



Annual General Meeting 2004
Deutsche Börse AG

- Report by the Chief Executive Officer -

19 May 2004

Werner G. Seifert

Chief Executive Officer
Deutsche Börse AG, Frankfurt/Main

Werner G. Seifert, Chief Executive Officer

Dear Shareholders,
Ladies and Gentlemen,

On behalf of my colleagues on the Executive Board, welcome to the 2004 Annual General Meeting of Deutsche Börse AG at the Jahrhunderthalle in Frankfurt Hoechst. We hope you will enjoy today's AGM. We'd also like to welcome shareholders and guests who are watching our Internet broadcast. Thank you for your interest in our AGM, and thank you for joining us today.

In my report today on the past financial year I will reflect our position by reference to Deutsche Börse's corporate mission. However, I'll start with a brief presentation of our 2003 annual financial statements and explain two proposed resolutions. In the third and final part of my report, I will take a look at your Company's growth prospects against the backdrop of the successful first quarter of 2004. I'm sure that this report will provide the basis for a productive discussion with you, our shareholders.

1. Annual financial statements 2003 and related motions

Ladies and Gentlemen, I can summarise our results for 2003 in a nutshell. Despite a macro-economic environment suffering from stagnation and uncertainty about future developments, Deutsche Börse Group was able to continue the growth path established in the previous years: last year, your Company again posted a new record result.

The key data in the annual financial statements are as follows (**Chart 1**): sales revenue climbed 28 per cent in 2003 from €1,106.5 million to €1,419.4 million; including net interest income from banking business, it totalled €1,513.8 million. This success was driven above all by strong demand for derivative products and by the first-time, full-year consolidation of the Clearstream business, whose 2002 revenue was only reported for the second half of that year. Deutsche Börse AG's earnings before interest and taxes, our EBIT, rose by 29 per cent year-on-year, from €351.2 million to €452.6 million. Group profitability, measured by the EBIT margin, was 32 per cent last year. This reflects the cost synergies of the Clearstream integration and the economies of scale at Xetra and Eurex. Net profit rose by 5 per cent, from €235.1 million to €246.3 million. Both the growth rate and the absolute amount of operating cash flow – which rose by 14 per cent, from €466.2 million to €530.6 million – demonstrate Deutsche Börse's earnings power.

This is the background to our proposal on the appropriation of the unappropriated surplus under Item 2 of the Agenda for today's AGM (**Chart 2**): that of the total unappropriated surplus of €135.0 million reported in the annual financial statements as at 31 December 2003, around €61.5 million be paid out as a dividend of 55 cents per share, and the remaining amount of some €73.5 million be appropriated to "Other retained earnings". This proposed dividend underscores our principle of increasing the dividend every year, and demonstrates how confident we are that the Group's earn-

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ings power will continue to grow in the future. This is the fourth appreciable dividend increase in succession since our IPO in 2001. At this point, I'd like to hold out the prospect of continuing our dividend policy for the current year, too: we intend proposing a dividend increase of at least 20 percent to you, our shareholders, at next year's AGM; provided – of course – that we reach our targets. We intend to scale up the level of our dividend continuously and sustainably, but at the same time, reflect the Group's investment needs in the future in our dividend distribution.

Item 6 of today's Agenda also addresses the possibility of a capital increase, a matter that I would like to explain in greater detail. We are recommending that you renew until 31 October 2005 the authorisation to acquire own shares resolved by last year's AGM that will expire on 30 September 2004. This will enable Deutsche Börse AG to buy back own shares up to a maximum of 10 per cent of the current share capital. The Company can either make a public offer to its shareholders to buy shares, or it can buy them on the stock exchange. It can retire the purchased shares and use them to obtain new equity funding by subsequently reselling them. Deutsche Börse can also use them partly for employee shares, or for servicing Group employees' rights under the stock option plan resolved by the 2003 AGM. Finally, the purchased shares can, if the opportunity arises, also be used to acquire interests in other companies.

2. Taking stock: How does Deutsche Börse live its corporate mission?

Dear shareholders, the corporate mission that justifies the existence of the company, as it were, sits at the summit of your company's planning hierarchy, ranking above its business strategy and its short- and mid-term planning (**Chart 3**). Deutsche Börse Group decided on its corporate mission at the end of 1998 as its **overarching** long-term objective. Now that it has shaped our planning and our actions for a good five years, I want to examine how this corporate mission, still valid as it stands, is reflected in the position of our Group today, and use it to describe our goals. I'll now take you through our corporate mission and comment on it sentence by sentence. It exists only in English. But before anybody starts thinking that we're about to emigrate to London, I would like to draw your attention to the fact that our employees now represent 56 different nationalities, and English is the language that binds them together.

