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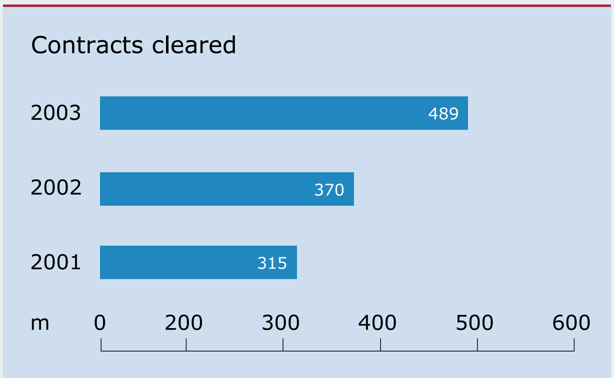
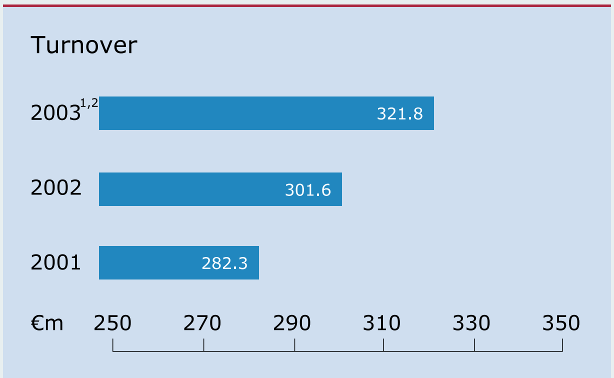
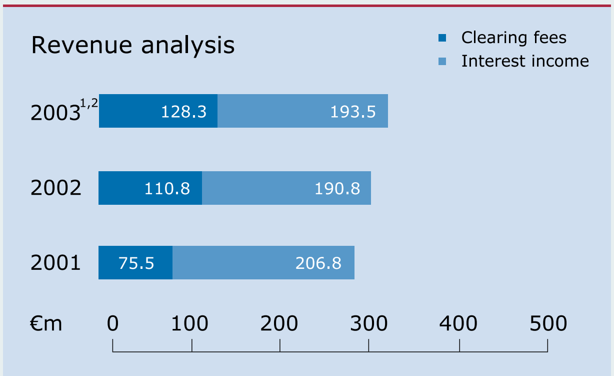
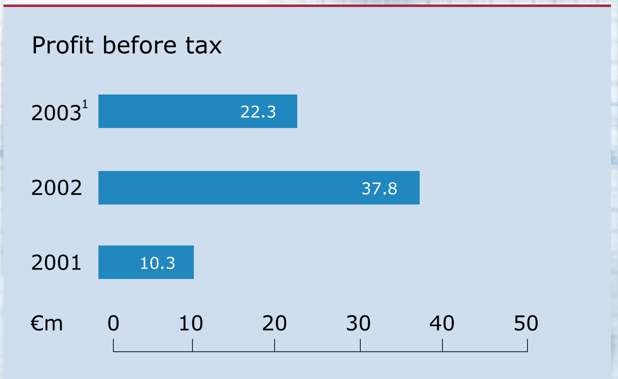
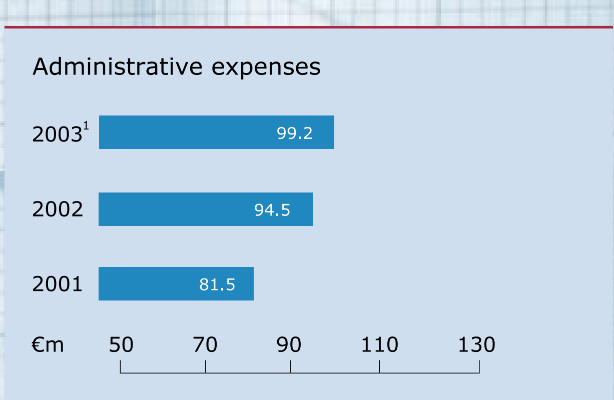
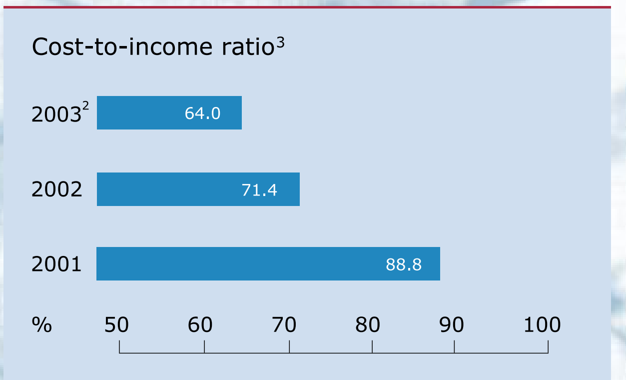


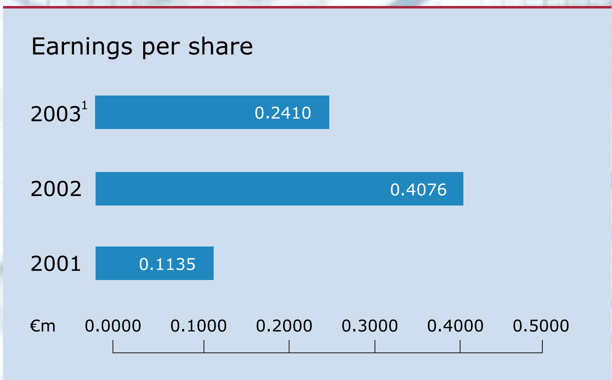


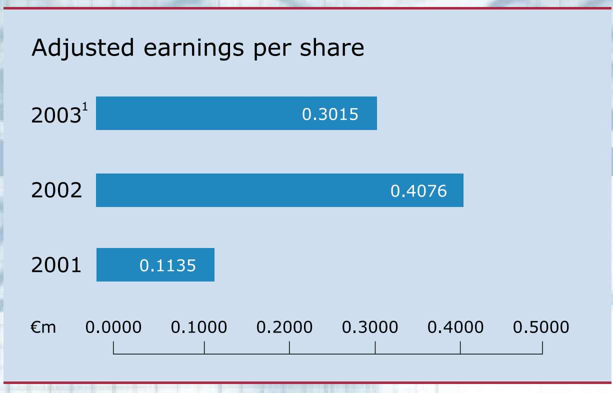












[1] annualised on a pro-rata basis

[2] excluding clearing fee rebate

[3] cost-to-income ratio is the ratio of administrative expenditure, excluding exceptional items, to gross profit

Chairman's statement

It gives me great pleasure to deliver this statement, the first by a Chairman of LCH.Clearnet Group (LCH.Clearnet or the Group), and the first to the share-holders of this exciting new venture. Although the Report and Financial Statements are necessarily a review of a period of historical activity, I would like, in this statement, to try to look forward from this landmark year at what we believe the future will hold.

This has been a 14-month period of trading activity for LCH.Clearnet Limited (formerly The London Clearing House Limited or LCH) at the end of which the Group acquisition of Banque Centrale de Compensation SA (then trading as Clearnet) was in place for a mere nine calendar days. The Board, in the light of this very short combined trading period and the ongoing capital needs of the Group, does not recommend the payment of a dividend.

For LCH.Clearnet, the event of the year was of course the successful completion, on 19 December, of the Scheme of Arrangement establishing LCH.Clearnet Group Limited (the Company) as the parent company, and on 22 December the acquisition of Clearnet (now trading as LCH.Clearnet SA). No merger is easy to achieve, and bringing LCH and Clearnet together was no exception. But the process passed each major milestone on the way with clear success, was overwhelmingly endorsed by shareholders, and gave the opportunity for appropriate restructuring of relationships between the Company and the customers it serves.

Both LCH and Clearnet bring strong traditions to the merger, both have a history of delivering valued solutions to stakeholders throughout their marketplaces, in which they rightly can take pride. In establishing a common new identity, LCH.Clearnet draws upon that heritage, and will carry it forward in its provision of highly efficient and cost effective services across the broad spread of markets served. LCH.Clearnet must not only demonstrate that the market efficiencies and synergies envisaged in the merger process are being translated into fact, but also that the type of innovative response to market opportunity that has been a hallmark of the past is a clear feature of the future as well. I am confident that this is and will remain the case.

In supporting the establishment of LCH.Clearnet, the market is looking for real and tangible benefits. The model that has been developed is intended to deliver these - not just growth in the markets served, but long term cost reduction for clearing members both in the fees and other costs that have to be met, and also in operating costs and risk reduction within their own businesses. It is an unique model: independent, but owned and governed by market participants; run commercially as a for-profit enterprise, but with a mechanism to share profits in excess of €150m; enjoying huge trade flows but contractually contestable. In short, a commercial enterprise delivering both shareholder value and value for money services.

Looking forward, LCH.Clearnet is not only the leading independent central counterparty (CCP) in Europe, but aims to act as a catalyst, helping deliver another long-held ambition of the market - the further de-fragmentation of the European capital markets trading infrastructure. The emergence, at the end of the integration process in 2007, of freedom of choice for clearing members to elect where to hold their positions will be an essential step in that process. The benefits will naturally increase as the Group expands, but, given the complicated ownership nature of the infrastructure, especially in Europe, the market will need both to make its wishes known and to exert such influence as may be necessary to make further consolidation a reality.

Your Board is carefully balanced to reflect the independence of the Company achieved through its ownership and voting structure. The members of the Board are all leaders in their own fields, and I am indeed fortunate to be able to draw on such a broad and diverse range of talents.

During 2003, LCH and Clearnet were governed by their own separate Boards, the majority of whose members stood down as part of the reconstruction. I offer grateful thanks to all who served on those Boards, particularly during the complex merger process and congratulate them on the outcome.

