Performing on
the biggest stage there is
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Glossary  see back cover foldout
In 2007, Euroclear went further than ever before. Further in the sense of delivering progress. Further in the sense of the service we gave to our clients. And further in its most literal sense, that of geography. The result is that more institutions than ever before, in more places than ever before, chose to rely on our uniquely strong market infrastructure solutions. The success of this approach is confirmed by our strong figures. But it was not the figures that inspired it: we went further so that our clients could too. After all, one great performance can inspire a thousand more.
The Euroclear group
Reaching new heights

The world’s largest provider of domestic and cross-border settlement and related services for bond, equity, fund and derivative transactions
561.8 trillion euro turnover

19.2 trillion euro securities holdings
Performance highlights

• Turnover, or the value of securities transactions settled, was €561.8 trillion in 2007, an increase of 24% from €451.7 trillion in 2006.

• The value of securities held for Euroclear clients at the end of 2007 was €19.2 trillion, a 5% increase from the €18.2 trillion recorded at year-end 2006.

• The number of netted transactions settled in the Euroclear group increased by 9% to 155.5 million in 2007 compared with 143.1 million in 2006.

• The combined average daily value of collateral provision outstanding in Euroclear Bank and Euroclear UK & Ireland grew by 11% in 2007 to €595.0 billion compared with €537.9 billion at the end of 2006.
The data includes intra-group holdings/transactions, as relevant.

The data for Euroclear UK & Ireland excludes self-collateralising repos; the data for Euroclear France excludes ‘pensions livrées’ with the Central Bank of France.

Securities in the United Kingdom are held through Euroclear UK & Ireland on the books of the registrars.

The data for Euroclear UK & Ireland consists of Delivery By Value (DBV) and money-market instrument repo transactions.
**Financial highlights**

In 2007, the Euroclear group increased its total income by 15% to €1,244 million, and has been able to deliver tariff reductions of €100 million as a consequence of strong operating results.

At the same time, we have:
- continued to increase efficiency through service improvements for clients; and
- made decisive progress with our platform consolidation programme.

The robust performance has allowed Euroclear to build on its solid capital base and to increase the dividend payment by 6% to €25.58 per share for 2007.

### Operating income (in € million)

<table>
<thead>
<tr>
<th>Year</th>
<th>UK GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>862.3</td>
<td>243.4</td>
</tr>
<tr>
<td>2005</td>
<td>960.3</td>
<td>308.4</td>
</tr>
<tr>
<td>2006</td>
<td>1,085.4</td>
<td>418.2</td>
</tr>
<tr>
<td>2007</td>
<td>1,244.0</td>
<td>435.3</td>
</tr>
</tbody>
</table>

### Operating profit before tax (in € million)

<table>
<thead>
<tr>
<th>Year</th>
<th>UK GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
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<tr>
<td>2005</td>
<td>2,132.2</td>
<td>2,420.1</td>
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<tr>
<td>2006</td>
<td>2,331.3</td>
<td>2,557.3</td>
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<tr>
<td>2007</td>
<td>2,420.1</td>
<td>2,627.9</td>
</tr>
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</table>

### Dividend per share (in € per share)

<table>
<thead>
<tr>
<th>Year</th>
<th>UK GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
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<td>19.00</td>
<td>21.40</td>
</tr>
<tr>
<td>2005</td>
<td>21.40</td>
<td>21.40</td>
</tr>
<tr>
<td>2006</td>
<td>24.20</td>
<td>25.58</td>
</tr>
</tbody>
</table>

### Shareholders’ equity (in € million)

<table>
<thead>
<tr>
<th>Year</th>
<th>UK GAAP</th>
<th>IFRS</th>
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<tbody>
<tr>
<td>2002</td>
<td>3,186.0</td>
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</tr>
<tr>
<td>2003</td>
<td>2,231.3</td>
<td>2,231.3</td>
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<tr>
<td>2004</td>
<td>2,420.1</td>
<td>2,420.1</td>
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<tr>
<td>2005</td>
<td>2,472.2</td>
<td>2,472.2</td>
</tr>
<tr>
<td>2006</td>
<td>2,627.1</td>
<td>2,627.1</td>
</tr>
<tr>
<td>2007</td>
<td>3,126.0</td>
<td>3,126.0</td>
</tr>
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</table>
## Euroclear plc consolidated

**For the year ended 31 December (in € million)**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>1,244.0</td>
<td>1,085.4</td>
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<tr>
<td>Profit for the year</td>
<td>330.5</td>
<td>318.6</td>
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<tr>
<td>Net earnings per share</td>
<td>86.3</td>
<td>83.2</td>
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<tr>
<td>Dividend per share</td>
<td>25.58</td>
<td>24.20</td>
</tr>
</tbody>
</table>

### At 31 December

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>16,328.5</td>
<td>14,057.0</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>297.9</td>
<td>547.4</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>3,126.0</td>
<td>2,886.7</td>
</tr>
<tr>
<td>Shareholders’ equity/Total assets</td>
<td>19.1%</td>
<td>20.5%</td>
</tr>
</tbody>
</table>
Strategy

Making history is all about knowing what’s happening next

In today’s rapidly evolving markets, anticipation is everything. Those who wait to react are left behind by those who plan ahead. And with the global post-trade industry at stake, you can’t afford to improvise. We are now over half way through implementing a ground-breaking programme to make cross-border domestic. And today, with our clear strategies for emerging markets and specific instruments, we’re already setting the stage for a strong global presence.
Chairman’s statement

Your Board has proposed for 2007 a record dividend of €25.58 per share, representing a payment of €98 million, compared with €92.7 million in 2006. More than €100 million in tariff reductions was implemented in 2007, with another €100 million already announced for 2008. Client cost reduction will continue to be a key driver for the Euroclear group. Euroclear invested €210 million in 2007 to develop services for clients and to help them reduce their costs and risks. In these ways, Euroclear continues to seek opportunities to share economies of scale and lower costs for clients, while rewarding shareholders.
Market developments
Since last summer, bouts of market illiquidity, volatility and turmoil have presented market participants with enormous challenges. Even so, as the authorities have noted, the securities and payment infrastructures have continued their steady performance.

For our part, the Euroclear group’s International Central Securities Depository (ICSD), Euroclear Bank, and national Central Securities Depositories (CSDs), Euroclear Belgium, Euroclear France, Euroclear Nederland and Euroclear UK & Ireland, as well as EMXCo, have sought to support global financial stability. Euroclear Bank is a single-purpose bank, designed to ensure very high settlement efficiency at very low risk. Its long-standing policy of conservative risk management, with about 99% of Euroclear Bank’s exposures to clients securely collateralised, has served the market well during this difficult period. The ICSD and CSDs of the group have also coped well with unprecedented spikes in settlement activity. During the uncertain times ahead, Euroclear will have as its highest priority the maintenance of its very high standards of stability and control.

Delivering on our promises
The reduction in costs and risks in cross-border settlement and custody in Europe is central to Euroclear’s strategy. Accordingly, Euroclear has pressed ahead during the year with the delivery of our market practice harmonisation and platform consolidation programme. We are most grateful to the many market participants who continued to devote time and effort in shaping the necessary consensus on the new market standards.

Following completion in early 2007 of the final phase of the Single Settlement Engine (SSE), which is the foundation for Euroclear’s Single Platform, we began rolling out the second wave – the Euroclear Settlement of Euronext-zone Securities (ESES) programme. When completed later this year, ESES will provide a single settlement and custody solution for three Euronext markets: Belgium, France and The Netherlands. Euroclear is thus well on its way in delivering the basis for a ‘domestic settlement market for Europe’, which we plan to complete over the next three years. We estimate our programme will generate more than €300 million in annual savings for clients. The acquisition of EMXCo, which took effect in early 2007, is proving to be a success in providing valuable support to Euroclear’s investment fund business.
Euroclear has also recently completed its multi-year, €100 million plans to deliver a level of data centre resilience that is unparalleled among European infrastructure service providers. Three data centres, replacing eight that were in operation by Euroclear group CSDs collectively, should enable clients to fully resume technical operations with Euroclear within one hour of a local disaster and within three hours of a major incident on the scale of 11 September 2001. This type of investment demonstrates the merits of user ownership and governance, as we are able to place user protection and benefits at the top of the company’s priorities.

**The Code of Conduct on Clearing and Settlement**

Euroclear strongly supports the European Commission’s Code of Conduct on Clearing and Settlement. We believe that it is capable of delivering greater transparency, competition and user choice more quickly than an EU Directive could have achieved. Euroclear group CSDs and the ICSD are operating in full compliance with the Code. Moreover, we have extended its application within Euroclear to all asset classes, i.e. equity, fixed-income and fund transactions. We encourage other settlement infrastructure service providers to adopt a similar approach in order to accelerate the process of making European post-trading more transparent and efficient.

Euroclear Bank has made requests for access to several stock exchanges and clearing houses and, in turn, Euroclear entities have received requests for access from other parts of the infrastructure. User demand and business needs are the primary criteria governing our analysis and conclusions to be drawn in moving ahead.

**The proposed TARGET2-Securities system**

In July 2006, the European Central Bank (ECB) proposed a direct, public-sector owned and operated common settlement platform for all euro-zone markets. The decision whether to build TARGET2-Securities (T2S), anticipated for launch in 2013, is expected during the course of 2008. Good work has been done by the ECB in defining user requirement proposals by the end of 2007. There are, however, still some fundamental questions outstanding on, for example, the totality of costs and benefits for users from the introduction of T2S, the system’s governance and economic feasibility, and the allocation of risks and liabilities between participants. Euroclear is participating actively on several T2S technical and advisory committees, and is seeking answers to these fundamental questions. Before making a decision whether or not to join T2S, Euroclear will consult with users to make an assessment whether T2S could be expected to provide a more efficient, lower cost and lower risk settlement environment.

**An expanding marketplace**

Global net cross-border flows are estimated by the International Monetary Fund to have been around a quarter of world GDP in 2006. Just a decade ago, cross-border flows were around a third of their present levels. This globalisation of financial markets has gone hand in hand with the globalisation of institutions. Our clients are changing the way they trade and invest, and are globalising themselves through cross-border mergers and acquisitions. Cross-border holdings of primarily debt securities in Euroclear Bank, for example, have more than doubled since 2001, the value of cross-border securities transactions settled has more than tripled and the use of cross-border collateral has more than quadrupled since 2001.

In addition, the growth of credit derivatives, structured products and securitisation has brought new possibilities to financial institutions to manage their risks actively. Banks can decide what risks they want to hold on their balance sheets, and those they need to transfer. At the same time, this model is more dependent on market liquidity and the ability to package and transfer these risks, thereby increasing dependence on the smooth functioning of markets and the infrastructures supporting them.

Euroclear must adapt and respond to these trends. We are, therefore, seeking to broaden Euroclear’s portfolio of products while maintaining our traditional focus on the provision of commoditised transaction-processing services. We will do so through dialogue, collaboration and cooperation with our clients.

As part of this approach, Euroclear Bank now offers exposure management services for derivatives trades and is the first settlement infrastructure service provider to offer settlement and safekeeping services for carbon emission rights. In addition, Euroclear is formalising its already strong relationships with various markets and infrastructure service providers beyond Europe’s borders. Information sharing...
agreements and other forms of collaboration have been established in 2007 with CSDs in Brazil, Russia, India and China. Moreover, our long-standing commitment to clients in Asia will be reinforced with the development of an operations centre in our existing Hong Kong office. This will improve the speed and quality of response to Asian client enquiries about operational issues. We are also opening a representative office in Beijing.

Shareholding-usage rebalancing
At the time of Euroclear’s merger with CRESTCo Limited in 2002, the company made clear its intention that the shareholder base of Euroclear should closely reflect the relative usage of the new group’s services by its shareholders. It did not prove practicable at the time to devise an acceptable scheme to meet this objective. The Board of Euroclear plc is, however, actively considering this matter. In doing so, it would, of course, keep in mind the need to safeguard shareholders’ interests.

The Board
We welcome to the Euroclear plc and Euroclear SA/NV Boards Michel Berthézène of Caisse des Dépôts et Consignations, Tim Howell of HSBC Holdings plc, M. Andrew Threadgold of UBS AG and Robert C.M. Wigley of Merrill Lynch International. In October 2007, the Board appointed Jean-Jacques Verdickt as Deputy Chairman of both Euroclear plc and Euroclear SA/NV. His years of experience in the banking industry, as a former Euroclear Board member and his current role as an independent Director on the Euroclear Bank Board will be most welcome. Charlotte Black of Brewin Dolphin Securities Limited, John S. Gubert of HSBC Holdings plc, Simon M. Haslam of Fidelity International Limited, Alain Papiasse of BNP Paribas, John M. Schofield of UBS Investment Bank and Charles F. Winters of Merrill Lynch have resigned from the Board. I would like to thank them warmly for their contributions.

Furthermore, I pay tribute to Martine Dinne, the recently retired Chief Executive Officer of Euroclear Bank, who for nearly 40 years with Euroclear inspired those with whom she worked with a zeal for quality and excellence. I would also like to commend Euroclear management and staff for their success in delivering on so many fronts at the same time.

Sir Nigel Wicks
Chairman
Chief Executive’s review

The year 2007 will obviously be remembered as a very mixed year in financial markets. The credit crisis that was triggered in the summer by the subprime woes of a number of banks has created a shock, the full effect of which has not yet been felt. In this turbulent context, Euroclear has done well in 2007. Group turnover increased by 24% in 2007, an increase only slightly smaller than was seen in 2006. Obviously, like other firms in the securities business, we have seen the value of some of the assets under our custody drop in the second part of the year. But this has affected us less than most in relative terms, because only a moderate part of our revenues is based on the value of the assets we hold. Considering the financial impact of the crisis on our clients, we have been especially sensitive to the need to reduce their costs. In 2007 we made more substantial fee cuts than ever in our history, and we intend to implement reductions of similar proportions in 2008.
Keeping up the pace
Against the backdrop of the credit crisis, the trading and post-trading infrastructure landscape has continued its far-reaching transformation in 2007. The largest stock exchanges are no longer aspiring to become regional champions, but instead to position themselves globally and across all asset classes. Traditional exchanges are facing new competitors, not only for their trading activities, such as Turquoise or Chi-X, but also for some of their other businesses such as trade reporting (e.g. Boat). In the post-trading field, attention has shifted to clearing, not only because clearing of listed or Over-The-Counter (OTC) derivatives has become a topic of major strategic importance to both exchanges and users, but also because real competition is now emerging for clearing of cash and derivatives markets, prompted in significant part by the Code of Conduct. In settlement, competition has been accentuated even further, with the distinction between custodian banks and CSDs becoming even more tenuous.

In this context, Euroclear has importantly maintained the pace of transforming the securities infrastructure markets this past year, which will help to structurally reduce costs and risks for our clients in an even more fundamental way. We met three key milestones in the implementation of our business model: the completion of our SSE programme, the delivery of the ESES platform in Euroclear France, and the completion of our ambitious data centre programme.

We have also developed and introduced a number of new products and service enhancements designed to solve inefficiencies in fixed income, equities, funds, derivatives and carbon emission rights markets. Perhaps most significantly, feedback from clients of all group entities shows that service quality has improved appreciably in the last year, thanks to a special focus in all areas of the group on client service and improvements in servicing under our campaign to be the ‘best of class’ service provider in our field.

Strong growth supporting deep tariff cuts
The growth generated throughout 2007 has led to economies of scale which have been translated into significant tariff reductions for clients. In early 2007, Euroclear Bank cut its tariffs by €78 million on an annualised basis, with a further annual fee reduction of €27 million in June, representing the largest tariff reduction in Euroclear Bank’s history. In December 2007, Euroclear Bank announced another programme of major fee reductions for 2008 amounting to €70 million, thus compounding the effect for clients of the 2007 fee cuts. Euroclear Bank also paid clients over €82 million in 2007, following the major decision taken to remunerate outstanding cash balances. Euroclear Bank is
the only ICSD that remunerates balances in a transparent and uniform way to all clients.

Euroclear UK & Ireland was also able to significantly lower costs for clients thanks to record transaction activity, thus confirming its commitment to give clients the benefits of the large economies of scale generated since it joined the Euroclear group. Euroclear UK & Ireland paid €11 million in rebates to clients in early 2007, in proportion to their activity during 2006. A record €16.5 million of tariff reductions announced in early 2008 are delivering a 50% reduction in clearing-related service fees and a 10% reduction in settlement fees for both retail and wholesale clients.

Building on harmonisation achievements
Harmonisation of market practices goes hand in hand with technology consolidation in seeking to reduce costs and risks for clients, both for domestic and cross-border activity.

In line with our objectives, the harmonisation of market practices for asset servicing and settlement in Belgium, France, Ireland, The Netherlands and the United Kingdom was completed in 2007. Work on the operational implementation of these agreements is already taking place. A few issues are being reassessed at the request of the market with a view to ensuring an optimal outcome for all countries.

This harmonisation is by far the single most important contribution so far of any CSD or group of CSDs in Europe to taking down the barriers identified by the Giovannini group of experts, which, as the European Commission has stressed, are materially impairing growth in Europe at this time. These Euroclear achievements are significant at European level because the five domestic markets of the group represent 53% of equity capitalisation in Europe. Beyond settlement and asset servicing, the Euroclear group is now working to achieve harmonisation in other areas, namely collateral management, for which a working group has already been created, as well as funds processing and issuer services. Invariably, progress will be made in close collaboration with the market.

We have also chosen a harmonised central bank money payment model, the Dedicated Liquidity Model, to be used as of the launch of Single Platform Settlement. This model will provide efficiency for clients while cash accounts continue to be operated exclusively by the central banks. It will replace the integrated model that had originally been intended to be used in all the domestic markets of the group, as the ECB has determined that the integrated model could not be extended in future to any other market in Europe.

Over half way towards platform consolidation
Strong progress was again made this year in the phased delivery of the platform consolidation programme that is, together with market practice harmonisation, at the core of our business model.

The SSE is now fully implemented, following its introduction in January 2007 in Euroclear Bank. Performing the core functions of securities settlement, the SSE is the foundation onto which all IT systems within the Euroclear group are being consolidated. The successful launch of ESES in Euroclear France in November 2007 is a major step towards the implementation of the Single Platform. The second phase of ESES, the connection of the new platform to the ECB’s TARGET2 payment system, was also delivered on schedule in February 2008. The third and last phase of ESES, the extension of the platform to the Belgian and Dutch CSDs, is scheduled for the last quarter of 2008, allowing for additional testing to ensure a smooth launch for these markets.

Significant progress was also made towards the subsequent Single Platform phases throughout 2007. For Single Platform Custody, detailed service descriptions are now being published. We have also im-
proved the rollout plan, allowing migration as of the fourth quarter of 2009 following a single launch of software and therefore reducing migration risk and migration effort for clients. Work is well underway for the final Single Platform Settlement phase, with the blueprint published at the end of 2007. Euroclear therefore remains on track to deliver the key components of the Single Platform by the end of the decade.

An important part of the Single Platform is the development of a Common Communication Interface (CCI) that clients will use to access all the services of the Euroclear group. It will enable the fragmentation between markets, a cause of significant cost to our clients, to be reduced, and will be rolled out in phases in parallel with the delivery of the Single Platform itself. The first phase is scheduled to take place in 2008 when the last stage of ESES is launched.

An intense market campaign has been conducted to help clients prepare for migration to the Single Platform, and in particular to advise them of the ways in which they will be able to connect to it using the CCI.

Another major component of our business model was the ambitious programme to consolidate our data centres for the different (I)CSDs of the group. This large and highly complex programme was completed in 2007 and is a landmark achievement. A third data centre located in a different country can take over Euroclear’s critical business activity if our two primary data centres were ever to become unavailable simultaneously, for instance due to a metropolitan disaster of the sort that could have affected markets on 11 September 2001. No other settlement service provider, whether infrastructure or commercial, has such a three data centre configuration in Europe, but we expect that over time this will become the norm expected by clients and regulators, as is already the case in the United States.

It would clearly be advantageous for the markets if the benefits of the Single

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Implementing the Code of Conduct

The Euroclear group strongly supports the Code of Conduct for Clearing and Settlement as a means to deliver greater transparency and access for users of European trading, clearing and settlement services.

We have fully complied with the first pillar of the Code with regard to pricing transparency since it came into effect in early 2007. Complete tariff information for each (I)CSD of the group is publicly available on www.euroclear.com.

The Euroclear (I)CSDs are also all applying the guidelines from the second pillar of the Code on access and interoperability, which came into effect on 1 July 2007. The guidelines provide a basis for the development of new links between trading platforms, Central Counterparties (CCPs) and settlement systems. Market participants should now have the freedom to select their preferred provider of clearing and settlement services, building on the provisions that have come into effect under the Markets in Financial Instruments Directive (MiFID).

