



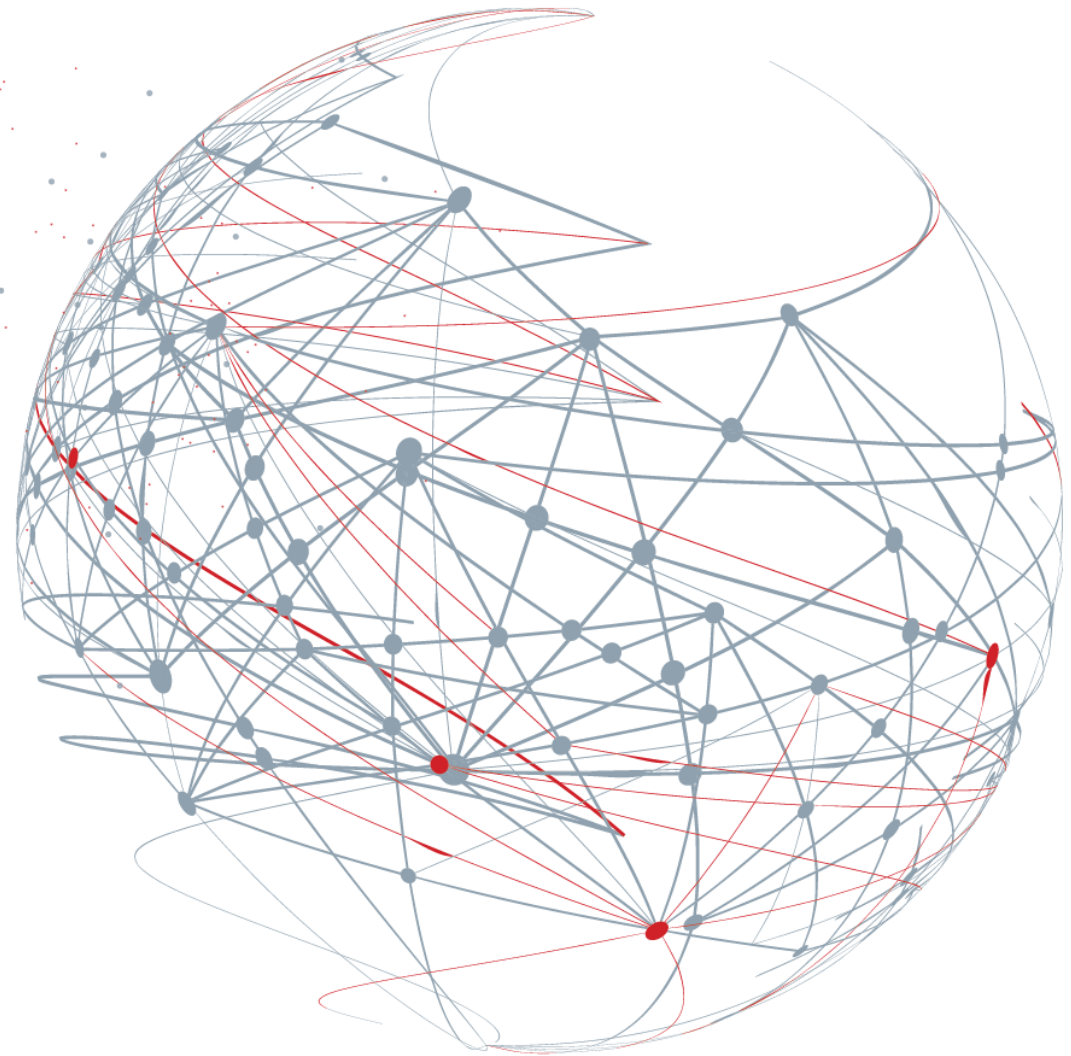
MOSCOW
EXCHANGE

October 2019

Moscow Exchange Group's Strategy 2024



Global trends and strategic focus of exchanges



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EXCHANGE**

Focus on expanding traditional exchange business to other regions through **partnerships**

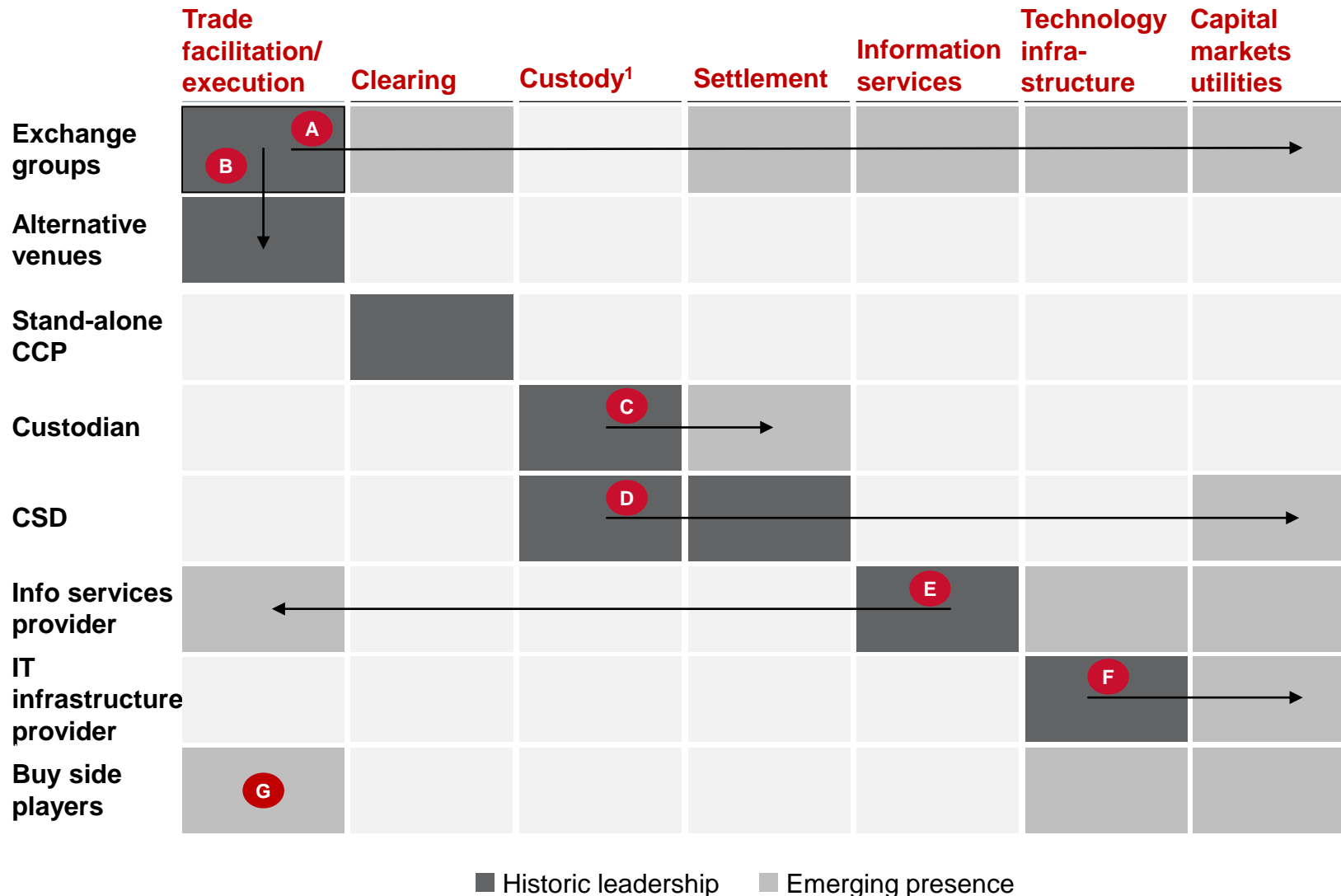
Building on **core business** with increased focus on **technology**



Expansion to attractive non-exchange markets through **M&A**, increased focus on **Market Data**

Cost control and raise of **operational efficiency** of **core business**

Capital markets infrastructure providers are diversifying across the value chain



Expansion moves – examples

- A** Exchanges diversifying beyond traditional business to post-trade, market data, tech, ancillary services

- B** Exchange groups entering the alternative trading space

- C** Custodians entering settlement space by setting up CSD or tying up with associated players

- D** CSDs venturing into capital markets utilities

- E** Info service providers investing to provide trading services

- F** Infrastructure IT providers begun building industry utilities








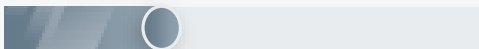
- G** Buy-side players entering the market infrastructure space

¹ Non-bank custody

Source: McKinsey Capital Markets Infrastructure Practice

Summary of competitive environment

Direct competition is limited, there is a possibility of additional competition due to changes in technologies

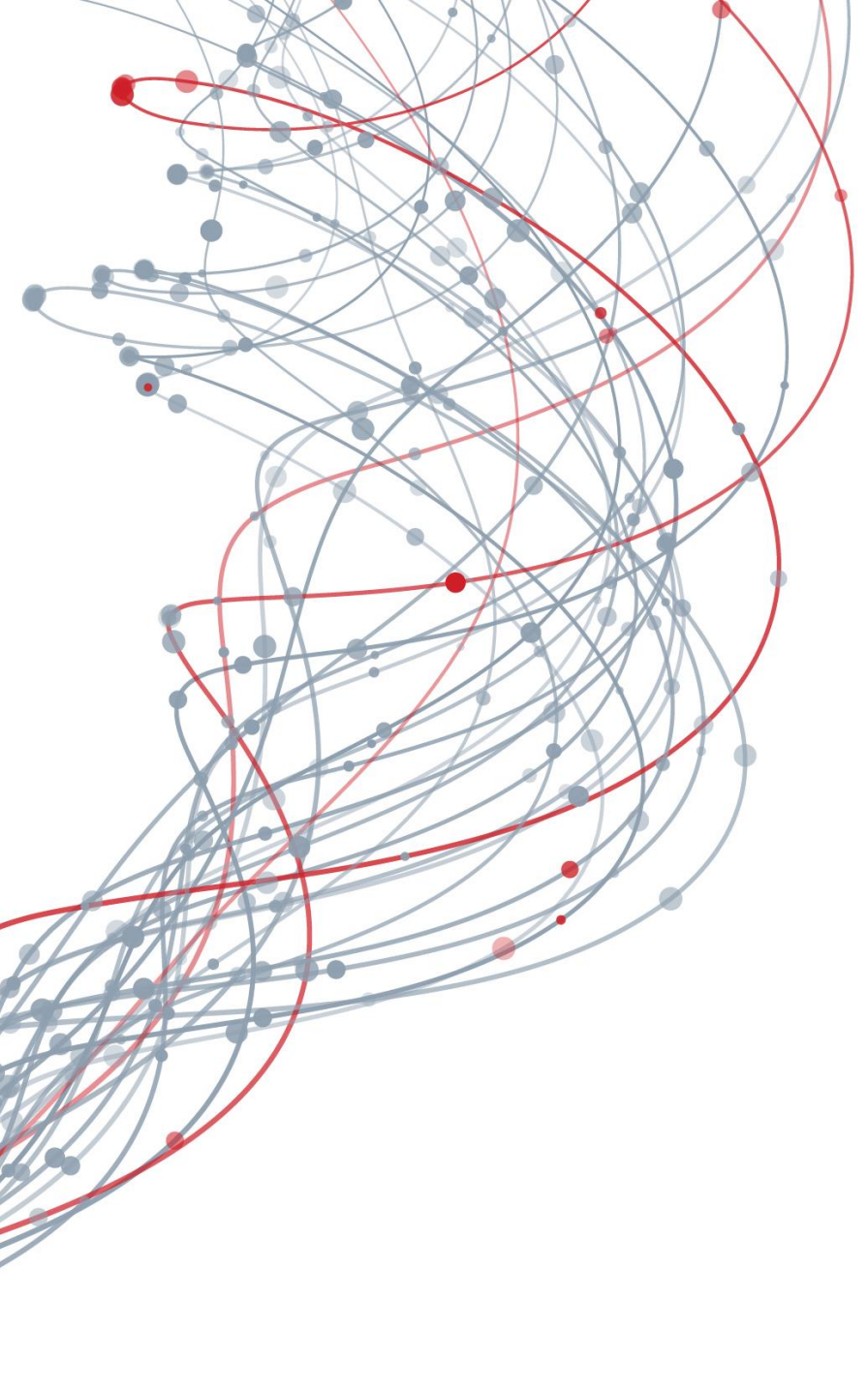
Big-tech, fintech and technology 	Changing needs of buy-side 	Internalization by sell-side 	Exchange platforms 
<ul style="list-style-type: none"> • Big-tech companies attack the margin of traditional financial players – banks, insurance companies • Exchanges consider most capital markets fintech teams as partners • Emergence of Artificial Intelligence, DLT and Cloud technologies may partially or fully substitute some traditional financial companies 	<ul style="list-style-type: none"> • Development of services providing disintermediation of financial infrastructure • Developed markets trend: buy-side companies are looking for direct trading opportunities outside exchanges and market-makers 	<ul style="list-style-type: none"> • Markets with high concentration of the largest sell-side are most susceptible to internalisation • Some intermediaries already internalize more than 40% and this share may increase to 60% by 2020 	<ul style="list-style-type: none"> • Most major exchanges don't have ambitions to compete on the Russian market at this time • Internal competition depends on local regulation
Level of competition			
			

Trend	Duration	Global / Local	Potential impact on MOEX
Ageing population and migration			
Global economic slowdown			
Low growth rate of Russian economy			
Competition from tech companies			
Sanctions			

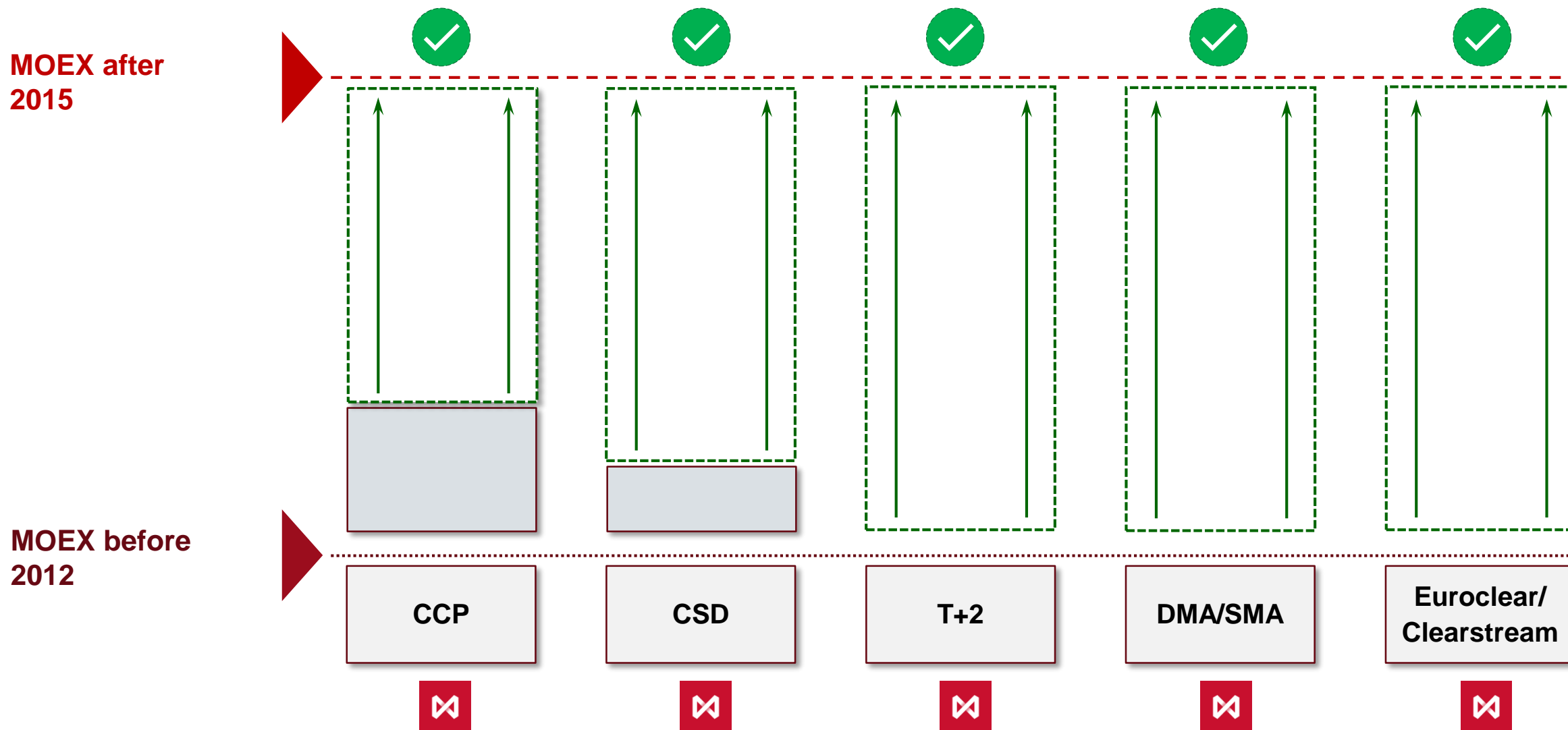
Long-term
 Global
 Positive
 Medium-term
 Local
 Negative

In this environment, MOEX's organic growth is limited by "low single digits"

