Moscow Exchange Q2 2016 Financial Results Conference Call

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Earnings growth was supported by an increase in fee and commission income from all trading markets across the Exchange's diversified business, particularly the Derivatives, Fixed Income and Money Markets.

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

Good afternoon, everyone, and welcome to the Moscow Exchange Q2 financial results conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call Evgeny Fetisov, member of the Management Board and CFO of Moscow Exchange.

Before we get started, 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. By now, you all should have received our press release containing the results of Q2 2016. Our management presentation is available on the Company's website in the IR section. Now, I will now hand the call over to Evgeny Fetisov, MOEX's CFO. Evgeny, please go ahead.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you, Sergey, and thank you all for joining us today to discuss Moscow Exchange's results. Let us start with slide 2 showing the key developments in April–July 2016. Let me first cover some of the most important highlights in Q2 and July 2016. I will start with the most recent corporate events. The Supervisory Board of MOEX called an EGM for 2 September to address the question of corporate restructuring. The proposed restructuring is aimed at simplifying the corporate structure, reducing costs and streamlining client interactions by merging two 100%-owned subsidiaries into Public Joint Stock Company Moscow Exchange. The Board also appointed Anna Kuznetsova, Managing Director of Equities and Fixed Income Markets, and Igor Marich, Managing Director of the FX and Money Markets, to be members of the Executive Board for the next two years, bringing the Management Board to six people.

So far, 2016 has been busy in terms of new product launches and continued internationalisation of our business. We launched deliverable futures contracts on USD/RUB, EUR/RUB and CNY/RUB. We launched a new currency pair, CHF/RUB, which started trading on the spot and swap segments of the FX Market. We introduced direct market access to the Money Market for corporate clients through M-deposits, which allow corporate customers to manage their liquidity position through on-exchange auction technology. A leading automobile dealer ROLF and oil company Gazprom Neft were the first customers to use the M-deposits.

On the international side: our USD/RUB benchmark was recommended by the Emerging Markets Traders Association (EMTA) as the major settlement rate for OTC rouble derivatives. CME Group will also use our benchmark for its rouble-denominated currency futures. Markit's FX pricing distribution hub service added MOEX to its network of trading venues. We expanded our relationship with CQG by providing CQG's customers with access to our Equities Market and FX Market. The partnership between MOEX and CQG started in 1998 and previously covered only the Derivatives Market. And finally, MOEX became the first Russian financial institution to join the HyperLedger Project, an international open source community aimed at developing blockchain technologies. We are also on track with one of our key projects in terms of capital expenditures – migration to the new data centre. I am pleased to let you know that MOEX has completed the first stage of migration of its IT infrastructure to DataSpace1, which became fully operational as a reserve data centre. And finally, following the start of the corporate actions reform in July 2016, a Corporate Information Centre was launched at the NSD, forming a single source of corporate data with a "golden copy" status, which will solve the problem of multiplicity and inconsistency in corporate actions data.

Now let us move on to the financial results. In Q2, we showed healthy operating income growth of 6% YoY, largely thanks to a solid performance of fees and commissions across our markets (+13.3%) and sustained interest income (+1.3%). Fees and commissions contributed 45% of total operating income vs 42% in Q2 2015. Costs grew by 7.2% YoY, slightly below CPI in Russia. Cost to income ratio increased by 0.3 p.p. YoY to 26.4%. EBITDA amounted to RUB 8.5 bn, while the EBITDA margin remained at the best-in-class level of 78.4%. As a result, net profit grew by 7% to RUB 6.4 bn with ROE of 21.9%, down 2.4 p.p. due to an increase in equity.

Meanwhile, we continue to operate a highly cash-generative business with a net cash position of RUB 74.4 bn at the end of Q2, up 16.7% YoY.

