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, 2016 to December 31, 2016. 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 in such a manner 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, complies with the German statutory requirements, 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, March 8, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dielehner	Jung
Wirtschaftsprüfer	Wirtschaftsprüfer

European Commodity Clearing AG, Leipzig

Balance Sheet as of 31st December 2016

Assets

		31 Dec. 2016	31 Dec. 2015
	€	€	€
1. Cash reserves			
Cash at central banks	3.017.809.340	3.017.809.340	1.072.561.774
of which at Deutsche Bundesbank: EUR 3,017,809,340 (2015: EUR 1,072,561,774)			
2. Accounts receivable from banks			
a) Due every day	16.841.497		
b) Other accounts receivable	1.046.970	17.888.467	19.644.189
3. Accounts receivable from customer	14.197.455	14.197.455	6.113.712
4. Shares in affiliated companies	18.500	18.500	18.500
5. Intangible assets			
a) Licenses regarding rights and values	16.405.743		16.437.771
b) Goodwill	-	16.405.743	
6. Property, plant and equipment	22.872	22.872	29.881
7. Other assets	11.137.515	11.137.515	29.518.801
8. Accruals and deferrals	1.731.594	1.731.594	994.649
9. Excess of plan assets over pension liability	16.088	16.088	15.666
Total assets		**3.079.227.574**	**1.145.334.943**

Liabilities

		31 Dec. 2016	31 Dec. 2015
	€	€	€
1. Liabilities to banks			
Due every day	1.347.321.759	1.347.321.759	514.906.283
2. Liabilities to customers	1.633.485.749	1.633.485.749	514.186.181
3. Trust liabilities	-	-	-
4. Other liabilities	19.035.443	19.035.443	63.562.123
5. Accruals and deferrals	-	-	-
6. Deferred tax liabilities	-	-	-
7. Provisions			
a) Provisions for pensions and similar commitments	-		
b) Tax provisions	-		
c) Other provisions	5.449.772	5.449.772	3.745.505
8. Equity			
a) Subscribed capital	1.015.227		1.015.227
b) Capital reserve	39.300.495		14.300.495
c) Retained income			
Other retained earnings	33.619.129		33.619.129
d) Balance sheet profit	-	73.934.851	
9. Annual net profit	-	-	
Total liabilities		**3.079.227.574**	**1.145.334.943**

1. Contingent liabilities			
Liabilities from guarantees and guarantee contracts	329.547.424	329.547.424	116.225.779

European Commodity Clearing AG, Leipzig

Profit and Loss Account
for the Period from 1st January 2016 to 31st December 2016

		2016 €	2016 €	2016 €	2015 €
1.	Interest income from				
	a) Credit and money market transactions		152.640		87.417
2.	Interest expenses		7.063.345	-6.910.705	1.863.136
3.	Current income from investments in affiliated companies			28.364	32.837
4.	Income from commission fees		75.388.479		54.804.057
5.	Expenses for commission fees		3.802.047	71.586.432	4.562.014
6.	Other operating income			8.986.048	3.470.451
7.	General administrative expenses				
	a) Human resources expenses				
	aa) Wages and salaries	4.741.383			4.185.001
	ab) Social insurance contributions and expenses for old-age pension and for support	979.949	5.721.332		824.782
	including:				
	Expenses for old-age pension EUR 323,366 (2015: EUR 309,983)				
	b) Other administrative expenses		16.950.513	22.671.845	13.518.435
8.	Depreciation and value adjustments of intangible assets and property, plant and equipment			1.499.794	430.035
9.	Other operating expenses			1.282.006	780.115
11.	**Result of ordinary operations**			**48.236.493**	**32.231.244**
12.	Extraordinary expenses				
13.	Taxes on income and profit			41.074	- 16.766
14.	Profit transfer			-48.195.419	- 32.248.010
15.	**Annual profit**			**0**	**0**
16.	Profit carried forward from the previous year				
17.	Additions to retained income				
	a) to other retained income				
18.	**Balance sheet profit**			**0**	**0**

Leipzig, 17th January 2017

European Commodity Clearing AG, Leipzig

N O T E S 2016

The annual financial statement of European Commodity Clearing AG (“ECC AG”) for the financial year 2016 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 income statement according to RechKredV has a graded structure (form 3). The development of the individual items of the fixed assets is shown separately.

ECC is a subsidiary of European Energy Exchange AG (EEX), Leipzig. It is included in the consolidated financial statement of EEX and of Deutsche Börse AG (Deutsche Börse), Frankfurt am Main. Both are available at the German electronic gazette (www.ebundesanzeiger.de). ECC is registered in the commercial register of Leipzig Local Court in section B under the no. 22362.

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 subgroup financial statement is in accordance with Art. 291 Paragraph 1 HGB.

A profit-and-loss transfer agreement has been concluded by and between ECC and EEX.

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 were used. The going concern principle was applied; assets and liabilities were 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.

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 were netted out since the preconditions for an offsetting condition are 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.

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.

Liabilities

On the balance sheet date, there was a letter of comfort between ECC and ECC Luxembourg. More detailed information on this is provided under "Contingent liabilities".

Deferred taxes

In principle, 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.

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 and customers

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 2016, the shareholdings according to HGB were as follows:

Name	Registered office	Share in %
European Commodity Clearing Luxembourg S.à r.l.	Luxembourg (Luxembourg)	100.00

Intangible assets

Intangible assets are reported in the balance sheet at kEUR 16,406 (2015: kEUR 16,438) as of 31st December 2016.

Property, plant and equipment

Property, plant and equipment had a book value of kEUR 23 (2015: kEUR 30) on 31st December 2016.

Other assets

As of the balance sheet date, the other assets amounted to kEUR 11,138 (2015: kEUR 29,519). This amount essentially consists of accounts receivable from input tax (kEUR 4,826), accounts receivable from affiliated companies for clearing services (kEUR 3,426) and outstanding accounts receivable from nomination and delivery (kEUR 1,204).

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” (ARAP).

On 31st December 2016, there were deferred expenses and accrued income of kEUR 1,732 (previous year: kEUR 995).

Excess of plan assets over pension liabilities

The excess of plan assets over pension liabilities of kEUR 16 (2015: kEUR 16) 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 19,035 (2015: kEUR 63,562).

Essential items comprise accounts payable to shareholders of k€ 13,935 (2015: k€ 32,556) from profit-and-loss transfer and from charging-on of material costs, liabilities to affiliated companies of k€ 2,889 (2015: k€ 30,572) for open items from nomination and delivery and trade accounts payable of k€ 1,849 (2015: k€ 371) for open items from as yet unpaid incoming invoices.

There were no liabilities with a remaining term of more than one year.

Provisions

	31/12/2016 kEUR	31/12/2015 kEUR
Outstanding invoices	3,239	1,651
Personnel liabilities	2,003	1,788
Supervisory Board emoluments	95	100
Legal risks and auditing costs	94	98
Compensation claims	0	90
Other provisions	19	19
Total	**5,450**	**3,746**

The personnel provisions essentially comprise bonus payments for the past financial year.

Interest rates of 3.19% (6-year period of retention of documents) and of 3.66% (10-year period of retention of documents) were used for the calculation of the provision regarding the obligation to retain business documents.

Equity

The equity of ECC was unchanged and amounted to EUR 1,015,227. It was divided into 1,015,227 bearer share certificates.
On 31st December 2016, the capital reserve amounted to kEUR 39,300 (2015: kEUR 14,300). In December 2016, the capital reserve was increased by k€ 25,000.

Retained income

The other retained income amounted to kEUR 33,619 (2015: kEUR 33,619). This included the provision of kEUR 7,500 according to EMIR article 45.

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 2016, interest income of kEUR 153 (2015: kEUR 87) was generated. The cash collateral deposited resulted in interest expenses of kEUR 7,063 (2015: kEUR 1,863), which were offset by an administrative fee charged to the clearing banks.

Income from commission fees

The commission fees of kEUR 75,388 (2015: kEUR 54,804) concerned fees for clearing services by ECC. According to material criteria, the commission fees have the following structure:

Income from commission fees	**2016 kEUR**	**2015 kEUR**
Derivatives Market clearing fees	44,946	29,659
Spot Market clearing fees	29,823	24,562
Annual fees and other income from clearing	619	583
Total	**75,388**	**54,804**

Commission expenses

The commission expenses of kEUR 3,802 (2015: kEUR 4,562) essentially comprise volume-dependent system expenses.

Other operating income

The other operating income of kEUR 8,986 (2015: KEUR 3,470) essentially resulted from a fee charged for the management of cash collateral deposited by clearing banks (kEUR 6,872) and from the provision of services for affiliated companies and shareholders and from charging-on of material costs to these (kEUR 1,258). In addition, there was revenue unrelated to the accounting period of kEUR 422, which largely resulted from the release of provisions.

