JSE LIMITED

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

Contents

JSE Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/022939/06)
Share code: JSE ISIN: ZAE000079711
("JSE" or "the Group")

UNREVIEWED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The JSE is a self-regulatory, multi-asset-class stock exchange that has been operating as a marketplace for the trading of financial products for more than 130 years. As South Africa's only full-service securities exchange, the JSE connects buyers and sellers in four different financial markets: equities, equity derivatives, commodities derivatives and interest rate instruments. The JSE offers the investor a first-world trading environment, with world-class technology, surveillance and settlement, in an emerging market context. It is among the top 20 largest equities exchanges in the world in terms of market capitalisation.

This announcement covers the condensed consolidated interim financial statements of the Group based on International Financial Reporting Standards for the six months ended 30 June 2019.

The preparation of these condensed consolidated interim financial statements has been supervised by the chief financial officer, Aarti Takoordeen CA(SA), in terms of section 29(1)(e) of the Companies Act 2008, as amended (the Companies Act).

FINANCIAL OVERVIEW

The first half of 2019 has been challenging for the JSE and the Company's performance should be seen against the context of:

- the high base effect in revenue for H1 2018 as a result of high value traded in the Equity Market in Q1 2018;
- the impact of the income tax credit of R31 million reported in H1 2018 (which was not repeated in H1 2019);
- a deliberate management strategy with regard to costs to facilitate delivering on the JSE's extensive strategic initiatives; and
- the relatively low headcount in H1 2018, following the 2017 retrenchments.

Total revenue decreased by 8% to R1.08 billion (H1 2018: R1.18* billion). This follows:

- a decline in the key activity drivers of the main asset classes traded on the Exchange. In particular, value traded in the equities market was down 11% (2018: up 11%) following more than R30 billion in net foreign sales (2018: R17 billion net foreign purchases) and muted local investor activity. There were two (H1 2018: 10) new initial public offerings (IPOs) in the first half of the year. This was offset somewhat by the slightly better revenue performance from BDA, which tracked the increase in the number of equity trades executed in H1 2019 (2019: 5% up) over the comparative period (2018: 5% down);
- the impact of the new tiered billing model for equities trading, which reduced the cost of trading for our clients. This model was introduced in August 2018 and was applicable for H2 2018, but not in the comparative period; and
- better than expected performance in some of our other asset classes, including commodities and currency derivatives as well as our cash bond and the electronic trading platform (ETP) for government bonds. Additionally, foreigners were net buyers of local bonds (2019: R19 billion net purchases; 2018: R34 billion net sales).

Operating costs increased by 11% to R670 million (2018: R601* million). This follows:

- management actions to fill vacancies to reach planned headcount levels (compared with the low base headcount throughout H1 2018); and
- incremental technology and depreciation expenditure in the period following the implementation of the integrated trading and clearing system (ITaC).

This has resulted in Group earnings before interest and tax (EBIT) decreasing by 28% to R414 million (H1 2018: R582* million) and net profit after tax (NPAT) declining by 29% to R398 million (H1 2018: R561 million).

Similarly, both basic earnings per share (EPS for continuing operations) and headline earnings per share (HEPS) decreased by 29%, to 467.0 cents (H1 2018: 654.5* cents) and 466.1 cents (H1 2018: 654.6 cents) respectively.

Notwithstanding the constrained operating environment, the JSE remains in a healthy position with regard to cash and capital. We are well positioned to continue our deliberate investment in those areas of our business we believe to be critical to our long-term sustainability, while maintaining our disciplined control of costs.

DETAILED REVIEW

REVENUE STREAMS

Market activity in the JSE's asset classes was impacted as follows:

Primary Markets:

- Revenue declined by 11% to R73 million (H1 2018: R82 million) owing to the sustained subdued listing environment, which also matched global trends. There were two (H1 2018: 10) new initial public offerings (IPOs) in the first half of the year.

** Comparative figures have been restated owing to the discontinued operations referenced in note 12.*
Numbers may contain rounding differences.

Commentary
(continued)

Capital Markets:

- Equity Market revenue decreased by 26% to R206 million (H1 2018: R277 million), largely as a result of lower market activity and the impact of the reduced pricing from the tiered billing model. The tiered billing model resulted in an aggregate discount to clients of approximately R29 million or 12% for the half year. Additionally, billable value traded declined by 11%. Colocation revenue increased by 30% to R9 million (H1 2018: R7 million) owing to an increase in the number of racks sold from 28 to 32.
- Equity Derivatives Market revenue declined by 6% to R70 million (H1 2018: R75 million) owing to a decrease in value traded of 5%.
- Currency Derivatives Market revenue increased by 13% to R26 million (H1 2018: R23 million) owing to rand volatility and reduced initial margin requirements. This contributed to an 18% increase in contracts traded.
- Commodity Derivatives Market revenue was up by 7% to R40 million (H1 2018: R37 million), driven by higher trading activity owing to uncertain weather conditions. Contracts traded increased by 7%.
- Bond Market revenue increased by 25% to R33 million (H1 2018: R27 million). This is largely attributable to a 21% rise in nominal value traded in the spot bond market. The ETP for government bonds was launched in August 2018, bringing in revenue of R3 million. Contracts traded in the Interest Rate Derivatives Market declined by 19% owing to lower volatility in the local interest rate.

