Euroclear UK & Ireland Limited

Directors' Report and Financial Statements

31 December 2008

Registered Company Number: 2878738

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and the financial statements of Euroclear UK & Ireland Limited (EUI) for the year ended 31 December 2008.

Principal activity, business review and future developments

The principal activity of EUI during the year was the operation and continuing development of the settlement system. This is a system for electronic settlement of a wide range of corporate and government securities, including those traded on the London and Irish Stock Exchanges; SWX Europe and on various multilateral trading platforms. The Company settles transactions in money market instruments and funds as well as a variety of international securities.

The Euroclear group business model aims to make cross-border settlement cheaper and more efficient in order to help deliver a domestic market for Europe. To achieve this Euroclear is:

- Working to harmonise the various practices for the settlement, custody, payments, reference data and tax applicable throughout the countries in which the group operates; and
- Consolidating the services provided by the group on to a Single Platform environment.

Following the previous launch of the Single Settlement Engine for Euroclear Bank, Euroclear France and EUI, the Euroclear Settlement of Euro-zone Securities (ESES) was launched in January 2009 for the three ESES CSDs (Euroclear France, Euroclear Nederland and Euroclear Belgium).

The Data Centre Strategy programme was designed to establish a three-data-centre strategy, together with the relocation of the IT equipment from the existing data centres. This programme is part of the comprehensive business continuity strategy of the Euroclear group. The strategy is designed to provide leading-edge business recovery capabilities following a local or regional disaster in the locations where Euroclear operates. EUI will benefit when all of its processing transfers to the main IBM system.

The Central Securities Depositories (CSDs) and International Central Securities Depository (I)CSD (collectively the (I)CSDs) of the Euroclear group, are paying for the development costs of the strategic projects over a fixed time period from the dates the projects are launched. Costs relating to the strategic projects still being developed are held in Euroclear SA/NV until the projects are launched. Commitments in respect of all the strategic projects are disclosed in note 17 to the Financial Statements.

EUI continues to develop its services with the upgrade to Tandem Platform (HP Itanium) which went live in February 2009. Further future planned enhancements include additional functionality to support funds settlement (see below) and third party connectivity (e.g. Competitive Clearing, MTFs).

EUI is working with EMX Company Limited (EMXCo) to develop settlement services for funds. This will complement the trade routing service provided by EMXCo to the funds industry.

Financial Risk

EUI, as a provider of settlement services, has minimal exposure to price (market) risk and does not extend credit to third parties, other than within the normal course of the invoicing cycle. A prudent investment policy, based upon money market deposits with AA rated institutions, is employed for investment of surplus cash. Cash flow and prudential cash requirements, including those necessary to support working and regulatory capital, are monitored regularly to ensure that sufficient funds are available. The Company does not enter into any speculative derivative transactions. There has been no change since the year-end in the major financial risks faced by EUI (see note 21).

Results and dividends

In the opinion of the directors, the key financial performance indicator is profit before tax. EUI made a profit before tax of £30,481,000 (2007: £31,732,000). A taxation charge of £8,367,000 has been provided (2007: £9,565,000).

EUI's profit after tax for the year was £22,114,000 (2007 profit after tax: £22,167,000).

No dividend is recommended by the directors for the year ending 31 December 2008.

The proposed final dividend for the year ending 31 December 2007 was approved at the Annual General Meeting held on 23 June 2008 and paid thereafter. The amount of the final dividend paid was £49,998,000 (£2.08 per ordinary share).

Creditor payment policy

EUI's policy on the payment of suppliers is to settle the terms of payment once all contractual terms have been observed. For all trade creditors, it is EUI's policy to agree the terms of payment at the start of trading with that supplier; ensure that suppliers are aware of the terms of payment; and pay in accordance with its contractual and other legal obligations. Total creditor days are based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. For the year ended 31 December 2008 the reduction of creditor days to zero is due to the settlement of all supplier invoices at year end (2007: 9 days).

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that EUI has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the 'going concern' basis in preparing the financial statements.

