



Audit Opinion

Annual Financial Statements  
for the period ended 31 December 2007  
and Management Report

Clearstream Banking Aktiengesellschaft  
Frankfurt/Main

This is an English translation of the German text,  
which is the sole authoritative version.

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Balance sheet as of 31 December 2007  
of Clearstream Banking Aktiengesellschaft, Frankfurt/Main

Assets	31/12/2007		31/12/2006	
	EUR	TEUR	EUR	TEUR
Cash (seam)				
Cash at central banks	2,574,360.00	2,574,360.00	2,219	2,219
Deposit Clearstream Banking				
EUR 2,574,360.00 (previous year: TEUR 2,219)				
Receivables from banks	1,167,043,472.57	1,167,043,472.57	1,397,289	1,397,289
Due daily				
Receivables from customers	209,566,241.35			
Bonds and other fixed-income securities				
Bonds and debentures of public-sector issuers	9,752,736.98			
Foreign equities as collateral at Deutsche Bundesbank			20,511	
EUR 8,758,738.28 (previous year: TEUR 20,511)				
of other issuers	8,123,813.11	18,876,243.49	0	20,511
Invested, eligible as collateral at Deutsche Bundesbank				
EUR 8,123,813.11 (previous year: TEUR 0)				
Shares and other variable-income securities	25,065,877.16			25,039
Intangible assets	382,222.42			481
Property, plant and equipment	338,854.82			380
Other assets	7,715,592.86			1,933
Deferred tax assets in accordance with section 274 (2) HGB	7,687,521.80			2,007
Deferred income and prepaid expenses	5,600.00			0
<b>Total assets</b>	<b>1,431,473,332.28</b>			<b>1,450,722</b>
Liabilities				
Liabilities due to banks				
Due daily	999,562,385.52	999,562,385.52	1,227,699	1,227,699
Liabilities due to customers and other liabilities				
Due daily	121,056,733.78	121,056,733.78	41,756	41,756
Other liabilities	29,010,906.37			17,369
Provisions				
Provisions for pensions and similar obligations	28,482,200.00			29,543
Tax provisions	4,639,591.71			8,432
Other provisions	45,240,067.87	78,366,899.58	24,164	63,139
Shareholders' equity				
Subscribed capital	25,000,000.00			25,000
Additional capital reserves	12,600,000.00			24,575
Residual earnings and other liabilities	1,391,519.29			1,391
Statutory reserve	11,945,399.84			2,172
Other retained earnings	53,500,000.00	203,836,916.04	47,500	100,658
Comprehensive profit				
<b>Total liabilities</b>	<b>1,431,473,332.28</b>			<b>1,450,722</b>
Other obligations				
Irrevocable loan commitments	51,791,655.37	51,791,655.37	51,493	51,493

**Income statement of  
Clearstream Banking Aktiengesellschaft, Frankfurt/Main  
for the period 1 January to 31 December 2007**

	2007		2006		
	EUR	EUR	EUR	TEUR	TEUR
<b>Interest income from</b>					
Loans and money market transactions	82,273,516.65			26,267	
Fixed-income securities and book-entry securities	822,837.72	83,096,354.37		1,114	27,381
<b>Interest expenses</b>		-53,021,587.14	30,074,967.23	-10,665	16,716
<b>Current income from</b>					
Shares and other variable-income securities		146,348.21	146,348.21	0	0
<b>Commission income</b>		298,740,626.28		266,712	
<b>Commission expenses</b>		-41,441,031.91	257,299,594.37	-34,803	232,709
<b>Other operating income</b>			20,823,775.37		20,741
<b>General administrative expenses</b>					
Personnel expenses					
Wages and salaries	-64,281,405.72			-35,673	
Social security and retirement pensions and benefits	-5,765,781.93	-70,047,187.65		-12,007	-47,680
thereof: for retirement benefits					
EUR 1,537,880.29 (previous year: TEUR 7,708)					
other general administrative expenses		-134,240,377.51	-204,287,565.16	-120,753	-168,433
<b>Depreciation and impairments of property, plant and equipment and intangible assets</b>			-350,126.96		-306
<b>other operating expenses</b>			-14,473,292.60		-16,408
<b>Income attributable to write-ups for receivables and certain securities as well as the release of provisions in lending business</b>		9,196,550.95	9,196,550.95	0	0
<b>Net operating income</b>			96,430,251.41		85,019
<b>Taxes on income</b>		-35,156,825.49	-35,156,825.49	-34,494	-34,494
<b>Net income</b>			63,273,425.92		50,525
<b>Withdrawals from retained earnings</b>					
from other retained earnings		0.00	0.00	0	0
<b>Allocations</b>					
to legal retained earnings		0.00		-966	
to other retained earnings		-9,773,425.92	-9,773,425.92	-2,059	-3,025
<b>Cumulative profit</b>			53,508,000.00		47,500

## Notes to the annual financial statements for financial year 2007

### Accounting and valuation methods

The annual financial statements of Clearstream Banking Aktiengesellschaft, Frankfurt/Main (hereinafter also referred to as Clearstream Banking Frankfurt) for financial 2007 were prepared in accordance with the German Commercial Code (HGB), in accordance with the German Stock Corporation Act (AktG) and also in accordance with the Credit Institution Accounting Ordinance (RechKredV).

The valuation methods are consistent with those applied in the previous year.

Non-current assets items in foreign currency are converted into Euro at historical exchange rates applicable at the time of acquisition. Foreign currency receivables and liabilities are measured using the reference rate of the ECB as of the balance sheet date. Income and expenses are translated using the reference rate of the ECB applicable on the booking date.

Credit balances, receivables and other assets are shown with their nominal amount; shares are shown at the lower of cost or market value. All recognisable risks are individually written down.

Acquired intangible assets are shown at acquisition cost less depreciation.

Property, plant and equipment are valued at acquisition or production cost. Property, plant and equipment with a limited life were depreciated by the straight-line method at the highest rates permissible for tax purposes. In the case of movable non-current assets, the tax-law simplification rules with respect to the start of depreciation are applied in the form applicable at the time of acquisition. Low-cost assets are fully written off in the year of acquisition.

Liabilities are recognised in the amount due for repayment.

Provisions for pensions and similar obligations were recognised at their present value pursuant to section 6a of the German Income Tax Act (EStG) based on actuarial principles using the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. Unlike the previous year's assumed discount rate of 4.5 percent, a discount rate of 5.25 percent was used in the year under review. Due to tax regulations, the present value was partially used to determine the level of the provisions for the employee-financed deferred compensation programme.

The other provisions take into account all identifiable risks and uncertain liabilities as at 31 December 2007 and were recognised at the level of anticipated payment obligation. The intrinsic value was used as the basis for calculating the amount of the provision for the stock option programmes and the new ATP programme. The provisions for anniversaries and early retirement were valued according to actuarial principles at their partial value (or in the case of recipients of early retirement benefits, at their present value). Unlike the previous year's assumed discount rate of 4.5 percent, a uniform discount rate of 5.25 percent was used in the year under review. Prof. Dr. Klaus Heubeck's "2005 G mortality tables" were used as the basis of calculation.

