Stepping up the pace
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Performance does not happen by accident.

Growth requires more than favourable market conditions – it requires deliverables that really meet business needs, that keep existing clients satisfied as well as add new ones. Sustained growth requires solutions that respond to a variety of needs, not to mention a vision and strategy people can unite behind. This is what we have now, and are continuing to develop. But no matter how great the growth, there is no room for complacency. We aim to keep improving our services to clients and focus on the delivery of our major investment programme, which will help build the global financial markets of tomorrow. We will strive to develop the services of the company, communicating closely with our clients and using all our experience and vigilance to serve their needs.
Performance highlights

The Euroclear group of (I)CSDs achieved record levels of performance in 2006 across all business activities:

- Turnover, or the value of securities transactions settled, was €451.7 trillion, an increase of 25% from €361.4 trillion in 2005. Euroclear Bank’s turnover increased by 41.3%.

- The value of securities held in Euroclear at the end of 2006 was €18.2 trillion, a 16% increase from the €15.7 trillion recorded at year-end 2005.

- The number of transactions settled in the Euroclear group increased by 14% to 145 million in 2006 compared with 127 million in 2005, reflecting an overall increase in trading activity subject to netting and central-counterparty services settling in the group’s (I)CSDs.

- The combined daily value of collateral provision outstanding in Euroclear Bank and CRESTCo grew by 12% in 2006 (with a 25.5% increase in Euroclear Bank) to €537.9 billion compared with €481.9 billion at the end of 2005.
1. The data includes intra-group holdings/transactions, as relevant.
2. The data for CRESTCo excludes self-collateralised repos; the data for Euroclear France excludes ‘pensions livrées’ with the Central Bank of France.
3. The data for CRESTCo consists of Delivery by Value (DBV) and money-market instrument repo transactions.
Financial highlights

Our results for 2006 demonstrate the Euroclear group’s strength and momentum. We increased our total income by 13% to €1,085 million. Operating profit before tax increased by 15% to €418 million.

A strong business environment allowed the group to:
• further reduce tariffs very significantly;
• deliver higher rebates of €56 million to its users (compared with €45 million in 2005); and
• proceed with its planned programme of large-scale, self-financed investments.

At the same time, it has allowed Euroclear to further increase the dividend payment by 13% to €24.2 per share for 2006.
<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Euroclear plc consolidated</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>For the year ended 31 December (in € million)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>1,085.4</td>
<td>960.3</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>318.6</td>
<td>266.3</td>
</tr>
<tr>
<td>Net earnings per share</td>
<td>83.2</td>
<td>69.7</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>24.2</td>
<td>21.4</td>
</tr>
<tr>
<td><strong>At 31 December</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>14,057.0</td>
<td>11,314.3</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>547.4</td>
<td>546.8</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>2,886.7</td>
<td>2,627.9</td>
</tr>
<tr>
<td>Shareholders’ equity/Total assets</td>
<td>20.5%</td>
<td>23.2%</td>
</tr>
</tbody>
</table>
The Euroclear group is the world’s leading settlement provider for domestic and international transactions in fixed income, equities and investment funds. Our core services, which range from asset holding and asset servicing to asset optimisation facilities, help our clients reduce their fees and back-office costs and maximise their portfolio profits. The group consists of four Central Securities Depositories (CSDs), one International Central Securities Depository (ICSD) and a provider of investment-fund order routing, and serves financial institutions in more than 80 countries.

**Euroclear group at a glance**

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**Euroclear group at a glance**

<table>
<thead>
<tr>
<th>Entity</th>
<th>CRESTCo</th>
<th>Euroclear Belgium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role</td>
<td>CSD for UK securities and Irish equities. CRESTCo also acts as the settlement provider for Guernsey, Jersey and Isle of Man securities</td>
<td>CSD of Belgium</td>
</tr>
<tr>
<td>Founded</td>
<td>1993, start of operations in 1996</td>
<td>1967 as CIK¹</td>
</tr>
<tr>
<td>Joined Euroclear group</td>
<td>September 2002</td>
<td>January 2006</td>
</tr>
<tr>
<td>Clients</td>
<td>Around 270 users that act for over 43,000 corporate and individual members of CRESTCo</td>
<td>Around 90 Belgian and foreign financial institutions and CSDs</td>
</tr>
<tr>
<td>Headquarters/office</td>
<td>London</td>
<td>Brussels</td>
</tr>
</tbody>
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1. Caisse Interprofessionnelle de Dépôts et de Virements de Titres (CIK)/Interprofessionele Effectendeposito- en Girokas
2. In The Netherlands, Euroclear NEC is a separate legal entity, providing services for securities that are not eligible in Euroclear Nederland. Euroclear NEC is the business name for Nederlands Interprofessioneel Effectencentrum NEC BV
3. Euroclear Nederland is the business name for Nederlands Centraal Instituut voor Giraal Effectenverkeer BV (NECIGEF)
4. To be opened in Q2 2007
5. EMXCo is the business name for EMX Company Ltd
<table>
<thead>
<tr>
<th>Euroclear France</th>
<th>Euroclear Nederland</th>
<th>Euroclear Bank</th>
<th>EMXCo</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSD of France</td>
<td>CSD of The Netherlands</td>
<td>ICSD offering a single access point to multiple bond, equity and fund markets</td>
<td>Provider of investment fund order routing in the UK and the rest of Europe</td>
</tr>
<tr>
<td>1949 as Sicovam</td>
<td>1977 as NECIGEF&lt;sup&gt;3&lt;/sup&gt;</td>
<td>1968</td>
<td>1999</td>
</tr>
<tr>
<td>January 2001</td>
<td>May 2002</td>
<td>N/A</td>
<td>January 2007</td>
</tr>
<tr>
<td>Over 300 French and foreign financial institutions and CSDs</td>
<td>Around 100 Dutch and foreign financial institutions and CSDs</td>
<td>Around 1,400 major financial institutions, including banks, broker/dealers, custodians, central banks, CSDs and other securities professionals</td>
<td>Around 60 providers and 200 intermediaries</td>
</tr>
<tr>
<td>Paris</td>
<td>Amsterdam</td>
<td>Brussels (with local offices in Frankfurt&lt;sup&gt;4&lt;/sup&gt;, Hong Kong, New York, São Paulo, Singapore and Tokyo)</td>
<td>Hertfordshire, UK (with offices in London and Luxembourg)</td>
</tr>
</tbody>
</table>
If you want every step to count, you need to know exactly where you’re going.

Thanks to the way Euroclear is owned and governed, we can focus our strategy around a single challenge: doing what’s right for the market. Our user-shareholders are always closely involved in defining the directions we pursue – ensuring that the market itself determines its destiny. This is how the major decision was made five years ago to set a course towards a domestic market for Europe. Today, we are not only on track to achieving our goals, but also focused on the next steps that need to be taken. So, as the market evolves, Euroclear’s creativity and flexibility continue to ensure the best possible environment for the markets we serve.
Chairman’s statement

2006 was a significant and successful year for the Euroclear group. Your Board is proposing a record dividend this year of €24.2 per share, amounting to a payout of €92.6 million, compared to €82.0 million last year. Building for the future, we launched our Single Settlement Engine (SSE) in Euroclear France and CRESTCo. Euroclear Bank moved to the new platform early in 2007. These were all major steps towards delivering on our promise to create a single domestic market for Europe, where cross-border settlement and custody will be as low cost and low risk as in domestic markets. The group delivered significant value back to its users through record rebates and fee reductions. CRESTCo and Euroclear Bank announced rebates of €11 million and €45 million respectively. In addition, Euroclear Bank has announced substantial tariff cuts totalling €78 million for 2007.
Future strategy
The European securities market continues to evolve rapidly; stock exchanges remain the subject of intense takeover interest, often from outside the European Union, and market firms prepare for the liberalising measures contained within MiFID. These market and regulatory changes pose significant opportunities and challenges for all operators of settlement systems. Your Board recently reviewed the Company’s strategy for the period ahead. We remain committed to the consolidation of settlement platforms in Europe, through mergers or other appropriate means, as well as to the harmonisation of market practices to deliver a more integrated European capital market. We are ready to contemplate cooperation with other providers in the post-trading space which would be of benefit to market users. We believe that our policy of user ownership/user governance best serves the interests of both shareholders, in delivering rising dividends, and clients in bringing them further benefits in terms of cost reduction and reliability.

The Code of Conduct – an example of better regulation
The Code of Conduct for Clearing and Settlement marked a watershed not only for the development of our industry, but also for the better regulation agenda laid down by European Union Commissioner Charlie McCreevy. Euroclear has always believed that new legislation focused on the providers of clearing and settlement services was not the right way to reduce the costs of cross-border settlement in Europe. So we strongly support the Code as a pragmatic and realistic way to deliver open access and greater transparency for our industry. We recognise that the Code is challenging to meet, both in terms of the timetable for its introduction and the outcome that the market is now expecting from the stock
exchanges, Central Counterparties (CCP) and settlement systems. Euroclear intends to implement not just the letter, but also the spirit, of the Code and will apply its provisions to equities, debt securities and mutual funds. The first deadline, for delivering price transparency, has already passed and the industry, including Euroclear, has responded quickly and effectively.

The Code also demands an interoperability protocol by the end of June 2007 and unbundling and accounting segregation of certain services by end 2007. We are dedicating resources to ensure that these demanding obligations are met.

We also believe that ensuring consistent application of the Code's requirements across the European Union will require active monitoring by the Commission.

TARGET2 Securities

At the same time as the Code was announced, the Eurosystem announced that it was considering establishing a new securities settlement platform called TARGET2 Securities (T2S) for settlement in central bank money in the Eurozone. This is a major public sector intervention in the post-trade industry. Euroclear is at this time neither in favour of, nor against, T2S. Like other interested parties, and not just the operators of settlement systems, we need clarification on a number of important questions before coming to a view on the merits of T2S.

In particular, we need to ask whether there are additional costs to be borne by the market that are not included in the European Central Bank’s (ECB) study. To assess the full market impact, we need to consider the entire end-to-end spectrum of the settlement chain, of which T2S would represent only one component and ensure the cost for the market will be lower than alternative options available to the market. This is the first key issue. The second key issue concerns accountability and governance. T2S would have significant market power, perhaps even changing market structures in the Eurozone member states. As a consequence, we must ask whether it is appropriate for the ECB to maintain for its proposed T2S business the same degree of independence and accountability that it quite properly maintains with respect to its monetary policy function. And, if it is in order for the ECB to use Article 22 of the ECB’s statutes to justify going into the securities settlement business, whether the ECB could then use the Article as a precedent for further initiatives relating to the workings of other parts of the European capital market.

These are all questions that need answers before coming to a view on T2S and we have encouraged the ECB to conduct a thorough and open consultation with the market as a whole before it decides on whether to take the project further.

It is too early to assess the financial consequences for the group as a whole, should T2S proceed. It would reduce the revenues of CSDs affected, but it could prove beneficial to an International Central Securities Depository (ICSD) like Euroclear Bank. Most users would need the support of pan-European service providers to manage the fragmentation introduced into the market by T2S and Euroclear Bank is one of the few cross-border settlement providers that would be able to service very efficiently both equities and bonds in all Eurozone markets, and indeed non-Eurozone markets as well. Nevertheless, however much Euroclear may gain financially from it, our view is that such a fragmentation, if it materialised, would be a setback in Europe’s effort to create truly efficient and competitive pan-European capital markets.

User governance – the foundation for European settlement

Euroclear is committed to strong and effective user ownership and user governance. We believe that such user governance ensures that our users’ interests are properly heeded, not only in terms of tariffs, but also in terms of business and corporate development. User governance is absolutely key to making settlement and custody as cost effective and efficient as possible, and keeping us alert to the changing needs of our clients in all the markets that we serve.

We remain very alert to the unique position that Euroclear occupies in European clearing and settlement; we are the largest settlement operator in Europe and we combine the functions of an ICSD with those of domestic CSDs covering five domestic markets,
both inside and outside the Eurozone. This inevitably means that our users and shareholders pay extremely close attention to the activities of the group, particularly in relation to present and future competition between Euroclear Bank and its clients. Your Board has discussed this issue at length during the year, recognising its importance to many of our shareholders and users, and has agreed two main policy stances:

• Euroclear Bank does not consider that its interests and those of its clients lie in it moving up the value chain, or in seeking to compete more actively with intermediaries, such as global custodians, asset managers or investment banks on so-called value-added services.

• Euroclear Bank should continue to support, and take advantage of the natural process of commoditisation of securities services. This is a process which started many years ago with settlement fail-related securities borrowing, triparty collateral management and corporate action services. It is important that Euroclear Bank is able to develop the services to accompany the commoditisation process, in order to remain competitive and to meet the needs of its clients.

We would obviously have to reconsider this approach if there were major changes in the regulatory or competitive environment in which we operate. But, in line with our user governance, any new service to be offered by Euroclear Bank, or any material change in the range or scope of services currently offered by Euroclear Bank, would first have to be endorsed by the Board. This is one of the virtues of user governance; namely that our clients are directly involved in setting the strategic and operational framework in which the group operates.

Directors
Our directors are, of course, core to our ability to deliver strong and effective user governance. We would like to thank Anthony Orsatelli, IXIS Corporate and Investment Bank, Christian Schaack, Fortis Bank SA/NV, Yasushi Watanabe, Bank of Tokyo-Mitsubishi UFJ (Luxembourg) SA, Charles E. Winters, Merrill Lynch, and Sabah Zubaida, Mizuho International plc, all of whom resigned from Euroclear Boards during the course of the year. We were much saddened by the death of Andrew S. Winckler, Ernst & Young LLP, who left our Board during the year.


Finally, I would like to thank A. Chris Tupker who retired as Chairman from Euroclear plc and Euroclear SA/NV in the summer of 2006. He chaired the company through six years of continuous change, growth, and expansion and he made an invaluable contribution to the Euroclear group and indeed to the development of the European securities settlement.

Sir Nigel Wicks
Chairman
Chief executive’s review

The Euroclear group delivered a remarkable performance in 2006, with record growth and robust financial results across the group. We also moved into the implementation phase of our platform consolidation programme, with the launch in production of the Single Settlement Engine (SSE). The SSE laid the foundation for efficient, low-cost cross-border settlement in Europe. Preparation for the delivery of the subsequent phases of the Single Platform is also running to schedule, starting with Euroclear Settlement for Euronext-zone Securities (ESES) in Euroclear France at the end of 2007.
We made sound progress as a group, enhancing services, increasing efficiency, and lowering costs and risks for our clients. In this context, the acquisition of EMXCo represents a major step forward in our aim to deliver efficient order routing and settlement for the UK fund market.

The Euroclear group continues to lead the effort to reduce prices and costs for the market. The €134 million in tariff-related reductions and rebates, effective 2007, represents the largest amount ever made in our history.

The pace of delivery is set to continue in 2007. The start of the ESES implementation alongside other major deliverables will make this another significant year in terms of reaching our strategic objectives. These deliverables are diverse and range from the implementation of the Code of Conduct for Clearing and Settlement, the completion of our Data Centre Strategy (DCS) programme, and important enhancements to client service.

Impressive growth
Strong results were achieved across the board. There was an overall increase in group turnover of 25%, with a particularly remarkable rise of 41% in Euroclear Bank, and the total value of securities held rose by 16%. The number of transactions settled (after netting) rose significantly in all of the operating entities of the group, and so did daily triparty collateral management deals outstanding in Euroclear Bank. Euroclear’s operational performance reflected the benefits of very positive market conditions, but also major business successes helped by substantial tariff-related reductions, rebates and other savings delivered to clients throughout the year.

Against this backdrop of exceptional group-wide results, we succeeded in maintaining our high standards of control and making visible progress in the domain of client service.
A pivotal year
The year 2006 had been described as being ‘pivotal’ in the context of our ambitious multi-year project to harmonise market practices and develop a Single Platform at group level.

We were to reach finalisation of market agreements on the use of harmonised practices across group countries. Additionally, we were to move forward with the first phases of our platform consolidation programme, which will progressively lead to the completion of the Single Platform by 2010.

At this turning point, it was of utmost importance to maintain momentum and to implement the SSE, the foundation for all ensuing platform consolidation phases.

These were ambitious objectives and we have achieved them. At this stage, we are on schedule with subsequent steps, which will culminate in the delivery of a ‘domestic market for Europe’.

Harmonisation agreements – close to finalisation
Agreement has now been reached on 97% of proposals for market practice harmonisation across the five group markets. The remaining 6 of the 214 items are scheduled to be resolved by mid-2007. This high level of consensus means that we now have agreement, for example, on a common settlement timetable promoting a level playing field among users of ESES and, later, of the Single Platform. Another example is the harmonisation of corporate action dates across the group markets, which simplifies and removes risk from the process. Among the items to be completed are the details of a market discipline regime aimed at encouraging good practice when using the new system. We have a general agreement on the need for such a regime and the details are being discussed in a dedicated working group of market participants.

The continued success of the consultation process can be attributed to the willingness of market representatives involved to accept the impact of certain harmonisation decisions on their working procedures. This indicates a high level of commitment by the market itself to the long-term goal of a ‘domestic market for Europe’ and provides a strong drive for change in the industry.

These harmonised practices are designed with a view to being extended across Europe, and not limited to our current group markets. We believe that other markets will be able to benefit from this model in coming years, allowing them to leverage the work already done so far. Clearly, our intention is that the Euroclear Business Model will not be confined to the current five domestic markets of the group.

Platform consolidation – two major milestones reached
With the implementation of the SSE in Euroclear France in May 2006, in CRESTCo in August 2006 and in Euroclear Bank in January 2007, we have reached our objective of launching the foundation of the Single Platform. This phased implementation was a complex undertaking and its completion further increases the credibility of our goal to finalise the Single Platform by 2010. With the SSE in place, the core settlement applications have been consolidated, forming the base for subsequent phases of platform consolidation, starting with ESES in November 2007. Euroclear Belgium and Euroclear Nederland will automatically adopt the SSE as part of the implementation of ESES in May 2008.

We are on track with the development of the subsequent phases towards the Single Platform and are currently working on the custody phase of the Single Platform, for implementation starting in 2008. The business case for the final settlement phase has also been finalised and development will start in 2007. This phase is scheduled to be launched by 2010.

With the delivery of major parts of our DCS programme, we achieved a second major milestone in terms of platform consolidation in 2006. The systems of Euroclear Bank, Euroclear France and Euroclear Nederland, as well as part of CRESTCo’s infrastructure now operate in a consolidated data centre environment. With this development, we are not only streamlining the configuration of our data centres, but, even more importantly, we are substantially increasing the resilience of our systems to any form of disruptions, by using two active (‘hot’) data centres to run production
rather than one, and having two back-up centres rather than one.

This programme will be fully completed in the course of 2007, making Euroclear the most advanced infrastructure service provider in the securities industry in Europe in this respect.

Implementing the Code of Conduct
We met the first deadline stipulated in the Code with regard to pricing transparency. For the Euroclear group, this was not a major task as it has always been our policy to apply the official published tariff.

We are actively preparing to meet the next two deadlines; to deliver an interoperability protocol by end-June 2007, and to deliver accounting segregation and unbundling of services and prices by end-December 2007. These are the most far-reaching parts of the Code, and we are working together closely with other providers and organisations, such as the European Central Securities Depositories Association (ECSDA), to turn these requirements into effective and practical measures that enhance choice and reduce costs for clients. Taken together, the actions required by the Code should help create price transparency and open up access at all levels of the trading and post-trading infrastructure in Europe.

