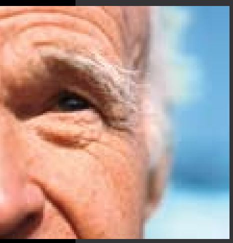
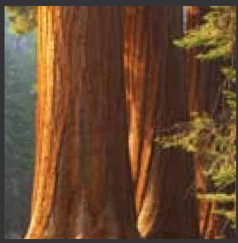
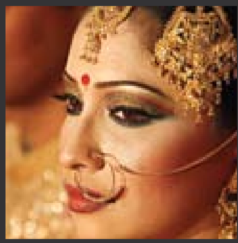
LCH.CLEARNET








ANNUAL REPORT 2010

2010

2010

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

LCH.CLEARNET

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WHO WE ARE

LCH.Clearnet is the leading independent clearing house group, serving major international exchanges and platforms, as well as a range of OTC markets. Our membership criteria are open and transparent and last year we welcomed 28 new members to the Group. We clear a broad range of asset classes and work closely with market participants and exchanges to identify and develop clearing services for new asset classes. We focus on mitigating risk and making trading safer.

LCH.Clearnet benefits from a diverse and stable shareholder base. The Group is owned 83% by its users and 17% by exchanges for which it clears. In order to ensure a broad range of market interests are represented, all shareholders are subject to a voting cap and important committees, such as the risk committees, chaired by Independent Directors.

FINANCIAL HIGHLIGHTS

€553.6 million in total revenues

766,000 IRS trade sides cleared through SwapClear

Notional value of €27.8 billion CDS trades cleared

Average nominal value of €500 billion bond and repo trades cleared daily

1.7 billion contracts cleared

28 new clearing members

CHAIRMAN'S STATEMENT

2010, my first year as Chairman of LCH.Clearnet Group Limited, was another year of accelerated change and interesting challenges for the financial infrastructure world. Regulators at the local and international level have focused on clearing houses as integral to increasing the stability of the financial system in future. As a clearing house, our fundamental role is to preserve market integrity, mitigate risk and protect our members in the event of another defaulting. This dominates the entire workflow and the mindset of our people; effectively it is the DNA of our firm.

Since my arrival, the quiet competence, depth of expertise and the reliability of risk judgment of our staff, which underpins our day to day activity, have impressed me.

At the same time, the Group is not immune to changes in the wider environment. We must adapt to a world of unprecedented consolidation among global exchanges; a world which requires ever more complex financial instruments to be cleared; a world in which the speed of execution accelerates continuously and a world which requires of us swift and robust risk management processes.

In this challenging environment the contribution of the Board has been invaluable. In addition to the 6 scheduled and 3 unscheduled meetings, Board members have dedicated a significant amount of time on a regular basis to providing the Group with extensive advice and guidance. Our experience indicates that those immersed in the fast changing world of the financial markets have the up-to-date knowledge and expertise required to provide the most relevant guidance to market infrastructures, and a user owned organisation has the advantage of being able to call on them to this extent for their experience and advice.

The business's performance is detailed later in this report by the CEO, Roger Liddell. But to summarise, 2010 revenues fell as anticipated, predominantly due to the one-off payment by NYSE Euronext in 2009 (€260.4 million paid in 2009). Tariff reductions for equities in both London and Paris impacted revenues; however, other business areas saw significant growth. These included interest rate swaps and fixed income, as well as a broad range of specialist OTC products. The Group returned to profit, with a profit after tax of €19.1 million and an operating profit of €43.5 million (2009: €29.6 million).

The changing landscape is engendering opportunities and challenges and it is imperative that the Group positions itself appropriately. The Management, with the Board's support, is focused on ensuring LCH.Clearnet is a best-in-class clearing services provider. A robust and modern infrastructure is essential for this and several significant milestones were achieved in 2010. In LCH.Clearnet SA a new equity and CDS clearing platform was deployed, in London the implementation of Synapse will support a range of listed derivative markets and good progress is being made with the upgrade of the interest rate swap clearing system. In every instance, these new systems allow faster, more scalable operational efficiencies and facilitate the implementation of clearing in new markets. In support of the increasingly global nature of our clients' businesses and the markets we serve, the Group also set up extended capabilities with up to 22 hours / 5 days a week operational capacity.

The Group's ability to deliver rapid solutions in response to sudden market demand was underlined by the expeditious and highly successful launch of clearing for Spanish government debt, initially in London for the international market and, later in the year in Paris, a service tailored to the domestic marketplace. At a time of uncertainty in government bond markets and of limited liquidity, the launch of these clearing services contributed materially to the easing of interbank liquidity.

In my very first weeks with the Group, NYSE Euronext announced its intention to build its own clearing services in Europe, with a view to them being operational from late 2012. Our relationship with NYSE Euronext, as well as other exchanges, is evolving and the final outcomes may not be to the detriment of LCH.Clearnet Group. The user community wants reliability, consolidated connectivity, and, increasingly, robust operations and risk management, in which they are very much in line with European and US regulators.

The composition of the Board has evolved over the last year to better reflect our realigned ownership and usership. Four Directors resigned, including the former Chairman, A. Chris Tupker, whose extensive experience and knowledge of the post trade environment guided the Group through a challenging time. Eight new Directors were appointed during 2010.

I would like to whole-heartedly thank the staff of LCH.Clearnet, who have made me most welcome and whose dedication is exemplary. I wish to express special thanks to Roger Liddell, who has decided to retire this year, after five years as CEO. Roger turned around LCH.Clearnet Group Limited in 2006, helped to improve its operational effectiveness, consolidated its position as a leading clearing house and, critically, ensured that LCH.Clearnet became the global leader in OTC clearing. We are all indebted to his effective management in September 2008 of the largest default in clearing history and the resounding success of the Group in unwinding Lehman Brothers' $10 trillion of positions. It was this very success which engendered policy makers' and regulators' interest in clearing as part of the solution to the financial crisis. Roger has been a great source of education for me, always available and always ready to go the extra mile for the firm. His prominent role in the public debate surrounding the future of clearing and infrastructure has been to the benefit of the marketplace. The entire Board wishes him well for the future.

Since the year end, I am delighted to announce the appointment, effective 4 April, of Ian Axe as new CEO and Executive Director of LCH.Clearnet Group Limited. The Board's nomination committee was very pleased with the level of interest and high quality individuals who expressed an interest in the role. We are all looking forward to the impact Ian will have on the future of the firm and, more broadly, the clearing landscape.

I have learnt that it is impossible to predict the future of this industry; I can only be sure that there will not be a dull moment. I am confident that the Group will respond effectively to this exciting environment, at an ever faster pace. Finally, and most importantly, I would like to thank all our clients for their trust and confidence in our clearing services.

Jacques Aigrain
Chairman

23 March 2011

CHIEF EXECUTIVE'S REVIEW

2010 was a year of consolidation for the company. It was the Group's first full financial year after the realignment of our shareholder base in 2009 and the consequent strategic shift towards predominantly serving the needs of our users. The realignment enhanced the relationship with our clients and has supported the development of existing core services, most notably in fixed income and interest rate swaps, and new, largely over-the-counter (OTC) offerings.

This increased focus on OTC is the natural evolution of the business strategy over the last few years, which anticipated structural changes in the exchange sector. This has subsequently seen increased verticalisation as derivative exchanges have sought to maximise their revenues and the commoditisation of the equity clearing business.

During the year the Group achieved a number of records, including in interest rate swaps (IRS) and fixed income. However, reduced equity clearing fees and treasury income, combined with the first full year of the revised clearing arrangements for NYSE Liffe, caused like-for-like revenues to decrease 14% to €553.6 million. 2009's atypically high revenues of €907.3 million included a one-off receipt of €260.4 million in connection with the termination of the NYSE Liffe agreement.

The stability of interest rate markets and the normalisation of trading conditions in the treasury markets reduced the average amount of cash and collateral margin held by 12.3% to €58.5 billion and commensurately impacted treasury revenues, which decreased by 22.6% to €291.1 million. Interest payments to clearing members in respect of cash and collateral margins increased by 6.6% to €183.5 million. Default Fund interest earnings decreased by €6.4 million (37.9%) to €10.5 million (2009: €16.9 million) and interest paid to clearing members in respect of contributions to the Default Funds decreased by €9.2 million (38.8%) to €14.5 million (2009: €23.7 million). This was mostly due to the low interest rate environment during the whole of 2010 and the full year effect of the NYSE Liffe agreement.

Administrative expenditure rose 7% to €308.7 million. This was driven by investment in our OTC services, in anticipation of an upsurge in demand following the regulatory reforms, and unfavourable movements in exchange rates.

Reliability and resilience remain a key priority of the company. During 2010 our systems maintained full availability 99.87% of the time. Our investment in the core technology infrastructure continues to deliver positive results to the business. In LCH.Clearnet SA the implementation of new clearing technology enabled the equity clearing fee reductions in late 2009 and January 2010 and our Synapse clearing platform was successfully deployed to The London Metal Exchange's (LME) market in July 2010, with minimal disruption to our LME clients. We have continued to develop Synapse as a highly scalable and efficient clearing infrastructure for derivatives, in order to underpin our services to both existing and new markets in 2011.

Our decade of experience in the OTC markets makes us well placed to benefit from the increase in clearing anticipated to result from the ongoing regulatory changes globally and we invested in expanding our OTC offering throughout 2010.

In IRS, the launch of client clearing has been well received in Europe. Most notably with MPS Capital Services (MPS), the subsidiary of Banca Monte dei Paschi di Siena S.p.A., backloading $200 billion in notional trades into SwapClear. In the US, the evolving regulatory environment and feedback from customers led us to announce the launch of a US Futures Commission Merchant model, launched after the year end, with 12 clearing members and six clients clearing on day one.

The range of products cleared by SwapClear has also increased. In May we became the first clearing house globally to clear 50 year tenors and the first to move to overnight index swap (OIS) discounting for the major currency IRS portfolios. Overall, the notional value of interest rate swaps cleared by the company rose to $248 trillion, despite regular tear up cycles, indicating the continued appetite for clearing in the interbank market, even in advance of the implementation of regulatory changes. This is also reflected in the 10 new members which joined SwapClear during 2010, taking the total number of members of the service to 36 and, based on Bank for International Settlements data, we estimate that we clear around 50% of the world's IRS market. Also in 2010 and in recognition of the importance of the service, we appointed Michael Davie as SwapClear CEO.

The credit default swap (CDS) offering was launched in March 2010. Though initially intended as a domestic service, with four French banks as members, we received considerable interest from a number of major international banks and we expect them to join as members of the service. During 2010, CDS trades with a notional value of €27.8 billion were cleared. We expect this to increase significantly in 2011. We also invested in our foreign exchange clearing service and we are on track to launch clearing for OTC FX options in late 2011.

In 2010 the important role played by LCH.Clearnet in facilitating European interbank liquidity was highlighted by the successful launch of clearing for Spanish government debt in August. It was positively received by the market and, in the four months from launch to year end, the Group cleared a notional value €700 billion of Spanish debt.

Overall fixed income volumes increased by 28% year on year, with the total nominal value of fixed income trades cleared reaching €137 trillion, equating to over €500 billion in nominal value cleared daily, or over 80% of the cleared European government bond market. This increase was fuelled by increased demand as banks sought to manage their counterparty risk exposures. 19 new participants signed up to clear their fixed income business through LCH.Clearnet, taking the total to 70 and resulting in an increased proportion of inter-bank repo trades being cleared.

We continue to develop our strategic relationship with the LME. In July our new derivatives clearing platform Synapse was successfully implemented and in December we jointly launched a matching and clearing service for the London Bullion Market Association.

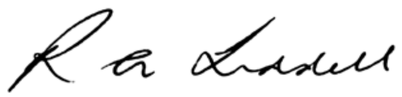
During the year the OTC commodities product offering was expanded further with the launch of freight correlated asset classes including coal, container and steel swaps. Core dry bulk freight volumes fell by 8% due to market conditions. In November, tariff reductions for high volume users were implemented. Volumes for OTC emissions grew by 300% whilst volumes on the Nodal Exchange grew fourfold, driven by client interest in the value-at-risk margining methodologies used.

NYSE Liffe clearing revenues fell by €12.6 million in 2010, the first full year of the revised clearing agreements in connection with which the Group received €260.4 million in 2009. In May, NYSE Euronext signalled its intention to build its own clearing capabilities by late 2012 for its derivatives and securities operations. We shall continue to provide them with a high quality service until their clearing capabilities are operational.

In LCH.Clearnet Limited the equity clearing offering was expanded to include Contracts for Difference (CFDs) which complement the core service and reflect the growing market interest in innovative clearing services. We continue with our ambition of becoming a consolidator of equity clearing flows in Europe and, consequently, in August we implemented a revised tariff structure, designed to attract and reward high volume clients. Also during 2010 a significant amount of management time was dedicated to addressing regulatory queries pertaining to interoperability, the implementation of which will, for the first time, enable real choice in equity clearing. We were consequently delighted when, in December, the Financial Services Authority informed us that they considered the arrangements conceptually sound and we plan to begin interoperating as soon as possible.

