MOEX – Moscow Exchange 1Q 2014 IFRS Results Conference Call

Event Date: May 27, 2014

SUMMARY: Strong earnings growth driven by fees and commissions generated by increased trading volumes across markets, particularly the Equity and FX Markets, as well as growth in the depository and settlement businesses.

Investor Relations contacts

Sergey Klinkov, Director of Investor Relations – Tel. +7 495 363 3232 – Email ir@moex.com

SERGEY KLINKOV *– Director of Investor Relations, Moscow Exchange*

Good afternoon, everyone, and welcome to the Moscow Exchange 1Q 2014 IFRS results conference call. As usual, after the prefatory remarks we will have a Q&A session. But firstly, 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 to reflect events occurring after the date of the call prior to the next conference call.

So, by now, you all should have received our press release containing the results for 1Q. Our management presentation is available on the Company's website in the Investor Relations section. And now I will hand over the call to Evgeny Fetisov, Chief Financial Officer of the Moscow Exchange. Evgeny, please, go ahead.

EVGENY FETISOV *– CFO, Moscow Exchange*

Thanks, Sergey, and good afternoon, everyone. Before we go to the highlights of the quarter, I would like to mention that 1Q of this year was an exceptional quarter in many respects. We posted record trading volumes on some of our markets and products, we reached record trading positions on the derivatives market, and we saw record client balances placed with us by our clients. Some may say that all of this was driven by recent geopolitical events, but I would argue that the key reason for these results was the changes and the infrastructure upgrade that MoEx went through in the past few years: Russian CSD (Central Securities Depository), migration to T+2, new laws on clearing, exchanges, insider trading, listing, new regulations – just to name a few. External events in this quarter speeded up the growth that we saw as a result of all those. We as the management team are satisfied with how our systems and risk management went through the March events. The Equity Market worked on T+2 with not a single instance of default or technical delivery failure on those extremely volatile days. Although not all the markets grow at equal pace, and some of the products showed decline, the review of the business model of MoEx proved its worth with revenues and net income growing at 18% and 24%, respectively.

And now I would like to draw your attention to page 2 and to cover some of the most important highlights in 1Q. The Bank of Russia approved the new listing rules as a part of their ongoing listing reform. As you probably know, the rules have been brought in line with the Corporate Governance Code, which has also been approved by the Government and the Central Bank of Russia recently. We expect the new listing structure to come into effect in June this year. On 30 January, Euroclear and Clearstream launched services for the Russian corporate bonds. The necessary amendments to the tax code came into effect on 1 January, so it took international custodians about a month to start their operation. As we announced previously, the quasi-treasury shares were bought back and then cancelled, which led to the proportional growth of the investors' ownership of the Company's equity and their return on capital, as well as strengthening the corporate governance by preventing voting with all these shares. The Supervisory Board approved the list of candidates to the Board; the list includes 15 candidates, of which five are deemed independent. The new Board will be elected at the Exchange's 2014 AGM on 26 June this year. We continued to optimise the Group's structure and sold a 100% stake in Micex IT, an operator of the online procurement platform which was a non-core asset, for RUB 440m. The P&L impact of this is RUB 315m, and it was posted this quarter. On the other hand, we increased our stake in NAMEX, a commodities exchange trading grain, and we increased this stake to a controlling interest of 58%. This exchange would be a base for further development of our commodities business. Also, in April the Supervisory Board recommended approving a dividend for 2013 of [RUB 2.38] per ordinary share. The total amount recommended to be paid out is RUB 5.4bn or 46.83% of the consolidated net profit under IFRS for 2013.

Now let us turn to slide 3 with the overview of financial performance. Operating income in 1Q increased by 18% y-o-y to RUB 6.5bn, OPEX grew 24% y-o-y to RUB 2.6bn, with personnel costs driven by a different methodology adopted for yearly bonus accrual. From now on, bonus pools are accrued evenly throughout the year, while last year it was done in the second half only. Net profit was up 24% y-o-y to RUB 3.2bn. EPS grew 24% y-o-y to RUB 1.45. EBITDA margin remained at a healthy 68%, while cost-to-income was 39.4%.