Post-Trade Services:

- Back-Office Services (BDA) revenue increased by 7% to R158 million (H1 2018: R147 million) owing to an increase of 5% in the number of transactions, smaller transaction sizes and an annual price increase.
- Clearing and Settlement revenue decreased by 13% to R183 million (H1 2018: R211 million) owing to lower billable value traded in the Equity Market.

Information Services:

- Revenue increased by 17% to R156 million (H1 2018: R134 million), largely owing to a prior-year adjustment, annual price increases and foreign exchange gains on USD-denominated revenue.

Other income:

- Other income decreased by 56% to R19 million (H1 2018: R42 million). Revenue growth was negatively impacted by unrealised forex losses of R3 million (H1 2018: unrealised forex profit of R17 million) on foreign-denominated assets. The JSE holds USD14 million in cash (H1 2018: USD12 million).

Operating expenditure

Management has achieved all of the R170 million in cost savings (base year 2016) to which it committed in 2017, six months ahead of time.

The major contributors to the operating expenses in this period were:

- personnel costs, which increased by 19% or R38 million to R238 million (2018: R200* million), largely owing to:
  - a 15% (or R29 million) increase in gross remuneration paid as a result of management actions to fill vacancies to reach the planned headcount. We exited H1 2019 at 401, compared with our H1 2018 exit headcount, which was unusually low, at 362, following the 2017 restructuring. This contributes 14 percentage points; and
  - an increase of R8 million to R18 million (2018: R10 million) in the long-term incentive schemes (LTIS) owing to timing differences in vesting (incurred in Q4 in the prior year). This contributes four percentage points.
- technology costs, which are 19% or R22 million higher at R138 million (2018: R116 million). Noteworthy contributions came from:
  - post-ITaC go-live costs, which include resources expensed and software maintenance and support. This contributes 12 percentage points or R14 million;
  - licences and support for the master reference data system. This contributes four percentage points or R5 million;
  - incremental hardware infrastructure support and increasing cybersecurity spend. This contributes four percentage points or R4 million;
- depreciation and amortisation, which increased by 69% or R37 million to R90 million (2018: R53 million) largely owing to:
  - the application of IFRS 16 on leases. This contributes 33 percentage points or R18 million; and
  - the implementation of ITaC, along with infrastructure and cybersecurity investments. This contributes 40 percentage points or R22 million. This is offset by fully depreciated assets of R5 million.

General expenses decreased by 12% or R28 million to R204 million (2018: R232* million) owing to the lower operating lease charges of R23 million as a result of the application of IFRS 16. This is partially offset by compliance and non-discretionary spend of R7 million. A further R9 million increase was related to growth initiatives, people-related costs and timing differences.

Cash flow and investment

The Group continues to be highly cash generative, with net cash from operations of R444 million (2018: R522 million). Cash and cash equivalents on hand at 30 June 2019 amounted to R2.2 billion (2018: R2.4 billion).

Capital expenditure decreased to R33 million (2018: R42 million) in the first half of this year, which is aligned to our new approach to capital investments and reflects us coming to the end of our ITaC implementation.

All currently planned investments and 2019 capital requirements can be funded from the Group's own resources.

** Comparative figures have been restated owing to the discontinued operations referenced in note 12.*
Numbers may contain rounding differences.

Regulatory capital

In compliance with the Financial Markets Act 2012, the JSE and JSE Clear (Pty) Ltd ("JSE Clear") are required to hold regulatory capital. Accordingly, the JSE subscribed for one ordinary share (par value 12.5 cents) in JSE Clear for a consideration of R100 million on 26 June 2019. The JSE remains the sole shareholder of JSE Clear. At the reporting date, the Board believes that both the JSE and JSE Clear are sufficiently capitalised.

Update on strategic objectives

We are delighted with the launch of ITaC in April this year and wish to acknowledge the significant effort of all our clients in this regard. Our investment in ITaC is already bearing fruit in critical areas of our business and we look forward to our clients completely bedding down their own implementations so that they can benefit fully from the increased functionality and robustness offered by both the trading and clearing components of ITaC.