Deferred taxes have been calculated in relation to the difference between the figures shown in the HGB accounts and the figures shown in the tax account. In line with the regulations of section 274 (2) HGB, an identical amount of the other retained earnings is not available for distribution to shareholders.

## **Notes and Explanations concerning the balance sheet**

Foreign currency assets amounted to TEUR 200,686 as of the balance sheet date (previous year: TEUR 203,119); foreign currency liabilities amounted to TEUR 200,559 (previous year: TEUR 203,981).

The changes in non-current assets can be derived from the attached statement of changes in non-current assets.

### **Receivables from banks**

Of the figure shown for receivables from banks, TEUR 1,060,428 (previous year: TEUR 1,359,816) is attributable to accounts due from affiliated companies.

### **Receivables from customers**

This item mainly comprises acquired non-marketable profit participation certificates of TEUR 200,000 (previous year: TEUR 0) with regard to a foreign issuer as well as current account receivables from settlement activities (TEUR 767; previous year: TEUR 553). The above mentioned profit participation certificates are classified under liquidity reserves. There are no accounts due from affiliated companies (previous year: TEUR 0). With the exception of the receivable in the form of the profit participation certificate, which runs until 18 June 2027; receivables from customers are due on a daily basis.

CBF has taken out a total return swap of TEUR 200,000 in order to hedge the counterparty default and the market price risk of the acquired profit participation certificate. The profit participation certificate has to be classified as a subordinate instrument.

### **Bonds and other fixed-income securities**

These are exclusively listed papers held in liquidity reserve. No securities (previous year: TEUR 15,030) are due within one year after the balance sheet date.

### **Shares and other variable-income securities**

These are unlisted shares in a restricted fund which is classified as non-current assets. They amount to TEUR 25,906 (previous year: TEUR 25,060).

### **Property, plant and equipment**

This item only comprises furniture and office equipment.

## **Other assets**

As of the balance sheet date, accounts due from affiliated companies of TEUR 2,016 (previous year: TEUR 1,495) and tax receivables of TEUR 5,637 (previous year: TEUR 248) accounted for most of the other assets.

## **Deferred tax assets in accordance with section 274 (2) HGB**

The company executed its right to choose the disclosure of deferred taxes on the asset side pursuant section 274 (2) HGB. The difference between the accounted provisions shown in the HGB accounts and those shown in the tax account result to an amount receivable from deferred taxes of TEUR 7,688 (previous year: TEUR 2.067). In the same amount retained earnings are blocked for distribution purposes.

## **Liabilities due to banks**

Of the figure shown for liabilities due to banks, TEUR 8,711 (previous year: TEUR 92) is attributable to accounts due to affiliated companies.

## **Liabilities due to customers**

The figure shown in the balance sheet is attributable mainly to margin payments of TEUR 98,009 (previous year: TEUR 37,444) (for participating in trading on the Frankfurt Stock Exchange, for participating in the electronic security transfer system of the Deutsche Bundesbank, for securities lending) and also current account liabilities of TEUR 23,087 due on sight (previous year: TEUR 4,313). Liabilities due to affiliated companies of TEUR 4,859 are attributable to margin payments (previous year: TEUR 6,676).

## **Other liabilities**

The other liabilities mainly comprise liabilities due to affiliated companies of TEUR 26,510 (previous year: TEUR 15,645), PAYE and church tax still payable in the amount of TEUR 1,843 (previous year: TEUR 657) and liabilities due to suppliers of TEUR 978 (previous year: TEUR 888).

## **Other provisions**

Major amounts in this item are the personnel provisions (TEUR 43,604; previous year: TEUR 18,352), outstanding invoices (TEUR 541; previous year: TEUR 1,403) and also provisions for reconciliation and claims (TEUR 414, previous year: TEUR 1,426).

Deutsche Börse AG has set up a virtual stock option programme for members of the management board and senior executives of Deutsche Börse AG and its subsidiaries. Clearstream Banking AG participates in this programme. Since 2007, this programme has been replaced by the new equity-linked bonus programme (Aktientantiemeprogramm - ATP). A provision of TEUR 11,864 (previous year: TEUR 5,728) was created (and debited to personnel expenses) to cover the intrinsic value of the virtual stock options and ATP shares which have been awarded as of the reference date of the financial statements.

Furthermore, Deutsche Börse AG has set up a Group Share Plan (GSP) for non-executive employees of Deutsche Börse AG and its subsidiaries, which consisted until financial 2006 of a component for the

acquisition of employee shares and a stock option component. This stock option component was replaced by a bonus share component in financial 2007. Clearstream Banking AG also participates in this programme. A provision of TEUR 3,713 (previous year: TEUR 1,882) was created (and debited to personnel expenses) to cover the intrinsic value of the stock options in circulation as of the reference date of the financial statements.

### Shareholders' equity

The share capital of Clearstream Banking Aktiengesellschaft is unchanged at EUR 25,000,000. It consists of 25,000,000 no-par-value registered shares. The shares can only be transferred with the assent of the company.

In addition to the share capital, the company also has the following reserves:

	TEUR	TEUR
<b>Additional paid-in capital</b>		
Carried forward as of 1 January 2007	24,575	
Allocation to additional paid-in capital	87,425	112,000
<b>Legal reserve</b>		
Carried forward as of 1 January 2007		1,392
<b>Other retained earnings</b>		
Carried forward as of 1 January 2007	2,172	
Allocation to retained earnings	9,773	<u>11,945</u>
Reserves as of 31 December 2007		125,337

### Other obligations

This item comprises seven irrevocable loan commitments which were extended in conjunction with national securities settlement.

### Information and explanation relating to the income statement

Interest income, current income, commission income as well as the other operating income are mainly generated in Germany, thus a breakdown according to regional markets is consequently not provided in accordance with section 34 (2) no. 1 RechKredV.

## **Other operating income**

This item (TEUR 20,824; previous year: TEUR 20,741) mainly comprises income for services transmitted for regulatory reasons for Luxembourg-based group companies (TEUR 13,008; previous year: TEUR 13,491), income from the reversal of provisions (TEUR 1,972; previous year: TEUR 209) as well as income from services (incl. EDP development services and reporting) for German group companies (TEUR 2,935; previous year: TEUR 2,590).

## **Other operating expenses**

The other operating expenses (TEUR 14,473; previous year: TEUR 16,408) are mainly attributable to costs of services transmitted for regulatory reasons for Luxembourg-based group companies (TEUR 12,348; previous year: TEUR 13,491) as well as costs for previous years for group companies (TEUR 1,242; previous year: TEUR 316).

