

CLEARING BOURSE DE LUXEMBOURG

Service Offer

14 MARCH 2008

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ABBREVIATIONS

CMF	Clearing Member Firm
TMF	Trading Member Firm
CCP	Central CounterParty
EB	Euroclear Bank
CBL	Clearstream Banking Luxembourg
ICSD	International Central Securities Depository
BdL	Bourse de Luxembourg
COE	Corporate Event
ISD	Intended Settlement Date

INTRODUCTION

Further to BdL's business proposition, BdL and LCH.Clearnet SA signed an agreement under which LCH.Clearnet SA will provide BdL with CCP services.

This guide intends to provide comprehensive and practical answers to queries of existing and future LCH.Clearnet SA's CMFs. This document will present how the clearing of Bourse de Luxembourg is implemented on LCH.Clearnet SA's platform and how LCH.Clearnet SA's CMFs will be able to access this new clearing segment.

*"LCH.Clearnet SA's clearing members community will be able to access products listed in Luxembourg, a European standard-setter for international securities transactions, with over 42,000 products listed, including 29,000 international bonds or nearly 60% of the European total, representing 4,100 issuers from over 100 countries."**

***Extract of LCH.Clearnet press release of May 29th, 2007.**

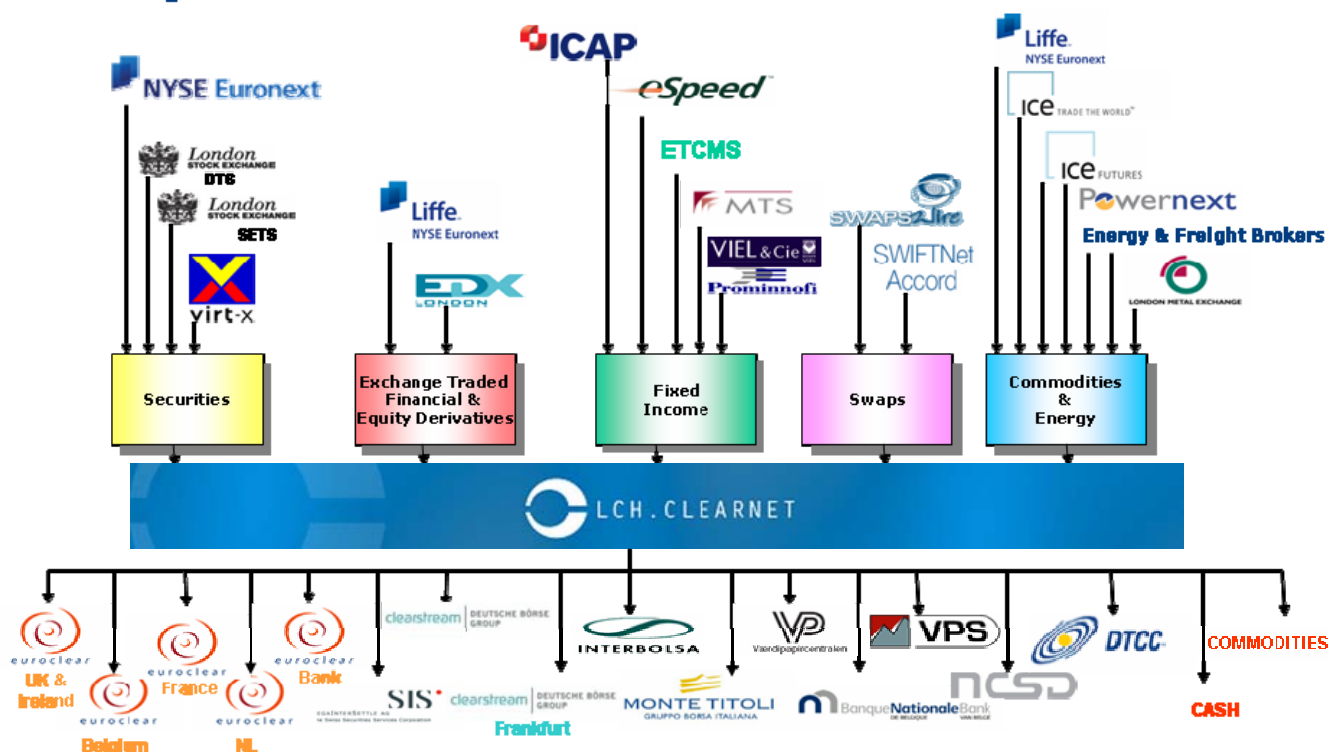
This document is intended in particular for participants wishing to make use of LCH.Clearnet SA services on BdL and does not address the clearing service offered by LCH.Clearnet SA in any other market.

