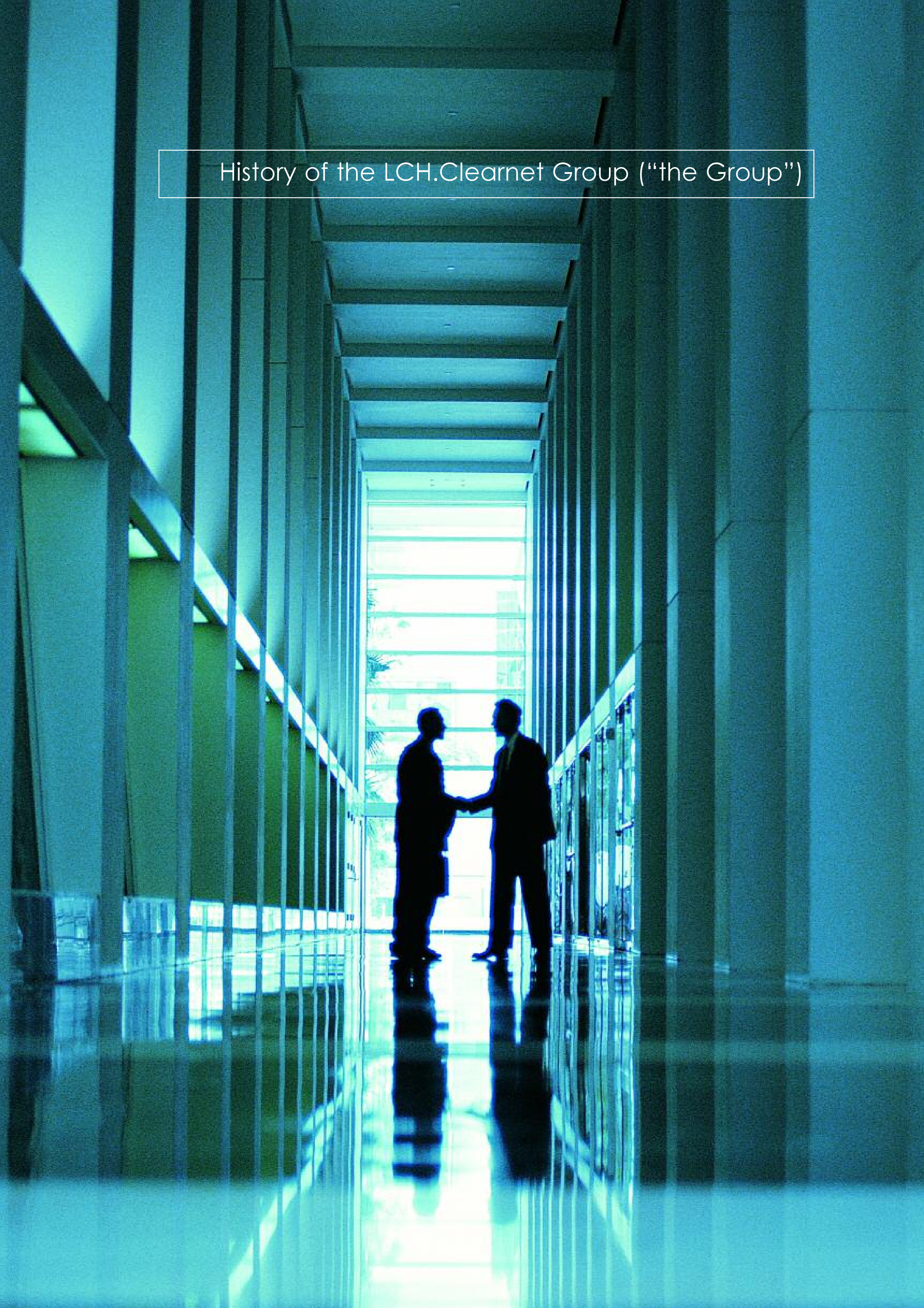
Report and Consolidated Financial Statements 2005

"**2005** was a challenging year for the **Group** both internally and externally, but it was undoubtedly a year of **achievement**, as our profit growth demonstrates."

History of the LCH.Clearnet Group ("the Group")



LCH.Clearnet Group Limited is an English registered private company limited by shares and is the holding company created to oversee the operating subsidiaries that were merged in December 2003, namely The London Clearing House Limited (LCH) and Clearnet SA (Banque Centrale de Compensation SA).

LCH.Clearnet Group Limited holds 100% of the shares in each of the two subsidiaries, LCH.Clearnet Limited (the former London Clearing House Limited) and Banque Centrale de Compensation SA (which trades under the name of LCH.Clearnet SA and which became an independent legal entity at the time of the merger, having previously been part of the Euronext group of companies).

The London Clearing House was founded in 1888 to clear commodity contracts traded in London. Both the Company and its activities changed radically in the 1980's when ownership passed from United Dominions Trust to a consortium of six British banks. At the same time, LCH expanded to clear contracts traded on IPE (1981), LIFFE (1982) and LME (1987). In the early 1990's, overseas clearing activities were discontinued, leaving clearing of international business in London's financial centre as the renewed and exclusive focus. Clearing of cash equities began in 1995, and in October 1996 majority ownership of LCH transferred to the whole clearing membership, with the three exchanges acquiring minority ownership. During the late 1990's and early years of the new century, LCH's business expanded rapidly to introduce clearing for cash bonds, repos, inter-bank interest rate swaps, and energy (gas and power).

Banque Centrale de Compensation SA was formed in 1969 to clear contracts traded in the Paris commodity markets. It became a subsidiary of Matif in 1990, and then, in turn, became an indirect subsidiary of SBF - Bourse de Paris when that body took over Matif in 1998. In 1999, the French markets underwent a restructuring with all of the regulated markets in Paris being brought together and being run by a single body - the Société des Bourses Françaises - whose trading name is Euronext Paris. In March 2000, ParisBourse, the Amsterdam Exchanges, and the Brussels Exchanges announced their agreement to merge the Belgian, Dutch and French exchanges to create Euronext.

Contents

1 General information

Directors

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

Gérard de La Martinière	(Chairman)
David Hardy	(Chief Executive)
Patrice Renault	*(resigned 30 April 2005)*
Nazir Badat	
John Caouette	
Jonathan Chenevix-Trench	*(resigned 1 September 2005)*
Ignace Combes	
Kevin Davis	
Clara Furse	
Simon Heale	
Dominique Hoenn	
Gerard Hartsink	*(appointed 10 March 2005)*
Paul Idzik	*(resigned 13 January 2005)*
Olivier Lefebvre	
Roger Liddell	*(appointed 26 January 2005)*
Maurice Oostendorp	*(resigned 13 January 2005)*
David Pritchard	
Hervé Saint-Sauveur	
Jean-François Théodore	
Francesco Vanni d'Archirafi	*(appointed 10 March 2005)*
Richard Ward	
Robert Wigley	*(appointed 30 November 2005)*

Company Secretary

Susan Ward

The Chairman and all other existing directors, with the exception of David Hardy, are non-executive directors. Patrice Renault was an executive director until his resignation in April 2005. The Chairman, John Caouette and David Pritchard have been appointed independent non-executive directors.

Registered office

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33 Aldgate High Street
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United Kingdom

Telephone: +44 (0)20 7426 7000
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Registered in England as a private company limited by shares
Company No. 4743602

Auditors

Ernst & Young LLP, London

2 Chairman's statement

"LCH.Clearnet's position remains unchanged: we are committed to further defragmentation of the capital markets post-trade infrastructure."

3 Chief Executive's review

"Once again, the Group has seen significant volume growth in its business areas, with members registering a new record total of 1,250 million trades, an increase of 19.9% on 2004."

“LCH.Clearnet had its second birthday in December and produced at the end of the year an improved financial result, thanks to favourable trends in volumes and active cost management.”

Nevertheless, given the capital needs of the Group, the Board does not recommend the payment of a dividend.

2005 was a difficult year for the Group, both internally and externally. Many changes took place within the management structure in order to strengthen our ability to cope with the ambitious targets of the merger; the Company was faced with unexpected failures on some IT developments required to allow process integration; and the landscape of European consolidation for trading platforms generated high uncertainty about the future of our business.

If not without pain, most of the obstacles have been successfully overcome, and, based on the strategic foundations built in 2004, the Company was able to bring about IT recovery, limit impairment, deliver a medium term business plan, and advocate the promotion of the horizontal model, while maintaining continuity of clearing services and tight risk management.

Whatever transitory troubles were experienced during 2005, the Company demonstrated its unique ability to launch a large range of new products and services within the largest scope of activities of any central counterparty in the world, its robustness to absorb extraordinary transaction flows, as well as its efficiency in managing risk through stretched conditions like those of 7 July and market incidents, without any damage. Its strategic positioning is gaining more and more credibility at the level of national and EU policy-making related to the financial market integration.

"...the Company demonstrated its unique ability to launch a large range of new products and services within the largest scope of activities of any central counterparty in the world..."

All these significant achievements are due to strong leadership in management, high commitment and proven skills of the staff, continuous dialogue with the main users of our services and the willingness to realise complete integration supported by the Board.

I am convinced 2006 will show LCH.Clearnet poised to meet key expectations of our various stakeholders: users, exchange partners and shareholders, in compliance with supervisory requirements, and according to the guidelines provided by the Board as part of their duty to warrant an appropriate balance of economic interest and adequate prioritisation.

The Board is organised to reflect the peculiar nature of the Company; its size and composition may sometimes have undermined the efficiency of its work, despite the capacity and good willingness of the individuals. For that reason we initiated a review of governance in order to identify ways of improvement and to seek sound interaction with the management.

During the year, we welcomed Gerard Hartsink, Francesco Vanni d'Archirafi and Robert Wigley to the Board, whilst Jonathan Chenevix-Trench, Paul Idzik and Maurice Oostendorp resigned; I would like to express my great appreciation for their valuable help. During the year, Patrice Renault resigned his position as Group Deputy Chief Executive to pursue other interests; we record our thanks for his service and wish him well for the future. I am also deeply grateful to all those who serve on our various Board committees, on the subsidiary Boards and in our consultative fora. Whilst this is very much an element of the collaborative nature of our business approach, I am very much aware of the commitment offered by these participants, all from the leading edge of our business segment, and all very busy elsewhere.

Finally, may I express my great appreciation to David Hardy and his management team and to the staff of LCH.Clearnet, all of whom deliver a highly committed and effective service across the full range of products and services. As I said at the outset, 2005 was a challenging year. 2006 will also be a challenge, but will see positive results flow from the hard work undertaken to date.

Gérard de La Martinière
Chairman

Introduction *by David Hardy*

"Whilst 2005 was a challenging year, it was also a year in which the Group achieved much, and delivered a robust financial performance."

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major projects delivered

We have done much work to position our systems and internal processes to meet our future needs, but not at the expense of improving, developing and extending our existing services. This was demonstrated by the delivery of a total of 27 infrastructure projects and 26 business projects during the year.

1.25

billion trades

Once again, the Group has seen significant volume growth in its business areas, with members registering a new record total of 1,250 million trades, an increase of 19.9% on 2004. This reflected a traded value of €408 trillion - an impressive indicator of the size of financial markets today and of our central role within them.

▸ Turnover up 25%

▸ Expenses up 2%

Revenue from transactions rose by 13.9% to €329 million over 2004. This growth was primarily due to increasingly high levels of activity in European equity markets throughout the year. Interest payments to clearing members, in respect of cash and collateral margin payments, increased by 44% to €344 million - again reflecting the substantial increase in balances arising from the high levels of activity. By contrast, administrative expenditure remained stable at €236 million, demonstrating the effect of the cost control initiatives on which we embarked during the early part of 2005. These initiatives are expected to yield further benefits during 2006, and thereafter, as part of our added value approach to service.

Across the business streams, LCH.Clearnet enjoyed a busy year. 55 members, in both LCH.Clearnet Ltd and LCH.Clearnet SA extended their range of cleared services, and six new members joined - three in LCH.Clearnet Ltd and three in LCH.Clearnet SA.

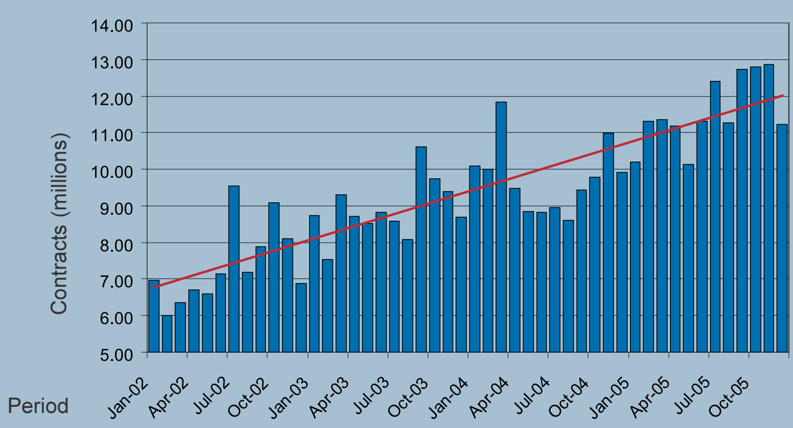
"Average daily SETS cleared volumes in 2005 exceeded 200,000 trades - a far cry from the 40,000 daily trades with which we opened the London Stock Exchange clearing service in early 2001."

