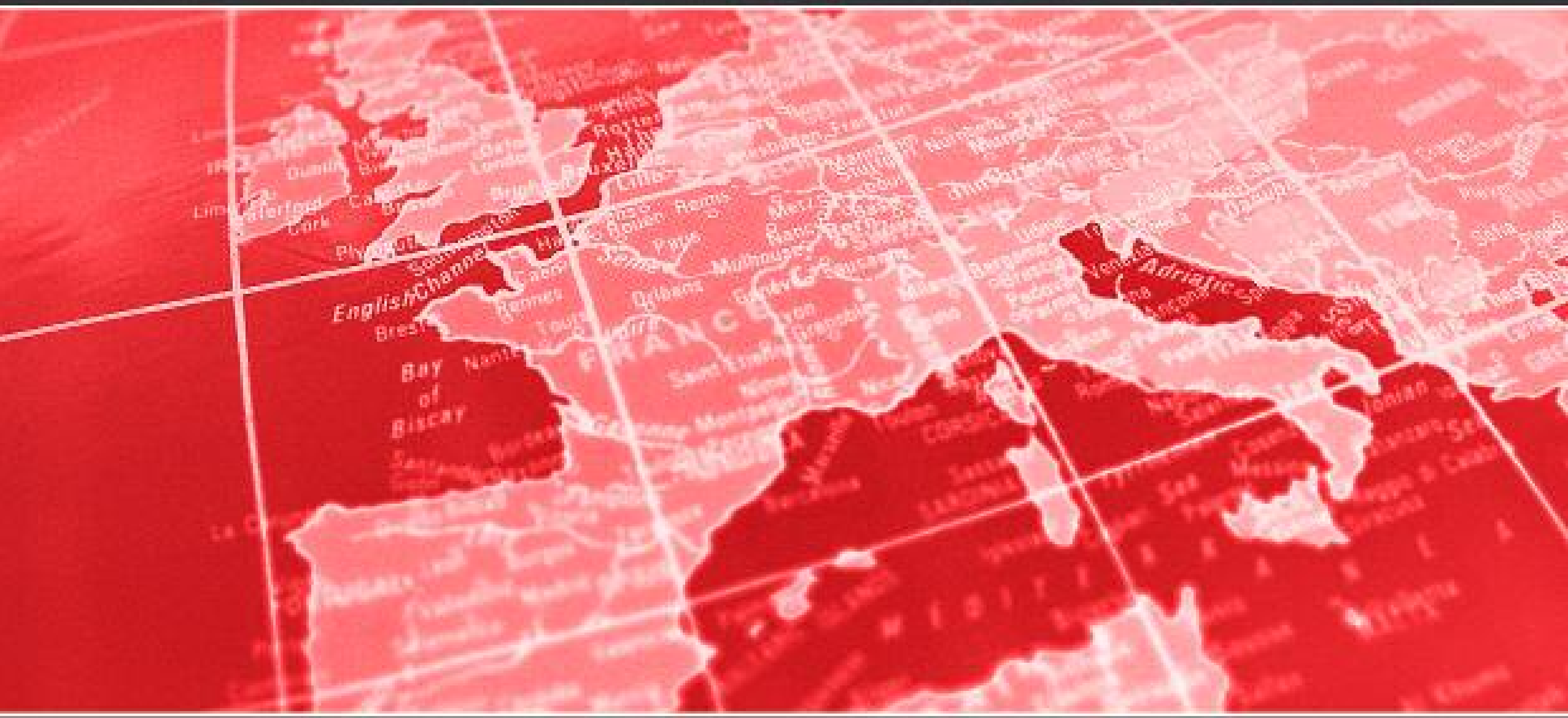
LCH.CLEARNET



Interim Report

For the six months ended 30 June 2005

LCH.Clearnet Group Limited

Chief Executive's review

Despite good progress being made towards integrating our business and planning for future development, the results for the first half of the year reflect the outcome of a thorough review of our medium term technology strategy and an impairment charge in respect of assets that will not be brought into future use.

Introduction

Since my last report, the business has dealt with a number of challenges; continuing the integration of the underlying businesses, the successful launch of new products, and handling the impact of terrorism. We have also adopted IFRS and these results are the first reported on this basis.

Integration

Our integration programme comprises a series of initiatives that will help us to deliver against the expectations of our stakeholders at the time of the merger; efficiency improvement, service harmonisation and continued product innovation. An example is the development of a single cash equity clearing process for all LCH.Clearnet markets, reducing the operational costs for members by standardising processes. The initiative will also support the harmonisation and reduction of LCH.Clearnet's cash equity clearing tariffs.

