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LCH.Clearnet Group Limited

2006 Annual Report and Consolidated Financial Statements

History of the LCH.Clearnet Group

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

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

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

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

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1 General information:

Directors

The directors who held office during the year are as follows

A Chris Tupker	(Chairman – appointed 10 July 2006)
Roger Liddell	(Chief Executive – from 17 July 2006)
Gérard de La Martinière	(resigned 5 July 2006)
David Hardy	(resigned 5 July 2006)
Martin Abbott	(appointed 1 October 2006, resigned 22 January 2007)
Nazir Badat	
John Caouette	
Ignace Combes	
Kevin Davis	
Clara Furse	
Simon Heale	(resigned 1 October 2006)
Dominique Hoenn	
Gerard Hartsink	
Peter Johnston	(appointed 1 September 2006)
Olivier Lefebvre	
David Peniket	(appointed 18 July 2006)
David Pritchard	
Hervé Saint-Sauveur	
Charles Stonehill	(appointed 1 March 2007)
Jean-François Théodore	
Francesco Vanni d'Archirafi	
Richard Ward	(resigned 24 April 2006)
Robert Wigley	

Company Secretary

Jackie Alexander	(appointed 1 December 2006)
Susan Ward	(resigned 1 December 2006)

The Chairman and all other existing directors, with the exception of Roger Liddell, are non-executive directors The Chairman, John Caouette and David Pritchard have been appointed independent non-executive directors

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Registered in England as a private company limited by shares
Company No 4743602

Auditors

Ernst & Young LLP,
London

2 Chairman's statement

Dear Shareholder,

This is my first report to you as Group Chairman It is a privilege to be leading the Board of Europe's premier central counterparty at this critical juncture in its development

2006 saw unprecedented volume growth for the Group, with records set for each of the products we clear, resulting in a very powerful financial performance delivering record operating profits of €177 6 million

The competitive environment however was far from benign, threatening the Group's ability to repeat these profit levels in the future Early in the year the Deutsche Borse-Euronext merger discussions underlined the Group's vulnerability to the loss of Euronext's clearing revenues, SIS x-clear entered the market as an aggressive competitor for London Stock Exchange equity clearing, the Turquoise consortium of seven large investment banks was set up to trade shares of the 300 largest European companies – disintermediating, amongst others, the London Stock Exchange and Euronext exchanges for whom we clear, and the ICE acquisition of New York Board of Trade suggested a possible loss of all ICE's clearing business to NYBOT's New York Clearing Corporation In place of a Directive on Clearing and Settlement the EU's DG Internal Market and Services pressed post trade infrastructure service providers to adopt a common Code of Conduct governing price transparency, access and interoperability, initially for equities but to be extended to debt and derivatives The clear policy objective of this exercise is to lower the costs of users and hence the revenues of service providers

Your Board concluded that the best way to confront all these challenges was for the Group to cut tariffs dramatically It was felt that such a move would be inconsistent with the focus on returns of the Group's 41 5% shareholder Euronext and negotiations with Euronext concerning the accelerated redemption of their redeemable convertible preference shares and the repurchase of a large part of their ordinary shares were started in October 2006 Heads of Terms have now been signed by the company and Euronext subject to the approval of the complete agreement by our shareholders later in the year It is expected that the redemption and repurchase will be funded by an issue of Tier I capital along with the bulk of actual 2006 and anticipated 2007 and 2008 retained earnings User shareholders would move from 45 1% to 73 3% ownership of the group with the balance being held by exchanges (Euronext 5%, London Metal Exchange 4 4%, ICE 1 5%) and Euroclear (15 8%) This greater alignment between our shareholder and user communities should support a strategy of continuing tariff reductions for the future The reduction of Euronext's interest to 5% sets the stage for moving the Group to a very different business model which stresses secure and safe clearing at the lowest possible tariffs for as many asset classes and exchanges as possible An important component of the overall proposals is the establishment of an ongoing share buy-back programme which would see an amount approximately equal to 2% of the Group's share capital set aside each year to provide an exit for those shareholders who have become dormant or whose businesses have moved away from the services provided by LCH Clearnet This programme would commence after the Euronext repurchase is completed

At the time of the merger in 2003 a complicated governance model was enshrined in the Articles, establishing a balance between exchange and user shareholders of the company and protecting certain rights of Euronext as 41 5% equity owner It is expected that the reduction in Euronext's position will permit shareholders to approve a more conventional set of Articles making the Group much easier to govern in future

The LCH Clearnet Group itself also changed greatly during the period under review The new Chief Executive who arrived in July stopped the company's major spending projects, including platform integration and outsourcing, and refocused spending on optimising and improving existing platforms He also set out to repair commercial relationships with the Group's clients and exchange partners so as to restore confidence in the Group's ability to deliver But while this strategic re-alignment was taking place, we kept a close eye on our existing business, the Group has continued to provide its day to day clearing services with meticulous reliability and without fail, whilst launching new products into the marketplace to meet the needs of our customers

The delivery of this degree of service is far less about the quality of the underlying IT systems than about the people who make this organisation work, be they technical, operational, risk or support focused Indeed, the theme of this Annual Report is the people who make the LCH Clearnet Group what it is There has of course been considerable senior management change during the year Early in 2006 Gérard de La Martinière informed the Board that his commitments elsewhere made it impossible for him to meet the growing time requirements of LCH Clearnet and that he wished to stand down when a successor had been identified The changeover occurred in July Gérard presided over the birth of the LCH Clearnet Group and the Board would like to record its gratitude for all he did to steer the Group as it commenced its journey David Hardy also resigned in July, having led the Group as Chief Executive from the outset, and LCH for 16 years before that I cannot overstate the value of David's contribution, not just to LCH Clearnet but to the industry as well, and we wish him well for the future His place was taken by Roger Liddell, who has brought great skill and enormous industry experience to the role I am delighted to be working closely with Roger to deliver the competitive structure that we believe essential for the long-term future of the Group

I am fortunate in leading a Board whose broad experience and wise counsel is an invaluable asset in a field of ever increasing technical complexity and geographic scope During the year, we welcomed David Peniket and Peter Johnston to the Board, whilst, in addition to the resignations above, Richard Ward and Simon Heale resigned Martin Abbott joined the Board during the year, but has since resigned and has been replaced by Charles Stonehill I am also very grateful to all those who serve on our Board committees, subsidiary Boards and other consultative groups To them all, I offer my thanks – they are all busy elsewhere, and I am keenly aware of the commitment that they make to us

Above all, I would like to express my deep appreciation to the management team and all the staff of the Group As I have already said, this is a people business, and the commitment and quality of service shown by our people from top to bottom through a period of considerable change and uncertainty has been exemplary 2007 will without doubt raise its own challenges, but I have no doubt that the team that is the LCH Clearnet Group will meet and overcome them all

A. Chris Tupker
Chairman

3 Chief Executive's review

2006 was a challenging year for the Group, with significant change taking place in the industry as a whole and within LCH Clearnet as well It was also a year which saw record levels of clearing activity across the full range of services offered, which resulted in a very strong financial performance At the same time, a great deal of work has been undertaken to ensure that our systems and internal processes are and will continue to be appropriate to meet current service requirements and future development needs

LCH Clearnet saw spectacular levels of clearing activity and at the year end, the Group had cleared a total of 1 27 billion contracts, an increase of 16 6% over 2005[1] These reflected a traded value of just over €500 trillion, an increase of 23 0% over 2005, and a notable indicator of the size of and our key position in modern financial markets

Transaction revenue increased by 28 3% over 2005 to €421 8 million This growth was primarily due to the high levels of activity in equity and energy markets during the year The change in product mix drove a higher proportional increase in transaction revenue than overall volumes Treasury revenues grew rapidly, driven by unprecedented levels of cash and non-cash margin commitments, particularly in the equity and commodity sectors Cash margins and default fund contributions under Treasury management peaked early in the summer at €23 5 billion, against an average over the year of €16 billion

Interest payments to members, in respect of cash and collateral margin payments, increased by 92 6% to €661 6 million, reflecting the size of balances arising from these high activity levels Our focus on cost control continued during the year and resulted in administrative expenditure decreasing by 7 5% to €218 3 million

Across all the business areas, LCH Clearnet has been busy 38 members in both LCH Clearnet Ltd and LCH Clearnet SA extended their product range, and 23 new members joined In total LCH Clearnet Ltd has 117 members and LCH Clearnet SA 108 Of this total 44 are members of both entities

2006 saw another significant increase in equity volumes cleared across the Group, particularly in the first half Volumes were fed by a combination of very significant retail and institutional investor activity and M&A In the light of this overall volume increase and in line with our commitment to lower clearing costs for members, LCH Clearnet reduced its fees by up to 26% for trades executed on London Stock Exchange, virt-x and the four Euronext cash markets in Paris, Amsterdam, Brussels and Lisbon This

[1] Measured on a like-for-like basis

reduction was very well received by the market, and work is under way to develop further fee reductions I will return to this theme later in this Review

In February 2006, the Board of LCH Clearnet Group approved a scoping project to re-assess the migration of UK cash equity clearing onto the CLEARING21® platform The Board agreed that no significant development would go ahead until after member consultation had been carried out and market support achieved Our analysis of the integration requirements indicated higher potential costs than those anticipated at the start of the project The growing scope of the project, caused in large part by additional requirements associated with plans to provide optionality in the post trade process, brought the cost benefit ratio into some question We therefore decided to halt work on the project until a revised business case can be supported, and before entering into software development expenditure Going forward, we will be working closely with our customers, with Euroclear, Euroclear Crest, Euronext, London Stock Exchange and with virt-x to identify how best to support progress towards harmonised practices across UK and European markets

In June 2006, LCH Clearnet SA completed the rollout of Settlement Connect with its implementation in Portugal Replacing the multiple legacy interfaces previously used to communicate with each local settlement platform with a single link, this launch completed the full integration and harmonisation of settlement links in the French, Belgian, Dutch and Portuguese equity markets, and the full integration and harmonisation of LCH Clearnet SA's clearing processes for both cash equity and derivatives markets

LCH Clearnet has continued to expand the range of equities and products it clears for the London Stock Exchange, EDX and Alternext markets, and work has been completed in the preparation of a new service, still to be finalised, to clear SWX Swiss equities

Exchange & Commodity Derivatives again delivered a considerable number of service extensions, with clearing being launched for a total of 63 new contracts on IntercontinentalExchange (ICE) alone, 57 OTC energy contracts on ICE in Atlanta, and six energy and emissions contracts on ICE Futures in London ICE OTC clearing has seen strong growth across the entire product range, whilst clearing volumes on ICE Futures have grown over 120% during the year, as a result of increased trading on the Brent and Gas Oil contracts as well as on the new WTI Futures contract launched in the early part of the year

Euronext liffe's Bclear, upon which we first reported last year, has continued to be a considerable success story, with very strong volumes traded and cleared in this flexible OTC European equities and indices facility The market had long pressed for a seamless bridge between listed and OTC markets, and the service has been extremely well received By the end of the year, LCH Clearnet had cleared over 50 million Bclear contracts, and its scope and range of products is broadening all the time

We were pleased to introduce a new clearing fee tariff on Euronext liffe financial and equity derivatives markets These came into force in two phases, the first at the beginning of November and the second at the beginning of January this year The new arrangements have delivered simplified tariffs, a standardised approach to the charging of fees across all markets, full fee transparency and reduced fee levels The overall result to the market, which reflects our determination to deliver value and lower costs to our customers whenever and wherever possible, has been a reduction in clearing fees in these classes of business of 15% across all locations

Clearing volumes on London Metal Exchange grew strongly, on the back of increasing prices and very volatile market conditions, particularly in the aluminium, copper, zinc and nickel contracts LMEminis based on the aluminium copper and zinc contracts were launched in late November clearing volumes so far have shown some promise, and we are hopeful that these will grow strongly in 2007 Growth in the clearing of plastics contracts has been slow, as is to be expected in the launch of an entirely new product area, but two significant measures to support their growth have been announced by LME and are in the process of being implemented, these may well contribute to increased volume in the coming period

Our new freight clearing service, a natural adjunct to the energy markets clearing services, has seen considerable growth in volumes during the year, with the LCH Clearnet clearing service now considered to be the leading provider in what is a highly competitive market Dry freight clearing volumes were occasionally spectacular, particularly during the summer period, whilst wet freight clearing, which we re-launched in the spring, has seen steadily increasing growth We expect volumes to grow considerably more, especially with the launch of cleared options on both wet and dry markets Freight clearing is still a small part of our business, but is a good example of lateral expansion in the services we are able to bring to our customers

Clearing volumes in power contracts traded on Endex and Powernext have held up well, though without showing exponential growth With the forthcoming launch of clearing for OTC contracts on Powernext, however, we expect to see a considerable increase in volume

The Fixed Income clearing service has seen a very active year in 2006 with new records established in business volumes A new record was established in October when the service recorded a nominal value cleared of €8 8 trillion