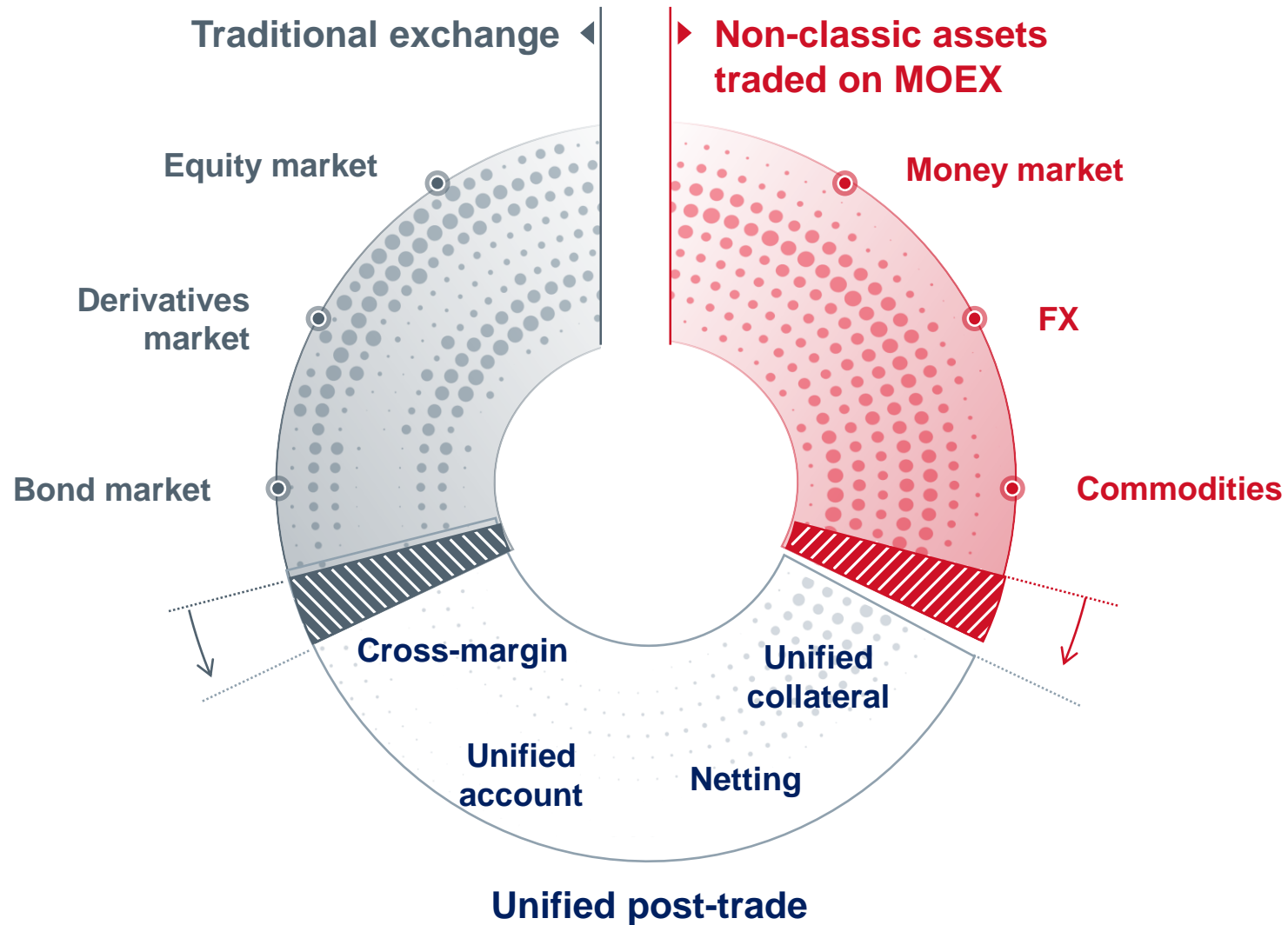
Objectives and results of
previous strategies.
Current Group position



Goals were achieved



Strategy 2015-2020: development of unified infrastructure for the Russian market, including its traditionally OTC segments



Key pillars

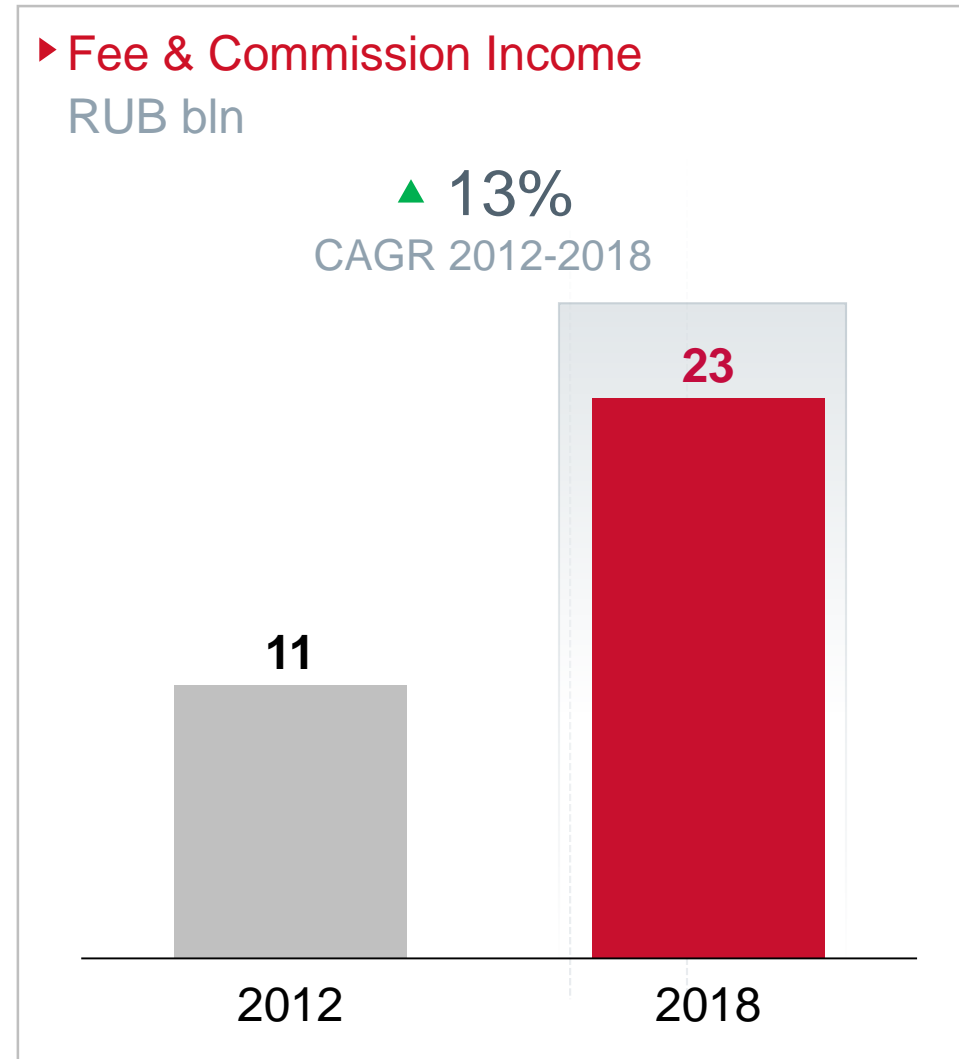
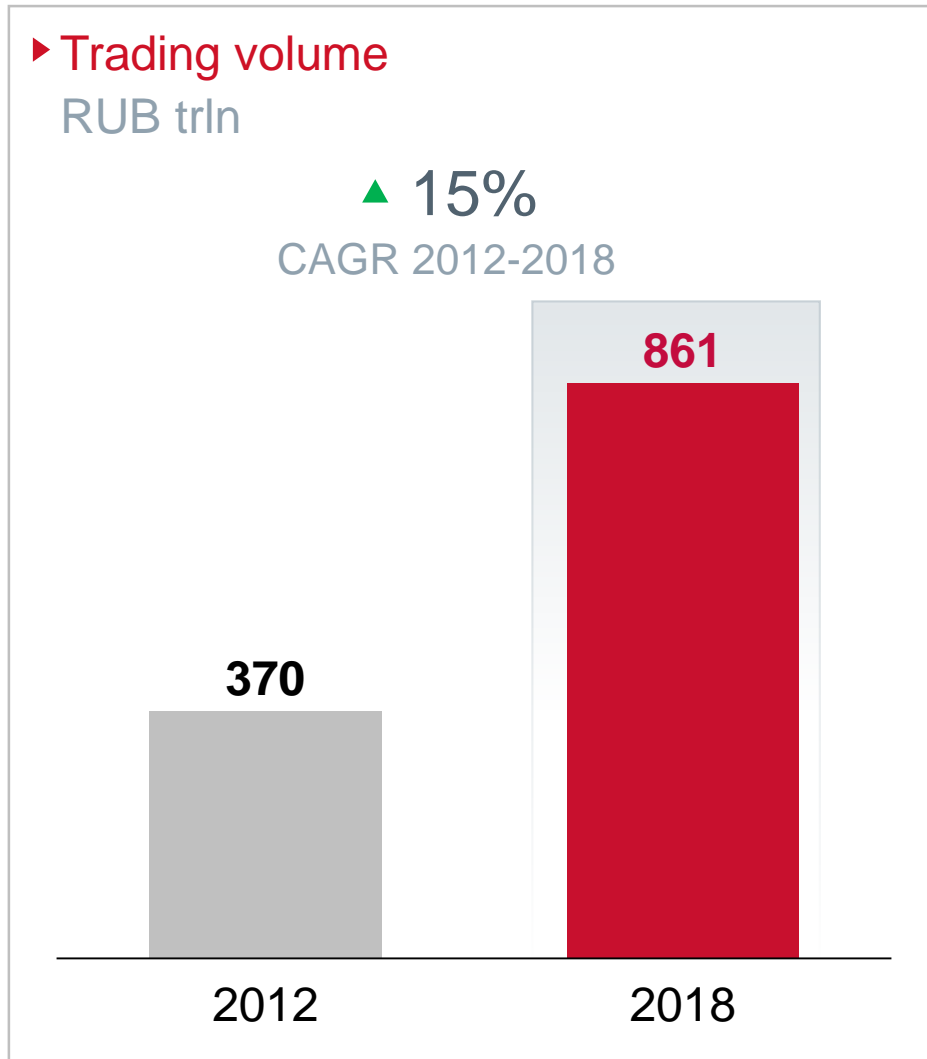
- Diversification
- Penetration
- Integration
- Standardization
- Optimization

The most diversified range of asset classes and services globally

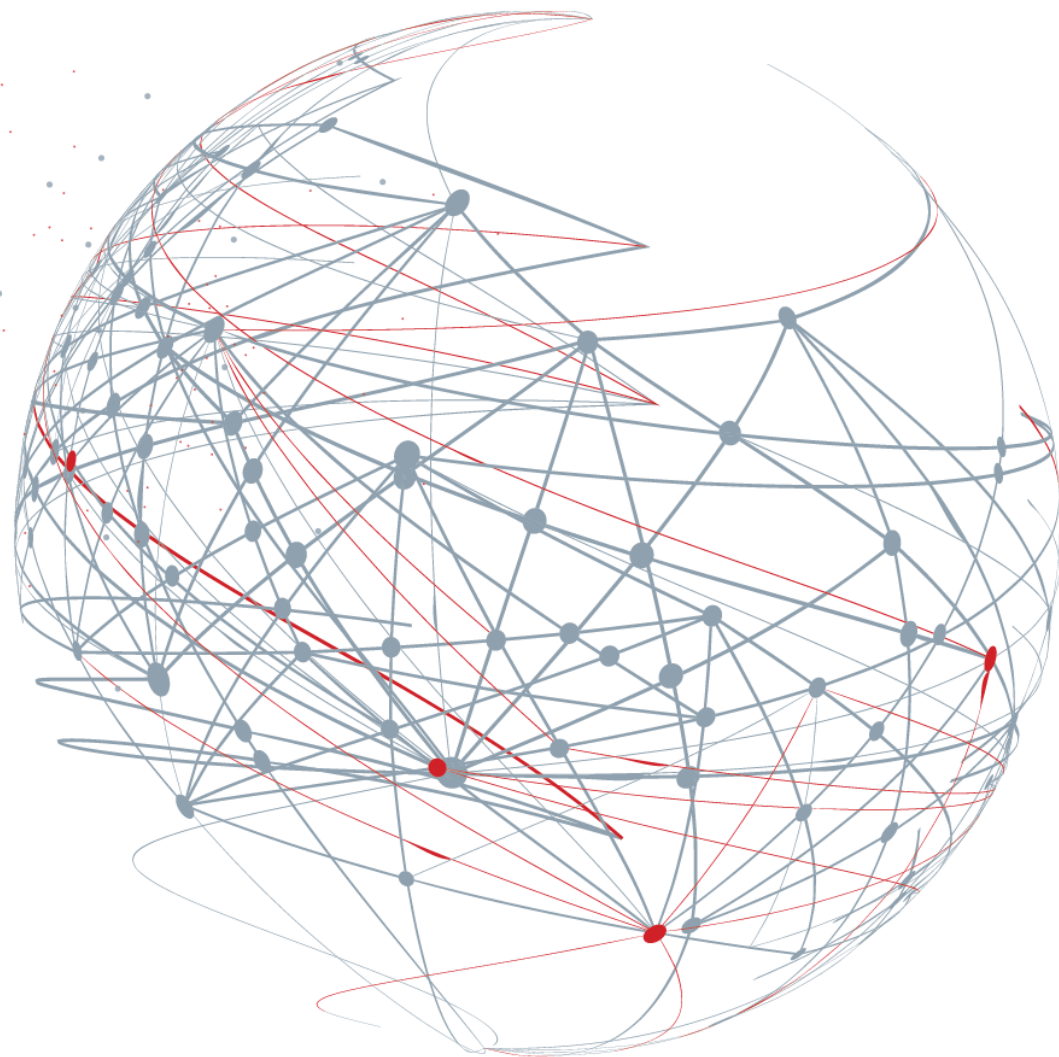
Exchange	Country	Traded asset classes / service offerings								Post-trade	
		Equity	Bonds	Derivatives	Repo	FX	Commodities	Listing	Market Data	Clearing	Depository
HKEx	Hong Kong	✓ ✓	✓	✓ ✓	✓	✗	✗	✓ ✓	✓	✓ ✓	✓
Deutsche Boerse	Germany	✓ ✓	✓	✓ ✓	✓ ✓	✓	✗	✓	✓ ✓	✓ ✓	✓ ✓
ICE - NYSE	USA	✓ ✓	✓	✓ ✓	✗	✗	✗	✓ ✓	✓ ✓	✓	✗
B3	Brazil	✓ ✓	✓ ✓	✓ ✓	✓	✓	✓	✓	✓	✓ ✓	✓ ✓
LSE	UK	✓ ✓	✓ ✓	✓	✗	✗	✗	✓ ✓	✓ ✓	✓ ✓	✗
SGX	Singapore	✓ ✓	✓	✓ ✓	✗	✗	✓	✓ ✓	✓	✓	✓
JPX	Japan	✓ ✓	✓	✓ ✓	✓	✗	✗	✓ ✓	✓ ✓	✓ ✓	✗
MOEX	Russia	✓ ✓	✓ ✓	✓ ✓	✓ ✓	✓ ✓	✓	✓	✓	✓ ✓	✓ ✓
BME	Spain	✓ ✓	✓ ✓	✓	✓	✗	✗	✓ ✓	✓ ✓	✓ ✓	✓ ✓
JSE	South Africa	✓ ✓	✓ ✓	✓	✓	✗	✗	✓ ✓	✓	✓ ✓	✗