At a Group level, tariff reductions in equity clearing fees implemented in 2009 and 2010, largely contributed to a fall in clearing revenue from €60.6 million to €44.3 million. Overall, the volume of exchange traded equities fell as volumes cleared for NYSE Euronext, the London Stock Exchange and SIX Swiss Exchange slipped by 8.4%, 6.8% and 7.6% respectively.

The last five years have seen dramatic changes in the world of clearing and I have been privileged to have led LCH.Clearnet during this critical period. The Group is now well set for its next stage of development, and firmly established as a leader in a number of asset classes. In particular I would like to pay tribute to my fellow employees whose expertise and professionalism are second-to-none in this industry and who have worked tirelessly to develop LCH.Clearnet to our leading position today.



R.A. Liddell
Chief Executive

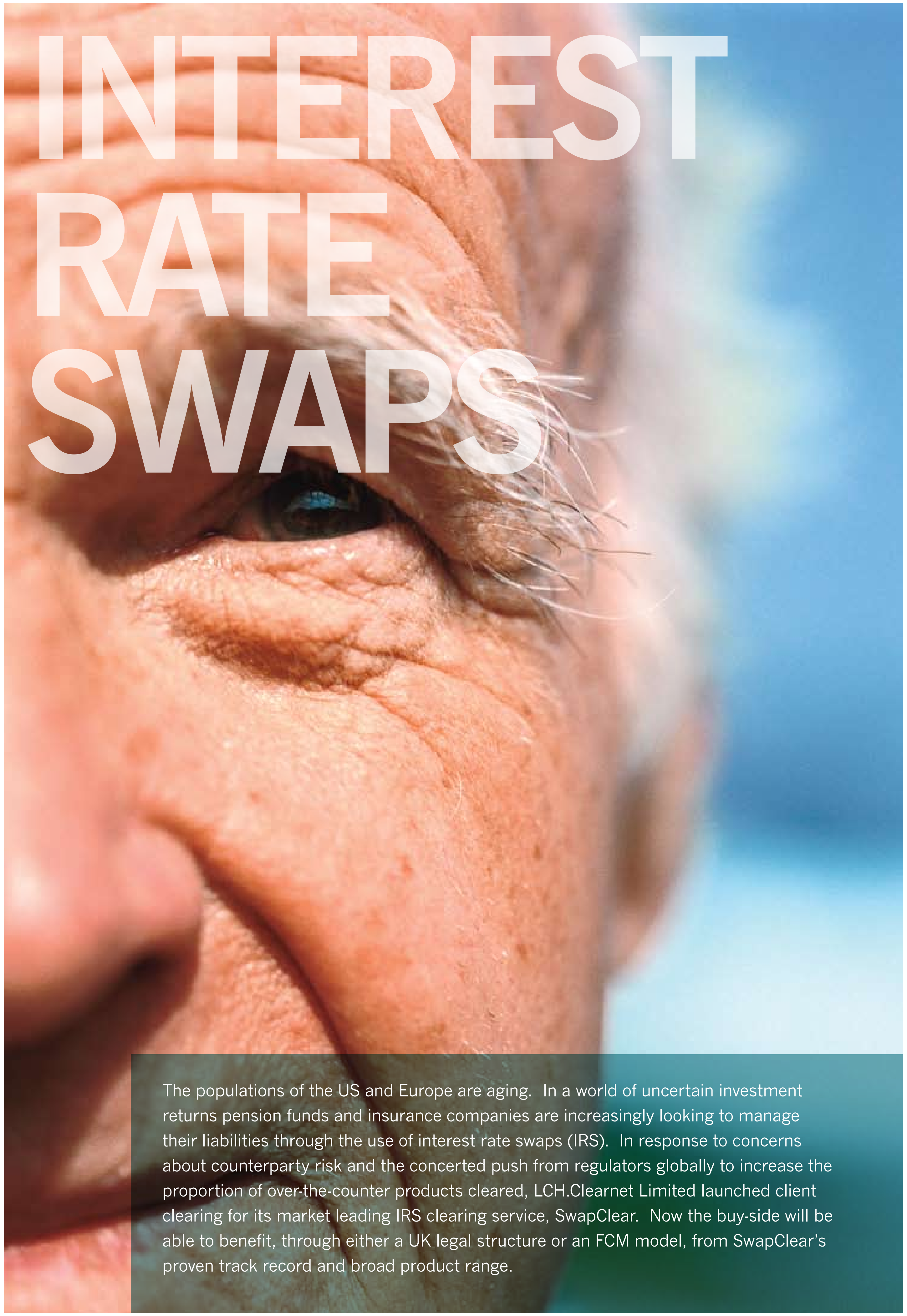
23 March 2011

OTC BULLION

In 2010 the annual global demand for gold grew 9% to 3,812.2 tonnes with a value of USD150bn*. India is the largest consumer in volume terms with demand surging during the Diwali festival, as Hindus believe that buying gold attracts prosperity in business and life. The festival is followed by the wedding season when parents buy gold as part of the dowry basket that is given to their daughters when they marry. Gold forwards, used by investors to manage risk, are traded on the OTC market. London is the international hub for the bullion OTC market and LCH.Clearnet Limited's clearing service, launched in December, allows participants to manage their counterparty risk without changing the way they trade.

* World Gold Council

INTEREST RATE SWAPS



The populations of the US and Europe are aging. In a world of uncertain investment returns pension funds and insurance companies are increasingly looking to manage their liabilities through the use of interest rate swaps (IRS). In response to concerns about counterparty risk and the concerted push from regulators globally to increase the proportion of over-the-counter products cleared, LCH.Clearnet Limited launched client clearing for its market leading IRS clearing service, SwapClear. Now the buy-side will be able to benefit, through either a UK legal structure or an FCM model, from SwapClear's proven track record and broad product range.

CONTRACTS FOR DIFFERENCE

In the UK the OTC CFD market has been growing at circa 16% per annum* and in 2010 had an estimated value of £704 billion. CFDs offer investors an effective hedging tool, but many fund managers are limited in their ability to use such OTC instruments. LCH.Clearnet Limited's multi-asset CFD clearing platform provides a variety of solutions for both on-exchange and OTC products. LCH.Clearnet's unique leadership in this field and global reach provides coverage in European and Asian time zones.

* TABB Group

SPANISH GOVERNMENT DEBT

In August LCH.Clearnet Limited launched clearing for Spanish government debt, at a time of uncertainty in government bond markets. The service was very positively received by the market, which looked to clearing to facilitate interbank liquidity. We now count six of Spain's leading financial groups among our members. By year end we had cleared some €700 million of Spanish government debt and launched a complementary domestic service from LCH.Clearnet SA.

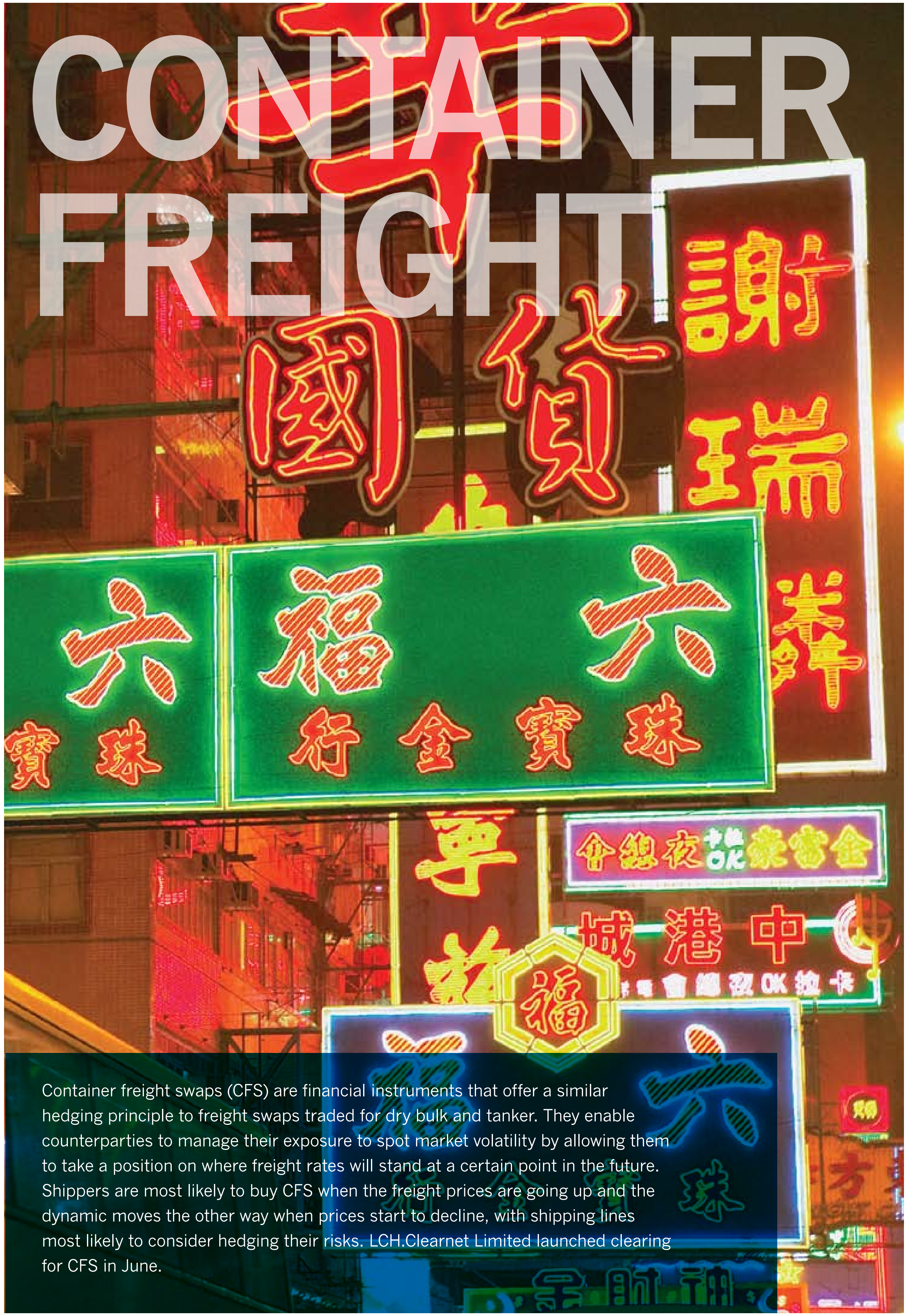
SKIMMED MILK POWDER FUTURES

Skimmed milk powder is one of the main ingredients of common foodstuffs and the global market exceeds $6.7 billion a year. Demand has been driven by the product's benefits - it can be stored for a long time and is easy to transport - and the growing appetite for prepared foods in emerging markets. Skimmed milk futures have helped the industry manage swings in milk prices as well as increasing pricing transparency. LCH.Clearnet SA launched clearing for Skimmed Milk Powder Futures contracts traded by NYSE Liffe on 18 October.

CREDIT DEFAULT SWAPS

Credit Default Swaps (CDS) are synonymous with some of the failings of the financial system in 2008. Since then the G20 and policy makers globally have looked to clearing to address some of the issues in the CDS market. On 31 March we launched a Eurozone clearing service for CDS in LCH.Clearnet SA. Initially designed to serve the domestic French market, there has subsequently been interest in the service from a wider group of major international institutions. We look forward to building on our market leading OTC expertise in this asset class.

CONTAINER FREIGHT



Container freight swaps (CFS) are financial instruments that offer a similar hedging principle to freight swaps traded for dry bulk and tanker. They enable counterparties to manage their exposure to spot market volatility by allowing them to take a position on where freight rates will stand at a certain point in the future. Shippers are most likely to buy CFS when the freight prices are going up and the dynamic moves the other way when prices start to decline, with shipping lines most likely to consider hedging their risks. LCH.Clearnet Limited launched clearing for CFS in June.

2010

FINANCIALS

3 OPERATING AND FINANCIAL REVIEW

3.1 Operating Review

3.1.1 Equities

Tariff reductions implemented in 2009 and 2010 on the Group's equity markets contributed to a reduction in clearing revenue from €60.6 million to €44.3 million. Reductions implemented from 1 January 2010 introduced a fee of €0.05 per trade for blue chip stocks on NYSE Euronext cash markets, and the Group introduced free clearing for average daily member volumes over 150,000 a day on the LSE, SIX Swiss Exchange and other multilateral trading facilities cleared through London in the last quarter of 2010.

Volumes across the NYSE Euronext cash markets increased by 8.4% from 172.2 million to 186.7 million trades in the year. The LSE's volume fell by 6.8% to 143.0 million trades in the year, and SIX Swiss Exchange's volume fell by 7.6% to 16.6 million trades. These last two exchanges suffered from the structural shifts in the equity trading environment but demand for our clearing services in equity markets has increased, which has resulted in us launching clearing on two new Multilateral Trading Facilities in the year alongside the introduction of a contract-for-difference equity clearing service.