The Euroclear group has a well-established track record, which started years before the Code of Conduct called for it, of allowing open access to external providers, including parties that sometimes seek to compete with Euroclear. As an illustration, in the last seven years Euroclear UK & Ireland has given access to eight trading, clearing or settlement parties (LCH.Clearnet Limited, x-clear, Eurex Clearing AG, European Multilateral Clearing Facility, London Stock Exchange, Irish Stock Exchange, SWX Europe and Chi-X) and is currently following up requests for interoperability from three parties. The Euroclear (I)CSDs have received four requests for access or interoperability under the second pillar of the Code since August 2007, and have been responding to each of them in compliance with the Code. Euroclear is itself seeking access to other post-trading infrastructures in accordance with the Code, with Euroclear Bank requesting access to instruction feeds from stock exchanges and clearing houses in Germany, Italy and Switzerland.

Euroclear is also complying with the third pillar of the Code, relating to unbundling and account segregation, which came into effect on 1 January 2008. Unbundling is the separate offering of services, which allows any client to purchase a single service without being compelled to purchase another single service. All Euroclear (I)CSDs are also in a position to produce financial data in relation to account segregation to their national regulators, as called for by the Code.
Platform and the data centre configuration could be extended, both within Europe and beyond. This would increase the economies of scale for Euroclear clients, and would also allow the infrastructures of these other markets and their clients to share in these savings and benefit from the investments already made. It would substantially improve the cost profile for both domestic and cross-border settlement and custody in Europe and more globally. Euroclear will therefore work to collaborate with other markets to broaden the benefits of the business model, whether through mergers, platform sharing or increased interoperability of systems.

**New products for fast-growing markets**

As befits Euroclear’s role as an international provider of market infrastructure services, we are seeking to translate the expertise that we have built up into new solutions for evolving businesses. In this way we are able to provide maximum benefits, including increased efficiency and larger pools of liquidity, for our clients.

For instance, Euroclear Bank has been diversifying to support three expanding, global businesses. DerivManager, launched in 2007, is an exposure management solution to support the rapidly growing OTC derivatives business by increasing automation and reducing risk. We are also entering the worldwide business of carbon emission rights in 2008 with the launch of ClimateSettle. This service largely automates the previously mostly manual post-trade processes for this emerging business. In addition, we intend to launch another new service for the fast-growing business of bank loans.

**Best of class service provider**

In recent years, Euroclear has undertaken a series of initiatives in order to sustain an attitude that clients come first. These initiatives were intensified in 2007 when we launched a far-reaching project to ensure that we achieve our goal of being the best in our class in client service.

Following thorough analysis of feedback from clients and staff, we have initiated important measures in 2007, starting with Euroclear Bank. For instance, one of the key improvements has been that, following a major reorganisation of the client service function, each client now benefits from a

**A truly global provider**

Besides the credit crisis, 2007 will be remembered in the securities markets as the year when a major step was made towards the globalisation of the securities infrastructure, with the completion of the NYSE-Euronext merger and the announcement of the merger of NASDAQ with OMX, among others. Major financial firms have been global for a number of years, but the securities infrastructure remained largely domestic or at best regional. In the future, the global needs of clients will increasingly require a worldwide service offering across asset classes. As the most global of securities infrastructures, with clients from over 80 countries and services covering markets in all regions of the world, Euroclear is well placed to lead this evolution in the post-trading area.

Euroclear is further strengthening the close relationship we have with our clients across the world, in particular by increasing our presence in Asia. Euroclear has worked with Asian markets for 40 years and, drawing on this experience, is now stepping up its involvement in the region to help our clients seize the vast opportunities that the growth of Asia is offering. In the second quarter of 2008, our representative office in Hong Kong is being expanded to become a branch office. The transfer of certain operational functions to Asia will provide increased processing efficiency for Asian securities and clients, as service windows are increased and waiting times dramatically reduced. We are also increasing our proximity by opening an additional representative office in Beijing, further demonstrating our commitment to the region.

Longer term, we plan to develop links and share our expertise with the securities players in the region. It was with this objective that we concluded cooperation agreements with The Clearing Corporation of India, the China Government Securities Depository Trust & Clearing Co, National Securities Depository Limited (India) and Central Depository Services (India) Limited in 2007 and early 2008. We have also concluded a cooperation agreement with CETIP, the Brazilian CSD, illustrating our focus on Latin America as another region with promising prospects.
dedicated account manager and direct access to specialists within different service areas.

Improved results from the 2007 Client Satisfaction Survey demonstrate that we have already achieved tangible progress, with client service for Euroclear Bank rated significantly higher than in past years.

Consideration is now being given to a similar initiative for the CSDs of the group. Further improvements, including closer monitoring of service levels, will be introduced at Euroclear Bank during 2008.

**Continuously enhancing services**

It is also important for the Euroclear group to respond quickly to the evolution of our clients’ needs, as it helps clients grow faster and further than they otherwise could if the infrastructure was dragging behind. This has been an area of special focus across the Euroclear group in 2007.

The successful launch of FundSettle Premier at Euroclear Bank in 2007 has enabled clients to benefit from record levels of processing efficiency for cross-border fund transactions at lower cost. In addition, Euroclear Bank introduced the trademark EquityReach for the service it specifically operates for equities. This underlines the maturity of Euroclear Bank’s equities service, which was further improved this year for Euronext-zone countries. One of our ambitions is for the top service levels that have been achieved in these countries to be expanded now to other countries in Europe.

The CSDs of the group have also worked to enhance services for their clients. In response to the needs of issuers during the dematerialisation process, Euroclear Belgium has launched Capitrack, a service enabling issuers to easily monitor the dematerialisation of their issued securities and the ownership of their share capital.

Euroclear UK & Ireland introduced an enhanced transaction reporting service in November 2007 in order to help clients meet their reporting responsibilities following the introduction of MiFID. MiFID-related data can also now be included in SBI transaction notices sent by Euroclear France clients. Euroclear Nederland has responded to the needs of new multi-CCPs in 2007 by offering settlement solutions for these platforms.

Euroclear entities have been working together closely in delivering solutions that build on their specific strengths. For example, the funds order routing service developed for Euroclear France will also be offered in Belgium and The Netherlands following the launch of ESES. Euroclear UK & Ireland and EMXCo are using their shared expertise in the UK funds market to deliver an integrated cash settlement solution in 2008. Euroclear Belgium is now providing its safekeeping services to Euroclear Bank to deliver an optimal safekeeping solution for New Global Notes, in the context of the restructuring that had been called for by the ECB for securities used as collateral for monetary policy operations.

**A group that acts responsibly**

We are proud that the feedback from the 2007 Client Satisfaction Survey has particularly recognised the high calibre of our staff. The group aims to reward the achievements of its people and develop the brightest talent. The knowledge, insight and ambition of our people are vital in achieving our business goals. To this end, we place a high value on delivering quality to both external and internal clients while encouraging openness, tolerance and respect throughout the company.

We firmly believe in a healthy work-life balance for our employees, and want them to enjoy working with us. In 2007 we created a group-wide function dedicated to work-life balance, recognising Euroclear’s competitive and challenging environment.

We contribute to social support initiatives taking place outside our immediate market context, but expressing our values and convictions. For example, we have sponsored a major multinational conference on microfinance that gathered most of the world experts in the field. The Euroclear group also gave close to €735,000 to charity in 2007. A significant part of this sum was granted through a programme whereby the company matches individual donations to charities made spontaneously by our employees. This is also part of what Euroclear stands for.

Pierre Francotte  
CEO of Euroclear SA/NV
Group management (as at 26 March 2008)

Management Committee of Euroclear SA/NV

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

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

3. Wim Claeys  
   Head of Strategic Programmes Division, Euroclear SA/NV

4. Frederic Hannequart  
   Chairman, Euroclear Bank SA/NV

5. Dr. Tim May  
   Chief Executive Officer, Euroclear UK & Ireland Limited

6. Joël Mérère  
   Vice Chairman, Euroclear France SA

7. André Rolland  
   Chief Financial Officer, Euroclear SA/NV
Group Management Team

8. Stéphane Bernard  
Chief Executive Officer, Euroclear Belgium

9. Bernard Boyette  
Head of ESES Programme and Legacy Roadmap France Division, Euroclear SA/NV

10. Jan Colaes  
Head of Project Delivery Services, Euroclear SA/NV

11. Richard Crews  
Deputy Chief Executive Officer, Euroclear UK & Ireland Limited

12. Pierre Yves Goemans  
Head of Product Management Division, Euroclear SA/NV

13. Mark Kirby  
Head of Business Model and Harmonisation Division, Euroclear SA/NV

14. Ambrose Murphy  
Head of Legal and Compliance Division, Euroclear SA/NV

15. Yves Pouillet  
Chief Executive Officer, Euroclear Bank SA/NV

16. Guy Schuermans  
Chief Executive Officer, Euroclear Nederland

17. Michael Shipton  
Head of Corporate Technology Division, Euroclear SA/NV

18. Pierre Slechten  
Chief Executive Officer, Euroclear France SA

19. Peter Sneyers  
Head of Asset Servicing Operations and Client Services Division, Euroclear Bank SA/NV

20. Peter Sucaet  
Head of Internal Audit Division, Euroclear SA/NV

21. Anne Swaelus  
Head of Legacy Roadmap BE/NL/UK and Development Services Division, Euroclear SA/NV

22. Paul Taylor  
Head of Financial Division, Euroclear SA/NV

23. Anso Thiré  
Head of Global Capital Markets Division, Euroclear SA/NV

24. John Trundle  
Head of Risk Management Division, Euroclear SA/NV

25. Valérie Urbain  
Head of Human Resources Division, Euroclear SA/NV

26. Luc Vantomme  
Head of Network Management and Banking Division, Euroclear Bank SA/NV

27. Yannic Weber  
Head of Commercial Division, Euroclear SA/NV

28. Max Wright  
Chief Executive Officer, EMX Company Limited
When everything depends on you, you’ve got to be ready to give everything

Everything we do at Euroclear is driven by a commitment to three things: forcing out market inefficiencies, reducing risks and lowering costs for clients. Objectives this important demand real dedication. Our overriding aim is to give our clients a ‘best of class’ service. But there’s also a whole industry to help move forward. Which is why, around the world, we put everything we have into delivering on our goals.
Achieving our objectives
The year 2007 was an important year in the implementation of the Euroclear business model, with significant progress made across all projects leading to our ultimate goal of delivering a 'domestic market for Europe' for settlement and asset servicing. After the pivotal year of 2006, our move into the implementation phase was confirmed in 2007 with three key milestones reached on the road to our Single Platform.

Background
For over five years, Euroclear has been at the forefront of initiatives to increase the efficiency of cross-border transaction processing by reducing market fragmentation in Europe. The existing inefficiencies mean post-trade transaction processing is currently several times more expensive in Europe than in the United States.

The Euroclear group is gradually implementing a business model for low-cost cross-border settlement and asset servicing. The concepts of this model were first presented in 2002, and constitute the most significant initiative underway to remove barriers to cross-border efficiency in the post-trade segment, as defined in the 2001 Giovannini group report.

The main objective of the business model is to fundamentally enhance cross-border efficiency in settlement and asset servicing, through the combination of market practice harmonisation and technology platform consolidation. An important factor in the success of this initiative is that Euroclear has been working in close collaboration with clients and market stakeholders.

We are delivering consolidated platform solutions that can offer all settlement and custody-related services across countries and asset classes, using a set of common, harmonised practices and technology interfaces.

The undertaking is huge and its implementation is phased over several years, but its benefits will be even more substantial. Full implementation, foreseen for the end of the decade, will allow cost savings of over €300 million per year for the industry. If this solution were extended to the whole of Europe, the benefits would rise to €700-€800 million per year.

Delivering low-cost cross-border efficiency in Europe

The work towards the creation of the Single Platform through which Euroclear group I(CSDs will offer harmonised services consists primarily of two parallel and inter-related project streams: the harmonisation of standards and market practices on the one hand and the development of a consolidated IT platform and client interface on the other.
Harmonised market practices
Completing three years of intense consultation and collaboration with the market, in 2007 Euroclear succeeded in finalising the process of market practice harmonisation on core settlement and asset servicing functionalities for the Single Platform, as intended. We warmly thank all market participants and stakeholders once more for their efforts and support in achieving this milestone.

In 2008, we continue to focus on some specific aspects, such as the definition of a settlement discipline regime for the Single Platform. Furthermore, we continue to communicate very closely with the market in key areas such as settlement and custody to keep abreast of harmonisation initiatives at European level and ensure consistency with what we have achieved so far. For this reason, the Cross-border Market Advisory Committee agreed to reorganise the Cross-border Harmonisation Working Groups at the end of 2007.

In addition, the Euroclear group is looking into even more services that can be harmonised at domestic level, with the support of clients and market stakeholders. The creation of the Collateral Management Working Group in 2007 was the start of an intense period of collaboration with the market to achieve a pattern for harmonised collateral management. Issuer services are similarly on the list for harmonisation.

Harmonised central bank money payment model
Euroclear took the decision in 2007 to develop a new payment model to be used as of the implementation of the Single Platform. This followed discussions with the Eurosystem, which indicated that the integrated payment model used for ESES could not be extended to CSDs other than those using it already, and that the model could no longer be used if TARGET2-Securities were to go live. The Dedicated Liquidity Model achieves our aim of maintaining a very high level of efficiency for clients, while cash accounts will continue to be operated by the central banks themselves.

Harmonised tariffs
As an integral part of its business model, Euroclear aims to harmonise tariffs across commonly offered services. In 2007, Euroclear published its harmonised tariffs for ESES CSDs. These will apply to clients of Euroclear Belgium, Euroclear France and Euroclear Nederland as of the migration of Euroclear Belgium and Euroclear Nederland to the ESES platform. The new tariffs reflect the aim of delivering harmonisation and consolidation and will lead to cost reductions of 10%, or approximately €15 million per year after the launch of ESES, which is expected to increase to 25% by 2012. Euroclear UK & Ireland will adopt harmonised tariffs as of the implementation of the Single Platform.
What does Euroclear’s harmonisation and consolidation process deliver?

The market practice harmonisation and platform consolidation being delivered by Euroclear opens the door to a true ‘domestic market for Europe’.

Based on the harmonisation agreements reached for settlement and asset servicing, clients of the CSDs of any of five European countries (Belgium, France, Ireland, The Netherlands and the United Kingdom) will soon be able to hold and settle transactions in securities from another of these countries in exactly the same way as those in their own. In this way, Euroclear will effectively abolish the concept of ‘cross-border’, with domestic-like processing efficiency and cost levels as benefits for clients. Harmonisation was designed with a view to be extendable to other European countries, offering the prospect of additional savings for clients in years to come.

A key factor is that Euroclear is providing harmonisation beyond settlement to also include comprehensive custody services, reporting and communication, because we are convinced that real and substantial efficiency and cost benefits can be delivered to market participants only by harmonising end-to-end processes.

Our harmonisation and platform consolidation work therefore represents a major contribution to the removal of several of the 15 Giovannini barriers, as shown below.

<table>
<thead>
<tr>
<th>Giovannini barrier</th>
<th>Euroclear deliverable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barrier 1</td>
<td>Euroclear is delivering single IT platforms and client interfaces:</td>
</tr>
<tr>
<td>Diversity of IT platform</td>
<td>• ESES in France: launched November 2007</td>
</tr>
<tr>
<td>interfaces</td>
<td>• ESES in Belgium and The Netherlands: November 2008</td>
</tr>
<tr>
<td></td>
<td>• Single Platform in Belgium, France, Ireland, The Netherlands, the United Kingdom</td>
</tr>
<tr>
<td></td>
<td>and Euroclear Bank: from Q4 2009 onwards</td>
</tr>
<tr>
<td>Barrier 3</td>
<td>Harmonisation agreements reached across corporate actions and custody practices for</td>
</tr>
<tr>
<td>Different rules governing</td>
<td>both ESES and the Single Platform (five countries)</td>
</tr>
<tr>
<td>corporate actions</td>
<td></td>
</tr>
<tr>
<td>Barrier 6</td>
<td>Harmonisation agreements achieved for standardised settlement periods, operating hours</td>
</tr>
<tr>
<td>Differences in standard</td>
<td>and settlement deadlines for both ESES and the Single Platform (five countries)</td>
</tr>
<tr>
<td>settlement periods</td>
<td></td>
</tr>
<tr>
<td>Barrier 7</td>
<td>Harmonisation agreements achieved for standardised operating hours and settlement</td>
</tr>
<tr>
<td>Different operating hours</td>
<td>deadlines for both ESES and the Single Platform (five countries)</td>
</tr>
<tr>
<td>and settlement deadlines</td>
<td></td>
</tr>
</tbody>
</table>

The group will seek to maximise the benefits of its achievements and aims to extend the use of its consolidated platform solutions beyond the initial five countries.
Three key milestones successfully achieved in 2007

With the successful launch of the SSE in January 2007 in Euroclear Bank, the SSE is now fully implemented. The SSE performs the core functions of securities settlement, including the positioning and booking of cash and securities transfers. It is the foundation onto which all IT systems within the Euroclear group are being consolidated.

The introduction of ESES in France was a major step forward by the private sector in removing the barriers identified by the Giovannini Group. By the end of 2008, the CSDs of the Euronext-zone countries Belgium, France and The Netherlands will have a single platform and function as a unified domestic market for settlement and asset servicing. ESES will support NYSE Euronext’s Single Order Book for transactions emanating from the Amsterdam, Brussels and Paris markets.

As a result of the delivery of the final components in our resilience and recovery strategy, we now have three group data centres in place to support our future consolidated platforms, which are sufficiently distanced to sustain operations across all group (I)CSDs in the event of a regional-scale disaster.

Towards the Single Platform

ESES is an intermediary step towards the Single Platform. With the Single Platform, market participants will reap all efficiency benefits delivered by our harmonisation and consolidation work in settlement and asset servicing combined. It will offer standardised practices and access to Ireland, the United Kingdom and the international dimension of Euroclear Bank on top of the Euronext-zone countries.

The Single Platform will be delivered in two phases following ESES, with the custody phase scheduled for gradual implementation as of Q4 2009, and the settlement phase at the end of the decade. The order of the phases has been determined to ensure an accelerated delivery of back-office savings for clients, as the level of standardisation in the custody area is generally lower than in the settlement area.

In 2007, we rolled out an intense market awareness campaign on Single Platform Custody and the CCI, the single communication interface that clients will use to access the Single Platform. We have also reviewed and improved the rollout plan for Single Platform Custody, defining an optimal implementation with a single launch of software.

In 2008, we will move into the design phase of Single Platform Settlement. We will also complete market consultation on foreign securities and on a market discipline regime.
In the course of 2008, the ECB will take a decision on whether to go ahead with its plans to build TARGET2-Securities (T2S). T2S is intended to be a centralised technical platform to provide securities settlement in euro central bank money. It is scheduled to be implemented around 2013.

The Euroclear group, which provides settlement services in sterling and in commercial bank money, as well as in euro and central bank money, will take a decision on whether to participate in T2S after consultation with Euroclear’s users, when information has become available on some important outstanding questions.

The main questions relate to the project’s market impact and its economic feasibility, together with legal and governance questions which are being discussed with the ECB and the market. In particular, the design of T2S as a settlement-only platform creates a unique split between settlement and custody services including, inter alia, corporate actions, collateral management and securities financing, the cost and risk implications of which need to be fully understood by the market. The most fundamental question is whether T2S, as an additional platform, can effectively deliver upon its vision of efficiency and cost reduction across the European securities markets.

Euroclear continues to provide constructive feedback to the ECB and has participated in the Advisory Group and a number of Technical Groups established by the ECB during this project. Clarification of the open issues will assist CSDs, including Euroclear, and market participants in making a judgment on whether to participate in T2S.

Regardless of any T2S decision, Euroclear will continue to implement its Single Platform, bringing all custody, settlement (and gradually other services) provided by group (I)CSDs onto one platform. Our platform goes much beyond settlement and is scheduled to be completed years before T2S would go live. Also, in our experience, far-reaching harmonisation of market practices is the key to success in delivering substantial efficiency and cost gains from consolidation. Our clients will therefore realise significant benefit from the Euroclear market practice harmonisation work delivered across services, which effectively creates a ‘domestic market for Europe’ in these countries.
Increasing product efficiency in a globalising industry

On top of our consolidation and harmonisation programmes, specific strategies per asset class will help achieve even greater efficiency. Fundamental change is usually the fruit of several steps, which may take time. That is why we ensure that any steps taken achieve steady and tangible improvement, and at the same time leave room for flexibility and accelerated delivery should the situation so require.

