LCH.CLEARNET

Report and Consolidated Financial Statements 2004

LCH.Clearnet Group Limited

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Chairman's statement

This is my second statement as Chairman of LCH.Clearnet Group ("LCH.Clearnet" or the "Group"), and whilst the Report and Financial Statements are necessarily a review of the past year, I would like to look forward at what we believe the future will hold.

This has been the first full year of operation for the Group following the completion of the merger at the end of last year. The results show a profit. Nevertheless, considering the ongoing capital needs of the Group, the Board does not recommend the payment of a dividend, in line with what was expected at the time of the merger.

For LCH.Clearnet, the main priority of the year has been developing a successful integration of the two businesses following completion on 22 December 2003. As I said last year "no merger is easy to achieve" and bringing LCH and Clearnet together has offered plenty of challenges. It has, however, been a year in which the foundation stones of future success have been laid and the strategy for the future has been thoroughly discussed and firmly established. It is clear that integration has not proceeded at the expected pace, partly due to unexpected obstacles, but the Board and management have laid plans to rectify the process and to ensure further communication of future plans via the numerous consultative bodies that have been established. It is clear that our customers will wish to see speedy results from the combination of the two clearing houses, but it is essential that as we introduce new practices or technology we do so with maximum integrity whilst maximising capacity for the longer term.

The market which supported the establishment of LCH.Clearnet is looking for real and tangible benefits. LCH.Clearnet is able to deliver these - not just by extending the range of markets served, but in generating long term cost reduction for clearing members both in the fees and other costs that have to be met, and also in operating costs and risk reduction within their own businesses. It remains an unique model: independent, but owned and governed by market participants; run commercially as a for-profit enterprise.

As the leading independent central counterparty ("CCP") in Europe, LCH.Clearnet is firmly committed to the further defragmentation of the European capital markets post-trade infrastructure. Current moves toward a consolidation at the trading platform level are bringing this into sharp focus; this outcome may not be resolved for some time to come but will undoubtedly have an impact on the post trade infrastructure. LCH.Clearnet looks forward to playing its full part in this process.

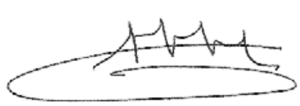
“For LCH.Clearnet, the main priority of the year has been developing a successful integration of the two businesses following completion on 22 December 2003”.

Your Board is balanced to reflect the independence of the Company achieved through its ownership and voting structure. During the year Mark Alexander (Euroclear nominated) and George Möller (Euronext nominated) left the Board and Roger Liddell and Olivier Lefebvre have been appointed, respectively, to replace them. Hector Sants (User director) also resigned and was replaced by Nazir Badat who will be standing for re-election, in accordance with the Articles, at the Annual General Meeting. Francesco Vanni d’Archirafi and Gerard Hartsink will also stand for election to replace Maurice Oostendorp and Paul Idzik. I thank all those who have left for their contribution. The members of the Board are all leaders in their own fields; their broad and complementary experience is an invaluable asset as we develop both the benefits of integration and the scope of products and services delivered to our multinational marketplace.

Our Group is poised to be the most transparent and inclusive in its business segment. To achieve this collaborative approach requires significant additional effort from Board members and from our customers, all of whom have more than enough to do in their normal working day! To all who serve on our numerous Board committees and the consultative fora that we have established we owe a debt of gratitude, which is hopefully being repaid as the group establishes itself and begins to deliver on its potential.

LCH.Clearnet has a highly committed management and staff, led by David Hardy, aiming to deliver an equally high level of service in all the countries in which it operates and I express my sincere appreciation to all staff for their dedication and effort. I know the year 2004 has been a very busy period for all of them.

2005 will be the year in which execution of our plans will commence in earnest and I look forward to the support of all our stakeholders in this endeavour.



Gérard de La Martinière
Chairman

Chief Executive's review

Introduction

In his statement, the Chairman has described 2004 as a year of progress. We have continued to broaden our service offering and increased the depth of penetration of certain products. At the same time we have commenced the integration of the two businesses within the LCH.Clearnet Group. The Group results reflect the first full year of operating activities for the twelve months ending 31 December 2004 and are broadly in line with post-merger expectations.

2004 saw growth in clearing fee income compared with 2003 with fees growing by 5.2% overall to €265 million, with advances in both the UK and Europe, despite significant tariff reduction in certain markets. In the UK, this growth was against a strong performance in 2003. For Europe, this growth was against a weaker 2003 base, in particular with the derivatives business still showing weakness, because the historical ad valorem fee structures suffered as a result of low volatility.

2004 was also a year in which LCH.Clearnet saw significant volume growth in its business areas, with clearing members registering 1,042 million contracts - a new record and a 14% increase over 2003. In EquityClear, a clearing service to EDX, the futures trading platform owned by the London Stock Exchange, was launched in February, and has seen activity in line with expectations. This service was extended in June to include certain OTC contracts. A clearing service for the London Stock Exchange EuroSETS service in the Netherlands was launched in May. This was, in the context of LCH.Clearnet as an independent CCP, an important event, demonstrating its ability to provide service to two trading platforms in keen competition with each other.

During the year we successfully launched Settlement Connect for the French, Belgian and Dutch equity markets. Settlement Connect represents a major step forward in the integration of European capital markets as members are no longer required to be connected to different local legacy systems for interfacing into settlement for the Belgian, Dutch and French markets. This is a further example of where through judicious technological development we are able to deliver real change to the post-trade market infrastructure, offering our members choice, flexibility and value.

The Exchange and Commodity Derivatives area has also seen growth in the range of products cleared, with the launch of clearing for US power contracts on IntercontinentalExchange, as well as development of a trading platform-independent clearing service in UK power and NBP gas energy contracts that launched in August.

Fixed Income clearing saw record volumes during the year, with €5 trillion being recorded in February, equating to €25 trillion in term-adjusted volume, also a record. LCH.Clearnet has also been appointed to clear Dutch government cash bonds traded on MTS Amsterdam as well as providing clearing services for Belgian government cash bonds to MTS Belgium, a division of MTS Associated Markets.

SwapClear has not extended the scope of its product reach, but rather has seen a period of consolidation and portfolio backloading, with the notional value of the service portfolio now approaching US$40 trillion.

The Group has now been confirmed as a "Groupe Compagnie Financière" by its lead regulator, the French "Commission bancaire", and this brings with it new responsibilities, such as bank-style regulatory reporting, which will ultimately enhance the Group's status in the markets.

In May, LCH.Clearnet Limited received, from the Commodities and Futures Trading Commission, an extension to its existing Derivatives Clearing Organisation registration, authorising it to clear, in addition to OTC contracts, futures and options contracts traded on designated contracts markets in the US. LCH.Clearnet continues to be the only non-US domiciled central counterparty to hold DCO status. This registration extension will enable LCH.Clearnet to take wider advantage of development opportunities in the US as they arise.

The Group remains the largest and most diversified central counterparty in Europe, if not globally.

Integration

A year ago I noted "the importance for all stakeholders that integration be commenced as quickly as possible" and that "it is equally important that the integration process is executed with care and precision to ensure its effective completion. Throughout the process, we will maintain active consultation with our customers and users to ensure that our mutual interests remain aligned".

We have maintained a measured pace of integration against our strategic objectives. It is essential that the structure we achieve is robust and sustainable. Substantial investment is being made in new systems and services and, most importantly, our firm commitment to the quality and integrity of service to markets during this transitional phase is being maintained, with the use of additional resources where necessary.

At the time of the merger, LCH.Clearnet expected to generate various potential cost savings, which had been identified in the merger prospectus, by 2007. The process of integrating the two businesses has not been as rapid as expected with a consequent impact on the delivery of synergy benefits. Post-merger, a fuller picture of the underlying state of the two business' infrastructures was understood together with the impact on the expected benefits. As a result, we do not expect to realise all cost savings over the same timeframe as identified at the time of the merger.

...Chief Executive's review

The developments that are in progress towards integrating our operating processes and systems are designed to maintain and enhance LCH.Clearnet's service provision to the markets we serve. Work is underway, however, on many different projects to advance the pace of integration and we are grateful for the advice and guidance received from our customers through the various user and product advisory groups.

As with all amalgamations of this kind, we have needed to alter some of our internal working practices and to begin to remould the management team. As most readers will know, the cross border nature of the Group adds its own challenges to this task and I am grateful to my colleagues throughout the organisation for their persistence and patience during this exercise.

Development of the business

We aim to deliver to users and customers the very best in risk management practice, in financial integrity, and in operational resilience and security. An example of this is a new default management process that is being successfully implemented by LCH.Clearnet in conjunction with the SwapClear members. This clearly defines the default management arrangements for the SwapClear service and commits the member firms to support LCH.Clearnet in terms of trading resources and additional post-default backing. This is a significant commitment to LCH.Clearnet and the SwapClear service and an arrangement we believe is unprecedented amongst clearing houses. By implementing such highly efficient operating tools and processes, we are honouring our commitment to deliver cost effective services.

As part of the Group's overall technology integration and service harmonisation process, LCH.Clearnet is actively engaged in dialogue with the full spectrum of equity market participants in designing the benchmark equity clearing service for Europe. A single business process delivered centrally and supported by common technology will significantly reduce operating and future development costs for the industry as a whole. In the Exchange and Commodity area, LCH.Clearnet continues to work both with Exchanges and market participants in developing products and services that will capture OTC derivative clearing requirements, bringing similar benefits to the users of these markets.

Our ability to serve customers better and to reduce our overall cost base will much depend on the continued cooperation of regulatory colleagues and their willingness to support the Group operating a fully integrated management and workforce, within clearly defined and well co-ordinated oversight, preferably on a Europe-wide basis.

Information technology

I reported last year that LCH.Clearnet will progressively migrate to a common systems architecture by 2007 based around an enhanced version of Clearing 21® and the new Generic Clearing System (GCS) accessed through a common business portal.

Core central counterparty support functions are generic to all the clearing services provided by LCH.Clearnet and are best provided through a single system in order to maximise the available cross product and market benefits. They include cross product functions such as collateral management, margin payments, risk management and billing. These areas are being consolidated within a single architecture, enabling LCH.Clearnet to provide integrated central functions across all its products.

Our systems strategy is based on using the best of the system components available from the merged entities. Hence we will look to the position-keeping engine of Clearing 21® in certain high volume markets whilst GCS will provide similar functionality to the lower transaction volume, albeit high value, markets such as fixed income and interest rate swaps. GCS is designed to provide the core central counterparty functions, described above, right across the Group. In its first release, it will make available such facilities to our fixed income participants, rolling out progressively to the other business streams.

