



**The Association of European Businesses**

# Briefing by Sergey Sinkevich

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# Foreign Investor Opportunities



**MICEX Group**

September 2011

# Agenda

1 MICEX – the leading CEE stock exchange...

2

2 ...with high future growth potential...

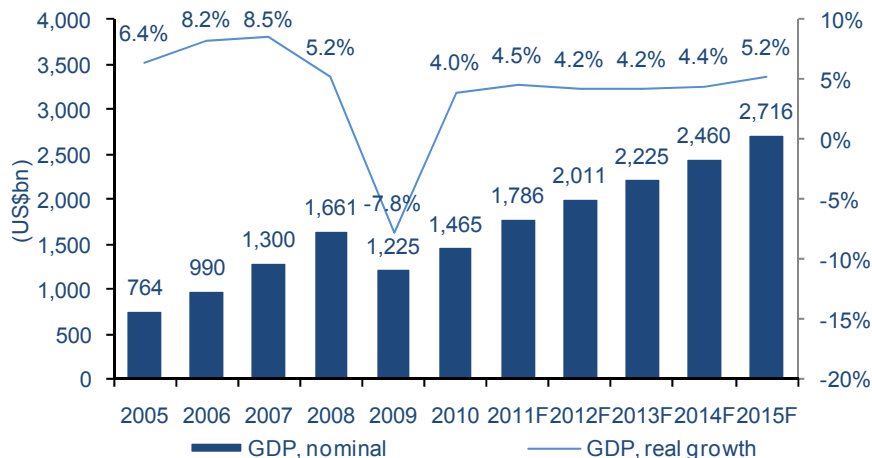
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3 ...and clear strategy to capture growth opportunity

12

# MICEX – Growth is Picking Up

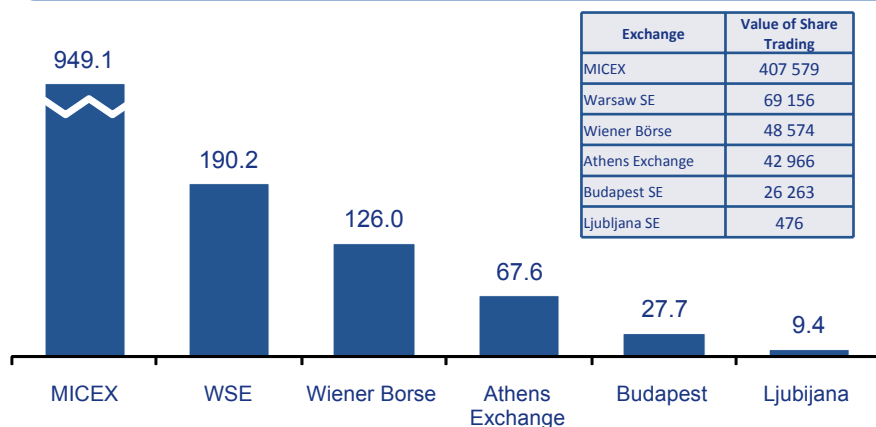
## Macroeconomics outlook



Source: Rosstat, VTB Capital Research

- GDP growth in 2011 is expected at 4.5%
- Oil prices are back to historic highs exceed in \$90
- Ruble exchange rate has stabilized at 28-30 per \$
- Reserves are back to pre-crisis levels
- 2011 inflation is expected at 6%<sup>2</sup> down from 9% last year
- 2011 unemployment forecast down from 8.5% to 6.8%<sup>3</sup>

## Traded companies capitalization (2010, US\$bn)



Source: World Federation of Exchanges

- MICEX is the largest stock exchange in CEE/CIS region by capitalization of traded companies
- significantly ahead of all other players
- in the past 6 years, Russian equity market capitalization has grown with a CAGR of 33%
- MICEX's trading turnover in 2010 totaled US\$4.8tn
- Acquisition of RTS allowed to capture dominating position in derivatives market in CIS and turn into a uniquely geared up platform

# Unique range of products offered at a single stock exchange globally

	Cash Equities	Fixed Income	REPO	FX Trading	Derivatives
Trading	✓	✓	✓	✓	Increase trading volumes
Listing /NPI <sup>1</sup>	IPO	✓	✓	✓	✓
Clearing	Introduce CCP <sup>2</sup>	Introduce CCP	Introduce CCP	✓	Introduce CCP
Settlement	Establish Central Depository	Establish Central Depository	✓	✓	✓
Data & Information	Enhance online data availability				