With ITaC behind us, our focus for H2 2019 is to:

- settle the ITaC post-implementation issues requiring attention and leverage the ITaC system to deliver further product opportunities for our clients, such as the recent launch of monthly expiries;
- prepare for the 2020 upgrade of Millenium, which will enable us to roll out further functionality for our clients;
- progress with clients the transition of repos to MTS technology to enable a more robust technology platform for this product;
- advance non-cash collateral functionality with interested clients. We estimate that allowing 50% of the total daily derivatives margin call to be provided in securities will save clearing members and their clients approximately R1.2bn per annum in cash handling and in so doing free up capital to enable further trading activity; and
- deliver meaningful new revenue through business lines not currently a substantial part of the JSE income.

As we do this, we aim to operate our platforms and execute our regulatory responsibilities in a manner that builds increased client trust and stickiness, so that when investors choose to trade, they do so through the JSE.

Prospects

Although the first half has been financially difficult for the JSE, this first half performance is not a reflection of the fundamental strength of the business. Slowing global and local economic growth and a lack of local business confidence, which is chipping away at expectations of an economic recovery in South Africa in 2019, have kept our core business lines under pressure for the current period, but the JSE is well positioned to benefit from a positive change in sentiment.

We are excited by our strategic agenda: our focus and investments are aimed at ensuring the long-term growth and sustainability of the JSE. We look forward to reporting on these at year end.

Our revenues are variable and largely driven by activity on the various markets that we operate. For this reason, we make no projections regarding the Group's financial performance.

Director's responsibility statement

The directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 – Interim Financial Reporting; the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee; the Financial Pronouncements as issued by the Financial Reporting Standards Council; and the requirements of the Companies Act of South Africa.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether owing to fraud or error.

Approval of financial statements

The unreviewed condensed consolidated interim financial statements were approved by the Board of directors on 30 July 2019 and signed by:

N Nyembezi
Chairman

N Newton-King
Chief Executive Officer

Consolidated statement of comprehensive income

for the six months ended 30 June 2019

		Group		
		Six months ended		Year ended
		30 June 2019	30 June 2018*	31 December 2018 (audited)
	Notes	**R'000**	R'000	R'000
Continuing operations				
Revenue	9	**1 065 422**	1 140 618	2 198 479
Other income		**18 583**	42 310	82 288
Personnel expenses	10	**(237 790)**	(199 570)	(505 901)
Other expenses	11	**(432 272)**	(401 511)	(842 496)
Expected credit loss impairments		**61**	–	–
Profit from operating activities		**414 004**	581 847	932 370
Finance income		**1 495 985**	1 347 467	2 824 795
Finance costs		**(1 387 952)**	(1 225 896)	(2 585 574)
Net finance income		**108 033**	121 571	239 221
Share of profit from associate (net of income tax)		**28 000**	28 538	55 910
Profit before income tax		**550 038**	731 956	1 227 501
Income tax expense	13	**(151 813)**	(171 404)	(323 219)
Profit for the period from continuing operations		**398 225**	560 552	904 282
Discontinued operation				
(Loss)/profit after tax for the period from discontinued operations		**(583)**	162	(700)
Profit for the period		**397 642**	560 714	903 582
Other comprehensive income				
Change in financial instruments at fair value through other comprehensive income that will not be reclassified to profit and loss (net of tax)		**26 899**	15 371	(11 280)
Change in financial instruments at fair value through other comprehensive income that may be reclassified to profit and loss in subsequent periods (net of tax)		**568**	(186)	(89)
Other comprehensive income for the period, net of income tax		**27 467**	15 185	(11 369)
Total comprehensive income for the period		**425 109**	575 899	892 213
Earnings per share for continuing operations				
Basic earnings per share (cents)	14.1	**467.0**	654.5	1 056.5
Diluted earnings per share (cents)	14.2	**464.3**	650.5	1 048.1
Earnings per share for discontinued operations				
Basic earnings per share (cents)		**(0.7)**	0.2	(0.8)
Diluted earnings per share (cents)		**(0.7)**	0.2	(0.8)

