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Report of the Board of directors

For the period ended 31 December 2003

Focus on the year's highlights

For Clearnet (Banque Centrale de Compensation (BCC)), 2003 has been a crucial stage in the process of constructing its pan-European clearing house model.

Corporate structure and governance

- On 15 July Euronext Lisbon contributed its derivative and OTC equity clearing businesses, worth €6.5 million, to BCC. BCC thus acquired a branch in Portugal, chiefly to establish a local presence with Portuguese clearing members.
- On 22 December 2003 Clearnet and The London Clearing House (LCH) merged to create the LCH.Clearnet group. The merger gave birth to Europe's largest clearing house, valued at €1.2 billion.
 - In connection with the merger, Clearnet made an exceptional distribution of €150 million to its former shareholders and, at the same time, took out a €60 million perpetual subordinated loan from Euronext Paris to meet regulatory capital requirements.
 - Clearnet became a wholly-owned subsidiary of a new holding company, LCH.Clearnet Group Limited, incorporated in the United Kingdom.
 - The company has also changed its business name to LCH.Clearnet SA. It did not change its legal name, which remains BCC.
 - LCH.Clearnet SA (BCC) is a clearing house authorised as a credit institution. As such, it comes under the supervision of the French banking authorities, in conjunction with the Autorité des Marchés Financiers, and other competent regulatory bodies in Europe.
- BCC's internal organisation was overhauled with a view to insourcing almost all the support services previously provided by the Euronext group. During the course of the year, therefore, some twenty additional members of staff were made available to bring the following member services back in-house: deposit management (back office treasury), audit and surveillance, administrative management, human resources and customer relations.

Main achievements in 2003

CLEARING 21®

With the extension of CLEARING 21® to the derivatives markets of Belgium (March 2003) and the Netherlands (November 2003) and to the cash market in Portugal (November 2003), BCC now sets the standard for clearing in Europe, offering members a single clearing platform on all Euronext markets. Clearing members can now harmonise their back office procedures and thus rationalise the management of cross-border post-trade operations.

Collateral management

In May 2003 BCC and the Belgian national bank (BNB) extended their collateral management service. Belgian members now have a one-stop window for managing funds originating from margin calls, premiums, clearing fund contributions, settlement, and clearing fees. In return, the BNB has given its guarantee to BCC.

Clearing members based in Paris, Brussels and Amsterdam can therefore centralise the management of their payments in a single point of their choosing.

Bonds and Repos (OTC) clearing fund

BCC has set up a mutual guarantee fund for Bonds and Repos business. The fund covers the risks not provided for by margin deposits from trades cleared in the OTC market. This includes business cleared for MTS Italy.

The initiative was prompted by two factors:

- an official request from the French banking commission in early 2003 to create such a fund;
- significant growth in activity, positions and margin calls for this business, notably following the introduction of same day repos in the course of 2002.

BCC still depends heavily on Euronext's markets, which in 2003 still accounted for 99% of revenues. Further sizeable investments were needed in 2003 for the crucial steps involved in establishing BCC as the model for international clearing houses. As detailed previously, the funds were used both to upgrade IT tools and to consolidate BCC's internal structures.

BCC is fully aware that building the bottom line depends, above all, on controlling fixed operating expenses. In parallel, on pursuing efforts to consolidate its structure, in early 2002 it launched a programme to reduce its main cost items. The programme continues to focus, yet again, on cutting IT operating expenses:

- An initiative was launched jointly with Atos Euronext to implement a programme for medium-term optimisation of IT tools.
- In parallel, negotiations between Euronext, BCC, and Atos Euronext made it possible to contain IT costs at a level well below that of 2001 and 2002, at a time when new applications continue to run alongside legacy systems - a situation that will continue until the migration process is finalised in early 2004 with the implementation of the new IT system, NSI.

Report of the Board of directors continued...

BCC's key figures, shown below, illustrate this general situation:

Income statement highlights € million	2003		2002		Change 2003/2002
Gross operating revenues	169.0		182.7		-7.4%
Net operating revenues *	138.0	100%	138.7	100%	-0.5%
Operating expenses **	100.1	72%	97.6	70%	+2.6%
Operating profit	37.9	27%	41.1	30%	-7.7%
Net interest income result	13.0	9%	14.0	10%	-7%
Net income for the year	32.8	24%	35.5	26%	-7.6%

* net of business development commissions

** includes depreciation, amortisation, provisions and profit-sharing

Balance sheet highlights € million	2003	2002	Change 2003/2002
Total shareholders' equity (including subordinated loan, excluding income)	188	265	-29%
Total assets	16,050	5,164	+211%

Net income for the year was down 7.6% year-on-year, contracting to 24% of net primary revenues from 26% in 2002.

There are two main reasons for this decline:

- The operating margin contracted by -7.7% relative to 2002, owing to the combined effects of flat growth in net revenues and a 2.6% increase in operating expenses, despite cost-containment efforts. However, the latter increase is non-recurring because it is attributable to the exceptional expenses incurred at end-2003 for the merger with LCH.
- Net financial income was down -7% on 2002.

Net revenues remained flat largely because of a -7.4% fall in gross revenues. This was offset by an €11 million rebate on the business development commission paid to Euronext, negotiated in connection with the LCH merger and the subsequent revision of the Clearing Agreement.

The decline in gross total revenues, to €169 million at end December 2003 from €182.7 million in 2002, was attributable primarily to an 8.4% decline in clearing revenues due to the decrease of the unit value of transactions (fare ad valorem) in Paris, in spite of a dynamic business volume.

The main reasons for the decline were a 4% dip in cash market business - BCC was unable to sustain the record levels of revenue it generated on the Paris marketplace in 2002 - and a 29% fall in options business.

Operating expenses were kept under control, rising by just 1.8% year-on-year to €1.7 million. The main contributing factors were:

- the recognition of an exceptional €1.2 million indemnity provision for transfers of staff to BCC following the merger decision on 22 December 2003. The personnel in question were previously on secondment to BCC from Euronext;
- the addition of a €0.5 million provision for non-recoverable VAT payable for 2001, 2002 and 2003, and a €0.4 million provision for legal disputes;
- a firm grip on IT expenses - BCC's main cost item - which amounted to €50.1 million compared with €52.6 million in 2002. Development costs were down €2 million (the major developments for the installation of C21 in Paris are now fully amortised), and operating expenses were level at €35 million following a two-year effort to rationalise information-system architecture;
- the relatively neutral impact of the personnel brought in-house by BCC: the €6.9 million rise in wages and payroll taxes (excluding the reallocation provision) as well as the €0.4 million increase in building charges were offset by a similar reduction in head-office costs and committed costs (€6.3 million). The difference, namely €0.8 million, stems from the exceptional recognition of the full amount of provisions for retirement, early retirement and long service awards for personnel brought in-house during the year.

Net financial items were down by more than 7%, equivalent to a loss of nearly €1 million, mainly due to the reduction in EONIA during the period under review (to an annual average of 2.32%, from 3.29% in 2002). This had a negative impact of €3.1 million on the financing account. The loss was only partially offset by the €2.9 million earned on the direct investment of BCC's cash funds on the market.

After corporate income tax, net income for the year comes out at €32.8 million compared with €35.5 million in 2002.

The €77 million reduction in shareholders' equity is attributable to:

- a €2.7 million capital increase following the incorporation of Euronext Lisbon's clearing business by BCC on 15 July 2003 and the subscription for €3.8 million of capital bonus;
- the appropriation of €8.5 million of income from 2002 to the statutory reserve and retained earnings;
- exceptional distributions totalling €152 million, including €150 million following the merger with LCH. These were partially counterbalanced by a €60 million perpetual subordinated loan taken out with Euronext Paris.

The €11 billion increase in total assets is attributable to two main factors:

- a change in the method used to account for repo positions cleared by BCC in the OTC market. In 2003, these positions were recorded on the balance sheet (in assets and liabilities), whereas in previous years they were simply carried off-balance sheet. The value of repo positions still open at 31 December 2003 totals €12 billion;
- a €0.3 million decline in net fails at year-end, and an equivalent €0.3 million reduction in members' margin deposits for OTC business.

Report of the Board of directors continued...

Outlook

LCH.Clearnet SA has three main projects on the agenda for 2004.

Migration of Lisbon derivatives to CLEARING 21®

LCH.Clearnet SA will roll out the derivatives module of CLEARING 21® in Lisbon at the beginning of the second quarter. It will carry out a "double big-bang" in conjunction with Euronext.Liffe and its Connect trading platform. Once the transfer is complete, LCH.Clearnet SA will have completed its CLEARING 21® migration projects - both for derivatives and for cash products - on all Euronext marketplaces.