Given its applicability to our entire business, and not just to fixed income, it is essential that this new generation clearing platform is of the highest operational integrity, has high availability and the very best cross border disaster recovery befitting LCH.Clearnet's role at the heart of so many markets. It goes without saying that it is complex technology and requires rigorously comprehensive testing before being allowed to enter service. We are in the midst of intensive testing as this report is being written. Our view is that the testing regime will need time to complete - a function of the complexity and the resolve to ensure that the system meets the high standards demanded by the users of the multi asset class clearing operation it will support. This dedication to the right outcome costs time and resources but we will not compromise on our standards.

As part of the Group's recognition of its responsibility to deliver and maintain a high degree of resilience and security in its clearing operations and services, we have concluded agreements with industry leading partners for the provision of outsourced IT services. At the end of 2004 in Paris we reached agreement with Atos Origin Infogerance, the outsourcing company within the Atos Group, to replace the previous contract with Atos Euronext for the provision of most local IT services. This will bring significant benefits to the LCH.Clearnet Group, not only in reduced costs but also through improved services. 2004 also saw the implementation of a UK based contract with Hewlett Packard to provide all data centre services and run the GCS application. The infrastructure was designed and built by HP in one of their secure data centres; it has been providing support to GCS through testing and will carry on into production in 2005.

...Chief Executive's review

Conclusion

2004 was a year of building foundations for the Group, improving our product offering and commencing the integration of the two underlying businesses. I believe the outlook for 2005 is positive as we further realise the benefits of the enlarged Group. It will be a challenging year as the integration continues and we deliver improved and enhanced services across a constantly evolving and expanding marketplace. Our business is evolving significantly and it is clear that neither the users of the European capital markets nor the market authorities themselves as yet view the infrastructure as meeting their respective needs. LCH.Clearnet is, and will continue to be, at the heart of all the developments in this area, and will seek to deliver the very best infrastructure as demanded by its customers and stands ready to evolve further in this regard.

In terms of senior management, at the beginning of November, my colleague Patrice Renault handed over the reins of LCH.Clearnet SA to Christophe Hémon and is now providing invaluable input to the overall process of infrastructural change in Europe. At Group level, I have now been joined by Peter Rowland who, as Chief Operating Officer, will work alongside me to deliver the integrated entity and ensure that we continue to perform to our customers day after day. Peter, Christophe and Andrew Lamb, the Chief Executive of LCH.Clearnet Limited in London are members of my Chief Executive's Committee.

I have been a part of this group, in its various guises, for 20 years, over 17 years of which as Chief Executive. The challenges have never been greater, but the prize for our customers as we succeed and develop is greater too. Right across the group, the determination, the skill set and commitment of our people - management and staff in Amsterdam, Brussels, London, Paris and Porto - is essential to the realisation of our goals, and to them all I offer my deep personal thanks and appreciation for all their efforts during the first year of our merged group.

David Hardy
Group Chief Executive

Operating and financial review

This review focuses on the combined businesses of LCH.Clearnet Limited ("Ltd") and LCH.Clearnet SA ("SA").

Futures and Options

Derivatives showed mixed results between Ltd and SA. Revenue performance was up 10% year on year in Ltd and included a number of record months in individual contract volumes.

SA derivatives revenue reduced 16% against a growth in volumes of 16%, partly as a result of a number of transaction fee reductions coming into effect during the year.

Ltd derivatives (Euronext.Liffe markets) showed good growth across all products, with financials volumes growing 13% year on year, commodities up by 22% and equity derivatives up by 35%.

During the period SA members completed the implementation of Clearing 21® in March and Connect in November, as the final stage of European integration ahead of the future integration of SA and Ltd markets.

As mentioned in the Chief Executive's report, LCH.Clearnet Limited has received an extension to its existing derivatives clearing organisation (DCO) registration. The extended DCO license authorises it to clear futures and options contracts traded on US designated contracts markets, derivatives transaction execution facilities, and exempt boards of trade. The initial authorisation was originally granted in November 2001, and covered the provision of clearing services in respect of OTC, inter-professional business.

Commodities and Energy

The energy business in Ltd showed revenue growth of 65% from International Petroleum Exchange, Intercontinental Exchange and Endex Ltd. In SA, Powernext also increased volumes and revenue by 225% from start up volumes in 2003.

Ltd added 12 new OTC energy contracts for ICE, and Endex commenced exchange trading in addition to its OTC services. SA launched clearing for the new Powernext power futures contracts, whilst Ltd commenced clearing for the new International Petroleum Exchange UK power contracts, Ltd also launched clearing for OTC services in UK gas and power.

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London Metal Exchange clearing fees were 4% below 2003, reflecting a fee reduction in cross trade fees and volumes declining by 1%. Development commenced for the launch of the new plastics contracts in 2005.

Equities

Equity markets showed increased revenue overall but the effects of reduced volatility and trading hit markets.

SA showed a 7% revenue increase during the period and introduced Settlement Connect for the Paris, Brussels and Amsterdam markets; Lisbon will be added in 2005. SA also commenced clearing the London Stock Exchange EuroSETS Dutch Trading Service, which was launched in May.

Ltd showed increases in revenue of 5% year on year, with a strong performance from the London Stock Exchange and EDX. Headline clearing fees for the London Stock Exchange were reduced by 25% from 1 January 2004, but market growth made up for the reductions. EDX was launched in February with the migration of clearing from OMLX to LCH.Clearnet Limited. The clearing service was extended to OTC Equity contracts in April, with Finnish equity options being added in July.

Fixed Income

Fixed income services have enjoyed another period of growth with record volumes driving revenues up 10% year on year. Most growth came from the Ltd RepoClear service which rose by 25%, where a link to Clearstream Frankfurt was added in March. SA partnered with Cassa di Compensazione & Garanzia to clear MTS Italy transactions in the Italian market. Ltd has worked extensively with its members on the introduction of an enhanced STP platform due for launch in 2005.

SwapClear

SwapClear continued to see rapid portfolio growth and further backloading to a portfolio size of over US$37 trillion. There was no addition of new members; discussions with a number of potential new members have been slowed by mergers and internal systems projects preventing implementation. To help the market develop more efficient STP, a link to Swapswire was added in August to work alongside the existing SWIFT interface.

Financial review

The purchase of Clearnet (now LCH.Clearnet SA) from the Euronext group took place only nine days before the end of the prior accounting period and therefore the financial results for 2003 essentially comprise the LCH.Clearnet Limited business over the 14-month period. However, the balance sheet at 31 December 2003 did reflect the combined business.

Due to the change of reporting date from 31 October to 31 December, the financial results for 2003 were for a 14-month period. These have been restated to give pro forma 12 month comparative figures. Percentage changes are reflected on an annualised basis to facilitate comparison of the results. Unless otherwise stated, percentage changes exclude the impact of exchange rate movements and are all in Euros.

1.0 Continuing operations

All results in the financial review are for continuing operations throughout the period.

1.1 Summarised profit and loss for the period

Summarised profit and loss account for LCH.Clearnet Group continuing operations

	12 months to 31 December 2004 €'m	Pro forma 12 months to 31 December 2003 €'m	14 months to 31 December 2003 Restated €'m
Turnover	612.3	588.0	336.4
Interest paid to clearing members	(295.4)	(292.5)	(195.4)
Administrative expenditure	(230.8)	(196.6)	(117.9)
EBIT	86.1	98.9	23.1
Exceptional items	(7.4)	(3.8)	(4.4)
Interest on shareholders' funds	3.3	8.4	4.6
Profit before tax	82.0	103.5	23.3
Tax	(27.2)	(35.2)	(8.2)
Profit after tax	54.8	68.3	15.1

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1.2 Turnover

Turnover analysis for LCH.Clearnet Group continuing operations

	12 months to 31 December 2004 €'m	Increase/ (decrease)[1] %
Gross clearing fees	265.3	5
Treasury earnings	274.4	(8)
Default fund	46.9	108
Other income	25.7	82
Turnover	612.3	4

[1] Percentage changes are on an annualised basis and exclude the impact of exchange movements.

Turnover from continuing operations increased by 4% to €612.3m.

1.2.1 Treasury income

Income from cash and collateral margin and default fund balances was unchanged at €324.7m due to lower cash collateral balances being offset by significantly larger default fund balances.

1.2.2 Clearing fees

Clearing fee analysis for LCH.Clearnet Group continuing operations

	12 months to 31 December 2004 €'m	Increase/ (decrease)[1] %
Futures & Options	116.7	4
Equities	113.1	10
SwapClear	14.9	(29)
RepoClear	18.5	25
Other	2.1	23
Gross clearing fees	265.3	5

[1] Percentage changes are on an annualised basis and exclude the impact of exchange movements.

Gross clearing fee income increased by 5% to €265.3m. Clearing fees from RepoClear and Equities generated the largest percentage increases of 25% and 10% respectively. The Futures & Options business stream continued to generate the largest proportion of fees by value, and solid growth in volumes in Equities in UK compensated for a 25% reduction in headline fees from the beginning of the year.

1.2.3 Other income

Other income of €25.7m grew by 82%. Significant drivers were higher recovery of settlement fees and levels of membership fees.

1.3 Interest payments to clearing members

Interest payments to clearing members increased slightly to €295.4m for the period. Interest on cash and collateral margins decreased by 10% to €238.8m for the period and interest payments on the default fund balances increased by 91% to €56.6m, reflecting the increase in the average value against the prior period.

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1.4 Administrative expense

Overall administrative expenditure increased by 17% on the prior year. Staff costs increased by 4%, against a decrease in average headcount of 1%, due to higher staff costs per head including a broadening of the scope of performance-related remuneration. Other administrative costs increased by 21%. This was in line with post-merger expectations, and largely driven by the IT costs resulting from running duplicate production environments necessitated by the development of new systems.

1.5 Earnings before interest and tax (EBIT)

1.5.1 Basis of calculation

The definition of EBIT used within the LCH.Clearnet Group includes income generated from the re-investment of clearing member margin and default fund balances but excludes interest income from shareholders' funds.

1.5.2 EBIT performance

EBIT fell by 13% to €86.1m. Although clearing fees increased by 5%, higher administrative expenses of 17% contributed to an overall fall in reported performance.

2.0 Group taxation

The tax charge on the profit for the period was at an effective rate of 29%, being lower than the UK corporate tax rate of 30%. The lower rate results primarily from the effect of prior period adjustments and capital allowances.

A more detailed breakdown of the tax charge for the year is provided in note 5 to the financial statements.

3.0 Capital resources

Total capital resources, including the subordinated loan, increased in the period by €13.0m to €774.3m.

Equity shareholders funds increased by €46.0m, primarily retained earnings for the period of €47.0m, partially offset by exchange rate movements.