A key part of the integration programme has been a review of the Group-wide technology strategy. Following the determination that a major software project was unlikely to deliver against original expectations, I reported the position to shareholders in my letter dated 18 May 2005. The review determined that, whilst the software components built or bought in were, in the main, both sound and fit for purpose, the design against which the components were being assembled required simplification. As a result of this review the Group has chosen to focus on the development of common infrastructure in key areas in a modular fashion with less delivery risk. All in all, we concluded that some of the work undertaken and capitalised in the balance sheet will not now be brought into economic use. Consequently an impairment charge of €20.1 million in relation to these assets and certain associated items has therefore been recognised in the consolidated income statement for the 6 months to June 2005.

Business activity

The first half of 2005 saw a number of product extensions and launches, resulting in the broadening and deepening of our central counterparty services.

Clearing for four OTC-traded monthly cash-settled US power contracts was launched in February, and a further six were added in June, together with a daily US natural gas swap contract, all on IntercontinentalExchange.

In April, clearing of trades in the new ECX carbon emissions allowances futures contract, executed on International Petroleum Exchange, was commenced. The product is proving to be very successful, rapidly overtaking its competitor organised by Nord Pool.

Also in April, LCH.Clearnet launched Continuous Net Settlement for the Paris equity market, bringing to completion the harmonisation of settlement links in the French, Dutch and Belgian equity markets. The launch also rationalised the fails management process and harmonised member reporting across the three trading locations, with the added benefit that Corporate Events on fails are now managed at the central counterparty level.

May saw the launch on the London Metal Exchange (LME) of two new plastics contracts in Polypropylene and Linear Low Density Polyethylene. These are the first non-metals contracts traded on LME, and, whilst volumes are still relatively low, there is clear market support for the initiative.

Our Fixed Income clearing service has seen some spectacular activity. The first quarter of 2005 produced a record in term-adjusted volume at €15.64 trillion. The second quarter produced another record, at €17.71 trillion, making €33.35 trillion for the half year. These highly encouraging numbers clearly underline the value members place on the service provided.

In early September, we will be launching a new service to clear OTC trades in the $30bn freight derivatives market. The service will provide this rapidly expanding marketplace with the benefits of a broadly based central counterparty service; the elimination of counterparty credit risk, the provision of multi-lateral netting and improved operational efficiency through straight-through-processing.

Financial reporting

In continuing to apply best practice in financial reporting, LCH.Clearnet Group Limited has chosen to be an "early adopter" of International Financial Reporting Standards (IFRS) from 2005. As a result of the early adoption, these interim consolidated financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", and show the salient information in a slightly different way to that previously reported under UK generally accepted accounting practice (UK GAAP). To make the changes as transparent as possible, a full reconciliation between the previously reported comparative UK GAAP results and the IFRS equivalents has been provided, together with explanations for the main adjustments.

Compared to the equivalent period in 2004, the first half of 2005 saw revenues increase, through a small rise in clearing fee income of 2.6%, to €138.9m whilst other income fell by 8.8% to €10.4m. Net interest income rose by 27% (€2.7m) in the first half of 2005, reflecting higher average funds and the better rates available in the market. Operating expenditure increased by 4.1% to €117.9m, reflecting the continuing high levels of investment in new and upgraded IT infrastructure. In addition, the Group has recognised a one-off impairment loss of €20.1m following a review of the carrying value of software as explained above.

Default arrangements

In June, members were balloted, in accordance with our normal procedure, on a proposal to re-define the Default Fund construction in LCH.Clearnet Limited by providing for automatic rather than voluntary replenishment in the case of Fund depletion. Although the proposal, developed by our member Risk Committee and supported by the Board of LCH.Clearnet Limited, received the necessary majority by number of respondents, the threshold by value of Default Fund contribution was not achieved, and, consequently, the proposal was rejected. Our existing arrangements continue, therefore, unchanged. However, there is widespread agreement that the proposals which sought to ensure certainty and continuity in exceptional circumstances are, in principle, appropriate and we shall work with members to seek their adoption in the coming months.

Business continuity planning and implementation

In common with other key City institutions, our focus on business continuity planning has increased in recent years in line with wider reliance on our continuity of operations and the perceived level of threat from terrorist activity. The direct impact on LCH.Clearnet of the events of 7 July was that we were unable to access our London headquarters and operating centre for a period of five days. We immediately invoked our carefully prepared business continuity plans, relocated key staff to our back-up site, and communicated what was happening to our stakeholders. I am happy to report that, as planned, we provided a normal service to customers; indeed we were able to deal with unusually substantial trading volumes and price volatility during this period without any departure from normal procedure, and were even able to implement the planned launch of clearing for London Stock Exchange SETSmm trades on 11 July.

But, in expressing satisfaction at our business response, I do not wish in any way to ignore the appalling human cost of these despicable events - let me emphasise our shock, sorrow and sympathy to all those injured and to bereaved families.