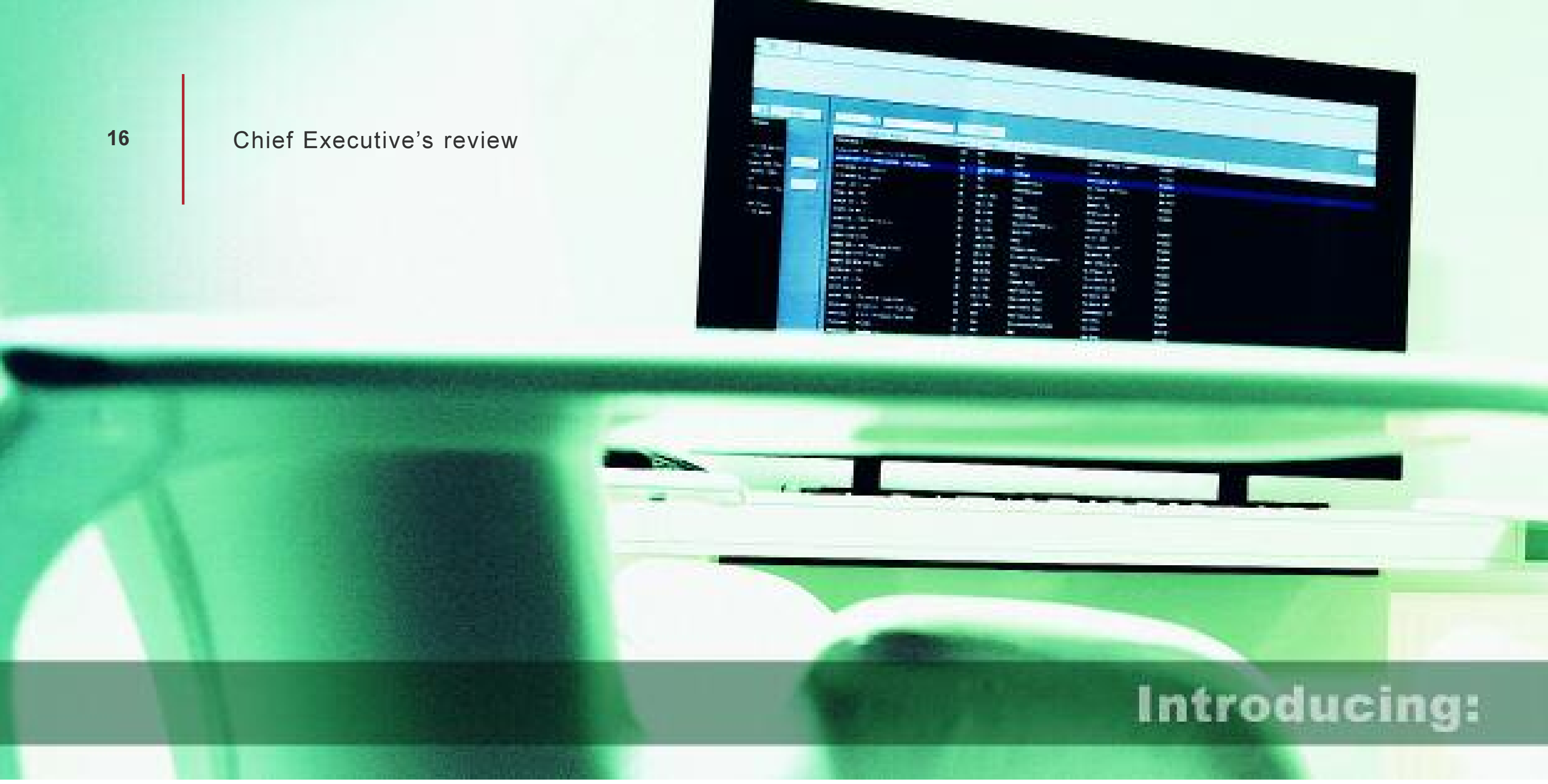
EquityClear saw volumes growing strongly, reflecting increased activity on cash markets throughout our area of service, and particularly in mainland Europe. In July a new daily record was set for EquityClear in London, with 320,000 SETS trades cleared. Average daily SETS cleared volumes in 2005 exceeded 200,000 trades - a far cry from the 40,000 daily trades with which we opened the London Stock Exchange clearing service in early 2001.

April saw the completion of the rollout of Settlement Connect to the Paris segment of the Euronext markets. First commented on last year, this development avoids the need for members to be connected to different local legacy systems for interfacing into settlement for the Belgian, Dutch and French markets. The final element will be delivered in mid-2006, with the extension of Settlement Connect to the Portuguese market. In July, EquityClear launched an extension of its service to the LSE SETSmm platform. This includes Mid Cap and the more liquid Small Cap securities, and was further extended in December to include a wider range of SETSmm securities and some AIM securities. We have also achieved agreement on a settlement fails penalty policy across all LCH.Clearnet SA cash markets, improving certainty over this key element of the post-trade process, and the introduction of a single Euronext listing has enabled more efficient clearing of securities in groups based upon their level of market capitalisation - a move welcomed by users across Euronext markets.

"A new daily record for EquityClear in London - 320,000 SETS trades cleared."

LCH.Clearnet Group - equities volumes

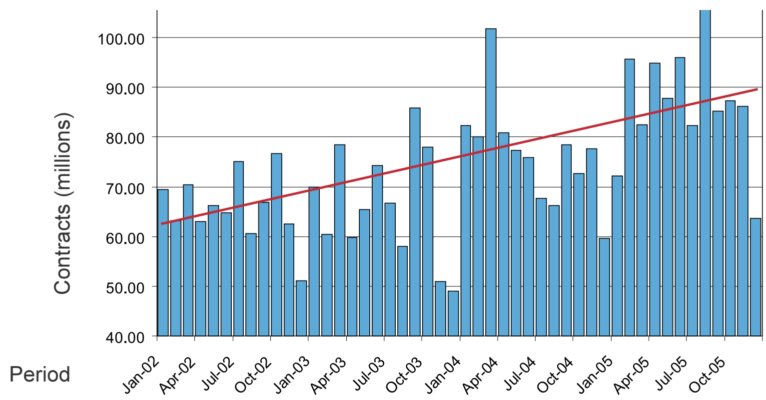




"Clear market demand for a seamless bridge between listed and OTC markets."

Exchange and Commodity Derivatives delivered a wide range of service extensions as well as launching new services. Our involvement in the clearing of energy contracts has expanded considerably, with ten new contracts being cleared on IntercontinentalExchange, whilst clearing commenced for two new plastics contracts launched by London Metal Exchange. New services were added as well. BClear (originally launched as the General Flex Facility) was introduced to support Euronext.liffe for clearing flexible OTC products on over 750 European stocks and a number of major European indices. This is the first time a regulated exchange has offered a trading service to the OTC community; other exchanges are now following suit. It will be interesting to monitor the success of innovation, given the clear demand by the market for the trading and clearing infrastructure to deliver a seamless bridge between listed and OTC markets. In Paris, Euronext.liffe lot sizes on CAC 40 index option contracts were harmonised to bring them into line with those traded in Brussels and Amsterdam, which required us to modify our clearing requirements accordingly.

LCH.Clearnet Group - futures and options volumes



The result is that members are now able to trade and clear on a standardised basis across all Euronext.liffe continental markets, helping to drive costs down. Clearing also commenced for EU emission allowances contracts traded on ICE Futures in partnership with European Climate Exchange. The sharp growth in this new market is a clear indicator of the determination of international corporations to manage their emissions obligations, and we expect to see continuing expansion in the sector. In January 2006, we broadened our reach to include the OTC emissions allowances trading market, and we anticipate similar growth prospects. In September, we launched a new clearing service for Forward Freight Agreements. This covers some 13 wet and dry routes, and brings the benefits of a central counterparty service to the hedging and arbitrage opportunities inherent in this thriving global marketplace. The service is strongly supported by the vast majority of key market participants, with volumes to date showing good growth.

Fixed income

"We have seen determined organic growth from members expanding their activity into new markets..."

The fixed income area enjoyed a year of positive and consistent development, with more record months in repo clearing - November saw a nominal value of €7 trillion cleared, and these sorts of numbers are increasingly unexceptional. We have seen determined organic growth from members expanding their activity into new markets, notably Austria and Portugal, whilst RepoClear has extended its range of trade sources with feeds now entering the service from MTS Austria and MTS Ireland. RepoClear market participants have shown very considerable interest in extending their activities to the MTS Italy platform, with a doubling of the number of LCH.Clearnet SA members active in this service. At the same time, a large number of LCH.Clearnet Ltd members have also extended their service to include MTS Italy in order to clear non-Italian repo. There is continuing demand from participants for further service extension, which we are committed to delivering in the coming year.

RepoClear

- **€7 trillion nominal**
  largest month

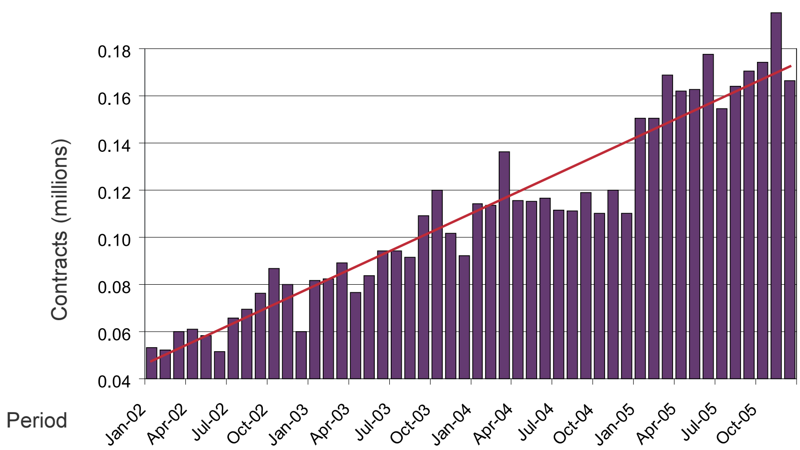
- **€359 billion nominal**
  largest day

SwapClear

$50 trillion
in SwapClear portfolio

In SwapClear, the key service enhancement was the deployment of functionality to enable the backloading of trades via the SwapsWire trade affirmation platform. This backloading has increased the overall size of the SwapClear portfolio to about $50 trillion.

LCH.Clearnet Group - fixed income volumes



Integration

"A step towards a single post-trade solution for Europe's capital markets."

Integration of our businesses is continuing and, after much planning, 2005 saw the launch of the equity integration project. By the end of the year, members had, through advisory and working groups and their various trade associations, contributed to a fully updated service description which defined a harmonised business process for the clearing of cash equities. This will initially mean change for the membership of LCH.Clearnet Ltd, but will offer choice of settlement methodology between gross, trade date netting, or continuous net settlement to help manage the impact of change on members. The ability to harmonise around a single clearing engine and single clearing process across all Euronext cash markets, London Stock Exchange and virt-x, accounting for over two thirds of European volume, will enable members active across pan-European markets to achieve significant operational cost savings through centralisation of business processes. In turn, this development will help underpin our members' objective of moving towards a single post-trade solution for Europe's capital markets. In addition, LCH.Clearnet will continue to lower its cash clearing fees, commencing the process on the Euronext French market segment, and then further, post-integration, across all markets under a revised tariff structure. Together, these two initiatives will deliver undertakings made at the time of merger - common systems and lower cost. But they are perhaps "early fruit", and we are committed to delivering more of the same. Work has commenced on fees harmonisation in the exchange and commodity derivatives business stream, and the consultative process is now under way.

"Working towards merger undertakings - common systems and lower costs"

"2005 was a year of achievements. We will achieve more in 2006, as the two underlying businesses are brought still closer together, and as we develop and enhance our service offering."

Business development

A major technical milestone was the completion of the systems de-mutualisation process of LCH.Clearnet SA from its former parent Euronext, which was the culmination of two years' work. Fully independent support has also been redefined and a new contract negotiated with Atos Group. The separation of hardware and IT networks has been largely invisible to members as it has not affected their own systems, but the outcome has delivered greatly improved system reliability, resilience, stability and performance across clearing, settlement and fees applications. Clearing capacity has now been significantly increased, and end-of-day batch information files are being processed between 30 and 90 minutes faster than before. The work may have been invisible, but response to its outcome has been unequivocally positive; users have expressed their approval of the improvements achieved.

"Greatly improved system reliability, resilience, stability and performance at LCH.Clearnet SA."

"We were pleased to receive the 2005 American Financial Technology Award for Best Risk Operations Mitigation, where our response to 7 July was the judges' unanimous choice."

Disaster recovery

As part of the overall improvement to LCH.Clearnet SA services, a new disaster recovery (DR) process has been established. Hitherto, LCH.Clearnet SA had been reliant upon Euronext DR services. Specific arrangements have now been made for a dedicated DR site which provides back up for all relevant supporting business applications and systems. A significant improvement has been the move from a twenty four hour to four hour switchover, and there are plans in hand to further improve to two hours.

The terrorist bombings which took place in London on 7 July were shocking. They gave rise to the first live application of our disaster recovery process, which was successfully managed. Aldgate House, due to its close proximity to one of the explosions, was evacuated by the emergency services at 09.10. The necessary key staff were in place at our DR site, operating systems were successfully transferred to back up, and we were delivering a normal clearing service by 10.30. We were to remain evacuated for five days, during which we not only cleared record volumes, but also launched an extension to the clearing service for SETSmm. It was particularly gratifying to receive many subsequent messages of appreciation from market participants whose own operations, had we been unable to perform our role, might well have been severely curtailed, if not cancelled. We were also pleased to receive the 2005 American Financial Technology Award for Best Risk Operations Mitigation, where our response to 7 July was the judges' unanimous choice.

2005 American Financial Technology Award for Best Operations Risk Mitigation

Information technology

However, we experienced an unexpected failure to deliver an important new software programme that had been in development for a number of years. The consequent review confirmed that the bulk of the development work was valid and appropriate for our needs, but as some of the previously capitalised development costs will not be brought into economic use, we took an impairment charge of €20.1m.

Risk management

"Taking a higher level view of the industry approach to this unexpected event, it was a good example of cooperation between central counterparties..."

The year within risk management included the dramatic collapse of Refco Inc. and the consequential impact on its three UK subsidiaries who were members within the LCH.Clearnet Group. The risk management teams worked to protect the default and clearing funds, whilst simultaneously helping to maintain the liquidity and solvency of the UK subsidiaries to facilitate client transfers and the eventual sale to Marathon Asset Management. Taking a higher level view of the industry approach to this unexpected event, it was a good example of

cooperation between central counterparties to ensure a very carefully controlled series of exposure reductions across a series of different jurisdictions and time zones; effectively a global approach to a global company event. The year also saw a ballot of members proposing that members extend their commitments to LCH.Clearnet Ltd to provide certainty in the unprecedented event of the exhaustion of the Default Fund. The proposal was rejected by a narrow margin and we will be working closely with members over the coming months to establish consensus over the most appropriate form of post-default backing for both Ltd and the Group. Risk managers have also been working closely with HM Treasury in seeking a change in legislation to improve LCH.Clearnet Ltd's insolvency protections and, in the event of a default, to allow the offsetting of a House account surplus against a Client account deficit. This work is nearing completion and we are hopeful that the necessary legislation will take place during 2006.

"...it has fuelled further debate about the desirability of further consolidation in Europe at the clearing level, which remains very much the aspiration of the key cross border market participants."