Directors and their interests

The following directors held office throughout the year, unless otherwise stated:

Pierre Francotte *(Chairman)*	Resigned	1 September 2008
Tim May ‡ *(Chairman)*		
Richard Crews		
Herschel Post ‡ *		
Yves Poullet	Appointed	2 October 2008
John Trundle		
Yannic Weber *(CEO)*		
Mike Williams ‡ *		

‡ Member of Remuneration and Nomination Committee

* Independent Director and Member of the Audit and Compliance Committee

David Whitehead has been the Company Secretary throughout the year.

Insurance of directors

The Company maintains insurance for directors in respect of their duties as directors of EUI.

Employees

EUI's policy is to consult and discuss with employees, through staff meetings and bulletins, matters likely to affect employees' interests. Information on matters of concern to employees is given through meetings and newsletters which seek to achieve a common awareness on the part of all employees, including the financial and economic factors affecting EUI's performance.

EUI's policy is to consider recruiting disabled workers for those vacancies that they are able to fill. Arrangements would be made, wherever possible, for retaining employees who became disabled, to enable them to perform work appropriate to their aptitude and abilities.

Charitable donations

The Community Relations Committee encourages charitable donations and community involvement within the UK based operations of the Euroclear group. The group operates pro-active policies and supports employees in donating and raising funds. All donations in the UK are paid through Euroclear SA/NV, London (total UK for 2008: £87,000).

Political donations

EUI made no political donations during the year (2007: Nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the Auditors' Report on page 6, is made with a view to distinguishing the respective responsibilities of the directors and of the auditors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). In preparing these statements, the directors have elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of EUI as at the end of the financial year and of the profit or loss for that year.

The directors consider that in preparing the financial statements on pages 8 to 26, EUI has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, complied with IFRSs as adopted by the EU and IFRSs issued by the International Accounting Standards Board (IASB) and that the financial statements have been prepared on a going concern basis.

The directors have responsibility for the Company's system of internal control and for reviewing its' effectiveness. In addition, the directors are responsible for ensuring that EUI keeps accounting records which disclose with reasonable accuracy the financial position of EUI and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of EUI and to prevent and detect fraud and other irregularities.

Each person who is a director at the date of approval of this report confirms that:

- So far as each director is aware, there is no relevant audit information of which EUI's auditors are unaware; and

- Each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that EUI's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

Remuneration policy

EUI operates a remuneration policy designed to attract, retain and motivate executive directors and staff of the quality required to operate its business.

Auditors

PricewaterhouseCoopers LLP acted as EUI's auditors during the year.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

DWhitehead

DAVID WHITEHEAD
Company Secretary
23 March 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED

We have audited the financial statements of Euroclear UK & Ireland Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for EUI's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, EUI has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED (continued)

statements and of whether the accounting policies are appropriate to EUI's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of EUI's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
24 March 2009

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
Revenue	1c	**149,022**	152,462
Discounts	1c	**(34,433)**	(36,854)
Net revenue		**114,589**	115,608
Administrative expenses	1d	**(89,400)**	(91,002)
Other gains/(losses)	2	**68**	(520)
Operating profit	3	**25,257**	24,086
Finance costs			
Interest income and similar income	6	**5,224**	7,650
Interest expense	6	**-**	(4)
Profit before tax		**30,481**	31,732
Tax expense	7	**(8,367)**	(9,565)
Profit for the year		**22,114**	22,167

The notes on pages 12 to 26 are an integral part of the financial statements

BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Intangible assets	8	-	-
Investments in subsidiary undertakings	9	7	7
Deferred tax assets	10	497	632
		504	639
Current assets			
Trade and other receivables	11	8,020	7,246
Cash and cash equivalents	12	82,793	120,132
		90,813	127,378
Current liabilities			
Trade and other payables	13	(7,198)	(17,006)
Current tax liabilities		(4,533)	(3,541)
Net current assets		79,082	106,831
Net assets		79,586	107,470
Equity			
Ordinary shares	14	6,015	6,015
Share premium reserve		6,015	6,015
Retained earnings		67,556	95,440
Total equity		79,586	107,470

The notes on pages 12 to 26 are an integral part of the financial statements

Approved by the Board of Directors on 23 March 2009 and were signed on its behalf.