Infrastructure developments

The first six months of the year have seen much activity by the regulatory authorities, competition agencies, users and infrastructure providers, such as LCH.Clearnet, following the declared interest of both Deutsche Börse AG and Euronext NV in acquiring London Stock Exchange. The resulting findings from the UK Competition Commission have suggested the need for structural change at LCH.Clearnet in the event that Euronext is successful in pursuing its bid. Questions are also more generally raised about the fundamental ownership and governance of central counterparty clearing houses. Naturally, we are very closely involved in all these discussions and will seek the very best outcome for our stakeholders.

David Hardy

David Hardy
Group Chief Executive

Adoption of International Financial Reporting Standards (IFRS)

Introduction of IFRS

For all periods up to and including the year ended 31 December 2004, LCH.Clearnet Group Limited ("the Group") has prepared financial statements in accordance with UK GAAP. From 1 January 2005 LCH.Clearnet Group Limited implemented an early adoption of IFRS as endorsed by the European Union.

IFRS will apply for the first time to the Group's consolidated financial statements for the year ending 31 December 2005. Consequently, the Group's interim results for the six months ended 30 June 2005 have been prepared under IFRS.

The general principle that applies on first-time adoption of IFRS is that standards in force at the first reporting date (that is, for the Group, at 31 December 2005) should be applied retrospectively. However, IFRS 1 "First-time Adoption of International Financial Reporting Standards" contains a number of exemptions that companies may elect to apply. The financial information contained in this document has been prepared on the basis that the Group has elected to apply the following exemption:

- IAS 19 - "Employee benefits" - an exemption allowing the Group to recognise all actuarial gains and losses on pensions and other post-retirement benefits directly in shareholders' equity in accordance with the Group's adoption of FRS 17 - "Retirement benefits" in 2004.

Impact

The main impact of the adoption of IFRS upon the consolidated financial statements are in respect of: pension costs; the reclassification of the Redeemable Convertible Preference Shares (RCPS); the grossing up of member balances; and the reclassification of self-developed software.

Pension costs

In accordance with its treatment under FRS 17, the actuarial deficit remains as a liability on the balance sheet, however the attributable deferred tax is now shown within deferred tax as a non-current asset rather than reducing the liability.

RCPS

Prior to the adoption of IFRS, the RCPS had been disclosed as non-equity share capital; under IAS 32 - "Financial instruments: disclosure and presentation" these liabilities will be reclassified to other borrowed funds within non-current liabilities. Accordingly, RCPS dividends are now reclassified under net finance interest and a capital redemption reserve is created on the balance sheet. RCPS dividends are not eligible for tax relief, so including the cost of RCPS financing as finance interest results in a higher effective tax rate. The effective tax rates that can be calculated from the income statement for the six months ended 30 June 2005 and 30 June 2004 respectively are 40.0% and 38.8%. Under UK GAAP, with the RCPS charge reflected as a dividend, the effective tax rates would have been 35.1% and 35.6% respectively.

Grossing up of member balances

The value of member balances reflected on the balance sheet are higher under IFRS than under UK GAAP as there is a reduced capacity for netting receivables and payables under IAS 39 -"Financial instruments: recognition and measurement".

Software

Software has been reclassified from tangible fixed assets to intangible assets in accordance with IAS 38 - "Intangible assets".

Summarised results for the period

Summarised consolidated income statement for LCH.Clearnet Group Limited

	30 June 2005 €'m	30 June 2004 as restated €'m
Net interest income	15.3	13.5
Clearing fees and other income	149.3	146.8
	164.6	160.3
Operating expenditure	(117.4)	(113.3)
Impairment of capitalised development costs	(20.1)	-
Restructuring costs	(6.0)	(4.3)
	(143.5)	(117.6)
EBIT	21.1	42.7
Net finance interest	(0.9)	(2.0)
Profit before tax	20.2	40.7
Tax	(8.1)	(15.8)
Profit for the financial period	12.1	24.9

Highlights

Clearing fees and other income increased by €2.5m to €149.3m (2004: €146.8m). Of these clearing fees were €138.9m (2004: €135.4m).

Net interest income increased by €1.8m to €15.3m (2004: €13.5m).

EBIT decreased to €21.1m (2004: €42.7m) following the recognition of the impairment loss of €20.1m. Excluding the impairment charge and restructuring costs, operating profit was similar to the comparative period at €47.2m (2004: €47m).

Cost to income ratio of 71.3% [1] (2004: 70.1%).

[1] Cost-to-income ratio is the ratio of operating expenses to operating income.

Income

Net interest income increased by around €1.8m, largely due to a higher level of average funds held.

Clearing fees have increased by €2.5m (1.7%), primarily due to improved performance in the UK in energy markets, London Metal Exchange, and equities. Included within clearing fees is a provision of €3.0m relating to contractual payments to be made to OTCDerivNet Limited in respect of the SwapClear® business stream.