✗ absence ✓ presence ✓✓ Strong business

Sources: web-sites of international exchanges



Key pillars of the new Strategy



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FAIR PRICE



STANDARD FOR
TRADED ASSETS

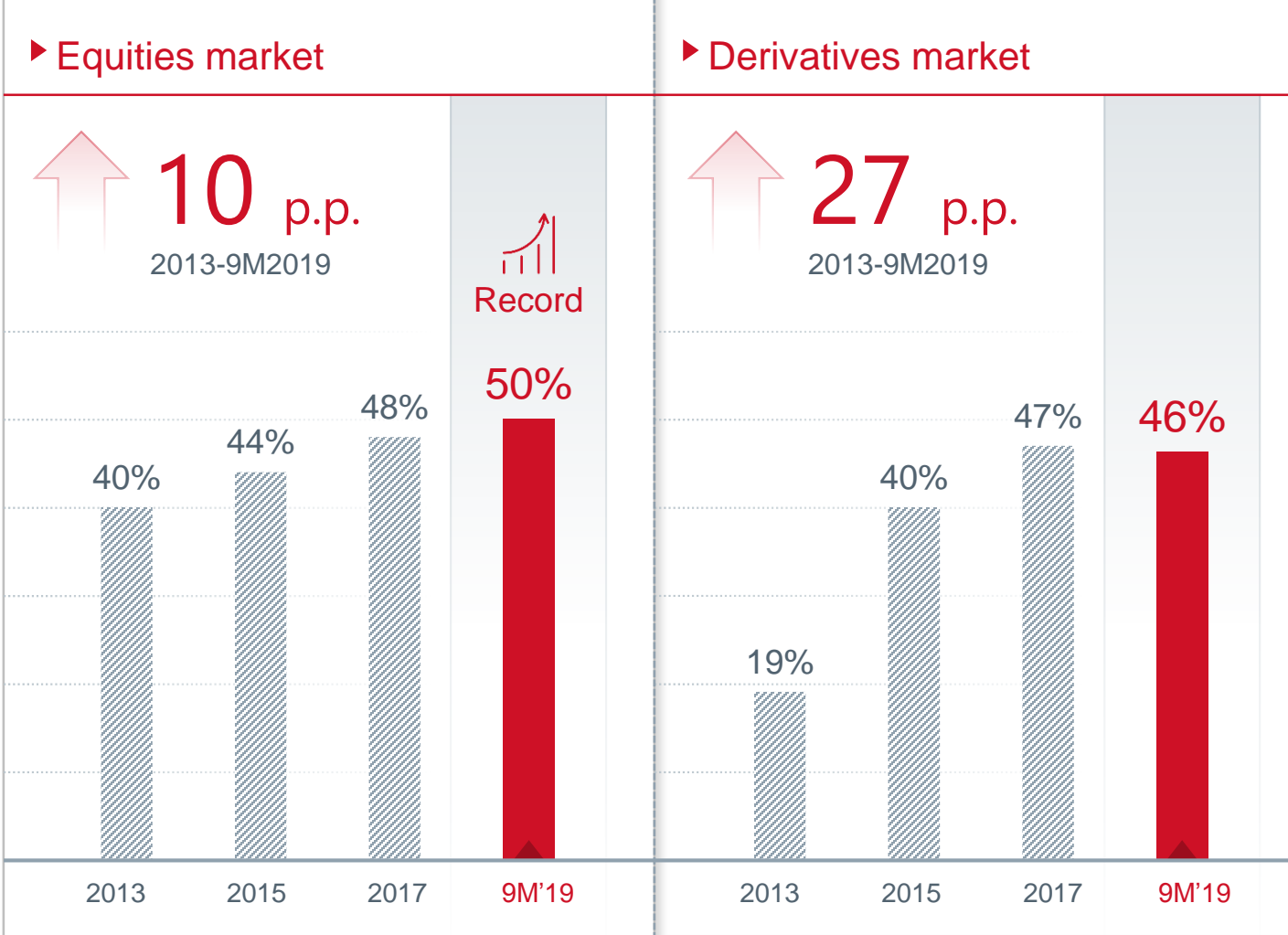


TRUSTED
PLATFORM



LIQUIDITY
CENTER

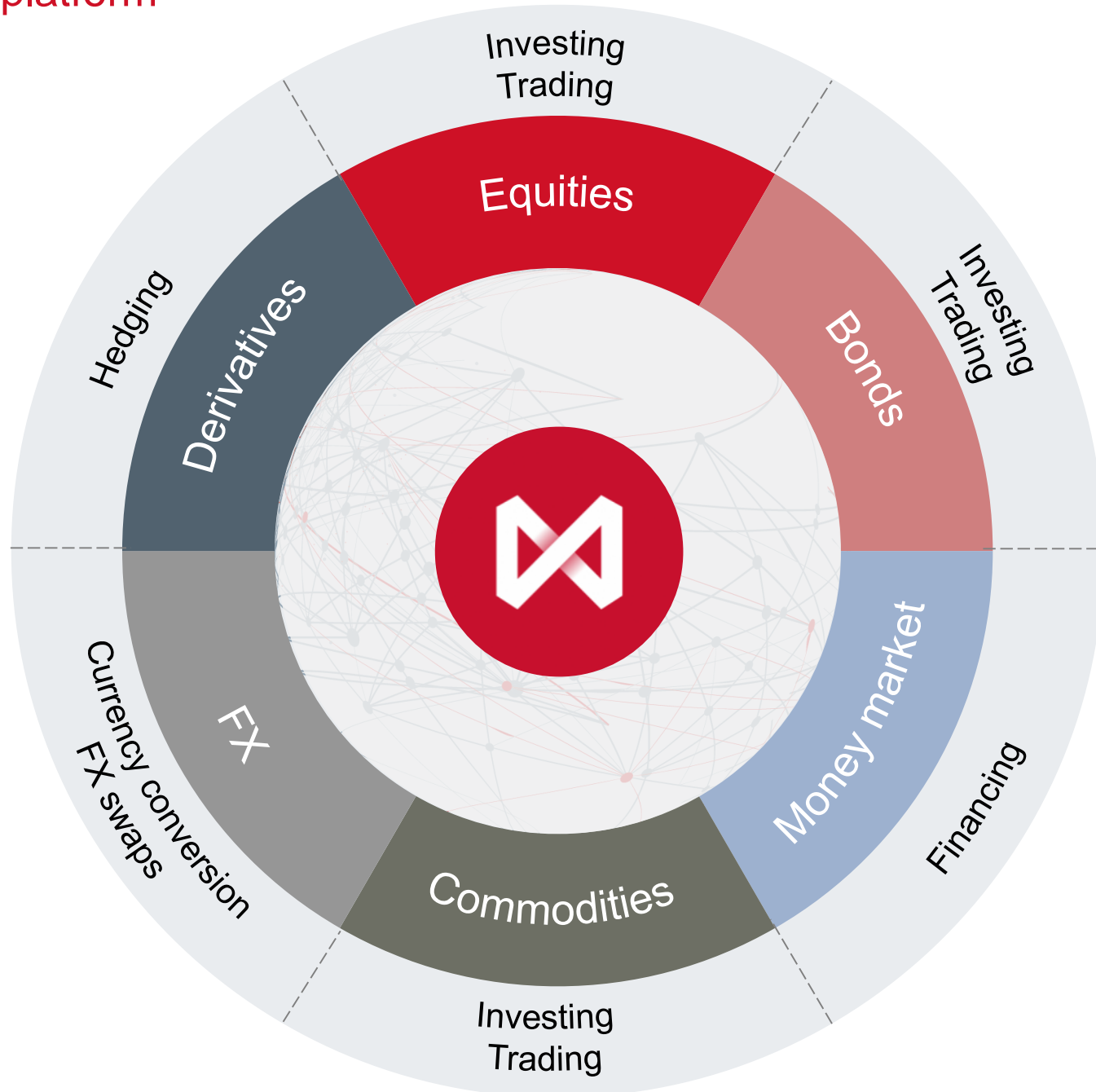
Share of international investors in equities and derivatives trading



OFZ holdings of non-residents



Source: Moscow Exchange, the Central Bank of the Russian Federation

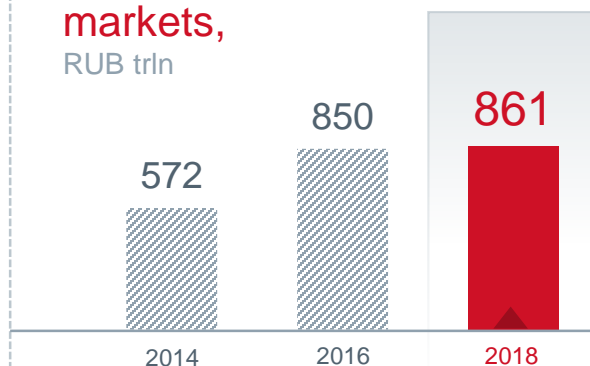


Trading (MOEX)

World rankings by trading volumes:

- Top-3 by bonds
- Top-10 by derivatives
- Top-30 by equities

▶ Trading volumes on MOEX markets, RUB trln



Clearing (NCC)

- Central Counterparty for all asset classes

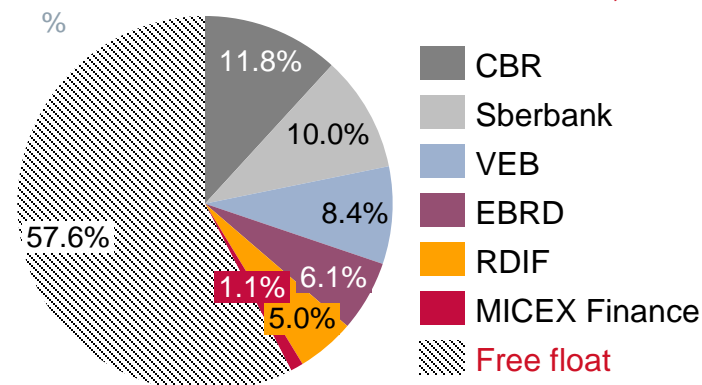
▶ NCC capital, RUB bln



Neutrality

- Free float is 57.6%
- No shareholder exceeds 12% ownership

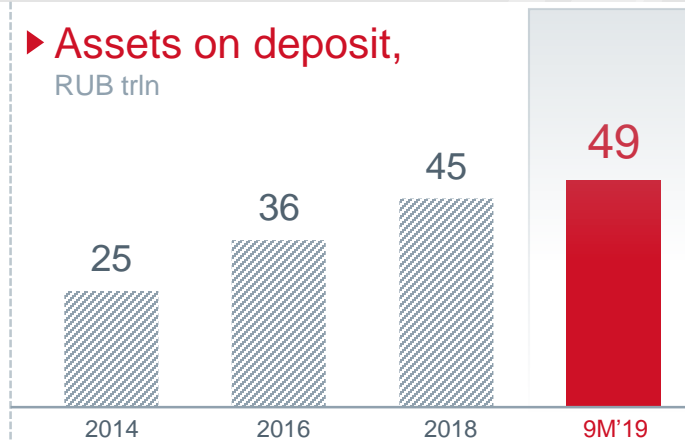
▶ MOEX Shareholders structure, %

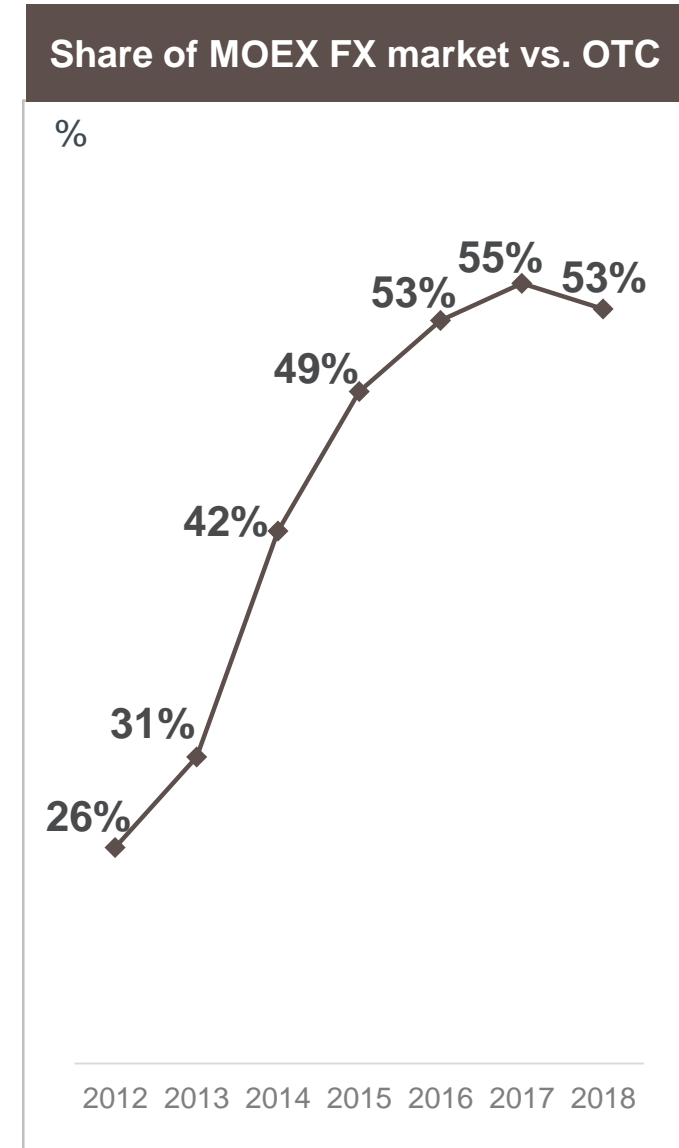
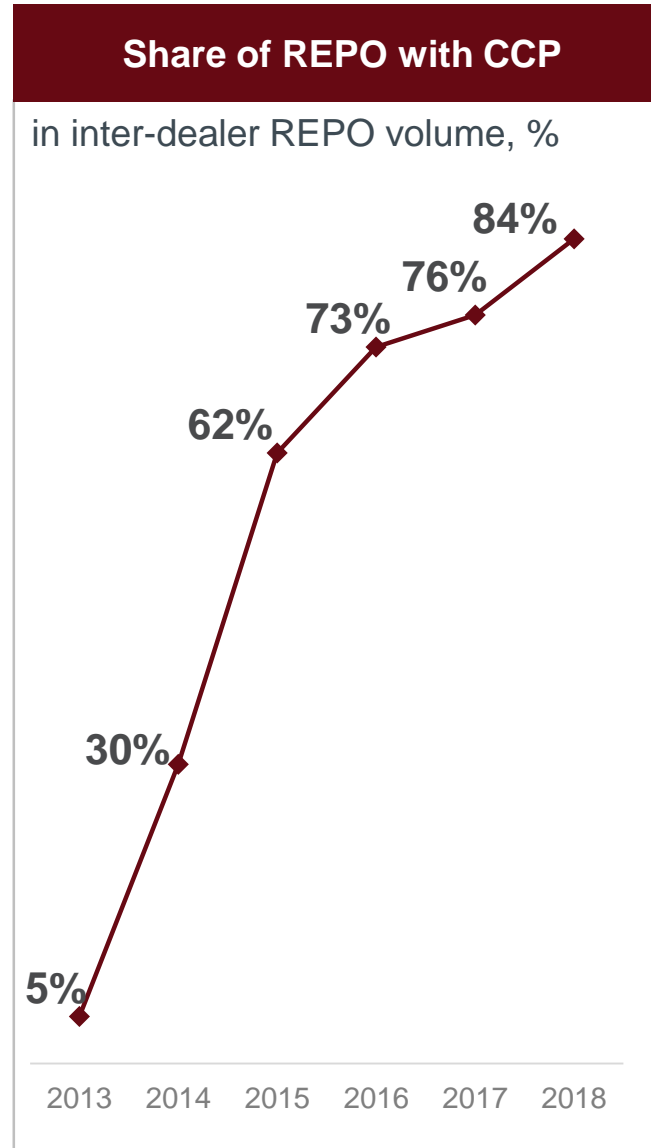
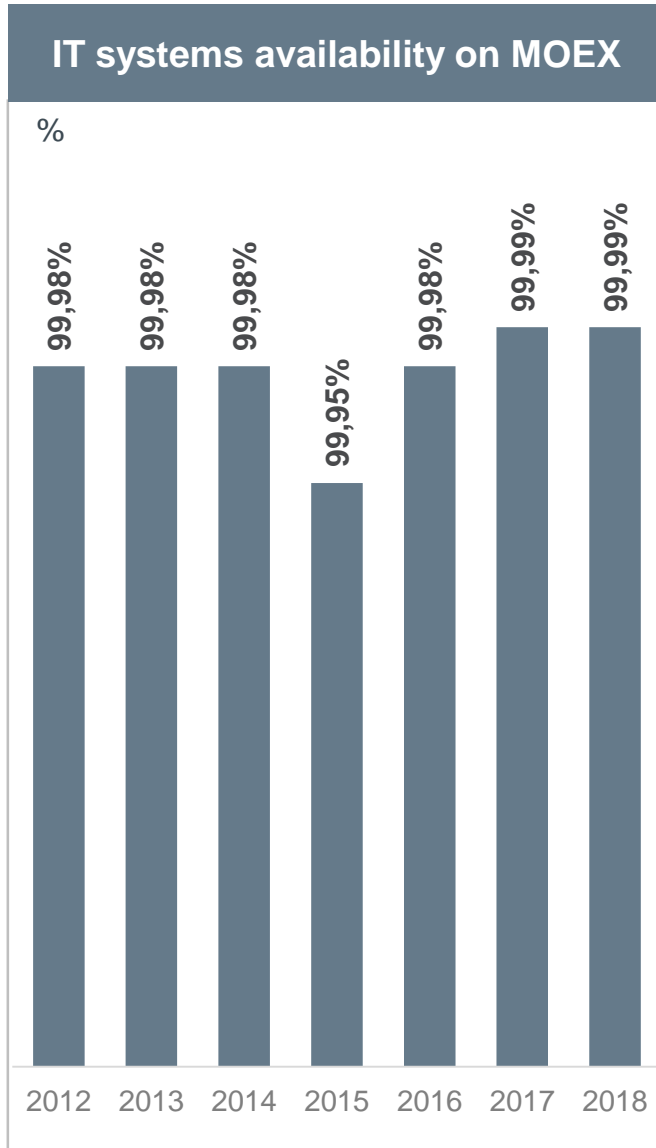


Depository (NSD)

