



NZX announces third quarter result

Wednesday, 19 October 2005

Part I – Key Themes

New Zealand Exchange Limited's (NZX) third quarter result for 2005, announced today, is described by NZX CEO Mark Weldon as strong evidence that the NZX engine room (listings, trading, data) is working well, and that additional horsepower has been added to the NZX Group outlook by some very strong signs in the Link Market Services and Smartshares businesses.

His remarks are supported by a substantial operating EBITDA increase of 39% over the same quarter in 2004, achieved on operating revenue of \$5.54 million. This represents an increase of 25% over the same period in 2004.

"NZX has been through a period of intense growth. This result reflects a focus on the execution and delivery phase of NZX's strategy, which is to drive and support the development of New Zealand's capital markets, and to benefit from their growth and evolution," said NZX Chairman Simon Allen.

"The two enterprises which NZX has invested in outside the core markets business – Smartshares and Link Market Services – are now through the initial start-up phase and are beginning to demonstrate the soundness of those investments," Mr Allen said.

"NZX's core markets business performed well over the quarter. NZX continues to *create value* by driving depth and breadth in our markets through initiatives such as Direct Market Access, increased price transparency on both sides of the Tasman via third party arrangements, and the introduction of new product sets such as warrants. All these initiatives work to increase the level of operating leverage, which is one of the most attractive aspects of the engine room of NZX that is the markets business," said Mark Weldon.

"NZX continues to *derive value* from the resulting increase in the volume and value of trades, and from slaking the markets' thirst for timely and accurate information.

"The additional horsepower for NZX's future results is the strong performance of Smartshares and Link, both of which form an integral part of NZX's strategy to contribute to the further development of New Zealand's capital markets," Mr Weldon said.

With Smartshares, NZX has provided investment products with features that have not been seen before in New Zealand. Link has begun to provide a level of competition and service in the registry space that have been limited until now.

“The contributions made by Smartshares – which won a New Zealand Superannuation Fund New Zealand equity allocation in August, and Link – which has now won its first major trans Tasman issuer in Westpac and expects to serve Goodman Fielder, reflecting sound execution of the strategy over this period, cement our expectation that these businesses will improve their value to the NZX Group significantly as they mature,” said Mr Weldon.

“NZX is engaged with many companies at varying stages in their evolution, and many of them are hungry to list as a means of gaining profile for their operations, changing their capital structure and providing for further growth,” said Mr Weldon.

“NZX will continue to inform, support and facilitate that process so that more New Zealanders have an opportunity to own a stake in a wider range of successful New Zealand businesses.

“On the basis of publicly disclosed intentions by companies to list or raise capital, with data revenues at higher levels, and with Link being successful in securing a good percentage of upcoming IPOs, NZX would expect to see this strong performance to be sustained through the fourth quarter of 2005,” Mr Weldon said.

Part II – Key Financial Results

- Operating EBITDA (excluding non-recurring expenditure): \$2.51 million versus \$1.81 million for the third quarter of 2004, an increase of 39% driven by listing activity, the impact of market data re-pricing, and a continued focus on cost control.
- Operating revenue (excluding interest income): \$5.54 million, versus \$4.43 million for the third quarter of 2004, an increase of 25%.
- Operating expenses (excluding non-recurring items): \$3.02 million, versus \$2.62 million for the third quarter of 2004, an increase of 15%.
- EBIT: \$2.19 million, versus \$.98 million for the third quarter of 2005, an increase of 123%.

Part III – Results Commentary and Notes

A. NZX Markets Business

Strong growth in high margin revenue from listings and market information sales, combined with a focus on cost management, led to a strong third quarter result from NZX's markets business.

"Listings, transactions, and market information are the key revenue drivers of the markets business," said Mark Weldon. "For example, Vector's IPO created 40,000 new shareholders and raised \$600 million in capital. These types of market events, combined with an increasing number of available products to trade, will drive long term value for the NZX markets business," said Mark Weldon.