The cost of the Portuguese migration will be reduced by the fact that Lisbon will adopt the business model used by other marketplaces without modifications.

Deployment of Settlement Connect

Settlement Connect is a key project and a major step forward in implementing the business model for the equity markets cleared by LCH.Clearnet SA. The launch is planned for the end of the first quarter 2004 and will take place in two stages, first in Paris, then in Brussels and Amsterdam.

Migration to the new module will permit the technical rationalisation of the settlement-platform interfaces, replacing the current modules (ISB, LCP, CNS) with a single interface and generating significant savings on IT maintenance costs. It will also offer the opportunity to harmonise processes for handling settlement flows, especially net fails.

Settlement Connect gives LCH.Clearnet a major competitive advantage over its competitors in terms of services. It offers clearing members considerable flexibility in managing their settlement flows, allowing them to choose settlement systems, open accounts or sub-accounts, use of settlement agents, etc.

Moreover, LCH.Clearnet SA can now contemplate connecting to settlement platforms other than those of the Euroclear group, thus offering its services to more diverse customers than at present.

In parallel, with the deployment of Settlement Connect in Brussels and Amsterdam, members in these markets will be offered the possibility of settling their business either on their local platforms or in Euroclear Bank. It will be recalled that this facility has been available for the past two years for trades executed on Euronext Paris.

Dutch Trading Service (DTS)

In the second quarter of 2004, in partnership with the London Stock Exchange (LSE), LCH.Clearnet SA will offer members trading Dutch stocks on the LSE's SETS system the possibility of clearing their trades through CLEARING 21® and settling either in Euroclear Netherlands or in Euroclear Bank, as they wish. Aside from the business it is likely to develop, the project will help to forge technical and functional links with the LSE. This will ultimately make it easier for LCH.Clearnet Group to develop additional business from the UK.

Other projects

Building on the introduction of Settlement Connect, LCH.Clearnet SA is involved in defining and implementing an integrated settlement solution for trades executed on Euronext regulated markets. This process, which will entail major efforts to harmonise back office procedures, should ultimately create maximum value-added for market players by allowing them to deal all stocks in the Euronext area on a "domestic" basis. Following the merger with LCH (now LCH.Clearnet Ltd), tools and operating methods for trading in bonds and repos are likely to be harmonised in the near future. Members of both entities will thus be able to benefit very quickly from synergies between their trades on German, French and Italian debt securities.

LCH.Clearnet SA will join forces with Powernext for the launch of energy derivatives, using technology developed by LCH.Clearnet Ltd.

In principle, this project concerns trading applications only, but the migration in Amsterdam from SWITCH to Connect, planned for fourth quarter 2004, will have functional and technical impacts on CLEARING 21® that LCH.Clearnet SA will have to take into account.

Moving ahead with its rationalisation measures, LCH.Clearnet SA is developing a new invoicing module capable of handling all products and countries dealt with. Similarly, all its master files will be brought together in a single data warehouse.

Other forward-looking projects

Attracted by the advantages of the new consolidated entity LCH.Clearnet Group, many countries have approached LCH.Clearnet SA wishing to outsource their clearing operations or develop proprietary clearing solutions in partnership with us. These contacts include countries such as Greece, Dubai and Poland, which want to become regional financial hubs and attract international investors by leveraging the expertise and member base of the LCH.Clearnet Group.

Naturally, all these applications will be studied in detail before they can be considered as projects.

LCH.Clearnet is also exploring other avenues of opportunity, such as clearing credit derivatives and OTC stock lending transactions, as well as the extension of its current offer concerning share products to a wider range of operations.

Corporate structure and governance

After the 22 December merger, when it made a substantial distribution (€150 million) to its shareholders and at the same time incurred a subordinated loan worth €60 million, BCC took measures to structure its

shareholders' equity and cover its risk exposure. It applied the following key principles:

- covering risks exclusively with collateral provided individually by members (premiums, initial margin, deposits) and the mutual guarantee fund set up on the cash, derivatives and bonds and repo markets;
- using BCC's shareholders' equity solely to cover treasury risk and operational risk.

Accordingly, BCC has elected not to renew the insurance policy taken out with Chubb to cover its clearing risk. The policy will therefore expire automatically on 1 February 2004.

Proposed appropriation of Net Income

Despite BCC's performance in 2003, the Board of Directors proposes to keep the year's net income of €32.8 million as shareholders' equity and not to distribute a dividend for 2003.

The payout for the past three years was as follows:

- 2000: €7.50 per share (with a dividend tax credit of €3.75)
- 2001: €2.78 per share (with a dividend tax credit of €1.39)
- 2002: €3.74 per share (with a dividend tax credit of €1.87).

The Board of directors

BCC comparative income statements

Management accounting presentation

	Note	at December 2003 €'000	at December 2002 €'000	Change Amount €'000	Change %
Market revenues	1	155,396	169,623	-14,227	-8.4
Sales of other products and services	1	13,700	13,058	642	4.9
Gross operating revenues		169,096	182,682	-13,586	-7.4
Business development commissions		31,037	43,953	-12,916	-29.4
Net operating revenues		138,059	138,729	-670	-0.5
General operating expenses	2	96,795	95,127	1,668	1.8
Taxes		1,495	1,445	50	3.5
Operating expenses		98,290	96,572	1,718	1.8
EBITDA		39,769	42,157	-2,388	-5.7
Depreciations amortisations and provisions, net	3	(1,850)	(1,059)	-791	74.7
Operating income		37,919	41,098	-3,179	-7.7
Net interest income	4	13,013	13,995	-982	-7.0
Operating income after interest		50,932	55,093	-4,161	-7.6
Net non-operating income		129	(151)	280	-185.4
Corporate income tax	5	(18,237)	(19,423)	1,186	-6.1
Net income for the year		32,824	35,519	-2,695	-7.6

BCC comparative balance sheet

As at 31 December 2003 and 31 December 2002

Management accounting presentation

	Note	at December 2003 €'000	at December 2002 €'000
Assets			
Fixed assets (net of accumulated depreciation and amortisation)	1	66,123	52,575
Investments in subsidiaries and affiliates (net of provisions)	2	4,542	4,542
Other long term investments	6	6	6
Investment securities	3	415,140	572,691
Trade receivables (net of provisions)	4	13,762	13,176
Other receivables (excluding clearing house accounts, treasury and portfolio accounts)	5	36,138	26,946
Clearing House accounts	6	12,509,347	1,093,628
Treasury and portfolio accounts	7	3,009,134	3,400,449
Prepaid expenses		80	73
Total assets		16,054,272	5,164,086
Liabilities and shareholders' equity			
Shareholders' equity (including general banking risk provision)	8	160,939	286,979
Perpetual subordinated loan	10	60,134	0
Provisions for liabilities and charges	11	3,299	1,402
Trade payables	12	30,982	33,454
Accrued taxes and personnel costs	13	8,459	19,641
Other payables (excluding clearing house accounts, treasury and portfolio accounts)	14	4,183	3,057
Clearing House accounts	15	15,777,498	4,600,555
Group's current account		0	0
Treasury accounts	16	8,778	218,998
Total liabilities and shareholders' equity		16,054,272	5,164,086
Off balance sheet items (commitments given and received)			
Ordinary commitments	17	0	313,234
Clearing house commitments received	18	21,931,805	18,954,462
Clearing house commitments given	18	18,933,387	13,909,163
Treasury commitments	20	1,170,000	1,285,000

Five-year financial summary

	1999	2000	2001	2002	2003
Share capital at year end					
Share capital (€'000)	57,384	57,384	88,283	110,353	113,067
Number of ordinary shares	3,764,124	3,764,124	5,790,959	7,238,699	7,416,700
Others	-	-	-	-	-
Results of operations (€'000)					
Operating revenue	91,261	125,448	167,929	182,682	169,095
Profit before tax, profit sharing, amortisation and provisions	36,192	47,301	40,384	56,823	54,613
Income tax	14,847	18,126	14,311	19,423	18,237
Profit sharing for the year (1)	286	640	328	787	902
Net income after tax, profit sharing, amortisation and provisions	21,054	28,445	23,958	35,519	32,824
Distributed earnings	15,494	28,231	20,095	27,073	0
Earnings per share (in Euros)					
Profit after tax, profit sharing, but before amortisation and provisions	5.59	7.58	3.56	5.06	4.78
Net income after tax, profit sharing, amortisation and provisions	5.59	7.56	3.31	4.90	4.42
Net dividend distributed per share	4.12	7.50	2.78	3.74	0.00
Employee data					
Average numbers of employees (2)	54	68	123	128	148
Total payroll for the year (€'000) (3)	3,913	6,044	8,962	10,166	15,838

- 1 Since 1999, this represents amounts for profit-sharing re-billed by Euronext Paris for the Economic and Social Unit (UES) profit-sharing receivable by employees seconded by Euronext Paris to Clearnet Paris.
- 2 Since 2001, Clearnet's average staff for the year is made up of people seconded by Euronext Paris and Euronext Amsterdam NV as regards Clearnet Paris and its Amsterdam branch, and dependent employees as regards the Brussels and Lisbon branches.
- 3 Since 2001, this represents expenses pertaining to staff seconded to Paris and Amsterdam and payroll for the staff of Brussels and Lisbon.