Slide 4. Fees and commissions were at a record high in 1Q and comprised 60% of the total operating income. The only underperformer was the bonds market where fees contracted by 34% y-o-y. As for the other markets, the solid growth was driven by the FX market (64%), depository and settlement services (39%), equity market (28%) followed by the derivatives (21%) and money market (16%) y-o-y. Overall fees and commissions income remained well diversified, with the largest share generated by the FX market (23%), followed by depository service fees (21%) and the money market (16%). I will now walk you through some highlights of each of our markets.

Slide 5, equities market. Trading volume evolution in the equities market kept an upward trend, up 35% y-o-y, supported by the transition to T+2 and uplifted volatility in 1Q. Velocity grew from 37% to 45% driven by the volatility spike in March. Fees and commissions growth was robust and amounted to 28% y-o-y. The market share of MoEx vs LSE in dual-listed shares trading grew to 58% following the seasonal beginning-of-year decline and market shocks in March. We also saw fairly strong activity of market participants post March events. They opened more than 23,000 new accounts in March-April, while the share of non-residents in trading volumes grew to 46%.

Now let's move to page 6. As you know, the transition to T+2 has had a positive effect on trading volumes. The average trading volumes in September-December 2013 were 18% higher than the average volumes prior to the transition, while the growth accelerated in 2014 and reached 24%. It is important to mention that following the transition to T+2, trading volumes growth of MoEx exceeded that of the Russian DRs traded on LSE by almost 3 times. As you may see on the bottom chart, there was a continued inflow of client funds in 1Q 2014. At the same time, the rouble part stayed fairly flat with the additional growth driven mainly by the FX balances.

Next page. Bond market trading volumes declined due to the higher interest rate environment – basically the spike in the interest rate, FX volatility and market uncertainty. Trading volumes contracted by 30%, alongside a 34% decline in fees and commissions. However, in May we saw some signs of market improvements, with a number of issuers including MegaFon, UniCredit, and Gazprombank successfully placing bonds and experiencing healthy demand with oversubscription.

Next one. The derivatives market enjoyed a 29% y-o-y growth of trading volumes driven by the interest volatility, mainly in FX products, which comprised 49% of trading volumes in a number of contracts. The open interest continued to grow, showing the depth of the market and an increase in the participants' confidence in the infrastructure. Average open interest in 1Q reached 13 million contracts, up 33% y-o-y. As a result, fees and commissions grew by 21% y-o-y.

Next page. repo transaction volumes grew by 20% y-o-y, driven by repo with the CCP and higher volumes of direct repo with the CBR (Central Bank of Russia). repo with the CCP was in demand and continued its rapid expansion. Given the current liquidity situation in the banking sector, we expect this trend to continue. The product, which was launched in 1Q last year, constituted 9% of repo transaction volumes in the year. Money market fees and commissions grew by 16% y-o-y in the reporting quarter.

FX market, slide 10. In 1Q, FX market trading volumes increased by 95% y-o-y, driven by the rouble exchange rates volatility. The change in the product mix with an increasing share of FX swaps which are used by the market players to manage their liquidity positions led to the over-blended effective rate and the 64% y-o-y growth in fees and commissions.

Next page. Assets under custody at the NSD increased 54% y-o-y in 1Q, fees and commissions grew by a strong 39% y-o-y, driven by both assets under custody growth and a higher number of inventory transactions in the reporting period due to the strong demand for collateral management services offered by the NSD. The collateral management system for repo transactions generated around RUB 140m in 1Q.

Next page. The tri-party repo service offered by NSD since April last year is an addition to the existing product offering. The service offers collateral management by NSD, collateral allocation, substitution and margin call calculation and execution.

Next page. In 1Q, other fees and commissions income declined by 2% y-o-y, mainly affected by lower income from new listings on the back of muted activity in new offerings, spots and equities, and fixed income market in the reporting period.

Investment portfolio. The investment portfolio grew 39% y-o-y in 1Q to RUB 441bn, driven mostly by the continuing growth of balances of the market participants in the FX market. We continued to see a growing share of FX-denominated client balances which comprised 72% of the total investment portfolio in 1Q.

Just to reiterate, our investment policy prioritises liquidity and safety over returns, and as such we do not take any currency risks. As a result, FX balances brought us relatively low yields. Blended effective yield was 2.4%, and the interest income was slight y-o-y despite the growth of the average investment portfolio.

