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## **Annual Press Briefing 2012**

### **Speeches**

#### **Reto Francioni**

CEO Deutsche Börse AG

#### **Gregor Pottmeyer**

CFO Deutsche Börse AG

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*– Check against delivery –*

**[Reto Francioni]**

Good morning, ladies and gentlemen,

I am delighted you have joined us today, you are all very welcome. We clearly have a few more attendees than usual, which may well have something to do with the earlier prohibition of our planned merger. So as to avoid your disappointment later on, I would like to say right now that we intend to inform you about what Deutsche Börse AG achieved in 2011, which was no small amount. And we want to give you an overview of our course for 2012 and beyond, which we also agreed with the Supervisory Board yesterday. Thus the merger has already nearly been consigned to history, albeit with great regret. But as you know, in times such as these, companies have no time for dwelling on missed opportunities. We must look for new opportunities, and capitalise on them. For us, it's almost the same as it is for you in your editorial offices. So let's take a look back at 2011, and then, most importantly, let's look to the future.

Of course, I should also add, we are reserving the right to take legal steps against the prohibition of the merger by the Commission. We will make a decision on this once we have thoroughly analysed and assessed the grounds for the prohibition from a legal standpoint.

Ladies and gentlemen,

We would primarily like to present two key topics to you today:

First, how did Deutsche Börse close the fiscal year 2011? To begin with, in terms of sales revenue, it was the second best year in the history of our company. For sales revenue, we are the undisputed number one in Europe, and the number two worldwide. This shows how much we have looked after our customers and business without compromise, despite all the public attention focusing on the merger. The Group's CFO, my colleague Gregor Pottmeyer, in particular will present the relevant details on this. Our employees and the Group have done a fantastic job. That much is clear!

Second, I would like to explain to you how we intend to inject additional energy

into the Deutsche Börse Group's successful strategy in the future, in light of the EU's decision as well as the changed economic and regulatory framework in the banking system and on the financial markets. We had already developed a concept for accelerating growth driven by internal resources in the event of the merger being prohibited. We will now systematically implement it and it will come into play with immediate effect. I am sure it will come as no surprise to you that, in light of a shift in the competition authorities' position away from a global toward a regional market view – which can be debated, but not explained away – we are not focusing on large-scale mergers and takeovers. No other exchange in the world combines our strengths in trading and clearing (Eurex und Xetra), risk and collateral management (Clearstream), as well as market data and IT business under one roof. It is also clear that reaching our goal will take longer this way, but we are resolved to take this direction.

How we intend to do this, I will explain to you after we have looked at the business figures.

### **Slide: Excellent Financial Performance In 2011**

So, let's first take a look at the fiscal year 2011.

Ladies and gentlemen, Deutsche Börse AG closed the fiscal year with net income of €833 million, adjusted for one-time effects. This is an increase of 15 percent against the prior year. Sales revenue increased by six percent to €2.2 billion, which is the highest in the company's history since the record year of 2008. Every single division contributed to the growth in revenue and earnings. Excluding costs in connection with initiating the merger, our costs amounted to around €1.1 billion. Also adjusting for special items in 2010, this is a decline of one percent, despite strong growth. Thus Deutsche Börse is clearly on course for success. In addition, we are already reaping the benefits of our strict cost management, which we started early. Our shareholders will participate directly in the company's success through an increase in the dividend. But more on that later.

**Slide: Top Position In The Global Sector Maintained In 2011**

At this point, allow me to say a few words on the global exchange industry.

In terms of sales revenue, we and the Chicago exchange CME are well ahead of the competition. Not just CME, but also NYSE Euronext and Nasdaq OMX have grown in size through mergers and takeovers. Nevertheless, Deutsche Börse Group can not only keep pace with these exchanges, it even outstrips most of them. It has achieved this by relying on internal resources, helped also by our strong growth last year. This makes us the only exchange based in Europe to be among the best in the world.

A comparison of market capitalisation paints a similar picture. With a market capitalisation of about €10 billion, the Deutsche Börse Group is the only European exchange on the world stage in this respect, too. Only a few years ago, the LSE and other Europeans led the field. Without question, it is remarkable that the Hong Kong exchange holds the number one position here and that BM&F Bovespa in São Paulo is in third place. Thus Asia and Brazil are clearly seen by the capital markets as growth regions.