This guide concentrates on clearing. It does not cover the specific characteristics of trading in BdL.

Further information can be obtained from:

- Bourse de Luxembourg at **www.bourse.lu**
- LCH.Clearnet SA at **www.lchclearnet.com**
- Euroclear Bank at **www.euroclear.com**
- Clearstream Banking Luxembourg at **www.clearstream.com**

Broad range of markets served by the Group



1. Reminder about what is a CCP and its main functions

1.1 What is a CCP?

A CCP (Central Counterparty) is the interface between the trading and settlement activities. It plays a very important role in regulated markets because of the 3 main functions it fulfils: novation, guarantee (risk management) and multilateral netting.

LCH.Clearnet SA has an essential role in reducing risk by acting as counterparty. LCH.Clearnet SA assumes the risk coming from a counterparty default avoiding any negative consequence for its CMF.

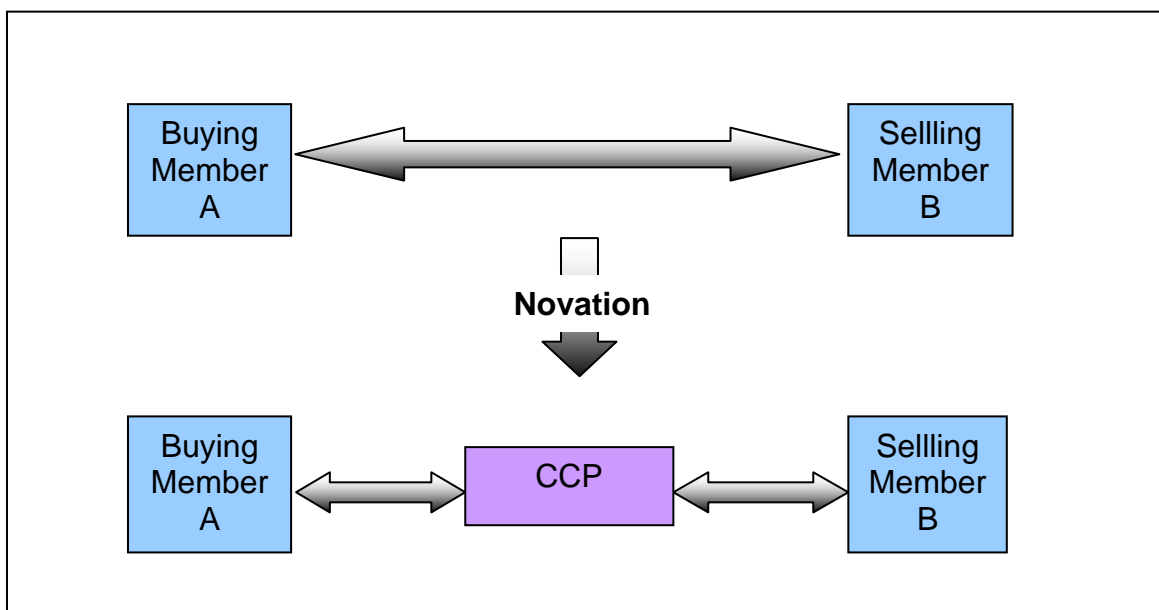
1.2 Detailed main functions

Novation

LCH.Clearnet SA registers the trades cleared by its CMFs and become therefore the buying counterparty of the seller and the selling counterparty of the buyer. LCH.Clearnet SA interposes itself between the seller and the buyer. This process is known as novation.

