX Market, and through changes to the rules that govern the operation of NZX's markets, streamlined the securities markets we operate, to make them more efficient and to better tailor them to the specific needs of the New Zealand business landscape. Finally, we undertook a complete review of the legal and regulatory structure with the goal of providing a single, coherent system for both market participants and listed issuers, to enhance investor confidence and strengthen market integrity.

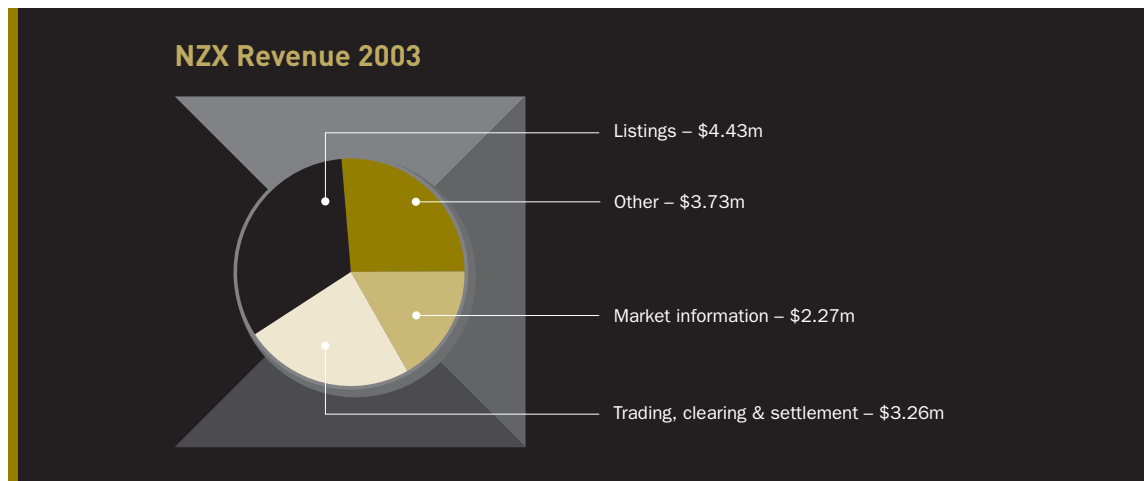
As a service organisation, our core strength lies in our people and we are now in a position to be able to attract some of New Zealand's best and brightest. Attracting talent is a priority for NZX, to enable us to continue to return value to shareholders as we did in 2003, and to be a leader in innovation, to drive growth.



TWO

REVENUE

NZX achieved revenue for 2003 of \$13.69 million, up 33% over the 12 months ended June 2002. This growth came predominantly from growth in the number listings, the realignment of pricing, and increased trading revenue, which, combined, increased 26.1% to \$7.70 million. Demand for market information and other services also continued to grow.



Revenue from listings contributed almost a third of total revenue for 2003 at \$4.43 million. This represents an increase of nearly 45% over 2002's figure of \$3.07 million and was driven in part by the increase in overall market capitalisation and new listings.

Trading generated \$1.99 million in revenue, while clearing and settlement came in at \$1.27 million. Combined, revenue in this area increased 7.6% to \$3.26 million. The increase in number of trades over the year (up 10%) contributed significantly to this.

Higher demand for market data helped us grow market information sales to \$2.28 million. This is up 4% from \$2.19 million in 2002.

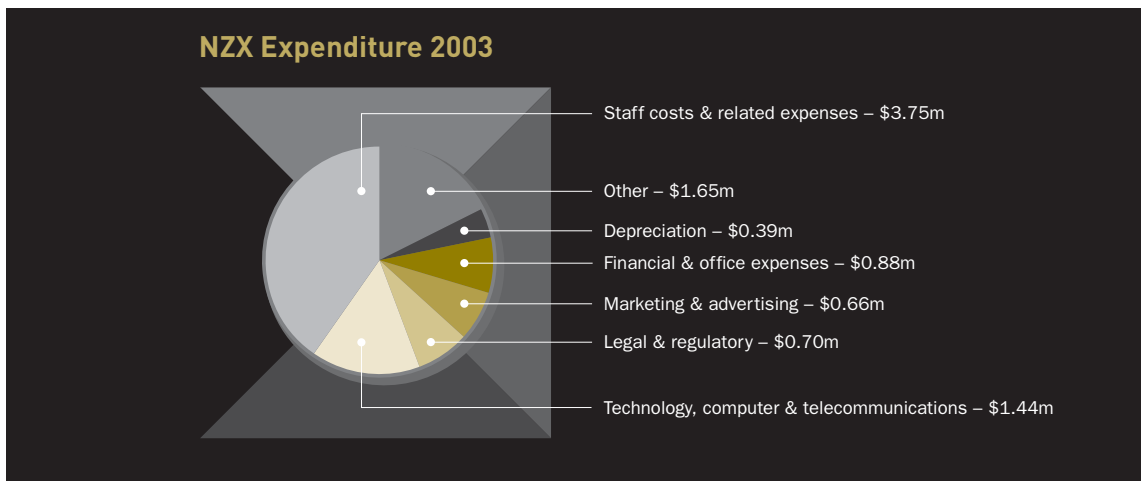
Additional sources of revenue came mostly from interest on investments, and compliance, audit and market surveillance panel services.



THREE

EXPENDITURE

Expenditure for the period was \$9.5 million which is \$0.5 million less than for the comparative 2002 period. This represents a decrease of 4.71% and is primarily due to controlling costs, bringing expertise in-house, and the negotiation of more favourable supply contracts.



This focus on decreasing costs is the result of the successful implementation of a different business model around “make versus buy” decisions in some critical business areas such as legal and marketing. The benefits have already begun to be felt. We are establishing a rich resource of internal intellectual property and expertise which can be built upon over time to help grow the business further.

Staff costs accounted for \$3.75 million or 40% of total expenditure. The increase in staffing costs represented an increase in employee numbers and the deliberate decision made to increase internal expertise.

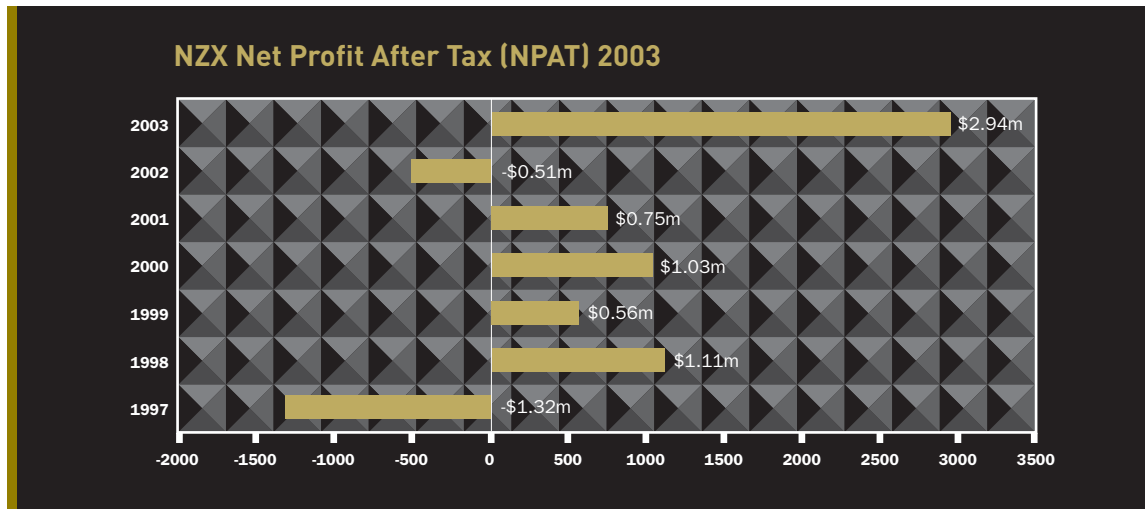
Legal and regulatory charges decreased 19% to \$702,000, a direct cost saving gained from bringing previously outsourced legal counsel in-house.

Technology, computer systems and telecommunications spending also decreased. However, as indicated in our 3 June 2003 Prospectus, we plan to commit significant resources to upgrading our network to ensure it is both robust and scalable.

The bulk of other expenditure items included Directors’ fees and rent.



FOUR



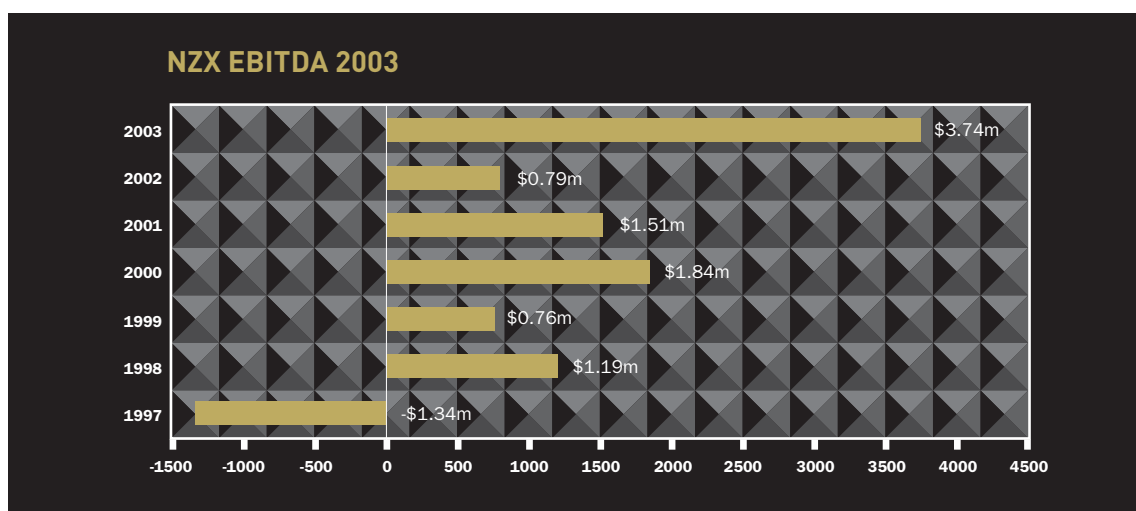
NZX recorded a post tax profit (NPAT) of \$2.94 million for 2003, which compared with a \$0.51 million deficit for the 12 months ended June 2002¹.