Conclusion

As the Chairman has said, 2005 was a year of achievements. We will achieve more in 2006, as the two underlying businesses are brought still closer together and as we develop and enhance our service offering. Yet the landscape in which we operate is anything but settled, and it is clear that consolidation within the industry infrastructure is still at the forefront of anticipated change. Much of 2005 was taken up with the debate over the future ownership of London Stock Exchange, where attention was focused on the impact of access to clearing on competition at trade capture level. The Competition Commission ruling that, in the absence of changes to their ownership of clearing services, there would be a significant lessening of competition should either Deutsche Börse or Euronext acquire London Stock Exchange, requires each of the two potential bidders to agree to reduce their stakes in Eurex Clearing and LCH.Clearnet respectively to under 15% as part of the acquisition process. Whatever may or may not happen to the ownership of London Stock Exchange, it has fuelled further debate about the desirability of further consolidation in Europe at the clearing level, which remains very much the aspiration of the key cross border market participants. It is difficult to see how such further consolidation might take place without the key involvement and leadership of LCH.Clearnet.

> *"consolidation within the industry infrastructure is still at the forefront of anticipated change"*

2005 generated challenges to which the management and staff of the Group, as well as the advisory groups on whose counsel we rely, have risen magnificently. Whether in Amsterdam, Brussels, London, Paris or Porto, their skills, determination and commitment to delivering our objectives have been unfailing to our success. To them all I offer my deep personal thanks and appreciation.

David Hardy
Group Chief Executive

4 Operating and financial review

This review focuses on the combined businesses of LCH.Clearnet Limited ("Ltd") and LCH.Clearnet SA ("SA"). Full details of the financial performance of both the Geographic and Business segments are set out in note 15.3 (Segment information) to these consolidated financial statements.

4.1 Operating review

4.1.1 Derivatives

Both Ltd and SA experienced increases in volume and revenue performance in Euronext.liffe products.

Ltd's derivative volume and revenues both increased by 7%. Financials posted gains in volume of 11%, producing a 16% increase in revenue. Commodities volume increased by 5% with revenues following suit with a 5% gain. Equities saw volume decrease by 8% and revenue decrease by 35%, reflecting further reductions in fees as well as lower than expected volume. SwapClear saw the notional value of cleared transactions increasing by over 35% to approximately $51 trillion, with an average of about 250 transactions being registered every day during 2005. Service was greatly enhanced by the introduction of functionality to back-load transactions via the SwapsWire trade affirmation platform.

SA's volume rose 22% and revenue by 6%, with both equity futures and option products performing well in equal measure.

4.1.2 Commodities and energy

The energy business in Ltd showed revenue growth of 109% from ICE Futures, IntercontinentalExchange (ICE) and Endex Ltd. ICE Futures volumes grew by 18%, whilst ICE OTC cleared business grew by 164% and Endex volumes grew by 155%. In SA, Powernext also increased volumes and revenue, with volumes doubling and revenue up by 187% from those in 2004. ICE Futures, ICE and Endex saw record open interest figures in 2005 and record volumes on most products.

Ltd added 10 new OTC energy contracts for ICE and commenced clearing the new ICE Futures ECX CFI Emissions contract. Ltd also launched clearing for OTC services in Freight.

London Metal Exchange clearing fees were 5% below 2004, reflecting a fee reduction in cross trade fees however, volumes were 10% above 2004. Two plastics contracts were introduced during the year.

4.1.3 Equities

Cash equities exhibited strong volume growth through 2005 across all major markets. The Euronext cash market segments rose in volume by 15% to 315,000 trades per day, LSE's volume rose by 27% to 202,000 trades per day, and virt-x's volume rose by 20.2% to 31,000 trades per day.

Volume growth can be attributed to a number of factors: greater use of algorithmic trading tools and direct access models; expansion of the range of cleared stocks to smaller securities; the impact of large IPOs; an increase in the hedging of growing equity derivatives markets; and the introduction of trading platform system enhancements that speed up order management and trade data remission.

The growth experienced in 2005 is expected to continue through 2006 as post-trade costs continue to fall and firms increase the level of automation of their businesses.

4.1.4 Fixed income

The fixed income service saw another year of growth with revenues increasing by 7% in the year. The year saw a series of monthly trading records set by the business, with the Group business clearing in excess of €7 trillion nominal of transactions in November. Netting ratios also improved during 2005 with a further netting record being set at 73%.

The fixed income team worked extensively with members and other stakeholders during the year to innovate and drive initiatives to reduce the number of settlement failures, and to reduce members' bond borrowing costs.

Further work was also undertaken to finalise the product and integration strategy and members were advised towards the end of the year of fixed income's commencement of the development of new general collateral products, including sterling Delivery-by-Value.

4.2 Financial review

From 1 January 2005, LCH.Clearnet Group Limited implemented an early adoption of IFRS as endorsed by the European Union. IFRS applies for the first time to the Group's consolidated financial statements for the year ended 31 December 2005. Full details of the impact of IFRS are set out in Section 16.

4.2.1 Summarised consolidated income statement for the year

The summarised income statement for the year reflects the continuing operations of LCH.Clearnet Group.

	Ref	31 December 2005 €'m	31 December 2004 €'m
Turnover	4.2.1a	790.3	633.8
Interest payments to clearing members	4.2.1e	(406.0)	(294.5)
Fees payable and similar charges	4.2.1f	(34.7)	(23.3)
Administrative expenditure	4.2.1g	(236.1)	(230.9)
Impairment of capitalised development costs	4.2.1h	(20.1)	-
Restructuring costs	4.2.1i	(7.1)	(7.4)
Operating costs		(704.0)	(556.1)
Operating profit	4.2.1j	86.3	77.7
Net finance cost	4.2.1k	(0.7)	(2.6)
Profit before taxation		85.6	75.1
Taxation expense	4.2.1l	(31.7)	(27.2)
Profit for the year		53.9	47.9

a Turnover

	Ref	31 December 2005 €'m	Increase/ (decrease) %
Gross clearing fees	4.2.1c	328.7	14
Interest income from cash and collateral margin	4.2.1b	386.7	42
Interest earned on Default Fund	4.2.1b	53.0	13
Other income	4.2.1d	21.9	(15)
Turnover		790.3	25

Percentage changes are on an annualised basis and exclude the impact of exchange rate fluctuation.

Group turnover from continuing operations increased by 25% to €790.3m.

b Interest income

Interest income from cash and collateral margin balances increased by €114.1m (42%) to €386.7m (2004: €272.6m), principally due to the substantially higher cash collateral balances arising from increased levels of market activity during the year. Default Fund interest earnings increased by €6.1m (13%) to €53.0m (2004: €46.9m).

c Gross clearing fees

	Ref	31 December 2005 €'m	Increase/ (decrease) %
Derivatives, commodity and energy	4.1.1, 4.1.2	144.5	18
Equities	4.1.3	162.1	11
Fixed income	4.1.4	19.9	7
Other		2.2	7
		328.7	14

Gross clearing fees increased by €40.1m (14%) to €328.7m (2004: €288.6m), essentially due to increasingly high levels of activity in equities and derivatives throughout the year.

d Other income

Other income has fallen by €3.8m (15%) to €21.9m (2004: €25.7m) primarily due to failed trade settlement fees which were previously collected by the Group on behalf of virt-x, being collected directly by the Exchange with effect from the start of the year.

e **Interest payments to clearing members**

	31 December 2005 €'m	Increase/ (decrease) %
Interest on cash and collateral margins	343.5	44
interest on Default Funds	62.5	10
	406.0	37

Interest payments to clearing members in respect of cash and collateral margins increased by €105.6m (44%) to €343.5m (2004: €237.9m), once more reflecting the substantially higher cash and collateral balances arising from increased level of market activity during the year.

Interest payments to clearing members in respect of contributions to the Default Funds increased by €5.9m to €62.5m (2004: €56.6m), reflecting increases in the size of the Default Fund and returns available in the marketplace.

f **Fees payable and similar charges**

These amounts relate to retrocession fees collected on behalf of a related party, Euronext, as described in note 15.21 to the consolidated financial statements.

g **Administrative expenditure**

Overall, administrative expenditure has risen by €5.2m (2%) to €236.1m (2004: €230.9m).

The increase primarily reflects one off expenses associated with cost control initiatives taken during the year, which are expected to yield further benefits in future years.

h **Impairment of capitalised development costs**

During the year, the Group undertook a review of its technology strategy. As a result of this review, the Group has chosen to narrow the focus on the development of common infrastructure in key areas and modified initiatives in other areas. The modification of certain initiatives has resulted in the recognition that previously capitalised development costs represent assets that will not be brought into economic use. An impairment charge of €20.1m in relation to these assets has been recognised in the consolidated financial statements.

i **Restructuring costs**

The concept of "below the line" exceptional items does not exist under IFRS. Accordingly, the exceptional items recorded in the consolidated financial statements for the year ended 31 December 2004, have been reclassified on the face of the income statement as restructuring costs and have been taken into account in earnings before interest and taxation. As integration work has continued into 2005, similar costs have also been shown for the year ended 31 December 2005, which relate primarily to the expenses associated with cost reductions and consultants assisting the integration process.

j **Operating profit**

Basis of calculation

The definition of operating profit used within the Group includes income generated from the re-investment of clearing member margin and Default Fund balances, but excludes interest income from shareholders' funds and interest expenses relating to redeemable convertible preference shares (RCPS) and subordinated loans - all of which are included separately in net finance costs (4.2.1k).

Operating profit performance

Significant revenue improvement, combined with cost containment, resulted in an increase in operating profit of €8.6m (11.1%) to €86.3m (2004: €77.7m) after allowing for the impairment of capitalised development costs of €20.1m.

k **Net finance cost**

	31 December 2005 €'m	Increase/ (decrease) %
Finance costs relating to:		
Redeemable convertible preference shares	(6.7)	(1)
Subordinated loan	(0.8)	(12)
	(7.5)	(3)
Interest on shareholders' funds	6.8	33
	(0.7)	(74)

In accordance with IFRS requirements, the dividends payable on the redeemable convertible preference shares (RCPS) have been reclassified as interest payable.

Interest costs attributable to the RCPS and subordinated loan have remained consistent with the previous year at around €7.5m. However, retained profits have swelled shareholders' funds and the interest derived from their investment has increased by €1.7m (33%) to €6.8m (2004: €5.1m).

l **Taxation expense**

The tax rate for the financial year is 37.1% (2004: 36.2%).

It takes account of an increased proportion of profits generated in Europe, where effective tax rates are higher than the 30% incurred in the United Kingdom.

The rate of tax incurred under IFRS is greater than that under UK GAAP. Under IFRS, the RCPS dividend is included as an interest charge in arriving at profit before taxation although it is not eligible for tax relief, whereas under UK GAAP the RCPS dividend is included as a distribution of earnings.

A full reconciliation of the tax charge contained in the income statement is set out in note 15.5.2 to the consolidated financial statements.

m Capital resources

The total capital resources of the Group increased during the year by €54.5m (9.9%) from €548.9m to €603.4m.

The increase was primarily due to the rise in retained earnings of €53.9m, before deduction of the after tax actuarial loss on pension funds of €2.3m, and a foreign exchange gain of €2.9m in the translation reserve arising from the impact of changing exchange rates on the assets of the sterling denominated UK based operating subsidiary.

n Group cashflow and movement in cash and cash equivalents

For the year ended 31 December 2005

	2005 €'m	2004 €'m
Net cash inflows from operating activities	5,321.3	79.8
Net cash outflow from investing activities	(1,285.1)	(39.9)
Net cash used in financing activities	(0.7)	(35.6)
Increase in cash and cash equivalents	4,035.5	4.3
Cash and cash equivalents at 1 January	10,132.8	10,128.5
Cash and cash equivalents at 31 December	14,168.3	10,132.8
Cash and cash equivalents at 31 December 2005 comprise:		
Investments in secured short term loans	11,158.7	5,689.3
Cash at bank and in hand	4,289.7	4,454.1
	15,448.4	10,143.4
Financial assets maturing in three to six months	(1,268.0)	-
Bank overdrafts and loans	(12.1)	(10.6)
	14,168.3	10,132.8

The most significant element of the Group cashflow during 2005 was the cash inflow from operating activities, most notably €4,879.6m arising from the margin monies deposited as a result of burgeoning market activity during the year. In addition, further inflows of €218.9m were due to an increase in the level of Default Funds.

Cash outflows on investing activities increased by €1,245.2m to €1,285.1m (2004: €39.9). Net cash used in financing activities fell by €34.9m to produce a net outflow of €0.7m; this movement was primarily due to a subordinated loan repayment of €33m made in 2004, and an increase in earnings on shareholders funds of €1.8m.

o Goodwill

Goodwill of €503.8m was recognised on the acquisition of LCH.Clearnet SA in 2003. The directors consider that it is appropriate to continue 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 IAS 36 Impairment of assets, an independent impairment review was carried out during the year which concluded that no impairment provision was required. Full details are provided in note 15.8 to the consolidated financial statements.

p Balances with clearing members

Balances with clearing members form the largest component of the Group balance sheet. During the year, amounts owed to clearing members increased by €59,451m (30%) to €260,130m (2004: €200,679m), reflecting the increase in the level of margin monies deposited as a result of the upsurge in the level of market activity during the year.

A detailed description of balances with clearing members is provided in note 15.14 to the consolidated financial statements.

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

5 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 structure and governance and provides an insight into how the Board and management run the business for the benefit of the shareholders and clearing members.

5.1 The Group structure

LCH.Clearnet Group Limited is an English registered private company limited by shares and is the holding company created to oversee the operating subsidiaries that were merged in December 2003, namely The London Clearing House Limited (LCH) and Clearnet SA (Banque Centrale de Compensation SA).

LCH.Clearnet Group Limited wholly owns the shares in the two subsidiaries, LCH.Clearnet Limited (formerly The London Clearing House Limited) and Banque Centrale de Compensation SA (which trades under the name of LCH.Clearnet SA and which became an independent legal entity at the time of the merger, having previously been part of the Euronext group of companies).

The subsidiaries:

LCH.Clearnet Limited
LCH.Clearnet Limited is an English registered private company limited by shares. The Board of Directors consists of David Robins (Chairman); three independent non-executive directors - John Caouette, David Pritchard and John Townend; and three executive directors, Patrick Birley (Chief Executive), Christophe Hémon (Chief Executive of LCH.Clearnet SA) and David Hardy (Chief Executive of LCH.Clearnet Group Limited).

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. The main business of the company is the provision of central counterparty services covering a broad range of cash and derivative products traded on, or through, various exchanges and trading platforms in the United Kingdom, Europe and the USA, or traded in the OTC markets.

LCH.Clearnet SA
LCH.Clearnet SA is a French registered "societé anonyme" whose governing board consists of Hervé Joubeaud (Chairman), Catherine Bienstock, Patrick Birley, John Caouette, David Hardy, Christophe Hémon, David Pritchard, and Jean Pierre Ravisé.