 Areas of expertise

 Key areas for development

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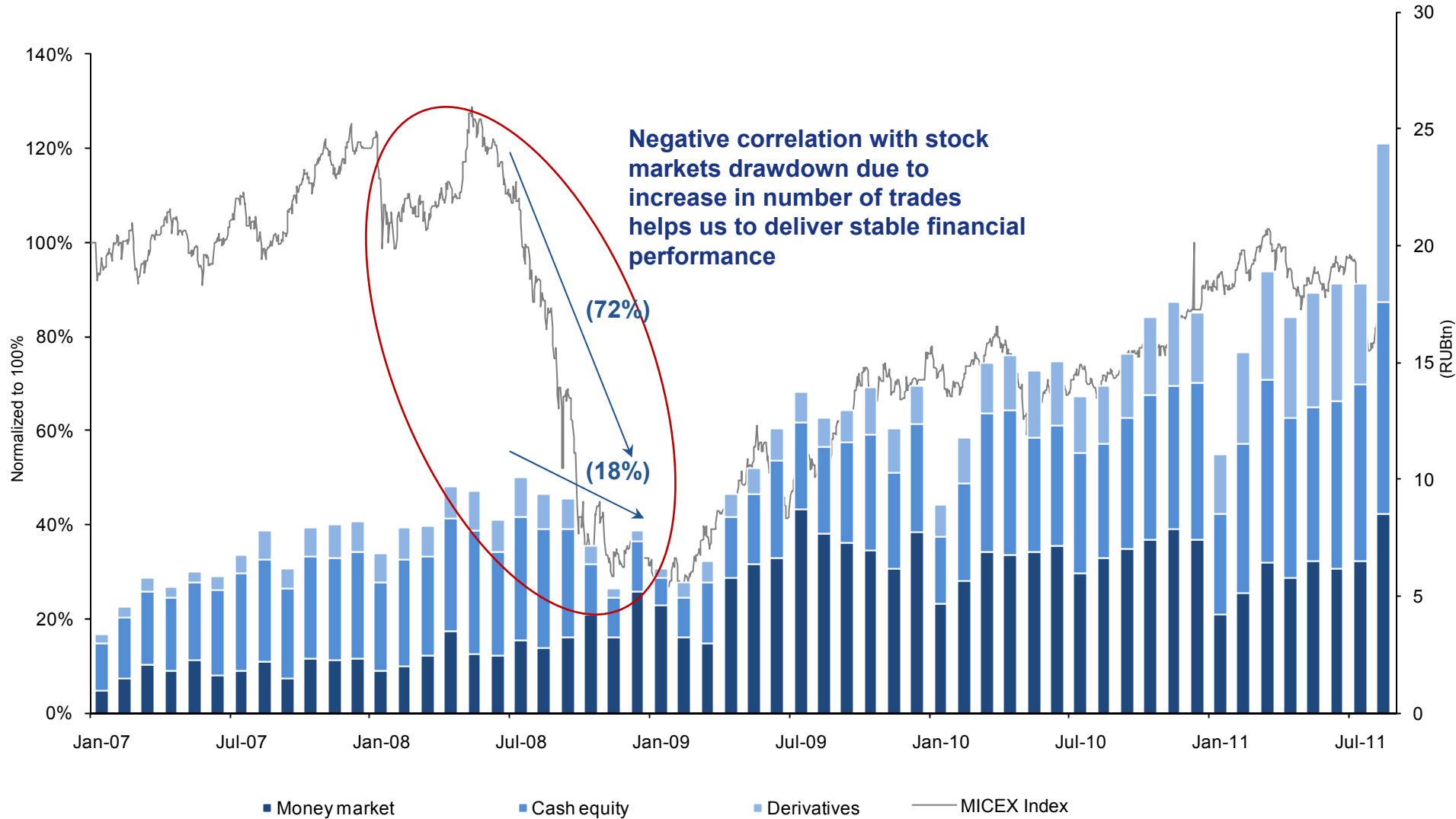
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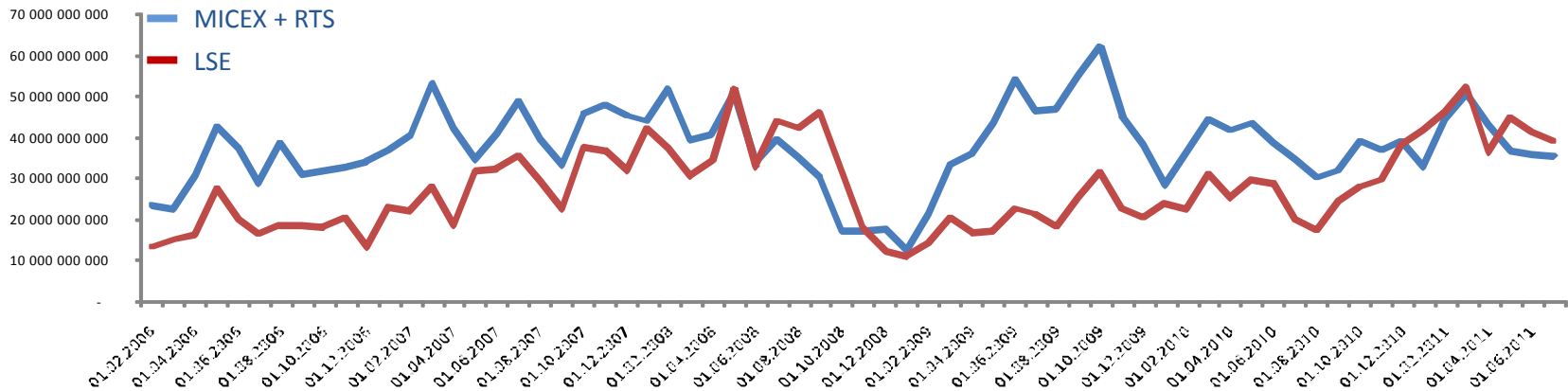
# Volumes grow regardless market unrest