While the June 2002 figure included significant demutualisation costs, we are pleased with the result. It reflects the work we have put into restructuring internal processes and systems, including adjustments to pricing and tighter controls on expenditure. It has obviously been helped by the strong performance of the New Zealand securities markets over the period which saw increases in both the number of trades and the value of those trades. These factors have all contributed to our bottom-line growth.

¹NZX changed its balance date to 31 December from 30 June on demutualisation (31 December 2002).



OUR RESULTS



Our continued efforts to grow revenue and contain expenses also saw strong improvement in our EBITDA figure for the year. For a business like NZX (with an ongoing need for a high level of financial reserves – as is the case with most exchanges globally) EBITDA is a key measure. EBITDA is used to analyse profitability, because it eliminates the effects of financing and accounting decisions, not relating to operations. At \$3.749 million, this represents an increase of nearly \$3 million over 2002.

Having said that, the average EBITDA margin for other global listed exchanges is more than 40%. Our EBITDA margin of 28% is therefore still low by comparison. While NZX's margins will remain constrained by the small scale of the New Zealand economy, we believe there is some growth opportunity there.

Finally, our earnings per share (EPS) for 2003 was 23.2 cents per share.



FIVE

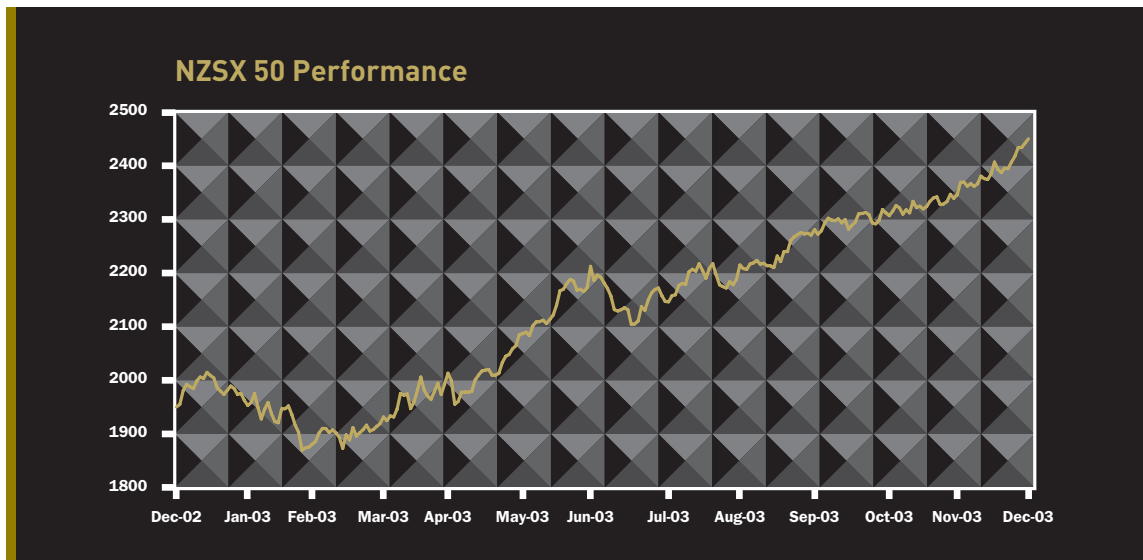
Our markets are a key driver of our business and there are several key metrics that are used by analysts and investors alike as a barometer of NZX's performance. They include the number of new and existing listed companies, the number of quoted securities and our most common trading statistics.

Published each month, the NZX metrics provide the public with continuous visibility of NZX and our market's performance. You can view the metrics at www.nzx.com/aboutus/investor/metrics.

Five of the most important metrics are the performance of our benchmark index, the NZSX 50, the number of listed companies, the value and number of trades and total equity market capitalisation. These are detailed below.

NZSX 50 Performance

The performance of the NZSX 50 Index over 2003 was very strong – recording a 26% gain to close the year at 2,450. This increase reflects the excellent performance of



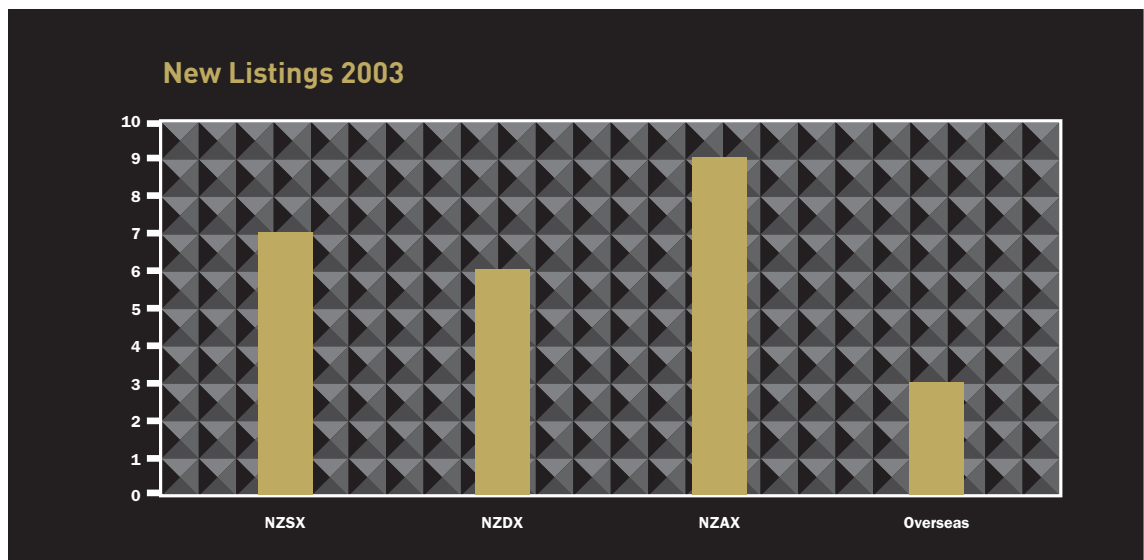
OUR MARKETS

our listed issuers and the New Zealand equities market as a whole over the year, which outperformed many of its international rivals including the Nikkei 225, the S&P 500, the ASX 200, the FTSE 100, and the Dow Jones Industrial Average.

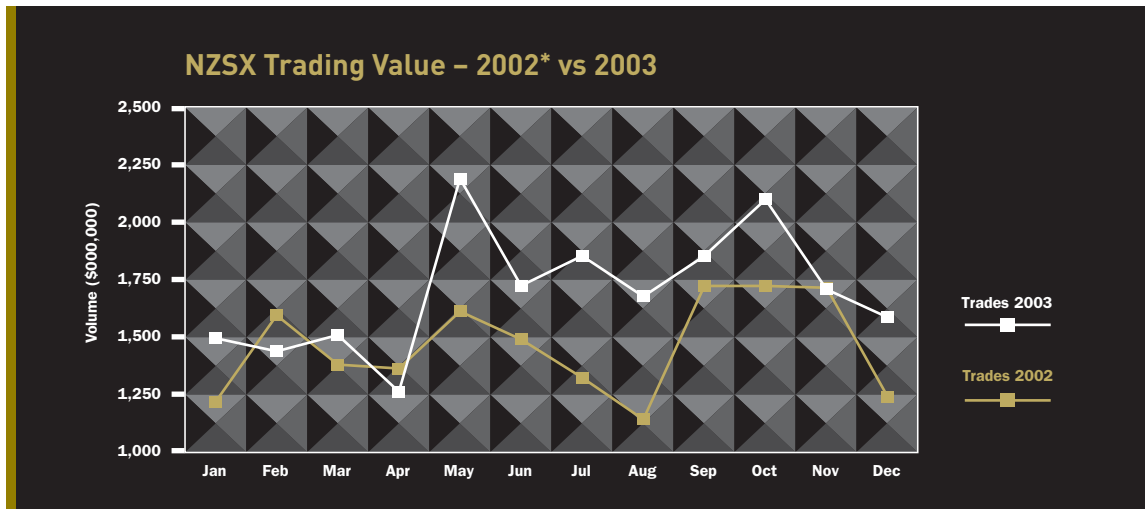
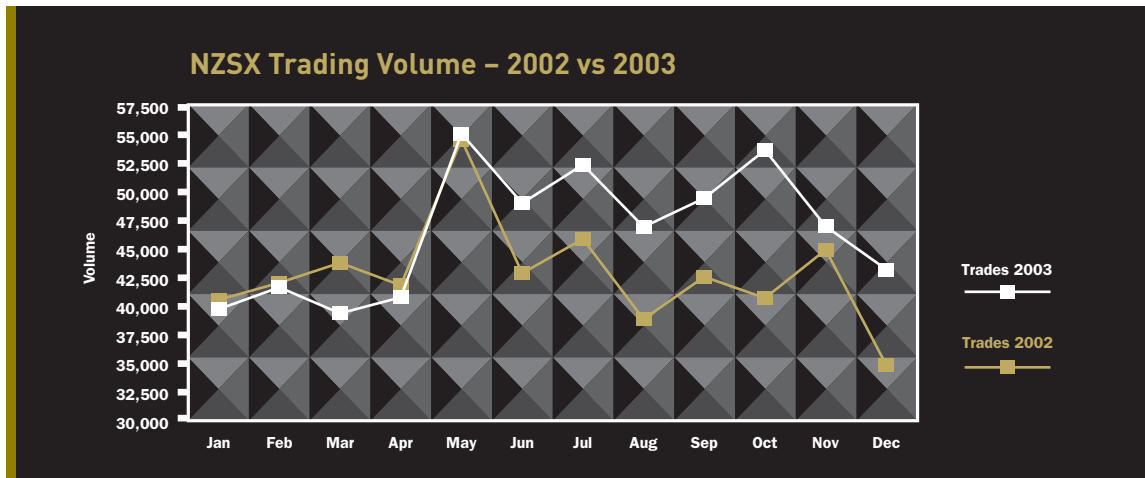
The presence of a growing number of both domestic retail and foreign investors suggests confidence in the New Zealand securities markets and our regulatory environment. NZX has worked hard, and will continue to work hard, to create a transparent and robust regulatory framework.

