



DEUTSCHE BÖRSE
GROUP

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Financial report 2016

Excerpt: report of the Supervisory Board



Report of the Supervisory Board



Joachim Faber
Chairman of the Supervisory Board

In the reporting period, Deutsche Börse AG's Supervisory Board discussed the company's position and prospects in depth, performing the tasks assigned to it by law and the company's Articles of Association and bylaws. We regularly advised the Executive Board on its management of the company and monitored its work, and were involved in all fundamental decisions. One of the main focuses of our work in 2016 was the planned merger between Deutsche Börse AG and London Stock Exchange Group plc – a key strategic move for the company.

We held a total of 13 plenary meetings in 2016, including seven extraordinary meetings. A strategy workshop and two technology workshops also took place.

At our meetings, the Executive Board provided us with comprehensive and timely oral and written information in line with the legal requirements. This information covered the course of business as well as the company's and the Group's position (including the risk situation, risk management and compliance), as well as the enterprise's strategy and planning. We discussed all significant transactions for the enterprise in the plenary meetings and in the Supervisory Board committees, based on the reports provided by the Executive Board. The large number of plenary and committee meetings ensured an active exchange of information between the Supervisory Board and the Executive Board. The Executive Board also submitted written reports on individual issues between meetings and discussed individual topics with us. In addition, the CEO kept the Chairman of the Supervisory Board continuously informed of current developments affecting the company's business, significant transactions and upcoming decisions, as well as of the long-term outlook and thinking on emerging trends, and discussed these issues with him.

The Executive Board submitted all measures requiring Supervisory Board approval by law and under the company's Articles of Association and bylaws to the Supervisory Board, which then approved them. The Supervisory Board also satisfied itself in other respects that the Executive Board's actions were lawful, due and proper, and appropriate.

All members of the Supervisory Board attended more than half the meetings of the Supervisory Board and of the committees of which they were members in 2016. The average attendance rate for all Supervisory Board members in the reporting period was 95 per cent.

The Supervisory Board members' detailed attendance record for plenary Supervisory Board and committee meetings was as follows:

Attendance of Supervisory Board members at meetings in 2016

Name	Meetings (incl. committees) ¹⁾	Meeting attendance	%
Joachim Faber	22	22	100
Richard Berliand	22	22	100
Ann-Kristin Achleitner (since 11 May 2016)	11	11	100
Karl-Heinz Flöther	23	23	100
Marion Fornoff	18	17	94
Hans-Peter Gabe	14	13	93
Craig Heimark	17	16	94
Monica Mächler	23	22	96
Gerhard Roggemann (until 11 May 2016)	11	9	82
Erhard Schipporeit	23	23	100
Jutta Stuhlfauth	18	15	83
Johannes Witt	23	22	96
Amy Yip	22	22	100
Average attendance rate			95

1) Since attendance at workshops is voluntary for Supervisory Board members such workshops are not taken into account when calculating the average attendance rate.

Topics addressed during plenary Supervisory Board meetings

In the reporting period, we continued our in-depth discussions of the implementation of the Group's "Accelerate" growth programme. This programme aims to position Deutsche Börse even more ambitiously, effectively and flexibly than before against the backdrop of the competition among global capital market infrastructure providers, and to ensure a keen focus on clients. The company has implemented a broad range of initiatives designed to achieve this goal. These include the sale by Deutsche Börse AG and Eurex Frankfurt AG of all shares of U.S. Exchange Holdings, Inc. (and hence of International Securities Exchange, ISE). We provided advice and support for this move, as well as formally approving it.

Another main focus of our Supervisory Board activities in 2016 was supporting, reviewing and approving the potential merger between Deutsche Börse AG and London Stock Exchange Group plc (LSEG). The merger offers a compelling opportunity for both companies to complement each other's strengths in an industry-defining transaction, and to create a globally leading market infrastructure provider.