LCH.Clearnet SA acts as the clearing house for regulated markets in France, the Netherlands, Belgium and Portugal, its principal business being the provision of central counterparty services in respect of equities and bonds, interest rate and commodity futures and options, equity and index futures and options, OTC traded bonds and repos, and power forward contracts.

As a clearing house in France, LCH.Clearnet SA is subject to the regulations of the Autorité des Marchés Financiers, whilst as a bank it is governed by French Banking Law and is subject to supervision by the Commission bancaire.

The Company Board

The Company Board consists of 18 directors, comprising six directors appointed from candidates nominated by Users; four directors appointed by Euronext group (including the Chief Executive of The London Stock Exchange plc); two directors appointed by other Exchanges (being one director appointed by ICE Futures (formerly The International Petroleum Exchange of London Ltd.) and one director appointed by The London Metal Exchange Ltd.); two directors appointed by Euroclear; three independent non-executive directors (including the Chairman); and one executive director (the Chief Executive Officer). The composition of the Board reflects (insofar as is possible) the ownership of the Company.

The Articles of Association require that at each annual general meeting, one third of the User and Independent directors (rounded down) retire from office, although each retiree may stand for re-election. 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 Company and its subsidiaries operate. It sets strategy, objectives and policies, and approves budgets, material initiatives and commitments for the Company.

Each director receives reports of performance, future plans and significant issues facing the business in the context of both the Company and the Group. From time to time, the Board receives presentations from senior management about key areas of the Group's activities and operations within the subsidiaries.

The Board meets regularly and has a formal schedule of matters reserved to it. Board committee chairmen provide reports of their committee activities to the Board on a regular basis. The Chief Executives and Chairmen of the subsidiary operating companies are also invited to attend Board meetings and, at each meeting, the Chief Executive of each subsidiary provides a report of that company's activities. Auditors are also invited to attend Board meetings where appropriate, as are members of senior management.

All directors have access to the advice of the Company Secretary and the services of the staff in the Group Company Secretariat. Independent professional advice is also available to directors in appropriate circumstances and at the Company's expense. Formal training sessions are offered to directors on taking up their appointments.

5.2 Board committees

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

Audit Committee
The Audit Committee is chaired by David Pritchard and other members are Nazir Badat, John Caouette, Simon Heale, Dominique Hoenn and Hervé Saint-Sauveur.

The purpose of the Audit Committee is to ensure the sound financial management and operational risk control discipline of the Group. The work of the Committee is complementary to that of the audit committees of the two operating subsidiaries. The Committee has direct access to the Group's internal and external auditors, and meets the external auditors at least once a year in the absence of the executive. Reports are also received by the Committee with regard to regulatory matters.

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, inter alia, for ensuring appropriate procedures are in place for the nomination and selection of User and Independent directors. The Committee seeks and receives nominations for any such Board vacancies, and selects candidates to recommend to the Board for appointment. Such appointees hold office until the following annual general meeting.

The Committee also oversees the process of director retirements and elections in accordance with the provisions of the Articles (see 5.1 on page 38).

In addition to the director members of the Committee there is an independent member who is not connected to any stakeholder or the Company itself.

Independent Directors' Committee
The Independent Directors' Committee comprises Gérard de La Martinière (Chairman), John Caouette and David Pritchard. The purpose of the Committee is to ensure that the highest standards of corporate governance are maintained and safeguarded in all aspects of the business of the Group, and to discharge certain other specific duties. One such duty is to review the composition of the Board annually and to adjust the balance of the Board in order to reflect (insofar as is possible) the ownership of the Group from time to time, subject to certain entrenched rights within the Articles of Association.

Remuneration Committee
The Remuneration Committee, chaired by Gérard de La Martinière, is responsible for making recommendations to the Board, regarding the remuneration policy for staff and remuneration packages for senior management. The Committee also makes recommendations to the Board in respect of fees for directors. The Board itself determines the remuneration of the Chairman of the Board.

A report on the remuneration of directors appears in Section 6.

Executive Committees
In addition to the preceding Board committees, executive committees provide a focus for bringing together 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.

There is also a Group Risk Committee chaired by John Caouette. Its membership includes the chairmen of the risk committees of the two subsidiaries. Its role is to review Group-wide risk, notably counterparty and market risks, and to consider proposals to converge or harmonise risk policies. The role and composition of this Committee is currently under review.

5.3 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.

5.4 Accountability, audit and control

The statement of directors' responsibilities in relation to the financial statements is set out in Section 8. When reporting to shareholders, the Board aims to produce a balanced and comprehensible assessment of the Group's position and prospects.

The Board has overall responsibility for Group-wide systems of internal control and for reviewing their effectiveness. These are designed to:

- safeguard assets;
- ensure that proper accounting records are maintained;
- ensure that the financial information used within the business for publication is reliable; and
- ensure that the Company, and the wider Group, continue to meet their legal requirements, including those of LCH.Clearnet Limited as a Recognised Clearing House in the UK and as a Derivatives Clearing Organization in the USA, and those of LCH.Clearnet SA (Banque Centrale de Compensation SA) as a bank and a clearing house to regulated markets in the Netherlands, France, Belgium and Portugal.

The systems of internal financial control operating throughout the Group are designed to provide reasonable assurance against material misstatement or loss, and are designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Audit Committee reviews the operation and effectiveness of the systems in place covering internal financial, operational, compliance, and risk management control processes 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.

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 the wider Group and for determining the appropriate course of action to manage those risks.

Internal audit function
The internal audit function in each subsidiary is responsible for monitoring the system of internal controls in its respective company. A joint team made up of members of both internal audit departments operates to monitor internal controls at a Group level.

The Audit Committee approves the plans for internal audit review and receives the reports of the audit committees of the subsidiaries on a regular basis. Actions are agreed with management in response to any issues raised in the internal audit reports produced.

5.5 External auditors

The Audit Committee reviews the performance of the external auditors 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. This includes formalities related to borrowings, shareholders, various regulatory reports, 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.

6 Remuneration report

"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."

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

6.1 Members of the Remuneration Committee

The terms of reference of the Group Remuneration Committee are set out in the corporate governance statement in Section 5.2.

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.

6.2 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 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. In the UK, pensions are provided by the state, but are frequently augmented by occupational pensions similar to those provided by Ltd. In France and Belgium, pensions are provided by the state and all salary payments, including bonus payments, are subject to social security payments and are pensionable. 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, whose 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.

6.3 Service contracts

With the exception of David Hardy (Chief Executive), all members of senior management have service contracts that can be terminated with between 3 and 6 months notice.

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.

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.

6.4 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 that reflect the level of individual responsibilities and membership of Board committees.

6.5 Directors' detailed emoluments

	Salary and fees €'000	Benefits in kind €'000	Annual bonus €'000	Long term incentive plan €'000	Compensation for loss of office €'000	Total 2005 €'000	Total 2004 €'000
Executive							
David Hardy	439	17	111	53	-	620	747
Patrice Renault	476	79	100	-	1,120	1,775	359
Non-executive							
David Pritchard	76	-	-	-	-	76	76
Gérard de La Martinière	76	-	-	-	-	76	76
John Caouette	76	-	-	-	-	76	76
	1,143	96	211	53	1,120	2,623	1,334

6.6 Directors' pension entitlement

Set out below are details of the pension benefits to which the executive director is entitled. This disclosure relates solely to the UK scheme.

	Increase in pension entitlement during the period €'000	Accrued pension entitlement at 31 December 2005 €'000	Transfer value at 31 December 2005 €'000	Transfer value at 31 December 2004 €'000	Increase in transfer value less directors' contributions €'000
David Hardy	7	166	2,384	1,997	387

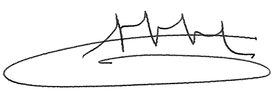
The accrued pension entitlement is that which would be paid annually on retirement based on service to the end of the year. Retained benefits from previous employments are taken into account.

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 2.8%.

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
23 March 2006

7 Directors' report

The directors of LCH.Clearnet Group Limited present their report to shareholders, together with the audited consolidated financial statements for the year ended 31 December 2005.

7.1 Principal activities

The principal activities of the Company are the holding of investments in the operating subsidiaries and the provision of central services.

The principal activity of each of the operating subsidiaries during the period was the provision of central counterparty and other related services to clearing members.

LCH.Clearnet Limited is a Recognised Clearing House under the Financial Services and Markets Act 2000 and a Derivatives Clearing Organization in the USA. It provides central counterparty services in respect of a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the United Kingdom, Europe and the USA, or traded in OTC markets.

Banque Centrale de Compensation SA (trading as LCH.Clearnet SA) acts as the clearing house for regulated markets in France, the Netherlands, Belgium and Portugal. Its principal business is the provision of central counterparty services in respect of certain equities and bonds, interest rate and commodity futures and options, equity and index futures and options, TC traded bonds and repos, and power forward contracts.

7.2 Business review and future developments

A review of the activities within the Group during the year, and likely future developments, is set out within the Chairman's statement, Chief Executive's review and operating and financial review and risk management in Sections 2, 3 and 4 respectively.

7.3 Group results and dividend

The Group results for the year are shown in the consolidated income statement in Section 10.

Profits of €53.9m (2004 restated: €47.9m) made by the Group have been transferred to reserves.

The directors do not recommend the payment of a dividend to ordinary shareholders (2004: €Nil).

7.4 Capital

There have been no changes to the authorised share capital during the period covered by this report.

Details of movements in capital resources are set out in Section 14 - Consolidated statement of changes in equity. At 31 December 2005, Group capital resources amounted to €603.4m (2004 as restated: €548.9m).

7.5 Fixed assets

Details of the changes in fixed assets are set out in notes 15.7 and 15.9 to the consolidated financial statements.

7.6 Charitable donations

The Group made donations of €89,360 (2004: €95,453) for charitable purposes during the year.

7.7 Directors and directors' interests

The current directors of the Company are listed in Section 1 - General information. According to the Register of Directors' Interests, David Hardy, Patrice Renault, John Caouette and David Pritchard each hold (or have held during the year) one share in Banque Centrale de Compensation SA. Each holds a share whilst serving as a director of that company. There were no further disclosable interests recorded in the Register of Directors' Interests.

Information relating to directors' remuneration is given in the Remuneration report in Section 6.

No other director holding office at 31 December 2005 had any beneficial interest in the shares of the Company or any of its subsidiaries during the year.

7.8 Transactions with directors and related parties

Details of transactions with related parties are set out in note 15.21 to the consolidated financial statements. There were no transactions with the directors during the year.

7.9 Staff members

It is the policy of both the Company, and Group as a whole, to ensure that no staff members or job applicants face discrimination on the grounds of ethnic origin, colour, religion, gender, sexual orientation 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.

Staff involvement in the Group's business is encouraged, and information is shared with staff through web-based communication and regular meetings.

Both the Company, and the wider Group, recognise their responsibilities to provide a safe working environment for their staff, and measures are in place to ensure that the appropriate health and safety at work regulations are strictly observed in all workplaces.

7.10 Auditors

Ernst & Young LLP were re-appointed auditors of the Company at the AGM on 13 May 2005, 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
23 March 2006

8 Directors' responsibilities

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cashflows of the Company and 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 judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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.

9 Independent auditor’s report to the shareholders of LCH.Clearnet Group Limited

Independent auditor's report

We have audited the Group and parent company financial statements (the "financial statements") of LCH.Clearnet Group Limited for the year ended 31 December 2005 which comprise the Group income statement, the Group and parent company balance sheets, the Group cashflow statement, the Group statement of change in shareholders' equity and the related notes 15 to 16.5. These financial statements 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 are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the directors' remuneration report, the Chairman's statement, the operating and financial review and the corporate governance statement. 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company'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 Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005.

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

As explained in Note 15.1.3 to the Group financial statements, the Group, in addition to complying with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Ernst & Young LLP.

Ernst & Young LLP
Registered auditor
London
23 March 2006

10 Consolidated income statement

for the year ended 31 December 2005

	Note	2005 €'000	2004 €'000
Revenue			
Interest income	15.3.1	439,705	319,613
Interest expense and similar charges	15.3.1	(405,972)	(294,539)
Net interest income	15.3.1	33,733	25,074
Clearing fees	15.3.1	328,695	288,618
Other fee income	15.3.1	21,932	25,654
Total revenue		384,360	339,346
Fees payable and similar charges	15.21	(34,720)	(23,306)
Net revenue	15.3.1	349,640	316,040
Costs and expenses			
Employee benefits expense	15.18.1	(70,470)	(65,617)
Depreciation and amortisation charge	15.4.1	(11,966)	(10,824)
Impairment of capitalised development costs	15.4.1	(20,106)	-
Other operating expenditure	15.4.3	(153,675)	(154,474)
Restructuring costs	15.4.4	(7,075)	(7,427)
Total costs and expenses		(263,292)	(238,342)
Operating profit		86,348	77,698
Net finance cost	15.4.5	(705)	(2,636)
Profit before taxation		85,643	75,062
Taxation expense	15.5.1	(31,757)	(27,150)
Profit for the year		53,886	47,912

The results for both years are in respect of continuing operations.
The notes on pages 61 to 100 form an integral part of these consolidated financial statements.

11 Group and Company balance sheets

as at 31 December 2005

	Note	Group 2005 €'000	Group 2004 €'000	Company 2005 €'000	Company 2004 €'000
Non-current assets					
Intangible fixed assets	15.7	576,697	589,719	-	-
Property, plant and equipment	15.9	6,815	8,793	-	-
Investments	15.10	-	-	673,481	673,481
Other financial assets	15.11	15,000	-	-	-
Deferred taxation	15.5.3	6,565	6,412	-	-
		605,077	604,924	673,481	673,481
Current assets					
Cash and short-term investments	15.12	15,448,406	10,143,407	11,773	264
Debtors and other receivables	15.13	89,921	99,233	7,056	3,012
Balances with clearing members	15.14	246,509,349	192,063,086	-	-
		262,047,676	202,305,726	18,829	3,276
TOTAL ASSETS		262,652,753	202,910,650	692,310	676,757
EQUITY AND LIABILITIES					
Capital and reserves					
Called up share capital	14, 15.15	100,116	100,116	100,116	100,116
Capital reserves	14	376,371	376,371	361,044	361,044
Translation reserve	14	2,403	(536)	-	-
Retained earnings	14	124,486	72,978	29,754	11,269
		603,376	548,929	490,914	472,429
Non-current liabilities					
Interest bearing loans and borrowings	15.16	225,840	225,840	198,840	198,840
Default Funds	15.17	1,542,430	1,302,364	-	-
Employee benefits	15.18.2	37,230	30,148	-	-
		1,805,500	1,558,352	198,840	198,840
Current Liabilities					
Interest bearing loans and borrowings	15.16	12,124	10,606	-	-
Income tax payable		10,908	3,130	-	178
Creditors and other payables	15.19	91,235	110,906	2,556	5,310
Balances with clearing members	15.14	260,129,610	200,678,727	-	-
		260,243,877	200,803,369	2,556	5,488
TOTAL EQUITY AND LIABILITIES		262,652,753	202,910,650	692,310	676,757

Gérard de La Martinière
Chairman

The consolidated financial statements were approved by the Board on 23 March, 2006.
The notes on pages 61 to 100 form an integral part of these consolidated financial statements.

