

ANNUAL REPORT 2010
National Settlement Depository

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NSD's¹ Position in the Securities Industry

NSD as the Central Part of Russia's Settlement and Safekeeping Infrastructure

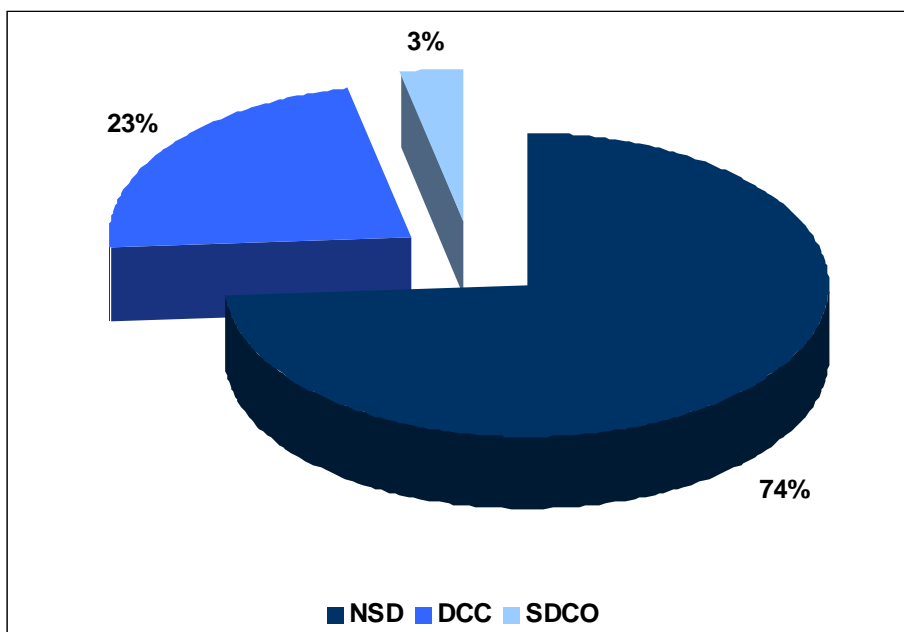
NSD is part of the MICEX Group and provides securities safekeeping and cash settlement services to financial market participants. NSD is Russia's largest settlement non-banking credit institution; in terms of scope of transactions, capitalization and number of market participants served by NSD, it is comparable to Russia's major banks.

NSD is Russia's largest securities depository in terms of value of assets in safekeeping and the country's only securities settlement and safekeeping infrastructure organization handling all types of Russian securities.

NSD is the settlement depository for the country's principal marketplaces – Moscow-based MICEX and MICEX SE, and SPCEX, the Saint Petersburg-based exchange; it also provides OTC settlement services.

In terms of value of assets on deposit, NSD accounts for 74 % of all assets held at the settlement depositories in Russia².

NSD's Competitive Position on the Domestic Market



NSD primarily seeks to deliver settlement services for the MICEX Group's markets that meet the modern requirements in terms of efficiency, continuity and operational reliability.

Special emphasis is given to implementing cutting-edge banking and information technologies and participating in the ambitious projects undertaken by the Bank of Russia and the MICEX Group intended to offer new services and create additional capabilities for efficient operation of financial market participants.

¹ MICEX Settlement House (MICEX SH) was reorganized on 3 November 2010 by way of merger of National Depository Centre (NDC) with and into MICEX SH, following which the name of MICEX SH was changed to NSD. The reference to NSD in this Annual Report should be understood as meaning NSD, MICEX SH, and NDC.

² PARTAD's INFI Ranking of Russia's top 30 securities depositories in terms of market value of participants' securities held on deposit, as of 30 June 2010. Data provided by NDC.

Under the agreements with the Bank of Russia, NSD acts as the Settlement Center for the organized securities market, i.e. it is a credit institution authorized to make payments in respect of the Bank of Russia's lending and deposit transactions.

NSD is a direct participant in the Banking Electronic Speedy Payment (BESP) System of the Bank of Russia.

It plays a key role on the Russian debt market, acting as the head depository for bond issues. NSD safekeeps the global certificates and maintains ownership records for 100 percent of the federal government securities and 99 percent of all corporate and regional (subfederal and municipal) bonds. On the federal government securities market, NSD also acts as the Technical Support Center for the Dealer's Sub-depository (TCCDS), maintaining up-to-date, real-time information on the securities owners (investors) and the quantity of securities held by them.

NSD occupies a leading position as the paying agent for corporate and regional bonds. As of 1 January 2011, NSD accounted for 39 percent of the paying agent services market in terms of the total quantity of corporate and regional bond issues in circulation and for 42 percent of the market in terms of the number of issuers of corporate and regional bonds in circulation.

NSD acts as the National Numbering Agency (NNA) for Russia, allocating ISIN and CFI codes for Russian securities and taking part in the creation of an efficient international securities identification system. NSD is one of the four organizations in the world authorized to act as a Substitute Numbering Agency (SNA). NSD is the SNA for the CIS countries; its principal objective is to assign ISIN and CFI codes for their securities and to assist the CIS countries in the creation of their own NNAs.

The use of a fully-featured EDI system to communicate with our customers, the availability of a network of branches and representative offices in Russia's major business centers – St. Petersburg, Yekaterinburg, Nizhny Novgorod, Rostov-on-Don, Samara, Novosibirsk and Vladivostok – all these enable NSD to deliver services to professional stock market participants and investors from across Russia.

NSD is a participant of the international settlement infrastructure supporting settlement on the global financial markets through direct accounts maintained with Clearstream Banking S.A. and Euroclear Bank S.A./N.V. NSD offers its customers access to the stock markets of the CIS countries through its depository links with National Depository Center of the Republic of Azerbaijan (Azerbaijan NDC), Republican Central Securities Depository of the Republic of Belarus (Belarus RCSD), and Central Securities Depository of the Republic of Kazakhstan (Kazakhstan CSD).

NSD is a member of the leading Russian and international securities settlement industry associations.

NSD's Operational Highlights 2010

| Indicator | 1 January 2010 | 1 January 2011 | Increase/decrease, % |
|---|------------------|------------------|----------------------|
| GENERAL INFORMATION | | | |
| Quantity of customers after the reorganization | — | 2 008 | — |
| including: | | | |
| Number of participants | 892 | 915 | 2.58 |
| Number of issuers | 789 ³ | 840 ⁴ | — |
| Number of cash settlement participants | 852 | 879 | 3.17 |
| Number of participants' securities accounts | 1,904 | 1,901 | -0.16 |
| Number of issuer securities accounts | 789 | 829 | 5.07 |
| Number of customers' bank accounts | 2,405 | 2,607 | 8.40 |
| SECURITIES ON DEPOSIT | | | |
| Value of securities held in participants' securities accounts ⁵ (billions of RUB) | 6,086 | 7,718 | 26.82 |
| Quantity of securities issues accepted for servicing | 2,896 | 3,268 | 12.85 |
| Number of issuers whose securities are safekept at NSD | 1,426 | 1,575 | 10.45 |
| CASH SETTLEMENT | | | |
| Cash turnover in customers' bank accounts (billions of RUB) | 167,378 | 174,369 | 4.18 |
| Turnover of funds in the course of trading on the MICEX Group's markets (billions of RUB) | 128,289 | 119,789 | -6.63 |
| Turnover of funds in NSD's correspondent account with the Bank of Russia via the BESP System (billions of RUB) | 79,798 | 88,876 | 11.38 |
| BOOK ENTRY TRANSFERS | | | |
| Quantity of book-entry transfers processed (thousands) | 2,483 | 2,738 | 10.27 |
| Market value of securities transferred (billions of RUB) | 60,061 | 67,746 | 12.80 |
| CORPORATE ACTIONS PROCESSING | | | |
| Quantity of corporate action transactions processed during the year | 3,354 | 3,425 | 2.12 |
| Amount of funds transfers via NSD (principal repayments and securities income payments) during the year (billions of RUB) | 198 | 1,377 | 595.45 |
| Number of issuers which used NSD to distribute payments in respect of their securities during the year | 370 | 394 | 6.49 |
| PAYING AGENT TRANSACTIONS | | | |
| Amount of funds transfers via NSD as the paying agent (principal repayments and securities income payments) during the year (billions of RUB) | 148 | 1,331 | 799.32 |
| NATIONAL NUMBERING AGENCY SERVICES | | | |
| Number of ISINs assigned on request of market participants during the year | 727 | 576 | -20.77 |
| Cumulative total number of ISINs assigned on request of market participants | 4,937 | 5,513 | 11.67 |
| ASSISTING MARKET PARTICIPANTS IN QUALIFYING FOREIGN FINANCIAL INSTRUMENTS AS SECURITIES | | | |
| Total requests processed from market participants in respect of foreign financial instruments (including requests submitted under the agreements on assisting in code allocation) | 33,215 | 45,895 | 38.18 |

³ On opened securities accounts.

⁴ On agreements concluded.

⁵ The figures on equities and units of unit investment funds are given at the market value, and the bonds are given at par.

NSD's Customers

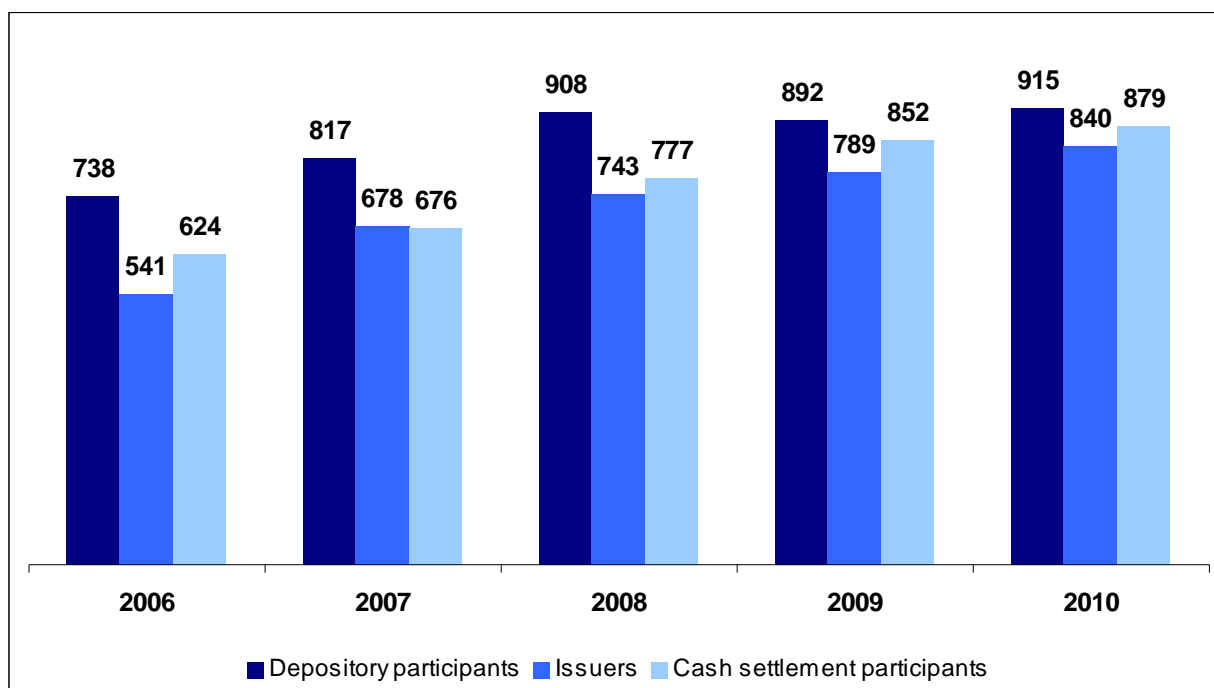
One of the most important projects implemented in 2010 – the merger of NDC with and into MICEX SH – was intended to streamline the services provided to our customers. The principal objectives of the reorganization were to ensure uninterrupted delivery of services to customers in the course of the reorganization, and to gradually upgrade our services offered to customers. They were primarily designed to make interaction with NSD more convenient, to optimize the cost of services for our customers and to further improve the services, which will become possible owing to the new technological capabilities of the consolidated company.

NSD's customer base includes in excess of 2,000 entities belonging to different categories – depository participants, issuers for which issuer securities accounts are opened, cash settlement participants, EDI participants, etc.

The successful reorganization and ongoing improvement of the technologies and services for customers have contributed to the growth of NSD's customer base: in 2010, it was joined by 94 new depository participants, 51 new cash settlement members, and 12 companies using NSD's services to have ISIN and CFI codes assigned for securities. During the year, NSD entered into 178 securities account agreements and 80 EDI agreements.

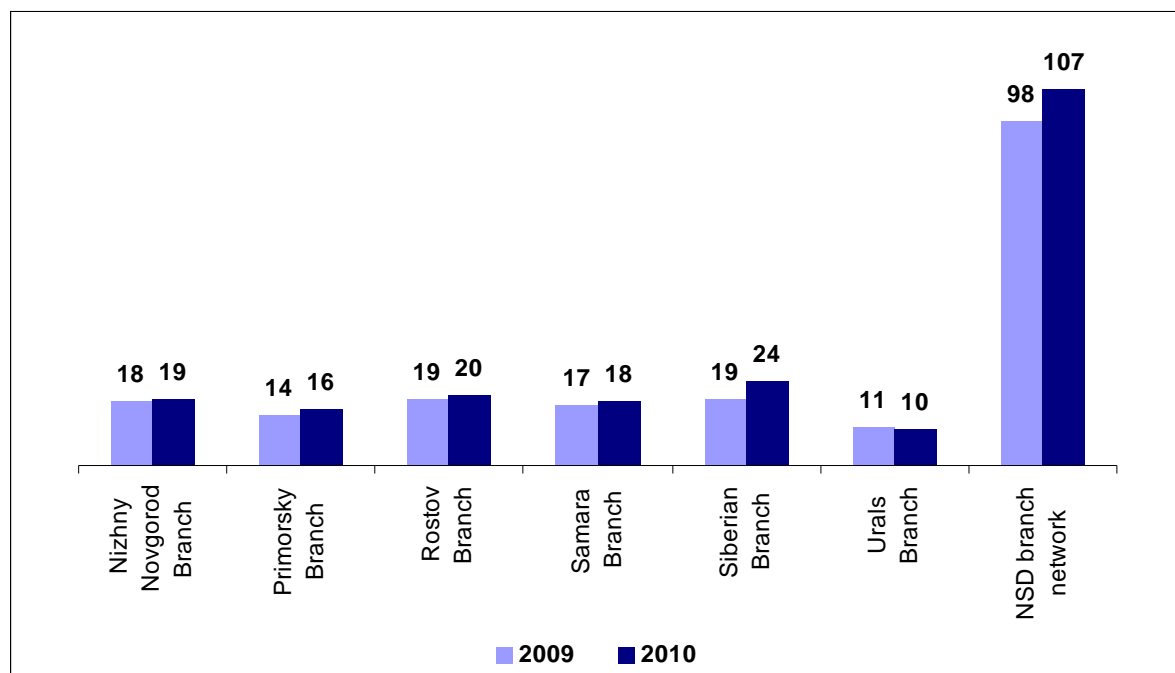
As of 1 January 2011, NSD had agreements with 840 bond issuers, with securities accounts maintained for 829 bond issuers. Among NSD's customers are the Russian Ministry of Finance, the Bank of Russia, the Moscow City Government, and other subfederal and municipal issuers, as well as Vnesheconombank (VEB), Gazprom, and other major Russian companies.