The services that we have developed in 2007 and early 2008 for derivatives and emission rights demonstrate the relevance of using expertise gained in existing asset classes in Euroclear to provide efficient solutions for newer ones in a very short time frame.

**Equities**
The objective to fundamentally enhance efficiency in equities settlement and asset servicing has been an important part of the Euroclear business model from its inception in 2002.

In line with our strategy, the focus of service developments is at both CSD and ICSD level, with the aim of offering choice and efficiency in response to distinct client needs.

With the introduction of ESES, the first cross-market consolidated settlement and custody solution is being put in place. On its completion in 2008, three of the Euronext-zone markets will operate as one. See also page 47.

Euroclear Bank launched the trademark ‘EquityReach’ for the service it specifically designed for equities. This decision underlines the maturity of the service, which has been developed over several years, and now provides cross-border access to over 25 equities markets.

EquityReach achieved even higher service levels in the Euronext zone. In parallel with the obvious market demand for ESES, EquityReach has also attracted significant new business in these countries, from investment banks and numerous European commercial banks, demonstrating that Euroclear is succeeding in its objective to offer real choice to clients in this important segment.

In 2008, the progress made in the Euronext zone will be expanded to other EquityReach links. As part of this and in line with the interoperability guidelines in the Code of Conduct, Euroclear Bank has officially requested access to instruction feeds from stock exchanges and clearing houses in Germany, Italy and Switzerland.

**International debt securities**
The eurobond business represents the largest pool of liquidity in Europe, with the total value of securities issued through and primarily deposited with the ICSDs reaching €8.2 trillion in December 2007, and growing more than 14% per year.

Euroclear Bank has historically played a leading role in achieving very high levels of settlement efficiency. Meanwhile, business growth, combined with growing diversity and complexity of instruments, has led to processing challenges in key areas such as issuance and asset servicing.

Euroclear Bank and Clearstream Banking Luxembourg, together with the market,
have launched a programme to set processing standards for the servicing of international debt securities primarily deposited in the ICSDs. The initiative is steered by the International Securities Market Advisory Group (ISMAG), a senior market committee formed for this purpose in June 2007. The programme will span three years, and will focus on securities issuance and asset servicing processes, such as corporate actions and income information and instruction processing. This is an ambitious initiative, which further shows the market’s determination to tackle the Giovannini barriers decisively in the short term.

Certain short-term deliverables in the areas of information provision for new issues and corporate actions should be reached in mid-2008. It is anticipated that a market protocol detailing the agreed standards will be finalised in 2010, including full STP in the end-to-end processes from issuer to investor. The change programme is set to achieve a high level of service and efficiency towards investors and issuers, combined with a reduction in risk and operational costs for all players involved, and will fuel continuing competitiveness and high levels of innovation.

**Domestic debt securities**

Euroclear is focusing on the continued development of its service offering for domestic debt securities.

Euroclear Bank has developed a significant position in domestic debt securities over many years, and offers clients a single access to over 30 countries, thereby efficiently combining cross-border settlement, comprehensive asset servicing, collateral management and lending services. In 2007, we have further improved the turnaround and interoperability with Belgium, France, Germany and The Netherlands by extending reimbursement timings in the lending infrastructure. Euroclear Bank also expanded its reach as Japanese Government Bonds (JGBs) became eligible and a new link with Slovenia was added.

Complementing the group offering in primary markets, we successfully extended our primary dealer services to include Belgium, in addition to Austria, France, Ireland, The Netherlands and Portugal. Clients particularly value the efficiency and local market proximity in the countries in which Euroclear operates CSDs.

The group actively seeks to maximise STP efficiency from trading through to settlement, and for this reason takes direct feeds from CCPs and trading platforms. In this context, Euroclear is fully prepared to offer settlement services to new entrants in the market, both at CCP and trading platform level.

The International Securities Market Advisory Group will bring greater operational efficiency to the international securities business by working to reduce the back-office costs and risks that are growing as volumes and complexity increase.

**John Gubert**

Chairman
International Securities Market Advisory Group
DerivManager is an important move towards greater transparency, flexibility and automation in managing bilateral exposures. It is a result of close collaboration between the Collateral Framework Group and Euroclear Bank, and is set to meet the OTC derivatives market’s needs.

DerivManager

The worldwide OTC derivatives business is growing at an exceptionally rapid pace. According to the 2007 Operations Benchmarking Survey from the International Swaps and Derivatives Association, monthly OTC derivative transaction volumes nearly doubled in the space of a year to over 17,000 per month. Hand in hand with this growth, the level of discrepancy in exposure among dealers has increased to hundreds of millions of euros.

Euroclear Bank has responded to the need for an exposure management solution by introducing a new service in Q4 2007. DerivManager is an important step towards providing greater transparency, flexibility and automation in managing bilateral exposure. It provides trade matching and daily portfolio reconciliations between counterparties, helping clients to substantially reduce counterparty risk. The service also allows clients to collateralise their derivatives exposures more effectively.

DerivManager complements the solutions already put in place by The Depository Trust & Clearing Corporation (DTCC), among others. Major market participants, mainly investment banks and brokers, subscribed from the outset to the service, which was developed in close co-operation with key market participants. It is a good example of how the finance industry can work together to develop efficient market infrastructure.

The service fits naturally within our existing role as a provider of automation and standardisation in derivatives post-trade services. Ahead of this launch, Euroclear Bank already handled €500 billion of securities derivatives business.

Development work will continue, first by extending the offering to provide investment banks with a tool for efficient exposure management with their underlying clients.

Funds

Investment funds in Europe have been growing at a compound annual rate of 15% since 2003, with total European fund assets crossing the €8 trillion threshold in 2007. The majority of this growth continues to be concentrated in cross-border funds. Domestic and cross-border fund transaction processes have on the whole developed with major structural inefficiencies, and Euroclear has been tackling these inefficiencies head on.

In 2007, the successful launch of FundSettle Premier, a higher quality service level, has enabled clients to benefit from the highest levels of efficiency in the processing of cross-border funds at lower cost. In 2008, among other initiatives, we will consider how to extend our fund services to the hedge fund market, to help tackle its huge operational inefficiencies.

We launched the second phase of our order routing functionality in Euroclear France in April 2007. As a result, the order routing and settlement process for French funds is now fully automated. Client take-up so far has been promising, with a steady increase in domestic funds moving to this new market solution.
## Funds: three phases towards an efficient infrastructure

<table>
<thead>
<tr>
<th>Development of harmonised domestic offerings across group countries</th>
<th>Linking of existing solutions towards a single access point</th>
<th>Integration of all fund solutions into the Single Platform using the CCI</th>
</tr>
</thead>
</table>
| EMXCo and Euroclear UK & Ireland will deliver an integrated cash settlement solution for UK funds in 2008. The second phase, a cash and securities settlement solution, is planned for 2009. A harmonised solution for Euronext-zone countries, extending the Euroclear France solution to Belgium and The Netherlands, will be implemented shortly after the launch of ESES in these countries. | Domestic and cross-border services will be connected to extend coverage and gradually move towards a single access point:  
- French distributors using Euroclear France for funds order routing are already able to connect to FundSettle for cross-border funds  
- In 2008, FundSettle will connect to the Euroclear France order routing service, and to EMXCo for UK funds  
- In 2009, Euroclear intends to further leverage the group capabilities to service funds, for example by extending EMXCo’s order routing service to cross-border funds via a connection to FundSettle. | The launch of Euroclear’s Single Platform will allow funds to be integrated with other asset classes while maintaining specific functionality related to funds services. Euroclear will offer open architecture for messaging, accommodating both major standards (ISO and FIX). |
Euroclear is entering into the fast-growing, worldwide business of carbon emission rights trading, with the launch of a settlement and safekeeping service, ClimateSettle, in 2008. Carbon emission rights trading volumes hit record highs in 2007, with an estimated €25 billion traded worldwide (compared to €9 billion in 2005). Increased interest from retail investors is estimated to tip the business towards €40 billion by 2012.

Before the new service, processes were viewed as insufficient and lacking in automation and therefore costly, time-consuming and error-prone. The new service once more underlines Euroclear’s commitment to provide market infrastructure facilities to increase efficiency across constantly evolving businesses, and to be a single entry point for our traditional clients across the full range of products for which they need infrastructure services.

Several types of emission rights have been developed, with trading taking place on market places, electronic platforms and OTC. At EU level, nationally allocated quotas for emissions are traded as European Allowances. In 2008, a market for a UN-approved type of credit for emission-friendly projects known as Certified Emission Reduction rights (CERs) will open. Like Euroclear’s existing settlement services for fixed income and equities, ClimateSettle is an open solution, which can provide settlement for all trades, irrespective of trading venue. For example, it will be able to settle trades struck on the Climate Spot Exchange, an electronic trading platform accounting for 82% of all exchange trades in emissions futures.

With ClimateSettle, matching and settlement of transactions takes place on the books of Euroclear Bank on a DVP basis, with clients sending instructions for both exchange-traded and OTC transactions. Euroclear is delivering the flexible and standardised solution that emissions trading requires.
In parallel with the continued trend of collateralisation, Euroclear has further strengthened its focus on the development of its collateral management services, both at CSD and ICSD level.

We are in the process of designing a harmonised collateral management offering for all CSDs, allowing clients to benefit from the significant increase in pooling capabilities that will result from the Single Platform. This service harmonisation is in line with that being delivered for settlement and custody services.

In order to assist Euroclear in this process, a cross-border Collateral Management Working Group has been set up. This group of expert practitioners is providing advice on functionality and market practices, and guiding the design of a service meeting the needs of the market.

In other local developments, Euroclear UK & Ireland made the changes in 2007 to enable the direct input of Delivery By Value (DBV) instructions and associated repo payments, in order to support LCH.Clearnet’s RepoClear service. In France, Euroclear France extended the pool of eligible collateral and is improving STP for foreign debt.

Following the successful launch of a facility for clients to re-use collateral in 2007, and amid difficult market conditions in the wake of the credit crisis, Euroclear Bank has reinforced its position in collateral management services.

Euroclear Bank will support LCH.Clearnet’s new EuroGC RepoClear service when it is launched in Q2 2008. EuroGC is a general collateral clearing service for euro-denominated government bond baskets, for which Euroclear Bank will use its auto-allocation tool AutoSelect® to offer settlement services. Euroclear Bank will also further enhance the allocation and pooling capabilities for collateralisation with TARGET2 central banks.
Euroclear has a clear mission to:
• continuously enhance its services and provide increasingly efficient solutions with a view to lower costs for the market; and
• share the benefits of increased efficiency and economies of scale with its clients.

Euroclear has made the commitment to drive down costs for clients. The cost reductions delivered in 2007, and those already delivered or planned for 2008, demonstrate once more that we deliver on our commitments.

**Euroclear Bank tariff reductions**

Important business growth generated throughout 2007 has realised significant economies of scale and, as a result, Euroclear Bank was able to implement its largest package of tariff cuts ever, amounting to over €100 million on an annualised basis. The full package was delivered through permanent fee reductions rather than rebates, thus giving clients the benefit of compounded fee reductions over several years.

The major decision taken last year to remunerate outstanding cash balances resulted in over €82 million being paid to clients in 2007. Euroclear Bank is the only ICSD that remunerates balances in a transparent and uniform way to all clients.

A further €70 million fee reduction has already been announced for 2008, enabling clients to benefit from lower tariffs for domestic bond and eurobond safekeeping, settlement and safekeeping in Euronext-zone equities and triparty collateral management. For the latter service, this constitutes another 15% reduction, on top of the 25% reduction delivered in 2007.

Euroclear maintains strategically competitive pricing, and takes subsequent initiatives to deliver further efficiency gains. This results in both a decrease in pricing and cost reductions for clients in their back-office operations, which in turn allows for additional business growth for us and our clients. Efficient solutions and competitive pricing lead to further economies of scale.
With the launch of ESES in Belgium and The Netherlands, the family concept, which is currently applied to holdings across Euroclear Bank and Euroclear France, will be extended to include Euroclear Belgium and Euroclear Nederland. Its extension will result in safekeeping fee reductions, passing on the benefits of cost synergies to our clients.

**CSD tariff reductions**

Euroclear UK & Ireland paid €11 million in rebates to clients in early 2007, in proportion to their activity during 2006. Further tariff reductions of €16.5 million in 2008 are delivering a 50% reduction in clearing-related service fees and a 10% reduction in settlement fees for both retail and wholesale clients.

During 2007, Euroclear published its tariff for harmonised CSD services on the ESES platform. The new harmonised tariffs will apply to clients of Euroclear Belgium, Euroclear France and Euroclear Nederland as of the migration of Euroclear Belgium and Euroclear Nederland to the ESES platform. Euroclear UK & Ireland clients will see tariff reductions when the Single Platform is launched.

Tariffs will be cut by about 10% as of the launch of ESES, around 20% when the Single Platform is extended to Euroclear UK & Ireland in 2010, and an expected 25% by 2012.

The new tariff represents a major milestone in making harmonisation a reality. It has been structured to ensure fair access to ESES, regardless of the scale of holdings and transaction volumes.

### Overview of major cost reductions and client benefits

<table>
<thead>
<tr>
<th>Level</th>
<th>2006</th>
<th>2007</th>
<th>2008¹</th>
</tr>
</thead>
</table>
| ICSD  | • €45 million in rebates paid early 2006, in proportion to clients’ activity in 2005  
• €40 million in annualised fee reductions  
• €11 million as a result of our decision to start paying credit interest on outstanding cash balances  
• €100 million in annualised fee reductions  
• €45 million in rebates paid early 2007, in proportion to clients’ activity  
• €82 million paid as remuneration of outstanding cash balances  
• €70 million in annualised fee reductions already announced | | |
| CSDs  | • Euroclear UK & Ireland: €15 million in annualised tariff reductions  
• Euroclear France: €1 million per year for users of SBI post-trade confirmation service  
• Euroclear UK & Ireland: €11 million in rebates paid early 2007, in proportion to clients’ activity in 2006  
• Euroclear UK & Ireland: €16.5 million in fee reductions  
• €15 million in annualised fee reductions resulting from the implementation of ESES | | |

¹ Amount confirmed to date
Serving clients globally

The Euroclear group serves clients from Melbourne to Helsinki and from Los Angeles to Tokyo.

Our motto is that clients always come first. We want to meet our clients’ needs as they evolve amid changing market conditions and increasing globalisation. In 2007, we built on our global presence, and we reinforced our client focus initiatives with the clear ambition to be recognised as ‘best of class’ in our industry.

**Being the ‘best of class’ service provider**

Euroclear is determined to stand out from its competitors across all the areas that contribute to client satisfaction. We are recognised in the market as having perhaps the most knowledgeable and reliable staff and we want to leverage this to give our clients the best service available.

There is a need for more direct access to specialist assistance as a result of the growing diversity and complexity of instruments and options. To determine how best to respond to this need, we sought input directly from a large number of clients with different profiles. Based on this input, we have defined a wide-reaching project to ensure that we achieve the goal of being ‘best of class’ in client service.

Many measures have already been implemented in 2007 in Euroclear Bank. Each and every client now benefits from direct access to specialists within different service areas, located in the operational department to which their service relates. Every client also has an account manager, who is the designated contact point for the monitoring of account activity and an escalation point if required.

The results from the 2007 Client Satisfaction Survey are a clear signal that this initiative had an immediate and noticeable impact on clients. Client service criteria (such as telephone service levels and quick response to queries) for Euroclear Bank were rated over 4.5% higher than in 2006.

Further improvements are being rolled out during 2008. All (I)CSDs are expand-

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**Increased client satisfaction at all (I)CSDs**

All Euroclear group (I)CSDs made significant progress with their Client Satisfaction Survey results for 2007, with a group-wide satisfaction score of 74.1%, compared to 70.9% in 2006.

The results provide confirmation that the initiatives made in recent years to reinforce client focus, such as the drive to be ‘best of class’ in client service, are bearing fruit. Clients welcomed our communication with the market, for example through the Implementation Committees that we have set up in the ESES countries. More generally, our strength in our core services and the excellence of our people were recognised. Our employees in Europe and in our local offices around the world are perceived to be knowledgeable and to provide a quality service.

In 2008 we are focusing on those areas where clients still have some concerns. We are increasing our efforts to reduce the turnaround times for queries in certain areas, as part of further implementation of our ‘best of class’ initiatives.

We are also reviewing our communication streams to clients in order to avoid information overload, and a new website with enhanced navigation and search functions will make it easier for people to find the information they are looking for.

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**Tom S. Jensen**

Senior Vice President
Head of Securities Services
Danske Bank

Euroclear’s transformation into a client-driven business over the past two years is nothing short of remarkable. From being more of a utility, Euroclear has evolved into a full-blown business partner that listens to its clients’ demands. This has resulted in a major overall improvement in its client service, from the day-to-day service we receive all the way up to top management. Well done. Keep up the good work.
ing both qualitative and quantitative key performance indicators to ensure close monitoring of service levels as a whole and increased transparency on the service provided to clients.

**Major steps in improving servicing in Asia**

For many years now, Euroclear Bank has served its important client base in Asia, with strong client relationship and client service functions operating from three locations: Tokyo, Singapore and Hong Kong. Euroclear Bank has established itself as the preferred gateway for Asian financial institutions to access the European and international fixed income business.

As the Asian economy grows, the financial market is also expanding rapidly, with China and India as major drivers. An important number of European and US banks have relocated their operations centres or processing activities to Asia, primarily India.

Euroclear Bank is responding to the diverse needs of the Asian markets by building on its presence in the region. Two key initiatives in 2008, which are part of our longer-term strategy, demonstrate our commitment to the Asian region:

- the expansion of the representative office in Hong Kong to become a branch office in Q2 2008, with several additional operational functions to be offered directly from the new branch; and
- the opening of a fully-staffed representative office in Beijing.

Moving key operations functions to Hong Kong will significantly improve the servicing of the Asian client base as a whole. The branch office will initially have about 50 employees, operating in the same time zone as our clients in the region, allowing for a significant extension of the processing and service windows.

Initially, we are focusing on the streams of services that require the most frequent support, such as income, settlement, new issues, money transfer and corporate actions services. The presence of operations staff in Hong Kong will enable information distribution and processing to take place fully within the same time zone. As a result, waiting times for Asian clients will be dramatically reduced.

Our new office in Beijing will enable us to offer superior care and support to clients in China. Our local presence will allow us to offer much closer and more frequent support to Chinese financial institutions and to develop further contacts with the market as a whole.

**Euroclear Bank opens Frankfurt office**

In 2007, Euroclear Bank opened a representative office in Frankfurt, in order to offer a dedicated service to its client base in Europe’s largest economy. Beyond offering direct access to specialised support, Euroclear Bank looks forward to expanding its service offering and client base in Germany. Today, over 80% of foreign holdings in German debt securities are held through Euroclear Bank. We have also applied under the Code of Conduct to Eurex to open an interoperability link with the aim of offering settlement and asset servicing for German equities. The willingness of Eurex to give us the requested feed will be an important test of the efficiency of the Code of Conduct.
Performing strongly across the group
2007 has been a very active year in terms of service development, with major initiatives and new developments across the instruments we traditionally service as well as diversification into new areas.

Our role is to expand our expertise to those classes of instrument where our clients are active and require improved back-office processing efficiency.

At the same time we are strengthening our role as a single access point, thereby continuously generating new economies of scale for the benefit of our clients.

Two new products were successfully launched in 2007 (under the trademark names of FundSettle Premier and DerivManager). This process continues in 2008, starting with ClimateSettle, a settlement and safekeeping service for carbon emission rights.

With these new products, like our existing products, our goal is to deliver more efficient, cross-border solutions that reduce cost and risks.

**Debt securities**

The growth of the eurobond business in recent years, together with increasing diversity and complexity of instruments, has created processing challenges in areas such as issuance and asset servicing.

To optimise efficiency, Euroclear Bank, together with Clearstream Banking Luxembourg, launched a programme in 2007 to define new processing standards for the servicing of international debt securities primarily deposited in the ICSDs. It is being rolled out under the guidance of the ISMAG, a new market steering committee. For more information on this initiative, please see page 32.

We have also extended our range of market links to include:

- Slovenia, Malaysia and the Dubai International Financial Exchange Ltd. (DIFX); and
- JGBs for both domestic and cross-border settlement. The acceptance of JGBs as eligible collateral is a major step forward in the possibilities for collateralisation for clients.

In addition, the links with Australia, Canada, Japan, Portugal and the United Kingdom have been enhanced.

Our offering to primary dealers has been extended to the entire Euronext zone. This service has already attracted important business volumes.

