Strategic development areas of the MICEX-RTS Group for 2012-2015

March 22, 2012
The work on the Common Strategy of the MICEX-RTS Group started in July 2011

- Development of the approach to markets analysis
- Analysis of MICEX markets and competitive position without access to RTS information
- Report “On progress in development of the strategy by MICEX Group” was made at the Strategic Planning Commission meeting on April 14, 2012

Work on the Group’s Common Strategy

- Diagnostics, setting strategic goals and determining strategic initiatives for the Group’s major business areas with an emphasis on the primary and secondary stock market and clearing on the basis of information from MICEX and RTS.
- Strategy session in September where the Group’s common goals and scenarios of markets developments were discussed
- Strategy session in October where key initiatives and target figures for business areas were discussed in further details
  - Materials were prepared and presented by heads of the relevant business divisions
- Drawing up a document on the Group’s Strategy for 2012-2015 on the basis of the earlier developed strategies at the business area level to be brought up before the Board of Directors
- Discussing the Strategy at the meeting of the Strategic Planning Commission of the Board of Directors on December 12, 2011 and February 2, 2012
- Finalizing the Strategy with regard to the recommendations by the Strategic Planning Commission
Mission, Vision and Values of the Group

**Mission**

The Group’s objectives are

- becoming the primary pricing, clearing and settlement center for financial instruments for the Russian and CIS markets
- ensuring an easy-to-use, beneficial and secure infrastructure for creation of products and financial intermediaries business
- shaping the financial market landscape in Russia
- providing leadership on corporate governance issues for Russian joint-stock companies
- ensuring return on equity

**Vision**

An independent public company, by 2012 an unrivaled leader in placing and trading Russian and CIS instruments as well as in post-trading services
Corporate Values shared by the Group’s employees will be key to a successful implementation of the Strategy

- We can hear our customer and understand their needs
- We encourage customer engagement in product design
- We are strengthening a mutually beneficial cooperation

- We set our goals high
- We are demanding of ourselves and our work
- There is no room for complacency — we can do even better

- We are always looking for new opportunities
- We are open to new solutions and are ready to adopt the best global practices
- We are constantly learning, and everyone aims to become better at what they do

- The speed of our progress to our goals matters
- Everyone makes decisions and is responsible for the result
- We fulfill all engagements we have undertaken

- We work toward a common goal
- We trust each other. We are honest and keep an open mind
- We respect professional skills of our colleagues
Evaluation of the current situation

• The Group’s revenues and net profit show a stable growth.

• However, the Group is facing a number of challenges:
  
  – The Russian derivatives market is not fully developed yet
  
  – The Group’s share of the primary and secondary stock market is not sufficient: in 2011 the Group accounted for 12% and 58% of these markets accordingly
  
  – A shift in distribution of trading volumes towards long-term institutional investors
  
  – The need to develop a domestic investment base
  
  – The coming of Euroclear and Clearstream to the Russian market may impact the Central Depository’s business
  
  – Costs cutting including reduction of expenses thanks to the synergy effects of the merger between MICEX and RTS
  
  – The company needs to enhance its sales and marketing efforts and develop product expertise at the level of leading global exchanges
  
  – The following business areas need to be further developed: IT services, information services, listing

• The proposed Strategy aims to meet these challenges.
**SWOT analysis of the Group**

<table>
<thead>
<tr>
<th>S</th>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Presence of all elements of a vertical exchange silo</td>
</tr>
<tr>
<td></td>
<td>• Leading positions in FX, repo, fixed income and equity derivatives</td>
</tr>
<tr>
<td></td>
<td>markets</td>
</tr>
<tr>
<td></td>
<td>• CBR’s participation in trading</td>
</tr>
<tr>
<td></td>
<td>• Strong financial performance, sound financial status and significant</td>
</tr>
<tr>
<td></td>
<td>size of business</td>
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</table>