12 Consolidated cashflow statement

as at 31 December 2005

	Note	2005 €'000	2004 €'000
Operating activities			
Group profit before taxation	10	85,643	75,062
Adjustments to reconcile Group profit before taxation to net cash inflows from operating activities:			
Net finance cost	10	705	2,636
Depreciation, amortisation and impairment	15.4.1	31,867	11,037
Loss/(profit) on disposal of assets	15.4.1	205	(223)
Decrease/(increase) in debtors and other receivables		9,764	(51,312)
Difference between pension contributions paid and amounts recognised in the income statement		6,446	8,051
(Decrease)/increase in creditors and other payables		(20,922)	51,434
Margin monies cash inflow/(outflow)		4,879,651	(124,906)
Monies lodged with Euroclear Default Fund	15.11	(15,000)	-
Increase in Default Funds		218,860	151,877
Effects of foreign exchange movements		147,142	(25,156)
		5,344,361	98,500
Taxation received		2,878	3,162
Taxation paid		(25,984)	(21,845)
Net cash inflows from operating activities		5,321,255	79,817
Investment in intangible assets	15.7	(14,011)	(36,565)
Investment in tangible assets	15.9	(607)	(3,682)
Disposals of tangible assets		-	215
Investment in financial assets maturing in three to six months		(1,268,000)	-
Effects of foreign exchange movements		(2,451)	141
Net cash outflow from investing activities		(1,285,069)	(39,891)
Repayment of subordinated debt		-	(60,000)
New borrowings		-	27,000
RCPS and subordinated loan interest paid	15.4.5	(7,548)	(7,727)
Interest received on shareholders' funds	15.4.5	6,843	5,091
Net cash used in financing activities		(705)	(35,636)
Increase in cash and cash equivalents		4,035,481	4,290
Cash and cash equivalents at 1 January		10,132,801	10,128,511
Cash and cash equivalents at 31 December		14,168,282	10,132,801
Cash and cash equivalents at 31 December 2005 comprise:			
Investments in secured short-term loans		11,158,685	5,689,332
Cash at bank and in hand		4,289,721	4,454,075
	15.12	15,448,406	10,143,407
Financial assets maturing in three to six months		(1,268,000)	-
Bank overdrafts and loans	15.16	(12,124)	(10,606)
		14,168,282	10,132,801

The notes on pages 61 to 100 form an integral part of these consolidated financial statements.

13 Company cashflow statement

as at 31 December 2005

	Note	2005 €'000	2004 €'000
Operating activities			
Company profit/(loss) before taxation		17,959	(6,640)
Adjustments to reconcile Company profit/(loss) before taxation to net cash inflows from operating activities:			
Net finance cost		6,565	6,579
(Increase)/decrease in debtors and other receivables		(3,678)	1,822
(Decrease)/increase in creditors and other payables		(2,772)	5,082
Net cash inflows from operating activities		18,074	6,843
RCPS interest paid		(6,768)	(6,840)
Interest received on shareholders' funds		203	261
Net cash used in financing activities		(6,565)	(6,579)
Increase in cash and cash equivalents		11,509	264
Cash and cash equivalents at 1 January		264	-
Cash and cash equivalents at 31 December		11,773	264
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term loans		11,750	-
Cash at bank and in hand		23	264
	15.12	11,773	264

The notes on pages 61 to 100 form an integral part of these consolidated financial statements.

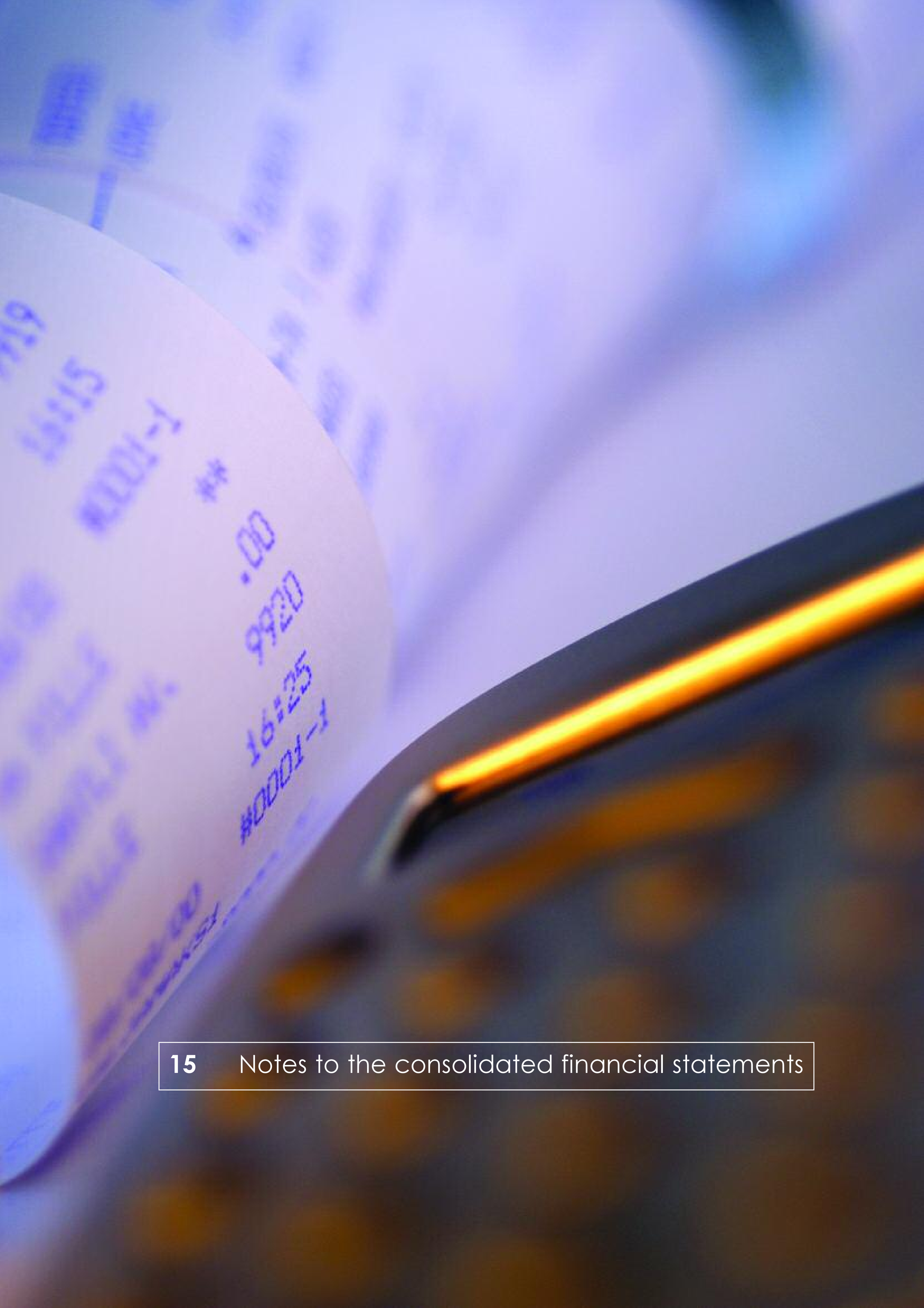
14 Consolidated statement of changes in equity

for the year ended 31 December 2005

LCH.Clearnet Group Limited consolidated financial statements	Equity share capital €'000	Capital reserves €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2004	100,116	376,371	580	25,971	503,038
Retained profit for the year	-	-	-	47,912	47,912
Actuarial loss recognised in the pension scheme	-	-	-	(1,293)	(1,293)
Deferred tax relating to the pension liability (above)	-	-	-	388	388
Foreign exchange adjustments	-	-	(1,116)	-	(1,116)
Shareholders' equity at 31 December 2004	100,116	376,371	(536)	72,978	548,929
Retained profit for the year	-	-	-	53,886	53,886
Actuarial loss recognised in the pension scheme	-	-	-	(3,397)	(3,397)
Deferred tax relating to the pension liability (above)	-	-	-	1,019	1,019
Foreign exchange adjustments	-	-	2,939	-	2,939
Shareholders' equity at 31 December 2005	100,116	376,371	2,403	124,486	603,376

LCH.Clearnet Group Limited	Equity share capital €'000	Capital reserves €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2004	100,116	361,044	18,105	479,265
Retained loss for the year	-	-	(6,836)	(6,836)
Shareholders' equity at 31 December 2004	100,116	361,044	11,269	472,429
Retained profit for the year	-	-	18,485	18,485
Shareholders' equity at 31 December 2005	100,116	361,044	29,754	490,914

The notes on pages 61 to 100 form an integral part of these consolidated financial statements.



15 Notes to the consolidated financial statements

15.1 Corporate information

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).

15.1.1 Authorisation for publication

The financial statements for the Company, and the consolidated financial statements of the Group, for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 23 March 2006 and the balance sheets were signed on the Board's behalf by the Group Chairman, Gérard de La Martinière.

LCH.Clearnet Group Limited is a limited company incorporated and domiciled in England and Wales whose shares are owned primarily by Users and Exchanges.

15.1.2 Principal activities

The principal activity of the Company is holding investments in two operating subsidiaries and providing central services. The principal activity of each of the operating subsidiaries during the period was the provision of central counterparty and other related services to clearing members.

Further details of the principal activities of the Group are set out in the Directors' report in Section 7.1.

15.1.3 Basis of preparation

These financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2005 reporting and with those parts of the Companies Act 1985 (the Act) applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the valuation of investments available for sale and financial assets and liabilities held for trading. A summary of significant accounting policies is set out overleaf, together with an explanation of changes to previous policies on the adoption of new accounting standards.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€'000) unless where otherwise indicated.

15.1.4 Statement of compliance

Both the financial statements of the Company and the consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with IFRS.

15.2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out on pages 62 to 67. These policies have been applied during the year ended 31 December 2005 as well as the restatement of the 2004 consolidated financial statements.

a Presentational currency

The Group's financial statements are presented in euros, which is the functional currency of the parent company. Items included in the financial statements of each of the Group's entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate.

b Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

c Investments

In its separate financial statements the Company recognises its investments in its subsidiaries at cost, less the value of any impairment provision that may be necessary.

Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post acquisition profits are deducted from the cost of investment.

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 the retranslation of the result for the year from the average rate to the closing rate, are taken directly to reserves. All other exchange differences are recognised in the consolidated income statement.

e Intangible fixed assets: goodwill

Goodwill arising on acquisition is initially measured at cost (being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities) and is capitalised in the balance sheet as an intangible fixed asset.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

f Intangible fixed assets: other than goodwill

Intangible fixed assets other than goodwill, are initially recognised at cost and are capitalised on the balance sheet. Following initial recognition, the assets are amortised at rates calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

Self-developed software	-	between 3 and 5 years
Patents and trademarks	-	over 5 years

An internally generated intangible asset arising from the Group's business development is created if the asset can be identified, its cost measured reliably, and it is probable that it will generate future economic benefits. Amortisation is charged from the date the developed product, service, process or system is available for use.

g Property, plant and equipment

Property, plant and equipment is initially recognised at cost and capitalised in the balance sheet. Following initial recognition, items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

Leasehold refurbishment costs	-	over the term of the lease
Computer equipment and purchased software	-	between 2 and 5 years
Property, plant and equipment	-	between 3 and 5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

h Impairment of intangible assets, goodwill and tangible fixed assets

Fixed assets and goodwill are subject to an annual impairment review, or a more frequent review 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 allocated to the related cash-generating units monitored by management, with its recoverable amount, which is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of, less the costs associated with the sale. 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 income statement in the year in which it occurs.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit.

i Financial instruments

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

Financial assets are classified in the following categories: Cash Liquidity; Term Investments disclosed within short-term deposits; Member Default Fund related assets and debtors. Investments are recorded into the relevant category at initial recognition.

Assets within the Cash Liquidity or Member Default Fund categories comprise short-term investments with tenors falling within 3 months. These are non-derivative financial assets with fixed or determinable payments whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan. Cash Liquidity and Member Default Fund assets are initially recognised at fair value and subsequent recognition is at amortised cost using the effective interest method.

Assets falling into the Term Investment category are treated as financial assets at fair value through profit or loss. The assets are initially measured at fair value, with transaction costs taken directly to the income statement. Subsequent measurement is at fair value, with changes in fair value included directly in the income statement.

The Group establishes fair value using valuation techniques. These include the use of discounted cashflow analysis and other valuation techniques commonly used by market participants.

Debtors and creditors representing the recorded values of financial instruments are not offset in the balance sheet where they are entered into with the same member/counterpart.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

k Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. The components of cash and cash equivalents are disclosed in the cashflow statement and reconciled to the equivalent items reported in the balance sheet.

l Taxation

Deferred and current tax assets and liabilities are only offset when they arise in the same reporting tax group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income tax relating to items recognised directly in equity is recognised in equity and not the income statement.

Current tax

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to relevant taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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. All provisions, except for those arising under pension liabilities, are undiscounted where not material.

n Share capital and share premium

Ordinary shares are included in shareholders' funds. Other instruments (including redeemable cumulative preference shares) are classified as liabilities if there is 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.

o Redeemable convertible preference shares (RCPS)

RCPS are ordinarily allocated between a liability component and an equity component. The fair value of the option has been deemed by management to be immaterial and, therefore, the entire balance is disclosed as a liability. Dividends attributable to RCPS are shown as interest in the consolidated income statement.

p Revenue recognition

Clearing fee income and associated rebates, together with other fee income, is recognised on a transaction by transaction basis in accordance with the Group's fee scales. Interest revenue and the associated interest paid to clearing members is recognised on a time-apportioned basis.

q Segment reporting

The Group's geographical segments are determined by the location of the Group's assets and operations.