Increase in NSD's Customer Base



2010 saw continued growth in the number of NSD's regional customers across Russia. By the time the reorganization of MICEX SH had been completed, all its branches acted as regional representatives of NDC and provided services to regional depository participants, cash settlement participants and issuers. In addition, MICEX - North West acts as NSD's regional representative in Saint Petersburg.

Customer Base Growth at NSD Branches



Our regional customers are now able to make transactions in the MICEX Stock Market Sector via their accounts maintained with NSD branch offices. Also, in accordance with the Bank of Russia's plans to move the financial market settlement process to the BESP System, all NSD branches implemented the projects "*Launch of UIS Settlement via the BESP System*" (designed to remove the batch settlement process) and "*Improving Cash Settlement on the Government Securities Market*" (designed to exclude the Bank of Russia from interregional cash settlements). The use of the BESP System to settle transactions among participants based in different regions of Russia affords a completely new approach to settlement on the foreign exchange and government securities markets.

The increased turnover of deposit transactions entered into by NSD branches' customers with the Bank of Russia, the increased turnover on the trading accounts in different sectors of the Organized Securities Market, expansion of the customer base of the NSD branches both in terms of quantity and geographic coverage (Adygea, Northern Ossetia, and Kabardino-Balkaria) reflect our regional customers' greater trading activity on the MICEX Group's exchange markets and the higher efficiency of such markets.

NSD places a strong emphasis on developing and promoting new products and services. Our customers' feedback is a key driver for NSD's development. NSD obtains customer feedback through various channels, such as market participant surveys, discussions at workshops and conferences, customers' publications in the *Depositarium* magazine, discussions at meetings of industry commissions and NSD's committees, and ongoing interaction between account managers and their customers.

In 2010, NSD organized two topical workshops for its customers and participated as a sponsor and co-organizer in 19 securities industry conferences and forums, and presented its new services in Moscow, different regions of Russia and abroad. NSD started to use a new way to interact with the customers – focus groups – which helps to take into account the customers' needs when developing new products and upgrading the existing services.

In order to accommodate the customers' requests, NSD launched in 2010 a project to create personal cabinets for customers on its website. The first phase of this project was to create the "*Manager On Duty*" section. In this section, NSD customers can find the information on the manager to contact on the status of transaction processing after the close of business or ask questions through the online interface on the relevant website page.

As a measure designed to improve the quality of NSD's services, NSD held in December 2010 the "Account Manager of the Year" contest. Our customers actively participated in this contest and expressed their high appreciation of their account managers' services. It is planned that such contests will be held regularly in the future, which will help find out whether our customers are satisfied with the work of their account managers and with the quality of services provided by NSD.

Another measure taken by NSD to promote customer loyalty is to offer our customers a chance to socialize with NSD staff, including during annual events which have become a tradition – the voyage on a cruise ship, the photo contest and the billiards tournament organized with the support of the Authors' Club of the *Depositarium* Magazine, which has over 300 members who are financial market experts from Russia and abroad.

In 2010, NDC was awarded honorary diplomas in the categories "*Infrastructure Institution of the Year 2009*" and "*For the Quality of Services in 2009*" as part of the Professional Awards Competition "*Infrastructure Institution of the Year 2009*" held by PARTAD, the market infrastructure SRO, together with the Securities Market (*Rynok Tsennykh Bumag*) magazine.

Major Projects

NDC's Merger with MICEX SH and Consolidation of the Companies' Operations

The major event of 2010 was the reorganization of NDC by way of merger with and into MICEX SH. The merger was implemented pursuant to the decision of the MICEX Group's shareholders and was a project unparalleled on the Russian financial marketplace.

On 3 November 2010, the state registration authority made an entry on the Unified State Register of Legal Entities regarding the reorganization of MICEX SH by way of merger of NDC with MICEX SH. As a result of the transaction, a new and unique non-banking credit institution was created in Russia, National Settlement Depository (NSD).

The operations of NDC and MICEX SH were integrated in such a way as to guarantee reliable and uninterrupted flow of all business processes. The consolidated company preserved its status as a non-banking credit institution regulated by the Bank of Russia with a zero-risk profile, which is paramount for NSD and its customers, as reliability, liquidity and efficiency are key to satisfying our customers' requirements.

As a result of NSD's establishment, the settlement and safekeeping functions have been centralized within one legal entity, which is the most common international practice and represents a major step towards the creation of a CSD in Russia.

In its scope and capacities, NSD should become the largest securities settlement and safekeeping provider on the financial markets across the CIS, the Baltics and Eastern Europe.

This project opens up new possibilities for improving the quality of services provided by NSD both as a settlement depository, and as a credit institution. NSD's creation will deliver the following key benefits to the financial market participants:

- It is now possible to create an efficient and reliable DVP settlement process within one entity;
- NSD will expand the range and improve the quality of its cash settlement services for foreign currencies, as it will be able to capitalize on the capabilities available to it as a credit institution under the foreign exchange laws;
- The links with the international settlement organizations will be streamlined and it will no longer be necessary for NSD to maintain two accounts both with Euroclear and with Clearstream;
- NSD will have a much better chance of joining the international settlement organizations and securities settlement systems than NDC or MICEX SH taken separately.
- The securities and cash settlement processes will be harmonized. Uniform procedures will be put in place for preparing instructions, executing transactions and generating reports. Customers will have one client-side interface instead of two;
- Customers will enjoy cost savings due to the increased scale of operation and the reduction of redundant services.

Most of the above benefits will not materialize overnight after NSD is created, but will evolve gradually as the project progresses.

In the course of the project, the following tasks have been accomplished in the area of depository operations:

- NSD's depository processes have been brought into compliance with the Bank of Russia's Instruction No. 44;
- A technique has been developed to generate reports on the depository operations of NSD as a credit institution in accordance with the rules and regulations of the Bank of Russia;
- A procedure has been put in place to maintain records of securities issued by NSD;

- A system has been set up to maintain records of securities owned by NSD, and a technique has been developed to execute transactions in the securities owned by NSD which are recorded in its securityholder accounts maintained with registrars or safekeeping accounts maintained with correspondent depositories;
- A technique has been developed to maintain records of and process depository transactions in the course of lending provided by the Bank of Russia to NSD;
- Changes have been made to the technique for processing depository transactions, i.e., securities transfers with control of cash settlement in Russian roubles and foreign currencies; acceptance of securities deposits for safekeeping and/or recordkeeping and withdrawal of securities on the DVP basis via Euroclear and Clearstream;
- Changes have been made to the procedure for paying securities income and making other distributions, including on federal government securities;
- Data on the MICEX SH customers has been exported to NDC's Corporate Database; and
- New functionalities have been put in place to allow maintaining records of customer details, generating the customer information sheet for the consolidated company and generating reports for the Bank of Russia.

Creation of the Comprehensive Information Disclosure System (SKPI System)

This project is intended to create an integrated system for providing securities market participants with corporate information stored in NSD's Corporate Database based on a multifunctional technology for providing structured information using various access and delivery media.

In 2010, the following tasks were undertaken as part of the SKPI project:

- in December 2010, NSD went live with the beta version of its new Depository Information Service Center (DISC), which is available on NSD's website (www.nsd.ru). The NSD DISC contains a vast amount of data on the securities serviced by NSD and on the entities it has dealings with, such as issuers, registrars, authorized depositories, etc. The data is stored in interconnected modules and blocks, and is easily searchable and viewable through the DISC. The search forms make it possible to retrieve data using a combination of various criteria, with the search results displayed in tables which can be viewed page by page and contain links to navigate to the financial instruments' and organisations' profiles. In 2011, the NSD DISC is expected to provide a broader range of data and services.
- NSD has expanded its inventory of information messages using a new technology to upload structured information messages to NSD's website and link them to securities issues, issuers and corporate actions.
- Based on the analysis of our customers' needs and requirements, we have developed a concept for further development of the SKPI System.

Foreign Issuers' Entry into the Russian Debt Market

NSD provided depository services in connection with the first issue of government bonds of the Republic of Belarus, which was admitted to be offered for sale and traded in the Russian Federation without the need for official registration with the securities market regulator.

This project has paved the way for foreign issuers to the Russian bond market; it has become possible for other sovereign borrowers (in the CIS and Europe) to consider entering the Russian debt market. The project has generated strong interest from non-Russian resident corporate issuers, which brings Russia a step closer towards the creation of an international financial centre.

Implementation of Automated Securities Lending for Settlement Management Purposes

This project is designed to broaden the range of settlement services offered by NSD by providing NSD's customers with additional mechanisms to successfully settle their OTC transactions.

In the course of the project, the following tasks need to be addressed:

- special arrangements must be in place to enable collateral blocking;
- customers must be given a chance to designate the securities accounts/sections of accounts in which securities are available for lending for settlement or collateral purposes, and to be provided with the relevant reports;
- printed document forms must be developed for such settlement-oriented securities lending transactions in order to enable the creditor/borrower to maintain its internal records, and to report on the execution of the first or second leg of the repo transaction to participants;
- a delivery versus delivery (DvD) settlement system must be put in place as part of the automated securities lending and borrowing process;
- a system needs to be implemented to support fully automated collateral allocation, automated calculation of the transaction parameters, various options for repo settlement between the participants in the event of a default under the transaction, and monitoring the status of transactions on NSD's site;
- a services agreement needs to be drafted in respect of the settlement-oriented repo transactions;
- an Automated Securities Lending and Borrowing (ASL) service should be developed to support settlement process.

In 2010, the following tasks were accomplished as part of the project:

- the project's business processes were described;
- a services agreement was drafted and approved in respect of settlement-oriented repos based on the automated securities lending process;
- a new procedure was created to designate securities as available to be used in repo transactions for settlement and collateral purposes;
- basic algorithms were developed for automated securities lending for settlement purposes;
- a package of documents was produced to be used by participants in settlement-oriented repo transactions;
- the terms of reference were developed and the software was upgraded to support pre-transaction processing.

In December 2010, NSD tested its automated securities lending system.

NSD expects to offer its new ASL services to customers in 2011.

Repo Modification: Subproject "Introducing Intraday Clearing of Trades Made on MICEX Stock Exchange"

For the purpose of further developing the MICEX Group's stock market by offering new services and transaction processing capabilities to customers and by expanding the line of products provided by the MICEX Group, the following projects were implemented in 2010: Repo Modification: Subproject "Introducing Intraday Clearing of Trades Made on MICEX Stock Exchange" and "Central Counterparty for Transactions on MICEX Stock Exchange".

NSD developed and introduced a new depository transaction in which transfers are effected through a multilateral netting process intraday during the trading session. This offered its customers with a choice of settling their securities trades via a multilateral netting process on an end-of-day basis or clearing their trades on an intraday basis during the course of trading.

Repo Modification: Subproject "Changing the Technique for Execution and Settlement of Repo Transactions on MICEX Stock Exchange"

A mechanism has been put in place to maintain record of funds received from the issuers for coupon payments and partial principal repayments on corporate bonds and to submit reports to MICEX SE using the MICEX EDI System

Servicing of Securities Intended for Qualified Investors

This project was implemented in order to ensure compliance with Russian laws requiring a securities depository to keep securities intended for qualified investors only in the accounts owned by such qualified investors.

In the course of the project, NSD implemented techniques which help:

- identify securities intended for qualified investors;
- recognize NSD's participants as 'qualified investors' both by operation of law and as a result of being assigned the status of a qualified investor;
- deposit securities intended for qualified investors only into the accounts owned by qualified investors; and
- maintain records and automatically transfer the information on qualified investors and securities intended for them from the Corporate Database to the operational system.

Services for Saint Petersburg Municipal Bonds

This project was designed to support NSD's activities as a settlement depository for the issuance of and trading in Saint Petersburg municipal bonds.

Towards that end, the following tasks were accomplished:

- a procedure was worked out for holding auctions to sell Saint Petersburg municipal bonds;
- NSD developed an interaction procedure, a transaction processing technology, and formats of electronic document to be exchanged by NSD and St Petersburg Settlement and Depository Center (SPb SDC) in the process of bond issuance and transfers between securities accounts of NSD's participants and those of SPb SDC, including for OTC transactions;
- a procedure was developed for interaction and documents interchange between NSD and St Petersburg Currency Exchange (SPCEX) which enables NSD's customers to purchase bonds on SPCEX and promptly move them to be traded on MICEX SE and back;
- a procedure was created to support coupon payments, final and partial redemptions of Saint Petersburg municipal bonds;

As a result of this project, the following benefits are now available to NSD's participants:

- they are able to enter into stock exchange transactions in Saint Petersburg municipal bonds both on SPCEX and MICEX SE;
- they are able to enter into OTC transactions in such bonds, including with participants of SPb SDC; and
- if Saint Petersburg municipal bonds are included in the Bank of Russia's Lombard List, our participants can pledge the bonds as collateral for loans provided by the Bank of Russia.

Modernization of NSD's Technology Platform

2010 saw an important milestone towards further IT development at NSD, i.e. the completion of the migration of NSD's depository recordkeeping system to a new technology platform. The new system uses Oracle's industrial-strength database management system which delivers exceptional reliability of transaction processing. Owing to the new user-friendly interface, NSD's customers are now able to track the status of their instructions online. The cutting-edge technologies form a solid

basis for the future development and make it possible to efficiently and effectively implement new products and services on the basis of the new platform. An important advantage of the new platform is that it has been developed internally by the MICEX Group's companies, which makes the company less dependent on software outsourcers and guarantees timely and high-quality maintenance and further modernization of the platform. In 2010, PricewaterhouseCoopers carried out an IT audit of the project to enable the MICEX Group's top managers to control its quality. The audit showed that NSD's migration to the new platform was a complete success, and the invaluable experience obtained by NSD's personnel makes us confident that the new system will evolve further.

DVP Settlement Via Clearstream

Last year saw successful implementation of the project "Delivery Versus Payment Settlement Via Clearstream" designed to broaden the range of settlement services offered by NSD in accordance with the MICEX Group's Development Strategy for 2009 - 2011.

The key users of this service are small and medium-sized credit institutions and brokers who cannot afford to have their own direct accounts with Clearstream due to the high cost of this service and Clearstream's Account Opening Policy which targets only large customers.

Speedy Settlement Scheme between NSD and Citibank

NSD and ZAO Citibank have set up the Speedy Settlement Scheme (SSS) which offers the following benefits to their customers:

- it helps reduce the time needed to move securities between accounts maintained at NSD and Citibank; and
- it cuts our customers' costs relating to such transfers;

This service is intended for the customers trading on MICEX SE and making OTC transactions with counterparties that are NSD participants holding part of their assets at Citibank. This scheme is in addition to the existing Speedy Settlement Scheme between NSD and ING BANK (EURASIA) ZAO.

System for Electronic Interaction with Supervisory Organizations (SEVKOR). Phase One: System Development and Live Operation. Automated Filings with the Bank of Russia

The project "System for Electronic Interaction with Supervisory Organizations (SEVKOR)" has brought a new level of automation to electronic interchange with the supervisory organization as a result of implementation of the new software and hardware system with workstations installed at all participants of the electronic interaction system.

Creation of an Off-Site Standby SWIFT Complex

This project was designed to set up in 2010 an off-site standby SWIFT complex at the Varshavsky Computer Center. The project helped increase the resilience of the SWIFT Terminal Complex and made it possible to switch to the standby system in the event of emergency, thus achieving a significant reduction of operational risks.