With the development of electronic trading platforms and the general acceptance of the order-driven market model, a clearing house is now playing a strategic role by systematically guaranteeing trading anonymity. This would not be possible without the clearing house standing as central counterparty.

So by enhancing market security and ensuring anonymity, clearing houses also ensure straight-through processing, since no situation can arise that will bring the mechanism to a standstill or prevent delivery and payment.



Guarantee

The purpose of having trades cleared by a CCP is to guarantee the full performance of contracts for all market members.

As soon as the CCP interposes itself in the transaction process, it assumes the risk of default by one of the parties and guarantees the non-defaulting party that it will respect the terms of the trade in lieu of the defaulting member.

As a result, systemic risk (i.e. the risk that one members' failure will trigger a chain reaction) is significantly reduced.

To be able to offer such a guarantee, a CCP needs to ensure optimum financial strength. At present, there are two main possibilities to manage risks corresponding to this guarantee:

- *The defaulter-pays model:*

A member's default is covered firstly by the collateral posted by the member itself and, if this is inadequate, by the clearing house's equity. Consequently, if one member defaults, the other members are not affected financially. In other words, default risk is not shared.

- *The survivors-pay model:*

A member's default is covered firstly by the collateral posted by the member itself and, if this is inadequate, the additional amount in default is covered on a loss-share basis by all members, even those that are not in default, via a joint guarantee fund known as Clearing Fund.

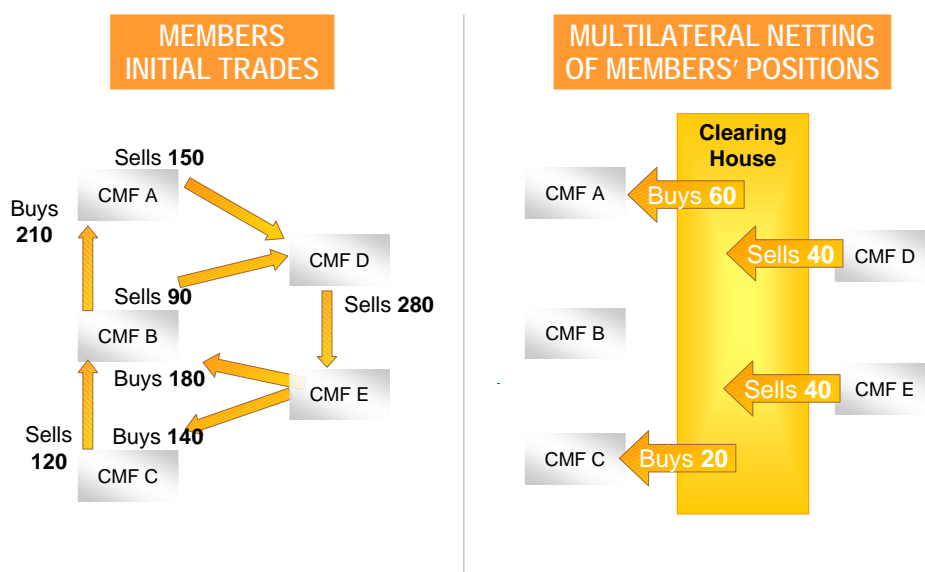
→ LCH.Clearnet SA's guarantee model is a combination of both schemes. Potential losses incurred by a defaulting member are covered by a 3-level system of financial buffers: CMF's collateral deposits, Clearing Fund, LCH.Clearnet's net equity capital.

Multilateral Netting

As soon as the CCP interposes itself between sellers and buyers, it has the ability to perform netting of positions.