General administrative expenses

The general administrative expenses of kEUR 22,672 (2015: kEUR 18,528) include the following items:

General administrative expenses	2016 kEUR	2015 kEUR
Personnel expenses	5,721	5,010
Wages and salaries	4,741	4,185
Social insurance contributions	980	825
Other administrative expenses	16,951	13,518
Expenses for business management services	7,604	5,761
Overheads & marketing	3,724	3,189
Systems expenditure	3,478	2,957
Consultancy services	2,145	1,611
Total	**22,672**	**18,528**

The increase in personnel expenses resulted from the increased number of employees. The increase in the other expenses results from the settlement of the increased business volume.

Other operating expenses

The other operating expenses of kEUR 1,282 (2015: kEUR 780) essentially comprise expenses from input tax corrections (kEUR 1,120), which are due to sales that are exempt from sales tax.

Taxes on income and profit

The tax expenses of kEUR 41 results from previous years.

4. Other Notes

Structure of the collateral

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	**31/12/2016 EUR million**	**31/12/2015 EUR million**
Cash funds	2,974	900
Securities and book-entry securities (after haircut)	231	323
Total	**2,974**	**1,223**

On 31st December 2016, the ECC clearing fund amounted to EUR 281 million (2015: EUR 191 million).

Other financial obligations

The other obligations are listed in the table below:

Financial obligation	**Total kEUR**	**2017 kEUR**	**2018 to 2021 kEUR**	**2022 to 2026 kEUR**
Provision of management services (MS)	7,404	7,404	0	0
System expenses/maintenance	6,431	3,321	3,110	0
Building (rent)	2,054	205	822	1,027
Vehicles	63	29	34	0
Other	843	691	92	60
Total	**16,795**	**11,650**	**4,058**	**1,087**

As of the balance sheet date, there were other contractual liabilities of kEUR 16,795; kEUR 13,627 thereof from management services, system expenses and building (rent) towards affiliated companies.

Contingent liabilities

ECC guarantees the trade accounts payable of ECC Luxembourg amounting to kEUR 329,547 (2015: kEUR 115,240) 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

On the balance sheet date, there were 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 corresponded to the fair value.

Human resources development

In the financial year under review, on average 51.75 employees (2015: 41.5 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 1,296 (2015: kEUR 1,404).

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 disclosed in the EEX consolidated financial statement.

Supervisory Board

The Supervisory Board has the following members:

Dr. Jürgen Kroneberg (Chairman)	Lawyer, Köln
Hans E. Schweickardt (Deputy Chairman, from 16th June 2016)	Chairman of the Supervisory Board, Polenergia S.ar.l., Warsaw/Poland

Jürg Spillmann (Deputy Chairman)	Member of the Management Board, Eurex Zürich AG, Zurich/Switzerland
Roland Werner (Deputy Chairman, until 16th June 2016)	Dresden
Prof. Harald R. Pfab	Managing Director, HHP Beratung GmbH, Fronreute
Vincent van Lith	Executive Director, ABN AMRO Bank N.V., 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, Hans Schweickardt and Jürg Spillmann.

In the past financial year, the members of the Supervisory Board received emoluments of kEUR 95 (2015: kEUR 100).

Leipzig, 8th March 2017

Peter Reitz
Chief Executive Officer (CEO)

Steffen Köhler
Chief Operating Officer (COO)

Dr. Thomas Siegl
Chief Risk Officer (CRO)

Iris Weidinger
Chief Financial Officer (CFO)

European Commodity Clearing AG, Leipzig

Development of the Fixed Assets in the 2016 Financial Year

	Costs of acquisition and production					Depreciations				Residual book values	
	01.01.2016	Additions	Disposals	Transfers	31.12.2016	01.01.2016	Additions	Disposals	31.12.2016	01.01.2016	31.12.2016
	€	€	€	€	€	€	€	€	€	€	€
1. Intangible assets	**27.783.050,15**	**1.459.018,44**	**0,00**	**0,00**	**29.242.068,59**	**11.345.278,91**	**1.491.046,38**	**0,00**	**12.836.325,29**	**16.437.771,24**	**16.405.743,30**
20500000 Costs of acquisition of group and commercial property rights	14.743.000,00	81.038,73	0,00	0,00	14.824.038,73	0,00	741.202,73	0,00	741.202,73	14.743.000,00	14.082.836,00
20500020 IT software	5.103.408,51	1.045.566,76	0,00	1.098.810,89	7.247.786,16	4.246.096,51	749.843,65	0,00	4.995.940,16	857.312,00	2.251.846,00
23700000 Advance payments on intangible assets	837.459,24	332.412,95	0,00	-1.098.810,89	71.061,30	0,00	0,00	0,00	0,00	837.459,24	71.061,30
20700000 Goodwill	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. Property, plan and equipment	**285.903,86**	**1.739,00**	**0,00**	**0,00**	**287.642,86**	**256.022,86**	**8.748,00**	**0,00**	**264.770,86**	**29.881,00**	**22.872,00**
21810000 Fixtures and furnishings	216.848,92	554,54	0,00	0,00	217.403,46	207.138,92	5.046,54	0,00	212.185,46	9.710,00	5.218,00
21830000 Office furnishings	43.389,35	0,00	0,00	0,00	43.389,35	23.218,35	2.517,00	0,00	25.735,35	20.171,00	17.654,00
21811000 Minor assets	16.139,72	1.184,46	0,00	0,00	17.324,18	16.139,72	1.184,46	0,00	17.324,18	0,00	0,00
21812000 Compound item - minor assets	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**
26100000 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
	28.087.454,01	**1.460.757,44**	**0,00**	**0,00**	**29.548.211,45**	**11.601.301,77**	**1.499.794,38**	**0,00**	**13.101.096,15**	**16.486.152,24**	**16.447.115,30**

Management Report of European Commodity Clearing AG, Leipzig, for the Financial Year 2016

Table of content

1. About the Company

1.1 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 has evolved into the leading clearing house for energy and related products in Europe. In 2016, it celebrated its 10th anniversary. On 31st December 2016, the company employed a staff of 58.

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 risk management through the integration of different market platforms, products and commodities into a uniform system. ECC provides clearing services for all markets of the European Energy Exchange (EEX), EPEX SPOT (EPEX), Powernext, incl. Central European Gas Hub (CEGH) and Gaspoint Nordic (Gaspoint Nordic), and Power Exchange Central Europe (PXE). In addition to this, co-operations with other exchanges outside EEX Group have been entered into since 2006. At present, the focus is on the creation of clearing offers across markets and products in the field of derivatives and spot trading. Currently, ECC co-operates with HUPX Hungarian Power Exchange Ltd. (HUPX), NOREXECO and SEEPEX.

ECC is wholly owned by EEX. In 2015, a profit-and-loss transfer agreement was concluded between ECC and EEX.

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 and approves the activities of the Management Board as well as of the Supervisory Board.

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 present, the Supervisory Board has six members.

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.

1.2 Strategy and control

Strategy

The strategic alignment of ECC is very much based on customer and market requirements. Its leading position as a clearing house for energy and related products in Europe and, increasingly, also in other commodities, which is characterised by the far-reaching international network of Clearing Members as well as the close interconnection with the partners relevant for the physical settlement of the value of goods (e.g. transmission system operators), confirms the success of this model. Integrated clearing, i.e. integrating several market platforms, products and commodities in a uniform risk management and settlement system, forms an element in the corporate strategy for the further development of business. In this context, ECC primarily focuses on the following fields of subjects:

- Maximising the benefit of clearing for the participants across partner exchanges, markets and products,
- Integration of further partner exchanges in order to expand the trading partner base
- Expansion of the diversification of the business model for the clearing house and
- Establishment of clearing services as an important market element in connection with the physical settlement of energy trading transactions.

As a result of the significant increase in legal requirements, ECC increasingly focuses on regulatory subjects. As a result of the close monitoring and of the contributions made to the regulatory debate, targeted measures can be taken early on in order to ensure competitiveness and take account of as well as implement customer requirements.

The focus is, in particular, on the risk strategy. In addition to adequate collateralisation of the default risk, clearing efficiency and, in particular, margin efficiency are especially important.

Corporate management

ECC essentially uses the parameters of sales, costs, EBT, and liquidity to monitor and manage the Company. Moreover, the risk parameters according to EMIR are also very significant for the clearing house.

The revenue generated by ECC is influenced, in particular, by income from commission fees (transaction and annual fees), interest income and other operating income. As regards expenses, we differentiate between commission 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 situation” for details).

Approximately 86 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 would have a direct impact on the profitability of ECC.

Internal control system (ICS)

EEX Group has an internal control system (ICS) which ensures process reliability and, hence, indirectly helps to attain the corporate aims. It is also used within ECC. The ICS is established properly and monitored by the internal auditing department. Essential operating transactions are reported to the Management Board and the Supervisory Board on a regularly basis – and, if required, ad hoc (see also “Risk Management” with regard to this).

2. Economic development

2.1 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.