3.1.2 Fixed income

Clearing revenues from the fixed income service have grown from €32.6 million to €38.0 million, an increase of 16.6%.

Year on year volumes increased by 28% and 19 new participants joined the Group's fixed income services, bringing the total to 70 as banks continue to seek the benefits of clearing and reduced counterparty exposure. The Group launched the first clearing service for Spanish government bonds and repos in August 2010 and had cleared a notional value of €700 billion by the end of the year. The nominal value of trades cleared by the Group reached €137 trillion. This has led to a significant growth in fixed income member balances, which have increased by 16% to €474 billion at the end of the year.

3.1.3 Exchange traded derivatives

Clearing revenue from exchange traded derivatives and swaps fell by €7.4 million to €74.5 million, although it includes the full year effect of the revised clearing agreement with NYSE Liffe which commenced on 30 July 2009 and contributed a €12.6 million reduction. Underlying derivative volumes (including those cleared on behalf of NYSE Liffe) increased by 15% to 1,242.7 million. The Group received €260.4 million in 2009 in connection with the termination of the previous clearing agreement between LCH.Clearnet Limited and NYSE Liffe.

3.1.4 OTC derivatives

Clearing revenue from OTC derivatives increased by €4.4 million to €21.2 million. The Group currently clears interest rate swaps and credit default swaps and is developing a foreign exchange clearing service.

The Group has been engaged in a project to refresh its existing swap clearing technology during 2010 which will go live in 2011. The Group launched client clearing for the buy-side community in 2009 which was well received in Europe with the backloading of $200 billion in notional trades. In the US the Group has developed a Futures Commission Merchant (FCM) model within its SwapClear service, which has gone live in March 2011, to enable it to exploit opportunities in the OTC markets following the Dodd-Frank legislation. Volumes on its current SwapClear service have grown by 25% during 2010, and the notional value of interest rate swaps cleared rose to $248 trillion. 10 new members joined the service in 2010, bringing the total to 36.

The credit default swap (CDS) offering was launched in March 2010. Though initially intended as a domestic service, with four French banks as members, we received considerable interest from a number of major international banks who are expected to join the service in 2011.

The Group also invested in its foreign exchange clearing service during the year and is on track to launch clearing for OTC foreign exchange options in late 2011.

3.1.5 Commodities and energy

Clearing revenue fell by €4.0 million to €25.4 million, principally due to the loss of data capture revenue which has been internalised by the London Metal Exchange. Volumes cleared for the LME have also fallen 19.0% to 83.7 million trades. The Group's new derivatives clearing platform, Synapse, was successfully implemented for the LME in July 2010, and will be rolled out to other commodities and energy markets. In December the Group jointly launched, with LME, a matching and clearing service for the London Bullion Market Association.

The Group remains the market leader in clearing of freight contracts although volumes fell by 8.1% to 1.0 million lots. A tariff reduction introduced in November 2010 discounted fees by up to 40% for some high volume users. Cleared volumes for OTC emissions more than trebled, whilst Nodal volumes increased more than four fold. A number of new contracts were introduced on both the freight and Nodal markets including coal, container and steel swaps, and Henry Hub natural gas contracts.

3.2 Financial Review

3.2.1 Summarised consolidated income statement for the year

The summarised consolidated income statement for the year reflects the continuing operations of LCH.Clearnet Group.

	Refs	2010 €'m	2009 €'m
Total revenue	3.2.1a	553.6	907.3
Interest expense and similar charges	3.2.1c	(198.0)	(195.8)
Net revenue		355.6	711.5
Administrative expenditure	3.2.1e	(308.7)	(288.5)
Impairment of goodwill and intangibles	3.2.1f	(3.4)	(393.4)
Operating costs		(312.1)	(681.9)
Operating profit	3.2.1g	43.5	29.6
Net finance (expense)/income	3.2.1h	(11.2)	0.9
Profit before taxation		32.3	30.5
Taxation expense	3.2.1i	(13.2)	(121.5)
Profit/(loss) for the year		**19.1**	**(91.0)**

3.2.1a Total Revenue

	Refs	2010 €'m	2009 €'m	Decrease %
Clearing fees	3.2.1b	203.4	221.3	(8.1)
Interest from cash and collateral margin	3.2.1c	291.1	376.2	(22.6)
Interest earned on Default Funds	3.2.1c	10.5	16.9	(37.9)
Other income	3.2.1d	48.6	32.5	49.5
Compensation for termination of contract		-	260.4	(100.0)
Total revenue		553.6	907.3	(39.0)

Percentage changes are on an annualised basis.

Group turnover from continuing operations (excluding compensation for termination of contract) decreased by 14.4% to €553.6 million, due to the reduction in levels of interest income experienced as average collateral levels held were lower combined with a narrowing of spreads from the levels seen in 2009, clearing fee tariff reductions, and the effect of the first full year of the revised clearing arrangements for NYSE Liffe in London as described below.

On 30 July 2009, the Group received €260.4 million in connection with the termination of the clearing agreement between LCH.Clearnet Limited and NYSE Liffe. LCH.Clearnet Limited also entered into a new clearing relationship agreement with NYSE Liffe. Under this agreement LCH.Clearnet Limited provides risk management services, default management services and settlement services to LIFFE Administration and Management which has become a self-clearing Recognised Investment Exchange and NYSE Liffe pays LCH.Clearnet Limited a fixed monthly fee together with 5% of treasury income attributable to the NYSE Liffe market. This agreement has been in effect since 30 July 2009.

3.2.1b Clearing fees

	2010 €'m	2009 €'m	Increase/ (decrease) %
Equities	44.3	60.6	(26.9)
Fixed income	38.0	32.6	16.6
Exchange traded derivatives	74.5	81.9	(9.0)
OTC derivatives	21.2	16.8	26.2
Commodities and energy	25.4	29.4	(13.6)
	203.4	221.3	(8.1)

Clearing fees decreased by €17.9 million (8.1%) to €203.4 million due to the combined effect of the reduction in volatility as overall trading volumes fell slightly, tariff reductions in Equity and Freight markets and the full year effect of the revised clearing agreement with NYSE Liffe on the London derivatives market. Excluding trading on the NYSE Liffe overall market volumes have fallen by 4.4% - with a 17.1% fall in the UK being partially offset by a 5.8% increase in European volumes.

Clearing fees from equities fell by 26.9% to €44.3 million due to tariff reductions implemented in the year across the Group. Volumes in fixed income and over-the-counter (OTC) derivatives increased significantly in 2010 and led to the clearing fee increases of 16.6% and 26.2% respectively. The effect of the first full year of the revised clearing agreement with NYSE Liffe has been to reduce clearing revenue by €12.6 million, which was offset by an increase of 3.8% in European exchange traded derivatives volumes. Commodities and energy fees fell by 13.6% to €25.4 million due to an 8.1% reduction in freight volumes, combined with tariff reductions on the same market.

3.2.1c Net interest income

	2010 €'m	2009 €'m	Increase/ (decrease) %
Interest earned on cash and collateral margin	291.1	376.2	(22.6)
Interest earned on Default Funds	10.5	16.9	(37.9)
Interest income	301.6	393.1	(23.3)
Interest paid on cash and collateral margin	(183.5)	(172.1)	6.6
Interest paid on Default Funds	(14.5)	(23.7)	(38.8)
Interest expense and similar charges	(198.0)	(195.8)	1.1
	103.6	197.3	(47.5)

Interest income from cash and collateral margin balances decreased by €85.1 million (22.6%) to €291.1 million (2009: €376.2 million) due to a decrease in average collateral levels held combined with the narrowing of spreads from the levels seen in 2009. Interest payments to clearing members in respect of cash and collateral margins increased slightly by €11.4 million (6.6%) to €183.5 million (2009: €172.1 million) due to the full year effect of the NYSE Liffe agreement.

Default Fund interest earnings decreased by €6.4 million (37.9%) to €10.5 million (2009: €16.9 million) and interest paid to clearing members in respect of contributions to the Default Funds decreased by €9.2 million (38.8%) to €14.5 million (2009: €23.7 million). The reduction in net default fund costs is due to the full year effect of the NYSE Liffe agreement.

3.2.1d Other income

Other fee income has increased by €16.1 million (49.5%) to €48.6 million (2009: €32.5 million). Other income includes annual fees charged to members, recovery of settlement fees and transfer fees and recovery of development costs incurred on behalf of certain members of €18.7 million, which accounts for most of the increase experienced during the year.

3.2.1e Administrative expenditure

Administrative expenditure has risen by €20.2 million (7.0%) to €308.7 million (2009: €288.5 million). However, the increase has been partly caused by the exchange effect of converting a significant portion of the cost base of LCH.Clearnet Limited from Sterling to Euros. At 2009 exchange rates expenses would have been €7.0 million lower at €301.7 million.

There has been an increase in operating and development costs during the year on projects such as SwapClear and FX clearing as the Group invests agressively in its OTC offering.

3.2.1f Impairment of goodwill and intangible assets

Goodwill of €503.8 million was recognised on the acquisition of LCH.Clearnet SA in 2003.

As a result of lower volumes experienced in 2009, revised growth assumptions, and the tariff reductions implemented in cash equity markets an impairment charge of €393.4 million was recognised in 2009, reducing the goodwill to €110.4 million. 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, and there have been no further indicators of impairment during 2010 based on volumes and activity in the European markets.

The Group has impaired some software assets in 2010 where a review has indicated there is no prospect of some components being used in production.

3.2.1g Operating profit

Basis of calculation
The definition of operating profit used within the Group includes income generated from the investment of clearing member margin and Default Fund balances, but excludes interest income from shareholders' funds and interest expense relating to the preferred securities and subordinated loans – all of which are included separately in Net Finance Income (3.2.1h).

Operating profit performance
Overall operating profit has increased to €43.5 million (2009: €29.6 million). Operating profit in 2009 would have been €162.6 million if the one-off NYSE Liffe termination income of €260.4 million and the €393.4 million goodwill impairment were excluded. Except for these two items, net revenue was €95.5 million lower due to the reduction in clearing and net interest income. Operating costs have increased by €23.6 million due to the increased development costs of the Group's OTC offering.

3.2.1h Net finance income

	2010 €'m	2009 €'m	Increase/ (decrease) %
Finance costs relating to:			
Subordinated loan	-	(0.5)	(100.0)
Preferred securities	(12.3)	(12.4)	(0.8)
Bank overdrafts and finance leases	(0.1)	(0.1)	-
	(12.4)	(13.0)	(4.6)
Other finance income: profit on repurchase of preferred securities	-	9.5	(100.0)
Finance income	1.2	4.4	(72.7)
	(11.2)	**0.9**	**(1,344.4)**

Interest costs attributable to the preferred securities, subordinated loan, bank overdrafts and leases decreased by €0.6 million (4.6%) to €12.4 million due to the full year effect of the €27.0 million subordinated loan which was redeemed in September 2009. The interest rate on the preferred securities is fixed, although the repurchase of 10% of them in January 2009 has meant the associated interest cost has fallen slightly. These were repurchased at a discount to their nominal value of €20 million which gave rise to a profit of €9.5 million in 2009. The interest derived from the investment of shareholders' funds has fallen by €3.2 million (72.7%) to €1.2 million (2009: €4.4 million) due to the fall in shareholder funds following the repurchase of ordinary shares for €333 million and the dividend payment of €110.9 million in November 2009.

3.2.1i Taxation expense

The effective tax rate for the financial year is 40.8% (2009: 28.7% - excluding the goodwill impairment charge which is not eligible for tax relief).

The 2010 tax rate has been impacted by a number of prior year adjustments. A full reconciliation of the tax expense contained in the income statement is set out in note 13.6.2 to the consolidated financial statements.

3.2.1j Capital resources

The total equity of the Group increased during the year by €14.9 million from €305.1 million to €320.0 million. This follows the profit for the year of €19.1 million netted with the post-tax actuarial loss of €4.2 million on the Group's pension schemes. The total regulatory capital of the Group, at €303.9 million (2009: €311.1 million) continues to significantly exceed "Pillar 1" requirements of €105.3 million (2009: €121.0 million).

3.2.1k Group cashflow and movement in cash and cash equivalents

For the year ended 31 December 2010	2010	2009
	€'m	€'m
Margin monies cash inflow/(outflow)	4,112.2	(10,580.8)
Increase in Default Funds	209.9	360.8
Other net cash inflows	32.6	184.9
Net cash inflows/(outflows) from operating activities	4,354.7	(10,035.1)
Net cash (outflow)/inflow from investing activities	(840.5)	165.3
Net cash used in financing activities	(12.1)	(494.7)
Increase/(decrease) in cash and cash equivalents	**3,502.1**	**(10,364.5)**
Effects of foreign exchange movements	21.2	49.0
Cash and cash equivalents at 1 January	12,245.9	22,561.4
Cash and cash equivalents at 31 December	**15,769.2**	**12,245.9**
Cash and cash equivalents at 31 December comprise		
Cash and short term investments	15,769.2	12,247.5
Bank overdrafts and loans	-	(1.6)
	15,769.2	12,245.9

Net cash inflows from operating activities of €4,354.7 million (2009: €10,035.1 million outflow) were generated. The largest component of net cash inflows from operating activities is movements in margin monies, which produced an inflow of €4,112.2 million (2009: €10,580.8 million outflow) as the level of initial margin held was higher than at the previous year end. An increase in the level of Default Funds generated an inflow of €209.9 million (2009: €360.8 million). Other net cash inflows have decreased from €184.9 million to €32.6 million due to the receipt in 2009 of the income from NYSE Liffe in compensation for termination of the previous clearing contract.