Enhancing performance
The Euroclear group continues to deliver service enhancements and cost reductions ahead of and beyond the implementation of our Business Model, as we had committed to do in 2002 when the Business Model was first announced. At that time, we also promised that client wishes would be central to the enhancement programmes and would form part of the overall group strategy. We have made sure this promise has been kept.

All service enhancements, whether or not they are related to the implementation of our Business Model, are derived from the same strategy for progress. This is based on three axes, which encapsulate our mission as a user-owned provider of market infrastructure services. They are:
• increasing efficiency
• lowering costs
• reducing risks

By doing so, we continue to improve client service year after year.

The number and complexity of projects that we delivered in 2006, combined with an unprecedented surge in volumes, stretched our capacity at times to manage so many initiatives. Certain of the project launches caused some disruptions. But we demonstrated our ability to learn from these and to apply the lessons to subsequent phases of our projects. Step by step, Euroclear is building the solution that Europe needs to develop a truly ‘domestic market’ for its securities activity.

Major steps for the fund markets
Two initiatives were taken in 2006 that constitute a major step forward in delivering our goal of efficient fund order routing and settlement solutions in each group market: these were the acquisition of EMXCo in the UK and the launch by Euroclear France of the first phase of its order routing solution for the French market.

Prior to the decision to acquire EMXCo, the Euroclear group had not been able to take up a meaningful role in the UK mutual funds market, which is plagued with inefficiencies, high costs and risks due largely to high levels of manual intervention. EMXCo is the UK’s leading provider of mutual fund order routing and the de facto standard for electronic order messaging of mutual funds. CRESTCo and EMXCo will build, in close collaboration with the UK fund market, an integrated order routing and settlement functionality allowing us to deliver substantial cost reduction for market participants.

The introduction of the first phase of the order routing solution in Euroclear France was a significant milestone for the French fund market. The solution will be completed in 2007 with the introduction of the second phase and will result in the French fund market becoming the first in Europe to operate a full STP system from order routing to settlement. In addition, FundSettle, Euroclear Bank’s processing platform for cross-border fund orders once more confirmed its attractiveness to the market as a whole with a 79% increase in the average daily number of orders routed. We also succeeded in further increasing the STP rate by 7% up to 89%, thus further lowering the
cost per transaction and operational risk for clients.

Promising progress for multi-market equities service
In recent years, Euroclear Bank has developed a single access point solution to allow for more efficient, low-cost settlement of equities in multiple markets. The success of this service became evident in 2006, with major international clients successfully migrating a large part of their European equities business to Euroclear Bank, in response to the service level we offer and the cost reductions they were able to realise. We anticipate a further expansion of our client base in the coming months and years.

Increasing efficiency in derivatives markets
In the course of 2007, Euroclear Bank will develop a solution offering increased efficiency to the OTC derivatives market. This market is characterised by strong growth, but also faces an increasing number of issues due to the high level of manual workload and matching efficiency rates of around 60% only. This situation has also raised concerns as to risk exposure. The president of the ECB, Jean-Claude Trichet, drew attention to the increasing risks in relation to this at the World Economic Forum in Davos. Our service, for implementation end 2007, is being developed in close collaboration with the broker and financial intermediary communities and will bring enhanced automation and therefore help reduce risks in a concrete manner.

Living up to our promises on cost reduction
The Euroclear group is strongly committed to the objective of reducing costs to clients. The importance of this objective stems directly from our user governance structure and the conviction that cross-border settlement and custody fees and costs remain too high in Europe, which stunts the growth of trading and asset holding. This is why we also continually seek to increase efficiency which, in turn, allows us to achieve economies of scale. The benefits of both are passed on to our clients, helping to generate more business from which the company, and our clients, benefit.

Euroclear Bank delivered €40 million in annualised fee reductions during the year 2006 and also began paying interest on outstanding cash balances, representing an annualised saving of €65 million under current market conditions. Having won significant new business and having processed a record level of transactions by the end of the year, Euroclear Bank was also in a position to announce an unprecedented €123 million worth of rebates and annualised tariff reductions to clients in December 2006.

CRESTCo delivered €15 million in annualised tariff reductions in May 2006, and based on record transaction volumes in 2006, paid €11 million in rebates in early 2007. Taking into consideration this rebate and the tariff reductions implemented in April 2005 and May 2006, CRESTCo has saved clients more than €42 million in less than two years.

In January 2006, Euroclear France implemented a fee reduction for clients using its SBI post-trade confirmation services generating savings for clients of over €1 million annualised.

Over the coming years, the Euroclear group will share with clients, step by step, the benefits of platform consolidation and market-practice harmonisation. The group is also working on a far-reaching tariff harmonisation of local CSD services, aiming to achieve cost reductions of up to 20% by 2012, starting with a significant reduction in 2008. These steps represent one of the most significant fee reductions by CSDs in Europe in years.

Leader in business continuity planning
The progress mentioned above on our DCS is significant in terms of Business Continuity Planning (BCP), as well as platform consolidation. In the aftermath of 9/11, Euroclear decided to bring the group’s BCP in line with the most demanding standards in the world, including in the US.

As one of the main pillars of our BCP, we started work in 2003 on the DCS for the group. The strategy is based on using three data centres, so that we have not one, but two back-up centres in case of disruption. The migration of large parts of our activity to the new infrastructure in 2006 was one of the most technically delicate projects in the history of our company. Its launch
proved to be exceptionally smooth, in spite of it being delivered in parallel with the SSE. The programme is scheduled for completion by end-2007. By the end of this year, Euroclear group will therefore have an unparallelled, state-of-the-art BCP configuration, giving clients even more assurance that their assets are held, and their business is managed, in the safest post-trading infrastructure in Europe.

Building a strong group identity
The initial successes in delivering our consolidated platform solutions are a tribute to the success of our experts from different entities across the organisation in working as one integrated group with common values and objectives. This success has continued with the smooth integration of the staff of Euroclear Belgium in 2006. We warmly welcome our new colleagues from EMXCo and trust they will have an equally positive experience as they join the group.

Motivation levels among staff are very high as we seek to achieve the ambitious goals of the group. We are seeing people exchanging expertise and finding optimal solutions. The innovative strength of the group, and the benefits of consolidation for clients, are the result of cross-market expertise built up by Euroclear colleagues over the years.

Besides the commitment to common values in the workplace, the group is also shaping its larger identity. We are particularly proud that the group has made a sizeable contribution (over €497,000) to support charities in our local communities. A significant part of this sum was granted through matching by the company of individual donations made spontaneously by our employees to the less privileged.

On behalf of the Management Committee,

Pierre Francotte
CEO of Euroclear SA/NV
Group management (as at 28 March 2007)

Management Committee of Euroclear SA/NV

1. Pierre Francotte
   Chief Executive Officer of
   Euroclear SA/NV

2. Ignace R. Combes
   Deputy Chief Executive Officer
   of Euroclear SA/NV

3. Martine Dinne
   Chief Executive Officer
   of Euroclear Bank

4. Frederic Hannequart
   Chief Financial Officer of
   Euroclear SA/NV

5. Dr. Tim May
   Chief Executive Officer
   of CRESTCo

6. Joël Mérère
   Vice Chairman of Euroclear France

1 André Rolland will join Euroclear in April 2007 and it is intended that he will become a member of the Management Committee
Group Management Team

7. Stéphane Bernard
   Chief Executive Officer of Euroclear Belgium

8. Bernard Boyette
   Head of ESES Programme and Legacy Roadmap France Division

9. Wim Claeys
   Head of Strategic Programmes Division

10. Richard Crews
    Deputy Chief Executive Officer of CRESTCo

11. Pierre Yves Goemans
    Head of Product Management Division

12. Mark Kirby
    Head of Business Model and Harmonisation Division

13. Ambrose Murphy
    Head of Legal Division

14. Michael Pilkington
    Head of Corporate Technology Division

15. Yves Poullet
    Head of Operations and Network Management Division, Euroclear Bank

16. Guy Schuermans
    Chief Executive Officer of Euroclear Nederland

17. Pierre Slechten
    Chief Executive Officer of Euroclear France

18. Paul Taylor
    Head of Financial Division

19. Peter Sucaet
    Head of Internal Audit Division

20. Anne Swaelus
    Head of Legacy Roadmap BE/NL/UK and Development Services Division

21. Luc Vantomme
    Head of Banking Division, Euroclear Bank

22. Anso Thiré
    Head of Strategy and Public Affairs Division

23. John Trundle
    Head of Risk Management Division

24. Valerie Urbain
    Head of Human Resources Division

25. Yannic Weber
    Head of Commercial Division

26. Max Wright
    Chief Executive Officer of EMXCo
When the time comes to deliver, you need more than good intentions.

Our vision is clear, and the targets we must meet to achieve our goals have been precisely set out. We have the ambition, we have drawn up the plans and we are delivering. In 2006, we built the foundations for a domestic market for Europe, with the SSE. Our focus, and that of our clients, is on what happens next. We have moved ahead in all key domains of our strategy – delivering increased efficiency, cost reductions for clients and further progress in risk management. These are not only benefits our clients deserve, they are deliverables that attract more business, allowing us to take new initiatives that increase efficiency, lower costs and minimise risk still further. We are delivering across all the business lines in our group, with initiatives targeted at satisfying our range of clients, with their diverse situations and needs.
Achieving our objectives
At the close of the year under review, we were well on track towards achieving our strategic goal of making cross-border settlement as efficient and low cost as domestic settlement.

The aim of this programme, which is part of the Euroclear Business Model, is to realise cost savings of €300 million per year for the industry, by harmonising market practices and implementing a consolidated IT platform across all the (I)CSDs of the group. We believe the total savings could amount to €700-800 million, if these efforts were extended to other European markets – which is our next ambition.

The year 2006 was scheduled as a pivotal point in our rollout programme, the point at which the vast majority of market harmonisation issues would be resolved and the platform consolidation programme would move into implementation phase. Both these goals have been achieved:

- By the end of 2006, practically all market harmonisation issues were resolved, with agreement on the small number of outstanding issues expected by mid-2007.
- We delivered the SSE, the foundation for all subsequent phases of the consolidated platform. We also successfully migrated the majority of our (I)CSDs’ data processing functions to a consolidated data centre infrastructure and made good progress on the remaining phases leading up to the implementation of the Single Platform.

These successes coincided fortuitously with important developments in the regulatory field. The Euroclear group welcomed the European Commission’s Code of Conduct for Clearing and Settlement which is designed to create an integrated European financial market without the need for European legislation. We are wholeheartedly committed to its implementation and see the Code’s goals as so closely linked to our own that we are merging its requirements and deadlines into the rollout of our own Business Model.

Harmonisation success, a tribute to the power of market dialogue

Agreement has now been reached on 97% of proposals for market practice harmonisation across the five group markets. In practical terms, this means 208 of the 214 items scheduled for consultation have been finalised and the resolution of the remaining items is expected by mid-2007.

This success is a tribute to the close working relationship now established between the Euroclear group and the markets through the market consultation process in the four main fields of settlement, custody, payments and reference data. Market representatives involved in the consultation have shown a willingness to accept the impact of harmonisation decisions on their working processes. This indicates the degree of commitment and support to the long-term goal of a domestic market for Europe.

We have continued to demonstrate our genuine commitment to the consultation process. For example, three new ad hoc Working Groups have been set up to deal with specific issues, which have arisen from discussions with market representatives.

Further action required in the public sector

Our harmonisation schedule is based on the removal of the 15 barriers to free and efficient trade in financial services in Europe, identified by the Giovannini group in its reports of 2001 and 2003. Of these, six are being tackled in the private sector and good progress is being made. Nine of the barriers are the responsibility of the public sector and here progress has been slower; there may be a need for legislation in areas such as the fiscal and legal barriers in order to create a truly integrated financial market. Recent calls made by Commissioner Charlie McCreevy for EU member states to press ahead with the removal of these public sector barriers are therefore very encouraging. We believe the Commission can play an important role in spurring and monitoring timely progress in this area.
These are: the Contractual Harmonisation Working Group, the Issuer Working Group and the Market Discipline Working Group.

**SSE launched**

The first major implementation step in our platform consolidation programme took place in 2006 with the launch of the SSE in Euroclear France and CRESTCo. The launch in Euroclear Bank took place in January 2007.

The implementation of the SSE means that all transfers of cash and securities by clients of CRESTCo, Euroclear Bank and Euroclear France are now processed by one unique system, an important milestone paving the way to the implementation of the Single Platform. Euroclear Belgium and Euroclear Nederland will automatically migrate to the SSE as part of ESES early in 2008.

The SSE launch was not without challenges and much has been learned by the group as a whole from the experience in CRESTCo, where difficulties were encountered. The concerns of those CREST users who were impacted received top priority for resolution and the issues raised, particularly those affecting Delivery-by-Value processing, were corrected. Some further fine tuning is planned for 2007, as systems stability must remain our first priority.

**ESES: preparing for launch**

The testing and launch timetable for ESES implementation was revised in 2006, in order to take into account the overlap in the testing periods of ESES and TARGET2, following the announcement of a delay in the launch of TARGET2. The ESES launch scenario has progressed well and we are on track for the start of implementation in Euroclear France in November 2007. The migration to ESES was reinforced with the rollout of a major client readiness programme across the three markets of Belgium, France and The Netherlands. An ESES Implementation Committee of users has been set up in each country to facilitate the programme.

**CCI progressing**

Development of the CCI continues in parallel with work on the different phases towards the Single Platform. The first interface with the CCI is to be delivered to ESES users in 2008 and the rollout will continue gradually, coinciding with the delivery of each phase of the Single Platform.

An agreement has been signed with BT as an accredited network provider for the CCI. Negotiations with a second provider are ongoing.

**Single Platform: design work well advanced**

In parallel with the completion of the consultation exercise for the Single Platform in mid-2006, work was conducted in 2006 on finalising the design and detailed business requirements for the next part of the Single Platform – the custody platform. The
The custody platform will be launched as from the end of 2008.

Work on the final settlement phase of the Single Platform is on track and the scope and delivery for each market is expected to be confirmed early 2007. The settlement phase will complete the delivery of the full range of benefits of the Single Platform to clients, such as full CCI connectivity to the (I)CSD services.

**Changed plans for central bank money payment model**

Euroclear is starting market consultation on the adoption, as of the launch of the settlement phase of the Single Platform, of a different central bank money payment model than the model originally planned. The model we had intended to adopt, and that we will still adopt for the intermediary ESES phase is the so-called ‘integrated model’. This model has long been a subject of debate within the Eurosystem. Despite the fact that it has been accepted by the Eurosystem, and has worked very efficiently and securely in some markets, a number of central banks are opposed to the feature in this model that involves outsourcing the technical operation of central bank money cash accounts to private sector CSDs.

We have closely followed the continued discussions around this issue and concluded that the outlook for the integrated model was not stable enough. Euroclear has decided to move to an alternative model, whereby central bank money accounts will be exclusively held and operated in National Central Banks (NCBs). Clients using the Single Platform will still be able to consolidate their euro liquidity at their home NCB and use this pool for settlement in any Euroclear CSD.

**Data centre consolidation: completion set for 2007**

Euroclear takes the physical security and resilience of the data our clients entrust to us very seriously. An essential, though less visible, aspect of our vision for consolidation is the successful migration of the data processing functions of Euroclear France, Euroclear Bank and Euroclear Nederland to our new, highly secure consolidated infrastructure. In early 2007, the data processing of CRESTCo was also migrated to one of the state-of-the-art data centres, with a subsequent move to a second data centre planned for mid-2007. The full programme is due for completion by end-2007 when the third remote data centre, designed to facilitate recovery from any large regional disaster, will be set up. This will provide the group as a whole with the highest levels of resilience in contingency situations.

**Committed to the Code in letter and spirit**

Our progress in implementing the Business Model coincided with the signing of the voluntary European Code of Conduct for Clearing and Settlement by the (I)CSDs of the Euroclear group and other European stock exchanges, central counterparties and settlement systems.

The Euroclear group not only supports the Code in letter, but also in spirit. We view it as a sensible and pragmatic way of creating an integrated European financial market without the need for specific legislation targeted at providers of clearing and settlement services, which would take years to be adopted and implemented, and the outcome of which would be uncertain. When fully implemented across Europe, and combined with the liberalising measures contained in MiFID, the Code should allow investors in Europe to choose their preferred provider of services at any point in the post-trading chain, opening up competition and reducing costs.

The current Code covers equities only. However, its scope should be extended to fixed income in the near future. We have expressed our support by committing to implement the Code’s requirements across all financial instruments immediately and we believe that the Commission should extend to other asset classes by early 2008.

The Code of Conduct is designed to deliver greater price transparency, increased interoperability between stock exchanges, central counterparties and (I)CSDs, unbundling and account segregation of their main business activities. Tight deadlines have been set for the implementation of the Code, which the Euroclear group is confident it will meet. Some of its requirements present a challenge for all signatories. We are working closely with the other infrastructure service providers to ensure that the Code delivers on its objectives. This process will be aided by
the contribution of the Commission's Monitoring Committee which oversees the implementation of the Code.

**Price transparency**
Transparent pricing is an essential requirement to help clients understand what they will pay for services, including any discounts. It has always been our policy to apply the published tariff, and all the tariffs of the (I)CSDs within the Euroclear group were publicly available by the deadline of end-December 2006. In addition, each Euroclear group (I)CSD has published price examples as a first step towards better comparability between tariffs. These examples are based on real invoices for typical clients and present a comprehensive picture, covering all generally applicable charges a client might pay. We will enhance these price scenarios in line with the work of ECSDA in further developing price comparability across the EU. Price comparisons will also become easier to make across Euroclear as the group's services and tariff schedules become more harmonised over time, including through tariff harmonisation for the CSDs of the group when we launch ESES. Service descriptions and tariff brochures will be updated on a timely basis as the various components of our Business Model are implemented and cross-border settlement becomes cheaper and more efficient.

**Interoperability and access**
This requirement is an extremely important part of the Code's recommendations. Its purpose is clear: to offer market participants the freedom to choose their preferred provider of services at each point in the post-trading chain, thereby complementing the access rights set out for stock exchanges and investment firms in MiFID. The Code signatories need to deliver their proposals for creating the conditions for access and interoperability by 30 June 2007. Within the Euroclear group, our admission policies already address those clauses of the Code that relate to access granted to CCPs and other CSDs. To deliver interoperability, we are working closely with ECSDA, FESE and EACH to find a meaningful public protocol by the Code's deadline of end-June 2007.

**Separate accounting for business activities**
The Code sets out relatively detailed requirements for the post-trading industry to unbundle certain services and prices, and to account for them separately. We believe that this will not only provide users with greater choice regarding the services available, but will also make potential cross-subsidies between these services transparent to the authorities. We will work closely with ECSDA to ensure that a consistent and credible approach is adopted to meet this requirement.
Increasing efficiency

Our ultimate aim at Euroclear is to deliver efficient post-trade processing across asset classes on a domestic and cross-border level. Our harmonisation and consolidation work in Europe, which is an integral part of this mission, is complemented by strategies that seek to drive out inefficiencies directly related to the market infrastructure environment for each asset class.

