MOSCOW EXCHANGE

MOEX Q4 AND FY 2022 IFRS results conference call

10 March 2023

Moscow Exchange Speakers:

- Georgiy Uryutov, interim CFO
- Anton Terentiev, Director of IR

Participants asking questions:

- Elena Tsareva, BCS GM
- Olga Naidenova, Sinara FC
- Evgeny Kipnis, Alfa Bank

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Anton Terentiev – Director of IR

Good afternoon everyone, and welcome to Moscow Exchange's Q4 and FY 2022 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call our interim CFO Georgiy Uryutov. For the convenience of our audience, we will conduct this call and make transcripts available in both Russian and English. Therefore, please feel free to ask questions in both languages during the Q&A.

Before we start, I would like to remind you that certain statements in this presentation and during the Q&A session may relate to future events and expectations and, as such, constitute forward-looking statements. Actual results may differ materially from those projections. The Company does not intend to update these statements prior to the next conference call. By now, you should have received the press release outlining our results for Q4 and FY 2022. Our management presentation is available on the Company's website in the IR section. Georgiy, over to you.

Georgiy Uryutov – interim CFO

Thank you, Anton, and good afternoon, everyone. Thank you all for joining us on the call today. Anton will proceed with the prepared remarks, and I will be available during the Q&A.

Anton Terentiev – Director of IR

Thanks, Georgiy. Let's start with the delivery on strategic initiatives (Slide 2).

First, the Moscow Exchange continues to add new products. An electric scooter rental service company – Whoosh – completed its IPO on MOEX, raising over RUB 2 billion. The Kaliningrad Region placed a third issue of bonds on our Finuslugi financial marketplace. The first CNY-denominated Russian-law ETF that invests in renminbi Money Market instruments as well as renminbi-denominated Russian corporate bonds was launched on the Equities Market. So-called 'premium options' – which are cash-settled European-type options on the 26 most liquid equities – were introduced on the Derivatives Market. Cash-settled futures and futures-style options on the USD/CNY FX pair and two foreign ETFs tracking global indices are now available for trading on the Derivatives market, further expanding opportunities for institutional and retail investors.

Second, we continue to work on new services. We presented updated versions of the ESG Best Practices Guide as well as Bond Issuers' Guide. The former is a handbook for companies that incorporate sustainability principles in their business. The latter contains updated information on all stages and aspects of the bond issuing process. The Money Market participants are now able to do repo, deposit and credit transactions with the central counterparty at a floating interest rate. The new instruments enable clients to mitigate interest rate risk when managing positions in rubles and renminbi. We also introduced seven new indices, including the Refined Gold Index, one ESG equity index as well as several new corporate bond indices.

Third, we develop our client base and partnerships. At the end of February, the number of retail clients reached 24 million. More than 6.1 million new clients were onboarded in 2022. The total number of individual investment accounts amounted to 5.2 million. The Primary Bond Market started to recover, as 91 corporates – including 16 newcomers – placed 164 bond issues, raising RUB 1.4 trillion in Q4. We proceed with the development of carbon units' trading, which was launched in September last year. The NSD filed an appeal to the EU Council and a lawsuit with the Court of Justice of the European Union (EU), in Luxembourg, to challenge the economic restrictions imposed by the EU. Our focus is to protect the rights and interests of end clients.

Slide 3, summary of Q4 2022 financials. F&C income during the quarter declined by 18% YoY. This is in-line with the vision we outlined in 2022 – both with FY21 results and later on. Let me remind you that foreign clients used to bring some 15% of our F&C income. Their activity has vanished since late February, and the effect on financials is proportional. Operating expenses in Q4 were virtually unchanged YoY. This is explained by offsetting dynamics of personnel and G&A expenses. EBITDA gained 49% YoY. On a quarterly basis, EBITDA added 29%. Net Income improved 48% and amounted to RUB 11.2 billion.

Slide 4, diversified fee and commission income. F&C income had negative YoY dynamics across most business lines, although the quarter-on-quarter change was positive. The fee income structure remains well-diversified. The single largest constituent was the Money Market, which accounted for 25% of the total. Let me now go line by line.