## **Other financial obligations**

The other financial obligations relate to leasing and other contracts. They mainly relate to office premises, IT equipment and IT services. The total amount of obligations for 2008 is TEUR 55,392. This includes obligations due to Deutsche Börse AG (TEUR 38,546) as a result of service and rental agreements and rent as well as obligations due to Deutsche Börse Systems AG (TEUR 16,846) for IT services. The obligations amount to TEUR 221,567 for the years 2009 – 2012. The obligations for 2009 – 2012 were calculated on the basis of the agreements for 2007 and on the assumption of a constant volume. Of this figure, TEUR 154,183 is attributable to obligations due to Deutsche Börse AG and TEUR 67,384 is attributable to obligations due to Deutsche Börse Systems AG. In addition to the amounts mentioned, there are further contractual obligations due to affiliated companies (for technical processing, IT services and general services (corporate services)); these are charged when the services are utilised.

The obligations to Deutsche Börse AG and Deutsche Börse Systems AG are obligations due to affiliated companies.



## Other disclosures

### Supervisory board

The members of the supervisory board are:

Jeffrey Tessler Chairman	Chief Executive Officer of Clearstream International S.A.
Frank Gerstenschläger	Member of the management board of Deutsche Börse AG, responsible for Trading and Clearing Services (since 01 September 2007)
Mathias Hlubek	Member of the management board of Deutsche Börse AG, responsible for Group Coordination/Corporate Center, Customers/Markets (up to 07 March 2007)
Dr.-Ing. Michael Kuhn	Member of the management board of Deutsche Börse AG, responsible for Information Technology (from 12 March 2007 to 30 August 2007)
Otto Wierczimok	Employees' representative, employee of the Vaults Section
Thomas Zeeb	Head of Client Relations Europe & America of Clearstream International S.A. (since 01. February 2008)
Yves Baguet	Managing Director Information Technology of Clearstream International S.A. (since 01 February 2008)

The members of the supervisory board received remuneration of TEUR 4.

### Management board

The members of the management board are:

Andreas Wolf Chairman (since 19 March 2007)	responsible for Human Resources, Settlement & Banking, Risk Management & Compliance, Customer Services, Audit, Controls, Finance
Stefan Lepp	responsible for Customer Relations, Treasury, Product Management Global Securities Financing
Mathias Papenfuß	responsible for Custody, New Issues, Credit, Vaults, IT Production / Development (since 01 June 2007)

Katja Rosenkranz responsible for Business Strategy, Marketing & Sales Support  
Product / Development (since 01 July 2007))

Dr. Matthias Ganz responsible for Human Resources, Custody, Risk Management &  
Chairman Compliance, New Issues, Audit, Product Development, Controls,  
(until 13 March 2007) Finance (until 13 March 2007)

The total emoluments of the members of the management board in 2007 amounted to TEUR 1,218. The total emoluments include a figure of TEUR 199 for equity-linked compensation. There are 1,465 ATP shares.

Former members of the management board or their surviving dependants received remuneration of TEUR 1,052 in 2007. The actuarial present value of the pension obligations due to former members of the management board and their surviving dependants amounted to a total of TEUR 10,390 as of the reference date, and is fully included in the reserves.

### **Positions on supervisory boards and other executive bodies**

There are the following positions on supervisory boards and other executive bodies in accordance with section 340a (4) no. 1 HGB:

Andreas Wolf

- Clearstream International S.A., Luxembourg
- Clearstream Banking S.A., Luxembourg

Otto Wierczimok:

- Deutsche Börse AG, Frankfurt/Main

### **Employees**

The average number of employees during the 2007 financial year was 385. As of 31 December 2007, 382 persons (excluding the management board) were employed by Clearstream Banking AG.

Of the 382 employees, 3 persons have limited duration employment contracts and 44 persons have part-time employment contracts.

11 employees were on paid maternity or parental leave or were exempted from their duties as beneficiaries of parental benefits. Including part-time employees, the average number of employees during the year was 350.

### **Group affiliation**

Clearstream Banking AG is a wholly-owned subsidiary of Clearstream International S.A., Luxembourg. Clearstream International S.A. is a wholly-owned subsidiary of Deutsche Börse AG, Frankfurt/Main.

Clearstream Banking AG AG is included in the consolidated financial statements of Deutsche Börse AG, which are obtainable at the business premises of our company.

Clearstream International S.A., Luxembourg, and Deutsche Börse AG, Frankfurt/Main, have notified us, pursuant to section 20 (4) AktG, that they own a majority stake in our company.

Frankfurt/Main, 10 March 2008

Clearstream Banking Aktiengesellschaft

The management board

Stefan Lepp

Mathias Papenfuß

Katja Rosenkranz

Andreas Wolf

Clearstream Banking Aktiengesellschaft, Frankfurt/Main

Statement of changes in non-current assets as of 31 December 2007

	At cost			Depreciation			Book value			
	Balance at 01/01/2007 EUR	Additions EUR	Disposals EUR	Transfers EUR	Balance at 31/12/2007 EUR	Balance at 01/01/2007 EUR	Depreciation for financial year EUR	Disposals EUR	Balance at 31/12/2007 EUR	31/12/2006 EUR
<b>Intangible assets</b>										
Goodwill	1,533,875.64	0.00	0.00	0.00	1,533,875.64	0.00	0.00	0.00	1,533,875.64	0.00
Software excluding prepayments	12,245,390.17	69,521.99	-1,896,898.64	15,513.75	10,433,527.27	190,075.28	-1,896,898.64	10,093,351.10	340,176.17	445,215.71
Advance payments and assets under construction	35,460.00	2,100.00	0.00	-15,513.75	22,046.25	0.00	0.00	0.00	22,046.25	35,460.00
	13,814,725.81	71,621.99	-1,896,898.64	0.00	11,989,449.16	190,075.28	-1,896,898.64	11,627,226.74	362,222.42	480,675.71
<b>Property, plant and equipment</b>										
Furniture and business equipment	7,096,679.76	107,271.99	-36,798.91	0.00	7,157,154.83	160,051.68	-36,798.91	6,820,290.01	336,864.82	389,644.52
<b>Financial assets</b>										
Security investments	25,059,628.95	846,348.21	0.00	0.00	25,905,977.16	0.00	0.00	0.00	25,905,977.16	25,059,628.95
	45,861,034.52	1,025,242.18	-1,933,695.55	0.00	45,952,591.15	350,126.96	-1,933,695.55	18,447,516.75	28,605,064.40	25,929,949.18

## **Management report for the financial year 2007**

### **Business and operating environment**

#### **General situation of the company**

Clearstream Banking Aktiengesellschaft (referred to in the following as: Clearstream Banking Frankfurt or CBF) continues to enjoy a good business and market position.

In 2007, Clearstream Banking Frankfurt again was very actively involved in implementing the code of conduct for clearing and settlement of equities on the spot market (Code of Conduct). The initial objectives of the code of conduct were achieved in the field of "price transparency" in the form of a changed list of prices and the preparations of conditions for "access & interoperability". The measures for implementing separate accounting were completed in the second half of the year.

