TRANSLATION - AUDITOR'S REPORT

# Financial Statement as of 31st December 2014 and Management Report

European Commodity Clearing AG
Leipzig

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KPMG AG Wirtschaftsprüfungsgesellschaft

European Commodity Clearing AG, Leipzig

**Balance Sheet as of 31st December 2014**

**Assets**

| | | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|---|
| | € | € | € |
| 1. Cash reserves | | | |
| Cash at central banks | 102,024,287 | 102,024,287 | 766,331,666 |
| 2. Accounts receivable from bank | | | |
| a) Due every day | 644,527,469 | | 3,906,319 |
| b) Other accounts receivable | 553,315 | 645,080,784 | 178,106 |
| 3. Accounts receivable from customer | 5,757,249 | 5,757,249 | 1,820,830 |
| 4. Shares in affiliated companies | 18,500 | 18,500 | 18,500 |
| 5. Intangible assets | | | |
| a) Licenses regarding rights and values | 1,032,006 | | 1,996,440 |
| b) Goodwill and company value | - | 1,032,006 | |
| 6. Property, plant and equipment | 30,192 | 30,192 | 44,568 |
| 7. Other assets | 5,037,908 | 5,037,908 | 15,072,171 |
| 8. Accruals and deferrals | 743,892 | 743,892 | 463,205 |
| 9. Excess of plan assets over pension liability | 26,665 | 26,665 | 32,807 |
| **Total assets** | | **759,751,483** | **789,864,612** |

**Liabilities**

| | | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|---|
| | € | € | € |
| 1. Liabilities to banks | | | |
| Due every day | 397,127,538 | 397,127,538 | 522,483,884 |
| 2. Liabilities to customers | 301,897,392 | 301,897,392 | 220,528,636 |
| 4. Other liabilities | 3,385,517 | 3,385,517 | 979,052 |
| 5. Accruals and deferrals | - | - | 1,875 |
| 6. Deferred tax liabilities | - | - | |
| 7. Provisions | | | |
| a) Provisions for pensions and similar commitments | 1,532 | | 10,359 |
| b) Tax provisions | 1,778,181 | | 818,715 |
| c) Other provisions | 2,524,955 | 4,304,668 | 2,584,680 |
| 8. Equity | | | |
| a) Subscribed capital | 1,015,227 | | 1,015,227 |
| b) Capital reserve | 14,300,495 | | 14,300,495 |
| c) Retained income | | | |
| Other retained earnings | 17,586,196 | | 16,836,196 |
| d) Balance sheet profit | 20,134,450 | 53,036,368 | 10,305,493 |
| **Total liabilities** | | **759,751,483** | **789,864,612** |
| 1. Contingent liabilities | | | |
| Liabilities from guarantees and guarantee agreements | 65,780,830 | 65,780,830 | 60,198,969 |

**Profit and Loss Account**
**for the period from 1st January 2004 to 31st December 2014**

| | | 2014 € | 2014 € | 2014 € | 2013 € |
|---|---|---|---|---|---|
| 1. | Interest income from | | | | |
| | a) Credit and money market transactions | | 397,493 | | 156,426 |
| 2. | Interest expenses | | 295,374 | 102,119 | 614 |
| 3. | Current income from investments in affiliated companies | | | 62,260 | - |
| 4. | Income from commission fees | | 37,137,000 | | 30,739,116 |
| 5. | Expenses for commission fees | | 2,275,301 | 34,861,699 | 1,481,382 |
| 6. | Other operating income | | | 2,050,802 | 968,842 |
| 7. | General administrative expenses | | | | |
| | a) Human resources expenses | | | | |
| | aa) Wages and salaries | 3,562,821 | | | 2,680,956 |
| | ab) Social insurance contributions and expenses for old-age pension and for support | 710,253 | 4,273,074 | | 523,235 |
| | including: | | | | |
| | for old-age pension € 263,163 (2013: € 208,357) | | | | |
| | b) Other administrative expenses | | 11,395,618 | 15,668,693 | 10,517,525 |
| 8. | Depreciations and value adjustments of intangible assets and property, plant and equipment | | | 1,167,434 | 630,315 |
| 9. | Other operating expenses | | | 663,202 | 818,642 |
| **11.** | **Result of ordinary operations** | | | **19,577,552** | **15,211,715** |
| 12. | Extraordinary expenses | | | - | - |
| 13. | Taxes on income and profit | | | 6,399,614 | 4,906,222 |
| **14.** | **Annual profit** | | | **13,177,938** | **10,305,493** |
| 15. | Profit carried forward from the previous year | | | 7,706,512 | - |
| 16. | Additions to retained income | | | | |
| | a) To other retained income | | | 750,000 | - |
| **17.** | **Balance sheet profit** | | | **20,134,450** | **10,305,493** |

# European Commodity Clearing AG, Leipzig

# N O T E S 2014

The annual financial statement of European Commodity Clearing AG ( “ECC AG”) for the financial year 2014 was prepared in accordance with the provisions of the German Commercial Code and of the German Companies Act as well as the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV). The profit and loss account according to RechKredV has a graded structure (form 3). The development of the individual items of the fixed assets is shown separately in accordance with Art. 268 Paragraph 2 HGB [German Commercial Code].

ECC is included in the consolidated financial statement of European Energy Exchange AG (EEX), Leipzig, which is published in the German Electronic Gazette.

ECC is the sole shareholder of European Commodity Clearing Luxembourg S.à.r.l. (ECC Luxembourg). ECC Luxembourg is included in the commodity delivery chain (power and gas and transfer of emission allowances). The exemption from the requirement to prepare a partial consolidated financial statement is in accordance with Art. 291 Paragraph 1 HGB.

## 1. Accounting and valuation principles

**General principles**

Accounting and valuations are effected in accordance with the general accounting and invoicing provisions for capital companies according to HGB in compliance with the supplementary provisions of AktG and the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV). The provisions regarding large public corporations contained in Art. 340a Paragraph 1 HGB are used. The going concern principle is applied; assets and liabilities are assessed individually. A cautious assessment was effected, i.e. all foreseeable risks and losses which were incurred up until the balance sheet date were taken into account.
Cash in foreign currencies was given a value in Euros with an effect on income on the basis of the exchange rate on the balance sheet date.

**Intangible assets and property, plant and equipment**

Intangible assets and property, plant and equipment were assessed at costs of acquisition less scheduled depreciations. Fixed assets were depreciated in accordance with the usual period of use for the company and under consideration of the period of use which is permissible from a tax perspective. The straight-line method of depreciation was used for additions.

Minor assets (with costs of acquisition of up to EUR 410 (net)) acquired during the financial year were recorded as expenditure at the full amount in the year of acquisition.

**Accounts receivable and other assets**

The accounts receivable and other assets were assessed at the nominal value less required single value adjustments.

The trade accounts payable and receivable with regard to ECC Lux existing on the balance sheet date are shown on a netted-out basis since the preconditions for an offsetting condition are not fulfilled. The actual offsetting situation towards ECC Lux corresponds to the ECC Clearing Conditions at the time of the repayment and fulfilment of the corresponding transactions to the respective trading participants. Netted-out reporting serves to improve the clarity and comprehensibility of the annual financial statement.

**Cash at central banks**

Cash at central banks was assessed at the nominal value.

**Shares in affiliated companies**

Affiliated companies were assessed at their acquisition costs.

**Liabilities**

Liabilities were shown at the amount to be paid. There are no liabilities with a remaining term of more than one year.

**Reserves**

Reserves are defined for all risks discernible up until the preparation of the annual financial statement, doubtful liabilities and contingent losses. They are reported at the probable repayment amount.

**Liability relationships**

As of the balance sheet date, there was a letter of comfort and a guarantee. More detailed information on this is provided under contingent liabilities.

**Deferred taxes**

Deferred taxes are determined for the temporary differences between the commercial law and the tax law assessment of assets, liabilities as well as accruals and deferrals. The deferred taxes are established on the basis of the combined income tax rate of 32 percent. Deferred taxes are not reported in the balance sheet by exercising the right of option according to Art. 274 HGB because of the asset surplus.

## 2. Notes and Explanations regarding the Balance Sheet

**Accounts receivable from credit institutions**

The accounts receivable from credit institutions and customers concern accounts receivable with a remaining term of less than one year.

**Shares in affiliated companies**

On 31st December 2014, the shareholdings were as follows:

| Name | Registered office | Subscribed capital in € | Share in % | Equity in € | Annual profit in € |
|---|---|---|---|---|---|
| European Commodity Clearing Luxembourg S.à r.l. | Luxembourg (Luxembourg) | 12,500 | 100.00 | 46,587 | 32,837 |

**Intangible assets**

Intangible assets are reported in the balance sheet at kEUR 1,032 (2013: kEUR 1,996) as of 31st December 2014.

**Property, plant and equipment**

Property, plant and equipment were reported in the balance sheet at kEUR 30 (2013: kEUR 45) as of 31st December 2014.

**Other assets**

As of the balance sheet date, the other assets amounted to kEUR 5,038 (2013: kEUR 15,072). This amount essentially consists of accounts receivable from affiliated companies for clearing services (kEUR 2,774) and accounts receivable from input tax (kEUR 2,054).

With regard to shareholders there were other assets of kEUR 13 (2013: kEUR 0) as of 31st December 2014.

**Deferred expenses and accrued income**

Expenses before the balance sheet date which constitute expenses for a certain period after this date are reported as “deferred expenses and accrued income”. As of 31st December 2014, there were deferred expenses and accrued income of kEUR 744 (previous year: kEUR 463).

**Excess of plan assets over pension liabilities**

The excess of plan assets over pension liabilities of kEUR 27 (2013: kEUR 33) results from offsetting of pension provisions with corresponding covering assets.

**Liabilities to banks**

The existing liabilities to banks are due on a daily basis.

**Liabilities to customers**

The liabilities to customers concern liabilities which are due on a daily basis.

**Other liabilities**

There are other liabilities of kEUR 3,386 (2013: kEUR 979).

Essential items comprise trade accounts payable of kEUR 421 (2013: kEUR 526) for incoming invoices not settled yet and liabilities to shareholders of kEUR 352 (2013: kEUR 213) and liabilities to shareholders of kEUR 176 (2013: kEUR 195) from the provision of services and charging on of material costs.

There are other liabilities to shareholders of kEUR 2,388 from interim financing.

**Provisions**

| | 31/12/2014<br>k€ | 31/12/2013<br>k€ |
|---|---:|---:|
| Pension provisions | 2 | 10 |
| | | |
| Tax provisions | 1,778 | 819 |
| Trade tax | 997 | 409 |
| Corporation tax/solidarity surcharge | 750 | 410 |
| Sales tax | 31 | 0 |
| | | |
| Other provisions | 2,525 | 2,585 |
| Personnel liabilities | 1,387 | 939 |
| Outstanding invoices | 659 | 662 |
| Legal risks | 227 | 565 |
| Compensation claims | 90 | 250 |
| Profit-sharing bonus Supervisory Board | 86 | 96 |
| Costs of the annual financial statement | 52 | 54 |
| Other provisions | 24 | 19 |
| | | |
| **Total** | **4,305** | **3,414** |

The increase in personnel provisions results from the higher bonus payments for the past financial year. The provisions for compensation and legal risks refer to uncertain liabilities in the event of system failure or IT costs.

With regard to pensions and similar obligations there is one obligation under a pension contract and one old-age part-time working scheme contract.