Off to the operating expenses. OPEX grew 24% y-o-y in 1Q 2014, driven mainly by hiring and staff costs due to the different methodology of full year bonus accruals and the impairment of investments in PFTS, our Ukrainian subsidiary. In 2014, we started to accrue full year bonuses in 1Q to evenly distribute accruals over the year, while last year it was done in 2H only. This created a low-base effect in 1Q 2013 and led to the 30% y-o-y growth. Excluding this effect on the bonus accrual differences, on a like-for-like basis the growth of personnel costs would be just 3.9%. Administrative expenses grew by 18% due to the impairment of investments in the Ukrainian subsidiary, as I just mentioned, as a result of the weakening local economy and overall uncertainty around the political situation. Excluding this item, the administrative costs growth was slightly above zero. So in 1Q 2014, MoEx continued to demonstrate cost discipline as one of the important focus points of the management.

So, thank you very much for your attention, these were our initial comments, and now I would like to open up the call for questions.

Operator
Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please, press "*1" on your telephone and wait for your name to be announced. If you wish to cancel this request, please, press the "#" key. Once again, that is "*1" to ask a question. The first question today comes from the line of Jason Hurwitz, VTB Capital. Please, ask your question.

JASON HURWITZ *– Analyst, VTB Capital*
Good afternoon. I would like to ask you a little bit about your investment portfolio. It seems that, as you have just mentioned, the yields were lower. Could you possibly give us an indication of how much of that was due to a change in the currency mix vs a change in your… well, we could call it risk appetite because we noticed that a lot more of the investment portfolio seems to be held in cash, or at least more of the assets. That is my first question. And the second question is broader, relating to potential initiatives and/or relating to the Euroclear changes. How do you see those potential initiatives that could be changing your fee structure, for example, how that might be affecting your revenues in 2014? Thank you very much.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you. On our clients' balances we definitely see a higher share of FX balances, and given our, as I mentioned, conservative and fairly limited investment strategy, we had, I would say, about the same size of the investment portfolio in bonds, which is about RUB 90bn. So the rest is kept in cash or cash equivalents, very short term deposits, so, that effectively leads to a lower yield. So whatever additions in FX we get to our prior current client balances gives us a very, very low yield, a very low interest.

And on Euroclear's access to the equities market, basically, we do not expect to have any changes in relation to that in the fee structure, on the fee side. We view this as a further development of the Russian market, we think this confirms the openness of the Russian market, and we view this as a positive event which should lead to increased trading volumes on the side of the foreign investors. So there might be a question on the timing of that, and, as we have discussed, previously it took some time, up to three months for Euroclear and Clearstream to start operations in bonds, both corporate and government bonds, whenever they were allowed to. So we expect it could be anything from three to six months before they can start or before they will be ready to operate in the equities market.

JASON HURWITZ *– Analyst, VTB Capital*
Very clear. Are there any other potential changes in terms of changes in the fee structure that might be affecting significantly your revenues going forward on either interest income or fee income?

EVGENY FETISOV *– CFO, Moscow Exchange*
We do not anticipate any changes to the fee structure which would have any substantial impact on the revenue structure. We are doing, I would say, regular reviews of our fee plans and tariff plans which our clients use, but there is no major overhaul that we expect in the short term.

JASON HURWITZ *– Analyst, VTB Capital*
Very good, thanks very much.

Operator
Once again, ladies and gentlemen, that is "*1" to ask a question. We have another question coming through from the line of Andrey Pavlov-Rusinov. Please, ask your question.

ANDREY PAVLOV-RUSINOV *– Analyst, Sberbank-CIB*
Good afternoon, this is Andrey Pavlov-Rusinov from Sberbank, I have got a question on your average fee yields, particularly, in the equities market and money market. We have seen growth of around 15% in both these markets on average in fee yields. Could you, please, elaborate on what was driving it and maybe what your outlook is for growth or how we should look at average fees going forward for this year? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
Andrey, I will start with the money market. We have not changed anything in the money market, so, it is just, say, the result of changing the product ratios or volume blend. So, whenever we have differences in the growth of the different products, high-yielding or low-yielding, we may see such results. And the FX market is the best example of that. On the equities side, we had a programme of free base at the end of the last year which started with the transition to T+2, basically to stimulate liquidity flow from T0 to T+, and that is why the effective rate at the end of the last year was lower. So, looking at this quarter, I believe that should be a normalised yield, if you want to consider this market going forward.

