



DEUTSCHE BÖRSE
GROUP

Annual report 2018

Excerpt: Deutsche Börse AG
(disclosures based on the HGB)

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context, the Group aims to act in a more agile and effective manner, and with increased client focus, to turn Deutsche Börse into the global market infrastructure provider of choice, being top-ranked in all its activities. Looking at the economic and regulatory framework over the forecast period, uncertainty persists concerning capital market participants' behaviour; therefore, it is impossible to come up with a concrete forecast for cyclical growth in net revenues. Nonetheless, Deutsche Börse Group endeavours to further expand its structural growth areas and to further increase their contribution to net revenues by at least 5 per cent. At the same time, the Group plans to safeguard the scalability of its business model throughout the forecast period. To this end, the Executive Board will actively manage operating costs in a way that net profit for the period attributable to Deutsche Börse AG shareholders will grow at a stronger rate than net revenue. Specifically, growth rates of about 10 per cent (excluding exceptional effects) are projected for the forecast period. Overall, the Executive Board assumes on this basis that cash flow from operating activities will be clearly positive and that, as in previous years, the liquidity base will be sound. The overall assessment by the Executive Board is valid as at the publication date for this combined management report.

Deutsche Börse AG (disclosures based on the HGB)

The annual financial statements of Deutsche Börse AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the supplementary provisions of the German Stock Corporation Act (Aktiengesetz, AktG) and are the underlying basis for the explanations that follow.

Business and operating environment

General position

Deutsche Börse AG is the parent company of Deutsche Börse Group. The parent company's business activities include first and foremost the cash and derivatives markets, which are reflected in the Eurex (financial derivatives) and Xetra (cash equities) segments, as well as the data and index businesses. Deutsche Börse AG also operates essential parts of Deutsche Börse Group's information technology. The development of Deutsche Börse Group's Clearstream (post-trading) segment is reflected in Deutsche Börse AG's business development, primarily due to the profit and loss transfer agreement with Clearstream Holding AG. Deutsche Börse Group's IFS (investment fund services) and GSF (collateral management) segments, in contrast, play a lesser role for Deutsche Börse AG. Nevertheless, the business and framework conditions at Deutsche Börse AG essentially correspond to those of Deutsche Börse Group and are described in the [“Macroeconomic and sector-specific environment”](#) section.

Deutsche Börse AG's course of business in the reporting period

Deutsche Börse AG's revenues increased by 3.6 per cent in the 2018 financial year, coming in slightly below the company's expectations. Total costs (staff costs, amortisation of intangible assets and depreciation of property, plant and equipment and other operating expenses) increased by 0.7 per cent. Net profit fell compared to 2017 which, among other things, had been positively impacted by proceeds of €139.5 million from the sale of the stake in Eurex Zürich AG to Eurex Global Derivatives AG. On an adjusted basis – i.e. excluding the aforementioned one-off proceeds included in the previous year – the company's net profit for the 2018 financial year increased by 11.8 per cent and, therefore, exceeded the expectation of an increase of at least 10 per cent. Based on these results, Deutsche Börse AG Executive Board assesses the development in the 2018 financial year as satisfactory.

Performance figures for Deutsche Börse AG

	2018 €m	2017 €m	Change %
Sales revenue	1,396.5	1,348.0	3.6
Total costs	921.2	915.2	0.7
Net profit from equity investments	242.3	346.6	-30.1
EBITDA	831.2	887.8	-6.4
Net profit for the period	532.2	615.7	-13.6
Earnings per share (€)	2.88 ¹⁾	3.30 ¹⁾	-12.1

1) Calculation based on weighted average of shares outstanding

Results of operations of Deutsche Börse AG

Deutsche Börse AG's net revenue rose by 3.6 per cent in 2018 to €1,396.5 million (2017: €1,348.0 million). At €836.6 million (2017: €780.9 million), the largest contribution to revenue came from the Eurex (financial derivatives) segment. The breakdown of revenue by company segment is provided in the "Sales revenue by segment" table.