Now I would like to walk you through the markets to give you an overview of our key operational achievements. FX Market: In Q2, FX Market trading volumes growth normalised and reached 6% YoY. Spot trading volumes grew 16% YoY and reached RUB 24.9 trln on the back of the normalisation of volatility. Swap trading volumes grew by 2% YoY and reached RUB 54.5 trln amid a better liquidity situation and cooling demand for the hedging of FX risks and managing FX liquidity positions. MOEX continued to increase its market share vs. OTC trading, with a market share of almost 55%. Money Market: Money Market trading volumes, both on-exchange REPO and REPO through the NSD, including REPO with the CBR and Federal Treasury, increased 39% YoY to RUB 83.9 trln. This strong result was mostly driven by a 3.1x growth of trading volumes in REPO with the CCP. REPO with the CCP remained one of MOEX's fastest-growing products and contributed 46% of total Money Market volumes. Another type of on-exchange REPO that is quickly becoming a flagship product –

REPO with GCC (General Collateral Certificate) – kept gaining momentum and grew more than 12x QoQ. Depository and Settlement Services: The average amount of assets under custody at the National Settlement Depository increased by 15% YoY to RUB 32.4 trln. The increase in assets under custody was driven by the increased market cap of the Equities Market, inflow of Eurobonds, bonds of foreign issuers and international institutions, as well as new local bond placements. Derivatives Market: We continue to get results from our marketing efforts last year with a trading volume of 472 m contracts in Q2 2016. Though futures on USD/RUB remained the most popular contract, the Derivatives Market saw growth across the board – index futures were up 62% YoY, commodity futures were up 4.9x YoY and options were up 1.6x YoY, resulting in 35% YoY trading volume growth. Futures on commodities remained one of the best performing products, driven by the increased liquidity of the product, which attracts a diverse investor base. Incidentally, in July, futures on commodities accounted for the largest part of fees and commissions from futures for the first time ever. Fixed Income Market: Trading volumes on the Fixed Income Market grew by a healthy 27% YoY and reached RUB 3.4 trln, mostly due to corporate bond primary market growth of 45% YoY on the back of lower interest rates and easier access of Russian corporates to public debt. Secondary market trading volumes were up 25% YoY with the government bonds' driving growth thanks to a number of important initiatives completed last year: we migrated to the T+1 settlement cycle, improved tariff plans to stimulate liquidity in OFZs and short-term instruments, and launched opening and closing auctions for OFZs. Equities Market: Secondary trading volumes in Russian equities grew by 7% YoY, while MOEX's market share vs LSE for dual–listed Russian companies continued to grow and accounted for 59% vs. 55% in Q2 2015.

Fee and commission income: Our well-diversified business model delivered fee and commission income growth of 13% YoY driven by growth across all trading markets. In Q2, the biggest contributor to the fee and commission income was the Money Market, which grew by 17% YoY and contributed 24% to total fees and commissions mainly driven by the growth of REPO with the CCP. The Derivatives Market showed the strongest growth rate of 56% YoY driven by volumes in all types of futures and options. Fees and commissions in the Fixed Income Market grew 38% YoY. The lower interest rate environment spurred primary placements of corporate fixed income instruments were among the key drivers of fee and commissions growth. FX Market fees and commissions grew 3% YoY on the back of lower market volatility. Depository and Settlement Services income grew 2% YoY thanks to new assets under custody. Equity Market fees increased 4% due to higher trading volumes on the back of market capitalisation growth. Other fee and commission income continued the growth trajectory (up 15%) and reached RUB 467 m thanks to healthy growth across all lines of other income. Listing fees grew by 42% YoY on the back of new bond placements. Fees from information services and sale of software and technical services grew by 17% YoY and 23% YoY, respectively, driven by the expansion of the client base.

Interest income: Our investment portfolio declined by 18% YoY due to lower average market participant balances placed with the National Clearing Centre. The decline mainly came from roubles and dollars, and in Q2, the investment portfolio averaged RUB 993 bn. About 88% of client funds were FX-denominated, most were deposited by FX Market participants. The average effective yield of the investment portfolio grew to 2.4 p.p. from 1.9 p.p. in the same period last year. Interest and other finance income grew by 1% YoY to RUB 5.9 bn on the back of a shift of the investment portfolio structure towards FX and rouble-denominated securities, mostly OFZs and Russian Eurobonds.

Operating expenses. Operating expenses grew only by 7% YoY, slightly below Russia's inflation rate. Personnel costs decreased by 4% YoY to RUB 1.3 bn due to the reversal of the bonus provisions related to 2015. New hires were offset by corporate optimisation, so we continue to hold the number of employees approximately at the same level of 1,600. Personnel costs accounted for 47% of total costs. Administrative expenses grew by 20% YoY. The growth was mostly driven by higher depreciation and amortisation, spending on equipment and intangible assets as we are on track with the implementation of our CAPEX programme. The growth was partially offset by what we are spending on professional services and renting office.