In the second half of the year, Clearstream Banking Frankfurt also submitted initial applications for access to trading, clearing and settlement for the markets in France, Belgium, Great Britain, the Netherlands, Switzerland and Portugal. A joint project team with other companies of the Deutsche Börse Group (referred to in the following as GDB) co-ordinates the corresponding measures and preparations. As a result of an application of the clearing houses LCH Clearnet Ltd. and LCH Clearnet S.A. as well as Euroclear Bank S.A./NV to Deutsche Börse AG with regard to the Frankfurt stock exchange, access applications were also submitted to Clearstream Banking Frankfurt within the framework of the code of conduct.

After the European Central Bank (ECB) announced in July 2006 that it is investigating the possibilities for more efficient securities settlement in central bank money, the Clearstream Group started a project in order to support this key investigation with appropriate expertise and to analyse the possible future impact on the business processes. Clearstream Banking Frankfurt supported the ECB and the Deutsche Bundesbank actively in 2007 by seconding members of the management board to the "T2S Advisory Group", sending employees to all six "T2S Technical Groups" and by participating in the national user group, and thus simultaneously ensured that the requirements of the German market and of Clearstream Banking Frankfurt with regard to a future TARGET2 securities system were integrated in the process at an early stage. In addition, very intense discussions were held with the European Central Custodians who are combined in the ECSDA as part of the association activities (ECSDA) in order to ensure that the interests of the German market and of Clearstream are adequately recognised.

The position of the Clearstream Group is at present "constructive but also still cautious", because various issues which are necessary for achieving a definitive assessment of the impact on Clearstream Banking Frankfurt have not yet been clarified by the Eurosystem of the ECB. In particular, the legal form, cost-effectiveness and extent of functionality are still being developed by the ECB.

The "New German Settlement Model" which was launched in November 2003 has been used as the basis for developing further products in order to increase the attractiveness of settlement in the German market.

The "Self-Collateralisation" project was implemented jointly with Deutsche Bundesbank in October 2007; this enables German participants to receive additional central bank liquidity from Deutsche Bundesbank for overnight settlement of Clearstream Banking Frankfurt. For this purpose, securities from purchase instructions of overnight settlement are pledged immediately to Deutsche Bundesbank for the same settlement cycle.

In November 2007, TARGET2, the new payment system of the Euro system for large amounts, was successfully implemented with the involvement of Clearstream Banking Frankfurt, and is used for overnight settlement of securities transactions.

At the end of the year, Clearstream Banking Frankfurt achieved an agreement with its main customers and Deutsche Bundesbank for changing over money settlement for daily processing to TARGET2 in two phases (2008 and 2009).

The introduction of CmaX Release II resulted in a huge increase in volume in Xemac. This was achieved by linking the collateral management systems Xemac (Clearstream Banking Frankfurt) and CmaX of the affiliated company Clearstream Banking S.A. (referred to in the following as Clearstream Banking Luxembourg) in conjunction with an expansion of the segments defined for collateral purposes (securities). The outstanding volume in our collateral system was consequently increased considerably. The two-dimensional extension now also enables customers of Clearstream Banking Luxembourg to access the Bundesbank (central bank money) via Xemac (CBF) without having to change the existing account set-up or having to do without existing services such as "auto-allocation", "auto-substitution" or "optimisation". In addition, the extension of the approved collateral pool (ECB-eligible securities) to the markets of Italy, Austria, the Netherlands, Belgium as well as Euro bonds permits even greater flexibility in terms of existing liquidity at customers. These enhanced features have resulted in even stronger acceptance among our customers, particularly in the current climate (sub prime). This trend was additionally strengthened by the option of steering trades in a controlled manner via a central counterparty (CCP) (in particular via Euro GC Pooling © via CCP Eurex Clearing AG [referred to in the following as Eurex Clearing]). In this respect, the neutrality and the quality of the counterparty (Eurex Clearing) and the "avoidance of costs of tying up of equity capital" are strong drivers of the observable trend in growth. The total outstanding volume of collateral managed in Xemac was increased appreciably in the course of 2007 from EUR 110 billion to EUR 129 billion.

The volume and income of "FAB" – Frankfurt Automated Borrowing - and other CBF products in the field of "Global Securities Financing" – GSF – are experiencing strong growth. Driven by the strong markets and the acquisition of new customers, the volume in the Clearstream Banking Frankfurt specific product "FAB" (Frankfurt Automated Borrowing) has doubled. Income in this segment has also expanded by a similarly strong amount. Customers have also been gained in the other securities lending products, "collateral swap" and "FCL" (Frankfurt Case-by-Case Lending). The Group of participants in the fund-lending service "KAGplus" was also increased appreciably in 2007. At present, 5 new participants are being implemented; the volumes of these new participants will be relevant for income starting in 2008. For "KAGplus", the scene has again been set for considerable growth in volume/income for next year.

As it has been the case in recent years, further programme improvements were achieved on the two settlement platforms (CASCADE / Creation). The main purpose of these programme changes/additions is to

boost customer satisfaction, to meet the targets in terms of reducing costs and also to implement straight-through processing (STP).

One of the measures related to extending the existing settlement systems for vault custody, in order to enable gold to be held in custody in the vaults of Clearstream Banking Frankfurt. Clearstream Banking Frankfurt was very much involved in setting up Deutsche Börse Commodities GmbH, a joint venture between Deutsche Börse AG and various banks, and in developing the gold-backed bond "Xetra-Gold" issued by this company.

In order to stabilise and expand capacities for settling new issues, and in particular for warrants/certificates, the company has implemented initiatives which enable Clearstream Banking Frankfurt and the market to settle the volumes which have increased further more efficiently and less expensively.

Particular mention has to be made of the following developments with regard to the settlement of international securities (Creation):

- A further step in the direction of increasing settlement efficiency within the framework of bridge settlement was achieved by the further expansion of the information processes between CBL and Euroclear Bank S.A./NV.
- A new IT application was introduced in December 2007 in connection with the implementation of business process optimisations for income payments. This supports the systematic comparison of income data of different information providers and also permits automatic further processing. This also has created the foundation for processing other information flows (e.g. corporate actions).
- The introduction of a new cash settlement programme NCCIP (New Continuous Cash Instruction Processing) has created the basis for replacing old systems and for improving internal and external processes (including improved cash deadlines in the various markets).
- The new settlement platform CFF (Central Facility for Funds) was successfully launched for funds in the spring as a further component of the "Magellan" project.

As it has been the case in previous years, intensive discussions were held with customers concerning issues of daily business and also concerning potential further developments. Considerable use was also made of the possibility of representing Clearstream Banking Frankfurt at national (incl. VBO symposia) and international (incl. SIBOS) conferences.

At the Clearstream Group, a "Nearshoring" project has been started by Clearstream Banking Frankfurt and Luxembourg as part of a group-wide restructuring programme; the aim of this project is to outsource some operating processes (excluding IT processes) from the locations Luxembourg and Frankfurt to an additional operational location in Prague. Initial preparations for the three-year programme were initiated in 2007. As part of these preparations, discussions were initiated with the works' council in November; these discussions are still ongoing. The areas for the initial transfer of activities were announced at the beginning of 2008. Approximately eight jobs are affected by the initial transfer, which is earmarked for the second half of 2008.