Non-equity shareholders' funds of €198.8m, including issue premium, were established in 2003 by the issue of RCPSs as part of the Clearnet acquisition; the balance was unchanged during the year.

A subordinated loan of €60m, which formed part of the Group's capital resources, from Euronext Paris SA to LCH.Clearnet SA subscribed in 2003 was repaid with regulatory approval in two tranches during 2004. New subordinated loan notes totalling €27m were issued in August and are listed on the Luxembourg Stock Exchange; these form part of the Group's capital resources.

4.0 Group cashflow and movement in net funds

	12 months to 31 December 2004 €'m	14 months to 31 December 2003 €'m
Decrease in net cash	(1,985.3)	(334.9)
Increase in liquid resources	2,014.6	2,381.4
Cash outflow from movement in financing	33.0	-
Funds acquired with subsidiary	-	2,763.1
Exchange movements	(25.0)	(651.6)
Movement in net funds	37.3	4,158.0
Opening net funds	10,068.5	5,910.5
Closing net funds	10,105.8	10,068.5

The net cash outflow of €1,985.3m (2003: net cash outflow of €334.9m) has arisen from a net increase in the management of liquid resources of €2,014.6m (2003: net increase of €2,381.4m). This reflects a larger proportion of funds being held as short-term deposits or secured loans rather than in the overnight markets.

The net cash outflow on management of liquid resources in 2003 was offset by net inflows of €1,475m on margin and default fund balances held and €597m of cash (€3,360m including liquid resources) obtained on the acquisition of LCH.Clearnet SA.

Net funds, comprising cash, liquid resources and all other borrowings, increased by €37.3m.

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5.0 Exceptional items

The total exceptional charge for the period of €7.4m relates to a combination of residual merger expenses together with costs associated with integrating the LCH.Clearnet SA business into the Group.

Residual merger expenses of €0.5m, primarily relating to professional fees, arose from the acquisition of LCH.Clearnet SA.

Integration costs of €6.9m were incurred during the year. It was planned that the integration process would extend over three years, from 2004 to 2006, with the majority of costs expected to arise in 2004. However, the Group's focus on ensuring that integration is carried out in a manner that is risk controlled both from a client and Group perspective, has led to a more measured pace of integration than originally envisaged.

6.0 Dividends

6.1 Ordinary

The directors do not recommend payment of a dividend on ordinary shares.

6.2 Redeemable convertible preference shares (RCPSs)

€198.8m of RCPSs were issued on 22 December 2003. The fixed dividend on the shares accrues at Euro LIBOR plus 125 basis points, giving rise to a dividend of €6.8m in the period.

7.0 Goodwill

Goodwill of €503.8m was recognised on the acquisition of LCH.Clearnet SA. The directors consider that it is appropriate to assign an indefinite useful life to this asset, reflecting the strength and positioning of the business as a provider of clearing services. In accordance with the requirements of FRS11, an impairment review was carried out during the year, the conclusion being that no write-down was necessary.

8.0 Balances with clearing members

Balances with clearing members form the largest element of the Group balance sheet. Balances owed to clearing members increased in the period from €59,622m to €78,941m.

Current best practice under UK GAAP requires reporting the fair values, i.e. the net present values, of financial instruments cleared by the Group on the LCH.Clearnet Group balance sheet. A more detailed description of balances with clearing members is provided in note 15 to the financial statements.

RepoClear transactions form by far the largest element of balances with clearing members, as they are recorded according to their economic substance, i.e. as collateralised loans.

Risk management

Introduction

The Group manages a variety of risks through various control mechanisms and its approach to risk management and control is to evolve best practice, informed by new external thinking and development.

Overall responsibility for risk management rests with the three boards in the group. Day to day responsibility is delegated to the executive, on the basis of policies that are discussed and agreed in risk committees before board confirmation. The continued appropriateness of risk policies is reviewed by the committees and boards, and adherence of practice to policies is reviewed by internal and external auditors under the auspices of the three Audit Committees in the Group.

Credit risk

Credit risk is the risk that a counterparty of the Group will be unable or unwilling to meet a financial commitment that it has entered into with the Group.

Dedicated resources within the Risk Management departments control and manage these exposures to clearing members and to banks on the basis of policies adopted by the boards. Audits of processes within the Risk Management departments are undertaken on a regular basis.

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Market risk

Market risk is the risk that the Group's earnings on capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of markets in which the Group operates.

The market risk management policies of the Group are approved by its risk committees and boards. A variety of measurement methodologies, including stress testing and scenario analysis, is used.

As central counterparties, the two operating clearing houses in the Group have a balanced position in all cleared contracts and run no market risk unless a member defaults. As protection against the latent market risk contingent on member default, the scope of market risk is narrowed by collecting in losses on marked-to-market positions each day, establishing initial margin requirements for each contract and replenishing such requirements intra-day, maintaining default funds for use should the initial margin of a defaulter not fully cover close-out costs, and by having supplementary financial resources.

Since the merger the executive risk specialists have been monitoring group-wide exposures and the Group Risk Committee assists in that scrutiny, as well as being the forum, in close alliance with the risk committees of the subsidiaries, for considering proposals to converge or harmonise market risk policies in the Group.

Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due, in particular its failure to meet obligations to pay margin monies due to clearing members.

The Group's liquidity is the responsibility of the risk committees and is managed to ensure that the Group can meet its financing needs at all times, in particular to ensure the business continues to operate smoothly in the event of a clearing member default.

Liquidity risk is managed by ensuring the operating clearing houses in the Group have sufficient available cash to meet their payment obligations and by the provision of facilities to meet short-term imbalances between available cash and payment obligations. Surplus liquidity is invested as short-term deposits with high-quality banks or in highly liquid short-term assets. Over the course of 2004, LCH.Clearnet Limited continued a process of securing most of its cash holdings through reverse repo transactions, and LCH.Clearnet SA has begun to follow the same policy.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, systems failure, or from external events. It is inherent to every business organisation and covers a wide spectrum of issues.

Operational risk is managed through systems and procedures, in which processes are documented, authorisation is independent and where transactions are monitored and reconciled. This is supported by a programme of review by Internal Audit which is independent of line management and reports directly to the Group's Audit Committees. Internal Audit evaluates the adequacy and effectiveness of the Group's systems of internal control and reports to the Audit Committees and senior management. Any significant weaknesses are reported to the Audit Committees and Boards.

The Group maintains and tests contingency facilities to support operations and ensure business continuity.

Compliance and legal risk

Compliance or regulatory risk arises from a failure or inability to comply with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance can lead to fines, public reprimands, enforced suspensions of services, or in extreme cases, withdrawal of authorisation to operate.

The Group is subject to authorisation and regulatory requirements regimes in Europe and the USA. The oversight of central counterparty clearing houses has become progressively more formal and extensive in the recent past. Specific resources and expertise are needed to meet the various requirements of the regulators and regulations.

The purpose of the legal function is to identify and, in conjunction with management, manage the legal risks of the Group. Legal risk is managed by use of internal and external legal advisors.

Board of directors

The directors who held office during the year are as follows:

Chairman

Gérard de La Martinière

Directors

David Hardy	(Chief Executive)
Patrice Renault	(Deputy Chief Executive)
Mark Alexander	
Nazir Badat	
John Caouette	
Jonathan Chenevix-Trench	
Ignace Combes	
Kevin Davis	
Clara Furse	
Simon Heale	
Dominique Hoenn	
Paul Idzik	
Olivier Lefebvre	
George Möller	
Maurice Oostendorp	
David Pritchard	
Hector Sants	
Hervé Saint-Sauveur	
Jean-François Théodore	
Richard Ward	

Secretary

Susan Ward

The Chairman and all other directors, with the exception of David Hardy and Patrice Renault, are non-executive directors. The Chairman, John Caouette and David Pritchard have been appointed as independent directors.

Registered office

Aldgate House
33 Aldgate High Street
London
EC3N 1EA

Telephone: (020) 7426 7000
Facsimile: (020) 7426 7001

Registered in England Company No. 4743602
Incorporated on 14 April 2003 as Tudorbright Limited

Corporate governance

The Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance and, wherever possible, adopts the provisions of the UK Listing Authority's Combined Code on Corporate Governance, which sets out principles of good corporate governance for listed companies.

The following statement explains the Group's governance policies and practices and provides an insight into how the Board and management run the business for the benefit of the members.

The Board

The Board consists of 19 directors comprising six directors representing Users, four directors appointed by Euronext (including the Chief Executive of the London Stock Exchange), two directors representing other Exchanges (being one director appointed by the International Petroleum Exchange and one director appointed by the London Metal Exchange), two directors appointed by Euroclear, three independent directors (including the Chairman) and two executive directors. The executive directors are the Chief Executive and Deputy Chief Executive. The composition of the Board reflects (as far as possible) the ownership of the Group.

At each annual general meeting one-third of the user and independent directors (rounded down) are to retire from office. In practice, this means that every user and independent director stands for re-election at least once every three years.

In broad terms, the Board is responsible for creating and maintaining the framework within which the Group operates. It sets strategy, objectives and policies and approves budgets, material initiatives and commitments.

Each director receives reports on the performance of the Group, future plans and any significant issues facing the business. From time to time, the Board receives presentations from senior management about key areas of the Group's operations.

The Board meets regularly and has a formal schedule of matters reserved to it. All directors have access to the advice of the Company Secretary. Independent professional advice is also available to directors in appropriate circumstances and at the Company's expense.

...corporate governance

Board committees

There are five Board committees. Their main responsibilities and composition are detailed below.

Audit Committee

The audit committee comprises David Pritchard (Chairman), Nazir Badat, John Caouette, Simon Heale, Dominique Hoenn and Hervé Saint-Sauveur.

Its functions are:
- to provide the Board with independent and objective advice on the control environment across the Group;
- to review internal audit information received from the subsidiary companies;
- to make recommendations to the Board on the appointment of the external auditors and the external audit fee.

It also keeps under review the independence of the external auditors and aims to ensure an objective, professional and cost effective relationship is maintained.

In addition, the Committee is responsible for the proper reporting of the financial performance of the Group and for reviewing financial statements before publication.

Nomination Committee

The Nomination Committee is responsible for ensuring appropriate procedures are in place for the nomination and selection of directors. The committee itself nominates suitable candidates to stand for election as user directors, exchange directors and independent directors.

Independent Directors' Committee

The Independent Directors' Committee comprises Gérard de la Martinière (Chairman), John Caouette and David Pritchard. It is responsible for reviewing the composition of the Board annually and will adjust the balance of the Board in order to reflect (as far as possible) the ownership of the Group from time to time, subject to certain entrenched rights within the Articles of Association.