The 2005 G guideline tables by Klaus Heubeck were used as the legal basis for the calculation with regard to provisions. A discounting factor of 4.58% was used for the pension contract. The discount interest rate for the old-age part-time working scheme contract was 4.53%. A salary trend of 0 percent was used for both contracts.

The calculation regarding the old-age part-time working scheme was effected in accordance with the comment by IDW (Institute of German Auditors) on reporting of obligations under old-age part-time working schemes in balance sheets (IDW RS HFA 3). For the purpose of the calculation of pensions, the basis for the assessment of the contribution according to Art. 10 Paragraph 3 Figure 1 in conjunction with Art. 11 Paragraph 2 of the Law for the Improvement of Corporate Pension Schemes (entry-age value of the pension obligation according to Art. 6a Paragraph 3 EStG [German Income Tax Law]) was used.

The interest income from plan assets was kEUR 6, while expenses for compounding of provisions were kEUR 4.

| Process<br>Values in k€ | As of<br>01/01/2014 | Plan assets<br>01.01.2014 | Formation | Consumption | Compounding | Provision amount | Plan assets<br>31/12/2014 | As of<br>31/12/2014 |
|---|---|---|---|---|---|---|---|---|
| Pension provision | 91 | 124 | 4 | 0 | 4 | 99 | 126 | -27 |
| Old-age part-time working scheme | 61 | 51 | 0 | 52 | 0 | 9 | 7 | 2 |

Interest rates of 3.62% (6-year period of retention of documents) and of 4.15% (10-year period of retention of documents) were used for the calculation of the reserve regarding the obligation to retain business documents.

**Equity**

The equity of ECC amounts to EUR 1,015,227. It is divided into 1,015,227 bearer share certificates. The shares can only be transferred with the shareholders' approval.

On 31st December 2014, the capital reserve amounted to kEUR 14,300. The reserve had not changed as against the previous year.

**Retained income and balance sheet profit**

The other retained income amounted to kEUR 17,586 (2013: kEUR 16,836). Following the resolution adopted by the annual general meeting in 2013, the 2013 balance sheet profit of kEUR 2,599 was paid out and a share of kEUR 7,707 was carried forward to new account. In the course of the year, kEUR 250 were added to retained income in accordance with Article 45 EMIR.

The company's annual profit amounted to kEUR 13,178 (2013: kEUR 10,305). A share of kEUR 750 thereof was added to reserves according to Article 45 EMIR.

## 3. Notes and Explanations regarding the Profit and Loss Account

The commission fee income and the other operating income was generated exclusively in Germany, while interest expenses were also exclusively incurred in Germany, so that a breakdown according to geographical markets is dispensed with in accordance with Art. 34 Paragraph 2 Figure 1 of the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV).

In 2014, interest income of kEUR 397 was generated. In 2013, interest income of kEUR 156 was generated.

**Income from commission fees**

The commission fees of kEUR 37,137 (2013: kEUR 30,739) concerned fees for clearing services by ECC. According to material criteria, the commission fees have the following structure:

| **Income from commission fees** | **2014 kEUR** | **2013 kEUR** |
|---|---|---|
| Derivatives Market clearing fees | 18,616 | 16,742 |
| Spot Market clearing fees | 18,066 | 12,650 |
| Annual fees | 221 | 211 |
| Other income from clearing | 234 | 1,136 |
| **Total** | **37,137** | **30,739** |

**Commission expenses**

The commission expenses of kEUR 2,275 (2013: kEUR 1,481) essentially comprise volume-dependent system expenses.

**Other operating income**

The other operating income of kEUR 2,051 (2013: KEUR 219) essentially results from the provisions of services for affiliated companies and shareholders (kEUR 627), from charging-on of costs (kEUR 494) and from the administration of securities deposited as collateral (kEUR 375). In addition, there was revenue unrelated to the accounting period of kEUR 270 which results from the release of provisions.

**General administrative expenses**

The general administrative expenses of kEUR 15,669 (2013: kEUR 13,722) include the following items:

| General administrative expenses | 2014 kEUR | 2013 kEUR |
|---|---|---|
| Personnel expenses | 4,273 | 3,204 |
| Wages and salaries | 3,563 | 2,681 |
| Social insurance contributions | 710 | 523 |
| | | |
| Other administrative expenses | 11,396 | 10,518 |
| Expenses for business management services | 5,372 | 5,739 |
| Systems expenditure | 2,246 | 1,868 |
| Consultancy services | 1,518 | 1,565 |
| Overheads & marketing | 2,260 | 1,346 |
| | | |
| **Total** | **15,669** | **13,722** |

The increase in personnel expenses resulted from the increased number of employees. The increased expenses for overheads and marketing essentially result from the improved IT infrastructure.

**Other operating expenses**

The other operating expenses of kEUR 663 (2013: kEUR 819) essentially comprise expenses from input tax corrections (kEUR 658), which are due to sales that are exempt from sales tax.

**Taxes on income and profit**

In total, trade tax and corporation tax of kEUR 6,400 (2013: kEUR 4,906) have to be paid on the profits for the financial year 2014.

## 4. <u>Other Notes</u>

### Other financial obligations

In order to cover ECC's risk in the event of the default of a Clearing Member, the Clearing Members undertake to provide the daily or intra-day collateral in cash or securities to the amount specified by ECC in accordance with the Clearing Conditions. On the balance sheet date, these were as follows:

| Collateral | 31/12/2014<br>EUR million | 31/12/2013<br>EUR million |
|---|---|---|
| Cash funds | 684 | 636 |
| Securities and book-entry securities (after haircut) | 475 | 376 |
| **Total** | **1,159** | **1,012** |

On 31st December 2014, the ECC clearing fund amounted to EUR 134 million (2013: EUR 218 million).

### Other financial obligations

The other obligations are listed in the table below:

| Financial obligation | Total<br>kEUR | 2015<br>kEUR | 2016 to 2019<br>kEUR | 2020 to 2024<br>kEUR |
|---|---|---|---|---|
| Provision of management services | 5,534 | 5,534 | 0 | 0 |
| System expenses/maintenance | 4,279 | 2,538 | 1,609 | 132 |
| Rent | 1,859 | 186 | 744 | 929 |
| Vehicles | 23 | 17 | 6 | 0 |
| **Total** | **11,695** | **8,275** | **2,359** | **1,061** |

### Contingent liabilities

Without any changes as against the previous year, a letter of comfort regarding the liabilities of ECC Lux of up to a maximum amount of kEUR 986 existed between EEC AG and transpower stromübertragungs gmbH on the balance sheet date.

ECC guarantees the trade accounts payable of ECC Luxembourg amounting to kEUR 64,795 (2013: kEUR 59,213) as of the balance sheet date.

This guarantee covers existing liabilities under power and gas deliveries. Collateral was provided with regard to these so that this does not result in any risk for ECC.

## Amounts excluded from distribution

There are no amounts excluded from distribution according to Article 268 Paragraph 8 HGB. The costs of acquisition of the plan assets for the excess of plan assets over pension liabilities correspond to the fair value.

### Human resources development

On the balance sheet date, 39 people (2013: 36 employees) were employed by the company. In the financial year under review, on average 37.85 employees (2013: 27 employees) were employed by the company.

### Management Board

| | |
|---|---|
| Peter Reitz, Leipzig | Chief Executive Officer (CEO) |
| Steffen Köhler, Oberursel | Chief Operating Officer (COO) |
| Dr. Thomas Siegl, Eschborn | Chief Risk Officer (CRO) |
| Iris Weidinger, Leipzig | Chief Financial Officer (CFO) |

In the past financial year, the total emoluments of the Management Board were kEUR 1,152.

### Transactions with related parties in accordance with Art. 285 Fig. 21 HGB

During the financial year under review, no transactions with related parties which were concluded subject to conditions that are not common on the market were concluded.

### Fee for the auditor of the annual accounts according to Art. 285 Fig. 17 HGB

The fee for the auditor of the annual accounts was specified in the EEX consolidated financial statement. The EEX consolidated annual financial statement is published in the German Electronic Gazette.

**Supervisory Board**

The Supervisory Board has the following members:

| | |
|---|---|
| Dr. Jürgen Kroneberg<br>(Chairman) | Lawyer, Cologne |
| Prof. Harald R. Pfab<br>(Deputy Chairman, until 5th June 2014) | Fronreute |
| Jürg Spillmann<br>(Deputy Chairman) | Member of the Management Board, Eurex Zürich AG, Zurich/Switzerland |
| Roland Werner<br>(Deputy Chairman) | Dresden |
| Pierre Bornard<br>(until 5th June 2014) | Vice-Chairman of the Executive Board of RTE - Réseau de Transport d'Electricité, Paris/France |
| Dr. Ulf Böge<br>(until 5th June 2014) | Former President of the Federal Cartel Office, Meckenheim |
| Josef Rahmen | Leipzig |
| Hans E. Schweickhardt | Chairman of the Board of Directors, Alpiq Holding AG, Lausanne/Switzerland |
| Vincent van Lith | Director, Deutsche Bank AG, Frankfurt am Main |

On the balance sheet date, the ECC Supervisory Board had an auditing committee comprising all Supervisory Board members and a human resources and compensation committee consisting of the following members: Dr. Jürgen Kroneberg, Jürg Spillmann and Roland Werner.

In the past financial year, the members of the Supervisory Board received emoluments of kEUR 86 (2013: kEUR 104).

Leipzig, 16th February 2015

| | |
|---|---|
| Peter Reitz | Steffen Köhler |
| Chief Executive Officer (CEO) | Chief Operating Officer (COO) |
| | |
| Iris Weidinger | Dr. Thomas Siegl |
| Chief Financial Officer (CFO) | Chief Risk Officer (CRO) |

European Commodity Clearing AG, Leipzig

**Development of Assets in the Financial Year 2014**

| | Costs of acquisition and production | | | | | Depreciations | | | | Net book values | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31/12/2013 | Additions | Disposals | Transfers | 31/12/2014 | 31/12/2013 | Additions | Disposals | 31/12/2014 | 31/12/2013 | 31/12/2014 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| **1. Intangible assets** | **11,789,921.17** | **1,397,306.12** | **1,214,624.86** | **0.00** | **11,972,602.43** | **9,793,481.41** | **1,151,273.12** | **4,158.00** | **10,940,596.53** | **1,996,439.76** | **1,032,005.90** |
| 1350 IT software | 3,040,028.01 | 865,386.12 | 35,640.00 | 787,829.00 | 4,657,603.13 | 2,694,299.01 | 1,151,273.12 | 4,158.00 | 3,841,414.13 | 345,729.00 | 816,189.00 |
| 1700 Prepayments for intangible assets | 1,650,710.76 | 531,920.00 | 1,178,984.86 | -787,829.00 | 215,816.90 | 0.00 | 0.00 | 0.00 | 0.00 | 1,650,710.76 | 215,816.90 |
| 1500 Goodwill or entreprise value | 7,099,182.40 | 0.00 | 0.00 | 0.00 | 7,099,182.40 | 7,099,182.40 | 0.00 | 0.00 | 7,099,182.40 | 0.00 | 0.00 |
| **2. Fixed assets** | **271,787.67** | **1,784.55** | **0.00** | **0.00** | **273,572.22** | **227,219.67** | **16,160.55** | **0.00** | **243,380.22** | **44,568.00** | **30,192.00** |
| 5000 Equipment and furnishings | 204,759.00 | 1,209.92 | 0.00 | 0.00 | 205,968.92 | 185,986.00 | 12,686.92 | 0.00 | 198,672.92 | 18,773.00 | 7,296.00 |
| 6500 Office equipment | 43,389.35 | 0.00 | 0.00 | 0.00 | 43,389.35 | 17,594.35 | 2,899.00 | 0.00 | 20,493.35 | 25,795.00 | 22,896.00 |
| 6700 Low-value assets | 14,113.45 | 574.63 | 0.00 | 0.00 | 14,688.08 | 14,113.45 | 574.63 | 0.00 | 14,688.08 | 0.00 | 0.00 |
| 6750 Low-value assets - Compound item | 9,525.87 | 0.00 | 0.00 | 0.00 | 9,525.87 | 9,525.87 | 0.00 | 0.00 | 9,525.87 | 0.00 | 0.00 |
| **3. Shares in affiliated companies** | **18,500.00** | **0.00** | **0.00** | **0.00** | **18,500.00** | **0.00** | **0.00** | **0.00** | **0.00** | **18,500.00** | **18,500.00** |
| 8000 Shares | 18,500.00 | 0.00 | 0.00 | 0.00 | 18,500.00 | 0.00 | 0.00 | 0.00 | 0.00 | 18,500.00 | 18,500.00 |
| | **12,080,208.84** | **1,399,090.67** | **1,214,624.86** | **0.00** | **12,264,674.65** | **10,020,701.08** | **1,167,433.67** | **4,158.00** | **11,183,976.75** | **2,059,507.76** | **1,080,697.90** |