JIM MAY
Chairman
23 March 2009

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008		2007	
	£'000	£'000	£'000	£'000
Operating profit	25,257		24,086	
Adjustment for:				
Development cost amortisation	-		9	
Changes in working capital:				
(Increase)/Decrease in trade and other receivables	(1,068)		(1,091)	
(Decrease)/Increase in trade and other payables	(9,808)		1,846	
Movement in provisions	-		(90)	
Cash generated from operations		14,381		24,760
Cash flows from operating activities				
Interest received	5,518		7,650	
Interest paid	-		(4)	
Tax paid	(7,240)		(9,967)	
Net cash generated from operating activities		(1,722)		(2,321)
Cash flows from investing activities				
Proceeds from repayment of related party loans	-		24,000	
Net cash generated from investing activities		-		24,000
Cash flows utilised in financing activities				
Ordinary dividends paid	(49,998)		(33,800)	
Net cash from financing activities		(49,998)		(33,800)
Net (decrease)/increase in cash and cash equivalents		(37,339)		12,639
Cash and cash equivalents as at 1 January		120,132		107,493
Cash and cash equivalents as at 31 December		82,793		120,132

The notes on pages 12 to 26 are an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Ordinary Shares £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2007	6,015	6,015	107,073	119,103
Profit after taxation	-	-	22,167	22,167
Dividends	-	-	(33,800)	(33,800)
Balance as at 31 December 2007	6,015	6,015	95,440	107,470
Profit after taxation	-	-	22,114	22,114
Dividends	-	-	(49,998)	(49,998)
Balance as at 31 December 2008	6,015	6,015	67,556	79,586

The notes on pages 12 to 26 are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. Summary of significant accounting policies

A summary of the principal accounting policies, which have been applied consistently, is set out below:

(a) Statement of compliance

EUI's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 and 2006 applicable to companies reporting under IFRS.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience.

The Company is exempt by virtue of Section 228 of the Companies Act 1989 from the requirement to prepare group accounts. These financial statements present information about EUI as an individual undertaking and not with regard to its group.

In preparing the financial statements for the current period, consideration was given to new IFRSs as well as amendments to IFRS and IFRIC interpretations. There are no IFRS or IFRIC updates relevant at this time.

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of EUI's activities. Revenue is shown net of Value Added Tax. Revenue represents transaction fees, message fees and standing charges for using the system; revenue earned for collecting Stamp Duty Reserve Tax on behalf of HM Revenue and Customs and Stamp Duty on behalf of the Irish Revenue Commissioners; and income from administering the settlement discipline regime on behalf of the market. All revenue arises in the United Kingdom and Republic of Ireland and is recognised at the point the relevant service is provided.

Discounts are standard price reductions based on cumulative eligible fees. They are calculated at rates set out in EUI's published tariff and are accounted for on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

(d) Administrative expenditure

All items of expenditure are included in administrative expenses, as there are no directly attributable selling and marketing costs.

(e) Intangible assets

Intangible assets represent capitalised expenditure incurred in connection with the development of and modification to the CREST system. The cost of these assets is amortised on a straight-line basis over the life of the system estimated at a period of ten years. Assets that are subject to amortisation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Further developments of the system are capitalised only where these are clearly defined projects, where:

- the project is separately identifiable;
- expenditure can be measured reliably; and
- the outcome of the development has been assessed with reasonable certainty to its ultimate commercial viability and use.

(f) Taxation

Corporation tax payable is provided at the current rate on the profits arising in the period.

Deferred income tax is provided in full on a non discounted basis, using the liability method, on temporary differences arising between the tax bases of asset and liabilities at the anticipated rate of recovery and their carrying amount in the financial statements.

(g) Investments

All of the subsidiary undertakings are non-trading and the Company's investment in them is not material. The investments are accounted for in EUI at cost.

(h) Foreign currencies

EUI uses Sterling as both its functional and presentational currency. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the end of the financial year. Transactions in foreign exchange are translated at foreign exchange rates present on the date of the transaction. Foreign exchange gains and losses on the retranslated amounts for assets and liabilities are recognised in the income statement as they arise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

(i) Pensions

EUI operates a Company Personal Pension scheme for employees. This is a defined contribution scheme, and the costs of the scheme are charged to the income statement as incurred.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of not more than three months including: cash on hand; deposits held on call with banks; and other short-term, highly liquid investments which are subject to insignificant risk of change in fair value.