**Comparative figures have been restated owing to the discontinued operations referenced in note 12.*

Consolidated statement of financial position

as at 30 June 2019

		Group		
		As at		As at
	Notes	30 June 2019 R'000	30 June 2018 R'000	31 December 2018 (audited) R'000
Assets				
Non-current assets		**1 611 302**	1 330 311	1 403 265
Property and equipment		**188 405**	162 165	219 631
Intangible assets	15	**511 401**	502 438	518 473
Investment in associate		**273 103**	242 525	269 898
Other investments	20	**326 262**	329 637	303 473
Loan to the JSE Empowerment Fund Trust		**25 943**	25 984	25 136
Right of use assets		**222 698**	–	–
Deferred taxation		**63 490**	67 562	66 654
Current assets		**42 684 189**	37 639 208	40 521 485
Trade and other receivables		**536 981**	509 317	490 303
Income tax receivable		**33 182**	1 418	29 997
JSE Clear Derivatives Default Fund collateral deposits		**500 000**	500 000	500 000
Margin deposits		**39 400 095**	33 640 882	36 766 624
Collateral deposits		**15 377**	634 648	160 625
Cash and cash equivalents		**2 198 554**	2 352 943	2 573 936
Total assets		**44 295 491**	38 969 519	41 924 750
Equity and liabilities				
Total equity		**3 607 960**	3 689 282	3 968 441
Stated capital		**(48 001)**	14 017	(18 378)
Reserves	17	**512 902**	539 450	511 739
Retained earnings		**3 143 059**	3 135 815	3 475 080
Non-current liabilities		**375 451**	134 213	133 055
Employee benefits		**7 671**	–	1 960
Due to Safex members		**–**	1 347	–
Deferred taxation		**28 939**	20 787	22 296
Operating lease straight-line liability		**–**	106 170	106 840
Lease liability		**335 478**	–	–
Deferred income		**3 363**	5 909	1 959
Current liabilities		**40 312 080**	35 146 024	37 823 254
Trade and other payables		**460 577**	406 462	375 430
Income tax payable		**482**	89	25
Employee benefits		**35 549**	63 943	120 550
JSE Clear Derivatives Default Fund collateral contribution		**400 000**	400 000	400 000
Margin deposits		**39 400 095**	33 640 882	36 766 624
Collateral deposits		**15 377**	634 648	160 625
Total equity and liabilities		**44 295 491**	38 969 519	41 924 750

Consolidated statement of changes in equity

for the six months ended 30 June 2019

Group	Stated capital R'000	NDR R'000	Share-based payments reserve R'000	Total reserves R'000	Retained earnings R'000	Total equity R'000
Balance at 1 January 2018	11 614	441 398	71 874	513 272	3 101 495	3 626 381
Profit for the period from continuing operations	–	–	–	–	560 552	560 552
Other comprehensive income	–	15 185	–	15 185	–	15 185
Total comprehensive income for the period	–	15 185	–	15 185	560 552	575 737
Profit for the period from discontinued operations[2]	–	–	–	–	162	162
Distribution from the JSE Debt Guarantee Fund Trust[1]	–	(2 169)	–	(2 169)	2 169	–
Dividends paid to owners	–	–	–	–	(524 999)	(524 999)
Equity-settled share-based payments	–	–	9 598	9 598	–	9 598
Transfer of profit from investor protection funds	–	3 564	–	3 564	(3 564)	–
Treasury shares	2 418	–	–	–	–	2 418
Treasury shares – share issue costs	(15)	–	–	–	–	(15)
Total contributions by and distributions to owners of the Company recognised directly in equity	2 403	1 395	9 598	10 993	(526 232)	(512 836)
Balance at 30 June 2018[2]	14 017	457 978	81 472	539 450	3 135 815	3 689 282
Profit for the period from continuing operations	–	–	–	–	343 730	343 730
Other comprehensive income	–	(26 554)	–	(26 554)	–	(26 554)
Total comprehensive income for the period[2]	–	(26 554)	–	(26 554)	343 730	317 176
Loss for the period from discontinued operations[2]	–	–	–	–	(862)	(862)
LTIS 2010 Allocation 5 – shares vested	17 070	–	(17 070)	(17 070)	–	–
LTIS 2010 Allocation 6 – shares vested	9 819	–	(9 819)	(9 819)	–	–
Distribution from the JSE Debt Guarantee Fund Trust[1]	–	(2 258)	–	(2 258)	2 258	–
Equity-settled share-based payments	–	–	22 129	22 129	–	22 129
Transfer of profit from investor protection funds	–	5 861	–	5 861	(5 861)	–
Treasury shares	(58 912)	–	–	–	–	(58 912)
Treasury shares – share issue costs	(372)	–	–	–	–	(372)
Total contributions by and distributions to owners of the Company recognised directly in equity	(32 395)	3 603	(4 760)	(1 157)	(4 465)	(38 017)
Balance at 31 December 2018	**(18 378)**	**435 027**	**76 712**	**511 739**	**3 475 080**	**3 968 441**
Profit for the period from continuing operations	**–**	**–**	**–**	**–**	**398 225**	**398 225**
Other comprehensive income	**–**	**27 467**	**–**	**27 467**	**–**	**27 467**
Total comprehensive income for the period	**–**	**27 467**	**–**	**27 467**	**398 225**	**425 692**
Loss for the period from discontinued operations					**(583)**	**(583)**
LTIS 2010 Allocation 6 – shares vested	**11 071**		**(11 071)**	**(11 071)**	**–**	**–**
LTIS 2010 Allocation 7 – shares vested	**20 884**		**(20 884)**	**(20 884)**	**–**	**–**
Distribution from the JSE Debt Guarantee Fund Trust[1]	**–**	**(2 257)**	**–**	**(2 257)**	**2 257**	**–**
Dividends paid to owners	**–**	**–**	**–**	**–**	**(728 140)**	**(728 140)**
Equity-settled share-based payment	**–**	**–**	**4 128**	**4 128**	**–**	**4 128**
Transfer of profit from investor protection funds	**–**	**3 780**	**–**	**3 780**	**(3 780)**	**–**
Treasury shares	**(61 218)**	**–**	**–**	**–**	**–**	**(61 218)**
Treasury shares – share issue costs	**(360)**	**–**	**–**	**–**	**–**	**(360)**
Total contributions by and distributions to owners of the Company recognised directly in equity	**(29 623)**	**1 523**	**(27 827)**	**(26 304)**	**(730 246)**	**(786 173)**
Balance at 30 June 2019	**(48 001)**	**464 017**	**48 885**	**512 902**	**3 143 059**	**3 607 960**
Note	18	17	17			