A number of new initiatives were embarked upon during the year Most notably, the new Sterling GC service is to be launched in 2007, and has already attracted some 17 Gilt market DBV participants, with a further 8 banks to follow in a second wave A valuable market consultation was undertaken regarding the potential launch of a EuroGC clearing service, which we hope would build on the success of Sterling GC

During the year we succeeded in harmonising membership criteria between LCH Clearnet Ltd and SA, helping simplify access to clearing across all LCH Clearnet fixed income clearing markets across Europe The service was also extended to include index-linked government bonds, UK Treasury Bills and French BTANs We also extended the service to encompass trades in Gilts and French Repos executed on MTS Italy and Italian government bonds executed on ICAP Electronic Broking

Finally, the introduction of settlement shaping in French debt clearing in March 2006 has contributed to a significant reduction in fail rates of approximately 40% since its launch This is a further example of the positive effect of market-wide consultation and cooperation and evidence of the improvements in efficiency that a central counterparty is able to bring to the market

SwapClear volumes continued to grow steadily in 2006, with new trade registrations increasing by 23% from the previous year Approximately \$2 trillion notional worth of new transactions were cleared each month, bringing the overall size of the SwapClear portfolio to some \$70 trillion A new member brought the number of dealers using the SwapClear service to 20, collectively accounting for the majority of volume in the dealer segment of the interest rate swap market

A key service extension delivered during the year was the introduction of a revised SwapClear Default Management Process This was a complex initiative that was developed in conjunction with the services' members and involved the commissioning of trading, middle and back office processes and systems that would significantly enhance LCH Clearnet's ability to manage the default of a large SwapClear bank The process introduces the capability to hedge a defaulting member firm's interest rate swap portfolio and facilitate its subsequent disposal through a competitive auction SwapClear member firms have also provided additional post-default financial backing commitments, which stand behind LCH Clearnet's existing Default Fund Further service extensions delivered during the year expanded the range of trades that can be accepted from the SwapsWire platform and provided the capability to support industry initiatives to tear-up historical swap transactions

Risk Management focused during 2006 on the challenges of clearing new products (especially in the energy field) and on continuous improvements in our risk management framework With regard to the latter, the risk management teams have been working with the subsidiary Boards and subsidiary Risk Committees to further formalise and review the Group's risk appetite and surrounding policies The year also saw the start of the work in migrating the Group's operational risk frameworks to be compliant with the Basel II requirements on operational risk, work that will conclude next year

The level of risk managed by the Group has increased significantly margins held have increased 21% year-on-year, with growth especially evident in metals and energy The Group has continued to help members' effectively manage their risks and where possible to reduce the amount of margin they deposit As part of this work, the Group has also published a set of communication packages that help explain our risk management in detail, and these are posted on the Group website

We reported at the half year on the decision not to continue to use assets from the Generic Clearing System, and the consequential write-off of €47 8 million The programme has now been fully written off In the light of that experience, we are reviewing our technology strategy going forward with very considerable care, and are not ready to make any announcements, our current focus is upon making the optimum current and future use of our existing technology suite, and deriving the best possible benefit from our existing support relationships We believe this cautious approach is one that our stakeholders will both appreciate and welcome

2006 was a year that was again characterised by extensive merger and acquisitions activity in the industry infrastructure 2007 should see the finalising of the merger of Euronext with New York Stock Exchange, the Chicago Mercantile Exchange with Chicago Board of Trade, and the ICE acquisition of New York Board of Trade On the other hand, the dream of a European stock exchange has all but evaporated with the failure of the bid by Deutsche Borse to merge with Euronext, and its inability to find an acceptable basis for a merger with Borsa Italiana In the post trade infrastructure, there has, in Europe in particular, been major regulatory pressure brought to bear to encourage competition between participants, and no more so than in clearing and settlement, where the major regulatory development in 2006 was the development of the Code of Conduct sponsored by Internal Market and Services Commissioner Charlie McCreevy LCH Clearnet was heavily involved in the negotiating of the Code and each of LCH Clearnet Ltd and LCH Clearnet SA have ensured the publication of full tariff details – not only for cash equities, which is the initial scope of the Code, but also for fixed income and exchange-traded derivatives – on their respective websites The access provisions of the Code of Conduct, once fully in place, may present significant opportunities to LCH Clearnet as it supports the principle that one CCP can seek access to another and thereby compete for business traded on any trading platform

In addition, the impacts of MiFID and Basel II will be far-reaching on the markets that LCH Clearnet serves MiFID will act as a spur to competition between exchanges throughout the EU Initiatives such as Project Boat and Project Turquoise represent threats to LCH Clearnet's exchange customers while at the same time opening up new opportunities in the clearing market Basel II will encourage a greater focus on risk exposures inherent in financial trading and is expected to fuel further growth in central clearing of OTC instruments

In his Statement, the Chairman has outlined the need for change to meet the competitive challenges we face There is no doubt that LCH Clearnet faces a serious competitive business challenge from a number of directions – "clearing-driven" mergers, new entrants in our market space, development of alternative trading platforms attracting liquidity from customers served by us At the same time, there is the regulatory pressure to which I have already referred, and the increasing scrutiny of the sector by competition authorities For us to continue to prosper as an organisation, we must seek to minimise or remove the incentive for disintermediation, whatever its source We believe that this can be best achieved by adjusting our operating model to enable us to focus more clearly on delivering benefits to users We firmly believe that our members, the prime users of our services, would prefer to see more immediate financial benefit from substantially lower fees than from future rebates or dividends To achieve the conditions for us to be able to deliver a considerably lower tariff, it will be necessary to reduce the shareholding of the largest returns-focused shareholder We have achieved agreement with Euronext, subject to shareholder approval at an Extraordinary General Meeting to be called later in the year, for the early redemption of its redeemable convertible preference shares, and for a programme, to be completed by the end of 2008, to buy back and retire the great majority of its ordinary shares These actions will help to free up LCH Clearnet's ongoing financial commitments to the extent that we will be able to deliver long term and fully sustainable low price services

Finally, I would like to comment on what is unquestionably LCH Clearnet's most important asset – the people who make it all work Although I have served on the Group Board since the beginning of 2005, I have only been in this post since July last year One of the greatest pleasures for me since then has been the opportunity to meet and work with so many utterly committed and immensely competent people with such a broad range of skills Throughout the last year, one of challenge and great change, their determination to ensure that LCH Clearnet continues to earn its position as Europe's premier central counterparty has deeply impressed me, and filled me with confidence that, whatever the future may call upon us to deliver, we have the right people to do it To them all, I offer my respect, thanks and appreciation

Roger Liddell
Group Chief Executive

4 Operating and financial review

4.1 Operating review

4 1.1 Equities

Cash equities exhibited strong volume growth through 2006 across all major markets The Euronext cash market segments rose in volume by 35 4% from 81 1 million to 109 8 million trades in the year LSE's volume rose by 52 6% from 50 8 million to 77 5 million trades in the year, and virt-x's volume rose by 30 3% to 10 4 million trades

This volume growth contributed to the 21 1% increase in Equities revenue (from €136 6 million to €165 4 million)

In response to the strong growth in volumes a series of fee reductions were implemented from 1 November 2006 on trades executed on the LSE and virt-x UK and Irish business with increased fee reductions available once activity exceeds certain thresholds Fee reductions were also implemented on Euronext cash markets from 1 January 2007

4 1 2 Fixed income

The fixed income service saw another year of growth with revenues increasing by 9 8% in the year to €33 6 million The year saw a series of monthly trading records set by the business, with the Group business clearing in excess of €8 8 trillion nominal of transactions in October

The fixed income service in 2006 was further extended to include index-linked government bonds, UK Treasury Bills and French BTANs along with the broadening of trades executed on MTS Italy and ICAP Electronic Broking

The new Sterling GC service is set to be launched in early 2007 as the fixed income team works with members and other stakeholders to broaden its offering

4 1.3 Derivatives and swaps

Overall revenue from this segment is 11 7% higher than 2005, at €147 8 million

Euronext liffe volumes in London increased by 23 6% Continental European volumes fell by 32 7%, due to a sharp spike in volumes on Amsterdam in 2005 which has not been repeated in 2006 Removing the effect of this underlying volumes fell by 6 7%

As with Equities, fee reductions have been announced in Euronext liffe financial and equity derivatives markets – which came into effect on 1 January 2007 for Paris, and 1 November 2006 for Amsterdam, Brussels, Lisbon and London

Trades on Swapclear grew 8 6% in the year, and there are now 20 members

4 1.4 Commodities and energy

Revenue grew by €46 8 million (93 4%) to €97 0 million as the volatility in energy markets contributed to a very strong growth in volumes

The rate of growth in both ICE Futures and ICE OTC trades was significantly in excess of 100% During 2006 a further 57 new OTC energy contracts were cleared and six new energy and emissions contracts on ICE Futures were launched Volumes also grew at a healthy rate of 39 4% on Powernext

London Metal Exchange volumes increased by 10 1% to 78 6 million trades, and the new LMEmini contracts were introduced in late 2006 to enable market participants to trade in smaller quantities Further initiatives are planned in 2007 which will increase the range of products cleared on the LME

4.2 Financial review

4.2.1 Summarised consolidated income statement for the year

The summarısed consolıdated ıncome statement for the year reflects the contınuıng operatıons of LCH Clearnet Group

	Ref	2006 €'m	2005 €'m
Total revenue	4 2 1a	1,234 9	790 3
Interest expense and sımılar charges	4 2 1c	(733 3)	(406 0)
Fees payable and sımılar charges	4 2 1e	(57 9)	(34 7)
Net revenue		443 7	349 6
Admınıstratıve expendıture	4 2 1f	(218 3)	(236 1)
Wrıte off of capıtalısed development costs	4 2 1g	(47 8)	(20 1)
Restructurıng costs	4 2 1h	-	(7 1)
Operatıng costs		(266 1)	(263 3)
Operatıng profit	4 2 1ı	177 6	86 3
Net finance ıncome / (cost)	4 2 1j	4 2	(0 7)
Profit before taxatıon		181 8	85 6
Taxatıon expense	4 2 1k	(58 2)	(31 7)
Profit for the year		123 6	53 9

4.2.1a Total revenue

	Ref	2006 €'m	2005 €'m	Increase %
Clearıng fees	4 2 1b	421 8	328 7	28 3
Interest from cash and collateral margın	4 2 1c	728 8	386 7	88 5
Interest earned on Default Funds	4 2 1c	62 0	53 0	17 0
Other ıncome	4 2 1d	22 3	21 9	1 8
Total revenue		1,234 9	790 3	56 3

Percentage changes are on an annualısed basıs and exclude the ımpact of exchange rate fluctuatıon

Group turnover from contınuıng operatıons ıncreased by 56 3% to €1,234 9 mıllıon

4.2.1b Clearing fees

	Ref	2006 €'m	2005 €'m	Increase %
Equities	4 1 1	211 5	162 1	30 5
Fixed income	4 1 2	24 2	22 1	9 5
Derivatives and swaps	4 1 3	118 0	109 8	7 5
Commodities and energy	4 1 4	68 1	34 7	96 3
		421 8	328 7	28 3

Clearing fees increased by €93 1 million (28 3%) to €421 8 million (2005 €328 7 million), essentially due to increasingly high levels of activity in equities and energy throughout the year

4.2.1c Net interest income

	2006 €'m	2005 €'m	Increase %
Interest earned on cash and collateral margin	728 8	386 7	88 5
Interest earned on Default Funds	62 0	53 0	17 0
Interest income	790 8	439 7	79 8
Interest paid on cash and collateral margin	(661 6)	(343 5)	92 6
Interest paid on Default Funds	(71 7)	(62 5)	14 7
Interest expense and similar charges	(733 3)	(406 0)	80 6
	57 5	33 7	70 6

Interest income from cash and collateral margin balances increased by €342 1 million (88 5%) to €728 8 million (2005 €386 7 million), principally due to the substantially higher cash collateral balances arising from increased levels of market activity during the year Interest payments to clearing members in respect of cash and collateral margins similarly increased by €318 1 million (92 6%) to €661 6 million (2005 €343 5 million)

Default Fund interest earnings increased by €9 0 million (17 0%) to €62 0 million (2005 €53 0 million) Interest paid to clearing members in respect of contributions to the Default Funds increased by €9 2 million (14 7%) to €71 7 million (2005 €62 5 million)

4.2.1d Other income

Other ıncome has ıncreased by €0 4 mıllıon (1 8%) to €22 3 mıllıon (2005 €21 9 mıllıon) Other ıncome ıncludes annual fees charged to members, recovery of settlement fees and transfer fees

4.2.1e Fees payable and similar charges

These amounts prıncıpally relate to retrocessıon fees collected on behalf of a related party, Euronext, as dısclosed ın note 15 22 to the consolıdated fınancıal statements They have ıncreased ın lıne wıth the ıncrease ın volumes and clearıng fee ıncome experıenced ın contınental Europe Addıtıonally a number of contractual revenue and fee guarantees provıded by Euronext, that were prevıously offset agaınst the retrocessıon fees, expıred at the end of 2005