Other income has fallen by €1.0m (8.8%) as failed trade settlement fees, previously collected by LCH.Clearnet on behalf of virt-x, are now collected directly by the Exchange. Formerly, failed trade settlement fees were shown as revenue in other income and as a cost in other operating expenses (operating expenditure in the summarised results).

Operating expenditure

Operating expenditure, of around €117.4m for the first half of 2005, is €4.1m (3.6%) greater than the comparative period in 2004.

The three main components of operating expenditure are: staff costs: depreciation and amortisation costs; and other operating expenditure.

Staff costs have increased by €3.8m (11.3%), primarily due to a change in the accounting treatment of the bonus accrual in the Paris based subsidiary.

Depreciation and amortisation costs, other than those relating to the impairment of capitalised self-developed software costs, have fallen by 9.8% (€0.7m) to €6.1m. The recognition of the impairment losses gives rise to a one-off charge in the first half of 2005 of €20.1m, details of which are fully disclosed in note 4 to these consolidated financial statements.

Exceptional items

The concept of "below the line" exceptional items does not exist under IFRS. Accordingly, the exceptional items recorded in the first half of 2004 have been reclassified on the face of the income statement as restructuring costs. As work on the integration continues into 2005, similar costs have also been shown for the first half of 2005 which relate primarily to headcount reductions achieved under the value improvement programme.

Earnings before interest and taxation (EBIT)

EBIT in the first half of 2005 was €21.1m (2004: €42.7m). This reduction was primarily the result of the charge for the impairment of the capitalised self-developed software in the current period.

Tax expense

The effective tax rate under the income statement for the first six months of 2005 calculated under IFRS is 40.0% (2004: 38.8%). The effective tax rate under IFRS is greater than that under UK GAAP as under IFRS the RCPS dividend is included as an interest charge prior to profit before tax, although it is not eligible for tax relief, whereas under UK GAAP the RCPS dividend is included as a distribution of earnings. Table 6 b below reconciles UK GAAP to IFRS for the comparative period, the effective tax rate for the first six months of 2004 was 35.6%.

Net financing interest

Net financing interest under IFRS is stated after deducting the dividend payable on the RCPS. Accordingly, as shown in note 6 b) to these consolidated financial statements, the net financing interest shown in the June 2004 half year results has been restated to include the RCPS dividend. The dividends payable under RCPS amounted to around €3.4m in both periods.

Capital expenditure

During the period under review, the Group capitalised a further €10.4m of self-developed software expenditure, primarily in relation to its IT strategy programme. The objective of the programme is to develop a common infrastructure which will improve efficiency and drive growth. Depreciation of this capitalised cost will take place over five years, commencing from the date when the assets are brought into economic use by the business.

Balance sheet and cashflow

The movement on equity, from the position at 1 January 2004 as previously stated under UK GAAP, to the 30 June 2005 as stated under IFRS, is detailed in note 6 e).

The main changes are due to the restatement of opening reserves, resulting from the adoption of FRS 17 (and subsequent adoption of IAS 19) in the second half of 2004 and the reclassification of the Redeemable Convertible Preference Shares (RCPS) required under IAS 32. Exchange rate movements resulted in an increase in equity at 30 June 2005 of around €4.8m compared to 30 June 2004.

Balances with clearing members have increased due to the fact that there is a reduced capacity for netting receivables and payables under IAS 39.

Net cashflow has shown a significant increase due to an influx of margin monies arising from higher levels of activity in the first six months of 2005 as compared to the same period in 2004. The level of investment in intangible fixed assets is lower than during the comparable period following the review of the group-wide technology strategy.

Independent review report to LCH.Clearnet Group Limited

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005, which comprises a consolidated income statement, consolidated balance sheet, consolidated cashflow statement, consolidated statement of changes in equity, and the related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRSs adopted for use by the European Union. This interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and the requirements of IFRS 1, "First-time Adoption of International Financial Reporting Standards" relevant to interim reports.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Ernst & Young LLP
London
1 September 2005

Consolidated income statement

for the six months ended 30 June 2005

	30 June 2005 €'000	30 June 2004 as restated €'000
Operating income		
Interest income	208,439	154,101
Interest expense and similar charges	(193,113)	(140,556)
Net interest income	15,326	13,545
Clearing fees	138,916	135,359
Other fee income	10,358	11,442
Total operating income	164,600	160,346
Costs and expenses		
Staff costs	(37,169)	(33,396)
Depreciation and amortisation charge	(6,058)	(6,718)
Impairment of capitalised development costs	(20,106)	-
Other operating expenses	(74,136)	(73,213)
Restructuring costs	(6,010)	(4,290)
Total costs and expenses	(143,479)	(117,617)
EBIT	21,121	42,729
Net finance interest	(896)	(2,035)
Profit before tax	20,225	40,694
Tax expense	(8,081)	(15,809)
Retained profit for the period	12,144	24,885