# Management Report of European Commodity Clearing AG, Leipzig, for the Financial Year 2014

## 1. About the Company

### Business operations and corporate structure

European Commodity Clearing AG (ECC) was established in 2006 through a spin-off of the services of European Energy Exchange AG (EEX) in the field of clearing and settlement, and is the leading clearing house for energy and related products in Europe. On 31st December 2014, the company employed a staff of 39.

The establishment of clearing and settlement as an independent company regulated by the financial services authorities has enabled ECC to respond flexibly to the requirements of the market and, at the same time, to provide the security of a regulated environment.

ECC is a credit institution and has a banking licence as a central counterparty within the meaning of Art. 1 Paragraph 1 Figure 12 KWG (German Banking Act), in conjunction with Art. 1 Paragraph 31 KWG. In addition, since 2014, ECC has had a licence to act as a central counterparty, within the meaning of the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories (EMIR). In this function, ECC settles the trades concluded between the trading participants on the affiliated markets or registered for clearing and guarantees their fulfilment even if a counterparty defaults. Physical deliveries are settled by the European Commodity Clearing Luxembourg S.à.r.l. (ECC Lux), a wholly-owned subsidiary of ECC.

In addition to the stable settlement of the trading transactions in line with the contracts, the company's objective as a clearing house is to increase the efficiency of clearing and settlement through the integration of different market platforms, products and commodities into a uniform system for the settlement of trades. In addition to the original core function of ECC (i.e. clearing and settlement of the trades of EEX) since 2006, co-operations with other exchanges have been entered into. At present, the focus is on the creation of clearing offers across markets and products in the field of energy trading. Currently, ECC co-operates with EPEX SPOT SE (EPEX), Powernext S.A. (Powernext), the Central European Gas Hub (CEGH), HUPX Hungarian Power Exchange Ltd. (HUPX), Power Exchange Central Europe a.s. (PXE) and Gaspoint Nordic A/S (GPN).

EEX holds 98.5 percent of the shares in ECC, while Powernext holds 1.5 percent of the shares.

### Corporate management

As a German public limited company, ECC comprises the following corporate bodies: the general meeting, the Supervisory Board and the Management Board, each of which has its own competences. In addition, there is a risk committee as an advisory body for the corporate management (as stipulated by EMIR).

The general meeting appoints the members of the Supervisory Board, approves the activities of the Management Board and of the Supervisory Board and adopts resolutions on the appropriation of the balance sheet profit.

The Supervisory Board appoints, monitors and advises the Management Board and is directly involved in decisions which are of fundamental importance to the Company.

Moreover, it adopts the annual financial statement prepared by the Management Board. At the annual general meeting in June 2014, the size of the Supervisory Board was reduced from nine to six members, whose individual term of office is three years. In 2015, three of the seats on the Supervisory Board will be up for election in accordance with the applicable rules.

The Management Board (which is in charge of managing the company's operations) represents the company to the outside world. The Management Board consists of the Chief Executive Officer (CEO), the Chief Operating Officer (COO), the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). The members of the ECC Management Board also act as members of the EEX Management Board.

## Strategy and control

As a result of its international network and its connected partner exchanges, ECC has become the leading clearing house for energy and related products in Europe. In cooperation with its partner exchanges, ECC is further expanding its position, e.g., by increasing its product and market coverage. Moreover, ECC aims to increase the international coverage of its clearing service through the addition of new partner exchanges, e.g. by expanding the Trade Registration Clearing offering, as well as through the further development and simplification of the clearing service.

ECC essentially uses the parameters of sales, costs, EBT, liquidity and annual net profit to monitor and manage the Company. Moreover, the risk parameters according to EMIR are also very significant for the clearing house. In addition to financial parameters, ECC is committed to social responsibility and sustainable activities.

The revenue generated by ECC is influenced, in particular, by commission income (transaction and annual fees), interest income and other operating income. As regards expenses, we differentiate between commission expenses, interest expenses, general administrative expenses, other operating expenses and depreciations. While provision expenses are variable in character, i.e. they correlate with the amount of the transaction fees, the further expense items have the character of fixed costs (cf. "Earnings, assets and financial situation" for details).

Approximately 89 percent of the ECC expenses are independent of turnover. As a result, ECC can settle additional business volumes without a significant increase in costs because of economies of scale and scope. Nonetheless, a decline in business volumes has a direct impact on the profitability of ECC.

With its internal control system (ICS), EEX Group has a management instrument for ensuring process reliability which indirectly helps to attain the corporate aims. It is also used within ECC. The ICS comprises the principles, procedures and measures which the organisational units of EEX have implemented within their business processes. In order to ensure a proper execution of the business processes and activities, and to prevent errors or irregularities as well as to detect such without delay - the following protection and control measures have (e.g.) been implemented at ECC: separation of possibly conflicting tasks and duties wherever possible, principle of dual control, approval processes, access and admission restrictions, job descriptions, documentation of processes in work instructions and check lists, staff training courses and signature guidelines. The rules and regulations are regularly reviewed and modified as required to ensure that they are up-to-date.

As an outsourced and independent unit within EEX Group, the internal audit department carries out risk-oriented and process-independent controls at ECC in order to check the adequacy and effectiveness of the ICS. The Management Board and the Supervisory Board are informed of the results of the audit. Furthermore, operational events (i.e. failure of business processes on account of inadequate process design, human errors and IT failures, or failures by external service providers) are recorded centrally and analysed regularly in order to identify weaknesses within the ICS - and measures are suggested to remedy these. Critical and important operational events are reported to the Management Board and the Supervisory Board regularly – and, if necessary, unexpected risks that are perceived are also reported on an ad-hoc basis.

## 2. Economic development

### Macro-economic and industry-specific framework conditions

The macro-economic and industry-specific framework conditions which are decisive for the business activities of the companies within the EEX Group and, in particular, for the development of the transaction volumes are briefly outlined below.

### Renewables increasing in scope – Energy consumption and power generation in decline

In 2014, renewable energies again decisively influenced developments in the German power market. With a share of 27 percent of German power consumption, renewables have now replaced lignite as the most important source of energy in the German power mix. The amount of the trading volumes on the exchange power market is e.g. influenced by power generation and the physical consumption of power as a part of primary energy consumption.

According to calculations by the Working Group on Energy Balances, primary energy consumption in Germany declined by 5 percent in 2014 as against the previous year. This was e.g. due to the mild weather. According to the projections by the Working Group on Energy Balances, the decline in primary energy consumption is associated with a 5-percent decline in $CO_2$ emissions.

At 610 TWh, BDEW, the German Association of Energy and Water Association, expects a decline in gross power generation (2013: 633 TWh).

The energy turnaround again had significant influence on the development of prices on the power markets in 2014. For example, under its influence the exchange prices for power in the German market area continued to decline. On the EPEX SPOT day-ahead market, the average hourly price declined by approximately 13 percent as against the previous year (from EUR 37.78 per MWh in 2013 to EUR 32.76 per MWh in 2014). On the EEX derivatives market, the price for the annual delivery of power for the respective next calendar year declined by approximately 10 percent from an average of EUR 39.08 per MWh in 2013 for the calendar year 2014 to EUR 35.09 per MWh in 2014 for the calendar year 2015.

### Inconsistent development of energy and commodity prices

Starting at EUR 36.01 per MWh, the price for Phelix Baseload year futures for the 2015 front year on the Power Derivatives Market initially rose to EUR 36.90 per MWh in February and closed the year at EUR 34.18 per MWh. With fluctuations of up to 13 percent during the year, 2014 proved to be less volatile than the previous year (33 percent).

Starting at EUR 28.02 per MWh in January, the monthly EGIX gas price index fell to EUR 16.69 per MWh in August. At the end of the year, the gas price rallied again and reached a level of EUR 23.36 per MWh.

The prices for emission certificates increased in the course of the year 2014. Starting at EUR 4.65 per t $CO_2$, the price briefly rose to EUR 7.10 per t $CO_2$ in February. After yet another decline to EUR 4.17 per t $CO_2$ in March, the price recovered and closed the year at EUR 6.93 per t $CO_2$. In January 2014, the EU member states adopted the so-called “back-loading” in order to stabilise the market by tightening the supply of $CO_2$ certificates. In addition, the long-term reform of EU emissions trading will also decisively influence developments on the market.

After an annual high of USD 115.61 per barrel (Brent type) in June, the oil price halved to USD 57.61 per barrel (Brent type) by the end of the year. The expansion of oil production by Saudi Arabia, in particular, in response to shale oil production by the USA and the resulting price competition have led to this massive drop.

The effects of the framework conditions on the development of business at the respective partner exchanges for 2014 are described in section 3, while the effects on the future development of business are outlined in section 7.

## Increasing regulation influences developments on the market

In 2014, the energy markets were again shaped by discussions on current and new regulatory interventions. The following projects have the highest relevance for energy trading:

- Design of the revised EU Markets in Financial Instruments Directive (MiFID II for short) and of the appertaining EU MIFIR Regulation
- Discussion regarding a financial transaction tax and the possible inclusion of derivatives trading
- Discussion of the power market design with regard to the introduction of a capacity mechanism for conventional power plants
- Discussion regarding the division of the German-Austrian price zone into several small market areas as a result of grid bottlenecks and insufficient grid expansion

MiFID II is designed to revise the regulation of financial instruments. However, the definition of financial instruments according to MiFID II provides for exceptions for certain energy derivatives, depending on the trading platform. This could place over-the-counter platforms at a disadvantage compared to exchange trading platforms. Details regarding this still have to be published by the European Securities and Markets Authorities (ESMA) in the framework of technical standards.

Furthermore, the introduction of a financial transaction tax in individual EU member states might also have a continuing negative impact on derivatives trading and lead to a shift in trading to trading platforms in countries which would not be affected by such a tax. The question as to whether a financial transaction tax is to be introduced and whether it will include derivatives is still the subject of political discussions.