LCH.Clearnet delivers successful service based on sound risk management practice and on effective systems. Under the determined leadership of David Hardy as Group Chief Executive, the Group maintains careful sight of this core objective, and has a highly skilled management and workforce delivering an equally high grade service in all the countries in which it operates. I express my great appreciation to all staff for their dedication and effort.

Gérard de La Martinière
Chairman

Chief Executive's review

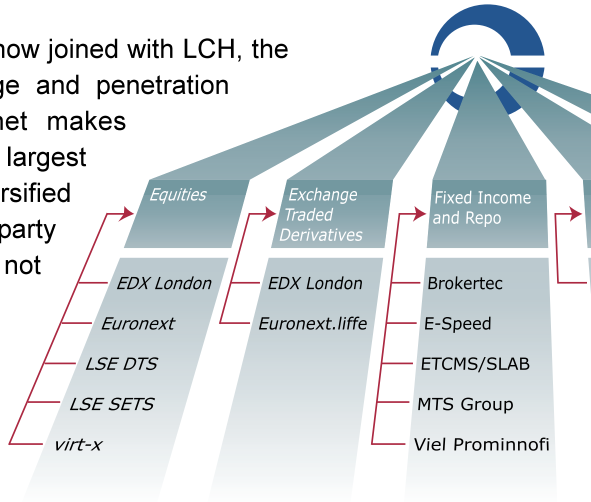
Introduction

In his statement, the Chairman described 2003 as a landmark year. It was the year in which de-fragmentation of the capital markets infrastructure, long demanded by the marketplace, began at the central counterparty level, with LCH completing its negotiations with Euronext to secure the merger of the company with Clearnet within the new LCH.Clearnet Group. Given the very short period of combined trading, the Group results reflect almost exclusively the activities of the former LCH for the 14 months ending 31 December 2003.

2003 was also a year in which LCH saw significant volume growth in all its business areas, with clearing members registering 489m contracts, a new record and a 32% increase over 2002. Futures and options saw ever greater volumes with new contracts added to the clearing portfolio; LCH also saw not only a broadening of the range of contracts cleared on the International Petroleum Exchange and IntercontinentalExchange, but also launched a new service for Endex, the Amsterdam-based energy exchange, which is now beginning to gain ground. The significance of our service in the European fixed income markets increased markedly; the daily value of bonds received into the service now regularly exceeds €200 billion, and in October last year, the service handled almost €4 trillion. Equity clearing services continued to grow in importance, handling ever more SETS volume from the London Stock Exchange, and commencing a service for virt-x, the Swiss-owned pan-European Stock Exchange. Swap clearing extended its franchise into a broader range of supported currencies and tenors, now holding an overall portfolio of over US$25 trillion (€20 trillion).

For Clearnet, 2003 saw an extension of its pan-European clearing house model to the Dutch derivative and Portuguese cash markets. Overall, members registered 353m contracts during 2003. LCH.Clearnet SA now offers its members integrated clearing on all the markets that it serves. In May 2003, following an enhancement of the collateral management service offered by Clearnet together with National Bank of Belgium, Clearnet members in all the jurisdictions served were able to centralise their fund management into the location of their choice. Initiatives were undertaken to upgrade its IT infrastructure and to restructure the internal organisation with a view to insourcing the majority of support services previously provided by the Euronext group.

With Clearnet now joined with LCH, the combined range and penetration of LCH.Clearnet makes the Group the largest and most diversified central counterparty in Europe, if not globally.



Structure

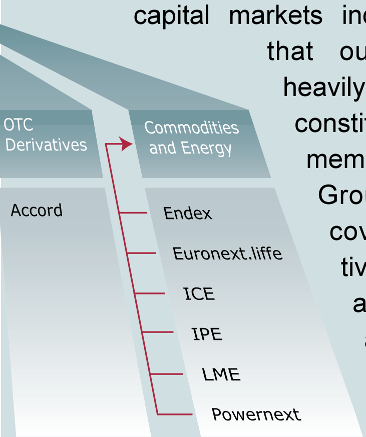
With the establishment of the merged Group, a new governance structure has come into effect. The Group is owned 45.1% by exchanges (including 16.6% Redeemable Convertible Preference Shares), 45.1% by users, with the balancing 9.8% held by Euroclear.

This balanced and independent ownership is reflected in the constitution of the Board, to which the Chairman referred in his statement. Comprising 19 directors, the Board has six exchange directors, six user directors, two directors appointed by Euroclear, three independent non-executive directors (of which the Chairman is one), and two executive directors - myself as Chief Executive and Patrice Renault as Deputy Chief Executive.

To further reinforce its independent operating commitment, the Group has established, as part of its constitutional documents, a corporate purpose to "take into account the interests of both its customers and its shareholders as a whole, and to do everything necessary or desirable to satisfy the interests of both". Such corporate purposes are unusual, and this reflects the Group's intention to act neutrally in relation to its customers and in the best interests of its stakeholders. This commitment is reinforced by clear conflict of interest management processes.

The Group draws heavily on the counsel of Board committees - Risk, Audit, Nominations, Remuneration and a committee formed by the Independent Non-Executive Directors.

Our shareholders are drawn entirely from within the capital markets industry, and so it is appropriate that our customers should also be heavily involved in our governance. Users constitute the majority of the external membership of our Product Advisory Groups of which there are five, covering exchange-traded derivatives, equities, fixed income, energy, and swaps. LCH.Clearnet Limited and LCH.Clearnet SA also have their own dedicated User Consultative Committees, not only to help draw together advice given by the various Product Advisory Groups, but also to consult on broader aspects of clearing services and the process of integration of activities.



In order to comply with prevailing regulatory requirements, the two operating subsidiaries, LCH.Clearnet Limited and LCH.Clearnet SA, will operate as separate central counterparties with their own legal, regulatory and contractual responsibilities. Executive Committees, reporting to the local Chief Executive, continue to be responsible for the day-to-day operational management under the delegated authority of their Boards. A Group Management Committee, consisting of the Group Heads of the various corporate disciplines, and drawing delegated authority from the Group Board, is responsible for the on-going development of the Group. It is the Group's aim that the two subsidiaries should operate on an integrated basis from the earliest opportunity, seeking to simplify and reduce the costs of clearing for its customers. Internal committees have been established to stimulate and oversee the integration process, and to manage the wide range of corporate risks faced by the Group.

LCH.Clearnet is not a large organisation but its influence in a wide range of markets and its role in managing systemic risk demand that it manages its affairs in line with best practice for public companies. The Board believes that the governance, management and advisory structure being established will allow it to meet these demands.

Integration

It is of course of key importance for all stakeholders that integration be commenced as quickly as possible, in order that merger benefits begin to flow to customers and users alike. By the same token, however, it is equally important that the integration process is executed with care and precision to ensure its effective completion. Throughout the process, we will maintain active consultation with our customers and users to ensure that our mutual interests remain aligned.

We aim to integrate in three separate phases. The first phase is the identification of best practice and harmonisation of operating procedures which we expect to complete by the end of 2005 and which aims to release immediate user benefits that do not depend on major system changes; the second phase is the rationalisation of operating systems, starting in tandem with the harmonisation process but completing in 2006, during which the major IT work of migrating to a common technical platform will take place; and finally to the third phase that we have entitled "Freedom of Choice" which we aim to achieve by 2007. Users will be able to decide where to hold their positions - either in LCH.Clearnet Limited or in LCH.Clearnet SA - according to what is most advantageous to them, thus enormously increasing the efficiency of their cross-border activities.

Chief Executive's review continued...

The process of user consultation over our integration planning is already under way, and we expect to discuss our plans with the wider marketplace in the second quarter of this year.

Development of the business

LCH.Clearnet has already made a commitment that, in the absence of unforeseen circumstances, there will be no increase in the level of fees, and fees should, over time, decrease. Indeed, I am glad to be able to report that in some areas, fee reductions have already been achieved. We aim to maintain and improve service levels, and to take advantage of opportunities to accelerate the process of product development.

We are committed to delivering to all our stakeholders a harmonised and integrated central counterparty group with a standardised operating model across booking centres. We expect ultimately to deliver good returns to our shareholders, and also to enable overall increases in efficiency and consequently enhanced operational returns to our users.

We aim to deliver to users and customers the very best in risk management practice, in financial integrity, and in operational resilience and security. By implementing highly efficient operating tools and processes, we expect to be able to deliver cost effective services.

We aim to deliver growth - through product and market diversification, organically through development of new business opportunities, by expanding the horizontal infrastructure model that we espouse whilst delivering vertical market efficiencies, and by driving forward the process of CCP consolidation, enhancing competition at the trading level.

Information technology

CCPs rely heavily on the efficiency of their systems; I reported last year that LCH intended to rationalise its services with a new technical architecture deliverable across a wide range of products. That process has commenced, and our fixed income clearing service will be an early beneficiary, with a new clearing system scheduled to come into operation before the end of this year.

LCH.Clearnet will progressively migrate to a common systems architecture by 2007. The main features of the new architecture will be the operation of two core clearing platforms - Clearing 21®, as enhanced by LCH.Clearnet SA, and a Generic Clearing System (GCS) developed by LCH.Clearnet Limited, accessed through a common business portal, based on LCH.Clearnet SA's "Hub" interface as the front end.

The Hub will form the backbone of the presentation of LCH.Clearnet services to users. Although LCH.Clearnet may use a variety of internal systems customised for specific product ranges the data and user interfaces will be harmonised via the Hub thus reducing the need for investment by users in order to connect to those services.

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

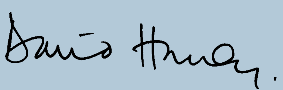
The Group recognises its responsibility to deliver and maintain a high degree of resilience and security in its clearing operations and services.

Accordingly, and as market standards continually evolve, LCH.Clearnet intends progressively to enhance its business continuity and systems resilience by building far more exacting standards into the applications operating within this architecture and by operating it in a "state of the art" technology environment with appropriate levels of spare capacity.