The Group's primary reporting format is by geographical segment as its risks and rates of return are predominantly affected by the different countries in which each subsidiary operates. The Group's secondary reporting format is by business segment.

Geographical analysis is based on the Group's organisational and management structure and is split into two segments - UK and Europe.

Directly attributable costs are allocated to the appropriate segment. Where costs are not directly attributable, the relevant portion is allocated on a reasonable basis to each segment. Assets that are jointly used by two or more segments are allocated to segments only where the related revenues and expenses are also allocated to those segments.

Transfer pricing between segments is set on an arm's length basis in a manner similar to transactions with third parties.

r Employee benefits

The Group operates a defined benefit pension scheme for its UK employees that requires contributions to be made to a separate trustee-administered fund. The regular cost of providing benefits under the scheme is determined using the projected unit method.

Contributions to the LCH Pension Scheme are assessed by a qualified actuary and are charged to the consolidated income statement so as to spread the cost over the service lives of the employees. Variations in pension cost, which are identified as the result of actuarial valuations, are taken directly to retained earnings in the consolidated statement of changes in equity.

A full actuarial valuation was carried out at 30 June 2004 and partially updated to 31 December 2005 by a qualified independent actuary. Major assumptions used by the actuary are included within note 15.18.2.

The Group has committed to assume obligations in respect of certain staff in the Euronext defined benefit pension scheme in Amsterdam who transferred their employment to LCH.Clearnet SA in 2004. An updated valuation of the fund was carried out at 31 December 2005 by a qualified independent actuary.

s Borrowing costs

Borrowing costs are recognised as an expense when incurred.

t Dividends

Revenue is recognised when the Company's right to receive payment is established.

u Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

v Other financial assets

Other financial assets are recognised at cost.

w Leases

Rentals payable under operating leases are charged in the consolidated income statement on a straight-line basis over the lease term.

Where a lease becomes onerous, the full value of net future costs is immediately recognised in the income statement.

x New standards and interpretations not applied

During the year, IASB and IFRIC have issued the following standards and interpretations with an effective implementation date after the date of these financial statements:

International Accounting Standard (IAS / IFRS)		Effective date
IFRS 1	Amendment relating to IFRS 6	1 Jan 2006
IFRS 6	Amendment relating to IFRS 6	1 Jan 2006
IFRS 7	Financial Instruments: Disclosures	1 Jan 2007
IAS 1	Amendment - Presentation of Financial Statements: Capital Disclosures	1 Jan 2007
IAS 19	Amendment - Actuarial Gains and Losses, Group Plans and Disclosures	1 Jan 2006
IAS 39	Amendments to IAS 39 - Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 Jan 2006
IAS 39	Amendment to IAS 39 and IFRS 4 - Financial Guarantee Contracts	1 Jan 2006

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 Jan 2006

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

15.3 Segment information

15.3.1 Geographical segments

	2005			2004		
Revenue	UK[1] €'000	Europe[2] €'000	Total €'000	UK €'000	Europe €'000	Total €'000
Interest income						
Treasury	256,865	129,835	386,700	170,076	102,665	272,731
Default Fund	39,880	13,125	53,005	38,052	8,830	46,882
	296,745	142,960	439,705	208,128	111,485	319,613
Interest Expense						
Treasury	(220,472)	(123,049)	(343,521)	(139,437)	(98,443)	(237,880)
Default Fund	(49,326)	(13,125)	(62,451)	(47,829)	(8,830)	(56,659)
	(269,798)	(136,174)	(405,972)	(187,266)	(107,273)	(294,539)
Net Interest income	26,947	6,786	33,733	20,862	4,212	25,074
Sales to external customers:						
Clearing fees	150,295	178,400	328,695	131,220	157,398	288,618
Fees payable and similar charges	-	(34,720)	(34,720)	-	(23,306)	(23,306)
	150,295	143,680	293,975	131,220	134,092	265,312
Other fee income	13,992	16,799	30,791	8,556	18,147	26,703
Inter-segment	(8,859)		(8,859)	(1,049)	-	(1,049)
	5,133	16,799	21,932	7,507	18,147	25,654
Segment revenue	182,375	167,265	349,640	159,589	156,451	316,040
Result						
Segment result	17,488	68,860	86,348	32,555	45,143	77,698
Net finance cost	(2,905)	2,200	(705)	(4,845)	2,209	(2,636)
Profit before tax	14,583	71,060	85,643	27,710	47,352	75,062
Tax expense	(6,907)	(24,850)	(31,757)	(11,139)	(16,011)	(27,150)
Profit for the year	7,676	46,210	53,886	16,571	31,341	47,912
Assets and liabilities						
Segment assets	212,496,309	50,156,444	262,652,753	202,719,030	191,620	202,910,650
Total assets	212,496,309	50,156,444	262,652,753	202,719,030	191,620	202,910,650
Segment liabilities	(212,414,514)	(49,634,863)	(262,049,377)	(177,947,514)	(24,414,207)	(202,361,721)
Total liabilities	(212,414,514)	(49,634,863)	(262,049,377)	(177,947,514)	(24,414,207)	(202,361,721)
Other segment information						
Capital expenditure on fixed assets	6,285	8,333	14,618	35,059	5,188	40,247
Depreciation	2,097	638	2,735	2,620	81	2,701
Amortisation	2,884	6,347	9,231	4,239	3,883	8,123
Impairment losses	20,106	-	20,106	-	-	-

[1] UK comprises LCH.Clearnet Ltd and LCH.Clearnet Group Ltd
[2] Europe comprises LCH.Clearnet SA, including its branches in Amsterdam, Brussels and Porto

15.3.2 Business segments

	2005				
Revenue	Equities[1] €'000	Fixed income[2] €'000	Derivatives and swaps[3] €'000	Commodities and energy[4] €'000	Total €'000
Sales to external customers	136,594	30,575	132,320	51,189	350,678
Inter-segment	-	-	-	(1,038)	(1,038)
Segment revenue	136,594	30,575	132,320	50,151	349,640
Other segment information					
Segment assets	316,784	258,334,874	1,880,715	2,120,380	262,652,753
Total assets	316,784	258,334,874	1,880,715	2,120,380	262,652,753
Capital expenditure on fixed assets	6,115	1,992	4,623	1,888	14,618
	6,115	1,992	4,623	1,888	14,618

	2004				
Revenue	Equities €'000	Fixed income €'000	Derivatives and swaps €'000	Commodities and energy €'000	Total €'000
Sales to external customers	127,000	23,814	127,316	38,959	317,089
Inter-segment	-	-	-	(1,049)	(1,049)
Segment revenue	127,000	23,814	127,316	37,910	316,040
Other segment information					
Segment assets	260,107	200,955,514	859,265	835,764	202,910,650
Total assets	260,107	200,955,514	859,265	835,764	202,910,650
Capital expenditure on fixed assets	10,725	6,537	12,254	10,731	40,247
	10,725	6,537	12,254	10,731	40,247

[1] Equities comprises equities, virt-x and EDX.
[2] Fixed income comprises fixed income and RepoClear.
[3] Derivatives comprises derivatives, Euronext.liffe and SwapClear.
[4] Commodities and energy comprise Powernext, ICE, ICE Futures (formerly IPE) and Endex.

15.4 Profit before taxation

The following items have been included in arriving at profit before taxation:

15.4.1 Depreciation, amortisation and impairment

	2005 €'000	2004 €'000
Depreciation of property and equipment	2,530	2,924
Amortisation of intangible fixed assets	9,231	8,123
Loss/(profit) on disposal of fixed assets	205	(223)
	11,966	10,824
Impairment of capitalised development costs	20,106	-
	32,072	10,824

15.4.2 Interest expense and similar charges

	2005 €'000	2004 €'000
Interest on bank loans and overdrafts repayable within 5 years	607	935

15.4.3 Other operating expenditure

	2005 €'000	2004 €'000
Hire of plant and machinery under operating leases	198	206
Property lease rentals	7,775	3,766
Outsourced IT infrastructure	49,701	60,237
Self-developed software expensed directly to the income statement	26,051	20,339
Auditors remuneration:		
Audit related - Company	327	557
Audit related - subsidiaries	461	257
Non-audit related	68	63

15.4.4 Restructuring costs

	2005 €'000	2004 €'000
Costs relating to the integration of acquired businesses	7,075	7,427

15.4.5 Net finance cost

	2005 €'000	2004 €'000
Interest paid in respect of:		
Redeemable convertible preference shares	(6,768)	(6,840)
Subordinated loan	(780)	(887)
	(7,548)	(7,727)
Interest received on shareholders' funds	6,843	5,091
	(705)	(2,636)

15.5 Taxation

The major components of taxation expense are:

15.5.1 Consolidated income statement

	Note	2005 €'000	2004 €'000
Current income tax			
United Kingdom			
Corporation tax		(6,387)	(21,175)
Double taxation relief		-	12,236
Current tax charge		(6,387)	(8,939)
Adjustments in respect of current taxation in previous years		12	677
		(6,374)	(8,262)
Overseas			
Corporation taxes			
Current tax charge		(24,448)	(15,797)
Adjustments in respect of current taxation in previous years		41	320
		(24,407)	(15,477)
Total current taxation		(30,781)	(23,739)
Deferred tax			
Relating to the origination and reversal of temporary differences	15.5.3	(976)	(3,411)
Taxation expense reported in the consolidated income statement	10	(31,757)	(27,150)
Consolidated statement of changes in equity			
Deferred tax relating to actuarial loss	13	1,019	388

15.5.2 Reconciliation of tax expense

	Note	2005 €'000	2004 €'000
Accounting profit before taxation		85,643	75,062
Tax at UK statutory corporation tax rate of 30% (2004: 30%)		(25,693)	(22,519)
Effect of:			
Adjustments in respect of tax in previous years		29	718
Expenditure not allowable for tax purposes		(2,617)	(3,095)
Net effect of higher rates of overseas taxation		(3,476)	(2,254)
Total tax charge	15.5.1	(31,757)	(27,150)
Effective income tax rate (%)		37.1	36.2

15.5.3 Deferred tax

	Consolidated balance sheet		Consolidated income statement	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Deferred tax liabilities				
Accelerated depreciation for tax purposes	(5,117)	(3,072)	(1,968)	(3,876)
Total deferred tax liabilities	(5,117)	(3,072)		
Deferred tax assets				
Post-employment benefits	11,345	9,248	886	998
Other timing differences	337	236	106	(533)
Total deferred tax assets	11,682	9,484		
Deferred tax charge			(976)	(3,411)
Net deferred tax asset	6,565	6,412		
Reconciliation				
Net deferred tax asset b/f	6,412			
Consolidated income statement	(976)			
Deferred tax relating to actuarial loss	1,019			
Other (mainly exchange rate) movements	110			
Net deferred tax asset c/f	6,565			

15.6 Profits of the holding company

The retained profit for the year includes a profit of €18.5m (2004 loss: €6.8m) which 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 holding company.

15.7 Intangible fixed assets

	Patents €'000	Self-developed software €'000	Goodwill €'000	Total €'000
Cost				
At 1 January 2005	16	120,169	503,836	624,021
Exchange adjustments	-	2,606	-	2,606
Additions	-	14,011	-	14,011
	16	136,786	503,836	640,638
Accumulated amortisation and impairment charges				
At 1 January 2005	10	34,292	-	34,302
Exchange adjustments	-	302	-	302
Amortisation charge for the year	6	9,225	-	9,231
Impairment charge for the year	-	20,106	-	20,106
	16	63,925	-	63,941
Net book value				
31 December 2004	6	85,877	503,836	589,719
31 December 2005	-	72,861	503,836	576,697

The balance of capitalised self-developed software costs that relates to software not currently brought into use at 31 December 2005, and against which no depreciation has been charged during the year then ended, was €60,420k (2004: €70,769k) following an impairment charge of €20,106k (2004: €Nil).

Self-developed software costs expensed directly to the income statement are set out in note 15.4.3.

15.8 Impairment testing of intangible fixed assets

Goodwill

Goodwill of €504m is carried in relation to LCH.Clearnet SA. The recoverable amount associated with this subsidiary is determined based on value-in-use calculations. These calculations use cashflow projections derived from financial forecasts by management covering a five-year period. Cashflows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2%. This long-term growth rate does not exceed the long-term average growth rate for the markets which LCH.Clearnet SA clears.

In preparing the forecasts, management has made certain assumptions. Amongst these, growth in clearing volumes and tariff levels are the most important; they are also inter-related. As volumes grow, the Group expects to be able to reduce tariffs - maintaining revenue in LCH.Clearnet SA, whilst reducing transaction costs. Management determined budgeted gross margin based on past performance and its expectations for the market development. Cashflows are discounted using a pre-tax discount rate of 10.9%, which reflects the specific risks relating to the relevant segments.

Self-developed software

During the first half of the year, the Group undertook a review of its technology strategy. As a result of the review, the Group chose to narrow the focus on the development of a common infrastructure. This resulted in the recognition that certain previously capitalised software development costs represented assets that will not be brought into economic use. An impairment charge of around €20.1m, in relation to these assets, was recognised in the interim financial statements. A detailed impairment review conducted at the year-end, which reviewed the code that had been developed, concluded that no additional impairment charge was required.

15.9 Property, plant and equipment

	Leasehold refurbishment €'000	Computer equipment software €'000	Office equipment and other fixed assets €'000	Total €'000
Cost				
At 1 January 2005	6,349	14,743	3,975	25,067
Exchange adjustments	106	377	64	547
Additions	237	370	-	607
Disposals	(145)	-	(60)	(205)
	6,547	15,490	3,979	26,016
Accumulated amortisation and impairment charges				
At 1 January 2005	2,124	11,933	2,217	16,274
Exchange adjustments	51	298	48	397
Depreciation charge for the year	649	1,441	440	2,530
	2,824	13,672	2,705	19,201
Net book value				
31 December 2004	4,225	2,810	1,758	8,793
31 December 2005	3,723	1,818	1,274	6,815

15.10 Investments

Investments in subsidiaries

	Company	
	2005 €'000	2004 €'000
Investments in subsidiary undertakings at the 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 relief afforded under section 13 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 and Wales	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.

15.11 Other financial assets

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Euroclear Default Fund	15,000	-	-	-

During the year, LCH.Clearnet SA became a member of Euroclear and, under the terms of membership, had to make a contribution to the Euroclear Default Fund.