Revenue:

- Total revenue for the markets business reached \$5.14 million for the third quarter 2005, an increase of 22% versus the third quarter of 2004.
- Listing revenues were \$2.06 million, an increase of 29% compared with the third quarter of 2004. Initial listing fee revenue (charged to new issuers of securities) reached \$540,000, an increase of \$212,000 versus the third quarter of 2004. Year to date, listing revenues are up 10%.
- Market data revenue reached \$853,000 versus \$712,000 in the third quarter of 2004. This increase shows the impact of pricing changes to regularly charged data products and an increase in total product consumption.
- Average daily transactions reached 2,650 per day, an increase of 7% versus the third quarter of 2004. This increase, combined with pricing changes announced earlier this year, led to an 18% increase in transaction revenue.

Expenses:

- Operating expenditure for the markets business reached \$2.71 million, an increase of 13% over the third quarter of 2004.
- Employee and Related Costs increased 16%, an increase largely attributable to growth in staff numbers during the second half of 2004. During the third quarter NZX made significant changes to its management team, resulting in the consolidation of roles and responsibilities.
- Information Technology expenditure is up 28%.

There were no non-recurring costs associated with the collapse of Access Brokerage over the quarter. Looking forward, NZX expects any further costs to be operational in nature. The various investigations, carried out by multiple parties in respect of Access Brokerage, have resulted in the Serious Fraud Office laying criminal charges against Access Brokerage Managing Director Peter Marshall, and the bringing of a Statement of Case before NZX Discipline against Marshall and Access Brokerage. In addition, during the month of September, NZX was served with proceedings by the Bank of New Zealand and Access liquidator Ferrier Hodgson with regard to the collapse of Access Brokerage. NZX is insured in respect of this action and is defending this action and counterclaiming against the BNZ.

B. Smartshares

Smartshares operations resulted in an operating EBITDA gain of \$23,000.

During the third quarter, Smartshares was awarded a passive mandate to manage the New Zealand Superannuation Fund's New Zealand equity allocation. Smartshares

has committed significant resource to this important piece of business, and will continue to do so until year end. New fund launches will take place in 2006.

“Smartshares will focus on becoming the dominant passive manager in New Zealand for retail and institutional investors. Our unique passive investment-only operating model provides a low cost and low fee choice for retail and institutional investors,” said Smartshares Head of Business Geoff Brown.

“We will continue to invest in infrastructure and marketing to ensure that investors continue to avail themselves of the advantages offered by Smartshares and their uptake begins to mirror that in overseas markets, where the American Stock Exchange alone offers 148 ETFs, and European exchanges offer 250.

“In addition, we believe Smartshares is well positioned to contribute to, and derive value from, increasing savings rates in New Zealand,” Mr Brown said.

Total funds under management at 30 September 2005 reached \$204 million. Smartshares has 10,463 investors direct on register.

C. Link Market Services Limited

Link Market Services delivered an operating EBITDA result of \$86,000.

Link serves 108 issuers in New Zealand, including Westpac Banking Corporation. Link expects to serve the forthcoming Goodman Fielder float, and is poised now to target major New Zealand issuers with Australian and New Zealand registry requirements.

Link is completing the integration of BK Registries, and will operate a single technology system within the next six months. This migration will improve service levels to existing clients, and will also deliver operational efficiencies.

Link’s contribution to the NZX Group is treated as an equity investment in the NZX Group result. Link’s third quarter loss after tax was \$15,000, due to amortisation and depreciation expenses. This results in a \$7,500 negative contribution to the NZX Group operating revenue.

NZX expects that the costs associated with the initial investment, and integration of BK Registries into Link, will be fully absorbed by the end of 2005, with a positive equity contribution to NZX in 2006.

D. Conclusion

“NZX’s markets business delivered a strong third quarter performance. We are confident that signs of a maturing capital market structure in New Zealand will continue to drive growth in our core businesses and deliver positive returns to shareholders from our investments in Smartshares and Link Market Services,” said Simon Allen.

“NZX continues to seek investment opportunities while maintaining a tight focus on delivering value from its core markets business,” Mr Allen said.

The Statement of Financial Performance can be found on the NZX website at www.nzx.com/aboutus/investor/financial.

NZX will release its preliminary full year results for 2005 on Friday, 17 February 2006. NZX’s dividend policy will be released at that time.