That concludes our opening comments and now I would like to open up call for any questions. Thank you very much for your attention. We are ready to take questions.

OPERATOR

Thank you very much. If you wish to ask a question, please press “*1” on your telephone keypad. If you wish to cancel the request, please press the “#” key. Your first question is coming from Jason Hurwitz, VTB Capital. Jason, please ask your question.

JASON HURWITZ – ***VTB Capital***

Good afternoon. A couple of questions. First relating to your interest income: if you could give us a little bit of a breakdown in terms of the amount of one-offs that you have had in recent quarters and what has happened in this quarter in relation to that and are we starting to see that as being something that is going to be more sustainable going forward? I realize we asked that question in recent quarters as well, but the interest income remains strong. The second question relates to your OPEX. In particular, if you could elaborate further on this bonus related to performance and whether you see this is as truly one-off or seasonal perhaps? And also, if you could give us some indication as to what is the CAPEX in Q2 and do you have any updates on that for your business as well?

EVGENY FETISOV – *CFO, Moscow exchange*

Thank you for your question, Jason. I will repeat the questions because the line was not very good. As far as I understood, your first question was if we had any one-offs in our net interest income in Q2 2016. We did not. It is likely that these levels that we see right now are more or less normal levels that we can expect from the current client balances with the existing interest rates. I would say this is more or less a normal level in terms of what we can get as the NII with the current amount of roubles, dollars, and euros that we have in our portfolio. On the OPEX side, the question was – as far as I understand – was on the the bonus provision reversal. The fact is that during 2015, we created a reserve for bonus payment for the results of the year and it was not fully used. So as not everybody has met their KPIs – some of the provisions which were created during 2015 for the amount of RUB 109 m were reversed in Q2 and that was basically back to the P&L. This one-off thing should not be repeating in Q3 or Q4. However, we do not exclude that this could repeat in Q2 of the next year after the bonus calculation and payment is processed.

JASON HURWITZ – *VTB Capital*

Also relating to the OPEX, could you give us any figures on CAPEX for Q2 and any updates for the full year?

EVGENY FETISOV – *CFO, Moscow Exchange*

I have a number for the whole year: right now we have guidance of RUB 4.1 bn for the full year. It is likely to be RUB 3.6 bn for the full year as we are spending less on the data centre, so we have some savings. So it looks like the whole CAPEX will be about 10% less than we thought it would be.

JASON HURWITZ – *VTB Capital*

And is there a number for Q2?

EVGENY FETISOV – *CFO, Moscow Exchange*

Yes, let me pull up on it a bit later, I need to pull up the number for Q2.

JASON HURWITZ – *VTB Capital*

Okay. One last minor question is on the interest income, there is a new category of assets in your portfolio – REPO. Could you elaborate a little bit on why you have chosen to expand the category list and any other reasoning relating to that?

EVGENY FETISOV – *CFO, Moscow Exchange*

Jason, can you repeat the question? Your line is bad. I am not sure I am getting it.

JASON HURWITZ – *VTB Capital*

Okay, I hope this is better. In the investment portfolio by type of asset on page 7, you have added a new category – REPO. Could you possibly enlighten us as to why you have added that and if it is going to impact your interest income going forward?

EVGENY FETISOV – *CFO, Moscow Exchange*

There might be some details that we will add, but there were not any particular changes in the way we invest our own cash or client funds.

JASON HURWITZ – *VTB Capital*

Fair enough. Thanks very much.

OPERATOR

Thank you. Your next question comes from Andrew Keeley, Sberbank. Andrew, please, you can ask your question.

ANDREW KEELEY – *Sberbank CIB*

Good afternoon. First question is on the costs: obviously, there has been this kind of one-off factor in Q2, but I am wondering whether you are still sticking to your guidance of around 16% or so you were targeting for full year cost growth this year, because clearly that still implies a pretty big step-up in the second half of the year?

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you for the question. We are currently looking more towards about 12–14% cost growth. The only miss that we are having on the cost side so far is the personnel costs. The first part is the reversal of this bonus provision that we have just mentioned – RUB 109 m.

And the second part where we may spend less is actually about hiring people at a slower pace than we initially expected at the beginning of the year. As a result, we are spending less. So, this is where we may miss a bit and currently it looks, like I said, as 12–14% cost growth for the full year.