Essential factors influencing the transaction fees

The amount of the transaction fees is determined by three essential influencing factors. Apart from the size of the overall market, the transaction revenue also depends on the market share achieved by EEX Group and on the fee structure. The market share and the fee structure are monitored in the framework of the implementation of the group strategy and of corporate management with a focus on increasing market shares and preserving the competitive fee structure. By contrast, the size of the overall market cannot be influenced by ECC and essentially depends on the following factors:

- Physical energy consumption and market maturity (churn rate)
- Price development and volatility on the energy markets
- Regulatory framework conditions

Physical energy consumption and market maturity

According to calculations by the Working Group on Energy Balances, physical energy consumption in Germany rose by 1.6 percent in 2016 as against 2015. According to these, the development was essentially driven by the weather which was colder than in 2015, the leap day this year, the continued good economic development and the population growth. This was partly offset by the growing energy efficiency in Germany. Moreover, it is most likely that the physical energy consumption has again increased in the 2016 financial year.

Natural gas consumption also increased during the past financial year. According to the quarterly report of the European Commission on the European gas markets, gas consumption in the European Union remained constant in the first quarter of 2016 and rose by 9 percent and 3 percent during the next two quarters each as against the respective quarters in the previous year. However, figures for the fourth quarter were not yet available at the time at which this management report was prepared.

The maturity of the individual energy markets is measured with the help of the so-called churn rate. This parameter indicates how often a mega-watt hour of power or natural gas is traded on the markets before it is actually physically delivered. This means it corresponds to the proportion between the total trading volume and energy consumption. The higher the churn rate is, the higher the total trading volume and the liquidity of the market and, hence, its market maturity are.

According to data of the European Union, the churn rate of the German Power Derivatives Market increased significantly in the past and, at a level of 18, it reached a new maximum value in the second quarter of 2016. Hence, Germany is now the most mature market. All other European power derivatives market areas have a churn rate of, at a maximum, 5. Moreover, the churn rate of the French Power Derivatives Market increased to 3.5 during the same period, while in Italy it is around 3. Within the gas market segment, the Dutch TTF (Title Transfer Facility) market area has the highest churn rate, followed by the British NBP (National Balancing Point). In 2015, these values were 47.7 for TTF and 28.5 for NBP. However, the 2016 churn rates were not available at the time at which this management report was prepared.

Price development and volatility on the energy markets

In the 2016 financial year, the price decline on the commodity markets, which was already observed in previous years, essentially continued. While, in 2011, a price of EUR 51.12 per MWh was paid on the German Day-Ahead Market for Power, this price declined to EUR 28.98 per MWh in 2016 (2015: EUR 31.63 per MWh). In 2016, Market participants who bought base-load power for 2017 on the Derivatives Market (Phelix Baseload Year Future) only had to pay EUR 26.58 per MWh on average (2015: EUR 30.97 per MWh). Moreover, the monthly EGIX gas price index had an average price level of EUR 14.13 per MWh during the reporting year and was, hence, 31 percent below the 2015 level (EUR 20.46 per MWh). While the 2016 average prices were lower than the 2015 prices, commodity prices increased again during the financial year and, in part, concluded the year significantly above the annual average.

In general, the 2016 financial year was shaped by high volatility, i.e. strong price fluctuations, in particular, on the Power Derivatives Markets. Because of unscheduled production downtime of French nuclear power plants in the autumn/winter of 2016, significant price increases were observed on the Power Derivatives Markets. High volatility usually has a positive effect on trading activity since in the event of a broader range of fluctuations in commodity prices there is a higher need for the adjustment of hedging positions.

Regulatory framework conditions

In 2016, the energy markets were again shaped by discussions regarding adjustments of existing and the introduction of new regulatory measures. The most important projects for energy trading are or were:

- The design and national implementation of the revised EU Markets in Financial Instruments Directive (abbreviated: MiFID II) and the appertaining EU MiFIR regulation with the Regulatory Technical Standards (RTS) No. 20 and No. 21, which were published in December 2016, being particularly relevant in this respect.

- Setting of the course for the power market design with regard to the further integration or renewable energies, the flexibilisation of the market and ensuring the security of supply.
- The lasting critical discussion of the division of the German-Austrian bidding zone into several smaller market areas as a result of network congestion and insufficient grid expansion.
- The institutionalisation of the role of exchanges in market coupling with a guideline for capacity allocation and congestion management (CACM).

The revised **EU Markets in Financial Instruments Directive (MiFID II)**, which will take effect in January 2018, significantly changes the rules for trading in commodity derivatives. The general exception for commodity derivatives, which has applied so far, was cancelled and, hence, replaced by a so-called "ancillary activity exemption". As a result, only trading participants with relatively low trading activities will be exempt from the MiFID II requirements. This could lead to a situation in which a number of energy traders might be forced to reduce their trading activities accordingly. In this context, it has to be highlighted that after long discussions the technical regulatory standards now establish that in the framework of the calculation of whether a company benefits forms the ancillary activity exemption the volume of the trading transactions is put in proportion to the invested capital of a company, e.g. in power plants (so-called "Capital Employed Test"). The smaller the share, the higher is the likelihood of benefitting from the ancillary activity exemption. This takes account of the particularities of energy suppliers. However, practice will have to show how this exception is used by the market participants. In addition to this, trading activities which are carried out at an Organised Trading Facility (OTF) – a new trading platform category introduced under MiFID II – will be exempt from MiFID II. Compared with this, similar transactions which are concluded at a regulated market or on an exchange are part of the scope of application of MiFID II. We cannot rule out that such unequal regulatory treatment might entail shifts in volumes from regulated markets to OTFs.

After years of discussions, important strategic decisions regarding the future power market design were taken in 2016. In Germany, the new **electricity market law** adopted in the summer of 2016 paved the way for the "power market of the future". Based on market mechanisms and the market price signal as a central coordinating instrument, the existing market design is to be optimised and made more flexible. At the same time, a number of detailed regulatory specifications and implementation measures are required. And, in part, these are in conflict with the market-based approach. At the end of 2016, the EU Commission also presented proposals for the further development of the power market in the framework of its so-called "Winter Package". In addition to fundamental questions of market design, these proposals also include aspects of border-crossing trading as well as the promotion and integration of renewable energies. These proposals will now go through the proper EU legislative procedure. Concrete results and legally binding decisions can be expected, at the earliest, in 2018.

The debate regarding the **re-structuring of bidding zones** on the power market as a result of grid congestion and the insufficient grid expansion has reached a critical phase. In this process, the federal government, together with the Federal Network Agency, and the European Agency for the Cooperation of Energy Regulators (ACER) have advocated the introduction of congestion management at the German-Austrian border, which would correspond to a de-facto separation of the current common bidding zone. At present, talks involving the transmission system operators and power exchanges are underway in order to prepare such a step. As seen from the perspective of EEX Group, care has to be taken to ensure that a division – if such is actually carried out – is designed so as have the lowest possible effect on the market.

Originally, the **guideline for capacity allocation and congestion management (CACM)** was designed to facilitate a stronger border-crossing cooperation between the respective transmission system operators in the form of a non-binding technology and operations guideline. In 2015, this took effect as a guideline and, essentially, pursues three aims:

- Promoting competition at all levels of the value chain and creating the necessary framework conditions
- Optimum use of the transmission infrastructure
- Ensuring security of supply

For the exchanges, the CACM Regulation is of such outstanding importance, in particular, because it introduces a new concept: that of the “nominated electricity market operator” (NEMO). This helps to institutionalise the role of the exchanges in the context of market coupling – a role which they have only assumed factually so far. In other words, it formulates and validates the roles and tasks in legal terms. The concrete rules, however, are also submitted to a review and developed further, if required. As a result, new rules for the cooperation between NEMOS and the transmission system operators are introduced and a system is created which also permits NEMOs to actively operate in other member states. Specifically, in future, exchanges will be regulated by the national authorities in the context of the CACM regulation in the fields of activity affected by it. This will have a lasting influence on the relationship with the regulators.

The concrete effects of the individual regulatory measures on the individual partner exchanges, ECC and the trading participants’ behaviour are explained in more detail in the “Report on risks and opportunities”.

2.2 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. ECC, in return, has a positive effect on its partner exchange by connecting new exchanges in the framework of the multi-exchange approach and by expanding its service portfolio. The development of the corresponding markets is outlined briefly below.

EEX Power Derivatives GmbH

Compared with the previous year, the trading volumes on the Power Derivatives Market of EEX Power Derivatives GmbH rose significantly by 54 percent. Due to a growing overall market – e.g. as a result of temporarily higher volatility – EPD was able to achieve a new record in traded volumes in combination with growing market shares. At the same time, successes were also achieved in the diversification across the different markets. In total, a volume of 3,903 TWh was traded on the Power Derivatives Market (2015: 2,537 TWh).

On the German Power Derivatives Market, 2,854 TWh were traded in 2016 (2015: 1,814 TWh). This corresponds to a 57-percent increase as against the previous year. At 73 percent, the share of the German futures on the overall Power Derivatives Market of EEX Power Derivatives GmbH was significant and, hence, slightly higher than in the previous year (2015: 71 percent).

The volume traded on the Power Derivatives Market in France increased significantly reaching 472 TWh during the year under review. This significantly exceeded the previous record of 300 TWh (achieved in 2015) by 57 percent. In terms of the total volume of the market, the French power market is the second biggest European market after Germany. In 2016, as in the previous year, the volume share of the French futures in total trading on the Power Derivatives Market was 12 percent of the total EEX Power Derivatives GmbH volume.