Conclusion

2003 was an exciting year for the Group, ultimately delivering a new merged entity in accordance with the wishes of the market. I believe the outlook for 2004 is positive. The opportunities for the Group are attractive and the benefits of combining LCH and Clearnet within the overall activities and strategy of the Group will start to be realised. It will be a challenging year, with all of us not only working to achieve the integration milestones ahead, but striving to deliver improved and enhanced services across a constantly evolving and expanding marketplace. It is, however, a challenge that we face with enthusiasm.

None of this will be possible without the determination and commitment of the people who make it work today - management and staff colleagues in Amsterdam, Brussels, Lisbon, London and Paris, of those involved in our governance, our members and customers - indeed all of the stakeholders in our exciting new Group. To them all, I give my deep thanks and appreciation.



David Hardy
Group Chief Executive

Operating and financial review

Operating review

This review focuses on the operations of the LCH.Clearnet Limited business during the period, as the inclusion of nine days of trading for LCH.Clearnet SA is not considered material to the period.

Futures & Options

2003 was another record-breaking period for the Futures & Options business stream, peaking in March 2003 with average daily volumes in excess of 2.1m lots per day.

Euronext.liffe continues to be a key contributor with average daily volumes throughout the period of 1.3m lots, substantially higher than in 2002. Three new products were introduced: FTSE 350 Universal Stock Futures; FTSE Eurofirst 80 Universal Stock Futures; and FTSE Eurofirst 100 Universal Stock Futures. Thirty individual customised equity contracts were also introduced.

EnClear had its first full year of operation with the clearing of Dutch Baseload and Peak Electricity contracts for Endex, an Amsterdam based power exchange, successfully launched in December 2002. As a new market-place, Endex volumes have been growing each month and are currently running at over 2m Megawatt hours equivalent, approximately 20% of the total Dutch consumption of electricity.

Both IPE and LME saw further increases in volumes of existing cleared products in the period.

Additional clearing services for IntercontinentalExchange (ICE) commenced in the first half of the period with the new contracts for natural gas and electricity significantly increasing the volumes cleared on ICE. The dominant product continues to be Henry Hub, which accounts for approximately 80% of the daily open interest.

EquityClear

The EquityClear business stream has seen record levels of clearing volumes on the London Stock Exchange (LSE) *SETS* electronic order book which continues to grow rapidly with average trading volumes up by some 40% on the prior period. The clearing service is now well established and volumes have averaged 130,000 trades per day in the period. Recent focus has been on the planned introduction to clearing at LCH.Clearnet SA of Dutch equities traded on *SETS.* This service is due to go live in the second quarter of 2004.

The netting service has been extended and now covers over 70% of *SETS* total volume. It continues to be highly effective in reducing the value and volume of settlement activity.

A new clearing service to virt-x, the pan-European equity business, was introduced in May 2003 and has comfortably exceeded initial volume expectations, with average trades of 26,000 per day since inception. A direct settlement link into CREST is being considered.

The provision of clearing services to EDX London, the new equity derivatives trading platform launched by the London Stock Exchange, went live in February 2004.

RepoClear

The fixed income clearing service has seen exceptional growth during the period in terms of volumes, even though the number of participants is broadly in line with last year. Volumes peaked in October 2003 with over 110,000 trades cleared, representing a nominal value of over €3.8 trillion. In January 2004, €215 billion of bonds, a record value, were received in a single day.

During the period, RepoClear announced that EuroMTS and LCH.Clearnet would be enhancing their existing links to allow market participants on the EuroMTS platform to clear quasi-Government bonds. It also commenced providing a service in both US dollar denominated Eurobonds and German cash bonds.

Netting efficiency in the cleared fixed income sector has now increased to 69.5% from 65% in 2002.

SwapClear

LCH.Clearnet continues to provide a unique central counterparty service to the wholesale interest rate swaps market and is an established service provider to that international market. Seven new currencies were added to the service during the period so that LCH.Clearnet now clears the entire G12 region.

The members of SwapClear continue to be the major market makers in the sector. There were no new members during the period. However, volumes far exceeded the previous year. Recent currency fluctuations have had a considerable impact on the value of transactions which, together with the combined backloading of clearing members' existing portfolios, has resulted in the notional value of registered trades growing to $26.5 trillion.

Operating and financial review continued...

Financial review

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

Due to the change of reporting date from 31 October to 31 December, the financial results are for a 14-month period. Percentage changes are reflected on an annualised basis to facilitate comparison of the results. Unless otherwise stated, percentage changes exclude the impact of exchange rate movements and are all in Euros.

1. Continuing operations

The results in this section are those for continuing operations throughout the period, i.e. the LCH.Clearnet business based in the UK.

1.1 Summarised profit and loss for the period

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

	14 months to 31 December 2003 €'m	12 months to 31 October 2002 €'m
Turnover	365.3	297.5
Clearing fee rebate	(34.5)	-
Interest paid to clearing members	(193.0)	(169.2)
Administrative expenditure	(112.2)	(94.5)
EBIT	25.6	33.8
Exceptional items	(4.4)	-
Interest on shareholders' funds	4.5	4.0
Profit before tax	25.7	37.8
Tax	(8.9)	(12.8)
Profit after tax	16.8	25.0

Financial highlights include:

- Turnover increased by 15%
- Charge of €34.5m in respect of a clearing fee rebate to Futures & Options clearing members
- Administrative expenses increased by 12%

1.2 Turnover

Turnover analysis for LCH.Clearnet Group continuing operations

	14 months to 31 December 2003 €'m	Increase/ (decrease)[1] %
Gross clearing fees	139.0	29
Treasury earnings	193.1	10
Default fund	25.5	11
Other income	7.7	(25)
Turnover	365.3	15

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

Turnover from continuing operations increased by 15% to €365.3m.

1.2.1 Treasury income

Income from cash and collateral margin and default fund balances increased by 10% to €218.6m principally due to higher cash margin balances, larger default fund balances and higher margin rates achieved.

Operating and financial review continued...

1.2.2 Clearing fees

Clearing fee analysis for LCH.Clearnet Group continuing operations

	14 months to 31 December 2003 €'m	Increase/ (decrease)[1] %
Futures & Options	74.4	23
EquityClear	23.4	63
SwapClear	24.3	8
RepoClear	16.9	65
Gross clearing fees	139.0	29

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

Gross clearing fee income increased by 29% to €139.0m. Clearing fees from RepoClear and EquityClear generated the largest percentage increases of 65% and 63% respectively. The Futures & Options business stream continued to generate the largest proportion of fees by value, with fees rising strongly in the period by 23%.

During the period a rebate of €34.5m on 2003 gross clearing fees was given to clearing members in the LCH.Clearnet Limited Futures & Options business stream (2002: €nil). The rebate was based on the level of clearing fees paid by each clearing member.

1.2.3 Other income

Other income of €7.7m fell by 25%. This was primarily due to the decision to defer certain SwapClear project-related work on which fees accrue.

1.3 Interest payments to clearing members

Interest payments to clearing members increased by 7% to €193.0m for the period. Interest on cash and collateral margins increased by 6% to €159.4m for the period and interest payments on the default fund balances increased by 15% to €33.6m, reflecting the significant increases in the default fund during the period.

1.4 Administrative expenditure

Overall administrative expenditure increased by 12% on prior year. Staff costs increased by 11%, largely due to an increase in average headcount of 8%, with the balance primarily due to higher staff costs per head. Other administrative costs increased by 12%. This was caused by an increase in property lease rentals and professional fees, together with losses on write off of fixed assets (€2.7m, representing a third of the overall increase).

1.5 Earnings before interest and tax (EBIT)

1.5.1 Basis of calculation

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

1.5.2 EBIT performance

EBIT fell by 29% to €25.6m. Although clearing fees and treasury earnings increased by 29% and 10% respectively, the payment of the clearing fee rebates coupled with higher administrative expenses of 12% contributed to an overall fall in reported performance.

2. Acquisitions

Summarised profit and loss account for LCH.Clearnet SA

	9 days to 31 December 2003 €'m
Turnover	5.5
Interest paid to clearing members	(2.4)
Administrative expenditure	(3.0)
EBIT	0.1
Interest on shareholders' funds	0.1
Tax	(0.1)
Profit after tax	0.1

Clearnet (now LCH.Clearnet SA) was acquired from the Euronext group on 22 December 2003 and therefore only nine days of trading are included within the Group consolidated financial statements. Turnover for the nine day period totalled €5.5m, with interest paid of €2.4m and administrative expenditure €3.0m, resulting in an EBIT of €0.1m.

The above results are not indicative of expected earnings going forward due to the reduced level of turnover typically experienced at the end of a calendar year and the occurrence of certain one-off costs.

Operating and financial review continued...

3. Group taxation

The tax charge on the profit for the period was at an effective rate of 35%, being higher than the UK corporate tax rate of 30%. The higher rate results primarily from the effect of non-deductible expenses, including those arising on the capital restructuring.

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

4. Capital resources

Total capital resources, including the subordinated loan, increased in the period by €666m to €776.7m.

Equity shareholders' funds increased by €407.2m, primarily reflecting the share issue of €401.2m to acquire Clearnet and retained earnings for the period of €16.8m, offset by exchange rate movements of €11.3m.

Non-equity shareholders' funds of €198.8m, including issue premium, were established in the period following the issue of redeemable convertible preference shares as part of the Clearnet acquisition.

A subordinated loan of €60m from Euronext Paris SA to LCH.Clearnet SA forms part of the Group's capital resources. The intention is to repay the loan during 2004, replacing it, in part, with new third party debt. Regulatory approval has been obtained for this change to take place.