Durıng 2006 as part of the Group's revıew of the fee tarıff structure, and ın lıne wıth the transparency requırements of the McCreevy Code of Conduct, ıt was agreed wıth Euronext that wıth effect from 1 January 2007 the Group wıll merely act as a collectıon agent and the retrocessıon fees wıll no longer pass through the Group's ıncome statement

4 2.1f Administrative expenditure

Overall, admınıstratıve expendıture has fallen by €17 8 mıllıon (7 5%) to €218 3 mıllıon (2005 €236 1 mıllıon)

The fall ın admınıstratıve expendıture reflects the cost control ınıtıatıves that were ımplemented ın 2005 and have yıelded benefits ın 2006

4.2.1g Write-off of capitalısed development costs

Durıng the first half of the year, the Group undertook a further revıew of ıts technology strategy As a result of thıs revıew, the Group has decıded not to contınue to use assets from the Generıc Clearıng System (GCS) wıthın ıts technology strategy Accordıngly, a €47 8 mıllıon wrıte-off (2005 €20 1m), whıch substantıally relates to those assets, has been recognısed ın the consolıdated ıncome statement The programme has now been fully wrıtten off

4.2.1h Restructuring costs

One-off restructurıng costs of €7 1 mıllıon were ıncurred ın 2005 ın relatıon to expenses assocıated wıth cost reductıons and consultants assıstıng wıth the ıntegratıon process No restructurıng costs were ıncurred ın 2006

4.2.1i Operating profit

Basis of calculation

The definıtıon of operatıng profit used wıthın the Group ıncludes ıncome generated from the ınvestment of clearıng member margın and Default Fund balances, but excludes ınterest ıncome from shareholders' funds and ınterest expenses relatıng to redeemable convertıble preference shares (RCPS) and subordınated loans – all of whıch are ıncluded separately ın net finance costs (4 2 1j)

Operating profit performance

Sıgnıficant revenue ımprovement through strong tradıng volumes, combıned wıth cost contaınment, resulted ın an ıncrease ın operatıng profit of €91 3 mıllıon (105 8%) to €177 6 mıllıon (2005 €86 3 mıllıon) after allowıng for the wrıte off of capıtalısed development costs of €47 8 mıllıon (2005 €20 1 mıllıon)

4.2.1j Net finance income/(cost)

	31 December 2006 €'m	31 December 2005 €'m	Increase %
Fınance costs relatıng to			
Redeemable convertıble preference shares	(8 3)	(6 7)	23 9
Subordınated loan	(1 0)	(0 8)	25 0
	(9 3)	(7 5)	24 0
Net ınterest on shareholders' funds	13 5	6 8	98 5
	4 2	(0 7)	

Interest ıncome on shareholders' funds now exceeds that payable ın respect of long term financıng wıth the result that the net finance cost ıs now a net finance ıncome

Interest costs attrıbutable to the RCPS and subordınated loan ıncreased by €1 8 mıllıon (24 0%) to €9 3 mıllıon due to the ıncrease ın Euro ınterest rates However, the ınterest derıved from the ınvestment of shareholders' funds has rısen by €6 7 mıllıon (98 5%) to €13 5 mıllıon (2005 €6 8 mıllıon) benefitıng from both hıgher UK and Eurozone ınterest rates and from ıncreased shareholders' funds generated through strong levels of retaıned profits

4.2.1k Taxation expense

The tax rate for the financıal year ıs 32 0% (2005 37 1%)

Compared to 2005 a greater proportıon of Group profits have been generated ın the UK whıch has led to the reductıon ın the effectıve rate

A full reconcılıatıon of the tax expense contaıned ın the ıncome statement ıs set out ın note 15 6 2 to the consolıdated financıal statements

4.2.1l Capital resources

The total capıtal resources of the Group ıncreased durıng the year by €121 7 mıllıon (20 2%) from €603 4 mıllıon to €725 1 mıllıon

The ıncrease was prımarıly due to the rıse ın retaıned earnıngs of €123 6 mıllıon, before deductıon of the net actuarıal loss on pensıon funds of €4 8 mıllıon, and a foreıgn exchange gaın of €2 9 mıllıon ın the translatıon reserve arısıng from the ımpact of changıng exchange rates on the assets of the sterlıng denomınated UK based operatıng subsıdıary

4.2.1m Group cashflow and movement in cash and cash equıvalents

For the year ended 31 December 2006

	2006 €'m	2005 €'m
Margın monıes cash (outflow)/ınflow	(350 8)	4,879 7
Increase ın Default Funds	171 7	218 9
Other net cash ınflows	204 6	75 5
Net cash ınflows from operatıng actıvıtıes	25 5	5,174 1
Net cash ınflow/(outflow) from ınvestıng actıvıtıes	79 6	(1,282 6)
Net cash from/(used ın) financıng actıvıtıes	4 2	(0 7)
Increase in cash and cash equivalents	109 3	3,890 8
Effects of foreıgn exchange movements	228 0	144 7
Cash and cash equıvalents at 1 January	14,168 3	10,132 8
Cash and cash equivalents at 31 December	14,505 6	14,168 3

Cash and cash equıvalents at 31 December comprıse		
Cash and short term ınvestments	15,701 7	15,448 4
Fınancıal assets maturıng ın three to sıx months	(1,194 9)	(1,268 0)
Bank overdrafts and loans	(1 2)	(12 1)
	14,505 6	14,168 3

Net cash inflows from operating activities of €25 5 million (2005 €5,174 1 million) have been generated The largest component in cash flow from operating activities is movements in margin monies, which produced an outflow of €350 8 million (2005 inflow of €4,879 7 million) An inflow of €171 7 million has been generated in 2006 due to an increase in the level of Default Funds (2005 €218 9 million) Other net cash inflows have increased from €75 5 million to €204 6 million principally due to the increase in operating profit

A cash inflow from investing activities of €79 6 million was generated in 2006 due to a small change in the mix of cash and short term investments away from assets with a maturity in excess of three months

Net cash from financing activities increased by €4 9 million to produce a net inflow of €4 2 million mirroring the net finance income generated on shareholders' funds

4.2.1n Goodwill

Goodwill of €503 8 million was recognised on the acquisition of LCH Clearnet SA in 2003 The directors consider that it is appropriate to continue to assign an indefinite useful life to this asset, reflecting the strength and positioning of the business as a provider of clearing services

In accordance with the requirements of IAS 36, "Impairment of assets", an impairment review was carried out during the year, which concluded that no impairment provision was required Full details are provided in note 15 9, "Impairment testing of intangible assets", to the consolidated financial statements

4.2.1o Balances with clearing members

Balances with clearing members form the largest component of the Group balance sheet During the year, amounts owed to clearing members increased by €11,138 2 million (4 3%) to €271,267 8 million (2005 €260,129 6 million) Amounts owed to clearing members increased by €11,269 8 million (4 6%) to €257,779 1 million (2005 €246,509 3 million) Fixed income transactions form by far the largest component of balances with clearing members, as they are recorded according to their economic substance as collateralised loans and they have increased by €9,419 0 million (3 9%) to €251,305 0 million (2005 €241,886 0 million)

A detailed description of balances with clearing members is provided in note 15 15 to the consolidated financial statements

5 Corporate governance

The Group is committed to business integrity, high ethical values and professionalism in all its activities The Board supports the highest standards in corporate governance and aims to adopt the provisions of the UK Listing Authority's Combined Code on Corporate Governance where appropriate

The following statement explains the Group structure and governance and provides an insight into how the Board and management run the business for the benefit of the shareholders and clearing members

5.1 The Group structure

LCH Clearnet Group Limited is a private company, limited by shares and registered in the United Kingdom It is a holding company created as part of a merger in December 2003 to oversee the two wholly-owned operating subsidiaries of the Group, *LCH Clearnet Limited* (formerly The London Clearing House Limited) and *Banque Centrale de Compensation SA* (which trades under the name of *LCH Clearnet SA* and which became an independent legal entity at the time of the merger, having previously been part of the Euronext group of companies)

LCH Clearnet Group Limited is lead-regulated by the *Commission bancaire* in Paris A Memorandum of Understanding (MoU) was signed on February 2005 between the French, Dutch, Belgian and Portuguese authorities responsible for the oversight, regulation and supervision of LCH Clearnet S A and their UK counterparts This MoU describes the basis on which the different authorities aim to co-operate insofar as the LCH Clearnet Group is concerned

The subsidiaries:

LCH. Clearnet Limited

LCH Clearnet Limited is a private company, limited by shares and registered in the United Kingdom The Board of Directors comprises David Robins (Chairman and independent non-executive director), three other independent non-executive directors in John Caouette, David Pritchard and John Townend, and three executive directors in Patrick Birley (Chief Executive of LCH Clearnet Limited), Christophe Hémon (Chief Executive of LCH Clearnet SA) and Roger Liddell (Chief Executive of LCH Clearnet Group Limited)

LCH Clearnet Limited is regulated by the Financial Services Authority as a Recognised Clearing House under the Financial Services and Markets Act 2000 It is also recognised by the US Commodity Futures Trading Commission as a Derivatives Clearing Organization As its main business activity, the company provides central counterparty clearing services covering a broad range of cash and derivative products traded on, or through, various exchanges and trading platforms in the United Kingdom, Europe and the USA, as well as those traded over the counter in the "OTC" markets

LCH.Clearnet SA

LCH Clearnet SA *(Banque Centrale de Compensation)* is a company incorporated in France and therefore governed by French law It owns branches in Amsterdam and Brussels, and a representative office in Portugal

The LCH Clearnet SA Governing Board consists of Hervé Joubeaud (Chairman and independent non-executive director), four other independent non-executive directors - Catherine Bienstock, John Caouette, David Pritchard, and Jean Pierre Ravisé, and three Executive Officers - Roger Liddell, Patrick Birley and Christophe Hémon

As it is incorporated in France, LCH Clearnet SA is subject to the authorisations (including a banking licence) granted by the CECEI (*Comité des Etablissements de Crédit et des Entreprises d'Investissements* – Credit Institutions and Investment Firms Committee) and is supervised as a credit institution by the French banking supervisor, *Commission bancaire* (Banking Commission) As a Central Counterparty (CCP), it is regulated by the securities supervisor, the *Autorité des Marchés Financiers* (Financial Markets Authority), which approves its operating rules As a securities clearing system and a CCP, LCH Clearnet SA is overseen by *Banque de France*

Since LCH Clearnet SA provides CCP services to markets outside France, its clearing activities are also subject to the regulation and oversight of the competent authorities in Belgium (Minister of Finance for the approval of the Rulebook, *National Bank of Belgium* and *Commission bancaire, Financière et des Assurances* – Banking, Financial and Insurance Commission), the Netherlands (the Minister of Finance, *De Nederlandsche Bank* and the securities supervisor *-Nederlandsche Autoriteit Financiele Markten* – the Netherlands Authority of Financial Markets), and Portugal (*Banco de Portugal* and the *Comissão do Mercado de Valores Mobiliários*), in accordance with, and to the extent permitted and required by, their national legal and statutory framework

The Company Board

The Articles of Association require that at each annual general meeting one third of the User and Independent directors (rounded down) retire from office, although each retiree may stand for re-election In practice, this means that every User and Independent director stands for re-election at least once every three years

In broad terms, the Board is responsible for creating and maintaining the framework within which the Company and its subsidiaries operate It sets strategy, objectives and policies, and approves budgets, material initiatives and commitments for the Company

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

The Board meets regularly and Board committee chairmen provide reports of their committee activities to the Board on a regular basis The Chief Executives of the subsidiary companies are also invited to attend Board meetings Auditors are invited to attend Board meetings where appropriate, as are members of senior management

All directors have access to the advice of the Company Secretary and the services of the staff in the Group Company Secretariat Independent professional advice is also available to directors in appropriate circumstances and at the Company's expense

Professional Development

The Company has developed an induction programme that is designed to enhance new directors' understanding of the business of the Group and of the sector Additional training is also available to directors on request, and continuing development on matters specific to the Group is effected by means of presentations to the Board and Board Committees

5.2 Board committees

There are four Board committees. Their composition is detailed below.

