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Deutsche Börse AG

Annual Press Briefing 2013

Reto Francioni

Ladies and gentlemen,

I would also like to welcome you to this year's annual press briefing. Thank you for coming. 2012 was another year in which the financial sector – including us – required all of its energies, worldwide. Our most important customers, the banks, are facing huge challenges given the continued macroeconomic and regulatory uncertainties. This of course has an impact, both positive and negative, on trading activities. In addition to requiring hard work from us in dealing with the changes, it presents us with many opportunities, of which we have taken and will continue to take advantage.
The Deutsche Börse Group has developed solutions for banks and companies in the real economy quickly, competently and early on. They can use these solutions to cope with the transformation resulting from the financial and debt crisis and benefit from it already in the medium term. The Group has greatly expanded its positions in the growth markets. It has developed and successfully positioned new products. And we have also prepared ourselves in good time for upheavals on the markets. Acting early has now become a tradition with us. You don't always make friends when you act, but after only a short time it usually becomes clear how wise it was to take action before the situation forced your hand. All of you, ladies and gentlemen, know exactly what I mean from your own companies.

Two weeks ago, we already announced our proposed dividend and preliminary figures for the past financial year based on the statutory ad-hoc reporting obligations. Later, our CFO Gregor Pottmeyer will present you with a brief outline of the financial statements.

In regard to revenue and earnings, we came in under the previous year's figures, as have the vast majority of banks and companies in the financial services sector, and all of our competitors.

After five years of the banking crisis, there are a few initial cautious signals here that at least the downward spiral from the loss of confidence, refinancing bottlenecks and declines in earnings at some banks have been halted – supported by active intervention by the central banks and governments. We will see just how robust these signals are over the course of 2013.

At the same time, we are not relying on the strength of the sector-specific business cycles. We are with great entrepreneurial spirit – taking advantage of all the opportunities that present themselves. In doing so, we are assuming that in the foreseeable future, significant growth will take place not in Europe or North America, but primarily in Asia. I can inform you today that a few weeks ago, we created a senior-level “Asia” task force, which has since set to work. For competition reasons, I will not further discuss its tasks and plans at this point in time.

Ladies and gentlemen, I will now explain our strategic corporate orientation in more detail after taking a brief look back at 2012. And I will highlight the milestones that we have achieved up to now.

1. Overview 2012: Solid performance in difficult environment

The downturns in our regulated Xetra and Eurex markets are of the same magnitude as those in the EU and the US. Three factors in our business environment were crucial to our revenue performance last year:

§ First of all, continued uncertainty regarding global economic development, and in particular in the euro zone and the US, has dampened the trading activities of market participants. In acute crises, the banks appreciate the dependability of stock exchanges. Longer-lasting uncertainty, on the other hand, paralyses the markets.

§ Second, this also applies to uncertainty about future regulation of the financial markets. Lack of clarity regarding the legal framework inhibits the markets even more than a regulatory framework that is strict but reliable in the long term. Here, we can likely expect greater clarity over the course of the year. In light of the upcoming Bundestag elections there is, however, an increased risk that capital market issues will very quickly become political ones.

§ Third, the low-interest rate policy of the European Central Bank, in response to market conditions, has reduced our net interest income from the banking business which we earn from Clearstream and led to lower volumes in interest rate derivatives on Eurex.

The following should also be taken into account: in 2011, market turbulence in the euro zone had significantly increased the need for hedging via stock exchanges as safe and high-integrity trading centres.

Despite these expected framework conditions, we were able to maintain our performance at a high level using various measures:

§ First of all, we have made further progress in the diversification and international expansion of our business model, for example with new derivatives such as futures on Italian and French government bonds, with the Global Liquidity Hub and services for investment funds from Clearstream, and with our strategic cooperation with the newly formed Moscow Stock Exchange.

§ Second, the complete acquisition of our derivatives subsidiary Eurex had a positive effect on the stability of our net revenues. While it is true that this positive effect cannot compensate for the at times significant drops in volume, for example in Bund futures, it is a step in the right direction.

§ Third, we have achieved growth in individual areas, counter to the trend: regarding Xetra, the bond segment for SMEs performed so positively that we were able to expand it in October with a premium segment. The Eurex trading figures grew in the relatively new asset classes such as dividend derivatives. In General Collateral Pooling, to which Eurex Repo and the Global Securities Finance area at Clearstream contributed in equal part, the average outstanding volume increased by a quarter in 2012.

We also further increased investments in 2012, and in doing so laid the foundation for future growth. In this way we are tackling new projects in areas such as clearing for interest rate swaps as well as the Europe-wide Target 2 Securities settlement system, at a time when others feel the consequences of having neglected cost-cutting measures in previous years and run into difficulties.