On the Money Market, fee income decreased 28%, while trading volumes were up 24%. The effective fee dynamics was mostly linked to a decrease in repo terms and a higher share of non-CCP repo in total volumes mix. Overall, average on-exchange repo terms were up 3% YoY. Seasonality affected the recovery of repo terms as market participants took longer positions spanning across winter holidays. GCC repo terms contracted 59% as the planning horizon shortened. Corporate clients now play a bigger role in the market: their average daily open interest rose by 32% YoY during the quarter. Competitiveness of MOEX services and convenience of access via MOEX Treasury terminal both stand behind this positive development. We continue to see strong demand for renminbi instruments. And Money Market has already provided the full range of such instruments.

On the FX Market, fees improved by 31%, while trading volumes contracted by 38%. The effective fee improvement was driven by two major factors. First, the new tariff structure favouring liquidity makers that came into effect on 1 August 2022. Second, a shift in the trading volumes' mix towards the spot segment. Specifically, spot volumes decreased by 10%, while swap volumes shrank by 51% YoY. Friendly jurisdictions' FX pairs account for more than 35% in total spot trading. At the beginning of 2022, the share of these currencies in trading volumes was below 1%.

The line called ITSLM includes revenue from IT Services, Listing and the Finuslugi marketplace. Sales of software and technical services improved 19% YoY largely due to tariffs' revision and a high demand for recently introduced low-latency protocols for market data distribution SIMBA ASTS and FIFO TWIME ASTS on Equities and FX Markets. Sales of information services were down 16% YoY for two major reasons: market data sales discontinuation by foreign providers and ruble appreciation. Listing and other services declined by 15% YoY, but improved 29% QoQ as bond placements intensified. Financial marketplace fees accounted for RUB 218 million. Compulsory motor insurance fees – a.k.a. OSAGO sales – returned to growth, while the deposits segment continued to perform well.

Fixed Income fees surged by 63% YoY. Trading volumes excluding overnight bonds gained 44% YoY. The positive dynamics in fees and volumes is explained by the elevated primary market activity. Primary market volumes nearly tripled YoY on the back of accelerated government borrowing. YoY effective fee dynamics was supported by the migration of trading volumes to value-added, CCP-based trading modes. In other words, persistent market uncertainty drove the migration of a long-established OTC market to a more convenient, CCP-based on-exchange platform. On a quarterly basis, the effective fee was affected by the structure of primary market volumes.

On the Derivatives Market, fee income declined 44% YoY while trading volumes dropped by 75% YoY as foreign investors discontinued operations. The discrepancy between fees and volumes was due to a shift in volumes' mix towards FX derivatives and the new asymmetric tariff structure implemented in June 2022. Despite the decline, active development of the Derivatives Market continued as 23 new instruments were added in 2022. They accounted for 13% of trading volumes in December. We also observed market share strengthening in OTC derivatives thanks to convenient solutions that result in efficient pricing.

Fee and commission income from the Equities Market decreased 55%, while trading volumes declined 71% YoY. The practical absence of foreign investors remains a major setback for the market. The discrepancy between fee income and volume dynamics was the result of the new asymmetric tariff structure implemented in November last year. The evening trading session accounted for 11% of the Equities Market total trading volumes in 4Q 2022. Late hours are especially popular among retail clients, which remain the main client category on the Equities Market.

Other business lines declined 12% YoY. Let me now discuss operating expenses in Q4.

Slide 5, Operating Expenses in 4Q 2022 (excl. provisions). Operating expenses in 4Q 2022 remained virtually unchanged. G&A and personnel expenses' dynamics practically offset each other YoY. Full year OPEX increased by 16% YoY, comfortably fitting the guidance of below 20%. This outperformance is mainly related to a drop in IT maintenance costs as foreign vendors discontinued their service.