[1] *The JSE Debt Guarantee Fund Trust Deed makes specific provision for the utilisation of excess funds for the purpose of reducing the risk of claims being made against the Trust. To this effect, R2.2 million (December 2018: R4.4 million) (June 2018: R2.2 million) before intercompany adjustments was transferred to JSE Limited for the defrayment of market regulatory expenditure.*

[2] *Comparative figures have been restated due to the discontinued operations referenced in note 12.*

Consolidated statement of cash flows

for the six months ended 30 June 2019

	Group		
	Six months ended		Year ended
	30 June 2019	30 June 2018	31 December 2018 (audited)
	R'000	R'000	R'000
Cash flows from operating activities			
Cash generated by operations	**475 457**	588 689	1 045 193
Finance income	**1 493 114**	1 357 826	2 800 775
Finance costs	**(1 381 397)**	(1 260 417)	(2 587 269)
Dividends received	**2 433**	2 472	5 110
Taxation paid	**(145 262)**	(166 516)	(350 597)
Net cash generated by operating activities	**444 345**	522 054	913 212
Cash flows from investing activities			
Proceeds on sale of other investments	**8 851**	15 158	24 522
Acquisition of other investments	**(4 174)**	(13 155)	(22 906)
Dividends from associate	**24 795**	18 834	18 834
Proceeds from disposal of property and equipment	**167**	123	226
Leasehold improvements	**–**	–	(552)
Acquisition of intangible assets	**(36 131)**	(41 630)	(83 007)
Acquisition of property and equipment	**(13 416)**	(3 309)	(90 647)
Net cash used in investing activities	**(19 908)**	(23 979)	(153 530)
Cash flows from financing activities			
Acquisition of treasury shares	**(61 578)**	(33)	(56 881)
Proceeds from sale of treasury shares	**–**	2 436	–
Lease liabilities repaid	**(12 522)**	–	–
Dividends paid	**(728 140)**	(524 999)	(524 999)
Net cash used in financing activities	**(802 240)**	(522 596)	(581 880)
Net (decrease)/increase in cash and cash equivalents	**(377 803)**	(24 521)	177 802
Cash and cash equivalents at 1 January	**2 573 936**	2 377 464	2 377 464
Effect of exchange rate fluctuations on cash held	**2 421**	–	18 670
Cash and cash equivalents at end of period	**2 198 554**	2 352 943	2 573 936

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2019

1. Reporting entity

JSE Limited (the "JSE" or the "Company") is a company domiciled in South Africa. The registration number is 2005/022939/06. The JSE is licensed as an exchange in terms of the Financial Markets Act, 19 of 2012 ("FMA"). The JSE has the following main lines of business: Capital Markets, Post-Trade Services and Information Services. The address of the Company's registered office is One Exchange Square, 2 Gwen Lane, Sandown. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2019 comprise the Company and its subsidiaries and controlled structured entities (collectively referred to as the "Group" and individually as "Group entities") and reflect the Group's interest in associates.

2. Statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 Interim Financial Reporting, the SAICA financial reporting guides as issued by the Accounting Practice Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act, 2008.

3. Changes in accounting policies

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

IFRS 16 (Leases)

IFRS 16 supersedes the previous standards relating to the accounting treatment of leases (IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease). The Group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019, using the incremental borrowing rate as opposed to the interest rate implicit to the lease, across all leases. Therefore, the comparative information for 2018 is reported under IAS 17 and not comparable to the information presented for 2019.

As prescribed by IFRS 16, lease liabilities are measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. As part of the modified retrospective transition approach, the Group has elected to use a single discount rate, applied to a portfolio with similar characteristics. The Group recognises right-of-use assets at the commencement of the lease. The right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment considerations.

The Group elected to use the transition practical expedient allowing the standard not to be applied only to contracts that were not previously identified as leases applying IAS 17 and IFRC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that have a term of 12 months or less and do not contain a purchase option and contracts for which the underlying asset is of low value.