In an international trade magazine (Global Custodian), the service of Clearstream Banking Luxemburg, which is identical to settlement of international business of Clearstream Banking Frankfurt, was again rated as "excellent" within the framework of the annual customer survey. The product and service offering in all valuation categories were rated better than the corresponding products and services of the competition for settlement via ICSDs.

## **Development of business during the year under review**

Since January 2008, Clearstream has been using new statistical reporting procedures for assets held in custody and also for the number of settled transactions. The advantages of these new methods are a higher degree of compliance with business figures and reported income figures, improved transparency, harmonisation with market practice and more rapid availability of monthly figures. In the new method, the nominal value is used for the fixed-income securities which are held in custody. Figures based on market value had previously been used. For all other securities, the assets held in custody are still shown on the basis of market value. Reporting for settlement transactions is being adjusted to current accounting practice. The basis is formed by billable transactions for international and national markets. The previous year figures have been determined in accordance with the new definitions. This does not have any impact on the income figures shown. The investment fund services figures are calculated using the new statistical calculation method; this is not applicable for global securities financing.

Clearstream Banking Frankfurt achieved a very good performance in financial 2007.

## **Securities held in collective custody**

### **Significant increase in the account volume**

The market value of the securities in circulation which are held in collective custody has increased by 11.6 percent, from EUR 5,698 billion at the end of 2006 to EUR 6,358 billion as of 31 December 2007. This comprises an increase of 2.9 percent in bonds held in custody and an increase of 18.3 percent in equities held in custody.

### **Further increase in the number of transactions**

The number of settled and chargeable transactions (double counting) increased by 19.1 percent compared with the previous year, to 89.9 million transactions. This means that, on a daily average basis, 352,584 transactions were recorded for settled securities transactions or completed security transfers. Of the total number of transactions, market trades accounted for 61.0 million (2006: 52.0 million), including 17.0 million (2006: 12.8 million) for CCP settlement and 28.9 million (2006: 23.4 million) for OTC trades.

### **More categories held in collective custody**

The number of security issues included in collective custody increased by 44.8 percent in 2007 as a result of the continuing strong issuing activity for bonds and warrants. At the end of 2007, Clearstream Banking Frankfurt held a total of 408,230 different categories in custody for its customers (end of 2006: 281,859). These consist of 93,866 bonds (end of 2006: 83,454), 12,694 equities, investment units and profit participation certificates (end of 2006: 11,075) as well as 301,670 warrants (end of 2006: 187,330).



## **Decline in the number of customers and accounts**

The number of customers for collective custody of Clearstream Banking Frankfurt was 340 at the end of the year (end of 2006: 358). The number of foreign account holders declined to 123 (end of 2006: 125), whereas the number of German customers declined to 217 as a result of insolvency and mergers (end of 2006: 233). The total number of accounts (foreign and domestic account holders) declined slightly to 1,324 (end of 2006: 1,326).

## **Strong increase in cross-border settlement with CSDs**

Cross-border settlement between Clearstream Banking Frankfurt and the foreign central custodians increased in 2007 by 57.2 percent from 249,472 transactions in 2006 to 392,139 transactions in 2007.

## **Securities in international business**

### **Increase in custody volume**

The volume of securities held in custody at foreign custodians at the end of December 2007 was 13.5 percent higher than the corresponding previous year figure. The value of these securities held in custody was EUR 704.5 billion (end of 2006: EUR 620.6 billion).

### **Strong increase in the number of transactions**

The number of settled transactions in foreign securities increased by 10.0 percent compared with 2006 (double counting), to 17.6 million transactions. Of this figure, 13.9 million (2006: 12.7 million) transactions were attributable to market trades or transfers in the system, and 3.7 million (2006: 3.3 million) were attributable to OTC trades settled abroad.

### **Growth in foreign security categories**

The number of foreign security categories increased by 10.2 percent in 2007, to 47,885.

### **Increase in the number of customer accounts**

At the end of December 2007, Clearstream Banking Frankfurt maintained a total of 876 accounts for foreign transactions. This figure is 25 percent higher than the corresponding figure for December 2006. In that period the number of customers declined by 1.9 percent from 208 to 204.

## **Vaults**

### **Further decline in security certificates held in custody**

In line with expectations, there was a further decline in the number of physical certificates held in the vaults, i.e. the trend towards the securitisation of new issues in permanent global certificates also continued in 2007. As of 31 December 2007, Clearstream Banking Frankfurt held a total of 63.4 million (end of 2006: 73.5 million) certificates in its vaults.

## Number of deposits and withdrawals

In 2007, 1.5 million certificates (2006: 2.0 million) were delivered by our customers to be held in collective custody; 11.6 million (2006: 6.1 million) certificates were delivered to customers. New issues and deliveries of due securities are not included in these figures.

## Employees

In financial 2007, the number of employees at Clearstream Banking Frankfurt was 382 as of the reference date 31 December 2007. On average for 2007, 385 persons were employed at Clearstream Banking Frankfurt.

In the course of 2007, 10 employees left the services of Clearstream Banking Frankfurt, and the fluctuation rate was accordingly 2.6 percent.

The age structure of employees as of 31 December 2007 is as follows:

Age group	Number of employees	Percentage
Under 30 years	12	3.1%
30 – 39 years	128	33.5%
40-49 years	160	41.9%
50 and over	82	21.5%
<b>Total</b>	<b>382</b>	<b>100%</b>

As of 31 December 2007, our employees' length of service in the company broke down as follows:

Company service for Deutsche Börse Group	Number of employees	Percentage
Under 5 years	45	11.8%
5 – 15 years	210	55.0%
15 years and over	127	33.2%
<b>Total</b>	<b>382</b>	<b>100%</b>

As of the balance sheet date 31 December 2007, 28.8 percent of the employees of Clearstream Banking Frankfurt held post-graduate degrees. This percentage is based on the number of employees with university, technical high school or professional academic degrees together with those staff with complete foreign studies.

Clearstream Banking Frankfurt employees attended on average 1.97 days training per employee in 2007.

## **Net Assets, Income and Financial**

Based on end-of-month figures, the total ratio of Principle I was between 11.9percent and 49.3percent. The range is due to the high volatility of our balance sheet volume. The liquidity ratio (according to LiqV) is relatively stable and fluctuates between 1.8 and 2.7 on the basis of end-of-month figures. This ratio documents the good liquidity position of the company. Re-financing funds can be accessed at all times via our affiliated company Clearstream Banking Luxembourg.

Net interest income reported a very positive performance in 2007, and amounted to TEUR 30,075 in 2007 (previous year: TEUR 16,716). Interest income increased to TEUR 83,096 (previous year: TEUR 27,381), and interest expenses increased to TEUR 53,021 (previous year: TEUR 10,665). The main factors behind the positive development in net interest income were the acquisition of a profit participation right, higher interest rates as well as much higher customer deposits of on average EUR 669 million (previous year: EUR 468 million).