Implementation of Segregated Cash Accounting for Transactions on MICEX Group's Futures and Options Market

The project introduced segregation of accounting of own and customers' funds as well as funds under fiduciary management in the accounts opened for a clearing member at NSD.

NSD Starts Accepting Foreign Currency Margin for Futures and Options Trading

As a result of the project, NSD developed a technology which enables clearing members to deposit funds in a foreign currency on margin to secure their transactions on the MICEX Group's futures market.

Implementation of Segregated Cash Accounting for Transactions on the Futures Commodities Market

The project has helped implement segregated accounting of own and customers' funds in the accounts opened for a clearing member at NSD for carrying out transactions on the commodities futures market.

NSD Implements Settlement of Trades Made with MICEX as the CCP on the MICEX Group's Futures and Options Market

The project implemented the settlement of trades made by clearing members with MICEX acting as the Central Counterparty (CCP) on the MICEX Group's futures and options market.

Some projects implemented by NSD jointly with MICEX on the MICEX Group's futures market are also designed to develop this market and make it more attractive for participants by offering them new services, and also bring its trading, clearing and settlement processes in line with the new requirements of Russian laws.

Settlement of Securities Trades Made on MICEX Group's Market Using Participants' Accounts Maintained at NSD Branches

The launch of processing under the Project "Settlement of Trades on the MICEX Group's Stock Market Using Participants' Accounts Maintained at NSD Branches" offered regional stock market participants opportunities equal to those available to the participants which have accounts with the NSD Head Office when trading on the MICEX Stock Market, and make the settlement services offered to customers more convenient, efficient and of higher quality.

NSD Launches Settlement of UTS Trades via the BESP System (to Remove the Batch Settlement Mechanism)

This project is designed to increase efficiency of participation of the Bank of Russia and clearing members in the net settlement of trades executed during the Unified Trading Session (UTS), to improve the services provided to clearing members by reducing the time needed to transfer funds between National Clearing Center (NCC) and clearing members, and to create a settlement infrastructure for the foreign exchange market of the MICEX Group, which makes turnaround time equal for FX transactions made by Moscow-based and regional participants.

Settlement of Trades on the Exchange Market for Government Securities Via the BESP System (to Exclude the Bank of Russia from Interregional Settlement)

In accordance with the plans of the Bank of Russia to move the settlement of trades on financial markets to the BESP System, a project has been successfully implemented which significantly speeded up and simplified settlement of trades on the government securities market among parties based in different regions of Russia. This was achieved owing to the use of a special settlement procedure in which the Bank of Russia settles positions of the Settlement Centers on the Organized Securities Market through an end of day process.

Creating a Common Information Environment for the CIS Countries

Last year NSD launched an information exchange project with the Republican Central Securities Depository of the Republic of Belarus (Belarus RCSD) to keep Russian investors updated on the stock market developments in Belarus.

Thanks to this project, investors now have direct access to the laws and regulations governing securities issuance and trading in the Republic of Belarus, as well as detailed information on Belarusian issuers, securities and other important information. Also, NSD's website now has a section containing articles written by Russian and Belarusian stock market experts.

The agreement entered into between NSD and Belarus RCSD is the first step towards the creation of a common information space among the CIS countries.

New Types of Financial Instruments Added to the List of NSD-Eligible Instruments

For the first time on the Russian securities market, NSD launched services to support the new financial instrument, Russian Depositary Receipts issued by Sberbank of Russia in respect of ordinary shares of United Company RUSAL PLC (Jersey), which were admitted to trading on the MICEX SE. This event marked the emergence of a new stock market segment which expands the list of financial instruments traded in Russia and makes it possible for Russian investors to acquire equity interests in foreign companies.

NSD started to offer services relating to foreign equities and funds, a step intended to help NSD's participants streamline their recordkeeping of such financial instruments. In 2010, NSD made the following instruments eligible for its services:

- foreign funds: RIF Segment I RCA (Railways Core Assets), RIF Segment II RLA (Railways Related Assets), and Allianz RCM BRIC Equity-AT-EUR;
- foreign equities processed through the international CSDs, Euroclear/Clearstream – PLIM Cooperation AG, Regal Petroleum PLC, and United Company RUSAL PLC.

Priority Areas of NSD's Activities

Securities Safekeeping

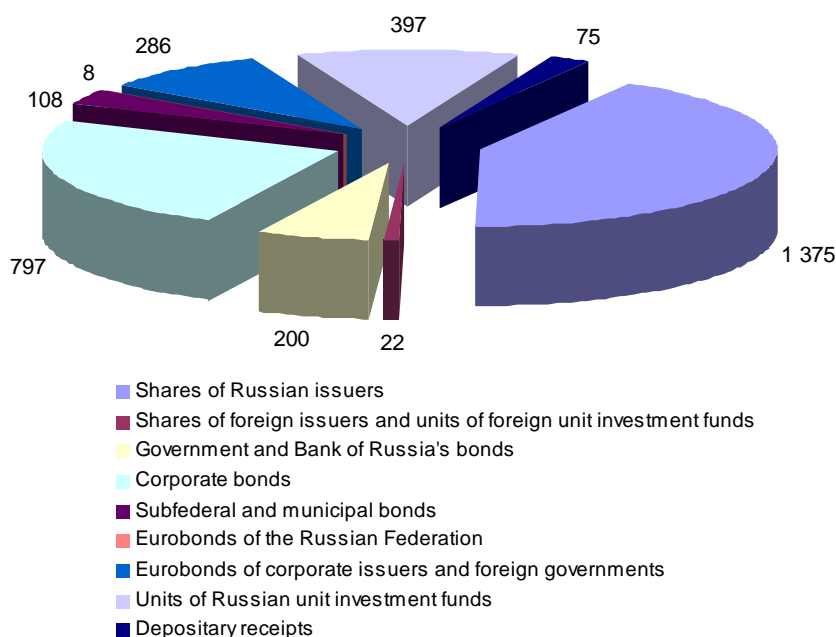
In 2010, the total value of securities held in participants' securities accounts grew 27 percent and exceeded RUB 7.7 trillion.⁶

As of 1 January 2011, NSD provided services in respect of 3,268 securities issues to 1,575 issuers, including:

- 2,488 share and bond issues of 1,293 Russian issuers,
- 22 share issues of foreign issuers and units of foreign unit investment funds,
- units of 397 Russian unit investment funds managed by 135 asset management companies,
- 286 Eurobond and local bond issues of 129 corporate issuers and foreign governments,
- 75 issues of ADR/GDR and Russian Depositary Receipts (RDRs) for 72 Russian and foreign issuers.

As of 1 January 2011, the number of securities issues held at NSD was 12.85 percent higher than the same date the year before. The number of most financial instruments accepted for deposit by NSD grew significantly during last year. In particular, the number of Eurobond and local bond issues, units of Russian unit investment funds, and ADR/GDR and RDRs increased year on year by 91.95 percent, 12.46 percent, and 33.93 percent, respectively.

Breakdown of Securities Held, by Type/Quantity, as of 1 January 2011



In 2010, the market value of shares held at NSD increased 28 percent to RUB 1,750.5 billion from RUB 1,367.4 billion the year before, and their number slightly declined from 2.094 trillion to 2.009 trillion (4 percent)) as a result of the reorganization of a number of issuing companies and their liquidation.

⁶ The securities value for equities, units of unit investment funds and Depositary Receipts is shown at their market value, and for bonds at their par value.

The key accomplishments of 2010 were as follows:

1. NSD was the first on the Russian market to provide depository services and support circulation of the pioneer bond issues intended for qualified investors.
2. The time needed for acceptance of foreign securities as eligible for NSD services was reduced considerably. Now the standard turnaround time for a foreign security to be accepted by NSD is one business day. If an accepted foreign security is intended for a certain deal, the turnaround for such acceptance may be shortened to just a few hours.
3. H2 2010 saw a major increase in the number of foreign securities accepted for servicing by NSD. Foreign securities now account for 11 percent of all securities handled by NSD. The quantity of foreign securities held by NSD in participants' securities accounts grew threefold compared to 2009.
 - In 2010, the list of foreign securities accepted for servicing by NSD was expanded; the list of eligible ADRs/GDRs increased to 74;
 - Last year, there was a significant increase in the number of foreign countries whose Eurobonds handled by NSD, which includes Venezuela, Brasilia, Mexico, United Arab Emirates, China, Croatia, Hungary, Poland, Czech Republic, Belarus, Latvia, Lithuania, and Ukraine, as well as foreign countries' local bond issues (France, Ireland, Greece, and Belgium).NSD accepted for servicing 13 share issues of issuers from the Republic of Belarus.
4. NSD started to service Saint Petersburg municipal fixed coupon bonds having a maturity of one to five years, which were floated on SPCEX. Saint Petersburg bonds are simultaneously traded both on the SPCEX and MICEX SE.
5. NSD started preparations to support the reorganization at OAO Rostelecom. As a result of the reorganization, the following companies are expected to merge with and into Rostelecom: Central Telecommunications Company (Centertelecom), Sibirtelecom, Far Eastern Telecommunication Company, VolgaTelecom, North-West Telecom, Uralsvyazinform, Southern Telecommunications Company, and Dagsvyazinform. NSD is preparing to provide its technological and technical support for this corporate event. NSD's website now has a section on the Rostelecom reorganization. It contains the most complete information on all stages of the reorganization, the stock repurchases completed and in process, stock conversions, dividend payments, and other information to keep the participants updated on the reorganization progress.
6. In 2010, NSD continued accepting Russian issuers' securities using a simplified procedure, i.e., without the need to submit the standard set of documents. Last year, NSD accepted the securities of and started to provide services to 68 Russian equity issuers. Since the inauguration of the simplified procedure, NSD has accepted shares of 612 Russian companies.

Settlement and Safekeeping Services

In 2010, NSD executed 2.7 million depository transactions, up 10.3 percent on 2009. The market value of securities transferred to/from NSD made RUB 67,746 billion, a 12.8 percent increase year-on-year.

Securities Transfers with Controlled Cash Settlement

NDC's merger with MICEX SH was the starting point for the upgrade of the "delivery versus payment settlement" (DVP) process at NSD. NSD developed a concept for improving settlement,

including the development of new capabilities for customers, such as DVP settlement of transactions based on a single instruction, opportunity to prioritize and link instructions, and optimization of the DVP scheme with payments in a foreign currency.

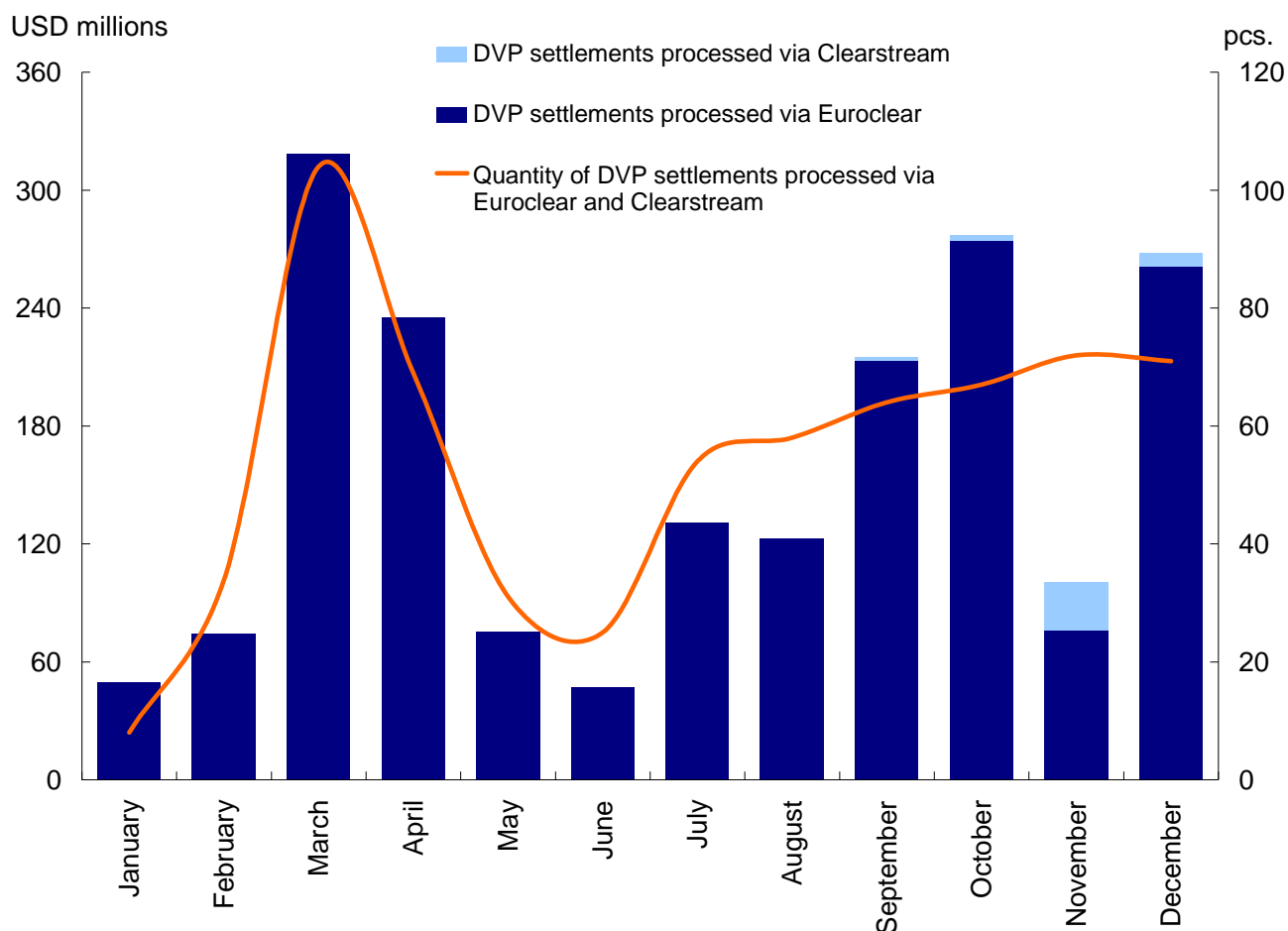
Settlement on Foreign Markets

The growing demand for DVP settlement services and transactions on foreign markets gave us an incentive to expand the line of our settlement services for foreign financial instruments. On 16 August 2010, NSD offered its customers a new service, i.e., DVP transactions via the Clearstream link, in addition to the DVP settlements via Euroclear.

This service made it possible for the customers to select the most appropriate place to settle their transactions in foreign securities.

In 2010, NSD settled 625 DVP trades worth an equivalent of more than \$1.8 billion, and 1,077 FOP trades via the Euroclear link. 234 FOP trades and 32 DVP trades valued in excess \$35 million were settled via NSD's account maintained with Clearstream.