On the Italian Power Derivatives Market, a volume of 482 TWh was recorded in 2016. This corresponds to a share of 12 percent in the total Power Derivatives Market of EEX Power Derivatives GmbH (2015: 396 TWh, 16 percent).

During the expired financial year, EPD again supported growth by introducing new products. For example, further short-term products (day and week futures) were introduced for the markets areas Italy, France, the Netherlands, Switzerland and the Nordic countries. This strengthens liquidity in these market areas. In addition, these product launches pursue the strategy aim of expanding the product portfolio for all offered market areas and rounding out the offering in European energy trading.

In reply to the new challenges of the energy turnaround, EPD is, among other things, continuously working on innovations in order to comply with the requirements of the market. Therefore, in 2016, the Wind Power Futures were launched as a second specific product for the "Energiewende" – after the Intraday Cap Futures in 2015. With the help of the Wind Power Futures, market participants can targetedly hedge volume risks caused by the fluctuating feed-in of wind energy.

EPEX SPOT SE (EPEX)

EPEX was also able to increase its trading volumes compared to the previous year. This was supported by the take-over of the APX clearing business (day-ahead markets and intra-day markets in the Netherlands, Belgium and the United Kingdom) as of 31st March 2016. ECC was able to generate additional commission fee income from power spot market transactions.

At 493 TWh, the volume settled by ECC in 2016 was 13 percent higher than in the previous year (463 TWh).

Within EPEX, the intraday markets continue to gain in importance even though, compared with the day-ahead markets, absolute volumes are still low. This trend is primarily due to the increasing importance of the fluctuating renewable energies for the power supply, which results in an increased demand for short-term balancing options for the balancing group managers. In 2016, the day-ahead markets in France and Switzerland were slightly higher than in the previous year. The German day-ahead market recorded slight declines in volume, which, however, were more than offset by the growth in the other market areas and the integration of APX.

In the framework of the further development of the power spot business field, among others, the first auction for generation capacities in France was cleared by ECC in 2016 and coupling of the European power markets was expanded by the Austrian-Slovenian border.

Moreover, trading volumes have benefited from the transmission system operators' obligation to market quotas of power from renewable energies on a power exchange and from direct marketing. The obligation to market quotas was 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 (AusglMechV). Since 2010, the transmission system operators (TSO) have had to market the EEG power which is subsidised with a fixed feed-in tariff on the exchange and, in return, they receive a levy from the supply company in accordance with AusglMechV. In addition, the power spot business field benefitted from direct marketing, which was introduced in 2012. There is no obligation to market EEG power through an exchange. However, e.g. on account of the high liquidity, EEX Group was able to establish itself as a strong market platform in this respect.

At present, EEX Group only directly competes with other spot exchanges in the United Kingdom within the Power Spot business field. Here, short-term trading in power is also offered by N2EX, a subsidiary of the second-biggest European power spot exchange, the Norwegian Nord Pool Spot, in addition to EPEX. In 2016, N2EX had a market share of 63 percent, while EPEX had a market share of 37 percent. Moreover, Nord Pool Spot also operates with an offering for the intra-day market, and it has also been licensed for all other EPEX market areas. Generally, competition has intensified significantly because of the further liberalisation of the market and the changes in regulation (CACM). A further intensification has to be expected.

Powernext SA (Powernext)

Powernext again achieved significant growth on the gas market also in the 2016 financial year. In almost all market areas, two-digit growth rates were achieved both on the spot and on the derivatives market. On the spot market, this growth was essentially based on gains in market shares, while the overall market only grew slightly. However, on the derivatives market, the growth in trading volumes is essentially due to the growth of the overall market, in addition to the growing market shares of Powernext. On the French and British gas derivatives market alone, declining clearing volumes were observed because of declining market shares.

In total, nine market areas (GPL - Germany, NCG - Germany, TTF - Netherlands, PEG Nord - France, TRS - France, NBP – United Kingdom, ZEE - Belgium, ZTP - Belgium, PSV - Italy) were offered for trading on the PEGAS platform operated by Powernext during the year under review. In the 2016 financial year, the growth of the gas markets was supported by the full acquisition of Gaspoint Nordic (Denmark). In addition, the contracts of the Austrian CEGH gas market were migrated to the PEGAS platform and the corresponding rules and regulations.

The natural gas volumes traded on partner exchange Powernext and settled by ECC in 2016 were 638 TWh on the Spot Market. This corresponds to a growth rate of 45 percent as against the previous year (441 TWh). On the Derivatives Market, the volumes cleared were 1,088 TWh. In the previous year, 584 TWh were cleared. This corresponds to a growth rate of 86 percent on the market during the year under review.

In addition to geographic expansion, measures were taken to further improve the offering and, as a result, increase customer benefit within the existing product portfolio. For example, an action package for the Dutch Derivatives Market, which was designed to further boost liquidity in this market, was implemented at the beginning of the year. Among other measures, the fee for the physical settlement of futures was lowered, trading hours were extended and additional maturities were offered. Moreover, new technical connection solutions were created and additional risk management tools were introduced. Moreover, various services were expanded in the German and French gas market areas.

Global Environmental Exchange GmbH (GEEX)

Thanks to growing trading volumes of emission allowances both on the primary and secondary market, trading in emission allowances which is organised by GEEX was able to continue its growth strategy. While the primary market auction volumes are determined by the EU, GEEX benefitted from a growing overall market on the secondary market combined with constantly growing market shares. In 2016, an increase of volumes of, in total, 40 percent was achieved as against 2015. On the spot market for emission allowances, volumes grew by 13 percent as against the previous year. In this respect, a growth rate of 12 percent was recorded on the primary market, while the growth rate on the secondary market was 25 percent. Volumes on the derivates market (exclusively secondary market) rose by 300 percent year-on-year.

On behalf of the EU, new emission allowances for all 28 member states are introduced to the market via auctions (primary auctions). The volumes are determined in advance and auctioned separately for Germany, the United Kingdom and Poland, while the auctions for the remaining 25 member states are carried out together. The auctions for the United Kingdom are carried out by the competitor, ICE, while EEX Group provides the auctions for all other EU member states. The respective contracts on which this is based were extended by up to another five years in the past financial year.

In order to further expand the position on the secondary market, GEEX expanded its offering in the past financial year. As a result, additional maturities beyond the year 2020 as well as options were introduced for trading on the Derivatives Market. On the Spot Market, the registration of over-the-counter transactions for clearing was simplified with the help of the so-called straight-through processing (STP).

European Energy Exchange AG (EEX)

In 2016, the EEX product portfolio comprised coal, guarantees of origin and freight futures. However, trading in guarantees of origin came to a standstill during the year under review. Moreover, no volumes were recorded on the coal market.

Overall, 12,655 contracts were cleared in the freight segment in 2016. As a result, the freight products formed the most successful product group of EEX. During the year under review, EEX further expanded its product offering. For example, freight options and additional maturities for coal futures were introduced. In the freight segment in particular, the use of the EEX Trade Registration Service increased significantly thanks to the market initiative launched in 2016.

Agricultural Commodity Exchange GmbH (ACEX)

In the 2016 financial year, the partner exchange ACEX was able to generate growth. Trading in futures on processing potatoes, skimmed milk powder and butter contributed to this development. Trading in futures on hogs, piglets and whey powder, on the other hand, declined. In total, 55,838 contracts were cleared by ECC during the reporting year. This corresponds to a 53-percent increase as against the previous year (36,564 contracts).

HUPX Hungarian Power Exchange Ltd. (HUPX)

Volumes on the Hungarian power derivatives market again developed positively in 2016. At 9 TWh, 31 percent more were cleared than in the previous year (7 TWh) in spite of a decline in the number of trading participants admitted to the derivatives market.

The Hungarian power spot market also generated a positive development. Volumes increased to 18 TWh overall. This corresponds to a growth rate of 18 percent compared to the previous year (15 TWh).

On 9th March 2016, HUPX launched the Hungarian intraday market together with ECC and Deutsche Börse AG (system provider). On this market, hour, 15-minute and block contracts can be traded.

Central European Gas Hub (CEGH)

In 2016, CEGH was again able to continue the positive development of the previous years. During the year under review, 25 TWh were cleared on the spot market. As a result, volumes increased by 8 percent as against 2015 (23 TWh). On the derivatives market, an exchange-traded volume of 8 TWh was registered. As a result, the increase as against the previous year (4 TWh) corresponds to 99 percent.

On 1st December 2016, the spot and futures contracts of Austrian CEGH Gas Exchange gas market were migrated to trading on the PEGAS platform under the Powernext rules and regulations. The migration comprised the successful migration of all 96 trading participants to Powernext. After the successful integration of both market platforms, the CEGH market participants now also have access to the limit functionalities already established for the Powernext spot market, with all PEGAS participants now having access to additional spread products for trading.

Power Exchange Central Europe a.s. (PXE)

The partner exchange PXE also generated growth in 2016. In total, 43 TWh were cleared on the PXE spot and derivatives markets (derivatives market: 32 TWh, spot market: 11 TWh). This corresponds to a 19-percent growth rate compared with the previous year (36 TWh).

