

**LACHMANN REPORT
FOR PARIS EUROPLACE
SUMMARY AND CONCLUSIONS**

Translation has been established as a matter of courtesy

October 4, 2006

Stock exchanges make an essential contribution to orderly financial markets, ensuring the efficiency and transparency of trading for retail and institutional investors and financial intermediaries. By the same token, they provide for the liquidity of issues that enable businesses to raise the capital they need. In continental Europe, pending implementation of the Markets in Financial Instruments Directive (MIFID), these operators have a near monopoly, assuming a mission in the public interest. They cannot be considered businesses like any other their future and that of the financial centres they operate in are inseparably linked. Consolidation of stock markets raises issues that go beyond the admittedly legitimate interests of their shareholders.

Market users have for long time now shown indifference to any need to become shareholders of Euronext. To have real influence on the direction it takes, these users will have to raise their interests in its equity more aggressively than some of them have over recent months. A move in that direction would also be consistent with the Paris Europlace competitiveness cluster project aimed at making Paris an international reference in financial services.

The purpose of the working group led by Henri Lachmann was to assess various scenarios for exchanges consolidation on the basis of criteria matching expectations of the market users of the Paris financial center. The two scenarios associating Euronext with NYSE and with Deutsche Börse received more particular attention. The legal status of these two scenarios is different, since the former is the object of an agreement between the two parties, whereas the latter concerns a unilateral proposal by Deutsche Börse, which has not led to full negotiation. As a result, they are not defined with equal precision.

The assessment criteria applied, drawn in particular from the report of the Dangeard mission conducted in a different context, are of two kinds. The first concern the prospects for the development of Paris as a financial centre in terms of synergies and cost reduction, the freedom of competition between different billing services, and resulting momentum for the sector in Paris, while the second relate to questions of market organization and governance, in particular preservation of Euronext's federal model and its regulatory framework and the balanced representation of financial centres and users. Purely financial aspects in terms of the creation of shareholder value were not considered.

Assessments of these scenarios drew on consultations with the market operators concerned, shareholders, regulators, users and professional associations. Very different - even diametrically opposed - opinions were thus heard, but an effort was made to identify the general directions most widely accepted. ***On this point, consultation with users revealed two concerns of specific importance, one being to ensure Euronext's freedom of action and its future development, and the other a commitment to continuing the process of European construction.***

1) The project associating Euronext and NYSE offers opportunities for the development of Euronext markets, but gives control to NYSE with no long-term assurance of the continued development of the European side of operations in the interest of users.

This project appears relatively easy to implement considering the similarities in the strategies, organization and culture of the two exchanges and the absence of any technical or legal obstacles, in particular as regards competition law. The prospect of participating in

worldwide stock-market consolidation is in principle attractive. Opportunities for development within the framework of the project are based on higher visibility for Euronext and the extension of its derivatives business. It would also lead to significant cost synergies, but there has been no clear indication of how these would be allocated, and thus what proportion will benefit users. The appeal of the NYSE-Euronext tie-up for issuers beyond Euronext's current area of operation is hard to determine, as is thus the impact on competition between Paris and London. Since there will be no common pool of liquidity, it also remains to be explained how the liquidity of stocks listed with Euronext could benefit.

Governance structures and the location of headquarters are in the NYSE's favour--both the CEO and the CFO would come from the NYSE, 11 out of 20 directors would be American, and the headquarters would be in the US. This is not a merger of equals; instead it gives NYSE control of Euronext. This would not be a problem in itself if the project were structured to preserve the management independence of European operations, bearing in mind that this is, however, currently questioned by some shareholders. For the time being, even if the powers of the holding company over Euronext markets need to be more clearly defined, the project admittedly leaves Euronext its autonomy. But looking to the medium term, the proposed governance structures provide no assurance that this will remain the case, nor any assurance of the resources to be committed, nor that the business developments provided for in the project (such as international listings in Paris) would materialize.