New Listings

We have established a solid infrastructure for new listings, including the development and launch of the new NZAX Market for smaller companies and co-operatives. During 2003, 25 new issuers listed on our markets, and at the end of December the total number of domestic listed issuers was 170. This was 17 more than at the end of 2002.



OUR MARKETS



*Excludes one-off cross of \$1.6b in September 2002.



NZSX Market Trading Volumes & Value

The total number of trades on the NZSX Market in 2003 was 558,393 – up 10% on 2002. Trading value on the NZSX Market amounted to \$20.4 billion, an increase of 17% over 2002.

These increases are in line with the excellent results NZX's markets overall generated in 2003 in terms of both trading and share price appreciation.

NZSX Market – market capitalisation

As at 31 December 2003 the total market capitalisation of the NZSX Market was \$50.34 billion – 21.35% higher than the same date a year earlier. This increase illustrates the tremendous year the equity securities markets had in 2003.

It also represents a substantial (\$6b) increase in wealth to investors who owned securities on NZX's markets over the year.







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NEW ZEALAND EXCHANGE LIMITED ANNUAL REPORT

Issued 18 March 2004

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AGM AND FINANCIAL CALENDAR

Annual Meeting

The Annual Meeting of shareholders of NZX will be held at the Wellington Convention Centre, Civic Suite, Level 1, 111 Wakefield St, Wellington, New Zealand on Thursday, 6 May 2004 commencing at 3:00pm. Full details, including the business to be dealt with, are contained in the Notice of Meeting which will be sent to shareholders on or around 19 April 2004.

Financial Calendar

31 December 2003	2003 Financial Year end
10 February 2004	Preliminary Full Year Financial Results issued
March 2004	2003 Annual Report issued
3pm, 4 May 2004	Latest time for receipt of proxies for Annual Meeting
3pm, 6 May 2004	Annual Meeting
August 2004	Preliminary Half Year Announcement issued
September 2004	2004 Half Year Report issued
31 December 2004	2004 Financial Year end
April, October each year	Financial results issued for the quarter

CHAIRMAN'S REPORT



2003 was a tremendously important year for NZX. Important not just for the company, but for the brokers who made the watershed decision to demutualise the old stock exchange; for our new executive team to prove themselves and their strategy for growing New Zealand's securities markets; and for the Board to bear out their choice to appoint an outsider to lead this new organisation.

When I look back I feel deeply satisfied that all three decisions proved the right ones and that all three groups should feel equally proud of their achievements over the past year. New Zealand's capital markets are in better shape than they have been for years, due in part to the great results from listed companies, a healthy economy, greater trading liquidity, and a renewed sense of confidence about our ability to succeed.

Our results are starting to bear this out as well. A 376% increase in EBITDA demonstrates a sharp shift in strategic direction from cost-driven mutual to performance driven corporate. An internal focus on tight fiscal control has combined with profit generating initiatives to maximise profit more so than at any other period in the Exchange's long history. This is a shift our shareholders could be seen to be very supportive of – our share price has risen from \$3.60 at listing to \$8.00 when we went to print.

We have spent the year working hard at creating the right legal, technological, and markets infrastructure, and are excited about the opportunities now in front of us. Every opportunity is assessed against our desire to be an innovative, fast paced exchange.

Common sense decision making and good corporate governance practices should see the right choices made and executed upon. This Board is active and rigorous in its discussion of the issues, and I feel confident that the resolutions made are a result of healthy debate, a collaboration of expertise and a determination to create real shareholder wealth with every new initiative. Moreover, we have a public obligation to protect the health of New Zealand's capital markets – including the New Zealand listed markets – a responsibility we take very seriously. This obligation recognises the importance of a healthy capital market to the general health and well-being of a country's economy. Capital markets provide a vital mechanism for the funding of knowledge creation, innovation and growth, and for wealth creation. If we are serious about raising the standard of living for all New Zealanders we must encourage aspirations.

The changes initiated this year in market and regulatory design have involved a significant call for participation and consultation by all market participants. Very few changes will ever receive 100% support at inception. I thank all of our stakeholders who have rigorously participated in consultation on these initiatives.

Finally, I would like to thank my fellow directors who have spent a great deal of time and energy challenging each other and the executive team throughout this eventful period in our history. All are equally determined to see NZX play a pivotal role in shaping New Zealand's capital markets. I would also like to take this opportunity to thank Bill Trotter who has given the last eight years to this organisation and whose contribution and enthusiasm will be sorely missed.

A handwritten signature in black ink that reads "S Allen".

Simon Allen, Chairman
18 March 2004





Our Year

2003 was dedicated to creating a different kind of exchange.

That's not to say the old one was broken. It had presided over New Zealand's securities markets for over 100 years and had helped shape many of our most well known institutions. But if the exchange was going to play a part in really growing New Zealand's economy, it needed a radical change in its makeup, operations and mandate. The brave step taken by the Board and Members to demutualise in 2002 paved the way for a different kind of exchange. It forced us to look at every aspect of this business and to focus on creating a framework for our securities markets that was more relevant, more tailored to New Zealand's economic landscape and more capable of driving growth.

This change in direction has given us the freedom and scope to think creatively about what might be possible for a national exchange in a small, and quite unique, economy.

The new NZAX Market is a prime example of this change in thinking. The NZAX Market had its genesis in New Zealand's business landscape. The large number of smaller entrepreneurial businesses and the many co-operative structures found in the rural sector weren't suited to the established main board infrastructure. The NZAX Market was designed to provide these companies with cost effective access to capital, pricing and public market level valuations in a flexible environment. Our ambition is that this market becomes a nurturer of home grown talent and a launch pad for world beaters. This market focuses on shareholders and issuers representing a mind-set shift from the broker-focused market of pre-2002.

We all know that New Zealand can produce more than its fair share of world beaters. But this only happens with leadership, easy access to fresh sources of capital, and the right surrounding market structures. Our primary objective was to create the most efficient market for companies to raise money to grow, New Zealanders to create the wealth they need to secure their financial freedom and for shareholders to invest in a secure and controlled way. With the proper mandate, an exchange can provide this sort of support. This was our focus for 2003.

The need to balance the protection of market integrity with the cost of compliance saw us rework much of our legal and regulatory framework. Continuous disclosure and corporate governance requirements see a more transparent, better informed market. This is critical for healthy, vibrant securities markets in which investors trust. It also has very positive repercussions for attracting capital to these shores, and we are already beginning to see greater participation by international fund managers in our markets who see protection of their capital as critical to their decision making.

CEO's REPORT

Other changes we've implemented have been more visible to shareholders. The new NZSX 50 Index graces our newspapers and television screens morning and night. More frequent and constructive communications between NZX and its constituents provide up-to-the-minute insight into all activities at NZX. And a collaborative approach to rebuilding our markets has meant that the input and ideas of all of our market participants are continuously sought out and considered. This was, and continues to be, crucial to creating a vibrant and efficient capital raising environment.

Our markets

Our markets are the key driver of our business. 2003 was a very good year for our markets, with the headline NZSX 50 Index up 26%. There was also a significant increase in the number of people trading and the number of trades, accompanied by a real increase in the value of those trades. Consequently, NZX's revenues increased by 33% to \$13.688 million. Apart from increased trading volume, this growth came from growth in listings and re-pricing of trading activity which, combined, increased 26.1% to \$7.70 million. The demand for market information and other services also continued to grow and this is a trend we anticipate continuing in 2004.

A keen eye on expenditure meant we were able to convert \$2.9 million of that into post-tax profit. EBITDA is a key measure for any business, including NZX, as it has a number of contributing factors to revenue, that are not directly related to core operations e.g. cash on deposit. Again, on this measure 2003 was very solid, with an EBITDA of \$3.749 million, representing an increase of \$2.962 million (or 376%) over the previous year.

This is especially pleasing given that our major cost line, our people, actually increased in number. Bringing expertise in-house was a deliberate strategy employed to cut the reliance on external advisors and to build our own intellectual property. It is a decision that has generated very positive results for us both financially and in terms of quality of product.

Our next 12 months

2004 will be a year of building. We've completed the 'fixing the franchise' phase, as we have called it internally. We must now concentrate on growth – in listed issuers, in shareholder value and in bringing active investors into our markets.

The first step is to upgrade our network infrastructure and provide a robust and reliable trading platform. The issues with market outages last year have forced us to think differently about how our markets actually work. We are proposing the establishment of a Central Clearing House Facility to further safeguard against market outages and better protect New Zealand's reputation as an international destination for capital.



CEO's REPORT

Helping companies understand the value of listing is key to attracting more companies to list on New Zealand's markets. This will improve liquidity, give investors more investment choices and raise New Zealand's profile as a profitable and secure investment alternative. Ultimately, we would hope to see New Zealand being a place from which companies can grow internationally without them having to move their headquarters offshore.