Across all asset classes serviced by Euroclear, we increase efficiency by designing standardised solutions, enhancing interoperability and extending our market coverage. In line with market demands, we aim to increase efficiency for selected market segments and services, as described below.

Equities

The Euroclear group is delivering in line with its strategy for increased efficiency in European equity settlement and asset servicing. This strategy comprises two clear paths for development, in order to provide for the cross-border and domestic needs of our clients.

For years, players active in several European equity markets have been calling for more efficient cross-border solutions for equities, at lower cost than those available. Over the past few years, Euroclear Bank has been successfully building a single access point to multiple equity markets.

The service, which was further enhanced during the course of 2006, includes a low-cost, book-entry settlement service for all group markets, alongside a link to multiple equity markets. It makes use of an existing cross-border settlement infrastructure, with features and support functions that were designed especially for the equities business, and results in significant cost reductions for clients.

At domestic level, efficiency will be increased with the delivery of the phases towards the Single Platform and increased standardisation among the group CSD services. ESES will offer clients active in the Euronext markets of Belgium, France and The Netherlands a single access to settle all stock exchange and over-the-counter transactions in these markets. Clients will benefit from harmonised market practices enabling them to use the same processes, formats and interface. At the launch of the Single Platform, this standardisation will be extended to the UK and Irish markets.

In 2006, CRESTCo enabled the UK market to cope with a 40% increase in

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EMXCo becomes part of the Euroclear group

On 1 January 2007, EMXCo joined the Euroclear group. EMXCo is the UK’s leading provider of mutual-fund order routing. This acquisition enables Euroclear to take an important step in delivering its funds strategy in Europe. The EMX Message System is the de facto standard for order routing in the UK and also provides order routing services throughout Europe. EMXCo routed over 13 million fund orders in 2006.

Together, Euroclear and EMXCo will deliver an automated and standardised order-messaging and settlement solution for UK fund transactions. In the short term, we will deliver an integrated cash settlement solution that will deliver significant benefits for clients.

Euroclear will set up a UK Funds Liaison Group, composed of representatives from a broad spectrum of the industry, to oversee developments.

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Bob Wigley
Chairman, EMEA, Merrill Lynch International

‘Euroclear Bank’s equity service is living up to our expectations. Our decision to move our business was driven by the fact that its service is in line with our vision for the future. We enjoy an active dialogue and our common vision means our relationship will grow from strength to strength.’
Towards increased efficiency for funds

<table>
<thead>
<tr>
<th>2006 events</th>
<th>International level</th>
<th>Local level</th>
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<tbody>
<tr>
<td>FundSettle further progressed as a market solution with a growth of 79% in the average daily number of orders routed, achieving increased STP rates (up to 89% from 82%) and a 19% reduction in costs for clients.</td>
<td>In France, we implemented the first phase of an order routing functionality.</td>
<td></td>
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| 2007 events and plans                            | In collaboration with fund managers and transfer agents, we launched FundSettle Premier in April 2007. This is a quality label for fund processing that allows for an enhanced service and substantially lower costs. | In the UK, Euroclear acquired EMXCo on 1 January 2007, and is starting to develop an integrated cash settlement solution and reconciliation service with CREST. In France, the second phase of order routing functionality was launched in April 2007, fully automating the order routing and settlement process. |

| Looking forward to 2008 and beyond               | Shortly after the implementation of ESES, Euroclear Belgium and Euroclear Nederland will implement an order routing solution similar to the one that exists in Euroclear France. Our ultimate goal is to integrate our fund solutions onto the Single Platform. These steps will make a real difference for fund market participants in Europe. The combined group (I)CSD solutions will be available for over 90% of the European fund business. |                                                                                  |
LSE SETS activity, demonstrating the efficiency of its automated clearing processes.

**Funds**

There are still major inefficiencies facing the order processing, settlement and asset servicing of funds on both a domestic and a pan-European level. In 2006, the European Commission called on the European fund industry to take steps to enhance market efficiency.

This call confirms the validity of the actions we have been taking. In parallel with the further growth of FundSettle as our pan-European fund solution, we are focusing on the phased delivery of integrated order routing and settlement solutions in each of the group CSDs. In this area, our acquisition of EMXCo, the electronic order routing service for funds in the UK, as well as the phased implementation of a local order routing solution in France, constitute major steps forward.

**Fixed income**

In general, the efficiency in both domestic and cross-border segments of fixed income securities is very high in comparison to certain segments in other asset classes. Several Euroclear entities have historically played a key role to achieve this in their respective segment.

Notwithstanding this, we continue to strive for further efficiency increases wherever possible. Euroclear Bank, for example, has specific initiatives ongoing for domestic and international debt securities. It continues to strengthen its role for clients as a single access point to multiple markets by extending domestic market coverage and by working closely with clearing houses and other market stakeholders. In 2006, the interoperability with Clearstream Luxembourg was further enhanced.

Euroclear Bank and Clearstream Luxembourg have also jointly proposed a market-wide initiative aiming to increase standardisation of international securities market processing. The programme will be launched in 2007 and will be directed by the newly established International Securities Market Advisory Group (ISMAG).

The growing diversity and creativity applied in bond structures has impacted the level of STP in asset servicing at all processing stages, resulting in a higher dependence on manual intervention. This in turn causes higher risk and greater volume sensitivity, which ultimately affects the cost and quality of services offered to clients.

The implications were particularly noticeable in the second half of 2006, when Euroclear Bank operational teams were stretched to their full
capacity during a period of massive growth in volumes.

In the next few years, Euroclear Bank and Clearstream Luxembourg intend to collaborate closely with agents and Common Depositaries to identify and implement measures and guidelines for achieving increased STP.

**Derivatives**
Increased efficiency is a priority in the fast-growing OTC derivatives markets. The manual workload for market participants is currently high and efficiency rates are only around 60%. Risk exposure for market participants is also on the increase, with a growing number of contracts left unreconciled and disputes on collateral calls.

In close collaboration with the broker and financial intermediary communities, the Euroclear group is acting to respond quickly to market needs. An exposure management service for OTC derivative portfolios will be implemented by Euroclear Bank by December 2007. The service will complement existing infrastructure initiatives in trade confirmation and data warehousing. It is set to redesign the current processing mechanism in the market. Clients will also be able to link netted collateral obligations into the existing Euroclear Bank triparty collateral management service suite.

**Collateral management**
The trend for collateralisation further expands, as confirmed by the significant growth in volumes in Euroclear Bank’s triparty services during 2006. This growth is expected to continue in the context of Basel II and the expected growth of derivatives.

We work closely with the market through the Collateral User Group and make our collateral management services as comprehensive as possible. Recently, Euroclear Bank successfully delivered two major service enhancements, namely improved optimisation tools (in 2006) and a facility for clients to re-use collateral received (in 2007).

In Q1 2007, in the context of the launch of LCH.Clearnet’s RepoClear service, CRESTCo made the necessary changes to enable the direct input of DBV instructions and associated repo interest payments.
Lowering costs

The Euroclear group has repeatedly expressed its commitment to reduce costs for clients, and it has acted decisively.

Our vision for cost reduction is based on a set of key principles. We aim for sustained delivery of efficiency gains, allowing for a decrease in our pricing, as well as cost reductions for clients in their back-office operations. Efficient solutions and competitive pricing will allow for additional business growth for us and our clients, resulting in further economies of scale. We aim to maximise cost reduction for clients without jeopardising the company goals of:

- day-to-day service quality;
- risk containment; and
- the rollout of major investments that will allow for substantial cost reductions.

The cost reductions delivered in 2006, and the significant reductions scheduled for 2007 and beyond, demonstrate the strength of our commitment.

**Tariff harmonisation at CSD level**

Over the next few years, the Euroclear group plans to carry out tariff harmonisation at CSD level across all comparable domestic services. This harmonisation is set to take place alongside the phased delivery of our Business Model, in order to benefit from consolidation and result in tariff reductions in the years to come.

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### Overview of major cost reductions

<table>
<thead>
<tr>
<th>Level</th>
<th>2005</th>
<th>2006</th>
<th>2007†</th>
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<tbody>
<tr>
<td>ICSD</td>
<td>• €40 million in rebates paid early 2005, in proportion to clients’ activity in 2004&lt;br&gt;• €27 million in fee reductions</td>
<td>• €45 million in rebates paid early 2006, in proportion to clients’ activity in 2005&lt;br&gt;• €40 million in annualised fee reductions&lt;br&gt;• €11 million as a result of our decision to start paying credit interest on outstanding cash balances</td>
<td>• €45 million in rebates paid early 2007, in proportion to clients’ activity in 2006&lt;br&gt;• A total of €78 million in annualised fee reductions&lt;br&gt;• An estimated total of €65 million of credit interest on outstanding cash balances</td>
</tr>
<tr>
<td>CSDs</td>
<td>CRESTCo: tariff reductions of €16 million</td>
<td>CRESTCo: annualised tariff reductions of €15 million&lt;br&gt;Euroclear France: €1 million per year for users of SBI post-trade confirmation service</td>
<td>CRESTCo: €11 million in rebates paid early 2007, in proportion to clients’ activity in 2006</td>
</tr>
</tbody>
</table>

1. Amounts confirmed to date.
Harmonisation and cost reduction are set to take place in phases.

- At the launch of ESES, harmonised tariffs will be introduced for the three Euronext market CSDs, with an estimated €8 million of internal savings being passed on to clients, on top of additional fee reductions.
- At the launch of the Single Platform, harmonised tariffs will be extended to CRESTCo, with an estimated €26 million in savings being passed on to clients, on top of additional fee reductions.
- Further reductions resulting from economies of scale linked to projected volume growth, once the delivery of future platform solutions is complete and, subject to Board approval, culminating in an estimated overall fee reduction of up to 20% by 2012.

These tariff reductions come on top of the sizeable savings in clients’ back-offices and other benefits of consolidation, such as a seamless access to five countries and service level harmonisation, combining the strengths of each CSD. We have estimated that these internal savings of clients will be four times as large as the fee reductions from Euroclear CSDs generated by the cost reductions for Euroclear itself.

We believe that our strategic objective of creating a domestic market for Europe can be achieved more effectively if the tariffs charged by our CSDs are harmonised. This tariff harmonisation responds to the market’s call for increased transparency and will enable greater comparability of CSD prices across local markets. This is also in line with one of the aims of the Code of Conduct.

Favouring structural reductions, preserving flexibility
Both Euroclear Bank and CRESTCo paid a rebate early in 2007. These payments reflect our commitment to pass on to our clients additional savings generated by economies at the end of the year.

For 2007, Euroclear has decided to step up efforts to convert economies of scale into structural tariff reductions. This primarily affects Euroclear Bank, as it has been paying a rebate every year for the last few years. The decision has been reflected in the total cost reductions of €78 million, delivered at the beginning of 2007.

We intend to continue with this trend in the future, reserving the payment of rebates as a secondary measure to further lower costs for clients. In this way, we intend to maximise the distribution of foreseeable tariff reductions, through ex ante fee reductions.
The Euroclear group also aims to reflect its client-ownership structure by providing outstanding client-focused service delivery.

During 2006, we built on previous years’ initiatives across the group, with multiple enhancements to our services and client service function, in direct response to client wishes. We also entered a phase of additional focus on client service with a new, far-reaching project, through which we will raise standards in this area. Our aim is to become the ‘best of class’ in all aspects of client service through multiple initiatives.

We are convinced that the positive reactions from clients, prompted by the growing ‘client-first’ mentality among staff, will continue with the forthcoming initiatives and the continuation of our internal client-focus programme.

Client-driven service enhancements
In 2006, alongside our Business Model implementation work, all group entities instigated upgrades in line with client wishes. The proactive collection and central analysis of client feedback allows us to further segment the needs of clients and prioritise our developments.

This process ensures that we continue to make exactly those enhancements that make a real difference for clients. This was seen again in 2006 with various initiatives across the group, from expanded service coverage to improved reporting.

Day-to-day service support
In 2006, we took measures to enhance our client support service. We increased the number of staff in specific areas to respond to the increased volume of queries. We also created more direct specialist lines to enhance the quality of our service level.

Our efforts resulted in marked improvements, such as in Euroclear France and in Euroclear Nederland, reflected in the results of our 2006 Client Satisfaction Survey (the overall level of satisfaction in Euroclear Nederland increased by more than 10%). For Euroclear Bank, initiatives have already come to full fruition in some areas, but their impact has been delayed in others, due to higher than expected volume increases.

A key objective for 2007 is to ensure the completion of current initiatives alongside new initiatives in the context of the ‘best of class’ project. The essence of the project is to revisit the way we serve our clients on a day-to-day basis. To this end, Euroclear Bank carried out an in-depth client service analysis in close collaboration with clients. This resulted in a full mapping of the areas for which additional initiatives are required to become recognised as ‘best of class’ in client service. For example, we will make structural changes to ensure greater consistency and extend dedicated support to the full range of clients.

Furthermore, we are in the process of upgrading our information services. In 2006, our upgraded e-mail information services resulted in an increased subscription rate of 65%. A new, integrated group website is scheduled for delivery by the end of 2007, with enhanced access to entity-specific information.

Client-focus programme
The client-focus campaign introduced last year, entitled ‘Triple A service – Awareness, Attitude, Action’, continued successfully throughout 2006. We reinforced our focus on the importance of client business understanding: better response to queries through better insight in client functioning. We have deepened the relationship between our operations staff and our clients, for instance through on-site visits, in order to familiarise them with clients’ needs and the environment in which they work.

Going forward, our client focus programme will be an integral part of the ‘best of class’ project.
Compelling performance across the group
SSE in CRESTCo
The implementation of the SSE in August 2006 was a major focal point for CRESTCo during the course of the year. Please refer to page 28 for a review of the SSE launch.

CRESTCo is also concentrating on other projects aimed at enhancing the market infrastructure ahead of the Single Platform.

Towards an efficient fund solution for the UK market
Further to the group’s acquisition of EMXCo, CRESTCo will develop a settlement solution for orders routed through EMXCo, for implementation in early 2008. This will deliver significant value for fund service users of CREST.

Ready for SIS x-clear
During 2007, CRESTCo will settle trades cleared by SIS x-clear, which will become the second clearing agent for LSE trades after LCH.Clearnet. The high priority we gave to connecting with SIS x-clear shows our commitment to market openness and progress for market participants.

Other developments
USD settlement in CREST has grown and we are working on an enhanced framework in collaboration with the Association for Payment Clearing Services (APACS), the Bank of England and settlement banks.

CRESTCo will work with the Central Bank of Ireland as a provider of euro liquidity.

During 2007, CRESTCo will deliver enhancements to support Eurex Clearing AG and Fortis Bank in their roles as central counterparties of the Eurex exchanges and Chi-X respectively.

In order to support LCH.Clearnet’s new RepoClear service, launched in Q1 2007, CRESTCo will introduce changes to allow the direct input of DBV instructions and associated repo interest payments.

Client Satisfaction Survey
Overall rate of satisfaction:
2006: 72.7%
2005: 74.3%

Notwithstanding a number of improvements acknowledged in the survey, the results were impacted by the SSE launch issues, described on page 28.

Euroclear has taken the feedback from the survey, as well as the lessons learned from the SSE implementation, to improve its service to clients.

Andrew Butcher
Director, Charles Stanley & Company Limited

“The combined strengths of EMXCo and Euroclear will open up new opportunities for investors, providing them with the assurance that they can invest in unit trusts and other collectives as readily as they can currently invest in stocks and shares.”

CRESTCo

Key figures

<table>
<thead>
<tr>
<th>Turnover</th>
<th>+11%</th>
<th>€144.818 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holdings</td>
<td>+15%</td>
<td>€3.776 billion</td>
</tr>
<tr>
<td>Number of transactions after netting</td>
<td>+7%</td>
<td>70 million</td>
</tr>
</tbody>
</table>

The volume growth in CREST has been driven by the strong activity in the UK and Irish financial markets.
Successful integration
The Belgian CSD joined the Euroclear group in January 2006. Throughout the year, Euroclear Belgium successfully integrated as part of the Euroclear group. This smooth integration is due to employee commitment and to Euroclear's experience with new entities joining the group.

Dematerialisation process
The progressive move towards full dematerialisation, from 2008 until 2013, represents a major challenge for the Belgian financial market.

Euroclear Belgium is preparing for a successful transition, in close collaboration with the various market stakeholders. The first effects of the upcoming dematerialisation have already become apparent through a significant increase in the number of certificates deposited towards the end of 2006, as well as a drop of 38% in demands for physical securities in the course of the year.

Apart from the benefits of cost and risk reduction for market participants and investors, dematerialisation will also allow issuers to gain a better overview of their shareholdership. During the course of 2007, Euroclear Belgium will launch a service for issuers under the trademark name Capitrack. This service will give an up-to-date view of the form in which shares are being held. Issuers will also be able to outsource their shareholders register.

Preparing the Belgian market for ESES
In close collaboration with the ESES Implementation Committee, Euroclear Belgium is preparing for a smooth changeover to ESES in 2008.

Euroclear Belgium and its clients will be involved in essential training and testing during 2007 in order to be ready for the transition.

ESES implementation in Belgium will result in harmonised settlement and corporate action processing. In particular, the treatment of entitlement distributions and market claims will be further harmonised, and this will require a change of practice in the Belgian market. There will also be a change to the existing account structure. It will be necessary to combine the features of Belgian dematerialisation with those of the ESES platform. This will be tested and launched alongside the other developments.

ESES will also help bring new momentum for efficiency in fund order routing and settlement. The Belgian fund market is important and we have been offering an order routing service for Belgian funds for several years. The implementation of ESES implies the migration of the current service onto the new platform, as well as refinements to include elements of the service developed in France.

Client Satisfaction Survey
Overall rate of satisfaction: 2006: 67.6%

In line with the other group (I)CSDs, Euroclear Belgium carried out a Client Satisfaction Survey in its first year of operation under the Euroclear group. Clients reacted very positively to this initiative and the participation rate of 60% was higher than expected.

The overall satisfaction rate was good. Client scores underline our strengths in client relationship and account management, and in the quality of our core service, settlement.

Key figures
| Turnover | €323 billion |
| Holdings | +15% |
| €265 billion |
| Number of transactions after netting | +23% |
| 2.7 million |

The growth in holding and transaction volumes was supported by the rising Be20 index. In addition, a 23% increase was recorded in the number of settled OTC transactions.
Euroclear France

Playing a leading role in the move towards the Single Platform
In May 2006, Euroclear France was the first group CSD to launch the SSE, and will also be the first Euronext market CSD to launch ESES in November 2007.

Euroclear France is playing a major role in the development of ESES, as it will be based on several key components of the existing RGV platform.

SSE delivers higher settlement efficiency
The harmonisation of certain settlement processes as part of the SSE has increased settlement efficiency on the RGV platform from 99.80% to a record average of 99.84% of transactions.

Preparing the French market for ESES
In close collaboration with the ‘Comité de déploiement’, the French ESES Implementation Committee, Euroclear France is preparing for a smooth changeover to ESES. Committee meetings are held on a monthly basis to share information on the progress of the rollout and client readiness. The French market as a whole is strongly focused on the migration to ESES.

The channels we set up to adequately inform and assist clients are used intensively and a significant number of client staff have signed up for training sessions.

