Financial Technologies

Creating Markets. Unlocking Value.™

ANNUAL REPORT 2008-09

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Cover photograph: Financial Technologies' Annual Summit held at Goa, 23-26 January 2009 based on the theme *"Future of Financial Markets"*

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FUTURE OF FINANCIAL MARKETS

"The recent global challenges have strengthened the tectonic shift of economic activities towards emerging economies. As a major exchange creator in these economies, Financial Technologies will play a key role in designing the *future of financial markets*"

— Jignesh Shah —

Chairman & Group CEO, Financial Technologies Group

The world economic order has witnessed significant changes in its contours since the global financial system went through a new phase of economic meltdown leading to extreme risk aversion and drastic fall in demand across segments. Its domino effects have led to the need for more transparency, re-modeling of regulatory systems, and prompted policymakers to rethink the imperatives guiding the *future of financial markets.*

It was against this background that the Financial Technologies Group held its first *Future of Financial Markets* Summit in Goa in January 2009. The aim of the Summit was to bring participants of the global financial community—regulators, stock and commodity exchanges, media, banks, policymakers and other influencers—on a common platform to discuss and contribute towards shaping the financial markets of the future.

The forum also acknowledged the paradigm shift which is in favour of new-generation financial exchanges. For laying the foundation of a safer and more stable future, it is essential that we bring about complete real-time transparency in pricing of all assets and institute a comprehensive framework for the OTC derivative markets. Also, all standardised derivative contracts should be cleared through well-regulated central counterparties and executed either on regulated exchanges or regulated through electronic trade execution systems. Finally, market participants need to work with their international counterparts to ensure that a nation's comprehensive regulatory framework is matched by similar effective supervision in other countries.

The theme of this Annual Report is *future of financial markets*. This is in concurrence with our objective of contributing towards creation of a more robust and stable financial system across geographies. Messages from the CEOs and senior management team of the Financial Technologies Group reveal how the Group is positioned to take on myriad challenges, which may create barriers in transforming the *future of financial markets*.

Also, each new section of this report begins with an oil painting on canvas of select global exchanges that illustrate the inspiring history of financial markets. These paintings, along with rare photographs capturing the evolution of the financial capital of India, Mumbai, are showcased at the Exchange Square, Mumbai, which houses MCX Stock Exchange and MCX. These masterpieces of art have been specially commissioned by the Group, reflecting the rich past as an inspiration for the future. A tour of the Exchange Square is akin to walking through time. The Group believes that Mumbai (India) will soon regain it's position as an international financial centre like New York and London, true to the spirit of the past.

To engage, participate and contribute in shaping the *future of financial markets*, visit *www.futureoffinancialmarkets.com.*

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INDEX

Section I

Letter from Chairman & Group CEO 1

Section II

Business and Financial Highlights 9

Section III

Messages from Group Senior Management 23

Section IV

Directors' Report 51

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Section V

Management Discussion and Analysis 63

Section VI

Corporate Governance Report 79

Section VII

Financials 99

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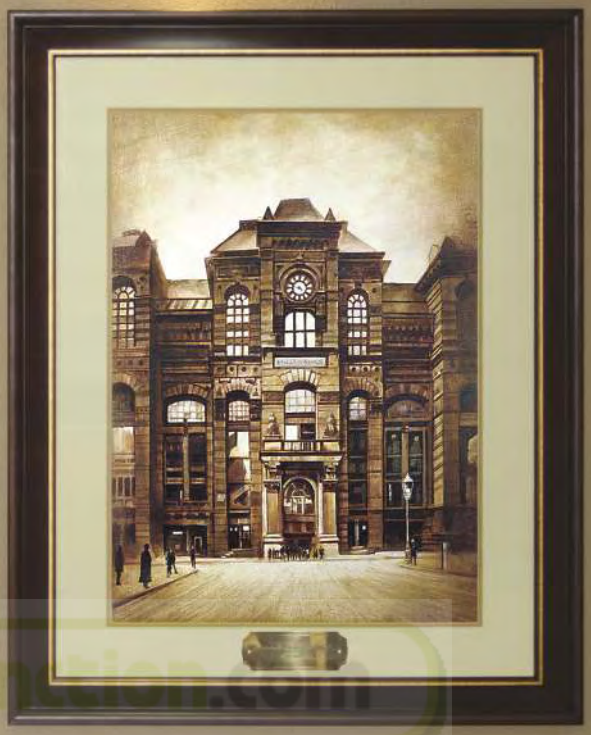
LETTER FROM CHAIRMAN & GROUP CEO