Risk Committee

The Risk Committee is chaired by John Caouette and includes the Group's CEOs. Its role is to review group-wide risk, notably counterparty and market risks and to consider proposals to converge or harmonise risk policies. During the course of 2004 the composition of the Committee was adjusted to include as members the independent, non-executive chairmen of the risk committees of the subsidiaries.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the contract terms, remuneration and other benefits for senior management. The Board itself determines the remuneration of the Chairman of the Board. The remuneration Committee is chaired by Gérard de la Martinière, and also comprises David Pritchard and John Caouette, with David Hardy in attendance. A report on the remuneration of directors appears on pages 26 to 29.

Executive Committees

In addition to the above Board committees, executive committees provide a focus for controlling activities across the Group, and these include the Group Management Committee (which comprises the senior executive management of the Group, including the Chief Executive), the Investment Management Committee and the Operations Committees of the two subsidiaries.

Relations with shareholders

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management. The Board keeps the shareholders informed of progress in the Group by means of annual and interim financial results.

Accountability, audit and control

The statement of directors' responsibilities in relation to the financial statements is set out on page 33. In its reporting to shareholders the Board aims to produce a balanced and understandable assessment of the Group's position and prospects.

...corporate governance

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The internal control systems are designed to safeguard the Group's assets; ensure that proper accounting records are maintained; that the financial information used within the business for publication is reliable; that the Group continues to meet its legal requirements, including those of LCH.Clearnet Limited as a Recognised Clearing House in the UK, as a Derivatives Clearing Organization in the USA and those of LCH.Clearnet SA as a bank and a clearing house to regulated markets in the Netherlands, France, Belgium and Portugal. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Audit Committee will review the operation and effectiveness of the Group's system of internal financial, operational, compliance and risk management for the financial year and the period up to the date of approval of the current financial statements.

Key features of the system of internal financial control are as follows:

- **Organisation and culture**

  The Board seeks to emphasise a culture of integrity, competence, fairness and responsibility. The Board has established Audit and Risk Committees to assist with this requirement.

- **Financial reporting**

  There is a comprehensive planning system with an annual business plan and annual budget approved by the Board. Results are reported quarterly to the Board and compared to the budget and forecasts.

- **Identification of business risks**

  The Board is responsible for identifying the major business risks faced by the Company and Group and for determining the appropriate course of action to manage those risks.

- **Internal audit function**

  The internal audit function is responsible for monitoring the Group's system of internal controls. The Audit Committee approves the plans for internal audit reviews and receives the reports produced on a regular basis. Actions are agreed with management in response to any issues raised in the internal audit reports produced.

External Auditors

The performance of the external auditors is reviewed by the Audit Committee on a regular basis.

The policy in respect of services provided by external auditors is as follows:

- **Audit related services**

  the external auditors are invited to provide services that, in their position as auditors, they must or are best placed to undertake. It includes formalities related to borrowings, shareholders and other circulars, various other regulatory reports, work in respect of acquisitions and disposals and other assurance services;

- **General consulting**

  in recognition of general concern over the effect of consulting services on auditors' independence, the policy is that the external auditors are not invited to tender for general consulting work.

Remuneration report

This Report describes the components of the Group's remuneration policy and details the remuneration of each of the directors during the period.

Members of the Remuneration Committee

The terms of reference of the Group Remuneration Committee are set out in the corporate governance statement on page 23.

The Committee recommends to the Group Board a reward framework to enable the Group to attract and retain its executive directors and senior management. The Committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors. The Chief Executive and Group Head of Human Resources assist the Committee in its deliberations, except in relation to their own remuneration.

Remuneration policy

The Group's policy on remuneration is to attract, retain and incentivise staff, recognising that they are key to the ongoing success of the business.

Consistent with this policy, benefit packages awarded to executive directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration designed to incentivise directors, but not to detract from the goals of Corporate Governance. Benefit packages are intended to be cohesive between the UK and France, whilst taking into account differences in practice where appropriate.

The remuneration package for the executive directors and other senior management comprises a mixture of:

- Base salary
- Annual bonus
- Incentive plan
- Pension and other benefits

a Base salary

This is a fixed cash sum payable monthly. The Group Remuneration Committee reviews salaries each year as part of the total remuneration package, recognising market practice and individual contribution.

b Annual bonus

The annual bonus is discretionary and designed to reinforce the relationship between individual and corporate performance and remuneration. Goals are set at the start of each financial period and individual attainment of them measured before the final bonus is set.

c Incentive plan

There is a long-term incentive plan, which is a discretionary cash deferred bonus scheme.

d Pensions

Law and practice in respect of social security contributions, including pensions, are different between the UK, France, the Netherlands, Belgium and Portugal in terms of both scope and cost. All salary payments to employees in France and Belgium, including bonus payments, are subject to social security contributions and are pensionable, as pensions are provided in France and Belgium by the state. Staff in Amsterdam continue to participate in the Euronext pension scheme. An independent scheme is in the process of being established for staff in Portugal.

The executive directors, management and employees of the Group, employed within the UK, all participate in the LCH Pension Scheme. This defined benefit scheme is non-contributory and the assets are held in a separate trustee administered fund. A pension is normally payable on retirement at contractual retirement date (normally 60) and is calculated by reference to length of service and pensionable salary.

Service contracts

All members of senior management have service contracts that can be terminated with between 3 and 6 months' notice.

Details of the employment contracts of the Chief Executive and Deputy Chief Executive are set out below:

David Hardy has a rolling employment contract with LCH.Clearnet Limited which can be terminated by the company giving 12 months' notice and by the director giving 6 months' notice.

Patrice Renault has an employment contract with LCH.Clearnet SA which could be terminated by the company giving 4 months' notice and by the director giving 3 months' notice.

...remuneration report

The Company retains the right to terminate the contract of any director summarily in accordance with the terms of their employment agreement, on payment of a sum equivalent to the contractual notice entitlement.

Non-executive directors

With the exception of the independent directors, non-executive directors do not receive a fee for their services. The Board determines the fees of non-executive directors which reflect the level of individual responsibilities and membership of Board Committees.

Directors' detailed emoluments

	Salary & fees €'000	Benefits in kind €'000	Annual bonus €'000	Long term incentive plan €'000	Total 12 months 2004 €'000	Total 14 months 2003 €'000
Executive						
David Hardy	441	18	288	-	747	897
Patrice Renault	353	6	-	-	359	10
Non-Executive						
David Pritchard	76	-	-	-	76	60
Gérard de La Martinière	76	-	-	-	76	-
John Caouette	76	-	-	-	76	-
	1,022	24	288	-	1,334	967

Salary and fees include an amount of €nil (2003: €10,000) paid to the Euronext group in respect of making available the services of Patrice Renault to the Company.

Directors' pension entitlement

Set out below are details of the pension benefits to which each of the executive directors is entitled. As this disclosure relates solely to the UK scheme, Euro values are shown using closing 2004 exchange rates to facilitate ease of understanding.

	Increase in pension entitlement during the period €'000	Accrued pension entitlement at 31 December 2004 €'000	Transfer value at 31 December 2004 €'000	Transfer value at 31 December 2003 €'000	Increase in transfer value less directors' contributions €'000
David Hardy	6	153	1,935	1,693	242

The accrued pension entitlement is that which would be paid annually on retirement based on service to the end of the year. Retained benefits from previous employments are taken into account.

The increase in the accrued entitlement is the difference between the accrued entitlement at the end of the period and that at the previous year-end, after allowing for inflation at the rate of 2.7%.

The transfer value represents an obligation of the pension scheme that could be paid to another pension scheme for the benefit of the director. It is not a sum paid or due to the director.

The increase in the transfer value less directors' contributions is the increase in the transfer value of the accrued entitlement in respect of qualifying services during the period, after deducting the directors' personal contributions to the scheme.

On behalf of the board

Gérard de la Martinière
Chairman of the Remuneration Committee
10 March 2005

Directors' report

The directors of LCH.Clearnet Group Limited present their report to shareholders, together with the audited financial statements for the 12 months ended 31 December 2004.

Principal activities

The principal activity of the Company is the holding of investments in subsidiaries.

The principal activities of the Group during the period were the provision of clearing, central counterparty and other services to clearing members, trade matching organisations and exchanges.

LCH.Clearnet Limited is a Recognised Clearing House under the Financial Services and Markets Act 2000 and a Derivatives Clearing Organization in the USA. LCH.Clearnet Limited is regulated by the Financial Services Authority.

LCH.Clearnet SA acts as the clearing house for regulated markets in France, the Netherlands, Belgium and Portugal. As a clearing house in France, LCH.Clearnet SA is subject to Autorité des Marchés Financiers regulations. As a bank it is governed by the French Banking Law and is subject to supervision by the French Commission bancaire.

Business review and future developments

A review of the Group activities during the year and likely future developments are dealt with in the Chairman's statement, Chief Executive's review and operating and financial review on pages 2 to 19.

Group results and dividend

The Group results for the year are shown in the consolidated profit and loss account on page 36. Profits of €47,988,000 (2003 as restated:€14,909,000) made by the Group have been transferred to reserves.

The directors do not recommend the payment of a dividend to ordinary shareholders.

During the year, dividends on non-equity shares amounted to €6,839,543 (2003: €168,000).

Capital

Details of changes in the share capital are shown in note 19 of the financial statements.

At the period end, Group capital resources amounted to €747,270,000 (2003 as restated: €701,303,000).

Fixed assets

Details of the changes in fixed assets are set out in notes 8 and 9 of the financial statements.

Charitable Donations

The Group made donations for charitable purposes during the period of €95,453 (2003: €50,000).

Directors and directors' interests

The current directors of the company are listed on page 20. According to the register of directors' interests, David Hardy, Patrice Renault, John Caouette and David Pritchard all hold one share in LCH.Clearnet SA. They will hold these shares for the length of time they are directors of LCH.Clearnet SA. There were no further disclosable interests recorded in the register of directors' interests.

Information relating to directors' remuneration is given in the Remuneration Report on pages 26 to 29.

No other director holding office at 31 December 2004 had any beneficial interest in the shares of the Company or any of its subsidiaries during the year.

Transactions with directors and related parties

Details of transactions with related parties are set out in note 27 of the financial statements.

...directors' report

Employees

It is the Group's policy to ensure that all employees and job applicants are given equal opportunities and that they do not face discrimination on the grounds of ethnic origin, colour, religion, sex or disability. Should an employee become disabled during his or her career with the Group, every effort will be made to ensure continued employment, with appropriate training.

Employee involvement in the Group's business is encouraged and information is disseminated through communication meetings, a company newsletter and distribution of the annual report.

The Group recognises its responsibilities to provide a safe working environment for all its staff and measures are in place to ensure that the appropriate health and safety at work regulations are observed.