On adoption of IFRS 16 at transition date, the Group recognised a right-of-use asset to the value of R241 million (the derecognition of the previous operating lease straight-line liabilities of R106 million was offset against the right-of-use asset) and a lease liability of R348 million. There was no impact to equity on initial application.

As a result of adopting IFRS 16, operating profit for the six months ended 30 June 2019 has decreased by R9 million due to the replacement of operating lease expenses with depreciation on the right-of-use assets (R18.5 million) and interest expense on lease liabilities (R15.2 million), totalling an amount of R33.7 million.

Sub-leasing under IFRS 16 distinguishes between two types of leases: operating and finance leases. There is, however no material impact from IFRS 16 on retained earnings on the condensed consolidated interim financial statements.

The effects of the adoption of IFRS 16 is as follows:

Impact on the statements of financial position as at 30 June 2019	R'000
Assets	
Right-of-use assets	241 160
Accumulated depreciation	(18 462)
Total assets	**222 698**
Liabilities	
Lease liability	335 478
Total liabilities	**335 478**
Impact on the statement of comprehensive income for the period ending 30 June 2019:	
Depreciation	(18 462)
IAS 17 rent expense	24 683
Profit from operating activities	**6 221**
Finance cost	(15 219)
Impact on income tax expense	(332)
Impact on profit for the period	**(9 330)**

3. Changes in accounting policies (continued)

IFRIC 23 (Uncertainty over Income Tax Treatments)

When there is uncertainty associated with income tax treatments within the Group, management will assess and disclose how judgements were made when determining taxable profit/(loss), tax bases, unused tax losses, unused tax credits and tax rates. The interpretation does not have an impact on the consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

4. Comparative figures

Unless otherwise indicated, comparative figures refer to the six months ended 30 June 2018 and the year ended 31 December 2018.

5. Use of estimates and judgements

Judgements and estimates are consistent with those in the consolidated financial statements as at and for the year ended 31 December 2018 (apart from the impact of IFRS 16).

6. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2018.

7. Significant events and transactions

In compliance with the FMA, JSE Limited and JSE Clear (Pty) Limited ("JSE Clear") are required to hold regulatory capital. Accordingly, JSE Limited subscribed for one ordinary share (par value 12.5 cents) in JSE Clear for a consideration of R100 million on 26 June 2019, which resulted in no change in percentage holding. At reporting date, the Board believes that both the JSE and JSE Clear are sufficiently capitalised.

8. New standards and interpretations not yet adopted

A new standard has been issued by the International Accounting Standards Board ("IASB") prior to the publication of these financial statements, but are effective in future accounting periods, as listed below:

IFRS 3: Amendments to the definition of a Business – effective date: 1 January 2020

The amendments to IFRS 3 must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. The Group considered these amendments and do not anticipate material impact.

IAS 1 and IAS 8: Definition of materiality – effective date: 1 January 2020

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group will adopt the new standard at the required effective date and is currently assessing the impact thereof.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

	Six months ended 30 June 2019 R'000	Six months ended 30 June 2018* R'000	Year ended 31 December 2018 (audited) R'000

9. Revenue and operating segments

	30 June 2019 R'000	30 June 2018* R'000	31 December 2018 (audited) R'000
Revenue comprises:			
Capital markets			
Bond ETP (Electronic Trading Platform)	**3 468**	–	3 380
Colocation fees	**9 444**	7 262	16 016
Commodity derivatives fees	**40 128**	37 434	78 420
Company services fees	**5 246**	5 139	10 294
Currency derivatives fees	**26 369**	23 217	47 931
Equity derivatives fees	**70 412**	75 268	142 930
Equity market fees	**205 833**	277 143	498 616
Interest rate market fees	**29 979**	26 763	52 917
Primary market fees	**73 335**	82 028	154 522
Post-trade services			
Back-office Services (BDA)	**157 767**	147 091	303 012
Clearing and settlement fees	**182 710**	211 011	403 564
Funds under management*	**37 859**	40 653	79 365
Information services			
Index fees	**26 704**	16 786	33 288
Market data fees	**129 627**	117 028	233 811
Total revenue excluding Strate *ad valorem* fees – cash equities and bonds	**998 880**	1 066 823	2 058 065
Strate *ad valorem* fees – bonds	**7 531**	7 113	13 681
Strate *ad valorem* fees – cash equities	**59 011**	66 682	126 733
	1 065 422	1 140 618	2 198 479

10. Personnel expenses

	30 June 2019 R'000	30 June 2018* R'000	31 December 2018 (audited) R'000
Remuneration paid	**(220 169)**	(189 462)	(474 386)
Gross amount paid	**(224 369)**	(195 439)	(485 784)
Less: Capitalised to intangible assets	**4 200**	5 977	11 398
Long-term incentive schemes	**(17 621)**	(10 108)	(31 515)
	(237 790)	(199 570)	(505 901)