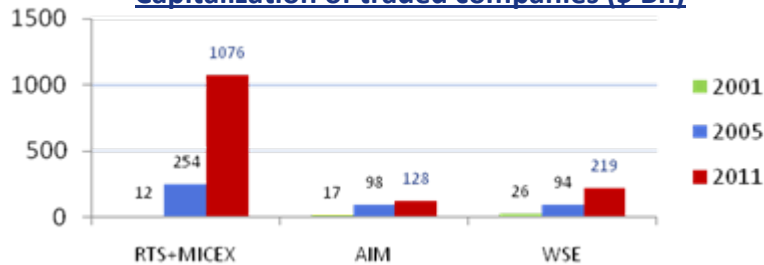
Source: Bloomberg as of 13 September, MICEX and RTS

# Equity Market

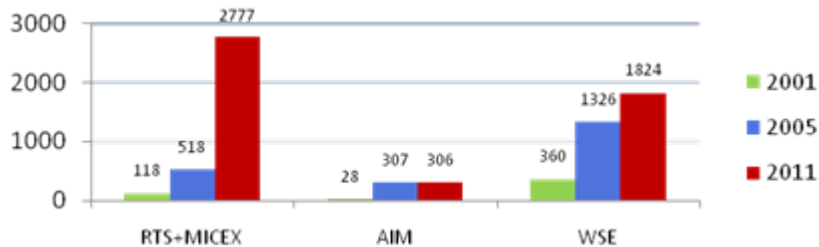
## Value of shares trading of Russian companies (MICEX + RTS), US\$



### Capitalization of traded companies (\$ Bn)



### Average Daily Trading Volumes (\$ MM)



- Trading Volumes of Russian shares are greater on MICEX+RTS than Russian DRs volumes in London:
  - more instruments traded in Russia
  - liquidity for 2-nd and 3-rd tier is greater in Russia
- MICEX-RTS is much larger than WSE and AIM if measured by market capitalization and trading volumes



# Fixed Income Market

## Value of primary bonds placements, US\$bn



- ✓ Monthly value of bond placements exceeds pre-crisis values
- ✓ Presence of 2-nd and 3-rd tier bond issues

## Secondary market yields, %



- ✓ Rates on the bond market are at the pre-crisis level
- ✓ After global market fell in August'09, rates at the secondary bond market on MICEX grew by an average of 0.6%
- ✓ Russian debt market stability is security by the Government

Market requirements	Exchange solution
Foreign exchange operations Currency SWAPs	<ul style="list-style-type: none"><li>■ Higher liquidity</li><li>■ Wide range of instruments</li></ul>
Reducing currency risk	<ul style="list-style-type: none"><li>■ Deals with CCP</li><li>■ Participation of the Bank of Russia</li></ul>
Cost reduction	<ul style="list-style-type: none"><li>■ New risk management system</li><li>■ New approach to deposit margin</li></ul>
New opportunities	<ul style="list-style-type: none"><li>■ Multilevel access</li><li>■ New instruments (CNY-RUB)</li><li>■ Trading hours extension</li></ul>