DVP Settlement via NSD's Accounts with Clearstream and Euroclear

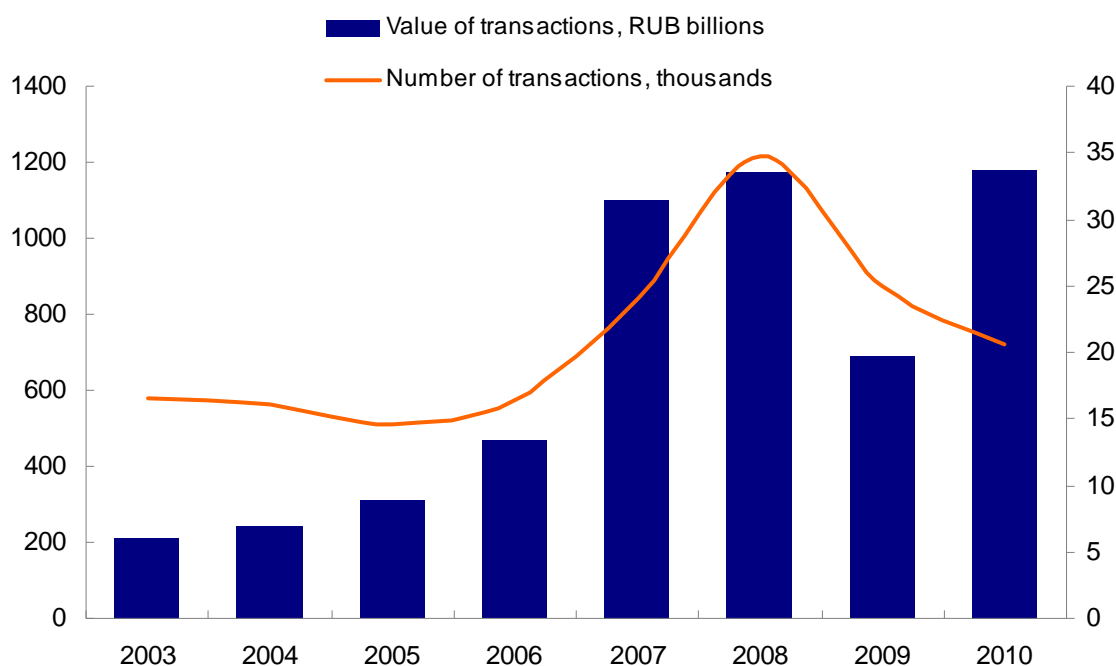


Settlement via the NDC-DCC Bridge

In 2010, 20,572 trades valued in excess of RUB 1.18 trillion were settled via the NDC-DCC Bridge. The net transfers to/from NSD in terms of value were negative and amounted to RUB 238 billion.

The number of issuers whose securities are eligible for settlement via the NDC-DCC Bridge grew to 88 during the year, with the total number of bridge-eligible securities reaching 122.

Dynamics of Settlement via the NDC-DCC Bridge



Speedy Settlement Schemes

In 2010, special attention was given to further development of the Speedy Settlement Schemes (SSS).

On customers' request, NSD increased by 51 percent the number of securities issues eligible for settlement via the SSS between NSD and ING BANK (EURASIA) ZAO. As a result, as of 1 January 2011, customers could use the SSS to settle trades in 71 securities. The quantity of trades settled via the SSS between NSD and ING BANK (EURASIA) ZAO in 2010 totalled 1,645 transactions.

In July 2010, NSD and ZAO Citibank launched the NSD-Citibank Speedy Settlement Scheme. As of end-2010, 16 most liquid securities included in the MICEX Index (or 53 percent of the MICEX Index calculation base) could be settled via the NSD-Citibank SSS.

The NSD-Citibank SSS was primarily intended to speed up settlements, including settlement of trades on the MICEX, which now accounts for 80 percent of Russia's exchange market for equities. This scheme makes it possible for NSD's and Citibank's customers, including those who do not currently assume the risks of NSD, to settle trades through the depository link between NDC and Citibank without the need to have securities transfers recorded in the share registers.

Transactions in Russian Depositories

In 2010, NSD continued to process its participants' transactions settled by other Russian securities depositories (i.e., Gazprombank, Sberbank of Russia, and Saint Petersburg Settlement Depository Center (SPb SDC)). We had 8,984 securities transactions settled worth a total of RUB 315.63 billion.

Transactions in CSDs of the CIS countries

NSD offers its customers a possibility to effect settlements on the CIS securities markets through its accounts with the Central Securities Depository of the Republic of Kazakhstan (since

2005), the National Depository Center of the Republic of Azerbaijan (since 2007), and the Republican Central Securities Depository of the Republic of Belarus (since 2008). In 2010, NSD continued to cooperate with the CIS countries' recordkeeping services providers in monitoring legislative changes and reflecting such changes in their rules and settlement technologies.

Cash Settlement

In 2010, cash turnover in the customers' bank accounts reached RUB 174,369 billion, RUB 6,991 billion up year-on-year.

Settlement of Trades on the MICEX Markets

In 2010, the total cash turnover in the participants' trading accounts on the MICEX exchange markets made RUB 84,275 billion, including:

- RUB 62,086 billion on the securities market, (down RUB 281 billion compared with the same period in 2009);
- RUB 19,978 billion on the exchange market for government securities (up RUB 480 billion compared with the same period in 2009);
- RUB 2,211 billion on the futures and options market (down RUB 5,316 billion compared with the same period in 2009).

The cash turnover in the account of Joint-Stock Commercial Bank "National Clearing Center" fell RUB 3,382 billion to RUB 35,517 billion.

Transaction through the Bank of Russia's Payment Network

In 2010, the cash turnover in NSD's correspondent account with the Bank of Russia declined by RUB 53,967 billion to RUB 161,531 billion compared with the same period in 2009. Such a decrease was due to the reduced amount of funds allocated by the Bank of Russia for trading on the MICEX Stock Market from RUB 300 billion to RUB 40 billion per day, while the customers' total cash turnover grew threefold (exclusive of that of the Bank of Russia). The number of payments processed in NSD's correspondent account with the Bank of Russia grew by 90,205 to 536,847 payments.

In 2010, the cash turnover in NSD's correspondent account with the Bank of Russia processed via the BESE System increased to RUB 88,876 billion, up RUB 9,078 billion compared to the year before, and the number of payments processed via the BESE system in NSD's correspondent account with the Bank of Russia grew 5.9 times and made 21,878 payments. A significant growth of the number of transactions processed via the BESE System was due to the software upgrade and improvement of NSD'S settlement service for making customers' payments via the BESE System.

Transactions in Correspondent Accounts of NSD's Branches

In 2010, the cash turnover in the correspondent sub accounts with NSD branches grew 2.2 times compared to 2009 to RUB 7,169 billion, and the total number of payments processed in the branch accounts grew 2.3 times and reached 85,650 payments.

Deposits of the Bank of Russia

Last year saw a significant increase in the volume of customers' transactions to place funds on deposits with the Bank of Russia. The turnover of cash in the customers' bank accounts relating to such deposits with the Bank of Russia grew 2.6 times year-on-year to RUB 9,025 billion.

Issuer Services. Corporate Actions Processing

In 2010, NSD approved the submitted securities issue documents for 330 bond issues with the total part value in excess of RUB 1.5 trillion.

Last year NSD accepted more than 220 physical global certificates of bond issues worth in excess of RUB 0.9 trillion for centralized safekeeping, and supported their placement to investors and trading. Among these bonds were the bonds issued by foreign sovereign issuers (the Republic of Belarus) and international financial organizations (European Bank for Reconstruction and Development).

Based on the results of tenders and auctions held by the constituent entities of the Russian Federation and municipalities, natural monopoly entities, state corporations, NSD in 2010 entered into 22 agreements to provide depository and paying agent services.

Over the year, the number of issuers who opened issuer accounts with NDC grew 5 percent to 829 issuers.

2010 saw a decline in the volumes of bond offerings on the market compared to 2009, and a slowdown in new bond issuers entering the market.

In November 2010, the volume of corporate, subfederal and municipal bonds in circulation (held in NSD participants' securities accounts) reached a record level of RUB 3.014 trillion, but then decreased slightly in December to RUB 3.005 trillion.

The aggregate turnover of the exchange and OTC markets for corporate bonds and regional bonds grew 2.2. times in 2010 year-on-year to RUB 16.3 trillion and reached RUB 36.5 trillion (i.e., the issues of corporate and regional bonds maturing after 2010 whose global certificates are safekept at NSD).

As at 1 January 2011, NSD acted as authorized depository for 794 issues of corporate and regional bonds (maturing after 31 December 2010) issued by 417 issuers, having the aggregate par value of RUB 3,542.1 billion (part of these bonds will be placed after 31 December 2010 or may be repurchased by the issuers based on call options), as follows:

- 93 subfederal and municipal bond issues of 33 issuers with the total par value of RUB 627.3 billion;
- 701 corporate bond issues of 384 issuers with an aggregate par value of RUB 2,914.8 billion;

Without taking into account the bonds held in the issuers' securities account (i.e., those in the process of placement, or repurchased by the issuers or cancelled), as at 1 January 2011, the value of corporate and regional bonds outstanding made RUB 3,005 billion, up 16.9 percent year-on-year from RUB 2,570 billion. The above value is the par value of bonds held in NSD participants' accounts, taking into account the amortization of amortizing bonds.

NDC, as the authorized depository for corporate and regional bond issuers participated in the scheduled principal repayments together with the bond issuers and their paying agents in 2010:

- 158 corporate bond issues of 149 issuers with a value of RUB 340.93 billion;(compared to 207 corporate bond issues of 184 issuers worth RUB 307 billion in 2009);

- 34 regional bond issues of 25 issuers with a value of RUB 69.58 billion (compared to 29 regional bond issues of 27 issuers worth RUB 55 billion in 2009);

In 2010, NSD continued to develop the mechanism designed to interact with the Bank of Russia and the Russian Federation Ministry of Finance. In particular, in 2010, NSD, acting as the authorized depository for the Bank of Russia, provided depository services to support placement of and trading in seven issues of the Bank of Russia's bonds worth a total of RUB 5 trillion. At end-2010, NSD provided services in respect of three bond issues of the Bank of Russia worth a total of RUB 3 trillion. The number of issues of federal bonds (OFZ) handled by NSD as the authorized depository for the Ministry of Finance of the Russian Federation remained unchanged last year (197 issues), taking into account the repayment of some OFZ bond issues and their cancellation in 2010.

In 2010, NSD supported corporate actions processing for all securities issues held at NSD, and processed 3,425 such transactions on its books of record during the year, including:

- 2,683 Russian securities entitlement transactions;
- 390 transactions to support corporate actions involving foreign financial instruments, including transactions to enable participants and their customers to participate in 47 corporate actions with foreign financial instruments.
 - participation in extraordinary and regular meetings of shareholders of the following overseas companies: TMK Capital S.A., BTA Finance Luxembourg S.A., IIB Luxembourg S.A., Gazprombank MTG, Wimm-Bill-Dann Foods Public, Novorossiysk Port, CF Structured Products, etc.;
 - disclosure of information on beneficial owners of foreign securities of the following issuers: PSB Finance S.A., IIB Luxembourg S.A., Novorossiysk Port, etc.;
 - voluntary early redemption of foreign securities via Dutch auction or at a previously determined price for the following issuers: VTB Capital SA, Eurasian Development Bank, White Nights Finance B.V., Steel Capital S.A., etc.;
 - mandatory early redemptions of foreign securities for the following issuers: Merrill Lynch International & Co. C.V., Alfa Bond Issuance PLC, Colgrade LTD, etc.;
 - exchange of securities as a result of debt restructuring in respect of foreign securities of the following issuers: TFB Finance Limited, BTA Finance Luxembourg S.A.;
 - assisting Eurobond holders in exercising their rights after IIB Luxembourg S.A. and BTA Finance defaulted on their Eurobonds.

NSD distributed the following payments on Eurobonds and dividends on ADRs and GDRs in 2010:

- USD 787.57 million (compared to USD 1 billion in 2009);
- EUR 19 million (compared to EUR 12.54 million in 2009)
- RUB 3.54 billion (compared to RUB 4.16 million in 2009)

NSD significantly broadened its information services provided to participants in processing corporate actions involving Russian and foreign securities. Specifically, NSD's website now has constantly updated sections containing information on dividend payments, shareholders meetings, tax benefits available to non-resident participants in respect of their securities income, etc.

Last year, NSD assisted its participants in obtaining tax exemptions and double taxation relief in respect of their securities income. NSD processed over 2,500 packages of tax relief documents and forwarded them to the issuers and paying agents concerned. NSD also sent over 3,500 letters to NSD's participants, issuers, registrars, and paying agents in connection with various questions relating to the exercise of securityholders' rights.

In 2010, NSD posted on its website 12,359 information messages on securities, issuers' corporate actions, and other information which helps participants promptly receive all the necessary

information, a 37.7 percent increase on 2009.

Paying Agent Services

NSD is a leader in providing paying agent services on the Russian corporate and regional bond market.

As at 1 January 2011, on the paying agent market services, NSD accounted for 39 percent of the total quantity of corporate and regional bonds in circulation and for 41.6 percent of the number of issuers of corporate and regional bonds.

In 2010, NSD, acting as paying agent, accepted 121 bond issues of 76 issuers for servicing. The number of bond issues handled by NSD as paying agent reached 300, while the number of bond issuers amounted to 170. As paying agent for corporate and regional bond issuers, NSD carried out 651 interest and principal payments to the amount of RUB 1,331,259 million in 2010, compared to 600 payments to the amount of RUB 147,595 million in 2009.

NSD as the National Numbering Agency (NNA) for Russia

As the National Numbering Agency (NNA) for Russia, NSD allocates international codes – ISINs and CFIs – for Russian financial instruments and submits the code data to the international database, keeping the information on Russian ISIN and CFI codes in the database up to date.

In 2010, NSD assigned ISINs and CFIs for 576 Russian securities issues and cancelled 306 Russian securities codes.

Also, in 2010 ISIN codes were first assigned for new types of securities and financial instruments (i.e., deposit rates of the Bank of Russia). NSD assigned ISIN codes for foreign securities admitted to be offered and traded in the territory of the Russian Federation without the need for state registration of such securities issues (i.e., Rouble-denominated debt issued by the EBRD and by the Republic of Belarus).

In March 2010, the NNA's website www.isin.ru went live with the new version of the *Database of ISIN and CFI Codes Assigned for Russian Financial Instruments*. This database contains a broader range of information on financial instruments and now includes CFI data, features more search criteria, with the search results provided in a structured form.

In accordance with the *Regulations on Qualification of Foreign Financial Instruments as Securities* approved by Order of the FSFM of Russia dated 23 October 2007 No. 07-105/pz-n ("Qualification Regulations"), NSD, as member of the Association of National Numbering Agencies (ANNA), assists market participants in recognizing foreign financial instruments qualifying as securities.

Over the entire period of assisting in the qualification of foreign financial instruments as securities, NSD received and processed requests for ISIN and CFI information in respect of 45,859 foreign financial instruments, including requests for information from different market participants relating to the same instrument. As a result of processing these requests and monitoring information on ISIN and CFI codes of foreign financial instruments, securities market participants were provided with information on 15,338 instruments. Of these, 1,862 instruments do not have CFIs, including 265 instruments which do not have ISIN codes, as requested by market participants. For 339 instruments, the CFI does not qualify in accordance with the requirements of the ISO 10962 standard and the Qualification Regulations. The CFI of 13,137 instruments meets the qualification requirements prescribed by the above documents.

In 2010, NSD assigned ISIN and CFI codes under the agreements on assigning CFIs for foreign financial instruments entered into with market participants. We provided our participants assistance in assigning 45 CFIs and 14 ISINs for financial instruments. In 2010, NSD significantly increased the list of countries for whose securities it assisted market participants in having their securities qualified. This list now includes the Bahamas, China, Australia, the Netherlands, India, the Seychelles, Singapore, Bermuda, Sweden, Ireland, Kyrgyzstan, Kazakhstan, and Tajikistan.