Notes to the financial statements

1. Presentation of the annual financial statements

As a financial institution, Banque Centrale de Compensation (BCC), which has traded under the business name Clearnet, is required to prepare and publish annual financial statements (balance sheet, off-balance sheet items and income statement), in accordance with Regulation 91-01 of the French banking and financial regulations committee (CRBF), amended by Regulation 99-04 of 23 June 1999.

The income statement, balance sheet and off-balance sheet items commented upon in this report are therefore presented in a manner similar to that used by service providers subject to the clauses of France's chart of accounts (Plan Comptable Général). This so-called "management accounting" presentation, in contrast to a "regulatory" presentation, is a more appropriate method of presenting BCC's specific business, which is essentially that of a clearing house.

Since the merger of the clearing houses of Amsterdam and Brussels within BCC on 1 February 2001, as well as the related formation of the BCC Amsterdam and BCC Brussels branches, the financial statements of both branches (acting as permanent establishment for tax purposes in their respective countries) are included in BCC's financial statements. Furthermore, BCC Paris includes the activity of its branch in Lisbon (created as a non-permanent establishment for tax purposes in Portugal), which originated from the acquisition of the Portuguese clearing business from Euronext Lisbon on 15 July 2003. However, the financial statements of Euronext Amsterdam Commodities Clearing, a fully-owned subsidiary of BCC, are not consolidated.

The presentation of the "management-accounting" income statement and balance sheet includes the following special characteristics:

On the income statement:

- Net operating revenues represent gross operating revenues less the retrocession fees paid to Euronext, which until 2001 were recorded as operating expenses.
- As in 2001 and 2002, additions to the provisions for retirement and early retirement, as well as profit-sharing, were re-classified as personnel expenses because these costs will be included in a Euronext Paris re-billing for personnel seconded to BCC. Moreover, for the first time, long-service awards provisions were accounted in 2003.

On the balance sheet:

- In view of their size, the assets and liabilities related to BCC's clearing house activity and its treasury management transactions are shown separately, with a detailed analysis of each item provided in the notes to the financial statements.

Notes to the financial statements continued...

1. Presentation of the annual financial statements continued

Off-balance sheet commitments:

- Commitments related to clearing house operations have been separated from "ordinary" commitments and treasury management commitments.
- Open positions in derivatives have been included in clearing house commitments.

Analyses of the information given in the management accounting financial statements are given in the notes that follow. These notes, presented in accordance with Regulation 91-01, include all material information required to give a true and fair view of the assets, liabilities, financial position, exposure and profit and loss of BCC.

2. Comparability of the financial statements

For the first time in full-year, and since 6 November 2002, BCC has made treasury investments in its own name, comprising a portion of its own treasury as well as members' guarantee-deposit funds. Previously, these were invested exclusively through Euronext Paris. The management of these investments and of the guarantee deposits is still performed by Euronext Paris, however, pursuant to a treasury management agreement.

The impact of changes in these investments is mentioned in the notes to the balance sheet.

Repurchase transactions by participants in the OTC market, which were calculated on a net basis in 2002, have been broken out this year. The amount on the asset side represents the loans for which securities were sold and repurchased under repos; the amount on the liabilities side represents the loans for which securities were purchased and resold under reverse repos. Commitments made by the clearing house to members having used repurchase agreements are recorded off-balance sheet and BCC keeps the secure-completion undertaking to the benefit of both the lender and the borrower.

3. Accounting principles and valuation methods

The financial statements have been prepared in accordance with generally accepted accounting principles in France, including the principles laid down in the Commercial Code and the Decree of 29 November 1983. They are also presented in accordance with the relevant accounting principles applicable to institutions governed by French banking law.

The main valuation policies are as follows:

Fixed assets, amortisation, and depreciation

Fixed assets are recorded at historical cost, that is to say at acquisition cost excluding deductible value-added tax (VAT).

Stock-market software is valued in accordance with purchased software principles under French GAAP.

Fixed assets are depreciated on a straight-line or declining-balance basis, with the following useful lives:

Computer software	1 year
Stock-market computer software	2 years
Fittings and fixtures, leasehold improvements	10 years
Computer hardware and office automation equipment	3 years

Fixed financial assets:

The fixed securities are valued at their nominal value and depreciated if necessary.

Accounts receivable and payable

Accounts receivable and payable are stated at nominal value.

Allowances for doubtful receivables are determined on a individual basis, with movements taken to the provision expense. Provisions are recorded as direct reductions of the corresponding receivables.

Investment securities

The investment securities held as at 31 December 2003 are treasury management instruments, accounted for in accordance with Regulations 90.01 of the French banking and financial regulations committee and CNC opinion 00.09. This item consists exclusively of investment securities acquired with the intention of holding them to maturity.

Derivatives

The Group uses interest rate swaps to manage the interest rate exposure arising from its operational and financial activities. In accordance with its cash management policy, the Group neither holds nor issues derivatives for speculative purposes.

So-called hedging swaps are recognised initially at cost. They are then marked-to-market, with the underlying gains and losses being taken to the income statement.

The market value of an interest rate swap corresponds to the amount the Group would receive or pay if it terminated the agreement on the balance sheet date, taking into account prevailing interest rates at that date and the creditworthiness of the counterparty to the agreement.

Reserve for general banking risks

Pursuant to CRBF 90.02, BCC has set aside provisions in a general banking risk fund for general banking risks to cover risks related to its activity.

Provisions for risks and charges

A provision is recognised in the balance sheet when BCC has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the financial statements continued...

4. Notes to the income statement

Note 1 - Gross operating revenues

Gross operating revenues break down as follows:

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Market revenues				
Clearing commissions				
Cash	112,007	117,086	-5,079	-4
Derivatives	41,681	51,255	-9,574	-19
OTC	1,708	1,282	426	33
	155,396	169,623	-14,227	-8
Derivatives:				
futures	16,087	15,120	967	6
options	25,594	36,136	-10,542	-29
	41,681	51,255	-9,574	-19
	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Other sales and services				
Membership commission	4,920	6,161	-1,241	-20
Other	8,969	6,918	2,051	30
Marketing costs	-189	-20	-169	854
	13,700	13,058	642	5
Total	169,096	182,682	-13,586	-7.44

At €169.1 million, total gross revenues for 2003 declined 7.4% relative to 2002. The rise in other revenues was not sufficient to offset an 8.4% decline in clearing commissions.

Cash market revenues declined 4.3% despite a 9.4% rise in volume. This divergent trend is related to the fee structure applied on the Paris market (Paris accounted for nearly 75% of cash market activity in 2003), where commissions are calculated on the basis of cleared transaction value per trade (with a cap). In 2003, cleared transaction value (excluding the Nouveau Marché) declined 21.9% while the number of trades reaching the cap showed an increase. Consequently, the average price per trade fell to €0.86, compared with €1.01 in 2002.

In Amsterdam, fees received and cleared transactions rose 15.6%. In Brussels, fees declined 9.2% when cleared transactions rose 6.3%.

Clearing in the Portuguese cash market commenced in the course of November. Accordingly, it did not contribute significantly to revenues in 2003.

On the **derivatives** markets, the 6.4% rise in futures was insufficient to offset the 29.2% decline on options. In Amsterdam, the 19.4% decline in options revenues resulted from a 3.5% rise in commissions to clear options trades, and a 24.5% decline in commissions on option exercises and assignments, as a direct result of the new pricing implemented on 1 August 2003. The increase in the options fee and the reimbursement of €920,000 by Euronext Amsterdam in conformity with the new Clearing Agreement (see Note on Agreements with the Euronext Group at the end of this report) were insufficient to offset the consequences of the new pricing structure. In Paris, derivatives revenues fell by 17.8% (€5.15 million) owing to reduced options volume. In Brussels, derivatives fees declined 41.2% (€1.5 million).