ENDS

About New Zealand Exchange Limited (NZX)

NZX operates New Zealand’s sole registered securities exchange. Utilising its proprietary FASTER technology, NZX facilitates fully electronic trading, clearing and settlements across its three principal markets, the NZSX – Stock Market, the NZDX – Debt Market, and the NZAX – Alternative Market. In addition, NZX offers a comprehensive suite of data products, indices and funds, and is responsible for the ongoing surveillance and regulation of New Zealand’s securities markets.

By providing a ready market for capital raising and business growth, NZX is at the forefront of business in New Zealand. At both the Board and management levels, NZX is committed to developing and ensuring the integrity and international competitiveness of New Zealand’s securities markets. NZX demutualised in October 2002 and became a publicly listed company on 4 June 2003. For more information, visit www.nzx.com.

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**Statement of Financial Performance**

three months to 30 September 2005

\$NZ 000s	Q3 2004	Q3 2005	%	YTD 2004	YTD 2005	%
OPERATING REVENUE	4,427	5,538	25%	12,009	14,188	18%
Equity accounted earnings of associate (LINK)		[7]			[32]	
OPERATING EXPENDITURE	2,620	3,017	15%	7,639	8,838	16%
OPERATING EBITDA	1,807	2,514	39%	4,370	5,318	22%
Gain / loss on Investments	105	[62]	[159%]	105	[85]	
Non Recurring Expenditure / Income	[768]			[768]	[704]	[8%]
EBITDA	1,144	2,452	114%	3,707	4,529	22%
Depreciation	[150]	[218]	45%	[392]	[551]	41%
Amortisation	[14]	[48]	243%	[14]	[144]	929%
EBIT	980	2,186	123%	3,301	3,834	929%
Interest	459	387	[16%]	1,171	1,199	2%
Earnings / (Deficit) before Tax	1,439	2,573	79%	4,472	5,033	13%
Tax Expense	[470]	[849]	81%	[1,473]	[1,776]	21%
Earnings / (Deficit) after Tax	969	1,724	78%	2,999	3,257	9%

**Statement of Financial Performance**

by quarter

\$NZ 000s	2004				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
OPERATING REVENUE	3,474	4,108	4,427	4,381	4,139	4,512	5,538
Equity accounted earnings of associate (LINK)						[25]	[7]
OPERATING EXPENDITURE	2,401	2,618	2,620	2,830	2,834	2,987	3,017
OPERATING EBITDA	1,073	1,490	1,807	1,551	1,305	1,500	2,514
Gain / loss on Investments			105	[13]	[85]	62	[62]
Non Recurring Expenditure / Income			[768]	[770]	[106]	[598]	
EBITDA	1,073	1,490	1,144	768	1,114	964	2,452
Depreciation	[109]	[133]	[150]	[161]	[179]	[154]	[218]
Amortisation			[14]	[41]	[47]	[48]	[48]
EBIT	964	1,357	980	566	888	762	2,186
Interest	342	370	459	490	429	383	387
Earnings / (Deficit) before Tax	1,306	1,727	1,439	1,056	1,317	1,145	2,573
Tax Expense	[431]	[572]	[470]	[378]	[492]	[493]	[849]
Earnings / (Deficit) after Tax	875	1,155	969	678	825	652	1,724

Statement of Financial Performance

three months to 30 September 2005

\$NZ 000s	NZX MARKETS			SMARTSHARES			LINK*
	Q3 2004	Q3 2005	%	Q3 2004	Q3 2005	%	Q3 2005
OPERATING REVENUE	4,199	5,140	22%	237	398	68%	930
OPERATING EXPENDITURE	2,400	2,706	13%	220	375	70%	721
OPERATING EBITDA	1,799	2,434	35%	17	23	35%	208
Gain / loss on Investments	105	[62]	[159%]				
Non Recurring Expenditure / Income	[185]		[100%]	[582]			
EBITDA	1,719	2,372	38%	[565]	23	[104%]	208
Depreciation	[150]	[218]	45%				[162]
Amortisation	[14]	[41]	193%		[7]		[30]
EBIT	1,555	2,113	36%		16		16
Interest	459	387	[16%]				[38]
Earnings / (Deficit) before Tax	2,014	2,500	24%	[565]	16	[103%]	[22]
Tax Expense	[665]	[798]	20%	187	[5]	[103%]	7
Earnings / (Deficit) after Tax	1,349	1,702	26%	378	11	[97%]	[15]

* Numbers presented in the above table for LINK represent the 100% LINK Market Services Limited business. NZX Group have a 50% ownership.