**Equities**

In 2007, EquityReach was successfully introduced as the trademark name for Euroclear Bank’s equities service. The service has been further enhanced for the Euronext zone during 2007, where we now achieve high service levels. The aim for 2008 is to align additional European countries to this higher service level, and to enhance access to more countries.

With important fee reductions in 2007 for the Euronext zone, the service is continually attracting more clients, including both large and medium-sized firms.
Funds
Our funds business continues to expand, with total client holdings in funds increasing by 20% in Euroclear Bank in 2007. The new FundSettle Premier service, which offers third-party fund distributors faster, more efficient processing at a lower cost, was successfully introduced in 2007.

Other service enhancements were implemented during 2007 including improved transfer instructions. Coverage has also been further expanded, with over 36,000 funds now eligible in FundSettle.

Derivatives
Euroclear Bank has responded to the growing need for an exposure management solution by introducing DerivManager in Q4 2007. The service was developed in close collaboration with the market, and is an important step towards providing greater transparency, flexibility and automation in managing bilateral exposure.

Most of the top six market participants, among others, have already subscribed to the service. For further information on DerivManager, please refer to page 34.

Emission rights
Euroclear Bank is entering the fast-growing, worldwide business of carbon emission rights trading in 2008. The new settlement and safekeeping service, ClimateSettle, underlines Euroclear’s commitment to increasing efficiency across constantly evolving and diversifying markets.

Several major financial institutions that are increasingly active in this business, mostly existing Euroclear clients, have expressed a strong interest in using the service. Additional information about ClimateSettle is available on page 36.

Collateral management
Euroclear Bank processed particularly high volumes of transactions successfully on its triparty platform in 2007. A number of recent independent surveys have confirmed the strength of the service, with Euroclear Bank gaining top scores in particular for efficiency and client support.

The service was further strengthened in February 2007 by the launch of collateral re-use capability, which enables collateral takers to re-use the collateral received in onward triparty transactions. The introduction of JGBs on the triparty platform has increased the range of eligible collateral. Further enhancements included an extended deadline for same-day financing and better reporting. The AutoSelect module has been optimised to further improve collateral allocations.

Securities lending and borrowing
The service was enhanced in 2007 by the extension of the end-of-day lending and borrowing process across all markets, which allows borrowers to reimburse loans later in the day. The pool of lendable securities has been enlarged by 15% as a result of extended eligibility criteria.

A stabilising factor in turbulent times
Euroclear Bank’s robust position as part of the settlement infrastructure has provided stability in the market during the subprime credit crisis, as discussed on page 62.
The DVP model that Euroclear Bank offers for cross-border settlement ensures that it contains the systemic risks that could result from potential settlement failures and that liquidity is maintained.

With its ‘single purpose’ banking function, Euroclear Bank was able to reassure the market that efficient settlement would continue as normal. Euroclear Bank’s exposures are mainly intra-day, and we do not lend long term or hold subprime investments. Our low risk profile, with about 99% of our client exposure collateralised by high quality assets, meant that we were able to satisfy our liquidity needs as in normal circumstances, and in turn provide normal levels of credit to our clients to support their activity throughout the subprime crisis.

Euroclear Bank holds a very large and diverse pool of collateral totalling €2.4 trillion in market value, which is pledged with strong valuation mechanisms. Collateralised debt obligations comprise only 1.5% of the whole pool. Furthermore, our triparty collateral management services, with Euroclear Bank as neutral triparty agent, allowed major financial institutions to optimise the use of their collateral and available liquidity, and provided opportunities to mobilise global collateral.

**On track for MiFID**

Euroclear Bank has introduced procedures for the classification of clients, and changes have also been made to transaction reporting services in order to meet requirements for increased transparency.

**Major changes to client service**

In line with changing client expectations and market conditions where instruments, primarily bonds, are becoming more complex, Euroclear Bank has substantially improved its client service. Each client now has two ways of contacting us:

- direct contact with specialist teams who have relocated to work alongside operational departments, taking full ownership of client requests and delivering complete end-to-end solutions; and
- dedicated account managers, who act as a central escalation point for operational issues and oversee their operational activity.

**Client Satisfaction Survey**

Overall rate of satisfaction:

- 2007: 74.14%
- 2006: 70.98%

There was a significant increase in client satisfaction levels in 2007. This is evidence that the ‘best of class’ initiative is bearing fruit. Clients have said in particular that they are highly appreciative of the calibre of employees and the support provided by local offices.

**Elizabeth Chia**
Managing Director
Head of Securities Services
DBS Bank Ltd

As an Asian banking specialist, DBS welcomes Euroclear’s establishment of an operations centre in the region, which underscores its commitment to Asia. Euroclear recognises its clients’ growing needs and is taking the lead in bringing service excellence to clients in Asia.

**Key figures**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>€284.5 trillion</td>
<td>+30%</td>
</tr>
<tr>
<td>Holdings</td>
<td>€9.2 trillion</td>
<td>+14%</td>
</tr>
<tr>
<td>Number of transactions after netting</td>
<td>40.8 million</td>
<td>+20%</td>
</tr>
<tr>
<td>Collateral provision outstanding</td>
<td>€328.1 billion</td>
<td>+6%</td>
</tr>
</tbody>
</table>

Strong growth was achieved in all areas in spite of the turbulent market conditions.
Supporting issuers as dematerialisation continues
A major step towards full dematerialisation, due to be completed in 2013, was achieved in 2007. Euroclear Belgium met the first critical deadline in the move to a paper-free capital market at the end of 2007, with the automatic conversion of some Belgian bearer securities into dematerialised securities represented by electronic registration with a financial institution. This was conducted with full market participation coordinated by Belgium’s Dematerialisation Task Force, comprising representatives from Belgian issuers, NYSE Euronext, notaries, financial institutions, the National Bank of Belgium and Euroclear.

Over the past three years, as part of the dematerialisation process, Euroclear Belgium has destroyed about 15 million paper securities, representing about 250 tons of paper, with a remaining 40 million securities targeted for destruction in the coming six years.

Euroclear Belgium has developed Capitrack, a new service to help issuers in the dematerialisation process. Capitrack provides an up-to-date view of the form in which shares are being held, allowing issuers to easily monitor the dematerialisation of their issued securities, as well as getting a better picture of the ownership of their share capital. All Euronext Brussels-listed companies on the regulated and non-regulated markets have subscribed, and the service has now been extended to non-listed companies.

A second phase of the service, delivered in January 2008, allows issuers to obtain support services for the management of their shareholder register from Euroclear Belgium. Several major issuers have already subscribed. To support the growing range of issuer services, a new Issuer Relations team has been set up within Euroclear Belgium.

Meeting the growing needs of the market
Euroclear Belgium has taken important organisational measures to meet the multiple challenges ahead. Alongside the forthcoming launch of ESES, the dematerialisation process and rising volumes, these have enabled Euroclear Belgium to continue to deliver high quality day-to-day services and service enhancements.

Euroclear Belgium continues to build on its strengths, for instance as a holder of physical securities. In 2007, it expanded the scope of tasks performed on behalf of Euroclear Bank in the context of the implementation of New Global Notes in the international capital markets.

We also successfully processed the largest ever capital increase in Belgium’s history for Fortis Bank, resulting in a depot increase of €13 billion.

Client Satisfaction Survey
Overall rate of satisfaction:
2007: 70.3%
2006: 67.6%

The increase of over 2% in the satisfaction rate illustrates our clients’ positive feedback on system reliability and the SWIFT communication infrastructure in particular. Client scores also highlight the strengths of our staff and the successful management of the dematerialisation project.
ESES will provide the first ever consolidated settlement and custody solution covering three markets: Belgium, France and The Netherlands. It represents an important step towards the delivery of both NYSE Euronext’s Single Order Book and Euroclear’s Single Platform.

**Euroclear France successfully migrated**

In November 2007, Euroclear France became the first Euroclear group entity to launch ESES. The legacy settlement platform Relit+ was decommissioned at the same time and key components of the RGV settlement system were used as a basis for the ESES platform.

The ESES launch has enabled very high settlement efficiency rates of 99.61% (based on cash consideration) to be achieved on average since the launch. Clients of Euroclear France have also implemented some key changes and harmonised processes in the areas of corporate actions, settlement and payments.

The project is a good example of what can be accomplished through close and fruitful collaboration with the market. In the same spirit, an ESES market discipline operational group, composed of clients and market stakeholders, has been set up to continue to monitor settlement performance.

The second phase of the ESES programme in February 2008 involved the connection of ESES to the TARGET2 euro payment system and to Gestion Globale des Garanties (3G), the new collateral management facility provided by the Banque de France.

**Focus on migration of Euroclear Belgium and Euroclear Nederland**

The migration of Euroclear Belgium and Euroclear Nederland, planned for Q4 2008, will impact all three Euronext-zone CSDs. Each CSD is focusing on this migration with high levels of staff and operational readiness. The Belgian, Dutch and French Implementation Committees comprising market participants have helped to fine tune some aspects of ESES and guide the implementation process, together with dedicated working groups.

**Harmonised tariff**

During 2007, Euroclear published its tariff for harmonised CSD services on the ESES platform. The new harmonised tariffs will apply to clients of Euroclear Belgium, Euroclear France and Euroclear Nederland as of the migration of Euroclear Belgium and Euroclear Nederland to the ESES platform. Tariffs will be reduced by about 10% as of the launch of ESES.
Fully automated funds processing
Euroclear France has become the first CSD in Europe to provide full STP for funds order routing and settlement with the launch of the second phase of its funds service in April 2007. The process is now fully automated, from the placing of orders through to settlement.

The service is proving attractive to clients and by the end of 2007 we were processing over 10,000 instructions per month. Account holders representing more than 45% of investment fund order flows and centralising agents accounting for about 80% of all order flows in France are now connected to the platform.

The service will be expanded to Belgium and The Netherlands once ESES is launched in these countries.

Ready for MiFID
MiFID-related data can now be included in SBI transaction notices sent by brokers to intermediaries. The SBI platform is being further developed in Q1 2008, based on the recommendations of a specially created market working group, with a view to it being extended as a solution for multiple markets.

In line with the requirements of MiFID, Euroclear France is now able to settle transactions from alternative CCPs or trading platforms.

Enhanced collateral management
The available pool of collateral has been extended, with additional foreign debt securities becoming eligible for the collateral mechanism (Finnish, Italian and Spanish corporate debt, as well as Greek and Portuguese government debt). We are also working on improved STP for cross-border links to foreign CSDs for ECB-eligible debt collateral.

We have collaborated with Banque de France on its 3G initiative, which is intended to create a centralised pool of collateral for treasury operations with the central bank.

Client Satisfaction Survey
Overall rate of satisfaction:
2007: 78.93%
2006: 77.91%

For the fourth year in a row, the survey results showed an overall satisfaction rate increase, with good progress made in most areas. High scores were obtained for actions relating to ESES, reflecting the careful handling of the migration and our ongoing and open communication with the market. The quality of the service provided has also been particularly recognised.

Jean-Marc Eyssautier
Chief Executive Officer
CACEIS Bank

Following three years of intensive work and careful preparation by all parties, Euroclear France smoothly implemented the first phase of ESES. A major step towards European consolidation has been successfully achieved.
Enhanced asset servicing
In 2007, Euroclear Nederland further upgraded asset servicing. In order to decrease the number of market claims, at the request of the Dutch market, a record date was introduced for distributions to bring The Netherlands into line with European harmonisation standards ahead of the launch of ESES. Euroclear Nederland also improved its procedures, accelerating the admission of securities to its book-entry deposit system. In addition, a French withholding tax reclaim service for non-Dutch residents has been introduced.

Dematerialisation progress
The principle of mandatory dematerialisation in The Netherlands was approved by major market stakeholders, including Euroclear Nederland, in 2006. During 2007, Euroclear Nederland has actively participated in a dematerialisation working group which has been helping to draft a bill under the auspices of the Dutch Ministry of Finance. The draft bill proposes a two-year migration phase towards full dematerialisation of physical securities with the exception of global notes. The working group aims to submit the bill to the Dutch Parliament for final approval in 2008. Euroclear Nederland is anticipating a reduction in the number of physical securities, which have already decreased by 21% in 2007.

Settlement solution for new trading platforms
Alternative trading platforms involving multi-CCPs entered the financial market in The Netherlands in Q2 2007. Euroclear Nederland responded to their settlement needs by offering settlement for trades in Dutch equities struck on these platforms and netted through these CCPs.

National Numbering Agency
In Q1 2007, Euroclear NIEC began operating as National Numbering Agency for Dutch securities, a role previously performed by Euronext Amsterdam. This brings the Dutch CSD in line with Euroclear France and Euroclear Bank, which already act as numbering agencies.

Client Satisfaction Survey
Overall rate of satisfaction:
2007: 69.4%
2006: 68.6%

Improved scores were received for client service and service delivery, the result of a clearly articulated action plan which took into consideration comments from the previous client survey. Communication with the market was also rated highly, with the creation of the ESES Implementation Committee regarded as a good initiative.

Hans van der Waal
Head of Securities Operations
ABN AMRO Bank

We continually experience valuable improvements in the level of support provided by Euroclear Nederland. We very much appreciate that they are always willing to listen and consider our suggestions concerning future service enhancements.

Key figures
<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>€5.6 trillion</td>
<td>+60%</td>
</tr>
<tr>
<td>Holdings</td>
<td>€945 billion</td>
<td>-1%</td>
</tr>
<tr>
<td>Number of transactions after netting</td>
<td>4.6 million</td>
<td>+21%</td>
</tr>
</tbody>
</table>

Transaction volumes reached an all time high, reflecting strong market activity.
**Euroclear UK & Ireland**

**Eamonn Doyle**  
*Chief Operations Officer*  
*Davy*

We fully support the harmonisation process and the Single Platform. As an Irish market participant, we look forward to seeing how the services of Euroclear will evolve and the resulting efficiencies.

**Significant increase in volumes**

A combination of market volatility and the rise in algorithmic trading resulted in unprecedented volume increases at Euroclear UK & Ireland in 2007, with a 76% rise in gross transactions compared to 2006. Settlement processing functioned well during high-volume periods, and Euroclear UK & Ireland is implementing a series of system upgrades to ensure capacity for future growth is maintained.

**Major tariff reductions for clients**

Euroclear UK & Ireland paid €11 million in rebates to clients in early 2007, in proportion to their activity during 2006. Further tariff reductions of €16.5 million in 2008 are delivering a 50% reduction in clearing-related service fees and a 10% reduction in settlement fees for both retail and wholesale clients.

**Single Platform preparations**

Since Euroclear UK & Ireland is not part of the ESES programme, the launch of Single Platform Custody will be the first migration for the United Kingdom and Ireland. Preparation is now well under way, with the setup of the Single Platform Implementation Forum in October 2007. The Forum, which includes a representative set of clients, meets regularly to share information between Euroclear and its clients in a timely fashion.

**Providing solutions for a constantly evolving marketplace**

The ever-changing needs of the London marketplace mean that Euroclear UK & Ireland, as an infrastructure service provider, must show great flexibility in responding to them, while at the same time assessing priorities and managing a crowded launch schedule. In 2007, Euroclear UK & Ireland has delivered enhancements to support Fortis Bank as a CCP and Eurex Clearing AG in its forthcoming CCP role. Changes have also been introduced to allow the direct input of DBV instructions and associated repo interest payments to support LCH.Clearnet’s RepoClear service.

In addition to the historical access provided to the London Stock Exchange and LCH.Clearnet for London Stock Exchange trades, six other infrastructures already have access to Euroclear UK & Ireland. We are now following up on eight requests from three parties, including EuroCCP for Turquoise trades.

**Tailored transaction reporting services for MiFID**

In November 2007, Euroclear UK & Ireland introduced transaction reporting services compliant with MiFID. The changes allow clients to meet their revised transaction reporting responsibilities in a flexible and cost-effective manner.

**Integration underlined by change of name**

CRESTCo's reputation as a strong local brand meant that the company did not change its name immediately after the merger with Euroclear in 2002. Following market analysis that showed support for a change of name, the entity was renamed Euroclear UK & Ireland in July 2007.
**Significant increase in volumes**

In 2007, EMXCo ensured continuity and achieved sustained, substantial growth to strengthen its position as the de facto solution for funds messaging. EMXCo has seen a growth of 97% in fund flows and 44% in messages during 2007, meeting key performance targets.

The growth was due to existing participants increasing their usage of the EMX Message System in addition to the large number of new joiners – 15 providers and 48 intermediaries. This resulted in a year-end total of 208 intermediaries and 76 providers.

**Implementing new systems**

A new systems architecture was seamlessly implemented at the same time as a change of host provider while maintaining 100% system availability throughout 2007.

**Mark Links**

Head of Operations
Integrated Financial Arrangements PLC (Transact)

Without the EMX Message System we would have found it difficult to grow as quickly and as profitably as we have done. The acquisition of EMXCo by Euroclear is a very positive development and we look forward to being able to benefit from the efficiencies that settlement will bring and reducing our costs still further.

**Client Satisfaction Survey**

Overall rate of satisfaction:
2007: 74.13%
2006: 72.88%

Improved scores were obtained in each of the three main sections of the Euroclear UK & Ireland questionnaire – ‘people’, ‘client service’ and ‘core services’. The actions that have been taken to improve the stability of core services and the open communication that followed the SSE launch have been particularly welcomed by clients.

**Combining fund order routing and settlement in the UK**

Following Euroclear’s acquisition of EMXCo in January 2007, EMXCo and Euroclear UK & Ireland have been working to deliver a substantially more efficient combined solution for UK funds. These efforts are supported by a Funds Liaison Group, comprising senior executives from across the fund industry, which was created to provide a forum for market consultation.

The first phase of the solution, which will offer improved cash settlement, will be launched in 2008. The second phase, a cash and securities settlement solution, is planned for 2009, and will enable funds to achieve a level of settlement efficiency similar to other instruments such as bonds and equities.

**Key figures**

| Routed messages | 19 million | +44% |
True responsibility is being there when you’re needed

We truly understand the role we have to play. We not only have a duty to individual clients, but to the financial system as a whole. It is our responsibility to manage risk and ensure sustainability in the world’s markets at all times. But we believe our company can make a difference in other ways too. That’s why we’re also conscious of the responsibility to our people, our environment and our society. Not because it’s fashionable. But because it cements a stronger relationship with a wider world.
Service excellence, ambitious programmes and innovative solutions all thrive on the quality of the people involved. We are proud that the feedback from the 2007 Client Satisfaction Survey particularly recognised the high quality of our staff. Above all, Euroclear values its people and understands the need to manage and invest in its human capital.

We are a leader in our field and aim to continue making a difference through our skills, know-how and creativity. To attain this objective, Euroclear also wants to be recognised as an employer of choice across the financial world.

We aim at continuously attracting and developing the brightest talent in order to meet and, where possible, exceed client expectations. We offer our staff competitive compensation, a stimulating working environment, self-development and long-term career opportunities.

Our resource management programme is based on our corporate values, with a strong emphasis on managing talent and recognising achievement.

**Managing talent**

Euroclear has over 3,600 employees. Our explicit search for diversity over the years has made a significant contribution to our current strength. A wide cultural mix, a large variety of skills and a wide-ranging expertise in our field are key contributing factors to a competitive advantage, the significance of which will only increase as the globalisation of our sector continues.

The group holds a strong belief in the capabilities of its people and aims to offer a framework in which individuals and teams can make the most of their talents and ambitions. We have a strong internal mobility policy offering our employees excellent opportunities to develop their career within the organisation. Thanks to the success of this policy (18% of our staff moved to a new role in 2007, compared with 16% in 2006) and a continued increase in international mobility, the group greatly benefits from the multiple and cross-market expertise gained by its staff. Furthermore, we balance expertise developed in-house with talent recruited externally.

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### Euroclear group people profile (as at December 2007)

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<tr>
<th>Category</th>
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<tbody>
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<tr>
<td>Europe</td>
<td>3,551</td>
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<tr>
<td>- Belgium</td>
<td>2,632</td>
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<tr>
<td>- France</td>
<td>428</td>
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<td>- The Netherlands</td>
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<tr>
<td>- United Kingdom</td>
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<tr>
<td>- Other European countries</td>
<td>10</td>
</tr>
<tr>
<td>Asia</td>
<td>52</td>
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<tr>
<td>Americas</td>
<td>16</td>
</tr>
<tr>
<td>Staff increase in 2007</td>
<td>329</td>
</tr>
<tr>
<td>Gender balance</td>
<td>51% male – 49% female</td>
</tr>
<tr>
<td>Nationalities represented</td>
<td>74</td>
</tr>
<tr>
<td>Average age</td>
<td>35</td>
</tr>
<tr>
<td>Average length of service</td>
<td>8 years</td>
</tr>
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</table>
Amid growing business volumes and a competitive recruitment market, attracting new staff was one of our main challenges in 2007, with 780 new recruits joining the group. To achieve our future objectives, we have further invested in recruitment and are strengthening Euroclear as a recognised ‘recruitment brand’.