Changes to the power market design as a result of political or regulatory decisions can have an impact on the importance of the exchange price signal and, as a result, also lead to a decline in liquidity on the energy markets. This includes, in particular, the need for the establishment of a capacity mechanism in order to finance the provision and continued existence of conventional power plants, in addition to the existing power market (energy-only market). Moreover, the reduction of the size of market areas as a result of grid bottlenecks and insufficient grid expansion (which is currently being discussed) would also have a negative impact on the power trading markets.

These regulatory projects and, in particular, the current uncertainty regarding their exact form are influencing the trading participants' activities and, sometimes, are leading to delayed decisions and lower levels of trading activity. The specific effects of the individual regulatory measures as they are likely to affect EEX are explained in detail under "Risks" in section 7.

# 3. Development of business

The development of business of ECC as a service provider for clearing and settlement is connected to the success of the partner exchanges affiliated with it. For this reason, the development of the corresponding markets plays an important role for ECC and is outlined briefly below.

In spite of the difficult market environment, the profound structural changes in the power market and the continuing uncertainty on the market because of the Ukraine and euro crises, as well as unresolved questions of regulation, the market share of the trading volume settled via ECC has increased significantly in the 2014 financial year.

<u>EEX Power Derivatives GmbH</u>

Compared with the previous year, the trading volumes on the EEX Power Derivatives Market increased significantly by 24 percent. In December, a new all-time monthly record was reached at, in total, 205.1 TWh. In addition to further developments of the technical infrastructure, it was, first and foremost, the result of the improved quality of the order book (closer spreads) as well as the increased relevance of credit risks for trading participants (and, as a result, the need for the trades to be settled through the exchange or a central clearing house.

On the German Power Derivatives Market, exchange trading accounted for 812 TWh in 2014 (2013: 669 TWh). This corresponds to a 21-percent increase compared to the previous year. Trade Registration accounted for 557 TWh (2013: 575 TWh) thereof. This corresponds to a decline by 3 percent as against the previous year. The share of the transactions traded through the exchange in the total volume increased from 54 to 59 percent. This underlines the increasing attractiveness of the EEX Power Derivatives GmbH order book for the German Power Derivatives Market. This development of the trading volumes and the liquidity is positive and exceeded expectations by far.

The volume traded on the French Power Derivatives Market in France increased significantly, in particular, during the second half of 2014 and totalled 83 TWh in 2014. This means the trading volume increased by 307 percent in 2013 and, as a result, it also significantly exceeded the previous record achieved in 2011. This development is based, in particular, on an amendment of the NOME Code (which requires the sale of generated volumes of nuclear power at a regulated price). An increase in this regulated price in 2014 led to a corresponding decline in power sales at regulated prices. As a result, exchange and Trade Registration transactions have recently played a more important role again because of their increased competitiveness. Moreover, the volatility of prices on the French Derivatives Market and, as a result, the demand for risk hedging transactions has increased. In the 2014 financial year, French futures accounted for a share of 5 percent in the total volume of EEX Power Derivatives GmbH.

In addition to the German and French Power Derivatives Market, trading in Italian power products, in particular, generated an extraordinarily positive development in 2014. In addition to the existing possibility for the registration of over-the-counter transactions for clearing, exchange trading in Italian power futures was launched in April 2014. After this, EEX evolved into becoming the biggest exchange platform for trading in futures on Italian power within a very short time. In addition to the attractive product offering and the local sales structure, the increased interest in hedging trading participants' default risks on the Italian market (as well as differences in the price structure compared with other European reference markets) were decisive for the positive development of trading volumes. Overall, a trading volume of 116 TWh was recorded in 2014 (which corresponds to a share of 7 percent in the total volume of the EEX Power Derivatives Market). In the previous year, a volume of 1.1 TWh was settled following the launch in October 2013.

Physical futures on Dutch and Belgian power (which were introduced in 2013) also generated significant growth in 2014, albeit at a continuing low level. Overall, a trading volume of 1 TWh was reached in 2014 (2013: 0.1 TWh).

The initiative for the introduction of products for Trade Registration (i.e. the offer for the registration of over-the-counter transactions on the exchange), which had been launched in 2012, was continued in 2014. For example, EEX added financially settled power derivatives contracts for the Spanish and the Greek market. The offering for the Spanish market, in particular, was welcomed by the trading participants. Furthermore, EEX Power Derivatives GmbH also offers Power Derivatives Contracts for the Scandinavian, Swiss and Romanian market. In total, a volume of 1.9 TWh was registered on these five markets, with the Spanish market accounting for a predominant share (1.6 TWh) thereof. In 2013, a volume of 0.01 TWh was registered for clearing in this category.

The existing market areas for power are to be developed further in 2015. For example, specific order books are also to be introduced for the markets in Spain, Scandinavia and Switzerland – in line with the very successful introduction in Italy. In addition to this, Day and Weekend Futures will be introduced as products for short-term power trading for the high-growth markets in Italy, France and Spain, based on the German model.

EGEX European Gas Exchange GmbH (EGEX)

The spot and derivatives markets of the German NCG (NetConnect Germany) and Gaspool market areas as well as the spot market of the Dutch TTF (Title Transfer Facility) market area are covered via EGEX. The natural gas business field was essentially restructured and concentrated within one joint platform in the context of the PEGAS gas cooperation with Powernext as early as in 2013. The redesign of the technical infrastructure landscape because of the switch to the Trayport trading system led to a noticeable increase in the number of trading participants. Moreover, as a result of the integration of all products in one trading system, the trading participants also benefit from trading in location spreads, i.e. price differences between identical products in different gas market areas. In 2014, the spread products were successfully launched for the NCG-L and TTF as well as the GPL-L and TTF market areas.

The volumes on the EGEX gas markets increased significantly as a result of product and technical innovations. At 196 TWh the clearing volume for spot market transactions in natural gas was 144 percent higher than in the previous year (81 TWh). Moreover, at 85 TWh, the derivatives market transactions in natural gas also reached a new record (previous year: 29 TWh).

Global Environmental Exchange GmbH (GEEX)

In 2014, the volumes in the emissions business field declined. The clearing volume of trades in emission allowances declined to 534 million EU (2013: 850 million EUA). This was due to a significant degree to the political decision on the postponement of auction volumes, the so-called "back-loading". This decision took effect at the beginning of 2014. In this context, the Europe-wide auction volume was reduced by 400 million EUA in 2014; while, in 2015 and 2016, the volume will be reduced by 300 and 200 million EUA respectively.

As the central auction platform for 25 EU member states (as well as for Germany and Poland), EEX was particularly affected by this political decision. Overall, the spot market volumes declined by 34 percent. Irrespective of this, the number of auctions carried out remained unchanged. In 2014, a total of 198 auctions was held on EEX on up to four days per week. On the Derivatives Market, the trading volume declined by as much as 61 percent in 2014.

European Energy Exchange AG (EEX)

In 2014, EEX launched an initiative for reviving the coal market, and in this context it focused on the registration of over-the-counter transactions for clearing. Overall, a volume of 165,000 t was registered on EEX (2013: no volume) which corresponds to a relatively small share of the overall market. The high level of competitive pressure in this business field, in particular, forms the reason for the continued unsatisfactory development of the coal business field.

In addition, the EEX product portfolio comprises Guarantees of Origin for green power. Guarantees of Origin are certificates which guarantee the origin of one MWh of power from renewable energies. They are exclusively used for "labelling" power. In the 2014 financial year, a total of 0.1 TWh (2013: 0.5 TWh) was traded in futures on Guarantees of Origin.

In September 2014, EEX introduced a Trade Registration service for futures on the Brent 901 oil price formulas. The average price for crude oil from the North Sea region for a period of nine months before delivery constitutes the underlying for this new futures contract. This price reference is used, in particular, on the Italian energy market for the assessment of long-term supply contracts. No volume was recorded in this field in the 2014 financial year.

EPEX SPOT SE (EPEX)

The Spot Markets for Power with delivery in Germany, Austria, Switzerland and France, which are concentrated within EPEX, all displayed a consistently positive development in 2014. At 382 TWh, the volume traded at EPEX increased by 36 TWh as against the previous year (346 TWh).

The trading volumes on the EPEX day-ahead markets developed positively in 2014. Compared with the previous year, the day-ahead market for France (+24 percent) and the day-ahead market for the German-Austrian market area (+8 percent), in particular, generated significant gains. In the calendar year 2014, the intraday segment gained further liquidity. This trend was observed, in particular, on the German Intraday Market with an increase of 34 percent as against the previous year. Even though it is smaller in size compared with the Day-Ahead Markets (31 TWh vs. 356 TWh), the Intraday Markets are gaining in importance. This is due, in particular, to the growing importance of fluctuating renewable energies. For example, in December a new maximum was achieved in German wind power generation. This entails an increasing need for short-term balancing for the balancing group managers.

In order to provide additional short-term flexibility for the trading participants EPEX successfully launched a new Day-Ahead Auction (with 15-minute contracts) for the German market areas in December 2014. These contracts help to fine-tune portfolios after the Day-Ahead Auction for hourly contracts (which is held around noon) and permits trading of intra-hour deviations in generation and consumption.

Moreover, EPEX has benefited from both the transmission system operators' obligation to market quotas of power from renewable energies on a power exchange established in the framework of the German Renewable Energies law (EEG) (which took effect in 2010, and is specified in more detail in the Ordinance on a Nationwide Equalisation Scheme (AusgleichsMechV)) and direct marketing which was implemented in January 2012. Even though, in the context of direct marketing, there is no obligation to market power through an exchange or, more specifically, through EPEX, EPEX was still able to successfully establish a position for itself as a strong market platform in this segment. This is due to the high liquidity which is associated with this and the comprehensive product offering of the exchange - both in day-ahead and in intra-day trading. As a result of this position, EPEX assumes that it will also benefit from the increased volumes in direct marketing in the future.

In 2014, the north western (NWE) and south eastern (SWE) European markets were coupled with the CWE market areas in the framework of the Price Coupling of Regions (PCR) following the market coupling in central and Western Europe (CWE), which had already been launched in 2010. As a result, market participants from Portugal to Finland now use a common auction mechanism. At all these so-called implied auctions, the trading participants are not directly allocated border-crossing capacities but they submit bids for power to their local exchange. Afterwards, the cooperating exchanges use the capacities which are available on the border-crossing points to minimise the price differences between two or more market areas. The expansion of European market coupling facilitates border-crossing power trading and has also contributed to the positive development of the power spot markets. At present, EPEX SPOT is working with its partners to expand market coupling to southern Europe (CSE).

Powernext SA (Powernext)

The natural gas volumes traded at the PEGAS cooperation partner Powernext and settled by ECC were 94 TWh on the spot market and 192 TWh on the derivatives market. As a result, they were significantly higher than in the previous year (+34 percent and +350 percent respectively). Increases in volume were achieved, in particular, on the derivatives market of the Dutch TTF market area.

In July 2014, the product offering on Powernext was expanded with spot and derivatives contracts for the Belgian ZTP (Zeebrugge Virtual Trading Point) market area. In addition, 24/7 trading for all natural gas spot markets, which ECC supports with corresponding settlement processes around the clock, was also launched on Powernext in July 2014.

From January 2015 onwards, all EGEX and Powernext markets for natural gas are operated by Powernext on the PEGAS platform. This means that following the harmonisation of the trading systems in 2013 a pan-European exchange trading platform for natural gas with a uniform admission process and uniform rules and regulations has been created for the first time.

HUPX Hungarian Power Exchange Ltd. (HUPX)

During the financial year under review, the volumes of the transactions concluded on HUPX and cleared by ECC declined to 16.5 TWh (previous year: 17.1 TWh) by 4 percent.