Auditors

Ernst & Young LLP were re-appointed auditors of the Company on 7 May 2004 and have indicated their willingness to be re-appointed under the provisions of the Companies Act 1985.

By order of the board

Susan Ward
Company Secretary
10 March 2005

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' report

Independent auditors' report to members of LCH.Clearnet Group Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 27 which have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the directors' responsibilities statement.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and the United Kingdom Auditing Standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the Company 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 transactions with the Company is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information is comprised of the Chairman's statement, Chief Executive's review, operational and financial review, corporate governance statement, remuneration report and directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group'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 of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
10 March 2005

Consolidated profit and loss account

for the year ended 31 December 2004

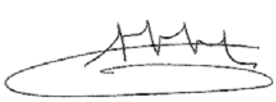
	Note	12 months to December 2004 €'000	14 months to December 2003 As restated €'000
Turnover	3	615,659	340,958
Interest paid to clearing members	2, 3	(295,415)	(195,402)
Gross profit		320,244	145,556
Net administrative expenditure	2	(230,806)	(117,870)
Operating profit	4	89,438	27,686
Exceptional items:			
Restructuring costs	2, 4	(7,427)	(4,421)
Profit on ordinary activities before taxation		82,011	23,265
Tax on profit on ordinary activities	5	(27,183)	(8,188)
Profit for the financial year		54,828	15,077
Non-equity dividends	7	(6,840)	(168)
Retained profit for the financial year		47,988	14,909

The above activities are continuing.
The notes on pages 41 to 72 form an integral part of these financial statements.

Balance sheets

as at 31 December 2004

	Note	Group December 2004 €'000	Group December 2003 As restated €'000	Company December 2004 €'000	Company December 2003 €'000
Fixed assets					
Intangible assets	8	503,842	504,159	-	-
Tangible assets	9	94,670	65,294	-	-
Investments	10	-	-	673,481	673,481
		598,512	569,453	673,481	673,481
Current assets					
Debtors	11	79,042,652	59,671,923	29,508	4,852
Secured short-term loans	12	5,689,332	3,756,205	-	-
Cash at bank and in hand	13	4,454,075	6,381,144	264	-
		89,186,059	69,809,272	29,772	4,852
Creditors: amounts falling due within one year	14	(87,687,383)	(68,511,506)	(5,506)	(228)
Net current assets		1,498,676	1,297,766	24,266	4,624
Total assets less current liabilities		2,097,188	1,867,219	697,747	678,105
Creditors: amounts falling due after more than one year					
Net pension liability	25	(18,987)	(15,429)	-	-
Other		(1,330,931)	(1,150,487)	-	-
	16	(1,349,918)	(1,165,916)	-	-
NET ASSETS		747,270	701,303	697,747	678,105
Capital and reserves					
Called up share capital	19	100,116	100,116	100,116	100,116
Redeemable convertible preference shares	19	19,884	19,884	19,884	19,884
Other reserves	20	554,791	555,907	540,000	540,000
Retained earnings	20	72,479	25,396	37,747	18,105
SHAREHOLDERS' FUNDS		747,270	701,303	697,747	678,105
Equity shareholders' funds		548,430	502,463	498,907	479,265
Non-equity shareholders' funds		198,840	198,840	198,840	198,840
		747,270	701,303	697,747	678,105



The notes on pages 41 to 72 form an integral part of these financial statements.
The financial statements were approved by the Board on 10 March 2005.

Gérard de la Martinière
Chairman

Consolidated statement of total recognised gains and losses

	Note	12 months to December 2004 €'000	14 months to December 2003 As restated €'000
Profit for the financial year	20	54,828	15,077
Currency translation differences on foreign currency net investment	20	(1,026)	(711)
Foreign exchange adjustment on opening shareholders' funds to 31 December 2004	20	(265)	(11,315)
Foreign exchange retranslation effect of net pension liability	20	175	1,291
Actuarial loss on pensions	20, 25	(1,293)	(4,709)
Net movement on deferred tax relating to pension	20	388	1,413
Total recognised gains for the year		52,807	1,046
Prior period adjustment on adoption of FRS 17	25	(15,429)	
Total gains and losses recognised since last annual report		37,378	

The notes on pages 41 to 72 form an integral part of these financial statements.

Reconciliation of movements in Group shareholders' funds

	Note	12 months to December 2004 €'000	14 months to December 2003 As restated €'000
Profit for the financial year	20	54,828	15,077
Dividends	7	(6,840)	(168)
		47,988	14,909
Issue of ordinary shares for cash		-	1,269
Nominal value of shares issued for the acquisition of LCH.Clearnet SA		-	60,000
Premium on shares issued for the acquisition of LCH.Clearnet SA		-	540,000
Currency translation differences on foreign currency net investment	20	(1,026)	(711)
Increase in shareholders' funds		46,962	615,467
Opening shareholders' funds as previously stated		716,732	110,708
Prior period adjustment on adoption of FRS 17	25	(15,429)	(11,552)
Opening shareholders' funds as restated		701,303	99,156
Foreign exchange adjustment on opening shareholders' funds to 31 December 2004		(265)	(11,315)
Foreign exchange retranslation effect of net pension liability		175	1,291
Actuarial loss on pensions		(1,293)	(4,709)
Net movement on deferred tax relating to pension		388	1,413
Closing shareholders' funds	20	747,270	701,303

The notes on pages 41 to 72 form an integral part of these financial statements.

Consolidated cashflow statement

	Note	12 months to December 2004 €'000	12 months to December 2004 €'000	14 months to December 2003 €'000	14 months to December 2003 €'000
Net cash inflow from operating activities before movement in margin monies held	21	97,607		50,814	
Margin monies net cash (outflow)/inflow		(124,906)		1,125,549	
Increase in default fund		151,877		349,818	
Net cash inflow from operating activities			124,578		1,526,181
Taxation	22		(18,683)		(16,466)
Capital expenditure and financial investment	22		(40,032)		(48,485)
Acquisitions:					
Capitalised acquisition costs			-		(13,481)
Net cash acquired with subsidiary undertakings			-		597,479
Non equity dividends paid			(3,558)		-
Net cash inflow before use of liquid resources and financing			62,305		2,045,228
Management of liquid resources			(2,014,604)		(2,381,405)
Net cash (outflow)/inflow from financing	22		(33,000)		1,304
Decrease in net cash	23		(1,985,299)		(334,873)

Analysis of changes in net funds		2004 €'000	2003 €'000
Decrease in net cash	23	(1,985,299)	(334,873)
Cash inflow from movement in liquid resources	23	2,014,604	2,381,405
Cash outflow from movement in financing	22	33,000	-
Funds acquired with subsidiary		-	2,763,082
Exchange movements		(25,015)	(651,659)
Movement in net funds	23	37,290	4,157,955
Opening net funds		10,068,511	5,910,556
Closing net funds		10,105,801	10,068,511

The notes on pages 41 to 72 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

a Basis of preparation

These financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of derivative instruments and in accordance with applicable accounting standards of the UK Accounting Standards Board and pronouncements of its Urgent Issues Task Force.

A summary of the significant accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year, where applicable.

The Group has fully adopted the new accounting standard, FRS 17 - "Retirement Benefits", issued by the UK Accounting Standards Board.

The impact of adopting this standard has been reflected throughout the financial statements. Prior period comparatives have been restated where appropriate, in accordance with FRS 3 - "Reporting Financial Performance".

A separate profit and loss account for the Company has not been presented as permitted by section 230 of the Companies Act 1985 (the Act).

b Basis of consolidation

The consolidated financial statements of LCH.Clearnet Group Limited (the Company) comprise the financial statements of LCH.Clearnet Group Limited and its subsidiary undertakings (the Group). Financial statements of subsidiary undertakings are made up to 31 December.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition. There were no acquisitions during the year ended 31 December 2004.

During 2003, LCH.Clearnet Group Limited was introduced as the new holding company of LCH.Clearnet Limited by way of a scheme of arrangement under section 425 of the Act. This has been accounted for as a capital reorganisation and merger accounting principles have been applied as if the Company had always been the holding company of LCH.Clearnet Limited.

...notes to the financial statements

All significant intra-group transactions have been eliminated on consolidation.

LCH.Clearnet Group Limited's financial statements are prepared in accordance with UK generally accepted accounting practice ("UK GAAP"). Where necessary, adjustments are made to the financial statements of subsidiary undertakings to bring accounting policies into line with UK GAAP.

C Subsidiary undertakings and goodwill

Goodwill arises on the acquisition of subsidiary undertakings when the cost of acquisition exceeds the fair value of net assets acquired. Goodwill is capitalised as an intangible asset and amortised over its estimated useful economic life, subject to regular impairment review.

The useful economic life of the goodwill is determined at the time of the acquisition giving rise to it by considering, inter alia, the nature of the acquired business, the economic environment in which it operates and the period of time over which the value of the business is expected to exceed the value of the identifiable net assets. The directors consider that it is appropriate to assign an indefinite life to the goodwill which arose on the acquisition of LCH.Clearnet SA in 2003 in view of the strength of the LCH.Clearnet brand and the position of the business as one of the leading providers of clearing services. Both of these attributes are deemed to have indefinite durability, which has been determined based on the following factors: the nature of the business; the lifespan of the products and services offered; the extent to which the acquisition overcomes market entry barriers; and the expected future impact of competition on the business.

Where goodwill is deemed to have an indefinite useful life it is not subject to amortisation but is tested for impairment at each financial year end (or more frequently if events or changes in circumstances indicate an impairment) by comparing the asset's recoverable amount with its carrying amount. If the net assets and goodwill were to exceed the recoverable amount, an impairment would be deemed to have occurred and the resulting write-down in the goodwill would be charged to the profit and loss account immediately.

The Act requires that all goodwill carried on the balance sheet should be amortised. In the case of the goodwill arising on the acquisition of LCH.Clearnet SA, the directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the financial statements to show a true and fair view. If this goodwill was amortised over a period of twenty years, profit before tax for the year ended 31 December 2004, reserves and intangible assets would all be €25.2m lower.

d Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the rates of exchange ruling on the balance sheet date. Foreign currency profits and losses are translated into Euros at the average rates of exchange for the year.