Audit Committee

Hervé Saint-Sauveur – Chairman
Nazir Badat
John Caouette
Simon Heale (resigned 1 October 2006)
Dominique Hoenn
David Pritchard

Nomination Committee

John Caouette – Chairman
Clara Furse
Simon Heale (resigned 1 October 2006)
Jean-François Théodore
Francesco Vanni d'Archirafi
Bob Wigley (appointed 3 May 2006)
Sir Adam Ridley

It is a requirement of the Company's Articles of Association that the Nomination Committee includes an individual who is not a director or otherwise connected to an Exchange or User Sir Adam Ridley satisfies this requirement

Independent Directors' Committee

Chris Tupker – Chairman (appointed 10 July 2006)
Gérard de la Martiniere (resigned 5 July 2006)
John Caouette
David Pritchard

Remuneration Committee

Chris Tupker – Chairman (appointed 10 July 2006)
Gérard de la Martiniere (resigned 5 July 2006)
John Caouette
David Pritchard

Subsidiary Risk Committees

Risk related matters affecting the Group are referred to the Group Audit Committee Matters concerning significant risks faced by the Group's operating subsidiaries are addressed by a Risk Committee of the relevant subsidiary Board, or, in the case of operational risk matters, by the Audit Committee of the relevant subsidiary

5.3 Relations with shareholders

The Company's Articles of Association require that in all but exceptional circumstances the shares in the Company are held by those within a closed community of key stakeholders including, most notably, the Company's Users and its Exchange partners The Articles also require that these key stakeholders are directly represented on the Company's Board These two aspects of the Company's constitution mean that shareholders have a particularly direct involvement in the business of the Company and the Group

In addition, the Company's subsidiaries ensure that the views of User-shareholders are duly considered, and incorporated into the Group's business practices where appropriate, by means of formal representative groups

The Board keeps shareholders informed of progress in the Group by way of statutory reports and annual general meetings

5.4 Accountability, audit and control

The statement of directors' responsibilities in relation to the financial statements is set out in Section 8 When reporting to shareholders, the Board aims to produce a balanced and comprehensible assessment of the Group's position and prospects The Board has overall responsibility for Group-wide systems of internal control and for reviewing their effectiveness These systems are designed to

· safeguard assets,

· ensure that proper accounting records are maintained,

· ensure that the financial information used within the business for publication is reliable, and

· ensure that the Company, and the wider Group, continue to meet their legal requirements, including those of LCH Clearnet Limited as a Recognised Clearing House in the UK and as a Derivatives Clearing Organization in the US, and those of LCH Clearnet SA (Banque Centrale de Compensation SA) as a bank and a clearing house to regulated markets in the Netherlands, France, Belgium and Portugal

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

The Audit Committee reviews the operation and effectiveness of the systems in place covering internal financial, operational, compliance, and risk management control processes for the financial year and the period up to the date of approval of the current financial statements

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

Organisation and culture

The Board seeks to engender a culture of integrity, competence, fairness and responsibility

Financial reporting

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

Identification of business risks

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

Internal audit function

The internal audit function in each subsidiary is responsible for monitoring the system of internal controls for that subsidiary A joint team made up of members of both internal audit departments operates to monitor internal controls at a Group level The Audit Committee approves the plans for internal audit review and receives the reports of the audit committees of the subsidiaries on a regular basis Actions are agreed with management in response to any issues raised in the internal audit reports produced

5.5 External auditors

The Audit Committee reviews the performance of the external auditors on a regular basis The policy in respect of services provided by external auditors is as follows

Audit related services

The external auditors are invited to provide services that, in their position as auditors, they must or are best placed to undertake This includes services related to borrowings, shareholders, regulatory reporting, acquisitions and disposals and other assurance services

General consulting

To mitigate the risk that their independence might be compromised, the external auditors are not invited to tender for more general consulting work

6 Remuneration report

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

6.1 Members of the remuneration committee

The membership of the Group Remuneration Committee is set out in the corporate governance statement in Section 5 2

6.2 Remuneration policy

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

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

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

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

There is a long-term incentive plan, which is a discretionary cash deferred bonus scheme A portion of the total bonus awarded is deferred and becomes payable three years after award providing the individual remains with the Group Under the Group's accounting policies the cost of this element of the bonus is allocated over the three year vesting period

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

6.3 Service contracts

Roger Liddell has a rolling employment contract with LCH Clearnet Limited, which can be terminated by the either party giving six months notice

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

The service contracts of the directors include the following terms

	Effective appointment date	
Roger Liddell	26 January 2005	Executive director
A Chris Tupker[1]	10 July 2006	Independent non-executive (Chairman)
David Pritchard[2]	22 December 2003	Independent non-executive
John Caouette[2]	22 December 2003	Independent non-executive
Dominque Hoenn[3]	22 December 2003	Appointed by Euronext
Olivier Lefebvre[3]	31 March 2004	Appointed by Euronext
Clara Furse[4]	29 January 2004	Appointed by Euronext
Jean Francois Theodore[3]	15 May 2003	Appointed by Euronext
Ignace Combes[3]	22 December 2003	Appointed by Euroclear
Peter Johnston[3]	1 September 2006	Appointed by Euroclear
Kevin Davis[2]	22 December 2003	User representative
Gerard Hartsink[2]	10 March 2005	User representative
Herve Saint-Sauveur[2]	22 December 2003	User representative
Francesco Vanni d'Archirafi[2]	10 March 2005	User representative
Naz Badat[2]	30 July 2004	User representative
Bob Wigley[2]	30 November 2005	User representative
David Peniket[3]	18 July 2006	Exchange representative
Charles Stonehill[3]	1 March 2007	Exchange representative

1 Director's contract is subject to a one month notice period by either party
2 Director's contract is subject to a six month notice period by the director or with immediate effect by the Company at any time by resolution at AGM or otherwise provided by the Articles
3 Director represents Euroclear or Exchange and contract is subject to six months notice by the director or with immediate effect by the Exchange
4 Director appointed under terms of RCPS and notice period in accordance with the Articles

6.4 Non-executive directors

Non-executive directors receive a fee for their services The Board determines the fees of non-executive directors that reflect the level of individual responsibilities and membership of Board committees

6.5 Directors' detailed emoluments

	Salary and fees	Benefits in kind	Annual bonus	Long term incentive plan	Compensation for loss of office	Total 2006	Total 2005
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Executive							
Roger Liddell	202	7	193	83	-	485	-
David Hardy	294	12	-	-	592	898	620
Patrice Renault	-	-	-	-	-	-	1,775
Non-executive							
A Chris Tupker	246	-	-	-	-	246	-
David Pritchard	108	-	-	-	-	108	76
Gerard de la Martinere	40	-	-	-	-	40	76
John Caouette	112	-	-	-	-	112	76
Richard Ward*	13	-	-	-	-	13	-
Dominique Hoenn*	64	-	-	-	-	64	-
Simon Heale*	52	-	-	-	-	52	-
Olivier Lefebvre*	51	-	-	-	-	51	-
Clara Furse*	64	-	-	-	-	64	-
Jean Francois Theodore*	64	-	-	-	-	64	-
Ignace Combes*	51	-	-	-	-	51	-
Kevin Davis**	51	-	-	-	-	51	-
Gerard Hartsink*	51	-	-	-	-	51	-
Herve Saint-Sauveur*	66	-	-	-	-	66	-
Francesco Vanni d'Archirafi*	64	-	-	-	-	64	-
Nazir Badat	64	-	-	-	-	64	-
Bob Wigley	64	-	-	-	-	64	-
Peter Johnston	17	-	-	-	-	17	-
David Peniket*	29	-	-	-	-	29	-
	1,767	19	193	83	592	2,654	2,623

*Director's fees are paid to the company the director is representing on the Board
**Kevin Davis has donated his fee to charity

Benefits in kind include company car allowance, and private health care contributions

Roger Liddell's full award under the long-term incentive plan was €83,000, of which €28,000 was recognised in the income statement under the Group's accounting policies

6.6 Interests in the long term incentive plan

Set out below are the total awards the directors have been awarded during the year as described in section 6 2

	At 1 January 2006 €'000	Awarded in year entitlement €'000	Paid in year 31 December €'000	At 31 December 2006 €'000
Roger Liddell	-	83	-	83
David Hardy	245	-	(245)	-
	245	83	(245)	83

6.7 Executive directors' pension entitlement

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

	Increase in pension entitlement during the period €'000	Accrued pension entitlement at 31 December 2006 €'000	Transfer value at 31 December 2006 €'000	Transfer value at 31 December 2005 €'000	Increase in transfer value less directors' contributions €'000
Roger Liddell	1	1	12	-	2
David Hardy	15	181	2,560	2,384	176
	16	182	2,572	2,384	178

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 3 1%

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

A. Chris Tupker
Chairman of the Remuneration Committee
12 March 2007

7 Directors' report

The directors of LCH Clearnet Group Limited present their report to shareholders, together with the audited consolidated financial statements for the year ended 31 December 2006

7.1 Principal activities

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

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

LCH Clearnet Limited is a Recognised Clearing House under the Financial Services and Markets Act 2000 and is recognised by the US Commodity Futures Trading Commission as a Derivatives Clearing Organization It provides central counterparty clearing services in respect of a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the United Kingdom, Europe and the USA, as well as those traded in the OTC markets

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

7.2 Business review and future developments and principal risks and uncertainties

A review of the activities within the Group during the year and likely future developments along with a description of the principal risks and uncertainties facing the Group is set out within the Chairman's statement, Chief Executive's review and operating and financial review in Sections 2, 3 and 4 respectively

7.3 Financial instruments

Details of the financial risk management objectives and policies of the Group and exposure of the Group to Interest Rate Risk, Foreign Exchange Risk, Credit Risk, Liquidity Risk and Market Risk is given in note 15 23 on pages 82 to 84

7.4 Group results and dividend

The Group results for the year are shown ın the consolıdated ıncome statement ın Sectıon 10

Profits of €123 6 mıllıon (2005 €53 9 mıllıon) made by the Group have been transferred to reserves

The dırectors do not recommend the payment of a dıvıdend to ordınary shareholders (2005 €Nıl)

7.5 Capıtal

There have been no changes to the authorısed share capıtal durıng the perıod covered by thıs report

Detaıls of movements ın capıtal resources are set out ın Sectıon 14 – Consolıdated statement of changes ın equıty At 31 December 2006, Group capıtal resources amounted to €725 1 mıllıon (2005 €603 4 mıllıon)

7.6 Charitable donations

The Group made donatıons for charıtable purposes durıng the perıod of €73,740 (2005 €89,360)

7.7 Directors and directors' interests

The current dırectors of the Company are lısted ın Sectıon 1 - General ınformatıon According to the Regıster of Dırectors' Interests, Roger Lıddell, Patrıck Bırley, John Caouette , Davıd Prıtchard and Chrıstophe Hémon each hold one share ın *Banque Centrale de Compensatıon SA* Each holds a share whılst servıng as a dırector of that company (Andrew Lamb and Davıd Hardy each held a share durıng 2006 untıl theır resıgnatıon as dırectors of that company) There were no further dısclosable ınterests recorded ın the Regıster of Dırectors' Interests

Informatıon relatıng to dırectors' remuneratıon ıs gıven ın the Remuneratıon report ın Sectıon 6

No other dırector holdıng office at 31 December 2006 had any beneficıal ınterest ın the shares of the Company or any of ıts subsıdıarıes durıng the year

7 8 Indemnity of Directors

Each dırector ıs ındemnıfied out of the assets of the Company agaınst all costs, charges, losses and lıabılıtıes ıncurred by them ın the proper exercıse of theır dutıes Dırectors who have resıgned durıng the year also benefited from the same ındemnıty arrangement

7.9 Transactions with directors and related parties

Details of transactions with related parties are set out in note 15 22 to the consolidated financial statements There were no transactions with the directors during the year

7.10 Staff

It is the policy of both the Company and Group as a whole to ensure that no staff members or job applicants face discrimination on the grounds of ethnic origin, colour, religion, gender, sexual orientation, age or disability Should an employee become disabled during his or her career with the Group, every effort will be made to ensure continued employment, with appropriate training

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

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

7.11 Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2006, the Company had an average of 18 days purchases owed to trade creditors

7.12 Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that

i So far as the director is aware, there is no relevant audit information, of which the company's auditors are unaware, and

ii The director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

7.13 Auditors

Ernst & Young LLP were re-appointed auditors of the Company at the AGM on 26 June 2006 and have indicated their willingness to be re-appointed under the provisions of the Companies Act 1985

7.14 Events since the balance sheet date

On 14 February 2007 the Board announced that it had reached agreement in principle regarding the repurchase of the majority of shares held by its largest shareholder, Euronext, which would leave it with 5% of the ordinary share capital compared to 100% of the redeemable convertible preference shares and 29 85% of the ordinary shares that it currently holds More details are provided in note 15 25

By order of the Board

Jackie Alexander
Company Secretary
12 March 2007

8 Statement of Directors' responsibilities

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

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period In preparing those financial statements, the directors are required to

- Select suitable accounting policies in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and then apply them consistently,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance, and
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

We have audited the Group and parent company financial statements (the "financial statements") of LCH Clearnet Group Limited for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the related notes 15 1 to 15 25 These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements The information given in the directors' report includes that specific information presented in the Chief Executive's Review and the Operating and Financial Review that is cross referred from the Business Review section of the directors' report

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the directors' report, the Chairman's

Statement, the Chief Executive's Review, the Operating and Financial Review, the Corporate Governance Statement and the Remuneration 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 audit opinion

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

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

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP.