<table>
<thead>
<tr>
<th>W</th>
<th>Weaknesses</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>• The market infrastructure falls short of the best global practice</td>
</tr>
<tr>
<td></td>
<td>• Insufficient development of issuers and foreign clients relations</td>
</tr>
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<td></td>
<td>management; small free float</td>
</tr>
<tr>
<td></td>
<td>• Lack of important product segments and high concentration of profits</td>
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<tr>
<td></td>
<td>in business segments that are not typical for exchange operators</td>
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<td></td>
<td>• The number of active clients has reached its stagnation point. The</td>
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<td></td>
<td>investor base and trading volumes are skewed to algo traders.</td>
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<td></td>
<td>• Slow pace of regulatory reform</td>
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</tbody>
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<table>
<thead>
<tr>
<th>O</th>
<th>Opportunities</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>• The size and growth of economy provide a potential for development of</td>
</tr>
<tr>
<td></td>
<td>the financial market</td>
</tr>
<tr>
<td></td>
<td>• Opportunity to attract international flow by launching a competitive</td>
</tr>
<tr>
<td></td>
<td>T+3 market and creating a Central Securities Depository</td>
</tr>
<tr>
<td></td>
<td>• Potential for derivatives market growth given the increasing demand</td>
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<td></td>
<td>for hedging tools</td>
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<tr>
<td></td>
<td>• Accelerated development of the Russian financial market facilitated</td>
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<td></td>
<td>by a regulatory reform</td>
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<td></td>
<td>• Integration as a powerful driver of synergies including costs cutting</td>
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<td></td>
<td>• Opportunity to build a team of professionals on the basis of the</td>
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<tr>
<td></td>
<td>existing teams of MICEX and RTS</td>
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<tr>
<td></td>
<td>• More efficient pricing policy and fees rebalancing</td>
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</table>

| T  | Threats                                                                   |
|----|                                                                          |
|    | • Losing the equities market share, including as a result of lifting       |
|    |   restrictions on ADRs placement                                          |
|    | • Lifting restrictions on foreign electronic trading systems and          |
|    |   platforms can pose a threat to the Group’s business                    |
|    | • A global financial crisis comparable in scope to the meltdown of        |
|    |   2008 can slow down the Group’s development rate                         |
|    | • Lack of common understanding on the part of government and financial    |
|    |   community regarding the development purposes of the Russian financial  |
|    |   market                                                                  |
|    | • Disruptions to the Group’s operations during integration                |
|    | • Price competition with electronic trading systems and platforms        |

**SOURCE:** Strategy Department
The Group’s Strategy takes into account both global trends and the outlooks for the national economy

Global trends

- Modest global economy growth (on average by 4.2% through 2015), faster economic growth in emerging economies including Russia
- Under the price pressure from alternative trading venues the leading global exchanges are forced to focus on costs cutting
- Attempts at further consolidation of the exchange industry with the purpose of gaining liquidity and reducing expenses
- The fight for liquidity goes global: exchanges of developed economies compete for liquidity with exchanges from emerging markets
- Solid investment in technologies by the world’s major exchanges
- Potentially a wide range of opportunities to service the OTC market
- Enhanced market regulation, especially in the EU and USA, which brings about certain risks but at the same time opens up new vistas for the development of the local market

Macroeconomic forecasts¹

<table>
<thead>
<tr>
<th></th>
<th>Real GDP, growth %</th>
<th>Investment in fixed capital, growth %</th>
<th>Russia’s foreign trade turnover, growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.7</td>
<td>7.8</td>
<td>7.3</td>
</tr>
<tr>
<td>2013</td>
<td>4.0</td>
<td>7.1</td>
<td>5.4</td>
</tr>
<tr>
<td>2014</td>
<td>4.6</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>2015</td>
<td>4.6</td>
<td>7.2</td>
<td>7.2</td>
</tr>
</tbody>
</table>

¹ According to a forecast by the Ministry of Economic Development of the Russian Federation as of September 21, 2011

SOURCE: IMF, MED, Strategy Department
### Strategic goals

#### Share of placements in Russia only out of all IPOs / SPOs
- 2011: 12%
- 2015: 65%

#### Share of the secondary on-exchange market
- 2011: 58%
- 2015: 64%

#### Share of the on-exchange trading volume on the domestic market
- 2011: 63%
- 2015: 70%

### Strategic initiatives

1. Provide target groups of LSE clients willing to invest in Russian and CIS markets with lucrative opportunities to invest via MICEX-RTS
   - Infrastructure parity: T+3, CCP, CSD, DVP
   - Competitive fees
   - Liquidity including from foreign liquidity providers
   - Opportunity to deliver local stocks and GDRs and settle in rubles and US dollars
   - Connectivity + Latency

2. Achieve liquidity growth through connection of new collective investment market players
   - Pension Fund of the Russian Federation
   - Russian Federation sovereign funds
   - Population