We will also continue to share our company's success directly with our shareholders through an appropriate dividend. For the past financial year, we are proposing a dividend of €2.10 per share. The decrease here reflects the decline in our profit situation compared with 2011. Adjusted for one-off effects, at around 58 percent, our payout ratio is at the upper end of the corridor of 40 to 60 percent, which our payout policy continues to envisage.

2. Strategic direction and achievements

As a result of the financial crisis, it became clear to all market participants, and to regulators and politicians as well, how important robust clearing and settlement processes are for the stability and integrity of the financial markets. It is exactly these processes that the Deutsche Börse Group has mastered better than anyone. That is why we are a reliable partner for expanding the related services to other asset classes.

At the same time, the issues of capital efficiency, liquidity and collateral management are becoming increasingly important to our key customers, the banks and companies in the real economy, specifically because of the new regulatory framework such as the European Market Infrastructure Regulation (EMIR) and the new capital adequacy requirements in accordance with Basel III. In turn, demand is also growing for reliable IT systems for transactions – which is a strength of our business model.

Our combination of global leadership in trading and clearing options, an international central securities depository (ICSD), risk and collateral management services and a range of IT and market data products within one group is unique in our industry. This puts us in an excellent position for helping to shape the markets of tomorrow.

Last year, we reworked our strategy and are now concentrating a large proportion of our investments in expanding our regulated, supervised and transparent range of products to unregulated and unsecured markets. Part of our strategy remains the development of an effective unit for market data and IT, and geographic expansion, particularly in the Asian markets.

Overall, we once again significantly increased the investment level in 2012 compared with the previous year based on the opportunities which arose for the Group and despite decreasing volume. For 2013, we are planning another increase in order to achieve additional progress in areas such as clearing for over-the-counter transactions, the TARGET 2 Securities European processing infrastructure and our global services for collateral management. We are creating the flexibility needed for this by accelerating our efficiency measures and in turn fully counteracting the effects of inflation.

As you can see from this figure, we are running the second largest regulated, supervised and transparent derivatives trading exchange worldwide. In this context we can only marvel once in a while when we witness the trusting optimism with which bureaucrats squander opportunities to change things for the better. Remember the merger that was prohibited between NYSE Euronext and the Deutsche Börse Group a year ago, through which the European Union could have significantly increased its influence on defining the world markets. I still find this regrettable, also as a European.

Incidentally, it is quite apparent that the American perspective on stock exchange mergers and shaping the market is diametrically opposed to that in Brussels. At the end of last year, the Intercontinental Exchange (ICE) derivatives exchange submitted a takeover bid to the shareholders of NYSE Euronext in order to become the largest market operator worldwide.

But we have now closed the chapter on the prohibited merger and are instead focusing our resources on forward-looking growth projects. A step such as that by the ICE – it could have been another, non-European exchange organisation – was what we expected, and we prepared ourselves for it very early on. It did not cause us any sleepless nights, but it demonstrated that we cannot rest for a single minute.

Now on to the specific objectives which we achieved in 2012 as part of our strategic reorientation. In the course of expanding our range to unregulated and unsecured markets, we have achieved three milestones:

§ First of all, in May we concluded an agreement with the largest international trading houses for introducing a clearing offer for over-the-counter interest swaps. In November 2012, we finalised the systems in the first expansion stage and released the production environment. We now have twelve clearing participants lined up, with five additional customers, including a hedge fund and two large asset management companies.

Interest rate swaps are by far the most important asset class within over-the-counter traded derivatives. According to the Bank for International Settlements, the outstanding volume of over-the-counter traded derivatives worldwide as of 30 June 2012 totalled US$ 639 trillion, of which 59 percent were interest rate swaps. The potential for increasing security with a boost in clearing is considerable here in particular.

§ Second, in 2011, we won Cetip, the Brazilian central securities depository, as our first customer for Clearstream's Global Liquidity Hub. In addition to Brazil, we already have agreements with Canada, Australia, South Africa and Spain to join this Clearstream initiative. We will add a few of these markets to the Global Liquidity Hub this year.

This service will allow banks to utilise the assets which Clearstream manages for them more efficiently over various platforms and countries. The potential benefit of such services is enormous. The financial sector could save over €4 billion annually in opportunity costs if it eliminated the inefficiencies that result from the international fragmentation of collateral management. There are real opportunities for us here.

§ Third, by connecting the central counterparty of our derivatives subsidiary Eurex with Clearstream, our international central securities depository, the Deutsche Börse Group can offer products and services which combine the strengths of both areas.