We invest significantly in regular training for both new recruits and existing staff. In 2007, we invested an average of 5.4 days on training per employee, representing 3.4% of the total salary expenditure. Business and personal development training is provided throughout an employee’s career. Particular attention is also being paid to developing people management skills. The group considers these skills as vital to its success; good people management being essential to employee motivation. People management courses have been made mandatory for every new people manager. Career development and succession planning are other points of focus to ensure high levels of motivation and continuity.

Within our largest operations groups, we have also launched a ‘Lean’ change management programme that focuses as much on people development aspects (such as daily performance management, skill building, mindset and behaviour) as on pure process improvements. This holistic approach, instead of focusing solely on short-term operational enhancements, provides a continuous improvement environment that enables every individual – whatever his or her level – to contribute to making Euroclear a better and stronger company. Euroclear’s Lean programme empowers its employees, increases job satisfaction and allows achievements to be properly recognised.

**Recognising achievements**

In 2007, the Euroclear group has continued to move towards an even more performance-driven reward and compensation system. We have adjusted our remuneration policy to ensure that compensation packages are increasingly harmonised throughout the group and differentiated according to individual performance, subject, of course, to appropriate local standards.

The total bonus pool is determined on a yearly basis by the Board of Directors. In doing so, they take into account the results of the Balanced Scorecard. This is a group-wide set of performance indicators covering important areas such as client satisfaction, the progress made in delivering the Single Platform, the operational and financial performance of the group and some HR-related matters.

We are also taking additional initiatives to recognise employee achievements. For example, in line with our goal of providing ‘best of class’ service quality, a system of small awards has been implemented for individual or team performance that excels in client focus.

**Climate survey**

Each year, Euroclear organises a climate survey. In 2007, a total of 66% of staff responded to the climate survey, compared to 69% in 2006. This survey allows us to measure employees’ emotional and more objective attachment to our company, which are important motivational factors. The survey includes questions which gauge employees’ levels of satisfaction, motivation and loyalty. The results are used to measure and continuously improve the overall corporate performance through employee engagement.

Marked increases in appreciation were seen for people management, reflecting greater efforts in this domain and the availability of career and development opportunities.

In addition, employees expressed a strong wish to further integrate and contribute to a group with an exciting vision and clear strategies.
It is essential that companies are aware of the social and economic impact of their operations.

We are a long-standing leader in our industry thanks to the application of professional competence and the focus on long-term investments and relationships. We also aim to lead by example in our corporate responsibility strategies, which are driven by the same values of competence and long-term sustainability.

Corporate responsibility at Euroclear takes place on two main levels – in our wider responsibility as a key player in the financial market, and in how we deal with people and the world around us on a day-to-day basis.

Far from being a waste of resources, we believe that demonstrating environmental and social leadership will help to build the trust of the public and of employees, and can strengthen a company’s reputation among all its stakeholders, including its clients and shareholders. It is our view that companies that recognise the value of corporate responsibility attract people who are both technically proficient and inclined to think long term.

**Doing what is right for the market**

Euroclear is a user-owned and user-governed organisation with a duty to ensure that what we do is right for the market. We are a leader in a field that has particular significance for the efficiency and safety of the financial infrastructure. A number of features that are integral to a secure and efficient running of our operations are therefore our core corporate responsibility. For example, we have developed leading resilience standards through the implementation of state-of-the-art business continuity arrangements, which should allow us to sustain operations even in the event of a regional scale disaster. Our ongoing work to integrate systems and harmonise market practices helps to create a more efficient European market. This in turn can contribute to the creation of wealth and well-being in Europe and beyond.

Companies can also help by applying their skills to develop new markets with environmental or ethical value. With the launch of ClimateSettle, Euroclear is contributing to the success of carbon emission rights issued under the Kyoto Protocol. The new service settles trades in carbon emission rights (see page 36 for more information). We believe such innovation can add real client and business value while at the same time helping to decrease the adverse impact of industry and business on the environment via the mechanisms defined in the Kyoto protocol.

**Taking care of our people and the environment**

Euroclear is also convinced by the value of corporate responsibility in its more conventional sense. We have robust policies and a variety of initiatives in place to protect and offer opportunities to people, both within and outside of the company.

Some facts stand out when looking at Euroclear’s people as a whole: we are a truly multi-cultural company with close to 75 nationalities represented among our 3,600 staff and an almost equal gender balance. These figures are the result of long-standing principles on equality, non-discrimination and a firm belief that an organisation can only be internationally successful in the long term if it attracts and trains talented people from diverse cultures and backgrounds.

**Work-life balance**

It is our aim that employees across the group are literally ‘feeling good’ working at Euroclear. Recognising that Euroclear is a demanding and competitive environment, we aim to offer a healthy work-life balance to our staff. Euroclear has created a group-wide function dedicated to work-life balance, the main objectives of which are to improve well-being at work and to address the main causes of stress in the workplace.

We offer various flexible work arrangements which are widely appreciated by employees at different points in their careers and personal lives.

We organise healthy lifestyle campaigns and sport and entertainment events for staff and their families across the group. In 2007, a major ‘eat well’ campaign was rolled out. Other examples include healthy menu options in company restaurants, the weekly provision of fruit to staff, and financial contribution to sports and fitness activities.

**Equality and non-discrimination**

A policy of non-discrimination underpins our employment policy and we also provide opportunities for people with disabilities according to their capabilities. In addition, we consult regularly with employees, or their representatives, in compliance with national employment law, ensuring the company
Code of ethics

Euroclear attaches the utmost importance to its reputation for integrity, honesty and fairness in its conduct towards its employees and contractors. It has also established clear standards of behaviour expected from all those associated with it in return. These principles are set out in the organisation’s Ethical Conduct, Legal and Compliance Risk policy.

Health and safety

Euroclear is committed to health and safety and the protection of people, property and the environment. We are continuously refining our policies and procedures in order to provide an even more robust health and safety management system. We aim to set and maintain high standards, ensuring the health, safety and welfare of our employees, contractors and visitors.

We understand the importance of integrating health and safety considerations into all aspects of our business and fully recognise the advantages. We will drive continual improvement of both our health and safety management system and our performance. Euroclear recognises that the negative impact of work-related stress on people’s health is a major risk in the execution of their functions, and therefore places a particular focus on well-being initiatives.

Environmental responsibility

Euroclear aims to implement a comprehensive environmental management system, and drives continual improvement of the system and our performance. For example, we have created local environmental teams to monitor and measure environmental performance on goals and initiatives.

We are aiming to reduce the amount of waste that we send to landfill by implementing waste minimisation, reuse and recycling initiatives, and to reduce our carbon footprint through a more efficient use of electricity.

Recent initiatives include:
- implementation of an environmental awareness as part of the induction for new starters;
- promotion of car pooling;
- use of bio-degradable and environmentally friendly materials in newly opened buildings; and
- waste recycling.

Supporting the wider community

Euroclear has also developed clear views and initiatives to put into practice the ways it wishes to support and contribute to the development of the wider community.

Charity and community involvement

Euroclear supports and contributes to the development of the community by providing financial assistance to not-for-profit associations. We encourage and support charities in the countries where Euroclear operates, in particular those in which our staff or their relatives are personally active. Each country in which Euroclear operates an (I)CSD now has a Community Relations Committee, to which staff are invited to submit projects assisting local charities deserving support. The committee, composed of voluntary staff also active in charities support, decides on which charities receive donations in line with a set of agreed criteria.

In addition, there is a ‘matching gift’ programme, whereby the company matches individual donations made spontaneously by staff. Close to €735,000 was given to charity in 2007.

Sponsorship

As part of our social responsibility, we contribute to socioeconomic initiatives taking place outside our market context, but expressing our values and convictions of delivering fundamental and lasting improvement. As an example, in 2007 Euroclear supported a conference on microfinance, gathering many of the experts from across the world in this field. We have done this without any intention of gaining business, and chose this area because we are convinced of the worth of its innovative principles and the fundamental improvement it can bring.
Risk management

Euroclear fulfils a central role in financial markets and the effectiveness of its activities is critical to the stability of the financial system as a whole. Its risk management practices therefore have to be of an appropriately high standard. By striving for excellence in risk management, Euroclear can meet market expectations and be a stabilising factor in turbulent times.

Rigorous market practices and industry standards
To ensure complete and consistent management of the risks faced by each of its services, Euroclear has organised its risk management function at group level. Working with the business areas, the risk management function has developed a comprehensive risk framework and policies. These are based on industry standards, such as ISO 17799 and 27001 for Information Security, and the Advanced Measurement Approach (AMA) for Operational Risk, as well as more generic best practices, including an Enterprise Risk Management (ERM) 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. In addition, each of the group CSDs and Euroclear Bank complete and publish annually on www.euroclear.com the Disclosure Framework for Securities Settlement Systems, which is one of the requirements for compliance with the Recommendations for Securities Settlement Systems, published by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO). These frameworks and policies are supported by a governance structure that makes clear the responsibility for control monitoring. Euroclear also has appropriately formal but pragmatic processes and procedures. 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 2007, Euroclear again made major progress in several areas. After having submitted its application to use the AMA to calculate regulatory capital requirements for operational risk in December 2006, Euroclear has used the AMA in parallel with the Basic Indicator Approach (BIA) over the course of 2007. In addition, in the second quarter of 2008 Euroclear will deliver its first public disclosure under Pillar 3 of Basel II.

A new department focusing on Strategic and Programme Risks was set up in the Risk Management Division in order to manage the risks related to the company’s strategy definition and the implementation of related large strategic projects.

Euroclear’s risk management practices help to protect it from the market turmoil triggered during the summer of 2007 by the subprime crisis. Euroclear’s market model has played an important role in ensuring a constant level of service to its clients, allowing the market to move securities and liquidity efficiently (see page 62).

Enterprise Risk Management: a risk-controlled environment
Euroclear uses an ERM framework to ensure the coherence of its risk management function. It consists of three main components:

- All the major risks faced by Euroclear are listed in the Risk Register. 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). Finally, one risk (strategic projects risk) is addressed separately, as it is particularly important for the organisation, and is managed separately from day-to-day services. The high-level Risk Register is complemented by a more detailed database of risks (including mitigated and accepted risks).

- ERM provides a framework to allocate 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, which is detailed on pages 75-77.

Operational risk
Euroclear uses an Operational Risk Management (ORM) framework, which forms part of, and is aligned with, its ERM programme, mainly using the same concepts, tools and solutions.
The ORM framework consists of seven interconnected pillars, which are explained on pages 75-77.

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. Each pillar has been implemented consistently across the group.

**Security and resilience**
Protecting Euroclear’s critical assets and ensuring a high level of resilience, in line with business objectives, is the prime focus of the Security and Resilience team.

**Information security**
The corporate objective of the group security team is to ensure an appropriate level of protection of Euroclear’s information and related critical assets, in line with the risk appetite defined by senior management.

An independent compliance audit was conducted a year ago using ISO17799:2005/27001:2006 as a reference. This allowed management to measure progress objectively with regards to the maturity of Euroclear’s information security control environment using ISO standards as a reference control framework. The audit confirmed that the
group’s information security management system was largely in place and is consistent with the ISO standard. It also concluded that ‘activities to improve the stance of information security at Euroclear in the past three years have been fruitful.’ A few points for improvement were noted and are being implemented fully. In addition, the information security internal control system has been included in the ORM framework, allowing compliance with the requirements associated with Euroclear’s adoption of the AMA under Basel II and full alignment with other internationally recognised reference frameworks such as CobIT and ITIL. Continuous monitoring of emerging threats and evolving risks is also undertaken and allows Euroclear to improve the control environment continuously.

**Business resilience**

To ensure continuous availability of business critical services, the Business Resilience team, within the Risk Management Division, monitors the implementation of technical and non-technical solutions, encompassing technology, buildings and staff. The last key milestones in the resilience and recovery strategy adopted by the Board in 2003 were achieved when a third data centre was launched in 2007. Euroclear now has data centres sufficiently distanced from each other to sustain operations in the event of a regional-scale disaster. The effectiveness of data centres and recovery procedures is assured through the transfer of production activity between sites on a monthly basis.

Euroclear Bank, Euroclear France and Euroclear UK & Ireland are operating in a dual office structure, guaranteeing the availability of critical expertise across several locations. Additionally, Euroclear Belgium and Euroclear Nederland can use office space in Brussels as a remote backup, should a localised event disrupt access to their main facilities.

All entities have performed detailed business impact analyses to identify their critical activities and recovery time objectives. Business continuity plans have been harmonised at corporate and departmental levels throughout the group. Finally, each element of the strategy is regularly maintained and tested. A comprehensive training programme is in place and complexity is progressively introduced in rehearsals, reflecting increased awareness at organisational level and the increased experience of the crisis management teams.

The main elements of the business resilience strategy are reassessed every year in response to emerging or increasing threats. In 2008, Euroclear’s business continuity framework will continue to develop, taking account of international standards and best practice, including the recently published British Standard 25999.

**Financial risk**

Euroclear manages its financial risks according to stringent standards. Such risks are mainly borne by the ICSD, Euroclear Bank, in its role as single-purpose settlement bank. The CSDs of the group have a very low risk appetite and, as they offer only securities settlement services in central bank money, are largely insulated from financial risks.

**Credit risk**

The specific role of Euroclear Bank in financial markets offers a high level of protection against credit risks. As a pure settlement institution, its main exposures are concentrated within a business day. Such a short duration significantly limits the probability of an unexpected default, all the more so as Euroclear Bank’s client base mainly consists of highly-rated banks. In addition, Euroclear Bank almost exclusively grants credit secured by high quality collateral, with about 99% of its client credit exposure being secured by collateral preferably held and pledged within the Participant’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.

In addition, Euroclear Bank also incurs treasury exposure resulting from clients’ end-of-day positions. Such positions are usually redeposited in the market with high quality counterparties. Where possible, repos are used but some exposure is unsecured. The risks are limited by their short duration (mainly overnight), as well as policy caps. Concentration risk, the risk that Euroclear Bank would be too highly exposed to one or a few counterparties, is also monitored and limited. Euroclear Bank thereby also complies with Belgian banking regulations relating to large exposures.

Since 1 January 2007, Euroclear Bank, as well as Euroclear SA/NV and Euroclear plc, has applied the Foundation Internal Ratings Based Approach (FIRBA) for credit risk under the Basel II framework. The
ratings of participants and counterparties resulting from the internal rating model, which had to be implemented to comply with the approach’s requirements, are used in the calculation of regulatory and economic capital. They also offer Euroclear tailor-made tools to refine its credit risk management. The resulting regulatory capital for Euroclear Bank at €115 million is less than one tenth of the total available capital, which stands at €1.47 billion.

These conservative credit practices have enabled Euroclear Bank to avoid any credit loss to date.

The CSDs avoid providing credit to their participants for settlement purposes. They do not engage in operations with counterparties, except for the investment of their own funds.

**Liquidity risk**

Euroclear has a strong liquidity risk management framework in place, in line with international standards, whereby net funding requirements are adequately measured and monitored. The framework also allows for a high level of preparedness to cope with unexpected liquidity shocks.

Liquidity is necessary to allow Euroclear Bank to perform its settlement operations efficiently. During the day, Euroclear Bank is a net liquidity provider to the market, as it processes payments and securities settlements based on client’s available funds and collateral. To cope with its daily liquidity needs, Euroclear Bank can rely upon a wide range of liquidity sources in all its eligible currencies, including a large network of cash correspondents and settlement banks and direct access to TARGET2. Furthermore, Euroclear Bank has an excellent name in the inter-bank market and has access to a broad range of established counterparties. It has first- and second-level contingency liquidity sources in place for the major currencies.

End-of-day client balances can be redeposited in the inter-bank market for which term limits are set in order to maintain liquidity availability.

As the cash leg of the CSDs’ securities settlement takes place exclusively in the accounts of a central bank, the CSDs do not incur liquidity risk originating from client cash deposits. Surplus cash investments of the CSDs are always assessed against expected future cash flows and can be invested only in term deposits.

**Market risk**

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The interest rate and foreign exchange risks incurred in these activities are limited by the risk appetite set by Euroclear Bank’s Board of Directors. This is determined by the capital allocated annually for such risks (the ‘upper tolerance level’). This is reinforced by internal market limits, such as Value at Risk (VaR) and Earnings at Risk (EaR), and legal or regulatory limits.

The CSDs are exposed to a very low level of interest rate risk, resulting from the investments of proprietary funds (i.e. regulatory and working capital, surplus cash). The duration of these investments is limited to a maximum term of six months. Finally, Euroclear Belgium, Euroclear France and Euroclear Nederland face limited risks related to downward movements in equity prices, which might affect their expected fee earnings on securities in custody.
Participants were able to continue to rely on Euroclear’s services during the subprime lending crisis. Euroclear was not affected and could thereby play a stabilising role by continuing to offer uninterrupted credit and liquidity to the market to enable securities trades to be settled efficiently. Three components of Euroclear’s business model shielded the company and the market very effectively from the repercussions of the crisis:

- The securities settlement infrastructure is highly resilient, and the DVP model that it offers ensures that it contains the systemic risks that could result from potential settlement failures. During the summer, Euroclear safely settled a record number of transactions, of which the strongest increases were in Euroclear UK & Ireland.

- Euroclear Bank is a single purpose bank and the market is confident that it will continue to settle reliably. Euroclear Bank does not lend long term and holds only high-quality assets. It selects its participants and counterparties carefully.

- Euroclear Bank grants intra-day credit to its participants against collateral. It therefore holds a very large collateral pool. In addition, it offers triparty collateral management services to help market players optimise the use of their collateral and their available liquidity.

**Euroclear: a stabilising factor during the credit crisis**
Euroclear started to adopt the Belgian regulatory requirements derived from the Basel II Accord in January 2007. Since then, it has been using the FIRBA for credit risk measurement under Pillar 1. It intends to adopt the AMA for operational risk measurement under Pillar 1 and to finalise the implementation of Pillars 2 (supervisory review) and 3 (market discipline) in 2008.

**Pillar 1: Operational risk: Advanced Measurement Approach**

Euroclear Bank, Euroclear SA/NV and Euroclear plc submitted their application to use the AMA to calculate regulatory capital requirements for operational risk in December 2006. Euroclear has used the AMA in parallel with the BIA over the course of 2007 and, conditional upon supervisory approval, plans to adopt a hybrid approach at all consolidated levels above Euroclear Bank, by combining the AMA for Euroclear Bank with a Standardised or Basic Indicator Approach for the group’s other entities.

The AMA model was developed to be used both for the determination of minimum operational risk regulatory capital under Pillar 1 of Basel II, and for the calculation of economic capital. For the regulatory capital, a confidence level of 99.9% is used, while for the economic capital, a confidence level of 99.98% is now used, consistent with Euroclear Bank’s AA+ rating.

The building blocks of the model are frequency and severity distributions, the parameters of which are estimated or calculated using data inputs that are compliant with the Basel II soundness standards. They include the four required elements: internal losses, relevant external losses, scenarios, and business environment and internal control factors.

**Pillar 2: Supervisory review**

The Supervisory Review Process aims at ensuring that institutions adequately understand and manage their risks, including by way of capital assessment and planning, in a continuous dialogue with their supervisors. Under the Internal Capital Adequacy Assessment Process (ICAAP), institutions are expected to identify and quantify the risks that they face and to relate this to the level of capital needed to fulfil their plans. In contrast, under the Supervisory Review Evaluation Process, the evaluation of risks is carried out by the institutions’ supervisors. Supervisors also assess the adequacy of the ICAAP. If the ICAAP is deemed unsatisfactory, supervisors might request an addition to Pillar 1 regulatory capital requirements.

Euroclear has progressed well in implementing the organisational and methodological changes necessary to formalise the ICAAP, with the use of economic capital models and the formalisation of capital planning and strategic risk management. In addition, Euroclear will deliver its first standardised report of risks not covered under Pillar 1 (interest rate risk in the banking book, liquidity risk, and concentration risk on specific sectors or geographic areas) to the regulators in the first half of 2008.

**Pillar 3: Market discipline**

Pillar 3 relates to the disclosure of information by supervised institutions (at the highest consolidated level), with a view to encourage better risk management through the market discipline of this transparency. Information will be disclosed about the structure of the institutions’ capital, as well as the capital requirements associated with the different exposures incurred. Alongside such quantitative information, institutions will describe their various risk management processes and the methodologies applied.