Consolidated balance sheet

as at 30 June 2005

	Group 30 June 2005 €'000	Group 31 December 2004 as restated €'000
Non-current assets		
Intangible assets	580,442	589,719
Tangible assets	7,837	8,793
Default deposit	15,000	-
Deferred tax	6,537	6,627
	609,816	605,139
Current assets		
Cash and short term investments	14,052,027	10,143,407
Debtors and other receivables	66,778	78,126
Prepayments and accrued income	27,342	23,353
Balances with clearing members	252,748,499	198,342,566
	266,894,646	208,587,452
TOTAL ASSETS	267,504,462	209,192,591
EQUITY AND LIABILITIES		
Capital and reserves		
Called up share capital	100,116	100,116
Capital reserves	376,371	376,371
Translation reserve	4,247	(536)
Retained earnings	85,122	72,978
	565,856	548,929
Non-current liabilities		
Other borrowed funds	198,840	198,840
Subordinated loan	27,000	27,000
Default funds	1,497,909	1,302,364
Pension benefit obligations	30,800	27,181
	1,754,549	1,555,385
Current liabilities		
Bank overdrafts and loans	13,000	10,606
Taxation liabilities	10,345	11,769
Creditors and other payables	97,237	107,695
Balances with members	265,063,475	206,958,207
	265,184,057	207,088,277
TOTAL EQUITY AND LIABILITIES	267,504,462	209,192,591

Consolidated statement of changes in equity

for the six months ended 30 June 2005

	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	(711)	24,491	500,267
Retained profit for the period	-	-	-	24,885	24,885
Foreign exchange adjustments	-	-	4,717	-	4,717
Shareholders' equity at 30 June 2004	100,116	376,371	4,006	49,376	529,869
Retained profit for the period	-	-	-	23,602	23,602
Foreign exchange adjustments	-	-	(4,542)	-	(4,542)
Shareholders' equity at 31 December 2004	100,116	376,371	(536)	72,978	548,929
Retained profit for the period	-	-	-	12,144	12,144
Foreign exchange adjustments	-	-	4,783	-	4,783
Shareholders' equity at 30 June 2005	100,116	376,371	4,247	85,122	565,856

Consolidated cashflow statement

for the six months ended 30 June 2005

	30 June 2005 €'000	30 June 2004 as restated €'000
Operating activities		
Pre-tax profit for the period	20,225	40,694
Adjustments for:		
Net interest income	(15,326)	(13,545)
Net finance interest	896	2,035
Depreciation, amortisation and impairment	26,164	6,718
Loss on disposal of assets	203	-
	32,162	35,902
Taxation received	5,219	-
Taxation paid	(15,773)	(10,867)
	21,608	25,035
Changes in working capital:		
Decrease/(increase) in debtors and other receivables	13,067	(47,432)
Decrease/(increase) in prepayments	(3,353)	1,433
Decrease/(increase) in pension benefit obligation	3,077	(3,588)
(Decrease)/increase in creditors and other payables	(10,949)	72,395
(Decrease)/increase in provisions	(1,938)	3,552
Net cash inflows from operating activities	21,512	51,395
Investing activities		
Investment in intangible assets	(12,839)	(24,892)
Margin monies cash inflow	3,386,551	28,189
Monies lodged with Euroclear default fund	(15,000)	-
Investment in financial assets maturing in three to six months	(90,000)	(30,000)
Increase in default fund	157,424	66,126
Net cash inflows from investing activities	3,426,136	39,423
Financing activities		
Repayment of subordinated debt	-	(60,000)
New borrowings	-	27,000
Net interest income	15,326	13,545
RCPS and subordinated loan interest	(3,829)	(4,755)
Interest on shareholders' funds	2,933	2,720
Net cash generated from/(used in) financing activities	14,430	(21,490)
Effects of foreign exchange movements	354,148	322,134
Increase in cash and cash equivalents	3,816,226	391,462
Cash and cash equivalents at 1 January 2005	10,132,801	10,128,511
Cash and cash equivalents at 30 June 2005	13,949,027	10,519,973
Cash and cash equivalents at 30 June 2005 comprise:		
Cash and short term investments	14,052,027	10,592,477
Bank overdrafts and loans	(13,000)	(42,504)
Financial assets maturing in three to six months	(90,000)	(30,000)
	13,949,027	10,519,973

Notes to the consolidated financial statements

1 Corporate information

a Authorisation for publication

The interim consolidated financial statements of LCH.Clearnet Group for the six months ended 30 June 2005 were authorised for issue in accordance with a resolution of the directors on 1 September 2005.