Ernst & Young LLP
Registered auditor
London
Date 12 March 2007

10 Consolidated income statement

For the year ended 31 December 2006

	Note	2006 €'000	2005 €'000
Revenue			
Interest income	15 4 1	790,798	439,705
Interest expense and similar charges	15 4 1	(733,278)	(405,972)
Net interest income	15 4 1	57,520	33,733
Clearing fees	15 4 1	421,844	328,695
Other fee income	15 4 1	22,254	21,932
		501,618	384,360
Fees payable and similar charges	15 4 1	(57,926)	(34,720)
Net revenue	15 4 1	443,692	349,640
Costs and expenses			
Employee benefits expense	15 19 1	(71,929)	(70,470)
Depreciation and amortisation charge	15 5 1	(14,639)	(11,966)
Write-off of capitalised development costs	15 5 1	(47,822)	(20,106)
Other operating expenditure	15 5 2	(131,667)	(153,675)
Restructuring costs	15 5 3	-	(7,075)
Total costs and expenses		(266,057)	(263,292)
Operating profit		177,635	86,348
Finance income	15 5 4	14,262	7,450
Finance costs	15 5 4	(10,032)	(8,155)
Profit before taxation		181,865	85,643
Taxation expense	15 6 1	(58,216)	(31,757)
Profit for the year		123,649	53,886

The results for both years are in respect of continuing operations
The notes on pages 42 to 88 form an integral part of these consolidated financial statements

11 Group and Company balance sheets

As at 31 December 2006

	Note	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000	Company 2005 €'000
Non-current assets					
Intangible assets	15 8	520,261	576,697	-	-
Property, plant and equipment	15 10	7,616	6,815	39	-
Investments	15 11	-	-	673,481	673,481
Other financial assets	15 12	15,000	15,000	-	-
Deferred taxation	15 6 3	18,821	6,565	3	-
		561,698	605,077	673,523	673,481
Current assets					
Cash and short-term investments	15 13	15,701,719	15,448,406	42,044	11,773
Income tax receivable		-	-	1,016	-
Debtors and other receivables	15 14	70,563	89,921	5,990	7,056
Balances with clearing members	15 15	257,779,047	246,509,349	-	-
		273,551,329	262,047,676	49,050	18,829
Total assets		274,113,027	262,652,753	722,573	692,310
Equity and liabilities					
Capital and reserves					
Called up share capital	14, 15 16	100,116	100,116	100,116	100,116
Capital reserves	14	376,371	376,371	361,044	361,044
Translation reserve	14	5,263	2,403	-	-
Retained earnings	14	243,358	124,486	58,610	29,754
		725,108	603,376	519,770	490,914
Non-current liabilities					
Interest bearing loans and borrowings	15 17	225,840	225,840	198,840	198,840
Default Funds	15 18	1,732,671	1,542,430	-	-
Employee benefits	15 19 2	46,953	37,230	-	-
		2,005,464	1,805,500	198,840	198,840
Current liabilities					
Interest bearing loans and borrowings	15 17	1,249	12,124	-	-
Income tax payable		30,413	10,908	-	-
Creditors and other payables	15 20	82 949	91,235	3,963	2,556
Balances with clearing members	15 15	271,267,844	260,129,610	-	-
		271,382,455	260,243,877	3,963	2,556
Total equity and liabilities		274,113,027	262,652,753	722,573	692,310

A. Chris Tupker
Chairman

The notes on pages 42 to 88 form an integral part of these consolidated financial statements
The consolidated financial statements were approved by the Board on 12 March 2007

12 Consolidated cash flow statement

For the year ended 31 December 2006

	Note	2006 €'000	2005 €'000
Cashflows arising from operating activities			
Operating profit	10	177,635	86,348
Adjustments to reconcile Group operating profit to net cash inflows from operating activities			
Depreciation, amortisation and write-off	15 5 1	62,302	31,867
Loss on disposal of assets	15 5 1	159	205
Decrease in debtors and other receivables		19,990	9,764
Increase in employee benefits		2,135	6,446
Decrease in creditors and other payables		(8,818)	(20,922)
Margin monies cash (outflow)/inflow		(350,755)	4,879,651
Monies lodged with Euroclear default fund		-	(15,000)
Increase in Default Funds		171,743	218,860
Net cash inflow from operations		**74,391**	5,197,219
Taxation received		2,757	2,878
Taxation paid		(51,624)	(25,984)
Net cash inflows from operating activities		**25,524**	5,174,113
Investing activities			
Investment in intangible assets	15 8	(3,777)	(14,011)
Purchase of property, plant and equipment	15 10	(2,996)	(607)
Proceeds from disposal of fixed assets		53	-
Investment in financial assets maturing in three to six months		86,231	(1,268,000)
Net cash inflow / (outflow) from investing activities		**79,511**	(1,282,618)
Financing activities			
Interest paid	15 5 4	(10,032)	(8,155)
Interest received	15 5 4	14,262	7,450
Net cash generated from / (used in) financing activities		**4,230**	**(705)**
Increase in cash and cash equivalents		**109,265**	**3,890,790**
Cash and cash equivalents at 1 January		14,168,282	10,132,801
Effects of foreign exchange movements		228,052	144,691
Cash and cash equivalents at 31 December		**14,505,599**	**14,168,282**
Cash and cash equivalents at 31 December comprise			
Investments in secured short term loans		10,851,746	11,158,685
Cash at bank and in hand		4,849,973	4,289,721
	15 13	15,701,719	15,448,406
Bank overdrafts and loans	15 17	(1,249)	(12,124)
Financial assets maturing in three to six months		(1,194,871)	(1,268,000)
		14,505,599	**14,168,282**

The notes on pages 42 to 88 form an integral part of these consolidated financial statements

13 Company cash flow statement

For the year ended 31 December 2006

	Note	2006 €'000	2005 €'000
Cashflows arising from operating activities			
Operating loss		(4,933)	(1,954)
Adjustments to reconcile Company operating loss to net cash outflows from operating activities			
Depreciation		5	-
Decrease/(increase) in debtors and other receivables		720	(3,678)
Increase/(decrease) in creditors and other payables		1,948	(2,772)
Net cash outflow from operations		**(2,260)**	**(8,404)**
Taxation paid		(78)	-
Net cash outflows from operating activities		**(2,338)**	**(8,404)**
Investing activities			
Purchase of property, plant and equipment		(44)	-
Net cash outflow from investing activities		**(44)**	**-**
Financing activities			
Interest paid	15 5 4	(8,279)	(6,768)
Interest received on shareholders' funds		882	203
Dividends received from subsidiary undertakings		40,050	26,478
Net cash generated from financing activities		**32,653**	**19,913**
Increase in cash and cash equivalents		**30,271**	**11,509**
Cash and cash equivalents at 1 January		11,773	264
Cash and cash equivalents at 31 December		**42,044**	**11,773**
Cash and cash equivalents at 31 December comprise			
Investments in secured short term loans		41,500	11,750
Cash at bank and in hand		544	23
	15 13	42,044	11,773

The notes on pages 42 to 88 form an integral part of these consolidated financial statements

14 Consolidated and Company statements of changes in equity

For the year ended 31 December 2006

LCH Clearnet Group Limited consolidated financial statements

	Equity share capital €'000	Capital reserves €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2005	100,116	376,371	(536)	72,978	548,929
Retained profit for the year	-	-	-	53,886	53,886
Actuarial loss recognised in the pension scheme	-	-	-	(3,397)	(3,397)
Deferred tax relating to the actuarial loss	-	-	-	1,019	1,019
Foreign exchange adjustments	-	-	2,939	-	2,939
Shareholders' equity at 31 December 2005	100,116	376,371	2,403	124,486	603,376
Retained profit for the year	-	-	-	123,649	123,649
Actuarial loss recognised in the UK pension scheme	-	-	-	(7,212)	(7,212)
Deferred tax relating to the actuarial loss	-	-	-	2,164	2,164
Actuarial gain recognised in the Amsterdam pension scheme	-	-	-	382	382
Current tax relating to the actuarial gain	-	-	-	(111)	(111)
Foreign exchange adjustments	-	-	2,860	-	2,860
Shareholders' equity at 31 December 2006	100,116	376,371	5,263	243,358	725,108

LCH Clearnet Group Limited

	Equity share capital €'000	Capital reserves €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2005	100,116	361,044	11,269	472,429
Retained profit for the year	-	-	18,485	18,485
Shareholders' equity at 31 December 2005	100,116	361,044	29,754	490,914
Retained profit for the year	-	-	28,856	28,856
Shareholders' equity at 31 December 2006	100,116	361,044	58,610	519,770

The notes on pages 42 to 88 form an integral part of these consolidated financial statements

15 Notes to the consolidated financial statements

15.1 Authorisation of financial statements and statement of compliance with IFRS

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)

Authorisation for publication

The financial statements for the Company, and the consolidated financial statements of the Group, for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 12 March 2007 and the balance sheets were signed on the Board's behalf by the Group Chairman, A Chris Tupker

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

Statement of compliance

Both the financial statements of the Company and the consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with IFRS The Company has taken advantage of the exemption provided under Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out on pages 43 to 52 These policies have been applied during the years ended 31 December 2006 and 31 December 2005

15.2 Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2006 reporting and with those parts of the Companies Act 1985 (the Act) applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention, as modified by the valuation of investments available for sale and financial assets and liabilities held for trading A summary of significant accounting policies is set out below, together with an explanation of changes to previous policies on the adoption of new accounting standards

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and other intangible assets and measurement of defined benefit pension obligations The Group determines whether indefinite life goodwill is impaired on an annual basis and this requires an estimation of the value in use of cash generating units to which the goodwill is allocated Other assets are assessed when an indication of impairment arises This requires the estimation of future cash flows and choosing a suitable discount rate (see note 15 9) Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 15 19)

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

15.2 Summary of significant accounting policies continued

a) Presentational currency

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

b) Basis of consolidation

Subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases Control comprises the power to govern the financial and operating policies of the subsidiary so as to obtain benefit from its activities and is achieved through direct ownership of voting rights

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies Adjustments are made to bring into line any dissimilar accounting policies that may exist All significant intra-group balances and transactions have been eliminated on consolidation LCH Clearnet SA has been consolidated under the acquisition method of accounting, and merger accounting principles are followed as if the Company had always been the parent company of LCH Clearnet Limited following the introduction of the Company as the new holding company of LCH Clearnet Limited by way of a Scheme of Arrangement under Section 425 of the Act

c) Investments

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

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

15.2 Summary of significant accounting policies continued

d) Foreign currencies

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

Exchange differences arising from the translation of the balance sheets of foreign currency denominated subsidiaries are taken directly to the translation reserve in equity All other exchange differences are recognised in the consolidated income statement

e) Goodwill

Goodwill arising on acquisition is initially measured at cost (being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities) and is capitalised in the balance sheet within intangible assets and not amortised

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

f) Intangible assets other than goodwill

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

Self-developed software	-	over 3 years
Patents	-	over 5 years

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

15.2 Summary of significant accounting policies continued

g) Property, plant and equipment

Property, plant and equipment is initially recognised at cost and capitalised in the balance sheet and is stated at cost less accumulated depreciation and accumulated impairment losses Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on current prices, of each asset over its expected useful life as follows

Leasehold refurbishment	- over the term of the lease
Computer equipment and purchased software	- over 3 years
Office equipment and other fixed assets	- between 3 and 5 years

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

h) Impairment of goodwill, intangible assets, and property, plant and equipment

Goodwill is subject to an annual impairment review, or a more frequent review if there are events or changes in circumstances that indicate that the carrying amount of the goodwill may not be fully recoverable Other intangible assets and property, plant and equipment are subject to an impairment review if there are events or changes in circumstances that indicate that the carrying amount of the fixed asset may not be fully recoverable

For the purpose of impairment testing, goodwill and other assets are allocated to cash-generating units monitored by management, usually at statutory company or business segment level as the case may be The impairment review involves a comparison of the carrying amount of the goodwill or other asset allocated to the related cash-generating units, with its recoverable amount, which is the higher of fair value less costs to sell and value in use Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of, less the costs associated with the sale Value in use is calculated by discounting the expected future cashflows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis The carrying values of goodwill, intangible asset or property, plant and equipment are written down by the amount of any impairment and this loss is recognised in the income statement in the year in which it occurs

15.2 Summary of significant accounting policies continued

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

i) Financial instruments

All transactions within 'balances with clearing members' are recorded on a settlement date basis Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Financial assets are classified in the following categories cash at bank and in hand, short-term deposits, and debtors Financial assets are recorded in these respective categories upon initial recognition

Assets within the cash at bank and in hand category comprise short-term investments with tenors falling within 3 months These are non-derivative financial assets with fixed or determinable payments whose recoverability is based solely on the credit risk of the counterpart and where the Group has no intention of trading the loan Cash at bank and in hand assets are initially recognised at fair value and subsequent recognition is at amortised cost using the effective interest method, if the time value of money is significant

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

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

j) Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost

15.2 Summary of significant accounting policies continued

k) Derecognition of financial assets and financial liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement

l) Cash and cash equivalents

The components of cash and cash equivalents are disclosed in the cashflow statement and reconciled to the equivalent items reported in the balance sheet

m) Taxation

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

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences

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

15.2 Summary of significant accounting policies continued

n) Provisions

Provisions are recognised for present obligations arising as consequences of past events, where it is probable that a transfer of economic benefits will be necessary to settle the obligation and it can be reliably estimated All provisions, except for those arising under pension liabilities, are undiscounted where not material

o) Share capital and share premium

Ordinary shares are included in shareholders' funds Other instruments (including redeemable cumulative preference shares) are classified as liabilities if there is an obligation to transfer economic benefits and if not they are included in shareholders' funds The finance cost recognised in the income statement in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount

p) Redeemable convertible preference shares (RCPS)