In August 2014, HUPX was the first ECC partner exchange to join a new interface for exchange transactions which can forward confirmations to the exchange in less than a second – the so-called Trade Import Gateway. This forms the basis for Straight-Through Processing (STP) and optimises the settlement processes for derivatives market transactions.

Central European Gas Hub (CEGH)

The volumes on the CEGH of Wiener Börse AG again developed positively in the course of the year and reached 21.3 TWh (as against 13.2 TWh in the previous year), which corresponds to an increase of 62 percent.

With the introduction of additional maturities, such as quarters, seasons and years in August 2014 and, in connection with this, the switch in the settlement method for month contracts, the CEGH significantly increased the trading volume on the derivatives market. The number of trading participants increased again – from 78 trading participants at the end of the previous year to 88 trading participants currently.

Power Exchange Central Europe a.s. (PXE)

In the first full financial year during which ECC provided clearing and settlement services for the Prague-based energy exchange PXE, 6.2 TWh were traded on the power spot market in the Czech Republic, 21.5 TWh were traded on the power derivatives markets for central eastern Europe and 0.7 TWh were traded on the market for Czech gas futures operated for CEGH, with settlement of these volumes being provided by ECC.

In September 2014, the PXE product offering was extended with the introduction of Polish and Romanian power futures.

Gaspoint Nordic A/S (Gaspoint Nordic)

Since October 2014, ECC has offered clearing and settlement services for transactions concluded on the Danish Gaspoint Nordic gas exchange. In addition to the successful assumption of settlement activities from the previous clearing house, Nord Pool Spot, 24/7 settlement processes (which have already been established on the German, Dutch, Belgian, French and Austrian natural gas spot markets) have been launched for the Danish gas market. As a result, Gaspoint Nordic was able to promote the cooperation with ECC, the implementation of the new target model for the Danish gas market and to generate new record volumes as early as during the first few months of operation.

NOREXECO AS (NOREXECO)

In 2014, ECC was able to attain both technical and operating readiness and the required license for the provision of clearing and settlement services for the Norwegian NOREXECO. NOREXECO is planning to launch a regulated market for commodity derivatives for recycled fibre and pulp. On the other hand, further derivatives and options offers in the field of paper and wood materials are planned for the future. In addition to the expansion of the product offering with a global market with good growth perspectives, ECC hopes that this commitment will result in interesting interactions with the existing product portfolio.

Cleartrade Exchange Ltd. (CLTX)

ECC is planning to launch settlement services for derivatives on freight contracts and fertilisers in January 2015. These offers are based on the cooperation between EEX and its subsidiary CTX. In the further course of the year, further product categories which are new for ECC, such as iron ore and marine fuel will be included in settlement. To this end, EEX will offer selected products for Trade Registration on the regulated EEX market so that transactions concluded on CLTX can be transferred to clearing on ECC via EEX.

**Development of the Open Interest**

The Open Interest is the value of all options and futures contracts which are not concluded as of the valuation date. On 31st December 2014, the Open Interest of ECC in EUR was EUR 32 billion (2013: EUR 27 billion) and, hence, increased by approximately 16 percent. This result is primarily driven by the power futures market which again recorded a record in the Open Interest in 2014. Moreover, the doubling of the Open Interest on the natural gas futures market confirmed the growing attractiveness of this market.

| | 2014 | 2013 |
|---|---|---|
| | **kEUR** | **kEUR** |
| Futures (Power) | 29,331,705 | 26,010,328 |
| Futures (Gas) | 2,439,362 | 1,175,840 |
| Futures (EUA) | 162,515 | 290,315 |
| Futures (GoO) | 2 | 8 |
| Futures (Coal) | 3,306 | 0 |
| Options (Power) | 3,279 | 1,887 |
| **Total** | **31,940,169** | **27,478,378** |

Rounding differences of ± one unit (TWh, EUR, %, etc.) may occur in the tables - for arithmetical reasons.

**Further developments**

EMIR

In the framework of the implementation of the European Market Infrastructure Regulation (EMIR), which introduced uniform standards for the required organisational structure, the supervision and the risk management of central counterparties throughout Europe for the first time, ECC was able to reach two important milestones in 2014.

After it was granted the EMIR licence in June 2014, ECC is now one of the first clearing houses in Europe which is able to offer a settlement service in line with EMIR and, as a result, it has established an ideal position for itself in the competition among the central counterparties. The required adjustments, in particular, of the risk management models were implemented in due time and commissioned without any problems.

Trade Reporting, which became mandatory under EMIR, was launched by ECC as early as in February 2014 and expanded with additional aspects in August and December. As an additional service, ECC offers its customers the option of taking over the task of reporting transactions.

New services

In May 2014, ECC was able to commission a new process chain for the fully automatic transmission and confirmation of broker-arranged, over-the-counter transactions for registration for clearing in cooperation with EEX and the straight-through processing (STP) service providers EFETnet B.V. and Trayport Ltd. At the end of the year, nine brokers were connected to this service. Following the transfer of the gas derivatives market from EGEX to Powernext, Powernext will also be able to use this service for its entire product range at the beginning of 2015.

In 2014, HUPX and GPN became the first parties to be admitted to the underlying improved interface for the registration of transactions for clearing ("Trade Import Gateway") for the transmission of derivatives market transactions traded on the exchange.

ECC aims to lower the market entry barriers for smaller participants and to offer the Clearing Members the flexibility and security necessary for his with the consistent introduction of trade limits. In this connection, in 2014 two initiatives for the introduction of new trade limits for auctions trading on EPEX and spot trading on natural gas (which will be concentrated within

Powernext in the future) were launched and will be introduced on the market at the beginning of 2015. These measures serve the further risk coverage of exchange trading and strengthen the position of ECC as the central interface between the Clearing Members and the exchanges.

<u>New cooperations and product categories</u>

ECC is currently involved in negotiations regarding a number of exchange initiatives in connection with its clearing services offers and, as a result, it sees its strategic partner exchange approach confirmed.

In the energy sector, ECC now provides the physical settlement of gas and power contracts for 21 transmission system and hub operators in eleven countries (with the help of ECC Lux). This constitutes an important unique selling proposition in the competition with other clearing houses.

Furthermore, in connection with the launch of clearing of financial derivatives on freight, fertilisers, marine fuel, iron ore (all EEX/CLTX), fibre and recycled paper (NOREXECO) as well as agricultural products (formerly: EUREX) a significant expansion of the product portfolio is planned for 2015. This will help ECC to establish a position for itself for new partnerships - even outside the energy sector. In addition, ECC will increase its attractiveness for potential new, as well as existing Clearing Members, with these expansions of the product range.

<u>Regulation and margining</u>

In the course of the global regulation of the financial markets as a result of the financial crisis, the increasing need to settle derivatives transactions via a central counterparty is conceivable. Therefore, questions regarding margin efficiency are becoming important, in addition to an efficient technical connection. And in this respect, ECC is convinced that it has established a good position for itself with the continuous optimisation of the margining models - under consideration of the regulatory requirements. This was e.g. confirmed by the provision of emission allowances to cover margin requirements which has been permitted under certain preconditions since the end of 2013.

In 2014, ECC continued to further optimise and adjust the margin models to the current conditions. Because of the use of time-weighted data and the introduction of a conservative estimate for short time series, an improvement of the confidence level without any major impact on the amount of the collateral to be furnished is achieved. Following the approval of the Risk Committee, these changes will be implemented at the beginning of 2015.

<u>Participants</u>

In 2014, ECC admitted two new Clearing Members and expanded the clearing licence of a further Clearing Member with the option of covering all trading participants, products and markets (General Clearing Members). As a result, there are now 21 admitted Clearing Members (2013: 20). At the end of the year, the number of clearing participants (including Non-Clearing Members) increased to 392 (2013: 381).

## 4. Earnings, assets and financial situation

### Earnings situation

For ECC the development of the individual markets of the partner exchanges plays an important role and governs the earnings situation of the clearing house. At kEUR 34,862 the commission income generated by ECC increased significantly (19 percent) as against the previous year. To a significant degree, the positive development of results during the 2014 financial year was driven by the higher clearing revenue from the natural gas spot and derivatives market of EGEX and Powernext and by revenue on the power derivatives market of EEX Power Derivatives GmbH (which also continued to grow). Moreover, the cooperation with EPEX, in particular, proved to be a growth driver.

At kEUR 37,137, the commission income, which consists of trade and annual fees (share of annual fees in the commission income: 1 percent), is kEUR 6,398 or 21 percent higher than in the previous year (kEUR 30,739).

In 2014, the share of the commission revenue for clearing and settlement of trades of EEX Group increased. With a share of 56 percent in the clearing fees, the EEX Group markets grew more strongly than those of the cooperations, which account for a share of 44 percent in the clearing fees. At a share of 42 percent, the power derivatives market of EEX Power Derivatives GmbH, which maintained a stable share compared with the previous year, again constituted the mainstay of revenue in the field of commission revenue. In 2014, the turnover from the settlement of power derivatives transaction again increased – from kEUR 12,433* to kEUR 15,258* and, hence, by 23 percent.

The commission revenue from clearing of the power spot market increased from kEUR 8,983 to kEUR 11,530 by kEUR 2,547 or by 28 percent and constitutes the second biggest revenue segment of ECC with a share of 31 percent (2013: 31 percent).

The natural gas segment of EGEX (which grew to kEUR 4,705 (2013: kEUR 1,933) by 143 percent) developed extremely positively. With a share of 13 percent, it contributed a two-digit percentage to the ECC clearing revenue for the first time.

In the financial year 2014, the revenue from clearing of emission allowances was kEUR 434 and, hence, 17 percent lower than in the previous year.

Clearing of spot and derivatives transactions on the Powernext natural gas markets generated kEUR 3,312 (2013: kEUR 1,758) and, hence, contributed 9 percent (2013: 6 percent) to the ECC commission revenue.

In the financial year 2014, the total revenue from the cooperation with the CEGH of the Vienna gas exchange increased again compared with the previous year (+58 percent) and reached kEUR 418 (2013: kEUR 264).

Clearing of the Hungarian power spot market of HUPX also developed positively in 2014. Overall, commission revenue of kEUR 469 (2013: kEUR 377) was generated.
In 2014, the cooperation with PXE launched in September 2013 generated commission revenue of kEUR 468.
In the first three months of the cooperation with Gaspoint Nordic (which was launched in October 2014), commission revenue of kEUR 87 was generated.

In 2014, the commission expenses increased from kEUR 1,481 (in 2013) to kEUR 2,275. This is primarily due to increased variable expenses as a result of the significantly higher provision income.

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* Compared with the management report regarding the previous year, the clearing revenue from the Trade Registration Bundle was integrated into power revenue. The corresponding values for the previous year were adjusted.

In the financial year 2014, the interest result was kEUR 102 and, hence, kEUR 54 lower than in the previous year. This lower result is due to the base interest rate policy of the European Central bank. Following the slightly positive interest income in the first months of the year, the interest income of ECC also fell after the decision by the European Central Bank to provide negative interest on any deposits with the central bank which exceed the minimum reserve. Moreover, the interest expenses increased because of the interest to be paid for a loan by EEX.

The other operating income increased significantly during the year under review and, at kEUR 2,051, it reached a value which was 112 percent higher than in the previous year (kEUR 969). This item e.g. comprises the internal transfer pricing, reimbursements of project costs by the partner exchanges, the securities management fee and since 2014 it has comprised the management fee for cash collateral as well as for the EMIR transaction reporting service (which was introduced in February 2014).