Net cash from investing activities showed an outflow of €840.5 million (2009: €165.3 million inflow) due to a significant conversion of cash to other liquid financial assets in the treasury portfolio.

Net cash from financing activities showed an outflow of €12.1 million (2009: €494.7 million). The outflow in 2009 principally comprised the repurchase of ordinary shares for €333.0 million and the dividend payment of €110.9 million to shareholders.

3.2.1l Balances with clearing members

Balances with clearing members form the largest component of the Group statement of financial position. During the year, amounts owed to clearing members increased by €66,461.1 million (15.0%) to €510,602.3 million (2009: €444,141.2 million). Amounts owed from clearing members increased by €62,348.9 million (14.8%) to €482,853.7 million (2009: €420,504.8 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. The fixed income balance has increased by €64,848 million (15.9%) to €473,828 million (2009: €408,980 million) as the fixed income service grew during the year, following the trend of the last few years.

A detailed description of balances with clearing members is provided in note 13.14 to the consolidated financial statements.

4 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 2010.

4.1 Principal activities

The principal activity of the Company is the holding of investments in the operating subsidiaries.

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

LCH.Clearnet Limited continues to satisfy the requirements of the Financial Services Authority as a Recognised Clearing House in the UK, and the requirements of all other regulatory bodies to whose rules the Company is subject. 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, power forward contracts and credit default swaps.

4.2 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 1, 2 and 3 respectively.

4.3 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, financial market volatility, liquidity risk, concentration risk, operational risk and compliance, legal and reputational risk are given in note 13.22.

4.4 Group results and dividend

The Group results for the year are shown in the consolidated income statement in Section 7.

The profit of €19.1 million (2009: loss of €91.0 million) made by the Group has been transferred to reserves.

The two operating subsidiaries will pay final dividends in respect of 2010 to the Company in 2011 of €1,930,000 (Limited) and €20,907,000 (SA). These amounts will form part of the income of the Company in 2011. No dividends have been paid by the operating subsidiaries or the Company during the year. In 2009 the two operating subsidiaries paid final dividends of €160 million (Limited) and €64 million (SA) in respect of their profits for the year ended 31 December 2008, and Limited paid a further €225 million in respect of profits for the year ended 31 December 2009. These amounts formed part of the income of the Company in 2009, and accordingly the Company paid to shareholders a final dividend for 2009 of €1.50 per share, which amounted to €110.9 million. In addition the Company made a capital distribution to shareholders of €333.0 million through redemption of shares completed in the fourth quarter of 2009.

4.5 Capital

There have been no changes to the authorised share capital during the period covered by this report.

Details of movements in equity are set out in Section 12 – Consolidated statement of changes in equity – and note 13.24 – Capital Management. At 31 December 2010, Group capital resources amounted to €320.0 million (2009: €305.1 million); its regulatory capital amounted to €303.9million (2009: €311.1 million).

4.6 Charitable donations

The Group made donations for charitable purposes during the period of €154,091 (2009: €156,747), the majority of which was paid under the Group's Corporate Responsibility programme.

4.7 Directors and Directors' interests

The current Directors of the Company are listed in Section 16 - General information.

Information relating to Directors' remuneration is given in the Remuneration report in Section 15.

No Director holding office at 31 December 2010 had any beneficial interest in the shares of the Company or any of its subsidiaries during the year.

4.8 Indemnity of Directors

Directors are entitled to be indemnified out of the assets of the Company against all costs, charges, losses and liabilities incurred by them in the proper exercise of their duties. Directors who have resigned during the year may also benefit from the same indemnity arrangement.

4 DIRECTORS' REPORT (CONTINUED)

4.9 Transactions with Directors and related parties

Details of transactions with related parties are set out in note 13.21 to the consolidated financial statements. There were no transactions with the Directors during the year.

4.10 Staff

It is the policy of the 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.

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

4.11 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 2010, the Company had an average of nil days (2009: 5 days) purchases owed to trade creditors.

4.12 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 Group'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 Group's auditors are aware of that information.

4.13 Auditors

Ernst & Young LLP were re-appointed auditors of the Company at the AGM on 10 June 2010 and have indicated their willingness to be re-appointed under the provisions of the Companies Act 2006.

4.14 Purchase of own shares

The Company repurchased none (2009: 33,299,973) of its own shares during the year.

4.15 Going concern and liquidity risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Report, Chairman's Report and Operating and Financial Review on pages 6 to 20. The Group's financial risk management objectives and policies are described in note 13.22, details of financial instruments and exposure to credit risk and liquidity risk in note 13.23 and its capital management processes in note 13.24.

The Group has sufficient financial resources. The contracts for the majority of the exchanges the Group clears for have a notice period of at least one year. It has a large number of members and is therefore not unduly reliant on any single member or group of members.

Despite the announcement by NYSE Euronext that they intend to commence their own clearing arrangements in late 2012, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements. NYSE Euronext have yet to serve formal notice of termination on the Group for the current clearing agreements with them.

By order of the Board

Jacques Aigrain
Chairman

23 March 2011

5 STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group 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;
- State the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statement; and
- Make judgements and estimates that are reasonable and prudent.

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 2006 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.

6 INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LCH.CLEARNET GROUP LIMITED

We have audited the financial statements of LCH.Clearnet Group Limited for the year ended 31 December 2010 which comprise the Consolidated and Company Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes 13.1 to 13.24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP.

Andrew Woosey (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,
Statutory Auditor

London

23 March 2011

7 CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Revenue			
Interest income	13.4.1	301,585	393,163
Interest expense and similar charges	13.4.1	(198,031)	(195,837)
Net interest income	13.4.1	103,554	197,326
Clearing fees	13.4.1	203,391	221,279
Other income	13.4.1	48,666	32,527
Compensation for termination of contract	3.2.1a	-	260,417
Net revenue	13.4.1	355,611	711,549
Costs and expenses			
Employee benefits expense	13.18.1	(109,043)	(98,103)
Depreciation and amortisation charge	13.5.1	(18,492)	(13,078)
Impairment of goodwill and intangible assets	13.5.1	(3,390)	(393,400)
Other operating expenditure	13.5.2	(181,146)	(177,346)
Total costs and expenses		(312,071)	(681,927)
Operating profit		43,540	29,622
Finance income	13.5.3	1,201	4,438
Other finance income	13.5.3	-	9,555
Finance costs	13.5.3	(12,449)	(13,062)
Profit before taxation	13.5	32,292	30,553
Taxation expense	13.6.1	(13,188)	(121,549)
Profit/(loss) for the year		19,104	(90,996)

No dividend was paid in the year (2009: €110,898,924).

The results for both years are in respect of continuing operations.
The notes on pages 35 to 66 form an integral part of these consolidated financial statements.

8 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Profit/(loss) for the year		19,104	(90,996)
Other comprehensive (expense)/income			
Actuarial (loss)/gain recognised in the UK pension scheme	13.18.2	(5,252)	2,287
Deferred tax relating to the UK actuarial (loss)/gain	13.6.1	1,365	(640)
Actuarial losses recognised in overseas employee benefit plans	13.18.2	(519)	(6)
Current tax relating to the overseas actuarial losses	13.6.1	151	2
Other comprehensive (expense)/income for the year, net of tax		(4,255)	1,643
Total comprehensive income/(expense) for the year, net of tax		14,849	(89,353)

The results for both years are in respect of continuing operations.
The notes on pages 35 to 66 form an integral part of these consolidated financial statements.

9 GROUP AND COMPANY STATEMENTS OF FINANCIAL POSITION

For the year ended 31 December 2010

	Note	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
Non-current assets					
Intangible assets	13.8	193,086	170,516	-	-
Property, plant and equipment	13.10	10,099	9,845	-	-
Investments	13.11	-	-	341,481	341,481
Deferred taxation asset	13.6.3	15,545	11,488	1,689	9
Total non-current assets		218,730	191,849	343,170	341,490
Current assets					
Cash and short-term deposits	13.12	15,769,196	12,247,555	7,806	589
Other financial assets	13.23	14,417,423	13,619,640	64,000	85,000
Derivative financial assets	13.23	1,418	490	-	-
Income tax receivable		3,994	12,640	8,002	10,070
Trade and other receivables	13.13	60,132	21,732	834	1,474
Balances with clearing members	13.14	482,853,697	420,504,787	-	-
Total current assets		513,105,860	446,406,844	80,642	97,133
Total assets		513,324,590	446,598,693	423,812	438,623
Equity and liabilities					
Capital and reserves					
Called up share capital	12, 13.15	40,633	40,633	40,633	40,633
Capital reserves	12	15,327	15,327	-	-
Capital redemption reserve	12	59,483	59,483	59,483	59,483
Retained earnings	12	204,549	189,700	115,937	127,834
Total equity		319,992	305,143	216,053	227,950
Non-current liabilities					
Interest bearing loans and borrowings	13.16	177,641	176,494	196,969	196,494
Default Funds	13.17	2,029,293	1,796,681	-	-
Employee benefits	13.18.2	10,095	3,248	-	-
Deferred taxation liability	13.6.3	-	2,852	-	-
Total non-current liabilities		2,217,029	1,979,275	196,969	196,494
Current liabilities					
Interest bearing loans and borrowings	13.16	346	1,627	-	-
Derivative financial liabilities	13.23	26,772	15,560	-	-
Income tax payable		-	40,321	-	-
Trade and other payables	13.19	158,167	115,553	10,790	14,179
Balances with clearing members	13.14	510,602,284	444,141,214		-
Total current liabilities		510,787,569	444,314,275	10,790	14,179
Total liabilities		513,004,598	446,293,550	207,759	210,673
Total equity and liabilities		513,324,590	446,598,693	423,812	438,623

Jacques Aigrain
Chairman
The notes on pages 35 to 66 form an integral part of these consolidated financial statements.
The consolidated financial statements were approved by the Board on 23 March 2011.

10 CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Cashflows arising from operating activities			
Profit/(loss) for the year	7	19,104	(90,996)
Adjustments to reconcile profit/(loss) for the year to net cash inflows from operating activities:			
Taxation expense		13,188	121,549
Finance income		(1,201)	(4,438)
Other finance income		-	(9,555)
Finance costs		12,449	13,062
Depreciation and amortisation	13.5.1	17,448	12,743
Loss on disposal and write-off of assets	13.5.1	1,044	335
Impairment of goodwill and intangible assets	13.5.1	3,390	393,400
(Increase)/decrease in trade and other receivables		(38,400)	58,126
Increase/(decrease) in employee benefits		1,336	(18,663)
Increase/(decrease) in trade and other payables		42,614	(185,802)
Losses on financial instruments		11,966	4,942
Margin monies cash inflow/(outflow)		4,112,160	(10,580,776)
Increase in Default Funds		209,920	360,786
Net cash inflow/(outflow) from operations		4,405,018	(9,925,287)
Taxation received		1,336	-
Taxation paid		(51,650)	(109,795)
Net cash inflows/(outflows) from operating activities		**4,354,704**	**(10,035,082)**
Investing activities			
Investment in intangible assets	13.8	(37,777)	(30,848)
Purchase of property, plant and equipment	13.10	(5,701)	(2,487)
Redemption of short-term deposits maturing in three to six months		-	404,032
Investment in other financial assets		(798,199)	(209,855)
Interest received	13.5.3	1,201	4,438
Net cash (outflow)/inflow from investing activities		**(840,476)**	**165,280**
Financing activities			
Interest paid		(11,899)	(13,404)
Purchase of own shares		-	(333,000)
Repurchase of preferred securities		-	(10,445)
Redemption of subordinated loan		-	(27,000)
Finance lease principal payments		(210)	-
Dividends paid		-	(110,899)
Net cash used in financing activities		**(12,109)**	**(494,748)**
Increase/(decrease) in cash and cash equivalents		**3,502,119**	**(10,364,550)**
Cash and cash equivalents at 1 January		12,245,928	22,561,447
Effects of foreign exchange movements		21,149	49,031
Cash and cash equivalents at 31 December		**15,769,196**	**12,245,928**
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		14,488,753	11,953,406
Cash at bank and in hand	13.12	1,280,443	294,149
	13.16	15,769,196	12,247,555
Bank overdrafts and loans		**-**	**(1,627)**
		15,769,196	**12,245,928**

The notes on pages 35 to 66 form an integral part of these consolidated financial statements.