15.12 Cash and short-term investments

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Cash at bank and in hand	4,289,721	4,454,075	23	264
Short-term deposits	11,158,685	5,689,332	11,750	-
	15,448,406	10,143,407	11,773	264

15.13 Debtors and other receivables

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Amounts falling due within one year:				
Other debtors	25,113	39,337	5,072	2,284
Amounts owed by Group undertakings	-	-	1,977	720
	25,113	39,337	7,049	3,004
Prepayments and accrued income	64,808	59,896	7	8
	89,921	99,233	7,056	3,012

15.14 Balances with clearing members

	Group	
	2005 €'000	2004 €'000
Assets		
Fair value of transactions with clearing members, less variation margin	246,064,854	191,831,393
Initial margin and other clearing member balances	444,495	231,693
	246,509,349	192,063,086
Liabilities		
Fair value of transactions with clearing members, less variation margin	(246,062,009)	(191,831,386)
Initial margin and other clearing member balances	(14,067,601)	(8,847,341)
	(260,129,610)	(200,678,727)

The net balances due from clearing members recorded in the balance sheet of €246,509m (2004: €192,063m) are fully secured by non-cash collateral or guarantees held by the Group.

At 31 December 2005, the total of fully collateralised loans in respect of fixed income transactions was €241,886m (2004: €214,557m). This collateral has in turn, been passed on to fixed income counterparties to secure the Group's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral, including that in respect of initial margin, relating to other balances due from clearing members was €20,644m (2004: €13,958m) and the total amount of guarantees held was €4,760m (2004: €2,965m).

15.15 Issued capital and reserves

	Group		Company	
	2005	2004	2005	2004
Authorised				
130,116,003 ordinary shares of €1 each	130,116	130,116	130,116	130,116
Issued and fully paid				
100,115,977 ordinary shares of €1 each	100,116	100,116	100,116	100,116

15.16 Interest bearing loans and borrowings

	Interest rate % in note	Maturity	Group 2005 €'000	Group 2004 €'000	Company 2005 €'000	Company 2004 €'000
Current						
Bank overdrafts	15.16.1	On demand	12,124	10,606	-	-
Non-current						
Redeemable convertible preference shares	15.16.2a	15.16.2c	198,840	198,840	198,840	198,840
Subordinated loan	15.16.3	15.16.3	27,000	27,000	-	-
			225,840	225,840	198,840	198,840

15.16.1 Bank overdrafts

The Group operates a number of overdrafts in various currencies with effective rates of interest varying between 3.375% and EONIA.

15.16.2 Redeemable convertible preference shares

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

a Dividend

Prior to conversion or redemption, the holders of RCPS 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 LIBOR plus 125 basis points and the dividend paid to the holders of ordinary shares.

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

b Return of capital

On a return of capital on 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 RCPS holder, in priority to any payment to the holders of any other class of share in the capital of the Company, the RCPS Initial Value.

c Redemption

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

If the Company fails to redeem RCPS on the redemption date, the Company will redeem such RCPS 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.

d 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.

e 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 RCPS outside the Euronext Group; 2) following the issue of ordinary shares, subject to the conversion not exceeding the Euronext voting capital of 24.9%; 3) following the expiry of the Euronext voting cap period (not earlier than 22 December 2008); and 4) following the sixth anniversary of RCPS issuance (22 December 2009).

15.16.3 Subordinated loan

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

- From 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 has a redemption date of 21 September 2014 but may, subject to Commission bancaire approval, 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 claims of other unsecured creditors.

15.17 Default Funds

	Group	
	2005 €'000	2004 €'000
LCH.Clearnet SA Default Funds		
OTC fund	173,495	126,248
Other funds	524,723	351,679
	698,218	477,927
LCH.Clearnet Limited Default Fund	844,212	824,437
	1,542,430	1,302,364

Default Funds

The purpose of the Default Funds is to fund losses incurred by the Group in the event of clearing member default where margin collateral is 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 is 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.

15.18 Employee benefits

15.18.1 Employees and directors

Employee benefits expense	Group	
	2005 €'000	2004 €'000
Wages and salaries	51,194	47,380
Social security costs	10,624	8,610
Pension costs	8,618	9,602
Post-employment benefits (other than pensions)	34	25
Employee benefits expense	70,470	65,617
Redundancy (included in restructuring costs)	5,614	-
	76,084	65,617
Average monthly number of people (including executive directors) employed	480	510

	Group	
Directors	2005 €'000	2004 €'000
Total remuneration paid to directors of the Company		
Emoluments	2,623	1,334
Pension contributions	75	66
	2,698	1,400

Remuneration, including pension contributions, of the highest paid director was €694,559 (2004: €812,216).

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is 1 (2004: 1).

The value of the accrued pension of the highest paid director was €165,756 (2004: €153,000).

15.18.2 Pension commitments

The Group operates a defined benefit pension scheme for its employees in the UK. In addition, the Group is committed to take on obligations in respect of certain staff in a Euronext defined benefit pension scheme in Amsterdam. The following disclosure represents the consolidated position of these arrangements.

	2005 €'000	2004 €'000
Change in benefit obligation		
Benefit obligation at 1 January 2005	86,317	71,722
Current service cost	7,609	7,469
Interest cost	4,694	3,979
Obligation under Euronext arrangement	-	1,576
Actuarial loss	13,558	3,258
Benefits paid	(731)	(1,011)
Expenses, taxes and insurance premiums paid	(12)	-
Exchange rate changes	2,096	(676)
Benefit obligation at 31 December 2005	113,531	86,317
Change in scheme assets		
Fair value of scheme assets at 1 January 2005	59,193	50,356
Expected return on scheme assets	4,141	3,624
Actuarial gains	10,161	1,965
Employer contribution (includes benefits paid and reimbursed)	4,849	3,542
Benefits paid	(731)	(1,011)
Expenses, taxes and insurance premiums paid	(12)	-
Exchange rate changes	1,372	(427)
Assets under Euronext arrangement	-	1,144
Fair value of scheme assets at 31 December 2005	78,973	59,193
Analysis of pension benefit obligation		
Present value of funded obligations	113,531	86,317
Fair value of plan assets	(78,973)	(59,193)
Deficit for funded plans	34,558	27,124
Net liability shown in balance sheet		
Deficit for funded plans	34,558	27,124
Other European retirement provisions	2,672	3,024
Employee benefits	37,230	30,148

Components of pension cost	31 December 2005 €'000	31 December 2004 €'000
Current service cost	7,609	7,469
Interest cost	4,683	3,979
Expected return on plan assets	(4,141)	(3,624)
	8,151	7,824
Other pension costs	467	1,778
Total pension expense recognised in the income statement	8,618	9,602
Actuarial gains and losses immediately recognised	3,397	1,293
Total pension cost recognised in the statement of changes in equity	3,397	1,293

Pension scheme asset allocation

An analysis of the pension assets is set out below:

At 31 December 2005	SA €'000	%	Ltd €'000	%	Total €'000	%
Equities	576	30	65,366	85	65,942	84
Bonds	1,343	70	8,371	11	9,714	12
Profits and other	-	-	3,317	4	3,317	4
Total	1,919	100	77,054	100	78,973	100

At 31 December 2004	SA €'000	%	Ltd €'000	%	Total €'000	%
Equities	250	22	49,285	85	49,535	84
Bonds	684	60	7,090	12	7,774	13
Profits and other	210	18	1,674	3	1,884	3
Total	1,144	100	58,049	100	59,193	100

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted, based on the target asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of a 6.2% assumption for the UK scheme and 4.75% for the Euronext scheme.

	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000
Actual return on plan assets	14,302	5,589
Actual return on reimbursement rights	-	-
Weighted average assumptions used to determine benefit obligations at:	At 31 December 2005	At 31 December 2004
Discount rate	4.79%	5.29%
Rate of compensation increase	4.77%	4.86%
Weighted average assumptions used to determine pension expense for:	Year ended 31 December 2005	Year ended 31 December 2004
Discount rate	5.29%	5.4%
Expected long-term return on plan assets	6.55%	6.76%
Rate of compensation increase	4.86%	4.77%

History of experience gains and losses

	Financial years ending 31 December: 2005 €'000	2004 €'000
Difference between expected and actual return on scheme assets:		
amount	(10,161)	(1,965)
percentage of scheme assets	(13%)	(3%)
Experience gains and losses on scheme liabilities:		
amount	2,042	(584)
percentage of scheme liabilities	2%	(1%)

Contributions

The Group expects to contribute €6,420k (2004: €4,849k) to its defined benefit pension plans in 2006.

Other comments

The size of the net pension liability at 31 December 2005 was €999k (2004 €755k) in respect of the Euronext plan, and this is included in the figures above. The current service cost charged to the profit and loss account for the year ended 31 December 2005 was €216k (2004: €242k).

Included in employee benefits are a provision for compensation for retirement of €1,197k (2004: €1,654k) and €1,475k (2004: €1,289k) 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 credit to the income statement for the year in respect of the compensation for retirement commitment was €457k (2004 charge: €401k), and the charge in the early retirement scheme was €186k (2004: €355k).

The figures relating to pension commitments have been based upon the following rates of exchange:

	31 December 2005	Average 2005	31 December 2004	Average 2004	31 December 2003
Pound (£) to Euro (€)	1.45264	1.46255	1.41623	1.46897	1.42005

15.19 Creditors and other payables

	Group		Company	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Trade payables	17,121	27,298	-	-
Other payables including taxation and social security	32,880	21,608	953	-
Amount owed by Group undertakings	-	-	1,603	1,827
Accruals and deferred income	41,234	62,000	-	3,483
	91,235	110,906	2,556	5,310

15.20 Commitments and contingencies

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2005		2004	
	Property €'000	Plant and equipment €'000	Property €'000	Plant and equipment €'000
Within one year	6,893	70	6,246	-
More than one year, but less than five	25,942	-	26,005	-
More than five years	25,429	-	31,341	-
	58,264	70	63,592	-

The property rentals relate primarily to the lease of offices in London and Paris. The majority of the leases expire in 2016 and 2013 respectively.

Supplier agreements

In June 2005, the Group entered into a new 10 year agreement with Atos Origin in relation to the operation and development of certain technology applications. The estimated maximum value of the remaining commitment is €238m.

Contingent liabilities

At 31 December 2005 there were no material contingent liabilities.

15.21 Related party disclosure

Key management personnel
Details of key management personnel are disclosed in Section 1 - General information.

Group undertakings
Details of the principal Group undertakings are set out in note 15.10 to these consolidated financial statements. In accordance with IAS 27, transactions or balances with Group entities that have been eliminated on consolidation are not reported.

Principal shareholding
At 31 December 2005, the Euronext group held 29.85% of the ordinary share capital and 100% of the redeemable convertible preference shares (RCPS) of LCH.Clearnet Group Limited. This was the maximum shareholding in the Group and has been held from 22 December 2003, the date of acquisition of LCH.Clearnet SA.

Sales to and purchases from related parties are at arms length and at normal market rates. Outstanding balances at the year-end are unsecured and are settled in cash. There have been no guarantees provided or received in relation to any related party receivables. For the year ended 31 December 2005, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Details of the transactions with the Euronext group which have passed through the income statement during the year, together with details of amounts due to and due from the Euronext group at the 31 December 2005 and 31 December 2004, are set out below:

Related party disclosure

Euronext group - 2005	Income attributable to related parties €'000	Expenses attributable to related parties €'000	Amounts owed from related parties €'000	Amounts owed to related parties €'000
IT software development	641	-	-	-
Gross retrocession fees	-	50,720	-	-
Revenue and fee guarantees	-	(16,000)	-	-
Fees payable and similar charges	-	34,720	-	-
Management fees, accomodation costs, and other management services	-	2,338	-	-
IT costs	-	8,612	-	-
RCPS dividends	-	6,768	-	-
RCPS capital	-	-	-	198,840
Balances outstanding at 31 December 2005	-	-	16,582	13,068
	641	52,438	16,582	211,908

Euronext group - 2004	Income attributable to related parties €'000	Expenses attributable to related parties €'000	Amounts owed from related parties €'000	Amounts owed to related parties €'000
IT software development	244	-	-	-
Gross retrocession fees	-	40,510	-	-
Revenue and fee guarantees	-	(17,204)	-	-
Fees payable and similar charges	-	23,306	-	-
Management fees, accomodation costs, and other management services	-	7,810	-	-
Interest/capital relating to short-term loans and subordinated loan	-	1,938	-	-
IT costs	-	10,964	-	-
RCPS dividends	-	6,840	-	3,450
RCPS capital	-	-	-	198,840
Balances outstanding at 31 December 2005	-	-	16,047	14,873
	244	50,858	16,047	217,163

15.22 Financial risk management objectives and policies

15.22.1 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, inter alia, internal and external auditors under the auspices of the three audit committees in the Group.

15.22.2 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.

15.22.3 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 clearing member defaults. As protection against the latent market risk contingent on clearing 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 access to supplementary financial resources.

15.22.4 Liquidity risk

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.

15.22.5 Operational risk

Operational risk is the risk of loss arising through failures associated with personnel, processes or systems, or from external events. It is inherent in 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 transactions are monitored and reconciled. The operational risk management process is subject to a programme of Internal Audit reviews, which are independent of line management, and the results are reported 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.

15.22.6 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 applied to meet the various regulatory requirements.

A key part of the role 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.

15.23 Financial instruments

All of the financial assets of the Group are either based upon floating rates or upon fixed rates with an interest term of less than six months. For Default Funds, the tenor of the liability is matched with that of the asset and does not exceed 3 months. The weighted average maturity of the remainder of the portfolio is less than 2 months, with strict internal approval processes being applied for any assets over 3 months.

The financial liabilities are on rates set on a daily basis. Certificates of deposit are all carried at fair value. For assets not marked to market there is no material difference between the carrying value and fair value.

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as at 31 December 2005 and 31 December 2004.

