



NEW ZEALAND EXCHANGE LIMITED
FINANCIAL REPORT

INTERIM STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2003



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

Chairman's Report

The first half of the financial year has included a number of milestones for New Zealand Exchange Limited (NZX), most notably the first operations as a publicly listed limited liability company following our demutualisation last year.

It is a credit to Mark and all his team that these two major structural changes have been achieved while at the same time a significant strategic and operational transformation has been occurring within the organisation.

It is also worth commenting that NZX has embarked on a series of consultations with the Securities Commission, within the co-regulatory environment, regarding changes to our various regulations and structures. We are now entering the implementation phase and I firmly believe the agreed modifications will only enhance and strengthen the reputation of New Zealand's capital markets.

Finally, I'd like to welcome all those new shareholders who have invested in NZX since our public offering in June. We appreciate your support and look forward to your participation in the future.



Simon Allen
Chairman,
New Zealand Exchange Limited

Chief Executive's Report

It's been a tremendously exciting first six months of 2003 for NZX. We've made real progress against the objectives we set out to achieve in January; namely to rationalise the indices, restructure the markets, review our pricing schedules, streamline the legal and regulatory environment, and take the company public.

Of these achievements perhaps the most significant was our listing on 4 June and accompanying rebranding, from NZSE Limited to New Zealand Exchange Limited (NZX). The IPO was four times oversubscribed; easily raising the \$15 million sought (at a cost of 3.7%) for future growth initiatives.

Over this period our economic performance also substantially improved. Revenue increased to \$5.347 million, an increase of 3.7% on the previous six months. Six key new listings provided the source of much of this increase, including Promina Group which was our first Dual Primary Listing.

Total operating expenses declined 6.9% to \$4.741 million. The key driver for this reduction in costs was lower depreciation charges due to assets being fully depreciated at 31 December 2002. One-off expenditure for the six months totalled \$470,000 comprising the rebranding (\$300,000) and an information technology audit (\$170,000).

Salaries and related expenditure rose 3.8% which largely reflects previously outsourced functions being brought in house. This reflects a conscious business model choice to ensure the development and retention of intellectual property within NZX. We are already seeing very positive results.

We feel confident that the changes made in the first six months, along with continual improvements to market structure and the regulatory environment (including planned changes to the NZDX - Debt Market), introduction of a new corporate governance regime and the roll-out of the new NZAX Market, provide us with a solid platform for delivering future growth. We are optimistic about the prospects for the future.

As always, we welcome your feedback and encourage your active participation in the development and success of our capital markets.



Mark Weldon
Chief Executive Officer,
New Zealand Exchange Limited



Statement of Financial Performance

for the six months ended 30 June 2003

\$000s

REVENUE

	PARENT		GROUP	
	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)
Listings	1,899	1,595	1,899	1,579
Trading, clearing & settlement	1,363	1,436	1,363	1,436
Sale of market information	1,071	1,181	1,071	1,181
Market surveillance panel recoveries	359	299	359	299
NZX Broker fees	230	233	230	233
Management fees	66	67	141	154
Interest	284	263	302	286
Other income	75	83	77	85
	5,347	5,157	5,442	5,253

EXPENSES

Information technology and computer systems	754	739	754	739
Depreciation:				
Computer equipment	174	620	174	620
Furniture & equipment	5	13	5	13
Staff costs and related expenses	2,117	2,040	2,117	2,040
Office expenses	759	757	806	844
Marketing expenses	246	-	246	-
Legal and advisory fees	88	237	124	237
Market surveillance panel costs	148	235	148	235
Rent	117	109	117	109
Directors' fees	147	108	147	108
Auditor's remuneration:				
Audit fee	27	57	39	66
Fees for other services	64	83	64	83
	4,646	4,998	4,741	5,094
Surplus before non-recurring items	701	159	701	159
Tax expense	7	233	233	314
Operating surplus/deficit after tax & before non-recurring items	468	(155)	468	(155)
Non-recurring revenue - net of tax	6,7	116	116	2,069
Surplus for the period	584	1,914	584	1,914

Statement of Movements in Shareholders' Funds

for the six months ended 30 June 2003

\$000s

	PARENT		GROUP	
	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)
Shareholders' funds at 1 January 2003	8,417	6,503	8,417	6,503
Surplus for the period	584	1,914	584	1,914
Shareholders' funds at 30 June 2003	9,001	8,417	9,001	8,417



Statement of Financial Position

as at 30 June 2003

\$000s

ASSETS

Current assets:

Cash at bank

Accounts receivable

Taxation receivable

Deferred tax

Investments

Non-current assets

Net assets of Fidelity Guarantee Fund

LIABILITIES & SHAREHOLDERS' FUNDS

Accounts payable and other current liabilities

Fidelity Guarantee Fund

Shareholders' Funds

NOTE	PARENT		GROUP	
	JUNE 2003 (UNAUDITED)	DEC 2002 (AUDITED)	JUNE 2003 (UNAUDITED)	DEC 2002 (AUDITED)
	188	16	293	240
	1,723	1,612	1,602	1,402
	(242)	100	(242)	100
7	404	302	404	302
2	7,554	8,912	7,554	8,912
	9,627	10,942	9,611	10,956
4	730	738	730	738
5	446	446	446	446
	10,803	12,126	10,787	12,140
3	1,356	3,263	1,340	3,277
5	446	446	446	446
	9,001	8,417	9,001	8,417
	10,803	12,126	10,787	12,140

These interim financial statements were authorised for release on 30 July 2003.

Simon Allen
Chairman,
New Zealand Exchange Limited

Tim Saunders
Director,
New Zealand Exchange Limited

Mark Weldon
Chief Executive Officer,
New Zealand Exchange Limited

**Statement of Cash Flows**

for six months ended 30 June 2003

	PARENT		GROUP	
	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)
\$000s				
Cash Flows From Operating Activities				
Cash was provided from:				
Cash received	3,547	8,114	3,549	8,289
Net GST	(332)	322	(332)	322
Interest received	284	285	302	308
	3,499	8,721	3,519	8,919
Cash was applied to:				
Cash paid to suppliers and employees	4,465	4,889	4,564	5,001
Taxation paid	50	80	90	120
	4,515	4,969	4,654	5,121
Net cash (outflows) inflows from operating activities	(1,016)	3,752	(1,135)	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 non-current assets	170	108	170	108
Increase in bank deposits	1,739	4,043	1,739	4,043
	1,909	4,151	1,909	4,151
Net Cash inflows (outflows) from investing activities	1,188	(3,789)	1,188	(3,789)
Net increase in cash held	172	(37)	53	9
Opening cash balance	16	53	240	231
Cash at end of the year	188	16	293	240
Reconciliation of surplus for the year to net cash flows from operating activities				
Surplus for the year	584	1,914	584	1,914
Add non cash items:				
Depreciation	179	633	179	633
Unrealised (gain) loss on investments	0	(24)	0	(24)
Decrease (Increase) in accounts receivable	(111)	(464)	(200)	(179)
Decrease (Increase) in taxation receivable	342	168	342	168
Decrease (Increase) in deferred tax	(102)	80	(102)	80
Increase (Decrease) in accounts payable	(1,908)	1,445	(1,938)	1,206
Net cash flows from operating activities	(1,016)	3,752	(1,135)	3,798



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 subsidiary NZX Funds Management Limited. These financial statements are presented in compliance with the Financial Reporting 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.

These Interim Financial Statements are prepared in accordance with FRS 24: Interim Financial Statements, and should be read in conjunction with the previous report presented for the six months ended 31 December 2002.

This is the first set of interim financial statements prepared and therefore comparative information for the six months ended 30 June 2002 is not available and has not been disclosed.

GROUP FINANCIAL STATEMENTS

The Group financial statements consolidate the financial statements of the Exchange and its wholly owned subsidiary NZX Funds Management Limited, using the purchase method.

All material transactions between Parent and subsidiary are eliminated on consolidation.

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.

NON-CURRENT ASSETS AND DEPRECIATION

All non current 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.

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

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



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 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

In the statement of financial position of the Parent, investments are stated at market value. The investment in NZX Funds Management Ltd, 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) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

OPERATING LEASES

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

COMPARATIVES

Prior period comparatives have in some cases been reclassified to conform with current period presentation.

CHANGES IN ACCOUNTING POLICIES

There have been no material changes to accounting policies during the period. All accounting policies have been applied on a consistent basis and consistent with those used in the previous published financial statements.

2. Investments, at market value

\$000s	INTEREST RATES	MATURITIES	JUNE 2003 (UNAUDITED)	DECEMBER 2002 (AUDITED)
Bank Deposits	5.25% - 5.35%	Call - July 2003	7,554	5,814
Fixed interest securities			-	3,098
			7,554	8,912

Investments for both the Parent and Group are the same.