Net commission income improved from TEUR 232,709 in 2006 to TEUR 257,300 in 2007. This improvement is due to the positive development in international business. Transaction fees increased by 11.4 percent compared with the previous year, and account fees also improved by 14.1 percent compared with the previous year. In the field of business with securities held in collective custody, account fees increased by 3.7 percent and transaction fees increased by 9.1 percent compared with 2006. The other commission income reported a very positive performance, increasing by 30.4 percent compared with 2006. This includes income from securities lending, which improved appreciably by 80.3 percent. Commission income overall increased by 12.0 percent to TEUR 298,741 (previous year: TEUR 266,712). Commission expenses increased to TEUR 41,441 (previous year: TEUR 34,003).

Personnel expenses increased by 46.9 percent to TEUR 70,047 (previous year: TEUR 47,680). This figure includes cost of TEUR 21,090 attributable to restructuring provisions. The other general administrative expenses excluding IT costs increased to TEUR 134,240 in the financial year (previous year: TEUR 120,753). They mainly comprise costs of TEUR 115,176 for external services and rental agreements (previous year: TEUR 102,709).

Operating result in 2007 improved further to TEUR 98,430 (previous year: TEUR 85,019). The company's net income improved to TEUR 63,273 (previous year: TEUR 50,525).

Additional paid-in capital was increased by an allocation of TEUR 87,425 on 28 December 2007 to a total of TEUR 112,000, in order to take account of the expected equity requirements with regard to backing operational risks as part of the implementation of the so-called "Basel II" rules in 2008 (see risk report).

Return on equity declined from 95.5 percent in 2006 to 91.3 percent in 2007, due to the increase in additional paid-in capital in 2006 and 2007.

## Risk report

To the extent permitted by regulatory requirements, Clearstream Banking Frankfurt is integrated in the group-wide risk management system of Deutsche Börse AG. As defined in the Group Risk Management Policy, the purpose of the risk management function is to identify all dangers and causes of potential losses and business disruptions at an early stage, to centrally record, evaluate and report these dangers and causes, in order to enable appropriate action to be taken and to enable risk to be monitored in an appropriate manner.

The risk strategy of Clearstream Banking Frankfurt is based on its business strategy, and defines the maximum amount of risk to be taken on for every activity. This is achieved by way of specifying conditions for risk management control and limitation. The company devotes special attention to reducing risk and ensures that appropriate measures are taken in order to avoid, reduce and transfer risks or to take on risk in a controlled manner. The aim is to reduce the frequency and extent of any losses for CBF by means of appropriate hedging and control measures, e.g. guidelines and procedures, functional segregation, the principle of checks being performed by two persons, limits as well as so-called business continuity management and via insurance policies.

The management board is responsible for managing all risks. Risk management at Clearstream Banking Frankfurt is organised on a local basis. The local departments are responsible for identifying risks, and report these risks promptly to Group Risk Management, a central department with enterprise-wide powers. Group Risk Management evaluates all existing and new risks. It also reports to the management board on a regular basis and also on an ad hoc basis. Risk controlling is carried out in the relevant local departments, and thus at the point at which the risks occur.

Clearstream Banking Frankfurt has developed its own risk system, and distinguishes between operational, financial, project and business risks.

Clearstream Banking Frankfurt adopts a standard approach for measuring and reporting all operational, financial and business risks; the well-known concept of "Value at Risk" (VaR). The purpose of this concept is to present the general risk willingness in a comprehensive and easy to understand manner, and to facilitate the process of defining the priorities for the risk measures.

The VaR quantifies existing and potential risks. It determines the maximum amount of cumulative losses that Clearstream Banking Frankfurt may incur if certain independent loss events occur at a certain probability within a given time period. The models of Clearstream Banking Frankfurt work with a one-year horizon, a confidence level of 99 percent and the assumption of non-correlated events.

Conversely, this means that there is a one percent chance that one or more events may cause the cumulative loss within the next year to match or exceed the calculated VaR.

In order to establish whether Clearstream Banking Frankfurt is able to bear the risk of a potential loss, the calculated VaR is compared with the current EBITA prediction (EBITA = Earnings before Interest, Tax and Amortisation; EBITA is calculated on the basis of the IFRS results of Clearstream Banking Frankfurt). As of 31 December 2007, the VaR of Clearstream Banking Frankfurt overall was less than half of EBITA for 2007. The ratio is even lower if the risk reduction by the specific insurance portfolio of Clearstream Banking is also taken into consideration.

The results are integrated in a reporting system which enables the risks to be managed. Reporting contains quantitative as well as qualitative information regarding the risks. Issues which are relevant for risk purposes are explained comprehensively and the impact of these issues on the risk profile of Clearstream Banking Frankfurt as well as possible counter measures are described. Risk reporting is carried out on a monthly basis and, where necessary, on an ad-hoc basis for existing and potential risks.

Internal auditing carries out independent audits to ensure that the risk controlling and risk management functions are appropriate. The results of these audits are also integrated in the risk management system.

The relevant individual risks are described in detail in the following:

## **Operational risks**

Operational risks comprise all existing and newly arising risks in conjunction with Clearstream Banking Frankfurt's regular rendering of services. As such, operational risks include potential losses from inadequate or faulty system and internal processes, human error or technical errors, inadequate or faulty external processes, damage to physical objects as well as legal risks and risks of business practice. For Clearstream Banking Frankfurt, the main operational risks consist of problems affecting the interruption-free and error-free provision of its core products. These include in particular the clearing and settlement systems such as CASCADE.

### **(a) Availability risk**

Availability risk is defined as the risk that resources which are essential for the service offering of Clearstream Banking Frankfurt might fail, meaning that services cannot be provided at all or can only be provided with a delay. This risk is thus one of the main risks which Clearstream Banking Frankfurt has to face. Possible causes include hardware or software failures, operating and security errors and damage to the data centres.

Clearstream Banking Frankfurt manages the availability risk mainly by way of extensive activities in the field of business continuity management (BCM). BCM comprises all procedures which ensure ongoing operation even in an emergency scenario, and thus considerably reduces the availability risk. These include precautions for all major resources (systems, premises, employees, suppliers/service providers), including the redundant design of all critical IT systems and the technical infrastructure as well as emergency workstations for employees in core functions in all major operating centres. These BCM precautions are regularly checked in the following three dimensions:

- **Operational effectiveness:** Check to ensure that the precautions are capable of functioning.

- **Feasibility:** Ensure that the employees are familiar with the way in which the plans and procedures are carried out and that they have the appropriate knowledge.
- **Restoration time:** Confirm that the plans and procedures can be carried out within the defined restoration time.

### **(b) Processing error risk**

By way of contrast with the availability risk, processing error risks relate to situations in which a service is provided to customers of Clearstream Banking Frankfurt, although the service which is rendered may be affected by omissions due mainly to manual entries. Despite all system automation and efforts to establish so-called straight-through-processing (STP), there are still some manual tasks required. Accordingly, Clearstream Banking Frankfurt is still exposed to the risk that customer orders may be affected by processing error risk in certain segments, e.g. in custody business. Moreover, some market and system control tasks still require manual intervention.