At 40 TWh, the trading volumes on the power market was 40 TWh higher than in the previous year (33 TWh). Only the Slovak financial power futures displayed a downward trend during the financial year (-48 percent). At 65 and 32 percent respectively, the Czech and Hungarian financial futures accounting for the biggest share of the futures traded at PXE. As in the previous year, 3 TWh of Czech gas contracts were cleared on the gas market in the course of 2016.

Gaspoint Nordic A/S (Gaspoint Nordic)

The cooperation with Gaspoint Nordic, which is based in Denmark and offers natural gas trading in the Danish market area, was launched in October 2014.

The trading volumes of Gaspoint Nordic have grown continuously since 2011. At 24 TWh in the 2016 financial year, they generated a volume which was 40 percent higher than in the previous year (17 TWh). With a share of 96 percent of the entire trading volume, the spot contracts are the most important factors for the success of the Danish gas market.

In 2016, Powernext acquired 100 percent of the shares in Gaspoint Nordic. In this context, the ETF Spot and Futures Contracts were migrated to trading on the PEGAS platform in accordance with the rules and regulations of Powernext on 17th November 2016 and, concurrently, all 13 additional trading participants of Gaspoint Nordic were admitted to trading by Powernext.

NOREXECO AS (NOREXECO)

With NOREXECO, ECC cooperates with an exchange partner offering commodity derivatives for pulp and paper (recycling paper) for trading. On 15th September 2015, NOREXECO launched exchange trading for pulp commodity derivatives, which is complemented by ECC clearing services.

In March 2016, ECC expanded the tradable maturities for the pulp asset class from 20 to 36 consecutive months. In 2016, a volume of 63,000 t was sold in pulp and paper contracts.

South Eastern European Power Exchange (SEEPEX)

On 17th February 2016, SEEPEX launched a platform for exchange trading of power spot products which can be delivered in Serbia. In total, a trading volume of 0.5 TWh was registered in the year under review.

Further developments

New services

In 2016, ECC focused on lowering the barriers to market entry for smaller and medium-sized companies, among other elements. One part of the set of measures comprised the introduction of a new clearing access model, the Direct Clearing Participant (DCP) Clearing Member. This alternative form of Clearing Membership will initially only be offered for certain spot markets with the option of defining trade limits. In order to participate in clearing through ECC as a DCP Clearing Member, participants do not have to cooperate with a Clearing Member acting as the guarantor. Instead, the DCP Clearing Member's access to ECC will be established directly by integrating a settlement bank which assumes the financial settlement services on the basis of defined standard processes. The consistent use of trade limits for DCP Clearing Members on the basis of accepted collateral submitted in advance controls and minimises these companies' default risks for ECC and all other participants in clearing.

In this connection and in preparation for a possible extension of the DCP offering to other markets, the ECC Limit Services were not only expanded with trade limits for the EPEX, HUPX, SEEPEX, Gaspoint Nordic and CEGH spot markets but also supplemented with an online self-administration tool for clearing banks and trading participants, which contributes to additional transparency and flexibility, in 2016.

The option of depositing bank guarantees issued by selected guarantors as collateral for Spot Market transactions, in addition to the usual collateral instruments, such as cash, securities and emission allowances, constitutes another element of this set of measures.

As the central clearing house for numerous European market platforms, ECC assumes a key role in the concentration and standardisation of clearing processes and services for trading participants and clearing banks. In this role, in 2015, it already managed to bundle the risk control mechanisms of the individual trading platforms connected through ECC and establish a uniform standard for the transmission and communication of trade limits as a service for clearing banks and trading participants. During the past financial year, the technical bases established on this basis were used to automate emergency mechanisms in the event of possible defaults of trading participants or Clearing Members and reduce the response time to a minimum in as far as this can be directly influenced by ECC. As a result, applications by Clearing Members or ECC for the temporary exclusion of individual or several trading participants from trading can now be automatically forwarded to all market platforms connected with ECC.

In addition, as early as in March 2016, paper-based invoicing was replaced with the exclusively electronic dispatch of invoices of ECC, ECC Lux and exchange fee invoices prepared by ECC.

New cooperations and product categories

In 2016, four trading platforms (three APX companies and SEEPEX) were connected to ECC. In addition to this, together with the two Irish NEMOs EirGrid and SONI Ltd. and EPEX SPOT preparations for the development of a joint exchange and clearing solutions for the Irish power market were begun. This is to be established in 2017 and begin productive operations in 2018 following an intensive test phase. Moreover, at presents, talks regarding clearing service offers are underway between ECC and a number of exchange initiatives, which ECC sees as confirmation of its strategic partner exchange approach.

In the energy sector, with the help of ECC Lux and Belpex, ECC now provides the physical settlement of gas and power contracts for 25 transmission system and hub operators in 13 countries. Moreover, with regard to the settlement of emission allowances, guarantees of origins and French capacity guarantees ECC is connected to the corresponding registries for safekeeping and transferring these certificates. This forms an important USP in the competition with other clearing houses.

Regulation and margining

ECC supports active and uniform Europe-wide regulation for clearing houses and actively cooperates with the supervisory authorities.

In 2016, ECC continued to further optimise the efficiency of its risk management instruments. ECC intends to use the Eurex "Prisma" clearing system, a portfolio-based margining concept, in future. This new standard will gradually replace the existing margining methodology based on SPAN. Based on this sophisticated methodology, Prisma will improve the cross-margining between products and asset classes.

Participants

On the balance sheet date (31st December 2016), ECC had in total 23 Clearing Members (20 General Clearing Members and three Direct Clearing Members) and, as a result, it remained unchanged as against the 2015 balance sheet date. In the course of the year, two new Clearing Members were admitted, while two members resigned. By the end of the year, the number of clearing participants (including Non-Clearing Members) had increased to 505 (2015: 428).

2.3 Earnings situation

For ECC the development of the individual markets on the partner exchanges plays an important role and governs the earnings situation of the clearing house. At kEUR 71,586, the commission income generated by ECC increased significantly (42 percent) as against the previous year. To a significant degree, the positive development of results during the 2016 financial year was driven by the higher clearing revenue from the EEX Power Derivatives GmbH power derivatives market and further growth in the revenue on the Powernext natural gas spot and derivatives market.

At kEUR 75,388, the commission income, which consists of trade and annual fees (share of annual fees in the commission income: 0.4 percent), is kEUR 20,584 or 38 percent higher than in the previous year (kEUR 54,804).

In 2016, the power derivatives market again proved to be the mainstay of revenue and increased its share in the commission revenue to 48 percent (2015: 44 percent). Compared with

2015, the sales from the settlement of power derivatives trades rose to kEUR 36,375 by 51 percent (2015: kEUR 24,096).

The commission income generated on the natural gas spot and derivatives market rose significantly from kEUR 12,668 to kEUR 18,574 (47 percent). The share in the clearing revenue was 25 percent during the year under review (previous year: 23 percent). As a result, in terms of revenue the natural gas spot and derivatives market is the second biggest segment for ECC.

The commission revenue from clearing of the power spot market rose from kEUR 14,954 to kEUR 16,603 by 11 percent and, at 22 percent, it is the third biggest segment for ECC in terms of revenue.

During the 2016 financial year, the revenue from clearing of emission allowances rose to kEUR 652 and, hence, grew by 42 percent compared with the previous year (458 kEUR). As in the past, this still contributes one percent to the ECC commission revenue.

Moreover, the clearing revenue for the agriculturals market increased to kEUR 135 by 68 percent (2015: kEUR 80) during the year under review.

The overall revenue generated through the cooperation with CEGH of the Vienna gas exchange rose to kEUR 569 during the financial year and, as a result, continued the positive development of the previous years (2015: kEUR 508).

Furthermore, clearing of the Hungarian power spot and derivatives of HUPX also developed positively. Overall, commission revenue of kEUR 662 was generated in this segment (2015: kEUR 558).

In 2016, the cooperation with PXE generated commission revenue of kEUR 651 and, hence, exceeded the result in the previous year by kEUR 99.

Clearing for Gaspoint Nordic generated commission revenue of kEUR 482 in 2016. As a result, revenue rose by 39 percent compared with the previous year (kEUR 347).

EEX (kEUR 31), SEEPEX (kEUR 21) and NOREXECO (kEUR 13) generated further commission revenue.

In 2016, commission expenses declined from kEUR 4,562 to kEUR 3,802 compared with the previous year. This is primarily due to the conversion of the clearing system contract with Deutsche Börse AG.

In the 2016 financial year, the interest result was kEUR -6,911 and, hence, significantly lower than in the previous year. The result which was negative again was due to the base rate policy of the European central bank. The negative interest on deposits at the central bank exceeding the minimum reserve determined the ECC interest income. The current interest rate situation combined with the strict investment provisions required by regulation prevented alternative investment options for ECC in the course of the year. In 2016, ECC generated interest income from interest on loans granted to EEX and ECC Lux during the financial year.

Other operating income grew significantly during the year under review and, at kEUR 8,986 it reached a level which was 159 percent higher than in the previous year (kEUR 3,470). Among other aspects, this position included internal transfer pricing, the securities management fee as well as the administrative charge for cash collateral which increased significantly in 2016 in line with the increase in interest expenses as well as the refunding of project costs of the partner exchanges.