5. Group cashflow and movement in net funds

	14 months to 31 December 2003 €'m	12 months to 31 October 2002 €'m
(Decrease)/ increase in net cash	(334.9)	24.1
Increase/ (decrease) in liquid resources	2,381.4	(405.8)
Funds acquired with subsidiary	2,763.1	-
Exchange rate movements	(651.6)	(70.3)
Movement in net funds	4,158.0	(452.0)
Opening net funds	5,910.5	6,362.5
Closing net funds	10,068.5	5,910.5

The net cash outflow of €334.9m (2002: net cash inflow of €24.1m) has arisen from a net increase in the management of liquid resources of €2,381.4m (2002: net decrease of €405.8m). This reflects a larger proportion of funds being held as short-term deposits or secured loans rather than in the overnight markets.

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

Net funds, comprising cash, liquid resources and all other borrowings, increased by €4,158m.

6. Exceptional items

The total exceptional charge for the period of €4.4m relates to a combination of capital restructuring costs and costs associated with integrating the LCH.Clearnet SA business into the Group.

Capital restructuring costs of €3.8m, primarily relating to professional fees, arose from the establishment of the new Group holding company as a precursor to the acquisition of LCH.Clearnet SA. A further €13.5m of costs were capitalised as part of the acquisition.

Integration costs of €0.6m were incurred prior to the end of the financial period. These costs relate primarily to the detailed planning that has been undertaken with respect to integrating the LCH and Clearnet businesses. It is planned that the integration process will extend over the next three years, with the majority of costs expected to arise in 2004.

7. Dividends

7.1 Ordinary

The directors have decided against declaring a dividend on ordinary shares.

7.2 Redeemable convertible preference shares (RCPSs)

€198.8m of RCPSs were issued on 22 December 2003. The fixed dividend on the shares accrues at Euro LIBOR plus 125 basis points, giving rise to an accrued dividend of €0.2m in the period to 31 December 2003.

8. Goodwill

Goodwill of €503.8m was recognised on the acquisition of LCH.Clearnet SA. The directors consider that it is appropriate to assign an indefinite useful life to this asset, reflecting the strength and positioning of the business as a provider of clearing services. Going forward, the goodwill will be tested for impairment on an annual basis, with any resulting write-down charged to the profit and loss account immediately.

9. Balances with clearing members

Balances with clearing members form the largest element of the Group balance sheet. Balances owed to clearing members fell in the period from €61,771m to €59,622m, with an increase of €13,164m arising from the acquisition

Operating and financial review continued...

of LCH.Clearnet SA more than offset by the impact of exchange rate movements and the change in reporting date from 31 October to 31 December. The latter reflects reduced positions held by market participants at the end of the calendar year.

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

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

10. Pro forma full year combined in 2003

The combined Group has substantially larger operations than shown by the Group profit and loss account in the consolidated financial statements, due to the operations of LCH.Clearnet SA only being included from the date of acquisition (i.e. nine days). Therefore to include the full year result of LCH.Clearnet SA within a pro forma profit and loss account of the Group for the 2003 calendar year provides a more representative picture of the Group and the evolution of its underlying business performance during 2003. Future reporting periods will be calendar years.

10.1 Pro forma profit and loss account

Summarised pro forma profit and loss account for LCH.Clearnet Group

	2003 €'m	2002[1] €'m	2002 €'m
Turnover	555.9	512.2	538.3
Clearing fee rebate	(29.6)	-	-
Interest paid to clearing members	(261.6)	(250.6)	(265.4)
Administrative expenditure	(196.0)	(184.1)	(192.4)
EBIT	68.7	77.5	80.5
Exceptional items	(4.4)	-	-
Interest on shareholders' funds	8.4	12.4	12.7
Profit before tax	72.7	89.9	93.2
Tax	(25.9)	(31.4)	(32.5)
Profit after tax	46.8	58.5	60.7

[1] Using 2003 exchange rates

Note: LCH.Clearnet Limited numbers for 2003 have been pro-rated to produce an annual earnings equivalent. Net interest income for LCH.Clearnet SA has been grossed up using estimated information.

10.2 Pro forma turnover

Pro forma turnover analysis for LCH.Clearnet Group

	2003 €'m	2002[1] €'m	Increase / (decrease)%
Gross clearing fees	257.2	231.6	11
Treasury earnings	269.9	252.2	7
Default fund	21.9	19.6	11
Other income	6.9	8.8	(22)
Turnover	555.9	512.2	9

[1] Using 2003 exchange rates

Group turnover on the above pro forma basis increased by 9% to €555.9m. Turnover for LCH.Clearnet SA was broadly unchanged, with a fall in both equity and futures and options clearing revenues offset by a reduction in business commissions paid to Euronext.

10.3 Pro forma interest paid to clearing members

Interest paid to clearing members on a pro forma basis increased by 4% to €261.6m.

10.4 Pro forma administrative expenditure

Excluding exceptional items, administrative expenditure increased by 6% to €196.0m. Within this total, staff costs increased by 22% to €57.5m, comprising an increase in average headcount of 10% and an increase in staff cost per head of 12%. One-off provisions in respect of the transfer of staff from Euronext to Clearnet impacted the rise in staff cost per head. Other administrative expenses of €138.4m showed a small increase of 1%.

Operating and financial review continued...

Risk management

Introduction

The Group manages a variety of risks through various control mechanisms and its approach to risk management and control is to evolve best practice, informed by new developments derived from risk management research.

Overall responsibility for risk management rests with the Board. Day to day responsibility is delegated to the executive. The Risk Committees consider risk management policies and other developments affecting the risk profile of the Group, including the introduction of new markets. The Committees review the adequacy of the clearing and default funds of the operating subsidiaries and advise their Boards accordingly.

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.

The Risk Committees approve membership applications and exposure limits to banks and financial institutions to control risk concentration and minimise the risk of potential loss. Dedicated resources within the Risk Management departments control and manage these exposures. Audits of processes within the Risk Management departments are undertaken on a regular basis.

Market risk

The Group faces the general risk that its earnings on capital and other funds, and its income from clearing fees, will be adversely affected by changes in the level or volatility of markets in which the Group operates and accordingly damage its ability to meet business objectives. These risks, which cannot be eliminated, are mitigated by Treasury management practices, undertaken within a risk framework approved by the Risk Committees, and by a budgetary process overseen by the Audit Committees and Boards.

The Group's principal market risk exposures relate to its core role as a central counterparty. Although that role requires the maintenance of a balanced position in all cleared contracts, such that there is no market risk, the role also requires that the Group manages and absorbs the market risk that would arise in the event of failure and default by a clearing member. To protect itself against the latent market risk contingent on member default, the Group narrows the scope of market risk by collecting in losses on marked-to-market positions each day, establishing initial margin requirements for each clearing member and replenishing such requirements intra-day, maintaining clearing and default funds for use should the initial margin of a defaulter not fully cover close-out costs, and by having supplementary resources. The adequacy of margins and accordingly clearing and default funds are assessed by stress tests and formal policies. The size of the clearing and default funds are adjusted on the basis of the testing.

Liquidity risk management

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

The Group's liquidity policies are established by the Risk Committees. Liquidity is managed by the executive within Group guidelines to ensure that the Group can meet its financing needs at all times, both in terms of payment obligations linked to deliveries of securities and commodities and to repayment of margin and to ensuring liquidity in the event of clearing member default. Surplus liquidity is invested as short-term deposits with high-quality banks or in highly liquid short-term assets.

Operational risk

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

Operational risk is managed through systems and procedures, in which processes are documented, authorisation is independent and where transactions are monitored and reconciled. This is supported by a programme of review by Internal Audit who are independent of line management and report 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 Board.

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

Compliance and legal risk

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

The Group is subject to extensive supervisory and regulatory regimes in the UK, Europe and the USA. In these jurisdictions, specific resources and expertise are needed to assist management to comply with financial services regulations.

The purpose of the legal function is to identify and, in conjunction with management, manage the legal risks of the Group. The Group identifies and manages legal risk through the effective use of its internal and external legal advisors. The Group Head of Legal has responsibility for providing the support necessary to identify, manage and control legal risk across the Group.

Board of directors

Chairman

Gérard de La Martinière

Directors

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

Secretary

Susan Ward

The Chairman and all other directors, with the exception of David Hardy and Patrice Renault, are non-executive directors.

The Chairman, John Caouette and David Pritchard have been appointed as independent directors.

Registered Office

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London
EC3N 1EA

Telephone: +44 (0)20 7426 7000
Facsimile: +44 (0)20 7426 7001

Registered in England
Company number: 4743602
Incorporated on 14 April 2003 as Tudorbright Limited

Corporate governance

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

The Board

The Board of directors for the LCH.Clearnet Group was only established on 22 December 2003. As such, a number of key issues, such as the composition and terms of reference of Board committees still have to be formally approved.

The Board currently has 19 directors comprising six directors representing Users, four directors appointed by Euronext (including the Chief Executive of the London Stock Exchange), two directors representing other Exchanges (being one director appointed by the International Petroleum Exchange and one director appointed by the London Metal Exchange), two directors appointed by Euroclear, three independent directors (including the Chairman) and two executive directors. Their details appear on page 22. The executive directors are the Chief Executive and Deputy Chief Executive. The composition of the Board reflects (as far as possible) the ownership of the Group.

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

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

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

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

Board committees

There are five principal Board committees. Details of the planned composition, where known, and main responsibilities of these committees are as follows:

Audit Committee

David Pritchard (Chairman)
John Caouette
Dominique Hoenn
Hervé Saint-Sauveur

The Audit Committee will be responsible for providing the Board with independent and objective advice on the control environment across the Group; for reviewing internal audit information received from subsidiary companies; and for making recommendations to the Board on the appointment of the auditors and the audit fee. It will also review the performance of the auditors to ensure an objective, professional and cost effective relationship is maintained.