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

q) Revenue recognition

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

r) Segment reporting

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

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

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

15.2 Summary of significant accounting policies continued

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

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

s) Employee benefits

The Group operates a defined benefit pension scheme for its UK employees (the LCH Pension Scheme) that requires contributions to be made to a separate trustee-administered fund

The Group has also committed to assume obligations in respect of certain staff in the Euronext defined benefit pension scheme in Amsterdam who transferred their employment to LCH Clearnet SA in 2004 The obligations in respect of certain staff in an independent defined benefit scheme in Porto were assumed in 2006 An updated valuation of these funds was carried out at 31 December 2006 by a qualified independent actuary

A full actuarial valuation of the LCH Pension Scheme was carried out at 30 June 2004 and partially updated to 31 December 2006 by a qualified independent actuary Major assumptions used by the actuary are included within note 15 19 2

The cost of providing benefits under the defined benefit plans is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested When a settlement or a curtailment occurs, the charge in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement Losses are measured at the date that the employer becomes demonstrably committed to the transaction, and gains are measured when all parties whose consent is required are irrevocably committed to the transaction

15.2 Summary of significant accounting policies continued

s) cont'd The interest element of the defined benefit cost represents the change in the present value of scheme obligations relating from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year The difference between the expected return on plan assets and the interest cost is recognised in the income statement within employee benefits

Actuarial gains and losses are recognised in full in the statement of changes in equity in the period in which they occur The defined benefit pension liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of plan assets out of which the obligations are to be settled directly Fair value is based on market price information, and in the case of quoted securities is the published mid-market price

The Group also has obligations in respect of unfunded early retirement plans in Paris This is in compliance with a 2001 agreement with Euronext Paris personnel and these provisions are included in employee benefits They have been calculated by an independent actuary

t) Borrowing costs

Borrowing costs are recognised as an expense when incurred

u) Dividends

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

v) Exceptional items

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

15.2 Summary of significant accounting policies continued

w) Other financial assets

Other financial assets are recognised at cost

x) Leases

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases Rentals payable under operating leases are charged in the consolidated income statement on a straight-line basis over the lease term Lease incentives are recognised over the lease term

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

y) New standards and interpretations not applied

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

International Accounting Standard (IAS/IFRS)		Effective date
IFRS 7	Financial Instruments Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements Capital Disclosures	1 January 2007

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

The Group does not anticipate that the adoption of IFRS 8, the IAS 1 amendment, IFRIC 11 or IFRIC 12 will have a material impact on the Group's financial statements in the period of initial application

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks they give rise to More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail There will be no effect on reported income or net assets

15.3 Exchange rates

The most significant exchange rates to the Euro for the Group are as follows

	2006 Closing rate	2006 Average rate	2005 Closing rate	2005 Average rate
Pound (£) to Euro (€)	1 48	1 47	1 45	1 46

15.4 Segment information

15.4.1 Geographical segments

	2006			2005		
	UK[1]	Europe[2]	Total	UK	Europe	Total
Revenue	€'000	€'000	€'000	€'000	€'000	€'000
Interest income						
Treasury	514,826	213,994	728,820	256,865	129,835	386,700
Default Fund	40,259	21,719	61,978	39,880	13,125	53,005
	555,085	235,713	790,798	296,745	142,960	439,705
Interest expense						
Treasury	(456,099)	(205,452)	(661,551)	(220,472)	(123,049)	(343,521)
Default Fund	(50,008)	(21,719)	(71,727)	(49,326)	(13,125)	(62,451)
	(506,107)	(227,171)	(733,278)	(269,798)	(136,174)	(405,972)
Net Interest income	48,978	8,542	57,520	26,947	6,786	33,733
Sales to external customers						
Clearing fees	192,141	229,703	421,844	150,295	178,400	328,695
Fees payable and similar charges	-	(57,926)	(57 926)	-	(34,720)	(34,720)
	192,141	171,777	363,918	150,295	143,680	293,975
Other fee income	15,443	21,685	37,128	13,992	19,282	33,274
Inter-segment	(9,914)	(4,960)	(14,874)	(8,859)	(2,483)	(11,342)
	5,529	16,725	22,254	5,133	16,799	21,932
Segment Revenue	**246,648**	**197,044**	**443,692**	**182,375**	**167,265**	**349,640**
Result						
Segment result	76,633	101,002	177,635	17,488	68,860	86,348
Net finance income/ (cost)	417	3,813	4,230	(2,905)	2,200	(705)
Profit before tax	77,050	104,815	181,865	14,583	71,060	85,643
Tax expense	(23,508)	(34,708)	(58,216)	(6,907)	(24,850)	(31,757)
Profit for the year	53,542	70,107	123,649	7,676	46,210	53,886

15.4 Segment information continued

	UK[1]	Europe[2]	Total	UK	Europe	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Assets and liabilities						
Total assets	210,224,321	63,888,706	274,113,027	212,496,309	50,156,444	262,652,753
Total liabilities	(209,576,377)	(63,811,542)	(273,387,919)	(212,414,514)	(49,634,863)	(262,049 377)
Other segment information						
Capital expenditure on fixed assets	3,810	2,963	6,773	6,285	8,333	14,618
Depreciation and loss on disposal	1,763	534	2,297	2,097	638	2,735
Amortisation	4,927	7,415	12,342	2,884	6,347	9,231
Impairment losses	47,822	-	47,822	20,106	-	20,106

[1] UK comprise LCH Clearnet Ltd and LCH Clearnet Group Ltd

[2] Europe comprises LCH Clearnet SA, including its branches in Amsterdam, Brussels and Porto

15.4 Segment information continued

15.4.2 Business segments

	2006				
	Equities[1]	Fixed income[2]	Derivatives and swaps[3]	Commodities and energy[4]	Total
	€'000	€'000	€'000	€'000	€'000
Net revenue					
Sales to external customers	165,360	33,584	147,776	98,054	444,774
Inter-segment	-	-	-	(1,082)	(1,082)
Segment revenue	165,360	33,584	147,776	96,972	443,692
Other segment information					
Total assets	635,413	267,254,275	3,400,918	2,822,421	274,113,027
Capital expenditure on fixed assets	1,513	3,527	927	806	6,773

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

[1] Equities comprise LSE, Euronext cash markets, virt-x and EDX

[2] Fixed Income comprises RepoClear

[3] Derivatives comprise Euronext liffe and SwapClear

[4] Commodities and energy comprise Powernext, LME, ICE, ICE Futures (formerly IPE) and Endex

15.5 Profit before taxation

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

		2006	2005
		€000	€000
15 5 1	***Depreciation, amortisation and impairment***		
	Depreciation of property, plant and equipment	2,138	2,530
	Amortisation of intangible assets	12,342	9,231
	Loss on disposal of fixed assets	159	205
		14,639	11,966
	Write-off of capitalised development costs	47,822	20,106
		62,461	32,072
15 5 2	***Other operating expenditure***		
	Hire of plant and machinery under operating leases	292	198
	Property lease rentals	6,708	7,775
	Outsourced IT infrastructure	38,264	49,701
	Self-developed software expensed directly to the income statement	12,231	26,051
	Auditors remuneration		
	Audit related - Company	134	327
	Audit related - subsidiaries	550	461
	Non-audit related – Company	89	-
	Non-audit related - subsidiaries	185	68
15 5 3	***Restructuring costs***		
	Costs relating to the integration of acquired businesses	-	7,075
15 5 4	***Net finance income/(cost)***		
	Interest paid in respect of		
	Redeemable convertible preference shares	(8,279)	(6,768)
	Subordinated loan	(990)	(780)
	Interest on bank loans and overdrafts repayable within 5 years	(763)	(607)
		(10,032)	(8,155)
	Interest received on shareholders funds	14,262	7,450
		4,230	(705)

15.6 Taxation

The major components of taxation expense are

15 6.1 **Consolidated income statement**

	Note	2006 €'000	2005 €'000
Current income tax			
United Kingdom			
Corporation tax		(52,184)	(18,719)
Double taxation relief		18,458	12,333
Current tax charge		(33,726)	(6,386)
Adjustments in respect of current taxation in previous years		2,326	12
		(31,400)	(6,374)
Overseas			
Current tax charge		(37,224)	(24,448)
Adjustments in respect of current taxation in previous years		505	41
		(36,719)	(24,407)
Total current taxation		(68,119)	(30,781)
Deferred tax			
Relating to the origination and reversal of temporary differences	15 6 3	9,903	(976)
Taxation expense reported in the consolidated income statement	10	(58,216)	(31,757)

Consolidated statement of changes in equity

	Note	2006 €'000	2005 €'000
Current tax relating to actuarial gain on Amsterdam scheme	14	(111)	-
Deferred tax relating to actuarial loss on UK scheme	14	2,164	1,019
		2,053	1,019

15 6 2 **Reconciliation of tax expense**

	Note	2006 €'000	2005 €'000
Accounting profit before taxation		181,865	85,643
Tax at UK statutory corporation tax rate of 30% (2005 30%)		(54,560)	(25,693)
Effect of			
Adjustments in respect of tax in previous years		2,409	29
Expenditure not allowable for tax purposes		(2,985)	(2,617)
Net effect of higher rates of overseas taxation		(3,080)	(3,476)
Total tax charge	15 6 1	(58,216)	(31,757)
Effective income tax rate (%)		32 0	37 1

15.6 Taxation continued

15 6 3 Deferred tax

	Consolidated balance sheet		Consolidated income statement	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Post-employment benefits	14,008	11,345	275	886
Reduced/(accelerated) depreciation for tax purposes	2,921	(5,117)	8,070	(1,968)
Other timing differences	1,892	337	1,558	106
Deferred tax credit/(charge)			9,903	(976)
Net deferred tax asset	18,821	6,565		

Reconciliation

Net deferred tax asset at 1 January 2006	6,565
Consolidated income statement	9,903
Deferred tax relating to actuarial loss	2,164
Other movements	189
Net deferred tax asset at 31 December 2006	18,821

Other movements are principally due to exchange differences

15.7 Profits of the holding company

The retained profit for the year includes a profit of €28,856,000 (2005 profit €18,485,000) which is dealt with in the accounts of LCH Clearnet Group Limited

15.8 Intangible assets

	Patents	Self-developed software	Goodwill	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2006	16	136,786	503,836	640,638
Additions	-	3,777	-	3,777
Disposals	-	(67,981)	-	(67,981)
Exchange adjustments	-	1,144	-	1,144
At 31 December 2006	16	73,726	503,836	577,578
Accumulated amortisation				
At 1 January 2006	16	63,925	-	63,941
Amortisation charge for the year	-	12,342	-	12,342
Write-off	-	47,822	-	47,822
Disposals	-	(67,928)	-	(67,928)
Exchange adjustments	-	1,140	-	1,140
At 31 December 2006	16	57,301	-	57,317
Net book value				
At 31 December 2006	-	16,425	503 836	520,261
At 1 January 2006	-	72,861	503,836	576,697
Cost				
At 1 January 2005	16	120,169	503,836	624,021
Additions	-	14,011	-	14,011
Exchange adjustments	-	2,606	-	2,606
At 31 December 2005	16	136,786	503,836	640,638
Accumulated amortisation				
At 1 January 2005	10	34,292	-	34,302
Amortisation charge for the year	6	9,225	-	9,231
Write-off	-	20,106	-	20,106
Exchange adjustments	-	302	-	302
At 31 December 2005	16	63,925	-	63,941
Net book value				
At 31 December 2005	-	72,861	503,836	576,697
At 1 January 2005	6	85,877	503,836	589,719

The balance of capitalised self-developed software costs that relates to software not currently brought into use at 31 December 2006, and against which no amortisation has been charged during the year then ended, was €2,567,000 (2005 €60,420,000) following a write-off of €47,822,000 (2005 €20,106,000)

Self-developed software costs expensed directly to the income statement are set out in note 15 5 2

15.9 Impairment testing of intangible assets

Goodwill

Goodwill of €503,866,000 is carried in relation to LCH Clearnet SA The recoverable amount associated with this subsidiary is determined based on value-in-use calculations These calculations use cash flow projections derived from financial forecasts by management covering a five-year period Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2% This long-term growth rate does not exceed the long-term average growth rate for the markets which LCH Clearnet SA clears

In preparing the forecasts, management has made certain assumptions Amongst these, growth in clearing volumes and tariff levels are the most important, they are also inter-related As volumes grow, the Group expects to be able to reduce tariffs Management determined budgeted gross margin based on past performance and its expectations for the market development Cash flows are discounted using a pre-tax discount rate of 11 8%, which reflects the specific risks relating to the relevant segments

Self-developed software

During the first half of the year the Group undertook a further review of its technology strategy As a result of this review, the Group has decided not to continue to use assets from the Generic Clearing System (GCS) within its technology strategy Accordingly, a €47,822,000 write-off (2005 €20,106,000), which substantially relates to those assets, has been recognised in the consolidated income statement The programme has now been fully written off