We also looked in detail at the impact of technological change on the financial services industry in general, and on Deutsche Börse Group in particular, and at the efficiency, appropriateness and effectiveness of the internal control systems.

In addition, the Executive Board regularly informed us of Deutsche Börse AG's share price performance and that of its competitors. The Executive Board also reported on the business performance, financial position and results of operations of Deutsche Börse AG, its affiliated companies and Deutsche Börse Group as a whole.

Our plenary meetings focused primarily on the following issues during the reporting period:

At our first **regular meeting** for the reporting period **on 12 February 2016**, we addressed in detail the preliminary results for financial year 2015 and the dividend proposed by the Executive Board for that year. We also resolved the amount of variable remuneration payable to the Executive Board for financial year 2015 following a detailed examination.

The **technology workshop on 4 March 2016** was devoted to a detailed discussion of cloud technology and its practical and strategic importance for Deutsche Börse Group.

Our **regular meeting on 4 March 2016** discussed the company's annual and consolidated financial statements for 2015 and the remuneration report in the presence of the external auditors. After conducting our own detailed examination we approved the annual and consolidated financial statements for 2015 in line with the recommendation by the Audit Committee, which had already examined the documents in depth in preparation for our meeting. We also resolved the report of the Supervisory Board for 2015, the corporate governance report, the corporate governance declaration for financial year 2015 and the agenda for the 2016 Annual General Meeting. We examined the status of negotiations with NASDAQ, Inc. on the sale of ISE. In addition, we discussed the potential merger of equals between Deutsche Börse AG and LSEG in detail. As recommended by the Nomination Committee, we approved the appointments to the Referendum Committee planned in the context of the potential merger. I, Joachim Faber, was appointed as Chairman of the committee and Gerhard Roggemann (until 11 May 2016), Ann-Kristin Achleitner (since 11 May 2016) and Erhard Schipporeit were appointed as additional members.

At our **extraordinary meeting on 9 March 2016**, we resolved to approve the sale by Deutsche Börse AG and Eurex Frankfurt AG of all shares of U.S. Exchange Holdings, Inc. to NASDAQ, Inc., for a total purchase price of US\$1.1 billion.

Another detailed discussion of the status of the negotiations on the potential merger of equals between Deutsche Börse AG and LSEG took place at our **extraordinary meeting on 13 March 2016**. At the recommendation of the Personnel Committee and subject to our approval of the potential merger, we also resolved to amend the procedure for paying out the 2014 and 2015 tranches of the variable share-based remuneration scheme for Executive Board members.

At our **extraordinary meeting on 16 March 2016**, we then resolved to approve the merger between Deutsche Börse AG and LSEG. Due to this planned business combination, we also resolved not to add Deutsche Börse AG's change of legal form to a European company (Societas Europaea, SE) to the agenda for the Annual General Meeting on 11 May 2016.

During the **regular Supervisory Board meeting** held immediately before the Annual General Meeting (AGM) **on 11 May 2016**, we looked in depth at the status of the planned merger between Deutsche Börse AG and LSEG. As part of this, we addressed in detail the preparations for the joint statement by the Executive Board and the Supervisory Board of Deutsche Börse AG on the voluntary public takeover offer made to Deutsche Börse AG shareholders by the new holding company (HLDCO123 PLC). At the recommendation of the Nomination Committee, we also resolved to approve the nomination of the following persons as other non-executive directors of HLDCO123 PLC in addition to myself, Joachim Faber, as Deputy Chairman and Senior Independent Director: Ann-Kristin Achleitner, Richard Berliand, Christopher A. Cole, Karl-Heinz Flöther, Erhard Schipporeit and Amy Yip. We also discussed the impending Annual General Meeting with the Executive Board. After the AGM, we resolved to elect Ann-Kristin Achleitner as a member of the Personnel Committee and the Strategy Committee. As a shareholder representative on the Personnel Committee, she is also a member of the Nomination Committee.