Exchange differences arising from the application of closing rates of exchange to opening foreign currency net assets and to retranslation of the result for the period from the average rate to the closing rate are taken directly to reserves. All other exchange differences are recognised in the profit and loss account.

e Tangible fixed assets and depreciation

Tangible fixed assets are capitalised and depreciated at rates calculated to write off their cost over their estimated useful lives as follows:

Leasehold refurbishment costs	-	Straight line basis over the term of the lease
Computer equipment and software	-	Straight line basis between 2 and 5 years
Office equipment and other fixed assets	-	Straight line basis between 3 and 5 years

An internally generated tangible asset arising from the Group's business development is created if the asset can be identified, its cost measured reliably and it is probable it will generate future economic benefits. Depreciation is charged to the profit and loss account from the date the developed product, service, process or system is brought into use.

f Intangible fixed assets

Intangible fixed assets other than goodwill are capitalised and amortised at rates calculated to write off their cost over their estimated useful lives as follows:

Patents and trademarks	-	Straight line basis over 5 years

...notes to the financial statements

g Impairment

Fixed assets and goodwill are subject to impairment review in accordance with FRS 11 if there are events or changes in circumstances that indicate that the carrying amount of the fixed asset or goodwill may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the fixed asset or goodwill with its recoverable amount, which is the higher of net realisable value and value in use. Net realisable value is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cashflows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of fixed assets and goodwill are written down by the amount of any impairment and this loss is recognised in the profit and loss account in the period in which it occurs.

h Financial instruments

All transactions within 'balances with clearing members' are recorded on a trade date basis.

Derivative financial instruments, including exchange traded futures and options and swaps, are recorded at fair value based on market prices or calculated by reference to quoted market prices.

Repurchase Agreements ("Repos") are recorded at the net present value of the amounts due to be paid or receivable when the underlying security is due to be repurchased or resold. The underlying securities relating to such contracts are not recorded in the balance sheet.

Amounts receivable or payable on equity contracts are recorded at their contractual values.

Debtors and creditors representing the recorded values of financial instruments are offset in the balance sheet where they are entered into with the same member and the Group has a legally enforceable right to insist on net settlement in the event of insolvency or default of a member.

i Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent years.

Deferred tax is measured at a non-discounted basis at the tax rates that are expected to apply in the years that the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

j Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

k Pensions and other post-retirement benefits

The Group operates a defined benefit pension scheme for its UK employees that require contributions to be made to a separate trustee-administered fund.

Contributions to the LCH Pension Scheme are assessed by a qualified actuary and are charged to the profit and loss account so as to spread the cost over the service lives of the employees. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as the result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs.

A full actuarial valuation was carried out at 30 June 2004 and partially updated to 31 December 2004 by a qualified independent actuary. Major assumptions used by the actuary are included within note 25.

...notes to the financial statements

The results reflect the initial adoption of FRS 17 "Retirement benefits" relating to the LCH pension scheme and members in the Euronext Amsterdam pension scheme. The cumulative cost of the benefits relating to previous years have been recognised in the financial statements as a prior period adjustment and comparative figures for 2003 have been restated. The effect on continuing operations of implementing this new accounting policy was to reduce profit on ordinary activities before tax by €4.1m (2003: €2.6m) and to reduce the current tax charge by €1.2m (2003:€0.7m). The foreign exchange retranslation effect of the LCH pension scheme net pension liability, recognised in the Statement of total recognised gains and losses for the year ended December 2004, was €175,000 (2003: €1,291,000). The adoption of this accounting policy has caused a reduction in the value of reserves at 1 January 2004 of €15.4m (2003:€10.7m).

The FRS 17 current service charge to operating costs for 2004 is €7.3m, which together with the charge to other finance costs of €0.6m gives a total pre-tax cost of €7.9m. The actual contributions were €3.8m and the SSAP 24 expense would have been €6.1m (2003: €4.0m), being €4.8m (2003: €4.0m) regular cost plus €1.4m (2003: €nil) variation cost (amortisation of deficit on SSAP 24 valuation).

l Capital instruments

Ordinary shares and the redeemable convertible preference shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

m Provisions

Provisions are recognised for present obligations arising as consequences of past events, where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated.

2 Segmental analysis

Turnover and operating profits are derived from the provision of services to clearing members and exchanges, including interest received on deposits and custody fees.

	UK 12 months 2004 €'000	Continental Europe 12 months 2004 €'000	Total 12 months 2004 €'000	UK 14 months 2003 As restated €'000	Continental Europe 14 months 2003 €'000	Total 14 months 2003 As restated €'000
Turnover	349,946	265,713	615,659	335,388	5,570	340,958
Interest paid to clearing members	(188,142)	(107,273)	(295,415)	(193,030)	(2,372)	(195,402)
Gross profit	161,804	158,440	320,244	142,358	3,198	145,556
Net administrative expenditure	(121,504)	(109,302)	(230,806)	(114,913)	(2,957)	(117,870)
Exceptional items	(3,373)	(4,054)	(7,427)	(4,372)	(49)	(4,421)
Profit on ordinary activities before tax	36,927	45,084	82,011	23,073	192	23,265

Net assets	2004 €'000	2003 As restated €'000
United Kingdom	107,289	88,149
Continental Europe	136,145	109,318
Goodwill	503,836	503,836
Total	747,270	701,303

Analysis by business is based on the Group's management structure. Turnover between segments is immaterial.

...notes to the financial statements

3 Analysis of turnover and interest paid to clearing members

	12 months 2004 €'000	14 months 2003 €'000
Turnover analysis		
Interest on shareholders' funds	3,311	4,550
Interest on default fund	46,882	25,525
Treasury earnings	274,499	195,674
	324,692	225,749
Clearing fees	265,312	107,549
Gross fees	265,312	142,029
Less: Rebates	-	(34,480)
Other fee income	25,655	7,660
	290,967	115,209
Total turnover	615,659	340,958
Interest paid to clearing members		
Treasury	238,756	161,797
Default fund	56,659	33,605
Total interest paid to clearing members	295,415	195,402

4 Profit on ordinary activities before taxation

	12 months 2004 €'000	14 months 2003 As restated €'000
Profit before taxation is stated after charging:		
Staff costs (note 24)	65,508	47,941
Depreciation of tangible fixed assets:		
- owned assets	11,037	11,387
(Profit)/loss on disposal of fixed assets	(223)	2,730
Hire of plant and machinery under operating leases	206	99
Property lease rentals	3,766	3,585
Outsourced IT infrastructure	11,680	-
Interest on bank overdrafts and loans repayable within 5 years	1,822	-
Costs incurred in the integration of acquired businesses (see Exceptional items below)	7,427	4,421
Auditors' remuneration	257	240

Fees paid to Ernst & Young for non-audit services throughout the Group in 2004 were €652,179 (2003: €1,404,000) of which €nil (2003: €1,087,000) relates to accounting and tax advisory services provided in connection with the capital reorganisation and acquisition of LCH.Clearnet SA.

Exceptional items

Exceptional items of €7,427,000 (2003: €4,421,000) comprises €455,000 (2003: €567,000) of restructuring costs and €6,972,000 (2003: €3,854,000) relating to the cost of integrating LCH.Clearnet SA, acquired at the end of the prior period.

...notes to the financial statements

5 Tax on profit on ordinary activities

	12 months 2004	14 months 2003 As restated
Analysis of charge for the period	€'000	€'000
United Kingdom		
Corporation tax at 30% (2002: 30%)	(21,175)	(6,764)
Double taxation relief	12,236	-
- current year	(8,939)	(6,764)
- prior year	677	57
	(8,262)	(6,707)
Overseas tax		
Corporation taxes		
- current year	(15,797)	(46)
- prior year	320	-
Total current overseas tax	(15,477)	(46)
Total current tax	(23,739)	(6,753)
Deferred tax:		
Current year	(4,378)	(2,137)
Prior year	(278)	(100)
Deferred tax on pension liability	1,212	802
Total deferred tax	(3,444)	(1,435)
Tax on profit on ordinary activities	(27,183)	(8,188)

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	12 months 2004 €'000	14 months 2003 As restated €'000
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(24,603)	(6,980)
Effects of:		
Adjustments to tax in respect of prior period	997	57
Restructuring costs not deductible for tax purposes	-	(368)
Other expenses not deductible for tax purposes	(1,031)	(797)
Capital allowances (in excess of)/less than depreciation	4,363	2,137
Net effect of higher rates of overseas taxation	(2,253)	-
Deferred tax on pension liability	(1,212)	(802)
Total current tax charge	(23,739)	(6,753)
Effective current tax rate	28.9%	29.0%

6 Profits of holding company

Of the profit for the financial year, a profit of €19,641,743 (2003: €18,105,000) is dealt with in the accounts of LCH.Clearnet Group Limited. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

7 Dividends

	2004 €'000	2003 As restated €'000
Non-equity - Preference	6,840	168

8 Intangible fixed assets

	Patents €'000	Goodwill €'000	Total €'000
Cost			
At 1 January 2004	323	503,836	504,159
Additions in the year	-	-	-
Disposals	(307)	-	(307)
At 31 December 2004	16	503,836	503,852
Accumulated amortisation			
At 1 January 2004	-	-	-
Charge for the year	10	-	10
At 31 December 2004	10	-	10
Net book amount at 31 December 2004	6	503,836	503,842
Net book amount at 31 December 2003	323	503,836	504,159

During the year ended 31 December 2004 an impairment review was undertaken to assess the carrying value of the goodwill arising from the acquisition of LCH.Clearnet SA. It was concluded that no impairment adjustment was necessary.

...notes to the financial statements

9 Tangible fixed assets

	Leasehold refurbishment €'000	Computer equipment and software €'000	Office equipment and other fixed assets €'000	Total €'000
Cost				
At 1 January 2004	3,990	96,391	2,609	102,990
Exchange adjustments	(11)	(224)	(7)	(242)
Additions:				
- projects in progress	-	31,564	-	31,564
- other	2,369	5,927	694	8,990
Disposals	-	(592)	-	(592)
At 31 December 2004	6,348	133,066	3,296	142,710
Accumulated depreciation				
At 1 January 2004	1,732	34,328	1,636	37,696
Exchange adjustments	(5)	(92)	(4)	(101)
Charge for the year	397	10,317	323	11,037
Disposals	-	(592)	-	(592)
At 31 December 2004	2,124	43,961	1,955	48,040
Net book amount at 31 December 2004	4,224	89,105	1,341	94,670
Net book amount at 31 December 2003	2,258	62,063	973	65,294

The balance of capitalised business development costs that had not been brought into use at the end of the period and against which depreciation has not yet been charged was €70,769,013 (2003: €41,203,000).

10 Investments

Fixed asset investments	Company 2004 €'000	Company 2003 €'000
Investments in subsidiary undertakings at beginning and end of year	673,481	673,481

Investments in subsidiary undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

The trading subsidiaries are as follows:

Country of incorporation	Company name	Percentage of ordinary equity share capital held
England	LCH.Clearnet Limited	100%
France	LCH.Clearnet SA	100%

The principal activity of subsidiary undertakings is the provision of clearing, central counterparty and other services to clearing members, trade matching organisations and exchanges.