One example of this is GC Pooling Select, with which we are expanding secured money market transactions to new customer groups – in particular to companies in the real economy and to fund management and insurance companies. With this new market segment, we are meeting the growing demand of these companies for collateralised financing. According to a recent study, collateralised money market transactions of non-banks in the past five years have grown twice as fast as uncollateralised, at a rate of 10 percent per year compared with 5 percent per year.

§ Now, on to market data and IT: effective as of 1 January 2013, we have merged all existing IT service businesses in the Group with the market data business in a new segment and combined them under the management of Hauke Stars in a market-oriented business unit.

Until mid-year, Hauke Stars will, together with her team, strategically position the new segment and determine growth areas for taking advantage of medium and long-term growth potential. In doing so, we will focus on products and services which build upon the strengths of the Deutsche Börse Group.

Regarding the geographic expansion of our range of influence, the crucial growth in our markets will no longer be focused in Europe or North America in future, but in Asia and Latin America. We can therefore see promising new territory in expanding our business geographically, in particular in the growth markets of Asia where the financial infrastructure is not yet keeping pace with the dynamic growth in the real economy. We are currently growing organically there and supplementing this in individual cases with appropriate forms of cooperation. Here are a few examples:

§ In Singapore, we acquired a banking licence back in 2009 through Clearstream. We now have an effective unit there of around 70 staff. Our operations in Singapore cover the Asian time zone. Beyond that, we also have representative offices in Hong Kong, Beijing, Tokyo and Dubai.

§ In the derivatives market we have, together with the Korean stock exchange, developed a forward-looking form of cooperation, in which we utilize the global Eurex network outside the Asian time zone for Asian products – in this case a derivative on one of the most traded indices worldwide, Korea's leading index, KOSPI.

This is not just in the interest of both stock exchanges involved, as new trading volume is created as a result, but also specifically in the interest of customers, who gain access to new products and greater flexibility time-wise. In 2012, more than 32 million KOSPI contracts were traded on Eurex – nearly twice as many as in the previous year.

§ At the beginning of February, we expanded this form of cooperation to the collaboration with the Taiwan Futures Exchange TAIFEX. The planned cooperation extends to trading and clearing of derivatives on the TAIEX index, one of the most-traded share indices in Asia, and are scheduled to start in the fourth quarter of this year.

§ Last week, Eurex also connected the first participant from Japan directly to its trading network.

Continuing to develop the markets in Asia is of the highest priority in the medium term as well. Amongst the Western stock exchange organisations, Deutsche Börse is presumably the only stock exchange which can now already show significant contributions to revenue from this region due to the global networking of Clearstream. We will continue steadily along this path with a Group-wide team which is focused on this task, and also expand the local infrastructure step by step.

In order to manage this in regard to future investments and not become dependent on cyclical developments, we plan to continue to follow the path of strict cost discipline that we embarked upon a number of years ago. I would now like to give the floor to our CFO Gregor Pottmeyer, who will provide an overview of the financial statements and of our planned measures for continuing to improve efficiency. Following that, I will once again summarise the key statements from our presentation today.

Gregor Pottmeyer

3. Financial statements and efficiency measures

Ladies and gentlemen,

As you learned from our ad-hoc report of 5 February and our press release yesterday, we generated net revenue of €1.93 billion in 2012. This revenue was offset by adjusted operating costs of €922 million. This resulted in an operating profit (EBIT) of around €1.0 billion and consolidated annual net income of €661 million.

The greatest decreases were seen in the two trading segments Xetra and Eurex: net revenue for Xetra fell by one-fifth and for Eurex by one-tenth. As Reto Francioni already mentioned, this reflects continued uncertainty regarding macroeconomic and regulatory developments. Accordingly, operating profit dropped significantly.

Performance in the areas of post-trade and market data was more stable: at Clearstream, net revenue decreased by a mere 5 percent, and Market Data and Analytics, in which we bundle our stock exchange index and trading data business, remained virtually stable with a loss of 2 percent.

The relatively slight decrease at Clearstream compared with other business – not only ours, but also stock exchanges worldwide – is worth noting. This is because the low interest rate policy of the European Central Bank, which is motivated by economic policy, has led to our net interest income falling by one-third to just €52 million. Also, as a result of this policy, market participants have very little incentive at the moment to take advantage of our additional services in the custody business – such as secured money market transactions.

I therefore regard the relative stability of Clearstream as the first sign of success for our diversification strategy, which makes us more independent from the economic fluctuations in the markets. This is because at Clearstream, innovative branches such as Global Securities Finance and Investment Funds Services have experienced the most growth: net revenue in GSF rose slightly despite adverse conditions, and for services for investment funds the transaction figure rose by 20 percent to 6.4 million.