In the last five years, the stock exchange industry has been radically transformed. Many things, especially events that take place in other countries, are not registered at all here in Europe and in Germany. They are too far removed, too specific. But the facts are there: New exchanges that have never been heard of before are suddenly among the best in the world. In 2005, Europe was still ahead of the US in terms of the market capitalisation of all listed exchange organisations. In 2012, the pattern has reversed. In terms of stock market value, growth markets such as Asia and South America have pushed their way clear to the top of the peer group, which includes the USA. At Deutsche Börse, market capitalisation has doubled in this period to around €10 billion and we have emerged as the leading European player.

So our employees, our entire team, can't have performed that badly over the last few years. Quite the contrary! And that is why I would like to state here very clearly, particularly in the face of indeed occasional, but dissenting voices from the sidelines: All of us on the Executive Board are proud of what our company, what our employees, have accomplished and continue to accomplish.

**Slide: Successful Execution Of Growth Strategy Over The Last Years**

In the last few years – and especially over the past fiscal year – we have systematically pursued our growth strategy on a number of levels:

First: With Eurex, we have established a globally leading derivatives exchange, which now processes almost three billion contracts per year. In 2011, we reached an agreement with SIX Group for the complete takeover of Eurex from this year on. In the post trading segment Clearstream, we have extended our value chain, among other things by expanding our collateral and liquidity management services – for example, through General Collateral (GC) Pooling, which facilitates collateralised interbank trading, or through Clearstream’s cooperation with the Brazilian central securities depository Cetip in the area of collateral management. Our cash market Xetra is also well positioned in the world of the Market in Financial Instruments Directive MiFID. We have stabilised our market share and are still undisputed leaders in pricing for German securities. And, with more than 900,000 securities, we offer the largest product range of all the cash markets in Europe.

Second: We have continuously expanded our distribution network over recent years. For instance, through Clearstream, we have the largest share of Asian sales revenue of all Western exchange organisations. With STOXX<sup>®</sup>, we have established Europe’s leading tradable index family and, in 2011, we expanded it to include global components. We have also tapped into a new growth market, thanks to the cooperation of Eurex with the Korea stock exchange on the trading of a derivative on the Korean benchmark index KOSPI.

Third: We have continuously developed our IT infrastructure on the basis of customer and market needs and set the standards in our industry when it comes to speed and availability. For example, in 2011 we introduced a new trading technology on the ISE, which was very well received by customers. ISE’s market shares grew over the course of 2011. In addition, we already operate products and services for external third parties with our IT, and here we see growing demand for smart data and technology services outsourcing solutions. Our IT expertise makes us attractive to third parties. And we must and will exploit our IT

capabilities to gain competitive edge in the fight for customers – by all means also through cross-selling and integrated customer relationship management. Last but not least, this will generate stable, sustainable customer loyalty.

This combination of different kinds of growth and technological advances gives us a strong basis on which to continue growing in a market environment that is constantly changing without limits and despite all the uncertainties on the markets.

### **Slide: Growth Initiatives Continue To Gain Traction**

It is evident that our strategy is bearing fruit when you look at the development of business activities in the relevant products. In the cash market, we pioneered the introduction of exchange-traded funds, or ETFs, and can look back on continuous growth, even in difficult market phases. Clearstream played a leading role in collateral and liquidity management and had been offering the right products to support the trend toward total collateralisation on the financial markets long before the financial crisis. These early investments are now paying off in full. The volume of new products introduced at Eurex, such as dividend derivatives, volatility products and KOSPI products, increased nearly fivefold in 2011, and we are already generating additional revenue in the double digits with these new products. These are just a few examples to illustrate that we paved the way for growth in a continuing challenging market environment at an early stage and, above all, with resounding success.

Overall, this development led to an exceptional return for shareholders of Deutsche Börse AG despite the global financial crisis. It is not enough simply to have a business model. Many companies with promising business models have long since shut down. You also have to execute it, if you're going to stay the course. Deutsche Börse AG can do this. This is surely also one of the reasons why our share price developed better than those of our relevant indexes from 2005 to the start of 2012. For example, our share price performance, at over 90 percent, was significantly higher than that of the DAX<sup>®</sup> index, at around 20 percent. The corresponding value of the STOXX index for financials shrank by

35 percent in the period. In terms of total return, which also includes dividend payments, we recorded an increase of 120 percent, compared with just 50 percent in the DAX index and a drop of 50 percent in the STOXX Financials Index.