11 COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Cashflows arising from operating activities			
(Loss)/profit for the year	13.7	(11,897)	101,983
Adjustments to reconcile Company profit for the year to net cash outflows from operating activities:			
Taxation		(3,240)	(4,640)
Finance income		(1,515)	(1,948)
Other finance income		-	(3,555)
Finance cost		13,627	13,627
Dividends received from subsidiary undertakings		-	(449,000)
Depreciation		-	10
Impairment of investment in subsidiary		-	332,000
Decrease/(increase) in trade and other receivables		640	(73)
(Decrease)/increase in trade and other payables		(3,389)	1,952
Net cash outflow from operations		(5,774)	(9,644)
Taxation received		3,628	3,216
Net cash outflows from operating activities		**(2,146)**	**(6,428)**
Investing activities			
Redemption of/(investment in) other financial assets		21,000	(71,000)
Purchase of investments		-	(10,445)
Interest received		1,515	1,948
Net cash inflow/(outflow) from investing activities		**22,515**	**(79,497)**
Financing activities			
Interest paid		(13,152)	(13,152)
Dividends received from subsidiary undertakings		-	449,000
Purchase of own shares		-	(333,000)
Dividends paid		-	(110,899)
Net cash generated used in financing activities		**(13,152)**	**(8,051)**
Increase/(decrease) in cash and cash equivalents		**7,217**	**(93,976)**
Cash and cash equivalents at 1 January		**589**	**94,565**
Cash and cash equivalents at 31 December		**7,806**	**589**
Cash and cash equivalents at 31 December comprise:			
Cash at bank and in hand		**7,806**	**589**
	13.12	**7,806**	**589**

The notes on pages 35 to 66 form an integral part of these consolidated financial statements.

12 NOTES FROM CONSOLIDATED STATEMENTS

12.1 Consolidated statement of changes in equity

For the year ended 31 December 2010

	Called up Share capital	Capital Reserves	Capital redemption reserves	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Shareholders' equity at 1 January 2009	**73,933**	**15,327**	26,183	722,952	838,395
Loss for the year	-	-	-	(90,996)	(90,996)
Other comprehensive income	-	-	-	1,643	1,643
Total comprehensive expense	-	-	-	(89,353)	(89,353)
Shares purchased	(33,300)	-	33,300	(333,000)	(333,000)
Dividends	-	-	-	(110,899)	(110,899)
Shareholders' equity at 31 December 2009	**40,633**	**15,327**	**59,483**	**189,700**	**305,143**
Profit for the year	-	-	-	19,104	19,104
Other comprehensive expense	-	-	-	(4,255)	(4,255)
Total comprehensive income	-	-	-	14,849	14,849
Shareholders' equity at 31 December 2010	**40,633**	**15,327**	**59,483**	**204,549**	**319,992**

The notes on pages 35 to 66 form an integral part of these consolidated financial statements.

12.2 Company statement of changes in equity

For the year ended 31 December 2010

	Called up Share capital	Capital redemption reserves	Retained earnings	Total
	€'000	€'000	€'000	€'000
Shareholders' equity at 1 January 2009	**73,933**	26,183	469,750	569,866
Profit for the year	-	-	101,983	101,983
Shares purchased	(33,300)	33,300	(333,000)	(333,000)
Dividends	-	-	(110,899)	(110,899)
Shareholders' equity at 31 December 2009	**40,633**	**59,483**	**127,834**	**227,950**
Loss for the year	-	-	(11,897)	(11,897)
Shareholders' equity at 31 December 2010	**40,633**	**59,483**	**115,937**	**216,053**

The notes on pages 35 to 66 form an integral part of these consolidated financial statements.

13 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13.1 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 the Group, for the year ended 31 December 2010 and the 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 2010 were authorised for issue in accordance with a resolution of the Directors on 23 March 2011 and the statements of financial position were signed on the Board's behalf by the Group Chairman, Jacques Aigrain.

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

The principal activities of the Group are described in the Directors' Report (Section 4).

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 International Financial Reporting Standards (IFRSs) as adopted by the EU. The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 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 35 to 40. These policies have been applied during the years ended 31 December 2010 and 31 December 2009.

13.2 Summary of significant accounting policies

Basis of preparation These financial statements have been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2010 reporting and with those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the valuation of financial assets and liabilities held at fair value through profit and loss. 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 consolidated financial statements are presented in Euros and all values are rounded to the nearest thousand (€'000) except where otherwise indicated.

Judgements and key sources of estimation uncertainty
The preparation of financial statements in conformity with IFRSs 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, the estimated useful economic life of 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 13.9). The Group regularly reviews its estimate of useful economic lives to ensure it fairly reflects the period over which the Group expects to derive economic benefits from its assets. The latest review took place in 2010. 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 13.18).

Going concern The Directors have made an assessment of the Group's ability to continue as a going concern, and have taken into account the announcement by NYSE Euronext that they intend to commence their own clearing arrangements in late 2012. The Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Change of estimate of useful economic life of strategic assets The Group has revised the estimated useful economic life from 3 to 5 years for certain elements within the costs capitalised as self-developed software which are now expected to remain in use for the longer duration. This has reduced the amortisation charge, and increased profit before tax and net assets, by €2,467,000 in 2010, and is expected to reduce the charge by €7,763,000 in 2011.

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.

13.2 **Summary of significant accounting policies** (continued)

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 Companies Act 1985 which was in force at that time.

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 in relation to any distributions received.

d) Foreign currencies Monetary assets and liabilities denominated in currencies other than the functional currency are translated into Euros at the rates of exchange ruling on the statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. All exchange differences are recorded in the 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 statement of financial position 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 statement of financial position. 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	between 3 and 5 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.

g) Property, plant and equipment Property, plant and equipment is initially recognised at cost and capitalised in the statement of financial position 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 (up to a maximum of ten years)
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 and intangible assets in the course of development are 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 asset 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 assets 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.

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 The Group classifies its financial instruments into the following categories: financial assets and liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, cash and short-term deposits, trade and other payables, or interest bearing loans and borrowings or derivative financial instruments.

Financial assets and liabilities at fair value through profit or loss are financial instruments which are either acquired for trading purposes, or as designated by management. Financial instruments held in this category are initially recognised and subsequently measured at fair value, with transaction costs taken directly to the income statement. Changes in fair value are recorded within net interest income. Interest earned or incurred is accrued in interest income or expense, or finance income or cost according to the purpose of the financial instrument.

Balances with clearing members are included in this category upon initial recognition, and are recorded on a settlement date basis. Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate, less impairment. The amortisation of any premium or discount is included in interest income.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would then be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition at fair value loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

Cash and short-term deposits comprise cash in hand and current balances with banks and similar institutions which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of six months or less. For the purposes of the cash flow statement cash and cash equivalents are as defined above, but with an original maturity of three months or less, net of bank overdrafts (which are included within interest bearing loans and borrowings in current liabilities on the statement of financial position).

Other financial assets include government backed certificates of deposit issued by banks, notes and treasury bills directly issued by state or national governments. These assets are initially recognised and subsequently measured at fair value.

Interest bearing loans and other borrowings, including preferred securities, and Default Funds are initially recorded at fair value. Subsequent measurement is at amortised cost using the effective interest method, and amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Where derivative financial instruments are used, such as interest rate swaps and foreign currency forward exchange contracts, they reduce exposure to interest rate movements and foreign currency movements. The change in fair value of these hedging instruments is recognised in the income statement. The Group does not hold derivative financial instruments for trading purposes, but derivatives that do not qualify for hedge accounting are accounted for as trading instruments and are initially recognised and subsequently measured at fair value.

The Group establishes fair value using recognised valuation techniques. These include the use of externally available market prices, discounted cashflow analysis and other valuation techniques commonly used by market participants. Where discounted cashflow analysis and other valuation techniques are used assumptions are validated against market observable inputs.

13.2 **Summary of significant accounting policies** (continued)

j) Interest bearing loans and borrowings Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost.

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) 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 statement of financial position date.

Deferred tax Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes using tax rates and laws enacted or substantively enacted by the statement of financial position date.

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, except where the deferred income tax asset arises through investments in subsidiaries and it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

n) Share capital Called up share capital comprises ordinary shares. Other capital reserves are described in Note 13.15. Other instruments 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.

o) 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.

During 2010, the Group entered into new funding arrangements with certain members for the purpose of developing clearing systems for new products or upgrading existing systems. Under these new arrangements, the members will underwrite the system development costs. For costs that are incurred and capitalised on the statement of financial position, the Group recognises a debtor in the statement of financial position to reflect the costs that they have incurred to date and recognises a corresponding credit to a deferred income account, also in the statement of financial position. The deferred income account is then debited each year for an amount equal to the capitalised cost which is being amortised to the income statement.

If the cost incurred is not capitalised and is instead expensed to the income statement immediately, the deferred income balance will be debited immediately with the corresponding credit to other income. Subsequently, when the individual systems are launched, the Group will recover the debtor from members under the terms of the arrangements with them.

Net interest income is the total of revenue earned on the cash and other financial assets held that have been generated from member clearing activity, less interest paid to clearing members on their margin and other monies lodged with the Group. Interest expense or income is recorded using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

Finance income is revenue earned on the Group's own cash and financial assets balances and is also recognised on a time-apportioned basis.

p) Segment reporting The Group's operating segments are determined by reference to the underlying legal entities of the Group. LCH.Clearnet Limited is one segment and it is based in the UK, with a branch in New York. LCH.Clearnet SA is another segment and is based in Europe with its main operations in France, branches in Belgium and The Netherlands and a representative office in Portugal. The final segment comprises other group companies including LCH.Clearnet Group Limited (the main Group holding company), LCH.Clearnet (Luxembourg) S.à.r.l (which holds most of the Group's intellectual property) and other head office holding companies.

These segments reflect the way Directors and management monitor results and determine resource allocation within the Group.

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.

q) 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. This was closed to new members from 30 September 2009.

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 2008 by a qualified independent actuary.

A full actuarial valuation of the LCH Pension Scheme was carried out at 30 June 2007 and partially updated to 31 December 2010 by a qualified independent actuary. Major assumptions used by the actuary are included within note 13.18.2.

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 change 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.

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 statement of financial position 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.

The Group also operates a defined contribution pension plan in the UK which has been open since January 2010 for new staff. The contribution payable to a defined contribution plan is in proportion to the services rendered to LCH.Clearnet Limited by the employees and is recorded as an expense in the income statement within employee benefits.

r) Borrowing costs Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

t) Leases The Group is a lessee. Leases of property, plant and equipment where substantially all the risks and rewards of ownership have passed to the Group are capitalised in the statement of financial position as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under finance leases is included as a liability in the statement of financial position. The interest element of rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful economic life of the asset or the lease term.

13.2 Summary of significant accounting policies (continued)

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.

With the exception of IFRS 9, "Financial Instruments", there are no other IFRS or IFRIC that have been issued but are not yet effective which will have a significant impact on the financial position of the Group.

13.3 Exchange rates

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

	2010 Closing rate	2010 Average rate	2009 Closing rate	2009 Average rate
Euro (€) to US Dollar ($)	1.34	1.33	1.43	1.39
Euro (€) to Pound (£)	0.86	0.86	0.89	0.89

13.4 Operating segment information

For management purposes the Group is organised into business units based on legal entities and has three reportable operating segments – LCH.Clearnet Limited (Ltd) and LCH.Clearnet SA (SA), and other (comprising LCH.Clearnet Group Limited, LCH.Clearnet (Luxembourg) S.à.r.l and other group holding companies).