Sales revenue by segment

	2018 €m	2017 €m	Change %
Eurex (financial derivatives)	836.6	780.9	7.1
EEX (commodities)	13.5	14.3	-5.6
360T (foreign exchange)	2.9	0.7	314.3
Xetra (cash equities)	229.8	235.2	-2.3
Clearstream (post-trading)	75.7	96.3	-21.4
IFS (investment fund services)	8.7	9.7	-10.3
GSF (collateral management)	3.1	3.7	-16.2
STOXX (index business)	27.4	26.8	2.2
Data	198.8	180.4	10.2
Total	1,396.5	1,348.0	3.6

For more information on the development of the Eurex (financial derivatives) segment, please refer to the ["Eurex \(financial derivatives\) segment" section](#).

The revenue contributed by the EEX (commodities) and 360T (foreign exchange) segments is generated mainly by IT services. Therefore, the explanations in the ["EEX \(commodities\) segment"](#) and ["360T \(foreign exchange\) segment" sections](#) relate only indirectly to Deutsche Börse AG. The earnings situation of the Data and STOXX (index business) segments is shown in the ["Data segment"](#) and ["STOXX \(index business\) segment" sections](#). It is important to note that the business performance of the STOXX Ltd. subsidiary, in particular, has no direct impact on the on the business performance of Deutsche Börse AG. An explanation of the business development in the Xetra (cash equities) segment can largely be found in the ["Xetra \(cash equities\) segment" section](#). Revenues attributable to the Clearstream (post-trading), IFS (investment fund services) and GSF (collateral management) segments result from the IT services Deutsche Börse AG provides to companies belonging to the Clearstream Holding subgroup.

Other operating income increased to €54.3 million in the year under review (2017: €43.3 million, adjusted for the proceeds from the sale of shares in Eurex Zürich AG in the amount of €139.5 million). Other operating income in the year under review resulted primarily from the sale of licences in the amount of €38.7 million.

At €921.2 million, the company's total costs were 0.7 per cent higher than in the previous year (2017: €915.3 million). The composition of total costs can be found in the "Overview of total costs" table. Staff costs rose 33.5 per cent to €301.5 million (2017: €225.9 million) in the year under review. This increase resulted primarily from the restructuring programme initiated in the 2018 financial year, which amounted to €47.3 million. Furthermore, additions to pension provisions increased by €26.9 million. There was also an increase in the number of employees from an average of 1,368 in the prior year to 1,469 in the 2018 financial year. Adjusted for exceptional effects, total costs decreased by €69.0 million to €802.0 million (2017: €871.0 million). The decline is mainly due to the restructuring programme and streamlining of the management structure.

Overview of total costs

	2018 €m	2017 €m	Change %
Staff costs	301.5	225.9	33.5
Depreciation and amortisation	57.8	37.3	55.0
Other operating expenses	561.9	652.1	-13.8
Total	921.2	915.3	0.7

Amortisation of intangible assets and depreciation of property, plant and equipment increased to a total of €57.8 million in the year under review (2017: €37.3 million). This increase resulted from the take-over of the trading and clearing systems as part of the merger of Finnovation Software GmbH with Deutsche Börse AG, with effect from 1 October 2017. The 2018 reporting year was the first year that the software, acquired in 2017, was amortised for an entire financial year. As a result, the amortisation of purchased software increased by €18.9 million to €31.2 million (2017: €12.3 million). The carrying amount of intangible assets decreased to €117.9 million (2017: €126.6 million).

Other operating expenses fell by 13.8 per cent year-on-year to €561.9 million (2017: €652.1 million). This decline resulted mainly from lower operating management fees of €158.6 million (2017: €200.8 million). The software of Deutsche Börse AG and Eurex Global Derivatives AG used by Eurex Clearing AG and Eurex Frankfurt AG was made available to users free of charge as at 1 January 2018 within the context of operational management. In addition, agency fees to affiliated companies fell to €25.2 million (2017: €67.2 million).