In 2007, we again made substantial progress in reducing the risk of processing errors by reducing manual input and also by adding safeguards to the manual input which continues to be necessary. Losses as a result of processing error risk are more frequent than losses attributable to non-availability of resources. The company did not incur any significant losses in 2007 as a result of processing errors.

### **(c) Damage to physical assets**

This category includes risks attributable to accidents or natural catastrophes as well as terrorism and sabotage. No significant losses were incurred in 2007 as a result of damage to physical assets.

### **(d) Legal risks and risks of business practice**

These risks relate to losses resulting from non-compliance or inadequate compliance with new or existing laws, losses from inadequate contract terms and conditions or legal verdicts which are inadequately recognised within the framework of normal business practice as well as losses resulting from fraud. Examples of risks arising from business practice are losses due to money laundering, violations of competition law regulations or breaches of bank secrecy requirements. Clearstream Banking Frankfurt had set up the Group Compliance function which is responsible for protecting the group against potential losses arising from failure to comply with existing laws, ordinances or good management standards, whereby particular attention is devoted to the following issues:

- Prevention of money laundering and the financing of terrorist activities
- Professional and bank secrecy
- Prevention of insider trading
- Prevention of market manipulation
- Prevention of fraud

- Prevention of conflicts of interest and corruption
- Data protection

No significant losses occurred in the year under review as a result of legal risks or risks of business practice.

## **Financial risks**

Clearstream Banking Frankfurt's financial risks primarily relate to credit risk as part of lending and investment activities. To a very limited extent, the company also faces fair-value risks on investments and liquidity risks. We keep our overall exposure to the afore-mentioned risk types in check with effective control measures.

### **(a) Credit risk**

Credit risk is defined as the risk arising from counterparty default and thus non-performance or incomplete performance of Clearstream Banking Frankfurt's receivables from such counterparty.

Clearstream Banking Frankfurt extends loans to its customers in order to increase the efficiency of settling security transactions. However, this lending business is not equivalent to that of other credit institutions because the loans extended by Clearstream Banking Frankfurt are exclusively of a short-term nature and are extended only for settlement purposes; most of them are secured and extended to customers with a very good rating. They can also be revoked at any time.

Other credit risks may arise from investing moneys held in the liquidity reserve and fixed assets. The company has a treasury policy which defines the conditions for investment by the Treasury department. The liquidity reserve is invested exclusively in government bonds or covered debt instruments of prime issuers.

None of our counterparties defaulted on any of the transaction types described above in 2007.

### **(b) Market price risk**

Market price risks may arise from interest and foreign exchange rate fluctuations on certain investments. Share price risks occur to a limited extent with regard to investment in a special fund which is allocated to fixed assets. Clearstream Banking Frankfurt does not take on currency positions. Foreign currency customer funds are opposed by approximately identical amounts in Nostro accounts. Open positions resulting from currency spot trades with customers are closed on the same day by corresponding opposite trades with Clearstream Banking Luxembourg. The liquidity reserve is invested only in Euro. Open currency positions occur only in the case of the investments within the above-mentioned special fund in order to achieve appropriate returns on long-term investments. These are limited by the corresponding specifications in the investment guideline; in certain cases, they are further limited by appropriate hedges and, in total, are of minor significance.

### **(c) Liquidity risk**

Clearstream Banking Frankfurt is exposed to liquidity risks in that the company may be short of liquidity to meet its daily payment obligations or that it may incur excessive refinancing costs in bridging liquidity shortages. The Treasury department monitors our daily or intra-daily liquidity and controls it through a limit system. To safeguard against extreme shortfalls, we have extensive credit lines. In 2007, Clearstream Banking Frankfurt had a liquidity surplus and correspondingly did not encounter liquidity shortages.

### **(d) Regulatory requirements**

Clearstream Banking Frankfurt has to comply with the regulatory capital and liquidity requirements. The company complied with these requirements at all times in 2007.

Changed capital requirements and new regulations for limiting counterparty risks (large-loan regulations) have been applicable in the European economic region (EER) since 1 January 2007 with a transitional period of one year. These are governed in national regulations regarding the implementation of the EU Banking and EU Capital Adequacy Directive from the year 2006, and are based on the so-called Basel II regulations. The new capital regulations introduce various changes. For determining the overall quantity of capital requirement, the main new or modified elements are as follows: (a) the introduction of a capital backing requirement for operational risks, (b) the introduction of internal (advanced) calculation methods for the counterparty default and operational risk, (c) the possibility of choosing between three alternative methods for the credit risk and the operational risk, (d) the introduction of a risk weighting for the counterparty default risk dependent on the individual default risk and (e) extended possibilities for using risk reduction techniques (e.g. collateral) for reducing the amount of capital tied up for regulatory purposes.

As a result of the volume of implementation work involved, the company has decided to wait until 2008 before introducing the new capital requirements of the German Solvency Ordinance. In view of its customer structure (mainly banks and other financial institutions), Clearstream Banking Frankfurt has decided to adopt the standard approach for counterparty default risk. In order to determine the capital requirements for operational risks, and following approval by the Bundesanstalt für Finanzdienstleistungsaufsicht and the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg which is responsible for supervising the Clearstream subgroup, the advanced measurement approach (AMA) has been used since 1 January 2008. The new regulations for monitoring large loans and also for monitoring liquidity (Liquidity Ordinance – LiqV) have been applied since 2007.

The translation of the EU Financial Market Directive (MiFiD) into German Law has not had any major impact on the company.

### **Business risk**

The business risk reflects the company's relative exposure to the development of the overall economy and also its susceptibility to risks of external events. In this connection, risk is defined as the negative variance from anticipated EBITA.

The results of operations of Clearstream Banking Frankfurt depend directly and indirectly on the performance of numerous macro-economic factors (e.g. interest rates, GDP growth, index levels, index volatility). The resultant



loss potential is limited by the wide range of products consisting of depositary and settlement business, security financing services as well as activity on the national German market as well as international markets.

The company's results of operations could also be affected by external risks. These may be either endogenous changes in the market structure and business climate or exogenous changes such as the subsequent development of the regulatory environment. Together with the relevant offices within the Deutsche Börse Group, Clearstream Banking Frankfurt keeps a very close watch on developments so that measures designed to minimise risks can be introduced at an early stage.

## **Project risks**

Project risks can arise from implementing ongoing projects (introducing new products, processes or systems) that may materially affect one of the three other risk categories (operating, financial and business risks). Such risks are evaluated by Group Risk Management as described above, and are already taken into account at the start-up stage of significant projects. All our projects that were planned and implemented in 2007 did not change the overall risk profile of Clearstream Banking Frankfurt. Risks in connection with the implementation of projects, such as budget risk, quality/scope risk as well as deadline risk, are monitored separately by the Planning Methodology and Investment Controlling department. These did not adversely impact our company in the past fiscal year, either.