Development of EDI with Registrars

During 2010, NSD opened more than 200 nominee accounts with registrars maintaining share registers for corporate issuers and unitholder registers for unit investment funds (PIFs). By year-end, the total number of nominee accounts maintained by NSD with registrars reached 1,294, an increase of 11 percent from the year before.

As of the end of 2010, NSD had relationships with 71 share registrars and registrars of unit investment funds.

As a result of the efforts undertaken by NSD in 2010 to promote broader use of EDI in communications with share registrars and funds' registrars, NSD concluded 11 agreements with registrars setting out the procedure for the parties' interaction via EDI.

At end-2010, 20 registrars maintaining share registers and 25 registrars maintaining unitholder registers for unit investment funds used EDI to communicate with NSD. As a result, EDI transactions accounted for more than 93% of all of NSD's transactions in its nominee accounts with registrars processed during 2010.

NSD's contribution to the cause of EDI development on the securities market was lauded on many occasions by the industry community. In 2010, NSD was, for the fourth year in a row, named the winner of the *Infrastructure Institution of the Year 2009* Awards by the PARTAD and the "Securities Market (*Rynok Tsennykh Bumag*) Magazine in the category "For EDI Development". Awards in the category "For EDI Development" are given to securities infrastructure providers who have achieved the greatest progress in developing and implementing EDI technologies.

Technological Upgrade and Development of Hardware and Software Systems

The key tasks set before NSD's technical departments include ensuring timely and uninterrupted settlement of our customers' transactions and automate acceptance, processing and transfer of information through implementing new information technologies, and increasing the performance and reliability of the software and hardware system.

In 2010, in the course of the companies' reorganization, MICEX SH's and NDC's technical staff implemented all the necessary software modifications to ensure smooth and uninterrupted business process at the consolidated company.

To ensure stable operation of the software and hardware system (with minimal delays during the peak load period) in 2010, work was carried out to further modify the software and integrate the systems used at NSD. The Database Management System was upgraded to IBM Informix 11.50. The computer hardware was replaced with more powerful and modern machines.

In line with the ever-increasing requirements of the stock exchanges, regulators and customers, NSD continued its systematic effort to expand the functionalities of its EDI systems, implement straight-through processing technologies, and use them to support real-time settlement on all regulated exchange and OTC markets serviced by NSD.

New Alameda Platform

In 2010, NSD completed preparations to put the new technological platform called Alameda into commercial service.

NSD's customers are now able to use a web-based interface online to carry out the full range of depository transactions. The legacy system using the Louch software to interact with the customers is also preserved.

The Alameda hardware and software system is based on the Oracle industrial-strength database management system (DBMS) and has better performance in terms of reliability, scalability and speed of operation compared to the previously used Head Depository System (HDS) application software. As a result, the turnaround times for many transactions in the new system have been reduced by several times.

Comparison of Turnaround Times for Key Depository Transactions Using the HDS Software and Alameda Platform

| Indicator | Unit of measurement | Average monthly value | | Change, % |
|---|---------------------|-----------------------|---------|-----------|
| | | HDS | Alameda | |
| Time needed to open a new operating day | minutes | 25:00 | 8:00 | -68 |
| Time needed to generate periodic reports | minutes | 40:00 | 30:00 | -25 |
| Time needed to upload a file with the list of sections for the trading system | minutes | 6:00 | 2:15 | -62,5 |
| Time needed to upload a file with the balances for the trading system | minutes | 19:45 | 1:50 | -90,79 |
| Time needed to generate a final turnover balance sheet | minutes | 28:00 | 17:00 | -39,3 |
| Time needed to process an end-of-day | minutes | 10:00 | 2:50 | -75 |

| | | | | |
|---|---------|-------|------|--------|
| net settlement instruction | | | | |
| Time needed to generate a report on execution/failure to execute the end-of-day net settlement instruction | minutes | 10:00 | 0:15 | -97,60 |
| Maximum time needed to process a message using dynamic data exchange in the course of simple (trade-by-trade) clearing. | minutes | 28:30 | 3:20 | -88,84 |
| Average time needed to process a message using dynamic data exchange in the course of multilateral clearing. | minutes | 2:30 | 2:00 | -20 |
| Maximum time needed to process a message using dynamic data exchange in the course of multilateral clearing | minutes | 21:15 | 3:40 | -84,00 |
| Time needed to upload data for the settlement system (billing) | hour | 15 | 10 | -33,33 |
| Time needed to generate a securityholder list containing in excess of 100,000 securityholders * | minutes | 360 | 25 | -93,06 |

* Based on the data received in the process of parallel operation of the systems (to date, no major shareholder data collection transactions have been processed so far).

The Alameda platform uses the access control principles which take into account Russian and international information security standards.

The separation of the functions of process administration, creation of users, formation of roles/groups of users, and providing authorizations to users – all these help ensure that the system management is immune from authoritarian tendencies. Delimitation of the authorizations to register, enter, match and execute instructions helps protect the Alameda platform from operational staff's errors or misconduct. In the process of user password generation, the system checks user passwords for strength, i.e., their complexity, repetition, and minimum length. In the Alameda platform, the users are required to change their passwords on a monthly basis. User authentication is effected with cryptographic keys of the electronic signature.

Implementation of the requirements of the Bank of Russia's Security Information Standard significantly reduces the information security risks, and consequently, operating risks. Such an approach to developing the core software systems has a favourable influence on NSD's image and the relations with its customers and business partners.

Electronic Settlement System

The Electronic Settlement System (ESS) is NSD's principal software and hardware system operating in an online mode and supporting automated cash settlement of customers' stock exchange and OTC trades. Every day, 685 customers of NSD use interactive access to the ESS from the "ESS Client", "Internet Bank-Client", and "Intranet Bank-Client" remote workstations. The most popular workstations are "Internet Bank-Client" and "Intranet Bank-Client", which are installed and used by 454 customers, and some customers use several different types of client workstations, depending on their structure and technologies. These workstations are successfully supported by NSD's technical staff.

The quantity of documents processed monthly in the ESS is constantly increasing and as at the end of the reporting period exceeded 200,000 documents.

In 2010, NSD upgraded or developed several dozens new forms and procedures which helped expand the functional capabilities, improve the software characteristics and offer the customers additional options for interacting with NSD. The most important of them are the following:

- REPO modification;
- starting to accept a foreign currency margin for futures and options trading;
- improving the cash leg of settlement on the government securities market and equity market;
- implementation of the Bank Order (pursuant to Instructive Regulation of the Bank of Russia dated 11 December 2009, No. 2360-U *On the Procedure for Preparing and Using the Bank Order*);
- the launch of UTS trade settlement via the BESP System (to exclude the batch settlement mechanism) and transition to real-time interaction with National Clearing Center (NCC).

Also, over the period, our developers formulated, tested and put into service over 70 tasks to upgrade the ESS intended to minimize the operational risks and streamline the transactions processed on an everyday basis.

Work was continued on the project to develop and implement a new automated electronic settlement system (AESS), with the following tasks accomplished:

- the Functional Specifications were developed, agreed-upon and approved;
- the software of the AESS prototype was installed;
- beginning in mid-2010, MICEX-IT, the AESS developer, started to install interim versions of the AESS on NSD's equipment;
- at end-2010, NSD held training sessions on the AESS operation for its key employees; and
- the Testing Programme and Methodology was drafted, agreed upon and approved.

According to the plan approved for 2011, it is expected that the system development will be completed, the system will be tested and put into service. This will be a major milestone towards improving and expanding the range of services provided by NSD in the banking services segment of the MICEX Group.

Interaction with the Interregional Centre of Informatization (ICI) of the Bank of Russia

NSD belongs to the group of banks actively assisting the Bank of Russia in its efforts to upgrade the hardware and software system used to process transactions in the Bank of Russia's settlement network. This is possible owing to the successful operation and development of the software and hardware system created at NSD to interact with the ICI.

In 2010, NSD participated in pilot projects to introduce new services supporting electronic exchange of payment information between the Bank of Russia and credit institutions.

- the SWIFT-BESP Gateway, an automated system supporting interaction between direct settlement participants (DSP) with the Bank of Russia's BESP System via SWIFT;
- the Bank of Russia's Special Client (BRSC), a software suite which includes the functions of the entire set of software currently used to interact with the Bank of Russia in the multi-batch and continuous payment processes and in the BESP System, including on the transport level.

As part of the effort to automate its internal processes, NSD successfully implemented the technology for automated transmission of our customers' electronic documents through the Bank of Russia's BESP System, which reduced the payment turnaround time significantly.

Automated Banking Systems

In 2010, NSD continued operation of CFT's Automated Banking System (ABS) running Oracle10g. Based on the requests submitted by NSD's divisions, over 80 local transactions and forms were developed to automate the information processing and make system operation easier to use.

The efforts aimed at improving the banking systems used at NSD were underway both at our headquarters and branches. All branches tested and introduced new functionalities as part of the project to launch settlement of trades on the domestic stock exchange market for government securities and on the securities market via the BESP System. Also, work was done to enhance the functionalities of the branches' banking systems and implement protected interaction between the branches and their customers via SWIFT (to accept instructions, send advices, account statements, etc.).

As part of the reorganization of MICEX SH and NDC, we developed and successfully implemented a system intended to transfer the balance sheet items of a non-credit institution (i.e., NDC) to the balance sheet of a credit institution (i.e., MICEX SH), a function which is unique on the banking systems market. NSD developed, tested and put into service a new bilateral gateway to transfer data between NSD's banking and billing systems to reflect the settlements with the participants and issuers on its books of account. Another success was the implementation of separate VAT accounting to set off the input and output taxes, a project unique among Russia's credit institutions.

Relations with Supervisory Organizations

The growing number of supervisory organizations and the need for NSD's departments to file ever-increasing amount of reports/information, the growing number of types of reports, information, letters, files and other non-payment related information sent and received, different periods and procedures for internal communication and communication with external organizations have called for a rethink on the process used by NSD to interact with the supervisory organizations and to bring a new level of automation to EDI between NSD and such organizations. With these goals in mind, NSD implemented in mid-2010 the new System for Electronic Interaction with Supervisory Organizations (SEVKOR).

The implementation of SEVKOR helped reduce the likelihood of errors in the electronic data interchange with the supervisory organizations due to less manual processing involved, accelerate the transmission of reports, simplify the process for adding new types of reports, their receipt and transmission via the electronic channels, streamline the electronic interaction process, and shorten response time to emergencies.

After the successful operation in the technical department, the SEVKOR software was installed in several business departments of NSD, which makes it possible to send most of the existing types of report to Division 1 of the Moscow Main Technical Directorate of the Bank of Russia. In 2011, it is planned that new functions will be added to the SEVKOR software to automate the process of sending other types of reports via the links with the Federal Tax Service of Russia and the Federal Service for Financial Monitoring of Russia.

Relations with Other Securities Depositories

In 2010, as a step designed to expand the range of services provided to participants and improve interaction with the upstream securities depositories, NSD automated a number of depository links.

The DVP settlement processing via Clearstream was automated: on 23 September 2010, the first DVP trade was settled in a foreign currency using NDC's and MICEX SH's accounts with Clearstream, the international CSD.

In addition, NSD completed the automation of the Speedy Settlement Scheme between NSD and ZAO Citibank.

Also in 2010, NSD automated the electronic document interchange with SPb SDC as part of the project to service Saint Petersburg government bonds for which NSD acts as the settlement depository.

Customer Relations Systems

In 2010, NSD saw its efforts to develop its remote services offered to customers based on the public communication channels and new client-server technologies.

The internet banking systems, SWIFT system and telex messaging used for these purposes are integrated with the ESS within a single data environment, which offers our customers an opportunity to manage their accounts with NSD in real time. This is ensured by the Process Integration Environment (PIE) which is constantly adapted to the changing information space and functional environment.

The number of customers using the Internet Bank-Client and Intranet Bank-Client remote access systems taking part in trading on the stock exchange markets as the principal or standby access channel to the ESS is constantly growing. Also increasing is the number of settlement documents accepted for processing, account statements and other financial messages transmitted through these systems.

Despite the obsolescence of some customer communication technologies (eg, use of telex), NSD is committed to continued support of such systems until they are completely abandoned by the customers. As a measure to cut costs, at end-2010 NSD switched to exchanging telex messages with the customers via the REX-400 network in Internet using the services offered by Club Rex400. This migration improved the telex messaging with NSD's customers and reduced the amount of manual processing. The Rex400 system is used for messaging via the main communication channel (Internet) and the standby dial-up channel.

As a measure to expand the range of information services provided to participants, NSD went live with the beta version of its new information system, Depository Information Service Centre (NSD DISC). At the first phase of the DISC project, the system includes a vast amount of data on the securities serviced by NSD and on the issuers, registrars, and authorized depositories.

In 2010, NSD implemented support of the Formats for Electronic Document Interchange Between Registrars and Depositories, Version FRD_07_01.

SWIFT Terminal

Seeking to accommodate the recommendations of the technical auditors of Belgium-based SWIFT, NSD went live in 2010 with a standby SWIFT Terminal. This standby terminal uses new, highly reliable servers, encryption modules and independent telecommunications channels and power supply. To ensure operational control and prompt response to any problems in the servers at the main and standby data centres, NSD implemented IBM remote control and management software and hardware solutions.

During 2010, the availability of the standby system was tested on a scheduled basis with the participation of NSD's customers, and also with automated switching in the event of disruptions in the main data centre's access channels. This helped ensure uninterrupted business processes both for the MICEX Group's principal business, and for nearly 70 customers connected via NSD's SWIFT Terminal to SWIFT services.

In 2010, SWIFT together with MICEX SH's technical staff carried out analysis of the organizational and management models of MICEX SH and NDC with respect to SWIFT to identify the synergies which can be unlocked as a result of the companies' consolidation. Their recommendations were taken into account when registering the new entity with SWIFT, and both MICEX SH's and NDC's SWIFT BIC codes were preserved. This made it possible to carry out the reorganization without any significant changes to the software and hardware platform at MICEX SH and NDC and, as a result, significantly reduce the risks unavoidable in carrying out such major changes to the organisational structure.

Further, as a result of the audit, the best model was identified for controlling SWIFT services at NSD using the responsibility assignment matrix (also known as RACI matrix), which will help enhance security and reliability of the services provided by SWIFT.

HR Management

The creation of an efficient securities settlement system is impossible without qualified personnel focused on implementing its development strategy. All added value generated at NSD is created by its staff's efforts. The quality of services provided to our customers largely depends on the proficiency and customer focus of NSD's personnel. That is the reason why we at NSD pay special attention to HR management .

The key principles of HR management at NSD are as follows:

- aligning the staff numbers and functions;
- retention of key employees;
- availability of a sound and transparent system of indicators and fair criteria for assessing employees' performance;
- adopting a system of incentives in which employees' remuneration and rewards are linked to their performance;
- a competitive compensation package;
- incentivizing innovation and efforts to improve the quality of services provided;
- developing personnel further training programmes;
- offering good career prospects, identifying and promoting talented employees.

In the course of the reorganization of MICEX SH and NDC, the consolidated company's headcount was right-sized and now totals 403 employees (including at the branch offices).

The reorganization also brought about changes in the company's personnel structure, with the share of operational, customer services and IT-personnel increasing and the share of administrative staff declining. At the same time, measures were taken to retain key employees. Further steps to optimize the staff to be taken by NSD in 2011 will include headcount reductions at NSD's branch offices, hiring highly-skilled IT specialists, developing new risk management products and promoting them on the market.

