

Selected notes to the summarised consolidated financial statements

For the year ended 31 December 2016

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, No. 19 of 2012. The JSE has the following main lines of business: Capital Markets, Trading and Market Services, Information Services and Post-Trade Services. The address of the Company's registered office is One Exchange Square, 2 Gwen Lane, Sandown. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 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. Basis of preparation

Statement of compliance

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the summary consolidated financial statements were derived, are in terms of International Financial Reporting Standards and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements.

3. Changes in accounting policies

All accounting policies applied by the Group in these summarised consolidated financial statements are in terms of IFRS and are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

4. Comparative figures

Unless otherwise indicated, comparative figures refer to the 12 months ended December 2015.

5. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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 2016.

7. Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Costs in the JSE are managed holistically across the Exchange and variances against budget are closely monitored. Information technology and other corporate overheads are not generally allocated to a particular segment.

	Group	
	2016 R'000	2015 R'000
8. Operating segments and revenue		
Revenue comprises:		
Capital Markets		
Equity market fees	555 439	501 190
Equity derivatives fees	177 335	173 434
Currency derivatives fees	37 573	34 009
Interest rate market fees	60 318	50 240
Commodity derivatives fees	69 725	73 069
Primary market fees	164 368	160 644
Post-Trade Services		
Clearing and settlement fees	412 741	356 677
Back-office services (BDA)	315 981	310 717
Funds under management	94 940	86 415
Information services		
Indices net of FTSE	42 150	35 882
Colocation fees	19 938	16 621
Other market data fees	235 956	192 434
Trading and market services		
Trading services	23 401	19 944
Total revenue excluding <i>Strate ad valorem</i> fees	2 209 865	2 011 276
<i>Strate ad valorem</i> fees	128 931	122 272
	2 338 796	2 133 548
9. Personnel expenses		
Remuneration paid	522 233	465 464
Gross amount paid	541 576	483 091
<i>Less: Capitalised to intangible assets</i>	<i>(19 343)</i>	<i>(17 627)</i>
Long-term incentive schemes	42 763	30 295
	564 996	495 759
10. Other expenses		
Other expenses	562 486	526 340
Technology costs	282 658	234 580
	845 144	760 920
11. Income tax expense		

The Group's consolidated effective tax rate for the year ended 31 December 2016 was 26% (2015: 27%).

The investor protection funds are exempt from income tax in terms of S(10)(i)(d)(iii) of the Income Tax Act, No 58 of 1962.

Selected notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

	Group	
	2016 R'000	2015 R'000
12. Earnings and headline earnings per share		
12.1 Basic earnings per share		
Profit for the year attributable to ordinary shareholders	919 702	899 478
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	86 877 600	86 877 600
Effect of own shares held (JSE LTIS 2010)	(1 305 370)	(1 297 984)
Weighted average number of ordinary shares at 31 December	85 572 230	85 579 616
Basic earnings per share (cents)	1 074.8	1 051.0
12.2 Diluted earnings per share		
Profit for the year attributable to ordinary shareholders	919 702	899 478
Weighted average number of ordinary shares (diluted):		
Weighted average number of ordinary shares at 31 December (basic)	85 572 230	85 579 616
Effect of LTIS Share Scheme	1 016 489	885 896
Weighted average number of ordinary shares (diluted)	86 588 719	86 465 512
Diluted earnings per share (cents)	1 062.1	1 040.3
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 for the year.		
12.3 Headline earnings per share		
Reconciliation of headline earnings:		
Profit for the year attributable to ordinary shareholders	919 702	899 478
Adjustments are made to the following:		
– Gross amount	4 934	(536)
– Profit or loss on disposal of property and equipment	(92)	(745)
– The SA SME Fund Limited – write-down of investment	5 000	–
– Taxation effect	26	209
Net realised gain on disposal of available-for-sale financial assets (no taxation effect)	(14 820)	(20 644)
Headline earnings	909 816	878 298
Headline earnings per share (cents)	1 063.2	1 026.3
12.4 Diluted headline earnings per share		
Diluted headline earnings per share (cents)	1 050.7	1 015.8

13. Intangible assets

Included in the intangible assets of R452 million (2015: R359 million), are newly developed intangible assets of R171 million (2015: R137 million), mainly in respect of bond ETP, Umnotho and integrated trading and clearing.

14. Share-based payments

i. Vesting of Allocation 3 Tranche 2 shares during the period under review

The third award ("Allocation 3") under LTIS 2010 was granted in June 2012 with the following vesting profile:

Tranche 2: 50% of the total award, vesting in June 2016 (during the period under review).

114 350 Personal performance shares vested for those participants still in the employ of the JSE on 1 June 2016.

In respect of Tranche 2 corporate performance shares, the Board assessed performance over the four-year vesting term against the pre-set financial and strategic targets and determined that 80% of these Tranche 2 shares should vest for those participants still in the employ of the JSE on 1 June 2016. The remainder of the Tranche 2 corporate performance shares (being 9 770 shares) were forfeited by participants.

As at 31 December 2016, details of Tranche 2 were as follows:

	Personal performance shares	Corporate performance shares	Total shares
Tranche 2 – fully vested			
Original number of Tranche 2 shares awarded in June 2012	131 800	51 500	183 300
Forfeited by leavers to date	(17 450)	(2 650)	(20 100)
Tranche 2 shares forfeited for missing performance targets	–	(9 770)	(9 770)
Accelerated for good leavers	(7 300)	(5 360)	(12 660)
Tranche 2 shares vested on 1 June 2016	(107 050)	(33 720)	(140 770)
Tranche 2 shares outstanding	–	–	–

ii. Vesting of Allocation 4 Tranche 1 shares during the period under review

The fourth award ("Allocation 4") under LTIS 2010 was granted in May 2013 with the following vesting profile:

Tranche 1: 50% of the total award, vesting was completed during the current period.