ANDREW KEELEY – *Sberbank CIB*

Okay, all right. That is very clear, thank you. There is recent news that you are changing your fees on derivatives from per contract basis to turnover basis approach. Could you elaborate a little more on that and how this is going to impact your fee income in this segment?

EVGENY FETISOV – *CFO, Moscow Exchange*

This is in process of discussion with clients. We have been getting positive feedback from our market participants, but this is something which still has to be approved by the Board to be implemented.

We are working on balancing the interests of the Exchange and the clients to move towards more of the ad valorem pricing versus the contract pricing. We believe that in the medium term it will both support the growth of trading volumes and support the revenues of the Exchange.

ANDREW KEELEY – *Sberbank CIB*

Okay. This means that it has not actually been finally approved and is being implemented?

EVGENY FETISOV – *CFO, Moscow Exchange*

No, it has not been approved yet. It is something in the works. This is in discussion with clients, users committees, and it has to go through the Supervisory Board to be approved finally.

ANDREW KEELEY – *Sberbank CIB*

Okay. Thanks, Evgeny. A quick final question on your average fees. It seemed they went up very strongly in fixed income and derivatives in Q2. I guess fixed income was related to the pick-up in primary bond issuance, but perhaps you can elaborate whether that is the case and also what happened on the derivatives side?

EVGENY FETISOV – *CFO, Moscow Exchange*

You are correct. In the fixed income segment, average effective fees went up due to the increased volume of primary placements. And in the derivatives market, the growing share of commodity derivatives increased the effective yield. So, as you may have seen, we have reached up to 19% of the total volume in terms of contracts. And commodities contracts have a higher effective yield.

ANDREW KEELEY - *Sberbank*

Okay. Thanks very much. That is great. Thank you. Goodbye.

OPERATOR

Thank you. Your next question comes from Armen Gasparyan, RenCap. Armen, please ask your question.

ARMEN GASPARYAN – *Renaissance Capital*

Thank you. Hello Evgeny, Sergey. Firstly, I would like to ask about the recent CBR initiative to introduce a new classification of retail investors. Could you share your thoughts on any potential impact on your volumes and revenue?

EVGENY FETISOV – *CFO, Moscow Exchange*

Sure. Thank you for the question. I would like to first stress that this is a preliminary discussion which the Central Bank of Russia initiated with the broad market to get the feedback on the initiative that they may be introducing in later years and it looks like, if it happens, it will be by 2018. The way we see that, it should be supported by the market. I mean the more precise matching of the risk profile of the retail investors with the risk that they can take should support trust in the market and growth in the trading volumes as a result.

What we hear from the broker community is that brokers support the initiative not to prohibit something, but rather to broaden their responsibility in informing clients and to increase the responsibility in providing more details and precise information to the end users. I reiterate, this is at the preliminary discussion stage right now, so we cannot have any more precise evaluation in terms of the volume effect or things like that.

ARMEN GASPARYAN – *Renaissance Capital*

Okay, fine. Evgeny. What is the reason for the shift in the current mix of client balances? We see an increasing share of Euro-denominated balances over the past several quarters. Is it because it is less expensive to deposit Euro with the Exchange than with foreign banks?

EVGENY FETISOV – *CFO, Moscow Exchange*

We think one of the key reasons is the changes in the interest rates in US Dollars. The increase in the US Dollar interest rate actually makes it more reasonable to keep dollars elsewhere. As the Euro has been either zero or negative, we were getting more of those balances placed with us.

ARMEN GASPARYAN – *Renaissance Capital*

Yes, okay. I would like to follow up on the cost question. Was your projected cost growth somehow impacted by the stronger rouble year to date? Could you remind us what RUB/USD exchange rate you have budgeted?

EVGENY FETISOV – *CFO, Moscow Exchange*

The RUB/USD exchange rate that we budgeted initially was close to 65 roubles per dollar, slightly below that, but given that the total costs which are FX-linked are less than 10%, we do not see it as the strongest factor affecting the overall cost forecasts.

ARMEN GASPARYAN – *Renaissance Capital*

Yes. Okay. I understand the one-off impact, one-offs in terms of staff expense, but what is the reason for acceleration of non-staff cost spending in the second half?

EVGENY FETISOV – *CFO, Moscow Exchange*

We are going forward with our CAPEX programme. So, we are investing in the IT infrastructure: both in hardware and software. We migrated to the new data centre. All of that results in higher SG&A and higher spending on software licenses and support. This is something which has been planned and goes, as they say, in the ordinary course of business.