NSD's top priorities on the HR agenda are staffing to support such activities as rapid and large-scale development of new services and their promotion on the market. Special focus will be on promptly identifying the new trends in the services offered by CSDs, assessing the customers' potential demand for such services, studying the best international practices and adapting them for use at NSD.

Within the MICEX Group, steps are planned to be taken to modernize the system of incentives for NSD's personnel and make it prepared to cope with the current and future challenges the Company faces in the HR area.

Key Risks Related to NSD's Activities

Today, risk management is one of the top priorities for most companies operating in financial markets. NSD attaches great importance to this area, seeing stability and reliability as the guiding principles of its activities. NSD uses a comprehensive approach to addressing risk management challenges, which helps us develop the methods to safeguard the interests of the company and its customers. NSD's focus on risk mitigation helps guarantee customers the safety of their assets.

The Company has the Quality and Risks Committee which includes representatives of NSD's customers that are professional securities market participants. Such form of discussing the Company's risk management strategy and methods has proved to be most effective, as it helps obtain industry feedback regarding NSD's risk management system, receive information on the risk management methods and instruments used by other companies in the financial market, and identify the participants' interests and needs in that area. In addition, there is an Audit Commission attached to the Supervisory Board of NSD.

NSD's risk management activities are aimed to identify, analyse and manage the risks that the Company is exposed to when carrying out its statutory activities. NSD's executives are responsible for shaping the risk management strategy for the Company and ensuring that the Company's risks management system is working properly.

In accordance with the Bank of Russia's regulations (Regulation dated 16 December 2003 No. 242-P *On Organizing Internal Control in Credit Organizations and Banking Groups*, Letter dated 23 July 2004 No. 70-T *On Typical Bank Risks*), NSD undertook the classification of the risks the Company is exposed to in carrying out its statutory activities, and produced internal regulations setting out the principles for managing each type of risk, the methods for identifying, monitoring and controlling the level of such risks.

While based on a common approach, the methods and procedures used by NSD to assess and manage certain risks vary; NSD regularly updates them to keep up with the changes in the market, as well as service offerings and business practices.

Being a non-banking credit institution performing the functions of the Organized Securities Market Settlement Center, in line with the requirements of Instruction of the Bank of Russia dated 26 April 2006 No. 129-I *On Banking Operations and Other Transactions of Non-Banking Credit Organizations Performing Settlements, and on the Mandatory Ratios for Non-Banking Credit Organizations Performing Settlements and the Peculiarities of Supervision by the Bank of Russia over the Compliance with such Ratios*, NSD does not provide loans or bank guarantees, nor takes deposits bearing interest in order to receive profit from placing such funds. It makes payments instructed by customers only to the extent of the funds available in their accounts and holds its customers' funds on correspondent accounts with the Bank of Russia and the largest and most reliable banks in the developed countries, or in highly liquid assets. NSD does not carry out large-scale foreign exchange transactions, and its open FX position must not exceed 2 percent of its shareholders' equity.

This means that the possibility that the credit and market risks will materialize in NSD's activities is significantly limited by the Bank of Russia's rules and regulations. For instance, NSD does not take deposits of customers' funds, which is why no interest risk is involved.

In this connection, the key risks that need to be managed are **operational risk, legal risk, reputation risk, liquidity risk, strategic risk and information security risk.**

The possible risks that NSD is exposed to in performing its core activities (clearing and settlement) on the securities market are the risk of failure to properly execute participants' instructions, the risk of failure to ensure safety of the securities, information and documents of title to securities held at the Company and the risk of wrongful disclosure of confidential information.

The factors that cause the exposure of NSD to the risks of a professional securities market

participant are those which cause such typical banking risks, as operational risk, legal risk, and reputational risk.

As the Bank of Russia imposes more stringent regulatory requirements on risk management at credit institutions, which take into account the international principles and best practices, NSD views the risks relating to the securities market in accordance with the general approach to managing the above risks.

Operational Risk

In line with Letter of the Bank of Russia dated 23 June 2004 No. 70-T *On Typical Banking Risks* and Letter of the Bank of Russia dated 24 May 2005 No. 76-T *On the Organization of Operational Risk Management at Credit Institutions*, operational risk is defined by NSD as the risk of loss arising because the company's internal rules and procedures for processing transactions do not correspond to the nature and scope of the entity's activities or are not in compliance with the applicable laws, or because of the violations of such rules and procedures by the entity's employees and/or other persons as a result of their negligent or wilful acts or omissions, or the inadequacy or insufficiency of the functionalities of the information, technological and other systems used by the credit institution and/or their breakdown (failures in functioning), and as a result of external events.

In NSD's activities, the operational risk exposure is very substantial because of the significant turnover of customers' assets in their accounts with NSD and in NSD's correspondent account with the Bank of Russia, as well as the strict processing routine, the 12-hour operating day and the customer services provided by NSD in real time.

The key task in managing the operational risk is to ensure proper compliance with NSD's internal policies and procedures designed to reduce both external and internal risk factors.

To minimize personnel errors, NSD has implemented a system for multi-step preliminary, current and subsequent control of the employees' performance of their duties in accordance with the Bank of Russia's rules and regulations, as well as NSD's internal orders, regulations, instructions, and other documents. The decisions taken by NSD managers are communicated to the persons responsible for the relevant area. Transactions are recorded on a timely and accurate basis in the company's books of account. The internal control department conducts regular checks of the operations of NSD's divisions.

NSD has put in place a set of measures to reduce the risk of unintended errors and the risks of leakage of confidential information, fraud and staff collusion, including mandatory checks to ensure authenticity of the primary documents received; preliminary validity check before executing an instruction; and registration of information on the name of the employee who has performed the particular transaction in the books of record.

One of the tasks in addressing operational risks caused by system and equipment failures is to ensure ongoing improvement and development of NSD's hardware and software systems. All of NSD's automated systems have standby servers. Communications with external systems may be effected using alternative data transfer channels. The information back-up and archiving systems have also been upgraded. NSD has in place a remote data center. NSD uses computer systems made by the world's leading manufacturers which are periodically replaced with more up-to-date systems, which helps achieve their higher reliability. The procedures to be followed by technical personnel, including in emergencies, are set out in NSD's policies.

Legal and Reputation Risks

In line with the requirements of Letter of the Bank of Russia dated 30 June 2005 No. 92-T *On Organizing the Management the Legal Risk and Reputation Risk at Credit Organizations and Banking Groups*, NSD views the following as the key factors of the legal and reputation risks:

- if NSD's decisions and policies are not in compliance with the laws of the Russian Federation as amended;

- if NSD or its customers and counterparties are in breach of their contracts;
- if adverse publications appear in the media about NSD or its employees, shareholders or managers;
- if NSD insufficiently considers the legal matters concerned when implementing new technologies and the terms of executing stock exchange transactions, settlement, etc.

In order to minimize the legal and reputational risks, NSD is taking steps to standardize the transactions processing by developing and putting in place internal procedures and policies, standard contract forms and other documentation which is subject to mandatory review and approval by NSD's Legal Service. The Legal Service also signs off the agreements entered into by NSD, where such agreements are different from the standard form. Ongoing monitoring is performed to follow changes in the laws of the Russian Federation.

Based on the KYC principle, NSD has developed and implemented procedures to collect, analyze and monitor counterparty information.

NSD conducts ongoing monitoring and analysis of how NSD's charitable and social activities as well as its information policy influence its business reputation. In addition, NSD monitors the business reputation of its shareholders and affiliates. It also assesses whether the media coverage of NSD is objective or not.

One of the ways to reduce the legal and reputational risks for NSD is its activities designed to combat money laundering and terrorist financing (AML). In 2010, 2,842 messages were sent to the Russian Federal Service for Financial Monitoring (FedSFM) on transactions subject to mandatory control and unusual transactions, as compared to 6,157 such messages in 2009. During the accounting year, in accordance with the provisions of Regulation of the Bank of Russia dated 19 August 2004 No. 262-P *On the Identification by Credit Organizations of the Customers and Beneficiaries for the Purpose of Combating the Legalization of Proceeds from Crime (Money Laundering) and Terrorist Financing* and NSD's Rules, work was carried out to update, on a timely basis, the information received as a result of customer identification. NSD regularly holds training events for its employees on ensuring AML compliance and upgrading their professional level.

In accordance with the requirements of the *Regulations On Internal Control of the Professional Securities Market Participant*, approved by Order of the FSFM of Russia dated 21 March 2006 No. 06-29/pz-n, NSD has the Internal Control Service in place to oversee the Company's compliance with the laws, rules and regulations of the Russian Federation and NSD's bylaws governing its activities on the securities market. The Internal Control Department conducts regular checks and reports their results to the Chairman of NSD Executive Board. In addition, the Internal Audit Service controls the activities of all of NSD's departments to ensure their compliance with the internal regulations and Russian laws.

Liquidity Risk

As required with Instruction of the Bank of Russia dated 26 April 2006 No. 129-I *On Banking Transactions and Other Transactions of Settlement Non-banking Credit Organizations, Mandatory Prudential Ratios for Settlement Non-banking Credit Organizations and Peculiarities of Supervision by the Bank of Russia of their Compliance*, NSD invests idle cash balances only in assets with no or minimum risk exposure.

The Company's liquidity status is assessed on a daily basis. NSD calculates daily, on the basis of its accounting data, the N15 ratio (computed as liquid assets maturing within the next 30 calendar days divided by total liabilities). The minimum permitted value of the N15 ratio is 100 percent.

NSD regularly conducts stress testing to assess its liquidity status using various scenarios of customer cash withdrawals. NSD has developed an Investment Declaration which imposes restrictions on the scope of investment of idle cash balances.

In accordance with Regulation of the Bank of Russia dated 4 August 2003 No. 236-P *On the Procedure for Provision by the Bank of Russia to Credit Organizations of Loans Secured by Securities*

Pledge (Freezing), NSD has entered into a master agreement with the Bank of Russia on providing Lombard and overdraft loans in the event of liquidity shortages.

Apart from the efforts undertaken to mitigate the risks inherent in NSD's activities, NSD maintains insurance so as to keep its customers assured that their assets held at NSD are adequately covered. The insurance policy covers, in addition to the risks provided by the Bankers Blanket Bond, and the risks caused by Electronic and Computer Crime. Also, the insurance covers NSD's professional liability. The limit of indemnity is \$50 million for each claim and all claims throughout the term of the policy. Taking into account the amount of NSD's capital, the coverage of its liabilities as of 1 December 2010 stood at more than \$303 million. The key reinsurers in the policy were Lloyd's syndicates, UK.

Strategic Risk

In accordance with Letter of the Bank of Russia dated 23 June 2004 No. 70-T *On Typical Banking Risks*, strategic risk is defined by NSD as the risk of loss as a result of errors (or imperfections) in decisions taken which determine the strategy for NSD's activities and development (strategic management) and result from the failure to consider or failure to give sufficient consideration to the possible dangers which may threaten NSD's activities, or incorrect or not well-founded identification of the long-term development prospects in which NSD may gain an advantage over its competitors, or the lack or insufficiency of the necessary resources (i.e., finances, equipment and supplies, and personnel) and organizational arrangements (managerial decisions) which should ensure that NSD's strategic goals are accomplished.

As a measure to reduce strategic risk, NSD has put in place the Corporate Governance Policy which outlines the overall approach to strategic planning and allocation of resources needed to achieve its objectives and manage the existing risks.

Strategic decisions at NSD are taken collectively, taking into account the opinions of experts competent to decide on the relevant matter. NSD's executives make presentations to managers of all levels on the Company's strategic development.

The questions of allocating resources needed to support the most important business processes are decided strictly within the budget and its current operational plans.

Information Security Risk

The information security risk is defined as the risk of loss or damage as a result of unauthorized (either deliberate or accidental) influence on NSD's information assets. The information security risk may arise at different phases of the creating, modifying, storing, transmitting, or using information and is due to the possibility of destructive impact of both external and internal perils, and may result in operational, reputational, strategic and other risk materializing.

In order to effectively manage the information security risk, NSD has set up the Information Security Service whose aim is to counter the possible threats to the security of NSD's information assets.

The activities aimed at limiting information security risks and preventing their occurrence are governed by the NSD Information Security Policy developed in accordance with the IBBS-1.0-2010 Standard of the Bank of Russia and the *MICEX Group's Security Concept*.

The activities aimed at mitigating the information security risks are focused in the following areas:

- personnel appointments, allocation of their roles, and trust in personnel;
- ensuring information security at all phases of the lifecycle of automated systems;
- protecting against unauthorized access, managing access and registration in the automated systems;
- using cryptographic protection facilities;

- anti-virus protection;
- restricted use of Internet resources;
- protection of bank payment and information technology processes.

To ensure that NSD's objectives and goals are accomplished, each employee is assigned the relevant role set out in their job description. Such roles are personal, with responsibility imposed on employees for their performance. The roles are allocated so that none of them includes all of the rules required to carry out a particular process. One person is not permitted to combine the performance, administrative and controlling functions. To ensure compliance with the information security requirements, the roles of information security administrators have been introduced; these roles are assigned to the information security staff.

Information security of the automated systems supporting banking technology processes is ensured throughout their lifecycle, taking into account all parties involved in the process, i.e., developers, product vendors and service providers, maintenance and oversight departments.

The following measures have been put in place at NSD to ensure protection against unauthorized access, access management and registration:

- password protection systems;
- delimitation of access rights;
- administrative and technical support of resource access management;
- control of users' access to resources;
- generation of unique message identifiers and user identifiers;
- registration of users' activities in a special electronic log.

The use of data encryption in transmitting electronic messages considerably increases the resistance of confidential information against the threat to its principal characteristics, such as accessibility, integrity and confidentiality, being impacted.

All the means of cryptographic protection used to transmit information electronically have the certificates issued by the relevant authorities (i.e., the Federal Security Service of Russia) and provide a complex multi-level data protection against unauthorized access. In the course of the consolidation of MICEX SH and NDC, licenses were procured for NSD to enable it to maintain encryption (cryptographic) devices duly permitted to be used in the territory of the Russian Federation, and licenses to provide data encryption services using the devices properly permitted for use in Russia.

In order to further improve the information security activities and make them more efficient, a decision has been taken for NSD to accede to the Bank of Russia's package of documents relating to information security standardization.

International Cooperation

In 2010, NSD continued to develop its partnership relations with other countries' leading infrastructure organizations and CSDs and actively participated in the work of international securities industry associations.

One of the major events of 2010 was SIBOS-2010 held in Amsterdam on 25-29 October 2010, which was attended by nearly 9000 delegates from all over the world, including NSD's representatives. The Russian delegation sought to promote our country's financial infrastructure and the Moscow IFC. The MICEX Group together with the Moscow City Government and the Bank of Russia made a presentation of its new services intended to integrate Russia into the global marketplace. The MICEX Group's executives took part in three panel sessions – the plenary, which was dedicated to the creation of an IFC in Moscow, and two workshops, one of which addressed the development of the financial infrastructure and services of the MICEX Group, and the other focused on the strategies of the Eastern European CSDs. Nearly 100 SIBOS participants attended the cocktail party arranged for its customers and partners at the MICEX Group's booth.

During the year, efforts were taken to further cooperation among the leading securities depositories of the CIS countries and Russia designed to promote exchange of experience and develop mutually beneficial relations.