From a client perspective, the most visible impacts of ESES will be the amended settlement model and changes in liquidity management, corporate action and foreign securities management.

Towards full STP for funds
Euroclear France is gradually implementing integrated order routing and settlement for funds. The first phase, to which some 25 clients subscribed, was launched in 2006. The second phase, scheduled to be launched in April 2007, will enable clients to benefit from full STP from order routing to settlement.

This development represents a major step forward for the French fund market, as up until now processing had been very manual. The Euroclear France solution offers a set of common standards and fully automates the process for all parties active in fund distribution and management, from order execution up to settlement.

Client Satisfaction Survey
Overall rate of satisfaction: 2006: 78%
2005: 76.8%

The survey results demonstrated an overall satisfaction rate increase of over 1% for the fourth consecutive year. Initial analysis reveals that the positive perception of our services within the market is further reinforced by our open and active communication on the implementation of the ESES platform. We aim to continue to build on this positive trend in the coming years.

Key figures

<table>
<thead>
<tr>
<th>Metric</th>
<th>2006</th>
<th>2005</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>€84,312 billion</td>
<td>€74,808 billion</td>
<td>12%</td>
</tr>
<tr>
<td>Holdings</td>
<td>€5,018 billion</td>
<td>€4,518 billion</td>
<td>11%</td>
</tr>
<tr>
<td>Number of transactions</td>
<td>34 million</td>
<td>33 million</td>
<td>3%</td>
</tr>
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</table>

Transaction volumes reached an all time high, reflecting the bull market in France during 2006. Solid growth was recorded in equities, fixed income and funds.

‘The order routing service is a major step forward for the French fund market. The automation and standardisation has enabled us to reduce costs and risks in third party distribution. The forthcoming integration with the settlement process will definitely complete the model and help us enhance the services we provide to our clients.’

Jean-Yves Forel
Head of Services Division, Natixis

Euroclear annual report 2006: Delivery
Enhanced client service
In 2006, Euroclear Nederland took several measures to strengthen its client service, including the recruitment of more experienced staff and the provision of direct access to specialists. We intend to continue to upgrade the service level with more initiatives during 2007.

‘Closed circuit’ accounts system launched
The recently established ‘closed circuit’ accounts system for global notes increases processing efficiency and reduces cost. This account structure allows dematerialised securities to be delivered in and out of the giro system via electronic instructions, avoiding the need for three separate parties to sign the individual deeds of delivery.

Upgrading asset servicing
In 2006, Euroclear Nederland focused on the further refinement of its asset servicing package. The enhancement programme will continue during 2007.

The voluntary corporate actions service was expanded to include warrants, convertibles and reinvestments. This service will be further expanded to support market claims, rights and public offers. A new proxy voting service was launched, allowing end investors with UK shares held in Euroclear Nederland to send voting instructions, or attend Annual General Meetings in person or by proxy. These services will be further upgraded during 2007. A fast track acceptance procedure for tap issues was launched.

We will continue to accelerate acceptance procedures for new issues in 2007. We are also planning to implement certain aspects of harmonisation, such as the use of record dates, ahead of ESER.

Preparing the Dutch market for ESER
In close collaboration with the ESER Implementation Committee, Euroclear Nederland is preparing for a smooth changeover to ESER in 2008. Euroclear Nederland and its clients will be involved in essential training and testing during 2007 in order to be ready for the transition. From a client perspective, the most visible impact will be a change in the existing account structure.

Consolidated date centre infrastructure
In October 2006, as part of the group DCS, Euroclear Nederland successfully migrated its legacy infrastructure to the new Euroclear group data centre infrastructure.

Breakthrough in dematerialisation process
For many years, Euroclear Nederland has been a keen supporter of dematerialisation, and is an active member of the Working Group established under the auspices of the Dutch Ministry of Finance.

Major progress was made in 2006, as agreement was reached with all major market stakeholders on the principle of mandatory dematerialisation. A draft bill is currently being prepared, in anticipation of full dematerialisation in the future. This bill also aims at expanding the Dutch Securities Giro Transfer Act (Wet Giral Effectenverkeer) to cover a wider range of securities, including derivatives.

Role of National Numbering Agency
In Q1 2007, Euroclear NIEC assumed the role of National Numbering Agency (NNA) for Dutch securities from Euronext Amsterdam. This brings Euroclear Nederland in line with those CSDs of the group that are the NNAs for their respective countries.

Client Satisfaction Survey
Overall rate of satisfaction:
2006: 69.1%
2005: 58.4%

The marked increase in the overall rate of satisfaction clearly illustrated our clients’ positive response to a series of improvements in the area of client service.

Key figures

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<tr>
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<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>€3,494 billion</td>
<td></td>
</tr>
<tr>
<td>Holdings</td>
<td>€954 billion</td>
<td></td>
</tr>
<tr>
<td>Number of transactions after netting</td>
<td>3.8 million</td>
<td></td>
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</tbody>
</table>

Transaction volumes reached an all time high, reflecting positive market conditions in The Netherlands during 2006.
**Euroclear annual report 2006: Delivery**

**Fixed income**
Total holdings increased by 12% in 2006. This growth results in increased internalisation, allowing our clients to derive maximum benefit from book-entry settlement. In the international debt segment, in 2006, we successfully developed the New Global Note (NGN) structure, in close collaboration with market participants and Clearstream Banking Luxembourg. This new structure is mandatory for all new international bearer debt issues to be accepted as collateral for Eurosystem monetary-policy and intra-day credit operations. We delivered enhanced operability with Clearstream Banking Luxembourg through five additional pre-matching transmissions.

In the domestic debt segment, we continue to strengthen our role of single access point. We extended our links with domestic markets, including:

- domestic securities from the Slovak Republic, Hungary and Czech Republic (2006)
- Japanese Government Bonds (early 2007)
- domestic securities from Slovenia, Croatia and Cyprus (2007)

We also continued to work closely with electronic trading platforms and clearing houses to provide efficient settlement services for both streams settled on a gross or net basis.

Furthermore, our strategy to complement our offering to primary dealers with coverage of Euronext-zone countries has been a great success, making Euroclear Bank an optimal location to consolidate activity across markets and instrument types.

**Equities**
In 2006, we secured business from several international players, successfully migrating a major part of their European equities business.

This resulted in a 71% increase in the number of instructions and a 43% increase in total holdings. Clients have endorsed the quality of our equities service and the cost reductions they have been able to achieve.

The obvious value of the service should allow us to attract a growing critical mass in terms of business volume.

**Funds**
The average number of orders executed daily in FundSettle has grown by 79%. FundSettle is designed to enhance the level of STP in fund transactions, and we worked closely with FundSettle users to further refine the service.

Alongside other enhancements, in 2006, we succeeded in increasing the STP level from 82% to 89%, and up to 95% for Irish and Luxembourg funds. In parallel, the average fees for STP transactions were reduced by 19%.

Another milestone was the launch of FundSettle Premier in April 2007.

FundSettle Premier is a new quality label for fund classes that allows for fast-track processing. The label has been created in close collaboration with the FundSettle User Group. Fund promoters representing over 40% of FundSettle transactions have already signed up to the new label.

**Collateral management**
Euroclear Bank achieved record results in 2006, with an increase of 26% in the daily average outstanding. With a daily average outstanding of over €300 billion, we remain Europe’s largest provider of collateral management services and gained top scores in recent surveys.

We successfully delivered two major service enhancements: improved optimisation tools (in 2006) and a new collateral re-use facility (in February 2007).

These two enhancements result in optimal allocation of clients’ collateral pools. The re-use facility also offers collateral takers the option to re-use the collateral received in onward triparty transactions, which increases the liquidity of the client’s collateral pool.

**Lending and borrowing**
The service was enhanced for French debt securities by aligning the lending and borrowing infrastructure to local market settlement patterns. In 2007, we will extend the current end-of-day lending and borrowing process across all markets, to allow borrowers to reimburse loans later in the day.

**Euroclear Bank**

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**Euroclear Bank**

Gary Janaway
Director, Schroder Investment Management (Luxembourg) SA
Chairman of the FundSettle User Group

‘The launch of FundSettle Premier is a bold step by Euroclear in its drive to lower costs for clients while bringing standardisation and efficiency to the processing and servicing of investment funds across Europe. The new service is a product of the strategic user forum established to set the direction for the future development of FundSettle.’

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Richard Ruster  
Vice President, Correspondent banking network management, Pictet & Cie

“As a private banker, we chose Euroclear Bank to service our activity in UK equities. We made this choice because their service is comprehensive and the UK market is part of Euroclear’s future strategy for equity markets.”

Consolidated date centre infrastructure
In November 2006, as part of the group DCS, Euroclear Bank successfully migrated its entire legacy infrastructure to the new Euroclear group data centre infrastructure.

Major cost reductions for clients
On 1 November 2006, Euroclear Bank took the major decision to start paying credit interest on outstanding cash balances, at market rate minus 100 basis points. This results in estimated annualised client savings of €65 million, under the current market conditions.

Euroclear Bank also:
• delivered €40 million in annualised fee reductions in 2006;
• paid a rebate of €45 million to clients early in 2006 and the same amount again early in 2007; and
• announced an unprecedented €78 million in annualised fee reductions early in 2007. These reductions apply primarily to safekeeping fees for eurobonds and German debt securities, sliding scale volume discounts, collateral management, and lending and borrowing services.

Strengthening client service
In 2006, higher than expected volume growth put additional pressure on our operational teams, including client service teams. This growth partly masked the effect of certain initiatives taken in 2006 to enhance our client service. For example, an increase of 21% in client service staff (early 2007 compared to early 2006) resulted in tangible progress in certain areas, such as FundSettle and collateral management. The quality of client service was, however, adversely affected at times by certain systems incidents.

In 2007, Euroclear Bank is rolling out initiatives in the context of the group’s ‘best-of-class’ project aimed at delivering sustained improvements in our day-to-day services and client support. This programme includes a reorganisation of our service functions to provide an even better and faster service.

Client Satisfaction Survey
Overall rate of satisfaction:
2006: 71.1%
2005: 72.6%

Analysis of the survey results reveals that the decline in overall rate of satisfaction is related to certain system incidents experienced during the year. Another contributory factor was the marked increase in volumes, which put pressure on our operational teams.

A strong increase in satisfaction was, however, noted in many areas, including equities, funds and for our collateral management services. This underlines the positive effect of our client service initiatives in these areas. Clearly, our goal is also to accomplish such enhancements in other services.

Key figures

<table>
<thead>
<tr>
<th>Turnover</th>
<th>+41%</th>
<th>€218,712 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holdings</td>
<td>+14%</td>
<td>€8,142 billion</td>
</tr>
<tr>
<td>Number of transactions after netting</td>
<td>+26%</td>
<td>34 million</td>
</tr>
<tr>
<td>Collateral provision outstanding</td>
<td>+26%</td>
<td>€339 billion</td>
</tr>
</tbody>
</table>

As a result of new business gained and good market conditions, there was strong growth across all asset classes.
On 1 January 2007, EMXCo became part of the Euroclear group, as a wholly-owned subsidiary of Euroclear SA/NV. The transaction was effected through an upfront cash payment, and there may be an additional deferred payment based on future performance.

The EMX Message System is the de facto standard for fund order routing in the UK and also provides order routing services through the rest of Europe. Now that EMXCo is part of the Euroclear group, we are in the process of identifying and implementing solutions for the funds industry that respond to the calls made by the Investment Management Association to increase efficiency and reduce operational risk and cost.

CRESTCo, EMXCo and UK fund participants are already working on the delivery of an automated order routing and cash settlement solution for the UK mutual fund industry, with a view to expanding on this initial phase to cover asset servicing of UK funds in CREST. The combined EMXCo-CRESTCo solution aims to substantially reduce overheads for market participants.

The UK funds market is the fourth largest in Europe and grew by 23% between September 2005 and September 2006, with a total value of £476,833 million (€725,809 million) (EFAMA Sept. 2006 figures).

**Close collaboration with the fund market**

In order to ensure that the new service delivery is in line with the requirements of the UK mutual funds industry, Euroclear will set up a Funds Liaison Group, composed of representatives from a broad spectrum of the industry. This group will provide valuable input and feedback on services, highlighting Euroclear’s commitment to being market driven.

In addition to the Funds Liaison Group, technical working groups will be established to provide EMXCo and CRESTCo with detailed technical knowledge relevant to the funds industry and to assist in the design, development, testing and implementation of the new services.

**Ensuring continuity**

EMXCo will continue to operate under its current marketing name and as a sub-entity of Euroclear SA/NV, alongside the (I)CSDs of the group.

Clients will continue to use their existing connections to ensure the maximum return on their initial investments in STP.
Responsibility isn’t just something you have. It’s something you feel.

The Euroclear group is owned and governed by its users. Our responsibility towards our clients and the market is therefore absolute. We are leaders in the market. As a result, we set ourselves exceptionally high standards. This sense of responsibility is at the heart of our strong risk management strategy, encouraging us to adopt the most rigorous practices. It leads to deliverables such as our Data Centre Strategy, which aligns our business with the most demanding business continuity standards. It is at the heart of our commitment to transparency, and is central to the way we take care of our clients and of our people.
Risk management

The Euroclear group’s core activities involve risk transformation by reducing both settlement and systemic risk for the market. In this process, Euroclear assumes various risks itself. The market expects Euroclear to manage these risks rigorously and this is what we do, by setting very high standards for the Euroclear control environment.

Rigorous market practices and industry standards

Euroclear has a strong risk culture, embedded in the organisation, and reinforced from the top. Comprehensive risk frameworks and policies have been developed, which set out how the control system functions. These are based on industry standards, such as ISO 17799 for Information Security and the Advanced Measurement Approach (AMA) for Operational Risk, as well as more generic best practices, including an Enterprise Risk Management framework and a centralised Policy Control Office. Several Euroclear entities make audited SAS 70 control statements to inform clients and other stakeholders about their control environments. These frameworks and policies are supported by a governance structure that includes risk committees responsible for control monitoring. Euroclear also has clear processes and procedures that seek to find an appropriate balance between formalism and pragmatism. These cover both day-to-day operational processes and risk/control processes, which include the identification, monitoring and mitigation of risks and incident handling processes. In 2006, Euroclear again made major progress in several domains. To meet Basel II requirements for the determination of regulatory capital for credit risk, Euroclear implemented the system and organisational changes required to be compliant with the Foundation Internal Rating Based Approach (FIRBA), and obtained the required accreditation from the Belgian regulators to start using the new approach, effective from January 2007. In December 2006, Euroclear completed its application file to use the AMA to calculate regulatory capital requirements for operational risk. In the domain of Business Continuity Planning, Euroclear delivered on key components of its BCP arrangements, in line with international best practice, by successfully implementing its DCS in Euroclear France, Euroclear Nederland, and Euroclear Bank. DCS is being extended to CRESTCo in 2007.

Enterprise Risk Management: a risk controlled environment

Euroclear seeks to ensure the coherence of its risk management function by using an Enterprise Risk Management (ERM) framework, which is made up of three main components:

- The Risk Register provides a high-level list of all principal risks that Euroclear runs. In total, seven risk categories have been identified. Three arise from the provision of Euroclear’s daily services (credit, liquidity and operational risk). Another three are related to the environment in which Euroclear operates (market, business and strategic risk).

A final risk (strategic projects risk) has been isolated because it is particularly important for the organisation and because that risk is managed separately from the day-to-day services. The high-level Risk Register is complemented by a more detailed database of risks (both risk issues being mitigated and accepted risks).

- ERM also provides an allocation of the roles and responsibilities in the management of risks. The key risks described in the Risk Register are owned by division heads, who have the lead responsibility in managing these risks. This approach enables the risks related to the provision of our services to be identified and then managed or accepted in accordance with our Business Model.

- The third component of ERM is the System of Internal Controls. Euroclear has a mature system of internal controls setting very high standards for the Euroclear control environment.

Operational risk

As part of the ERM programme, Euroclear has developed an Operational Risk Management (ORM) framework. The ERM programme and ORM framework are aligned and use largely the same concepts, solutions and tools. The ORM framework consists of seven interconnected pillars. Three of these pillars – Governance, Strategy and Culture and Competence – are rather static in that they provide the main building blocks of the ORM
Framework and do not change often. The four other pillars – Measurement and Assessment, Risk Response and Control, Monitoring Processes, and Reporting – compose a dynamic risk management cycle and cover most day-to-day operational risk management practices.

Together, the ORM framework pillars detail how operational risks are identified, who owns them, and how they are to be mitigated. The ORM framework also describes all relevant operational risk processes, the role of people within them, and what information is to be provided to take proper management decisions. The objective is to implement each pillar consistently across the group.

**Information security**

In 2006, Euroclear further developed its information security programme using the ISO 17799/27001:2005 standards as a benchmark to manage the aspects that are relevant to the group. In particular, a rigorous review of the Operational Risk Policy has led to the development and adoption of a new Information Security Management System. This clarifies the information security governance structure at group level. The system assigns roles and responsibilities in each of the four key information security domains (physical, logical, personal and business continuity) to specific individuals who implement and monitor security policy and procedures at either group or local level.

**Business continuity**

Global events in 2006 again demonstrated the need for the market infrastructure to be resilient against potential local or regional disruptions.

Euroclear decided in 2003 to implement a far-reaching upgrade of its business continuity arrangements, in line with best international practice. The group will complete this implementation in 2007. Most elements are already in place:

- Euroclear now has three data centres appropriately far apart to process transactions and store the related data. Euroclear Bank, Euroclear Nederland and Euroclear France have already moved from their current locations to the two new data centres, providing real-time synchronised data mirroring. Both data centres are used to run production activity (‘hot centres’), with load balancing shifting monthly. The sites are located away from the main office and metropolitan areas. CRESTCo is partly using the new data centres and will complete its move in 2007. The third data centre is almost complete. This one is located in a different country, hundreds of kilometres away from the two synchronised sites. It replicates data asynchronously, but allows recovery in a few hours in the event of a regional disaster affecting both other data centres, so that settlement can be completed within the business day.

- Projects to spread critical business expertise across several locations via dual offices have already been implemented for Euroclear Bank, CRESTCo and Euroclear France. These will be further enhanced and complemented.

- Euroclear has defined a comprehensive approach to deal with a significant absence of staff, including in response to a possible outbreak of pandemic influenza, and is implementing its action plan across the group.

Euroclear has a comprehensive crisis management programme, with structures to respond both to entity-specific and more far-reaching incidents, together with a comprehensive rehearsal programme. Equally, we participate fully in market-wide initiatives to enhance the understanding of the interdependence of our responses with those of other market participants. The principles followed are in line with the best international practices for business continuity for core clearing and settlement organisations. We believe that other critically important providers should meet comparable standards to contain systemic risk.

**Financial risks**

The framework put in place at Euroclear ensures that financial risks are tightly controlled. The CSDs of the Euroclear group have a very low appetite for financial risk and it is largely avoided. Euroclear Bank is the only entity in the
Euroclear group which faces material credit, market and liquidity risk.

**Credit risk**
The risk of a credit loss for Euroclear Bank is very low and the Bank has never suffered a credit loss in its history. This is due largely to the fact that Euroclear Bank is a single purpose bank and to the very short duration of the credit exposure which, in general, is intra-day.