11. Other expenses

	30 June 2019 R'000	30 June 2018* R'000	31 December 2018 (audited) R'000
Amortisation of intangible assets	**(36 544)**	(26 000)	(51 340)
Auditor's remuneration	**(862)**	(2 295)	(4 162)
Consulting fees	**(1 546)**	(3 426)	(6 907)
Depreciation	**(53 716)**	(27 385)	(58 229)
Enterprise development	**(2 854)**	(3 873)	(7 636)
Investor protection levy	**(17 601)**	(16 271)	(33 004)
Other expenses	**(115 380)**	(132 449)	(300 468)
State *ad valorem* fees	**(65 768)**	(73 795)	(140 050)
Technology costs	**(138 001)**	(116 017)	(240 700)
	(432 272)	(401 511)	(842 496)

**Comparative figures have been restated due to the discontinued operations referenced in note 12.*

12. Discontinued operations

Following a review of their strategic fit to the Group in 2018, the Board decided to wind up Nautilus MAP RF (Pty) Limited and Nautilus MAP Operations (Pty) Limited. The reported loss in 2019 includes wind up expenses such as legal and audit fees.

13. Income tax expense

The Group's consolidated effective tax rate for the six months ended 30 June 2019 was 28% (for the six months ended June 2018: 24%; for the year ended 31 December 2018: 26%).

	Six months ended		Year ended
	30 June 2019	30 June 2018*	31 December 2018 (audited)
	R'000	R'000	R'000
14. Earnings and headline earnings per share			
14.1 Basic earnings per share for continuing operations			
Profit for the period attributable to ordinary shareholders	**398 225**	560 552	904 282
Weighted average number of ordinary shares:			
Issued ordinary shares at 1 January	**86 877 600**	86 877 600	86 877 600
Effect of own shares held (JSE LTIS 2010)	**(1 600 356)**	(1 239 187)	(1 283 102)
Weighted average number of ordinary shares at 30 June/31 December	**85 277 244**	85 638 413	85 594 498
Basic earnings per share (cents)	**467.0**	654.5	1 056.5
14.2 Diluted earnings per share for continuing operations			
Profit for the period attributable to ordinary shareholders	**398 225**	560 552	904 282
Weighted average number of ordinary shares (diluted):			
Weighted average number of ordinary shares at 30 June/31 December (basic)	**85 277 244**	85 638 413	85 594 498
Effect of LTIS Share Scheme	**483 126**	529 586	681 891
Weighted average number of ordinary shares (diluted)	**85 760 370**	86 167 999	86 276 389
Diluted earnings per share (cents)	**464.3**	650.5	1 048.1
The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices using a volume-weighted average price for the period			
14.3 Headline earnings per share			
Reconciliation of headline earnings:			
Profit for the year attributable to ordinary shareholders	**398 225**	560 552	904 282
Adjustments are made to the following:			
Profit on disposal of property and equipment	**(120)**	(89)	(114)
– Gross amount	**(167)**	(123)	(158)
– Taxation effect	**47**	34	44
Headline earnings (continuing operations)	**398 105**	560 463	904 168
Headline earnings per share (cents) for continuing operations	**466.8**	654.4	1 056.2
Headline earnings per share for discontinued operations (note 12)	**(0.7)**	0.2	(0.8)
Total headline earnings per share (cents)	**466.1**	654.6	1 055.4
14.4 Diluted headline earnings per share			
Diluted headline earnings per share (cents) for continuing operations	**464.2**	650.4	1 048.0
Diluted headline earnings per share for discontinued operations	**(0.7)**	0.2	(0.8)
Total diluted headline earnings per share (cents)	**463.5**	650.6	1 047.2

**Comparative figures have been restated due to the discontinued operations referenced in note 12.*

15. Intangible assets

Included in the intangible asset of R511 million (June 2018: R502 million; December 2018: R518 million) is the integrated trading and clearing system of R420 million (June 2018: R361 million; December 2018: R399 million).

16. Financial instruments

The carrying amount of all significant financial instruments approximates the fair value.

	Six months ended		Year ended
	30 June 2019	30 June 2018	31 December 2018 (audited)
	R'000	R'000	R'000
17. Reserves			
Investor protection funds[1]	**464 016**	457 978	435 027
– JSE Debt Guarantee Fund Trust	**115 413**	113 317	114 512
– JSE Derivatives Fidelity Fund Trust	**184 130**	181 722	168 938
– JSE Guarantee Fund Trust	**164 473**	162 939	151 577
Non-distributable reserves	**464 016**	457 978	435 027
JSE LTIS 2010 and 2018 reserve[2]	**48 886**	81 472	76 712
	512 902	539 450	511 739

[1] These funds were established for the purpose of investor protection in the event of a member defaulting in the Equity, Equity Derivatives and Bond Markets.

[2] This reserve relates to the portion of the LTIS 2010 and 2018 Long-Term Incentive Scheme that has been expensed to date.