The OTC segment accounted for only 1.1% of total clearing commissions despite a sharp rise of 33.4% compared with 2002.

The fixed portions of other revenues declined by 20.13%. This is due to the adjustment in 2002 of €1.2 million corresponding to fixed shares for the cash market for 2001. Without this exceptional factor, the fixed shares would have been stable. The 29.7% increase in other revenues resulted from new services billed to members (CCW workstation, TLRF files).



Notes to the financial statements continued...

4. Notes to the income statement continued...

Note 2 - General operating expenses

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Personnel expenses	20,666	12,585	8,081	64
IT expenses	50,199	52,680	-2,481	-5
Building expenses	2,553	2,273	280	12
Other general operating expenses	23,377	27,589	-4,212	-15
General operating expenses	96,795	95,127	1,668	1.75

Overall operating expenses rose by just 1.75%.

Personnel expenses relate to an average headcount of 148.24 full-time equivalent employees (FTEs), i.e. 20.55 FTEs more than in 2002. The headcount rise results from the policy of insourcing services that were previously performed by Euronext and billed as headquarters costs. Our quota (€1.2 million) of the costs for employees transferred to BCC was also a factor in the higher personnel expenses for 2003.

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Salaries, Social charges and related expenses	18,835	11,763	7,072	60
Retirement provision	698	108	590	546
Early retirement provision	87	-73	160	-219
Jubilee premium provision	144	0	144	-
Profit sharing	902	787	115	15
Personnel expenses	20,666	12,585	8,081	64.21

IT expenses decreased 4.71%, primarily because of a 14.62% decline in development costs.

	2003 €'000	2002 €'000	Change %
Running costs	35,123	35,076	0
Development costs	11,589	13,575	-15
Licences	3,487	4,029	-13
	50,199	52,680	-4.71

The decline is due to a 44.25% decrease in amounts billed through by Euronext for amortisation of the C21 software application (i.e. end of the amortisation of initial development costs together with an insignificant impact for migrations implemented in fourth-quarter 2003). Conversely, other development costs doubled because of projects that could not be immobilized (including the switchover to ISIN coding) and a policy change in the method of capitalising project costs. In 2003, 20,069 man-days were committed, compared with 18,868 in 2002.

The stability of overall operating costs masks a reduction of operating costs on a same-structure basis, a consequence of the rationalisation plan undertaken in 2002, offset by CCW migration and operating costs (€2.23 million).

The decline in licence costs is explained by a non-recurring charge in 2002 paid to Euronext to extend the C21 licence to include Brussels and Amsterdam.

Building expenses costs rose 12%, directly related to the increased headcount, the invoicing of the rent being made in consideration of office space used.

General operating expenses decreased 16%, primarily because of a 41% drop in overhead and headquarters costs, as a result of newly insourced services. Within this total "Other general operating expenses" rose 18%, partly because of higher Euroclear commissions (€850,000) and consultancy costs (€596,000).

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
First demand guarantee commission	1,612	1,552	60	4
Headquarters expenses	8,470	12,566	-4,096	-33
Overhead expenses	500	2,685	-2,185	-81
Other expenses	12,795	10,786	2,009	19
Other general operating expenses	23,377	27,589	-4,212	-15.27

Notes to the financial statements continued...

4. Notes to the income statement continued...

Note 3 - Depreciation, amortisation, and provisions

The addition to the provision for risks and charges concerning retirement and long-service awards was included in personnel costs. The remaining €968,000 of the "Addition to provision for operating risks and charges" concerns potential taxes related to the tax inspection undertaken in 2003 (€488,000: €68,000 relating to 2002 & 2001, €70,000 relating to 2003 and €350,000 relating to 2003) as well as litigation concerning a member (€480,000).

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Depreciation and amortisation expenses				
Intangible assets	740	984	-244	-25
Tangible assets	36	30	6	20
	776	1,014	-238	-23
Provisions for operating expenses				
Addition to provision for doubtful accounts	106	45	61	136
Addition to provision for other operating expenses	968		968	
	1,074	45	1,029	2287
	1,850	1,059	791	74.69

Note 4 - Net interest income

Net interest income is down 7%, mainly because of the decline in the average EONIA rate to 2.3229% compared with 3.2916% in 2002. This was not offset by the 21.6% rise in funds invested and the gain relative to EONIA generated by BCC's direct investment of its treasury on the markets. In 2002, this treasury was managed by Euronext Paris which paid BCC to the level of EONIA.

Securities portfolio revenues represent the dividend paid by Euronext Amsterdam Commodities Clearing, of which BCC has been the sole shareholder since 1 February 2001.

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Interests received in investment of deposits	88,406	96,869	-8,463	-9
Interests paid to clearing members on investment on deposits	(81,969)	(94,085)	12,116	-13
Interest earned on own cash funds	4,924	9,645	-4,721	-49
Interests paid on subordinated loan	(188)	(902)	714	-79
Interest income on collateralised securities	1,017	1,682	-665	-40
Securities portfolio revenue	823	786	37	5
Net interest income	13,013	13,995	-982	-7.02

Note 5 - Corporate income tax

Corporate income tax is broken down as follows:

	at December 2003 €'000	at December 2002 €'000	Change €'000	Change %
Income tax at 33.33% (France)	11,396	12,499	-1,103	-9
6% Surtax	342	375	-33	-9
3.3% add-on increase	351	387	-36	-9
Income tax at 40.17% (Belgium)	608	811	-203	-25
Income tax at 34.50% (Netherlands)	5,540	5,351	189	-
Corporate income tax	18,237	19,423	-1,186	-6

Corporate tax principles will be developed hereafter (6 - further information - note 3).

5. Notes to the balance sheet**Note 1 - Fixed assets (net of accumulated depreciation and amortisation)**

The table below shows movements during 2003 in fixed assets accounts:

	2002 €'000	Change 2003			2003 €'000
		Acquisitions New Projects €'000	Implementation €'000	Amortisation depreciation €'000	
Goodwill	46,166	6,529			52,695
Software	1,173	0	306	737	742
Lisbon: registration taxes	0	20		3	17
Work in progress	5,119	7,418			12,537
Intangible assets	52,458	13,967	306	740	65,991
Tangible assets	117	51		36	132
Fixed assets (net of accumulated depreciation and amortisation)	52,575	14,018	306	776	66,123

The change in the goodwill item represents BCC's acquisition on 15 July 2003 of Euronext Lisbon's clearing business in Portugal.

The €7.418 million net increase in work in progress includes €5.060 million for work by ATOS Euronext on emerging projects, including SPH and Settlement Connect. Also included is software in development, expected to be transferred to BCC by Euronext Paris pursuant to the transfer of €2.358 in assets specifically related to the clearing business.

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

Note 2 - Investment in subsidiaries and affiliates (net of allowances)

At 31 December 2003, the "shares in subsidiaries" represent the totality of the shareholders' equity in the Dutch company, Euronext Amsterdam Commodities Clearing (EACC), which is fully consolidated. These shares were acquired on 1 February 2001 from AEX Optieclearing, a subsidiary of Euronext Amsterdam. EACC's commercial activity of general clearing member was transferred to BCC during the course of 2003. During the year, EACC was granted a €4.000 million loan to provide liquidity vis-à-vis third parties during the winding-up process. EACC holds term deposits amounting to €5.672 million.

The table below presents information relating to this subsidiary:

Capital	Reserves and retained earnings	Percentage owned (in %)	Book Value of shares	Loans and advances granted	Sureties and endorsements given by the company	Revenues	Net Result	Dividends allocated during the year
1,815	2,722	100	4,539	4,000	0	216	380	823

At 31 December 2003, BCC owned a €3,000 equity interest in Sofaris.

At 31 December 2003, no valuation allowance had been made on the shares.

Note 3 - Investment securities

Investment securities represent the instruments for treasury management. At 31 December 2003, this item consisted entirely of certificates of deposit.

	at December 2003 €'000	at December 2002 €'000
Investment securities and related receivables	415,140	362,019
Securities placed on repos	0	210,672
Investment securities	415,140	572,691

Investment securities portfolio breakdown by maturity

	at December 2003 €'000	at December 2002 €'000
* Less than 1 month	90,000	6,000
* Greater than 1 month and less than 3 months	160,000	150,000
* Greater than 3 months and less than 6 months	164,000	205,000
Total principal	414,000	361,000
Related accounts	1,140	1,019
Investment securities	415,140	362,019

Note 4 - Trade receivables (net of allowances)

Trade receivables include:

- €10.038 million in member account balances for which payment will occur in the first few days following month-end;
- €23,000 in doubtful accounts net of a valuation allowance calculated in conformity with the clauses of CRB Regulation 91.01;
- €3.701 million in invoices relating to 2003 but still unbilled at 31 December 2003. The unbilled invoices relate to annual clearing fees, late payment penalties billable to members, and repo fees.