Group interest rate risk (2005)

Fixed rate	Within 1 year €'000	2 - 3 years €'000	More than 5 years €'000	Total €'000
Clearing member balances - assets	444,495	-	-	444,495
Cash and short-term investments	15,448,406	-	-	15,448,406
Default Fund liabilities	(1,542,430)	-	-	(1,542,430)
Floating rate	Within 1 year €'000	2 - 3 years €'000	More than 5 years €'000	Total €'000
Euroclear Default Fund	15,000	-	-	15,000
Clearing member balances - liabilities	(14,067,601)	-	-	(14,067,601)
Bank overdrafts	(12,124)	-	-	(12,124)
Redeemable convertible preference shares	-	(198,840)	-	(198,840)
Subordinated loan	-	-	(27,000)	(27,000)

Company interest rate risk (2005)

Fixed rate	Within 1 year €'000	2 - 3 years €'000	More than 5 years €'000	Total €'000
Cash and short-term investments	11,773	-	-	11,773
Floating rate	Within 1 year €'000	2 - 3 years €'000	More than 5 years €'000	Total €'000
Redeemable convertible preference shares	-	(198,840)	-	(198,840)

Group interest rate risk (2004)

Fixed rate	Within 1 year €'000	3-4 years €'000	More than 5 years €'000	Total €'000
Clearing member balances - assets	231,693	-	-	231,693
Cash and short-term investments	10,143,407	-	-	10,143,407
Default Fund liabilities	(1,302,364)	-	-	(1,302,364)
Fixed rate	Within 1 year €'000	3-4 years €'000	More than 5 years €'000	Total €'000
Euroclear Default Fund	-	-	-	-
Clearing member balances - liabilities	(8,847,341)	-	-	(8,847,341)
Bank overdrafts	(10,606)	-	-	(10,606)
Redeemable convertible preference shares	-	(198,840)	-	(198,840)
Subordinated loan	-	-	(27,000)	(27,000)

Company interest rate risk (2004)

Fixed rate	Within 1 year €'000	3-4 years €'000	More than 5 years €'000	Total €'000
Cash and short-term investments	264	-	-	264

Fixed rate	Within 1 year €'000	3-4 years €'000	More than 5 years €'000	Total €'000
Redeemable convertible preference shares	-	(198,840)	-	(198,840)

16 Impact of first-time adoption of IFRS

Transition to IFRS - the significant changes to the financial statements as a result of the adoption of IFRS are:

- In accordance with International Accounting Standard (IAS) 32, preference shares are classified as debt rather than equity, and dividends thereon as interest paid;
- Members' balances have been grossed up, in accordance with IAS 39, to include the underlying securities relating to repurchase agreements;
- Self-developed software has been reclassified from tangible fixed assets to intangible fixed assets, in accordance with IAS 38; and
- As required by IAS 19, pension benefit obligations are shown gross. Under UK GAAP and Financial Reporting Standard (FRS) 17, the obligations were shown net of attributable deferred tax.

16.1 Impact on the income statement of the transition from UK GAAP to IFRS for the year ended 31 December 2004

	31 December 2004 UK GAAP €'000	IFRS adjustments: RCPS interest €'000	IFRS adjustments: Retrocession fee reclassification €'000	IFRS adjustments: Other €'000	31 December 2004 IFRS as restated €'000
Revenue					
Interest income	319,613	-	-	-	319,613
Interest expense and similar charges	(294,539)	-	-	-	(294,539)
Net interest income	25,074	-	-	-	25,074
Clearing fees	265,312	-	23,306	-	288,618
Other fee income	25,654	-	-	-	25,654
Total revenue	316,040	-	23,306	-	339,346
Fees payable and similar charges	-	-	(23,306)	-	(23,306)
Net revenue	316,040	-	-	-	316,040
Costs and expenses					
Employee benefits expense	(65,508)	-	-	(109)	(65,617)
Depreciation and amortisation charge	(10,824)	-	-	-	(10,824)
Impairment of capitalised development costs	-	-	-	-	-
Other operating expenditure	(154,474)	-	-	-	(154,474)
Restructuring costs	(7,427)	-	-	-	(7,427)
Total costs and expenses	(238,233)	-	-	(109)	(238,342)
Operating profit	77,807	-	-	(109)	77,698
Net finance cost	4,204	(6,840)	-	-	(2,636)
Profit before taxation	82,011	(6,840)	-	(109)	75,062
Taxation expense	(27,183)	-	-	33	(27,150)
Profit after taxation	54,828	(6,840)	-	(76)	47,912
Dividends	(6,840)	6,840	-	-	-
Profit for the year	47,988	-	-	(76)	47,912

- **RCPS interest** - in accordance with IAS 32, RCPS dividends have been reclassified under net finance costs.
- **Retrocession fees** - were previously shown as a deduction from clearing fees but, under IFRS, are required to be shown separately.
- **Other** - other minor adjustments including deferred taxation.

To conform with current year presentation, certain UK GAAP figures as at 31 December 2004 have been restated before applying IFRS adjustments. Interest on shareholders' funds of €4,204k has been reclassified from interest income into net finance costs.

16.2 Impact on the 31 December 2004 Group balance sheet of the transition from UK GAAP to IFRS

	Group December 2004 UK GAAP €'000	IFRS adjustments: Reclass-ification of fixed assets €'000	Deferred taxation €'000	Member balances €'000	RCPS reclass-ification €'000	Other €'000	Group December 2004 IFRS as restated €'000
Non-current assets							
Intangible fixed assets	503,842	85,877	-	-	-	-	589,719
Property, plant and equipment	94,670	(85,877)	-	-	-	-	8,793
Investments	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Deferred taxation	-	-	6,627	-	-	(215)	6,412
	598,512	-	6,627	-	-	(215)	604,924
Current assets							
Cash and short-term investments	10,143,407	-	-	-	-	-	10,143,407
Debtors and other receivables	99,233	-	-	-	-	-	99,233
Balances with clearing members	78,941,173	-	-	113,121,913	-	-	192,063,086
	89,183,813	-	-	113,121,913	-	-	202,305,726
TOTAL ASSETS	89,782,325	-	6,627	113,121,913	-	(215)	202,910,650
EQUITY AND LIABILITIES							
Capital and reserves							
Called up share capital	100,116	-	-	-	-	-	100,116
Redeemable convertible preference shares	19,884	-	-	-	(19,884)	-	-
Capital reserves	555,327	-	-	-	(178,956)	-	376,371
Translation reserve	(536)	-	-	-	-	-	(536)
Retained earnings	72,479	-	-	-	-	499	72,978
	747,270	-	-	-	(198,840)	499	548,929
Non-current liabilities							
Interest bearing loans and borrowings	27,000	-	-	-	198,840	-	225,840
Default Funds	1,302,364	-	-	-	-	-	1,302,364
Employee benefits	21,954	-	8,194	-	-	-	30,148
Deferred taxation	1,567	-	(1,567)	-	-	-	-
	1,352,885	-	6,627	-	198,840	-	1,558,352
Current Liabilities							
Interest bearing loans and borrowings	10,606	-	-	-	-	-	10,606
Income tax payable	3,130	-	-	-	-	-	3,130
Creditors and other payables	111,620	-	-	-	-	(714)	110,906
Balances with clearing members	87,556,814	-	-	113,121,913	-	-	200,678,727
	87,682,170	-	-	113,121,913	-	(714)	200,803,369
TOTAL EQUITY AND LIABILITIES	89,782,325	-	6,627	113,121,913	-	(215)	202,910,650

- **Reclassification of fixed assets** - in accordance with IAS 38, self-developed software has been reclassified from tangible to intangible assets.

- **Deferred taxation** - in accordance with IAS 19, pension obligations are shown gross, whereas under FRS 17 the obligations were shown net of attributable deferred taxation.

- **Member balances** - in accordance with IAS 39, member balances have been restated to reflect the reduced capacity for netting.

- **RCPS reclassification** - in accordance with IAS 32, non-equity share capital has been reclassified from equity to non-current debt.

- **Other** - other minor adjustments.

To conform with current year presentation, certain UK GAAP figures as at 31 December 2004 have been restated before applying IFRS adjustments. Income tax receivable of €2,246k, previously disclosed under debtors and other receivables, has been offset against taxation liabilities. In addition, other European retirement provisions of €2,943k, previously included under creditors and other payables, have been reclassified under employee benefits.

16.3 Impact on the 31 December 2004 Company balance sheet of the transition from UK GAAP to IFRS

	Company December 2004 UK GAAP €'000	IFRS adjustments: RCPS reclassification €'000	IFRS adjustments: Dividend €'000	Company December 2004 IFRS as restated €'000
Non-current assets				
Intangible fixed assets	-	-	-	-
Property, plant and equipment	-	-	-	-
Investments	673,481	-	-	673,481
Other financial assets	-	-	-	-
Deferred taxation	-	-	-	-
	673,481	-	-	673,481
Current assets				
Cash and short-term investments	264	-	-	264
Debtors and other receivables	29,490	-	(26,478)	3,012
Balances with clearing members	-	-	-	-
	29,754	-	(26,478)	3,276
TOTAL ASSETS	703,235	-	(26,478)	676,757
EQUITY AND LIABILITIES				
Capital and reserves				
Called up share capital	100,116	-	-	100,116
Redeemable convertible preference shares	19,884	(19,884)	-	-
Capital reserves	540,000	(178,956)	-	361,044
Translation reserve	-	-	-	-
Retained earnings	37,747	-	(26,478)	11,269
	697,747	(198,840)	(26,478)	472,429
Non-current liabilities				
Interest bearing loans and borrowings	-	198,840	-	198,840
Default Funds	-	-	-	-
Employee benefits	-	-	-	-
Deferred taxation	-	-	-	-
	-	198,840	-	198,840
Current liabilities				
Interest bearing loans and borrowings	-	-	-	-
Income tax payable	178	-	-	178
Creditors and other payables	5,310	-	-	5,310
Balances with clearing members	-	-	-	-
	5,488	-	-	5,488
TOTAL EQUITY AND LIABILITIES	703,235	-	(26,478)	676,757

- **RCPS reclassification** - in accordance with IAS 32, non-equity share capital has been reclassified from equity to non-current debt.
- **Dividends** - in accordance with IAS 10, dividends have been recognised when the shareholders rights to receive payment has been established.

16.4 Impact on the cashflow statement for the year ended 31 December 2004 of the transition from UK GAAP to IFRS

	Group December 2004 UK GAAP €'000	IFRS adjustments RCPS interest €'000	Restatement of RCPS in finance interest €'000	Other €'000	Group December 2004 IFRS as restated €'000
Cashflows arising from operating activities					
Profit before taxation	82,011	(6,840)	-	(109)	75,062
Adjustments for:					
Net interest income	(25,074)	-	-	-	(25,074)
Net finance cost	(4,204)	-	6,840	-	2,636
Depreciation, amortisation and impairment	11,037	-	-	-	11,037
Profit on disposal of assets	(223)	-	-	-	(223)
	63,547	(6,840)	6,840	(109)	63,438
Taxation received	3,162	-	-	-	3,162
Taxation paid	(21,845)	-	-	-	(21,845)
Dividends paid	(3,558)	3,558	-	-	-
	41,306	(3,282)	6,840	(109)	44,755
Changes in working capital:					
Increase in debtors and other receivables	(51,312)	-	-	-	(51,312)
Increase in pension benefit obligation	8,051	-	-	-	8,051
Increase in creditors and other payables	48,043	3,282	-	109	51,434
Net cash inflows from operating activities	46,088	-	6,840	-	52,928
Investment in intangible assets	(36,565)	-	-	-	(36,565)
Investment in tangible assets	(3,682)	-	-	-	(3,682)
Disposals in intangible assets	-	-	-	-	-
Disposals in tangible assets	215	-	-	-	215
Margin monies cash inflow	(124,906)	-	-	-	(124,906)
Monies lodged with Euroclear Default Fund	-	-	-	-	-
Investment in financial assets maturing in three to six months	-	-	-	-	-
Increase in Default Funds	151,877	-	-	-	151,877
Net cash outflows from investing activities	(13,061)	-	-	-	(13,061)
Repayment of subordinated debt	(60,000)	-	-	-	(60,000)
Subordinated debt issued	27,000	-	-	-	27,000
Net interest income	25,074	-	-	-	25,074
RCPS and subordinated loan interest	893	-	(6,840)	-	(5,947)
Interest on shareholders' funds	3,311	-	-	-	3,311
Net cash used in financing activities	(3,722)	-	(6,840)	-	(10,562)
Effects of foreign exchange movements	(25,015)	-	-	-	(25,015)
Increase in cash and cash equivalents	4,290	-	-	-	4,290
Cash and cash equivalents at 1 January	10,128,511	-	-	-	10,128,511
Cash and cash equivalents at 31 December	10,132,801	-	-	-	10,132,801
Comprising:					
Secured short-term loans	5,689,332				5,689,332
Cash at bank and in hand	4,454,075				4,454,075
	10,143,407				10,143,407
Bank overdrafts and loans	(10,606)				(10,606)
	10,132,801				10,132,801

- **RCPS reclassification** - in accordance with IAS 32, non-equity share capital has been reclassified from equity to non-current debt. Accordingly, the interest on the RCPS has now been charged to net finance cost rather than dividends.

- **Other** - other minor adjustments including deferred taxation.

To conform with current year presentation, certain UK GAAP figures as at 31 December 2004 have been restated before applying IFRS adjustments. The increase in pension benefit obligations of €8,051k has been shown separately from creditors and other payables. In addition, net interest income of €25,074k, RCPS and subordinated loan interest of €893k, and interest on shareholders' funds of €3,311k have been deducted in arriving at net cash inflows from operating activities and shown as net cash used in financing activities.

16.5 Impact of the transition from UK GAAP to IFRS on equity at 31 December 2004

LCH.Clearnet Group Limited consolidated financial statements	Equity share capital €'000	RCPS €'000	Capital reserves €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
1 January 2004	100,116	19,884	555,327	580	25,396	701,303
Other adjustments	-	-	-	-	575	575
RCPS reclassification	-	(19,884)	(178,956)	-	-	(198,840)
	100,116	-	376,371	580	25,971	503,038
Retained profit for the year	-	-	-	-	47,912	47,912
Actuarial loss recognised in the pension scheme	-	-	-	-	(1,293)	(1,293)
Deferred tax relating to the pension liability (above)	-	-	-	-	388	388
Exchange adjustment	-	-	-	(1,116)	-	(1,116)
31 December 2004	100,116	-	376,371	(536)	72,978	548,929

LCH.Clearnet Group Limited	Equity share capital €'000	RCPS €'000	Capital reserves €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2004	100,116	19,884	540,000	18,105	678,105
RCPS reclassification	-	(19,884)	(178,956)	-	(198,840)
Retained profit for the year as previously disclosed	-	-	-	19,642	19,642
Dividend	-	-	-	(26,478)	(26,478)
Restated loss for the year	-	-	-	(6,836)	(6,836)
31 December 2004	100,116	-	361,044	11,269	472,429

- **RCPS reclassification** - in accordance with IAS 32, non-equity share capital has been reclassified from equity to non-current debt.
- **IAS 19 employee benefits** - the actuarial deficiency on the pension funds has been reflected in the shareholders' funds at 1 January 2004. UK GAAP disclosures at 31 December 2004 included an adjustment under FRS 17, therefore no further adjustment is required.
- **Dividends** - in accordance with IAS 10, dividends have been recognised when the shareholders' rights to receive payment has been established.
- **Other** - other minor adjustments.