Compared with the previous year, general administrative expenses rose to kEUR 22,672 by 22 percent (2015: kEUR 18,528) driven by increased personnel and consultancy expenses as well as higher expenditure, e.g., for clearing systems (primarily the settlement system for the Spot Market) and internal cost allocation. Personnel expenses increased from kEUR 5,010 in 2015 to kEUR 5,721. On the one hand, this increase reflects the increase in personnel and, on the other hand, provisions for shares in profit for employees and the Management Board.

In 2016, other operating expenses rose to kEUR 1,282 (2015: kEUR 780) which was due to an increase in non-deductible input tax.

At kEUR 1,500 depreciations were significantly higher than in the previous year (kEUR 430). This increase is primarily due to the depreciation of the acquired APX clearing business. Further depreciations primarily result from higher investments in the settlement system for the Spot Market and other clearing systems.

The EBT reflects the successful development during the financial year and, at kEUR 48,236, it significantly exceeded the value achieved in 2015 by 50 percent (2015: kEUR 32,231). The annual profit does not remain with ECC because of the profit-and-loss transfer agreement which ECC has concluded with EEX. According to this, return on equity does not have to be calculated.

Comparison of the earnings situation with the forecast for 2016

The bandwidth of provision revenue from kEUR 55,267 to kEUR 60,813, which had been assumed for 2016, was exceeded because of the unforeseeable and extremely successful development of the power derivatives market of EEX Power Derivatives GmbH and of the Powernext natural gas and derivatives markets.

Moreover, the result expected for 2016 was also exceeded significantly because of the positive development of the commission revenue. As a result of economies of scale, higher commission fees resulting since the cost block has essentially remained stable are largely directly recognised in income. The bandwidth of planning for the 2016 corporate result was kEUR 29,768 to kEUR 35,307.

2.4 Asset situation

The asset situation of ECC is shaped by its business operations as a central counterparty in trading on energy exchanges.

On the balance sheet date, the balance sheet total was kEUR 3,079,228 and, hence, kEUR 1,933,893 higher than the balance sheet total for the previous year (kEUR 1,145,335).

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 2,973,739 (2015: kEUR 1,043,095) 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 2016, the cash collateral was kEUR 3,017,809 (2015: kEUR 1,072,562). The enormous increase in cash collateral is due to the fact that, on the balance sheet date, customers deposited more cash collateral because of the growing business volume.

Intangible assets totalled kEUR 16,406 and, hence, they were kEUR 32 lower than in the previous year (kEUR 16,438). On the balance sheet date, other assets were kEUR 11,138 and essentially comprised lendings and receivables from shareholders and affiliated companies, input tax receivables of ECC from the competent tax office in Belgium as well as receivables regarding the transaction fees of ECC Lux and EPEX Belgium for the physical settlement of the trades registered for clearing.

At kEUR 1,732, accruals and deferred income were kEUR 737 higher than in the previous year and are essentially based on the capitalisation of adjustments to software and systems of Deutsche Börse AG. New additions were recorded in 2016.

The liabilities to banks are based on cash collateral received from those Clearing Members that are banking institutions and totalled kEUR 1,347,322 (2015: kEUR 514,906).

The liabilities to customers include the cash collateral submitted to ECC by Clearing Members (in as far as such are not banking institutions) in the amount of kEUR 1,633,486 (2015: kEUR 514,186).

The Company's balance sheet equity increased from kEUR 48,935 to kEUR 73,935. This difference is based on the kEUR 25,000 increase in the ECC capital furnished by EEX. The subscribed capital as well as retained earnings were unchanged at kEUR 1,015 and kEUR 33,619 respectively. Since a profit-and-loss transfer agreement has been concluded with EEX, the Company does not retain any balance sheet profit.

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.

2.5 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 (01/2016 to 12/2016), the ratio between equity and capital requirements was between 120 and 198 percent and, hence, significantly above the reporting threshold of 110 percent at all times.

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, on the one hand, has to be informed forthwith 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 1.63 and 2.72 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 60,912 in accordance with the balance sheet.

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 and preserve its sound capital base.

2.6 Employees

At the end of the year, the company had 58 employees. At the end of 2015, ECC employed a staff of 43.

The age structure is as follows:

ECC employees			
	2016	**2015**	**Change**
< 30 years	12	7	+71%
30-39 years	30	25	+20%
40-49 years	12	8	+50%
>/= 50 years	4	3	+33%
Total	**58**	**43**	**+35%**

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

The share of employees with an academic degree rose to 88 percent (2015: 84 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 45 percent of the staff (2015: 44 percent). As of the balance sheet date, EEX had five executive positions, two of which were occupied by women (as in the previous year).

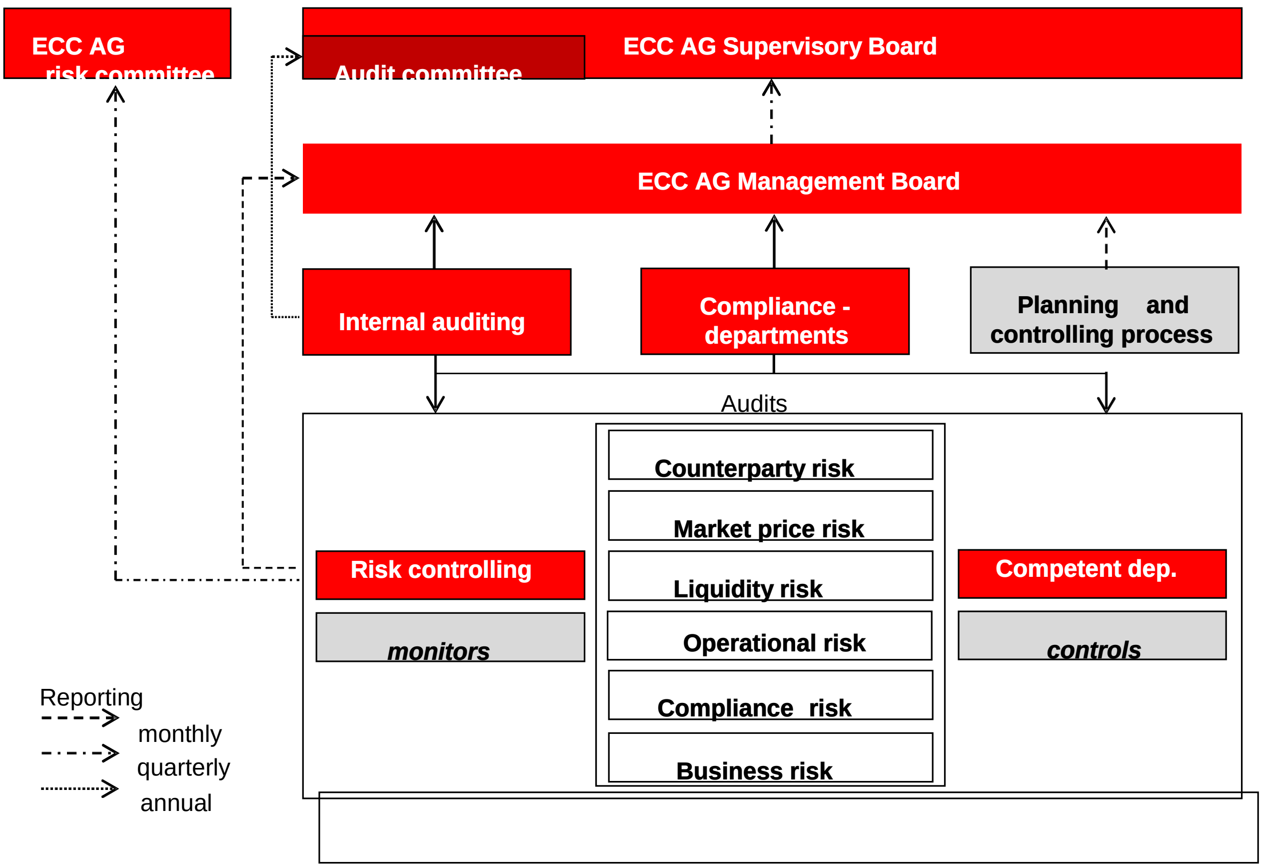
3. Risk and Opportunity Report

3.1 Risk management

Risk management system and objectives

ECC is a central counterparty according to the European Regulation 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.



Structure

Responsibility for the operating design of the risk management system lies with the ECC Chief Risk Officer (CRO).

The risk management system is integrated into all planning, controlling and reporting systems. Moreover, the internal auditing department and the compliance departments are also part of the risk management system. The risk management system is based on the systematic identification, evaluation, documentation and communication of risks. Corresponding principles, processes and responsibilities are established in the guidelines.

A risk report for ECC is prepared across all risk categories every month and communicated to the ECC Management Board. In addition, CRO reports to the Supervisory Board and the risk committee on a quarterly basis. The risk committee is staffed with representatives of Clearing Members, Non-Clearing Members as well as independent representatives. This committee advises the ECC Management Board with regard to questions of risk control.