3. Attract issuers including through privatization and elaboration of laws on securities issuance and listing

4. Ensure a favourable environment for formation of a diverse client base including domestic and overseas investors which will facilitate further growth of the Group’s business
   - Attracting long-term institutional investors
   - Formation of a pool of long-term private investors including through educational campaigns

5. Launch new products – ETFs, foreign securities, etc.
6. Introduce a scheme for securities lending

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1 For the first 9 months of 2011
### Challenges and objectives

- Retaining the Group’s current share in trading corporate and government bonds that is now close to 100%: preventing liquidity outflow to the OTC market
- Expanding the geographic footprint in terms of issuers by adding bonds of foreign issuers and governments
- Introducing new types of debt instruments (securitized loans, mortgage bonds, instruments with a floating rate)
- Elaboration of information disclosure requirements, including to the securities prospectus
- Improving the legal base (law on bond holders, broadening the opportunities for players of the collective investment market, introduction of default management, etc.)

### Growth factors

- Attracting non-resident investors
- Encouraging the trading activities of Russian institutional investors
- Creating a market for placement of foreign securities

### Bonds market

| Introduction of T+n without 100% advance depositing | 2012 | 2013 | 2014-2015 |
| Migration of the government securities market to MICEX Stock Exchange and unification of depository accounting |  |  |  |
| Implementation of bond swaps functionality in the trading system |  |  |  |
| Trading bonds without suspensions for offers and coupon payments |  |  |  |
| Book building on the bonds market |  |  |  |
| Elaboration of the bond market fees |  |  |  |
| Improvement of the legal base |  |  |  |
| Development of trading services - introduction of non-anonymous quotes mode - connection to OTC systems (Bloomberg, etc.) |  |  |  |
## Listing and flotation

<table>
<thead>
<tr>
<th>Challenges and objectives</th>
<th>2012</th>
<th>2013</th>
<th>2014-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revision of quotation lists</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Creating a segment for high-risk stocks</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Creating a premium listing segment</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>- Reorganization of the Exchange’s listing structure</td>
<td></td>
<td></td>
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<tr>
<td>Elaboration of the legal base</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Removal of legislative restrictions on participation of non-state pension funds and insurance companies in IPOs</td>
<td></td>
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<tr>
<td>- Simplification of requirements for issuers: report on issue results, immediate admission to trading upon the placement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographical diversification and broadening the range of types of securities trading on the Exchange</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Listing
- Optimization of the quotation lists.
- Admission of pension funds and insurance companies to participation in IPOs.
- Bringing listing and corporate governance requirements in line with the international standards.

### Flotation
- Admission of foreign securities and GDRs to trading.
- Communication with issuers in order to improve the MICEX-RTS’s image as a venue for flotations.
- Broadening the product line (structured notes, asset backed securities, convertible bonds).
- Enhancing geographical diversification of issuers.
- Reallocation of corporate debt from banking sector to public debt instruments.
### FX Market

#### Strategic goals

- **MICEX-RTS’s share of the FX market**
  - 20% in 2011
  - 42% in 2015

- **Break down of on-exchange turnover**
  - 78% in 2011
  - 60% in 2015

#### Strategic initiatives

- Development of client access to the FX market
  - Access for brokers and their clients (DMA)
  - Access for non-residents
- Development of FX market instruments
  - Long tenor swaps
  - Currencies of the G10 countries
  - CNY/RUB, CIS currencies
- Synchronization of trading hours
  - Longer trading day on the FX market and synchronization of trading hours across the MICEX-RTS markets
- Development of clearing and settlement services
  - Single cash position for participants across all markets of the Group
  - Intra-day clearing and settlement with an opportunity to trade
- Improving the pricing policy in order to boost liquidity

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1 Measured by total value of spot and swap trades
Repo

**Strategic goals**

- MICEX-RTS's share of the repo market
  - 2011: 90%
  - 2015: 90%

- Share of repo trades with the Central Counterparty
  - 2011: 1%
  - 2015: 30%

**Strategic initiatives**

- Development of repo market instruments
  - Repo trades in shares with the Central Counterparty within the framework of transition from T+0 to T+N
  - Direct repo trades in bonds basket
  - Management of repo collateral (jointly with National Settlement Depository)
  - Interposition of the Central Counterparty in bond repos
  - Organization of an order book for repo trades in a bonds basket with the Central Counterparty
  - Repo trades with settlement in foreign currency

