

## CHAIRMAN'S REPORT

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There has been some very hard work going on behind the scenes in 2007 to create an optimal environment for the ongoing development of New Zealand's capital markets. NZX has been working closely with both the New Zealand and Australian governments to contribute to legislative change that will drive forward some key innovations for NZX in both markets.

Here in New Zealand we have been working with the Ministry of Economic Development to facilitate an active derivatives market for this country. Currently investors can trade only cash products on NZX markets. The 2008 priority for NZX is the upgrade of our clearing and settlement system, which will enable us to offer a broader range of equity, debt and derivative products including commodity derivatives and carbon units. This will also align us with international best practice for clearing and settlement for all products traded on NZX markets.

In preparation for the launch of AXE ECN in Australia we have been working with the Australian Securities and Investment Commission (ASIC). ASIC released two Consultation Papers in 2007, both of which supported a positive regulatory landscape for market participants, and a market landscape where competition drives value. AXE ECN will provide value in pricing, innovation and technology for market participants. NZX is proud to be integral to that offering.

2007 was a year of doing the necessary and invisible work behind the scenes. The next chapter will be about execution. These exciting market developments - coupled with sound and sensible regulatory and fast, scalable and leading technological infrastructure, spanning both domestic and international territory - will deliver benefits to NZX stakeholders.

The immediate future is thus one of providing a better trading environment for market participants and listed companies, and offering a more sophisticated market with a broader range of investment options for New Zealand investors, expanding NZX group's activities beyond traditional activities - and in doing so, continuing to generate value for our NZX shareholders.

We are pleased to report these initiatives while at the same time achieving a very positive financial performance.



Simon Allen, Chairman

11 March 2008

## CHIEF EXECUTIVE'S REPORT

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### A pivotal point in our evolution

NZX's strategy recognises that in a global context that is fast, complex and uncertain, the only approach to strategy that can consistently add value over time is flexibility around a core set of strategic criteria. While a fixed focus on a couple of set tenets may maximise value in any given period, inevitably that period will run out, and failure to be flexible can have catastrophic results. NZX will not fail to be flexible and adapt.

NZX is at a highly defined, and pivotal, point in its evolution. As you will have read and heard in previous communications from me, Phase I - from 2002 to 2004 - was aimed at fixing the franchise: getting the house in order so we could meet the challenges of a new era of visibility and accountability. Overlapping that was Phase II, from about 2003 to 2006. This was dedicated to maximising the value of the core franchise, and strengthening its long-term viability and resiliency.

Phase III commenced in 2007, and we're already seeing its impacts in 2008. The predominant focus of Phase III continues to be seeding real and valuable options in major growth areas such as derivatives, the Australian market (specifically with AXE ECN) and carbon, amongst others. Over Phase III, as these options generate positive cash flows, NZX's cost and capex lines will show some growth ahead of revenue recognition.

Phase IV, which begins now, will run simultaneously with the latter part of Phase III, and persist for the next three to four years. The key feature of this phase will be realising the positive value of those options. The result will be an NZX that displays the following characteristics:

- A strong domestic position and resilience in the growth franchise, with real upside from derivatives and liquidity growth
- Emerging international business exposure in a couple of global niches in which we can be distinctive, and which we can scale beyond New Zealand or any one market
- A successful strategic investment portfolio, which has both strengthened the financial position and the core business of NZX.

One of the factors in the resilience of NZX's business is our debt/hybrid market. It provides both counter-cyclical cover to the listing businesses, and provides a great facility for NZX Market Participants to provide quality products to their customers. Underwriting and distributing debt and hybrid products is important to the financial health of NZX Market Participants - which matters to NZX and to the long-term health of the markets more broadly.

Beginning with this report, we will deliver a detailed insight into the subsidiaries and strategic investments beyond the core NZX Markets business. This will ensure that all our stakeholders have a clear picture of how NZX's strategy, combining essential stability with critical flexibility, will continue to present genuine options for growth into the future.



Mark Weldon, Chief Executive Officer

11 March 2008