Since the start of the year, our share has shown above-average performance compared with both the benchmark indexes and international competitors. We attribute this also to the fact that investor uncertainty about whether we might offer too many concessions to the European Commission – something which, however, never came into question for us – has now dissipated. Another factor is the prevailing market opinion that the introduction of a uniform EU-wide financial transaction tax has become much less likely with the unilateral position that France plans to take this year. We have repeatedly stated our belief that such a tax would be the wrong approach, and it seems that we are not alone in this opinion. It would play into the hands of unregulated markets and would therefore be in stark contrast to the target agreed at G20 level in the wake of the financial crisis to extend tried-and-trusted safety and regulatory standards of on-exchange trading to cover non-transparent and unregulated markets.

But back to our business performance in 2011: My thanks go to our employees for our sound business figures and the resulting excellent position of Deutsche Börse Group. As a team, they have made these results possible through huge personal dedication, great expertise and a firm grasp of what's important. This goes for all divisions of the company, ladies and gentlemen.

With that I will hand you over to Gregor Pottmeyer for details on the financial statements. Afterwards, I will present to you our strategic approach.

**[Gregor Pottmeyer]**

**Slide: 2011 – Sales And Earnings Growth Reflect Scalability Of Model**

Ladies and gentlemen,

Earnings in 2011 reflect the scalability of our business model. Sales revenue increased by six percent in the reporting year to €2,233 million. This is the highest revenue in the company's history since the record year of 2008. In addition to sales revenue, net interest income from banking business rose by 26 percent to €75 million. Our costs – adjusted for special effects in 2010 such as the ISE impairment, and in 2011 such as costs in connection with the prohibited business combination with NYSE Euronext – fell by one percent to €1,134 million. As a result, adjusted EBIT rose by 13 percent and the adjusted net income for the year by as much as 15 percent to €333 million. This corresponds to earnings per share of €4.49.

**Slide: 2011 – Growth Across All Segments Of The Group**

All segments contributed to the positive development of the Group. In the Xetra segment, sales revenue increased by 5 percent, and EBIT by 18 percent. In Eurex, sales revenue climbed by 10 percent and EBIT also by 18 percent. In the post-trading segment at Clearstream, sales revenue was up by 4 percent and EBIT by 8 percent. In the market data segment MD&A, sales revenue increased by 5 percent and EBIT by 6 percent. This shows the breadth of the positive development in 2011 and explains why we paid the entire workforce a special bonus of €1,500 per employee in December.

**Slide: 2011 – Track Record For Effective Cost Management Continued**

Besides efforts to ensure growth, strict cost management remains a success factor in our business. Thanks to a range of efficiency measures since 2007 – most recently savings of €150 million in the period from 2010 to 2012 – we were able to reduce operating costs by around 13 percent since 2007. Beyond the measures currently underway, we are endeavoring to achieve further efficiency



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gains through individual initiatives. Not necessarily in the form of a spectacular program, but through ongoing and systematic exploitation of efficiency potential.

I'll now hand you back to the CEO.

**[Reto Francioni]**

**Slide: Existing Growth Strategy To Be Accelerated**

Ladies and gentlemen, I would now like to outline how we intend to accelerate our growth strategy – which is already very profitable – as we move forward. We are channeling our energies in three directions:

1. Firm expansion of our product and service range to currently unregulated and uncollateralised markets. This move is in response to changes in customer needs as well as the regulatory framework in the wake of the financial crisis.
2. Accelerated expansion of technology leadership and expertise in the market data segment by pooling all relevant company resources in a separate, market-oriented business unit – under unified management and with profit responsibility of its own – geared to opening up untapped growth potential.
3. Tapping into new geographic growth areas and acquiring new customer groups, including with new formats, in which we do not hold sole control and share value creation potential with customers and market players. We are currently discussing possible scenarios with customers who would be willing to work with us in tapping into new business areas on this basis.