15.10 Property, plant and equipment

	Leasehold refurbishment	Computer equipment software	Office equipment and other fixed assets	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2006	6,547	15,490	3,979	26,016
Additions	427	2,229	340	2,996
Disposals	(701)	-	(701)	(1,402)
Exchange adjustments	87	375	51	513
At 31 December 2006	6,360	18,094	3,669	28,123
Accumulated depreciation				
At 1 January 2006	2,824	13,672	2,705	19,201
Depreciation charge for the year	555	1,171	412	2,138
Disposals	(576)	-	(667)	(1,243)
Exchange adjustments	55	314	42	411
At 31 December 2006	2,858	15,157	2,492	20,507
Net book value				
At 31 December 2006	3,502	2,937	1,177	7,616
At 1 January 2006	3,723	1,818	1,274	6,815

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

15.11 Investments

Investments in subsidiaries	Company 2006 €'000	Company 2005 €'000
Investments in subsidiary undertakings at the beginning and end of the year	673,481	673,481

Investments in subsidiary undertakings are stated at cost As permitted by section 133 of the Companies Act 1985, where relief afforded under section 13 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings

The trading subsidiaries are as follows

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

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

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

15.12 Other financial assets

	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000	Company 2005 €'000
Euroclear default fund	15,000	15,000	-	-

LCH Clearnet SA is a member of Euroclear and, by the terms of membership, has to maintain a contribution in the Euroclear Default Fund

15.13 Cash and short-term investments

	Group		Company	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Cash at bank and in hand	4,849,973	4,289,721	544	23
Short-term deposits	10,851,746	11,158,685	41,500	11,750
	15,701,719	15,448,406	42,044	11,773

15.14 Debtors and other receivables

	Group		Company	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Amounts falling due within one year				
Other debtors	23,838	25,113	4,960	5,072
Amounts owed by Group undertakings	-	-	1,011	1,977
	23,838	25,113	5,971	7,049
Prepayments and accrued income	46,725	64,808	19	7
	70,563	89,921	5,990	7,056

15.15 Balances with clearing members

	Group	
	2006	2005
	€'000	€'000
Assets		
Fair value of transactions with clearing members, less variation margin	257,238,206	246,064,854
Initial margin and other clearing member balances	540,841	444,495
	257,779,047	246,509,349
Liabilities		
Fair value of transactions with clearing members, less variation margin	(257,233,786)	(246,062,009)
Initial margin and other clearing member balances	(14,034,058)	(14,067,601)
	(271,267,844)	(260,129,610)

The net balances due from clearing members recorded in the balance sheet of €257,779 million (2005 €246,509 million) are fully secured by non-cash collateral or guarantees held by the Group

At 31 December 2006, the total of fully collateralised loans in respect of Fixed Income transactions was €251,305 million (2005 €241,886 million) This collateral has in turn, been passed on to fixed income counterparties to secure the Group's liabilities in respect of fixed income contracts

The total net amount of non-cash collateral, including that in respect of initial margin, relating to other balances due from clearing members was €28,160 million (2005 €20,644 million) and the total amount of guarantees held was €4,621 million (2005 €4,760 million)

15.16 Issued capital and reserves

	Group		Company	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Authorised				
130,116,001 ordinary shares of €1 each	130,116	130,116	130,116	130,116
Issued and fully paid				
100,115,977 ordinary shares of €1 each	100,116	100,116	100,116	100,116

Share capital

The balance classified as share capital includes the total nominal value on issue of the Company's equity share capital, comprising €1 ordinary shares

Capital reserves

The balance on this reserve represents the sum of

- the difference between the 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
- 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,

less

- the premium of €178,956 million on the RCPS which is classified under non-current liabilities

Translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of LCH Clearnet Limited

15.17 Interest bearing loans and borrowings

	Effective interest rate % in note	Maturity	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000	Company 2005 €'000
Current						
Bank overdrafts	15 17 1	On demand	1,249	12,124	-	-
Non-current						
Redeemable convertible preference shares	15 17 2a	15 17 2c	198,840	198,840	198,840	198,840
Subordinated loan	15 17 3	15 17 3	27,000	27,000	-	-
			225,840	225,840	198,840	198,840

15.17.1 Bank overdrafts

The Group operates a number of overdrafts in various currencies with effective rates of interest varying between 3 375% and Euro OverNight Index Average (EONIA)

15.17.2 Redeemable convertible preference shares

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

15.17 2a Dividend

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

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

15.17 Interest bearing loans and borrowings continued

15.17.2b Return of capital

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

15.17.2c Redemption

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

If the Company fails to redeem RCPS on the redemption date, the Company will redeem such RCPS as soon as it is lawfully able to do so The RCPS dividend will increase to LIBOR plus 400 basis points if not redeemed by 22 December 2008 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

15.17.2d 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

15.17.2e Conversion

On the occurrence of a RCPS conversion event, the RCPS to be converted shall convert on a one for one basis into, and shall be designated as, ordinary shares A RCPS conversion event is defined as 1) the transfer of RCPS outside the Euronext Group, 2) following the issue of ordinary shares, subject to the conversion not exceeding the Euronext voting capital of 24 9%, 3) following the expiry of the Euronext voting cap period (not earlier than 22 December 2008), 4) following the sixth anniversary of RCPS issuance (22 December 2009) Euronext will have the option to convert

15.17 Interest bearing loans and borrowings continued

15.7.3 Subordinated loan

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

- From August 2004 to 20 September 2004 at 0 7% above one month EURIBOR
- From 21 September 2004 to 20 September 2009 at 0 7% above three month EURIBOR
- From 21 September 2009 at 1 2% above three month EURIBOR

The initial rate was 2 875% The loan has a redemption date of 21 September 2014 but may, subject to Commission bancaire approval, be repaid upon 30 days notice, but no earlier than 21 September 2009 It is quoted on the Luxembourg Stock Exchange

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

15.7.4 Undrawn borrowing facilities

As at 31 December 2006 the Group has undrawn borrowing facilities of €152 1m

15.18 Default funds

	2006	2005
	€'000	€'000
LCH Clearnet SA Default Funds		
OTC fund	162,833	173,495
Other funds	700,522	524,723
	863,355	698,218
LCH Clearnet Limited Default Fund	869,316	844,212
	1,732,671	1,542,430

15.18 Default funds continued

Default Funds

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

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

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

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

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

15.19 Employee benefits

15.19.1 Employees and directors

Employee benefits expense	2006	2005
	€'000	€'000
Wages and salaries	52,515	51,194
Social security costs	10,110	10,624
Pension costs	9,304	8,618
Post-employment benefits (other than pensions)	-	34
Employee benefits expense	71,929	70,470
Redundancy (included in restructuring costs)	-	5,614
	71,929	76,084
Average monthly number of people (including executive directors) employed	464	480

	Group	
Directors	2006	2005
	€'000	€'000
Total remuneration paid to directors of the Company		
Emoluments	2,654	2,623
Pension contributions	168	75
	2,822	2,698

Directors' emoluments recorded in the income statement were €2,599,000, which is €55,000 lower than total emoluments due to the accounting treatment of the long term incentive plan as described in section 6 2 Full details of directors' remuneration are disclosed in section 6 5

Remuneration of the highest paid director was €1,052,248 (2005 €694,559) including €154,350 (2005 €74,500) pension contributions

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is one (2005 one)

The value of the accrued pension of the highest paid director in office at 31 December 2006 was €1,119 (2005 €165,756)

15.19 Employee benefits continued

15.19.2 Pension commitments

The Group operates a defined benefit pension scheme for its employees in the UK (the LCH Pension Scheme) In addition, the Group is committed to take on obligations in respect of certain staff in a Euronext defined benefit pension scheme in Amsterdam and an independent defined benefit scheme in Porto As at 31 December the UK scheme has 335 active members and 333 inactive members The Amsterdam scheme has 15 active and 7 inactive members, whilst the Porto scheme (which only transferred to the Group in December 2006) has only 4 active members The following disclosure represents the consolidated position of these arrangements

The valuations of the UK scheme conducted for financial reporting purposes are based on the triennial actuarial valuation The other schemes are subject to a full valuation at 31 December 2006 A summary of the latest triennial valuation for the UK scheme, as at 30 June 2004, is as follows

Actuarial method used	Projected unit
Rate of investment returns per annum	7 0%
Increase in earnings per annum	4 75%
Scheme assets taken at market value	€54,721,000
Funding level	47%

The most recent triennial valuation is then updated by an independent professionally qualified actuary for financial reporting purposes in accordance with IAS 19 The main actuarial assumptions underlying the IAS 19 valuations are

15.19 Employee benefits continued

15.19.2 Pension commitments continued

	2006		2005	
Assumptions used	UK Scheme	Amsterdam/ Porto	UK scheme	Amsterdam
Discount rate	5 10%	4 50%	4 80%	4 25%
Rate of increase in salaries	5 10%	3 50%/ 3 00%	4 80%	3 50%
Rate of increase in pensions	3 10%	1 75%/ 2 00%	2 80%	1 75%
Inflation assumption	3 10%	2 00%	2 80%	2 00%
Expected rates of return on scheme assets				
Equities	7 00%	6 80%/ 7 40%	6 60%	6 40%
Bonds	4 50%	3 70%	4 10%	3 20%
Property and cash	5 00%	N/A/ 3 20%	4 50%	N/A
Weighted average	6 58%	4 63%/ 3 91%	6 20%	4 16%
Post retirement mortality in years				
Currently aged 60 – male	26 6		21 2	
Currently aged 60 – female	29 5		24 2	
Currently aged 45 – male	27 6		23 9	
Currently aged 45 - female	30 4		26 6	

The assumptions for the Amsterdam and Porto schemes as detailed above are identical other than where indicated Scheme assets are stated at their market valued at the respective balance sheet dates The expected rate of return on assets is determined based on the market prices prevailing at that date

Change in benefit obligation - 2006	UK Scheme	Amsterdam/ Porto	Total
	€'000	€'000	€'000
Benefit obligation at 1 January 2006	110,613	2,918	113,531
Current service cost	8,576	207	8,783
Interest cost	5,311	123	5,434
Actuarial loss/(gain)	12,106	(266)	11,840
Employee contributions	188	-	188
Benefits paid	(2,127)	(12)	(2,139)
Net transfers	-	(57)	(57)
Curtailments	-	(81)	(81)
Exchange rate changes	2,554	-	2,554
Benefit obligation at 31 December 2006	**137,221**	**2,832**	**140,053**

15.19 Employee benefits continued

15.19.2 Pension commitments continued

Change in benefit obligation - 2005	UK Scheme	Amsterdam	Total
	€'000	€'000	€'000
Benefit obligation at 1 January 2005	84,499	1,818	86,317
Current service cost	7,405	204	7,609
Interest cost	4,605	78	4,683
Actuarial loss	12,728	830	13,558
Benefits paid	(731)	-	(731)
Expenses, taxes and insurance premiums paid	-	(12)	(12)
Exchange rate changes	2,107	-	2,107
Benefit obligation at 31 December 2005	**110,613**	**2,918**	**113,531**

Change in scheme assets - 2006	UK Scheme	Amsterdam/ Porto	Total
	€'000	€'000	€'000
Fair value of scheme assets at 1 January 2006	77,054	1,919	78,973
Expected return on scheme assets	4,973	86	5,059
Actuarial gains	4,894	116	5,010
Employer contribution (includes benefits paid and reimbursed)	6,751	135	6,886
Employee contributions	188	-	188
Benefits paid	(2,127)	(12)	(2,139)
Net transfers	-	(86)	(86)
Exchange rate changes	1,797	-	1,797
Fair value of scheme assets at 31 December 2006	**93,530**	**2,158**	**95,688**
Change in scheme assets - 2005			
Fair value of scheme assets at 1 January 2005	58,049	1,144	59,193
Expected return on scheme assets	4,085	56	4,141
Actuarial gains	9,656	505	10,161
Employer contribution (includes benefits paid and reimbursed)	4,623	226	4,849
Benefits paid	(731)	-	(731)
Expenses, taxes and insurance premiums paid	-	(12)	(12)
Exchange rate changes	1,372	-	1,372
Fair value of scheme assets at 31 December 2005	77,054	1,919	78,973

15.19 Employee benefits continued

15.19.2 Pension commitments continued

Analysis of pension benefit obligation - 2006	UK Scheme	Amsterdam/ Porto	Total
	€'000	€'000	€'000
Present value of funded obligations	137,221	2,832	140,053
Fair value of plan assets	(93,530)	(2,158)	(95,688)
Deficit for funded plans	**43,691**	**674**	**44,365**

Analysis of pension benefit obligation - 2005	UK Scheme	Amsterdam	Total
	€'000	€'000	€'000
Present value of funded obligations	110,613	2,918	113,531
Fair value of plan assets	(77,054)	(1,919)	(78,973)
Deficit for funded plans	33,559	999	34,558

Net liability shown in balance sheet	2006	2005
	€'000	€'000
Deficit for funded plans	44,365	34,558
Other European retirement provisions	2,588	2,672
Employee benefits	46,953	37,230