"Our mission is to improve the efficiency of capital markets." (Chart 4)

That's a pretty strong ambition: we want to improve the efficiency of the capital and other markets. There are few companies that stake out the reach of their activities in such terms. But this is what especially motivates many of our staff – myself included – to work for Deutsche Börse Group. We use several parameters to define market efficiency. On the one hand, we want to offer our product or service at the lowest possible cost for "actual" transactions: trading, clearing, settlement and custody of the traded securities. In other words, we're aiming for maximum transactional efficiency. This demands the greatest possible reliability and speed with which a transaction

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passes along the chain of the various processing stages: from brokers or banks through trading, clearing and settlement, and back to the brokers or banks. On the other hand, we want to offer investors unbeatable prices for buying and selling securities, meaning the smallest price spreads at any particular time. What we're aiming for here is a high level of liquidity. The services that Deutsche Börse offers in its lines of business are cheaper than those of its competitors. This holds true both for the cost of actual transactions and for the spread that a market participant can obtain when selling or buying securities **(Chart 5)**. And this applies to the equities market as much as to the derivatives market.

Incidentally, we deleted the word "capital" from the first sentence of the mission a couple of years back. That's because Deutsche Börse's unique business model means we're not just restricted to capital market products. An energy exchange is our "proof of concept" that we can also deploy our skills outside the capital markets; we're convinced that we'll be able to report more such initiatives to you in the future.

Benchmarked by this macro-economic target, we have defined Deutsche Börse's extremely ambitious business objective:

"Our objective is to become the pre-eminent exchange organization." (Chart 6)

We do not in any way qualify this interpretation of our goal of pre-eminence: we aim to secure and maintain the greatest possible confidence in our integrity, and respect for our performance, from our shareholders, customers, regulators and the public at large, both in Germany and internationally. We are striving to give our business a global reach – in terms of the customers we try to acquire; the products and services that we develop and sell; and the geographical regions where we want to operate. As the outcome of these efforts, we want to stay the largest organisation worldwide in our industry measured by sales volume, profitability and the valuation accorded to us by the capital markets themselves **(Chart 7)**.

This conceptual and tangible goal requires the development of a global liquidity network:

"We will provide access to the most attractive securities and derivatives markets." (Chart 8)

Deutsche Börse Group provides access to attractive markets on a global scale. It operates some of these markets itself, and enables access to others that it doesn't actually operate itself. It provides access not only to securities and derivatives contract trading, but also to other value-added levels. It gives customers electronic access to Deutsche Börse's products and services without the need for them to be physically present **(Chart 9)**. The network needed to do this is an asset in the company's competitiveness that offers a previously unheard-of standard of reliability, coupled with cost-effectiveness. It offers access via a minimum of intermediation, which is at the

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same time a precondition for establishing a level playing field. The range of its offerings and the success of the access facilities that Deutsche Börse has established have enabled us to build a global customer base on a scale never seen before (**Chart 10**). The way in which Deutsche Börse provides access is unique in its industry. There are more than 3,000 customers in Europe, the Middle East and Africa, and we already have some 400 in America and 580 in Asia and the Pacific Rim. These customers have become a core component of our global liquidity network. They are supported from Frankfurt – and in alphabetical order – Berlin, Chicago, Dubai, Hong Kong, London, Luxembourg, New York, Paris und Zurich; again a strategy that reflects our mission to "provide access". For this chart please refer to the chapter on strategy on page 25 in our Annual Report.

"Being the only fully integrated exchange organization worldwide, we offer a full range of trading, clearing, settlement, custody, information and infrastructure services at lowest costs." (**Chart 11**)

This is our commitment to integrating all functions on a one-stop basis: trading, clearing, settlement, custody, and information distribution coupled with further infrastructure services. And we emphasize that all of this must be offered at the lowest possible price. Deutsche Börse has successfully implemented this strategy with a business model that has industrialised core capital market functions (**Chart 12**). Firstly **economies of scale**: The number of transactions has been growing for years, and this has continuously improved Deutsche Börse Group's cost ratio. Transactions more or less doubled on Xetra® and Eurex® between 2000 and 2003, and this is the reason why the ratio of costs to total revenues fell by around twelve points from 80 to 68 percent over the same period (**Chart 13**).