Ltd and SA derive revenues through their activities as clearing houses. They provide central counterparty 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 (Ltd), Europe (SA) and the USA (Ltd), or traded in OTC markets. Luxembourg earns royalties from Group companies who use the intellectual property held by it in their operations, and Group Ltd earns revenue from the operating subsidiaries in the form of management fees.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

13.4.1 Segmental income statement

2010	Ltd	SA	Other	Total
Revenue	€'000	€'000	€'000	€'000
Clearing fees	124,247	79,144	-	203,391
Interest income				
Treasury	94,260	196,786	-	291,046
Default Fund	5,354	5,185	-	10,539
	99,614	201,971	-	301,585
Interest expense				
Treasury	(29,500)	(153,992)	-	(183,492)
Default Fund	(9,354)	(5,185)	-	(14,539)
	(38,854))	(159,177)	-	(198,031)
Net Interest income	60,760	42,794	-	103,554
Other income	25,709	31,345	22,576	79,630
Inter-segment	(684)	(7,704)	(22,576)	(30,964)
	25,025	23,641	-	48,666
Segment Revenue	210,032	145,579	-	355,611
Result				
Segment result	5,122	43,950	(5,532)	43,540
Finance income	559	442	200	1,201
Finance costs	(62)	-	(12,387)	(12,449)
Profit before tax	5,619	44,392	(17,719)	32,292
Tax expense	(3,689)	(12,897)	3,398	(13,188)
Profit for the year	1,930	31,495	(14,321)	19,104

2009	Ltd	SA	Other	Total
Revenue	€'000	€'000	€'000	€'000
Clearing fees	132,195	89,084	-	221,279
Interest income				
Treasury	178,939	197,329	-	376,268
Default Fund	10,936	5,959	-	16,895
	189,875	203,288	-	393,163
Interest expense				
Treasury	(45,797)	(126,343)	-	(172,140)
Default Fund	(17,738)	(5,959)	-	(23,697)
	(63,535)	(132,302)	-	(195,837)
Net Interest income	126,340	70,986	-	197,326
Other income	13,649	23,379	25,031	62,059
Inter-segment	(544)	(3,957)	(25,031)	(29,532)
	13,105	19,422	-	32,527
Compensation for termination of contract	260,417	-	-	260,417
Segment Revenue	532,057	179,492	-	711,549
Result				
Segment result	370,279	55,845	(396,502)	29,622
Finance income	2,438	1,259	741	4,438
Other finance income	-	-	9,555	9,555
Finance costs	-	(642)	(12,420)	(13,062)
Profit before tax	372,717	56,462	(398,626)	30,553
Tax expense	(102,185)	(22,775)	3,411	(121,549)
Profit / (loss) for the year	270,532	33,687	(395,215)	(90,996)

13.4.2 Assets and liabilities

2010	Ltd	SA	Other	Total
Assets and liabilities	€'000	€'000	€'000	€'000
Total assets	289,845,821	223,376,631	102,138	513,324,590
Total liabilities	(289,713,095)	(223,092,432)	(199,071)	(513,004,598)
Other segment information				
Capital expenditure on fixed assets	24,978	10,150	9,578	44,706
Non-cash items:				
Fair value loss on financial instruments	(1,264)	(10,702)	-	(11,966)
Impairment of intangible assets	3,390	-	-	3,390
Depreciation of property, plant and equipment	5,739	492	11	6,242
Amortisation	2,462	4,302	4,442	11,206

13.4 **Operating segment information** (continued)

13.4.2 Assets and liabilities (continued)

2009 **Assets and liabilities**	**Ltd** €'000	**SA** €'000	**Other** €'000	**Total** €'000
Total assets	297,815,366	148,675,550	107,777	446,598,693
Total liabilities	(297,681,318)	(148,424,444)	(187,788)	(446,293,550)
Other segment information				
Capital expenditure on fixed assets	12,081	6,175	15,079	33,335
Non-cash items:				
Fair value (loss)/gain on financial instruments	(20,053)	15,111	-	(4,942)
Impairment of goodwill	-	14,800	378,600	393,400
Depreciation of property, plant and equipment	5,492	428	21	5,941
Amortisation of intangible assets	1,375	3,544	1,883	6,802

13.4.3 Geographic information

	2010 **€'000**	**2009** **€'000**
Revenues from external customers		
UK	210,032	532,057
Europe	145,579	179,492
Net revenue per consolidated income statement	355,611	711,549
Non-current assets		
UK	53,149	36,351
Europe	165,581	155,498
Total	**218,730**	**191,849**

Revenue is based on the location of the Group entity which earns the revenue.
Including the compensation for termination of contract NYSE Liffe contributed €273,789,000 to the Group's net revenue in 2009.
Non-current assets are as defined in the statement of financial position.

13.5 **Profit before taxation**

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

	2010 **€'000**	**2009** **€'000**
13.5.1 Depreciation, amortisation and impairment		
Depreciation of property, plant and equipment	6,242	5,941
Amortisation of intangible assets	11,206	6,802
Impairment of intangible assets	3,390	393,400
Loss on write-off of property, plant and equipment	433	-
Loss on disposal of intangible assets	611	335
	21,882	406,478
13.5.2 Other operating expenditure includes:		
Hire of plant and machinery		
under operating leases	929	1,192
Property lease rentals	9,316	9,029
Outsourced IT infrastructure	28,170	37,385
Self-developed software expensed directly		
to the income statement	37,058	37,882
Foreign exchange (gains)/ losses	(1,291)	3,081
Auditors remuneration:		
Audit related - Company	109	143
Audit related - subsidiaries	550	555
Non-audit related – Company	-	12
Non-audit related - subsidiaries	17	28
13.5.3 Net finance (expense) / income		
Interest paid in respect of:		
Subordinated loan	-	(520)
Preferred securities	(12,312)	(12,420)
Interest on bank loans and overdrafts and finance leases repayable within 5 years	(137)	(122)
	(12,449)	(13,062)
Other finance income: profit on repurchase of preferred securities	-	9,555
Interest received on own funds	1,201	4,438
	(11,248)	931

The Group repurchased some of its own preferred securities in the market with a nominal value of €20,000,000 in January 2009. These were repurchased at a cost of €10,445,250, which resulted in the profit disclosed above of €9,555,000.

13.6 Taxation

The major components of taxation expense are:

13.6.1 Consolidated income statement

	Note	2010 €'000	2009 €'000
Current income tax			
United Kingdom			
Corporation tax		(161)	(123,152)
Double taxation relief			26,056
Current tax charge		(161)	(97,096)
Adjustments in respect of current taxation in previous years		(2,767)	(1,398)
		(2,928)	(98,494)
Overseas			
Current tax charge		(16,939)	(20,945)
Adjustments in respect of current taxation in previous years		1,135	(142)
		(15,804)	(21,087)
Total current taxation		(18,732)	(119,581)
Deferred tax			
Relating to the origination and reversal of temporary differences	13.6.3	5,544	(1,968)
Taxation expense reported in the consolidated income statement	7	(13,188)	(121,549)
Consolidated statement of comprehensive income			
Current tax relating to actuarial loss on overseas schemes	8	151	2
Deferred tax relating to actuarial gain/loss on UK pension scheme	8	1,365	(640)
		1,516	(638)

13.6.2 Reconciliation of tax expense

	Note	2010 €'000	2009 €'000
Accounting profit before taxation		**32,292**	**30,553**
Tax at UK statutory corporation tax rate of 28.0% (2009: 28.0%)		(9,042)	(8,555)
Tax (under)/over provided in previous periods		(2,569)	5
Impairment of goodwill not allowable for tax purposes		-	(110,152)
Permanent differences – expenses not deductible for tax purposes		(382)	(338)
Previously unrecognised temporary differences		1,221	-
Future tax rate changes		(433)	-
Net effect of higher rates of overseas taxation		(2,025)	(4,153)
Exchange differences		42	1,644
Total tax charge	13.6.1	(13,188)	(121,549)
Effective income tax rate (%)		40.8	397.8

The UK statutory corporation tax rate remained 28% in 2010. A gradual reduction in the UK corporation tax rate from 28% to 24% over 4 years was announced in the Emergency Budget of 22 June 2010. The Finance Bill published on 1 July 2010 included the first of the 1% rate reductions with effect from April 2011, with subsequent reductions to be dealt with by future legislation. The movement to 27% has been accounted for in the deferred tax asset in 2010 and the impact on the Group's net assets arising from the remainder of the 4% reduction of the rate will be effected in future years.

Exchange differences have arisen on the translation of the closing Sterling tax creditor which is payable to the UK tax authority.

13.6.3 Deferred tax

	Consolidated statement of financial position 2010 €'000	2009 €'000	Consolidated income statement 2010 €'000	2009 €'000
Post-employment benefits	4,727	5,994	(2,616)	(2,009)
Reduced depreciation for tax purposes	8,593	4,728	3,847	1,817
Other temporary differences	2,225	(2,086)	4,313	(1,776)
Deferred tax charge			5,544	(1,968)
Net deferred tax asset	15,545	8,636		

	UK €'000	Luxembourg €'000	Other overseas €'000	Total €'000
Net deferred tax asset/(liability) at 1 January 2010	10,707	781	(2,852)	8,636
Deferred tax in income statement	2,479	140	2,925	5,544
Deferred tax relating to actuarial loss	1,365	-	-	1,365
Net deferred tax asset at 31 December 2010	14,551	921	73	15,545
Net deferred tax asset at 1 January 2009	11,172	331	(1,164)	10,339
Deferred tax in income statement	(730)	450	(1,688)	(1,968)
Deferred tax relating to actuarial gain	(640)	-	-	(640)
Other movements	905	-	-	90
Net deferred tax asset / (liability) at 31 December 2009	10,707	781	(2,852)	8,636

Other movements are principally due to exchange differences, on the underlying Sterling deferred tax asset in the UK.

13.7 Profits of the holding company

The retained profit for the year includes a loss of €11,897,000 (2009: €101,983,000) which is dealt with in the company accounts of LCH.Clearnet Group Limited.

13.8 Intangible assets

	Patents €'000	Self-developed software €'000	Goodwill €'000	Total €'000
Cost				
At 1 January 2010	16	136,103	503,836	639,955
Additions	-	37,777	-	37,777
Disposals	-	(2,490)	-	(2,490)
At 31 December 2010	16	171,390	503,836	675,242
Accumulated amortisation				
At 1 January 2010	16	76,023	393,400	469,439
Amortisation charge for the year	-	11,206	-	11,206
Impairment	-	3,390	-	3,390
Disposals	-	(1,879)	-	(1,879)
At 31 December 2010	16	88,740	393,400	482,156
Net book value				
At 31 December 2010	-	82,650	110,436	193,086
Cost				
At 1 January 2009	16	106,845	503,836	610,697
Additions	-	30,848	-	30,848
Disposals	-	(1,590)	-	(1,590)
At 31 December 2009	16	136,103	503,836	639,955
Accumulated amortisation				
At 1 January 2009	16	70,476	-	70,492
Amortisation charge for the year	-	6,802	-	6,802
Impairment	-	-	393,400	393,400
Disposals	-	(1,255)	-	(1,255)
At 31 December 2009	16	76,023	393,400	469,439
Net book value				
At 31 December 2009	-	60,080	110,436	170,516

The portion of capitalised self-developed software costs disclosed above that relates to software not currently brought into use amounted to €23,544,000 (2009: €42,938,000). No amortisation has been charged during the year against these assets (2009: €nil). The Group has impaired some software assets in 2010 where a review has indicated there is no prospect of some components being used in production.

Self-developed software costs expensed directly to the income statement are set out in note 13.5.2.

13.9 Impairment testing of intangible assets and goodwill

Goodwill is carried in relation to the acquisition of LCH.Clearnet SA, a wholly-owned subsidiary. 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 prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2.0% (2009: 2.0%). This long-term growth rate is in line with 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 cash equity and fixed income clearing volumes and tariff levels are the most important; they are also inter-related.

An impairment charge of €393,400,000 was recognised in 2009 within "Impairment of goodwill" in the consolidated income statement, reducing the goodwill to €110,436,000, following lower volumes experienced and tariff reductions implemented in cash equity markets. Cash flows are discounted using a pre-tax discount rate of 13.0% (2009: 12.8%), which reflects the specific risks relating to the relevant segments.

13.10 Property, plant and equipment

	Leasehold refurbishment €'000	Computer equipment software €'000	Office equipment and other €'000	Total €'000
Cost				
At 1 January 2010	7,259	20,462	5,636	33,357
Additions	1,333	5,198	398	6,929
Write-off	(2,182)	-	-	(2,182)
At 31 December 2010	6,410	25,660	6,034	38,104
Accumulated depreciation				
At 1 January 2010	4,282	15,236	3,994	23,512
Depreciation charge for the year	682	4,802	758	6,242
Write-off	(1,749)	-	-	(1,749)
At 31 December 2010	3,215	20,038	4,752	28,005
Net book value				
At 31 December 2010	3,195	5,622	1,282	10,099
Cost				
At 1 January 2009	7,014	18,368	5,488	30,870
Additions	245	2,094	148	2,487
At 31 December 2009	7,259	20,462	5,636	33,357
Accumulated depreciation				
At 1 January 2009	3,668	10,602	3,301	17,571
Depreciation charge for the year	614	4,634	693	5,941
At 31 December 2009	4,282	15,236	3,994	23,512
Net book value				
At 31 December 2009	2,977	5,226	1,642	9,845

Assets with a net book value of €925,000 (2009: €nil) are held under finance leases and included within computer equipment.

13.11 Investments

Company	Investment in subsidiaries 2010 €'000	Investment in subsidiaries 2009 €'000
Cost at 1 January and 31 December	673,481	673,481
Accumulated impairment		
At 1 January	332,000	-
Impairment charge	-	332,000
At 31 December	332,000	332,000
Net book value	341,481	341,481

Investments in subsidiary undertakings are stated at cost less impairment. The impairment in 2009 arose due to the reduction in the recoverable amount of the investment in LCH.Clearnet SA, as described in note 13.9.

13.11 **Investments** (continued)

The Company's principal subsidiaries are as follows:

Country of incorporation	Company name	Percentage held
England and Wales	LCH.Clearnet Limited	100%
France	LCH.Clearnet SA	100%
Luxembourg	LCH.Clearnet (Luxembourg) S.à r.l	100%*
England and Wales	LCH.Clearnet Funding LP	100%
England and Wales	LCH.Clearnet GP Limited	100%*
England and Wales	LCH.Clearnet PLP Limited	100%*
Ireland	Freshwater Finance PLC	100%**

*Indirect holding through the Company's other subsidiaries or limited partnership interest
**Holding relates only to Group's issued preferred securities and is through limited partnership interest

The principal activity of the LCH.Clearnet Limited and LCH.Clearnet SA 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.