New products in 2004 are being designed to further enhance liquidity and bring our markets into line with their international counterparts. NZFOX (futures and options products), will launch in May and provide a much needed hedging mechanism in this market. They also provide the potential for large profits for those who are prepared to take on greater risk.

ETFs allow investors to easily purchase and trade a basket of stocks at one time giving them instant diversification and, in the case of passive funds, real tax advantages. NZX's heritage ETF, the NZSX 10 Fund, outperformed every other passive New Zealand equity fund last year, and received a 5 star rating from FundSource. We see ETFs as a major opportunity to attract new investors into the market and will certainly be increasing our focus in this area.

Investors will also be a key focus for 2004. We will provide the resources and motives for a whole range of investors to think outside the box in terms of increasing their own capital productivity. This includes people who have never invested before, people who have only invested in property and experienced investors who want to use new tools, such as futures and options, for hedging or speculating. The aim will be to provide everyone with the opportunity to get the information they need to make the right investment choices for their circumstances.

We are also continually assessing opportunities outside the traditional realm of exchanges. Creating future value for our shareholders will be the key driver of this process.

Finally, for 2003, and for 2004 in advance, I would like to thank our people at NZX. They are the most important asset we have. We have spent a great deal of energy finding and hiring the most talented people available. Everyone at NZX knows exactly where we're going and, more importantly, passionately believes in what we're trying to achieve.



Mark Weldon, Chief Executive Officer
18 March 2004

BOARD OF DIRECTORS

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Left to right: Mark Weldon, Neil Paviour-Smith, Bill Trotter, Simon Allen, Andrew Harmos, Lloyd Morrison, Tim Saunders



Simon Christopher Allen – CHAIRMAN

BSc, BCom

Simon is Chief Executive of ABN AMRO in New Zealand. Simon established BZW (now ABN AMRO) in 1988. The ABN AMRO group is a registered bank in New Zealand and provides products and services to Government, corporates and investors.

Simon is also a Director of ABN Australia Limited, ABN AMRO Equities NZ Limited, ABN AMRO Nominees Limited, ABN AMRO Holdings (New Zealand) Limited, ABN AMRO Craigs Limited, AMS NZ Limited and Big Bonds NZ Limited.

Hugh Richmond Lloyd Morrison – DEPUTY CHAIRMAN

LLB (Hons)

Lloyd is Executive Chairman of Wellington-based HRL Morrison & Co. Lloyd established Morrison & Co in 1988 and has primarily been responsible for the development and expansion of the firm. Morrison & Co has been successful both as an adviser and investor in the infrastructure sector in New Zealand, Australia, the US and the UK. In early years the firm played a key advisory role in the reform of the sector in New Zealand and Australia. In March 1994, Morrison & Co formed Infratil Limited (a specialist investor in infrastructure and utility assets) which has subsequently become a successful public company and which remains managed by Morrison & Co.

Lloyd is Managing Director of Infratil Limited, a current director of HRL Morrison & Co (Australia) Pty Limited, Morrison & Co Infrastructure Management Limited, Wellington International Airport Limited, Port of Tauranga Limited and TrustPower Limited. Lloyd is also a member of the Fairfax New Zealand Advisory Council.

Andrew William Harnos

LLB (Hons), BCom

Andrew is one of the founding partners of Harnos Horton Lusk, an Auckland-based specialist corporate legal advisory firm. Andrew was formerly a senior partner of Russell McVeagh, which he left in 2002 after 21 years. He specialises in takeover advice and structuring, securities offerings, company and asset acquisitions and disposals, strategic and board corporate legal advice. He was appointed a director of NZX in 2002, and prior to that held a number of other listed company directorships.

Neil Paviour-Smith

BCA, CA, ACIS, FCFIP

Neil is Managing Director of Forsyth Barr Limited, a nationwide sharebroking firm and investment house, and a director of various related companies. Neil has 16 years experience in the securities industry including several years in equity funds management and research roles. Neil is a Director of listed companies Global Equity Market Securities Limited and Global Corporate Credit Limited.

Neil is an NZX Broker, a Fellow and past Chairman of the Institute of Finance Professionals NZ, a member of the Institute of Chartered Accountants of NZ, the Institute of Directors, the Institute of Chartered Secretaries NZ and the NZ Society of Investment Professionals.

BOARD OF DIRECTORS



Timothy Ernest Corbett Saunders

MBA, BCom

Tim is a partner in Northington Partners Limited, a corporate advisory and investment banking firm located in Auckland. Since 1987 he has been retained as a financial and economic consultant in both the private and public sectors. For several years prior to 1987, Tim owned and managed various companies involved in manufacturing and retailing. Before that he was general manager of merchant bank Chase NBA New Zealand Group Limited (affiliated to Chase Manhattan Bank) and was, in the early 1970s, an analyst with the World Bank, Washington DC.

A current and former director of a number of New Zealand companies, Tim is currently the Chairman of Feltex Carpets Limited and Solid Energy NZ Limited, and a director of Calan Healthcare Properties Limited, Capital Properties (NZ) Limited, Global Corporate Credit Limited, Contact Energy Limited and Pyne Gould Corporation Limited (including wholly owned subsidiaries Marac Finance Limited and Perpetual Trustees Limited).

William (Bill) Ronald Trotter

Bill has worked in the securities industry for 24 years and has a wide range of experience in capital markets and corporate transactions. He is Executive Chairman of First NZ Capital group, an investment bank and sharebroking business, and a director of certain companies and subsidiaries within the group. Bill was previously a managing director of Credit Suisse First Boston and Chief Executive of its New Zealand business. Bill is a director of Sky City Entertainment Group Limited and NZX Funds Management Limited.

Mark Rhys Weldon – CHIEF EXECUTIVE

BA, BCom, MEcon (First Class Hons), Doc Jur, Dip Int'l Law (Hons)

Mark is the Chief Executive of NZX, and works closely with management to implement NZX's strategies. Mark is also a director of NZX Funds Management Limited.

Mark graduated from Auckland University with a Masters degree in Economics (First Class Honours), a Bachelor of Commerce and a Bachelor of Arts. Mark then studied at the Columbia University School of Law in New York, graduating in 1997 with a Juris Doctorate in Law and a Diploma in International Law.

Mark joined leading New York law firm Skadden, Arps, Slade, Meagher & Flom as an attorney. While there, he worked extensively in securities law and on mergers and acquisitions. Mark went on to work at the New York office of McKinsey & Company. He specialised in stock exchanges, asset management, wholesale banking (investment and commercial) and general corporate strategy.

BOARD COMMITTEES

The Remuneration Committee comprises Mr Allen, Mr Harmos, Mr Morrison and Mr Saunders.

The Audit Committee comprises Mr Allen, Mr Paviour-Smith and Mr Saunders.





EXECUTIVE MANAGEMENT



Mark Weldon – CHIEF EXECUTIVE

BA, BCom, MEcon (First Class Hons), Doc Jur, Dip Int'l Law (Hons)

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Geoffrey Brown – MARKET DEVELOPMENT & CUSTOMER RELATIONS

BCA (Hons), MSc, Associate Member of INFINZ

Geoff has over 20 years' experience in stockbroking in the United Kingdom, the United States and New Zealand. Geoff brings this expertise in equities market development and retail and institutional investment strategy and trading to his role as head of the Market Development and Customer Relations Group within NZX.

Geoff is charged with developing and growing NZX's three markets; the NZSX, NZAX and NZDX. His team is also responsible for Broker Services and the development of non-equity markets, indices and equity related products. Geoff's group focuses on developing products, new markets and determining new business opportunities.

Geoff joined Jarden & Co in 1984 as an institutional equities advisor. He left to help establish the equities operation for Fay, Richwhite, before joining Ord Minnett (now JP Morgan) as an institutional dealer in 1992. Geoff has served in several capacities with the exchange during his career, including Chairman of the Auckland Regional Exchange, an NZX Board Member and a Member of the NZX Complaints Committee.

EXECUTIVE MANAGEMENT



Elaine Campbell – LEGAL & REGULATORY

LLB (Hons)

Elaine is General Counsel for NZX. She heads the NZX Legal and Regulatory Group, which is responsible for the front line regulation of New Zealand's securities markets as well as for providing corporate legal support to NZX. Elaine brings to NZX a wealth of legal expertise from both New Zealand and international corporate markets.

The Legal and Regulatory Group is charged with developing, implementing and enforcing the regulatory environment for New Zealand's securities markets. Her team deals with all market participants – listed issuers, NZX Firms, NZX Brokers and investors. The Legal and Regulatory Group liaises with the Securities Commission in discharging its regulatory function.

Elaine joined NZX from Russell McVeagh where she was a senior solicitor. Before returning to New Zealand in 2001, Elaine spent several years working as corporate counsel for Sun Microsystems, first in the United Kingdom, then in the United States. Elaine also has extensive New Zealand legal experience, beginning her career at Kensington Swan.



Christopher Corke – TECHNOLOGY

BSc (Hons)

Chris is responsible for the management of the Technology Group, as well as strategic information and technology initiatives, internal systems and risk management and the implementation of current and future projects in the IT and infrastructure areas.

Prior to joining NZX, Chris held management positions with some of New Zealand's leading technology companies, including Telecom New Zealand Limited, BEA Systems Limited, PEC Limited, Advantage Retail Solutions and Accenture in the UK. Chris also spent five years working at the London Stock Exchange (LSE) and remains particularly interested in the mechanics of the capital markets.





EXECUTIVE MANAGEMENT



Carl Daucher – STRATEGY & INFORMATION

BA

Carl leads the Strategy and Information Group which works across departments towards developing NZX assets and extending them throughout the securities market landscape. Specific goals for this group include improving revenues from information sales, creating internet assets and developing new business initiatives.