LCH.Clearnet SA performs multilateral netting of each member's positions. This netting function consists of managing for each CMF (per House or Client account) net positions that correspond to a particular settlement date, a particular security and a particular currency. In addition, the pre-netting process allows a netting inter ISD (new positions to be settled can be netted with fails).

LCH.Clearnet SA, which acts as central counterparty, achieves more than 90% reduction in the number of transactions processed by settlement organisations. For financial market participants, this is a big advantage in terms of administrative costs. It also enables them to reduce the amount of regulatory capital they are required to hold against counterparty risk.



2. How does BdL's market come within LCH.Clearnet SA's business?

2.1 What initiated the project?

Current moving European Markets environment

The European Markets environment is currently under complete re-shaping and is moving fast from a regulated and protected towards an accrued competitive environment (Mc Greevy Code of Conduct, MIFID European Directive).

Partnership between NYSE Euronext and Bourse de Luxembourg

In this context, BdL and NYSE Euronext officially announced in April 2006 that they had agreed to establish a partnership aimed at developing jointly the listing and trading of Corporate Bonds and Equities as well as the distribution of all related data. Bourse de Luxembourg and NYSE Euronext created an EEIG (European Economic Interest Group) called LuxNet.

For BdL this service will contribute to enhance the liquidity of its market, to further develop its role as a listing center, to raise its profile and to diversify its operations.

For NYSE Euronext this is an additional step to complete different initiatives in the debt securities area helping to increase its market share in the retail business.

NYSE Euronext and BdL have settled bilateral agreements enabling a reciprocal exchange of technology. NYSE Euronext will provide BdL with its trading platform on the whole range of its products, while BdL will give NYSE Euronext access for its listing platform.

Importance of post-trading activities

Through their partnership, NYSE Euronext and BdL have decided to harmonise their level of services to their respective members.

BdL understands the importance and the development of the central counterparty in the transactions cycle as well as the benefits for its clients including the novation principle, risk management, netting and direct access to the settlement venues.

While the post trading activities are not part of the new partnership, BdL has considered the need of addressing the question of these activities within the scope of the new services proposal for the corporate bonds platform.

By using LCH.Clearnet SA as a CCP, BdL will therefore deliver a competitive automated and fully integrated solution as well as secured and organised Securities market for corporate bonds, equities and government bonds.

2.2 Implementation of the service

Membership

- A specific clearing membership is required (see “how to participate?”) but no specific codification. Current CMFs are required to keep their existing membership code.

Products

The breakdown of BdL’s traded instruments is as followed:

Bonds	80%
Shares	17%
UCITs	3%
Warrants	0.2%

- BdL’s securities are negotiated on the trading system and are sent to the clearing system (except for instruments traded in bilateral***).
- At the launch of the service, guaranteed* products (corporate bonds, govies, equities) are listed in real time (continuous mode) whereas non-guaranteed** products are listed on the fixed cotation (auction mode). This may be subject to some changes.
- BdL’s products are cleared using the current LCH.Clearnet SA systems and under the same methods (operations, risks, fees, treasury ...).
- BdL’s products are linked to a new dedicated clearing segment in the clearing system.
- There is no fungibility with NYSE Euronext or any other markets related open positions with identical instrument (use of trading code).

Trade registration management

The above mentioned instruments are distributed in 49 trading groups. Each security can be traded only in one channel at a time according to its trading classification.

- | | | |
|------------------|---|---|
| Guaranteed* | { | <ul style="list-style-type: none"> • <u>Full CCP</u>: 5 trading groups, all in continuous trading mode, liquid shares, liquid corporate and non-corporate bonds, eligible with LCH.Clearnet SA, Euroclear Bank, Clearstream Banking Luxemburg and the Bridge (the link between the two ICSDs). |
| Non-guaranteed** | { | <ul style="list-style-type: none"> • <u>Pass Through</u>: 36 trading groups, only in auction trading mode, other liquid shares and bonds; however eligible with LCH.Clearnet SA, Euroclear Bank, Clearstream Banking Luxemburg and the Bridge (the link between the two ICSDs). • <u>*** Bilateral</u>: 8 trading groups, only auction trading mode, UCITS, Warrants and all non-eligible financial instruments in EB and CBL as well as instruments not eligible in LCH.Celarnet SA as part of this new service, namely: |

- Financial instruments traded in currencies not accepted by LCH.Clearnet SA,
- Financial instruments supporting a COE which is not currently managed by LCH.Clearnet SA,
- Financial instruments traded at a quantity inferior to the allowed minimum lot size quotation.