On 9 and 10 September 2010, the 7th International Conference of the Association of Eurasian Central Securities Depositories (AECSD), "*Role of CSDs in Providing Information Support to Securities Market Participants*", which was attended by representatives of different infrastructure organizations from the CIS countries, Western Europe and South Africa. NSD's representatives made reports and speeches information disclosure on the Russian securities market.

In 2010, the regional associations of CSDs approved the AECSD's initiative to host CSD12, the global securities depositories gathering, which will be held in May 2013 in Saint Petersburg. The annual general meeting of AECSD approved the key decision relating to the organizational process of CSD12, including the event preparation plan, the date and place of the gathering, and the event budget. NSD's representative was approved to coordinate the AECSD's forum organizational committee.

As part of its membership in the AECSD, NSD supports and promotes the Association's official website, www.aecsd.com, conducts research of the development of the CIS depository systems and their compliance with the recommendations and adherence to the trends in the development of the European and international depository systems, arranges for internships and experience sharing among representatives of the AECSD member securities depositories. In March 2010, NSD held a workshop for representatives of Kazakhstan's CSD to make a presentation of its software used by NSD to perform the functions of the National Numbering Agency for Russia and the Substitute Numbering Agency for the CIS countries.

NSD is also a member of the European Central Securities Depository Association (ECSDA). During 2010, NSD's representatives took part in the ECSDA meetings held on 4 and 5 February in Madrid, on 21 May in Athens and on 28 October in Amsterdam.

Also, in 2010 NSD's representatives participated in two meetings of the CSD Contact Group (CCG) held on 4 June in Zurich and on 24 October in Amsterdam, which were attended by representatives of all of the world's CSD associations – ECSDA, ACSDA, ACG, AMEDA, and AECSD. Among the key issues discussed were the tasks of organizing efficient interaction among CSD and formalizing the global union of CSD associations.

As a member of the Association of National Numbering Agencies (ANNA), NSD regularly attends in ANNA's general meetings and workshops and actively participates in the discussion of

matters of the Association's development and application of international standards on national securities markets. In 2010, NSD's representatives took part in the workshops and general meetings held by ANNA on 16-18 June in Paris and on 24-26 November in Lima, Peru.

Charity Activities

According to the results of the third annual survey of corporate charity activities in Russia, "Corporate Charity Leaders", conducted in 2009 by the *Vedomosti* newspaper and experts of PricewaterhouseCoopers (PwC), NDC ranked among Russia's top 50 companies and was awarded a honorary diploma for its contribution to the cause of charity.

Last year, the Charity Commission of NDC, MICEX SH and (after the merger) NSD held 7 meetings and considered 18 applications from individuals and legal entities, 10 of which were satisfied.

In connection with the 65th Anniversary of Victory in World War II, NDC and MICEX SH made charitable donations to the war veterans and disabled war veterans, home front workers, and survivors of the Siege of Leningrad who are relatives of MICEX Group's employees. Donations were given to 32 veterans.

NDC provided charity support to the Udelninsky Specialized Children's Home for orphaned children, social orphans and handicapped children to install plastic windows in the dormitory.

NDC also provided charitable aid to the Moscow State University of Geodetic Surveying and Cartography to develop its sports facilities.

Ten 2010 leavers of special correctional boarding school No. 53 were given sets of clothes as charitable aid by MICEX SH.

MICEX SH also made charitable contributions to the Regional Social Charity Foundation for support of the special-purpose police unit of the Moscow City Main Directorate of Internal Affairs.

NDC took part in the charity programme "Books as a Present" of the Charity Foundation "Illustrated Books for Little Blind Children". Ten blind children each received five books of the series "Atlas of Perception of Illustrations".

NSD gave charitable aid to the pupils of special correctional boarding school No. 53 to prepare for the winter health promotion campaign and purchase warm clothes, sportswear and other clothing, as well as New Year gifts.

On the eve of the new year 2011, NSD gave a charitable donation to the Udelnoe Specialized Children's Home to purchase a dishwashing machine and made gifts to its pupils.

NSD also provided assistance to Mr. Igor Shmakov, a young talented actor of the Moscow Satire Theater, to pay for the treatment of acute myeloblastic leukaemia.

The non-state sports school Children's Football Club "Ts.A.R.I." in the district of Moskvorechye-Saburovo, Moscow, received from NSD soccer outfit, footballs and training equipment.

Development Prospects

In autumn of 2010, as part of business planning within the MICEX Group at NSD, the company prepared a draft of NSD's Development Strategy for Years 2011 to 2014. Among those involved in drafting and reviewing materials for the Strategy was Mr. Pierre Francotte, who for ten years was the CEO of Euroclear Group, one of the global leaders in the CSD industry. The draft Strategy was considered and approved as a whole at the meeting of NSD Supervisory Board held on 13 December 2010. *NSD's Development Strategy for Years 2011 to 2014* is expected to be approved in the first half of 2011 as part of the overall development strategy for the MICEX Group.

The Strategy provides for NSD to accelerate its development, achieve high international standards of reliability and quality of services, and implement an up-to-date line of products. To accomplish the goals set for 2011, NSD will need to implement or launch a number of advanced projects.

The programme to establish an International Financial Center (IFC) in Moscow brings Russia's securities market into focus and is intended to level off or eliminate some of its limitations. The activities to create the Moscow IFC give NSD new impetus for development. NSD expects to continue working in the dedicated subgroups of the IFC Working Group under the Council under the President of the Russian Federation for the development of the financial market in the Russian Federation.

The successful reorganization of NDC and MICEX SH in 2010 resulted in the creation of NSD, a settlement depository which is also a credit institution. NSD can now provide both securities safekeeping and banking services, which makes it possible for NSD to create new services and places it among Europe's top CSDs. But for these opportunities to materialize, a great deal of work needs to be done in 2011 to improve NSD's structure, interaction among its divisions and the quality of its services. For the consolidation to deliver real synergy, serious efforts need to be undertaken.

The most important thing to be done in 2011 will be the work on the draft law "*On the Central Securities Depository*". The lack of a CSD in the Russian Federation may cast doubt over its plans to create an IFC in Moscow. NSD plans to provide expert support for the adoption of the Law "*On the Central Securities Depository*". NSD, especially after the anticipated merger with DCC, will be prepared to efficiently perform the functions of the Russian CSD.

For 2011, NSD expects to be recognized as an Eligible Securities Depository under Rule 17f-7 of the US Securities and Exchange Commission (SEC). Such status would enable NSD to significantly increase the volume of assets held.

For the project to create the IFC to be a success, it is necessary to create a Unified Corporate Information Center which would offer a single point of access for Russian securities market participants to receive all the information they need on issuers, securities, corporate events, etc., in a structured form convenient for processing. NSD is prepared to cooperate with Russia's leading information agencies in establishing such Unified Corporate Information Center.

There are also plans to further develop a common information environment across the CIS countries. In the very near future, information will be available on the securities markets of the Republic of Kazakhstan, Ukraine, Uzbekistan, and some other FSU countries.

NSD expects to use special extensible mark-up languages, e.g., XBRL, in such information systems.

In late 2010, NSD launched pilot operation of the NSD DISC information system which delivers information on corporate actions and events to its customers. 2011 will see further development and improvement of this system.

Today, it is paramount for a securities depository to create and maintain an efficient IT platform, which is indispensable for providing high-quality services and ensuring business development. In 2010, NSD successfully completed the implementation of the new Alameda depository platform. The major goal for 2011 is to replace the cash settlement software system and implement the new automated electronic cash settlement system, AECS. The IT strategy will be further developed, taking into account the tasks set to NSD.

Much attention in 2011 will be given to the risk management system. A number of measures will be taken to increase NSD's operational reliability and ensure business continuity. Expert reviews are expected to be carried out at NSD, including by international organizations such as Thomas Murray, to assess the level of operational risk management.

In connection with the plans of the Bank of Russia to liberalize the government securities market, NSD will need to upgrade its system for maintaining records of government securities and cease to use the Technical Support Center for the Dealer's Sub-depository (TCCDS).

An important part of NSD's activities is its depository services provided on financial markets, primarily those organized by the Bank of Russia. Such markets will be given priority. The following projects should be mentioned in this respect:

- lending provided by the Bank of Russia to ensure completion of the BESP settlement in the form of OTC repos using the collateral pool;
- exchange repo using the securities collateral pool;
- DVP settlement using the cash accounts with the Bank of Russia (BESP System).

The technologies implemented on the financial markets of the Bank of Russia may afterwards be applied on the other financial markets, in particular, the interbank lending market.

Under the draft law initiated by the Bank of Russia, securities depositories will have a more important role to play in distributing securities income. In particular, securities depositories will act as tax agents. NSD is preparing to support the new functions.

An important avenue for NSD is to start servicing foreign securities and, accordingly, improve the links with foreign securities depositories, such as Euroclear, Clearstream, CSDs in the CIS countries, etc. In addition to the accounts NSD has with the CSDs in Kazakhstan, Belarus and Azerbaijan, there are plans to open a securities account with the CSDs in Ukraine and, possibly, in other CIS republics, if the participants so request.

The systems for servicing foreign securities and the relationships with foreign securities depositories will develop both in terms of scope and quality to deliver quick admission of foreign securities for servicing, expand the list of eligible foreign securities, broaden the DVP settlement options, provide access to foreign stock exchanges, etc.

Special attention will be paid to attracting and providing services to foreign bond issuers. The successful bond offerings carried out by the EBRD, the Ministry of Finance of Belarus and the Eurasian Development Bank (EDB) have demonstrated that this market segment has strong prospects.

Another important objective is to further develop DVP settlement, including with payments in foreign currencies. This area includes a considerable number of projects and will be developed under a common plan. Among the projects in this area are the following:

- adoption of a single cash and securities instruction for DVP settlement;
- introducing DVP settlement in roubles for trades settled via Euroclear and Clearstream;
- introducing DVP settlement in Kazakhstani tenge via the CSD of Kazakhstan;
- a possibility to assign priorities to instructions;

- a possibility to assign the sequence for executing instructions (back-to-back transactions);
- executing instructions on a DVP basis using BESP accounts;
- introducing DVP settlement in a foreign currency for trades settled at NSD;
- implementing the DVP model 3 settlement for OTC settlement;
- consolidating the accounts opened by NDC and MICEX SH with foreign securities depositories;
- a possibility to open additional accounts on participants' instructions.

Introduction of many of the above services in accordance with the Federal Law *On Clearing and Clearing Activities* recently adopted envisages that NSD will carry out clearing operations in order to support "deliver versus payment" settlement on the OTC markets.

In 2011, NSD will pay special attention to improving its interaction with registrars. The number of registrars using electronic document interchange to communicate with NSD will increase. NSD plans to implement the project "*Ensuring Electronic Interaction between Registrars and Securities Depositories that are NSD Customers*". This project will enable entities having nominee accounts with registrars to submit instructions in respect of their accounts and disclose securityholder lists through NSD in an electronic form without the need to enter into an agreement with each registrar and use its EDI system.

During the first phase, in spring 2011, arrangements will be put in place to enable disclosure of securityholder lists in an electronic form. During the second phase, it will be possible for our customers to submit transfer instructions and receive information from the registrar using the Louch remote access software. During the third phase, the participants will be able to submit transfer instructions to NSD and receive confirmation reports via SWIFT. NSD will convert the messages received into PARTAD's format, which is used by most registrars, transmit such messages to registrars, and process the performance results to further transmit them to participants via the SWIFT system.

NSD will continue to develop the line of depository services widely used on the mature markets. In 2011, it is planned to introduce automated securities lending (ASL). Work will continue to further develop the Collateral Management Service (CMS), which is included in different customer services.

The efforts undertaken to streamline the existing operational processes are an important aspect of NSD's activities. The upgrades planned for 2011 will include the following activities:

- the work to streamline the matching of transactions 16 and 16/1;
- the measures aimed at improving the system used to transfer shares tendered for repurchase;
- maintaining record of several seizures/attachments in respect of an account/security;
- corporate actions processing involving several places of safekeeping;
- improving the SSS system;
- automated processing of the encumbrance of securities in the nominee account with a registrar.

Another important avenue for NSD's development is improving the interaction with its customers via SWIFT. In 2011, steps are to be taken to simplify and standardize the existing outgoing and incoming ISO 15022 messages used by NSD.

NSD expects to give attention to providing depository services to the collective investment market. In addition to the ongoing improvement of interaction with unit investment funds' specialized depositories and registrars, there are plans to start building the system to support interaction among investors and fund managers at the time of issuance, redemption and replacement of the fund's units or shares similar to the FundSettle systems used by Euroclear and Clearstream.

Work will be launched to create a pre-matching center which, similarly to the services which have become popular on the more developed markets, will make pre-matching process more efficient for Russian market participants.

Another important activity for NSD will be to provide support to the OTC conversion markets on the "payment versus payment" (PVP) basis. In 2011, work in this respect should be commenced.

The first issue of Russian Depository Receipts (RDR) carried out in late 2010 has shown that this market segment has a future. It is expected that steps will be taken in 2011 to improve the interaction between NSD and the issuer in the process of RDR issuance, trading and redemption.

The growing appetite for DRs of Russian companies on the Western markets suggests there is a need to streamline NSD's services relating to depository receipts.

NSD's activities as the National Numbering Agency (NNA) for Russia are one of the key functions and will be given much attention in 2011.

NSD will continue to provide services by assigning ISIN and CFI codes for Russian securities and assisting in the allocation of such codes for foreign securities in cooperation with foreign NNAs.

Only four NNAs in the world (including NSD) are authorized to act as Substitute Numbering Agencies (SNAs). At present, NSD acts as the SNA for Uzbekistan. Negotiations will be held with other states on authorizing NSD to act as their SNA.

In 2011, work will be launched to implement the new standards recommended by ANNA, ISO 18773 (*Issuer Short Names*) and ISO 18774 (*Financial Instrument Short Name*), in Russia.

2011 will see continued use of the special Speedy Settlement Schemes, such as the NSD-DCC Bridge, NSD-ING Bank SSS, and NSD-Citibank SSS. These schemes are planned to be streamlined, and their technologies improved, but no further development of these schemes is expected. If NSD and DCC are consolidated and a CSD is created in Russia, the demand for such settlement schemes will begin to decline.

NSD will pay special attention to improving customer services and its interaction with participants. No technology will ever replace the careful attention to the customers and understanding of their issues.

NSD will continue its efforts to enhance its local workstation of the Louch software and the Internet access to NSD's services.

It is planned that personal cabinets will be created on NSD's website for customers; these cabinets may be used by our customers to obtain the necessary information and communicate with NSD in a format which is more convenient to them.

In the longer term, NSD will implement projects to support the markets for precious metals and mortgage market instruments, and to provide depository services for derivatives.

The draft NSD Development Strategy for Years 2011 to 2014 sets ambitious objectives for NSD. The tentative objectives include becoming the CSD for Russia, qualifying as an Eligible Securities Depository under Rule 17f-7, and acting as the regional CSD targeting the CIS countries and providing a point of access to those countries' markets. By 2014, NSD should have an up-to-date range of depository and settlement services and hold at least RUB 30 trillion in assets on deposit.

2011 will be the first year of implementation of the *NSD Development Strategy*, and its further implementation will largely depend the success achieved during the current year.

Report of the Supervisory Board on NSD's Performance in Key Areas of Business

During the period under review, the Supervisory Board was involved in overall management of NSD during the periods between the Annual General Meetings of shareholders.