(k) Financial assets

The Company retains financial assets in the form of trade and other receivables and cash and cash equivalents. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(l) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that financial assets are impaired. Where there is an indication of impairment, an assessment of the difference between the carrying amount and the present value of estimated future cash flows is performed. Any excess of carrying amount over the present value of estimated future cash flows is reduced through the use of an allowances account.

(m) Critical accounting estimations and judgements

There were no critical accounting estimations and judgements applied in the preparation of these financial statements.

2. Other gains/(losses)

	2008	2007
	£'000	£'000
Exchange rate gain/(loss)	**68**	(520)

3. Operating profit

Operating profit on ordinary activities before interest and tax after taking into account:

	2008	2007
	£'000	£'000
Amortisation of intangible assets	**-**	9
Auditors' remuneration:		
audit fees	**70**	77
other audit related	**105**	130

4. Employee benefit expense

The number of employees (excluding directors) employed by EUI was as follows:

	2008	2007
	No.	No.
Total - average for year	**78**	83
Total - at 31 December	**72**	86

Employee benefit expense - all employees including executive directors

	2008	2007
	£'000	£'000
Wages and salaries	**3,636**	3,850
Social security costs	**665**	727
Pension costs	**430**	447
Other benefits	**84**	83
Bonus*	**1,078**	1,916
	5,893	7,023

* The Bonus figure represents the amount payable to employees in relation to the performance for the year ended 31 December.

5. Pensions

The cost of contributions to the Company Personal Pension scheme in the year was £430,000 (2007: £447,000). There were no outstanding or prepaid contributions at either 31 December 2008 or 31 December 2007. The scheme is classified as a defined contribution scheme.

6. Interest income and expense

	2008 **£'000**	2007 £'000
Bank interest income	**5,224**	6,394
Loan interest income	**-**	1,256
Bank interest expense	**-**	(4)
Net interest income	**5,224**	7,646

7. Taxation

UK Corporation Tax	**2008** **£'000**	2007 £'000
Current tax on income for the period	**8,271**	9,308
Adjustments in respect of prior periods	**(39)**	(11)
Current Tax	**8,232**	9,297
Deferred Tax (note 10)	**135**	268
Tax charge	**8,367**	9,565

The tax on EUI's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the Company as follows:

	2008 **£'000**	2007 £'000
Profit before tax	**30,481**	31,732
UK Corporation Tax at 28.5% (average rate) (2007: 30%)	**8,687**	9,520
Expenses not deductible for tax purposes	**3**	11
Other temporary differences	**(281)**	-
Adjustments in respect of prior periods	**(39)**	(11)
Change in Deferred Tax rates applicable	**(3)**	45
Tax charge	**8,367**	9,565

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, EUI's profit for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

8. Intangible assets

	2008 £'000	2007 £'000
Cost	**24,724**	24,724
Amortisation		
At 1 January	**24,724**	24,715
Charge for the year	**-**	9
At 31 December	**24,724**	24,724
Net book value at 31 December	**-**	-
Net book value at 1 January	**-**	9

9. Investments in subsidiary undertakings

	2008 £	2007 £
Investments in subsidiary undertakings	**7,008**	7,008

Subsidiary undertakings	Holding Equity Shares	Cost of Investments 2008 £	2007 £
In the name of Euroclear UK & Ireland Limited			
CREST Stamp Nominee (No.1) Limited	100%	**2**	2
CREST Stamp Nominee (No.2) Limited	100%	**2**	2
Trinity Nominees Limited	100%	**2**	2
CREST Depository Limited	100%	**7,000**	7,000
CRESTCo Limited	100%	**2**	2
In the name of CREST Depository Limited			
CREST International Nominees Limited	100%	**2**	2
CREST Client Tax Nominee (No.1) Limited	100%	**2**	2
CIN (Belgium) Limited	100%	**2**	2

The principal activity of CREST Stamp Nominee (No. 1) Limited is the collection of UK Stamp Duty Reserve Tax on behalf of HM Revenue and Customs. The principal activity of CREST Stamp Nominee (No. 2) Limited is the collection of Irish Stamp Duty on behalf of the Irish Revenue Commissioners.