Market requirements	Exchange solution
Trading strategies with capital protection	<ul style="list-style-type: none"><li>■ Single-stock options* and futures</li><li>■ Indices derivatives</li></ul>
Synthetic investment products meeting investors' requirements	<ul style="list-style-type: none"><li>■ Combination of derivatives with stocks and fixed-income instruments</li></ul>
Hedging interest rate risk	<ul style="list-style-type: none"><li>■ Interest-rate futures: futures contracts on MosPrime and RUONIA interest rates</li><li>■ Government Bonds (OFZ) Futures</li></ul>
Managing currency risk	<ul style="list-style-type: none"><li>■ Futures contracts on foreign currency rates</li></ul>

\* Single-stock options are traded on RTS

# Key goals by each market/segment

Market share Goal		Strategic Goals-2015
Stock market	Cash Equities	Grow <ul style="list-style-type: none"> <li>Retain a leading position in the Cash Equities Market</li> <li>Become preferred listing &amp; trading floor for Russian/CIS issuers</li> <li>Increase international investors' share in cash equities trading volumes</li> <li>Introduce T+ / &lt;100% deposit requirements</li> </ul>
	Fixed Income	Maintain <ul style="list-style-type: none"> <li>Take advantage of the corporate RUB nominated bonds volume growth including bonds traded at MICEX</li> <li>Facilitate simplification of the utilization of bonds by corporate clients</li> </ul>
	Repo	Maintain <ul style="list-style-type: none"> <li>Retain a current position as the 3<sup>rd</sup> party provider of services</li> <li>Employ the CCP trading potential</li> </ul>
	FX	Maintain <ul style="list-style-type: none"> <li>Minimize the market share loss to OTC trading, including electronic OTC trading (EBS/ICAP), both on spot and swap transactions</li> <li>Use the non-price bound leverage to limit expected decline in prices</li> </ul>
	Derivatives	Grow <ul style="list-style-type: none"> <li>Gain a leading position in derivatives markets for Russian/CIS financial instruments through acquisition of RTS</li> <li>Develop new products and services including stock options, interest rate derivatives and other</li> <li>Upgrade clearing of the OTC transactions</li> </ul>
	Other businesses	Grow <ul style="list-style-type: none"> <li>Develop and improve trading data dissemination services</li> <li>Commodities could potentially become a material share in MICEX business, however it is not a first priority, since creating platform will require significant efforts while the return is not guaranteed</li> </ul>

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# Key initiatives to attract foreign investors

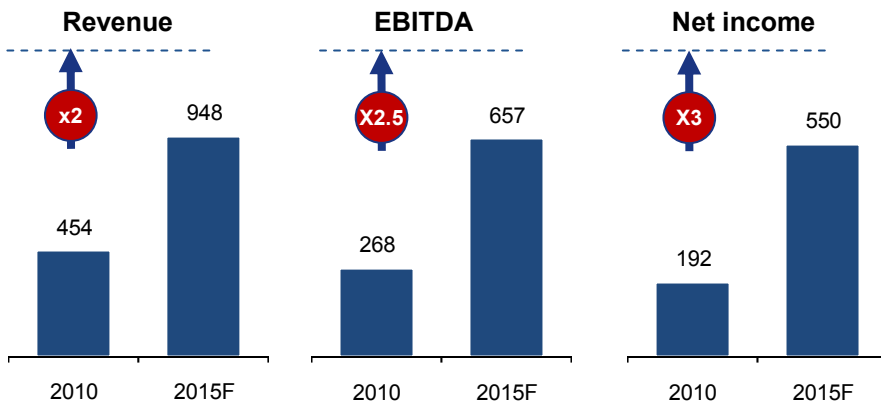
Initiative	Description
T+n trading protocol	<ul style="list-style-type: none"><li>■ Transition from T+0 settlement protocol to T+2 or T+3 settlement protocol</li><li>■ Deposits margin introduction (&lt;100% required deposit)</li></ul>
Central Counter Party	<ul style="list-style-type: none"><li>■ Transfer of Clearing services to National Clearing Center</li><li>■ New risk management system</li></ul>
Central Depository Infrastructure	<ul style="list-style-type: none"><li>■ Combination of depositaries (NSD &amp; DKK)</li><li>■ MICEX depository arrangements to comply with SEC regulation 17-f7</li><li>■ Law to be adopted by end 2011</li></ul>
Comprehensive DMA	<ul style="list-style-type: none"><li>■ Introduction of data exchange protocols according to industry standards</li><li>■ Comprehensive client solutions</li></ul>
Disclosure improvement	<ul style="list-style-type: none"><li>■ Prospectus requirements enhancement to industry standards</li><li>■ Introduction of bilingual prospectus</li></ul>