LCH.Clearnet Group Limited is a limited company incorporated in England and Wales whose shares are owned principally by users and exchanges.

b Adoption of International Financial Reporting Standards (IFRS)

The Group has adopted International Financial reporting Standards (IFRS) from 1 January 2005. These consolidated financial statements are prepared in accordance with IAS 34 - "Interim Financial Reporting" and IFRS 1 - "First-time Adoption of International Financial Reporting Standards".

c Principal activities

The principal activities of the Group during the period were the provision of clearing, central counterparty and other services to clearing members, trade matching organisations and exchanges. These activities were undertaken in separate geographical locations by two subsidiaries, LCH.Clearnet Limited in the United Kingdom and LCH.Clearnet SA in other European countries.

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

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

2 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out on pages 17 to 21. These policies have been applied during the period ended 30 June 2005. In accordance with IFRS 1, the Group has not presented opening balances in IFRS as this is the first year of production of IFRS financial statements.

...accounting policies

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 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 below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The preparation of financial statements in conformity with generally accepted accounting principles 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 interim financial information does not constitute the statutory financial statements as defined in Section 240 of the Act.

A separate income statement for the Company has not been presented as permitted by Section 230 of the Act.

c Changes in accounting policies

IFRS has been adopted in the period. An opening IFRS balance sheet has not been presented as permitted by IFRS 1. The significant changes to the financial statements as a result of the adoption of IFRS are:

- 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 as an intangible asset from tangible assets; and
- As required by IAS 19, pension benefit obligations are shown gross. Under UK GAAP and FRS 17, the obligations were shown net of attributable deferred tax.

...accounting policies

d Basis of consolidation

The consolidated financial statements of LCH.Clearnet Group Limited (the Company) comprise the financial statements of LCH.Clearnet Group Limited and its subsidiary undertakings (the Group).

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition.

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

LCH.Clearnet Group Limited's consolidated financial statements are prepared in accordance with IFRS and IFRIC interpretations. Where necessary, adjustments are made to the financial statements of subsidiary undertakings to bring accounting policies into line with IFRS and IFRIC interpretations.

e 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 Euro at the average rates of exchange for the period.

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

f Goodwill

Goodwill arises on the acquisition of subsidiary undertakings when the cost of acquisition exceeds the fair value of net assets acquired. Goodwill is capitalised as an intangible asset. Goodwill is subject to an annual impairment review.

g Intangibles

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

Self-developed software	-	basis over 3 to 5 years
Patents and trademarks	-	basis 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 to the consolidated income statement from the date the developed product, service, process or system is brought into use.

...accounting policies

h Tangible fixed assets - property, plant and equipment

Tangible fixed assets are capitalised at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the asset 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

i Impairment of intangible assets, goodwill and tangible fixed assets

Fixed assets and goodwill are subject to impairment 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 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 period in which it occurs.

j 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; and Member Default Funds. Investments are recorded into the relevant category at initial recognition.

Assets falling into the Cash Liquidity or Member Default Fund category are treated as loans and receivables. These typically comprise short term investments with tenors falling within defined local limits. Loans and receivables 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. Loans and receivables 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.

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

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.

...accounting policies

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.

k Cash and cash equivalents

Cash comprises cash on 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 including deferred tax

The taxation expense is based on the estimated effective rate of taxation for the year ending 31 December 2005. Deferred taxation is provided on a full provision basis, without discounting, on all timing differences that have arisen but not reversed at the balance sheet date. 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.

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.

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 they contain an obligation to transfer economic benefits; if not, they are included in shareholders' funds. The finance cost recognised in the consolidated income statement, 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.

...accounting policies

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 Segmental reporting

Analysis by business is based on the Group's organisational and management structure and 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 will be allocated on a reasonable basis to each segment.

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 amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs.

A full actuarial valuation was carried out at June 2004 and partially updated to 31 December 2004 by a qualified independent actuary.

The Group has committed to take on obligations in respect of certain staff in the Euronext group defined benefit pension scheme in Amsterdam that transferred their employment to LCH.Clearnet SA in 2004.

A full valuation of the Amsterdam pension fund was carried out at December 2004 by a qualified independent actuary.

s Leases

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

...accounting policies

3 Segmental analysis

Revenue and profit before tax are derived from fees related to the provision of a clearing service to members and exchanges and interest earned from deposits and margin monies held.

Analysis by primary segment is based upon the Group's corporate structure.

	30 June 2005 €'000	30 June 2004 as restated €'000
Revenue		
UK	84,539	79,820
Europe	80,061	80,526
	164,600	160,346
Profit before tax		
UK	(10,496)	16,943
Europe	30,721	23,751
	20,225	40,694

The results for the period are not materially impacted by seasonal or cyclical factors.

4 Impairment of intangible fixed assets

During the period the Group undertook a review of its technology strategy. As a result of this review the Group has chosen to focus on the development of common infrastructure in key areas and deferred initiatives in other areas. The deferral of certain initiatives has resulted in the recognition that previously capitalised development costs represent assets that may not be brought to economic use. An impairment charge of around €20.1 million in relation to these assets has been recognised in the consolidated income statement for the 6 months to June 2005.