We are also very strong on the financial side despite declining volumes, and due to our excellent credit rating we were able to secure long-term funding at very favourable conditions in 2012. That means we can repay more expensive existing financial liabilities in part this year and complete refinancing in the current year. This will reduce our interest burden overall and have a positive impact on our earnings in 2013 and 2014.

In addition to our efforts to achieve growth, we have built up a reputation in the market for our forward-looking cost management. With our measures for improving operating efficiency, we have anticipated the change in our market conditions and the cyclical headwind earlier than our competitors. Amongst the major stock exchange organisations worldwide, we are the only one to have effectively lowered operating costs between 2007 and 2011.

We will continue this strict cost discipline in future in order to retain the necessary flexibility for investments. We therefore now plan on savings of around €70 million annually in our staff and material costs. We intend to achieve this target by 2016.

Material costs are the largest part of the programme, accounting for some €40 million. This will primarily consist in reducing expenses for external consulting and IT operating costs.

We aim to reduce staff costs by €30 million by giving approximately 200 employees and about 50 managers the opportunity to participate in a voluntary redundancy scheme.

We will provide between €90 and 120 million to implement this programme. This is an investment in our competitiveness and future sustainability which, based on the full savings, will pay for itself in less than two years.

Although the savings will not completely offset the cost increases resulting from our higher investments and from inflation effects, they will allow us to put the brakes on the increase in costs and they will finance at least part of our investments through efficiency improvements. At the same time, we can avoid having the necessary savings measures come at the expense of investments geared towards the future. On the contrary, by using the chosen measures we can continue to maintain a high level of investment, even under difficult market conditions. In turn, we can create the flexibility that we and our customers will need in order to make further investments in the coming years.

In regard to the programme, we are already in close contact with the works councils in Eschborn and in Luxembourg. Our objective is to implement the measures without any terminations for operational reasons. After the good experiences we have had with our offers of voluntary contract terminations as part of the last efficiency programme, I am very optimistic that this programme will also be successful.

And now back to the CEO.

Reto Francioni

Before I begin my summary, allow me to comment briefly on the changes in the Executive Board of Deutsche Börse AG. We have decided to combine the cash and derivatives markets under the management of Andreas Preuss. This is another way in which we are increasing the efficiency of our company from several perspectives. In addition, I am pleased to introduce Ms Hauke Stars in her first public appearance as the member of the Executive Board responsible for IT and market data.

I would like to extend my thanks to Frank Gerstenschläger as well as Dr Michael Kuhn for their valuable and dedicated work on the Executive Board of Deutsche Börse.

Ladies and gentlemen, I will now summarise today’s presentation:

- First of all, Deutsche Börse coped well with a very difficult year for stock exchanges in Western Europe and North America: although our revenue fell, as it did for most other stock exchanges, we improved our competitiveness by increasing investments in infrastructure and growth projects. This will pay off in the medium term.

- Second, politicians and the central banks in particular stabilised the euro zone in 2012. Preparations and implementation are now taking place for regulatory reforms which will create new pressures on the financial sector but also open up new opportunities: opportunities for more security and reliability on the markets. As Deutsche Börse, our highest priority is increasing stability on the financial markets as a reliable partner for regulators and customers.

- Third, at the same time, we also want to minimise the resulting additional time and effort required of the financial industry in the interest of market participants. But nobody should sidestep issues such as the provision of collateral. They are vital to market stability and crisis resistance, and with over €11 trillion in securities held, we are ready to utilise these for customers globally. To this end, we have developed new products and services, in particular in the areas of European clearing of over-the-counter transactions and global collateral and liquidity management.

- Fourth, continuing to cultivate the markets in Asia is of the highest priority in the medium term. Amongst the western stock exchange organisations, Deutsche Börse is presumably the only stock exchange which can now already show significant contributions to revenue from this region due to the global networking of Clearstream. We will continue steadily along this path and also expand the local infrastructure step by step.

- Fifth, we continue to give high priority to our services for market participants in Germany, including companies in the real economy. But we truly are not just another company – we bear a special responsibility for the German financial sector and for the German economy as a whole. For us, market integrity is not just a principle – we also implement this principle in practice.

§ And sixth, in order to maintain our pace in investments and not become dependent on cyclical developments, we will continue steadily on our chosen path of strict cost discipline. As in the past, we will implement the measures necessary for this in a socially responsible manner and with a sense of proportion.

Ladies and gentlemen, I would like to thank you for your attention. My colleagues on the Executive Board and I will now welcome your questions.