The general administration expenses increased to kEUR 15,669 (2013: kEUR 13,722) by 14 percent compared with the previous year, primarily driven by personnel expenses which were 33 percent higher. Personnel expenses increased from kEUR 3,204 in 2013 to kEUR 4,273 in 2014. This increase, on the one hand, reflects the development of human resources and, on the other hand, accruals for management bonuses. Other administrative expenses primarily comprise expenses for systems and consultancy services as well as for internal transfer pricing.

In 2014, the other operating expenses declined to kEUR 663 (2013: kEUR 819), since the value in the previous year had been higher as a result of the formation of a provision for compensation (kEUR 250).

The depreciations of kEUR 1,167 (2013: KEUR 630) comprise scheduled depreciations on capitalised software and systems as well as an extraordinary reduction in value of the clearing system for the spot market.

As a result, an EBT of kEUR 19,578 was achieved in 2014, which, at 29 percent, was significantly higher than the corresponding value in the previous year, which had amounted to kEUR 15,212. Moreover, at kEUR 13,178 the annual net profit also developed positively as against the previous year (kEUR 10,305).

At 33 percent, the return on equity after taxes also proved to be at the high level of the previous year (32 percent). The average return on equity in the reporting year was 37 percent (2013: 35 percent). This was calculated on the basis of the annual net profit in proportion to the average equity of the period. In 2014, this parameter was again at a high level and reflects the high earnings power of ECC.

## Asset situation

The asset situation of ECC is shaped by its business operations in trading on energy exchanges. The accounts receivable on the assets side of the balance sheet are offset by liabilities to the same amount.

On the balance sheet date, the balance sheet total was kEUR 759,751 and, hence, kEUR 30,113 lower than the balance sheet total for the previous year (kEUR 789,865).

The assets side of the balance sheet is essentially shaped by balances at credit institutions and central banks. These mainly result from the investment of the cash collateral deposited in the amount of kEUR 684,032 (2013: kEUR 740,995) as security for transactions which were offset by liabilities to the Clearing Members for the spot and derivatives market of the same amount. On 31st December 2014, the cash reserve was kEUR 102,024 (2013: kEUR 766,332). The decline in the cash reserves is due to the fact that, unlike in the previous year, overnight investments were made as of the balance sheet date.

Intangible assets amounted to kEUR 1,032 and were, hence, at kEUR 964 lower than the value of the previous year (kEUR 1,996). On the balance sheet date, the other assets amounted to kEUR 5,038 and essentially comprised input tax receivables which ECC has towards the competent tax authority in Luxembourg as well as accounts receivable regarding the ECC Lux transaction fees for the physical settlement of the transactions registered for clearing.

At kEUR 744 accruals and deferrals were kEUR 281 higher than in the previous year and were essentially based on the capitalisation of change requests – i.e. adjustments to the Deutsche Börse AG software and systems. In 2014, new additions were recorded.

The liabilities to banks are based on cash collateral received from those Clearing Members that are credit institutions and amount to kEUR 397,128 (2013: kEUR 522,484).

Liabilities to customers comprise the cash collateral provided by the Clearing Members (in as far as such are not credit institutions) to ECC in the amount of kEUR 301,897 (2013: kEUR 220,529).

The balance sheet equity of the company increased from kEUR 42,457 to kEUR 53,036 (before the dividend pay-out). As in the previous year, the subscribed capital still amounted to kEUR 1,015, while the capital reserve amounted to kEUR 14,300. The annual net profit is reported at kEUR 13,178.

The debt ratio as the share of the long-term and short-term debt in the balance sheet total adjusted for cash collateral was 30 percent (2013: 13 percent). This increase is due to a temporary special factor. On the balance sheet date the balance sheet was expanded because one Clearing Member deposited higher collateral and because, as a result, an external capital item of the same amount was reported. This item has the character of voluntary over-collateralisation and does not constitute short-term debt. Moreover, on the balance sheet date, ECC used an EEX credit line. Credit lines by external lenders did not have to be used during the financial year under review. Moreover, such are not to be used during 2015. There is a letter of comfort for the liabilities of the subsidiary ECC Lux. Moreover, ECC guarantees the fulfilment of the obligations of ECC Lux towards the trading participants on the spot markets for which ECC Lux has taken over the delivery or acceptance of products.

## Financial situation

In accordance with the requirements of the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories (EMIR), ECC is obliged to provide sufficient liquid equity at all times in order to comply with the capital requirements according to Article 16 of the European regulations. If the ratio of equity and capital requirements falls below a threshold of 110 percent, the competent supervisory authority has to be notified forthwith. On the monthly reporting deadlines, the ratio between equity and capital requirements was between 154 and 211 percent and, hence, always above the reporting threshold of 110 percent.

Furthermore, according to Article 43 of the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories (EMIR), ECC has to provide sufficient liquid financial resources in order to cover the default of the two Clearing Members which cause the biggest liquidity requirement. In accordance with Article 44 of this regulation, ECC compares the existing liquid resources with the liquidity requirement on a daily basis. If the ratio between liquid resources and the liquidity requirement falls below the reporting threshold of 1.1 (which is established internally) the Management Board has to be informed forthwith on the one hand and, on the other hand, measures have to be taken to strengthen the liquid resources in accordance with the liquidity plan. The daily ratios were between 1.23 and 2.1 and, as a result, they exceeded the minimum value of 1 required under supervisory legislation.

At the end of the financial year, ECC had liquid equity capital of kEUR 62,520 in accordance with the balance sheet. Because of the high internal financing strength and the existing liquidity level, the Company can itself make the necessary investments which are required in order to preserve the competitive position.

### Summary

The business results confirm the success of ECC. In spite of the somewhat difficult situation on the market as described above, the Company was able to increase its commission income, generate a good return on equity and preserve its sound capital base.

## 5. Employees

At the end of the year, the company had 39 employees. At the end of the previous year, ECC employed a staff of 36.

The age structure is as follows:

| Age group | Number of employees | Percent |
|---|---|---|
| < 30 years | 11 | 28.21% |
| 30-39 years | 20 | 51.28% |
| 40-49 years | 6 | 15.38% |
| >/= 50 years | 2 | 5.13% |
| **Total** | **39** | **100 %** |

Rounding differences of ± one unit (TWh, EUR, %, etc.) may occur in the tables - for arithmetical reasons.

The share of employees with an academic degree was 82 percent (2013: 83 percent). This share refers to employees with a degree from a university, a technical university or a university of co-operative education. On the balance sheet date, female employees accounted for 56 percent of the staff (2013: 56 percent). As of the balance sheet date, EEX had five executive positions, two of which were occupied by women (as in the previous year).

## 6. Risk Management

### Risk management system and targets

ECC is a central counterparty according to the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories (Regulation (EU) No. 648/2012). The corresponding permit was issued by the German Federal Financial Supervisory

Authority on 11th June 2014. Furthermore, ECC is also a credit institution with the exclusive permission as a central counterparty within the meaning of Art. 1 Paragraph 1 Figure 12 KWG [German Banking Act] in conjunction with Art. 1 Paragraph 31 KWG.

The Management Board of ECC holds overall responsibility for the wording and implementation of the business and risk strategy. This provides the framework for the design of the ECC risk management system. Its detailed design is based on the requirements of the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories as well as the supplementary technical standards according to the Delegated Regulation 153/2013.

ECC differentiates between the following risk categories which are controlled in accordance with specific risk management principles:

- Default risk
- Operational risk
- Liquidity risk
- Market price risk
- Business risk
- Compliance risk

On account of the ECC business model, the operational risks and the default risks constitute the essential risk categories for ECC.

As the main risk category of ECC default risks are fully covered by the margin system, the default fund and the own allocated resources of ECC in accordance with the requirements in Article 41, 42 and 43 of the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories (EMIR) as well as the supplementary technical standards according to the Delegated Regulation (EU) 153/2013.

The operational risk as well as the business and settlement risk are determined using the supervisory legislation provisions of Article 16 of the European Regulation (648/2012) on OTC derivatives, central counterparties and trade repositories (EMIR) as well as the supplementary technical standards according to the Delegated Regulation (EU) 153/2013 and considered in the context of the risk-bearing capacity.

Measured against the volume of risk coverage the remaining risk categories are of lesser importance. The total of all risks is covered by the volume of the risk coverage funds available at all times. The determination of risks and the comparison with the available risk coverage assets are effected, at a minimum, on a monthly basis.

With regard to the organisational structure, there is a clear separation of functions: The business risk is controlled by the Management Board of ECC. The operating divisions are in charge of the on-going measurement and control of risks in the context of the specified risk management principles. Monitoring of limits set and reporting to the Management Board and the Supervisory Board are effected centrally by the Risk Controlling department. This department is not responsible for the business operations and reports directly to the Chief Risk Officer of the company. In the capacity of the EMIR Risk Officer, the head of this department also has a direct reporting line to the Management Board.

The monthly risk report constitutes the main tool for informing the Management Board about the risk situation. This report is supplemented by daily and weekly reports regarding specific aspects (e.g. the structure of the collateral, the development of the Clearing Members' ratings and stress test results) as well as ad-hoc reports if there are material matters. The risk situation is discussed with the Supervisory Board on a quarterly basis.

The Internal Auditing department checks the adequacy and operability of the individual elements of the risk management system at regular intervals in accordance with the risk-oriented test schedule adopted by the Management Board. In this respect, essential departments are checked at least once a year and, if required, more frequently.

**Counterparty risk**

Since, as the central counterparty, ECC steps into the chain between the buyer and the seller, it assumes both parties' default risks. For this reason, the counterparty risk constitutes one of the most important risks of ECC. At the same time, hedging of this risk constitutes ECC's main task.

One element of the risk strategy of ECC is to fully cover this counterparty risk at all times by building lines of defence. These lines of defence consist of the following essential components:

- Conditions for admission: Only institutions which are based in the EU or in Switzerland, which have sufficient financial strength as well as the operating facilities for the settlement of the clearing business, can be admitted as ECC Clearing Members. This is checked in the framework of the admission process and is monitored continuously.
- Guarantees by the Clearing Members: All obligations of the trading participants, e.g. regarding the provision of collateral, from the delivery of commodities or the daily profit or loss settlement are either directly the responsibility of the Clearing Member supporting the trading participant or these obligations are guaranteed by it. Only the clearing fees owed are exempt from this guarantee. All payments are collected directly by the Clearing Member.
- Daily profit-and-loss settlement: Accrued profits and losses are offset on a daily basis and are credited or debited to the respective Clearing Member.
- Individual margins: Individual margins cover the potential losses from an open position with a security level of 99 percent during a specified holding period.
- Intraday margin calls: ECC is entitled to carry out intraday margin calls and to request additional collateral at all times if this is required on account of the market or risk situation.
- Allocated own funds of ECC: ECC shall keep the allocated own funds in the amount specified by supervisory legislation at all times. These allocated own funds serve to cover potential losses which are not covered by the individual margins. The allocated own funds shall be used before the clearing fund is used.
- Clearing fund: The clearing fund is a joint form of security provided by all Clearing Members. It covers potential losses which are not covered by individual margins. The amount of the clearing fund is established on the basis of stress tests which are carried out on a daily basis and fulfil the EMIR requirements and the CPSS-IOSCO recommendations for clearing houses. These tests simulate the effects of the default of the biggest participant and of the two participants which cause the highest loss under the assumption of various extreme but plausible market price developments. In addition, an individual minimum contribution is established from the historical additional individual margin of a given Clearing Member (including its Non-Clearing Members and customer positions) over the last twelve months. Depending on the assessment of a given Clearing Member's risk ECC also establishes an absolute minimum contribution to the clearing fund.
- Obligation to replenish the clearing fund: The clearing fund has to be replenished to the original amount within a period of ten business days after it is used. In as far as a Clearing Member is in default, contributions to the clearing fund are released at the earliest one month after all obligations of the Clearing Member that has defaulted have been settled.