The country of incorporation is also the principal area of operation (LCH.Clearnet SA also operates in the Netherlands, Belgium and Portugal).

On 22 December 2003, the Group purchased 100% of the capital of Banque Centrale de Compensation SA (trading as Clearnet), a majority owned subsidiary of the Euronext group. On acquisition the trading name was changed to LCH.Clearnet SA. The results have been consolidated using the acquisition method of accounting. The premium on acquisition of €503,836,000 (note 8) has been capitalised and is deemed to have an indefinite useful life, subject to regular impairment reviews.

...notes to the financial statements

11 Debtors

	Note	Group 2004 €'000	Group 2003 As restated €'000	Company 2004 €'000	Company 2003 €'000
Amounts falling due within one year:					
Balances with clearing members	15	78,941,173	59,621,756	-	-
Other debtors		78,126	32,790	2,302	18
Amounts owed by Group undertakings		-	-	27,198	4,834
Prepayments and accrued income		23,353	14,431	8	-
Amounts falling due after one year:					
Deferred tax	18	-	2,946	-	-
		79,042,652	59,671,923	29,508	4,852

The comparatives for 31 December 2003 have been restated. €4,756,000 of interest income receivable has been transferred from other debtors to prepayments and accrued income.

12 Secured short-term loans

	2004 €'000	2003 €'000
Secured short-term loans	5,689,332	3,756,205

13 Cash at bank and in hand

	Group 2004 €'000	Group 2003 €'000	Company 2004 €'000	Company 2003 €'000
Cash and balances with banks, money on deposit and at call	4,454,075	6,381,144	264	-

14 Creditors - amounts falling due within one year

	Note	Group 2004 €'000	Group 2003 €'000	Company 2004 €'000	Company 2003 €'000
Bank and other borrowings		10,606	8,838	-	-
Subordinated loan		-	60,000	-	-
Balances with clearing members	15	87,556,814	68,362,303	-	-
Trade creditors		27,298	20,603	-	-
Other creditors, including tax and social security		26,502	19,270	196	-
Amount owed by Group undertakings		-	-	1,827	-
Accruals and deferred income		62,713	40,324	-	60
Dividends payable		3,450	168	3,483	168
		87,687,383	68,511,506	5,506	228

At 31 December 2003, there was a subordinated loan of €60 million from Euronext Paris SA to LCH.Clearnet SA. During the year ended 31 December 2004 this subordinated loan was fully repaid.

...notes to the financial statements

15 Balances with clearing members

	Group 2004 €'000	Group 2003 €'000
Assets		
Fair value of transactions with clearing members less variation margin	82,125,895	62,469,663
Initial margin and other clearing member balances	231,693	305,136
Permissible netting	(3,416,415)	(3,153,043)
	78,941,173	59,621,756
Liabilities		
Fair value of transactions with clearing members less variation margin	(82,125,888)	(62,469,663)
Initial margin and other clearing member balances	(8,847,341)	(9,045,683)
Permissible netting	3,416,415	3,153,043
	(87,556,814)	(68,362,303)

The net balances due from clearing members recorded in the balance sheet of €78,941m (2003: €59,622m) are fully secured by non-cash collateral or guarantees held by the Group. At 31 December 2004, the total net amount of non-cash collateral, including in respect of initial margin was €90,293m (2003: €67,326m) and the total amount of guarantees held was €2,965m (2003 as restated: €3,273m). Included within the non-cash collateral is the net amount of debt securities received as collateral for the Group's assets in respect of RepoClear transactions, which has in turn been passed on to RepoClear counterparties to secure the Group's liabilities in respect of RepoClear contracts.

16 Creditors - amounts falling due after more than one year

	Note	2004 €'000	2003 As restated €'000
LCH.Clearnet Limited default fund		824,437	828,967
LCH.Clearnet SA default funds:			
OTC Fund		126,248	86,974
Other funds		351,679	234,546
Net pension liability	25	18,987	15,429
Deferred tax	18	1,567	-
Subordinated Loan		27,000	-
		1,349,918	1,165,916

Default Funds

Default Funds' purpose is to fund losses incurred by the Group in the event of clearing member default where margin monies are insufficient to cover the management and close out of the positions of the defaulting clearing member. Monies are placed on deposit by the Group and interest has been paid to clearing members as follows:

- **Clearing members of LCH.Clearnet Limited**

  At a rate of not less than three-month LIBOR (or equivalent) plus 100 basis points. Clearing members' contributions are adjusted on a quarterly basis and are refundable on resignation subject to the rules and regulations of LCH.Clearnet Limited.

- **Clearing members of LCH.Clearnet SA**

  At the Euro Overnight Average Index rate. Clearing members' contributions are adjusted on a monthly basis or following the default of a clearing member. Repayment of contributions is made upon the effective termination of membership.

Net interest payable is included within interest paid to clearing members in these financial statements (see note 3).

Subordinated Loan

Interest on the subordinated loan is payable quarterly in arrears at the following floating rates of interest:

- From 23 August 2004 to 20 September 2004 at 0.7% above one month EURIBOR
- From 21 September 2004 to 20 September 2009 at 0.7% above three month EURIBOR
- From 21 September 2009 at 1.2% above three month EURIBOR

The initial rate was 2.875%. The loan, subject to regulatory approval, may be repaid upon 30 days notice, but no earlier than 21 September 2009. It is quoted on the Luxembourg stock exchange.

Claims in respect of the subordinated loan rank behind the claims of other unsecured creditors.

...notes to the financial statements

17 Financial instruments

Interest rate risk profile of financial liabilities

All of the financial assets and liabilities of the Group are either based on floating rates or based on fixed rates with an interest term of less than three months.

Therefore, the Group is not exposed to any material interest rate risk.

Currency risk

A balance of €107,254,000 (2003 as restated: €83,525,000) of the Group's net assets is denominated in Sterling, being the functional currency of LCH.Clearnet Limited.

18 Deferred tax

	Note	Group 2004 €'000	Group 2003 €'000
The deferred tax (liability)/asset comprises:			
Timing differences on capital allowance		(2,225)	1,651
Other timing differences		658	1,295
	16	(1,567)	2,946
Deferred tax asset at the beginning of the year	11	2,946	4,406
Amount charged to profit and loss	5	(4,656)	(2,237)
On acquisition of LCH.Clearnet SA		-	1,171
Exchange rate movements		143	(394)
Deferred tax (liability)/asset at the end of year	16	(1,567)	2,946

19 Called up share capital

Equity share capital	2004 €'000	2003 €'000
Authorised		
130,116,001 ordinary shares of €1 each	130,116	130,116
Issued		
100,115,975 ordinary shares of €1 each	100,116	100,116

Non-equity share capital	2004 €'000	2003 €'000
Authorised		
19,883,997 redeemable convertible preference shares of €1 each	19,884	19,884
2 non-voting shares of €1 each	-	-
Issued		
19,883,997 redeemable convertible preference shares of €1 each	19,884	19,884
2 non-voting shares of €1 each	-	-

Redeemable convertible preference shares

The rights and restrictions attaching to the redeemable convertible preference shares of €1 each ('RCPS') are as follows:

1 **Dividend**

a Prior to conversion or redemption, the holders of the RCPSs are entitled to a variable non-convertible preferred annual dividend on each RCPS of the higher of an amount equal to its Initial Value (€10 per RCPS) multiplied by six-month Euro LIBOR plus 125 basis points and the dividend paid to the holders of ordinary shares.

b The RCPS dividend shall be paid in priority to the payment of any dividend on any other class of shares.

...notes to the financial statements

2 Return of capital

On a return of capital on a winding up or otherwise, the surplus assets of the Company remaining after the payment or satisfaction of amounts due to creditors shall be applied in paying to each holder of a RCPS, in priority to any payment to the holders of any other class of share in the capital of the Company, the RCPS Initial Value.

3 Redemption

a To the extent that the Company is lawfully able under the terms of the RCPSs, the Company will redeem RCPSs at the Initial Value on 22 December 2008.

b If the Company fails to redeem RCPSs on the redemption date, the Company will redeem such RCPSs as soon as it is lawfully able to do so. The amount payable by the Company on the ultimate redemption, in this case, will include an amount of interest from the original redemption date until redemption.

4 Voting

Subject to certain restrictions, each RCPS carries one vote for every ordinary share which would arise on conversion of each RCPS. With the exception of certain resolutions, each vote attaching to a RCPS will be exercisable at general meetings or otherwise by an appointed independent third party.

5 Conversion

On the occurrence of a RCPS conversion event, the RCPS to be converted shall convert on a one-for-one basis into, and shall be designated as, ordinary shares. A RCPS conversion event is defined as: 1) the transfer of RCPSs outside of the Euronext group; 2) following the issue of ordinary shares, subject to the conversion not exceeding the Euronext voting cap of 24.9%; 3) following the expiry of the Euronext voting cap period (not earlier than 22 December 2008); 4) following the sixth anniversary of RCPS issuance (22 December 2009).

20 Capital and reserves

Group	Equity share capital €'000	Non-equity share capital €'000	Merger reserve €'000	Translation reserve €'000	Retained earnings €'000	Total 2004 €'000
Profit for the financial period	-	-	-	-	54,828	54,828
Dividends	-	-	-	-	(6,840)	(6,840)
Exchange adjustments	-	-	-	(1,116)	-	(1,116)
Actuarial loss on pension scheme	-	-	-	-	(1,293)	(1,293)
Movement on deferred tax relating to pension	-	-	-	-	388	388
Net change in shareholders' funds	-	-	-	(1,116)	47,083	45,967
Shareholders' funds as at 1 January 2004 as previously stated	100,116	19,884	555,327	(711)	42,116	716,732
Prior period adjustment FRS17	-	-	-	1,291	(16,720)	(15,429)
Shareholders' funds as at 1 January 2004 as restated	100,116	19,884	555,327	580	25,396	701,303
Shareholders' funds as at 31 December 2004	100,116	19,884	555,327	(536)	72,479	747,270

...notes to the financial statements

The balance on the merger reserve at the beginning and the end of the year represents:

1. The difference between called up share capital of the Company and the called up share capital, share premium account and capital redemption reserve of LCH.Clearnet Limited at 19 December 2003, the date of the capital reorganisation; and

2. The premium arising on shares issued in respect of the acquisition of LCH.Clearnet SA, which qualifies for merger relief under Section 131 of the Companies Act 1985.