- Development of client access
  - Attraction of non-residents through simplification of access procedure and development of currency repo
Strategic goals

- FORTS trading volume, mln contracts per day
  - 2011: 4.4
  - 2015: 13.0
  - +31%

- Share of on-exchange market for equity futures and options
  - ~90% in 2011
  - ≥90% in 2015

- Share of open interest in single stock options
  - <20% in 2011
  - ≥50% in 2015

- Share of on-exchange open interest in FX contracts
  - 10-20% in 2011
  - 50-70% in 2015
  - +166%

Number of interest rate contracts, mln contracts per day
- 2011: 0.0
- 2015: 1.5

Strategic initiatives

- Diversify the business by boosting liquidity for instruments with the highest potential for development:
  - Interest rate derivatives
  - Equity options
  - FX derivatives

- Attract new market participants:
  - Russian banks
  - Collective investors (mutual funds, non-state pension funds, insurance companies)
  - Foreign investors (sell-side, buy-side)
  - Private investors

- Take advantage of synergies between the spot market and derivatives market by creating a unified technological platform (single position, putting up underlying assets as collateral) and cross-sale system

- Establish clearing links with international clearing and settlement houses

- Offer services for Russian and foreign hyperactive traders in line with international standards (unified FIX protocol, infrastructure for speedy access in Russia and abroad)

- Offer services for the OTC derivatives segment
Clearing

Strategic goals

Effectiveness (1- participants’ net obligations) / trading volume

- 90% to 96%

Average daily volume of obligations under OTC trades accepted to clearing, bln rubles

- 0.0 to 5.5

OTC clearing revenues, bln rubles

- 0 to N/A

Strategic initiatives

- Main purposes: increasing the Central Counterparty reliability, reduction of costs and provision of high quality services for participants
- Transition to partial collateral and T+3 settlement on the securities market
- Provision of single clearing for the securities, derivatives, FX and money markets
- Provision of portfolio margining within the framework of the single clearing taking into account inter-product and calendar spreads
- Accepting low-risk securities, currencies and other financial instruments as individual collateral and extension of the relevant list
- Establishing clearing links with stock exchange groups in CIS and Western Europe
- Creating an infrastructure for registration and multilateral clearing of OTC financial instruments including interest rate swaps, FLES options and credit derivatives
- Creating a single/inter-segmental clearing for the Exchange’s markets
- Setting up a single guarantee fund and developing the clearing membership structure

1 Forecast for 2011
2 Additional analysis and elaboration are needed
Technological platform and IT services

**Strategic goals**

<table>
<thead>
<tr>
<th>Performance, in thousands transactions per second</th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>200</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Door-to-door latency according to Corvill methodology, msec</th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Availability of the key real-time systems, %</th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.97%</td>
<td>99.98%</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of connections to international financial networks</th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

**Strategic initiatives**

- Ensuring reliable and continuous functioning of the trading and clearing systems
  - All-purpose high-performance and reliable trading platform
    - Optimization and development of the current trading and clearing services (by late 2012)
    - Integrated technological solution to provide T+3 settlement mode for shares with the involvement of the Central Counterparty. Single clearing system for all markets (by late 2013)
    - Enhancing performance through parallel processing of top liquid instruments. Implementation of SOR
    - Developing a new generation of the trading platform on the basis of the best global practices and approaches (by late 2014)
    - Unification of the market access platforms and promotion of the standard FIX (trading) and FIX FAST (market data) interfaces. OUCH/ITCH from 2013
- Creating a world class data centers infrastructure
  - Combination of in-house and commercial data centers that meet Tier-3 requirements in order to create a fully backed up environment for the Group’s data centers
- Broadening the range of technological services for participants
  - Low latency and co-location services and providing clients with specialized communication services
  - Technical access points in the major international financial centers and regions of the Russian Federation
  - Provision of SaaS (analytical systems, monitoring systems, solutions for issuers) to market participants and other counterparties through the MICEX-RTS Cloud platform

1 The goals are subject to adjustment while the IT strategy is under development
Settlement infrastructure

**Strategic goals**

- **Volume of assets in custody, trillion rubles**
  - 2011: 7.8
  - 2015: 38.0

- **Break down of non-interest revenues, %**
  - 2011:
    - Corporate actions and information: 36%
    - Delivery and settlement: 64%
  - 2015:
    - Corporate actions and information: 16%
    - Delivery and settlement: 28%