Secondly **economies of scope**: Unlike those of its competitors, Deutsche Börse's business model covers the entire process chain and offers substantial economies of scope (**Chart 14**). These are reflected in lower cost and the ability to grow organically. The business model integrates the sequence of separate value chains to our customers' benefit. Deutsche Börse Group deploys its resources more efficiently than its strongest, unintegrated competitors. This can be illustrated by combining the four competitors of Clearstream, Eurex, Eurex Clearing and the Xetra equities market to form a virtual "benchmark competitor", in other words by amalgamating Euroclear, Liffe, the London Clearing House and the London Stock Exchange (**Chart 15**). At around €1.5 billion, the sales revenue generated by this virtual competitor in 2003 was slightly higher than Deutsche Börse Group's, which came in at some €1.3 billion (after eliminating external IT sales revenue); while the competitors collectively deploy 3,880 staff, Deutsche Börse Group needs only 2,710 employees for the same work. With sales revenue at €0.5 million per employee, a lead of around 25 per cent, Deutsche Börse is more productive. This in turn is reflected in significantly lower operating costs. With earnings before interest, taxes and goodwill amortisation roughly equal, this means that Deutsche Börse is more profitable.

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But for Deutsche Börse, economies of scope are not only reflected in more than just an efficiency leadership, but also extend its potential scope of activity:

"We will organize new markets and thereby improve their liquidity." (Chart 16)

We can build new and liquid markets. Deutsche Börse has leveraged its end-to-end process chain to develop a business – and thus a revenue – structure that offers outstanding organic growth and cross-selling opportunities, in contrast to its competitors (**Chart 17**). While Deutsche Börse's revenue is more or less equally split between trading and post-trading functions, the nature of their business means that the largest European competitors – Euronext, Euroclear and the London Stock Exchange – can each only cover one side. In the same way, the split between our revenue from fixed-income and equity-based business is as balanced as its on-exchange/OTC mix, while our competitors again have a very one-sided orientation. Deutsche Börse's key strategic initiatives in 2003 and the strategic focus in 2004 can be explained if they are seen as part of the company's efforts to round off and perfect its business model, and to strive for additional economies of scale and economies of scope. This applies equally to the acquisition and integration of Clearstream and to the development and launch of a central counterparty for the equity market. It is particularly true for the two growth efforts recently launched on a global scale, Eurex US and clearing services for the OTC market for fixed-income securities. We are using both initiatives to export efficiency leads to other regions, time zones, product markets and customer groups.

Let's take a brief look: By developing a derivatives exchange in the USA, Deutsche Börse Group has initiated the transatlantic integration of the capital markets. As Eurex's American subsidiary, Eurex US started operating electronic trading in futures and options on US securities in February 2004. Bridging the gap via systems technology, an absolute innovation in the international capital market environment, has come within reach: Eurex US will offer its customers euro- and dollar-denominated products on a single platform – and, further down the line, it will be directly linked to Eurex in Europe via common clearing access. For the first time, this will give market participants low-cost access to the most liquid interest rate futures in the world via a single network.

Eurex installed an end-to-end trading and clearing infrastructure; at the same time, it had to meet the regulatory requirements for licensing an exchange in the USA. But thanks in part to active partnerships – with Trading Technologies, a trading software provider; with the former owners of the BrokerTec trading platform that was acquired; with Clearer CCorp; and with the trading supervisor the National Futures Association – it has established itself on the world's most important capital market. Annual operating costs are relatively low because Eurex can use existing resources. For Deutsche Börse Group, this new exchange is a milestone on the way to becoming a global liquidity network, which we define in eight strategic dimensions (**Chart 18**).

Secondly, Deutsche Börse Group intends bringing to bear its strengths in clearing and

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settlement to OTC fixed-income trading. By focusing on the main players in this market – the globally operating investment banks and inter-dealer brokers – it wants to ensure that it can capture executed trades. For liquid securities, Deutsche Börse can build on Eurex's considerable customer relationships; for less liquid securities, it can use Clearstream's links to the global custodians. Deutsche Börse will work together with partners who will conduct price discovery in a clear allocation of functions, while we ourselves will offer clearing through the central counterparty, as well as settlement, custody and management of securities (**Chart 19**). We will be able to exploit our position between the exchange and the OTC markets: because many OTC transactions are executed back-to-back with exchange-based transactions, we can offset the risk positions, and optimise collateral. Under ideal circumstances, this solution could save the equivalent of 3.5 billion euros of own funds for those involved, due in equal parts to lower costs of capital and higher process efficiency. Here too, Deutsche Börse will make use of its existing systems. These growth initiatives, both of them prepared in 2003, show you how long-term our corporate mission is.