# Our aspiration is to become top-5 stock exchange globally

## MICEX performance objectives

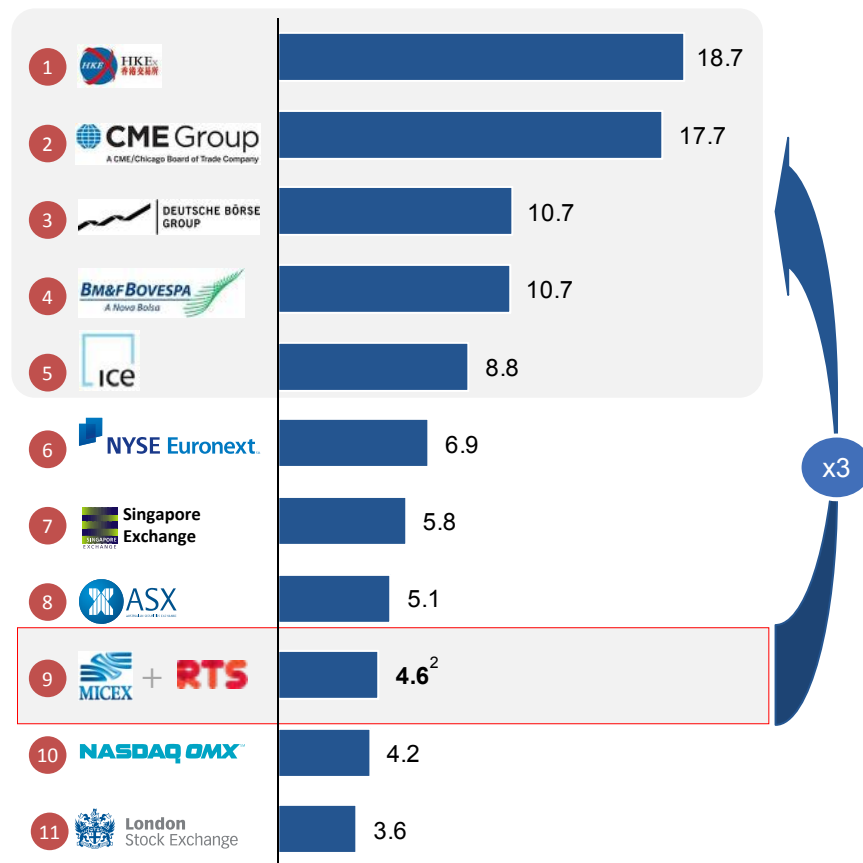
- Become the preferred stock exchange for Russian IPOs, traders and investors into Russian assets
- Roll out new products & services
- Make trading on MICEX comprehensive, comfortable and price efficient

## Financial forecasts (pro-forma, US\$m)



Source: Bloomberg as of 13 September 2011, MICEX

## Current size<sup>1</sup> and strategic ambition (US\$bn)



**MICEX+RTS is already top 10 by market capitalization with substantial value to be achieved through increase in trade volumes and profitability improvement**

# MICEX and RTS merger overview

Letter of Intent February, 2011      Deal Signing June 29, 2011      FAS Approval September 9, 2011      Legal Merger December, 2011      Completion of the integration process      IPO, 2013

**Stage 1**  
Planning and implementation of merger prior...

... and after deal approval

**Stage 2**  
Unification and transition to the target business model

- Development of the **organizational structure** and **management system**
- Announcement of a **new management team**
- Establishment of **working groups** in areas of integration
- **Integration plan** development
- **Communication plan** development

- Development of **joint exchange structure** and detailed **business plan** (with synergy effect)
- Implementation of common **decision-making procedures and management structures**
- **Clients' Committees** formation
- **Key decisions** (IT systems, indexes, etc.)
- Development of **Legal Merger Day plan** and target business model plan

- Transition to **target organizational structure** (on the legal merger day)
- Realization of **integration plan**, business plan and key initiatives
- Transition to **target structure of legal entities** and business models

Shareholders' Approval

August 5