Deutsche Börse AG's net income from strategic investments in the 2018 financial year totalled €242.3 million (2017: €346.6 million) and, among others, consisted of dividend income of €90.6 million (2017: €129.7 million) and income from the transfer of profits from Clearstream Holding AG in the amount of €152.7 million (2017: €84.7 million). The previous year's result had also included income in the amount of €139.5 million from the sale of shares in Eurex Zürich AG to Eurex Global Derivatives AG.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased to €831.2 million (2017: €887.8 million). The adjusted EBITDA rose by 22.2 per cent to €949.4 million (2017: €777.1 million). This increase resulted from net revenue growth coupled with a decrease in adjusted operating costs. Net profit for the period amounted to €532.2 million, representing a decline of 13.6 per cent (2017: €615.7 million). The decline in the reported EBITDA and the reported net profit for the period resulted from the absence of the proceeds from the sale of shares in Eurex Zürich AG in the prior year.

Development of profitability

Deutsche Börse AG's return on equity expresses the ratio of net profit after taxes to average equity available to the company in 2018. Return on equity declined from 24 per cent in 2017 to 21 per cent due to the lower net profit.

Financial position of Deutsche Börse AG

As at the reporting date, cash and cash equivalents amounted to €716.5 million (2017: €912.0 million) and included bank deposits on current accounts as well as term deposits and other short-term deposits.

Deutsche Börse AG has external credit lines available of €605.0 million (2017: €605.0 million), which were not yet drawn upon as at 31 December 2018. The company also has a commercial paper programme providing flexible, short-term financing options in different currencies up to a total of €2.5 billion. No commercial paper was outstanding as at the end of the reporting year.

Deutsche Börse AG allocates the liquidity within Deutsche Börse Group optimally through a Group-wide cash-pooling system, which ensures that all subsidiaries are in a position to meet their payment obligations at all times.

Deutsche Börse AG has issued three corporate bonds, each with a nominal value of €600 million, as well as a corporate bond with a nominal value of €500 million. For more details about these bonds, please refer to the [“Financial position” section](#).

In the 2018 financial year, Deutsche Börse AG generated cash flow from operating activities of €642.3 million (2017: €700.1 million). The decline is mainly due to the low net profit and higher receivables from affiliated companies.

Cash flow from investing activities amounted to €–444.1 million (2017: €688.8 million). This decline is related, among other things, to the purchase of shares in European Energy Exchange (EEX) (€356.4 million) and Taiwan Futures Exchange (TAIFEX) (€34.8 million) from Eurex Zürich AG. In addition, there was a loan granted to 360TGTX in the amount of US\$70.0 million. In the previous year, cash flow from investing activities was influenced in particular by the capital reduction of Eurex Frankfurt AG (€435.0 million) and the sales proceeds recognised from the sale of the stake in Eurex Zürich AG (€308.4 million).

Cash flow from financing activities amounted to €–807.8 million in the year under review (2017: €–835.0 million). In addition to the payment of a dividend of €453.3 million for the 2017 financial year, 3.4 million shares were repurchased for a total of €364.2 million. Cash and cash equivalents amounted to €–906.6 million as at the 31 December 2018 reporting date (2017: €–297.1 million) and consisted of liquid funds of €716.5 million (2017: €912.0 million), less cash-pooling liabilities of €1,623.1 million (2017: €1,209.1 million).