Carl relocated to New Zealand from the United States after spending three years with McKinsey & Company in New York. During his tenure there, Carl served a full range of retail and wholesale financial institutions in America, Europe, the Middle East and Japan.



Melissa Jenner – MARKETING & COMMUNICATIONS

Melissa leads NZX's Marketing and Communications Group, and is responsible for the brand development, marketing and communications strategy and education programmes. Working closely alongside the Market Development and Customer Relations Group, the marketing team is responsible for developing product and service offerings for NZX to ensure strong relationships with existing and potential issuers and investors, increasing investor knowledge and confidence in investing in the New Zealand securities markets and developing a strong brand for NZX. Melissa's group also looks after NZX's media relations, conferences, events and sponsorship.

Melissa has extensive experience as an Account Director in advertising and direct marketing in New Zealand working for Saatchi & Saatchi Wellington and Lowe Worldwide. Melissa has also worked as an Account Director for Compaq UK, before working in-house for Microsoft Europe as Marketing and Communications Manager for the Developer Tools Group. After four years in London, Melissa joined the European headquarters of Cantor Fitzgerald and eSpeed, and was transferred from her position of European Marketing Communications Manager to New York, where she headed Global Marketing Communications.

EXECUTIVE MANAGEMENT



Robert Russell – FINANCE & CORPORATE OFFICE

BCA, CA

Rob was appointed NZX's Chief Financial Officer in December 2002. Under Rob's guidance, the Finance and Corporate Office group will be implementing and ensuring best-in-class financial reporting and developing new business opportunities to grow NZX.

Prior to joining NZX, Rob held several senior positions in major NZ corporations, including Chief Accountant of Westpac Banking Corporation and Chief Financial Officer of Kiwimail at NZ Post.

During his tenure at NZ Post, Rob was also involved in establishing a subsidiary of NZ Post to help in deregulation. Rob's financial expertise has allowed him to assist NZX in its transition from a mutual to a listed limited liability company.



Kathy Gruschow – COMPANY SECRETARY & HUMAN RESOURCES

Kathy is one of NZX's longest serving employees. Having been with NZX and its predecessors for over 14 years, Kathy brings to the executive management a wealth of experience in market and trading infrastructure, broker and issuer compliance and regulation.

Kathy plays a critical role in Listed Company Relations group. Kathy is responsible for directing NZX's initiatives in relation to market announcements, business process management, market data business, market surveillance and control.

Kathy is also responsible for Human Resources and is Company Secretary.





NZX is committed to ensure it applies best practice governance structures and principles. NZX believes good governance starts at the top with the board of directors who are elected by shareholders, to be responsible to the shareholders, for directing and controlling NZX's activities.

BOARD OF DIRECTORS

The board currently comprises seven directors of whom six are non-executive directors. In accordance with Listing Rule 3.3.1B, the board has determined that six of the seven directors are independent as defined in the NZX Listing Rules. These directors are Simon Allen (Chairman), Lloyd Morrison (Deputy Chairman), Andrew Harmos, Neil Paviour-Smith, Tim Saunders and William (Bill) Trotter. Mark Weldon, the Chief Executive, is the only non-independent executive director on the board.

Under the constitution, one-third of the directors are required to retire by rotation and offer themselves for re-election by shareholders each year.

Board meetings are scheduled in advance. Board agenda and papers must be circulated at least five business days before each meeting to allow directors sufficient time to prepare.

The board has access to executive management and from time to time, key executive managers are invited to attend full board meetings and are encouraged to participate in discussions. Every year, each executive manager must present to the board, for the board's approval, a twelve month business plan and three year strategic plan for that executive manager's respective area of responsibility.

The board holds regular scheduled meetings (every six weeks) and also holds ad hoc meetings to consider time sensitive or specific topics. During the 2003 financial year, the board met (including by teleconference) 21 times.

OPERATION OF THE BOARD

The board is responsible for overall direction and strategy of NZX. It selects the Chief Executive and delegates the day to day operation of the business to the Chief Executive. The Chief Executive implements the policy and strategy set by the board and is responsible to the board.

The board has established a Code of Ethics that provides a set of principles for directors to apply to their conduct and work for NZX. The principles include managing conflicts of interest, the required skills of directors, trading in NZX's shares, and maintaining confidentiality in information received in their capacity as directors of NZX.

RISK MANAGEMENT

The board is responsible for ensuring that key business and financial risks are identified and appropriate controls and procedures are in place to effectively manage those risks.

CORPORATE GOVERNANCE



Directors may seek independent professional advice to assist with their responsibilities. No such request was made by any director during the 2003 financial year.

COMMITTEES

The board has two standing committees: an audit committee and a remuneration committee.

AUDIT COMMITTEE

The audit committee operates under a charter which sets out its role in assisting the board with corporate financial matters. It may only comprise independent directors and at least one member of the audit committee must have expertise in accounting.

The audit committee has a clear line of communication with the independent and internal auditor, and the committee may, in its discretion, meet with the independent auditor without company management being present.

The audit committee met four times in the 2003 financial year. The audit committee met with the independent auditor three times in the 2003 financial year.

REMUNERATION COMMITTEE

The remuneration committee operates under a charter that sets out its role in assisting the board in reviewing the remuneration policies and practices of NZX as they relate to the directors including any committees that directors may serve on, and the remuneration of the Chief Executive.

The remuneration committee comprises entirely non-executive directors. The remuneration committee met five times in the 2003 financial year.

NOMINATIONS

Given the size of the board, there is no nominations and succession sub-committee. Rather, the full board is involved in the director nomination process.

2003 NZX DIRECTORS' ATTENDANCE RECORD

Director	NZX Board	Audit Committee	Remuneration Committee
Simon Allen	19/21	4/4	5/5
Lloyd Morrison	21/21	-	5/5
Andrew Harnos	21/21	-	5/5
Neil Paviour-Smith	21/21	4/4	-
Tim Saunders	19/21	4/4	5/5
Bill Trotter	13/21	-	-
Mark Weldon	21/21	-	-





INSURANCE AND INDEMNIFICATION

NZX provides indemnity insurance cover to directors, executive employees, the Market Surveillance Panel, Disciplinary and Complaints Committee. This is explained further on page 33.

SHARE TRADING

The company has adopted a formal Securities Trading Policy (the “NZX Securities Trading Policy”) to address insider trading requirements under the Securities Markets Act 1988. The NZX Securities Trading Policy is modelled on the Insider Trading (Approved Procedure for Company Officers) Notice 1996 (Notice) and administered by the NZX Securities Trading Committee that consists of the General Counsel and Chairman of the board. The NZX Securities Trading Policy restricts trading in the financial year by prohibiting trading in NZX’s securities during the black-out periods set out in the Notice.

If a director or officer wishes to trade the company’s securities in a “trading window”, that person must first apply, and obtain, consent from the NZX Securities Trading Committee.

Because of the nature of NZX’s business, any employee who wishes to buy or sell any listed security must follow the NZX Securities Trading Policy and apply to NZX for consent to trade in a particular listed security. This is reinforced through individual Employment Agreements.

DISCLOSURE

NZX has internal procedures in place to ensure that key financial and material information is communicated to the market in a clear and timely manner. In addition to its disclosure obligations under the NZX Listing Rules, NZX has adopted a quarterly reporting regime and also produces operating metrics monthly. The additional information provides transparency and assists the market in evaluating NZX’s performance.



NEW ZEALAND EXCHANGE LIMITED FINANCIAL STATEMENTS

2 0 0 3



STATEMENT OF FINANCIAL PERFORMANCE

FOR YEAR ENDED 31 DECEMBER 2003

	Note	Parent		Group	
		12 Months Dec 2003 \$000	6 Months Dec 2002 \$000	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000
REVENUE					
Listings		4,445	1,595	4,428	1,579
Trading, clearing & settlement		3,256	1,241	3,256	1,241
Market information		2,275	1,181	2,275	1,181
Telecommunications		426	195	426	195
Compliance & audit		534	-	534	-
Market surveillance panel		661	299	661	299
Listing sub-committee		185	-	185	-
Participant fees		504	233	504	233
Management fees		210	67	295	154
Interest		952	263	1,047	286
Other income		81	83	77	85
		13,529	5,157	13,688	5,253
EXPENSES					
Staff costs and related expenses		3,748	1,740	3,748	1,740
Travel & entertainment		156	86	156	86
Technology, computer and telecommunications		1,440	739	1,440	739
Legal and regulatory		702	237	702	237
Marketing & advertising		662	235	662	235
Rent		352	109	352	109
Financial & office expenses		730	621	877	708
Depreciation					
Computer equipment		378	620	378	620
Furniture & equipment		11	13	11	13
Doubtful debts		40	50	40	50
Directors' fees		919	408	919	408
Auditor's remuneration:					
Audit fee		52	57	64	66
Other services		120	83	120	83
		9,310	4,998	9,469	5,094
Surplus before non-recurring items		4,219	159	4,219	159
Non-recurring income	6	188	2,069	188	2,069
Operating surplus before taxation		4,407	2,228	4,407	2,228
Taxation expense	7	(1,464)	(314)	(1,464)	(314)
Surplus for the period		2,943	1,914	2,943	1,914

STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS



FOR YEAR ENDED 31 DECEMBER 2003

	Note	Parent		Group	
		12 Months Dec 2003 \$000	6 Months Dec 2002 \$000	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000
Surplus for the period		2,943	1,914	2,943	1,914
Total recognised revenue & expenses		2,943	1,914	2,943	1,914
Issue of Share Capital		14,601	-	14,601	-
Issue of CEO Share Scheme Shares		2,132	-	2,132	-
Shares held in Subsidiary Company		-	-	(2,132)	-
Movements in Equity for the period		19,676	1,914	17,544	1,914
Shareholders' funds at beginning of period		8,417	6,503	8,417	6,503
Shareholders' funds at end of period		28,093	8,417	25,961	8,417





STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2003

	Note	Parent		Group	
		Dec 2003 \$000	Dec 2002 \$000	Dec 2003 \$000	Dec 2002 \$000
ASSETS					
Current assets:					
Cash at bank		108	16	172	240
Accounts receivable and other current assets		2,468	1,612	2,404	1,402
Investments	2	25,779	8,912	25,779	8,912
		28,355	10,540	28,355	10,554
Non-current assets:					
Advance	10	2,132	-	-	-
Fixed assets	4	811	738	811	738
Deferred tax	7	318	302	318	302
Net assets of Fidelity Guarantee Fund	5	446	446	446	446
Total Assets		32,062	12,026	29,930	12,040
LIABILITIES AND SHAREHOLDERS' FUNDS					
Accounts payable and other current liabilities	3	3,523	3,163	3,523	3,177
Fidelity Guarantee Fund	5	446	446	446	446
		3,969	3,609	3,969	3,623
Share Capital	12	16,733	-	14,601	-
Retained Earnings	12	11,360	8,417	11,360	8,417
Total Shareholders' Funds		28,093	8,417	25,961	8,417
Total Liabilities and Shareholders' Funds		32,062	12,026	29,930	12,040

These financial statements were authorised for release on 10 February 2004.