Additionally, Euroclear Bank applies very strict collateralisation rules: historically, Euroclear Bank has secured more than 95% of its client credit exposure, mostly with very high quality collateral. The preferred recourse to mitigate Euroclear Bank’s credit exposure is collateral held and pledged within the client’s Euroclear account. Other means of recourse are also possible in some circumstances, such as statutory lien, external collateral, pledged time deposits, reverse repos, letters of credit and guarantees. Concentration limits are set to ensure that the Bank does not take too large an exposure on too few participants or counterparties. Belgian banking regulations also impose risk concentration limits that have to be respected for each applicable exposure.

**Liquidity risk**
Euroclear Bank has developed a strong framework to identify, measure, manage...
and control its liquidity risk. Liquidity is an important component for offering efficient settlement and custody services in Euroclear Bank. It ensures timely cross-border settlement with domestic markets, it supports new issues and custody activity, and it allows clients to wire the sales and income proceeds in a timely manner.

Euroclear Bank is typically long in funds and as a result is usually a net placer of funds in the money markets. To cope with its daily liquidity needs, Euroclear Bank has built access to a wide range of liquidity sources, including the intra-day liquidity provided by a large network of cash correspondents and settlement banks, and has a direct access to TARGET. Furthermore, Euroclear Bank has an excellent name in the inter-bank market and has access to a broad range of good-size counterparties; it has first and second level contingency liquidity sources in place for all major currencies.

**Market risk**

Euroclear Bank does not seek to take market risk but it arises as a result of the investment of its capital, its business (earnings) risk and its hedging strategy. Euroclear Bank accepts market risk only within its risk appetite, which takes into account internal market limits, such as Value at Risk (VaR) and Earnings at Risk (EaR), the available capital allocated annually for market risk (the ‘upper tolerance level’) by the Board of Euroclear Bank and legal or regulatory limits.

Euroclear Bank engaged in a series of transactions to hedge the market risk exposure resulting from future income streams, with the aim of ensuring that the financial results are not materially adversely affected by market developments. Daily, weekly, monthly and quarterly reports are produced to ensure compliance and correct implementation of the risk framework.
People: at the heart of Euroclear

People are very much at the heart of the service that the Euroclear group provides. Over 3,200 staff are now employed across the group and together they represent our most important asset. Euroclear is recognised in the international financial community for its ambitious, innovative programmes responding to market needs, and our people play a key role in making this happen. Our resource management programme for the coming years is therefore ambitious and highly proactive with a strong emphasis on recruiting and developing the brightest talent to meet client needs, while offering our staff competitive compensation, long-term career opportunities and a healthy work-life balance.

Recruitment drive led by commercial success
Following another intensive phase of recruitment, there was a total staff increase of 300 in 2006, continuing a three-year trend of increases in staff numbers. The driving force behind this rise has been the large strategic projects, the increase in business volumes and new targets in client service. Close to 100 new employees also joined the Euroclear group at the beginning of 2006 when the Belgian CSD (formerly CIK) joined Euroclear group and became Euroclear Belgium. It is to their credit, that these staff members have integrated into the organisation so quickly. Euroclear has now built up considerable experience in integrating new staff following the mergers of recent years and this will serve to ensure a smooth transition for the 46 staff of EMXCo.

Managing talented people
Motivating staff with high levels of expertise and potential is a priority in order to ensure staff retention and continuity of service delivery. Our strategy is based on the main pillars of good management and active succession planning, career development opportunities, often through internal mobility and a healthy approach to balancing work with quality of life.

We have a reputation for investing in good management and for ensuring key management posts are filled quickly. This has borne fruit in terms of providing a stable work environment where staff members feel their work is appreciated and their potential maximised. We operate a strong internal mobility policy offering our employees excellent opportunities to develop their career within the organisation. As we move towards the implementation of our consolidated platform, increasing numbers of staff are gaining valuable experience from working across locations and divisions within the wider Euroclear group. This year has seen a further shift towards a more perform-

**Euroclear people profile (as at December 2006)**

| Number of employees in the Euroclear group | 3,232 |
| Staff increase in 2006 | 300 |
| Nationalities represented | 77 |
| Average age | 36 |
| Belgium | 2,303 |
| Brazil | 2 |
| China - Hong Kong | 18 |
| France | 425 |
| Japan | 12 |
| The Netherlands | 74 |
| Singapore | 5 |
| Switzerland | 3 |
| UK | 381 |
| US | 9 |
| EMXCo (UK and Luxembourg - as of 2007) | 46 |
ance-driven reward and compensation system. Salary increases, bonuses and career advancement are increasingly based on personal merit and achievement rather than on factors such as qualifications.

Work-life balance
The business climate in which we operate is demanding and competitive. However, we aim to abide by our commitment to a healthy work-life balance for our staff. We offer flexible work arrangements, for example, which are widely appreciated by employees at various points in their careers and personal lives.

Extensive safety training, healthy lifestyle campaigns and sport and entertainment events for staff and their families are offered across the group. These programmes are being consolidated under a ‘Staff Well-being’ banner to promote a group culture in social activities. This initiative will link with the Working Together initiative started five years ago and the Human Resources function to ensure employees across the group are literally ‘feeling good’ working in Euroclear.

Equality and non-discrimination
A policy of non-discrimination underpins our employment policy and we also provide opportunities for people with disabilities, including existing staff who become disabled, according to their capabilities. In addition, we consult regularly with employees, or their representatives, in compliance with national employment law, ensuring the company takes their views into account when taking decisions likely to affect staff interests.

Code of ethics
Euroclear attaches the utmost importance to its reputation for integrity, honesty and fairness in its conduct towards its employees and has also established clear standards of behaviour expected from its staff in return. These principles are set out in the organisation’s Ethical Conduct, Legal and Compliance Risk policy. This code of ethics was updated at the end of 2006 to firm up the section on non-discrimination against employees, by explicitly widening the list of minimum standards to include prohibition of discrimination on grounds of religion and sexual orientation in addition to age, race and sex. The code also charges Human Resources division with the responsibility for ensuring Euroclear complies with employment law in this respect.
Inter-company transaction policy audit

The Euroclear group has committed itself to the policy of no cross-subsidy between the group ICSD and CSDs.

Every year, we request an independent auditor, PricewaterhouseCoopers, to conduct an audit and provide an attestation to the Euroclear Board. The conclusions of this report are published in the Euroclear annual report. The audit takes the form of a yearly confirmation that the Euroclear Inter-company Transaction Policy complies with the OECD Transfer Pricing Guidelines and that these guidelines are applied by the Euroclear group. Such an attestation has been included in the annual report since 2003.

A copy of the independent auditor’s attestation for 2006 is included on the opposite page. The related Euroclear management assertion statement regarding inter-company transaction policy provided to the independent auditor with respect to 2006 can be found below.

Euroclear remains the only settlement service provider furnishing this type of independent third-party verification.

Management’s assertion statement

Euroclear SA/NV and its subsidiaries maintain effective controls to comply with the Euroclear Inter-company Transaction Policy (the ‘Policy’). The controls include those processes and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the inter-company transactions and arrangements (ii) provide reasonable assurance that transactions are recorded as necessary to comply with the Policy, and those transactions and arrangements are being made only in accordance with authorisations of management and directors of Euroclear SA/NV and its subsidiaries. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

The Policy, which has been established by Management and approved by the Boards of Directors of each of the Euroclear entities, complies with the OECD Transfer Pricing Guidelines of July 1995, including subsequent amendments.

The Policy is designed to ensure that for any goods or services which are provided between entities, agreements are in place for ‘at arm’s length’ remuneration between those entities.

Management is responsible for establishing and maintaining processes and procedures to ensure compliance with the Policy.

Management has assessed the application of the Inter-company Transaction Policy for the period 1 January 2006 through to 31 December 2006.

Based on our assessment, and taking into account the above assertions, Euroclear SA/NV believes that, for the period 1 January 2006 through 31 December 2006, the Inter-company Transaction Policy has been in accordance with the OECD Guidelines and was applied effectively amongst Euroclear SA/NV and its subsidiaries.

28 March 2007

Pierre Francotte
Chief Executive Officer
Euroclear SA/NV

1. Arm’s length definition according to the OECD guidelines.
Report of the independent auditor regarding the inter-company transaction policy of Euroclear SA/NV for the year ended 31 December 2006

Upon request from Euroclear SA/NV’s Board, in light of their stated objective to avoid cross-subsidy between the ICSD and the CSDs of the group, we have examined Euroclear SA/NV’s Management Committee’s assertions on the inter-company transactions, stating that:

• the Euroclear Inter-company Transaction Policy (‘Policy’) complies with the OECD Transfer Pricing Guidelines of July 1995, including subsequent amendments; and
• effective internal control over compliance with the Policy has been maintained during the year ending 31 December 2006.

Euroclear SA/NV’s Management Committee is responsible for the assertions. Our responsibility is to express an opinion on the assertions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (SSAE No. 10) and, accordingly, included examining, on a test basis, evidence supporting management’s assertions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, based on the OECD Transfer Pricing Guidelines, the management’s assertions as referred to above are fairly stated in all material respects.

28 March 2007

PricewaterhouseCoopers Reviseurs d’Entreprises sccrl
Represented by

J. Steenwinckel
Partner
Corporate governance

What does corporate governance mean to Euroclear?

Euroclear believes that sound corporate governance enhances the group’s ability to achieve its objectives in accordance with the interests of its shareholders. In this context, the Board of Euroclear plc has endorsed user governance as a solid and efficient governance framework which ensures that the Board and management operate within their roles and responsibilities, delivering strong leadership in pursuit of the group’s purpose. The Board of Euroclear plc believes that the enhancement of the group’s franchise through efficient and competitive product and service delivery to clients, together with the continued increase in the level of dividends paid to shareholders, pays tribute to the functioning of user governance within Euroclear.

Euroclear plc and Euroclear SA/NV continue their voluntary application of the UK Combined Code on Corporate Governance (the ‘Code’). This part of the annual report demonstrates how Euroclear’s user governance delivers sound, strategic leadership and control, by reference to how the principles as set out in Section 1 of the Code have been applied during 2006. Except as specifically set out below, Euroclear plc and Euroclear SA/NV complied throughout 2006 with the provisions of the Code.

Board of Directors

Who is on our Boards?
The direction of the Euroclear group has been divided between the Boards of Euroclear plc and Euroclear SA/NV (the ‘Boards’). Both Boards have the same membership consisting of 24 independent non-executive directors and the Chairman, Sir Nigel Wicks. All but two of the directors are senior executives of a cross-section of users of Euroclear services whose significant industry knowledge and experience is most valuable for the development of the Euroclear strategy and the effective monitoring of its implementation.

The Boards consider all of the directors to be independent in character and judgement within the meaning set out in the Code. The Boards have examined each director against the independence criteria described in the Code. In addition, given that most of the directors work for users of the group’s services, the Boards have agreed and applied objective guidelines to evaluate whether the business relationship between Euroclear and the relevant user companies could influence a director in carrying out their duties, to the detriment of the company. Mr. DeCongelio is considered by the Boards to be independent notwithstanding his tenure of more than ten years on a Euroclear Board due to the fact that during the first five years of his tenure the company did not operate the Euroclear System and as a result the Board had substantially different responsibilities and a limited relationship with management.

Members of the Management Committee are not Board directors. However, they attend Board meetings and have frequent contact with Board members in between meetings. In addition, they are members of the Executive Committee of the Board of Euroclear SA/NV.

Sir Nigel Wicks took over as the Chairman of the Boards from Mr. A. Chris Tupper on 1 August 2006 following an extensive search, overseen by the Search Committee with the assistance of external recruitment specialists. Sir Nigel meets the independence criteria set out in the Code. Having been the Deputy Chairman of the Boards since 2002 meant Sir Nigel had an in-depth knowledge of Euroclear governance and strategic matters when he took over as Chairman. Sir Nigel has no significant commitments outside Euroclear.

The Board has designated the Chairman of the Nominations and Remunerations Committee as the Senior Independent Director, ex officio. The position is currently held by Mr. Mark S. Garvin. Given the channels of communication between Euroclear and its shareholders (as described on page 64), the role of the Senior Independent Director in Euroclear is principally to be available to fellow non-executive directors, either individually or collectively, should they wish to discuss matters of concern in a forum that does not include the management of the group or the Chairman, and to lead the Board in the assessment of the Chairman.

Other than directors appointed by the ‘S’ shareholders, members of the Boards...
are appointed by the general meeting of shareholders of each company. Half
of the Boards stand for re-election each year and new directors are subject to
election at the first opportunity following appointment. New Board members
are nominated by the Board upon advice of the Nominations and Remuneration
Committee. The above procedures do not apply to directors nominated by the ‘S’
shareholders, who, in accordance with the rights set out in the Articles of Association
of Euroclear plc, currently have the right to nominate three directors for appoint-
ment to that Board.

In order to assist the Nominations and Remuneration Committee with its
recommendation of new members to the Board, and to ensure that the
Boards remain duly balanced, during the course of 2006 that Committee
proposed to the Board of Euroclear plc, and the Board agreed, guideline selec-
tion criteria for new Board directors. These guidelines cover the integrity,
availability, experience and seniority of potential candidates, as well as their
knowledge of the markets and of the group’s core business lines.

Also taken into consideration is whether the candidate is drawn from the shareholders of, and/or significant participants in, Euroclear. Such guid-
ance assists the Nominations and Remuneration Committee, as well as the Board, to objectively assess whether a candidate would contribute to the
Board the variety and breadth of professional expertise necessary to meet the Euroclear business needs.

The guidelines are not intended to be applied rigidly to individual appoint-
ments. However, the Boards see the guidelines as a useful tool to ensure the membership of the Boards remains relevant to the strategy and business of
the group. They therefore asked the Nominations and Remuneration
Committee to inform the Board if the composition of the Board did not comply with the criteria listed. As the non-executive directors are drawn from
a well known pool of user representa-
tives, the Board does not rely on an
external search agency or open advertising in the appointment of directors.

Board composition and balance, and
director performance, were analysed by the Nominations and Remuneration
Committee at its meetings, where the list of candidates proposed for re-election
at the Annual General Meeting was considered. During the course of 2006, the Nominations and Remuneration
Committee also assessed the appropri-
ateness of the composition of the
Boards in light of the stage the group
has reached in implementing the
Business Model. Recommendations
were received and accepted by the
Boards as a result of this assessment.

Upon appointment, each director
receives a customised induction into
Euroclear designed to develop his/her knowledge and understanding of all
important elements of the group’s busi-
ness and the responsibilities of the role
as a Board director. During their
mandate, directors attend trainings as
necessary or requested from time to
time. In addition, workshops are
arranged for the Boards on topics of
particular relevance or importance.

What are the Boards’ responsibilities
and how do they meet them?
The Boards have separate and distinct
responsibilities as described in detail
below. Both Boards are assisted by their
committees in fulfilling their duties
and responsibilities. The workings of
the committees are set out on page 60.

The Board of Euroclear plc is responsi-
ble for all shareholder matters, setting
values and standards in governance
matters and ensuring that necessary
financial resources are in place to meet
strategic aims. This Board met three
times during 2006 and received at each of these meetings an update from the
group CEO on all material matters
affecting the group and its perform-
ance, and a review of the group’s finan-
cial performance to date. The Board
meetings also covered various share-
holder matters, including the review
and approval of the annual report and
accounts, consideration of the level of dividends and approvals relating to the
acquisition of Euroclear Belgium.

During 2006, the Euroclear plc Board
reviewed and adopted a new version of
the group Ethical, Legal and
Compliance Risk Board Policy and a
new Operational Risk Board Policy, which together formulate Euroclear’s
statement on how it addresses opera-
tional risk, and are fully compliant
with the principles of Basel II.
The principal responsibilities of the Euroclear SA/NV Board are setting group strategy and overseeing its implementation, ensuring effective controls are in place that enable risk to be managed and setting the framework for group policies.

In 2006, the Board of Euroclear SA/NV had four scheduled meetings and one extraordinary meeting. At each of the scheduled Board meetings there was a lengthy discussion on strategic developments within the group, and external developments having an impact on Euroclear. Amongst the number of strategic decisions taken by the Board during 2006 were the approval of the acquisition of EMX Company Limited as an important element in achieving the group’s funds strategy as set by the Board, and the decision to implement a derivatives service in furtherance of the group’s strategy on derivatives.

In February 2007, the Board met and dedicated a full day to Euroclear strategy. The session looked in particular at identifying potential strategic opportunities and threats for Euroclear arising out of market trends and developments. The exercise of the Board’s oversight and control function was also evident throughout the Board meetings in 2006.

In addition to the update on financial results received at each meeting, the Board reviewed and approved the budget presented by Management.

The Board has several tools to ensure risks are properly managed and assessed. It is assisted by the Risk Policy Committee, which thoroughly reviews group risk policies, and by the Audit Committee, which closely monitors the group’s internal financial controls and the internal control and risk management processes, as well as its compliance function. The Board itself undertakes an annual review of the system of internal controls as reported on page 65.

During 2006, both Boards reviewed and approved the main elements of the approach taken towards implementation of Basel II within Euroclear in order to manage risks linked to the Euroclear business as a financial institution and to meet the evolving regulatory and legal requirements on capital adequacy measurement.

In addition to the information received as part of the Board meeting process, Management prepares reports to the Boards at the end of each quarter, providing updates on the financial and operational performance of each of the (I)CSDs and the workings of the Market Advisory Committees (MACs).

The Chairman is in regular contact with the members of the Boards and...
meets each director individually outside of Board meetings to discuss Euroclear matters.

During 2006, the Boards continued their ongoing evaluation process to assess performance and identify areas in which its policies, processes and effectiveness should be enhanced. The Chairman’s performance was reviewed in order to assess whether he had successfully assumed his role and discharged his responsibilities. The effectiveness of the Management Committee and the CEO was also assessed by the Board.

This annual review consisted of a detailed questionnaire completed by each Board member. An analysis of the responses to the questionnaire was reviewed by the Nominations and Remuneration Committee, the results of which were reported to the Board.

Further to these recommendations, the Board agreed on steps to further improve its effectiveness where appropriate.

Management

How does management support the workings of the Board?

The Board of Euroclear SA/NV has established a Management Committee and delegated to it responsibility for managing the business of Euroclear within the strategy and general policy decided by the Board, and to implement such strategy and general policy. It is comprised of six members including its Chairman, Mr. Pierre Francotte, who is also the Chief Executive Officer of the company.

The Management Committee reports regularly to the Board on decisions taken pursuant to its delegated powers. Under the direction of the Chairman, the Committee ensures relevant items are presented to the Board in a full and thorough fashion, taking responsibility for the preparation of the information received by the Board.

The Chairman of the Board promotes effective and open communication both inside and outside the boardroom between the members of the Board and the Management Committee. He provides support and advice to the Management Committee, while respecting its executive responsibility, and represents the interests of the Board between Board meetings as a complement to management’s relationship with other non-executives directors. On the other hand, the CEO acts as liaison between senior managers and the Chairman and other Board members, coordinating their interaction.
To assist the Board in setting appropriate strategic objectives, the Management Committee monitors the external environment (including the competitive climate, economic and industry trends) and makes recommendations to the Board in order to identify current and emerging issues that may affect the group, as well as future growth opportunities. The CEO works together with the Chairman to formulate strategic proposals for consideration by the Board. In this context, the Management Committee recommends to the Board an annual plan and budget, addressing how to implement corporate strategy and long-term goals, and policies designed to establish clear risk management objectives for the company. Once the annual plan has been approved by the Board, the Management Committee manages the day-to-day operations, by deciding on or guiding key courses of action and ensuring the efficient management of human, financial and physical resources.