- Central Depository

▶ Assets on deposit, RUB trln





Source: Moscow Exchange



FAIR PRICE



STANDARD FOR
TRADED ASSETS



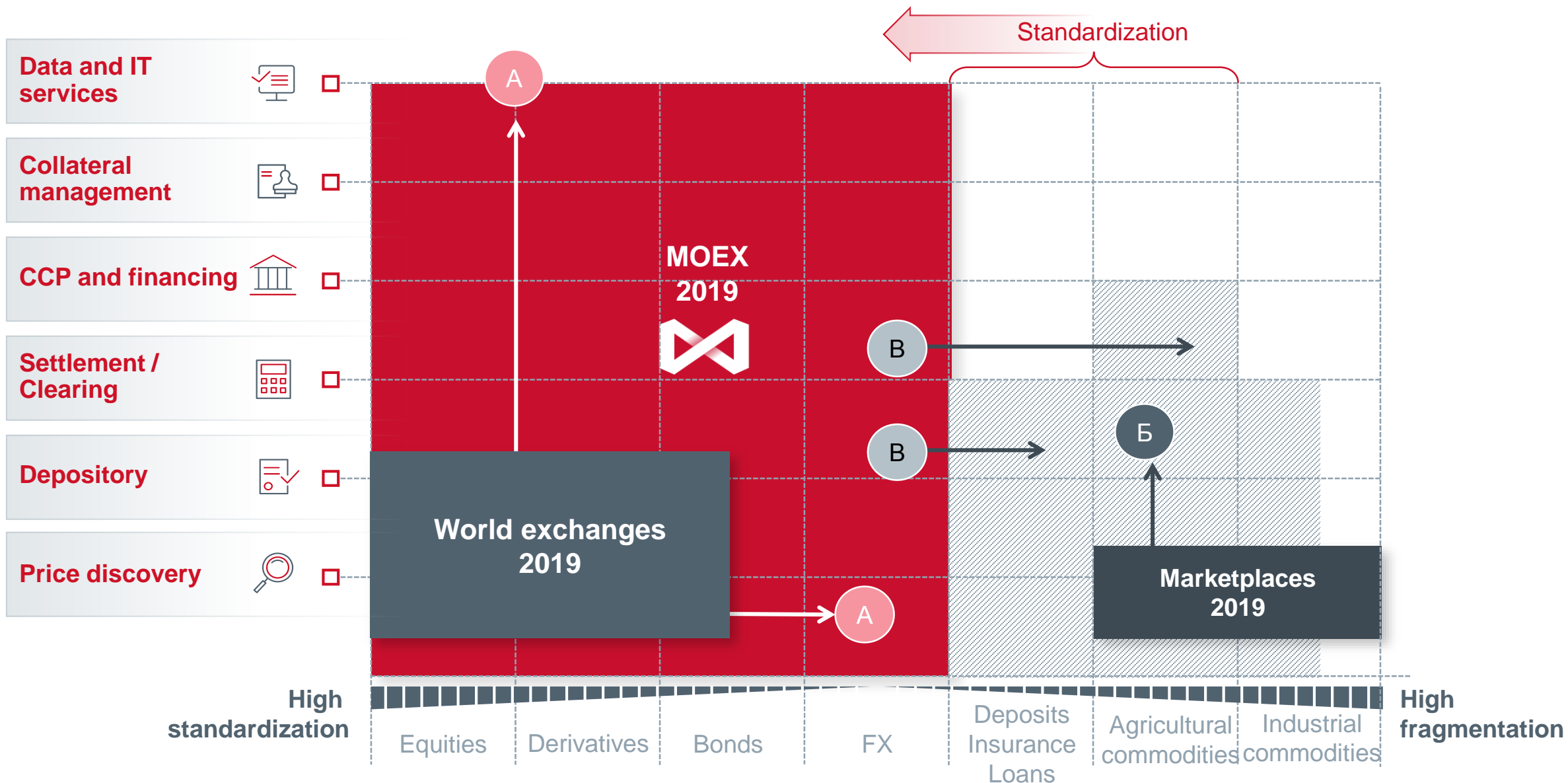
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Financial market map: movement of MOEX, exchanges and aggregators

Strategy 2019-2024



 **Balance Sheet Management**

 **Market Gateway**

 **Financial Platform**

 **Core Markets Penetration**

 **Culture of Trust and Responsibility**

Mission
We bring trust, efficiency and innovation to the financial markets, helping companies and citizens achieve tomorrow's goals

3

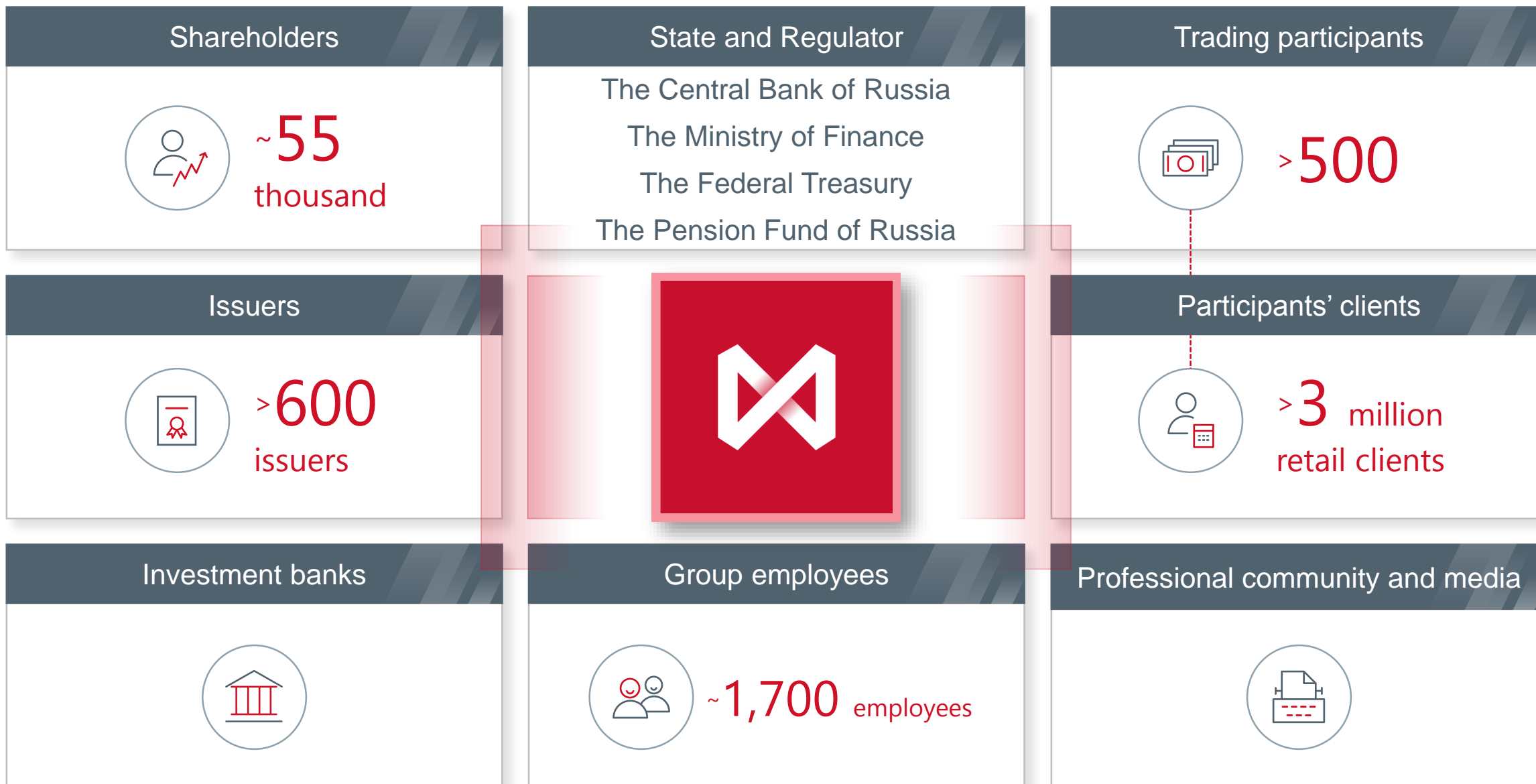
2

1

areas of development

areas of responsibility

mission



Source: Moscow Exchange

Business opportunities

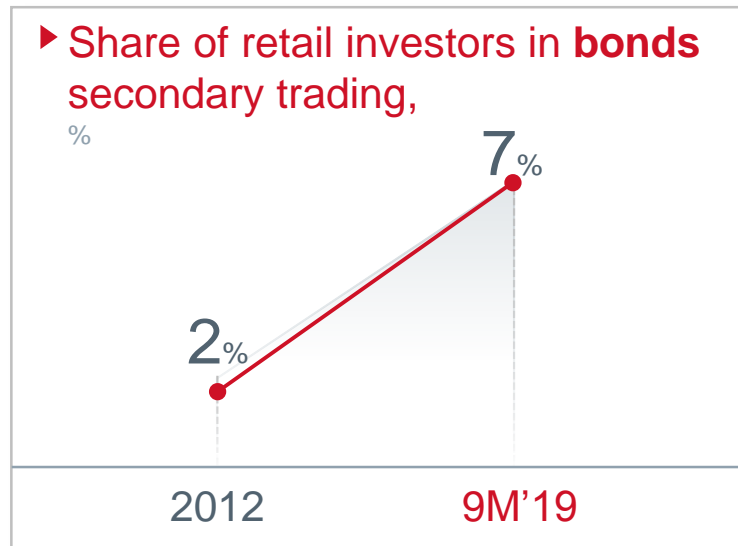
Market gateway





70% of accounts are opened remotely

- ▶ **34%** Share of retail investors in **equities** secondary trading
- ▶ **45%** Share of retail investors in **derivatives** trading



30 ETFs

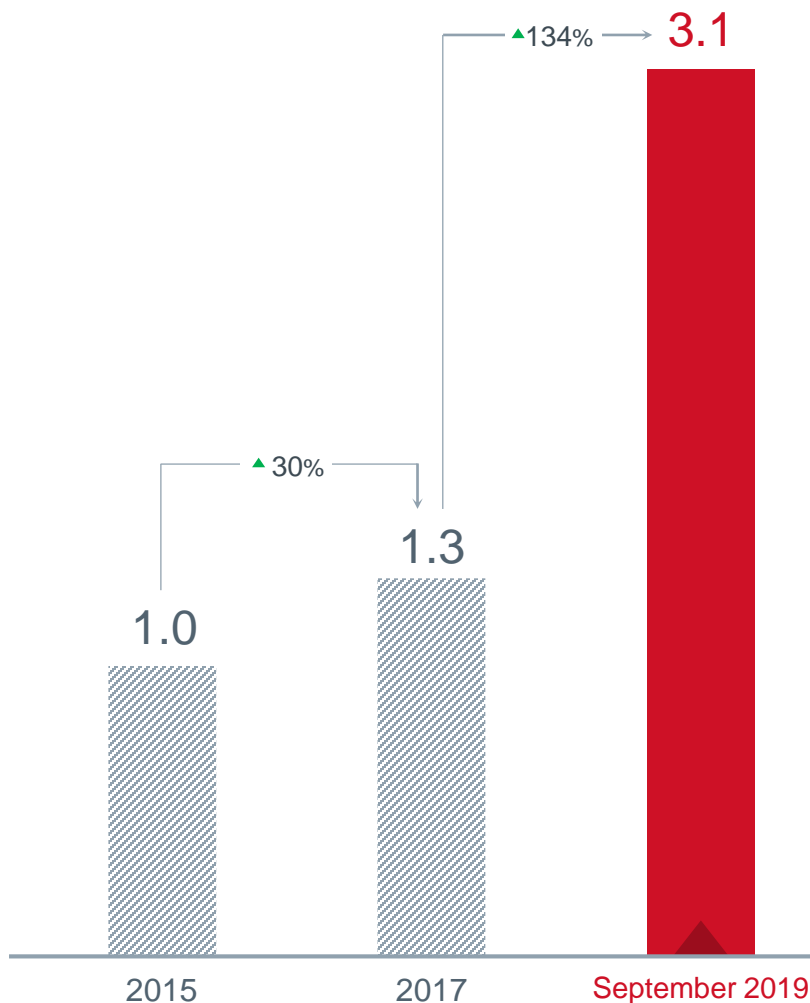
- 17 on equities
- 12 on bonds
- 1 on commodities

9 countries which benchmarks are ETFs underlying

Source: Moscow Exchange

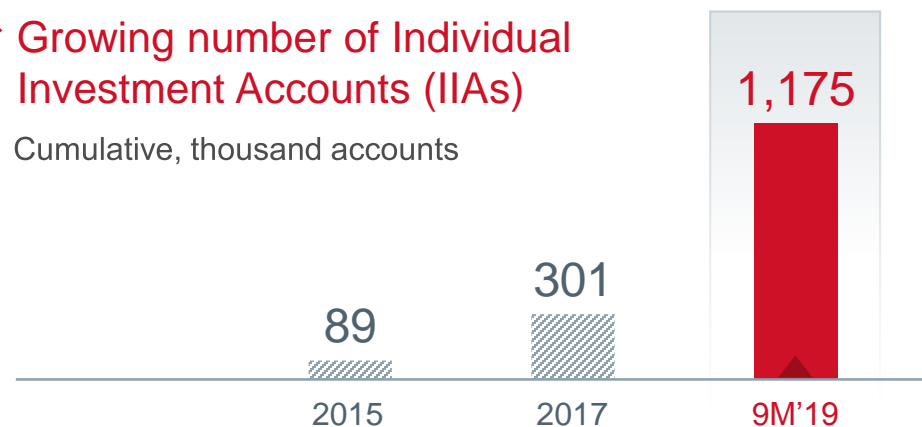
▶ Growing number of retail clients on Securities market

unique clients, mln



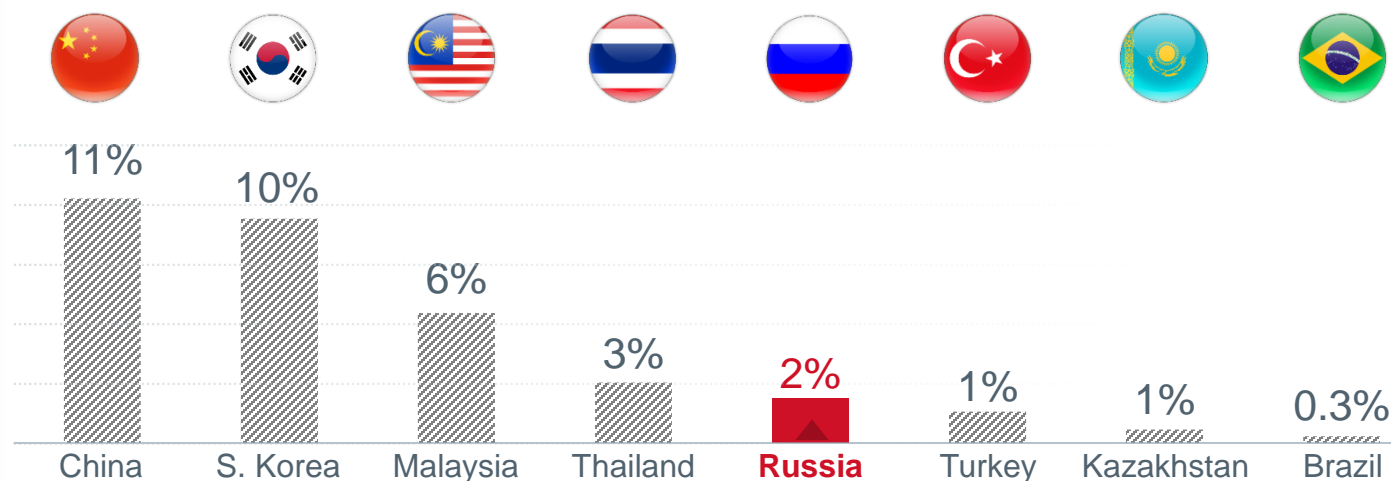
▶ Growing number of Individual Investment Accounts (IIAs)