→ It is to be noticed that LCH.Clearnet SA does not receive the trades and does not provide any clearing service for these instruments processed through the bilateral model.

Estimated Number of Instruments by Clearing Process

	<i>Full-CCP</i>	<i>Pass through</i>
<i>Bonds</i>	5000	27000
<i>Shares</i>	10	300

→ BdL and/or LCH.Clearnet SA can move a security from one group to another according to the liquidity and/or risk criteria or further to a market maker request. Therefore, these figures may be subject to some changes.

Position management

- Regarding fails and buy-in procedures, existing LCH.Clearnet SA's rules on Equities and Bonds are applicable.

Corporate Events management

- No Corporate Events management at CCP level for non-guaranteed instruments processed within the Pass Through model.
- Otherwise, application of the existing rules.

Settlement functions

- The ICSD's for the Luxemburg market are Euroclear Bank and Clearstream Banking Luxemburg. Settlement instructions are sent via SWIFT messages (LCH.Clearnet SA's last new development).
- When the settlement will imply CMF with accounts in EB and CBL, reconciliation will occur through the Bridge already in place between both ICSDs.
- The settlement of the BdL's activity only takes place in the mandatory settlement processing window of the ICSDs. That window closes daily around 15:00 CET.
- The trade is settled in the payment currency. 16 currencies are accepted in Full-CCP and Pass-Through model (see below).

Code ISO	Description
AUD	Australian Dollar
CAD	Canadian Dollar
CHF	Swiss Franc
DKK	Danish Crown
EUR	Euro
GBP	Pound
HKD	Hong-Kong Dollar
HUF	Hungarian Forint
JPY	Japanese Yen
NOK	Norwegian Crown
NZD	New-Zealand Dollar
PLN	Polish Zloty
SEK	Swedish Crown
TRY	Turkish Pound
USD	US Dollar
ZAR	South African Rand

Risk management

- LCH.Clearnet SA's existing rule is applicable in terms of collateral accepted and financial requirements.
- The margin required in treasury on the cash market covers two notions:
 - The margin required for the liquidation risk
 - The margin required for the negotiation risk
- These margins are only calculated for guaranteed positions that are not yet settled. It is calculated at the level of the performance bond account (PB Account). Fungibility will apply at that level.
- The clearing fund used for BdL is the one dedicated to any regulated markets cleared through LCH.Clearnet SA's clearing system.
- As far as margin calls are concerned, CMFs keep using their account already opened in one of the National Central Bank accepted by LCH.Clearnet SA (see instruction 1.5-1).
- For more information: http://www.lchclearnet.com/risk_management/sa/default.asp

Tariff and fees

- The applicable fee grid is identical to the one applied on the other securities markets cleared by LCH.Clearnet SA.

REMINDER AND SUMMARY ABOUT THE GUARANTEE/NON-GUARANTEE SOLUTIONS

* Full CCP Service Description (Guarantee)

The full CCP service encompasses the following elements:

- Registration of transactions executed on BdL's products
- Supervision and netting of the open positions of the CMFs
- Calculation of the associated risks
- Call of margins to cover these risks
- Guarantee of proper settlement of positions
- Management of Corporate Events
- Management of fails
- Sending and monitoring of settlement instructions to Euroclear Bank and Clearstream Banking Luxembourg via SWIFT
- Sending of SIF, BIF, PR3, TLRF...(please refer to the "Gap Analysis Functional Detailed Specifications").