We are uniquely positioned globally among market infrastructure providers to successfully step up our strategy. In the international arena, Deutsche Börse Group plays a leading role in derivatives trading and clearing, in risk and collateral management as well as in the market data and technology segments. In this way, we are also supporting both our customers and regulatory efforts as a consequence of the financial crisis.

Our growth strategy goes hand in hand with highly effective cost management on the one hand, and a strong credit rating coupled with an attractive dividend policy for our shareholders on the other.

## **Slide: Growth – Expenditures For Growth And Infrastructure Increased**

But rigorous cost management does not trigger extra growth. As part of stepping up our strategy, we will further scale up spending on growth initiatives and infrastructure in 2012.

1. Expanding our range of products and services on currently unregulated and unsecured markets

As part of our first strategic thrust, we will tackle unregulated and uncollateralised markets with improved and new offerings specially matched to this segment and based on our core competencies.

The first side to this consists in further expanding our collateral and liquidity management services at global level. These services are in ever greater demand not just because of regulatory requirements, but also because of the enduring loss of trust between market users. We already generated over €80 million in sales revenue with Global Securities Financing (GSF) services at Clearstream in 2011. Likewise in 2011, the cooperation mentioned earlier with Cetip, the Brazilian central securities depository, has been further advanced by this business unit. Along with the central depositories in Australia and South Africa, more than ten other markets have already expressed concrete interest in this area. We are making more resources available in this connection to further expand our global network at Clearstream. The highly promising success of General Collateral (GC) Pooling, a joint product from Clearstream and Eurex, similarly gives us grounds for confidence in this regard.

The second aspect here involves the launch of clearing services for OTC-traded derivatives timed to align with changing market and regulatory requirements. After many delays in the political process, agreement was reached last week between the European Parliament and the Council on the regulatory underpinning of these services, the European Market Infrastructure Regulation concerning OTC derivatives known as “EMIR.” The entry into force of this regulation later this year is now within reach. We stand at the ready with our technology and risk

management competencies to support the banks in adjusting to the new conditions. In view of EMIR, we will expand the functionality of our risk management model in 2012. In the future, this will allow market participants to offset exchange and over-the-counter transactions to leverage capital efficiencies. This is a big market and we have set our sights on a large slice of the pie. And it also gives us an opportunity to help make sure unregulated markets never again either spark or fuel a financial crisis of the kind seen in 2008.

## 2. Expansion of technology leadership and expertise in the market data segment

Going forward, Deutsche Börse will consolidate all IT and data-related activities into a robust unit with full profit responsibility. This will be brought about by combining systems development and operation, the Group's external IT business and the market data and indices business in one business area. The external IT business, where we already generate over €80 million in sales revenue today, includes the use of our trading systems by external licensees such as other exchange companies, business process offering in its entirety, IT products for financial service providers, and network services. We expect attractive growth rates in this segment. When outsourcing highly specialised processes, clients demand support they can count on. At the same time, we can exploit needs that follow on from IT requirements to boost our competitive chances and tie in clients. In combination with our successful market data business, this opens up a growth area for new and augmented services that optimally capitalise on our strengths. In the process, we can bolster our technology leadership, strengthen customer relations and pack a more powerful punch overall.

## 3. Geographical expansion and new customer groups

With or without a merger with a transcontinental partner, we continue to become increasingly global. Europe still remains our main focus. But the global share of our business outside Europe is constantly growing: We now generate 16 percent of sales revenue in the Americas and Asia, up from eight percent in 2005. And 12 percent of our workforce is now employed in the Americas and Asia, compared with three percent in 2005.

By continuously expanding our business activities in Asia, our target at Clearstream for its international business is to lift sales revenue in that region from 20 percent today to 30 percent in 2016. We similarly aim to further expand our customer network at Eurex and Xetra. Eurex is looking toward Asia. This is a logical step, because Clearstream already counts a number of Asian banks among its top clients. At Xetra, we will focus notably on the Eastern Europe region.

Our priority in geographical expansion is on partnerships like the one with the Korea Exchange. This makes sense not least because the EU decision has brought to light a shift in regulatory conditions against scale-driven, large-scale mergers, even though this runs contrary to other EU policy goals.