- Further own resources of ECC: ECC's further own resources cover potential losses that are not covered by earmarked own funds of ECC, individual margins or by the clearing fund.
- Collateral requirements and collateral haircuts: ECC only accepts cash collateral or collateral whose market price fluctuations are covered by adequate collateral haircuts. Collateral is re-assessed at a minimum on a daily basis. Concentration risks are taken into account.

Own funds are only invested in investments with minimum risk (e.g. as a secured investment and with counterparties with a zero weighting under supervisory legislation) and the highest possible liquidity.

The potential losses arising from the default of due clearing fees are relatively low and are considered in the risk coverage assets.

In the framework of the stress test calculations which serve the calculation of the clearing fund volume, a reverse stress test is carried out in order to identify the stress scenario under which the individual margin requirements, the clearing fund (including ECC's own contribution) and the ECC risk coverage assets are used up.

On the balance sheet date (31st December 2014), the collateral stock amounted to in total EUR 1,019 million. On the other hand, there were margin requirements of EUR 955 million.

**Operational risk**

At ECC, operational risks are defined as comprising all potential cases of damage resulting from:

- Malfunctions of the IT systems used,
- Inadequate design of internal processes,
- Errors by employees,
- Errors by or default of external service providers and
- Legal risks.

The ECC risk strategy pursues the superior aim of minimising operational risks by means of the far-reaching automation in connection with approved methods of systems development and comprehensive test procedures. ECC provides core services itself and also uses external service providers in order to generate economies of scale (in particular as regards system operations). The quality of the service providers is examined in the framework of the selection process and continuously on the basis of the service level agreements concluded. Operational risks are identified and assessed in the context of an annual self-assessment.

Back-up processes have been implemented for critical business processes and are tested regularly. Moreover, the quality of internal management accounting systems is checked regularly by ICS.

In the context of the conclusion of balance agreements, priority rules for the nominations by ECC are aimed at – in as far as such are negotiable.

In addition to this, ECC also has insurance with regard to cases of damage caused by errors in commercial operations (E&O insurance) in the framework of the pecuniary damage liability insurance of Deutsche Börse AG (group policy). The potential losses from operating risks remaining after the payment of insurance sums are considered at the amounts required under supervisory legislation in the risk-bearing capacity concept.

Internal processes are described in the "written rules of procedure" of ECC. These contain process descriptions and controlling activities for all essential processes. They are documented in checklists in order to reduce the likelihood of human errors or omissions.

Legal risks are minimised through the use of the standard set of rules and regulations of ECC in combination with standardised contract forms.

A damage database is kept for the on-going monitoring and reporting of cases of damage during operations. In this database, all operating events (even if such have not led to any direct financial damage) are recorded in a decentralised form and, afterwards, analysed with the participation of the competent members of the Management Board on a monthly basis and, if required, measures are adopted and implemented.

During the year under review, no major damage which could lead to the conclusion that there might be an increased likelihood of the emergence of such cases of damage in the future was caused.

### Liquidity risk

Liquidity risks can arise both from the settlement of the on-going business (uncovered risk) and in the event of a default of a Clearing Member (covered risk).

On account of the pursued business strategy, the settlement of the on-going business does not lead to any material differences in time periods.

The ECC risk strategy pursues the aim of avoiding differences in time periods in the balance sheet by means of an adequate investment policy. The financing requirements for current expenses (incl. profit distributions) and investments are planned and covered in the framework of medium-term planning. Any unplanned funding shortfalls (which might essentially result from taxation matters) are covered by providing liquidity reserves. The liquidity risk is monitored and reported on the basis of the following criteria:

- Rolling 12-month liquidity forecast,
- Analysis of the business risks with the help of various scenarios of business development (which have an effect on liquidity as a result of the discontinuation of cash flows in the form of trade fees),
- Expected wind-down period (period for which ECC would survive in the event of the discontinuation of inflows of cash within the meaning of a reverse stress test)

The default of a Clearing Member and the effects on liquidity are controlled as follows in accordance with the requirements under Article 44 of EMIR in conjunction with the Delegation Regulation 153/2013:

- High requirements put to the convertibility of collateral to be furnished into cash
- Adequate haircuts on collateral furnished
- Provision of liquid resources which, at least, cover the liquidity requirement in the event of the simultaneous default of the two Clearing Members which generate the highest liquidity requirement in extreme (yet plausible) market conditions (stress test)
- Provision of lines by EEX, access to the intra-day credit of the Bundesbank as well as through REPO framework agreements with four commercial banks and Eurex Clearing AG

ECC daily prepares a liquidity report regarding the existing liquid resources as well as the liquidity requirement in the event of the default of the two Clearing Members which generate the highest liquidity requirement under extreme (yet plausible) market conditions. Moreover, the potential sources of liquidity risks are recorded in the liquidity plan (which is updated on a quarterly basis) and discussed by the entire Management Board.

### Market price risk

On account of the positions which are closed on principle in the clearing business, there are no market price risks. The market price risks resulting from the remaining business operations are insignificant and controlled by using the ECC lines of defence for counterparty risks which have already been described.

### Business risk

The essential business risk consists of the company's dependence on only a few high-revenue markets and a potential decline of revenue while fixed costs remain unchanged.

ECC's risk strategy aims at controlling this risk. This is done by avoiding fixed costs in as far as possible by opting for variable cost components, through the inclusion in risk reporting, by comparisons with competitors and by means of monthly financial reporting with target-actual comparisons.

ECC monitors the regulatory changes in cooperation with the European Association of CCP Clearing Houses (EACH) and the auditors and it has developed the competence to assess and control these strategic risks.

Moreover, the business risk is considered in the risk-bearing capacity calculation. In accordance with the requirements under the Delegated Regulation 152/2013, ECC, at least, provides a capital amount sufficient for operating expenses for a period of nine months based on the last audited annual financial statement. A complete erosion of the business model is considered in the scenario analysis in the calculation of the wind-down period (reverse stress tests).

Further business risks which might have an impact on the company's success are addressed in the section "Opportunities and risks".

### Compliance risk

ECC is exposed to compliance risks, in particular, in the field of sales tax fraud, damage to reputation resulting from the unauthorised publication of information and from abuse for money laundering purposes. Furthermore, in its capacity as a credit institution, ECC has to ensure that transactions are not carried out with either natural persons or legal entities listed in the relevant sanctions lists.

ECC settles all transactions via Clearing Members. Since, as banking institutions, these are subject to the rules of the German Banking Act (or of other equivalent European rules and regulations) regarding the implementation of measures to fight money laundering, financing of terrorism and fraud, ECC only has a low risk of being abused for money laundering, financing of terrorism or fraud. This risk is re-evaluated in a risk analysis on an annual basis.

The ECC risk strategy aims at identifying any counterparty with a higher risk profile as early as during the initiation stage of the business relationship by means of a standardised know-your-customer process and a scoring procedure which were developed in cooperation with the exchanges and markets for which ECC provides clearing. In addition, all potential counterparties are checked during the admission process of the exchange and markets or Clearing Members.

During the admission process of new Clearing Members, ECC inquires whether these have implemented adequate measures to combat money laundering. In the event of justified doubt during the ECC admission process, a decision by the ECC Management Board is brought about. Moreover, ECC checks all business partners against known sanctions lists in the framework of the admission process as well as on a monthly basis.

Sensitive information and information which has to be protected is given special protection by ECC. Moreover, EEX has established rules to combat fraud and corruption.

**Summary presentation of the risk situation**

Since 2014, the equity available for covering risks has been determined on the basis of the balance sheet equity of ECC. In previous years, ECC checked its risk position in accordance with the requirements of MaRisk and ESMA. As of 31st December 2014, the EMIR equity was kEUR 39,858 T€ (2013: kEUR 29,243).

Potential losses from the default of ECC Clearing Members are covered by the multi-tier margin system of ECC. In order to ensure compliance with the requirements under Article 45 (4) of the regulation (EU) 648/2012 in conjunction with Article 35 of the Delegated Regulation (EU) 153/2013, ECC has formed earmarked retained earnings to fulfil the requirement regarding allocated own funds. For this reason, this risk category is not compared as against risk coverage assets above and beyond these retained earnings.

On the balance sheet date, the necessary capital requirement with regard to the credit risk (i.e. the risk exceeding the default risks towards trading participants indicated) was kEUR 595.

With regard to operational risks, a capital requirement of kEUR 3,739 is assessed in accordance with the requirements of the Delegated Regulation 152/2013.

The capital requirement with regard to business risks and wind-down costs is established in accordance with the specifications in the Delegated Regulation 152/2013.

The maximum of 25 percent of the operational expenses as per the last audited annual financial statement and the current result of the stress tests regarding the business risk are used to determine the capital requirement for the business risk. In this respect, the capital expenditure was kEUR 4,163 as of 31st December 2014.

In order to determine the capital requirement for settlement risks, 50 percent of the operational expenses as per the last audited annual financial statement are assessed. The capital requirement for this was kEUR 8,327 as of 31st December 2014.

The risk coverage assets available to cover risks are considered as being sufficient to cover the expected risk at all times.

The overall assessment for the financial year 2014 did not reveal any threats to the continuation of business on account of individual risks or of the aggregated risk item. The Management Board does not expect any material changes in the ECC risk profile for the next financial year.

## 7. Outlook, opportunities and risks

EEX continues to face with optimism the competitive pressure arising from regulatory uncertainty, growing customer requirements as well as the increasing professionalism of competitor exchanges and the continuing consolidation of the exchange landscape. This optimism is based on the competitive value chain within EEX Group which is characterised by liquid trading platforms and cost-effective clearing solutions. ECC also pursues the aim of generating ambitious growth rates and expanding its position so as to be the leading clearing house for energy trading in the future.

In its growth strategy ECC continues to rely on the strategy of finding new partner exchanges in order to diversify its revenue structure. In view of the current developments on the market, the further development of markets together with partners and on the basis of cooperations and the expansion of the product and service range are increasingly gaining in importance. Together with its partner exchanges ECC pursues the aim of offering clearing services for all important energy trading markets in Continental Europe. In addition, Trade Registration of these products is to be offered.

## Competitive environment

ECC is the central clearing house for energy and related products in Europe. As a service provider for the fields of clearing and settlement ECC directly competes with other clearing houses. Since the settlement of products is largely effected via technical systems and does not necessarily require a local personal contact between the clearing house and the trading participant, ECC faces an international competitive environment.

In addition to the direct competitive pressure from competing clearing houses and brokers, the competitors of the exchanges cooperating with ECC also influence the business success of ECC. This is the case because changes in the trading volumes on the market platforms connected with ECC have a direct influence on the volume settled. Therefore, indirect competitive pressure is caused by the possible shift of trading volumes to market platforms which are not served by ECC. For this reason, the future development of the market platforms for energy and related products in Europe is of decisive importance for ECC.