	Gross €'000	Provisions €'000	at December 2003 €'000	at December 2002 €'000
Clients	10,038	0	10,038	12,583
Doubtful accounts	174	151	23	9
Invoices to be issued			3,701	584
Trade receivables (net of provisions)			13,762	13,176

Note 5 - Other receivables (excluding clearing and treasury accounts)

Other receivables include:

- €18.478 million in recoverable tax, including a VAT credit of €7.855 million and VAT relating to unbilled supplier invoices in the amount of €4.765 million;
- €14.318 million in receivables from third parties, including €10 million (excluding VAT) receivable from the Euronext Group (spread between the three marketplaces) relating to business referral commissions.

	at December 2003 €'000	at December 2002 €'000
Recoverable tax	18,478	15,929
Personnel	68	8
Miscellaneous	14,318	8,004
Interests receivable on swaps	3,274	3,005
Other receivables	36,138	26,946

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

Note 6 - Clearing house accounts (assets and liabilities)

In order to guarantee the final settlement of transactions, BCC requests clearing members to lodge collateral. BCC determines which assets are eligible as collateral and specifies the procedures for calling deposits.

Deposits can consist of cash, bank guarantees, or securities that are specified on a list defined by BCC.

Deposits in cash appear in balance sheet liabilities, whilst deposits of bank guarantees and securities are recorded as off-balance sheet items. Margin deposits are marked-to-market daily, giving rise either to a call for additional margin, recorded as an asset under "Funds receivable from members", or to a refund, recorded as a liability under "Funds payable to members".

All cash deposits are invested in liquid assets carrying no risk to principal. Interest on these investments is paid over to members, net of a margin to remunerate BCC for the service rendered.

In the equity market, deposits are determined with reference to net positions and are marked-to-market daily based on the trades recorded by each member (settlement risk) and the valuation of positions at the last known price (trading risk).

In the event of non-delivery or non-settlement by a member, the guarantee deposit lodged by such member is used by the clearing house to honour the member's commitments to the market. For example, in the event of non-delivery, the clearing house borrows the necessary securities in order to deliver them to the defaulting member's counterparties.

In the derivatives market, guarantee deposits are determined on the basis of net positions adjusted daily (settlement risk) plus or minus margins and premiums payable or receivable by members.

The margin to be received or paid is calculated daily based on each member's positions. These positions are netted and then marked-to-market at the daily settlement price to calculate the theoretical settlement value of the member's positions. The margin receivable from or payable to each member corresponds to the difference between the daily settlement value of the members' position compared with the previous day. Margin calls are made on this basis.

Positive margins that can be recovered by members are recorded as a liability under "Margins payable to clearing house members". Negative margins represent amounts receivable by the clearing house and are therefore recorded as an asset under "Margins receivable from clearing house members". Members are required to settle negative margins before 10:00 am.

On top of those margin deposits there are premiums payable to or receivable from clearing house members. Premiums correspond to the traded price paid by option buyers to option sellers. At the end of each trading day, premiums payable and receivable correspond to the difference between each member's buy and sell trades. Daily calls for premiums are made on this basis.

Positive premiums are recorded as a liability under "Premiums payable to clearing house members". Negative premiums are recorded as an asset under "Premiums receivable from clearing house members". As with negative margins, premiums must be settled before 10:00 am.

	at December 2003 €'000	at December 2002 €'000
Funds receivable from Clearing House members	277,654	325,394
Executed trades not yet settled and other	109,911	660,048
Borrowed securities	7,768	7,308
Margins and premiums receivable from Clearing House members	85,844	100,878
Repos receivables	12,028,170	0
Clearing House accounts (assets)	12,509,347	1,093,628

The sharp variation in clearing house accounts (assets and liabilities) is mostly attributable to the first-time recognition in 2003 of repos cleared in the OTC market in the amount of €12,028 million. The comparable figure at end-2002 was €5,011 million.

The sharp decline in the "Executed trades not yet settled" account was caused by a reduction in fails in the OTC market.

Note 7 - Treasury accounts

BCC trades directly on the money market, investing its own cash and that of its members. These cash funds were invested at end-2003 in certificates of deposit (Note 3: €415 million, compared with €361 million a year earlier), term loans, and overnight loans. The overall decrease comes mainly from the decline in deposits in cash (down €282 million) and a fall in BCC's own cash funds following the payment of a €152 million exceptional dividend, partly offset by the receipt of a €60 million subordinated loan.

	at December 2003 €'000	at December 2002 €'000
Euronext Paris treasury accounts	0	18,422
Banque de France	117	1
Cash on hand and current accounts	19,345	17,111
Securities loans and term repos	2,400,000	2,540,000
Overnight loans and repos	585,627	824,915
Loan granted to EACC	4,045	0
	3,009,134	3,382,027
Treasury and portfolio accounts	3,009,134	3,400,449

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

Note 8 - Shareholders' equity

At year end, shareholders equity is broken down as follows:

	at December 2003 €'000	at December 2002 €'000
Share capital	113,067	110,353
Share premium	0	142,436
Capital bonus	737	0
Legal reserve	10,604	8,828
Other reserves	3,049	3,049
Retained earnings	0	6
Accelerated tax depreciation reserves	353	526
Reserve for general banking risk	305	305
	128,115	265,503
Net profit (1)	32,824	35,519
Interim dividend		(14,043)
	160,939	286,979

Share capital comprises 7,416,700 fully subscribed and paid-up shares with a par value of €15.2449 per share to total €113.067 million.

The change in shareholders equity breaks down as follows:

	€'000
Shareholders equity at 31 December 2002	286,979
Capital increase	2,714
Dividends	(13,030)
Exceptional distribution	(152,190)
Net profit of the year 2003	32,824
Accelerated tax depreciation reserves	-173
Share premium	3,815
Shareholders equity at December 2003	160,939

The main movements affecting shareholders equity are as follows:

- payment of the €13.030 million balance of the 2002 dividend (€14.043 million interim dividend already paid in 2002);
- two exceptional payouts in the third quarter (€2.150 million) and the fourth quarter (€150.040 million);
- capital increase of €2.714 million and recognition of a share premium (€3.815 million) on the acquisition of the Portuguese clearing business from Euronext Lisbon on 15 July 2003.

The Reserve for General Banking Risk was unchanged in 2003.

Note 9 - Proposed appropriation of the year's profit

The proposed appropriation of profit for the year 2003 is as follows:

	at December 2003 €'000	at December 2002 €'000
Net profit of the year	32,824	35,519
Retained earnings	0	6
Net profit distributable at 31 December 2003	32,824	35,525
Appropriation :		
Legal reserve	703	1,776
Retained earnings	32,121	6,676
Proposed dividend	0	27,073
Total	32,824	35,525

Note that the retained-earnings balance was entirely used up in the course of 2003 by the exceptional payouts described above.

Moreover, as provided by Article L232-10 of the Commercial Code, the allowance to the Legal Reserve was not made for 5% of the year's profit, but for the amount needed to reach 10% of the share capital, i.e. €703,000. If this appropriation is agreed, the balance on the legal reserve will be €11.307 million.

Note 10 - Undated subordinated loan

After consulting the Commission Bancaire, a €60 million undated subordinated loan was contracted with Euronext Paris on 12 September 2003 and released 18 December 2003. The purpose of this loan is to meet BCC's financing needs.

Upon the availability of the funds, the interest rate, originally set at 0.5%, was raised to capitalised EONIA plus a 2.5% margin. Accrued interests reach €121,166.34 at year-end.

Note 11 - Provisions for liabilities and charges

Provisions for risks and charges totalled €3.299 million at 31 December 2003, broken down as follows:

- provisions for employee benefit commitments rose to €2.331 million (€1.402 million at end-2002), as calculated by an independent actuary based on changes in the workforce (turnover and seniority). These provisions relate to retirement commitments, to long-service awards and, under the 19 December 2001 agreement with Euronext Paris employees, to early retirement commitments;

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

Note 11 continued...