The Committee will also be responsible for the proper reporting of the financial performance of the Group and for reviewing financial statements before publication.

Nomination Committee

The Nomination Committee will be responsible for nominating suitable candidates to stand for election as user directors, exchange directors and independent directors.

Corporate governance continued...

Independent Directors' Committee

Gérard de la Martinière (Chairman)
John Caouette
David Pritchard

The Independent Directors' Committee will be responsible for reviewing the composition of the Board annually. It will adjust the balance of the Board in order to reflect (as far as possible) the ownership of the Group from time to time, subject to certain entrenched rights within the Articles of Association.

Risk Committee

The Risk Committee will consider risk management policies and other developments affecting the risk profile of the Group, including the introduction of new markets. The Committee will review the adequacy of the clearing and default funds within each operating subsidiary and advise the Board accordingly.

Remuneration Committee

Gérard de la Martinière (Chairman)

The Remuneration Committee will be responsible for making recommendations to the Board, within agreed terms of reference, on the contract terms, remuneration and other benefits for senior management. The Board itself determines the remuneration of the Chairman of the Board. A report on the remuneration of directors appears on pages 26 to 28.

Group Management Committee

In addition to the above Board committees, the Group Management Committee is responsible for the day-to-day management of the Group within the framework and authority outlined and delegated by the Board. The Group Management Committee comprises the senior executive management of the Group, including the Chief Executive and Deputy Chief Executive.

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 Group will hold meetings with its shareholders from time to time to discuss the Group's objectives and any relevant, major current issues.

Accountability, audit and control

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

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

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

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

- **Organisation and culture**

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

- **Financial reporting**

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

- **Identification of business risks**

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

- **Internal audit function**

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

Auditors

The performance of the auditors will be reviewed by the Audit Committee on a regular basis.

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

- **Audit related services**

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

- **Tax consulting**

  In cases where they are best suited, the external auditors are used;

- **General consulting**

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

Remuneration report

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

Members of the Remuneration Committee

The planned members and terms of reference of the Remuneration Committee are set out in the corporate governance statement on page 24.

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

Remuneration policy

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

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

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

- Base salary
- Annual bonus
- Long-term incentive plan
- Pension and other benefits

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

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

c **Long-term incentive plan**
The intention is to establish a long-term incentive plan, similar to that currently in place for UK staff, which is a discretionary cash deferred bonus scheme.

d **Pensions**
Law and practice in respect of social security contributions, including pensions, are different between the UK, France, the Netherlands, Belgium and Portugal in terms of both scope and cost. All salary

payments to employees in France, including bonus payments, are subject to social security contributions and are pensionable, as pensions in France are provided by the state. The position of staff elsewhere in the Group will continue to be clarified.

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

Service contracts

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

Details of the service contracts of the Chief Executive and Deputy Chief Executive are set out below:
David Hardy has a rolling service 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 service contract of Patrice Renault is still in the process of being agreed.

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

Non-executive directors

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

Directors' detailed emoluments

	Salary & fees €'000	Benefits in kind €'000	Annual bonus €'000	Long term incentive plan €'000	Total 14 months 2003 €'000	Total 2002 €'000
Executive						
David Hardy	511	21	365	-	897	734
Patrice Renault	10	-	-	-	10	-
Non-Executive						
David Pritchard	60	-	-	-	60	56
	581	21	365	-	967	790

Remuneration report continued...

Salary and fees include an amount of €10,000 (2002: €nil) paid to the Euronext group in respect of making available the services of Patrice Renault to the Company. Patrice Renault became an employee of the Group from 1 January 2004.

Directors' pension entitlement

Set out below are details of the pension benefits to which each of the executive directors is entitled. As this disclosure relates solely to the UK scheme, Euro values are shown using closing 2003 exchange rates to facilitate ease of understanding.

	Increase in pension entitlement during the period €'000	Accrued pension entitlement at 31 December 2003 €'000	Transfer value at 31 December 2003 €'000	Transfer value at 31 October 2002 €'000	Increase in transfer value less directors' contributions €'000
David Hardy	4	147	1,693	1,538	155

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

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

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

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

On behalf of the board

Gérard de la Martinière
Chairman of the Remuneration Committee
5 March 2004

Directors' report

The directors of LCH.Clearnet Group Limited present their first report to shareholders, together with the audited financial statements for the 14 months ended 31 December 2003.

Capital reorganisation

On 19 December 2003, LCH.Clearnet Group Limited (formerly Tudorbright Limited), a new Group holding company was interposed between LCH.Clearnet Limited (formerly The London Clearing House Limited) and its shareholders through a Scheme of Arrangement.

Acquisition of Clearnet

On 22 December 2003, the Group purchased 100% of the capital of Banque Centrale de Compensation SA (trading as Clearnet), a majority owned subsidiary of the Euronext group. On acquisition the trading name was changed to LCH.Clearnet SA.

Principal activities

The principal activity of the Company from 19 December 2003 is the holding of investments in subsidiaries.

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

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

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

Directors' report continued...

Business review and future developments

A review of the Group activities during the year and likely future developments are contained within the Chairman's statement, Chief Executive's review and operational and financial review on pages 4 to 21.

Group results and dividend

The Group results for the period are shown in the consolidated profit and loss account on page 36. Profits of €16,781,000 made by the Group have been transferred to reserves.

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

During the period, dividends of €168,000 have been accrued on non-equity shares.

Capital

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

At the period end, Group capital resources amounted to €716,732,000 (2002: €110,708,000).

Fixed assets

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

Charitable donations

The Group made donations for charitable purposes during the period of €50,000 (2002: €52,000).

Directors and directors' interests

Current directors are listed on page 22.

As part of the capital reorganisation a new company, LCH.Clearnet Group Limited, was incorporated in England on 14 April 2003 - details of the share capital are set out in note 19 of the financial statements. The original directors were David Hardy and Jean-François Théodore. The remaining current directors were all appointed on 22 December 2003, with the exception of Clara Furse who was appointed on 29 January 2004.

Additional information relating to directors' remuneration is given in the remuneration report on pages 26 to 28.

The beneficial interests of the directors and their immediate families in share options of Euronext NV (the holding company of the Euronext group) at 31 December 2003 were as follows:

	Number of options	Exercise price	Expiry date
Director			
Jean-François Théodore	100,849	5.62	2007
George Möller	28,507	24.00	2011
	16,228	21.08	2009
Patrice Renault	19,831	5.62	2007

There have been no changes in the beneficial interests of directors from the date of their appointment (22 December 2003) to 31 December 2003.

With the exception of the above, none of the directors had any beneficial interest in the Company or any of its subsidiaries.

Directors' report continued...

Transactions with directors and related parties

Details of transactions with related parties are set out in note 28 of the financial statements.

Employees

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

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

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

Auditors

Ernst & Young LLP were appointed auditors of the Company on 15 December 2003 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
5 March 2004

Directors' responsibilities

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' report

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

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the Company balance sheet, the consolidated cashflow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 28 which have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
5 March 2004

Consolidated profit and loss account

For the period ended 31 December 2003

		14 months to December 2003		12 months to October 2002	
	Note	€'000	€'000	€'000	€'000
Turnover					
Continuing operations	2	335,388		301,555	
Acquisitions	2	5,570		-	
Turnover	3		340,958		301,555
Interest paid to clearing members	2, 3		(195,402)		(169,220)
Gross profit			145,556		132,335
Net administrative expenditure	2		(115,196)		(94,506)
Continuing operations		30,119		37,829	
Acquisitions		241		-	
Operating profit	4		30,360		37,829
Exceptional items					
Restructuring costs	2, 4		(4,421)		-
Profit on ordinary activities before taxation			25,939		37,829
Tax on profit on ordinary activities	5		(8,990)		(12,822)
Profit for the financial period			16,949		25,007
Dividends - including non-equity	7		(168)		-
Retained profit for the financial period			16,781		25,007

The notes on pages 41 to 70 form an integral part of these financial statements.

Balance sheets

as at 31 December 2003

	Notes	Group December 2003 €'000	Group October 2002 €'000	Company December 2003 €'000
Fixed assets				
Intangible assets	8	504,159	-	-
Tangible assets	9	65,294	20,951	-
Investments	10	-	-	673,481
		569,453	20,951	673,481
Current assets				
Debtors due within one year	11	59,671,923	61,803,156	4,852
Secured short-term loans	12	3,756,205	355,000	-
Cash at bank and in hand	13	6,381,144	5,592,144	-
		69,809,272	67,750,300	4,852
Creditors:				
amounts falling due within one year	14	(68,511,506)	(67,115,210)	(228)
Net current assets		1,297,766	635,090	4,624
Total assets less current liabilities		1,867,219	656,041	678,105
Creditors:				
amounts falling due after more than one year	16	(1,150,487)	(545,333)	-
NET ASSETS		716,732	110,708	678,105
Capital and reserves				
Called up share capital	19	100,116	58,125	100,116
Redeemable convertible preference shares	19	19,884	-	19,884
Share premium account	20	-	18,707	-
Other reserves	20	554,616	5,656	540,000
Retained earnings	20	42,116	28,220	18,105
SHAREHOLDERS' FUNDS		716,732	110,708	678,105
Equity shareholders' funds		517,892	110,708	479,265
Non-equity shareholders' funds		198,840	-	198,840
		716,732	110,708	678,105

The notes on pages 41 to 70 form an integral part of these financial statements.

The financial statements were approved by the Board on 5 March 2004.

Gérard de la Martinière
Chairman

Consolidated statement of total recognised gains and losses

	Note	14 months to December 2003 €'000	12 months to October 2002 €'000
Profit for the financial period	20	16,949	25,007
Currency translation differences on foreign currency net investment	20	(711)	(278)
Foreign exchange adjustment on opening shareholders' funds to 19 December 2003		(11,315)	(4,445)
Total recognised gains for the period		4,923	20,284

The notes on pages 41 to 70 form an integral part of these financial statements.