S C Allen
Chairman

T E C Saunders
Director

M R Weldon
Chief Executive Officer

STATEMENT OF CASH FLOWS



FOR YEAR ENDED 31 DECEMBER 2003

	Parent		Group	
	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000
Cash Flows from Operating Activities				
Cash was provided from:				
Cash received from customers and others	14,297	8,114	14,568	8,289
Net GST received/(paid)	(753)	322	(753)	322
Interest received	952	285	1,047	308
	14,496	8,721	14,862	8,919
Cash was applied to:				
Cash paid to suppliers and employees	10,631	4,889	11,117	5,001
Taxation paid	1,045	80	1,085	120
	11,676	4,969	12,202	5,121
Net cash inflows from operating activities	2,820	3,752	2,660	3,798
Cash Flows from Investing Activities				
Cash was provided from:				
Decrease in other investments	3,097	362	3,097	362
	3,097	362	3,097	362
Cash was applied to:				
Purchase of fixed assets	464	108	464	108
Increase in bank deposits	19,964	4,043	19,964	4,043
	20,428	4,151	20,428	4,151
Net cash outflows from investing activities	(17,331)	(3,789)	(17,331)	(3,789)
Cash Flows from Financing Activities				
Cash was provided from:				
Proceeds from issue of shares	14,931	-	14,931	-
	14,931	-	14,931	-
Cash was applied to:				
Share issue expenditure	328	-	328	-
	328	-	328	-
Net cash inflows from financing activities	14,603	-	14,603	-
Net increase / (decrease) in cash held	92	(37)	(68)	9
Opening cash balance	16	53	240	231
Cash at end of the period	108	16	172	240





STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 DECEMBER 2003

	Parent		Group	
	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000
Reconciliation of Surplus for the period to Net Cash Flows from Operating Activities				
Surplus for the period	2,943	1,914	2,943	1,914
Add non cash items:				
Depreciation	389	633	389	633
Unrealised gain on investments	-	(24)	-	(24)
	3,332	2,523	3,332	2,523
Decrease (Increase) in accounts receivable	(856)	(296)	(1,002)	(11)
Decrease (Increase) in deferred tax	(16)	80	(16)	80
Increase (Decrease) in accounts payable	360	1,445	346	1,206
Net cash inflows from operating activities	2,820	3,752	2,660	3,798

NOTES TO THE FINANCIAL STATEMENTS



FOR YEAR ENDED 31 DECEMBER 2003

1. Statement of Accounting Policies

The financial statements presented for the 'Parent' comprise New Zealand Exchange Limited ("NZX") and its Fidelity Guarantee Fund. The consolidated financial statements for the 'Group' are for the economic entity comprising NZX, its Fidelity Guarantee Fund and its subsidiaries NZX Funds Management Limited and Tane Nominees Limited. NZX is a company registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. These financial statements are presented in compliance with the Financial Reporting Act 1993 and the Companies Act 1993.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

NZX and its subsidiaries changed their balance date to 31 December in the last financial period and accordingly the comparatives are for the six months ended 31 December 2002.

GROUP FINANCIAL STATEMENTS

The Group financial statements consolidate the financial statements of NZX and its wholly owned subsidiaries NZX Funds Management Limited and Tane Nominees Limited, using the purchase method. The wholly owned subsidiary NZX Funds Management Limited is incorporated in New Zealand and has the same balance date as NZX. NZX Funds Management Limited's principal activity is managing the NZSX10 Fund. Tane Nominees Limited is also a wholly owned subsidiary and is incorporated in New Zealand and has the same balance date as NZX. Tane Nominees Limited's principal activity is to hold the Share Scheme Shares in trust for the Chief Executive, Mark Weldon, until such time as the shares Qualify under the terms of the CEO Share Incentive Scheme (see Note 10).

All material transactions between Parent and subsidiary are eliminated on consolidation. Shares in NZX held by subsidiary companies are shown as a deduction from share capital.

REVENUE RECOGNITION

Income earned in the normal course of business is recognised at the time the service is provided. When revenue is received in advance it is amortised evenly over the period the service will be provided.

FIXED ASSETS AND DEPRECIATION

All fixed assets are initially recorded at cost. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Fixed assets have been depreciated on a straight line basis at the following rates:

- Computer equipment and software: 33.3%
- Furniture, fittings and equipment: 20%

SHARE ISSUE COSTS

Costs associated with the issue of shares are recognised as a reduction of the amount collected per share.





NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR YEAR ENDED 31 DECEMBER 2003

TAXATION

Tax expense is based on accounting surpluses, adjusted for the permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceeds the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of timing differences, or losses, will be utilised.

GOODS AND SERVICES TAX (GST)

The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

FINANCIAL INSTRUMENTS

Financial Instruments carried in the statement of financial position include cash and bank balances, investments, accounts receivable and accounts payable.

INVESTMENTS

The investment in NZX Funds Management Limited is included at cost of \$100 in the Statement of Financial Position of the parent. All other investments are stated at market value and any resultant gain or loss is recognised in the Statement of Financial Performance.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

STATEMENT OF CASH FLOWS

The following are the definitions of the items used in the Statement of Cash Flows:

1. Operating activities include all transactions and other events that are not investing or financing activities.
2. Investing activities are those activities relating to the acquisition, holding and disposal of property, furniture and equipment and of investments. Investments can include securities not falling within the definition of cash.
3. Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.
4. Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED



FOR YEAR ENDED 31 DECEMBER 2003

OPERATING LEASES

Operating lease rentals are charged to the Statement of Financial Performance as they fall due.

CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the period.

2. Investments

	Interest rates	Maturities	Dec 2003 \$000	Dec 2002 \$000
Bank deposits – at call	4.90%	Call	500	5,814
Bank deposits – 30 day	5.16%	30 days	25,279	-
Fixed interest securities	6.5% - 10.8%	2003	-	3,098
			25,779	8,912

Investments for both the Parent and Group are the same.

3. Accounts Payable and Other Current Liabilities

	Parent		Group	
	Dec 2003 \$000	Dec 2002 \$000	Dec 2003 \$000	Dec 2002 \$000
Trade creditors	567	619	567	633
Provision for tax	322	(100)	322	(100)
Unearned income	1,903	1,629	1,903	1,629
Employee entitlements	80	168	80	168
Accrued expenses	459	610	459	610
GST	192	237	192	237
	3,523	3,163	3,523	3,177

4. Fixed Assets

	Cost \$000	Accumulated Depreciation \$000	Book Value 31 Dec 2003 \$000
Computer equipment	3,751	2,986	765
Furniture & equipment	204	158	46
	3,955	3,144	811





NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR YEAR ENDED 31 DECEMBER 2003

	Cost \$000	Accumulated Depreciation \$000	Book Value 31 Dec 2002 \$000
Computer equipment	5,081	4,387	694
Furniture & equipment	202	158	44
Leasehold improvements	102	102	-
	5,385	4,647	738

Non-current assets for both the Parent and the Group are the same. Assets that are no longer in use have been written out of the register.

5. New Zealand Exchange Limited Fidelity Guarantee Fund

There has been no change to the Fund during the period. The accumulated funds are represented by funds held on deposit with NZX.

On 1 January 2003 a revised set of Business Rules came into effect to coincide with the demutualisation of NZSE. These rules are now known as the NZX Business Rules, (formerly the NZSE Business Rules).

The Fidelity Guarantee Fund is preserved under these revised rules and the operation of this fund is governed by Rules 19(1)-19(10). The NZX Business Rules are similar to the rules that prevailed prior to demutualisation, except that under the NZX Business Rules the Board has the ability to levy NZX Firms up to \$1,000,000 rather than participants (with demutualisation removing the concept of membership and member firms).

The liability of the Fund for any one particular failure remains limited to \$500,000 or such greater amount as may be determined from time to time by the Board, as was the case under the previous rules. Furthermore the maximum amount payable to any one claimant in respect of a failure remains limited to \$20,000 or such greater amount as the Board may determine, also reflecting the pre-demutualisation position.

6. Non-recurring items

The Exchange voted to demutualise its structure on 16th October 2002 and became a Limited Liability Company from 1 January 2003.