5 Related party transactions

At 30 June 2005, the Euronext group held 24.9% of the ordinary share capital and 100% of the €198.8m in RCPS of LCH.Clearnet Group Limited. This remains the largest shareholding in the Group and has been held since 22 December 2003, the date of acquisition of LCH.Clearnet SA.

The consolidated balance sheet at 30 June 2005 includes a net receivable from Euronext group amounting to €5.4m.

The consolidated income statement for the six months ended 30 June 2005 includes:

- €1.6m in respect of management fees, accommodation costs and other management services;
- €3.4m in respect of interest on the RCPS; and
- €3.5m in respect of IT costs, less software costs billed of €0.5m.

Also included in the income statement are net retrocession fees payable amounting to €15.2m, comprising of gross retrocession fees of €21.1m collected on behalf of Euronext by LCH.Clearnet SA, less revenue and fee guarantees of €5.9m.

6 First time adoption of IFRS

The following disclosures are made in order to comply with IFRS 1 - "First-time Adoption of International Financial Reporting Standards":

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

		IFRS adjustments					
	31 December 2004 UK GAAP €'000	Reclassification of fixed assets €'000	Deferred taxation €'000	Member balances €'000	RCPS reclassification €'000	Other €'000	31 December 2004 IFRS as restated €'000
Non-current assets							
Intangible assets	503,842	85,877	-	-	-	-	589,719
Tangible assets	94,670	(85,877)	-	-	-	-	8,793
Default fund	-	-	-	-	-	-	-
Deferred tax	-	-	6,627	-	-	-	6,627
	598,512	-	6,627	-	-	-	605,139
Current assets							
Cash and cash equivalents	10,143,407	-	-	-	-	-	10,143,407
Debtors and other receivables	78,126	-	-	-	-	-	78,126
Prepayments and accrued income	23,353	-	-	-	-	-	23,353
Balances with clearing members	78,941,173	-	-	119,401,393	-	-	198,342,566
	89,186,059	-	-	119,401,393	-	-	208,587,452
TOTAL ASSETS	89,784,571	-	6,627	119,401,393	-	-	209,192,591
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							
Other borrowed funds	-	-	-	-	198,840	-	198,840
Subordinated loan	27,000	-	-	-	-	-	27,000
Default funds	1,302,364	-	-	-	-	-	1,302,364
Pension benefit obligation	18,987	-	8,194	-	-	-	27,181
Deferred tax	1,567	-	(1,567)	-	-	-	-
	1,349,918	-	6,627	-	198,840	-	1,555,385
Current liabilities							
Bank overdrafts and loans	10,606	-	-	-	-	-	10,606
Taxation liabilities	11,769	-	-	-	-	-	11,769
Creditors and other payables	108,194	-	-	-	-	(499)	107,695
Balances with members	87,556,814	-	-	119,401,393	-	-	206,958,207
	87,687,383	-	-	119,401,393	-	(499)	207,088,277
TOTAL EQUITY AND LIABILITIES	89,784,571	-	6,627	119,401,393	-	-	209,192,591

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

b Impact on the income statement of the transition from UK GAAP to IFRS for the six months to 30 June 2004

	30 June 2004 UK GAAP €'000	IFRS adjustments RCPS interest €'000	IFRS adjustments IAS 19 pension €'000	30 June 2004 IFRS as restated €'000
Operating income				
Interest income	154,101	-	-	154,101
Interest expense and similar charges	(140,556)	-	-	(140,556)
Net interest income	13,545	-	-	13,545
Clearing fees	135,359	-	-	135,359
Other fee income	11,442	-	-	11,442
Total operating income	160,346	-	-	160,346
Costs and expenses				
Staff costs	(31,376)	-	(2,020)	(33,396)
Depreciation and amortisation expenses	(6,718)	-	-	(6,718)
Impairment of capitalised development costs	-	-	-	-
Other operating expenses	(73,213)	-	-	(73,213)
Restructuring costs	(4,290)	-	-	(4,290)
Total costs and expenses	(115,597)	-	(2,020)	(117,617)
EBIT	44,749	-	(2,020)	42,729
Net finance interest	1,355	(3,390)	-	(2,035)
Profit before tax	46,104	(3,390)	(2,020)	40,694
Tax expense	(16,415)	-	606	(15,809)
Profit after tax	29,689	(3,390)	(1,414)	24,885
Dividends	(3,390)	3,390	-	-
Retained profit for the period	26,299	-	(1,414)	24,885

- **RCPS interest** - in accordance with IAS 32, RCPS dividends have been reclassified under net finance interest.
- **IAS 19 pension** - the additional pension benefit expense recognised under IAS 19 has been reflected in the income statement.

