



DEUTSCHE BÖRSE
GROUP

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ANNUAL REPORT 2019

Excerpt: Report on opportunities



Report on opportunities

Organisation of opportunities management

Deutsche Börse Group's opportunities management aims to identify, evaluate and assess opportunities as early as possible and to take appropriate measures in order to transform opportunities into business success.

Deutsche Börse Group evaluates organic growth opportunities in the individual business areas both on an ongoing basis throughout the year and systematically at the Group level as part of its annual budget planning process. The process begins with a careful analysis of the market environment, which considers both what the customer wants, as well as market developments, competitors and regulatory changes. Ideas for growth initiatives are developed further using uniform, Group-wide templates and subjected to a profitability analysis. On this basis, the Executive Board of Deutsche Börse AG makes the final decision as to which initiatives are to be implemented.

Organic growth opportunities

Deutsche Börse Group has a very broad portfolio of products and services with which it covers all areas of a market infrastructure provider's value creation chain. This makes the Group one of the most broadly based stock exchange organisations in the world. In order to maintain and expand this position the company is pursuing a growth strategy called Roadmap 2020. Among other things Deutsche Börse Group is focusing on organic growth opportunities in order to achieve its strategic goals. The Group makes a basic distinction between structural and cyclical opportunities: structural opportunities arise for example as a result of regulatory changes, new client requirements (such as the growing demand for exchange-traded solutions to over-the-counter (OTC) transactions) or from the trend whereby an increasing portion of assets are allocated in passive investment strategies (e.g. index funds). The company can actively exploit these opportunities. Cyclical opportunities on the other hand cannot be influenced directly by the Group and are driven by macroeconomic changes. In addition Deutsche Börse Group intends to seize long-term opportunities arising as a result of the technological transformation.

Structural growth opportunities

When taking advantage of structural growth potential, Deutsche Börse Group focuses on product- and service-driven initiatives designed to satisfy new client needs as well as regulatory requirements.

Moreover, the Group regularly examines whether it can better achieve growth in high-potential asset classes, products or services – organically or through external acquisitions and cooperation agreements.

In this connection, the Group has defined the following five areas of business that focus beyond the organic options to external growth as well: commodities, foreign exchange trading, investment funds services, data and index business and fixed-income trading.

The Group expects to see its highest revenue growth in trading and clearing in the coming years, due in part to the clearing of OTC derivatives and further growth in the trading of energy and gas products.

Foreign exchange trading via 360T is also expected to provide a contribution to net revenue growth.

Post-trading will focus on the further development of investment fund business. The growth focus in pre-trading lies in expanding the index and analytics business. The business potential of the initiatives stated here are described in more detail below.

Clearing of OTC derivatives

The liquidity problems experienced by major market participants during the financial crisis were triggered by the failure to settle bilateral OTC transactions that were mainly entered into on an unsecured basis. In light of this, the leading industrialised nations (G20) agreed to create an effective regulatory environment to make off-exchange derivatives transactions more transparent and more secure. Consequently, the European Union has created the European Market Infrastructure Regulation (EMIR). EMIR involves the obligation to clear standardised OTC derivative transactions using a central counterparty. Preparing for mandatory clearing, Eurex Clearing AG had developed set up a central counterparty to clear OTC derivatives transactions. With the Eurex Partnership Programme, launched in October 2017, Eurex Clearing has created an alternative for clearing interest rate swaps within the EU. The programme has been widely accepted: Hence, since 2018, the notional outstanding volume on Eurex Clearing has increased significantly.

Trading and clearing of power and gas products on EEX

Leipzig-based European Energy Exchange AG (EEX) allows Deutsche Börse Group to offer a broad product range for trading and clearing of spot and derivatives contracts on power and gas as well as emission certificates. EEX has become the central market for energy in Continental Europe and its product range includes the markets Germany, France, the Netherlands, Belgium, Italy and Spain. It has also been active in the US market through its acquisition of Nodal Exchange in 2017. EEX's growth is mainly based on the growing importance of renewable energies for generating energy. Owing to the high degree of fragmentation, as well as the inefficiency of OTC markets, the demand for on-exchange trading and clearing solutions has also increased over recent years. EEX believes it is well positioned in this changing competitive environment to achieve structural growth and gain additional market share.

Growth in foreign-exchange trading (360T)

With the full acquisition of 360T, Deutsche Börse AG successfully explored a new asset class – foreign-exchange trading. 360T® is a leading, globally active currency trading platform, whose broad customer base includes companies, buy-side customers and banks. By combining 360T's knowledge and experience in the foreign exchange market with Deutsche Börse Group's IT expertise, the Group will be able to tap the additional revenue potential. 360T has made progress with various measures for achieving synergies, including the launch of its FX futures and clearing services. Thanks to its leading position, 360T further benefits from a structural trend: even though, at present, the vast majority of daily foreign-exchange trading volumes is still executed off-exchange, demand for transparent, electronic multi-bank trading platforms such as 360T is rising.