At our **extraordinary meeting on 6 June 2016**, we again discussed the status of the planned merger between Deutsche Börse AG and LSEG in detail. We also resolved to issue and publish a joint statement by the Executive Board and the Supervisory Board of Deutsche Börse AG on the voluntary public takeover offer made by HLDCO123 PLC to Deutsche Börse AG shareholders.

Our **regular meeting on 14 June 2016** reviewed the status of negotiations for the sale of our stake in U.S. Exchange Holdings, Inc. to NASDAQ, Inc., and approved a change in the transaction structure. In addition, we approved early repayment of an outstanding US private placement in the amount of US\$290 million. We looked at Deutsche Börse Group's risk management, information security and internal audit activities and engaged in detailed discussions of the Group's venture portfolio management and of innovation and blockchain technology. We also addressed the new requirements under the EU's Market Abuse Regulation and Market Abuse Directive.

At our **extraordinary meeting on 5 July 2016**, we discussed the amendment to HLDCO123 PLC's voluntary public takeover offer to Deutsche Börse AG shareholders, which involved the waiver of a condition of the offer. On this basis, we resolved to issue and publish a supplementary joint statement by the Executive Board and Supervisory Board of Deutsche Börse AG regarding the takeover offer. We also looked in detail at the results and impact of the referendum in the United Kingdom to leave the European Union.

Our **extraordinary meeting on 11 July 2016** focused on the reduction of the minimum acceptance threshold for the takeover offer by HLDCO123 PLC. Following extensive discussion, we approved the reduction of the minimum acceptance threshold from 75 per cent to up to 60 per cent, and resolved to issue and publish a supplementary joint statement by the Executive Board and the Supervisory Board on this.

During the course of our **strategy workshop on 22 September 2016**, the Executive Board provided a detailed status report on the implementation of the "Accelerate" growth programme, especially in Sales and in Business and Product Development throughout the Group. We also discussed initiatives and developments affecting our core business segments in detail, along with 360 Treasury Systems AG and European Energy Exchange AG.

Our **technology workshop on 22 September 2016** focused in depth on IT innovation methods and measures, and especially on cloud and blockchain technologies.

The implementation of the measures from the “Accelerate” growth programme within Deutsche Börse Group’s IT organisation was a key agenda item at our **regular meeting on 23 September 2016**. In addition, the Executive Board informed us of material developments and measures in the area of compliance. We also discussed our annual efficiency review, which is required by section 5.6 of the German Corporate Governance Code, and resolved to use external support for this in 2016.

At our **regular meeting on 6 December 2016**, we discussed the status of the planned merger between Deutsche Börse AG and LSEG. Following a detailed discussion, we approved the disposal of LCH.Clearnet S.A. by LSEG and LCH.Clearnet Group Limited (LCH Group) in order to address merger control concerns raised by the European Commission in relation to the planned merger. We discussed and adopted the budget for 2017, as well as examining Deutsche Börse Group’s risk management activities and addressing developments at the Group’s equity investments. Furthermore, the Executive Board provided a detailed status report on the legal proceedings against Clearstream Banking S.A. in the US due to its client relationship with Bank Markazi. At the recommendation of the Personnel Committee, we resolved to adjust the Performance Bonus Plan and the Performance Share Plan for beneficiaries subject to US income tax. We discussed the results of our annual efficiency review in accordance with section 5.6 of the German Corporate Governance Code, and also adopted the declaration of conformity pursuant to section 161 of the Aktiengesetz (AktG, German Stock Corporation Act) for the 2016 reporting period. The declaration of conformity is available at www.deutsche-boerse.com/declconformity.

During our **extraordinary meeting on 27 December 2016**, the Executive Board informed us about the current state of negotiations for the sale of LCH.Clearnet S.A. by LSEG and LCH Group in the context of the planned merger between Deutsche Börse AG and LSEG.