18. Share-based payments

(i) Vesting of Allocation 6 Tranche 2, Allocation 7 Tranche 1 and Restraint

Allocation 6 Tranche 2 vested on 30 April 2019. Allocation 7 Tranche 1 and shares awarded in 2016 to certain executives to secure restraints vested on 1 March 2019. All LTIS 2010 participants in the employ of the Company as at vesting date were eligible to participate in the vesting of these tranches in accordance with the terms and conditions of the Scheme rules.

(ii) Vesting of bonus shares during the period under review

Bonus shares were awarded in March 2016 as part of the annual discretionary bonus based on the prior year's financial results. All staff received 81 JSE Ltd ordinary shares. These bonus shares vested in March 2019. If a recipient of the bonus shares was no longer in JSE employment in March 2019, the awards were forfeited unless the recipients had been retrenched. No performance conditions were attached to these bonus shares.

(iii) Grant of Allocation #2 under LTIS 2018 during the period under review

In accordance with shareholder approval, the Board approved a fresh annual allocation of shares ("Allocation 2") to selected employees for the 2019 year. These individual allocations were all accepted by scheme participants on or before 7 March 2019. Allocation 2 comprised a total of 359 595 JSE ordinary shares and these shares were acquired in the open market on or before 7 March 2019, at a volume-weighted average price (including all execution costs) of R159.80 per ordinary shares. These shares are held in trust and are restricted until all vesting conditions are fulfilled whereupon the shares vest.

Of the total number of shares granted in Allocation 2, a total of 185 380 shares has been granted to members of the JSE's Executive Committee.

The profit or loss charge for the period, calculated using the Black-Scholes valuation methodology, in respect of allocations granted under LTIS 2010 is as follows:

Information on Allocation 2 is as follows:

	Number of shares
Share price at grant date (rands per share)	**159.80**
Total number of shares granted	**359 595**
Dividend yield	**3%**
Grant date	**7 March 2019**
Vesting profile:	
50% of the shares awarded vest on 1 March 2022	**179 798**
50% of the shares awarded vest on 1 March 2023	**179 798**

18. Share-based payments (continued)

(iii) Grant of Allocation #2 under LTIS 2018 during the period under review (continued)

Fair value charge to profit and loss.

The profit or loss charge for the period, calculated using the Black-Scholes valuation methodology, in respect of allocations granted under LTIS 2010 is as follows:

	Six months ended 30 June	
	2019 R'000	2018 R'000
Allocation #5 (granted in May 2014)	**–**	599
Allocation #6 (granted in June 2015)	**387**	1 881
Allocation #7 (granted in October 2016)	**(1 050)**	4 463
Allocation #8 (granted in March 2017)	**2 597**	2 640
	1 934	9 583

The profit or loss charge for the period, calculated using the Black-Scholes valuation methodology, in respect of allocations granted under LTIS 2018 is as follows:

	Six months ended 30 June	
	2019 R'000	2018 R'000
Allocation #1 (granted in September 2018)	**6 842**	–
Allocation #2 (granted in March 2019)	**3 402**	–
	10 244	–

(iv) Grant of Bonus shares during the period under review

A bonus share scheme was effected in March 2019 for all eligible staff at that date. Bonus shares were awarded as part of the annual discretionary bonus based on the prior year's financial results. All staff received 65 JSE Ltd ordinary shares. These bonus shares are subject to a restriction whereby employees may not sell the shares before 31 December 2019. Employees who leave the JSE during this period will retain these bonus shares.

19. Contingent liabilities and commitments

There were no material changes to the contingent liabilities (apart from the impact of IFRS 16) and commitments as disclosed in the annual financial statements for 31 December 2018.

20. Fair value estimation

Financial instruments measured in the statement of financial position at fair value require disclosure. The following is the fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total balance R'000
30 June 2019				
Financial instruments at fair value	**125 334**	**200 927**	**–**	**326 261**
30 June 2018				
Financial instruments at fair value	135 749	193 887	–	329 636
31 December 2018				
Financial instruments at fair value	124 418	179 054	–	303 472

The fair value of financial instruments traded in active markets is based on quoted market prices, which represent actual and regularly occurring market transactions between market participants at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or industry group pricing market transactions on an arm's length basis and transactions occur regularly. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily FTSE 100 equity investments classified as fair value through OCI.

The fair vale of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on equity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Level 2 is made up of debt instruments and foreign unit trusts measured at the clean price and the foreign currency respectively.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

For all other financial assets and liabilities,the carrying value approximates the fair value.

21. Related parties

No significant transactions have occurred outside the normal course of business during the reporting period under review.

22. Events after reporting date

There have been no material events that would require adjustment or disclosure in the interim financial statements between 30 June 2019 and the date of this report.

Sandton
30 July 2019

Sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

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