The principal activities of CREST Depository Limited, CREST International Nominees Limited, CREST Client Tax Nominees (No. 1) Limited and CIN (Belgium) Limited are in connection with the provision of the CREST custody service for international securities.

Trinity Nominees Limited and CRESTCo Limited did not trade during the year.

All the subsidiary companies are incorporated in England and Wales.

10. Deferred tax

The gross movement on the deferred income tax account is as follows:

	2008 £'000	2007 £'000
Beginning of the year	632	900
Income statement charge	(135)	(268)
End of year	497	632

A deferred tax asset has been recognised at 31 December 2008. The asset represents temporary differences that arose historically because the rate of depreciation applied to some fixed assets by EUI in its financial statements exceeded the rate at which credit is given by capital allowances. The asset will be recovered against the expected future profits of the Company.

11. Trade and other receivables

Current	2008 £'000	2007 £'000
Trade receivables	767	461
Less: provision for impairment of receivables	(317)	(32)
Trade receivables - net	450	429
Amounts owed by group undertakings (note 19)	2,786	120
Other debtors	10	8
Prepayments	342	292
Accrued income	4,432	6,397
	8,020	7,246

Amounts owed by group undertakings are categorised as loans and receivables and are short-term, hence their carrying value is a reasonable approximation of their fair value.

12. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	1,204	1,174
Short-term bank deposits (less than three months)	81,589	118,958
	82,793	120,132

13. Trade and other payables

Current	2008 £'000	2007 £'000
Trade creditors	-	171
Amounts owed to group undertakings (note 19)	2,480	11,332
Other creditors	570	668
Tax and social security	549	91
Accruals and deferred income	3,599	4,744
	7,198	17,006

All amounts owed to group undertakings are due on receipt of invoice.

14. Share capital

	2008 £	2007 £
Authorised, allotted and fully paid share capital:		
24,060,400 Ordinary Shares of 25 pence each	6,015,100	6,015,100

15. Management of capital

The Company considers the following to be elements of its capital:

- Called up share capital
- Share premium reserve
- Retained earnings

The Company is required by the Financial Services Authority (FSA) to retain financial resources (i.e. liquid financial assets and net capital) sufficient for the proper performance of its regulated activities. The FSA monitor compliance with this based upon 150% of the Financial Resources Requirement, which is calculated as six months cash operating expenses relevant to the delivery of the regulated services.

The above requirement has been met consistently throughout the year.

It is the policy of EUI to maintain high levels of liquidity. Capital is held in the form of cash deposits.

16. Contingencies

As part of the corporate restructuring arrangements effected in 2005, the leases held by EUI were novated to Euroclear SA/NV. As required by the Landlord of the premises at 33 Cannon Street, EUI have guaranteed the rent (currently £4,267,000 per annum) until the end of the lease in 2019.

17. Commitments to strategic projects

The Euroclear group has undertaken a number of major infrastructure projects for the benefit of all group (I)CSDs:

- Data Centre Strategy (DCS): Set-up of three data centres to be shared by the group;
- Single Settlement Engine (SSE): Development of a common settlement engine, the cornerstone of the group's future single platform;
- ESES Strategic: Development of additional single platform components, including a corporate actions database and related reporting and a common communications interface, which, combined with ESES Tactical (see below), will complete the Euroclear Settlement for Euronext Securities (ESES) service;
- Single Platform, Custody and Settlement (SP): Developments which, combined with SSE and ESES, will implement the group's harmonised services and conclude the business model implementation.

Upon their effective delivery, the group (I)CSDs are being charged over a 5-year period for their respective use of these infrastructures, with the exception of DCS which is being charged over 3 years. The related usage fee will be based on the development and funding costs that Euroclear SA/NV will have borne as owner of these new infrastructures. As of 31 December 2008, these costs amount to €504.2 million.

In terms of actual deliveries, DCS and SSE were launched for EUI, respectively in February 2007 and September 2006.

The commitment of EUI vis-à-vis Euroclear SA/NV amounts to €90.4 million as of 31 December 2008, broken down as follows:

Project	**2008**	2007
	£'000	£'000
Data Centre Strategy	**8,271**	12,300
Single Settlement Engine	**11,490**	11,600
ESES Strategic	**23,764**	14,400
Single Platform	**42,607**	15,800
	86,132	54,100

Euroclear France has undertaken a tactical upgrade of the Euroclear France RGV system for ESES service offering purposes. This effort, known as ESES Tactical and financed by Euroclear France was launched successfully in January 2009.