c Impact on 31 December 2004 income statement of transition from UK GAAP to IFRS

	31 December 2004 UK GAAP €'000	IFRS adjustments RCPS interest €'000	IFRS adjustments Other €'000	31 December 2004 IFRS as restated €'000
Operating income				
Interest income	321,393	-	-	321,393
Interest expense and similar charges	(294,539)	-	-	(294,539)
Net interest income	26,854	-	-	26,854
Clearing fees	265,312	-	-	265,312
Other fee income	25,654	-	-	25,654
Total operating income	317,820	-	-	317,820
Costs and expenses				
Staff costs	(65,508)	-	713	(64,795)
Depreciation and amortisation expenses	(11,037)	-	-	(11,037)
Other operating expenses	(154,261)	-	-	(154,261)
Restructuring costs	(7,427)	-	-	(7,427)
Total costs and expenses	(238,233)	-	713	(237,520)
EBIT	79,587	-	713	80,300
Net finance interest	2,424	(6,840)	-	(4,416)
Profit before tax	82,011	(6,840)	713	75,884
Tax expense	(27,183)	-	(214)	(27,397)
Profit after tax	54,828	(6,840)	499	48,487
Non-equity dividends	(6,840)	6,840	-	-
Retained profit for the period	47,988	-	499	48,487

- **RCPS interest** - in accordance with IAS 32, RCPS dividends have been reclassified under net finance interest.
- **Other** - other minor adjustments including the related deferred taxation.

d Impact on cashflow statement of transition from UK GAAP to IFRS

	30 June 2004 UK GAAP €'000	IFRS adjustments RCPS interest €'000	IAS 19 pension €'000	30 June 2004 IFRS as restated €'000
Profit before tax	46,104	(3,390)	(2,020)	40,694
adjustments for:				
Net interest income	(13,545)	-	-	(13,545)
Depreciation	6,718	-	-	6,718
	39,277	(3,390)	(2,020)	33,897
Changes in working capital:				
Decrease/(increase) in debtors	(45,999)	-	-	(45,999)
(Decrease)/increase in creditors	70,507	(168)	2,020	72,359
Taxation	(10,867)	-	-	(10,867)
Net cash in/(out)flows from operating activities	52,918	(3,558)	-	49,360
Investment in intangible assets	(24,892)	-	-	(24,892)
Margin monies cashflow	28,189	-	-	28,189
Increase in default fund	66,126	-	-	66,126
Investment in financial assets maturing in more than six months	(30,000)	-	-	(30,000)
Net cash in/(out)flows from investing activities	39,423	-	-	39,423
Repayment of subordinated debt	(33,000)	-	-	(33,000)
Net interest income	13,545	-	-	13,545
Non-equity dividend	(3,558)	3,558	-	-
Net cash generated from/used in financing activities	(23,013)	3,558	-	(19,455)
Effect of foreign exchange movements	322,134	-	-	322,134
Total cashflows over the period	391,462	-	-	391,462
Cash and cash equivalents at 1 January 2005	10,128,511	-	-	10,128,511
Cash and cash equivalents at 30 June 2005	10,519,973	-	-	10,519,973
Movement in cash and cash equivalents	391,462	-	-	391,462

- **RCPS interest** - in accordance with IAS 32, RCPS dividends have been reclassified under net finance interest.
- **IAS 19 pension** - the additional actuarial pension costs recognised under IAS 19 have been reflected in the income statement.

e Impact on equity of transition from UK GAAP to IFRS

	UK GAAP	IFRS adjustments				IFRS
		RCPS reclassification	IAS 19 pension (prior year)	IAS 19 pension (current year)	Other	
	€'000	€'000	€'000	€'000	€'000	€'000
Shareholders' equity						
1 January 2004	716,732	(198,840)	(17,625)	-	-	500,267
Retained profit for the period	26,299	-	-	(1,414)	-	24,885
Movement on translation reserve	4,717	-	-	-	-	4,717
30 June 2004	747,748	(198,840)	(17,625)	(1,414)	-	529,869
Retained profit for the period	21,689	-	-	1,414	499	23,602
Movement on translation reserve	(4,542)	-	-	-	-	(4,542)
FRS17 Adjustment (prior year)	(16,720)	-	16,720	-	-	-
FRS17 Adjustment (2004)	(905)	-	905	-	-	-
31 December 2004	747,270	(198,840)	-	-	499	548,929
Retained profit for the period						12,144
Movement on translation reserve						4,783
30 June 2005						565,856

- **RCPS reclassification** - in accordance with IAS 32, non-equity share capital has been reclassified from equity to non-current debt.
- **IAS 19 pension** - the actuarial deficiency on the pension funds has been reflected on the shareholders' funds at 1 January 2004 and 30 June 2004. UK GAAP disclosures at 31 December 2004 included an adjustment for FRS 17, therefore no further adjustment is required.

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