Board Committees

What is the composition and role of the Board Committees?
In order for the Boards of Euroclear plc and Euroclear SA/NV to perform their responsibilities most efficiently, committees with different expertise and powers have been put in place. The terms of reference, which include details of the role and responsibilities of each of these committees, can be found on the Euroclear website: www.euroclear.com.

Euroclear plc has four Board committees – the Nominations and Remuneration Committee, the Audit Committee, the Executive Committee and the Operations Committee. The Board of Euroclear SA/NV has established six committees in addition to the Management Committee – the Executive Committee, the Nominations and Remuneration Committee, the Audit Committee, the Strategy Committee, the Risk Policy Committee and the Business Model Implementation Committee. All these Committees are advisory committees, except the Executive Committees of Euroclear plc and Euroclear SA/NV, and the Management Committee.

The Committees meet on a regular basis and each Committee Chairperson reports on their Committee’s activities to the Board meeting immediately following a Committee meeting. The table on page 63 sets out the membership of each Committee together with details of the number of, and individual attendance at, Committee meetings, other than the Management Committee meetings which are weekly.

In common with the Board, each of the Committees may request any information from Management necessary to discharge their functions and may, where considered necessary, seek independent advice and counsel.

Audit Committees
The Audit Committees of Euroclear plc and Euroclear SA/NV, chaired by Mr. Frank J. DeCongelio, met jointly nine times during 2006. All members of the Audit Committees are independent non-executive directors and the Board considers that there is sufficient recent and relevant financial experience within the Committees to properly discharge their functions. The external auditors’ lead partner, the head of internal audit, together with the group Chief Financial Officer and group CEO, as well as the Board Chairman, attended each meeting at the invitation of the Committee Chairman. The Committees met once during 2006 with both the internal and external auditors without management being present.

The Audit Committees’ tasks are set out in detail in their terms of reference, which have been approved by the Boards, and cover those items envisaged by the Code. The Committees have an agreed reporting calendar to ensure they properly discharge their responsibilities and cover all matters within their purview.

In line with the reporting calendar, during 2006 the Committees received standing quarterly reports on high risk control issues, legal and compliance matters, the internal audit status of the major Business Model projects and progress of the annual internal audit plan. At each meeting the Committees received an update on unaudited financial results to date.

The Committees reviewed and made recommendations to their respective Boards on ad hoc financial matters arising throughout the year, for example of the accounting treatment of the acquisition of EMX Company Limited. The external auditor reported at each Committee meeting on relevant accounting and
regulatory issues. At the request of the Committees, management presented during 2006 an overview of the compliance function and the Committees agreed the frequency and type of reporting on each element of compliance and requested training in certain areas, which will be delivered over the course of 2007.

The Committees conducted their annual in-depth review of the effectiveness of the system of internal control, a full description of which is set out on page 65. In discharging their responsibilities in relation to the external auditor, the Committees recommended the Board to approve a revised policy, which clarifies the process for appointing the external auditor and sets out steps to ensure its independence and objectivity are maintained. In line with this policy, the head of internal audit reported to the Audit Committees with an overview of all fees paid to the external auditor for the group, along with a list of all non-core audit services performed by the external auditor, in order for the Committees to assess the external auditor’s compliance with the independence requirement.

Throughout the year, the Committees reviewed and proposed to the Boards persons for election as directors as vacancies arose. Additionally, as described above, the Committees agreed and recommended to the Board guidelines to ensure that Board composition remains appropriate and duly balanced. The Committees also reviewed several corporate governance matters throughout the year, including their annual review of compliance with the Combined Code. An evaluation of the effectiveness of the Committees was undertaken during 2006, which revealed that the Committees are functioning well and in accordance with their terms of reference and best practice guidelines. The Committees agreed to conduct an effectiveness review every two years.

The Audit Committee of Euroclear plc met alone an additional three times during 2006 to review unaudited financial results prior to such results being posted on the bulletin board.

The Committees undertook their annual effectiveness review, the results of which demonstrate that the Committees are functioning well. The Committees have agreed on certain follow-up points arising out of the assessment, as well as a plan to address these points during 2007.

Nominations and Remuneration Committees
The Nominations and Remuneration Committees of Euroclear plc and Euroclear SA/NV are chaired by Mr. Mark S. Garvin. In 2006, the Committees met five times in a joint session.

Throughout the year, the Committees reviewed and proposed to the Boards persons for election as directors as vacancies arose. Additionally, as described above, the Committees agreed and recommended to the Board guidelines to ensure that Board composition remains appropriate and duly balanced. The Committees also reviewed several corporate governance matters throughout the year, including their annual review of compliance with the Combined Code. An evaluation of the effectiveness of the Committees was undertaken during 2006, which revealed that the Committees are functioning well and in accordance with their terms of reference and best practice guidelines. The Committees agreed to conduct an effectiveness review every two years.

Executive Committee
The Executive Committee of Euroclear plc is charged with taking action with respect to any matter arising between meetings of the Board that would not be covered by the Operations Committee and that constitutes an emergency or otherwise requires immediate action. This Committee did not meet during 2006.

Operations Committee
The Operations Committee of Euroclear plc, which is responsible for handling operational and administrative matters arising between Board meetings, met five times during the year, on each occasion to approve to open a new bulletin board session.

Euroclear SA/NV Committees

Executive Committee
The Executive Committee of Euroclear SA/NV, chaired by Sir Nigel Wicks, assists in preparing a strategic agenda for the Board and ensuring that the Board is given the information necessary for taking strategic decisions. The Strategy Committee met three times in 2006 and prepared certain strategic items for discussion by the whole Board, including proposing an agenda to the Board for the full day strategy Board meeting held in February 2007.

Strategy Committee
The Strategy Committee of Euroclear SA/NV, chaired by Sir Nigel Wicks, assists in preparing a strategic agenda for the Board and ensuring that the Board is given the information necessary for taking strategic decisions. The Strategy Committee met three times in 2006 and prepared certain strategic items for discussion by the whole Board, including proposing an agenda to the Board for the full day strategy Board meeting held in February 2007.

Risk Policy Committee
The Risk Policy Committee of Euroclear SA/NV, chaired by Mr. John S. Gubert, leverages the competencies of the Board in carrying out its duties of setting and revising risk policies of the group and reviewing major risk issues faced by Euroclear. At least half of the members of the Committee are experts in the area of risk management and can therefore provide a valuable contribution to the Board on risk issues.

The Committee met five times during 2006 and reviewed several new group risk policies recommending them to the Boards for approval (Information
Security, Operational Risk, Ethical Conduct, Legal and Compliance Risk Policies). The Committee receives a quarterly report on banking risks, which includes periodic reporting required by a number of the risk policies in place in the group. The Committee also reviewed and provided advice to the Boards of subsidiary companies on specific risk issues and in particular to Euroclear Bank, which received advice from the Risk Policy Committee on its liquidity management programme and capital model.

The Risk Policy Committee hosts an annual risk forum where leading industry risk experts are invited to exchange ideas on risk topics relevant to the Euroclear group. The forum held in 2006 was devoted to an in-depth discussion on capital modelling and risk transfer techniques.

Business Model Implementation Committee
Meetings of the Business Model Implementation Committee of Euroclear SA/NV are open to all directors. The Committee is chaired by Sir Nigel Wicks. It monitors the progress towards implementation of the various programmes forming the Business Model.

The Committee met four times in 2006 and on each occasion was given a detailed update on the timelines, budgets and actual spend for the main programmes that are part of the implementation of the Business Model. The Committee also received a quarterly scorecard for each of the programmes, which aims at providing assurance that the internal control system of the programmes is adequate and effective, in order to ascertain whether the programme scope is likely to be delivered within the established quality instructions, deadlines and budgets with a known and accepted risk profile. The Committee was kept informed, both as part of its meetings and by way of communications from management outside of the meeting cycles, of the progress of the SSE launches during 2006.

Executive Committee
The Executive Committee of Euroclear SA/NV is chaired by the Chairman of the Board and has as members eleven of the company’s non-executive directors plus the members of the Management Committee.

The Committee met five times in 2006 and considered, amongst other items, matters of pricing policy for Euroclear group products and services, matters related to pension policy and Management Committee remuneration. The Executive Committee has established a sub-committee, the Executive Compensation Committee, which made recommendations to the Executive Committee regarding remuneration and other terms of employment for members of the Management Committee, as well as remuneration policies for Euroclear employees in general.

The Audit and the Nominations and Remuneration Committees of Euroclear SA/NV are described under Euroclear plc Committees above.

Market Advisory Committees
The Euroclear group has established five user Committees, known as MACs, for Belgium and The Netherlands jointly, France, Ireland, the UK, as well as a Cross-Border Advisory Committee.

These Committees are not Board Committees and their members may not be directors of Euroclear. The MACs are the primary source of feedback and interaction between the user community and Euroclear management on significant matters affecting their respective domestic markets.
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<th>Name</th>
<th>Board Meetings</th>
<th>Executive Committee</th>
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<td>Alain Papiasse^2</td>
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<td>Herschel Post</td>
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<td>Christian Schaack</td>
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<td>John M. Schofield</td>
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<td>Jean-François Théodore^2</td>
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<td>Charles F. Winters</td>
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<td>Sabah Zubaida</td>
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</tbody>
</table>

1. The figure in brackets indicates the maximum number of meetings the director could have attended.
2. Directors nominated by the ‘S’ shareholders.
Relations with shareholders

How does the Board ensure the shareholders’ views are heard?

All of the companies from which directors are drawn are shareholders in Euroclear plc. The user-governance structure of Euroclear means that, in practice, the majority of the directors of Euroclear plc are regularly accessible to the shareholders and clients of the group, because they are actively working in the same industry.

In light of this, the Board of Euroclear plc has considered that the guidelines of the Code designed to promote greater shareholder interaction and access to the directors are not applicable in the Euroclear context. For instance, in view of the regular interaction between shareholders and Board members, no specific opportunity for shareholders to meet new directors is arranged.

As a wholly-owned subsidiary of Euroclear plc, the Board of Euroclear SA/NV has concluded that the shareholder provisions of the Code do not apply.

The Annual General Meetings of Euroclear plc have, for several years, been attended by fewer than ten shareholder representatives. Therefore, directors are not requested to attend such meetings. Should attendance at such meetings increase, directors would be asked to make themselves available to attend the Annual General Meetings.

The provisions of Section 2 of the Combined Code on institutional shareholders are not relevant to Euroclear.

A list of all the shareholders of Euroclear plc, as of 28 February 2007, can be found on the enclosed CD-ROM.

Euroclear plc shares are not traded on an exchange. In order to promote liquidity in the shares, the Board decided to establish a bulletin board service which is accessible to shareholders (and certain other users). The bulletin board provides a mechanism for making names and potential bid/offer prices available to buyers and sellers who contact each other to negotiate a trade outside the facility provided by Euroclear. The bulletin board was opened for five sessions during 2006.
Internal control system

A sound system of internal control is required to safeguard shareholders’ investments, Euroclear’s assets and market needs. Each Board is responsible for the establishment, supervision and review of the system of internal controls. The role of group management is to implement Board policies on risk and controls.

The effectiveness of the system of internal controls is reviewed annually by management of the operating entities, and the consolidated results of that review are discussed with the Audit Committees of Euroclear SA/NV and Euroclear plc. The Audit Committees report the results of their assessment to each Board.

The system of internal controls adopted by the Euroclear group is designed to ensure:

• well-ordered and prudent conduct of business following clearly defined objectives;
• effective and efficient use of Euroclear’s resources, maintaining the right balance between risk, service quality and cost;
• the safeguard of Euroclear and client assets, protecting Euroclear’s reputation, financial stability and operational continuity;
• high quality financial and reporting information for use by management and external stakeholders; and
• compliance with regulatory requirements.

The Euroclear system of internal controls has been designed bearing in mind the guidance set out in the Turnbull Report, and with reference to guidance provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO ERM), the Bank for International Settlement’s proposals for a revision of bank capital adequacy regulation (Basel II) and the Belgian Commission Bancaire, Financière et des Assurances circular on Internal Control and Internal Audit. To enable its management, Euroclear developed an Enterprise Risk Management framework.

In 2006, Euroclear completed a review of the Risk Register – a critical component of Enterprise Risk Management – which clearly identifies and describes the different risk types that Euroclear faces. Since 2005, a Policy Control Framework has been in place to harmonise policies and map them to these risk types. All new and most existing policies are now compliant with this framework. Rewriting of the existing policies has reduced overlap and improved clarity and consistency of the policies.

Euroclear has significantly developed the definition of ‘risk appetite’ and ‘tolerance level’ for market, credit and operational risk. Risk appetites have been articulated by the appropriate Management Committee, within the limits defined for the upper tolerance levels approved by the Board, and based upon advanced and relatively mature capital modelling techniques that themselves are subject to detailed internal and external review.
These modelling techniques are also used to determine and monitor overall economic and prudential capital and form the basis of the risk ‘Assessment and Rating Methodology’, which helps prioritize individual risks and determines the speed and extent of management actions. Since 1 January 2007, Euroclear has applied the Foundation Internal Rating Based (FIRB) capital calculations for credit risk under Basel II. In 2006, it submitted an application for the Advanced Measurement Approach for operational risk.

Furthermore, at the level of Euroclear Bank, capital measures cover intra-day credit exposures and consistently exceed capital requirements currently set by the relevant regulators. They also meet the expectations of the rating agencies to sustain the high rating of Euroclear Bank.

Finally, the Balanced Scorecard is an important tool to translate the Euroclear vision and strategy into tangible objectives and measures. It was complemented by divisional balanced scorecards, aligned on the group Balanced Scorecard. Together they set out clear priorities cascaded through the group to help meet expectations in terms of day-to-day operations, strategic programmes delivery and working together alignment.

**Culture and competence: an active and interventionist approach to risk management by appropriately skilled people**

The group values articulate the core areas that are crucial to the organisation and the corresponding behaviour. Escalation processes up to senior management encourage reporting about issues and the need to learn from experience. The Management Committee operates a trust-based culture, stressing the responsibility and accountability of senior management members and competent staff. Information is passed down as necessary from the Board and the Management Committee to the division heads and their teams.

Organisation charts and individual objectives define what is expected at employee level. The climate surveys of staff opinions ensure open feedback on the quality of communication across the group. Euroclear has adopted an ‘Ethical Conduct, Legal and Compliance’ policy and, during 2006, management has enhanced the compliance programme through the implementation of an online database. Openness is one of the group values. The introduction of the semi-annual management assertions on risk and controls and the ongoing attention given by the Management Committee to a quarterly high risk report has also facilitated understanding of the importance of the different risk and control processes, and the importance of disclosing risks proactively, rather than waiting for external reviews or internal auditors to raise them.

**Governance: assigning responsibility and authority**

The role of local management of the individual operating entities of the group has been clarified and reinforced by the current corporate structure, through the alignment of functions across the group and the establishment of division heads with group-wide responsibilities.

The governance structure has been better articulated with the creation of the Risk Accountability Matrix, which documents roles and responsibilities for the different risk types. Moreover, risk, control and compliance are part of management’s objectives. This ensures that delegation of responsibility for managing risks and implementing controls is well understood and better acted upon.

The Management Committee has established several Committees to assist in its oversight and management role.

**Measurement and assessment: understanding our risks**

Risk identification occurs continuously by the different business units. In addition, formal risk assessments (twice annually) review the entire Euroclear risk universe. Control weaknesses identified are logged and properly prioritised and action plans are tracked by management and independently validated. All new services or launches of new systems/products are subject to a risk assessment that is reviewed by a Risk Assessment Committee.

Audit reviews of business operations confirm that the self-assessments are effective; group initiatives encourage divisions to identify more risks themselves, rather than by internal or external control functions.
Risk response and control: addressing our risks in an appropriate way
Operational departments have well-entrenched and extensive controls in place, ranging from the definition of procedures to automated reconciliations.

A diverse range of control activities is applied at all levels and to all functions. Reaction to day-to-day operational incidents is generally good and timely, and post-mortem analysis is widely applied to identify lessons learned.

With regards to Information Security, control objectives consistent with ISO 17799 have been defined and, to a large extent, already put in place. Business continuity and dual office plans are established, reviewed annually and tested systematically. Where necessary, they are further improved in order to ensure availability of human expertise. Business continuity was further enhanced in 2006 with the launch of the first phases of the DCS.

Reporting: getting the right information to the right people at the right time
Management information is generally adequate and its integrity is at a good level. There are numerous specific periodic reports. In addition, there are wider reports, such as the annual employee climate survey, providing information on staff views, and a range of documents for external stakeholders including newsletters, operational bulletins, consultation papers, and the annual client surveys.

An SAS 70 report is made available to customers of Euroclear Bank, Euroclear France and CRESTCo.

Monitoring processes: assessing the effectiveness of our risk management strategies
Monitoring reports and processes are used to help manage operations and committees. These formal processes are supplemented by informal sharing of information, which is widely practised and encouraged. Outstanding issues are monitored regularly and outstanding escalations are reviewed on a monthly basis.

Key Risk Indicators have been developed for Euroclear Bank and are monitored monthly.

Similarly, the CSDs have identified major risk drivers that are reviewed at least quarterly.

Improvements
Management is committed to the continuous improvement of the system of internal controls and a number of improvements made during 2006 are reflected above. An area of focus for 2007 will be to further strengthen IT change management and associated activities, in view of the important launch schedules for our major strategic development programme.
5. Finance

A great performance begins long before the arena.

Euroclear continues to show strong financial results, allowing us to achieve our goals for our clients and shareholders. Organic growth and increased market share have led to substantial economies of scale. This has enabled us to fund our strategic projects, deliver cost reductions, enhance the service we offer our clients and pay a higher dividend. Financial strength also goes hand in hand with user governance. It provides us with more flexibility in phasing our investment programme and allows us to finance lower return investments that nevertheless provide enormous benefits to our clients. In short, the stronger our financial performance, the stronger our commitment to the market.
Financial review

Strong performance achieved in 2006
In 2006, the Euroclear group achieved a strong performance across all business activities, reflecting the very positive market conditions which prevailed throughout the year and the success of the company in attracting new business. We ended 2006 in an excellent financial position, winning significant new client business and processing a record number of transactions. Profit for the year rose by 20% to €319 million.

This excellent business performance together with economies of scale achieved, allowed the Euroclear group to implement various price reductions and rebates for the benefit of the market. Over the course of 2006, Euroclear Bank introduced major fee reductions estimated at €24 million (or €40 million on an annualised basis) in different product areas (i.e. securities lending and borrowing, international debt safekeeping and domestic safekeeping and settlement). Euroclear Bank also began remunerating clients’ long cash balances in November, representing a benefit to the market estimated at €11 million in 2006 (or €65 million on an annualised basis). In addition, it paid rebates of €45 million to clients, equalling last year’s amount.

The CSDs of the group also reduced their fees. In particular, CRESTCo made fee reductions estimated at €10 million in May 2006 (or €15 million on an annualised basis), and returned €11 million to its clients in the form of rebates. Euroclear France cut fees by €1 million in January 2006.