17. Commitments to strategic projects (continued)

The set-up of ESES Tactical also includes certain developments that will reduce the cost of SSE and SP. Under the terms of the Group Project Agreement, Euroclear France will be indemnified for the early harmonisation and the cost savings resulting from ESES Tactical in the form of a harmonisation compensation, subject to the acceptance of the final delivery of the project. The commitment of EUI with respect to this harmonisation project amounts to €4.4 million as of 31 December 2008.

18. Ultimate Parent Company

EUI is a wholly owned subsidiary of Euroclear SA/NV, which is incorporated in Belgium. The ultimate parent and the controlling entity is Euroclear plc, which is incorporated in England and Wales.

The smallest group in which the results of EUI and its subsidiaries are consolidated is that of which Euroclear SA/NV is the parent company.

The registered office of EUI is 33 Cannon Street, London EC4M 5SB. Copies of the Euroclear plc group accounts and the Euroclear SA/NV accounts can be obtained from this address.

19. Related party transactions

The following transactions have been made with related parties during the year.

Related Party	**Services provided (by)/to the group**	**Revenue**		**(Charge)**	
		2008	2007	**2008**	2007
		£'000	£'000	**£'000**	£'000
Parent	Shared Services	**-**	-	**(42,048)**	(41,101)
	Projects	**-**	-	**(22,935)**	(27,617)
	Strategic Projects	**-**	-	**(9,890)**	(8,200)
	Support	**1**	27	**-**	-
	Dividend Paid	**-**	-	**(49,998)**	**(33,800)**
Fellow subsidiaries	Shared Services	**55**	48	**-**	-
	Royalty Payment	**-**	-	**(403)**	(286)
	Commercial services	**172**	283	**(879)**	(828)
	Project	**-**	-	**(929)**	-
Other	Other services	**-**	-	**(15)**	(6)

Related Party	**Receivable**		**(Payable)**	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Parent	**2,562**	22	**(1,007)**	(10,953)
Fellow subsidiaries	**224**	98	**(1,454)**	(364)
Other	**-**	-	**(19)**	(15)

KEY:
Parent: Euroclear SA/NV
Fellow subsidiaries: Euroclear Bank, Euroclear Nederland, Euroclear France and EMX Company Limited
Other: Euroclear Investments

For the purposes of IAS 24 'Related party disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

19. Related party transactions (continued)

Key management personnel remuneration and other compensation

The following information is presented only in respect of those employees of EUI who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). At 31 December 2008, the number of key management personnel was 9 (2007: 9). The number of key management personnel who participate in the defined contribution pension scheme is 4 (2007: 4).

	2008	2007
	£	£
Short-term employee benefits	**958,137**	1,074,836
Post employment benefits	**103,250**	112,425
Total remuneration and compensation	**1,061,387**	1,187,261

As at 31 December 2008, under a scheme available to all staff, key management personnel had interest free season ticket loans outstanding of £Nil (2007: £Nil).

Directors' emoluments

The following information is presented only in respect of the directors and non executive directors of EUI. At 31 December 2008, the number of directors and non-executive directors was 7 (2007: 7). The number of directors and non-executive directors who participate in the defined contribution pension scheme is 2 (2007: 2).

	2008	2007
	£	£
Aggregate remuneration	**671,760**	705,111
Post employment benefits	**53,595**	63,785
Short-term employee benefits	**1,018**	1,028
Total remuneration and compensation	**726,373**	769,924
The emoluments of the highest paid director:		
Aggregate remuneration	**253,931**	409,871
Post employment benefits	**21,336**	30,785
Short-term employee benefits	**309**	405
Total remuneration and compensation	**275,576**	441,061

20. Monies held in trust

Two of the subsidiary companies of EUI hold monies in trust as disclosed below:

Subsidiary	Held in trust for:	2008 £'000	2007 £'000
CREST Stamp Nominee (No.1) Limited	HM Revenue and Customs	**93,386**	113,548
CREST Stamp Nominee (No.2) Limited	Irish Revenue Commissioners	**8,100**	9,912

21. Financial risk management

The Company's activities expose it to a variety of financial risks (including currency risk, cash flow interest rate risk and credit risk). The Company manages these risks through various control mechanisms.