Cash flow statement (condensed)

	2018 €m	2017 €m
Cash flows from operating activities	642.3	700.1
Cash flows from investing activities	– 444.1	688.8
Cash flows from financing activities	– 807.8	– 835.0
Cash and cash equivalents as at 31 December	–906.6	–297.1

Net assets of Deutsche Börse AG

As at 31 December 2018, the non-current assets of Deutsche Börse AG amounted to €5,892.9 million (2017: €5,509.9 million). At €5,520.9 million, most of the non-current assets was attributable to shares in affiliated companies (2017: €5,235.7 million), mainly from the investment in Clearstream Holding AG, in STOXX Ltd. and the investment in Eurex Frankfurt AG. The increase in shares in affiliated companies resulted primarily from the acquisition of a 75.05 per cent stake in EEX from Eurex Zürich AG for a purchase price of €356.4 million.

Non-current assets (condensed)

	2018 €m	2017 €m
Intangible assets	117.9	126.7
Tangible assets	74.9	68.8
Financial assets	5,700.1	5,314.4
Non-current assets as at 31 December	5,892.9	5,509.9

Deutsche Börse AG's investments in intangible assets and property, plant and equipment amounted to €56.1 million in the year under review (2017: €155.2 million). This year-on-year decline mainly resulted from the acquisition of assets by Deutsche Börse AG in the amount of €120.0 million as part of the merger with Finnovation Software GmbH in 2017. Depreciation and amortisation in 2018 amounted to €57.8 million (2017: €37.3 million).

Receivables from and liabilities to affiliated companies include settlements for intra-Group services and amounts invested by Deutsche Börse AG in cash-pooling agreements. Receivables from affiliated companies amounted to €152.7 million (2017: €84.7 million) and originated primarily from the existing profit transfer agreement with Clearstream Holding AG. Liabilities to affiliated companies resulted mainly from cash-pooling amounting to €1,623.1 million (2017: €1,209.1 million) and trade liabilities in the amount of €43.9 million (2017: €52.3 million).

Working capital amounted to €-1,652.9 million in 2018 (2017: €-1,844.7 million). The change is mainly due to the repayment of the bond and an increase in liabilities to affiliated companies.

Deutsche Börse AG employees

The number of employees at Deutsche Börse AG rose by 74 in the reporting year and totalled 1,469 as at 31 December 2018 (31 December 2017: 1,395 employees). The average number of employees at Deutsche Börse AG for the 2018 financial year was 1,437 (2017: 1,368 employees).

During the 2018 financial year, 70 employees left Deutsche Börse AG, resulting in a staff turnover rate of 5 per cent.

As at 31 December 2018, Deutsche Börse AG employed staff at six locations worldwide. Information on the countries, regions, the employees' age structure and length of service are provided in the tables that follow.

Employees per country/region

	31 Dec 2018	%
Germany	1,436	97.8
United Kingdom	22	1.5
France	5	0.3
Rest of Europe	4	0.3
Asia	2	0.1
Total Deutsche Börse AG	1,469	100

Employee age structure

	31 Dec 2018	%
Under 30 years	156	10.6
30 to 39 years	443	30.2
40 to 49 years	410	27.9
50 years and older	460	31.3
Total Deutsche Börse AG	1,469	100

Employee length of service

	31 Dec 2018	%
Less than 5 years	658	44.8
5 to 15 years	292	19.9
Over 15 years	519	35.3
Total Deutsche Börse AG	1,469	100

As at 31 December 2018, a total of 77 per cent of the employees at Deutsche Börse AG were graduates. The ratio is based on the number of employees holding a degree from a university, college or vocational academy, as well as the employees who have completed degrees abroad. In 2018, the company invested an average of 3.3 days in training per employee.

Remuneration report of Deutsche Börse AG

The principles governing the structure and design of the remuneration system at Deutsche Börse AG are the same as those for Deutsche Börse Group. Therefore, please refer to the [remuneration report](#) for Deutsche Börse Group.

Corporate governance statement in accordance with section 289f HGB

The corporate governance statement in accordance with section 289f HGB corresponds to that of Deutsche Börse Group. Therefore, please refer to the [“Combined corporate governance statement and corporate governance report”](#) section.