Against this backdrop of commercial success and favourable market conditions, the average headcount increased by over 300 to enable us to make specific enhancements in client service and to handle higher business volumes (in Euroclear Bank in particular). Experts were also recruited for our major investment programme in platform consolidation, contributing to the launch in production of some of the key components of our Single Platform (i.e. the SSE and major parts of the DCS).

Financial performance highlights
As of 2006, the company adopted IFRS as its primary financial reporting framework. The transition to IFRS has impacted several aspects of the group financial statements. Details of this impact are provided in the Euroclear plc financial statements, note XXXVIII, on the CD-ROM.

Our business environment
The Euroclear group is a market infrastructure service provider to the international financial industry. We are a user-owned, user-governed organisation providing settlement and settlement-related services to financial institutions in more than 80 countries for a wide range of securities.

The Euroclear group’s financial performance is measured in terms of net fee income and net interest income set against operating costs, and these were influenced by several key drivers in 2006:

• Net fee income is a function mostly of the value of securities deposited in our systems, the number of settlement transactions and the daily value of collateral provision outstanding. These areas saw significant growth over the year under review as detailed in the ‘Performance highlights’ section on page 4.
• Net interest income is influenced by the level of cash balances deposited by clients and the prevailing interest rate, both of which were favourable in 2006.
• Operating expenses increased due to higher staffing levels needed to support business growth and as part of planned investment in our strategic projects.
Profit for the year: our business benefited from favourable global economic conditions generally and from excellent conditions in the main European markets, in particular. As a result, the Euroclear group delivered strong financial results with profit for the year up by 20% to €319 million.

Operating income rose by 13% to €1,085 million from €960 million in 2005, reflecting growth in levels of securities held for clients and transaction volumes across all operating entities of the group. A portion of these revenues was returned to the market in the form of pricing initiatives and rebates.

Net interest income increased by 37% to €271 million and was favourably influenced by the rising trend in USD and EUR interest rates. These rose, on average, from 3.1% and 2.0% in 2005 to 4.9% and 2.8% respectively in 2006. Average deposits grew by 6% and average overdrafts by 2%, reflecting increased activity levels.

In November 2006, Euroclear Bank began remunerating long balances left on deposit by clients overnight. This decision formed part of a package of measures introduced by the Euroclear group for the benefit of its users.

Net fee and commission income increased by 10% to €802 million after rebates and fee reductions. Increased levels of depot and higher settlement volumes across all the (I)CSDs prompted this growth, reflecting buoyant market conditions. The value of securities held in depot grew by 14% in Euroclear Bank, reaching a level of about €8 trillion at year end. Excellent progress was made for equities and funds held in depot in Euroclear Bank. Depot held in Euroclear France and Euroclear Nederland rose by 13% and 8% respectively year on year, while CRESTCo benefited from a 40% increase in LSE SETS activity. Euroclear Belgium also contributed to the group’s excellent performance, adding €25 million to consolidated net fee and commission income. Net fee and commission income represents 74% of total income.

Administrative expenses rose by 12% to €667 million in 2006 as a result of continuous development efforts and an attendant increase in staffing levels. Additional personnel were needed to handle increased activity in Euroclear Bank and to meet targets for enhanced quality of service.

Operating profit before tax increased by 15% to €418 million, an increase of €54 million on 2005. This result includes Euroclear Belgium’s contribution for the first time, which accounts for €8 million.

Dividend: on 28 March 2007, the directors decided to recommend a dividend distribution to shareholders of €93 million, representing €24.2 per share (compared with €21.4 per share in 2006). In line with the past two years, we have decided on a steady growth of the dividend, taking into account our objectives regarding capital strength, profitability and business growth. This dividend increase of 13% year on year reflects our continued commitment to ensuring shareholders are adequately remunerated for their capital investment.

Balance sheet: total assets stood at €14,057 million on 31 December 2006, up €2,743 million on the previous year. Deposits rose by €2,024 million (27%), to €9,554 million and loans increased by 33% to €10,483 million. The group continued to strengthen its capital base, and total shareholders’ equity increased to €2,887 million in 2006 from €2,628 million in 2005. Together with the implementation of our strategic programme, these excellent results place us in a strong competitive position for the future and have made a significant contribution to the value of the group.

The group’s capital adequacy ratios remained strong with a Tier 1 ratio of 81% at year-end in 2006 (compared with 85% at the same point in 2005). Total capital adequacy ratio (after dividend) reached 91% at the end of 2006 compared with 98% at the end of 2005.
### Euroclear plc summarised consolidated profit (€ million)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>271.1</td>
<td>198.0</td>
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<tr>
<td>Net fee and commission income</td>
<td>802.1</td>
<td>730.3</td>
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<tr>
<td>Dividend income</td>
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<td>0.2</td>
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<tr>
<td>Realised gains on available-for-sale financial assets</td>
<td>0.2</td>
<td>21.0</td>
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<tr>
<td>Net losses on financial assets and liabilities held for trading</td>
<td>(6.2)</td>
<td>(0.6)</td>
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<tr>
<td>Net gains/(losses) on foreign exchange</td>
<td>2.1</td>
<td>(0.8)</td>
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<tr>
<td>Other operating income</td>
<td>15.9</td>
<td>12.2</td>
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<tr>
<td><strong>Operating income</strong></td>
<td><strong>1,085.4</strong></td>
<td><strong>960.3</strong></td>
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<tr>
<td>Administrative expenses</td>
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<td>(596.0)</td>
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<tr>
<td>Impairment</td>
<td>(0.5)</td>
<td>(0.1)</td>
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<td><strong>Operating profit before tax</strong></td>
<td><strong>418.2</strong></td>
<td><strong>364.2</strong></td>
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<tr>
<td>Taxation</td>
<td>(99.6)</td>
<td>(97.9)</td>
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<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>318.6</strong></td>
<td><strong>266.3</strong></td>
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### Euroclear plc summarised consolidated balance sheet (€ million)
**As at 31 December**

#### Assets
<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Cash and balances with central banks</td>
<td>11.8</td>
<td>283.2</td>
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<tr>
<td>Loans and advances</td>
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<td>7,856.8</td>
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<tr>
<td>Available-for-sale financial assets</td>
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<td>1,033.4</td>
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<tr>
<td>Held-to-maturity financial assets</td>
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<td>551.9</td>
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<tr>
<td>Financial assets held for trading</td>
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<td>12.4</td>
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<td>Derivatives used for hedging</td>
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<td>1.5</td>
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<tr>
<td>Current income tax assets</td>
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<td>6.0</td>
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<tr>
<td>Deferred income tax assets</td>
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<td>77.1</td>
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<td>Other assets</td>
<td>440.7</td>
<td>251.9</td>
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<tr>
<td>Pre-payments and accrued income</td>
<td>116.3</td>
<td>92.6</td>
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<tr>
<td>Property, plant and equipment</td>
<td>127.7</td>
<td>148.2</td>
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<tr>
<td>Goodwill and intangible assets</td>
<td>1,019.6</td>
<td>999.3</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>14,057.0</strong></td>
<td><strong>11,314.3</strong></td>
</tr>
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</table>

#### Liabilities
<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits from central banks</td>
<td>155.9</td>
<td>262.7</td>
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<tr>
<td>Deposits from banks and customers</td>
<td>9,398.3</td>
<td>7,267.6</td>
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<tr>
<td>Financial liabilities held for trading</td>
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<td>9.3</td>
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<td>Derivatives used for hedging</td>
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<td>Other liabilities</td>
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<td>286.5</td>
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<td>Accruals and deferred income</td>
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<td>Current income tax liabilities</td>
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<td>Deferred income tax liabilities</td>
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<tr>
<td>Provisions for liabilities and charges</td>
<td>7.7</td>
<td>13.3</td>
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<tr>
<td>Pension deficit</td>
<td>40.6</td>
<td>41.6</td>
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<td>Subordinated liabilities</td>
<td>547.4</td>
<td>546.8</td>
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<tr>
<td>Redeemable preference shares</td>
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<td>0.0</td>
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<tr>
<td>Shareholders’ equity</td>
<td>2,886.7</td>
<td>2,627.9</td>
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<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>14,057.0</strong></td>
<td><strong>11,314.3</strong></td>
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</tbody>
</table>
Euroclear plc consolidated off-balance sheet items

Contingent liabilities

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<tr>
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<td>5,058.8</td>
<td>5,811.8</td>
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Share capital of Euroclear plc on 28 March 2007

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<th></th>
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<tr>
<td></td>
<td>Number</td>
<td>Nominal value</td>
<td>Number</td>
<td>Nominal value</td>
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<tr>
<td>(€ denominated)</td>
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<tr>
<td>Ordinary shares of €1 each</td>
<td>3,330,556</td>
<td>3,330,556</td>
<td>3,330,556</td>
<td>3,330,556</td>
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<tr>
<td>‘S’ shares of €1 each</td>
<td>500,120</td>
<td>500,120</td>
<td>500,120</td>
<td>500,120</td>
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<tr>
<td>Unclassified shares of €1 each</td>
<td>169,324</td>
<td>169,324</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,000,000</strong></td>
<td><strong>4,000,000</strong></td>
<td><strong>3,830,676</strong></td>
<td><strong>3,830,676</strong></td>
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<tr>
<td>(£ denominated)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Preferred non-voting redeemable sterling shares of £1 each</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
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</table>

<sup>1</sup> Increase of ordinary shares due to issuance of 12,369 shares on 1 January 2006 for the acquisition of CIK

Euroclear Bank credit ratings

<table>
<thead>
<tr>
<th></th>
<th>Short-term</th>
<th>Long-term</th>
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<tbody>
<tr>
<td>Fitch Ratings</td>
<td>F1+</td>
<td>AA+</td>
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<tr>
<td>Standard &amp; Poor’s</td>
<td>A-1+</td>
<td>AA+</td>
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### Main operating entities

<table>
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<tr>
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<th>ICSD</th>
<th>CSDs</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Euroclear Bank</td>
<td>Euroclear Belgium</td>
</tr>
<tr>
<td>2006 income statement (under IFRS)</td>
<td></td>
<td></td>
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<tr>
<td>Net interest income</td>
<td>261.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Net fees and commissions</td>
<td>500.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Other operating income¹</td>
<td>(0.3)</td>
<td>0.9</td>
</tr>
<tr>
<td>Operating income</td>
<td>761.1</td>
<td>27.1</td>
</tr>
<tr>
<td>- Operating expenses</td>
<td>(258.7)</td>
<td>(17.6)</td>
</tr>
<tr>
<td>- Costs charged to group entities</td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>- Costs recharged by group entities</td>
<td>(194.6)</td>
<td>(3.2)</td>
</tr>
<tr>
<td>Net operating expense</td>
<td>(453.3)</td>
<td>(20.3)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>307.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Taxation</td>
<td>(93.0)</td>
<td>(2.4)</td>
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<tr>
<td>Profit for the year</td>
<td>214.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Effect of adjustments to comply with group accounting policies and IFRS</td>
<td>(1.0)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Profit for the year in statutory accounts under local GAAP</td>
<td>213.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Shareholders' equity in statutory accounts under local GAAP</td>
<td>1,430.3</td>
<td>13.4</td>
</tr>
</tbody>
</table>

¹. Includes dividend income, realised gains/(losses) on available-for-sale financial assets, gains/(losses) on financial assets held for trading, gains/(losses) on foreign exchange and other operating income (excluding costs charged to group entities).
Capital management

Capital measurement and allocation

The Commission Bancaire, Financière et des Assurances (CBFA) in Belgium is the main supervisor of Euroclear Bank and the lead regulator for Euroclear SA/NV and Euroclear plc. In addition, individual CSDs are regulated by their own local supervisors, which set and monitor their capital adequacy and liquidity requirements.

In accordance with the Basel I framework, the CBFA requires each bank and banking group to maintain a ratio of total capital to risk-weighted assets that cannot fall under a threshold of 8%, and a ratio of Tier 1 capital to risk-weighted assets that must always exceed a threshold of 4%.

Furthermore, as a company closely associated with a settlement institution, Euroclear SA/NV is subject to certain specific requirements regarding its solvency and liquidity position.

Risk-weighted assets take into consideration balance sheet assets and off-balance-sheet exposures that may give rise to credit risk, as calculated for both Euroclear Bank and the Euroclear group on a consolidated basis. Collateral and other eligible guarantees are taken into account appropriately.

Total capital is divided into two Tiers: Tier 1 is essentially made up of shareholders’ capital, share premium, consolidated reserves and retained earnings, while Tier 2 comprises undated subordinated loans. In accordance with capital adequacy regulations, a proportion of the Hybrid Tier 1 instrument issued in 2005 is considered as Tier 1, while the remainder contributes to Tier 2. Goodwill and intangible fixed assets are deducted in full from Tier 1 capital. The current regulatory framework imposes that Tier 2 capital cannot exceed Tier 1 capital.

At consolidated level, the adoption of IFRS by the Euroclear group as of 1 January 2006 resulted in the implementation of several IFRS filters, both for own funds and exposure measurement, in accordance with the amended capital adequacy regulation published by the CBFA. The adoption of IFRS has, however, not resulted in material changes with respect to capital adequacy, where continuity with past periods prevails.

The group’s policy is to build a strong capital base and to expand it through an appropriate diversification of its sources of capital, so that an adequate relationship between total capital and the underlying risks of the group’s business exists at all times.

As an entity that periodically issues debt securities, Euroclear Bank has been assigned an AA+ rating by both Fitch and Standard & Poor’s.

Regulatory capital requirements for Euroclear Bank will in the near future be determined by the new Basel II framework, both on a stand-alone and consolidated basis, as well as for all consolidated levels above Euroclear Bank. Euroclear will, within this framework, need to determine regulatory capital requirements both for credit and operational risk.

In accordance with Article 84 of the European Capital Requirement Directive (Directive 2000/12/EC), Euroclear submitted last year an application to the CBFA to use FIRBA as from 1 January 2007. Euroclear received from the CBFA the necessary accreditation to calculate its capital requirements for credit risk under FIRBA as from that date.

As part of its migration to Basel II, Euroclear has also computed its capital needs under FIRBA in 2006, in parallel with the Basel I methodology, which remained the official approach until 31 December 2006.

With respect to operational risk, Euroclear Bank intends to adopt the AMA from 1 January 2008, with a parallel run having started on 1 January 2007. In this respect, the required accreditation file that constitutes the basis on which the adoption of AMA can be granted was submitted to the CBFA in December 2006. At all consolidated levels above Euroclear Bank, Euroclear intends to adopt a hybrid approach – the so-called AMA with partial use – where the AMA for Euroclear Bank will be combined with a Standardised or Basic Indicator Approach for the other CSDs. This has been properly reflected in the accreditation file referred to above.
The table below sets out the group’s total capital, which very comfortably exceeds its regulatory requirements. According to the actual results of the parallel run, which is based on the Basel II regulation in Belgium, Euroclear does not expect this to change as a result of the adoption of the Basel II framework, despite the new capital reservation to be foreseen for operational risk.

### Regulatory capital position (€ ’000)

The following table analyses the group’s regulatory capital resources at the period end:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2006</th>
<th>31 December 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Weighted Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Requirement (RWA 8%)</td>
<td>203,435</td>
<td>170,727</td>
</tr>
<tr>
<td><strong>Capital base¹</strong></td>
<td>2,321,439</td>
<td>2,081,237</td>
</tr>
<tr>
<td>Tier 1</td>
<td>1,759,593</td>
<td>1,534,496</td>
</tr>
<tr>
<td>Hybrid Tier 1</td>
<td>297,683</td>
<td>297,467</td>
</tr>
<tr>
<td>Tier 2</td>
<td>264,163</td>
<td>249,274</td>
</tr>
<tr>
<td><strong>Risk asset ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>80.90%</td>
<td>84.59%</td>
</tr>
<tr>
<td>Total</td>
<td>91.29%</td>
<td>97.52%</td>
</tr>
</tbody>
</table>

1. After proposed dividend
Annual accounts and auditors’ opinion

The attached CD-ROM comprises the consolidated financial statements and Parent company balance sheet of Euroclear plc.

As required by law, the statutory annual accounts, the Board of Directors’ report and the Statutory Auditors’ report are filed with UK Companies House (Euroclear plc) and the National Bank of Belgium (Euroclear SA/NV).

A paper copy of these documents is available on request from:

The Company Secretary
Euroclear plc
Baarermatte
6340 Baar, Switzerland

In accordance with Art. 535 of the Belgian Companies Code, a certified copy of the enclosures, the Statutory Auditors’ report and the annual accounts can be obtained at the registered office of Euroclear SA/NV:

The Company Secretary
Euroclear SA/NV
1 Boulevard du Roi Albert II
1210 Brussels, Belgium

The auditors have delivered an unqualified audit opinion on the statutory annual accounts of Euroclear plc and Euroclear SA/NV.