Cumulative, thousand accounts



▶ Share of retail investors in total population,

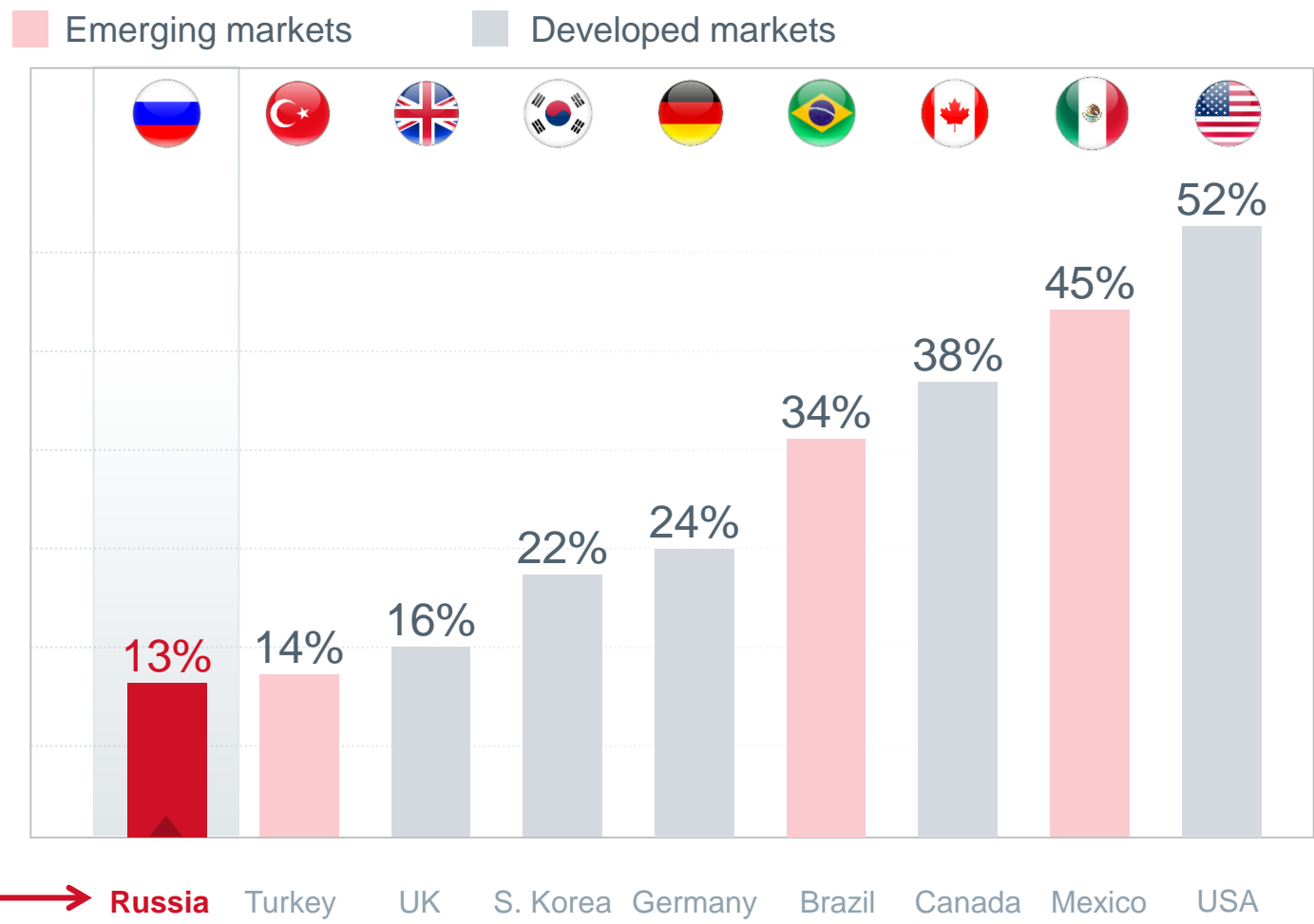
%





Share of securities in household financial assets

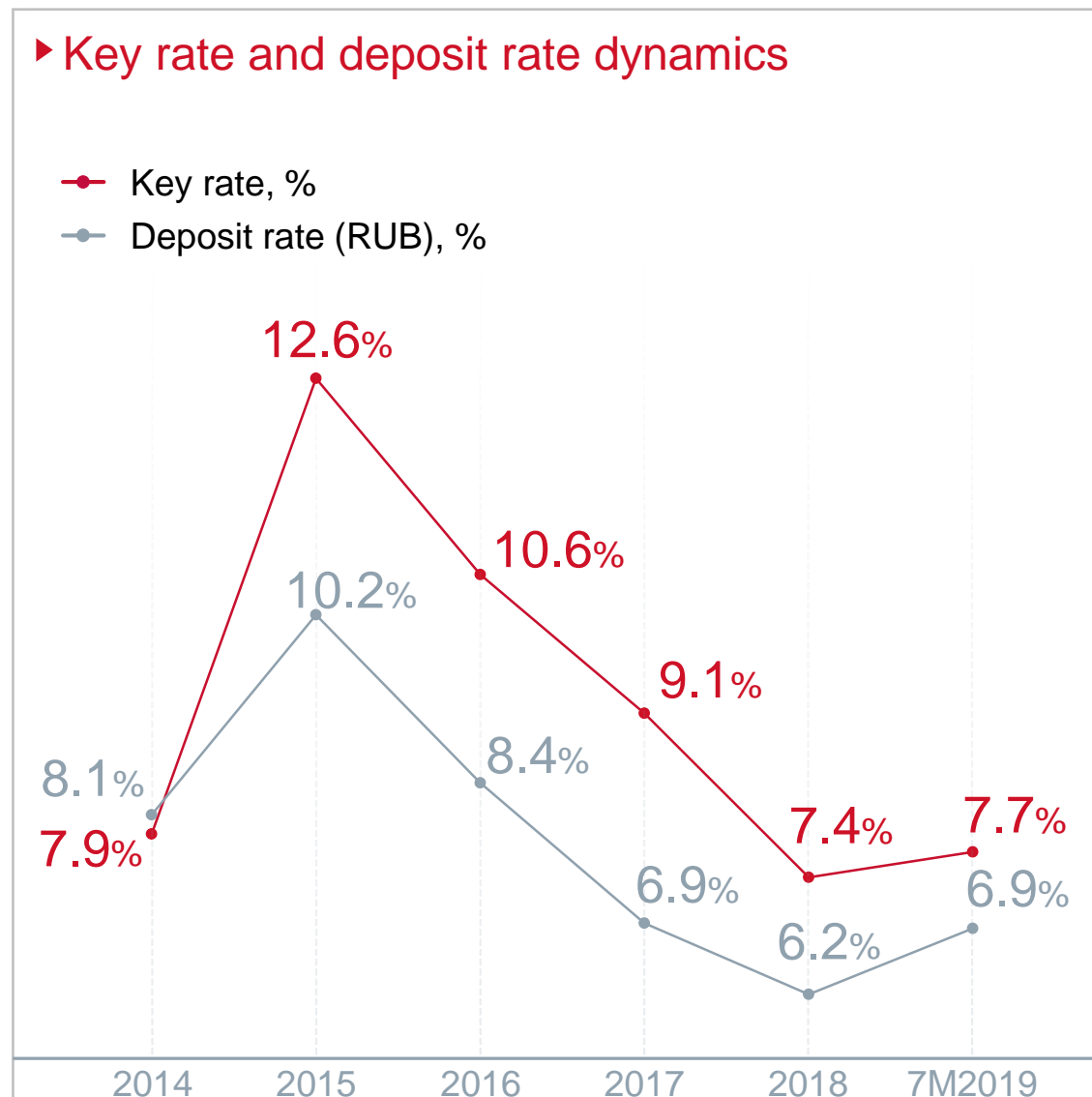
(equities, bonds, mutual funds)



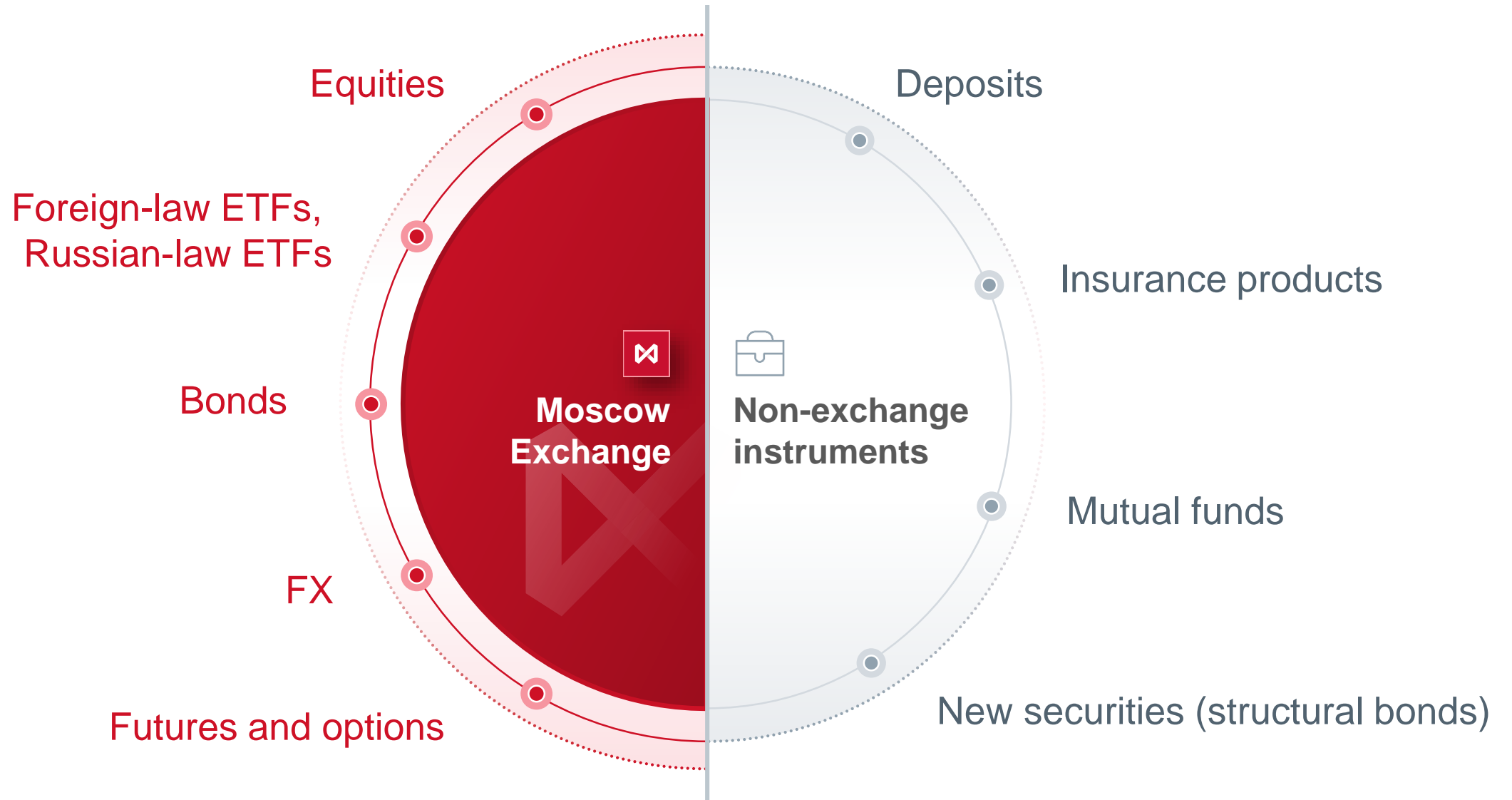
2019

Sources: The Central Bank of the Russian Federation, the Federal State Statistic Service, OECD (2016-2018 by different countries)

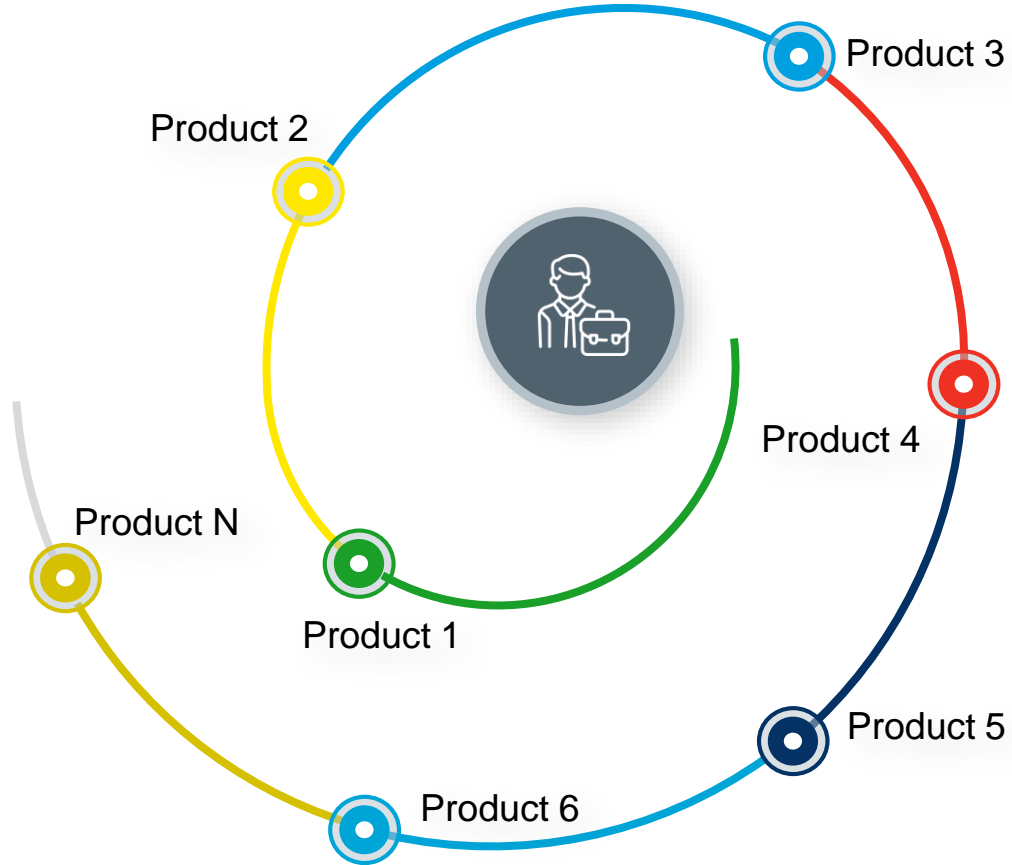
<p>▶ Return on investment in RUB, 7M2019</p>	
▶ 7%	Return on deposits
▶ 16%	Return of the MOEX Index
▶ 7%	Dividend yield (average)
▶ 8%	Return on the Corporate bond index



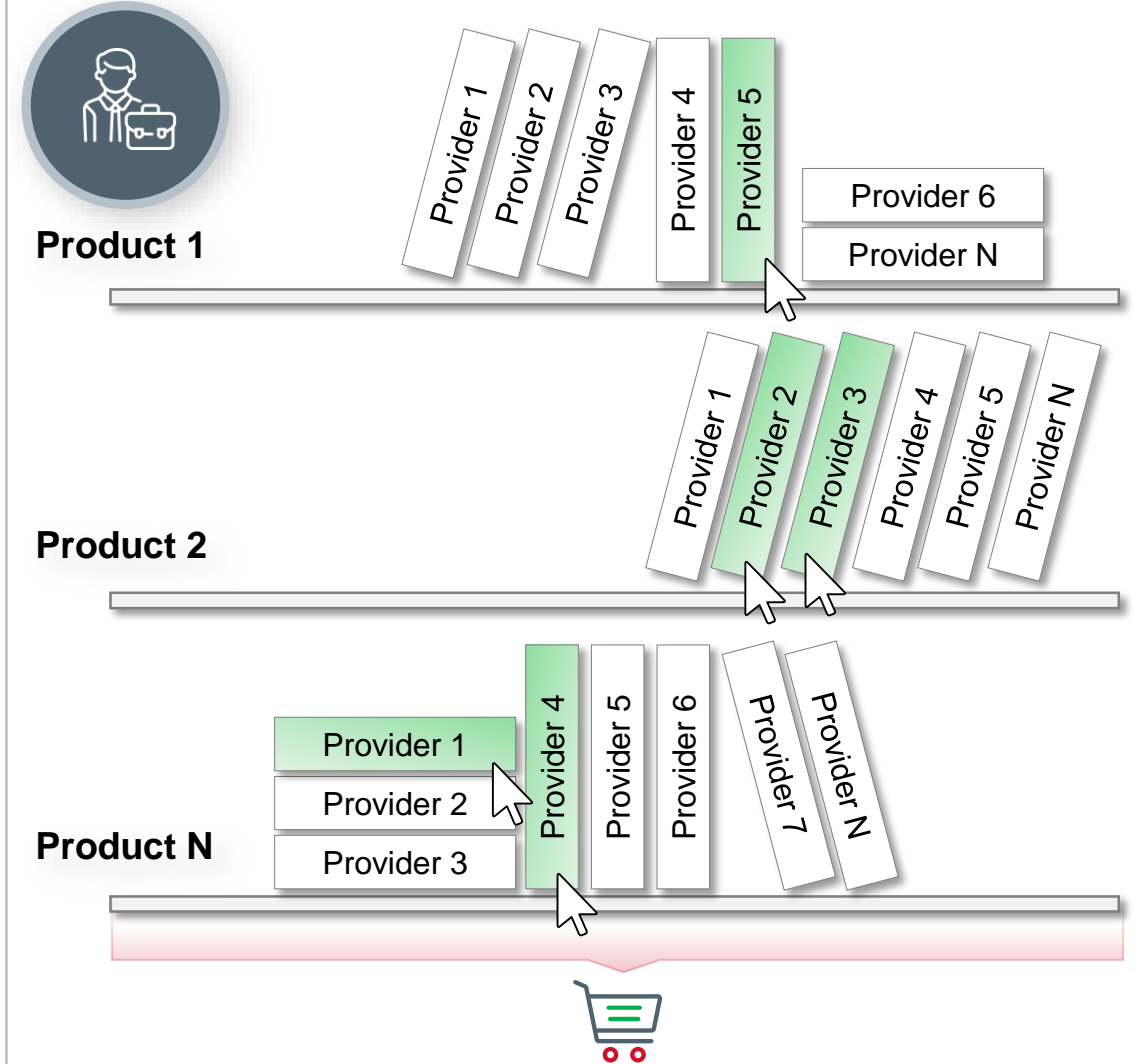
Source: Moscow Exchange, the Central Bank of the Russian Federation, Bloomberg