With its integrated business model, Deutsche Börse has expanded its customer groups:

"We will provide first-class services targeted at intermediaries and vendors, investors and issuers worldwide." (Chart 20)

All of Deutsche Börse Group's services are targeted not just at intermediaries, meaning banks and brokers, and information vendors, but also at investors and issuers – worldwide. In addition to the core functions used by the intermediaries, Deutsche Börse offers a growing range of products and services for end-customers: institutional and private investors, and issuers. Sales revenue from these offerings will grow at a faster pace in the foreseeable future than revenues from our core business. Secondly, Deutsche Börse has set itself the goal of offering its customers tailored solutions. This doesn't mean developing a separate, new solution for each customer; that would jeopardise our economies of scale. But we can offer tailored solutions by modularising the entire range of our services and combining them to meet our customers' specific needs. This will enable us to generate economies of scale, while at the same time customising our services: an ambitious plan that we expect each and every customer to measure us by. Thirdly, the quality that Deutsche Börse offers is already guaranteed in many areas by corresponding service level agreements. Our products and services ensure that customers in turn can render their own services reliably and cost-effectively, and can sustainably reduce their fixed and variable securities trading costs – on a global scale.

The following commitment in our mission statement is closely related to meeting our macro-economic objective of improving market efficiency:

"We initiate and support improvements of the regulatory framework and are open for valuable partnerships." (Chart 21)

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Initiating and supporting improvements in the regulatory environment means, for example, that Deutsche Börse has played a key role in helping shape the various German Financial Market Promotion Acts. In the Executive Board of the GASC, the German accounting standard-setter, it has pushed hard for the adoption of International Accounting Standards. It was a member of the German government's Corporate Governance Commission, and has itself accepted in full the German Corporate Governance Code, including publication of the compensation paid to each member of its Executive Board. (I hope, though, that the media will now return to more objective reporting on companies' financial statements, instead of focusing on executive compensation.) We also commissioned external experts to review the work of the Supervisory Board and cooperation between the Supervisory and Executive Boards; the results were encouraging.

We develop and support relations with regulators in those countries where we operate or intend doing so, in both Europe and America. We are in favour of a market economy approach: we oppose moves to concentrate trading, clearing and settlement in Europe on a single utility for each function through enforced consolidation. Further integration of the European capital market is certainly important, but it should not be forced through at the cost of destroying innovative strength and business flexibility, profit orientation and creativity.

Deutsche Börse enters into various alliances to improve its product and services offering, to make its business model available to other capital markets, and to exploit the cost advantages offered by consolidation. Eurex is still the most successful example of a partnership between two exchanges in the centuries-old history of stock and derivatives exchanges. As another example, we initially contributed Deutsche Börse Clearing to a 50 per cent partnership with Cedel, and then acquired the much stronger Clearstream in full some years later, generating significant economies of scope **(Chart 22)**. Infobolsa is our information processing and marketing joint venture with the Spanish stock exchange, and we operate several smaller stock exchanges from Frankfurt on a partnership basis so that they can offer their services at the same low unit costs as Deutsche Börse itself. We will continue this strategy with the support of you, our shareholders, and we will neither buy at inflated prices nor give away excessive consolidation benefits to the selling side.

Finally, our corporate mission defines the success factors on which our strategy is focused:

"To achieve these goals we build on our uniquely skilled professionals and the power and reliability of our fully integrated electronic systems." (Chart 23)

Deutsche Börse Group can only succeed in achieving all of this if we can meld highly qualified, specialised professionals into a single team, and develop and operate the best systems. It is the combination of these two success factors that allows us to offer

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made-to-measure solutions at off-the-peg prices. Deutsche Börse's success story is due to the dedication, determination and expertise of all its employees. On behalf of my colleagues on the Executive Board, I would like to thank them now for their tremendous commitment last year. Going forward, they will continue to drive our Company's dynamic growth.