The Supervisory Board's powers, the procedure for nomination and election of its members, their responsibilities, as well as the procedure for calling and holding meetings of the Supervisory Board and documenting its resolutions are governed by Russian laws, NSD's Charter and the internal document, *Regulation on the Supervisory Board of MICEX SH* approved by the General Meeting of MICEX SH shareholders held 22 April 2009 (Minutes No. 23).

During the accounting period, the Supervisory Board held 15 meetings to consider priority matters of NSD's activities.

At its meetings, the Supervisory Board considered the implementation of the priority projects approved in 2010, approved the list of NSD's priority projects planned to be implemented in 2011, and considered the steps needed to optimize NSD's branch network and improve NSD's automated electronic settlement system (AESS).

The Supervisory Board at its meetings took decisions on the key aspects of the Company's operations, including:

- NSD's participation in the unified budgetary process of the MICEX Group, execution of the Budget of revenues, expenses and profits and the Budget of capital expenditure of NSD for 2010, and making adjustments to such budgets; approval of the Budget of revenues, expenses and profits, and the Budget of capital expenditure of NSD for 2011;
- altering the NSD Fee Schedule in respect of cash and payments services and depository safekeeping services;
- preliminary approval of the Report on NSD's Activities in 2010 (Annual Report);
- preparing recommendations for the Annual General Meeting of shareholders in respect of distribution of the profits made by NSD in 2009;
- approving the report describing the rationale and procedure for the consolidation of NDC and MICEX SH, and preparing recommendations for the Annual General Meeting of MICEX SH shareholders on the matters relating to such reorganization;
- creating and staffing the Commissions of NSD Supervisory Board dedicated to such matters as the budget, audit, HR and remunerations, technical policy and technological development;
- creating and staffing the customer Committees of NSD Supervisory Board to consider the issues of quality and risks, settlement and safekeeping operations, fees and charges, and interaction with registrars and securities depositories;
- determining the amount of the fees for the services of NSD's auditors.
- approving NSD's *Restated Investment Portfolio Declaration*.

In addition, the Supervisory Board considered and decided on the following matters:

- forming the NSD Executive Board and appointing its members, and approving the participation of the Executive Board members in other companies' governing bodies;
- approving MICEX SH's bylaws, including the Regulations *On the HR and Remunerations Commission of the Supervisory Board of MICEX SH*; Restated Regulations *On the Budget Commission of the Supervisory Board of NSD*; Regulations *On the Audit Commission of the Supervisory Board of MICEX SH*; Regulations *On the Technical Policy and Technological Development of the Supervisory Board of MICEX SH*; Regulations *On the*

Quality and Risks Committee of National Settlement Depository, Regulations On the Committee for Interaction with Registrars and Securities Depositories of National Settlement Depository, and Regulations On the Committee for Cash and Payments Services and Fees of National Settlement Depository;

- NSD's participation in SDCO (ZAO);
- approving the Company Registrar (Joint Stock Company "Registry Society "STATUS");
- making amendments to NSD's bylaws;
- calling the Annual and Extraordinary General Meetings of MICEX SH shareholders;
- making amendments to the Charter;
- approving interested party transactions in which NSD participates, as required by the Federal Law *On Joint-Stock Companies*;
- approving the reports and action plans of the Internal Control Service, and reviewing the reports made by MICEX SH's Controller in connection with NSD's activities as a professional securities market participant; and
- other matters falling within the remit of the Supervisory Board.

Report on Payment of Dividends Declared (Accrued) on NSD Shares

As provided by Federal Law dated 26 December 1995 No. 208-FZ *On Joint-Stock Companies*, a company may decide on (declare) the payment of dividend on its shares outstanding and is required to pay any declared dividend on its shares.

During 2010, no decision was taken to pay dividend on NSD's shares.

Supervisory Board: Board Composition and Information on Board Members

Information on the members of the Supervisory Board of MICEX SH elected by the Annual General Meeting of Shareholders of MICEX SH held on 22 April 2009 (Minutes No. 23):

- 1) Yuri Vladimirovich Dubin, born in 1967, university education: graduated in 1994 from the Institute of Asian and African Studies at the Lomonosov Moscow State University. Head of Depository, Sberbank of Russia.
- 2) Nikolay Viktorovich Egorov, born in 1963, university education: graduated in 1986 from the Moscow Engineering and Physics Institute (MEPHI). Senior Vice President, member of the Supervisory Board, MICEX; Chairman of the Supervisory Board, MICEX SH.
- 3) Olga Valentinovna Zavgorodnyaya, born in 1954, university education: graduated in 1977 from the Moscow State Institute of International Relations of the Ministry of Foreign Affairs of the USSR. Senior Vice President, Deputy Chairman of the Supervisory Board, EVROFINANCE-MOSNARBANK.
- 4) Konstantin Nikolayevich Korishchenko, born in 1958, university education: graduated in 1980 from the Lomonosov Moscow State University. President, MICEX; General Director, MICEX SE.
- 5) Sergey Alexeyevich Sukhinin, born in 1963, university education: graduated in 1985 from the Moscow Finance Institute. Chairman of the Supervisory Board, MICEX SH.
- 6) Viktoria Viktorovna Yuryatina, born in 1970, university education: graduated in 1994

from the Moscow State Linguistic University. Deputy Head of the Financial Market Transactions Division of the Banking Transactions Department, ZAO UniCredit Bank.

The members of the Supervisory Board did not hold any shares in MICEX SH.

Changes in the composition of the Supervisory Board of MICEX SH took place at the General Meeting of shareholders of MICEX SH held on 29 June 2010 (Minutes No. 25).

Information on the members of the Supervisory Board of NSD elected by the General Meeting of Shareholders held on 29 June 2010 (Minutes No. 25):

- 1) Ruben Abelovich Aganbegyan, born in 1972, university education: graduated in 1995 from the Moscow State Law Academy. President, Moscow Interbank Currency Exchange.
- 2) Eddie Vladimirovich Astanin, born in 1961, university education: graduated in 1984 from the Mozhaisky Military Engineering Institute, and in 1996 from the Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy attached to the Government of the Russian Federation. Chairman of the Executive Board, NSD.
- 3) Mikhail Valeryevich Bratanov, born in 1973, university education: graduated in 1996 from the Moscow State Institute for Electronic Technology (Technical University). Director of the Depository Department, Joint-Stock Bank ROSBANK (OAO).
- 4) Yuri Vladimirovich Dubin, born in 1967, university education: graduated in 1994 from the Lomonosov Moscow State University, and in 2009 from IE Business School, Madrid, Spain. Director of Depository, Sberbank of Russia (OAO).
- 5) Alexander Vyacheslavovich Ikonnikov, born in 1971, university education: graduated in 1993 from the Gubkin Moscow Oil and Gas University. General Director, Board Solutions; Chairman of the Supervisory Board of the Independent Directors Association (IDA).
- 6) Sergey Petrovich Lykov, born in 1952, university education: graduated in 1975 from the Moscow Finance Institute. Member of the Executive Board, Deputy Chairman of the Executive Board, Vnesheconombank (VEB).
- 7) Natalya Borisovna Sidorova, born in 1968, university education: graduated in 1991 from the Moscow State Linguistic University. Head of Custody, ING BANK EURASIA (ZAO).
- 8) Sergey Alexeyevich Sukhinin, born in 1963, university education: graduated in 1985 from the Moscow Finance Institute. Deputy Chairman of Executive Board, NSD.
- 9) Vladimir Vitalyevich Tatsiy, born in 1960, university education: graduated in 1984 from the Moscow Energy Institute. First Vice President, Gazprombank (OAO).
- 10) Nadezhda Yuryevna Ushakova, born in 1967, university education: graduated in 1988 from the State Finance Academy. Senior Vice President, Head of Custody Operations, Bank VTB (OAO).
- 11) Tatyana Alexandrovna Fomina, born in 1968, university education: graduated in 1991 from the Ordzhonikidze Moscow Aviation Institute. Deputy Head of the Financial Market Transactions Division of the Banking Transactions Department, ZAO UniCredit Bank.
- 12) Tatyana Yuryevna Chepeleva, born in 1976, university education: graduated in 1999 from the Moscow University of Consumer Cooperation. Head of the Moscow Representative Office, OTKRITIE SECURITIES LIMITED, UK.
- 13) Alexander Nikolayevich Shcheglov, born in 1968, university education: graduated in 1991 from the Moscow Institute of Physics and Technology (MIPT), and in 1994 completed a post-graduate course at the Moscow Institute of Physics and Technology. General Director, OAO Investment Company "ZERICH Capital Management".

The members of the Supervisory Board do not hold any shares in NSD.

Information on the Chairman and Members of the Executive Board

Information on the Chairman of the Executive Board of MICEX SH, whose office was terminated on 10 November 2010 pursuant to the resolution of the Annual General Meeting of shareholders of MICEX SH held on 29 June 2010 (Minutes No. 25):

Sergey Alexeyevich Sukhinin, born in 1963, university education: graduated in 1985 from the Moscow Finance Institute. Chairman of the Executive Board.

Information on the members of the Executive Board of MICEX SH, whose office was terminated on 10 November 2010 pursuant to the resolution of the Supervisory Board of MICEX SH of 6 September 2010 (Minutes No. 6):

- 1) Vladimir Leonidovich Platonov, born in 1956, university education: graduated in 1979 from the Moscow Institute for Civil Aviation Engineers and in 2001 the Moscow State University for Economy, Statistics and Information Science. First Deputy Chairman of the Executive Board.
- 2) Igor Valentinovich Timoshin, born in 1970, university education: graduated in 1992 from the State Finance Academy, holds a degree of Candidate of Economic Sciences. Deputy Chairman of the Executive Board.
- 3) Tatyana Ivanovna Yegorova, born in 1965, university education: graduated in 1988 from the All-Russia Distance Learning Institute for Finance and Economics. Deputy Chairman of the Executive Board.
- 4) Irina Evgenyevna Veremeyenko, born in 1965, university education, graduated in 1987 from the Moscow State Institute. Chief Accountant.

The Chairman and members of the Executive Board did not hold any shares in MICEX SH.

Information on the Chairman of the Executive Board of NSD, whose office commenced on 11 November 2010 pursuant to the resolution of the Annual General Meeting of shareholders of MICEX SH held on 29 June 2010 (Minutes No. 25):

- Eddie Vladimirovich Astanin, born in 1961, university education: graduated in 1984 from the Mozhaisky Military Engineering Institute, and in 1996 from the Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy attached to the Government of the Russian Federation. Chairman of the Executive Board.

Information on the members of the Executive Board of NSD, whose office commenced on 11 November 2010 pursuant to the resolution of the Supervisory Board of MICEX SH of 6 September 2010 (Minutes No. 6):

- 1) Sergey Alexeyevich Sukhinin, born in 1963, university education: graduated in 1985 from the Moscow Finance Institute. Deputy Chairman of the Executive Board.
- 2) Ekaterina Sergeyevna Demushkina, born in 1969, university education: graduated in 1992 from the Lomonosov Moscow State University, and in 2006 from the Russian Foreign Trade Academy of the Ministry for Economic Development of Russia. Deputy Chairman of the Executive Board.
- 3) Irina Evgenyevna Veremeyenko, born in 1965, university education, graduated in 1987 from the Moscow State Institute. Chief Accountant, Director of the Accounting and Reporting Department.

The Chairman and members of the Executive Board do not hold any shares in NSD.

Compliance with the Principles and Recommendations of the Corporate Conduct Code

NSD endeavours to ensure compliance with the Corporate Conduct Code approved at the meeting of the Russian Federation Government held on 28 November 2001 (Direction of the FCSM of Russia, dated 4 April 2002, No. 421/r).

Corporate conduct is based on respecting the rights and legitimate interests of our shareholders and contributes to efficient operation of NSD, increasing the value of its assets and ensuring its financial stability and profitability.

The principles of the Corporate Conduct Code NSD endeavours to adhere to in its activities are as follows:

- 1) ensuring that NSD's shareholders have a real opportunity to exercise their rights related to participation in NSD's capital:
 - records of the shares owned by NSD's shareholders are maintained by the Registrar, Joint-Stock Company "Registry society "STATUS";
 - the shareholders have an opportunity to freely and quickly dispose of their shares;
 - the shareholders are able to participate in the management of NSD by deciding on the key issues of its business at a General Meeting of shareholders.
- 2) NSD's Supervisory Board should carry out strategic management of the company's business, and efficient mechanisms should be in place to control the activities of the Supervisory Board and its Chairman, with the Supervisory Board reporting to the General Meeting of NSD shareholders:
 - the Supervisory Board defines the development strategy for NSD, ensures efficient control of the Company's financial and business activities, and approves its budget;
 - the composition of the Supervisory Board is designed to perform its functions most effectively;
 - the members of the Supervisory Board are actively involved in the meetings of the Supervisory Board and its commissions;
 - the Supervisory Board of NSD holds its meetings on a regular basis, with voting taking place at a physical meeting or by postal ballots, depending on how important the items under consideration are;
 - The Regulation *On the Supervisory Board of NSD* provides a detailed procedure for preparing and holding meetings of the Supervisory Board;
 - the Budget Commission of NSD Supervisory Board has been set up with the primary objective to closely analyze matters relating to financial planning and financial management system at NSD, based on the principles and approaches that are common for all of the MICEX Group's companies, in accordance with the MICEX Group's Development Strategy, and to prepare such matters to be considered by NSD's Supervisory Board;
 - the Audit Commission of NSD's Supervisory Board has been set up to ensure efficient internal control, internal and external audits, and analysis of the reports on the budget performance by NSD;
 - the HR and Remunerations Commission of NSD's Supervisory Board has been set up with the principal objective to involve skilled managers in running NSD's business and incentivizing and rewarding their good performance;
 - the Technical Policy and Technological Development Commission of the Supervisory

Board has been set up with the principal objective to ensure efficient work of the Supervisory Board in addressing issues relating to the technical policy, IT and software development at NSD;

- Under the NSD Charter, the Supervisory Board is authorized to create other permanent or temporary commissions to deal with the principal areas of NSD's business and to decide on the day-to-day practical issues;
 - The Supervisory Board should provide for the efficient operation and supervision of NSD Executive Board and its Chairman.
- 3) Ensuring that the Executive Board and its Chairman are able to manage the day-to-day activities reasonably, in good faith and solely in the interests of NSD, and ensuring that these bodies report to the Supervisory Board and shareholders of NSD:
- under the NSD Charter, the Executive Board is authorized to resolve the most complicated issues relating to the management of the Company's day-to-day activities;
 - The composition of the Supervisory Board provides for the most efficient performance of the functions entrusted to NSD's executive bodies.
- 4) Timely disclosure of full and accurate information about NSD in accordance with Russian laws and the Company bylaws, including information on its financial position, economic indicators, ownership and management structure, in order that the NSD shareholders can make informed decisions and that the Company's operations are transparent:
- NSD shareholders have equal opportunities in terms of access to the same information;
 - NSD shareholders have the opportunity to receive full and reliable information, including information about NSD's financial position, its performance, the management of the Company, its shareholders and the material facts that may have an impact on its financial and business operations;
 - NSD has arrangements in place to maintain confidentiality and control the use of information which is intended for internal use only or constitutes NSD's commercial secret.

Chairman of the Supervisory Board, NSD.

Eddie Astanin

Chief Accountant, NSD

Irina Veremeyenko