- provisions for taxes, totalling €488,000, and relating in part to a €68,000 tax audit adjustment made on FY 2000 and FY 2001 (mainly relating to VAT pro rata), as well as provisioning on the same basis for subsequent years of a €420,000 tax charge (€70,000 for 2002 and €350,000 for 2003);
- operating provisions of €480,000 relating to a commercial dispute with a clearing member during the year.

	at December 2003 €'000	at December 2002 €'000	Change €'000	Additions €'000	Reversals €'000	Use €'000
Employee benefit provisions						
Compensation for retirement	934	236	698	698	-	-
Jubilee premium	144	0	144	144	-	-
Early retirement	1,253	1,166	87	1,100	296	717
	2,331	1,402	929	1,942	296	717
Operating provisions						
Commercial liabilities provisions	480	0	480	490	10	-
Other operating liabilities provisions	488	0	488	488	-	-
	968	0	968	978	10	0
Non-operating provisions						
Provisions for liabilities and charges	3,299	1,402	1,897	2,920	306	717

Note 12 - Trade notes and accounts payable (suppliers)

Amounts payable to suppliers at 31 December 2003 total €6.7 million, and expenses accrued for amounts not invoiced at the balance sheet date total €24.3 million.

This amount includes €12.728 million payable to Euronext Paris, of which €8.037 million in business referral commissions is to be invoiced in respect of December, as well as €1.8 million in management fees for the same period, and €5.2 million payable to ATOS Euronext for IT services.

	at December 2003 €'000	at December 2002 €'000
Trade payables	6,689	3,050
Suppliers accruals	24,293	30,404
Trade notes and account payables (suppliers)	30,982	33,454

Note 13 - Accrued taxes and personnel costs

Accrued taxes and personnel costs are broken down in the table below:

	at December 2003 €'000	at December 2002 €'000
Personnel and others related to personnel	5,407	3,035
Accrued taxes	2,949	4,317
Corporate income tax	103	12,289
Personnel, tax and social payables	8,459	19,641

Accrued taxes and personnel costs relate to:

- €5.4 million in accrued personnel costs, of which €4.6 million in personnel benefit provisions and €902,000 for the year's profit-sharing;
- €2.9 million in accrued taxes, of which €2.3 million in VAT for the month of December 2003, and €691,000 in taxes payable;
- net corporate income tax of €103,000 due to the Dutch tax administration.

Note 14 - Other liabilities (other than clearing and treasury)

Other payables constitute:

	at December 2003 €'000	at December 2002 €'000
Other liabilities	837	233
Interests payable on swaps	3,346	2,824
Other payables (excluding clearing house accounts, treasury and portfolio accounts)	4,183	3,057

Note 15 - Clearing house accounts (liabilities)

	at December 2003 €'000	at December 2002 €'000
Funds payable to clearing house members	285,601	478,992
Clearing house members guarantee deposits	3,230,919	3,513,006
Trades executed but not yet settled and other	139,196	500,371
Borrowed securities	7,768	7,308
Margins payable to clearing house members	85,844	100,878
Repos payable	12,028,170	0
Clearing house accounts (liabilities)	15,777,498	4,600,555

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

Note 15 continued...

As indicated in Note 6, the main change in this account is the recognition in 2003 of OTC repos. Other significant changes include:

- a fall in cash deposits, resulting essentially from a decline in derivatives positions, that reduced the overall margin requirement;
- a lower balance on the "Executed trades not yet settled" account, attributable to fewer fails in the OTC market (down €346 million);
- a reduced balance in funds payable to clearing house members following the daily readjustment of margin deposits (down €193 million).

Note 16 - Payable to banks

Bank payables are down significantly following the early-2003 repayment of the repo arranged with Banque de France (see Note 3).

	at December 2003 €'000	at December 2002 €'000
Euroclear overdraft	1,749	64
Accruals on Euroclear overdraft	29	1
Repos on own operation	0	209,910
Accruals on repos	0	22
Money at call	7,000	9,000
Accruals on money at call	0	1
Overdraft	8,778	218,998

Note 17 - Ordinary commitments

The unconditional and irrevocable commitment given by Euronext to settle any and all amounts due, without exception, under the settlement and delivery guarantee covering transactions cleared by BCC, and determined on the basis of Euronext Paris callable capital, was cancelled on 22 December 2003.

Note 18 - Clearing commitments

	at December 2003 €'000	at December 2002 €'000
Securities received as collateral	1,299,372	2,290,340
Securities underlying options received as collateral	0	838,364
First-demand guarantees received from banks	107,747	141,870
Financing commitments received from the DNB	68,000	68,000
Guarantees received from DNB	1,401,350	1,699,248
Guarantees received from BNB	41,741	10,229
Guarantees received	2,918,210	5,048,051
Securities receivables (equity market)	18,938,539	13,706,757
Securities made available (equity market)	75,056	199,654
Commitments received	21,931,805	18,954,462
Securities deliverable (equity market)	18,933,387	13,909,163
Commitments given	18,933,387	13,909,163

Open interest (market value of options and futures contracts) amounted to €22.6 billion at 31 December 2003 compared with €25.1 billion at end-2002.

Guarantees received declined €2.1 billion between 2002 and 2003. This is attributable to:

- a substantial €0.9 billion decline in collateralised securities, following the elimination of the stock-as-cover facility for option contracts after the Dutch derivatives market was included in C21;
- a €0.3 billion decrease in the DNB guarantee because of the lower level of required cover and because of the elimination of the mutual guarantee fund, to which the members of the Dutch derivatives market belonged.
- The €5.2 billion rise in securities receivable or deliverable comes from a €4.2 billion increase in OTC commitments engendered by increased volumes in repos. Improved cash market volumes also led to a €0.9 billion increase in commitments. The commitments of Portuguese cash market, cleared by BCC since November 2003, amount to €0.1 billion.

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

Note 19 - Comparison of cover requirement and security deposits

At 31 December 2003, the cover requirement breaks down as follows:

	at December 2003 €'000	at December 2002 €'000
Cover requirement	4,937,128	5,617,308
Mutual guarantee fund	404,283	627,508
Total	5,341,411	6,244,816

Guarantees received are broken down as follows:

	at December 2003 €'000	at December 2002 €'000
Cash deposits	3,257,121	3,700,761
Other (excluding options underlying)	2,742,463	3,999,817
Total	5,999,584	7,700,578

Note 20 - Treasury commitments

Breakdown of treasury commitments by type:

	at December 2003 €'000	at December 2002 €'000
Interest rate swaps contracts	1,130,000	1,255,000
Liabilities given to EACC	0	0
Term loan	40,000	30,000
Treasury commitments	1,170,000	1,285,000

Breakdown of treasury commitments by maturity:

	at December 2003 €'000	at December 2002 €'000
Interest rate swaps contracts		
Less than 1 month	315,000	440,000
Greater than 1 month and less than 3 months	345,000	275,000
Greater than 3 months and less than 6 months	470,000	510,000
Greater than 6 months	0	30,000
Term loan		
Less than 1 month	40,000	30,000
Treasury commitments	1,170,000	1,285,000

Note 21 - Statement of cash flows

	at December 2003 €'000	at December 2002 €'000
I. Cash flows from non-clearing activities		
Net profit	32,824	35,519
Income tax	18,237	19,423
Depreciation and amortisation expense	603	1,167
Provisions/reversals during the year	1,897	35
Gain on sale of shares in subsidiaries and affiliates		
Total cash flows from non-clearing activities before change in working capital requirement	53,561	56,144
Change in working capital requirement		
Change in long-term receivables		
Change in customer receivables and others current assets *	-8,845	-8,669
Decrease in short-term debt *	-384	-18,186
Income tax paid	-31,345	-10,928
Other changes		
Net change in cash flows from non-clearing activities	12,987	18,361
II. Cash flow from investment activities		
Change in tangible assets	-53	-5
Change in intangible assets	-14,273	-5,698
Change in long-term financial investments		
Fixed asset disposal		
Net change in cash flow from investing activities	-14,326	-5,703
III. Cash flow from clearing activities		
Change in clearing-related receivables *	-6,404,273	-4,602,933
Change in clearing-related payables *	6,447,610	4,535,367
Change in members' clearing deposits	-282,087	1,382,135
Net change in cash flow from clearing activities	-238,750	1,314,569
IV. Cash flow from financing activities		
Capital increase	6,529	149,192
Increase in borrowings		
Payouts during the year	-165,220	-34,166
Repayment of borrowings	0	-62,831
Others changes in shareholders' equity	60,134	0
Net change in cash flow from financing activities	-98,557	52,195

Notes to the financial statements continued...