Deutsche Börse's second success factor is its unique portfolio of systems and its ability to develop and operate superior systems infrastructures offering the best possible systems availability and performance. The Group's IT operation is one of the five largest in the German financial services industry. Its progress is measured in the milliseconds that determine the response times of our systems; for an order from the other side of the Atlantic, for example, the process of initiation until confirmation takes an average of some 250 milliseconds. Reliability is measured by the number of nines behind the decimal point for a rate of 99 per cent. Capacity is measured in terms of the several million contracts that we process every day. Precision is expressed in the zero error rate with which the Clearstream systems transfer billions every day between its customers.

That's why our IT services are also used by third parties who want to share in Deutsche Börse Group's economies of scale and skills. In addition to exchange and marketplace operators (such as the Irish Stock Exchange in Dublin and the European Energy Exchange in Leipzig), banks and insurers are also key accounts for Deutsche Börse Group's IT services. Their IT requirements are equally high, and they achieve substantial synergies by outsourcing to us. For example, we were able to convince dwpbank, the market leader in German transaction banking, of the quality of our tailor-made services, and have assumed responsibility for overall operation of one of its two central settlement systems.

Deutsche Börse's corporate mission ends with a clear commitment to creating value for its shareholders; it's worth noting that this commitment was already in place years before our own IPO:

"Thus, we create superior shareholder value." (Chart 24)

You know the figures in our 2003 financial statements. The superior value we aim to create for our shareholders can also be seen from our longer-term performance (**Chart 25**). Averaged over a decade, our workforce grew by 10 per cent each year; our sales revenue rose by 21 per cent; our cost ratio fell by one percentage point each year; our EBIT soared by 25 per cent; and our net profit by 27 per cent. The markets have rewarded this performance: Between our IPO and the end of 2003, Deutsche Börse shares outperformed the DAX by more than 70 per cent (**Chart 26**). Dear shareholders, I still remember 1998 when we discussed our corporate mission with each of Deutsche Börse's divisions. One core question came up time and again: is there not a contradiction between our clear commitment to growing shareholder value and our overarching objective: **"Our mission is to improve the efficiency of capital markets"?**

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The answer then was the same as it is today: We can only achieve our macro-economic ambition of improving market efficiency for investors, issuers and intermediaries if we operate our business profitably, if we create value for you, our shareholders.

3. The superiority of our business model was demonstrated yet again in Q1 2004

Market participants' forecasts for 2004 are not yet exactly upbeat. Nevertheless, Deutsche Börse expects to continue along its growth path (**Chart 27**). The first quarter of 2004 has provided a direct indication of this: we made a sparkling start to the year and presented another record quarterly result just a few days ago. The core figures: sales revenue – including Clearstream's net interest income – rose by 5 per cent year-on-year, from €377.2 million to €397.7 million. At €132.8 million, our operating profit, i.e. our earnings before interest and taxes (EBIT), is also up 5 per cent year-on-year. Our after-tax earnings per share – a figure that's important for you, our shareholders – rose by an even more impressive 12 per cent, from €0.62 to €0.69. This encouraging growth was driven again by our integrated process chain and the broad-based portfolio of our business lines. This time, the encouraging earnings growth at our Xetra and Clearstream segments made a particularly strong contribution to our record quarterly result.

The capital markets reward this: since the beginning of the year, our shares again outperformed the DAX by 4 per cent (Tuesday, May 18 –close of trade). And large international investors continue to buy our shares. Before our IPO on 5 February 2001, all of our shares were held by German intermediaries, but since then their holdings have fallen to less than 3 per cent; last year, our free float rose to 100 per cent, a real rarity in Germany: only five other DAX companies currently have such a widely dispersed ownership structure. The share of institutional investors, mainly investment and pension funds, rose to 93 per cent in 2003. And a total of 65 per cent of our shares are held by foreign shareholders. But: Our corporate mission; our business reach; our ability to offer tailored solutions at off-the-peg prices; and our ownership structure are increasingly drifting away from the name of our Company: "Deutsche Börse". That's why I don't want to exclude the possibility that I might want to talk to you about changing the name of your Company the next time we meet.

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Ladies and Gentlemen, we hope that you support our ambitious corporate mission; and even more, we hope that you share our enthusiasm for our business. We are convinced that we will master the new challenges and exploit the new opportunities we face, and that we will translate them into even more value for you. Thank you all for the confidence you have placed in us.

Ladies and Gentlemen, that brings me to the end of my report. We look forward to the discussion with you.