LCH.Clearnet (Luxembourg) S.à.r.l has been set up to hold the Group's intellectual property. LCH.Clearnet Funding LP, LCH.Clearnet GP Limited, LCH.Clearnet PLP Limited and Freshwater Finance PLC have been set up as intermediate holding and financing companies to hold the Group's preferred securities issued in May 2007.

13.12 **Cash and short-term deposits**

	Group		Company	
	2010	2009	2010	2009
	€'000	€'000	€'000	€'000
Cash at bank and in hand	1,280,443	294,149	7,806	589
Short-term deposits	14,488,753	11,953,406	-	-
	15,769,196	12,247,555	7,806	589

€13,960,958,000 (2009: €10,549,381,000) of short-term deposits are fully collateralised by high quality sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Group's Risk Committee.

13.13 **Trade and other receivables**

	Group		Company	
	2010	2009	2010	2009
	€'000	€'000	€'000	€'000
Amounts falling due within one year:				
Other receivables	43,460	8,390	77	128
Amounts owed by Group undertakings	-	-	757	1,346
	43,460	8,390	834	1,474
Prepayments	13,187	8,323	-	-
Accrued income	3,485	5,019		
	60,132	21,732	834	1,474

The increase in other receivables is principally due to amounts recoverable from members relating to the development of clearing systems.

13.14 **Balances with clearing members**

	Group	
	2010	2009
Assets	**€'000**	**€'000**
Fair value of transactions with clearing members,		
less variation margin	480,586,840	419,010,310
Initial margin and other		
clearing member balances	2,266,857	1,494,477
	482,853,697	420,504,787
Liabilities		
Fair value of transactions with clearing members,		
less variation margin	(480,572,089)	(418,985,594)
clearing member balances	(30,030,195)	(25,155,620)
	(510,602,284)	(444,141,214)

The balances due from clearing members recorded in the statement of financial position of €482,854 million (2009: €420,505 million) are fully secured by collateral held by the Group. All outstanding RepoClear transactions are fully collateralised after appropriate haircutting. To date this collateral has not been utilised.

At 31 December 2010, the total of fully collateralised loans in respect of fixed income transactions was €473,828 million (2009: €408,980 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 €31,891 million (2009: €31,517 million) and the total amount of guarantees held was €3,163 million (2009: €2,999 million). To date this collateral has not been utilised.

13.15 **Issued capital and reserves**

	Group & Company	
	2010	2009
Authorised	**€'000**	**€'000**
100,916,003 (2009: 100,916,003) ordinary shares of €1 each	100,916	100,916
200,000 (2009: 200,000) non-cumulative callable preference shares of €1 each	200	200
Issued and fully paid		
40,632,643 (2009: 40,632,643) ordinary shares of €1 each	40,633	40,633
(Including 3 non-voting shares)		

33,299,973 shares were repurchased in November 2009 at €10 per share as part of a transaction designed to align further the shareholder base with the user base.

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.

Non-cumulative callable preference shares (NCPS) The NCPS can only be issued in the event that the Group's capital ratios fall below the minimum required by the relevant regulatory authority for a period of six months.

Capital reserves (Section 12) The balance on this reserve represents 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, when the Group was formed, less the amount transferred in 2007 as part of the court approved capital restructuring.

Capital redemption reserve (Section 12) The balance on this reserve represents the nominal value of the ordinary shares that have been repurchased and cancelled.

Distributable reserves Retained earnings are reduced by €19,884,000 to determine legally distributable reserves, reflecting the nominal value of the redeemable convertible preference shares redeemed in 2007.

13.16 Interest bearing loans and borrowings

		Group		Company	
		2010	2009	2010	2009
	Note	€'000	€'000	€'000	€'000
Current					
Finance leases	13.20	346	-	-	-
Bank overdrafts	13.16.1	-	1,627	-	-
		346	1,627	-	-
Non-current					
Preferred securities	13.16.2	176,969	176,494	-	-
Subordinated loan owed to subsidiary	13.16.2	-	-	196,969	196,494
Finance leases	13.20	672	-	-	-
		177,641	176,494	196,969	196,494

Details on the effective interest rate and maturity of these interest bearing loans and borrowings are as follows:

13.16.1 Bank overdrafts

In order to assist with day-to-day liquidity management the Group maintains a number of uncommitted money market and overdraft facilities with a number of major banks. Effective interest rates on these facilities vary depending on market conditions but on average are at Euro OverNight Index Average (EONIA) plus 100 basis points.

13.16.2 Preferred securities

The Group issued €200 million non step-up preferred securities on 18 May 2007. Interest is payable annually in arrears at a fixed rate of 6.576% until 18 May 2017. From 18 May 2017 interest is payable at 2.1% above three month EURIBOR and are redeemable in whole at the option of the Group on 18 May 2018 or any distribution date thereafter. The preferred securities are listed on the Dublin Stock Exchange. The preferred securities are held through Freshwater Finance PLC.

The Group repurchased some of these preferred securities in the market with a nominal value of €20 million in January 2009. These were repurchased at a cost of €10,445,250.

13.16.3 Undrawn borrowing facilities

As at 31 December 2010 the Group has undrawn committed borrowing facilities of €148 million (2009: €186 million).

13.17 Default funds

	2010	2009
	€'000	€'000
LCH.Clearnet SA Default Funds		
OTC fund	314,421	443,287
Other funds	1,018,653	669,435
	1,333,074	1,112,722
LCH.Clearnet Limited Default Fund	696,219	683,959
	2,029,293	1,796,681

Default Funds The purpose of the Default Funds is to fund any losses incurred by the Group in the event of clearing member default if 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 in LCH.Clearnet Limited at a rate of not less than three-month LIBOR (or equivalent) plus 100 basis points and to clearing members in LCH.Clearnet SA at the Euro Overnight Average Index rate.

13.18 Employee benefits

13.18.1 Employees and Directors

Employee benefits expense	2010	2009
	€'000	€'000
Wages and salaries	82,607	72,182
Social security costs	15,088	14,126
Pension costs	11,348	11,795
Employee benefits expense	109,043	98,103
Average monthly number of people (including executive Directors) employed	713	677
Company Directors	**2010**	**2009**
	€'000	**€'000**
Total remuneration paid to Directors of the Company		
Emoluments	1,949	1,384

Full details of Directors' remuneration are disclosed in section 15.5.

Remuneration of the highest paid Director was €601,000 (2009: €393,000).

No Directors are accruing retirement benefits under a defined benefit scheme.

Aggregate emoluments of the Group Executive Committee, comprising Roger Liddell (Group Chief Executive), Francis Berthomier (Group Chief Financial Officer), Alberto Pravettoni (Managing Director, Corporate Strategy) and Christophe Hémon (Chief Executive of LCH.Clearnet SA), were €5,108,000 (2009: €3,884,000). This includes €75,000 (2009: €175,000) contribution to pension schemes. None of the senior executive team are Directors of the Company.

13.18.2 Pension commitments

The Group operates a defined benefit pension scheme for its employees in the UK (the LCH Pension Scheme), which was closed to new members from 30 September 2009. In addition, the Group has obligations in respect of certain staff in a Euronext defined benefit pension scheme in Amsterdam and an independent defined benefit scheme in Porto. The UK scheme has 444 active members, 410 inactive members and 101 pensioners. The Amsterdam scheme has 14 active and 5 inactive members, whilst the Porto scheme 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 were subject to a full valuation at 31 December 2010. A summary of the triennial valuation for the UK scheme, as at 30 June 2007, is as follows:

Actuarial method used	**Projected unit**
Rate of investment returns per annum – pre-retirement	6.50%
Rate of investment returns per annum – post-retirement	5.125%
Increase in earnings per annum	5.25%
Scheme assets taken at market value	€122,038,000
Wind-up funding level	71%

13.18 **Employee benefits** (continued)

13.18.2 Pension commitments (continued)

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:

	2010		2009		2008		2007		2006	
Assumptions used	**UK Scheme**	**Amsterdam/ Porto**	**UK Scheme**	**Amsterdam/ Porto**	**UK Scheme**	**Amsterdam/ Porto**	**UK Scheme**	**Amsterdam/ Porto**	**UK Scheme**	**Amsterdam/ Porto**
Discount rate	5.30%	4.75%	5.75%	5.00%	5.75%	5.50%	5.50%	5.50%	5.10%	4.50%
Rate of increase in salaries	5.00%	3.50%	5.00%	3.75% / 3.50%	5.00%	3.75%/ 3.50%	5.25%	3.50% / 3.25%	5.10%	3.50% / 3.00%
Rate of increase in pensions	3.25%	1.50%	3.25%	1.50%	2.75%	2.00%/ 1.50%	3.25%	1.75%/ 1.50%	3.10%	1.75%/ 2.00%
Inflation assumption	3.50%	2.00%	3.50%	2.25%	3.00%	2.25%	3.25%	2.00%	3.10%	2.00%
Expected rates of return on scheme assets:										
Equities	6.70%	6.70% / 8.90%	6.50%	7.90%/ 10.50%	6.40%	8.70%/ 9.10%	7.10%	7.40%/ 7.00%	7.00%	6.80%/ 7.40%
Bonds	5.00%	3.50%/ 3.52%	5.30%	4.20%/ 3.26%	5.00%	4.10%/ 4.56%	5.20%	4.20%/ 4.10%	4.50%	3.70%
Property	6.70%	N/A/ 6.40%	6.50%	N/A/ 7.40%	6.40%	N/A/ 6.70%	5.25%	N/A/ 5.75%	5.00%	N/A/ 3.20%
Cash	-	N/A/ 1.50%	-	N/A/ 2.00%	2.00%	N/A/ 3.80%	5.25%	N/A/ 4.10%	5.00%	N/A/ 2.00%
Weighted average	6.19%	5.00%/ 4.00%	6.14%	5.31%/ 4.54%	5.68%	5.48%/ 5.30%	6.57%	5.16%/ 4.50%	6.58%	4.63%/ 3.91%
Post retirement mortality in years:										
Currently aged 60 – male	28.8		28.7		28.6		26.7		26.6	
Currently aged 60 – female	31.7		31.6		31.5		29.6		29.5	
Currently aged 45 – male	29.7		29.6		29.6		27.6		27.6	
Currently aged 45 - female	32.5		32.5		32.4		30.5		30.4	

The discount rate for the UK scheme has been determined from a curve of AA corporate bond rates by duration which is consistent with the profile of the scheme's liabilities at around 25 years.

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

Change in benefit obligation – 2010	**UK Scheme €'000**	**Amsterdam/ Porto €'000**	**Total €'000**
Benefit obligation at 1 January 2010	122,035	3,219	125,254
Current service cost	10,402	185	10,587
Interest cost	7,145	163	7,308
Actuarial loss/(gain)	12,252	(288)	11,964
Employee contributions	2	-	2
Benefits paid	(6,514)	(14)	(6,528)
Exchange rate changes	4,025	-	4,025
Benefit obligation at 31 December 2010	**149,347**	**3,265**	**152,612**

Change in benefit obligation – 2009	**UK Scheme €'000**	**Amsterdam/ Porto €'000**	**Total €'000**
Benefit obligation at 1 January 2009	92,311	2,783	95,094
Current service cost	10,274	165	10,439
Interest cost	5,644	153	5,797
Actuarial loss	8,266	131	8,397
Employee contributions	3	-	3
Benefits paid	(1,964)	(13)	(1,977)
Exchange rate changes	7,501	-	7,501
Benefit obligation at 31 December 2009	**122,035**	**3,219**	**125,254**

Change in scheme assets – 2010	**UK Scheme €'000**	**Amsterdam/ Porto €'000**	**Total €'000**
Fair value of scheme assets at 1 January 2010	121,309	2,606	123,915
Expected return on scheme assets	7,876	142	8,018
Actuarial gains	7,000	33	7,033
Employer contribution (includes benefits paid and reimbursed)	9,516	231	9,747
Employee contributions	2	-	2
Benefits paid	(6,514)	(14)	(6,528)
Exchange rate changes	4,026	-	4,026
Fair value of scheme assets at 31 December 2010	**143,215**	**2,998**	**146,213**

Change in scheme assets – 2009	**UK Scheme €'000**	**Amsterdam/ Porto €'000**	**Total €'000**
Fair value of scheme assets at 1 January 2009	71,223	1,945	73,168
Expected return on scheme assets	4,552	113	4,665
Actuarial gains	10,553	125	10,678
Employer contribution (includes benefits paid and reimbursed)	31,130	436	31,566
Employee contributions	3	-	3
Benefits paid	(1,964)	(13)	(1,977)
Exchange rate changes	5,812	-	5,812
Fair value of scheme assets at 31 December 2009	**121,309**	**2,606**	**123,915**

13.18 **Employee benefits** (continued)

13.18.2 Pension commitments (continued)

Analysis of pension benefit obligation - 2010	**UK Scheme**	**Amsterdam/Porto**	**Total**
	€'000	**€'000**	**€'000**
Present value of funded obligations	149,347	3,265	152,612
Fair value of plan assets	(143,215)	(2,998)	(146,213)
Deficit for funded plans	**6,132**	**267**	**6,399**

Analysis of pension benefit obligation - 2009	**UK Scheme**	**Amsterdam/ Porto**	**Total**
	€'000	**€'000**	**€'000**
Present value of funded obligations	**122,035**	**3,219**	**125,254**
Fair value of plan assets	**(121,309)**	**(2,606)**	**(123,915)**
Deficit for funded plans	**726**	**613**	**1,339**

Net liability shown in statement of financial position	**2010**	**2009**
	€'000	**€'000**
Deficit for funded plans	6,399	1,339
Other European retirement provisions	3,696	1,909
Employee benefits	**10,095**	**3,248**

Analysis of pension benefit obligation	**2010**	**2009**	**2008**	**2007**	**2006**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Present value of funded obligations	152,612	125,254	95,094	122,239	140,053
Fair value of plan assets	(146,213)	(123,915)	(73,168)	(117,794)	(95,688)
Deficit for funded plans	**6,399**	**1,339**	**21,926**	**4,445**	**44,365**

Components of pension cost	**2010**	**2009**
	€'000	**€'000**
Current service cost	10,402	10,439
Interest cost	7,145	5,797
Expected return on plan assets	(8,018)	(4,665)
	9,529	11,571
Other employee benefit costs:		
UK defined contribution scheme	490	-
Other European retirement schemes	1,329	224
Total expense recognised in the income statement	**11,348**	**11,795**
Net actuarial losses/(gains) immediately recognised:		
On pension schemes	4,931	(2,281)
On other European retirement schemes	840	-
Total expense/(income) recognised in the statement of changes in equity	**5,771**	**(2,281)**

The cumulative amount of actuarial losses recognised in the statement of changes in equity since the Group adopted IFRS on 1 January 2004 is €11,142,000 (2009: €5,371,000).