Cross-border settlement of investment funds

Clients of Deutsche Börse Group can use Clearstream's settlement and custody services for their entire fund portfolio – covering traditional investment funds, exchange-traded funds (ETFs) as well as hedge funds. Given that supervisory authorities are also calling for more efficient settlement and custody solutions in order to guarantee maximum security for client assets under custody, the Group expects to acquire additional client portfolios in the future. The Group is also continuously expanding its range of products and services. Clearstream, for example, is extending its range of fund services to include management of distribution agreements, as well as data compilation through acquisitions. Extending the product and service range, Clearstream expects to generate additional net revenue by realising cross-selling synergies.

Expansion of the index and analytics business

Deutsche Börse Group's objective in its index business is to give the already established European index provider STOXX an even more global profile, in order to develop and market other indices worldwide (in addition to its DAX® and STOXX® index families). In addition, Deutsche Börse's index business will continue to take advantage of the structural trend towards passive investment products (ETFs). An increasing number of private clients and asset managers now follow this trend; not only are the costs lower, but many active investment strategies have been returning under-average performance. In order to support these trends more effectively, in 2019 Deutsche Börse AG acquired Axioma Inc., New York, USA, (Axioma), a leading provider of portfolio and risk management solutions. The combination created Qontigo a fully integrated leading information provider for institutional investors, serving the growing market demand for products and analysis in this area.

Cyclical opportunities

In addition to its structural growth opportunities, Deutsche Börse Group has cyclical opportunities, for instance as a result of positive macroeconomic developments. Although the Group cannot influence these cyclical opportunities directly, they could lift Deutsche Börse Group's net revenue and net profit for the period attributable to Deutsche Börse AG shareholders significantly in the medium term:

- The volumes of interest rate derivatives traded on the Group's derivatives markets could rise if speculation on trends in long-term yields on German and other European government bonds grows, and if the spread between the various European government bonds continues to narrow.
- In the cash and derivatives market segments - Xetra (securities trading) and Eurex (financial derivatives) - positive economic development, a lasting increase in investor confidence in the capital markets leading to a renewed risk appetite among market participants and a sustained increase in stock market volatility could stimulate trading activity among market participants and boost trading volumes.

Technological opportunities

New developments such as cloud services, in the context of artificial intelligence (AI), big data, robotics, blockchain technology, combined with the potential for innovation offered by fintech companies, are driving change in the financial sector. This new wave of technology might help overcome barriers to market harmonisation, while creating additional efficiency and mitigating risks. This development is expected to last for the next ten years, with digitisation set to accelerate. The challenge for incumbent providers is in finding the right way to open up new business models and innovative technologies.

The Group has optimised its internal processes particularly with regard to cloud services. HR processes, purchasing and settlement of travel expenses, among others, are now processed in the cloud. This has led to a significant streamlining of processes, and also has a positive effect on the Group's costs. The Group is also working on transferring services and processes with clients to the cloud. For instance, the

introduction of new trading platforms and updating of existing infrastructure might be tested beforehand by clients, via the cloud. This would lead to significantly more agile processes within the Group, as new processes would be introduced at more frequent intervals, allowing the Group to respond more effectively to clients' requirements. In 2019, Deutsche Börse signed agreements with Microsoft and Google on the use of cloud services, positioning itself at the forefront of cloud use in the European financial services sector.

Blockchain technology constitutes another aspect of technological opportunities. It is considered a disruptive technology at times – but at present, the financial services sector is increasingly exploring its opportunities. Thanks to its decentralised nature, it facilitates direct interaction between participants, thus offering the potential for simplifying complex processes. Established market infrastructure providers such as Deutsche Börse Group, which covers the entire value creation chain from a single source, play an important role when it comes to tapping this potential – meeting existing industry standards at the same time. Besides legal and regulatory requirements, this also involves adhering to security standards, as well as limiting risks and ensuring cost efficiency.

Report on expected developments

The report on expected developments describes Deutsche Börse Group's expected performance for the 2020 financial year. It contains statements and information on events in the future, and is based on the company's expectations and assumptions at the time of publication of this corporate report. In turn, these are subject to known and unknown opportunities, risks and uncertainties. Numerous factors, many of which are outside the company's control, influence the Group's success, its business strategy and its financial results. Should opportunities, risks or uncertainties materialise or should one of the assumptions made turn out to be incorrect, the Group's actual performance could deviate either positively or negatively from the expectations and assumptions contained in the forward-looking statements and information contained in this report on expected developments.

Developments in the operating environment

Macroeconomic environment

With global economic growth slowing further in 2019 as expected, Deutsche Börse Group generally anticipates a slight improvement in the general conditions for global growth in the forecast period. Reasons for this include the prospect of a resolution of the ongoing trade conflicts, mainly between China and the US, the easing of US interest rate policy since mid-2019, as well as the political situation in Europe, especially with regard to the reduced risk of a disorderly withdrawal of the United Kingdom from the European Union. However, at the time of the publication of this combined management report it becomes apparent, that the SARS-CoV-2 („Coronavirus“) virus outbreak in China at the end of 2019 will have significant negative implications for the development of the global economy, at least in the first months of 2020.

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The annual report 2019 is both available in German and English.

The annual report 2019 of Deutsche Börse Group is available as pdf on the internet:

www.deutsche-boerse.com/annual_report

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