The \$188,000 received in the current period (\$2,069,000 December 2002) represents a levy on members as a contribution to the cost of demutualisation. These payments were made voluntarily.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED



FOR YEAR ENDED 31 DECEMBER 2003

7. Taxation

Income Tax	12 Months Dec 2003 \$000	6 Months Dec 2002 \$000
Operating surplus before tax:	4,407	2,228
Permanent differences:		
Non-taxable income	-	(2,166)
Prior period adjustment	-	(25)
Non-deductible expenditure	29	914
Surplus subject to tax	4,436	951
Tax at 33%	1,464	314
Income tax recognised in Statement of Financial Performance	1,464	314
Comprising:		
Current tax	1,480	157
Prior period adjustment	-	(8)
Deferred tax	(16)	165
	1,464	314
Deferred tax:		
Balance at beginning of the period	302	382
Prior period adjustment	-	85
On surplus for the period	16	(165)
Balance at end of the period	318	302
Imputation Credit Account: (number of credits)		
Balance at beginning of period	643	563
Income tax paid	1,045	80
Balance at end of the period	1,688	643

Taxation for both the Parent and the Group are the same.

8. Financial Instruments

FAIR VALUE

The fair value of the financial instruments is considered to be equivalent to the value as reflected in the Statement of Financial Position.





NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR YEAR ENDED 31 DECEMBER 2003

CREDIT RISK

The maximum credit risk associated with the financial instruments held by NZX is considered to be the value reflected in the Statement of Financial Position. The risk of non-recovery of these amounts is considered to be minimal.

NZX does not require collateral or other security to support financial instruments with credit risk.

Concentrations of credit risk arise where NZX is exposed to the risk that a party may fail to discharge an obligation in the normal course of business. NZX does not have any significant concentrations of credit risk.

INTEREST RATE RISK

NZX is exposed to interest rate risk in that future interest rate movements will affect cash flows and the market value of fixed interest and other investment assets.

9. Commitments

NZX has commitments, which are not recognised in the financial statements, for property lease rentals, existing office space and an agreement with SFE Limited which enables New Zealand based futures and options products to be listed on SFE's trading infrastructure.

	Dec 2003 \$000	Dec 2002 \$000
Up to 1 year		
Lease of premises	94	94
SFE Trading Infrastructure	750	-
> 1 Year	-	-

NZX has entered into a contract to move premises in August 2005. There has been no expenditure incurred in relation to this.

10. Related Party transactions

During the period, NZX had a management contract with its subsidiary NZX Funds Management Limited for administering the NZSX10 Fund. For the period, NZX received \$209,769 in management fees (Dec 2002 \$66,551). At 31 December 2003, NZX Funds Management Limited owed NZX \$144,035 (Dec 2002 \$349,027).

Mark Weldon, as part of the advance provided to him under the terms of the CEO Share Incentive Scheme, owes NZX \$2,132,433 (Dec 2002, nil).

No amounts owed by related parties have been written off or forgiven during the period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED



FOR YEAR ENDED 31 DECEMBER 2003

Mr Weldon's employment contract, as Chief Executive of NZX, provides for him to be issued with shares pursuant to the terms of the CEO Share Incentive Scheme (**Share Scheme Shares**). The CEO Share Incentive Scheme (**Scheme**) was approved by members of the New Zealand Stock Exchange (prior to demutualisation) at a Special General Meeting of the New Zealand Stock Exchange on 16 October 2002 and the terms of the Scheme were described in NZX's Prospectus and Investment Statement registered on 3 June 2003. The Scheme involved the issue to Mr Weldon of that number of shares as represented 5% of the number of shares on issue 30 trading days after the date on which shares were first quoted on the NZSX Market.

NZX provided Mr Weldon with a loan of \$2,132,433 for the purpose of subscribing for the Share Scheme Shares. The terms of the financial assistance provided to Mr Weldon was described in a disclosure document which was provided to all shareholders on 15 September 2003. The amount of the loan is the aggregate of the issue price for the 634,275 Share Scheme Shares issued under the Scheme (being 5% of the number of shares on issue 30 trading days after the date on which shares are first quoted on NZSX). The Share Scheme Shares were issued to Tane Nominees Limited (**Nominee**) which holds them on trust for Mr Weldon pending qualification of the shares. The shares will not qualify until certain total shareholder return performance criteria are satisfied and Mr Weldon remains a full-time employee of NZX (**Qualification** or **Qualify**).

The loan to Mr Weldon is interest free unless and until Qualification. After Qualification that part of the loan applied to subscribe for those Share Scheme Shares which have Qualified will attract interest at a rate which reflects NZX's cost of debt. The loan is to be repaid by the earlier of 12 months after Qualification, or 4 September 2008. If Mr Weldon ceases to be a full-time employee of NZX before the Share Scheme Shares have Qualified then NZX will redeem or buyback (for cash, at their issue price) those Share Scheme Shares which have not Qualified and apply the proceeds towards the repayment of the outstanding balance of the loan.

The Share Scheme Shares are a separate class of shares and, pending Qualification, will not participate in dividends or distributions in respect of which shares become "ex entitlement" prior to Qualification, will have the right to participate in rights issues, and will have rights to participate in bonus issues contingent on their Qualification. Pending Qualification, Mr Weldon will have the right to direct the way votes attaching to the Share Scheme Shares are exercised by the Nominee. Mr Weldon will not be entitled to transfer or otherwise dispose of Share Scheme Shares unless and until they are transferred to him following Qualification.

Following Qualification, and contemporaneously with the repayment of the relevant part of the loan referred to above, NZX will pay to Mr Weldon an amount equivalent to the aggregate amount of dividends or distributions to which the relevant Shares would have been entitled during the period since they were first issued, grossed up to the extent such dividends carried imputation credits.

The total shareholder return performance criteria required for Qualification requires that the weighted average selling price of shares exceed a trigger price over a 30 trading day period at any time during the period from when the shares become available to Qualify to the date six years after 4 June 2002, and that Mr Weldon remains a full time employee of NZX during that 30 day period (60% of which is available to qualify on 4 June 2005, 20% on 4 June 2006, and the remaining 20% on 4 June 2007).





NOTES TO FINANCIAL STATEMENTS CONTINUED

FOR YEAR ENDED 31 DECEMBER 2003

11. Distribution to shareholders

During the year there were no dividends paid and as stated in the Prospectus dated 3 June 2003 the directors have recommended that no dividend be paid for the year ended 31 December 2003.

12. Share Capital

On 1 January 2003 there were 3,310,000 shares on issue, which were split 1:1 on 30 May 2003. The offer was a combined 1:2 renounceable rights issue of 3,310,000 shares at \$1.50 and an offer to the public of \$10,000,000 of shares at the final price of \$3.60. As at 31 December 2003 there were 12,685,504 ordinary shares issued and 634,275 Share Scheme Shares issued in trust to the Chief Executive Officer, Mark Weldon. All fully paid (2002 nil). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. The cost of \$0.25 cents per share was incurred in completing the issue. These costs were taken as a reduction of the amount recognised as being generated by the issue. Hence \$1.15 per share has been recognised as a contribution by shareholders.

Movement in Issued Capital	Parent		Group	
	Dec 2003 \$000	Dec 2002 \$000	Dec 2003 \$000	Dec 2002 \$000
Balance at beginning of period	-	-	-	-
Shares issued during the period				
Ordinary shares	14,601	-	14,601	-
Executive Share Scheme Shares	2,132	-	2,132	-
Shares held by subsidiary company	-	-	(2,132)	-
Balance at end of period	16,733	-	14,601	-

Movement in Retained Earnings	Parent		Group	
	Dec 2003 \$000	Dec 2002 \$000	Dec 2003 \$000	Dec 2002 \$000
Balance at beginning of period	8,417	6,503	8,417	6,503
Surplus for the period	2,943	1,914	2,943	1,914
Balance at end of period	11,360	8,417	11,360	8,417

NOTES TO FINANCIAL STATEMENTS CONTINUED



FOR YEAR ENDED 31 DECEMBER 2003

13. Contingent Liabilities

There are no Contingent Liabilities at 31 December 2003 (2002 nil).

14. Segmented Reporting

The company and its subsidiaries operate within the financial markets industry. All significant operations take place in New Zealand.

15. Earnings per share

	Parent	
	12 Months Dec 2003	6 Months Dec 2002
Earnings per share (cents per share)	23.20	-

Earnings per share is calculated by dividing the operating surplus attributable to shareholders by the weighted average number of ordinary shares on issue during the period.

16. Significant events after balance date

There were no significant announcements or events after balance date.





1. Business Operations

There have been no changes in the business undertakings of the company and subsidiary during the year.

2. Interests Register

The group is required to maintain an Interests Register in which particulars of certain transactions and matters involving the directors must be recorded. The following matters are recorded in the Interests Register.

3. Directors' Interests

The directors have declared interests in the following entities:

Director	Interest	Entity
S.C. Allen	Director Director Director	ABN AMRO NZ Limited ABN AMRO Craigs Limited Australian Mortgage Securities NZ Limited
H.R.L. Morrison	Director Director Director Director Director Director Director Director Director Member	Wellington International Airport Limited Port of Tauranga Limited HRL Morrison & Co Group Limited Hettinger Nominees Limited Morrison & Co Infrastructure Management Limited Pencarrow Private Equity Limited The Mbo Fund Limited TrustPower Limited Infratil Limited Fairfax New Zealand Advisory Council
A.W. Harnos	Partner	Harnos Horton Lusk
N. Paviour-Smith	Director Director Director Director Director	Forsyth Barr Group Limited and Associated Companies Forsyth Barr Limited Leveraged Equities Finance Limited and Associated Companies Global Equity Market Securities Limited Global Corporate Credit Limited
T.E.C. Saunders	Chairman Chairman Director Director Director Director Director Director Member	Feltex Carpets Limited Solid Energy NZ Limited Calan Healthcare Properties Limited Capital Properties (NZ) Limited Contact Energy Limited Global Corporate Credit Limited Pyne Gould Corporation Limited Northington Partners Limited LEK Consulting Australasian Advisory Board
W.R. Trotter	Director Director Director Director Director	FNZC Holdings Limited Sky City Entertainment Group Limited First NZ Capital Holdings Limited First NZ Securities Holdings Limited NZX Funds Management Limited
M.R. Weldon	Director Director	NZX Funds Management Limited NZFOX Limited



4. Information used by Directors

There were no notices from directors of the company requesting to disclose or use company information received in their capacity as directors which would not otherwise have been available to them.