Finally, the management’s assertion statement, together with the auditor statement on the Inter-company Transaction Policy implemented by the Euroclear group is available on pages 54 and 55.
6. Annexes
Board of Directors

1. Sir Nigel Wicks1
   Chairman
2. Joseph C. Antonellis
   State Street Corporation
3. Charlotte Black
   Brewin Dolphin Securities Limited
4. Paul Bodart
   The Bank of New York
5. Alain Closier
   Société Générale
6. Sue Concannon
   Halifax Share Dealing Limited
7. Frank J. DeCongelio
   Credit Suisse Securities (USA) LLC
8. Richard C.S. Evans2
   Deutsche Bank AG
9. Mary M. Fenoglio
   Citigroup
10. Clara Furse
    London Stock Exchange plc
11. Mark S. Garvin
    JPMorgan plc
12. John S. Gubert
    HSBC Holdings plc
13. Hiroaki Harada
    Bank of Tokyo - Mitsubishi UFJ, (Luxembourg) SA
14. Naomi Harada
    Mizuho Trust & Banking (Luxembourg) SA
15. Simon M. Haslam
    Fidelity International Limited
16. William Higgins
    ABN AMRO Bank NV
17. Peter T. Johnston
    Goldman Sachs & Co
18. François Marion
    CACEIS
19. Lieve Mostrey
    Fortis Bank SA/NV
20. David Nicol
    Morgan Stanley
21. Alain Papiasse
    BNP Paribas
22. Herschel Post1
23. John M. Schofield
    UBS Investment Bank
24. Jean-François Théodore
    Euronext NV
25. Robert C.M. Wigley2
    Merrill Lynch International

Executive Secretary

Lionello Falconi

---

1 Appointed Chairman 1 August 2006
2 Appointed 30 March 2006
3 Senior Independent Director
4 Appointed 24 May 2006
5 Appointed 6 October 2006
6 Appointed 7 December 2006
7 Appointed 28 March 2007
8 Ex-officio member

---

Board and Board Committees composition (as at 28 March 2007)

Euroclear plc

Board of Directors

---

16 15 8 1 13 3 25
11 12 23

---

11

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24
Board Committees

Operations Committee
Sir Nigel Wicks, Chairman
Frank J. DeCongelio
Mary M. Fenoglio
David Nicol

Audit Committee
Frank J. DeCongelio, Chairman
Paul Bodart
Mary M. Fenoglio
David Nicol
Jean-François Théodore

Executive Committee
Sir Nigel Wicks, Chairman
Joseph C. Antonellis
Paul Bodart
Alain Closier
Frank J. DeCongelio
Richard C.S. Evans
Clara Furse
Mark S. Garvin
John S. Gubert
William Higgins
François Marion
David Nicol
Jean-François Théodore

Nominations and Remuneration Committee
Mark S. Garvin, Chairman
Joseph C. Antonellis
Hiroaki Harada
Peter T. Johnston
Herschel Post
John M. Schofield
Sir Nigel Wicks

• Anthony Orsatelli, IXIS Corporate and Investment Bank, resigned 26 October 2006
• Christian Schaack, Fortis Bank SA/NV, resigned 30 March 2006
• A. Chris Tupker, resigned 31 July 2006
• Yasushi Watarabe, Bank of Tokyo-Mitsubishi UFJ (Luxembourg) SA, resigned 9 February 2006
• Andrew S. Winkler, Ernst & Young LLP, resigned 26 May 2006
• Charles F. Winters, Merrill Lynch, resigned 28 March 2007
• Sabah Zubaida, Mizuho International plc, resigned 26 May 2006
Euroclear SA/NV

Board of Directors

Sir Nigel Wicks1
Chairman

Joseph C. Antonellis
State Street Corporation

Charlotte Black
Brewin Dolphin
Securities Limited

Paul Bodart
The Bank of New York

Alain Closier
Société Générale

Sue Concannon
Halifax Share Dealing Limited

Frank J. DeCongelio
Credit Suisse Securities (USA) LLC

Richard C.S. Evans
Deutsche Bank AG

Mary M. Fenoglio
Citigroup

Clara Furse
London Stock Exchange plc

Mark S. Garvin2
JPMorgan plc

John S. Gubert
HSBC Holdings plc

Hiroaki Harada3
Bank of Tokyo - Mitsubishi UFJ, (Luxembourg) SA

Naomi Harada4
Mizuho Trust & Banking (Luxembourg) SA

Simon M. Haslam
Fidelity International Limited

William Higgins5
ABN AMRO Bank NV

Peter T. Johnston
Goldman Sachs & Co

François Marion6
CACEIS

Lieve Mostrey5
Fortis Bank SA/NV

David Nicol
Morgan Stanley

Alain Papiasse
BNP Paribas

Herschel Post7

John M. Schofield
UBS Investment Bank

Jean-François Théodore
Euronext NV

Robert C.M. Wigley8
Merrill Lynch International

Lionello Falconi
Executive Secretary

1 Appointed Chairman 1 August 2006
2 Senior Independent Director
3 Appointed 30 March 2006
4 Appointed 23 May 2006
5 Appointed 8 October 2006
6 Appointed 7 December 2006
7 Appointed 29 June 2006
8 Appointed 28 March 2007
9 Committee Advisor
10 Non-executive Director, Euroclear SA/NV
11 Ex-officio member
12 Committee of the Executive Committee of Euroclear SA/NV

- Anthony Orsatelli, IXIS Corporate and Investment Bank, resigned 26 October 2006
- Christian Schaad, Fortis Bank SA/NV, resigned 30 March 2006
- A. Chris Tupker, resigned 31 July 2006
- Yasushi Watanabe, Bank of Tokyo-Mitsubishi UFJ (Luxembourg) SA, resigned 9 February 2006
- Andrew S. Winckler, Ernst & Young LLP, resigned 26 May 2006
- Sabah Zubaida, Mizuho International plc, resigned 26 May 2006
### Board Committees

<table>
<thead>
<tr>
<th>Committee</th>
<th>Chairman</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Committee</strong></td>
<td>Sir Nigel Wicks</td>
<td>Paul Bodart, Alain Closier, Ignace R. Combes, Frank J. DeCongelio, Martine Dinne, Richard C.S. Evans, Pierre Francotte, Mark S. Garvin, John S. Gubert, Frederic Hannequart, Dr. Tim May, Joel Mérère, David Nicol, Herschel Post, Jean-François Théodore</td>
</tr>
<tr>
<td><strong>Management Committee</strong></td>
<td>Pierre Francotte</td>
<td>Ignace R. Combes, Martine Dinne, Frederic Hannequart, Dr. Tim May, Joel Mérère, David Nicol, Herschel Post</td>
</tr>
<tr>
<td><strong>Strategy Committee</strong></td>
<td>Sir Nigel Wicks</td>
<td>Joseph C. Antonellis, Charlotte Black, Paul Bodart, Pierre Francotte, John S. Gubert, Herschel Post</td>
</tr>
<tr>
<td><strong>Risk Policy Committee</strong></td>
<td>John S. Gubert</td>
<td>Paul Bodart, Richard C.S. Evans, Andrew Threadgold, Jean-Jacques Verdickt</td>
</tr>
<tr>
<td><strong>Audit Committee</strong></td>
<td>Frank J. DeCongelio</td>
<td>Paul Bodart, Mary M. Fenoglio, David Nicol, Jean-François Théodore</td>
</tr>
<tr>
<td><strong>Business Model Implementation Committee</strong></td>
<td>Sir Nigel Wicks</td>
<td>Alain Closier, Sue Concannon, John S. Gubert, Lieve Mostrey, David Nicol</td>
</tr>
<tr>
<td><strong>Nominations and Remuneration Committee</strong></td>
<td>Mark S. Garvin</td>
<td>Joseph C. Antonellis, Hiroaki Harada, Peter T. Johnston, Herschel Post, John M. Schofield</td>
</tr>
<tr>
<td><strong>Executive Compensation Committee</strong></td>
<td>Sir Nigel Wicks</td>
<td>Paul Bodart, Frank J. DeCongelio, Herschel Post</td>
</tr>
</tbody>
</table>
Euroclear Nederland1 and Euroclear Niec2

Board of Directors
Ignae R. Combes
Chairman
Guy Schuermans
Chief Executive Officer
Wim Claeyss
Yves Poulet
Jos de Wit
Independent
Gerard Hartsink3
Hugo Spanjer
Company Secretary

Board Committees
Audit Committee
Gerard Soularue, Chairman
Fabien Debarre
Fernando Díaz
Admission Committee
Pierre Slechten1, Chairman
Philippe Bertholle
Isabelle Jean
Nomination and Remuneration Committee
Pierre Francotte, Chairman
Gérard Soulaurie

1 Appointed 1 March 2006. Until such date, Mr. Mérère was Chief Executive Officer of Euroclear France
2 Appointed 1 March 2006
3 Observer

Euroclear Bank

Board of Directors
Pierre Francotte
Chairman
Martine Dinne
Chief Executive Officer
Wim Claeyss
Ignace R. Combes
Frederic Hannequart
Dr. Tim May
Yves Poulet
Luc Vantomme1
Jean-Jacques Verdickt
Independent
Susan Y. Stenson
Company Secretary

Board Committees
Management Committee
Martine Dinne, Chairperson
Frederic Hannequart
Yves Poulet
Luc Vantomme

Audit Committee
Jean-Jacques Verdickt, Chairman
Ignace R. Combes
Dr. Tim May
Fabien Debarre1
Fernando Díaz1

Nomination and Remuneration Committee
Pierre Francotte, Chairman
Jean-Jacques Verdickt

1 Appointed 1 January 2007
2 Committee Observer
3 Members of the Euroclear France SA Works Council whose attendance at Board meetings is a legal requirement
4 Appointed 1 March 2006. Until such date, Mr. Mérère was Chairman of the Admission Committee

Euroclear France

Board of Directors
Pierre Francotte
Chairman
Joël Mérère1
Vice Chairman
Pierre Slechten1
Chief Executive Officer
Martine Dinne
Frederic Hannequart
Gérard Soulaurie
Independent

Nomination and Remuneration Committee
Pierre Francotte, Chairman

Euroclear Nederland3

Board of Directors
Ignace R. Combes
Chairman
Guy Schuermans
Chief Executive Officer
Wim Claeyss
Yves Poulet
Jos de Wit
Independent
Gerard Hartsink3
Hugo Spanjer
Company Secretary

Board Committee
Audit Committee
Jos de Wit, Chairman
Fabien Debarre
Fernando Díaz
Anso Thiré

1 Trade name for Nederlands Centraal Instituut voor Giraal Effectenverkeer BV registered with Chamber of Commerce, Amsterdam
2 Trade name for Nederlands Interprofessioneel Effectencentrum NIEC BV registered with Chamber of Commerce, Amsterdam
3 Observer

84
CRESTCo Limited

Board of Directors
Pierre Francotte
Chairman
Dr. Tim May
Chief Executive Officer
Richard Crevoisier
Martine Dinne
Frederic Hannequart
Yannic Weber
Herschel Post
Independent
Mike Williams
Independent
David Whitehead
Company Secretary

Board Committees
Audit and Compliance Committee
Herschel Post, Chairman
Fabien Debarre
Mike Williams
Geoffrey Mitchell

Nomination and Remuneration Committee
Pierre Francotte, Chairman
Herschel Post
Mike Williams

Euroclear Belgium SA/NV

Board of Directors
Ignace R. Combes
Chairman
Stéphane Bernard
Chief Executive Officer and
Delegated Director
Yves Poullet
Yannic Weber
Francis Remacle
Independent
Hugo Spanjer
Company Secretary

Board Committees
Audit Committee
Francis Remacle, Chairman
Fabien Debarre
Yves Poullet
Anso Thiré

Nomination and Remuneration Committee
Ignace R. Combes, Chairman
Francis Remacle

EMX Company Limited

Board of Directors
Dr. Tim May
Chairman
Max Wright
Chief Executive Officer
Tom Challenger
Threadneedle Asset Management Limited
Tony Wood
Pierre Yves Goemans
Yannic Weber
David Burke
David Whitehead
Company Secretary

Board Committee
Audit Committee
Tom Challenger, Chairman
Fabien Debarre
David Burke
Martin Ingell

---

1 Trade name for Caisse Interprofessionnelle de Dépôts et de Virement de Titres/Interprofessionele Effectendeposito- en Girokas (CIK) SA/NV
2 Appointed 6 February 2006 as Independent
3 Appointed 16 February 2006
MACs

Belgium-The Netherlands
Eric Hollanders
Chairman
ING Belgium
Gerard Hartsink
Vice-Chairman
ABN AMRO Bank NV
Gautier Bataille de Longprey
Bank Degroof SA
Nico Blom
Kas Bank NV
Gerard Fransen
Rabobank Nederland
Peter Hannes
KBC NV
Marcel Jongmans
Fortis Bank NV
Olivier Lefebvre
Euronext
Betty Mulder-Mosman
Deutsche Bank
Eric Struyve
Petercam SA
Alfons Vaes
National Bank of Belgium
Henry van der Wielen
De Nederlandsche Bank NV

France
Alain Pochet
Chairman
BNP Paribas
Robert Baconnier
Emetteurs
Roland Bellegarde
Euronext
Pierre Yves Berthon
AFG
Michel Bois
CACEIS
Xavier Bonneru
LCL Le Crédit Lyonnais
Philippe Castelanelli
HSBC-CCF
Xavier Chaillot
Société Générale
Norbert Cron
Natixis
Adrien Decker
Crédit Mutuel/CIC
Emmanuel de Fournoux
AFEI
Jean-Marc Eyssautier
CACEIS Bank
Christophe Hemon
IHC.Clearet
Hichem Jaballah
Groupe Crédit Agricole SA
Guy de Leusse
Entreprises D’Investissement
Yves Nachbaur
Banque de France
Bruno Prigent
Société Générale
Jean-François Reynaud
Gestisres
Marcel Roncin
AFTI
Jean Tricou
Fédération Bancaire Française
Jean-François Vieu
AFSF
Corinne Lambert
Observer
AMTE
Jacques Vanhautere
Observer
CRI

Ireland
Brian Healy
Chairman
Irish Stock Exchange
Eamonn Doyle
Davy Stockbrokers
Eileen Kelly
Goodbody Stockbrokers
Brendan McDonagh
National Treasury
Management Agency
Audrey Kinsella
Bank of Ireland
Securities Services
Graham O'Brien
NCB Stockbrokers
Pat O'Donoghue
Capita Corporate Registrars plc
Paul Shiels
National Treasury
Management Agency
Graham Shuttlewood
The Royal Bank of Scotland
Trevor Watkins
Computershare
Helen Young
Central Bank and
Financial Services Authority
of Ireland

UK
Pen Kent, CBE
Chairman
Andrew Baldock
Gerrard
Richard Barber
Gribbank NA
Robert Barnes
UBS
Philippe Castelanelli
HSBC Bank plc
Victoria Cleland
Bank of England
Robert Coyle
Capita Registrars
Mike Hines
Winterflood Securities Ltd
Robert Howard
Charles Stanley
Neil Martin
Credit Suisse
Verity Peel
Tullett Prebon
Richard Pattinson
Barclays Bank PLC
David Shrimpton
London Stock Exchange
Robert Stheeman
UK Debt Management Office

Cross-Border MAC
Alain Pochet
Chairman
BNP Paribas
Michel Bois
CACEIS
Gerard Hartsink
ABN AMRO Bank NV
Brian Healy
Irish Stock Exchange
Eric Hollanders
ING Belgium
Marye Humphery
Morgan Stanley
Hichem Jaballah
Groupe Crédit Agricole SA
Pen Kent, CBE
Edward Neeck
JPMorgan Chase & Co
## Euroclear group principal offices

### Euroclear plc
- **Registered office**
  2 Lamb’s Passage
  London EC1Y 8BB, UK

### Euroclear SA/NV
- **Executive office**
  Baarermatte
  6340 Baar, Switzerland

### Euroclear Belgium SA/NV
- **Registered office**
  6, Avenue de Schiphol
  1140 Brussels, Belgium

### Euroclear France SA
- **Registered office**
  115, Rue Réaumur
  75081 Paris, Cedex 02, France

### Euroclear Nederland\(^1\)
- **Registered office**
  Damrak 70
  1012 LM Amsterdam,
  The Netherlands

### Euroclear Re
- **Registered office**
  12, Rue Eugène Ruppert
  2453 Luxembourg,
  Luxembourg

### Euroclear Finance SA
- **Registered office**
  4, Rue Carlo Hemmer
  (Plateau de Kirchberg)
  Boîte Postale 1107
  1011 Luxembourg, Luxembourg

### Euroclear Finance 2 SA
- **Registered office**
  5, Rue Guillaume Kroll
  1882 Luxembourg, Luxembourg

### CRESTCo Limited
- **Registered office**
  33 Cannon Street
  London EC4M 5SB, UK

### EMX Company Limited
- **Registered office**
  2nd Floor North
  Charrington’s House
  The Causeway
  Bishop’s Stortford
  Hertfordshire CM23 2ER, UK

### Euroclear Latin America Ltda
- **Registered office**
  Rua Boa Vista, 254
  São Paulo, SP, Brazil

### Euroclear SA/NV Branch Offices
- **Paris**
  115, Rue Réaumur
  75081 Paris, Cedex 02, France

### Euroclear Bank Representative Offices
- **Frankfurt**
  Euroclear Bank Representative Office
  to be opened in Q2 2007

- **Hong Kong**
  Euroclear Bank Representative Office
  Room 2301-2304
  Citic Tower
  1 Tim Mei Avenue
  Central, Hong Kong

- **New York**
  Euroclear Bank Representative Office
  One Battery Park Plaza, 24th Floor
  New York, N.Y. 10004, USA

- **São Paulo**
  Euroclear Latin America Ltda
  Av Brigadeiro Faria Lima, 3729
  5th Floor/CEP 04538-905
  São Paulo, SP, Brazil

### Euroclear Nederland\(^2\)
- **Registered office**
  1 Trade name for Caisse Interprofessionnelle de Dépôts et de Virement de Titres/
  Interprofessionele Effectendeposito- en Girokas (CIK) SA/NV

- **Registered office**
  2 Trade name for Nederlands Centraal Instituut voor Giraal Effectenverkeer BV registered with
  Chamber of Commerce, Amsterdam

- **Registered office**
  3 Trade name for Nederlands Interprofessioneel Effectencentrum NIEC BV registered with
  Chamber of Commerce, Amsterdam

- **Registered office**
  4 Trade name for Nederlands Interprofessioneel
  Effectencentrum NIEC BV registered with
  Chamber of Commerce, Amsterdam

---

1 Trade name for Caisse Interprofessionnelle de Dépôts et de Virement de Titres/Interprofessionele Effectendeposito- en Girokas (CIK) SA/NV
2 Trade name for Nederlands Centraal Instituut voor Giraal Effectenverkeer BV registered with Chamber of Commerce, Amsterdam
3 Trade name for Nederlands Interprofessioneel Effectencentrum NIEC BV registered with Chamber of Commerce, Amsterdam
Euroclear supports the charity *The Healing Horse* which aims to improve the quality of life for people with learning or physical disabilities through hippotherapy. Through riding and the care of therapeutic horses, people experience physical and sensory therapy which helps them with mobility and social skills.

**About the photographer**
Over the last 20 years, Arnd Bronkhorst has established an unrivalled reputation as one of the world's top equine photographers. His ability to capture the aesthetics and emotion between man and horse working in harmony together has taken him to every major event for top international equestrian magazines.
Glossary

SSE
The Single Settlement Engine consolidates the core settlement applications of the (I)CSDs of the Euroclear group. Today, Euroclear France, Euroclear Bank and CRESTCo are connected to the SSE. Euroclear Belgium and Euroclear Nederland will connect to the SSE as part of their move to ESES in May 2008.

ESES
Euroclear Settlement for Euronext-zone Securities is an important intermediary step towards the Single Platform. ESES provides the Euronext-zone market CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland) with an integrated settlement solution and harmonised custody services. ESES will be implemented gradually as of November 2007.

CCI
Common Communication Interface is Euroclear’s single interface for accessing the services offered by the group.

The first components of the CCI will be delivered to ESES users early 2008.

Single Platform
A unique platform, gradually delivering harmonised group custody services and harmonised settlement services. The Single Platform will deliver harmonised group custody services as of end 2008 followed by harmonised group settlement services. All clients will use the CCI to connect to the Single Platform.

Acronyms

AMA
Advanced Measuring Approach

BCP
Business Continuity Planning

CCI
Common Communication Interface

CCP
Central Counterparty

COSO
The US Committee of Sponsoring Organizations

CPSS-IOSCO
The Commission on Payment and Settlement Systems of the Bank for International Settlement and the International Organisation of Securities Commissions

CSD
Central Securities Depository

DBV
Delivery-by-Value

DCS
Data Centre Strategy

EACH
European Association of Clearing Houses

ECB
European Central Bank

ECSDA
European Central Securities Depositories Association

EFAMA
European Fund and Asset Managers Association

ERM
Enterprise Risk Management

ESSES
Euroclear Settlement for Euronext-zone Securities

ESESE
Federation of European Stock Exchanges

ICSD
International Central Securities Depository

(I)CSD
The CSDs and the ICSD of the group

IFRS
International Financial Reporting Standards

LSE SETS
London Stock Exchange Electronic Trading System

MiFID
Markets in Financial Instruments Directive

ORM
Operational Risk Management

OTC
Over-the-counter

SAS 70
Statement on Auditing Standards No 70

STP
Straight-through processing

T2S
TARGET2 Securities, proposal by the ECB to offer securities settlement services in central bank money in euro