Committee work

The Supervisory Board had six committees during the reporting period. These are mainly responsible for preparing the decisions to be taken by, and the topics to be discussed in, the plenary meetings. Additionally, the Supervisory Board has delegated individual decision-making powers to the committees to the extent that this is legally permissible. The individual committee chairs report in detail to the plenary meetings on the work performed by their committees. The Chairman of the Supervisory Board chairs the Personnel Committee, the Nomination Committee and the Strategy Committee. Details of the members and duties of the Supervisory Board committees during the reporting period can be found in the [corporate governance declaration](#) in accordance with section 289a of the Handelsgesetzbuch (HGB, German Commercial Code).

The committees focused on the following key issues:

Audit Committee (six meetings during the reporting period)

- discussion of financial issues and especially capital management
- accounting: examination, in the presence of the external auditors, of the annual financial statements of Deutsche Börse AG and of the consolidated financial statements, of the combined management report and the audit report, as well as of the half-yearly financial report and the quarterly statements
- external auditors: obtaining the statement of independence from the external auditors, issuing the engagement letter for the external auditors and preparing the Supervisory Board's proposal to the Annual General Meeting on the election of the external auditors; agreeing the external auditors' fee and defining the focal areas of the audit; discussing non-audit services rendered by the external auditors
- internal control systems: discussion of questions relating to risk management, compliance and the internal control and audit system, discussion of the methods and systems used and their efficiency, adequacy and effectiveness
- discussion of Deutsche Börse Group's dividend and budget
- discussion and formal adoption of the Audit Committee's tasks
- preparation of the Supervisory Board's resolution on the corporate governance report and the remuneration report, and on the corporate governance declaration in accordance with section 289a of the HGB and the declaration of compliance in accordance with section 161 of the AktG
- discussion of measures to close out audit findings
- discussion of Deutsche Börse Group's equity investments
- discussion of changes resulting from the audit reform

Nomination Committee (three meetings during the reporting period)

- subject to Deutsche Börse AG changing its legal form to an SE: preparations for the election of shareholder representatives to the Supervisory Board of Deutsche Börse SE
- planned merger of equals between Deutsche Börse AG and LSEG: preparations for nominating the members of the Referendum Committee to be appointed by Deutsche Börse AG, as well as preparations for nominating non-executive directors to be appointed by Deutsche Börse AG to the Board of Directors of HLDCO123 PLC
- preparations for Ann-Kristin Achleitner's election to the Supervisory Board by the 2016 Annual General Meeting

Personnel Committee (five meetings during the reporting period)

- Executive Board remuneration: discussion of the extent to which the members of the Executive Board had achieved their targets; determination of the variable cash component for 2015; preliminary discussion of the extent to which individual members of the Executive Board have achieved their targets in 2016; adoption of the individual targets for the members of the Executive Board in 2017; discussion of the remuneration report; preparation of a recommendation to the plenary meeting to amend the procedure for paying out the 2014 and 2015 tranches of the variable share-based payment; preparation of a proposed resolution by the plenary meeting to adjust the Performance Bonus Plan and the Performance Share Plan for beneficiaries subject to US income tax
- review of the appropriateness of Executive Board remuneration and of their pensionable income
- appointments: discussion of succession planning for the Executive Board; approval of Hauke Stars' appointment to the Supervisory Board of Fresenius SE & Co. KGaA, of her appointment as a member of the Executive Board and Executive Committee of Deutsches Aktieninstitut e.V. and of the Executive Board and Executive Committee of Frankfurt Main Finance e.V., as well as of her appointment to the Executive Board of the Frankfurt section of the Wirtschaftsrat der CDU e.V. (CDU Economic Council); approval of Jeffrey Tessler's appointment as a member of the Global Future Council on Financial and Monetary Systems, and approval of the appointment of Matthias Fritton as Senior General Manager (Generalbevollmächtigter) of Deutsche Börse AG

Risk Committee (four meetings during the reporting period, including one joint meeting with the Technology Committee)