ARMEN GASPARYAN – *Renaissance Capital*

Thank you very much, Evgeny. My final question. What is the non-restricted cash on your books? Do you have an estimate?

EVGENY FETISOV – *CFO, Moscow Exchange*

RUB 74 bn.

ARMEN GASPARYAN – *Renaissance Capital*

Does it include the capital of NCC or ...?

EVGENY FETISOV – *CFO, Moscow Exchange*

Yes, it does. I mean, the overall cash part of our equity is RUB 74 bn, which includes all the capital of NCC, NSD and any working capital that we may need.

ARMEN GASPARYAN – *Renaissance Capital*

Okay. If my understanding is correct, about RUB 15 bn should be non-restricted?

EVGENY FETISOV – *CFO, Moscow Exchange*

Less than that, I would say, my estimate would be less than RUB 10 bn.

ARMEN GASPARYAN – *Renaissance Capital*

Okay. Thank you very much, Evgeny.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thanks.

OPERATOR

Thank you. Your next question comes from Mikhail Shlemov, UBS. Mikhail, please ask your question.

MIKHAIL SHEMOV - *UBS*

Good afternoon, Sergey and Evgeny. Two questions from my side. First of all, can you share an updated estimate on what would be the impact from the unification of the collateral requirements across the market? And the second one on whether there is any update available in terms of introduction of the clearinghouse status for the NCC and the possible impact on its capital position? Thank you.

EVGENY FETISOV – *CFO, Moscow Exchange*

Mikhail, thank you for the questions. I will start with the second one. We do not have any new information on the regulations on the NCC as a clearinghouse with its new licence yet. We will be happy to share this information with you as soon as we get it. As to the estimates for the introduction of the unified clearing pool, again, this is something which is at preliminary stages. When this is introduced, we believe it will lead to an increase in the trading volumes mostly. So, we expect that we will be able to boost the trading volumes across the markets with the introduction of this additional service for our clients.

MIKHAIL SHLEMOV - *UBS*

Evgeny, thank you. That is helpful. And what are the timelines of the unified clearing pool, could you remind us please?

EVGENY FETISOV – *CFO, Moscow Exchange*

The expected timeline is the beginning of 2017.

MIKHAIL SHLEMOV - *UBS*

Okay. That is perfect. Thank you.

OPERATOR

Thank you. Your next question comes from Olga Veselova, Bank of America. Olga, please ask your question.

OLGA VESELOVA – *Bank of America*

My question is about the breakdown of your investment portfolio. I noticed that the change in the breakdown of the investment portfolio of interest-earning assets helped you to support the average yield on assets. My question is to what extent would you be willing to reduce the portion of cash and increase portion of securities and deposits further? Or you think that it has a fairly limited potential at this stage?

EVGENY FETISOV – *CFO, Moscow Exchange*

We are taking liquidity over the profitability of the portfolio. I think it will depend on how much more roubles we will get from our clients. We think that with the current level of rouble balances, we should be fairly reasonably balanced between the liquidity and the yield that we are getting. But if we get more client funds, we should probably be able to expand that.

OLGA VESELOVA – *Bank of America*

Okay. Thank you. My other question is about costs again. When you revise your cost budget for this year and when you say that there are some expenses which you have not incurred, but expected to, do you think that some of these costs will be budgeted next year? Do you see any costs which will be deferred into the next year?

EVGENY FETISOV – *CFO, Moscow Exchange*

The only difference that we have from the beginning of the year is the personnel expenses. Like I said, we are currently spending less due to two factors: one is the reversal of this bonus provision, and second is that the number of people we hire is less than we have budgeted for. So, if we deliver on our plans with hiring all the people that we wanted, this would be a recurring cost going forward.

And with the rest of the costs – with IT, taxes other than income tax, professional services, marketing – we are fairly in line with what we wanted to spend. And as you may know, our business model is based on the fixed costs approach. Therefore, in the infrastructure most of our costs are fixed with certain exceptions, such as market makers' fees or marketing costs, which are linked to trading volumes, in a sense. I would say that the rest should be repeating year over year.

OLGA VESELOVA – *Bank of America*

Very clear. I have two more questions. One is when should the new regulation on the new classification of clients be finalised?

EVGENY FETISOV – *CFO, Moscow Exchange*

From what we know, it would be 2018 earliest.

OLGA VESELOVA – *Bank of America*

Okay. Clear. The beginning of 2018, right? January?