Opportunities and risks facing Deutsche Börse AG

The opportunities and risks facing Deutsche Börse AG, as well as the measures and processes for dealing with these opportunities and risks, are essentially the same as those for Deutsche Börse Group. Therefore, please refer to the [risk report](#) and the [report on opportunities](#) of Deutsche Börse Group. In principle, Deutsche Börse AG participates in the opportunities and risks of its equity investments and subsidiaries in proportion to the size of its shareholding. Risks that could potentially threaten the existence of the Eurex Clearing AG subsidiary would also have had a direct influence on Deutsche Börse AG based on a letter of comfort issued by Deutsche Börse AG. As of the reporting date, there were no risks jeopardising the company's existence. For further information regarding the letter of comfort to Eurex Clearing AG, please refer to the [section entitled “Other financial obligations and transactions not included in the balance sheet”](#) in the notes to the annual financial statements of Deutsche Börse AG.

The description of the internal control system (ICS) required by section 289 (4) HGB is provided in the [“Group management”](#) section.

Report on expected developments at Deutsche Börse AG

The expected business development of Deutsche Börse AG is essentially subject to the same factors that influence the business development of Deutsche Börse Group. For Deutsche Börse AG, the factors provided in the [report on expected developments](#) regarding the cyclical environment and the structural growth initiatives were taken into account. For 2019, the company expects sales revenue to be above the level of the previous year by at least 5 per cent (2018: €1,396.5 million). Given the expected increase in Deutsche Börse AG's sales revenue, and taking efficient cost management into account, the Group anticipates a growth rate of about 10 per cent (excluding exceptional effects) for adjusted net profit for the forecast period (2018: €621.0 million).

Remuneration report

This remuneration report outlines the principles governing the remuneration system applicable to the members of Deutsche Börse AG's Executive Board and describes the structure and amount of remuneration payable to them. Furthermore, it outlines the principles governing Supervisory Board remuneration and describes the amounts payable. The remuneration report is part of the combined management report and complies with the requirements of the Handelsgesetzbuch (HGB, German Commercial Code), the International Financial Reporting Standards (IFRSs) and the Deutscher Rechnungslegungs Standard Nr. 17 (DRS 17, German Accounting Standard No. 17, Reporting on the Remuneration of Members of Governing Bodies). In addition, it complies with almost all recommendations of the German Corporate Governance Code (the Code); see the ["Combined corporate governance statement and corporate governance report"](#) section for details. The remuneration report comprises two sections: "remuneration system and total Executive Board remuneration" and "Supervisory Board remuneration".

Remuneration system and total Executive Board remuneration

Principles and targets

The remuneration system for the Executive Board members was adopted by the Supervisory Board with the effective date 1 January 2016, and it was approved by the Annual General Meeting on 11 May 2016 in accordance with section 120 (4) of the Aktiengesetz (AktG, German Stock Corporation Act). Changes made to the remuneration system during the financial year 2017 are explained in the [sections entitled "Principles governing the PSP and assessing target achievement for performance shares"](#), ["Automated share purchase designed to fulfil the plan conditions as well as the share ownership guidelines"](#) and ["Caps on the total amount of remuneration"](#).

The remuneration system is based on three pillars: firstly, a clear performance orientation and a highly detailed assessment based on ambitious internal and external targets ensure the focus is on the company's goal of above-average growth. Secondly, multi-year bases for assessment, sustainability elements, and the use of deferred payouts discourage excessive risk-taking. Thirdly, the remuneration system promotes a strong equity culture and, in this way, helps align the interests of shareholders, management and other stakeholders.

Executive Board remuneration is set by the full Supervisory Board; the Nomination Committee is responsible for preparing the Supervisory Board's decision. The Supervisory Board reviews the appropriateness of Executive Board remuneration on a regular basis, and at least every two years. Factors examined in this context include the relationship between Executive Board remuneration and the salaries paid to senior managers and the workforce as a whole, as well as how pay grades have developed over time. The remuneration system applies equally to all members of the Executive Board.

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