Tranche 2: 50% of the total award, vesting on 1 June 2017.

150 450 Personal performance shares vested for those participants still in the employ of the JSE on 1 June 2016.

In respect of Tranche 1 corporate performance shares, the Board assessed performance over the four-year vesting term against the pre-set financial and strategic targets and determined that 86.54% of these Tranche 1 shares should vest for those participants still in the employ of the JSE on 1 June 2016. The remainder of the Tranche 1 corporate performance shares (being 8 211 shares) were forfeited by participants.

As at 31 December 2016, details of Tranche 1 were as follows:

	Personal performance shares	Corporate performance shares	Total shares
Tranche 1 – fully vested			
Original number of Tranche 1 shares awarded in June 2012	164 250	64 300	228 550
Forfeited by leavers to date	(13 800)	(3 250)	(17 050)
Tranche 1 shares forfeited for missing performance targets	–	(8 211)	(8 211)
Accelerated for good leavers	(3 250)	(3 246)	(6 496)
Tranche 1 shares vested on 1 June 2016	(147 200)	(49 593)	(196 793)
Tranche 1 shares outstanding	–	–	–

Selected notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

iii. Grant of Allocation 7 under LTIS 2010 during the period under review

At the annual general meeting held on 26 May 2016, shareholders approved two special resolutions authorising the acquisition of shares for the purposes of awards under the LTIS 2010 scheme as well as the provision of financial assistance to the JSE LTIS 2010 Trust for a period of two years, for the purpose of acquiring such JSE ordinary shares in the open market for allocation to selected employees in accordance with the rules of LTIS 2010. In accordance with the terms of these resolutions, the Board approved a fresh annual allocation of 342 090 shares ("Allocation 7") to selected employees for the 2016 year. These individual allocations were accepted by all scheme participants on 4 March 2016. As at this date, the grant date as defined in IFRS 2 had not been determined as the detailed terms of the vesting conditions were in the process of being finalised. These were finalised and communicated to all affected parties on 21 October 2016, which was established as the grant date as defined in IFRS 2. The initial award under Allocation 7 comprised a total of 342 090 JSE ordinary shares and these shares were acquired in the open market by 10 March 2016, at a volume-weighted average price (including all execution costs) of R158.25 per ordinary share. An additional purchase of 9 684 shares was executed in respect of the Human Resources Director who joined the Company on 25 November 2016, at a volume-weighted average price (including all execution costs) of R161.01 per ordinary share. All Allocation 7 shares are held in trust and are restricted until all vesting conditions are fulfilled, whereupon the shares vest.

Included in the total number of shares granted of 351 774, a total of 177 214 corporate performance shares have been granted to members of the JSE's Executive Committee. No personal performance shares were allocated under Allocation 7.

Information on Allocation 7 is as follows:

	Corporate performance shares
Share price at grant date (rand per share)	158.25
Total number of shares granted	342 090
Dividend yield	3%
Grant date	21 October 2016
Vesting profile:	
50% of the shares awarded vest on 1 March 2019 (Tranche 1)	171 045
50% of the shares awarded vest on 1 March 2020 (Tranche 2)	171 045
Share price at grant date (rand per share)	161.01
Total number of shares granted	9 684
Dividend yield	3%
Grant date	25 November 2016
Vesting profile:	
50% of the shares awarded vest on 1 March 2019 (Tranche 1)	4 842
50% of the shares awarded vest on 1 March 2020 (Tranche 2)	4 842

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:

	2016	2015
Allocation #2 (granted in May 2011)	–	R0.7m
Allocation #3 (granted in June 2012)	R1.1m	R5.3m
Allocation #4 (granted in May 2013)	R8.3m	R6.6m
Allocation #5 (granted in May 2014)	R8.7m	R5.5m
Allocation #6 (granted in June 2015)	R9.5m	R3.1m
Allocation #7 (granted in October 2016)	R3.2m	–
	R30.8	R21.2m

15. 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).

The following table presents the Group's assets and liabilities that are measured at fair value.

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total balance R'000
2016				
Assets				
Other investments				
– Equity securities (available-for-sale)	135 108	140 116	–	275 224
– Debt investments (available-for-sale)	18 245	–	–	18 245
Total assets	153 353	140 116	–	293 469
2015				
Assets				
Other investments				
– Equity securities (available-for-sale)	154 775	129 098	–	283 873
– Debt investments (available-for-sale)	28 690	–	–	28 690
Total assets	183 465	129 098	–	312 563

The carrying values approximates the fair value.

16. Audit opinion

KPMG Inc, the Group's independent auditor, has audited the consolidated annual financial statements of the JSE Limited from which the summarised consolidated results contained in this report have been derived, and has expressed an unmodified audit opinion on the consolidated annual financial statements. The summarised consolidated financial results comprise the statements of financial position at 31 December 2016 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and selected explanatory notes. A copy of the auditor's report is available for inspection at the JSE's registered office.

The auditor's report does not necessarily report on all of the information contained in these summarised annual results and cash dividend declaration. Shareholders are therefore advised to obtain a copy of the auditor's report together with the accompanying financial information from the JSE's registered office.

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