Reconciliation of movements in Group shareholders' funds

	Note	14 months to December 2003 €'000	12 months to October 2002 €'000
Profit for the financial period	20	16,949	25,007
Dividends	7	(168)	-
		16,781	25,007
Repurchase of ordinary shares		-	(5,656)
Issue of ordinary shares for cash	20	1,269	-
Nominal value of shares issued for the acquisition of LCH.Clearnet SA	20	60,000	-
Premium on shares issued for the acquisition of LCH.Clearnet SA	20	540,000	-
Currency translation differences on foreign currency net investment	20	(711)	(278)
Prior year adjustment		-	3,359
Increase in shareholders' funds		617,339	22,432
Opening shareholders' funds		110,708	92,721
Foreign exchange adjustment on opening shareholders' funds to 19 December 2003		(11,315)	(4,445)
Closing shareholders' funds	20	716,732	110,708

The notes on pages 41 to 70 form an integral part of these financial statements.

Consolidated cashflow statement

	Note	14 months to December 2003 €'000	14 months to December 2003 €'000	12 months to October 2002 €'000	12 months to October 2002 €'000
Net cash inflow from operating activities before movement in margin monies held	21	50,814		28,578	
Margin monies net cash inflow/ (outflow)		1,125,549		(401,676)	
Increase in default fund		349,818		16,309	
Net cash inflow/ (outflow) from operating activities			1,526,181		(356,789)
Taxation	22		(16,466)		(8,623)
Capital expenditure and financial investment	22		(48,485)		(10,532)
Acquisitions:					
Capitalised acquisition costs	10		(13,481)		
Net cash acquired with subsidiary undertakings			597,479		-
Net cash inflow/ (outflow) before use of liquid resources and financing			2,045,228		(375,944)
Management of liquid resources			(2,381,405)		405,823
Financing:					
Issue of ordinary share capital	22	1,304		-	
Payment for redemption of share capital	22	-		(5,719)	
Net cash inflow/ (outflow) from financing			1,304		(5,719)
(Decrease)/ increase in net cash	23		(334,873)		24,160

Analysis of changes in net funds		2003 €'000	2002 €'000
(Decrease)/ increase in net cash		(334,873)	24,160
Cash outflow/ (inflow) from movement in liquid resources		2,381,405	(405,823)
Funds acquired with subsidiary		2,763,082	-
Exchange rate movements		(651,569)	(70,321)
Movement in net funds	23	4,157,955	(451,984)
Opening net funds		5,910,556	6,362,540
Closing net funds		10,068,511	5,910,556

The notes on pages 41 to 70 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

a Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards of the UK Accounting Standards Board and pronouncements of its Urgent Issues Task Force. A summary of the significant accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year, where applicable.

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

b Basis of consolidation

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

LCH.Clearnet Group Limited was incorporated on 14 April 2003 with the name of Tudorbright Limited and changed its name to LCH.Clearnet Group Limited on 22 May 2003. There are no comparatives for the 2002 Company balance sheet as the Company only came into existence during the period.

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.

On 19 December 2003, LCH.Clearnet Group Limited was introduced as the new holding company of LCH.Clearnet Limited by way of a Scheme of Arrangement under Section 425 of the Act. This has been accounted for as a capital reorganisation and merger accounting principles have been applied as if the Company had always been the holding company of LCH.Clearnet Limited. The fair value of shares issued under the Scheme of Arrangement was €600m. No adjustment was necessary to the assets or liabilities of LCH.Clearnet Limited as part of the capital reorganisation.

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

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

c Subsidiary undertakings and goodwill

LCH.Clearnet Group Limited's investments in subsidiary undertakings are stated at net asset value, including attributable goodwill.

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

Notes to the financial statements continued...

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

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

The Act requires that all goodwill carried on the balance sheet should be amortised. In the case of the goodwill arising on the acquisition of LCH.Clearnet SA, the directors consider that it is appropriate to depart from this requirement in order to comply with the over-riding requirement for the financial statements to show a true and fair view. If this good will was amortised over a period of twenty years, profit before tax for the period ended 31 December 2003, reserves and intangible assets would all be €621,000 lower.

d **Foreign currencies**

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

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

e **Tangible fixed assets and depreciation**

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

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

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

f **Intangible fixed assets**

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

Patents and trademarks - straight line basis over 5 years

g **Impairment**

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

h **Financial instruments**

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

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

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

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

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

Notes to the financial statements continued...

i

Deferred taxation

Except where otherwise required by accounting standards, 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.

j

Leases

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

k

Pensions and other post-retirement benefits

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

Variations in pension costs, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs.

The Group has adopted the transitional arrangements as set out under FRS 17 Retirement Benefits. The required transitional disclosures are included within note 25.

l

Capital instruments

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

m

Provisions

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

2 Segmental analysis

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

	UK 14 months 2003 €'000	Continental Europe 14 months 2003 €'000	Total 14 months 2003 €'000	UK 12 months 2002 €'000
Turnover	335,388	5,570	340,958	301,555
Direct operating costs	(193,030)	(2,372)	(195,402)	(169,220)
Gross profit	142,358	3,198	145,556	132,335
Net administrative expenditure	(112,239)	(2,957)	(115,196)	(94,506)
Exceptional items	(4,372)	(49)	(4,421)	-
Profit on ordinary activities before tax	25,747	192	25,939	37,829

Net assets	2003 €'000	2002 €'000
United Kingdom	103,105	99,389
Continental Europe	109,791	-
Goodwill	503,836	-
Total	716,732	99,389

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

Notes to the financial statements continued...

3 Analysis of turnover and interest paid to clearing members

	14 months 2003 €'000	12 months 2002 €'000
Turnover analysis		
Interest on shareholders' funds	4,550	4,006
Interest on default fund	25,525	21,521
Treasury earnings	195,674	165,227
	225,749	190,754
Clearing fees	107,549	101,159
Gross fees	142,029	101,159
Less: rebates	(34,480)	-
Other fee income	7,660	9,642
	115,209	110,801
Total turnover	340,958	301,555

Interest paid to clearing members		
Treasury	161,797	141,880
Default fund	33,605	27,340
Total interest paid to clearing members	195,402	169,220

4 Profit on ordinary activities before taxation

	14 months 2003 €'000	12 months 2002 €'000
Profit before taxation is stated after charging:		
Staff costs (note 24)	45,267	37,522
Depreciation of tangible fixed assets:		
- owned assets	11,387	11,355
Loss on disposal of fixed assets	2,730	136
Hire of plant and machinery under operating leases	99	135
Property lease rentals	3,585	2,949
Interest on bank overdrafts and loans repayable within 5 years	-	245
Costs incurred in the integration of acquired businesses (see Exceptional items below)	4,421	-
Auditors' remuneration	240	128

Fees paid to Ernst & Young for non-audit services throughout the Group in 2003 were €1,404,000 (2002: €587,000) of which €1,087,000 (2002: €415,000) relates to accounting and tax advisory services provided in connection with the capital reorganisation and acquisition of LCH.Clearnet SA.

Exceptional items

Exceptional items of €4,421,000 comprises €3,854,000 of restructuring costs and €567,000 relating to the cost of integrating LCH.Clearnet SA acquired at the end of the period.

Notes to the financial statements continued...

5 Tax on profit on ordinary activities

Analysis of charge for the period	14 months 2003 €'000	12 months 2002 €'000
United Kingdom		
Corporation tax at 30% (2002: 30%):		
- current year	(6,764)	(13,741)
- prior year	57	(140)
	(6,707)	(13,881)
Overseas tax		
Corporation taxes - current year	46	-
Total current tax	(6,753)	(13,881)
Deferred tax:		
Current year	(2,137)	1,059
Prior year	(100)	-
Total deferred tax	(2,237)	1,059
Tax on profit on ordinary activities	(8,990)	(12,822)

The current tax charge for the period is lower (2002: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	14 months 2003 €'000	12 months 2002 €'000
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	7,782	11,348
Effects of:		
Adjustments to tax in respect of prior period	(57)	140
Restructuring costs not deductible for tax purposes	368	-
Other expenses not deductible for tax purposes	809	1,334
Capital allowances (in excess of) / less than depreciation	(2,137)	1,059
Other differences	(12)	-
Total current tax charge	6,753	13,881
Effective current tax rate	26.03%	36.69%

6 Profits of holding company

Of the profit for the financial period, a profit of €18,105,000 (2002: €nil) 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 have not presented a profit and loss account for the Company alone.

7 Dividends

	2003 €'000	2002 €'000
Non-equity - Preference		
Accrued: 23 December 2003 - 31 December 2003	168	-

8 Intangible fixed assets

	Patents €'000	Goodwill €'000	Total €'000
Cost			
At 1 November 2002	-	-	-
Arising on acquisition of LCH.Clearnet SA	323	503,836	504,159
At 31 December 2003	323	503,836	504,159
Net book amount at 31 December 2003	323	503,836	504,159
Net book amount at 31 October 2002	-	-	-

Notes to the financial statements continued...

9 Tangible fixed assets

	Leasehold refurbishment	Computer equipment and software	Office equipment and other fixed assets	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 November 2002	3,682	45,931	2,287	51,900
Exchange rate adjustments	(381)	(4,748)	(236)	(5,365)
Additions:				
- projects in progress	-	41,203	-	41,203
- other	689	4,733	501	5,923
On acquisition of LCH.Clearnet SA	-	12,974	131	13,105
Disposals	-	(3,702)	(74)	(3,776)
At 31 December 2003	3,990	96,391	2,609	102,990
Aggregate depreciation				
At 1 November 2002	1,315	27,927	1,708	30,950
Exchange rate adjustments	(153)	(3,185)	(181)	(3,519)
Charge for the year	570	10,621	196	11,387
Disposals	-	(1,035)	(87)	(1,122)
At 31 December 2003	1,732	34,328	1,636	37,696
Net book amount at 31 December 2003	2,258	62,063	973	65,294
Net book amount at 31 October 2002	2,368	18,004	579	20,951

The balance of capitalised business development costs that had not been brought into use at the end of the period and against which depreciation had not yet been charged was €41,203,000 (2002: €2,266,000).