3. Accounts Payable

\$000s	PARENT		GROUP	
	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)	SIX MONTHS JUNE 2003 (UNAUDITED)	SIX MONTHS DEC 2002 (AUDITED)
Trade creditors	739	619	723	633
Unearned income	-	1,629	-	1,629
Employee entitlements	243	168	243	168
Accrued expenses	426	610	426	610
GST	(52)	237	(52)	237
	1,356	3,263	1,340	3,277



4. Non-current assets

\$000s

UNAUDITED

Computer equipment
Furniture and equipment
Leasehold improvements

	COST	ACCUMULATED DEPRECIATION	BOOK VALUE 30 JUNE 2003
Computer equipment	5,252	4,561	691
Furniture and equipment	202	163	39
Leasehold improvements	102	102	-
	5,556	4,826	730

\$000s

AUDITED

Computer equipment
Furniture and equipment
Leasehold improvements

	COST	ACCUMULATED DEPRECIATION	BOOK VALUE 31 DECEMBER 2002
Computer equipment	5,081	4,387	694
Furniture and equipment	202	158	44
Leasehold improvements	102	102	-
	5,385	4,647	738

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 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 known as the NZX Business Rules 2002.

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 2002 are similar to the rules that prevailed prior to demutualisation, except that under the NZX Business Rules 2002 the Board has the ability to levy NZX Firms up to \$1,000,000 rather than members (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

NZX demutualised its structure and became a limited liability company from 1 January 2003. All costs associated with the demutualisation have been accounted for in the six month period ended 31 December 2002 .

The \$173,000 received in the period ended 30 June 2003 represents the proceeds of a voluntary levy on certain members as a contribution to the cost of demutualisation, net of tax \$116,000.



7. Taxation

\$000s

INCOME TAX

	JUNE 2003 (UNAUDITED)	DECEMBER 2002 (AUDITED)
Operating (deficit) surplus before tax	701	159
Permanent Differences:		
Non-taxable income	-	(97)
Prior period adjustment	-	(25)
Non-deductible expenditure	6	914
Surplus subject to Tax	707	951
Tax at 33%	233	314
Income tax recognised in Statement of Financial Performance as tax expense	233	314
Non recurring revenue	173	2,069
Tax at 33%	57	-
Non recurring revenue net of tax	116	2,069
Total income tax recognised	290	314
Comprising:		
Current tax	392	157
Prior period adjustment	-	(8)
Deferred tax	(102)	165
	290	314
Deferred Tax:		
Balance at beginning of year	302	382
Prior period adjustment	-	85
Movement during the year	102	(165)
Balance at end of year	404	302
Imputation Credit Account:		
Balance at beginning of period	643	563
Income tax paid	50	80
Balance at end of period	693	643

(Tax 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.

CREDIT RISK

The maximum credit risk as defined in New Zealand Financial Reporting Standard 31 "Disclosure of information about financial instruments" 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.

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 for existing office space:

\$000s

Up to one year

	JUNE 2003 (UNAUDITED)	DECEMBER 2002 (AUDITED)
	94	94

10. Related Party transactions

During the period NZX had a management contract with its subsidiary NZX Funds Management Limited for the administering of TeNZ. At 30 June 2003 NZX Funds Management Limited owed NZX \$387,690 (Dec 2002 \$349,027).

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



11. Events occurring after balance date

Through the reporting period New Zealand Exchange Limited issued a prospectus offering the public the opportunity to participate in a capital raising. At the same time it changed its name from NZSE Limited to New Zealand Exchange Limited trading as NZX.

The offer was a combined rights issue and offer of ordinary shares on the following basis:

- 3,310,000 rights to ordinary shares offered to existing shareholders.
- \$10m of shares offered to the existing shareholders, members of the public and institutional investors.

The initial public offering closed on 4 July 2003 and allotment of shares took place on the 9 July 2003. Shares commenced trading on 10 July 2003.

The offering was fully subscribed. ■

NZX DIRECTORY

OF NEW ZEALAND EXCHANGE LIMITED

Board of Directors

Simon Allen, Chairman
Mark Weldon, Chief Executive Officer
Bill Trotter
Andrew Harnos
Lloyd Morrison
Tim Saunders
Neil Paviour-Smith
Kathy Gruschow, Secretary

Market Surveillance Panel

Bill Falconer, Chairman
Peter Brook, Deputy Chairman
Barry Brown
Jon Cimino
Denis Clifford
Roger France
Peter Hays
Tim McGuinness
Rt Hon Sir Ian L McKay
Paul Oldfield
Alison Paterson

Executive Management

Geoff Brown, Markets Development
Elaine Campbell, Legal and Regulatory
Carl Daucher, Strategy and Information
Kathy Gruschow, Listed Company Relations
Melissa Jenner, Marketing and Communications
Bill Malthus, Infrastructure Business
Robert Russell, Finance

Complaints Committee

Don Turkington
Rue Bourke

Disciplinary Committee

John Gibson, QC, Chairman
Gary Gould
Chris Horton
Geoff Clatworthy
Rachael Cross, Secretary

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