ANDREY PAVLOV-RUSINOV *– Analyst, Sberbank-CIB*
Clear, thank you. But with regards to money market, even if I account for the difference in fees on the repo with the CBR and other money markets, I still get around 15% of growth in average yield. Maybe you could just explain which particular segments are high-yielding?

For example, maybe it is repo with central counterparty which was driving the average yield for the whole segment here, or something else.

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, there was a change in repo with CCP pricing, although I need to check when that was done. So, if you allow, we can get back to you with more details on the structure, because I would not have this in my head right now.

ANDREY PAVLOV-RUSINOV *– Analyst, Sberbank-CIB*
OK, sure. Then, if you allow, I have just one more question on your cost growth. Given that the cost growth was largely driven by a couple of one-offs, you are still looking for the overall cost growth in line with inflation for this year, right?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, we actually were targeting 6% max, we hope we will be able to stick to that. So, this is the target we have set for ourselves internally.

ANDREY PAVLOV-RUSINOV *– Analyst, Sberbank-CIB*
OK, so, it is intact for this year, right?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes.

ANDREY PAVLOV-RUSINOV *– Analyst, Sberbank-CIB*
Thanks a lot, Evgeny, very clear.

Operator
We have another question coming through from the line of Maria Semikhatova from Citibank. Please, ask your question.

MARIA SEMIKHATOVA *– Analyst, Citibank*
Good evening, I have a couple of questions. First, we saw another strong quarter of depository and settlement fees. Just want to hear your views. Do you see the current level as the minimum sustainable level with a further upside from this collateral management services? Just want to hear a thought from this revenue line.

EVGENY FETISOV *– CFO, Moscow Exchange*
Maria, we think that there is still potential for the collateral management services with repo with CMS to grow further. We cannot give you any guidance on that, but we see an upside there. So, we may see some growth in the following quarter as well.

MARIA SEMIKHATOVA *– Analyst, Citibank*
OK, I see. And your comments on the money market and the equity effective rates were quite valuable. Can you provide similar comments on the bond market? Actually, the effective rate fell q-o-q in the fixed income market.

EVGENY FETISOV *– CFO, Moscow Exchange*
The fixed income market effective rate fell due to the fact that there were substantially lower amounts of new issuance which usually are higher priced vs the regular trading volume and usually they affect the effective yield on this market. So, given that in this quarter there were very few new placements, we actually saw a rate which is closer to the trading rate rather than the blend of the trading and new issuance rates.

MARIA SEMIKHATOVA *– Analyst, Citibank*
OK, understood. So, since we see some recovery already in May, potentially there is an improvement on this side.

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, you can look at the statistics as soon as they are published, and you would see if there is an additional or agreed volume of new placements, you can expect a higher effective yield there.

MARIA SEMIKHATOVA *– Analyst, Citibank*
I see, and maybe the last question from me. During the last conference call you mentioned that you were planning or discussing potential commissions from the collateral in FX on the derivatives market and maybe on the other markets. I just want to know if any decision has been made.

EVGENY FETISOV *– CFO, Moscow Exchange*
We are still in progress, I might say, so there is not much information I can provide on this at this point in time. We are still working on that.

MARIA SEMIKHATOVA *– Analyst, Citibank*
I see, and just to confirm that I understood your previous comments correctly: you do not plan any changes to your pricing on many of the markets in the short term?

EVGENY FETISOV *– CFO, Moscow Exchange*
This is not correct. I would say that we do not plan major changes, although what we are doing, as I said, is that we are always reviewing our pricing structure, we are always talking to our customers to change, to fine-tune the pricing offerings that we have in place. So, I would say there are no major changes that we expect, but otherwise we are still working to make sure that we are competitive and we are meeting our clients' needs with our prices.

MARIA SEMIKHATOVA *– Analyst, Citibank*
Understood, thank you.

Operator
Ladies and gentlemen, as a reminder, if you wish to ask a question, please press "*1" on your telephone key pad. We have no further questions at this moment, please, continue.

EVGENY FETISOV *– CFO, Moscow Exchange*
All right, if we have no further questions, I think at this point we may finish our call. Thanks, everyone, for your attention; I hope we managed to cover most or all of your questions. If this is not the case, please follow up by e-mail at ir@moex.com or just give us a call. Thank you very much again for your participation.

Operator
Ladies and gentlemen, that concludes our conference for today. Thank you for participating. You may all disconnect.