15.19 Employee benefits continued

15.19.2 Pension commitments continued

Analysis of pension benefit obligation	2006	2005	2004
	€'000	€'000	€'000
Present value of funded obligations	140,053	113,531	86,317
Fair value of plan assets	(95,688)	(78,973)	(59,193)
Deficit for funded plans	**44,365**	**34,558**	**27,124**

Components of pension cost	2006	2005
	€'000	€'000
Current service cost	8,783	7,609
Interest cost	5,434	4,683
Expected return on plan assets	(5,059)	(4,141)
	9,158	8,151
Other pension costs	146	467
Total pension expense recognised in the income statement	**9,304**	**8,618**
Net actuarial losses immediately recognised	6,830	3,397
Total pension cost recognised in the Statement of changes in equity	**6,830**	**3,397**

The cumulative amount of actuarial gains and losses recognised in the statement of changes in equity since 1 January 2004 is €11,520,000 (2005 €4,690,000 loss)

15.19 Employee benefits continued

15.19.2 Pension commitments continued

Pension scheme asset allocation

An analysis of the pension assets is set out below

At 31 December 2006

	UK Scheme		Amsterdam/ Porto		Total	
	€'000	**%**	**€'000**	**%**	**€'000**	**%**
Equities	77,256	83	627	29	77,883	81
Bonds	11,411	12	1,511	70	12,922	14
Property and cash	4,863	5	20	1	4,883	5
Total	93,530	100	2,158	100	95 688	100

At 31 December 2005

	UK Scheme		Amsterdam		Total	
	€'000	**%**	**€'000**	**%**	**€'000**	**%**
Equities	65,366	85	576	30	65,942	84
Bonds	8,371	11	1,343	70	9,714	12
Property and cash	3,317	4	-	-	3,317	4
Total	77,054	100	1,919	100	78,973	100

	Year ended 31 December 2006	**Year ended 31 December 2005**
	€'000	€'000
Actual return on plan assets	10,069	14,302

15.19 Employee benefits continued

15.19.2 Pension commitments continued

History of experience gains and losses

	Financial years ending 31 December		
	2006	2005	2004
	€'000	€'000	€'000
Difference between expected and actual return on scheme assets			
amount	5,010	10,161	1,965
percentage of scheme assets	5%	13%	3%
Experience gains and losses on scheme liabilities			
amount	15	2,042	(584)
percentage of scheme liabilities	-	2%	(1%)

Contributions

The Group expects to contribute €25,936,000 (2005 €6,420,000) to its defined benefit pension plans in 2007 which includes a one-off additional contribution of €19,296,000 to the LCH Pension Scheme in March 2007

Other comments

Included in employee benefits is a provision for compensation for retirement of €1,507,000 (2005 €1,475,000) and €1,081,000 (2005 €1,197,000) in respect of early retirement in compliance with an agreement with Euronext Paris personnel dated 19 December 2001 These provisions have been calculated by an independent actuary based on changes in the workforce (turnover, seniority and participation in the early retirement scheme) The charge to the income statement for the year in respect of the compensation for retirement commitment was €179,000 (2005 €457,000) and the charge in the early retirement scheme was €36,000 (2005 €186,000)

15.20 Creditors and other payables

	Group		Company	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Trade payables	12,612	17,121	153	-
Other payables including taxation and social security	39,924	32,880	-	953
Amounts owed by Group undertakings	-	-	2,283	1,603
Accruals and deferred income	30,413	41,234	1,527	-
	82,949	91,235	3,963	2,556

15.21 Commitments and contingencies

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

	2006		2005	
	Property	Plant and equipment	Property	Plant and equipment
	€'000	€'000	€'000	€'000
Within one year	7,773	48	6,893	70
More than one year, but less than five	30,759	-	25,942	-
More than five years	18,976	-	25,429	-
	57,508	48	58,264	70

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

15.21 Commitments and contingencies continued

Supplier agreements

In June 2005, the Group entered into a new 10 year agreement with Atos Origin in relation to the operation and development of certain technology applications The estimated maximum value of the remaining commitment, following the introduction of new developments this year is €278 million (2005 €238 million)

Contingent liabilities

At 31 December 2006 there were no material contingent liabilities

Letters of credit

LCH Clearnet Limited has letters of credit of €45 million in favour of Stockholmsborsen AB and €49 million in favour of SIS SegInterSettle in support of the delivery of securities These letters are in turn supported by a money market deposit with the issuing bank

LCH Clearnet Limited has a letter of credit of €3 million in favour of Elexon Clear Limited in support of electricity deliveries supported by a deposit with the issuing bank LCH Clearnet Limited also has a letter of credit of €59,000 in favour of National Grid Gas plc in respect of clearing gas contracts

15.22 Related party disclosure

Key management personnel

Details of key management personnel are disclosed in Section 1 – General information

Group undertakings

Details of the principal Group undertakings are set out in note 15 10 to these consolidated financial statements In accordance with IAS 27, transactions or balances with Group entities that have been eliminated on consolidation are not reported

Principal shareholding

At 31 December 2006, the Euronext Group held 29 85% of the ordinary share capital and 100% of the redeemable convertible preference shares (RCPS) of LCH Clearnet Group Limited This was the maximum shareholding in the Group and has been held from 22 December 2003, the date of acquisition of LCH Clearnet SA

Sales to and purchases from related parties are at arms length and at normal market rates Outstanding balances at the year-end are unsecured and are settled in cash There have been no guarantees provided or received in relation to any related party receivables For the year ended 31 December 2006, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates

Details of the transactions with the Euronext group which have passed through the income statement during the year, together with details of amounts due to and due from the Euronext group at the 31 December 2006 and 31 December 2005 are set out below

15.22 Related party disclosure continued

	Income attributable to Related Parties €'000	Expenses attributable to Related Parties €'000	Amounts owed from Related Parties €'000	Amounts owed to Related Parties €'000
Euronext Group - 2006				
IT software development	125	-	-	-
Gross retrocession fees	-	63,534	-	-
Revenue and fee guarantees	-	(6,000)	-	-
Fees payable and similar charges		57,534	-	-
Management fees, accomodation costs and other management services	-	1,763	-	-
IT costs	-	5,121	-	-
RCPS dividends	-	8,279	-	-
RCPS Capital	-	-	-	198,840
Balances outstanding at 31 December 2006	-	-	352	9,103
	125	72,697	352	207,943
Euronext Group - 2005				
IT software development	641	-	-	-
Gross retrocession fees	-	50,720	-	-
Revenue and fee guarantees	-	(16,000)	-	-
Fees payable and similar charges	-	34,720	-	-
Management fees, accomodation costs and other management services	-	2,338	-	-
IT costs	-	8,612	-	-
RCPS dividends	-	6,768	-	-
RCPS Capital	-	-	-	198,840
Balances outstanding at 31 December 2005	-	-	16,582	13,068
	641	52,438	16,582	211,908

15.23 Financial risk management objectives and policies

15.23.1 Introduction

The Group manages a variety of risks through various control mechanisms and its approach to risk management is to be both prudent and evolutionary

Overall responsibility for risk management rests with the three Boards in the Group Day to day responsibility is delegated to the executive, on the basis of policies that are discussed and agreed in risk committees and/or Boards as appropriate The continued appropriateness of risk policies is reviewed by the committees and Boards, and adherence of practice to policies is reviewed by, inter alia, internal and external auditors under the auspices of the three audit committees in the Group

15.23.2 Credit risk

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

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

15.23.3 Market risk

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

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

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

15.23 Financial risk management objectives and policies continued

15.23.4 Foreign currency risk

The Group is exposed to foreign exchange risk primarily with respect to sterling in the translation of net assets and earnings denominated in foreign currency The Group also has transactional exposure to US dollars Any exchange differences on translation of net assets are recorded in equity, and the Group does not view this as a material risk and does not actively hedge against these movements

15.23.5 Liquidity risk

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

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

Liquidity risk is managed by ensuring the operating clearing houses in the Group have sufficient available cash to meet their payment obligations and by the provision of facilities to meet short-term imbalances between available cash and payment obligations Surplus liquidity is invested as short-term deposits with highly rated banks or in highly liquid short-term assets

15.23.6 Operational risk

Operational risk is the risk of loss arising through failures associated with personnel, processes or systems, or from external events It is inherent in every business organisation and covers a wide spectrum of issues

Operational risk is managed through systems and procedures in which processes are documented, authorisation is independent, and transactions are monitored and reconciled The operational risk management process is subject to a programme of Internal Audit reviews, which are independent of line management, and the results are reported directly to the Group's audit committees Internal Audit evaluates the adequacy and effectiveness of the Group's systems of internal control and reports to the audit committees and senior management Any significant weaknesses are reported to the audit committees and Boards

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

15.23 Financial risk management objectives and policies continued

15.23.7 Compliance and legal risk

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

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

A key part of the role of the legal function is to identify and, in conjunction with management, manage the legal risks of the Group Legal risk is managed by use of internal and external legal advisors

15.24 Financial instruments

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

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

The following table sets out the carrying amount and fair value of the Group's financial assets and liabilities as at 31 December 2006 and 31 December 2005

15.24 Financial instruments continued

Group financial instruments

	Carrying amount		Fair value	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	€'000	€'000	€'000	€'000
Financial assets				
Other financial assets	15,000	15,000	15,000	15,000
Cash and short-term investments	15,701,719	15,448,406	15,701,719	15,448,406
Debtors and other receivables	70,563	89,921	70,563	89,921
Balances with clearing members	257,779,047	246,509,349	257,779,047	246,509,349
Financial liabilities				
Interest bearing loans and borrowings	227,089	237,964	227,089	237,964
Default funds	1,732,671	1,542,430	1,732,671	1,542,430
Creditors and other payables	82,949	91,235	82,949	91,235
Balances with clearing members	271,267,844	260,129,610	271,267,844	260,129,610

Company financial instruments

	Carrying amount		Fair value	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
	€'000	€'000	€'000	€'000
Financial assets				
Cash and short-term investments	42,044	11,773	42,044	11,773
Debtors and other receivables	5,990	7,056	5,990	7,056
Financial liabilities				
Interest bearing loans and borrowings	198,840	198,840	198,840	198,840
Creditors and other payables	3,963	2,556	3,963	2,556

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as at 31 December 2006 and 31 December 2005

15.24 Financial instruments continued

Group interest rate risk (2006)

Fixed rate	Within 1 year €'000	1 - 2 years €'000	More than 5 years €'000	Total €'000
Clearing member balances - assets	540,841	-	-	540,841
Cash and short-term investments	15,701,719	-	-	15,701,719
Default Fund liabilities	(1,732,671)	-	-	(1,732,671)
Floating rate				
Euroclear Default Fund	15,000	-	-	15,000
Clearing member balances - liabilities	(14,034,058)	-	-	(14,034,058)
Bank overdrafts	(1,249)	-	-	(1,249)
Redeemable convertible preference shares	-	(198,840)	-	(198,840)
Subordinated loan	-	-	(27,000)	(27,000)

Company interest rate risk (2006)

Fixed rate	Within 1 year €'000	1 - 2 years €'000	More than 5 years €'000	Total €'000
Cash and short-term investments	42,044	-	-	42,044
Floating rate				
Redeemable convertible preference shares	-	(198,840)	-	(198,840)

15.24 Financial instruments continued

Group interest rate risk (2005)

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

Company interest rate risk (2005)

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

Credit risk

There are no significant concentrations of net credit risk within the Group The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date Credit risks arising from acting as guarantor are disclosed in note 15 21

15.25 Post balance sheet events

The Board announced on 14 February 2007 that it had reached agreement in principle with Euronext to repurchase the majority of their shares Heads of Terms have now been signed by the Company and Euronext but the repurchase remains subject, among other things, to approval by the Company's shareholders, and to regulatory and other appropriate consents It is expected that the key terms of the transaction will include the early redemption of the RCPS at their value of €198,840,000 and the repurchase of ordinary shares from Euronext If approved, the repurchase of 26,183,462 ordinary shares and the redemption of the RCPS will have the effect of reducing the holding of Euronext from 29 85% of the ordinary share capital and 100% of the RCPS to 5% of the ordinary share capital

It is planned that consultation with LCH Clearnet Group Limited's shareholders will take place in the second quarter of 2007

On 22 February 2007 the Group announced further reductions in equity clearing fees These relate to trades executed on the London Stock Exchange SETS and SETSmm platforms and to all virt-x trades and will take effect from 1 July 2007 These fees will be reduced by an average of 23%

The Group also announced its intention to deliver additional clearing fee reductions on Euronext cash equity markets, and intends to announce a revised tariff schedule as soon as possible

An assessment of goodwill on LCH Clearnet SA for potential impairment may then be required depending on the agreed level of clearing fee reductions for Euronext cash equity markets

On 9 March 2007 the Group announced that with effect from 1 July 2007 clearing fees in respect of trades executed on ICE Futures will be reduced by an average of 25% and clearing fees in respect of trades on the ICE OTC platform will be reduced by an average of 30%