The first disclosure under Pillar 3 for Euroclear plc will be published in Q2 2008 on www.euroclear.com.
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 2007 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 2007 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’ \(^1\) 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 2007 through to 31 December 2007.

Based on our assessment, and taking into account the above assertions, Euroclear SA/NV believes that, for the period 1 January 2007 through 31 December 2007, the Inter-company Transaction Policy has been in accordance with the OECD Guidelines and was applied effectively amongst Euroclear SA/NV and its subsidiaries.

26 March 2008

Pierre Francotte
CEO of Euroclear SA/NV

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\(^1\) 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 2007

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 2007.

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.

26 March 2008
PricewaterhouseCoopers Reviseurs d’Entreprises scrl
Represented by

R. Peirce
Partner
Corporate governance

What does corporate governance mean to Euroclear?

Euroclear believes that sound corporate governance enhances the group’s ability to promote the success of the company for the benefit of its shareholders. 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, reflects the value 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, during 2007, Euroclear has applied the principles set out in Section 1 of the Code so as to deliver sound, strategic leadership and control. In furtherance of its commitment to sound governance, Euroclear SA/NV seeks to comply, in addition to the Code, with the principles of good corporate governance defined by the Belgian Banking, Finance and Insurance Commission (CBFA). These principles reflect applicable regulations, recommendations and best practice on corporate governance and are fully in line with the philosophy of the Code.

Except where mentioned below, Euroclear plc and Euroclear SA/NV complied throughout 2007 with the provisions of the Code.

Board of directors

Who is on our Boards?
The direction of the Euroclear group is divided between the Boards of Euroclear plc and Euroclear SA/NV (the ‘Boards’). The division of responsibilities between the two Boards is set out below. Both Boards have the same membership, consisting of 22 non-executive directors, the Chairman, Sir Nigel Wicks and the Deputy Chairman, Mr. Jean-Jacques Verdickt. All but three of the 24 directors are senior executives from firms which are a cross-section of users of Euroclear services and shareholders of the company. Their knowledge and experience is most valuable for the development of the Euroclear strategy and the monitoring of its implementation. Members of the Management Committee of Euroclear SA/NV are not Board directors. However, they participate in all Board meetings and have frequent contact with Board members in-between meetings. The role of the Management Committee is described below.

The Boards consider all the directors to be independent in character and judgement within the meaning set out in the Code, having examined each director against the independence criteria described in the Code. In addition, given that most of the directors are drawn from users of the group’s services, the Boards have agreed and applied objective guidelines to evaluate whether the business relationships between Euroclear and the relevant user companies could influence a director in carrying out their duties, to the detriment of the company. Mr. Frank J. DeCongelio is considered by the Boards to be independent notwithstanding his tenure of more than nine 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.

Since August 2006, Sir Nigel Wicks has been Chairman of the Boards. In July 2007, Sir Nigel was appointed as a member of the Jersey Financial Services Commission, a statutory body corporate which is responsible for the regulation and supervision of the financial services industry on the island of Jersey. This nomination was approved in advance by the Boards, having assessed the impact of such a membership against the responsibilities and availability of Sir Nigel Wicks in Euroclear. Sir Nigel meets the independence criteria set out in the Code.

Mr. Jean-Jacques Verdickt was appointed Deputy Chairman of the Boards on 29 October 2007 upon a recommendation of the Nominations and Remuneration Committee. This followed a review of several possible candidates and an assessment of their knowledge of Euroclear’s business and the market in which it operates, background, seniority and previous experience, and overall readiness to fulfil the function. As independent non-executive director of Euroclear Bank SA/NV, a Belgian subsidiary of Euroclear SA/NV, since January 2005, Mr. Jean-Jacques Verdickt already has an in-depth knowledge of the business activities and the governance of Euroclear. Mr. Jean-
Jacques Verdickt meets the independence criteria set out in the Code. The primary role of Mr. Jean-Jacques Verdickt, as Deputy Chairman, is to act in the place of the Chairman, should the Chairman become incapacitated or otherwise no longer able to carry out his Board responsibilities, and to assist the Chairman in performing his role, particularly with regard to governance issues. Mr. Jean-Jacques Verdickt exercises other non-executive directorship mandates outside the Euroclear group, the list of which is available on www.euroclear.com.

The Board has designated the chairman of the Nominations and Remuneration 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 74), 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.

Members of the Boards are appointed by the General Meeting of Shareholders of each company for an initial term of no more than two years. Half of the Boards stand for re-election each year and new directors are subject to election at the first opportunity following appointment. The Nominations and Remuneration Committee makes recommendations to each Board for the appointment and renewal or non-renewal of Board members. The Boards then submit the Committee’s proposals to the shareholders. This procedure does 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 appointment to that Board. Upon appointment, Board members receive a letter of appointment which outlines their responsibilities and the terms upon which they are appointed to the Board, including the time they are required to allocate to fulfil their role in Euroclear plc and Euroclear SA/NV.

All recommendations of the Nominations and Remuneration Committee to the Boards are made on the basis of a director’s potential contribution in terms of knowledge, experience and skill, and in accordance with the needs of the Board at the time of the nomination. In addition, the Nominations and Remuneration Committee verifies that each Board as a whole possesses the necessary balance of skills and experience to set the general policy and strategy of Euroclear plc and Euroclear SA/NV and the group generally, and to properly supervise management in the implementation of such policy and strategy.

In 2007, the Board has endorsed a policy setting out selection criteria for Board
members covering the integrity, availability, experience and seniority of directors 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 and/or significant users in Euroclear. The Nominations and Remuneration Committee assesses the director candidate against the selection criteria set out in this policy. As the directors are drawn from users of Euroclear services, who are generally well known in the industry, the Board does not rely on an external search agency or open advertising in the appointment of directors.

The Nominations and Remuneration Committee reports to the Board on the composition of the Boards and their committees on an annual basis to ensure that they remain appropriate to promote the effective leadership of each company and the Euroclear group, in accordance with this policy.

In 2007, the Nominations and Remuneration Committee undertook a review of the appropriateness of the current committees’ structure, role and composition taking into account the current business needs of the group and the role fulfilled by each of the existing committees. Following that review, the Board approved new appointments to committees of the Boards, disbanded the Executive Committee of Euroclear plc and approved that the Deputy Chairman becomes an ex officio member of all committees except the Joint Audit Committee, which, he, like the Chairman, attends on invitation.

Board composition and balance, and director performance, were analysed by the Nominations and Remuneration Committee at its meeting where the list of candidates proposed for re-election at the Annual General meeting was considered.

Upon appointment, each director is offered an induction into Euroclear designed to develop his/her knowledge and understanding of all important elements of the group’s business and the responsibilities of the role as a Board director. During their mandate, directors attend ongoing trainings on matters relevant and material to their directorships and committee mandates, as necessary or requested from time to time. In addition, workshops are arranged for the Boards on topics of particular relevance or importance. In 2007, the Boards decided to devise a training plan each year on the basis of the results of such Board self-assessment and the advice of the Chairman, Company Secretary and General Counsel on general training needs.

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 below on page 70.

The Board of Euroclear plc is responsible 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 seven times during 2007. At four of these meetings it received an update from the group CEO on all material matters affecting the group and its performance as well as a review of the group’s financial performance to date. The Board meetings also covered various shareholder matters, including the review and approval of the annual report and accounts and consideration of the level of dividends.

In addition to those four meetings, the Euroclear plc Board met three times jointly with the Euroclear SA/NV Board during 2007: once in order to dedicate a full day to Euroclear strategy in identifying potential strategic opportunities and threats for Euroclear arising out of market trends and developments, once to follow up on the discussions held during the strategy meeting and once to approve the appointment of the Deputy Chairman.

In 2008, the Board of Euroclear plc will consider and expects to propose amendments to its Articles of Association to keep it current with the new UK Companies Act 2006.

The principal responsibilities of the Board of Euroclear SA/NV are setting group strategy and overseeing its implementation, ensuring effective controls are in place that enables risk to be managed, and setting the framework for group policies.

In 2007, the Board of Euroclear SA/NV had six ordinary meetings and two extraordinary meetings. Three of those meetings were jointly held with the Euroclear plc Board (as mentioned above). At each of the other meetings, the Board had in-depth discussions on strategic developments within the group, and external developments with an impact on Euroclear.
The exercise of the Euroclear SA/NV Board’s oversight and control function was also evident throughout the Board meetings in 2007. In addition to the update on financial results received at each meeting, the Board reviewed and approved the budget presented by Management.

The Board of Euroclear SA/NV has several tools to ensure risks are properly managed and assessed. It is assisted by the Risk Policy Committee, which reviews group risk policies thoroughly, 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 75.

In addition to the information received as part of the Board meeting process, Management prepares quarterly reports to the Boards providing updates on financial and operational performance of each of the (I)CSDs and the workings of the Market Advisory Committees. Those quarterly reports are sent to all Board members at the beginning of each quarter, whereupon the Board is given the opportunity to raise questions at the next following Board meeting.

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

During 2007, 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, the Management Committee and the CEO were each assessed by the Board. This annual review was based on a detailed questionnaire completed by each member of the Boards. An analysis of the responses to the questionnaire was reviewed by the Nominations and Remuneration Committee, the results of which were reported to the Boards. Further to these recommendations, the Boards agreed on steps to further improve its effectiveness where appropriate as well as a plan on general training needs.

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 seven members including its chairman, Mr. Pierre Francotte who is the CEO 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 seeks to promote 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-executive directors. The CEO acts as liaison between senior managers and the Chairman and other Board members and coordinates interaction between them.

To aid 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 in operations by staff and ensuring the efficient management of human, financial and physical resources.

In 2007, the Management Committee performed an annual self assessment with a view to identifying ways to develop its effectiveness and agreed on action points arising out of the results of this assessment.
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 fulfil their responsibilities efficiently, committees with different expertise and powers have been put in place. Their terms of reference, which include details of the role and responsibilities of each of these committees, can be found on www.euroclear.com.

Euroclear plc has three Board committees – the Nominations and Remuneration Committee, the Audit Committee and the Operations Committee. The Board of Euroclear SA/NV has established seven committees – the Management Committee, the Executive Committee which is to be renamed the Interim Business 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 for the Executive Committee and the Management Committee.

From time to time, the Boards of Euroclear plc and Euroclear SA/NV also establish ad hoc committees designed to support the Board in relation to specific projects.

The committees meet on a regular basis and each committee chairperson reports at the Board meeting immediately following a committee meeting. The table on page 73 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.

The Chairman and the Deputy Chairman are members or ex-officio members of each committee (depending on the committees’ terms of reference), except the Audit Committee, which they attend on invitation.

Euroclear plc and Euroclear SA/NV joint committees

The Audit Committees of Euroclear plc and Euroclear SA/NV, chaired by Mr. Frank J. DeCongelio, met jointly six times during 2007. All members of the Audit Committees are independent non-executive directors and the Boards consider that there is sufficient recent and relevant financial experience within these Committees for them properly to discharge their functions. The external auditors’ lead partner, the head of internal audit, together with the group CEO, Chief Financial Officer, and General Counsel, as well as the Board Chairman and Deputy Chairman, attended each meeting at the invitation of the Committee chairmen. The Committees met once during 2007 with the internal auditor and external auditor 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 2007, 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. The external auditor reported at each Committee meeting on relevant accounting and regulatory issues.

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 75.

During 2007, the head of internal audit, in accordance with the Euroclear group policy setting out steps to ensure the external auditor’s independence and objectivity are maintained, reported to the Audit Committees with an overview of all fees paid to the external auditor for the group, together with a list of all non-core audit services performed by the external auditor. Based on this assessment, the external auditor’s compliance with the independence requirement was confirmed by the Committees.
Furthermore, in 2007, the Audit Committees undertook a formal assessment of the external auditor for all Euroclear entities. This assessment was carried out by completion of a detailed questionnaire by the members of the Audit Committee and the Management Committee of each Euroclear entity. The results were collated along with a synopsis and presented first to the Audit Committee of each entity for discussion, and then to the Audit Committees of Euroclear plc and Euroclear SA/NV. This assessment will be undertaken on an annual basis.

The Audit Committee of Euroclear plc met alone three additional times during 2007 to review unaudited financial results prior to these being posted on the Bulletin Board.

The Audit Committee of Euroclear SA/NV met alone once in 2007 to discuss the UK Financial Services Authority (FSA) risk assessment of Euroclear UK & Ireland Limited, as recommended by the FSA.

The Committees undertook their annual effectiveness review, the results of which demonstrate that the Committees are functioning well. The Committees have agreed certain follow-up points arising out of the assessment as well as a plan to address these points during 2008.

The Nominations and Remuneration Committees of Euroclear plc and Euroclear SA/NV are chaired by Mr. Mark S. Garvin. In 2007, the Committees met seven times in a joint session.

In addition to their annual review of compliance with the Combined Code, the Committees reviewed and proposed to the Boards persons for election as directors as vacancies arose throughout the year. The Committees reviewed and agreed on an amended text for the letter of appointment of Board members in line with best practice in good governance.

The Committees followed up on discussions held last year on the remuneration of Board members. Subsequently, the Committees recommended for adoption by the Boards a new remuneration policy for all its user-affiliated non-executive directors that is in line with their role and responsibilities as well as with good practice.

Furthermore, during 2007, in order to comply with recent Belgian regulatory requirements on good governance, the Nominations and Remuneration Committee of Euroclear SA/NV recommended to the Board the adoption of different measures on corporate governance. Among its new obligations on corporate governance, Euroclear SA/NV is required to prepare a governance memorandum describing its shareholding structure, policies on the composition of board and management organs, its management structure and corporate policies, all assessed against the recommendations set out in the Belgian regulation. This governance memorandum is subject to approval by the CBFA in 2008. The Nominations and Remuneration Committee of Euroclear SA/NV oversaw the preparation of this document throughout the year. The Nominations and Remuneration Committees also adopted a policy on the composition of the Board and Board committees and reviewed the structure, role and composition of the Board and its committees, as explained above. The Committees reviewed the terms of reference of the Management Committee. They also reviewed, as explained on page 74, the current lines of communication between the Board and the shareholders.

An evaluation of the effectiveness of the Committees undertaken during 2007, and to be repeated every year, found that the Committees are functioning well and in accordance with their terms of reference and best practice guidelines.

**Euroclear plc Committee**

The Operations Committee of Euroclear plc, chaired by Sir Nigel Wicks, which is responsible for handling operational and administrative matters arising between Board meetings, met five times during the year, and on each occasion it approved, inter alia, the opening of a new Bulletin Board session.

**Euroclear SA/NV Committees**

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 making strategic decisions. The Strategy Committee met once in 2007 and prepared certain strategic items for discussion by the whole Board including an agenda for the full-day strategy Board meeting held in early 2007.
The Risk Policy Committee of Euroclear SA/NV, which is chaired by Mr. Richard C.S. Evans, provides advice to the Board on the risk policies of the group, reviews major risk issues faced by Euroclear and advises on their mitigation. Several members of the Committee are experts in the area of risk management.

The Committee met four times during 2007. It recommended to the Board for approval the harmonisation of the admission criteria of the ESES CSDs as well as the ongoing monitoring of adherence to the criteria, as set out in the Operational Risk Board Policy. It also reviewed the Anti-Money Laundering Board Policy in furtherance of the implementation of the Third European Directive. 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 recommended the 2007 upper tolerance levels to those boards for approval. The Risk Policy Committee also had discussions about the financial market disruptions linked to the subprime crisis and their impact on Euroclear.

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. In 2007, the forum was devoted to an in-depth discussion on enterprise risk management.

The Risk Policy Committee undertook its first annual self-assessment in 2007. A detailed questionnaire was completed by each Committee member. The Committee reviewed the responses and discussed follow-up actions as well as a Committee training plan for the coming year.

Meetings of the Business Model Implementation Committee of Euroclear SA/NV are open to all directors (and generally attended by almost all). 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 2007 and on each occasion was given a detailed update on the progress of 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. The scorecard assesses the internal control system of the programmes, 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 ESES implementation during 2007, as well as the other phases of the programme.

In 2007, the Business Model Implementation Committee decided to perform an annual effectiveness review consisting of the assessment of the Committee’s own performance against a documented benchmark that reflects the objectives of the Committee and relevant good practice and guidance. The results will be assessed in 2008.

The Executive Committee (to be renamed the Interim Business Committee) of Euroclear SA/NV is chaired by the Chairman of the Board and has as members the Deputy Chairman and eleven of the company’s non-executive directors plus the members of the Management Committee.

The Committee met twice in 2007. It considered general updates from the CEO. It also approved senior management compensation, reviewed pension fund matters, and dealt with various administrative business matters. The Executive Committee has established a sub-committee, the Executive Compensation Committee, which makes 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.

Market Advisory Committees

The Euroclear group has established five user committees known as Market Advisory Committees (MACs) for Belgium and The Netherlands jointly, France, Ireland, the United Kingdom, as well as a Cross-border Market Advisory Committee. These committees are not Board committees and their members are not directors of Euroclear. The MACs are a primary source of feedback and interaction between the user community and Euroclear management on significant matters affecting their respective markets.
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<tr>
<th>Name</th>
<th>Board</th>
<th>Audit Committee</th>
<th>Business Model Implementation Committee</th>
<th>Executive Committee</th>
<th>Nominations &amp; Remuneration Committee</th>
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1 The figure in brackets indicates the maximum number of meetings the director could have attended as a member of the relevant committee.
2 Indicates attendance either as invitee (without a figure in brackets) or as ex-officio member.
3 Director nominated by the "S" shareholders.
4 Pierre Francotte as a member of the Strategy Committee attended the Strategy Committee meetings.
Relations with shareholders

How does the Board ensure the shareholders’ views are heard?
The large majority of the directors on the Boards of Euroclear plc and Euroclear SA/NV are individuals who are employed by firms that use Euroclear. All these firms are also shareholders in Euroclear plc. At the year end directors were drawn from firms whose groups provide 54.43% of the usage of Euroclear facilities and hold 58.71% of the shares of Euroclear plc. The user-governance structure of Euroclear means that the majority of directors are regularly accessible to the stakeholders of the group (shareholders and clients alike), because they are actively working in the same industry.

In the course of 2007, the Nominations and Remuneration Committee of Euroclear plc considered the question of whether Euroclear should further reinforce its communication with shareholders. The Committee reviewed the current lines of communication taking into account the Combined Code guidance on relations with shareholders and putting that guidance into the perspective of the Euroclear user governance framework.

The Committee concluded that the current arrangements concerning the contents and distribution of the annual report and accounts, the handling of shareholders’ enquiries by the Chairman and/or the Board of Euroclear plc, the Chairman’s regular visits to shareholders and his availability, as well as that of other directors and senior management, to discuss shareholders queries during or after the conclusion of the proceedings of Annual General Meetings, ensure a satisfactory dialogue between the Board as a whole and the shareholders of Euroclear plc. The Board endorsed these conclusions.

A list of all the shareholders of Euroclear plc, as of registrations completed at Companies House on 29 February 2008, can be found on the enclosed CD-ROM.

As in the past, Euroclear plc shares continue not to be traded on any exchange. In order to promote liquidity in the shares, the Board of Euroclear plc has established a Bulletin Board service accessible to shareholders and certain other users. The Bulletin Board provides a mechanism for making bid/offer prices available to potential buyers and sellers who can, if they so wish, contact each other in order to negotiate a trade outside of the facility provided by Euroclear. During 2007, the Bulletin Board was opened for five sessions.
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), the Bank for International Settlement’s proposals for a revision of bank capital adequacy regulation (Basel II) and the CBFA circular on Internal Control and Internal Audit. To enable its management, Euroclear developed an ERM framework.

In keeping with its role as a provider of services that are part of the financial market infrastructure, Euroclear’s benchmarks for control levels are set very high and are reviewed regularly. It should be noted, however, that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. In establishing, supervising and reviewing the system of internal controls, the directors have regard to the nature and extent of relevant risks, the likelihood of a loss being incurred and the costs of control.

It follows, therefore, that the system of internal controls can provide only reasonable, but not absolute, assurance against the risk of material loss. The key elements of our systems of internal controls are described below.

**Strategy: our approach to risk management**

Euroclear is committed to implementing strong risk management processes. Authority is delegated by the Board of Euroclear SA/NV to the Management Committee of Euroclear SA/NV for the implementation of the business strategy and other decisions taken by the Board. The Board approves the key risk policies and its committees review risk and control areas regularly and thoroughly.

Euroclear maintains a Risk Register – a critical component of the ERM – which clearly identifies and describes the different risk types that Euroclear faces. A Policy Control Framework is also in place to harmonise policies and map them to these risk types. All new and most existing policies are now compliant with this framework.