5. Directors holding office and their Remuneration

The directors holding office during the year are listed below. The total amount of the remuneration and other benefits received by each director during the year, and responsibility held, is listed next to their names.

Non Executive Directors	Remuneration	Special Responsibility
S.C. Allen	\$83,000	Chairman Member Audit Committee Member Remuneration Committee
H.R.L. Morrison	\$40,500	Deputy Chairman Member Remuneration Committee
A.W. Harnos	\$40,500	Member Remuneration Committee
N. Paviour-Smith	\$42,500	Member Audit Committee
T.E.C. Saunders	\$50,500	Chairman Audit Committee Member Remuneration Committee
W.R. Trotter	\$37,500	
Executive Directors	Remuneration	Special Responsibility
M.R. Weldon	\$624,248	Chief Executive

In addition to the salary paid to the Chief Executive, Mark Weldon, there was a cash bonus payment of \$150,000 relating to the six month financial period ended 31 December 2002. That amount was incorporated in the financial accounts relating to that financial period. No directors fees were paid to Mark Weldon.

6. Indemnification and Insurer of Executive and Director

During the year, the company paid insurance premiums in respect of directors, executive employees, Market Surveillance Panel, Disciplinary and Complaints Committee liability insurance. The policies do not specify the premium for individuals.

This insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the company or a related body corporate) incurred in their position as director or executive employee unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.





7. Subsidiary Company Director

Mr Weldon and Mr Trotter held office as directors of the subsidiary company NZX Funds Management Limited at the end of the financial year. No directors' fees or other benefits were paid in relation to this directorship. The remuneration of employees acting as directors of subsidiaries is disclosed in the relevant banding of remuneration set out under Employee Remuneration.

8. Employee Remuneration

During the year the number of employees (excluding directors) who received remuneration and other benefits in their capacity as employees of the company, the value of which was or exceeded \$100,000 per annum was as follows:

Remuneration Ranges (\$)	Current Employee
100,000 – 109,999	-
110,000 – 119,999	1
120,000 – 129,999	1
130,000 – 139,999	-
140,000 – 149,999	2
150,000 – 159,999	-
160,000 – 169,999	-
170,000 – 179,999	1
180,000 – 199,999	-
200,000 – 209,999	-
210,000 – 219,999	1
220,000 – 229,999	1
230,000 – 239,999	-

In addition to the employee remuneration reported, three employees who earned over \$100,000 received bonus payments relating to the six month financial period ended 31 December 2002. The total amount paid was \$67,975. That amount was incorporated in the financial accounts relating to that financial period.

Under the terms of the Executive Share Option Plan 187,910 options have been issued to employees. The exercise date of these options is July 2006 and to be exercised the employee must still be employed by NZX. The exercise price of an option will be the relevant base exercise price (\$3.60) grossed up to NZX's estimated cost of equity and adjusted for dividends between the issue date and the exercise date. The value of the options have not been included as part of employee remuneration.

STATUTORY INFORMATION



9. Directors' Transactions in Securities of the Parent Company

Director	Date	No. of securities acquired	Securities held non-beneficially as at 31 Dec 2003	Securities held beneficially as at 31 Dec 2003
S.C. Allen	30 May 2003	20,000	-	-
	17 June 2003	10,000	-	-
	9 July 2003	20,833	-	50,833
H.R.L. Morrison	9 July 2003	20,833	-	20,833
A.W. Harnos	9 July 2003	20,833	-	20,833
N. Paviour-Smith	9 July 2003	25,958	-	25,958
T.E.C. Saunders	9 July 2003	8,333	8,333	-
W.R. Trotter	30 May 2003	20,000	-	-
	17 June 2003	10,000	-	30,000
	9 July 2003	20,833	20,833	-
M.R. Weldon	9 July 2003	20,833	-	20,833
Tane Nominees Limited (for M.R. Weldon)	30 September 2003	634,275	634,275	-

10. Auditors

The auditor of the parent company and group is PricewaterhouseCoopers (PwC). PwC provides audit and other services for which they are remunerated.

	Parent \$000	Group \$000
Audit services	52	64
Taxation, share scheme and compliance services	78	78
Other services	42	42





SECURITY HOLDER INFORMATION

1. Principal Security Holders

The following table shows the names and holdings of the 20 largest registered holdings of securities in the Company as at 4 March 2004.

	Shares Held	%
Computershare NZ Ltd	1,066,946	8.41
Probatus Investments Ltd	1,018,146	8.03
Tane Nominees Limited*	634,275	5.00
Asteron Life Limited	528,639	4.17
Nigel Charles Babbage & Others	374,178	2.95
Premier Nominees Ltd	336,984	2.66
Ithaca (Custodians) Limited	310,500	2.45
Leveraged Equities Limited	261,791	2.06
National Nominees NZ Ltd	221,351	1.74
TEA Custodians Limited	210,022	1.66
The NZ Guardian Trust Co. Limited	160,020	1.26
Custodial Services Limited	153,416	1.21
Hendry Nominees Limited	134,000	1.06
Custodial Services Limited	124,864	0.98
David Mitchell Odlin	112,000	0.88
Somsmith Nominees Limited	102,500	0.81
Peter Edward Webb	97,600	0.77
Superannuation Investments Limited	93,051	0.73
Westpac Banking Corporation	92,448	0.73
Parnell Holding Ltd	75,000	0.59
	6,107,731	48.15%

* Share Scheme Shares (a separate class of equity security) held by Tane Nominees Limited as nominee for M.R.Weldon and exercisable under the terms of the CEO Share Incentive Scheme dated 30 September 2003. See Note 10.

2. SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to section 26 of the Securities Markets Act 1988.

The following are registered with NZX as at 4 March 2004 as Substantial Security Holders in the Company, having declared a relevant interest in voting securities under section 25 of the Securities Markets Act 1988.

SECURITY HOLDER INFORMATION CONTINUED



Substantial Security Holders continued	Shares Held	%
Probatus Investments Ltd as Bare Trustee and Nominee for Forsyth Barr Exchange Holdings Ltd	1,018,145	8.03
Computershare New Zealand Ltd	1,015,180	8.00
ING NZ Ltd	783,964	6.18
NZ Guardian Trust Funds Management Ltd	692,121	5.46

3. SPREAD OF SECURITY HOLDERS AS AT 4 MARCH 2004

Size of Holding	Shareholders		Shares	
	Number	%	Number	%
1 to 1,000	1,647	61.92	893,270	7.04
1,001 to 5,000	718	26.99	1,551,657	12.23
5,001 to 10,000	116	4.36	973,606	7.67
10,001 to 20,000	87	3.27	1,470,844	11.59
20,001 to 30,000	54	2.03	1,485,758	11.71
30,001 to 40,000	11	0.41	372,749	2.94
> 40,000	27	1.02	5,937,620	46.82
The Share Scheme Shares held by Tane Nominees Limited have been excluded from the above spread.	2,660	100.00	12,685,504	100.00

Domicile of Holders	Shareholders		Shares	
	Number	%	Number	%
New Zealand	2,633	99.01	12,097,652	95.37
Australia	16	0.61	132,075	1.04
Other	11	0.38	455,777	3.59
The Share Scheme Shares held by Tane Nominees Limited have been excluded from the above spread.	2,660	100.00	12,685,504	100.00

4. WAIVERS FROM THE LISTING RULES

In June 2003, the Special Division of the Market Surveillance Panel granted NZX waivers, mainly in relation to the listing of NZX's securities. These waivers were set out in the Prospectus and Investment Statement dated 3 June 2003. Only those waivers relating to the CEO Share Incentive Scheme remain applicable as at 31 December 2003.

5. SECURITIES ISSUED BY NZX

NZX's ordinary shares are quoted on the NZSX Market. NZX's options, issued pursuant to the Executive Share Option Plan, are not quoted on any market. The Share Scheme Shares issued pursuant to the CEO Share Incentive Scheme are not quoted on any market.



Auditors' Report

to the shareholders of New Zealand Exchange Limited ("NZX")

We have audited the financial statements on pages 18 to 31. The financial statements provide information about the past financial performance and cash flows of NZX and Group for the year ended 31 December 2003 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 23-25.

Directors' Responsibilities

NZX's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of NZX and Group as at 31 December 2003 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of NZX and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in NZX or any of its subsidiaries other than in our capacity as auditors, tax advisors and providers of other assurance services.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by NZX as far as appears from our examination of those records; and
- (b) the financial statements on pages 18 to 31:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of NZX and Group as at 31 December 2003 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 10 February 2004 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Wellington

**Registered Office**

New Zealand Exchange Limited
ASB Bank Tower
2 Hunter Street
PO Box 2959
WELLINGTON
www.nzx.com

Board of Directors

Simon Allen
Lloyd Morrison
Andrew Harnos
Neil Paviour-Smith
Timothy Saunders
William (Bill) Trotter
Mark Weldon

The Directors can be contacted at NZX's registered office.

Auditors

PricewaterhouseCoopers
113-119 The Terrace
WELLINGTON

Legal Advisors

Russell McVeagh
Level 30
Royal & SunAlliance Centre
48 Shortland Street
PO Box 8
AUCKLAND

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Private Bag 92 119
AUCKLAND





NOTES





www.nzx.com