The risk of a regulatory spillover is to be assessed by European regulators. An unqualified assurance that this risk is under control is vitally important.

2) The proposed tie-up between Deutsche Börse and Euronext also offers opportunities for Euronext markets. However it entails serious implementation risks, and given the very considerable differences in the scope of the two exchanges's activities and their respective market models, does not allow for the preservation of Euronext's federal model.

Deutsche Börse's proposal has been presented as a fresh step forward in the process of European construction. It calls for a genuine market merger widening pool of liquidity and opening prospects of lower costs for Euronext users. Deutsche Börse has explicitly stated that synergies would in part be for the benefit of users. However, the lack of detail on the organization of information systems and post-market processing plus the risk that the new group's dominance of derivative markets could be considered excessive might put a question mark over the project.

The two operators are very different in terms of business scope - which is wider at Deutsche Börse, where equities account for only a small proportion of the total - as well as in terms of market models, with Deutsche Börse's vertical structure opposed to Euronext's horizontal organization. The same applies to information systems, which are integrated at Deutsche Börse's and outsourced at Euronext. While the proposal does provide for shared governance, the weight of Deutsche Börse's businesses without equivalents at Euronext means that the centre of gravity would be in Frankfurt, despite management efforts, as is borne out by the proposed bylaw's requirements that both the CEO and the CFO be based there. There is thus reason to fear that all decision making would in time be centred in Frankfurt. The scale of difference between the two put a merger of equals beyond reach at present, all the more as the two parties' relationship appears strained after several years of negotiations.

3) Borsa Italiana is currently in talks with Deutsche Börse regarding a possible three-way tie-up also involving Euronext. Since no details of the proposal have been made available and Euronext has not taken part in the talks, this scenario was not reviewed.

However, the concept put forwards looks like an interesting proposition. In order to succeed, it would require more extensive research and negotiation between the three parties concerned.

4) There is a scenario that is attuned to the wishes of all Euronext users, which would benefit the German market, which contributes to the process of European construction, and which is compatible with a trans-Atlantic alliance. This would be for Deutsche Börse to contribute its equity business to Euronext in exchange for Euronext shares. This option would allow the merger of Euronext and Deutsche Börse's equity markets, widening related pool of liquidity and yielding significant synergies. It would leave Deutsche Börse in full control of its other business in derivatives and post-market processing, which are the backbone of its operations today, accounting for over 80% of revenues. Most importantly, it would give the European exchange - whatever the shape of its future development - the most favourable prospects for independence and growth.

This solution does away with the difficulties of size and business mix together with the related organizational problems raised by a tie-up between Deutsche Börse and Euronext, since it excludes the derivatives and post-market business from the scope of the agreement.

Deutsche Börse would become the largest shareholder of Euronext with between 15 and 20% of equity, although the precise figure would require more detailed assessment. Deutsche Börse would also be among the first to benefit from the synergies that would result from the merger of Germany's equity markets with Euronext's. Through its membership of Euronext's Supervisory Board and on the basis of Euronext's federal model, it would continue to exercise control over Germany's equity markets, with its teams in Frankfurt remaining in place and the German regulatory framework intact.

The contribution of Deutsche Börse's equity business could also be a model for an agreement with Borsa Italiana, further extending the scope of the European exchange.

Finally, this scenario would open the way for fresh negotiations with NYSE aimed at a new, broadly based trans-Atlantic alliance better reflecting the relative weight of each markets and their business volumes.

To sum up, stock exchanges are not just ordinary businesses, since their future and that of the financial centres they operate in are closely linked.

The most effective way to help put Euronext on the right course is for its users to take a much larger interest in its equity.

⊖ Neither of the two solutions now available is entirely satisfactory for Paris financial market, despite the real merits of each.

⊖ The most promising scenario would be for Deutsche Börse to contribute its cash equity trading business to Euronext in exchange for Euronext shares. This would initiate a process that could naturally bring Borsa Italiana within the scope of the pan-European exchange and lay the foundations for a future alliance with NYSE on a more balanced basis.