Personnel expenses grew by 16% YoY and 9% QoQ. The annual change decomposes into: [1] the 17 p.p. net effect of additional bonus provisions, and [2] ~ 1 p.p. other factors. The number of employees increased 2.6% YoY and amounted to 2,339 at the end of the year.

We did mention before that the Finuslugi promo campaign had come to a conclusion. Therefore, advertising and marketing spend decreased by 73% YoY. Market makers' fees contracted on the back of a decline in trading volumes. The information services line decreased 50% YoY, as the base period included a technical expense that was fully offset by Q4 2021 Derivatives Market revenues. Loss on disposal of property, equipment and intangible assets line surged 8x since obsolete software was written off.

D&A costs increased by 17% YoY thanks to accelerated CAPEX spend in Q4 2021. IT maintenance costs decreased 38% as foreign service providers discontinued their service. Remaining administrative expenses were down 24% YoY. CAPEX for Q4 amounted to RUB 1.2 billion and was spent on purchases of software and equipment as well as software development, as usual. CAPEX for the full year amounted to RUB 4.2 billion, in line with the previously announced guidance range of RUB 3.8 billion to RUB 4.3 billion.

Let us now talk about OPEX and CAPEX guidance. In 2023, we expect OPEX growth in the range of 12–16%. The 2023 CAPEX expectation lays in the range of RUB 4 billion to RUB 7 billion. Actual spend depends on the implementation of software and hardware renewal programme.

I'm passing the word to Georgiy for some comments on the dividend decision that was published recently.

Georgiy Uryutov – interim CFO

Thank you, Anton. Now let us have a word on dividends. Today, the Supervisory Board has preliminarily recommended the Annual General Meeting of Shareholders (AGM) to approve the payment of dividends for 2022 in the amount of RUB 4.84 per share. Thus, it is recommended that RUB 11.0 billion are allocated to the dividend distribution. This sum constitutes 30% of the Moscow Exchange's IFRS net profit for 2022. As previously reported, the main factors that influenced this decision were regulatory requirements, the software and hardware renewal programme and the need to invest in business development.

In response to the significantly altering environment, the MOEX Supervisory Board together with the management team are in the process of renewing and reviewing the Group's Strategy. Therefore, the Supervisory Board has decided to temporarily suspend clause 4.7 of the dividend policy, which sets the minimal share of net profit distributed as dividends at 60%. The updated dividend policy will be presented before the end of Q3 2023 as part of the Group's revised Strategy.

This concludes the overview of our results. We are now ready to take your questions.

Operator

Thank you. The first question comes from Elena Tsareva, BCS GM. Please ask your question.

Elena Tsareva – BCS GM

Good afternoon, thank you for your presentation. My first question is regarding dividends. Could you probably give us more details on how the 2022 net income is going to be distributed? My understanding generally is that MOEX is a low CAPEX-intensive company and always tried to distribute as much as possible. What is the reasoning behind the change in the dividend policy? My second question is on OPEX guidance for 2023. Given that inflation in Russia is expected to decline, such OPEX range seems high. What are the main reasons for that, are there any new projects or structural changes? Thank you.

Georgiy Uryutov – interim CFO

Elena, thank you for your question. As previously reported, the main factors that influenced this decision were regulatory requirements, software and hardware renewal programme, and the need to invest in business development in line with plans outlined by the Group's management and Supervisory Board.

Anton Terentiev – Director of IR

Thank you, Georgiy. Let me just add that our growth and development opportunities are both organic and non-organic. Therefore, we basically need to keep some cash cushion to take advantage of these opportunities should they come along. We know from the press that there are deals happening in the market from time to time, so we should be aware of that.

Let me also add that the payout is not the first step where the process starts; the process starts with the need to fulfil the regulatory requirements and to meet all the growth needs, the technological renewal programme, etc. And then we get to the rest of the amount, which we can distribute. So this does not start with the payout – this starts with the needs and actual goals of the business.