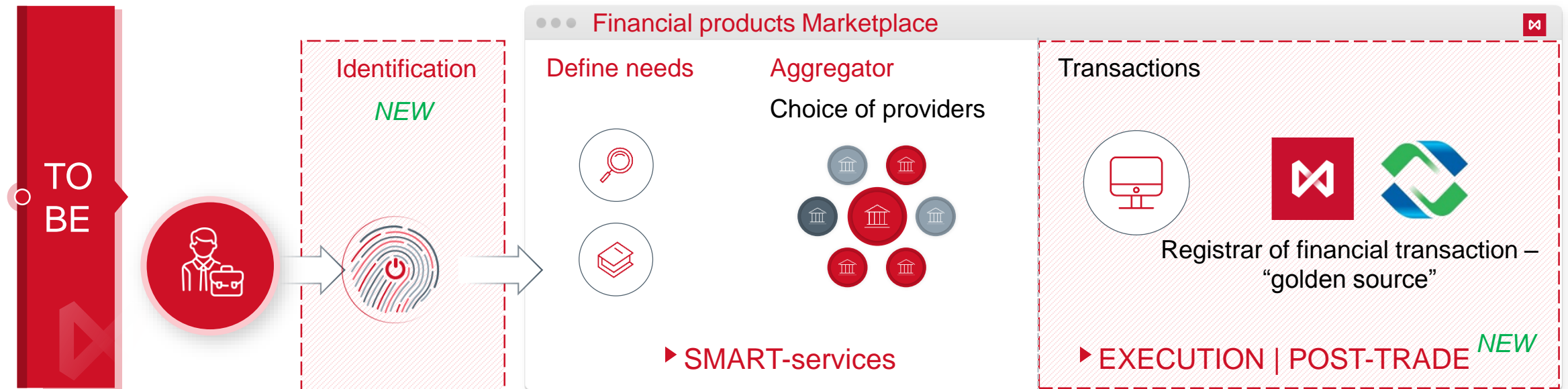
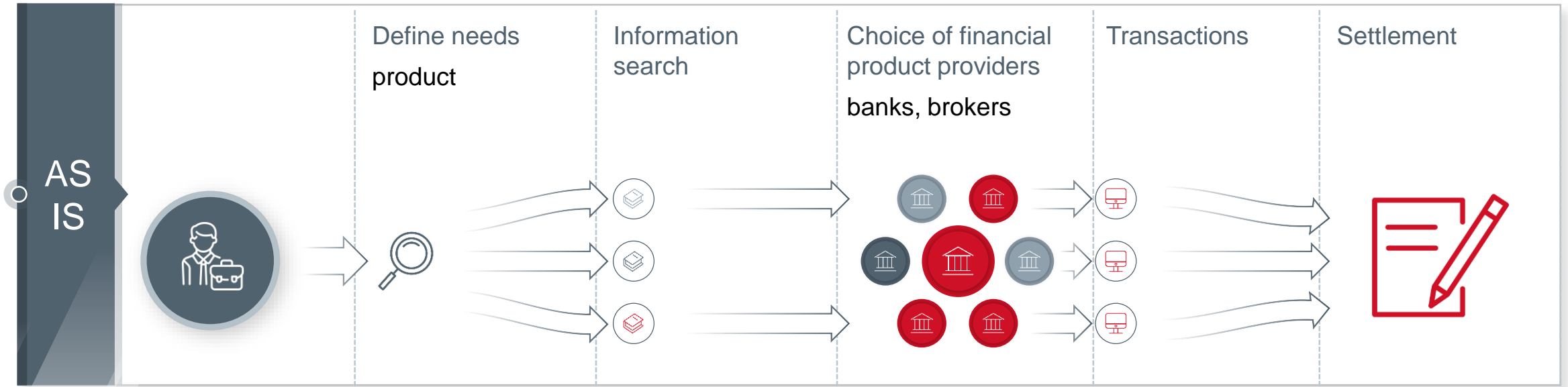


Ecosystem of one bank



Financial products Marketplace





Deposits of individuals



Service Description

- New sales channel for providers of financial services
- Asset management for retail segment



Partners

- Banks
- Providers of financial services

Business opportunities

Balance sheet management



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1992+

2013+

2019+

Trading & Clearing system for banks and brokers

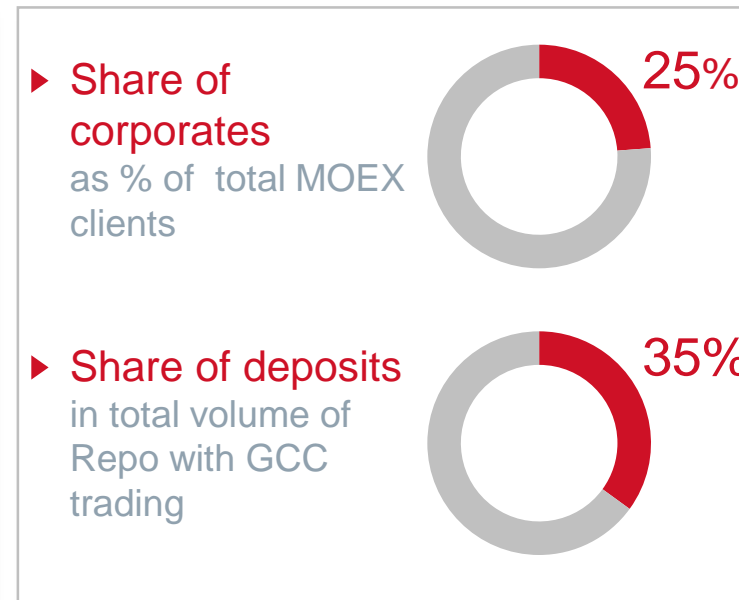
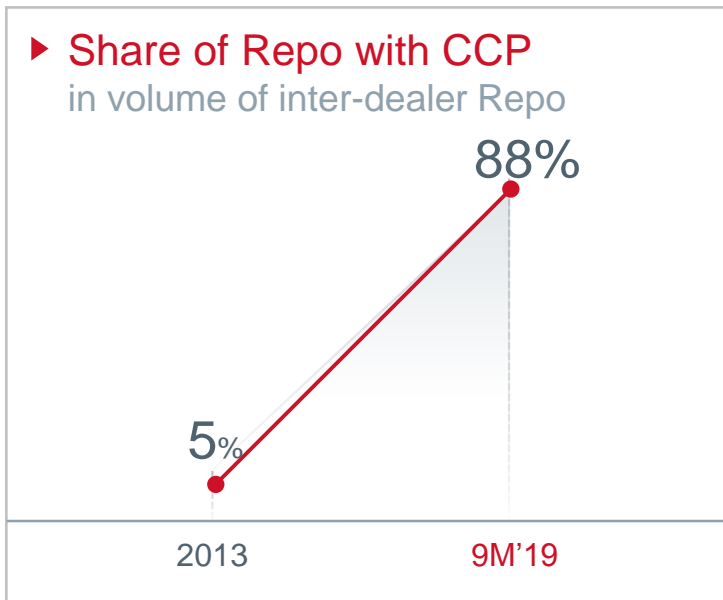
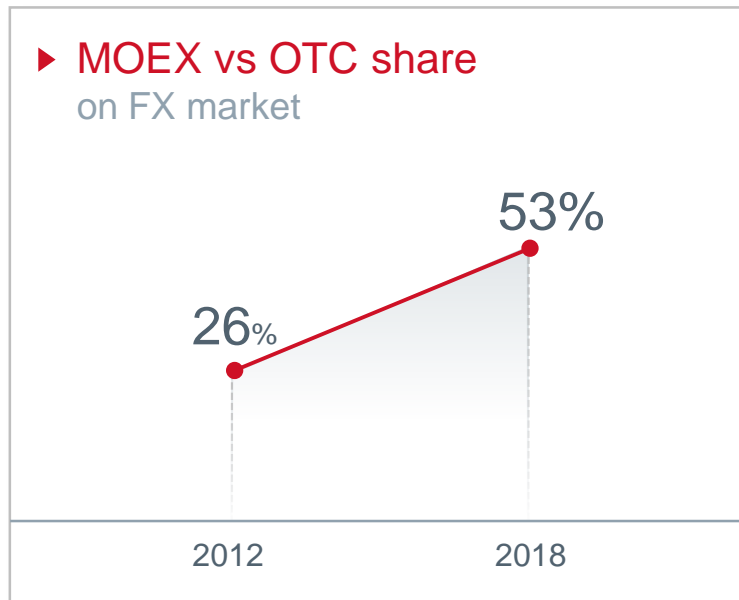
Exchange FX & Money Market

Platform with flexible solutions for different clients

- Negotiation deals
Repo with DVP
- Liquidity management in money and securities
- Conversion operations and FX swaps

- New access technologies (DMA / SMA)
- New clients on FX market (brokers, non-residents, corporates, retail)
- CCP guarantee and Repo rate trading

- Corporate marketplace: sales channel
- Wide range of treasury products
- Atomic services on trading, clearing and settlement



Source: Moscow Exchange

1992+

Speculative market



Key instruments: equity and FX derivatives



Key clients: retail

2013+

Globalization and diversification



Commodity derivatives growth



Increase of non-residents share and development of market access technologies

2019+

Market institutionalization



Growth of hedging operations by banks, asset managers and corporates

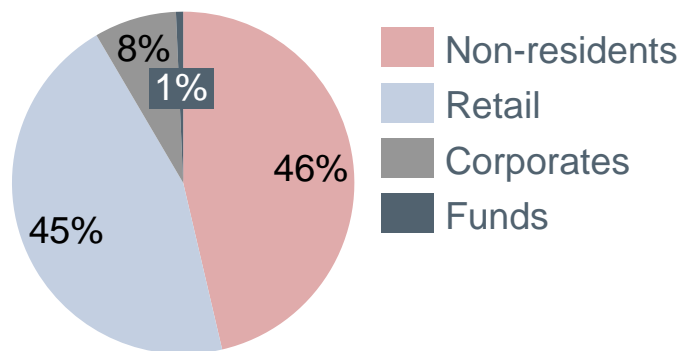


Liquidity growth and new liquidity (RFQ/RFS)

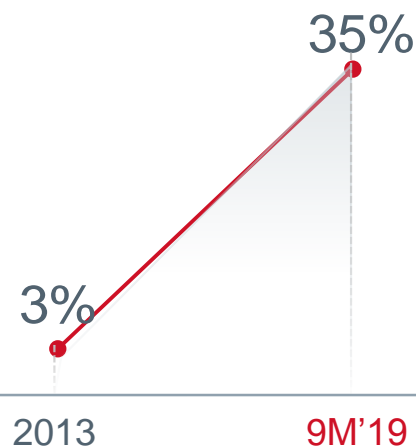


New technologies and instruments – interest rates derivatives and OTC derivatives

Derivatives market structure by client type (9M'19)

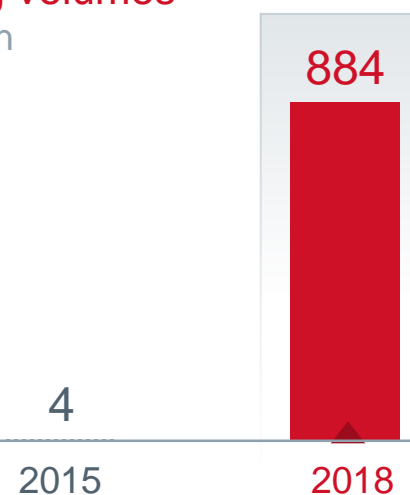


Share of commodity derivatives on Derivatives market



OTC derivatives (on-exchange) trading volumes

RUB bln



New challenges for banks

Regulatory requirements

Competition for clients and decreasing margins

Fragmentation of markets and increased competition from non-banking liquidity providers

Growing technology requirements

Strengthening risk management and compliance



MOEX platform offering

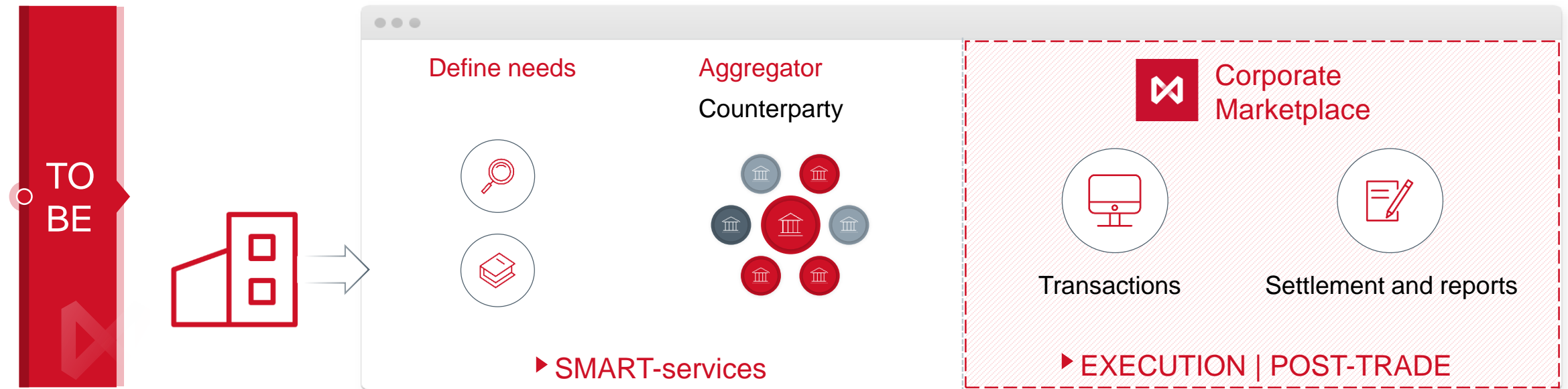
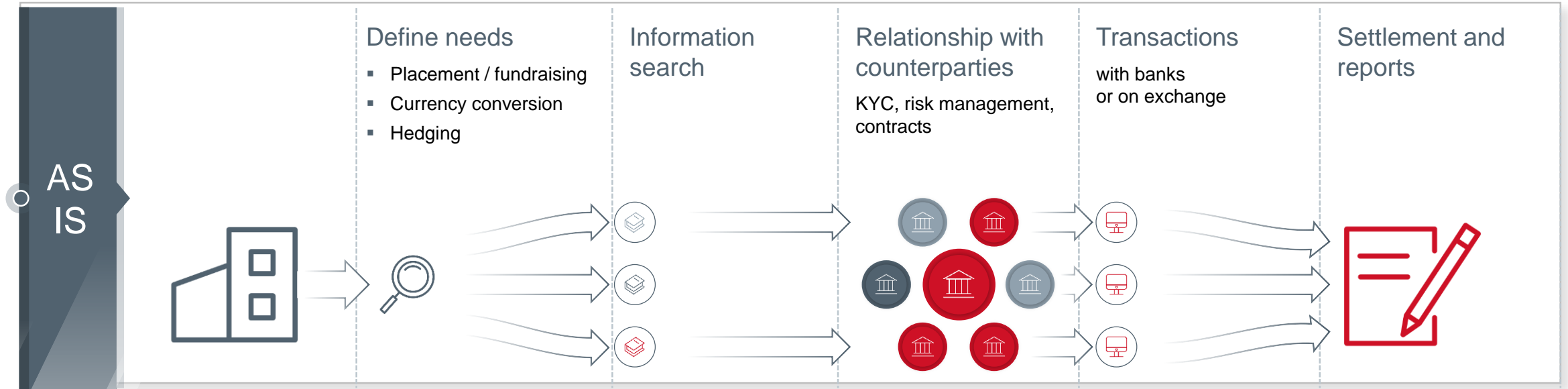
Central Counterparty

Wide range of clients

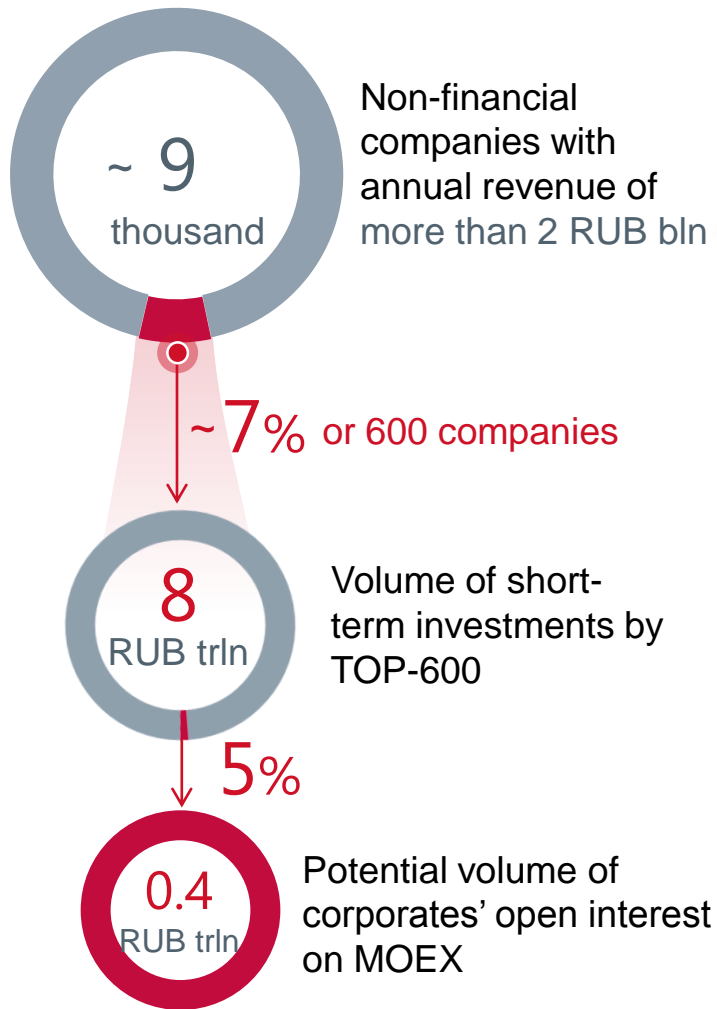
Flexible technologies for liquidity search and distribution