EVGENY FETISOV – *CFO, Moscow Exchange*

I mean we do not know exactly at this point of time. This is again a preliminary consultation by the CBR.

OLGA VESELOVA – *Bank of America*

Clear. And my last question is about the Money Market. How should we look at further potential of Money Market expansion? I would appreciate your thoughts on potential for further re-allocation of inter-dealer OTC, inter-money market through CCP, do you think there is further potential for this intermediation or not?

EVGENY FETISOV – *CFO, Moscow Exchange*

We believe that the REPO with GCC has potential to take market share, because we think this is a more advanced and more value-added product than the regular REPO or even REPO with the CCP as it allows to pull the collateral and to defragment the market. We have been pleasantly surprised by how the REPO with the CCP performed to date, and we think there is a potential in this new REPO product to grow as well.

We are also looking forward to see more corporates working with our Money Market products and we think this is where we would get the new market share on exchange and where we would be the centre of the money market and the liquidity redistribution for the Russian capital market.

OLGA VESELOVA – *Bank of America*

I see. The reason I asked this is I am trying to estimate what part of inter-dealer REPO, OTC REPO has not yet come to MOEX. Is there a way to estimate this?

EVGENY FETISOV – *CFO, Moscow Exchange*

Our estimate is that our market share is about 70% right now. We see an increase in onshore REPO versus the cross-border one.

OLGA VESELOVA – *Bank of America*

Great, it is useful. Thank you very much.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you.

OPERATOR

Thank you. Your next question comes from Andrzej Nowaczek from HSBC. Andrzej, please ask your question.

ANDRZEJ NOWACZEK - *HSBC*

Thank you. I would like to come back to the issue of bonus provision reversals. Why would you expect to have to reverse these provisions again in Q2 2017? Do you expect not to meet your KPIs? And what are those KPIs exactly?

EVGENY FETISOV – *CFO, Moscow Exchange*

It is not that we expect it to happen. I would rather expect this never to happen, but I have just mentioned that it could potentially happen in case not everyone meets their KPIs. There is a theoretical possibility that we will budget for 100% of the KPIs and we meet 98% of KPIs. Then we will have a certain portion reversed after the bonuses are finalised in Q2 2017. However, it might be the case that we beat our KPIs, and that would mean that we will have to accrue more. Then the bonus will be paid in larger amounts than it was budgeted for.

ANDRZEJ NOWACZEK - ***HSBC***

I see. And what are those most important KPIs?

EVGENY FETISOV – ***CFO, Moscow Exchange***

There are corporate and individual KPIs. ROE, the availability of IT systems, delivery on P&L targets, strategy projects, and introduction of new products. There is a fairly sophisticated system that supports the management of the Exchange in setting and achieving the targets.

ANDRZEJ NOWACZEK - ***HSBC***

I understand. Thank you, Evgeny.

OPERATOR

Thank you. Your next question comes from Anil Sharma from Morgan Stanley. Anil, please ask your question.

ANIL SHARMA – ***Morgan Stanley***

Good afternoon. I have three questions here. The first one is on the interest income. I am curious about your comment that you think it might be stable from here on. Given that 50% of that is coming from Euro balances, what is happening with the interest rates here? Why are you so confident that it is going to stay stable and not be going down?

The other question relates to the corporate initiatives on slide 2 and the corporate event that caused the EGM. I think you mentioned in the press release that there will be some potential cost-saving from that. I wonder if you could help us quantify.

And then the third one: In terms of the IT infrastructure and the moving of the data centre, are you currently incurring your running costs for that and do you anticipate that your running costs would be quite material and you would be thinking about some savings as that migration is complete. Thanks.

EVGENY FETISOV – ***CFO, Moscow Exchange***

Thank you for the questions, Anil. Starting with the latter one. We are already running two data centres that we will use going forward, so we do not expect any changes here. We have just moved all the equipment to the new data centre and it went live, so I would not expect many changes there.

In terms of the interest income, I have not said that it will be stable. What I have said is that we have passed the period of having one-offs in the interest income. It looks like this is the interest income that we should be getting with, that amount of dollars, euros, and roubles, and that relates to the subject of interest rate changes across the currencies. We do have a portfolio of securities, which should give us a buffer against the declining rouble interest rates. Eventually it will mature, but we will take it to the market when they change. However, there will be some delays with the realisation of these declining interest rates.