Paralleling our geographical expansion, we also plan to address market participants who are not yet among our customers. This is because, alongside maximum reliability and transparency, another of our core competencies plays an increasingly crucial role for our clients, and that is risk management. The service that Eurex will directly market to institutional investors consists of separately managing customer collateral under the heading of account segregation. This further adds to the competitive lead gained over our competitors following the launch of our real-time risk management.

**Slide: Growth – Positive Outlook Underpinned By Full Control Over Eurex**

For 2012, we expect to increase sales revenue to the level reached in the 2008 record year. Though the capital market outlook for the current year is overshadowed by the turbulence in the euro zone and the high debt levels in the USA, we anticipate structural and cyclical growth in a range of products and services. Likewise, the complete acquisition of Eurex, whose income will accrue to the Group in full starting in 2012, and consolidation of the European Energy Exchange (EEX) from mid-year will further boost our sales revenue. These changes also mean we now have full control of the Eurex derivatives market and have gained a foothold in the commodities markets with EEX.

**Slide: Operating Efficiency – Cost Management Remains Key Priority**

Alongside our growth efforts, rigorous cost management remains vital. We will not let up on this front. Our cost forecast for 2012 is some €1.2 billion. The slight increase in the current year compared with 2011 does not mark a reversal of the trend in the last few years, but rather reflects substantial investment in our future, our expectations for further growth, the consolidation of EEX, and moderate inflation. We plan to offset the higher level of investment spending on growth in 2012 with cost-efficiency gains, as Gregor Pottmeyer has already explained. Our aim is to make full use of the economies of scale that set our business model apart. However, we do not plan to reduce the size of the workforce as part of this.

**Slide: Capital Management – Strong Cash Flow Generation Allows For Strong Rating Profile And Attractive Distribution Policy**

Now to capital management. Given the major importance of post-trading business to our Group, our customers have a keen interest in a strong credit rating. For Clearstream Banking especially, an AA rating is therefore a key competitive factor. We have secured a strong reputation for solidity on the capital markets in this regard, also in the last few years, and we will sustain that reputation going forward.

At the same time, however, we also stand by our established practice of returning to owners the funds we do not need for the maintenance and onward development of our business. We have kept up this practice without a break since 2005.

Even during the financial crisis – and despite a temporary drop in profits – we held dividends stable. Profits rose strongly in the past year and we want our owners to share directly in that success. We consider it a matter of course that our shareholders can rely on us. We are therefore proposing an increase in the regular dividend to €2.30 per share and at the same time the payment of an extraordinary dividend of €1.00 per share. At Deutsche Börse, a strategy clearly geared to growth and an attractive dividend policy are no contradiction in terms.

We do not have to build factories to serve customers in new markets. Instead we have smart, scalable technologies that we can successfully deploy in a diverse range of formats. This is the hallmark of our business model and it is borne out in the strong business figures for 2011.

Ladies and gentlemen, allow me to sum up:

- § Deutsche Börse had an outstanding year.
- § Despite the necessary focus on the planned merger, we very successfully continued to develop our business to the benefit of clients and shareholders, and are starting fiscal 2012 from a position of strength.
- § Our strategy relies on growth, innovation, tackling unregulated and unsecured markets, pooling our technological competencies and market data expertise in a single effective unit, as well as partnerships in growth markets. In other words, we are aiming for even greater networking of our business areas. In this way, we generate added value in excess of the growth in each area. And we give our units greater punch – IT is a case in point.
- § For the current year, we expect to sustain our established success trajectory and to raise sales revenue while maintaining high levels of operating efficiency.

Finally, two news on the Executive Board:

The Supervisory Board yesterday extended my colleague Gregor Pottmeyer's contract for five years. Gregor, I am very pleased that we can continue our success story with you on board.

I would also like to inform you that, in the course of the changes in our IT lineup, my colleague Michael Kuhn and the Supervisory Board agreed very amicably, after 23 years of successful and commendable service to our company, not to extend his Executive Board contract beyond its regular duration to the year-end. Michael, you will continue to support us in an advisory capacity with your expertise. I personally am very glad to know that. We will announce the new appointment for the newly created Executive Board position as soon as it can be communicated.

Thank you for your attention. The Executive Board team now looks forward to your questions.