In addition, there is an ad-hoc reporting requirement in the event of material changes in the risk situation.

3.2 Description of the essential risks

During the year under review, ECC perceived the relevant risks, which might have adverse effects on ECC and its assets, financial and income situation if they materialise, in the following categories:

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 or certain institutes with registered offices in the European Economic AREA, which have sufficient financial strength as well as the operating facilities for the settlement of the clearing business, can be admitted as ECC General and Direct Clearing Members (System Clearing Members). This is checked in the framework of the admission process and is monitored continuously.

- **Guarantees by System Clearing Members/Pre-Trade Limit System**: System Clearing Members guarantee all obligations of the trading participants that are supported by them and that are no clearing participants themselves, e.g. from the provision of collateral, the delivery of commodities or the daily profit-and-loss settlement. Only the clearing fees owed are exempt from this guarantee. All payments are always collected directly by the Clearing Member. DCP Clearing Members, on the other hand, take part in ECC clearing without a System Clearing Member. Their risk is limited by means of a Pre-Trade Limit, which limits the possible exposure to the amount of the collateral to be submitted in advance.
- **Daily profit-and-loss settlement**: Accrued profits and losses as well as due payment amounts 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 have to be used after the contribution of the clearing fund member that has defaulted but before the entire 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. 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.

- **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 accepts cash collateral, highly liquid securities collateral by issuers with a low credit risk and emission allowances as collateral. Market price fluctuations are covered by adequate collateral haircuts. Collateral is re-assessed at market prices, at a minimum on a daily basis. Guarantees by certain issuers with a low credit risk are accepted for covering collateral requirements on Spot Markets. Concentration risks are controlled by assigning concentration limits.

Own funds are only invested in investments with minimum credit 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.

Based on the worst case stress scenario which serves 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.

Operational risks

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 fundamental 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. Back-up processes are implemented for critical business processes. The quality of the internal control system is checked regularly by means of audits of the internal and external auditing organisations.

Physical delivery risks are minimised, e.g. by aiming to establish priority rules for nomination at ECC in the conclusion of balance agreement – in as far as such are negotiable. If this is not possible in individual cases, the physical delivery risks are monitored and covered by margins. Moreover, continuous investments in the ECC settlement infrastructure also make a substantial contribution to managing this risk.

In addition to this, ECC also has pecuniary damage liability insurance with regard to cases of damage caused by errors in commercial operations (E&O insurance). 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. If required, measures are adopted and implemented.

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 ongoing business, 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) as well as
- 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) and
- Maintenance of lines at various institutions and the parent company as well as access to the Bundesbank intraday credit.

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 communicated to the entire Management Board.

Market price risks

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 (essentially foreign currency risks) are insignificant and controlled by using the ECC lines of defence for counterparty risks which have already been described.

Compliance risks

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 or settlement banks. 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 or settlement banks, 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, including important associated companies, against known sanctions lists in the framework of the admission process as well as on a monthly basis and, if required, ad hoc upon the emergence of new facts (e.g. amendments of sanctions lists, suspicious facts) or during a cyclical review.

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.

Business and settlement 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 since the ECC revenue largely depends on sales.

ECC's risk strategy aims at controlling this risk by including it in risk reporting, comparisons with competitors and monthly financial reporting by means of 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).

Tighter regulation in the financial and energy sector as the central risk

Regulation on capacity allocation and congestion management (CACM)

The EU regulation specifying a guideline for capacity allocation and congestion management (CACM) outlined in section 2.1 “Regulatory Framework Conditions” and the introduction of the Nominated Electricity Market Operator (NEMO) contained therein also entails risks for EEX Group. In future, the NEMOs can use the market depth and the development status of EPEX SPOT with the aim of implementing uniform day-ahead market coupling and the uniform intraday market coupling, and benefit from the existing liquidity as a result without necessarily contributing more liquidity. On the other hand, the CACM regulation creates the possibility to offer day-ahead and intraday trading services with delivery in other member states without the need for a NEMO to be appointed in this member state or actively operating in it previously. This reciprocity creates uniform conditions for power market operators in Europe. For EEX Group, this means a possible a market entry of competitors into the EPEX markets. On the other hand, it also entails the possibility of developing new market areas.

EU Markets in Financial Instruments Directive (MiFID)

The definition of financial instruments in the European regulatory directive MiFID II is of tremendous importance for the trading participants. This was already outlined in section 2.1 under “Regulatory Framework Conditions”. Trading participants with trading activities which are low compared with their other activities will be exempt from the requirements of MiFID II. Those trading participants, however, that are subject to MiFID II because they exceed certain thresholds are considered “financial institutions”. As a result, these companies have to fulfil a number of additional requirements, e.g. organisational and capital requirements. Therefore, the implementation of these rules is expected to have significant impacts also on the energy markets.

In addition, certain physical derivatives on gas and power which are traded over the counter are not classified as financial instruments. This means that trading in such derivatives is not regulated via MiFID II. These less regulated products can only be traded on platforms referred to as “Organised Trading Facilities (OTFs)”. Trading transactions which are concluded at an OTF are exempt from MiFID II, while similar transactions concluded on a regulated market or on an exchange are covered by the scope of application of MiFID II. As a result, OTFs have a regulatory advantage with regard to physical power and gas derivatives trading and there is the risk of a massive shift in volumes away from the exchange and towards the OTFs. This can lead to general restraint on the part of the players in trading with EEX products. A general decline in trading activities is also conceivable. In order to counter this, EEX and Powernext set up a so-called Non-MTF as a precursor of an OTF in 2016. As soon as an OTF licence can be applied for, EEX and Powernext will do this accordingly. This will enable the customers to use the OTF exemption under MiFIDII/MiFIR and, at the same time, prevent them from moving away from the exchange.

Moreover, EMIR also uses the definition of financial instruments provided in MiFID so that these over-the-counter physical derivatives are also not regulated by EMIR. As a result, trading in such physical derivatives has significant regulatory advantages as against the products offered by EEX (no need to obtain a financial services licence along with the requirement of providing corresponding equity, no position limits, no reporting requirements and no mandatory clearing according to EMIR, etc.). As a result, volumes which are registered for clearing using the Trade Registration channel are also subject to this risk since derivatives traded over the counter are converted into financial instruments in the Trade Registration process.

Financial transaction tax

The introduction of a joint financial transaction tax in individual EU member states – including Germany – is still the subject of political negotiations. The question of whether and in which form derivatives on commodities are to be included and how this is to be implemented specifically still remains open. Even if it is promised that such a tax should have the lowest possible effects on the real economy, it could have a lastingly negative impact on derivatives trading. The tax could, in particular, lead to a shift in trading activities to trading platforms in countries not affected by such a tax.

Change in energy market design

Power market: Configuration of pricing zones

The debate regarding the restructuring of bidding zones in the power market has already been described in section 2.1 under “Regulatory framework conditions”. Even though as a trend market mechanisms and price signals are to become more important, the discussion regarding the structure of the bidding zones on the European market has intensified, which, in turn, leads to lasting uncertainty. The preservation of the German-Austrian pricing zone, in particular, is increasingly called into question even though the effects this would have on the trading markets – and, in particular, on the Power Derivatives Market – have not been considered sufficiently. Most recently, the Federal Network Agency asked the German transmission system operators in late October 2016 to make preparations for congestion management at the German-Austrian border starting in mid-2018. At the same time, there are further processes at a European level at ACER and ENTSO-E that deal with the structure of the bidding zones in Europe and that can potentially also influence the German-Austrian market area. So far, the question of which process will ultimately apply and who will take final decisions has not been resolved with absolute certainty. This problem is also highlighted by the fact that individual players on the market – in particular from Austria – have already announced that they will take legal steps or even initiated such against the decisions by ACER and the Federal Network Agency invoking lack of competence or an incorrect legal basis.

Irrespective of the final design, negative effects on the markets of EEX Group would have to be expected in any case. This does not only concern liquidity (which would be lower in smaller market areas) but it also affects the quality of the price signal. And against the backdrop of the further development of the market design through the envisaged strengthening of the price signal and increased flexibilisation, both of these effects appear to be counterproductive. The potential of market-based European integration and innovations cannot be fully developed in this way. There is even the risk that the aims achieved with liberalisation – in particular, the integration of the European power markets – might be called into question and lastingly impaired.

At present, talks involving the transmission system operators and power exchanges concerned are underway in order to prepare for such a step. As seen from the perspective of EEX Group, care has to be taken to ensure that a division – should it actually be implemented – is carried out with the least possible impact on the market.

Energy turnaround and power market design

The increasing transformation of the energy markets to cater for renewable energies creates challenges for the current market design and will require it to be modified and developed further. In addition to the market integration of renewable energies, this will also have effects on other fields, such as e.g. grid expansion or aspects of the security of supply in the event that fluctuating renewable energies might not be able to sufficiently cover the load requirements.