**Strategic initiatives**

- Launch of the Russian Central Securities Depository and obtaining an “eligible securities depository” status as per rule 17f-7
  - Integration of NSD, DCC and RTS Settlement Chamber
  - Management of collateral posted on trades
- Creating a product line that meets quality standards of the leading CSDs
  - Automated securities lending
  - Settlement of trades in precious metals
  - Single corporate information center
  - Repository for OTC trades (repo, derivatives)
  - Settlement of OTC trades on DVP/PVP terms
- Evolve as a regional central securities depository for the CIS market
  - Integration with the major European and global settlement systems
  - Support lending against a basket of financial instruments
### Strategic goals

<table>
<thead>
<tr>
<th>Share of the ETFs on MICEX-RTS Indices in the overall volume of ETFs on Russian assets indices that will be created (by NAV)</th>
<th>0%</th>
<th>30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of index mutual funds (by NAV in the overall volume of index, equity and blend mutual funds)</td>
<td>9%</td>
<td>20%</td>
</tr>
<tr>
<td>On-exchange turnover of index derivatives, mln contracts</td>
<td>3.2</td>
<td>9.0</td>
</tr>
<tr>
<td>Citation of the indices globally, in thousands of citations</td>
<td>120</td>
<td>200</td>
</tr>
<tr>
<td>2011</td>
<td>2015</td>
<td></td>
</tr>
</tbody>
</table>

### Strategic initiatives

- Creating a diversified set of indices that will meet requirements of a wide range of customers
  - Focus on various market segments that facilitate development of the Exchange’s derivatives market, creating index ETFs in Russia and abroad and development of structured products, collective investment instruments
  - Ensure compliance of major indices with the requirements of both Russian and international regulators (UCITS, CFTC)
  - Ensure historical continuity, transparency and availability of information
- Support
  - Provision of high-level support including technical and information support
  - Implementation of the best global practices and high tech solutions (use of standard solutions, rules and procedures)
  - Availability of information
- Marketing
  - In Russia: retaining the leading market operator position
  - In the world: increasing the penetration. Citation by leading information agencies and magazines, presence at specialized events
  - Development of a long-term comprehensive communication program that will be a part of the Exchange’s common marketing policy
- Monetizing
  - Developing a tariff policy that will allow for a flexible, efficient pricing of licenses for usage of the Group’s index information and index trade marks
  - Wide international presence and interaction with the leading providers of funds and financial products
Regulatory reform

**Issuers**
- Optimization of securities issuance procedure
- Easing the administrative burden on issuers including dropping the requirement to file a report on securities issuance results
- Harmonization of the Russian disclosure requirements with the European standards
- Improvement of corporate governance practices as well as encouragement of their implementation by issuers whose securities trade on the exchange
- Provision of opportunities for debt restructuring
- Amending the requirements for admission to quotation lists

**Trading and post-trading technology**
- Bringing legal requirements in line with common business practices including matters related to IPO and SPO
- Creating a legal base for development of markets with partial pre-trade funding
- Elaboration of regulatory acts to complete the new legislation on clearing, stock exchanges and central securities depository

**Institutional investors**
- Improvement of legal regulation of the institutional investors segment in relation to increasing the efficiency of pension savings, pension and insurance reserves management and expanding investment opportunities for collective investors
- Elaboration of mechanisms promoting voluntary pension insurance among population

**Individuals**
- Implementation of measures including in the taxation field aimed at promoting long-term investment in financial market instruments by individuals
## Six strategic priorities of the Group

<table>
<thead>
<tr>
<th>Infrastructure priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revive the IPO market in Russia and re-establish the Russian equities market as a liquidity center for local stocks by creating a broad client base including domestic and overseas investors</td>
</tr>
<tr>
<td>2. Accelerate and diversify development of the derivatives market</td>
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<td>3. Create a clearing system with a functionality for calculation of a trading participant’s single cash position across all markets of the Group</td>
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<td>4. Develop a reliable and efficient technological platform with a range of related services</td>
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<td>5. Ensure competitiveness of the Group’s settlement services</td>
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<td>6. Take the lead in driving regulatory reform</td>
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<table>
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<th>Product priorities</th>
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