5. Notes to the balance sheet continued...

	at December 2003 €'000	at December 2002 €'000
Net change in cash flow during the year	-338,646	1,379,422
Net (decrease)/increase in cash		
Beginning of the year	3,754,142	2,374,720
End of the year	3,415,496	3,754,142
Net change in cash flow	-338,646	1,379,422
Treasury accounts (assets)	3,009,134	3,400,449
Treasury accounts (liability)	-8,778	-218,998
Treasury investments	415,140	572,691
Total cash at 31 December	3,415,496	3,754,142
of which clearing activity (1)	3,268,356	3,507,106
own cash	147,140	247,036
(1) clearing activity		
- guarantees received	3,257,121	3,700,761
- other	11,235	-193,655

* Customer receivables carried on the balance sheet as clearing-related have been reclassified as customer receivables. This item declined by €16,000 between 2002 and 2003 and by €120,000 between 2002 and 2001.

Similarly Powernext trading fees levied by Clearnet, carried on the balance sheet as clearing-related payables in the amount of €42,000 in 2002, have been reclassified as short term debt.

The variations of the receivables and payables linked with clearing take into account the repo operations cleared on the OTC market not recorded in 2001 and 2002. They respectively sum up to €983.944 million and €5,011.462 million.

6. Further information

Note 1 - Special profit-sharing reserve and company investment scheme

In connection with the restructuring programme initiated in May 1999, a collective working agreement - known as a substitution agreement - was signed on 17 May 1999 with personnel representatives from Euronext Paris. Euronext Paris employs all Group personnel and then seconded to BCC and to Atos Euronext the personnel these two companies require.

Further to that agreement, an amendment to the profit-sharing agreement on 20 December 1996 was signed on 25 June 1999. It is applicable for the first time as from 1 January 1999 and is tacitly renewable year by year.

Further to this agreement, the special profit-sharing reserve is calculated in compliance with prevailing legislation, apart from two departures from ordinary law. The first exception concerns the computation of value added. The rule applied in this case is not the one usually used by credit institutions but the rule applicable to companies in general, which is better suited to the Group's activities and more favourable to its employees. The second exception pertains to the rate of return on equity, which has been set at 2.5% instead of the ordinary-law rate of 5%.

A provision is set aside for profit-sharing payments during the year in which the employees' rights arise, and BCC is billed for the quota relating to employees seconded to it.

Furthermore, there is a company savings scheme (Plan d'Epargne d'Entreprise), funded by employees' individual shares in the profit-sharing reserve, by voluntary payments from Euronext Paris employees, and by top-up payments ("matching contributions") made by Euronext Paris on the basis of a payment scale enshrined in an agreement.

An amendment signed on 9 May 2000 modifies the existing Plan d'Epargne d'Entreprise following the introduction of an employee stock ownership programme and the creation of an investment fund comprising company shares purchased by employees.

The matching contributions paid by Euronext Paris during the year under review are shown as personnel expenses, and BCC is re-billed for the quota relating to employees seconded to it.

Note 2 - Operating ratios

BCC is a banking institution. At 31 December 2003, it met the operating ratio requirements for credit institutions under French banking law. For BCC, this entails two ratios, one on market risks, the other on solvency risks.

Notes to the financial statements continued...

6. Further information

continued...

Note 3 - Transfer pricing policy

The Euronext Group, of which BCC was an 80%-owned subsidiary until its merger with the UK clearing house LCH on 22 December 2003, is organised into business units. Each line is managed from one of three geographical locations, i.e. Paris, Amsterdam or Brussels, which have cross-border responsibilities. Therefore, since some functions are centralised, one location may be called upon to assist another location, in the overall interest of the Group.

In view of the interlocking nature of this cross-border organisation based on business lines, and to ensure the relevance of pre-tax revenue and earnings data from each location, the Euronext Group wrote to the tax authorities of France, Belgium and the Netherlands on 28 December 2001 requesting a preliminary-agreement procedure on transfer pricing for its equity and derivatives trading activities, its data vending business, and its clearing activities, which are handled by BCC. The aim of these representations was to achieve an agreement, backdated to 1 January 2001, that would result in a fair breakdown of the results of Euronext entities, country by country, on the basis of local tax regulations and the OECD guide: "Pricing Guidelines for Multinational Enterprises and Tax Administrations".

The three tax authorities completed their joint examination of Euronext's request in 2003, paving the way for an agreement on the method of determining transfer pricing, as described in the draft agreement prepared by these authorities and dated 15 December 2003.

The French tax administration wrote to the Euronext Group on 22 December 2003 to confirm this decision, leaving the Dutch and Belgian authorities also to confirm their agreement in writing.

Under the agreement, the joint revenues and earnings of the clearing business can be apportioned between BCC, which has its registered office in Paris, and its Dutch and Belgian subsidiaries.

Note that, anticipating the agreement, BCC had provided for its corporate income tax for 2001 and 2002 by applying a tax allotment procedure. This has now been accepted by the French tax authorities.

Note 4 - Agreements regulated by Article L 225-38 of the Commercial Code concluded between Euronext Group and BCC

Since the restructuring, with retrospective effect as of 1 January 1999, undertaken in Paris between the BCC, SBF and Atos Euronext on the one hand and the merger of the Paris, Brussels and Amsterdam Clearing Houses on the other, agreements were introduced between the Euronext Group and BCC defining the economic relations between these various, different entities.

Although most of these agreements are governed by Article L 225-39 of the Commercial Code (former Article 102 of the Law on Commercial Companies), since concluded under normal and usual terms, three agreements executed between the Euronext Group and BCC are regulated agreements covered by Article L 225-38 of the Commercial Code (former Article 101 of this same law).

A new agreement, the "Amended and Restated Clearing Agreement" of 31 October 2003 incorporates the principles of the previous "Clearing Agreement":

- clearing operations and the guaranty of final settlement: this sets the conditions under which BCC carries on its Clearing House business and, in this context, clears negotiated financial instruments on regulated markets managed by the Euronext Group. Under this agreement BCC is to provide its services to Euronext materially in accordance with its rulebook and practices as at the date of the Clearing Agreement.

As payment for the services that it provides, BCC collects clearing commission paid by clearing members (€155.4m collected in 2003 and €169.6m in 2002) (cf. Note 1).

- a retrocession fees commission agreed between the Euronext Group and BCC, the latter enjoying the benefit of transactions carried out on the financial-instrument markets operated by the Euronext Group and of the promotional campaigns which the Euronext Group conducts to promote Financial Trading Markets. Pursuant to this agreement, the Euronext Group undertakes, vis-à-vis BCC, to follow a policy of new product launches, prospecting for new commercial outlets and developing new products with a view to developing both negotiating and clearing business.

As consideration for this service for the first five years, the Euronext Group will collect a retrocession fees commission, as follows (taken from the terms and conditions of the previous "Clearing Agreement"):

- For Paris, it breaks down into a fixed fee of €0.02 per side of each transaction cleared on the stock market or on the derivatives market and a variable fee calculated as a percentage of capital cleared on the stock and options markets, with the business-referral commission being in no case, less than 10% of the total value of the clearing commission collected by BCC, and not more than 30% of the said total value (i.e., in 2003, €26.8m as compared with €37.3m in 2002).
- For Brussels, it represents 20% of the turnover arising from the spot and derivatives clearing markets (i.e., in 2003, €0.5m as compared with €1.1m in 2002).
- For Amsterdam, it accounts for 25% of the turnover arising from the spot clearing market (i.e., in 2003, €3.7m as compared with €5.5m in 2002).
- For Lisbon, it represents 16% of the turnover arising from the spot clearing markets and 25% of the turnover arising from the derivatives clearing markets.

Notes to the financial statements continued...

6. Further information

continued...

Note 4 continued...

In addition to these basic principles of calculation of this basic calculation, the "Amended and Restated Clearing Agreement" provides the following principles:

- provisions applicable to Paris, Amsterdam and Brussels spot markets for five years starting on 1 January 2004: the Euronext Group guarantees BCC a planned average price per cleared trade. This average price is specified in the agreement and changes each year. Should the sums collected by BCC be less, the Euronext Group will pay BCC the difference. Should the opposite prove to be the case, BCC will pay the Euronext Group the difference.
- provisions applicable to the derivatives options market in the Amsterdam trading market: in return for lower prices for exercises and transfers, Euronext Amsterdam will pay BCC €3m each year, as from 1 January 2004. For 2003, Euronext Amsterdam shall pay the pro rata amount of €920k as from the introduction of these lower prices.
- general provisions applicable to the whole of the net clearing income collected by BCC on the Euronext Group's markets: for 2003 the agreement is a straight payment of €10m to BCC to be set off against retrocession fees. Guaranteed income is planned for 2004 and 2005. Should BCC fail to achieve this guaranteed income, the Euronext Group shall pay the difference. A ceiling of €13m on the amount to be paid is set each year. Should the opposite prove to be the case, BCC will pay the Euronext Group the difference. A ceiling on the amount to be paid is also set on the same basis.
 - For 2004, the net guaranteed level of income is €150.8m;
 - For 2005, the net guaranteed level of income is €158.7m.