Euroclear uses the concept of ‘risk appetite’ and ‘tolerance level’ for market, credit and operational risk. Risk appetites are 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.

Finally, the Balanced Scorecard is an important tool to translate the Euroclear vision and strategy into tangible objectives and measures. It sets out clear priorities cascaded down through the group to help meet expectations in terms of day-to-day operations, strategic programme delivery and working efficiencies.

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

The group values articulate the core areas that are crucial to the organisation and the expected corresponding behaviours. 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.

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 2007 management has enhanced the compliance programme through a compliance quiz for all employees and contractors. 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 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.

**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.

**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. A SAS 70 report is made available to customers of Euroclear Bank, Euroclear France and Euroclear UK & Ireland.

**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 (I)CSDs and are monitored regularly.

**Improvements**

Management is committed to the continuous improvement of the system of internal controls and a number of improvements made during 2007 are reflected above. In 2008, Euroclear will continue to strengthen IT change management and associated activities, in view of the important launch schedules for our major strategic development programme.
Strong figures speak for themselves

Strong financial results are both a vindication of Euroclear’s strategy, and a platform for even more ambitious objectives. They give us the capacity to innovate, to work for the long term and to cut costs further for our clients. So while we’re proud of what we achieved in 2007, we can look forward to even better performances to come.
Financial review

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. These were influenced by several key drivers in 2007:

- Net fee income is mainly a function 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 6.
- Net interest income is derived from the prevailing interest rates and the level of cash balances deposited by clients, both of which showed positive trends in 2007 (see also the ‘Financial performance highlights’ section below).
- Operating expenses increased due to the higher staffing and equipment levels needed to support business growth and our planned investment in our strategic projects.

Strong performance achieved in 2007
In 2007, the Euroclear group achieved strong performance across all business activities, reflecting market conditions during the year and the success of the group in attracting new business. We ended 2007 in an excellent financial position, having processed a record number of transactions. Profit for the year rose by 4% to €331 million.

The Euroclear group remains committed to its user-owned, user-governed philosophy. As a result of its strong business performance, together with the economies of scale achieved, the group further reduced its tariffs. Over the course of 2007, Euroclear Bank introduced major fee reductions estimated at €100 million in different product areas (i.e. international debt and domestic safekeeping, collateral management, communication fees). In line with the policy defined in 2006, Euroclear Bank remunerated clients’ cash balances, representing a benefit to the market of €82 million for the year 2007.

Against this backdrop of commercial success, the average headcount was increased by nearly 240 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 of platform consolidation, contributing, inter alia, to the launch of some of the key components of our Single Platform (i.e. the introduction of new data centres and ESES).

Financial performance highlights
The detailed results for the year are set out on page 12 of the Euroclear plc financial statements, which is available on the enclosed CD-ROM.

Profit for the year: in spite of the unstable markets in 2007, the Euroclear group delivered strong financial results with profit for the year up by 4% to €331 million notwithstanding the impact of new price reductions and cash balance remuneration.

Operating income rose by 15% to €1,244 million from €1,085 million in 2006, reflecting growth in the levels of securities held for clients and transaction volumes across all operating entities of the group.

Net interest income increased by 20% to €324 million and was favourably influenced by the rising trend in USD and EUR interest rates. These rose, on average, from 4.9% and 2.8% in 2006 to 5.0% and 3.8% respectively in 2007. Average deposits grew by 9% and average overdrafts by 23%, reflecting increased settlement activity levels. In line with the policy defined in 2006, Euroclear Bank remunerated long balances left on deposit by clients overnight.
Interest income in Euroclear stems from Euroclear Bank’s overnight redeposits of clients’ cash balances. It also stems from the investment of Euroclear Bank’s capital, retained earnings and the proceeds from subordinated debts.

Net fee and commission income increased by 12% to €901 million after fee reductions, demonstrating Euroclear’s continued organic growth and significant business gains. Increased levels of depot and higher settlement volumes across all the (I)CSDs prompted this growth, reflecting volatile market conditions. The value of securities held in depot grew by 5% in the group, reaching a level of about €19 trillion at year end. EMXCo also contributed to the group’s excellent performance adding €15 million to consolidated net fee and commission income. Net fee and commission income represents 72% of total income.

Administrative expenses rose by 21% to €808 million in 2007 as a result of continuous development effort and a related increase in staffing levels. Additional personnel were needed to handle increased settlement activity and to meet targets for enhanced services.

Operating profit before tax reached €435 million, an increase of €17 million (4%) on 2006, reflecting strong income growth in all operating entities. This increase also includes a €7.1 million contribution from EMXCo.

Dividend: the directors recommend a dividend distribution to ordinary shareholders of €98 million, representing €25.58 per share (compared with €24.20 per share in 2006). We decided to further increase the dividend this year in light of the specific conditions that prevailed during the year, taking into account our objectives regarding capital strength, profitability and business growth. This dividend increase reflects our continued commitment to ensuring that shareholders are adequately remunerated for their capital investment.

Balance sheet: total assets stood at €16,328 million on 31 December 2007, up €2,271 million on the previous year. Deposits rose by €1,967 million (21%), to €11,530 million and loans increased by 22% to €12,808 million.

In the 2006 financial statements, financial instruments were valued at a ‘clean’ price. In the 2007 financial statements, financial instruments have been valued at a ‘dirty’ price, i.e. including accrued interest. Accordingly, the comparative amounts relating to 2006 have been revised. The impact of this change is shown in the ‘Comparatives’ paragraph of Accounting policies on page 17 of the Euroclear plc financial statements, available on the enclosed CD-ROM.

The group continued to strengthen its capital base. Total shareholders’ equity increased by 8% to €3,126 million in 2007. Together with the implementation of our strategic programme, these excellent results place us in a strong competitive position for the future. As from 1 January 2007, the regulatory capital requirements for the group have been determined in accordance with the Basel II framework. The group enjoys strong regulatory capital levels with a Tier 1 ratio of 63% at the end of 2007 (compared with 81% under Basel I at the end of 2006). The total capital adequacy ratio (after dividend) reached 63% at the end of 2007, compared with 91% under Basel I at the end of 2006, and the required minimum of 8%.

In October 2007, our Luxembourg subsidiary, Euroclear Finance SA, exercised its option to reimburse the €250 million of undated subordinated debt.
## Euroclear plc summarised consolidated profit (€ million)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>323.9</td>
<td>271.1</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td>901.5</td>
<td>802.1</td>
</tr>
<tr>
<td>Dividend income</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Realised gains on available-for-sale financial assets</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Net losses on financial assets or liabilities held for trading</td>
<td>(6.6)</td>
<td>(6.2)</td>
</tr>
<tr>
<td>Net gains on foreign exchange</td>
<td>6.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Other operating income</td>
<td>18.9</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td><strong>1,244.0</strong></td>
<td><strong>1,085.4</strong></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(808.2)</td>
<td>(666.7)</td>
</tr>
<tr>
<td>Impairment</td>
<td>(0.5)</td>
<td>(0.5)</td>
</tr>
<tr>
<td><strong>Operating profit before tax</strong></td>
<td><strong>435.3</strong></td>
<td><strong>418.2</strong></td>
</tr>
<tr>
<td>Taxation</td>
<td>(104.8)</td>
<td>(99.6)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>330.5</strong></td>
<td><strong>318.6</strong></td>
</tr>
</tbody>
</table>
### Euroclear plc summarised consolidated balance sheet (€ million)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>182.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>12,625.3</td>
<td>10,499.2</td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td>1,266.3</td>
<td>1,188.9</td>
</tr>
<tr>
<td>Held-to-maturity financial assets</td>
<td>353.0</td>
<td>559.7</td>
</tr>
<tr>
<td>Financial assets held for trading</td>
<td>15.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Derivatives used for hedging</td>
<td>3.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Current income tax assets</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>145.7</td>
<td>124.4</td>
</tr>
<tr>
<td>Other assets</td>
<td>440.0</td>
<td>440.7</td>
</tr>
<tr>
<td>Pre-payments and accrued income</td>
<td>109.1</td>
<td>67.5</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>132.3</td>
<td>127.7</td>
</tr>
<tr>
<td>Goodwill and intangible assets</td>
<td>1,052.4</td>
<td>1,019.6</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>16,328.5</td>
<td>14,057.0</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits from central banks</td>
<td>461.3</td>
<td>156.1</td>
</tr>
<tr>
<td>Deposits from banks and customers</td>
<td>11,068.8</td>
<td>9,407.0</td>
</tr>
<tr>
<td>Financial liabilities held for trading</td>
<td>13.4</td>
<td>13.0</td>
</tr>
<tr>
<td>Derivatives used for hedging</td>
<td>0.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,042.3</td>
<td>712.3</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>230.6</td>
<td>226.0</td>
</tr>
<tr>
<td>Current income tax liabilities</td>
<td>37.7</td>
<td>46.8</td>
</tr>
<tr>
<td>Deferred income tax liabilities</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Provisions for liabilities and charges</td>
<td>8.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Pension deficit</td>
<td>34.7</td>
<td>40.5</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>304.8</td>
<td>558.5</td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td>3,126.0</td>
<td>2,886.7</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td>16,328.5</td>
<td>14,057.0</td>
</tr>
</tbody>
</table>
Euroclear plc consolidated off-balance sheet items (€ million)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent liabilities</td>
<td>6,579.9</td>
<td>5,058.8</td>
</tr>
</tbody>
</table>

Share capital of Euroclear plc on 26 March 2008

<table>
<thead>
<tr>
<th></th>
<th>Authorised</th>
<th>Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Nominal value</td>
</tr>
<tr>
<td><strong>(€ denominated)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares of €1 each</td>
<td>3,330,556</td>
<td>3,330,556</td>
</tr>
<tr>
<td>'S' shares of €1 each</td>
<td>500,120</td>
<td>500,120</td>
</tr>
<tr>
<td>Unclassified shares of €1 each</td>
<td>169,324</td>
<td>169,324</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
</tbody>
</table>

|                     |            |               |            |               |
| **(£ denominated)** |            |               |            |               |
| Preferred non-voting redeemable sterling shares of £1 each | 50,000 | 50,000 | 50,000 | 50,000 |

1 Although qualifying as capital under UK law, IFRS requires that these redeemable shares are treated as a liability.

Euroclear Bank credit ratings

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

<table>
<thead>
<tr>
<th></th>
<th>ICSD</th>
<th>CSDs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euroclear Bank</td>
<td>Euroclear Belgium</td>
</tr>
<tr>
<td><strong>2007 income statement (under IFRS)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net interest income</td>
<td>311.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td>528.8</td>
<td>29.2</td>
</tr>
<tr>
<td>Other operating income ¹</td>
<td>3.2</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>843.4</td>
<td>30.9</td>
</tr>
<tr>
<td>- Operating expenses</td>
<td>(290.9)</td>
<td>(14.0)</td>
</tr>
<tr>
<td>- Costs charged to group entities</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>- Costs recharged by group entities</td>
<td>(290.9)</td>
<td>(12.5)</td>
</tr>
<tr>
<td><strong>Net operating expense</strong></td>
<td>(581.8)</td>
<td>(26.1)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>261.6</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>(73.1)</td>
<td>(1.5)</td>
</tr>
<tr>
<td><strong>Profit for the year (under IFRS)</strong></td>
<td><strong>188.5</strong></td>
<td><strong>3.3</strong></td>
</tr>
<tr>
<td>Effect of adjustments to comply with group accounting policies and IFRS</td>
<td>(8.0)</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Profit for the year in statutory accounts under local GAAP</strong></td>
<td><strong>180.5</strong></td>
<td><strong>3.4</strong></td>
</tr>
<tr>
<td>Shareholders’ equity in statutory accounts under local GAAP</td>
<td><strong>1,459.8</strong></td>
<td><strong>16.8</strong></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 cost recharged to group entities).
Capital management

Capital measurement and allocation
The 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 capital adequacy and liquidity requirements for them.

In accordance with the Basel II 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 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 made up essentially of shareholders’ capital, share premium, consolidated reserves and retained earnings, while Tier 2 comprises undated subordinated loans. In October 2007, the Tier 2 of the group was reduced by €250 million as a result of the reimbursement of the Upper Tier 2 debt issued by Euroclear Finance in 2000. In accordance with capital adequacy regulations, Euroclear monitors the proportion of the Hybrid Tier 1 instrument (issued in 2005) that can be considered as Tier 1, and reclassifies the remainder to Tier 2. Thanks to the gradual growth of its equity base, Euroclear can currently qualify the total of its Hybrid capital as Tier 1 capital. Goodwill and intangible fixed assets are deducted in full from Tier 1 capital. The current regulatory framework requires that Tier 2 capital does not exceed Tier 1 capital. This requirement is very comfortably met by the group.

The group’s policy is to maintain a strong capital base and to diversify its sources of capital appropriately, 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 instruments, Euroclear Bank has been assigned an AA+ rating by both Fitch and Standard & Poor’s.

With effect from 1 January 2007, the regulatory capital requirements for Euroclear Bank began to be determined by the Basel II framework, both on a stand-alone and consolidated basis, as well as for all consolidated levels above Euroclear Bank. Within this framework, Euroclear determines regulatory capital requirements both for credit and operational risk.

As far as credit risk is concerned, Euroclear has been using the FIRBA as of 1 January 2007, in accordance with the accreditation received from the CBFA at the end of 2006. Euroclear has also computed its capital needs under Basel I throughout 2007, in parallel with the Basel II methodology, in order to be able to apply, if necessary, the so-called Basel I floors set out in the capital adequacy regulation.

With respect to operational risk, Euroclear Bank intends to adopt the AMA in 2008. 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 group’s other entities. In that respect, Euroclear delivered an accreditation file to the CBFA in December 2006, and it started a parallel run on 1 January 2007. As far as the 2007 operational risk charges are concerned, these have been determined based on the BIA for all entities of the group.

The table on the opposite page sets out the group’s total capital, which very comfortably exceeds its regulatory requirements, both under Basel I (2006 figures) and Basel II (2007 figures). As already anticipated at the time of the parallel run for credit risk, Euroclear did not experience a significant change in its solvency position as a consequence of the adoption of the Basel II framework, despite the new capital reservation related to operational risk.

Under Basel II, a decrease in the capital requirement related to credit risk was more than compensated for by an increase related to operational risk, although the latter is expected to decrease when Euroclear adopts the AMA in 2008.
Regulatory capital position (€ ’000)
The following table analyses the group’s regulatory capital resources at the period end:

<table>
<thead>
<tr>
<th>Euroclear plc consolidated</th>
<th>31 December 2007</th>
<th>31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-Weighted Assets</td>
<td>3,575,193</td>
<td>2,542,936</td>
</tr>
<tr>
<td>Requirement (RWA*8%)</td>
<td>286,015</td>
<td>203,435</td>
</tr>
<tr>
<td>Capital base ¹</td>
<td>2,264,758</td>
<td>2,321,439</td>
</tr>
<tr>
<td>Tier 1</td>
<td>1,956,421</td>
<td>1,759,593</td>
</tr>
<tr>
<td>Hybrid Tier 1</td>
<td>297,909</td>
<td>297,683</td>
</tr>
<tr>
<td>Tier 2</td>
<td>10,429</td>
<td>264,163</td>
</tr>
<tr>
<td>Risk asset ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>63.05%</td>
<td>80.90%</td>
</tr>
<tr>
<td>Total</td>
<td>63.35%</td>
<td>91.29%</td>
</tr>
</tbody>
</table>

¹ After proposed dividend

In the table above, the proposed dividends have been taken into account. Despite the increase in Tier 1 capital during 2007, higher risk-weighted assets under Basel II resulted in a decrease in the Tier 1 risk asset ratio compared to the situation at the end of 2006. This, combined with decrease in the Tier 2 capital following the redemption of the Undated Guaranteed Notes in October 2007, resulted in a lower total risk asset ratio at the end of 2007.
The attached CD-ROM comprises the consolidated financial statements and Parent company financial statements 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).

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

**The Company Secretary**
Euroclear plc
Baarermatte
6340 Baar, Switzerland

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

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 64 and 65.
Board and Board Committees composition
(as at 26 March 2008)

Euroclear plc
Board of Directors

1. Sir Nigel Wicks
   Chairman
2. Jean-Jacques Verdickt
   Deputy Chairman
3. Joseph C. Antonellis
   State Street Corporation
4. Michel Berthézène
   Caisse des Dépôts et Consignations
5. Paul Bodart
   The Bank of New York Mellon
6. Alain Closier
   Société Générale
7. Sue Concannon
   Halifax Share Dealing Limited
8. Frank J. DeCongelio
   Credit Suisse Securities (USA) LLC
9. Richard C.S. Evans
   Deutsche Bank AG
10. Mary M. Fenoglio
    Citigroup
11. Clara Furse
    London Stock Exchange plc
12. Mark S. Garvin
    JPMorgan plc
13. Hiroaki Harada
    Bank of Tokyo - Mitsubishi UFJ, (Luxembourg) SA
14. Naomi Harada
    Mizuho Trust & Banking (Luxembourg) SA
15. William Higgins
    ABN AMRO Bank NV
16. Tim Howell
    HSBC Holdings plc
17. Peter T. Johnston
    Goldman Sachs & Co
18. François Marion
    CACEIS
19. Lieve Mostrey
    Fortis Bank SA/NV
20. David Nicol
    Morgan Stanley
21. Herschel Post
22. Jean-François Théodore
    NYSE Euronext
23. M. Andrew Threadgold
    UBS AG
24. Robert C.M. Wigley
    Merrill Lynch International

Lionello Falconi
Executive Secretary

---

1. Appointed 29 October 2007
2. Appointed 26 March 2008
3. Senior Independent Director
4. Appointed 1 June 2007
5. Appointed 28 March 2007
6. Ex-officio member
Board Committees

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

Nominations and Remuneration Committee
Mark S. Garvin, Chairman
Joseph C. Antonellis
Alain Closier
Hiroaki Harada
Peter T. Johnston
Herschel Post
Jean-Jacques Verdickt
Sir Nigel Wicks

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

• Charlotte Black, Brewin Dolphin Securities Limited, resigned on 1 June 2007
• John S. Gubert, HSBC Holdings plc, resigned on 1 June 2007
• Simon M. Haslam, Fidelity International Limited, resigned on 28 June 2007
• Alain Papiasse, BNP Paribas, resigned on 1 February 2008
• John M. Schofield, UBS Investment Bank, resigned on 1 June 2007
• Charles F. Winters, Merrill Lynch, resigned on 28 March 2007
• Executive Committee was disbanded on 30 September 2007
Euroclear SA/NV

Board of Directors

Sir Nigel Wicks
Chairman

Jean-Jacques Verdickt
Deputy Chairman

Joseph C. Antonellis
State Street Corporation

Michel Berthezène
Caisse des Dépôts et Consignations

Paul Bodart
The Bank of New York Mellon

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. Garvin
JPMorgan plc

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

Naomi Harada
Mizuho Trust & Banking (Luxembourg) SA

William Higgins
ABN AMRO Bank NV

Tim Howell
HSBC Holdings plc

Peter T. Johnston
Goldman Sachs & Co

François Marion
CACEIS

Lieve Mostrey
Fortis Bank SA/NV

David Nicol
Morgan Stanley

Herschel Post

Jean-François Théodore
NYSE Euronext

M. Andrew Threadgold
UBS AG

Robert C.M. Wigley
Merrill Lynch International

Lionello Falconi
Executive Secretary

• Charlotte Black, Brewin Dolphin Securities Limited: mandate ended on 31 May 2007
• John S. Gubert, HSBC Holdings plc: mandate ended on 31 May 2007
• Simon M. Haslam, Fidelity International Limited, resigned on 28 June 2007
• Alain Papiasse, BNP Paribas, resigned on 1 February 2008
• John M. Schofield, UBS Investment Bank: mandate ended on 31 May 2007
• Charles F. Winters, Merrill Lynch, resigned on 28 March 2007

1 Appointed 29 October 2007
2 Appointed 26 March 2008
3 Senior Independent Director
4 Appointed 31 May 2007
5 Appointed 28 March 2007
6 To be renamed Interim Business Committee
7 Ex-officio member
Board Committees

Executive Committee
Sir Nigel Wicks, Chairman
Paul Bodart
Wim Claeyys
Alain Closier
Ignace R. Combes
Frank J. DeCongelio
Richard C.S. Evans
Mary M. Fenoglio
Pierre Francotte
Mark S. Garvin
Frederic Hannequart
William Higgins
François Marion
Dr. Tim May
Joël Mérère
David Nicol
Herschel Post
André Rolland
Jean-François Théodore
Jean-Jacques Verdickt