Regarding OPEX guidance, if you look at our FY 2022 growth rate and exclude the marketing spend, which especially affected the dynamics in Q1 2022 in particular, you will see that OPEX growth was actually quite contained, so we were not really spending much during the year. For the next year, we see a range of scenarios and we could need more or less OPEX there. In line with that, we provide that sort of a range of 12–16% and intend to narrow it down and adjust it as the year unfolds, just like we were doing before. This is our regular practice.

Elena Tsareva – BCS GM

Thank you. A follow-up question: in terms of the scenarios that you are looking at, can you give us some colour on the growth and development scenarios for your business that you see in 2023?

Anton Terentiev – Director of IR

I am sorry to say that we are not comfortable going into detail at this stage. We should stop here, and maybe we can provide further information going forward.

Elena Tsareva – BCS GM

Thank you very much. That's it from me.

Operator

Thank you. Our next question comes from Olga Naidenova, Sinara Finance. Please, go ahead.

Olga Naidenova – Sinara Finance

Thank you for the presentation and the details about dividends. I have a question about your interest and other income. I understand that you do not disclose this line. However, we suppose that a major part of your interest income is derived from balances deposited in type S accounts. Could you give us some details as to how long MOEX may be able to retain these balances in 2023, whether those were already transferred in January, as per the regulatory requirement, or if you can still keep generating income from these balances?

Georgiy Uryutov – interim CFO

At the beginning of this year, we had income from type S accounts but then transferred all the corresponding balances to the Deposit Insurance Agency as per the decision of the Bank of Russia's Board of Directors dated 29 December 2022. Today, we no longer receive income from type S accounts.

Operator

Our next question comes from Evgeny Kipnis, Alfa Bank. Please, go ahead.

Evgeny Kipnis – Alfa Bank

Thank you for the presentation. I have two questions. The first one is about your NII. Using your published financials, we can calculate an aggregate amount that includes NII, any possible provisions, and some other income. My question is as follows: is there any chance that these provisions will be reversed in 2023?

Anton Terentiev – Director of IR

Those provisions that we created last year are linked to particular market conditions that happened, and therefore they are reversible. But we do not know whether conditions improve this year or not. Therefore, we do not really have a clear view in our mind regarding the probabilities for these provisions to be reversed, so we would prefer to abstain from any statements on that matter. But thank you for the question, it is a good question.

Evgeny Kipnis – Alfa Bank

Thank you very much. I have one more question, please. Do you potentially expect being subject to the windfall tax currently discussed by the Russian Government and the Bank of Russia and if so, what would be the potential impact on your financial performance in 2023?

Anton Terentiev – Director of IR

With regard to this windfall tax and associated initiatives, I would just say that we read the same headlines that you do, and we do not have any additional details on that. We see that this tax may possibly apply to net income or pre-tax income and there are certain thresholds that apply, so if you are below or above the threshold, the treatment is different. But we do not have any additional insights, assessments or calculations to give you a substantial answer on that.

Evgeny Kipnis – Alfa Bank

Ok, thank you very much.

Anton Terentiev – Director of IR

We have one question coming in writing. It reads as follows: "Should we expect a return to the 85% dividend payout ratio in the coming years just like it happened in previous periods?"

My answer is the following. Like Georgiy said in his comment about the dividends, it all depends on the new strategy and the new dividend policy that should come along. We have basically completed our previous strategy and are now at a point where the senior management and the Supervisory Board are working to develop and present an updated strategy for the next several years, and it should go hand in hand with an updated divided policy. Like Georgiy said, the strategy should be out by the end of Q3 2023, so let us wait and see what it looks like and what it provides. And, from a different perspective, the 85% payout ratio that we had in previous periods came against a normal, smooth and calm external operating environment, which has changed since then quite substantially. So, from my point of view, it became more challenging to maintain such levels of payout ratio. Thank you.

Anton Terentiev – Director of IR

Thank you everyone for joining us today and for asking really good questions and following our case. We are about to announce our Q1 results shortly, in about a month, so let us stay in touch, and we are looking forward to hearing from you shortly. Thank you.

Georgiy Uryutov – interim CFO

Thank you for your participation in our call today. If you have any further questions, we will be happy to discuss them later on.