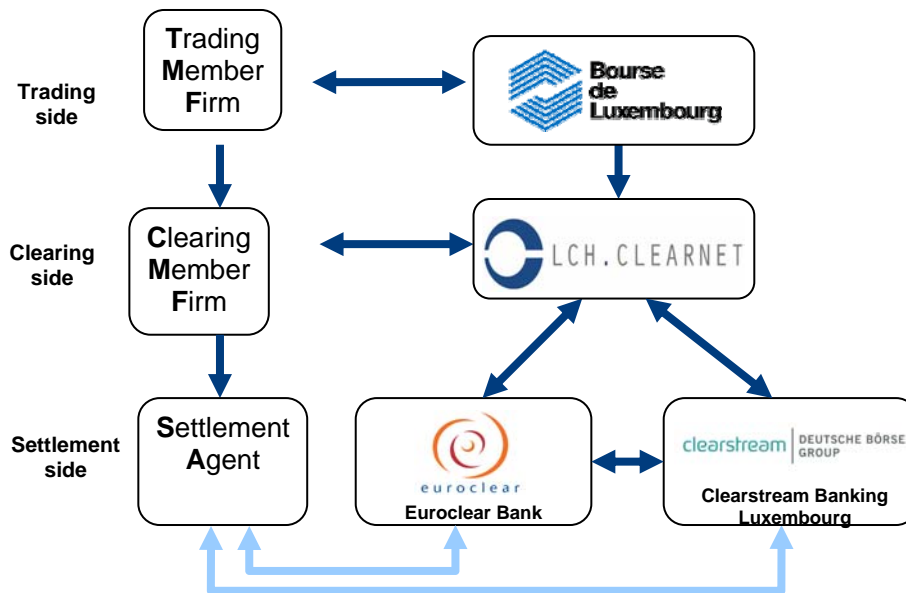
*** Non-guarantee Service Description:

- Registration of transactions executed on BdL's products,
- Transmission of settlement instructions, gross and bilateral, to Euroclear Bank and Clearstream Banking Luxembourg on trade date in the evening on CMF's accounts
- No Corporate Events Management
- No Fails Management
- Reporting to CMFs, namely through a Trade Leg Reconciliation File (TLRF), and real-time messages.

*** Bilateral:

- No clearing service is provided by LCH.Clearnet SA for transactions on UCITS, Warrants and all non-eligible financial instruments.

Luxembourg Market Structure and Organisation



3. How to participate?

3.1 Membership

CMFs wishing to have a Membership on BdL's market need to meet the following criteria:

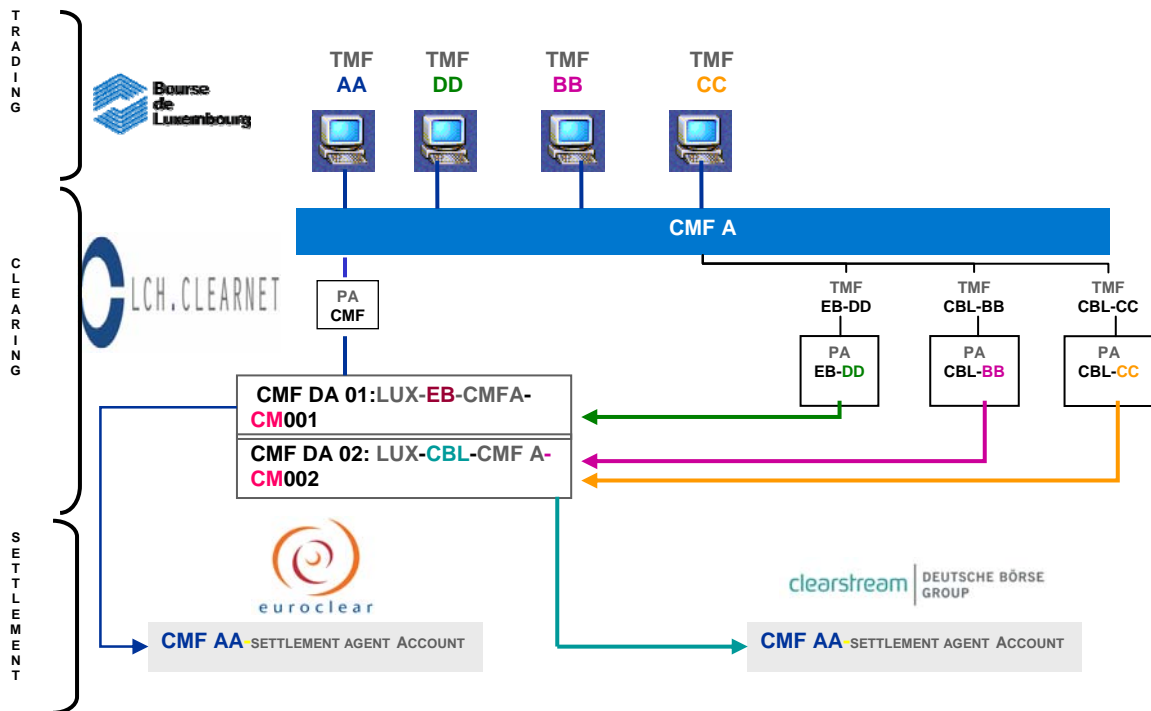
- Send an application form (for new CMFs)
- Send a formal letter to LCH.Clearnet SA asking for a clearing membership extension on BdL's market (for LCH.Clearnet SA's existing CMFs).
- Have a technical, administrative and legal access to Settlement Systems (Euroclear Bank or Clearstream Banking Luxembourg) either by itself (direct access) or by the service of a third party (indirect access). In all cases, the CMF has to provide LCH.Clearnet SA with a Power of Attorney authorising LCH.Clearnet SA to input settlement and money transfer instructions in the CMF's account in EB or CBL. In the case where the CMF uses the service of a third party, it has to provide LCH.Clearnet SA with a Settlement Agent Agreement for approval.
- Send to LCH.Clearnet SA the Clearing Agreement with each TMF it intends to clear.
- Send the relevant account structure for set up in LCH.Clearnet SA's systems.

3.2 Account Structure

Please find below a chart showing the simplicity for a CMF to organise its account in coherence with its own business architecture.

It has to be noticed that positions will be registered in PB Account (House or Client) for the margins calculations purpose (see Risk management part). In order to simplify the diagram PB accounts are not shown below. PB accounts are linked to PA accounts. There is at least one House and one Client PB account.

Account structure



3.3 Fees

The applicable fees for guaranteed trades are the ones applied on the other cash markets cleared by LCH.Clearnet SA:

- Clearing Fees: same principle as for the other securities markets cleared by LCH.Clearnet SA.
- Clearing Services Fees (Fail penalty, Buy-in, Give-up/Take-up): same principle as for the other cash markets cleared by LCH.Clearnet SA except for the Delivery Fees (see below).
- Delivery Fees: LCH.Clearnet SA's policy is applicable i.e. recharge CMFs with delivery fees as charged by the ICSDs (DVP costs). Furthermore, the Swift Fees will be included in the Delivery Fees.

The applicable fee for non-guaranteed trades is EUR 0.05 by trade leg.

You will find all the information on the dedicated section implemented on <http://www.lchclearnet.com/tariffs/sa/products/default.asp>.

3.4 Contacts

If you are interested in clearing Bourse de Luxembourg, do not hesitate to contact your LCH.Clearnet SA's Sales Manager or Relationship Manager who will be pleased to inform you about all what you need to know and what you need to do to become a LCH.Clearnet SA's CMF.

For existing CMFs:

Please contact your local Relationship Manager.

For new CMFs:

Please contact your Sales Manager:

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