- discussion of the quarterly compliance and risk management reports
- discussion of enhancements to Group-wide compliance and risk management
- discussion of the updated recovery plans for Clearstream, Eurex Clearing and Deutsche Börse Group
- discussion of risk strategy, risk appetite and risk culture
- discussion of operational risk, information security and business continuity management

Strategy Committee (one meeting during the reporting period)

- discussion of Deutsche Börse Group's strategic focus
- discussion of the strategy for derivatives trading and clearing

Technology Committee (four meetings during the reporting period, including one joint meeting with the Risk Committee)

- in-depth discussion of developments to and the implementation of Deutsche Börse Group's IT strategy
- detailed analysis of the Group's technology innovation concept and its implementation
- discussion of information security, IT risk management and related measures
- discussion of IT financial planning for 2017 and of the revised budget process

Audit of the annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin, (KPMG) audited the annual financial statements of Deutsche Börse AG, the consolidated financial statements and the combined management report for the financial year ended 31 December 2016, together with the accounting system, and issued an unqualified audit opinion. The condensed financial statements and interim management report contained in the half-yearly financial report for the first six months of 2016 were reviewed by KPMG. The documents relating to the financial statements and the reports by KPMG were submitted to us for inspection and examination in good time. The lead auditors, Karl Braun (CMO, member of the management board, KPMG) and Andreas Dielehner (Partner, KPMG), attended the relevant meetings of the Audit Committee and the plenary meeting of the Supervisory Board convened to approve the financial statements. The auditors reported on the key results of the audit; in particular, they focused on the net assets, financial position and results of operations of the company and the Group, and were available to provide supplementary information. The auditors also reported that no significant weaknesses in the control and risk management system had been found, particularly with respect to the financial reporting process. The audit of compliance with all relevant statutory provisions and regulatory requirements did not give rise to any objections. KPMG provided information on other services that it had rendered in addition to its audit services. There were no grounds for suspecting that the auditors' independence might be impaired.

The Audit Committee discussed the financial statement documents and the reports by KPMG in detail with the auditors and examined them carefully itself. It is satisfied that the reports meet the statutory requirements under sections 317 and 321 of the HGB in particular. The Committee reported to the Supervisory Board on its examination and recommended that the Supervisory Board approve the annual financial statements and the consolidated financial statements.

Our own examination of the annual financial statements, the consolidated financial statements and the combined management report for 2016 in a plenary meeting did not lead to any objections and we concurred with the results of the audit performed by the auditor. We approved the annual financial statements prepared by the Executive Board and the consolidated financial statements at our meeting on 10 March 2017, in line with the Audit Committee's recommendation. As a result, the annual financial statements of Deutsche Börse AG have been adopted. The Audit Committee discussed the Executive Board's proposal for the appropriation of the unappropriated surplus in detail with the Executive Board, with particular reference to the company's liquidity and financial planning, and taking shareholders' interests into account. Following this discussion and its own examination, the Audit Committee concurred with the Executive Board's proposal for the appropriation of the unappropriated surplus. After examining this ourselves, the plenary meeting of the Supervisory Board also approved the Executive Board's proposal.

Appointments and resignations

The following changes to the Supervisory Board occurred during the reporting period:

On 11 May 2016, the Annual General Meeting of Deutsche Börse AG elected Ann-Kristin Achleitner to the company's Supervisory Board as a shareholder representative. Gerhard Roggemann retired from the Supervisory Board effective from the close of the Annual General Meeting on 11 May 2016. We would like to thank Mr Roggemann sincerely for the valuable contribution he made during his many years as a member of Deutsche Börse AG's Supervisory Board.

Management of individual conflicts of interest

No conflicts of interest arose with regard to individual Supervisory Board members during the reporting period.

The Supervisory Board would like to thank the Executive Board and all employees for their hard work and excellent achievements in 2016.

Frankfurt/Main, 10 March 2017

For the Supervisory Board:



Joachim Faber

Chairman of the Supervisory Board

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