The current situation on the market is, for example, influenced by the following trends which are relevant for energy exchanges:

- Increasing maturity of energy trading in Europe
- Increasing professionalism of exchange platforms
- Increasing demands on the part of the customers
- Increasing importance of clearing, e.g. on account of increasing risk awareness and regulatory requirements

The increasing standardisation of products, the entry of exchanges operating globally into the market and a substantial share of financial players in trading reflect the increasing maturity of the markets. At the same time, competitive and price pressure is steadily increasing. In the context of competition and technical progress, the customers' requirements regarding the product range, prices and technical standards have increased and contribute to the growing professionalism of the exchanges. The growing risk awareness of the market players and new regulatory provisions (e.g. EMIR) increase the importance and the benefit of central (clearing) counterparties. Furthermore, as a result of new regulatory provisions, an increasing convergence of the business models of broker and exchange trading platforms, along with a corresponding intensification of the competition are foreseeable.

## Outlook

In 2014, derivatives trading on the power market of EEX Power Derivatives GmbH again increased significantly as against the previous year and reached new record levels. This is essentially based on the improved quality of the order book as a result of closer spreads, i.e. the range between bid and ask price offers in the order book, the improved technical infrastructure and improved connectivity. In addition, this development can be seen as an expression of confidence in the regulated market of EEX Power Derivatives GmbH. In combination with the planned extension of the product offering to further European market areas, the further development of the existing markets through the introduction of new contracts, the connection of these markets via so-called Location Spreads as well as the close proximity to the customers through local establishments in important markets, there continues to be good growth potential in this respect. However, safeguarding energy-policy stability and reliability will be of decisive importance for this. Moreover, there is great potential for bringing increased market shares from the still very big uncleared over-the-counter market to the exchange market and for transferring such to settlement and clearing by ECC.

Trading in natural gas creates significant growth potential especially as a result of the consolidation of the business activities within Powernext in connection with the further development of the PEGAS platform and the expansion into further European gas market areas. The merger of the EGEX and Powernext gas markets leads to a single membership, with a uniform set of rules and regulations and provides direct benefits for the customers. In this context, the trading participants benefit from a further harmonisation of the platform and stronger support from the market. With regard to this, the configurability of the consolidated platform leads to shorter development times for new products and services. The increased liquidity and quality of the spreads in the products offered was already reflected in the significantly increased trading volumes as early as in 2014.

On the market for emission allowances, the EEX Group currently successfully operates the transitional platform for the execution of the primary market auctions of the third trading period of the EU Emissions Trading Scheme and for Poland. In addition, the EEX Group was awarded the contract for the German permanent auction platform and carried out the corresponding auctions without any problems. Winning of the tender procedure for the permanent EU auction platform (which began at the end of 2014) creates opportunities for additional revenue potential within Europe.

Against the background of the partner exchange approach, various extensions are planned in 2015. On the one hand, ECC will expand its clearing offering with the products of the EEX subsidiary CLTX and, on the other hand, ECC will launch clearing for the Norwegian NOREXECO exchange in 2015. In keeping with the strategic aim of continuing the diversification strategy and of growth into new business fields, EEX will take over the entire agriculturals business of EUREX in 2015. ECC will settle the financially settled products as a clearing service provider.

ECC continuously promotes the reduction of internal complexity and increases in efficiency in order to improve its competitive position. In 2015, the internal processes as well as the IT infrastructure will for example be continuously improved and simplified through a further consolidation of the various business applications.

ECC focuses, in particular, on the constant improvement of the systems and processes for the physical settlement of power and gas transactions. The growing importance of short-term trading is connected with the requirement for technical infrastructures with a correspondingly high availability. ECC is constantly investing in this segment and will e.g. permit the reduction of the entire lead time until the delivery on local markets from 45 minutes today to 30 minutes in the future on the basis of a renewed settlement infrastructure for the EPEX power intraday market in 2015.

## Growth opportunities

An improvement of the financial market policy situation within the Euro zone (which is decisive for ECC) is of the utmost importance for the attainment of the ECC growth targets and should lead to positive impulses for the partner exchanges' trading volumes and to enhanced results for ECC.

ECC's position as a specialist clearing house for energy and related products with an integrated business model constitutes a unique selling proposition compared to the competitors. This creates opportunities for ECC to gain exchanges which have not been connected to ECC so far as cooperation partners. In this respect, identifying, developing and continuously communicating the energy market-specific advantages of the ECC settlement systems to potential new partners is of decisive importance. The approach of integrating several market platforms, products and commodities within one uniform settlement system (integrated clearing) which is pursued by ECC constitutes an essential advantage over competitors. This model offers significant cost advantages, in particular, for trading participants operating on several market platforms, since contrary positions can be considered in the calculation of the collateral to be furnished (cross-margining).

Finally, the increasing importance of clearing, i.e. the settlement of trading transactions via central counterparties, creates additional growth opportunities for ECC. As a result of the discussion of the causes of the financial and economic crisis, the advantages of clearing are increasingly perceived in terms of regulation and public awareness. This offers opportunities to increase the share of cleared transactions in the overall trading volume. Amendments of regulatory framework conditions, such as through EMIR, do not constitute a mandatory precondition for this. Instead, it is of decisive importance that the trading participants recognise and use the benefits of cleared transactions. In markets with high counterparty default risks, in particular, clearing via ECC offers the trading participants major advantages. Furthermore, the transparent presentation of the cost advantages provided by ECC both towards the trading participants and towards political institutions, together with the constant expansion of the clearing services (in terms of geographic coverage and quantity) offers the opportunity to significantly and sustainably increase the volume of the transactions settled by ECC.

## Risks

The most important risks for the business development of ECC results from the following fields:

- regulation in the financial and energy sector and
- intensification of competition.

The Management Board perceives the biggest risk for ECC in the definition of financial instruments in the European MiFID II Directive. Certain physical derivatives on natural gas and power which are traded over the counter are not classified as financial instruments, which means that trading in those derivatives is not covered by MiFID II. Moreover, EMIR uses the definition of the financial instrument in MiFID so that these over-the-counter physical derivatives are also not regulated via EMIR. The derivatives trading exchanges, which are usually connected to ECC within the meaning of MiFID II, cannot offer such an exception. Therefore, overall, trading in such contracts has significant regulatory advantages compared with products on EEX and other partner exchanges which are covered by MiFID II (no need to acquire a financial services licence entailing the corresponding provision of equity, no position limits, no reporting obligations and no forced clearing as per EMIR). This can lead to a general restraint of the trading participants as to trading and, if applicable, to a possible shift in volumes away from the exchange and towards less regulated or standardised platforms. The less regulated products referred to above can only be traded on platforms which are called Organised Trading Facilities (OTFs). A general decline in trading activities is also conceivable. Volumes which are registered for clearing via Trade Registration are also subject to this risk since derivatives traded over the counter are converted into financial instruments through the exchange process of Trade Registration.

Moreover, the possible introduction of a financial transaction tax in Germany entails significant risks for EEX. There are plans to charge a flat-rate tax on the nominal value of every commodity derivatives transaction concluded in Germany. On account of the comparatively high nominal values, of e.g. a Phelix year future, the financial transaction tax might lead to a reduction in the trading interest. However, at present, we cannot tell whether energy products will actually be defined as commodity derivatives transactions. Even if the legislative projects regulating the energy and financial market will not take full legal effect (or will not be applied finally) in 2015, the projects can have an indirect effect on the business of

EEX Group if market players anticipate certain developments and take a “wait-and-see” approach.

The increasing competitive and price pressure constitutes a further significant risk. In future, a further intensification of the competition and progressing consolidation as well as a reduction in the number of exchanges in the energy sector in Europe is to be expected. The entry of competitors into existing and growth markets of the clearing house’s partner exchanges entails the risk of decreasing trading and, hence, clearing volumes for ECC.

The ECC Management Board is convinced that the company has established a sound position for itself in its competitive environment so that it can attain its aims and defend - or further strengthen - its position, even with intensified competition. Current developments regarding tighter regulatory requirements as well as ECC’s development in its core business as compared with the dynamic competition are monitored and internally evaluated without delay.

## Forecast report

In 2015, the power spot and derivatives market will again provide the main revenue contribution. Last but not least, a price increase for clearing of the power intraday spot markets reflecting the increased levels of investments in this market from 1st January 2015 will help to strengthen this revenue component. Moreover, the sales generated in the framework of the PEGAS cooperation are increasingly gaining in importance and, as a result, they support the ECC diversification strategy. ECC is expected to generate provision income of between kEUR 36,330 and kEUR 38,257. This range is calculated by using a 3 percent surcharge or discount on the budgeted value for 2015. The fact that this range is lower than the 2014 level is primarily due to the fact that the high volumes on the power derivatives market in the second half of 2014 were considered as being unforeseeable and results which could not be planned on a sustainable basis in view of the volatility of the markets.

The range of commission fees from kEUR 28,723 to kEUR 30,454, which was assumed for 2014, were exceeded because of the extremely successful development of the power derivatives market of EEX Power Derivatives GmbH and on the EGEX and Powernext natural gas spot and derivatives markets, as well as of the EPEX power spot market.

In the context of the implementation of the IT strategy in 2015, one-off expenses will be incurred for the maintenance and optimisation of the IT infrastructure and processes as well as because of the further development of existing clearing systems in order to achieve increases in sales and economies of scale in the future. Moreover, depreciations are also expected to increase because of the required investments in software and systems. Personnel expenses will increase as a result of planned new employees for the market and product development and as a result of salary adjustments.

Depending on the development of the sales revenue specified above, ECC expects EBT in a range of between kEUR 15,856 and kEUR 17,891. According to the budget, the 2014 earnings level will only be re-attained in the following years.

Because of the positive development of the commission fees, the result expected for 2014 was exceeded. The range was from kEUR 11,846 to kEUR 13,498.

# 8. Events after the balance sheet date

There were no events of special importance for the company's earnings, assets and financial situation after the end of the financial year 2014.

# 9. Other Notes

### Reservation regarding statements about the future

This report contains forward-looking statements. These statements are based on current expectations, assumptions and forecasts by the Management Board and on the information which is currently available for it. These forward-looking statements should not be considered a guarantee of the future developments and results mentioned in these. The future developments and results rather depend on a large number of factors. They comprise various risks and uncertainties and are based on assumptions which might turn out to be incorrect. We do not accept any obligation to update the forward-looking statements provided in this report.

# 10. Final Statement for the Subordinate Status Report

### Statement by the Management Board according to Art. 312 Paragraph 2 AktG [German Companies Act]

As a subsidiary of EEX AG, ECC has prepared a subordinate status report according to Art. 312 AktG. The final statement is as follows:

"In accordance with Art. 312 AktG, the Management Board of ECC AG declares that it has received adequate consideration for every legal transaction listed below. The assessment was made on the basis of the circumstances at the time at which the legal transaction was concluded in each case.

There were no further legal transactions in addition to the legal transactions listed below and, moreover, we do not know of any other measures which would have to be reported."

Leipzig, 16th February 2015

| | |
|---|---|
| Peter Reitz | Steffen Köhler |
| Chief Executive Officer (CEO) | Member of the Management Board (COO) |
| Iris Weidinger | Dr. Thomas Siegl |
| Member of the Management Board (CFO) | Member of the Management Board (CRO) |

# Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the European Commodity Clearing AG, Leipzig, for the business year from January 1 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, February 16, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

signature signature

Mock — German Qualified Auditor

Müller — German Qualified Auditor