Statement of Financial Performance

by quarter

\$NZ 000s	2004				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
OPERATING REVENUE							
Listings	1,211	1,490	1,598	1,536	1,229	1,451	2,058
Participant Fees	226	278	275	289	311	331	338
Trading, Clearing & Settlement	957	993	1,141	1,148	1,129	1,153	1,351
Market Information	699	693	712	676	681	713	853
Regulatory	306	413	448	458	453	458	475
Other Income	10	142	25	21	64	84	66
Total Operating Revenue	3,409	4,009	4,199	4,128	3,866	4,190	5,140
OPERATING EXPENDITURE							
Employee & Related Costs	1,347	1,395	1,388	1,427	1,511	1,510	1,611
Information Technology	299	374	358	588	455	428	460
Legal	225	111	66	33	79	148	11
Marketing	111	185	76	104	38	32	90
General Administration	360	494	512	366	449	415	534
Total Operating Expenditure	2,342	2,559	2,400	2,518	2,532	2,533	2,706
OPERATING EBITDA	1,067	1,450	1,799	1,610	1,334	1,657	2,434
Gain / loss on Investments			105	[13]	[85]	62	[62]
Non Recurring Expenditure / Income			[185]	[309]	[106]	[598]	
EBITDA	1,067	1,450	1,719	1,288	1,143	1,121	2,372
Depreciation	[109]	[133]	[150]	[160]	[179]	[154]	[218]
Amortisation			[14]	[41]	[41]	[40]	[41]
EBIT	958	1,317	1,555	1,087	923	927	2,113
Interest	342	370	459	491	429	383	387
Earnings / [Deficit] before Tax	1,300	1,686	2,014	1,577	1,352	1,310	2,500
Tax Expense	[429]	[557]	[665]	[521]	[518]	[517]	[798]
Earnings / [Deficit] after Tax	871	1,130	1,349	1,057	834	793	1,702

**Statement of Financial Performance**

three months to 30 September 2005

\$NZ 000s	Q3 2004	Q3 2005	%
OPERATING REVENUE			
Listings	1,598	2,058	29%
Participant Fees	275	338	23%
Trading, Clearing & Settlement	1,141	1,351	18%
Market Information	712	853	20%
Regulatory	448	475	6%
Other Income	25	66	164%
Total Operating Revenue	4,199	5,140	22%
OPERATING EXPENDITURE			
Employee & Related Costs	1,388	1,611	16%
Information Technology	358	460	28%
Legal	66	11	[83%]
Marketing	76	90	18%
General Administration	512	534	4%
Total Operating Expenditure	2,400	2,706	13%
OPERATING EBITDA	1,798	2,434	35%

**Statement of Financial Performance**

by quarter

\$NZ 000s	2004				2005		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
OPERATING REVENUE	65	98	237	273	291	339	398
OPERATING EXPENDITURE	60	60	220	312	302	454	375
OPERATING EBITDA	5	38	17	(39)	(11)	(115)	23
Non Recurring Fund Acquisition Expenditure / Income			(582)	(461)			
EBITDA	5	38	(565)	(500)	(11)	(115)	23
Depreciation							
Amortisation					(7)	(7)	(7)
EBIT	5	38	(565)	(500)	(18)	(122)	16
Interest							
Earnings / (Deficit) before Tax	5	38	(565)	(500)	(18)	(122)	16
Tax Expense	(2)	(13)	187	165	6	40	(5)
Earnings / (Deficit) after Tax	3	25	(378)	(335)	(12)	(82)	11

Statement of Financial Performance

\$NZ 000s	2005	
	HY	Q3
OPERATING REVENUE	1,039	930
OPERATING EXPENDITURE	953	721
OPERATING EBITDA	86	208
Non Recurring Fund Acquisition Expenditure / Income		
EBITDA	86	208
Depreciation	[48]	[162]
Amortisation	[52]	[30]
EBIT	[14]	16
Interest	[20]	[38]
Earnings / (Deficit) before Tax	[34]	[22]
Tax Expense	[16]	[7]
Earnings / (Deficit) after Tax	[50]	[15]