10 Investments

Fixed asset investments	Company 2003 €'000
Investments in subsidiary undertakings	
At beginning of period	-
Additions in period	673,481
At end of period	673,481

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

The trading subsidiaries are as follows:

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

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

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

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

Notes to the financial statements continued...

The book value and fair value of the net assets purchased are shown below:

	Fair value and book value at 22 December 2003 €'000
Tangible fixed assets	13,105
Intangible fixed assets	323
Debtors	13,187,320
Cash and short term funds	3,429,340
Creditors	(16,520,443)
Net assets acquired	109,645
Goodwill	503,836
Cost of acquisition	613,481
Consideration	600,000
Acquisition transaction costs	13,481
Cost of acquisition	613,481

A summary profit and loss account for LCH.Clearnet SA for the period is set out below:

	For the period 23 December 2003 to 31 December 2003 €'000	For the period 1 January 2003 to 22 December 2003 €'000
Turnover	5,570	135,076
Interest paid to clearing members	(2,372)	-
Gross profit	3,198	135,076
Net administrative expenditure	(2,957)	(86,439)
Exceptional item - restructuring costs	(49)	-
Profit on ordinary activities before tax	192	48,637
Tax on profit on ordinary activities	(46)	(18,153)
Profit on ordinary activities after tax	146	30,484

The profit on ordinary activities after tax for the year ended 31 December 2002 was €33,367,000.

11 Debtors

	Group 2003 €'000	Group 2002 €'000	Company 2003 €'000
Amounts falling due within one year:			
Balances with clearing members (note 15)	59,621,756	61,771,417	-
Other debtors	37,546	21,221	18
Amounts owed by Group undertakings	-	-	4,834
Prepayments and accrued income	9,675	6,112	-
Deferred tax (note 18)	2,946	4,406	-
	59,671,923	61,803,156	4,852
Of the above, the following are due after one year:			
Deferred tax	2,946	4,406	-

12 Secured short-term loans

	2003 €'000	2002 €'000
Secured short-term loans	3,756,205	355,000

13 Cash at bank and in hand

	2003 €'000	2002 €'000
Cash and balances with banks, money on deposit and at call	6,381,144	5,592,144

14 Creditors: amounts falling due within one year

	Group 2003 €'000	Group 2002 €'000	Company 2003 €'000
Bank and other borrowings	8,838	36,589	-
Subordinated loan	60,000	-	-
Balances with clearing members (note 15)	68,362,303	67,043,472	-
Trade creditors	20,603	8,627	-
Other creditors, including tax and social security	19,270	11,533	-
Accruals and deferred income	40,324	14,989	60
Dividends payable	168	-	168
	68,511,506	67,115,210	228

Interest on the subordinated loan is payable every month at the Euro Overnight Index Average rate plus 250 basis points. The loan, subject to regulatory approval, may be repaid at any time upon one month's notice.

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

Notes to the financial statements continued...

15 Balances with clearing members

	2003 €'000	2002 €'000
Assets		
Fair value of transactions with clearing members less variation margin	62,469,663	61,116,199
Initial margin and other clearing member balances	305,136	2,196,847
Permissible netting	(3,153,043)	(1,541,629)
	59,621,756	61,771,417
Liabilities		
Fair value of transactions with clearing members less variation margin	(62,469,663)	(61,116,200)
Initial margin and other clearing member balances	(9,045,683)	(7,468,901)
Permissible netting	3,153,043	1,541,629
	(68,362,303)	(67,043,472)

The net balances due from clearing members recorded in the balance sheet of €59,622m (2002: €61,771m) are fully secured by non-cash collateral or guarantees held by the Group. At 31 December 2003, the total net amount of non-cash collateral, including in respect of initial margin was €67,326m (2002: €69,594m) and the total amount of guarantees held was €3,165m (2002: €2,320m). Included within the non-cash collateral is the net amount of debt securities received as collateral for the Group's assets in respect of RepoClear transactions, which has in turn been passed on to RepoClear counterparties to secure the Group's liabilities in respect of RepoClear contracts.

16 Creditors: amounts falling due after more than one year

	2003 €'000	2002 €'000
LCH.Clearnet Limited Default Fund	828,967	545,333
LCH.Clearnet SA default funds:		
OTC Fund	86,974	-
Other funds	234,546	-
	1,150,487	545,333

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

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

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

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

Notes to the financial statements continued...

17 Financial instruments

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

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

Currency risk
A balance of €98,480,000 of the Group's net assets is denominated in Sterling, being the functional currency of LCH.Clearnet Limited.

18 Deferred tax

	Group 2003 €'000	Group 2002 €'000
The deferred tax asset comprises:		
Timing differences on capital allowances	1,651	4,406
Other timing differences	1,295	-
	2,946	4,406
Deferred tax asset at the beginning of the period	4,406	3,399
Amount charged to profit and loss (note 5)	(2,237)	1,059
On acquisition of LCH.Clearnet SA	1,171	-
Exchange rate movements	(394)	(52)
Deferred tax asset at the end of period	2,946	4,406

19 Called up share capital

Equity share capital	2003 €'000	2002 €'000
Authorised		
250 'A' redeemable ordinary shares of £200,000 each	-	79,189
1,000 'B' redeemable ordinary shares of £12,500 each	-	19,797
130,116,001 ordinary shares of €1 each	130,116	-
	130,116	98,986
Issued		
121 'A' redeemable ordinary shares of £200,000 each	-	38,328
1,000 'B' ordinary shares of £12,500 each	-	19,797
100,115,975 ordinary shares of €1 each	100,116	-
	100,116	58,125

The figures in 2003 relate to LCH.Clearnet Group Limited and in 2002 to LCH.Clearnet Limited.

Non-equity share capital	2003 €'000	2002 €'000
Authorised		
19,883,997 redeemable convertible preference shares of €1 each	19,884	-
2 non-voting shares of €1 each	-	-
Issued		
19,883,997 redeemable convertible preference shares of €1 each	19,884	-
2 non-voting shares of €1 each	-	-

The figures in 2003 relate to LCH.Clearnet Group Limited and in 2002 to LCH.Clearnet Limited.

Changes in authorised, allotted and issued ordinary share capital
On each of 30 April 2003, 12 June 2003 and 28 July 2003 LCH.Clearnet Limited issued one 'A' ordinary share of £200,000. The three ordinary shares were allotted at a value of €1,269,000. The resulting premium on the above totalled €416,000 and was credited to the share premium account.

Notes to the financial statements continued...

On 19 December 2003 under a Scheme of Arrangement between The London Clearing House Limited ('LCH') and its shareholders under Section 425 of the Companies Act 1985, and sanctioned by the High Court on 19 December 2003, all the issued shares (scheme shares) in LCH were cancelled and replaced with new €1 denominated ordinary shares which were allotted and fully paid to LCH.Clearnet Group Limited. In consideration for the allotment and issue of the LCH shares, LCH.Clearnet Group Limited allotted and issued to the holders of scheme shares (as appearing in the register of members on the record date 19 December 2003) LCH.Clearnet Group Limited shares, credited as fully paid, on the following basis:

For every 'A' share held	-	*362,903 LCH.Clearnet Group Limited ordinary shares*
For every 'B' share held	-	*15,000 LCH.Clearnet Group Limited ordinary shares*
For every 'C' share held	-	*1 LCH.Clearnet Group Limited 'C' non-voting share*

On 22 December 2003 the LCH.Clearnet Group Limited 'A' and 'B' ordinary shares were reclassified into LCH.Clearnet Group Limited ordinary shares.

On 22 December 2003 the Company issued 60m ordinary shares to acquire all the share capital of LCH.Clearnet SA. The total value of ordinary shares issued at the issue price was €600m.

On 22 December 2003 19,883,997 ordinary shares were converted into redeemable convertible preference shares of €1 each.

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

1) Dividend

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

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

2) Return of capital

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

3) Redemption

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

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

4) Voting

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

5) Conversion

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

Notes to the financial statements continued...

20 Capital and reserves

Group	Equity share capital €'000	Non-equity share capital €'000	Capital redemption reserve €'000	Share premium account €'000	Merger reserve €'000	Translation reserve €'000	Retained earnings €'000	Total 2003 €'000
Profit for the financial period	-	-	-	-	-	-	16,949	16,949
Dividends	-	-	-	-	-	-	(168)	(168)
	-	-	-	-	-	-	16,781	16,781
New share capital subscribed	853	-	-	416	-	-	-	1,269
Capital reorganisation - merger reserve adjustment	6,963	-	(5,078)	(17,212)	15,327	-	-	-
Shares allotted to acquire LCH.Clearnet SA	60,000	-	-	-	540,000	-	-	600,000
Conversion of ordinary shares to RCPS	(19,884)	19,884	-	-	-	-	-	-
Exchange rate adjustments	-	-	-	-	-	(711)	-	(711)
Net change in shareholders' funds	47,932	19,884	(5,078)	(16,796)	555,327	(711)	16,781	617,339
Shareholders' funds as at 1 November 2002	58,125	-	5,656	18,707	-	-	28,220	110,708
Foreign exchange adjustment on opening shareholders' funds	(5,941)	-	(578)	(1,911)	-	-	(2,885)	(11,315)
Shareholders' funds as at 31 December 2003	100,116	19,884	-	-	555,327	(711)	42,116	716,732

The balance on the merger reserve at 31 December 2003 represents:

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

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

Company	Equity share capital €'000	Non-equity share capital €'000	Merger reserve €'000	Retained earnings €'000	Total 2003 €'000
Profit for the financial period	-	-	-	18,105	18,105
Capital reorganisation - issue of shares	60,000	-	-	-	60,000
Shares allotted to acquire LCH.Clearnet SA	60,000	-	540,000	-	600,000
Conversion of ordinary shares to RCPS	(19,884)	19,884	-	-	-
Net change in shareholders' funds	100,116	19,884	540,000	18,105	678,105
Shareholders' funds as at 1 November 2002	-	-	-	-	-
Shareholders' funds as at 31 December 2003	100,116	19,884	540,000	18,105	678,105

21 Cashflow from operating activities

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

Continuing operations	2003 €'000	2002 €'000
Operating profit	25,939	37,829
Depreciation charge	11,387	11,355
Loss on disposal of fixed assets	2,730	136
Decrease/ (increase) in debtors	307	(12,063)
Increase/ (decrease) in creditors	10,451	(8,679)
Net cash inflow from operating activities	50,814	28,578

Notes to the financial statements continued...