Painting collection, oil on canvas, circa 1611,
Ground floor, Media Room, Exchange Square, Mumbai



Painting collection, oil on canvas, circa 1883,
Ground floor, Visitor's Lounge, Exchange Square, Mumbai

The Amsterdam Stock Exchange

Established in 1602, the Amsterdam Stock Exchange, the world's 1st stock exchange, was subsequently renamed the Amsterdam Bourse.

The Chicago Board of Trade

Established in 1848, the Chicago Board of Trade (CBOT) is the world's 1st commodities futures & options exchange.

"While global financial markets are going through a sea change, innovation will be the decisive factor for the *future of financial markets* in the years to come."

Jignesh Shah
Chairman & Group CEO

LETTER FROM CHAIRMAN & GROUP CEO

Dear Shareholders,

THE NEW HORIZON AHEAD

In 2008, I wrote to you emphasising the value vested in your Company, Financial Technologies (India) Ltd. (FTIL), and how it is creating a world of opportunities. As we complete another successful year, I would like to acknowledge your unflinching trust and support which fueled FTIL's achievements, and give you an insight into your Company's accomplishments and the new opportunities that are becoming visible on the horizon.

The year 2008-09 saw global financial markets facing new challenges fraught with a new genre of complexities. This resulted in global institutions being forced to re-assess the risk-reward matrix, and rebuild business models to be more robust and capable of withstanding the test of time.

Our vision of transforming markets by creating tech-centric exchange trading platforms that offer a transparent pricing mechanism was vindicated as global institutions fell prey to counterparty risks associated with non-transparent products traded off-exchanges.

Journey continues-
2009: FT Tower sprawling over 2,00,000 sq ft symbolising Financial Technologies' manifold growth over the years.

JIGNESH SHAH
Chairman & Group CEO

THE FUTURE OF FINANCIAL MARKETS

As global financial markets witness a sea change, innovation will remain a key determinant of sustainable growth. Your Company believes that the *future of financial markets* will stand on four pillars of innovation: products, market structure, technology, and regulation.

These four pillars need to evolve from an open competitive environment spanning the entire spectrum of products and services. Building on these four pillars, we will transform economies, empower masses, change lives, and create immense depth in the financial ecosystem.

Convergence of value across asset classes and geographies through modern tech-centric financial markets will be the cornerstone for effective and efficient risk management. This will minimise price volatility and enhance value creation over time.

Despite the current trade contraction, the multiple forces of globalisation will continue to integrate economies and reshape the world economic order. Cross-listing, cross-clearing of products, global accessibility, cross-margining, technology intensive trading, and leveraging across time zones will foster fund flows and liquidity.

Change always demands fresh thought. Market reforms will involve strengthened capital requirements for complex financial instruments and derivatives, stringent new rating norms without any conflicts of interest, greater transparency and strict adherence to disclosure norms by all financial players and counterparties. These will become the essentials for all financial markets globally. In April 2009, heads of nations at G-20 Summit in London highlighted some of these measures for the *future of financial markets*.

While we are moving towards a robust regulatory regime, we need to be wary of over-regulation, as it might become a deterrent for growth. The September 2008 report, titled 'A Hundred Small Steps', by the Committee on Financial Sector Reforms (CFSR) headed by Professor Raghuram G Rajan, under the aegis of the Planning Commission, corroborates this belief and cautions, "…strict regulations on participation are no guarantee that risks are contained, in fact they may create additional sources of risk."

> "Change demands fresh thought. Market reforms will include strengthened capital requirements for complex financial instruments and derivatives, stringent new rating norms without any conflicts of interest, greater transparency and strict adherence to disclosure norms by all financial players and counterparties. These will become essentials for the future development of financial markets globally."