In Germany, the federal government took a fundamental decision last year and created a framework for the power market of the future with the new Electricity Market Act. The Electricity Market Act focuses on the price signal – which is essentially established on the exchanges – as well as the competitive and innovative strengths of the market. To this end, the act e.g. contains a “commitment” to free market pricing and a self-imposed restriction against political intervention. A capacity reserve is being introduced in order to ensure the security of supply. In addition to this, a number of supporting provisions are defined in detail. These pursue the aim of further developing the power market and, in particular, enhancing its flexibility. These measures e.g. include increasing balancing group responsibility as well as grid- and transparency-related measures.

Moreover, the Renewable Energies ACT (EEG) was also revised last year. In this context, in particular, the fact that the subsidy amount is no longer set administratively by the legislator but determined on a competitive basis in the context of invitations to tender, is an important innovation.

As seen from the perspective of the exchange, the draft of the electricity market law can be assessed as being positive in principle. The commitment to free pricing, in particular, ensures that the exchange price signal will constitute the decisive decision-making basis for the market players also in the future. In particular, the commitment to free pricing ensures that the exchange price signal will continue to form the fundamental decision-making basis for the market players. The invitations to tender under EEG are an important step for the further market integration of renewable energies. Pilot invitations to tender for ground-installed photovoltaic systems which have already taken place were positive and showed that this competitive tool can be used to reduce subsidy costs. However, it remains to be seen whether the commitment to free pricing will be implemented consistently over the coming years in line with the fundamental requirement contained in the Power Market Act or whether the powers for regulatory interventions in the market which are also established in the Power Market Act will lead to a weakening of the market price signal.

While Germany has already paved the way for the "Power Market 2.0", as a result, the debate on energy market design continues at the European level. At the end of 2016, the EU Commission presented a package comprising numerous legislative measures for the further development of the power market and the integration of renewable energies. And the Commission also placed well-functioning power markets and strong price signals at the centre of its considerations. At the same time, the aim is to prevent uncoordinated national measures which impair border-crossing trading and cause increased costs for consumers. One example of this are capacity mechanisms, with regard to which there have been a range of different views and approaches in individual EU member states so far. To this end, the Commission aims to achieve the highest possible harmonisation of standards at a European level and to enforce non-discriminatory border-crossing access to these market segments. As seen from the perspective of EEX Group, the basic trend and most of the proposals contained in the package can be regarded as being positive since they reflect confidence in competitive and market-based principles. However, care has to be taken to ensure that the ambitious targets and proposals of the Commission are supported by all parties involved in the European parliament and the member states and not watered down in the further course of the legislative procedure - which is expected to last for two years.

Risk parameters according to EMIR

The equity available to cover risks is established on the basis of the EMIR provisions based on the balance sheet equity of ECC. On 31st December 2016, the EMIR equity was kEUR 60,912 (2015: kEUR 48,517).

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 on OTC derivatives, central counterparties and trade repositories in conjunction with Article 35 of the Delegated Regulation (EU) 153/2013, ECC has formed ear-marked retained earnings, which are also referred to as "skin-in-the-game", to fulfil the requirement regarding allocated own funds. The volume of this provision is reviewed, at least, annually and adjusted if required. On 31st December 2016, it was kEUR 7,500. 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 1,384 (2015: kEUR 2,983).

With regard to operational risks, a capital requirement of kEUR 5,960 is assessed in accordance with the requirements of the Delegated Regulation 152/2013 (2015: kEUR 4,493).

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. On the balance sheet date, capital expenditure for business risks was kEUR 6,541 (2015: kEUR 5,018), while it was kEUR 13,082 for settlement risks (2015: kEUR 10,035).

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

3.3 Description of the essential opportunities

For a holistic impression of the business operations of ECC, the opportunities have to be considered, in addition to the risks aspects.

Opportunities are managed in the framework of strategic management, corporate development and of the continuous improvement process. Based on a regularly updated analysis of strengths and weaknesses, opportunities for technological developments, new pricing strategies or potential partnerships are used. The projects are, e.g., prioritised in the framework of the institutionalised strategy discussion and of the planning process. In this process, the added value as seen from the perspective of the customers is taken into account just like the strategic aims and the available resources. Essential opportunities are characterised by a significant impact on the assets, financial and income situation and, as a result, they are also regularly submitted to profitability assessments during the prioritisation phase.

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 win over 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 are of decisive importance. The approach of integrated clearing 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) and the cost of connection decline. Compared with over-the-counter trading, continuous improvements of the IT infrastructure, such as the so-called "Straight-Through Processing" which permits the automatic submission of contracts negotiated bilaterally and registered on the exchange subsequently, permits efficient cleared settlement of volumes traded off the exchange.

The use of trade limits at partner exchanges constitutes a fundamental element for the reduction of access barriers to clearing and enables Clearing Members to effectively control the risks of their Non-Clearing members. With central limit administration across exchanges, ECC launched an innovative tool for the efficient determination and administration of trade limits in 2016 and, as a result, it increases its attractiveness for Clearing Members. Together with the partner exchanges, ECC is continuously working to expand the limit functionalities. In 2016, a web-based solution was introduced for limit management and reporting in this context.

Furthermore, in view of regulatory requirements, the importance of the clearing business can increase further. The expansion of the current clearing service, e.g., to other countries and trading hours can significantly simplify access for new trading participants and further improve ECC's position in the global clearing business. For example, the trading hours for the derivatives markets were expanded from Q2/2016. The expansion of the collateral accepted by ECC and the extension – and, where possible, simplification – of the conditions for access to clearing constitute further possibilities for expanding the clearing business. For example, in 2016, the possibility to deposit bank guarantees by selected guarantors as collateral for spot market transactions, in addition to the usual collateral instruments, such as cash, securities and emission allowances, was created.

In addition, measures designed to lower market entry barriers for small and medium-sized companies offer further opportunities. The introduction of the Direct Clearing Participant Clearing Member in 2016 was one element of this set of measures.

3.4 Overall statement on the risk and opportunity situation

Overall and under consideration of the partner exchange approach as well as of the more diversified revenue structure, its earning power and financial stability, ECC is convinced that it has established a sound position for itself to attain the targets pursued and further strengthen its position as a leading clearing house. This is based on the competitive value chain within EEX Group which is characterised by liquid trading markets and cost-effective clearing solutions. The Management Board is confident that the risk and opportunities management system established in the Company will identify risks and opportunities early on also in future and that, as a result, the risk situation as it presents itself at present can be managed successfully and that potential opportunities can be used.

4. Forecast report

The forecast report describes the probable development of ECC in the 2017 financial year. It contains statements and information on transactions in the future and is based on current expectations, assumptions and forecast of the Management Board as well as on information available to it at the time of the publication.

A further increase in sales is planned for the coming financial year. In 2017, ECC will focus on further increasing the stability of the systems and the further development of its services to promote customer satisfaction and the expansion of the product portfolio. The organisation will be driven by investments in the nomination infrastructure and the optimisation of the Direct Clearing Participant model, the introduction of the new PRIMSA margining model as well as extensions in limit management. Moreover, there are plans to expand the clearing offering with the Irish power spot market through the cooperation with the Irish transmission system operators EirGrid and SONI Ltd. and EPEX SPOT.

The following assumptions were made in the framework of planning of the economic, regulatory and competitive environment in 2017.

- Potential changes in the regulatory environment (in particular, with regard to OTF) will not place regulated platforms at a disadvantage.
- No impairment as a result of regulatory changes for the financial markets (e.g. higher capital requirements for Clearing Members, no introduction of a financial transaction tax)
- No fundamental change of the ECC risk profile

Income from commission fees for 2017 is expected to lie within the range from kEUR 86,503 to kEUR 89,831 and, as a result, it is expected to be 15 to 19 percent higher than in the previous year. In determining the income from commission fees, the realistic and the optimistic cases from the 2017 budget plan were used. In 2017, clearing of the power spot and derivatives markets will again provide the main contribution to revenue. Moreover, the commission revenue in the natural gas business field is increasingly gaining in importance, as a result, strengthening the diversification strategy of ECC.

In 2017, the ECC fixed costs will increase by four to seven percent as against 2016. The increase in costs is primarily due to higher personnel expenses caused by planned new recruitments and salary adjustments. Moreover, growing overheads and higher IT operating costs are expected. The latter will be due to expenses for the maintenance and optimisation of the IT infrastructure and processes as well as to the further development of existing clearing systems in order to generate increases in turnover as well as economies of scale in future. Last not least, the sales-based expenses for balancing groups will also increase in connection with the growing volumes.

In 2017, depreciations are expected to be 29 percent higher than in the previous since the depreciation of the APX clearing business will be considered for the entire year.

Based on the described development of the commission income, ECC expects EBT within the range between kEUR 54,973 and kEUR 57,555.

In the event of an unfavourable development of the framework conditions for ECC, ECC still considers itself as being able to profitably operate its business because of its successful business model. Sensitivity analyses have shown that a decline in commission income of 10 percent as against the plan would result in a drop in earnings of approximately 15 percent. In this context, it was e.g. assumed that variable costs would develop in line with the transaction revenue and that all other cost items would remain stable.

ECC is convinced that, with its integrated clearing model, it still has a very good position and expects its revenue to develop positively both in the coming year and in the medium term.

5. 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.

Leipzig, 8th March 2017

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)