22 Analysis of cashflows

	2003 €'000	2002 €'000
Taxation		
UK Corporation tax		
- paid	(16,466)	(8,629)
- received	-	6
	(16,466)	(8,623)
Capital expenditure		
Payments to acquire tangible fixed assets	(48,485)	(10,620)
Receipts from sale of tangible fixed assets	-	88
	(48,485)	(10,532)
Financing		
Payment for redemption of share capital	-	(5,719)
Receipt on raising of share capital	1,304	-
	1,304	**(5,719)**

23 Reconciliation of movement in net funds

	At 1 Nov 2002 €'000	Cashflow €'000	Acquisition €'000	Foreign exchange €'000	At 31 Dec 2003 €'000
Secured short-term loans (note 12)	355,000	3,537,079	-	(135,874)	3,756,205
Cash at bank and in hand (note 13)	5,592,144	(1,524,239)	2,823,082	(509,843)	6,381,144
Less: assets treated as liquid resources (see below)	(2,707,046)	(2,381,405)	(2,823,082)	346,622	(7,564,911)
Bank overdrafts	(36,588)	33,692	-	(5,942)	(8,838)
Net cash per cashflow statement	3,203,510	(334,873)	-	(305,037)	2,563,600
Liquid resources - short term deposits and secured loans	2,707,046	2,381,405	2,823,082	(346,622)	7,564,911
Debt financing - subordinated loan	-	-	(60,000)	-	(60,000)
Net funds	5,910,556	2,046,532	2,763,082	(651,569)	10,068,511

Net funds comprise cash, liquid resources and all other borrowings.

Liquid resources comprise short-term deposits with banks and secured short-term loans that mature within 12 months of the date of inception.

Notes to the financial statements continued...

24 Employees and directors

Staff costs for the Group during the period	14 months 2003 €'000	12 months 2002 €'000
Wages and salaries	37,382	31,164
Social security costs	3,991	3,035
Other pension costs	3,894	3,323
	45,267	37,522

Average monthly number of people (including executive directors) employed	350	324

Directors	14 months 2003 €'000	12 months 2002 €'000
The total remuneration paid to directors of the Company:		
- Emoluments	967	790
- Pension contributions	77	71
	1,044	861

Remuneration of the highest paid director was €974,000 (2002: €805,000).

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is 1 (2002: 1).

The value of the accrued pension of the highest paid director was €147,000 (2002: €155,000).

25 Pension commitments

SSAP 24 disclosure

The subsidiary company LCH.Clearnet Limited participates in the LCH Pension Scheme. This scheme is of a defined benefit type providing benefits to employees of LCH.Clearnet Limited and the assets are held in a separate trustee administered fund. The total pension cost included in these consolidated accounts for LCH.Clearnet Limited relating to the scheme in the period to 31 December 2003 was €3,799,000 (2002: €3,323,000). As at 31 December 2003 accrued contributions payable by LCH.Clearnet Limited amounted to €176,000. These were paid into the pension scheme in January 2004.

The pension cost relating to the scheme is assessed in accordance with the advice of a qualified actuary using the projected unit method. A full actuarial assessment of the scheme was carried out as at 30 June 2001 and partially updated to 31 December 2003 by a qualified independent actuary.

The major assumptions used by the actuary were:

	At 31 December 2003	At 31 October 2002
Rate of increase in salaries*	4.50%	4.50%
Rate of increase of pensions in payment	2.50%	2.50%
Discount rate	7.50%	7.50%
Inflation assumption	2.50%	2.50%
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	88%	91%

*plus a promotional salary scale

Notes to the financial statements continued...

FRS 17 disclosure

The value used for FRS 17 disclosures has been based on the most recent actuarial valuation at 30 June 2001 and updated by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2003 and 31 October 2002. Scheme assets are stated at their market values at the respective balance sheet dates.

The major assumptions used by the actuary were:

	At 31 December 2003	At 31 October 2002
Rate of increase in salaries*	4.80%	4.30%
Rate of increase of pensions in payment	2.80%	2.30%
Rate of increase of pensions in deferment	2.80%	2.30%
Discount rate	5.40%	5.60%
Inflation assumption	2.80%	2.30%

*plus a promotional salary scale

	At 31 Dec 2003 Projected returns	At 31 Dec 2003 €'000	At 31 Oct 2002 Projected returns	At 31 Oct 2002 €'000
Equities	7.30%	41,745	7.10%	34,655
Bonds	4.80%	4,784	4.60%	7,114
Property and 'other'	3.75%	3,827	4.00%	3,814
		50,356		45,583
Actuarial value of liability		(71,722)		(61,410)
Deficit in scheme		(21,366)		(15,827)
Related deferred tax asset		6,410		4,748
Net pension liability		(14,956)		(11,079)

Under the arrangements of FRS 17, an additional €2,082,000 (2002: €1,302,000) would have to be charged to the profit and loss account in the current period as a service cost if the standard was implemented in full. The net return, being the difference between the expected return on the pension scheme assets and the interest on pension liabilities on the pension scheme if FRS 17 was adopted in full would be an unfavourable return of €592,000 (2002: favourable return of €8,000).

Analysis of amount that would be recognised in the balance sheet under FRS 17	At 31 December 2003 €'000	At 31 October 2002 €'000
Net assets excluding pension liability	716,732	110,708
Pension liability	(21,366)	(15,827)
Deferred tax	6,410	4,748
Net assets including pension liability	701,776	99,629

Analysis of amount that would be recognised in the reserves note under FRS 17	At 31 December 2003 €'000	At 31 October 2002 €'000
Profit and loss reserve excluding pension reserve	42,116	28,220
Pension reserve	(21,366)	(15,827)
Deferred tax	6,410	4,748
Profit and loss reserve under FRS 17	27,160	17,141

Analysis of amount that would be recognised in the statement of total recognised gains and losses	Period to 31 December 2003 €'000	Year to 31 October 2002 €'000
Actual return less expected return on assets	3,755	(9,733)
Experience gains and losses on liabilities	1,319	2,201
Changes in assumptions	(9,783)	(788)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(4,709)	(8,320)

Notes to the financial statements continued...

Movement in deficit during the period	Period to 31 December 2003 €'000	Year to 31 October 2002 €'000
Deficit in scheme at beginning of period	(15,827)	(6,394)
Movement in period:		
Current service cost	(5,881)	(4,425)
Contributions	3,799	3,123
Net return on assets	(592)	8
Actuarial loss	(4,709)	(8,320)
Exchange movements	1,844	181
Deficit in scheme at end of period	(21,366)	(15,827)

History of experience gains and losses

	Period to 31 December 2003 €'000	Year to 31 October 2002 €'000
Difference between expected and actual return on scheme assets	3,755	(9,733)
- Percentage of scheme assets	7%	(21)%
Experience gains and losses on scheme liabilities	1,319	2,201
- Percentage of scheme liabilities	2%	4%
Total amount recognised in statement of total recognised gains and losses	(4,709)	(8,320)
- Percentage of scheme liabilities	(6)%	(13)%

26 Other financial commitments

Operating leases

At 31 December 2003 the Group had commitments under operating lease agreements in respect of properties, plant and equipment, for which payments extend over a number of years.

	2003		2002	
	Property €'000	Plant and equipment €'000	Property €'000	Plant and equipment €'000
Annual commitments under non-cancellable operating leases expiring:				
Within one year	3,543	-	434	35
Within two to five years	-	44	-	24
After five years	4,777	-	3,780	-
	8,320	44	4,214	59

Supplier agreements

The Group has a supplier agreement in place with Hewlett Packard Limited for the provision of certain information technology infrastructure and services for the Group's production and development campuses for a period of 10 years. The estimated maximum value of the remaining commitment is €160m. The expected charge for the following financial period is a maximum of €9.8m.

The Group has outsourced the operation and development of certain information technology applications to AtosEuronext SA. The estimated maximum value of the remaining commitment over the next three years is €66.5m.

27 Contingent liabilities

The Group is committed to take on obligations in respect of certain staff in a Euronext group defined benefit pension scheme in Amsterdam that will transfer their employment to LCH.Clearnet SA in 2004. Whilst the size of the potential pension liability at 31 December 2003 was not known, the directors do not believe it will have a material effect on the Group's financial position.

Notes to the financial statements continued...

28 Related party transactions

a **Group undertakings**

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

b **Principal shareholding**

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

At 31 December 2003, there was a subordinated loan of €60 million from Euronext Paris SA to LCH.Clearnet SA. Further details of the subordinated loan are disclosed in note 14.

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

- €10,000 for the use of the services of Patrice Renault, Deputy Chief Executive.
- €368,000 in respect of other staff related costs;
- €65,000 in respect of property rental and service costs.

Annual commitments under non-cancellable agreements with the Euronext group are disclosed in note 26.