Neutral and technological competitive environment

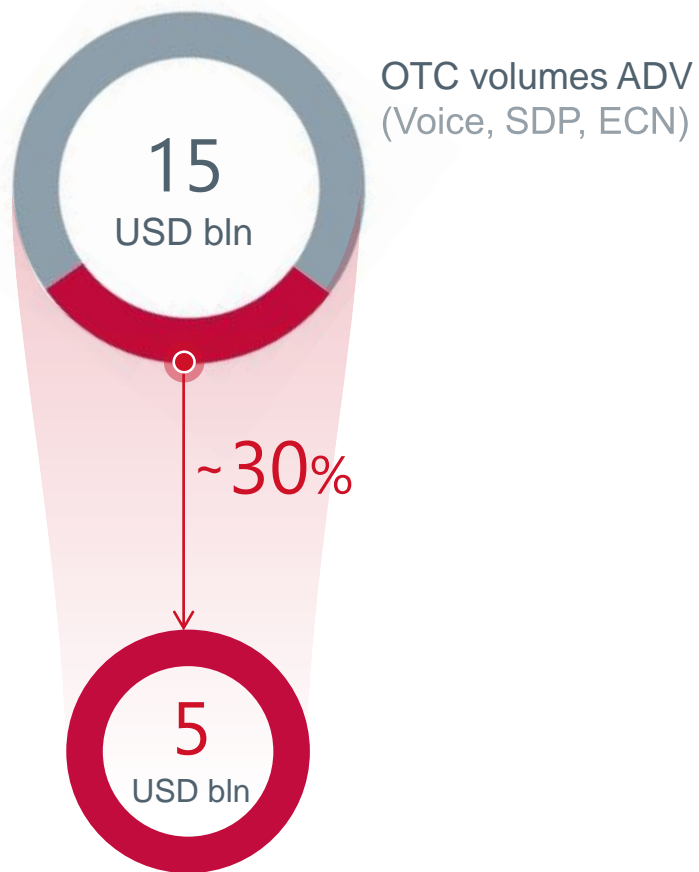
DVP/PVP Settlement



Corporates



OTC FX

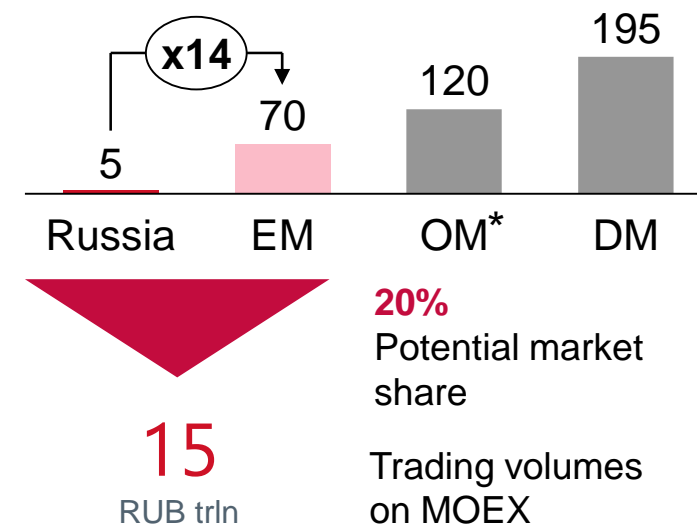


Standardized OTC derivatives

Share of interest rate derivatives (IRD) in total OTC derivatives trading volume



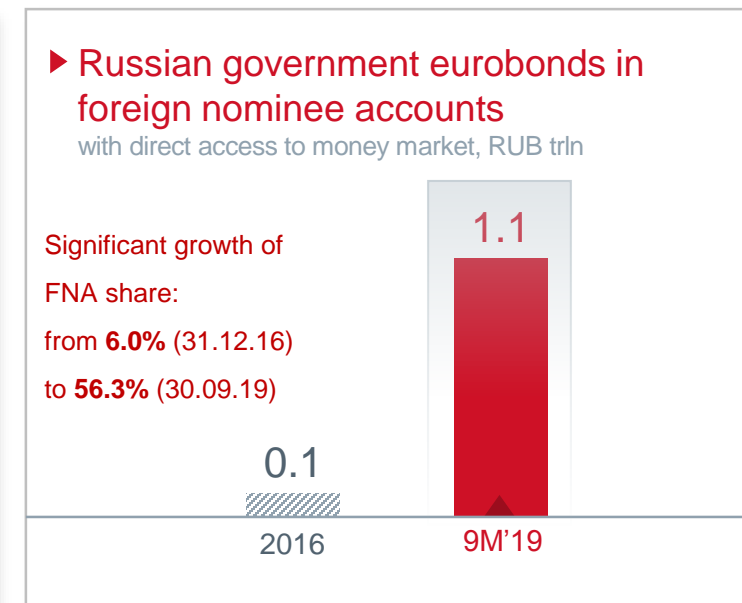
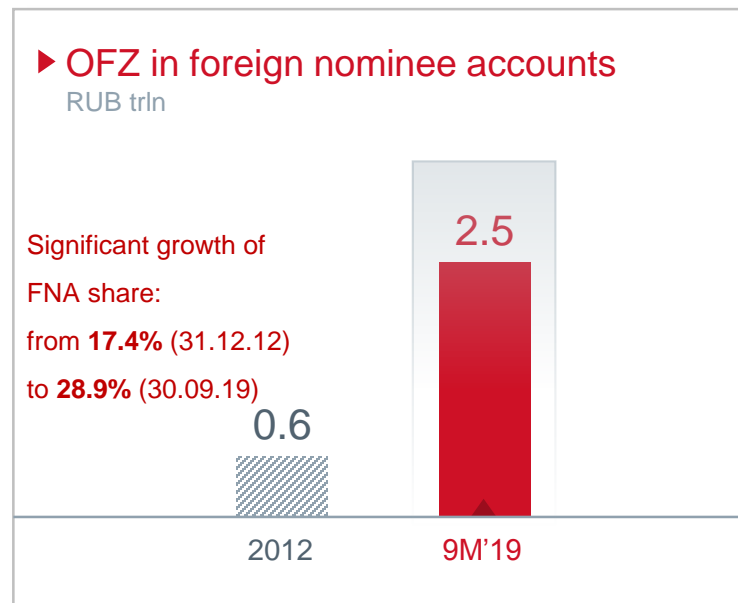
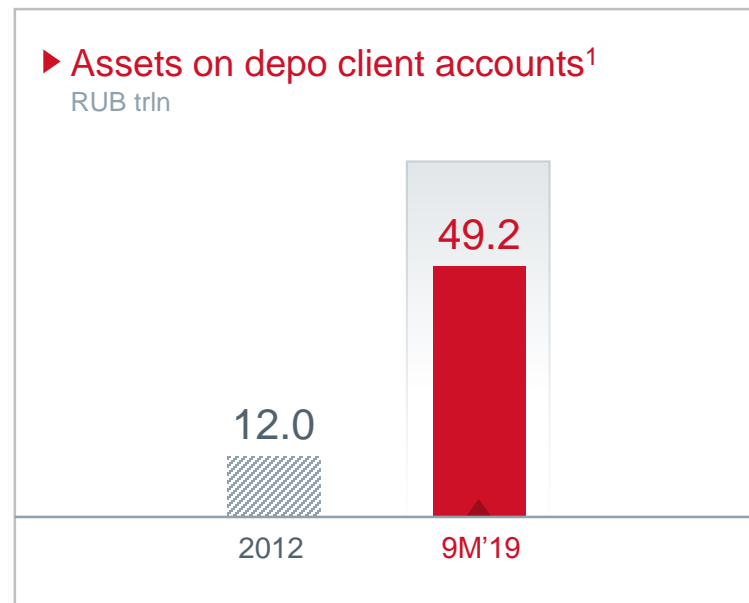
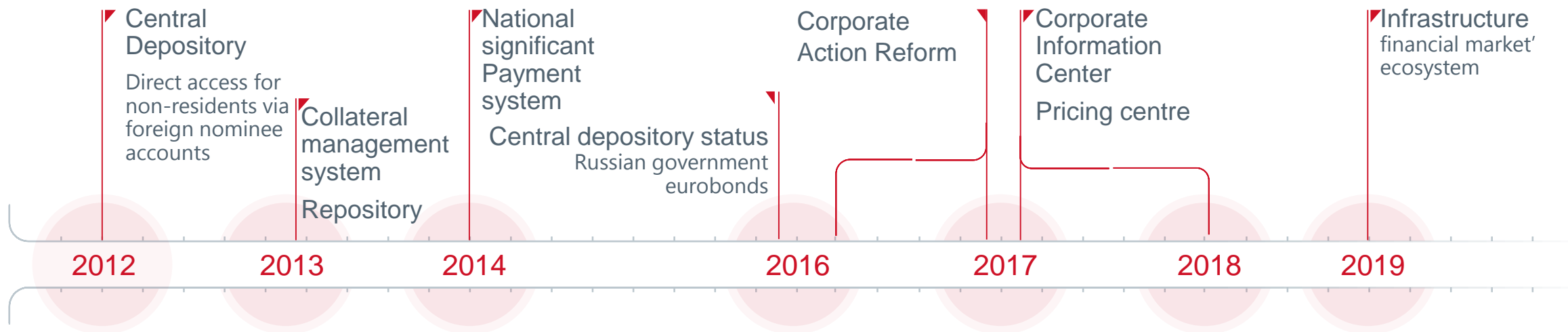
World benchmarks and potential



Source: SPARK, Moscow Exchange valuation, the Central Bank of the Russian Federation




Business opportunities




Financial platform



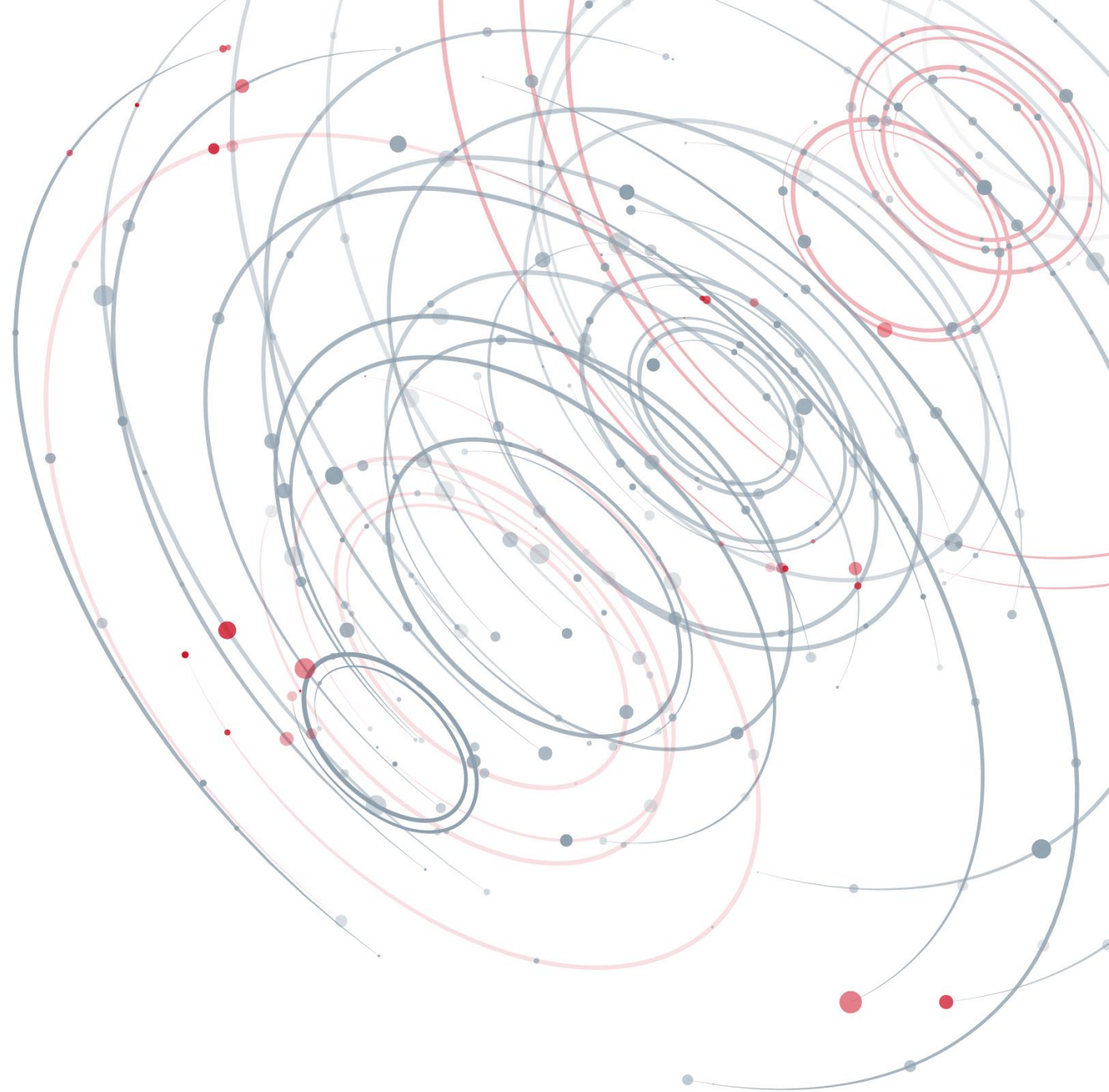
¹ End of period
Source: NSD

Strategic priorities

 <p>Settlement and custody infrastructure</p>	<p>Maintaining and developing NSD's positions as the leading provider of post-trade services</p>	<ul style="list-style-type: none"> • Maintenance of operational reliability • Infrastructure modernization: infrastructure consolidation, collateral management and segregated account structure • Integration into the global market: regional ICSD in the Eurasian space
 <p>New services and client segments</p>	<p>Income diversification</p>	<ul style="list-style-type: none"> • Launch of custody and settlement services for marketplaces/online trading platforms, pension and insurance industry, sub-federal and corporate segments • Management of new collateral types. Post-trading services for digital assets • Implementation of complimentary services and innovative technologies, including distributed ledger technology
 <p>Data assets</p>	<p>Unlocking the potential of data as the 'new oil'</p>	<ul style="list-style-type: none"> • Development of NSD's information services as the 'gold standard' for financial market players • Big Data-based analytical solutions • RegTech development

Direction	Initiative	Corresponding direction of MOEX strategy
 Settlement and custody infrastructure	Modernization of accounting infrastructure	Core markets penetration
	Cross-border integration	Market gateway
 New services and client segments	Platform solutions for B2B2C	Financial platform
	Transit 2.0	Financial platform
	Infrastructure for Digital Assets	Financial platform
	Collateral management of global creditors, capital market participants, insurance and pension markets	Balance sheet management
 Data assets	Development of the Corporate Information Center, Price Center	Financial platform
	Building an Information Asset Management Infrastructure (Data Lake)	Financial platform

Innovations and fintech



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Type of companies with the biggest impact within the next five years