Management Committee
Pierre Francotte, Chairman
Wim Claeyys
Ignace R. Combes
Frederic Hannequart
Dr. Tim May
Joël Mérère
André Rolland

Strategy Committee
Sir Nigel Wicks, Chairman
Joseph C. Antonellis
Paul Bodart
Alain Closier
Sue Concannon
Pierre Francotte
Tim Howell
Herschel Post
Robert C.M. Wigley
Jean-Jacques Verdickt

Risk Policy Committee
Richard C.S. Evans, Chairman
Paul Bodart
Tim Howell
M. Andrew Threadgold
Jean-Jacques Verdickt
Sir Nigel Wicks

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

Business Model Implementation Committee
Sir Nigel Wicks, Chairman
Alain Closier
Sue Concannon
Mark S. Garvin
Lieve Mostrey
David Nicol
Jean-Jacques Verdickt

Nominations and Remuneration Committee
Mark S. Garvin, Chairman
Joseph C. Antonellis
Alain Closier
Hiroaki Harada
Peter T. Johnston
Herschel Post
Jean-Jacques Verdickt
Sir Nigel Wicks

Executive Compensation Committee
Sir Nigel Wicks, Chairman
Paul Bodart
Alain Closier
Frank J. DeCongelio
Mark S. Garvin
William Higgins
Herschel Post
Jean-Jacques Verdickt

Executive Compensation Committee
Sir Nigel Wicks, Chairman
Paul Bodart
Alain Closier
Frank J. DeCongelio
Mark S. Garvin
William Higgins
Herschel Post
Jean-Jacques Verdickt

Sir Nigel Wicks
Euroclear Bank SA/NV

Board of Directors
Frederic Hannequart¹
Chairman
Yves Poullet¹
Chief Executive Officer
Ignace R. Combes
Pierre Yves Goemans¹
Dr. Tim May
André Rolland²
Luc Vantomme³
Yannic Weber¹

Jean-Jacques Verdickt
Independent
Susan Y. Stenson
Company Secretary

Board Committees
Management Committee
Yves Poullet, Chairman
André Rolland
Luc Vantomme
Yannic Weber

Audit Committee
Jean-Jacques Verdickt, Chairman
Ignace R. Combes
Dr. Tim May
Fabien Debarre⁵
Fernando Díaz⁶

Nominations Committee⁴
Frederic Hannequart, Chairman
Jean-Jacques Verdickt

Remuneration Committee⁶
Pierre Francotte, Chairman
Jean-Jacques Verdickt
Frederic Hannequart¹

¹ Appointed 23 June 2007
² Appointed 20 March 2008
³ Appointed 20 June 2007
⁴ Committee observer
⁵ Committee created on dissolution of Nominations and Remuneration Committee
⁶ Function held by the Euroclear SA/NV Chief Executive Officer

Euroclear Belgium¹

Board of Directors
Ignace R. Combes
Chairman
Stéphane Bernard
Chief Executive Officer
Anne Swaelus¹
Paul Taylor²

Francis Remacle
Independent
Marc De Jaeger
Company Secretary

Board Committees
Management Committee
Stéphane Bernard, Chairman
Ignace R. Combes
Pierre-Paul Stacanov

Audit Committee
Francis Remacle, Chairman
Fabien Debarre
Paul Taylor
Anso Thiré

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

¹ Appointed 23 June 2007
² Appointed 20 March 2008
³ Appointed 3 July 2007
⁴ Committee observer
⁵ Committee created on dissolution of Nominations and Remuneration Committee
⁶ Function held by the Euroclear SA/NV Chief Executive Officer

Euroclear France SA

Board of Directors
Ignace R. Combes¹
Chairman
Joël Mérère
Vice Chairman
Pierre Slechten
Chief Executive Officer
André Rolland²
Valérie Urbain¹

Gérard Soularue
Independent
Alain Pochet¹
BNP Paribas
Nadine Mollier⁴
Grazyna Thébault⁴
Veronique Jehan
Company Secretary

Board Committees
Audit Committee
Gérard Soularue, Chairman
Fabien Debarre
Valérie Urbain

Admission Committee
Pierre Slechten, Chairman
Johan Arendal
Philippe Bertholle
Brigitte Daurelle
Jérôme Ladousse

Nominations Committee
Ignace R. Combes, Chairman
Gérard Soularue

Remuneration Committee⁴
Pierre Francotte, Chairman
Ignace R. Combes
Gérard Soularue

¹ Appointed 22 March 2007
² Appointed 10 March 2008
³ Censeur
⁴ Members of the Euroclear France SA Works Council whose attendance at Board meetings is a legal requirement
⁵ Committee created on dissolution of Nominations and Remuneration Committee
⁶ Function held by the Euroclear SA/NV Chief Executive Officer

- Pierre Francotte resigned on 24 May 2007
- Martine Dinne resigned on 24 May 2007
- Frederic Hannequart resigned on 10 March 2008
- Fernando Díaz resigned from the Audit Committee on 10 March 2008
Euroclear Nederland1 and Euroclear NIEC2

Board of Directors
Ignace R. Combes
Chairman
Guy Schuermans
Chief Executive Officer
Wim Claeyss
Anso Thiré1
Jos de Wit
Independent
Gerard Hartsink4
Hugo Spanjer
Company Secretary

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

European clearing house for securities

Euroclear UK & Ireland Limited1

Board of Directors
Pierre Francotte
Chairman
Dr. Tim May
Chief Executive Officer
Richard Crowe2
John Trundle2
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 Mitchell3

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

EMX Company Limited

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

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

1 Trade name for Nederlands Centraal Instituut voor Geraal Effectenverkeer (NECIGEF) BV
2 Trade name for Nederlands Interprofessioneel Effectencentrum (NIEC)
3 Appointed 26 June 2007
4 Observer

1 On 2 July 2007 CRESTCo Limited changed its name to Euroclear UK & Ireland Limited
2 Appointed 18 June 2007
3 Independent

• Frederic Hannequart resigned with effect 18 June 2007
• Martine Dinne resigned with effect 18 June 2007

• Yves Poulet resigned on 26 June 2007
## Market Advisory Committees (MACs)

### Belgium-The Netherlands

<table>
<thead>
<tr>
<th>Chairman/Chairman</th>
<th>Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eric Hollanders</td>
<td>ING Bank</td>
</tr>
<tr>
<td>Gerard Hartsink</td>
<td>ABN AMRO Bank NV</td>
</tr>
</tbody>
</table>

**Market Advisory Committees (MACs)**

- **Belgium**
  - **Eric Hollanders**, Chairman
  - **Gerard Hartsink**, Vice-Chairman
  - **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
  - **Betty Mulder-Mosman**, Deutsche Bank
  - **Erwin Reyes**, Citi
  - **Damien Roegiers**, NYSE Euronext
  - **Eric Struye**, Petercam SA
  - **Alfons Vaes**, National Bank of Belgium
  - **Henny van der Wielen**, De Nederlandsche Bank NV

**Observers**

- **Representative Belgian MEC**
  - Patrick Drogné
  - Corinne Lambert

- **Representative Dutch ACSI**
  - Patrick Drogné
  - Ruud Sleenhoff

### France

<table>
<thead>
<tr>
<th>Chairman/Chairman</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Alain Pochet</td>
<td>BNP Paribas</td>
</tr>
<tr>
<td>Robert Baconnier</td>
<td>Emetteurs</td>
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<tr>
<td>Roland Bellegarde</td>
<td>NYSE Euronext</td>
</tr>
<tr>
<td>Pierre Yves Berthon</td>
<td>AFG</td>
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<tr>
<td>Michel Bois</td>
<td>CACEIS</td>
</tr>
<tr>
<td>Xavier Bonneru</td>
<td>LCL Le Crédit Lyonnais</td>
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<tr>
<td>Philippe Castelanelli</td>
<td>HSBC France</td>
</tr>
<tr>
<td>Norbert Cron</td>
<td>Natixis</td>
</tr>
<tr>
<td>Adrien Decker</td>
<td>Crédit Mutuel/CIC</td>
</tr>
</tbody>
</table>

**Market Advisory Committees (MACs)**

- **Alain Pochet**, Chairman
- **Robert Baconnier**, Chairman
- **Roland Bellegarde**, NYSE Euronext
- **Michel Bois**, CACEIS
- **Xavier Bonneru**, LCL Le Crédit Lyonnais
- **Philippe Castelanelli**, HSBC France
- **Norbert Cron**, Natixis
- **Adrien Decker**, Crédit Mutuel/CIC

**Observers**

- **Representative Belgian MEC**
  - Patrick Drogné
  - Corinne Lambert

### UK

<table>
<thead>
<tr>
<th>Chairman/Chairman</th>
<th>Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pen Kent</td>
<td>CBE</td>
</tr>
<tr>
<td>Chris Addenbrooke</td>
<td>Capita Registrars</td>
</tr>
<tr>
<td>Andrew Baldock</td>
<td>Abbey Stockbrokers</td>
</tr>
<tr>
<td>Richard Barber</td>
<td>Citibank NA</td>
</tr>
<tr>
<td>Robert Barnes</td>
<td>UBS</td>
</tr>
<tr>
<td>Philippe Castelanelli</td>
<td>HSBC Bank plc</td>
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<tr>
<td>Victoria Cleland</td>
<td>Bank of England</td>
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<tr>
<td>Mike Hines</td>
<td>Winterflood Securities Ltd</td>
</tr>
<tr>
<td>Robert Howard</td>
<td>Charles Stanley</td>
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<td>Jane Levi</td>
<td>Merrill Lynch</td>
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<tr>
<td>Neil Martin</td>
<td>Credit Suisse</td>
</tr>
<tr>
<td>Verity Peel</td>
<td>Deutsche Bank AG</td>
</tr>
<tr>
<td>David Shrimpton</td>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>Robert Stheeman</td>
<td>UK Debt Management Office</td>
</tr>
</tbody>
</table>

**Market Advisory Committees (MACs)**

- **Pen Kent**, Chairman
- **Chris Addenbrooke**, Capita Registrars
- **Andrew Baldock**, Abbey Stockbrokers
- **Richard Barber**, Citibank NA
- **Robert Barnes**, UBS
- **Philippe Castelanelli**, HSBC Bank plc
- **Victoria Cleland**, Bank of England
- **Mike Hines**, Winterflood Securities Ltd
- **Robert Howard**, Charles Stanley
- **Jane Levi**, Merrill Lynch
- **Neil Martin**, Credit Suisse
- **Verity Peel**, Deutsche Bank AG
- **David Shrimpton**, London Stock Exchange
- **Robert Stheeman**, UK Debt Management Office

**Observers**

- **Representative Dutch ACSI**
  - Patrick Drogné
  - Ruud Sleenhoff

### Ireland

<table>
<thead>
<tr>
<th>Chairman/Chairman</th>
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</tr>
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<tbody>
<tr>
<td>Brian Healy</td>
<td>Irish Stock Exchange</td>
</tr>
<tr>
<td>Eamonn Doyle</td>
<td>Davy Stockbrokers</td>
</tr>
<tr>
<td>Albert Farrell</td>
<td>Bastow Charlton</td>
</tr>
<tr>
<td>Eileen Kelly</td>
<td>Goodbody Stockbrokers</td>
</tr>
<tr>
<td>Audrey Kinsella</td>
<td>Bank of Ireland Securities Services</td>
</tr>
<tr>
<td>Graham O’Brien</td>
<td>NCB Stockbrokers</td>
</tr>
<tr>
<td>Pat O’Donoghue</td>
<td>Capita Corporate Registrars plc</td>
</tr>
<tr>
<td>Paul Shields</td>
<td>National Treasury Management Agency</td>
</tr>
<tr>
<td>Helen Young</td>
<td>The Royal Bank of Scotland</td>
</tr>
</tbody>
</table>

**Market Advisory Committees (MACs)**

- **Brian Healy**, Chairman
- **Eamonn Doyle**, Davy Stockbrokers
- **Albert Farrell**, Bastow Charlton
- **Eileen Kelly**, Goodbody Stockbrokers
- **Audrey Kinsella**, Bank of Ireland Securities Services
- **Graham O’Brien**, NCB Stockbrokers
- **Pat O’Donoghue**, Capita Corporate Registrars plc
- **Paul Shields**, National Treasury Management Agency
- **Helen Young**, The Royal Bank of Scotland

**Observers**

- **Representative Belgian MEC**
  - Patrick Drogné
  - Corinne Lambert

### Cross-Border MAC

<table>
<thead>
<tr>
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<tr>
<td>Alain Pochet</td>
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<td>Brewin Dolphin Securities</td>
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<tr>
<td>Michel Bois</td>
<td>CACEIS</td>
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<tr>
<td>Steve Davies</td>
<td>Merrill Lynch</td>
</tr>
<tr>
<td>Diana Dijmarescu</td>
<td>JPMorgan Chase &amp; Co</td>
</tr>
<tr>
<td>Gerard Fransen</td>
<td>Rabobank Nederland</td>
</tr>
<tr>
<td>Gerard Hartsink</td>
<td>ABN AMRO Bank NV</td>
</tr>
<tr>
<td>Brian Healy</td>
<td>Irish Stock Exchange</td>
</tr>
<tr>
<td>Eric Hollanders</td>
<td>ING Bank</td>
</tr>
<tr>
<td>Pen Kent</td>
<td>CBE</td>
</tr>
</tbody>
</table>

**Market Advisory Committees (MACs)**

- **Alain Pochet**, Chairman
- **Charlotte Black**, Brewin Dolphin Securities
- **Michel Bois**, CACEIS
- **Steve Davies**, Merrill Lynch
- **Diana Dijmarescu**, JPMorgan Chase & Co
- **Gerard Fransen**, Rabobank Nederland
- **Gerard Hartsink**, ABN AMRO Bank NV
- **Brian Healy**, Irish Stock Exchange
- **Eric Hollanders**, ING Bank
- **Pen Kent**, CBE
Euroclear group principal offices

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

Executive office
Baarermatte
6340 Baar, Switzerland

Euroclear SA/NV
Euroclear Bank SA/NV
Calar Belgium SA/NV
1 Boulevard du Roi Albert II
1210 Brussels, Belgium

Euroclear Belgium¹
6, Avenue de Schiphol
1140 Brussels, Belgium

Euroclear France SA
Euroclear Properties France SAS
115, Rue Réaumur
75081 Paris, Cedex 02, France

Euroclear Nederland¹
Euroclear NIEC²
Herengracht 459-469, 1st Floor
1017 BS Amsterdam, The Netherlands

Euroclear UK & Ireland Limited
33 Cannon Street
London EC4M 5SB, UK

Euroclear Finance 2 SA
5, Rue Guillaume Kroll
1882 Luxembourg, Luxembourg

Euroclear Investments SA
Euroclear Re SA
12, Rue Eugène Ruppert
2453 Luxembourg, Luxembourg

EMX Company Limited
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

Administrative office
Av Brigadeiro Faria Lima, 3729
5º Floor/CEP 04538-905
São Paulo, SP, Brazil

Euroclear SA/NV
Branch Offices

Amsterdam
Herengracht 459-469, 1st Floor
1017 BS Amsterdam, The Netherlands

London
33 Cannon Street
London EC4M 5SB, UK

Paris
115, Rue Réaumur
75081 Paris, Cedex 02, France

Euroclear Bank
Representative Offices

Frankfurt
Euroclear Bank Representative Office
Börsenplatz 5
60313 Frankfurt, Germany

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
5º Floor/CEP 04538-905
São Paulo, SP, Brazil

Singapore
Euroclear Bank Representative Office
80 Raffles Place # 30-22
UOB Plaza 2
Singapore 048624

Tokyo
Euroclear Bank Representative Office
The Imperial Hotel Tower 9F
1-1 Uchisaiwaicho 1-chome,
Chiyoda-Ku
Tokyo 100-0011, Japan

¹ Trade name for Caisse Interprofessionnelle de Dépôts et de Virement de Titres/Interprofessioneel Effectendeposito- en Girokas (CIK) SA/NV
² Trade name for Nederlands Centraal Instituut voor Giraal Effectenverkeer (NIEC) SA/NV
³ Trade name for Nederlands Interprofessioneel Effectencentrum (NIEC) BV
The dancers

Wim Vanlessen, Belgium
Wim trained at the Royal Ballet School of Antwerp, and became a principal dancer in 2004. Over his 10-year career, he has appeared in numerous important works and has won several international awards.

Aki Saito, Japan
Aki trained at the Tomoko Kurosawa Ballet Studio (Japan) and the Royal Ballet School of Antwerp. A principal dancer since 2004, she has played the title roles in numerous high profile productions and in 2007 received the ‘Les Etoiles de Ballet’ Critics Award.

Alain Honoré, Belgium
Alain trained at the Royal Ballet School of Antwerp and became a principal in 2004. He has played key roles in important works such as Romeo & Juliet (Mercutio, Romeo), Thème et Quatre Variations, The Nutcracker (Prince Drosselmeyer) and Giselle (Albrecht).

Claire Pascal, France
A graduate of the Conservatoire Supérieur de Lyon, Claire has performed with the Grand Théâtre de Genève and the San Francisco Ballet before joining the Royal Ballet of Flanders as a principal in 2006. She won a Gold Medal at the Eugenia Poliakov International Competition.

Mikel Jurequi, Spain
After training at the Ion Beitia school in Bilbao and the John Cranko school in Stuttgart, Mikel joined the Royal Ballet of Flanders in 2006 and became lead soloist in 2007. His recent performances include The Return of Ulysses, Sleeping Beauty, Herman Schmerman, Insiders and Lost by Last.

Eva Dewaele, Belgium
Eva trained at the Royal Ballet School of Antwerp and the American Ballet New York. She has performed around the world and in 2005 became the Royal Ballet of Flanders’ first soloist. In addition to dance, she has pursued her interests in choreography, film and fashion.

Kathryn Bennetts, Australia
Born in Sydney, Kathryn Bennetts has studied, performed and taught around the world. A protégé of Marcia Haydee and William Forsythe, her international career has taken her to every continent. She joined the Royal Ballet of Flanders as Artistic Director in 2005.
The Royal Ballet of Flanders

The Koninklijk Ballet van Vlaanderen (Royal Ballet of Flanders), established in Antwerp in 1969, is the largest classical dance company in Belgium. The Ballet tours globally and its work consists mainly of repertoire productions.

The photographer

Johan Persson, Sweden

Before becoming a full-time photographer, Swedish-born Johan Persson was a principal dancer with the National Ballet of Canada and the British Royal Ballet. Johan specialises in theatre advertising and production photography, and his work has been widely exhibited in Europe and Japan.
The Single Settlement Engine consolidates the core settlement applications of the (I)CSDs of the Euroclear group. Today, Euroclear Bank, Euroclear France and Euroclear UK & Ireland are connected to the SSE. Euroclear Belgium and Euroclear Nederland will connect to the SSE as part of their move to ESES.

ESES
Euroclear Settlement of 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 is being implemented gradually as of November 2007.

CCI
The Common Communication Interface is Euroclear’s single interface for accessing the services offered by the group. Clients will be able to use the STP channel AutoFlow and the screen-based interface ScreenFlow.

Single Platform
Euroclear’s single application platform, delivering harmonised group custody and settlement services, among others, to the clients of all the (I)CSDs of the group. All clients will use the CCI to connect to the Single Platform.

Acronyms

AMA
Advanced Measurement Approach

BIA
Basic Indicator Approach

CBFA
Commission Bancaire, Financière et des Assurances - Belgian Banking, Finance and Insurance Commission

CCI
Common Communication Interface

CCP
Central Counterparty

CSD
Central Securities Depository

DBV
Delivery By Value

DVP
Delivery Versus Payment

ECB
European Central Bank

ERM
Enterprise Risk Management

ESSES
Euroclear Settlement of Euronext-zone Securities

FIRBA
Foundation Internal Ratings Based Approach

FIX
Financial Information eXchange

FSA
UK Financial Services Authority

GAAP
Generally Accepted Accounting Principles

GDP
Gross Domestic Product

ICSD
International Central Securities Depository

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

IFRS
International Financial Reporting Standards

ISMA
International Securities Market Advisory Group

ISO
International Organisation for Standardisation

JGB
Japanese Government Bond

MAC
Market Advisory Committee

MIFID
Markets in Financial Instruments Directive

OECD
Organisation for Economic Co-operation and Development

ORM
Operational Risk Management

OTC
Over-The-Counter

SAS 70
Statement on Auditing Standards No 70

SBI
Sociétés de Bourses Intermédiaires - ESES pre-settlement trade confirmation platform

SETS
London Stock Exchange Electronic Trading System

SSE
Single Settlement Engine

STP
Straight-Through Processing

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