As for the merger of the subsidiaries into the parent company of the Group, we expect that the cost savings would be on the scale of or up to RUB 50 m per year. These are the direct costs that we see. There definitely will be indirect costs, which we will be able to save and we cannot quantify them right now. Basically we will eliminate an extra reporting line to the regulator from one of the exchanges in the Group. As you may know, we have three exchange licences in the Group and we have to do reporting for these three licences on a stand-alone basis. What is more important is that our clients will have to interact with a smaller number of legal entities, which will make their workflow and interaction with us easier. We think that this is one of the more important tasks and targets that we are trying to reach in order to make our clients' lives easier and simpler.

ANIL SHARMA – *Morgan Stanley*

The answers are very helpful, thank you.

OPERATOR

Thank you. As a reminder, if you wish to ask a question, please press "*1" on your telephone and wait to ask the question. Your next question comes from Evgenia Molotova from Verno Capital. Evgenia, please ask your question.

EVGENIA MOLOTOVA – *Verno Capital*

Thanks a lot. I have a couple of questions on your OPEX. You said that the majority of the costs are fixed. Can you give the proportion between fixed and variable costs?

EVGENY FETISOV – *CFO, Moscow Exchange*

I would say 90–95% of costs are fixed. Our truly variable costs are our spending on the market makers, those are linked to the trading volumes, and marketing costs can be considered as variable as they are linked to the trading volumes and how much we are making on different products. The rest is more or less fixed, as those are for the personnel and IT expenses.

EVGENIA MOLOTOVA – *Verno Capital*

In terms of the cost-cutting potential, it rather limits it going forward. Given that the majority of your costs are fixed, I am trying to understand if you need to cut costs.

EVGENY FETISOV – *CFO, Moscow Exchange*

We always need to cut costs. As a CFO, I can tell we always need to cut costs, and this is what we are doing. One of the reasons we started to do the restructuring, which we have just mentioned here, is that we try to eliminate extra RUB 50+ m per year of the costs, which we can avoid. This is an important number for us, so we will go after every single item like that in order to save in costs.

EVGENIA MOLOTOVA – ***Verno Capital***

And starting which year will you have these extra RUB 50 m in savings.

EVGENY FETISOV – ***CFO, Moscow Exchange***

Starting from 2017.

EVGENIA MOLOTOVA – ***Verno Capital***

Thanks a lot. Also for the provisions that you have to book for your bonuses, how does it work? When do you estimate the bonus, when do you start booking the provisions and when do you release them. Do you do this every year?

EVGENY FETISOV – ***CFO, Moscow Exchange***

We do these estimates every year. At the beginning at the year we look at the overall payroll and we make an estimate on what would be the bonus for that year, and we accrue this on a monthly basis. You can see it in our quarterly report in the personnel costs. Two years ago, we were doing it once a year in one of the quarters, so you could see some spikes in one of the quarters, and then we moved to accruing it throughout the year.

EVGENIA MOLOTOVA – ***Verno Capital***

Thanks a lot, very clear. The last question. In terms of your KPIs and bonuses, is share price performance one of the KPIs for top management?

EVGENY FETISOV – ***CFO, Moscow Exchange***

No, this is not a KPI. ROE is a KPI, the share price is not part of the KPIs set.

EVGENIA MOLOTOVA – ***Verno Capital***

Clear, thanks a lot.

OPERATOR

Thank you. Your next question comes from Andrey Mikhailov from Otkritie Capital. Andrey, please ask your question.

ANDREY MIKHAILOV – ***Otkritie Capital***

Thank you very much for this call. I would be grateful if you could share an update on your plans to pay quarterly dividends.

EVGENY FETISOV – ***CFO, Moscow Exchange***

Thank you for the question, Andrey. As a matter of fact, we haven't had plans to pay quarterly dividends yet. Our new dividend policy stipulates that the company may come to pay semi-annual dividends. Since we just paid our annual dividends, the Board may come to considering this question towards the end of the year.

ANDREY MIKHAILOV – ***Otkritie Capital***

Alright, thank you very much.

OPERATOR

Thank you. There are no further questions at this time.

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

Alright, if we have no further questions, I think at this point we may conclude this call. Thanks everyone for your participation. I hope we have managed to cover all your questions, and if not, please feel free to follow-up directly by giving me a call or sending an e-mail. Thanks again for participation and goodbye.