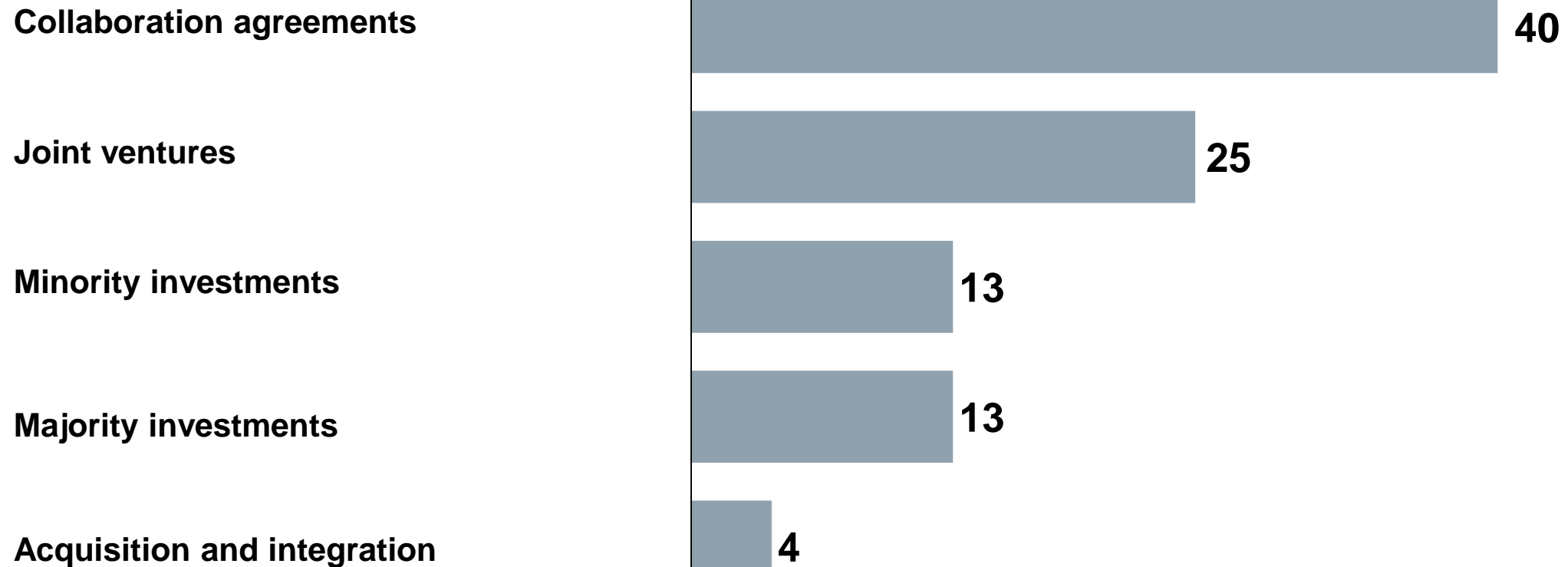
Share of responses in percent, %, n=46



- Enablers vs Disruptors
- B2B vs B2C vs B2B2C

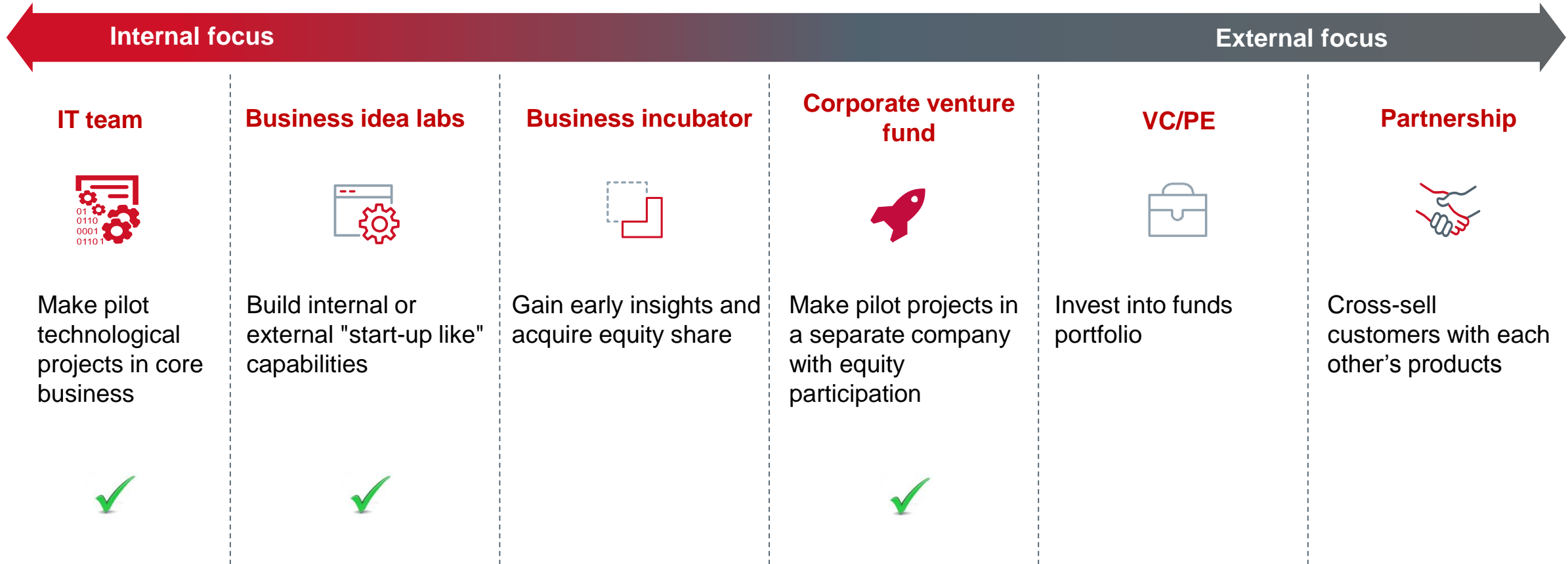
What models are most efficient when it comes to fintech relationships?

Share of responses in percent, %, n=46



Source: WFE-McKinsey Fintech survey

Companies are leveraging multiple organizational solutions and collaboration models to innovate





Stated goals

- ✓ Screening perspective ideas
- ✓ Development of non-core business areas
- ✓ Business expansion through synergies
- ✓ IRR of projects should be more than MOEX COE



Technology focus

- ✓ Distributed ledger technologies
- ✓ Alternative trading platforms
- ✓ Advanced data analysis methods
- ✓ Interfaces for retail



Mechanisms of cooperation

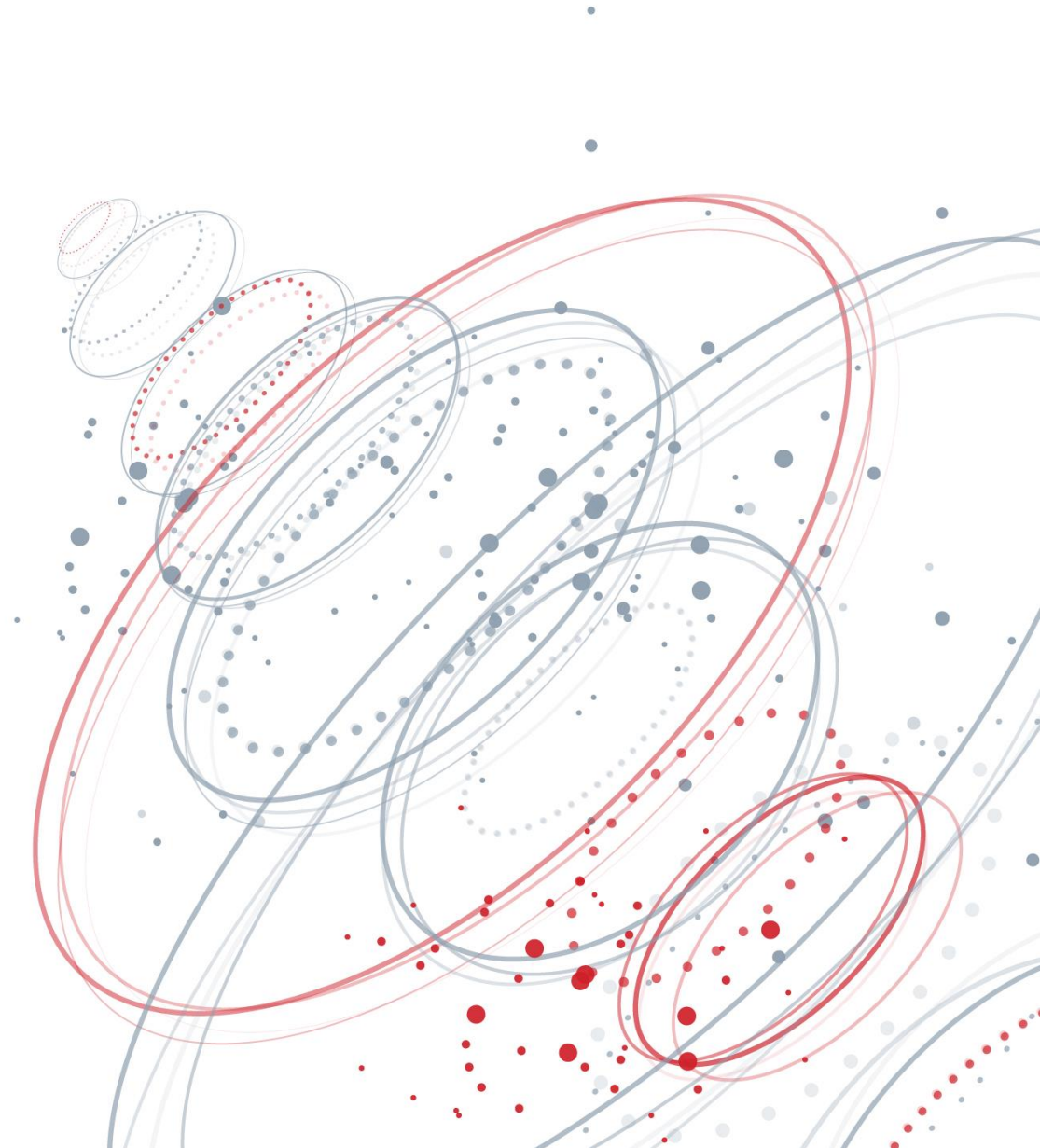
- ✓ Grants / R&D
- ✓ Acquiiring
- ✓ Revenue sharing
- ✓ Direct investments



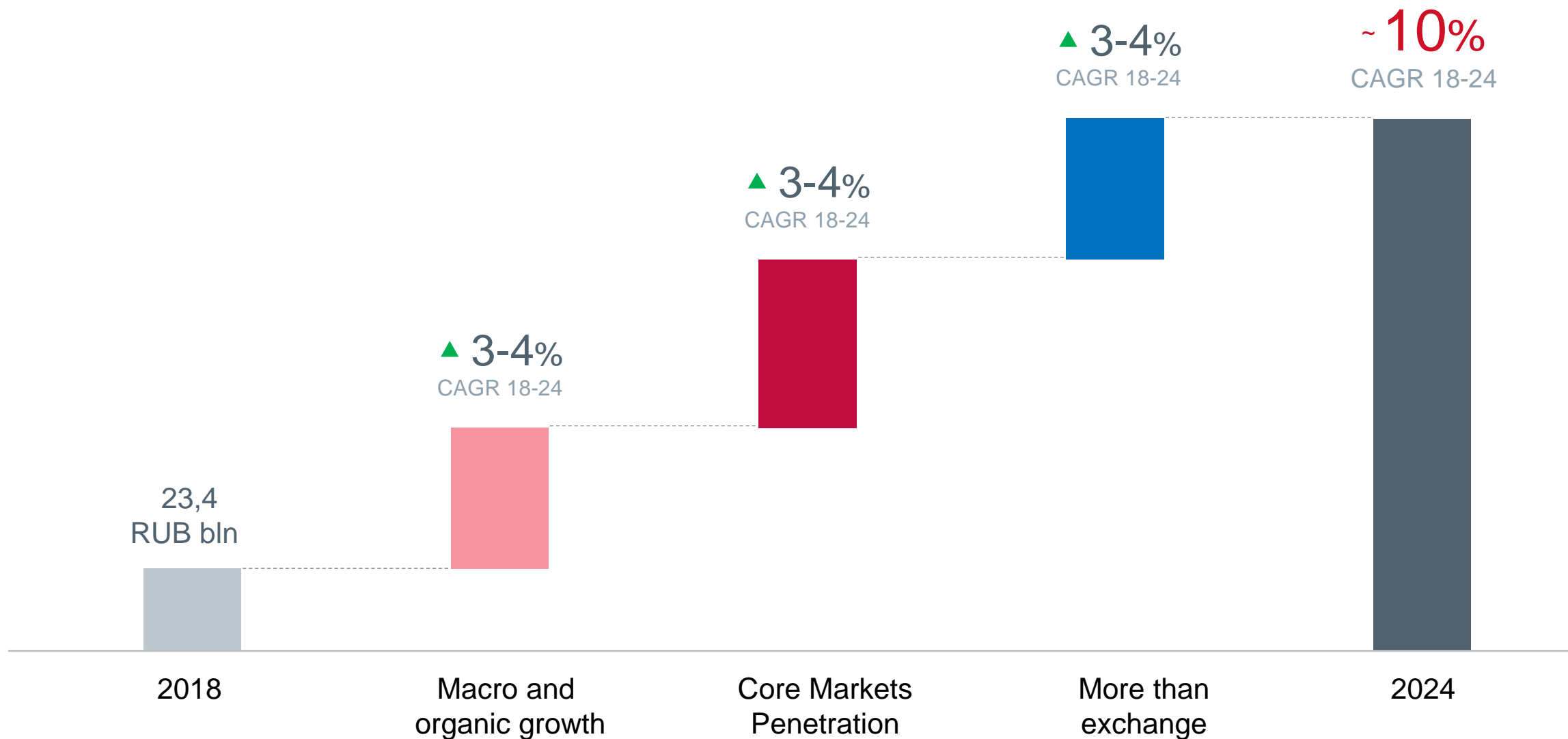
Results






2 projects in implementation stage, 20+ in pipeline

Financial forecast and dividend policy



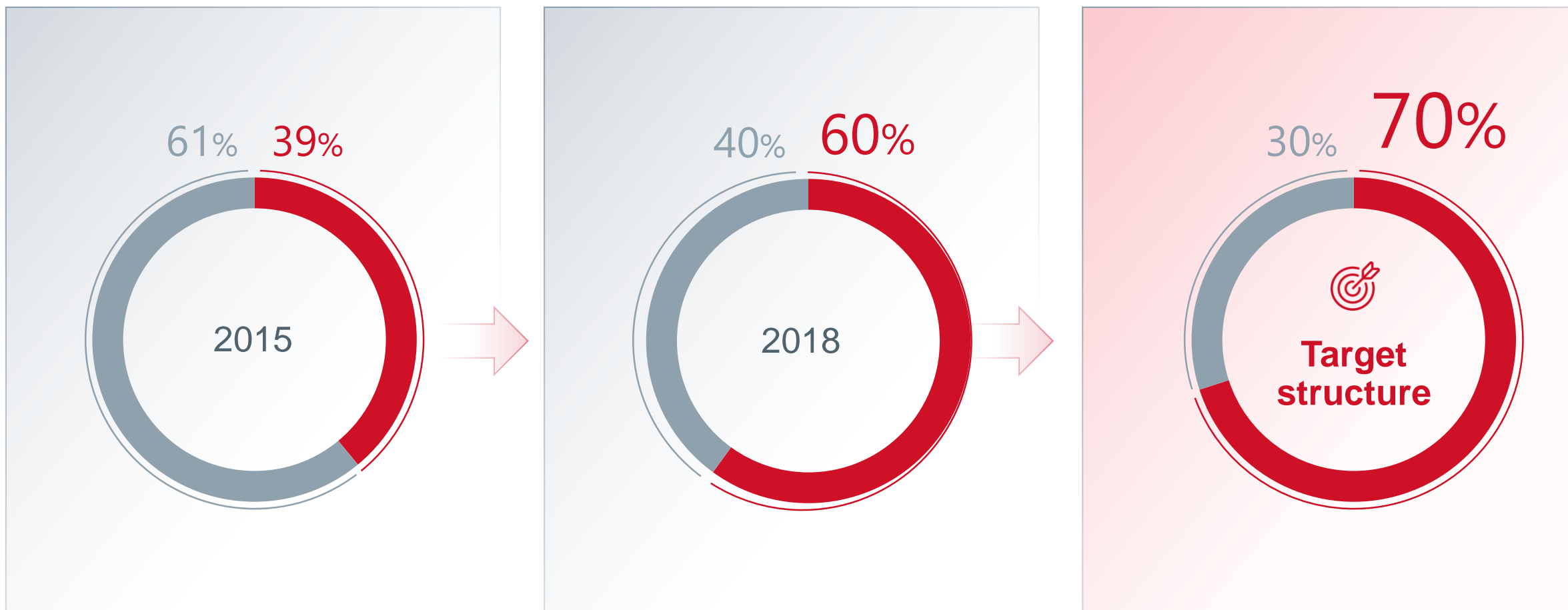
Effect of organic growth and strategy on MOEX Fee & Commission Income



	<h2>Macro</h2>	<ul style="list-style-type: none"> • GDP growth • Inflation • Foreign trade turnover
	<h2>Core Markets Penetration</h2>	<ul style="list-style-type: none"> • Primary market development (capital raising by companies, incl. SMEs) • Development of Derivatives market and Standardized OTC derivatives market • Expansion of trading hours and product line • Market Data
	<h2>Financial Platform</h2>	<ul style="list-style-type: none"> • Registrar of financial transactions • Transit 2.0
	<h2>Balance Sheet Management</h2>	<ul style="list-style-type: none"> • Corporate Marketplace • OTC services
	<h2>Market Gateway</h2>	<ul style="list-style-type: none"> • Financial products Marketplace • Investment Marketplace









| Target structure of Group's Operating Income

■ Fee & Commission Income ■ Interest Income



Free Cash Flow – guideline for dividend payments

The Company seeks a dividend payout representing **100% of Free Cash Flow**

- ↓ +  Operating Income
 -  Operating Expenses
 -  Taxes
 -  CAPEX
 -  M&A
 -  Regulatory capital changes and stress-test
 - +  Amortization
 - =  **Free Cash Flow**
- MIN
60% of Net Profit



Regulatory requirements

MOEX
Trading venue

~ **5** RUB bln
Trading venue capital

NCC
CCP

~ **55** RUB bln
N1ccp – 120%

~ **13** RUB bln
Regulatory NCC stress-test

NSD
Central Depository

~ **7-8** RUB bln
Economic capital

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–perception of market services offered by the Company and its subsidiaries;

–volatility (a) of the Russian economy and the securities market and (b) sectors with a high level of competition that the Company and its subsidiaries operate;

–changes in (a) domestic and international legislation and tax regulation and (b) state policies related to financial markets and securities markets;

–competition increase from new players on the Russian market;

–the ability to keep pace with rapid changes in science and technology environment, including the ability to use advanced features that are popular with the Company's and its subsidiaries' customers;

–the ability to maintain continuity of the process of introduction of new competitive products and services, while keeping the competitiveness;

–the ability to attract new customers on the domestic market and in foreign jurisdictions;

–the ability to increase the offer of products in foreign jurisdictions.

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