## **Impact of the US subprime crisis**

Clearstream Banking Frankfurt is not directly affected by the subprime crisis, e.g. by way of investments in subprime paper. The following measures have been taken to counter possible indirect effects on Clearstream Banking Frankfurt in the future:

### **(a) Customers of Clearstream Banking Frankfurt may default on payments:**

At Clearstream Banking Frankfurt, funds may be invested only with creditworthy counterparties with prime ratings; there are no unsecured investments with other counterparties or customers. Clearstream Banking Frankfurt has identified customers who may be significantly affected by the crisis, and monitors them constantly. Clearstream Banking Frankfurt has withdrawn unsecured credit lines for customers with a less than optimum history.

### **(b) Securities which have been pledged to Clearstream Banking Frankfurt may be hit by a fall in prices which exceeds the safety margins.**

This might result in a loan being unsecured. Paper of state issuers or agencies is used to a large extent for securing investments of Clearstream Banking Frankfurt. Clearstream Banking Frankfurt has identified securities which are held by customers and which have been issued by conduits. These securities are excluded from backing for loans.

### **(c) The liquidity of Clearstream Banking Frankfurt might decline because credit lines which have been extended to Clearstream Banking Frankfurt are withdrawn.**

Daily and intra-daily liquidity is observed constantly by the Treasury and Credit departments. No effect on the liquidity situation of Clearstream Banking Frankfurt has been determined.

## Summary

In 2007, Clearstream Banking Frankfurt recognised all new risks at an early stage and was able to take appropriate action in order to counter the risks. The risk profile of Clearstream Banking Frankfurt has not changed on the basis of these measures.

## Outlook

In view of the market environment – and also in view of the continuing US subprime crisis – and the business model of Clearstream Banking Frankfurt, the management board considers that the risks for Clearstream Banking Frankfurt are limited and manageable. There are no indications pointing to a significant change in the risk situation of Clearstream Banking Frankfurt.

Further developments of the risk management organisation and systems have also been planned for 2008. There are also plans for the stress tests to be extended in the field of credit risk.

## Branches

The company does not have any branches.

## Significant events after the balance sheet date

No events of particular significance occurred after the end of financial 2007.

## Forecast report

The forecast report discusses the probable future development of Clearstream Banking Frankfurt in 2008 and 2009. It contains forward-looking statements and information on events that have not yet happened. These forward-looking information and statements are based on our expectations and assumptions at the time this report was published. Such expectations and assumptions in turn are subject to known and unknown risks as well as other uncertainties. Various factors can affect the company's success, business strategy and earnings. Many of these factors are beyond the company's control. Should any of these risks and uncertainties materialise or should any of the underlying assumptions prove to be incorrect, the actual development of the company may turn out to be significantly different than forecast for better or worse.

The company is assuming that the volume of internationally issued bonds will continue to expand more strongly than the volume of nationally issued securities. A significant rise in long-term rates might also have

a negative impact on the business of Clearstream Banking Frankfurt because issuing activity could be expected to decline. With regard to its client structure, the company is assuming that the process of consolidation in the financial industry will continue and that there will be mergers between customers in national and international business. Higher discounts will be given to the then larger customers, which might result in lower average fees. Because Clearstream Banking Frankfurt is exposed to particularly fierce competition in the field of settlement and custody for international bonds, there might also be a reduction in market share and thus lower revenues. However, for the period covered by the forecast, the company does not anticipate that it will suffer a significant loss of market share.

The company also does not expect that its results of operations will be affected negatively in the period covered by the forecast by "TARGET2 securities", the settlement platform for security transactions planned by the European Central Bank. This opinion is based on the fact that the project implementation still has to be approved by the ECB council; it is also based on the provisional project plan which does not envisage the project being launched before 2013.

The company has already started to expand its network within Europe under the code of conduct. Corresponding implementations in subsequent years will enable existing business to be assured and new business to be established.

There are no indications that the so-called "subprime" crisis might have a major impact on the development of the company's business.

Clearstream Banking Frankfurt expects that net interest income from banking operations in the period covered by the forecast will be roughly of the same level seen in 2007. This assessment is based on the assumption that cash deposits of customers will decline despite stronger business activity as a result of improved liquidity management and a foreseeable reduction in short-term rates. On the other hand, there will be higher interest income from investing the increased shareholders' equity.

The following are the main measures planned for extending the range of products in 2008:

- Changeover of daytime processing to TARGET2 (new daytime processing)
- Combination of data bases and processes for optimising management of security master data and deadline data (WSS CBF, replacement of X list)

Together with Clearstream Banking Luxembourg, there are additional plans for further developments which will permit the changeover of the settlement (Creation) on a real time basis, and there are also further measures which will further optimise the processes for handling capital measures for international securities. The purpose of optimising the products and processes is to strengthen the profitability of the standard products and to implement customers' wishes. A further purpose is also to further develop ancillary products and thus expand the opportunities for the future.

In the budget planning process, an increase of 17 percent compared with the forecast for 2007 was assumed for calculating the account volume of internationally issued securities in 2008; for the account volume of nationally issued securities, an increase of 10 percent compared with the forecast for 2007 has been assumed. With regard to revenues generated by settlement activities, which are very dependent on the performance of

stock markets, a stable starting base of 4 percent above the level of the forecast for 2007 has been assumed for national securities, whereas growth of 18 percent compared with the forecast for 2007 has been assumed for international securities.

The opportunities are to be seen in a continuing increase in income resulting from high turnover on the European stock markets and higher OTC turnover in bonds.

Because of still active cost management, Clearstream Banking Frankfurt does not expect to see a major increase in overall costs for the period covered by the forecast. There are no signs at present of any negative exceptional factors. The relocation of some employees who are currently employed in Frankfurt-Hausen to the neighbouring Eschborn and also the Nearshoring project which is currently being implemented will have a considerable impact on active cost management.

The company is expecting a stable business climate in 2008, in an environment comparable to that seen in 2007.

## **Concluding statement in accordance with section 312 AktG**

In accordance with section 312 AktG, a report concerning relations with affiliated companies has been prepared. Our report closes with the following statement:

“In the case of every legal transaction with affiliated companies, our company has received appropriate compensation on the basis of the circumstances which were known at the time at which the legal transactions were conducted or at the time at which the measures were or were not carried out; it was not disadvantaged by the fact that the measures were or were not carried out.”

Frankfurt/Main, 10 March 2008

Clearstream Banking Aktiengesellschaft

The management board

Stefan Lepp

Mathias Papenfuß

Katja Rosenkranz

Andreas Wolf



## Audit Opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Clearstream Banking Aktiengesellschaft, Frankfurt/Main, for the business year from 1 January to 31 December 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany - IDW). Accordingly, the audit must be planned and carried out in such a way that it is possible, with sufficient certainty, to identify any misstatements which have a material effect on the presentation of the net assets, financial position and results of operations of the company provided by the annual financial statements in accordance with principles of proper accounting and by the management report. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.



**Clearstream Banking Aktiengesellschaft**  
Audit Opinion  
Annual Financial Statements for the  
period ended 31 December 2007  
and Management Report  
Translation

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

Frankfurt/Main, 8 April 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Bernhard

Bors

Wirtschaftsprüfer

Wirtschaftsprüfer