CONNECTING MARKETS THROUGH EXCHANGES

As the world gets flatter, markets will be better connected. Global operations and network of exchanges will bring to your Company economies of scale, and enable it to manage and mitigate global risks on a real-time basis.

Your Company believes that exchange-traded products provide inherent advantages over off-exchange or over-the-counter (OTC) products. The former offer mark-to-market valuation, clearing house guarantee, fungibility, lower impact cost, and higher liquidity—all without any associated counterparty risk. They are transparent and operate under proven regulatory supervision. Your Company has leveraged these advantages of exchange traded products and has built value for all its stakeholders by creating new exchanges, new markets, new products and investing in strategic geographies while focusing on promoting an interconnected and sophisticated marketplace.

True value ensues when we build on the four pillars of innovation, and create a trading platform which can cater to the needs of all market participants. Your Company strives to do exactly this.

Financial markets are increasingly underpinned by technology that creates, integrates, innovates, drives,

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and makes markets more accessible to everyone. Exchanges based on such technology offer transaction platforms that are fast, secure, transparent, and regulated.

We, at Financial Technologies, see new opportunities in creating well regulated and efficient tech-centric exchanges across multiple asset classes, spanning the emerging markets from Africa to Asia. These markets will transform emerging economies through real-time integration with global financial centers, efficient price discovery, and more accurate risk mitigation.

"Our vision is to create world's largest network of exchanges providing liquidity and depth to markets in the developing and emerging economies of India, China, Africa, Middle East, Southeast Asia, Central Asia, and possibly other economies in the future. Identifying high-growth regional economies remains our focus."

THE YEAR UNDER REVIEW

The year gone by has opened up new vistas for your Company, FTIL, and its group companies. Some of the key milestones are given below:

- In December 2008, Financial Technologies Group acquired a 60% stake in Bourse Africa (BA)—a spot and derivatives multi-asset exchange for trading in commodities, currencies and bonds. It will have a pan-African presence through a hub and spoke model. BA is accredited to Botswana International Financial Services Centre (IFSC) and supported by a world-class regulatory framework of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA).

- In January 2009, FTIL received the regulatory nod from the Central Bank of Bahrain to launch the Bahrain Financial Exchange (BFX)—the first-of-its-kind exchange in the Middle East—to offer a platform to trade in equities, commodities, bonds, currencies and Islamic finance instruments, or Sharia-compliant products.

- Global Board of Trade (GBOT), Mauritius, a multi-asset derivatives exchange is ready to go live.

- Multi Commodity Exchange (MCX), India's No. 1 commodity exchange, increased its market share to 87% (as on March 2009) with an average daily turnover of Rs 149 billion in FY 08-09, a rise of 45% y-o-y.

- MCX was ranked the fourth-largest commodity exchange in Asia by Futures Industry Association (FIA), Washington DC. It is also the seventh-largest commodity exchange in the world.

- MCX, in August 2008, became the first Indian commodity exchange to receive membership of the International Organization of Securities Commission (IOSCO).

- MCX Stock Exchange, which commenced operations in October 2008, has already established itself as the leading exchange in the currency derivatives segment, with around 50% market share (as on March 2009) and daily average volume of 261,820 contracts valued at Rs 13 billion.

- MCX Stock Exchange has initiated its divestment process to meet regulatory guideline on shareholding in exchanges. The Exchange has already placed its equity through primary and secondary market placements to a clutch of Indian banks and financial institutions, respectively.

- National Spot Exchange Ltd. (NSEL), India's first spot commodity exchange, went live on 15th October 2008.

- National Bulk Handling Corporation (NBHC) has 437 warehouses and 25 quality assurance laboratories. Additionally, the Company has managed over 5,000 storage facilities with close to 6.5 million MT stock of agri-commodities (cumulative) under collateral management with 31 leading public and private sector banks in India. The Company has also facilitated over 70,000 Warehouse receipts financing transactions to date worth over Rs 75 billion with an asset base of over Rs 108 billion.

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