Overall responsibility for risk management rests with the Board of EUI. Day to day responsibility is delegated to the Executive Committee.

Additional information on EUI's financial risk management policies has been included in the Directors' Report on page 1.

(a) Management of market risk
Market risk arises in respect of investment or trading in financial instruments (e.g. equities, fixed income securities, derivatives) where the fair value of future cash flows of such instruments will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk.

(i) Currency risk
The Euroclear group operating model is designed to facilitate the supply of services between entities in different locations, including to EUI from various European countries. The Company is therefore exposed to foreign exchange risk arising from currency exposures, primarily in relation to the Euro. Foreign exchange risk arises from the supply of services where the underlying cost has been accounted for in Euro, on future commercial transactions and on recognised assets and liabilities.

The company's exposure is mitigated in respect of:

- Payment for inter-entity services: prepayment is made monthly for the anticipated recharge; as such, any currency exposure is limited to the difference between the monthly prepayment and the amount subsequently invoiced;

21. Financial risk management (continued)

- Future charges for Strategic Project development: costs of development for each project are charged to the (I)CSDs based upon a fee income allocation methodology. The translation of EUI's income to Euros, as required for this calculation, means that the charge allocated to EUI in Euros is reduced when there is a fall in the value of Sterling, and increases if the value of Sterling rises. When the Euro charge is accounted for in Sterling, the net effect of any exchange rate movement is minimal.

The extent of Euro underlying cost in inter-company services varies by the nature of the service. In 2008, this amounted to 56% of the total cost of services recharged to EUI. The average GBP:EUR exchange rate for the year was 0.80. If the exchange rate weakened from GBP:EUR 0.80 to 0.85, the resulting effect would be an increase in expenditure of £2.78 million. This would have reduced profit before tax for the year by 9.0%.

A consistent approach has been applied to the management of foreign currency transactions. A group view is taken in relation to the requirement for hedging exchange rate exposure, given the bi-directional flows of recharge arrangements. Any exchange differences on translation of net assets are recorded in the Income Statement. For services supplied from foreign locations, the value charged in Euro is translated to Sterling when accounted for by EUI, thereby recording the cost at the prevailing spot exchange rate. The Company does not currently actively hedge against these currency exposures.

The Company has no investments in foreign operations.

(ii) Interest rate risk
Interest rate risk arises on interest-bearing assets (e.g. loans, deposits placed and receivables) and borrowings.

The Company's exposure to interest rate risk in relation to interest expense is minimal, due to EUI not having any requirement for overdrafts or loans.

The Company employs a prudent treasury policy whereby surplus funds are placed on money market deposit for periods of up to three months. Interest rates obtained are monitored to ensure that interest income is maximised.

(iii) Price risk
The Company does not hold investments or trade in any financial instruments where value fluctuates with market prices.

21. Financial risk management (continued)

(b) Management of credit risk

Credit risk is the risk that EUI is exposed to loss if another party fails to perform its financial obligations to the Company. Credit risk exposure is minimised as:

- The majority of customers are regulated entities: more than 70% (by value of fees) are banks, subject to capital adequacy requirements; and

- Customers largely settle amounts by monthly direct debit.

The extent of EUI's exposure to third parties is limited to the value of unsettled invoices and unbilled accrued income. Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis; for example, through the regular review of customers' outstanding balances. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Note 11 indicates an amount of £317,000 which was impaired at the balance sheet date.

(c) Management of liquidity risk

Liquidity risk is the risk that EUI, though solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due.

Responsibility for EUI's liquidity has been delegated by the Board to the Executive Committee. Cash reserves are managed to ensure that EUI is able to meet its financial obligations at all times. As detailed in note 1(k), EUI holds most of its liquid assets in the form of cash or cash equivalents, which give rise to little or no liquidity risk.

In addition, the Financial Services Authority has set a Financial Resources Requirement which requires that sufficient liquid financial assets are retained. Monthly reports are filed with the FSA to confirm that the requirement is met.