For 2003 as a whole, retrocession fees commission paid by BCC to the Euronext Group totals €31m (compared with €43.9m in 2002).

The second agreement relates to the guarantee at call granted to BCC by Euronext Paris under which Euronext Paris undertook, unconditionally and irrevocably and without claiming any exception or making any challenge, to assume liability for the payment of any sum due in connection with the performance bond on the transactions which BCC clears.

In payment for this agreement, BCC has paid Euronext Paris annual commission of 50 basis points on the whole of Euronext Paris' callable capital, i.e., in 2003, commission of €1.5m, exactly the same amount as in 2002.

This first-call guarantee was lifted on 22 December 2003, the date on which BCC was brought into the LCH.Clearnet Group.

Lastly, following the exceptional distribution of €150m on 18 December 2003, Euronext Paris granted BCC an undated subordinated loan of €60m, with the result that its overall shareholders' equity as defined by Regulation 90-12 of the Banking Regulation Committee totals €110m.

This loan bears interest at the EONIA rate capitalised every business day, plus a margin of 2.5%. In 2003, the interest paid by BCC on this loan totalled €0.2m.

Note 5 - Agreements regulated by Article L 225-39 of the Commercial Code

Only agreements concluded on normal and usual conditions between Euronext Group and BCC, the financial impact of which is significant, are mentioned below.

On 31 January 2001, Euronext Paris granted BCC a non-transferable and non-exclusive user's licence for the clearing software programme CLEARING 21[®], a software programme for which it had obtained in 1997 an operating licence from the CME and from NYMEX. In payment for this service, BCC paid Euronext Paris fixed annual commission of €3m.

Following the merger between BCC, AEX Optieclearing BV, AEX Effectenclearing BV and Brussels Exchange and the purchase of NV Nederlandse Liquidatiekas, BCC became the central counterparty of the markets managed by Euronext NV and its subsidiaries.

BCC has neither its own premises nor administrative services functions necessary to adequately operate in the French, Dutch and Belgian territories.

In this context, Euronext Paris, Euronext Brussels, Euronext Amsterdam (together referred to as "Euronext") and BCC have come together in order to standardise and conclude agreements under which Euronext agrees to place at BCC's disposal the premises and other resources and services required for the latter to operate properly.

These contractual relations are governed by a master agreement describing the general terms and conditions and joint obligations related to Euronext's supplying of BCC with services and resources called "Framework Agreement for the Provision of Means and Services" or "Framework Agreement".

As part of the contribution to BCC of the Portuguese clearing business, this "Framework Agreement" was reviewed on 15 July 2003 in order to take into account requirements with regard to premises and other resources and services necessary for the BCC branch in Portugal to be able to operate properly.

Notes to the financial statements continued...

6. Further information

continued...

Note 5 continued...

These services and resources are classified into the following categories (non-exhaustive list which may be amended) and are the subject of Service Level Agreements ("SLAs"):

- Subcontracting of BCC's business to Euronext;
- Provision (of premises and staff);
- Information Technology Services ("IT");
- Holding-to-subsidiary relationship.

The first SLA, "Subcontracting BCC's to Euronext" was invoiced in 2003 (total amount invoiced: €8.2m (€12m in 2002) and covered:

- the investment of BCC's own cash and cash generated by cash guarantee deposits lodged by members at the Clearing House as a guarantee for transactions undertaken on the stock market and derivatives market provided by Euronext Paris, as well as the provision of computerised collateral management tools.

Invoicing in connection with this service totalled €1.2m in 2003 compared with €4.1m in 2002. This significant decrease is explained by the making "in-house", during 2003 of some of the teams managing members' deposits (Back Office). The only services maintained as from 1 March 2003 at Euronext Paris cover BCC's cash investment (Front Office).

- human resource management (management and administration of pay, careers and training, etc.) of staff provided by Euronext or BCC's employees. Invoicing in this connection totalled €1.6m for 2003 compared with €1.5m for 2002.
- "technology and project management" under which Euronext assists BCC in its relations with the computer-services provider Atos Euronext, provides overall management of all the data-processing facilities, ensures overall computing compatibility and co-ordinates computer security problems. Invoicing for this service came to €2.3m for 2003 compared with €2.8m in 2002.
- the "compliance" service under which Euronext ensures, on behalf of BCC, that the members or prospects of the Central Clearing Bank meet the requirements laid down by the latter. Invoicing in connection with this service came to €1m for 2003 compared with €0.5m in 2002.
- services provided on an intermittent basis by Euronext's legal and auditing departments at BCC's request, which were also re-invoiced (€0.2m and €0.8m in 2003 compared with, respectively, €0.3m and €0.7m in 2002).
- accounting management of the Belgian and Dutch branches : Invoicing in connection with this service totalled €0.2m for 2003 compared with €0.2m in 2002.

The second SLA relates to:

- provision of staff by Euronext Paris and Euronext Amsterdam for BCC, which does not have its own staff, except for the Belgian branch and the Portuguese branch. In 2003, invoices to BCC for this service totalled €12.9m compared with €8.2m in 2002.
- provision of premises by Euronext on the three sites Paris, Brussels and Amsterdam, invoicing for which totalled €2.6m in 2003 compared with €2.3m in 2002 and the management and administration of premises, invoicing for which totalled €0.5m in 2003 same in 2002.

The third SLA, "Information Technology Services", relates to Euronext's provision of computer services to BCC, mainly in connection with maintenance and development of the clearing software programme CLEARING 21®. Invoicing of BCC for these services by Euronext Paris represented €9.3m compared with €13.3m in 2002.

In 2003, Euronext Lisbon invoiced €0.3m for Euronext Lisbon's provision of the Portuguese branch of BCC with computing resources.

The fourth SLA, "Holding-to-subsidiary relationship".

In 2003, €0.5m in structural costs, compared with €2.7m in 2002, were also charged, on an exceptional basis, by Euronext at the close of the year. These costs related mainly to Group internet expenses, along with indirect costs assumed, borne by Euronext's support functions working for BCC (employees' profit-sharing scheme, early retirement and fixed-pay agreement, etc.).

Note 6 - Post balance sheet events

Under the terms of the "Olympus" job protection plan, 122 employees of Euronext Paris SA previously seconded to BCC agreed to be taken on by LCH.Clearnet SA as from 1 January 2004. Of these, 63 had signed the tripartite hiring agreement at 31 December 2003.

Two statutorily protected employees are still waiting for authorisation from the French Labour Inspectorate. Two other employees refused to join LCH.Clearnet SA and are currently being re-assigned within Euronext Paris SA.

In Amsterdam, all the employees of Euronext Amsterdam NV seconded to BCC agreed to join the payroll of LCH.Clearnet SA as of 1 January 2004.

It should be noted that the employees of BCC's Belgian and Dutch offices already had direct contracts with BCC.

Note 7 - Consolidating entity

BCC is fully integrated in LCH.Clearnet Group Limited's financial statements at 31 December 2003.

Notes to the financial statements continued...

6. Further information

continued...

Note 8 - Composition of the Board of directors

The company is administered by a nine member Board of directors.

Name	Position	Other mandates as at 31 December 2003
David P PRITCHARD	Director	Cheltenham & Gloucester Plc Lloyds TSB Bank Plc Lloyds TSB Group Plc Scottish Widows Annuities Limited Scottish Widows Group Limited Scottish Widows Plc The Dutton-Forshaw Motor Company Limited LCH.Clearnet Group Limited LCH.Clearnet Limited (formerly "The London Clearing House Limited") The Motability Tenth Anniversary Trust
John B CAQUETTE	Director	MBIA Insurance Corporation MBIA Assurance S.A. MBIA UK Insurance Limited CapMac Holdings Inc. CapMac Asia Limited Asia Limited LCH.Clearnet Group Limited LCH.Clearnet S.A. LCH.Clearnet Limited
Christophe HEMON	Director	LCH.Clearnet S.A.
Andrew LAMB	Director	LCH.Clearnet Limited
Gilles TRANCART	Director	SAEM Val de Seine Aménagement AGIPI
Patrice RENAULT	Director	LCH.Clearnet Limited LCH.Clearnet Group Limited
Hervé JOUBAUD	Director	Sicovam Holding Conseil De Surveillance Probris SEA Cholet Dupont Gestion
David HARDY	Director	LCH.Clearnet Group Limited LCH.Clearnet Limited Futures and Options Association Institute for Financial Markets (US)
Jean-Pierre RAVISE	Director	Etoile Gestion Gillet Dupond