Company	Equity share capital €'000	Non-equity share capital €'000	Merger reserve €'000	Retained earnings €'000	Total 2004 €'000
Profit for the financial year	-	-	-	19,642	19,642
Net change in shareholders' funds	-	-	-	19,642	19,642
Shareholders' funds as at 1 January 2004	100,116	19,884	540,000	18,105	678,105
Shareholders' funds as at 31 December 2004	100,116	19,884	540,000	37,747	697,747

21 Cashflow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

Continuing operations	2004 €'000	2003 As restated €'000
Operating profit	82,011	23,265
Depreciation charge	11,037	11,387
Loss on disposal of fixed assets	(223)	2,730
(Increase)/decrease in debtors	(51,312)	307
Increase in creditors	56,094	13,125
Net cash inflow from operating activities	97,607	50,814

22 Analysis of cashflows

	2004 €'000	2003 €'000
Taxation		
UK Corporation tax		
- paid	(21,845)	(16,466)
- received	3,162	-
	(18,683)	(16,466)
Capital expenditure		
Payments to acquire tangible fixed assets	(40,247)	(48,485)
Receipts from sale of tangible fixed assets	215	-
	(40,032)	(48,485)
Financing		
New borrowings	27,000	-
Borrowings repaid	(60,000)	-
Issue of ordinary share capital	-	1,304
Net change in borrowings	(33,000)	1,304

...notes to the financial statements

23 Reconciliation of movement in net funds

	Note	At 31 Dec 2003 €'000	Cashflow €'000	Foreign Exchange €'000	At 31 Dec 2004 €'000
Secured short-term loans	12	3,756,205	2,015,590	(82,463)	5,689,332
Cash at bank and in hand	13	6,381,144	(1,984,519)	57,450	4,454,075
Less: assets treated as liquid resources (see below)		(7,564,911)	(2,014,604)	76,942	(9,502,573)
Bank overdrafts		(8,838)	(1,766)	(2)	(10,606)
Net cash per cashflow statement		2,563,600	(1,985,299)	51,927	630,228
Liquid resources - short term deposits and secured loans		7,564,911	2,014,604	(76,942)	9,502,573
Debt financing - subordinated loan		(60,000)	33,000	-	(27,000)
Net funds		10,068,511	62,305	(25,015)	10,105,801

FRS 1 defines cash as only including cash-in-hand and deposits that can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. At 31 December 2004 this amounted to €905m (2003: €2,567m).

24 Employees and directors

Staff costs for the Group during the period	12 months 2004 €'000	14 months 2003 €'000
Wages and salaries	48,926	37,382
Social security costs	6,955	3,991
Other pension costs	9,602	6,568
Other post retirement benefits	25	-
	65,508	47,941
Average monthly number of people (including executive directors) employed	510	350

Directors	12 months 2004 €'000	14 months 2003 €'000
The total remuneration paid to directors of the Company:		
Emoluments	1,334	967
Pension contributions	66	77
	1,400	1,044

Remuneration, including pension contributions, of the highest paid director was €812,266 (2003: €974,000).

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is 1 (2003: 1).

The value of the accrued pension of the highest paid director was €153,000 (2003: €147,000).

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25 Pension commitments

The subsidiary company LCH.Clearnet Limited participates in the LCH Pension Scheme. This scheme is of a defined benefit type providing benefits to employees of LCH.Clearnet Limited and the assets are held in a separate trustee administered fund. The total pension cost included in these consolidated accounts for LCH.Clearnet Limited relating to the scheme in the period to 31 December 2004 was €7,582,000 (2003: €6,473,000). As at 31 December 2004 accrued contributions payable by LCH.Clearnet Limited amounted to €182,896. These were paid into the pension scheme in January 2005.

The pension cost relating to the scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method. A full actuarial assessment of the scheme was carried out as at 30 June 2004 and partially updated to 31 December 2004 by a qualified independent actuary.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 30 June 2004 and updated by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2004 and 31 December 2003. Scheme assets are stated at their market values at the respective balance sheet dates.

The major assumptions used by the actuary were:

	At 31 December 2004	At 31 December 2003
Rate of increase in salaries*	4.90%	4.80%
Rate of increase of pensions in payment	2.90%	2.80%
Rate of increase of pensions in deferment	2.90%	2.80%
Discount rate	5.30%	5.40%
Inflation assumption	2.90%	2.80%

*plus a promotional salary scale

The assets in the scheme and the expected rate of return were:

	At 31 Dec 2004 Projected returns	At 31 Dec 2004 €'000	At 31 Dec 2003 Projected returns	At 31 Dec 2003 €'000
Equities	7.00%	49,285	7.30%	41,745
Bonds	4.50%	7,090	4.80%	4,784
Property and 'other'	3.75%	1,674	3.75%	3,827
		58,049		50,356
Actuarial value of liability		(84,499)		(71,722)
Deficit in scheme		(26,450)		(21,366)
Related deferred tax asset		7,936		6,410
Net pension liability		(18,514)		(14,956)

Analysis of the amount recognised in the statement of total recognised gains and losses	Year to 31 December 2004 €'000	Period to 31 December 2003 €'000
Actual return less expected return on assets	1,965	3,755
Experience gains and losses on liabilities	589	1,319
Changes in assumptions	(3,847)	(9,783)
Actuarial loss recognised in the statement of total recognised gains and losses	(1,293)	(4,709)

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Analysis of the amount debited to administrative expenditure	Year to 31 December 2004 €'000	Period to 31 December 2003 €'000
Current service cost	(7,037)	(5,881)
Past service cost	-	-
Total operating charge	(7,037)	(5,881)

	Year to 31 December 2004 €'000	Period to 31 December 2003 €'000
Expected return on pension scheme assets	3,624	3,267
Interest on pension scheme liabilities	(4,169)	(3,859)
Net return	(545)	(592)

Movement in deficit during the year	Year to 31 December 2004 €'000	Period to 31 December 2003 €'000
Deficit in scheme at beginning of period	(21,366)	(15,827)
Movement in period:		
Current service cost	(7,037)	(5,881)
Contributions	3,542	3,799
Net return on assets	(545)	(592)
Actuarial loss	(1,293)	(4,709)
Exchange movements	249	1,844
Deficit in scheme at end of period	(26,450)	(21,366)

The actuarial valuation at 31 December 2004 showed an increase in the deficit from €21.4m to €26.5m. Contributions were paid at the rate of 15% of pensionable pay.

History of experience gains and losses	Year to 31 December 2004 €'000	Period to 31 December 2003 €'000
Difference between expected and actual return on scheme assets	1,965	3,755
- Percentage of scheme assets	3%	7%
Experience gains and losses on scheme liabilities	589	1,319
- Percentage of scheme liabilities	1%	2%
Total amount recognised in statement of total recognised gains and losses	1,293	4,709
- Percentage of scheme liabilities	1%	6%

Other pension liabilities

The Group is committed to take on obligations in respect of certain staff in a Euronext group defined benefit pension scheme in Amsterdam. These staff transferred their employment to LCH.Clearnet SA in 2004. The size of the net pension liability at 31 December 2003 was €473,000, and this is included within net pension liabilities in note 16. No more recent valuations have been received. This has been accounted for as a prior period adjustment. The current service cost charged to the profit and loss account for the year ended 31 December 2004 was €242,000 (2003: €nil).

Included within other creditors is a €1,289,000 (2003: €934,000) employee benefit provision for compensation for retirement, and €1,654,000 (2003: €1,253,000) commitments in respect of early retirement in compliance with an agreement with Euronext Paris personnel dated 19 December 2001. These provisions have been calculated by an independent actuary based on changes in the workforce (turnover, seniority and participation in the early retirement scheme). The charge for the year for the compensation for retirement commitment was €355,000, and for the early retirement scheme was €401,000.

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26 Other financial commitments and contingent liabilities

Operating leases

At 31 December 2004 the Group had commitments under operating lease agreements in respect of properties, plant and equipment, for which payments extend over a number of years.

	2004		2003	
	Property €'000	Plant and equipment €'000	Property €'000	Plant and equipment €'000
Annual commitments under non-cancellable operating leases expiring:				
Within one year	-	-	3,543	-
Within two to five years	-	-	-	44
After five years	7,560	-	4,777	-
	7,560	-	8,320	44

Supplier agreements

The Group has a supplier agreement in place for the provision of certain information technology infrastructure and services for the Group's production and development campuses for a period of 9 years. The estimated maximum value of the remaining commitment is €142m. The expected charge for the following financial period is a maximum of €15.6m.

The Group has outsourced the operation and development of certain information technology applications to AtosEuronext SA. The estimated maximum value of the remaining commitment over the next three years is €55m.

Contingent liabilities

At 31 December 2004 there were no material contingent liabilities.

27 Related party transactions

a Group undertakings

Details of the principal Group undertakings are given in note 10. In accordance with FRS 8, transactions or balances with Group entities that have been eliminated on consolidation are not reported.

b Principal shareholding

At 31 December 2004, the Euronext group held 24.9% of the ordinary share capital and 100% of the RCPS of LCH.Clearnet Group Limited. This was the maximum shareholding in the Group and was held from 22 December 2003, the date of acquisition of LCH.Clearnet SA.

At 31 December 2003, there was a subordinated loan of €60 million from Euronext Paris SA to LCH.Clearnet SA. During the year ended 31 December 2004 this subordinated loan was fully repaid.

The consolidated balance sheet at 31 December 2004 includes a net payable between the LCH.Clearnet Group and the Euronext group amounting to €2,277,000. This comprises:

- €16,047,000 net receivable in respect of revenue and fee guarantees (€17,204,000) receivable from, less retrocession fees (€1,157,000) collected on behalf of, Euronext by LCH.Clearnet SA
- €7,068,000 net payable in respect of management fees, accommodation fees and other management services
- €6,000,000 payable in respect of an over night money market loan at the market rate of interest
- €1,806,000 net payable in respect of IT costs
- €3,450,000 payable in respect of RCPS dividends.

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The consolidated profit and loss account for the year ended 31 December 2004 includes:

- An income from the Euronext group of €244,000 in respect of IT software

- An expense relating to the Euronext group of €27,552,000. This comprises:
  €7,810,000 in respect of management fees, accommodation costs and other management services
  €1,938,000 in respect of interest on the subordinated loan and other short term loans
  €10,964,000 in respect of IT costs
  €6,840,000 in respect of RCPS dividends.

Also included in the profit and loss account are net retrocession fees payable amounting to €23,306,000 comprised of gross retrocession fees of €40,510,000 collected on behalf of Euronext by LCH.Clearnet SA, less revenue and fee guarantees of €17,204,000.

The consolidated financial statements for 2003 included the following amounts paid by the Euronext group and recharged to LCH.Clearnet SA:

- €10,000 for the use of the services of Patrice Renault, Deputy Chief Executive

- €368,000 in respect of other staff related costs

- €65,000 in respect of property rental and service costs.