Pension scheme asset allocation

An analysis of the pension assets is set out below:

At 31 December 2010	UK Scheme		Amsterdam/Porto		Total	
	€'000	%	€'000	%	€'000	%
Equities	93,090	65	1,147	38	94,237	64
Bonds	42,964	30	1,816	61	44,780	31
Property and cash	7,161	5	35	1	7,196	5
Total	**143,215**	**100**	**2,998**	**100**	**146,213**	**100**

At 31 December 2009	UK Scheme		Amsterdam/Porto		Total	
Equities	69,025	57	749	29	69,774	56
Bonds	21,472	18	1,824	70	23,296	19
Property and cash	30,812	25	33	1	30,845	25
Total	**121,309**	**100**	**2,606**	**100**	**123,915**	**100**

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

History of experience gains and losses	**Year ended 31 December 2010**	**Year ended 31 December 2009**
	€'000	€'000
Actual return on plan assets	15,051	15,343

	Financial years ending 31 December:				
	2010	**2009**	**2008**	**2007**	**2006**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Difference between expected and actual return on scheme assets:					
Amount	7,033	10,678	(27,716)	2,025	5,010
Percentage of scheme assets	5%	9%	(38%)	2%	5%
Experience (gains) and losses on scheme liabilities:					
Amount	(2,730)	47	(11,317)	15	2,042
Percentage of scheme liabilities	(2%)	-	(9%)	-	2%

Contributions The Group expects to contribute €9,765,000 (2010: €9,147,000) to its defined benefit pension plans in 2011. The contributions in 2009 included a one-off additional payment of €22,459,000 into the LCH Pension Scheme in December 2009. The LCH Pension scheme was closed to new members from 1 September 2009. New employees in LCH.Clearnet Limited have had the possibility to join a new defined contribution scheme from 1 January 2010.

The Group pays fixed contributions to the defined contribution scheme and there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Group in a fund under the control of the trustees. The total expense charged to the income statement of €490,000 represents contributions payable to the plan by the Company at rates specified in the rules of the plan.

Other comments Included in employee benefits is a long service award scheme of €3,415,000 (2009: €1,642,000) and €281,000 (2009: €267,000) 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 long service award commitment was €1,318,000 (2009: €179,000) and the charge in the early retirement scheme was €11,000 (2009: €45,000). The amount recognised directly in reserves relating to actuarial losses is €840,000 (2009: €nil).

13.19 Trade and other payables

	Group		Company	
	2010	2009	2010	2009
	€'000	€'000	€'000	€'000
Trade payables	9,261	7,606	-	179
Other payables including taxation				
and social security	40,766	39,488	-	-
Amounts owed to Group				
Undertakings	-	-	517	1,634
Accruals and deferred income	108,140	68,459	10,273	12,366
	158,167	**115,553**	**10,790**	**14,179**

€15,007,000 (2009: €nil) included in other payables and €20,971,000 (2009: €nil) included in deferred income relate to amounts due under funding arrangements for new clearing systems.

13.20 Commitments and contingencies

Operating leases

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

	2010		2009	
	Property	Plant and equipment	Property	Plant and equipment
	€'000	€'000	€'000	€'000
Within one year	9,837	-	8,339	390
More than one year, but less than five	19,321	-	27,190	-
More than five years*	24,313	-	16,377	-
	53,471	**-**	**51,906**	**390**

*The property rentals relate primarily to the lease of offices in London, which expire in 2026, and Paris where there is an exit clause in 2013. The previous London lease which was due to expire in 2016 was extended during the year.

Finance leases

The Group has finance leases for various items of computer equipment:

	2010		2009	
	Minimum payments	Present Value of payments	Minimum payments	Present Value of payments
	€'000	€'000	€'000	€'000
Within one year	408	346	-	-
In two to five years	719	672	-	-
Total minimum lease payments	1,127	1,018	-	-
Less future financing charges	(109)	-	-	-
	1,018	**1,018**	**-**	**-**

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. This agreement was amended from July 2010 to reduce the on-going costs. The estimated maximum value of the remaining commitment is €76 million (2009: €104 million), assuming no early termination. The Group has the right to terminate this agreement with one year's notice under certain conditions.

Legal claim contingency A third party has commenced an action against the Group in respect of a contractual dispute. The estimated maximum payout is €5,500,000 should the action be successful. A trial date has been set for May 2011. The Group is vigorously defending the claim and therefore no provision has been made.

Treasury assets supporting operational facilities At 31 December 2010 the Group had assets and collateral in support of the following operational facilities.

	2010	2009
	€'000	€'000
Central bank activity	10,309,471	6,797,312
Concentration bank services	582,240	225,441
Fixed income settlement*	20,100,000	14,138,917
Equity and derivatives settlement delivery	-	174,423
Performance collateral on energy markets	-	1,138
	30,991,711	**21,337,231**

*LCH.Clearnet Limited holds highly rated collateral as security against tri-party cash loans as well as government debt and government backed bank issued debt, which is used to support RepoClear settlement activity.

13.21 Related party disclosures

Key management personnel Details of key management personnel are disclosed in Section 14 – Corporate Governance, and their total remuneration is disclosed in note 13.18.1.

Group undertakings Details of the principal Group undertakings are set out in note 13.11 to these consolidated financial statements. In accordance with IAS 27, "Consolidated and Separate Financial Statements", transactions or balances with Group entities that have been eliminated on consolidation are not reported.

13.22 Financial risk management objectives and policies

13.22.1 Introduction

The Group's activities expose it to a number of financial risks – principally market risk (foreign exchange risk, interest rate risk, volatility in financial markets), settlement risk, credit risk and liquidity risk.

The Group manages these risks through various control mechanisms and its approach to risk management is to be prudent yet responsive to changes in the risk environment.

Overall responsibility for risk management rests with the Group Board. Day to day responsibility is delegated to the executives in the operating subsidiaries, on the basis of policies that are discussed and agreed in risk committees and/or Boards as appropriate. The individual application of policies, within the operating subsidiaries, is undertaken by dedicated resources within the subsidiary Risk Management departments who control and manage the exposures to members and banks on the basis of policies adopted by each of the subsidiary Boards. These policies are harmonised across the Group where relevant. The continued appropriateness of risk policies is reviewed by the committees and Boards, and audits of processes within the Risk Management departments are undertaken on a regular basis.

13.22.2 Foreign exchange risk

This risk arises from the fact the presentational and functional currency of the Group is Euros, although LCH.Clearnet Limited incurs a significant portion of its costs and revenues in Sterling and other currencies. The Group is exposed to foreign exchange risk primarily with respect to Sterling and US Dollars in the translation of net assets and liabilities denominated in foreign currency. The Group also has transactional exposure to US Dollars and Sterling. The Group converts foreign exchange balances to Euros on a regular basis based upon agreed thresholds which minimises the effect exchange rate fluctuations will have on overall Group net assets. The Group may also hedge future currency cash flows where they can be reasonably anticipated. Any exchange differences on translation of net assets and liabilities that remain are recorded in the income statement, and the Group does not view this as a material risk.

13.22.3 Interest rate risk

The Group is exposed to interest rate risk with the cash and investment balances it holds, the initial margin and default fund balances it holds from members and the loans and borrowings it has issued.

The interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is reset daily; this makes the associated revenue vulnerable to volatility in overnight rates and shifts in spreads between overnight and term rates. Interest rate exposures are managed within defined risk appetite parameters against which sensitivities are monitored on a daily basis.

13.22 **Financial risk management objectives and policies** (continued)

13.22.4 Financial market volatility (Latent market risk)

The level or volatility of financial markets in which the Group operates can adversely affect its earnings and its ability to meet its business objectives. Indeed, in the event of a default by a counterparty, the Group faces market risk which is correlated to member positions and market conditions. The market and credit 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, are used to quantify and assess the levels of credit and market risk to which the Group is exposed under both normal and extreme, but plausible, market conditions.

As a central counterparty the Group has a balanced position in all cleared contracts and runs no market risk unless a clearing member defaults. This potential market risk is reduced by collecting variation margin on marked-to-market positions and by establishing initial margin requirements which are the Group's estimate of likely future market risk under normal market conditions. Both variation and initial margin are collected daily and, if necessary, replenished intra-day. The operating subsidiaries also maintain Default Funds to be used should the initial margin of a defaulted clearing member not fully cover close-out costs, and also have access to supplementary financial resources, including their own capital, to ensure the continuity of ongoing operations.

The Group accepts both cash and high quality non-cash collateral to cover margin requirements; the list of acceptable non-cash collateral is restricted, haircuts are set for each security type, taking into account market, credit, country and liquidity risks. All non-cash collateral is, where appropriate, revalued daily.

Additionally, members must meet strict financial and operational criteria before access to clearing membership is granted, and this is regularly reviewed as part of the Group's risk policies.

13.22.5 Credit risk

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

The Group has credit risk exposure as a direct result of the reinvestment of the cash it holds which is primarily a result of its central counterparty activities. This cash portfolio is invested within the confines of clear risk policies which aim to secure a significant portion of the cash portfolio via tri-party repo receiving high quality government and government related securities as collateral or by investing directly in such securities.

Securities received as collateral are subject to a haircut on their market value daily. The small proportion of cash not secured in this way is deposited in the money markets on an unsecured, short-term basis only to high quality banking institutions, or in government backed assets.

13.22.6 Concentration risk

Concentration risk may arise through having large connected individual exposures and significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors. Direct concentration risk arises in several areas of the Group's activities, and in order to avoid excessive concentrations of risk, the Group maintains a diversified portfolio of treasury assets, and uses a diversified range of payment and settlement banks and agents.

Indirect concentration risks, conditional upon a member default, are managed within risk policy through various means, including restrictions on certain non-cash collateral issuers and the monitoring of exposures by member groups.

13.22.7 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations when they fall due, in particular to meet obligations to pay margin or physical settlement monies due to clearing members or in case it needs to manage a clearing member default.

Liquidity risk exists as a result of day to day operational flows such as repayments of cash collateral to members, provision of liquidity to facilitate settlement and cash flows resulting from investment activity. In the case of a clearing member default the Group has to close out the defaulting member's portfolio which may require additional liquidity during the execution of the default management procedure, while concurrently meeting that member's settlement obligations until the portfolio is closed out or transferred.

Liquidity risk is managed by ensuring that 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.
The Group has identified two scenarios to evaluate the need for liquidity; a daily operational liquidity need, based on the maximum relevant liquidity outflow observed from an extensive data history; and the default liquidity need which aims to evaluate the liquidity requirement on the day of a default and subsequent days so that the Group can meet its obligations to members as a central counterparty.

The Group's liquidity management is subject to strict minimum liquidity targets that are set by the Risk Executive and reviewed by the Boards and Risk Committees and which are kept under regular review. On a day to day basis the treasury team is tasked with ensuring 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.

Additionally, LCH.Clearnet SA is a bank within the Euro zone and has access to central bank funds.

13.22.8 Settlement risk

Settlement risk is the risk that the Group makes a payment or delivery without simultaneously receiving the delivery or payment from the counterparty.

The Group fully mitigates this risk through the use of guaranteed and irrevocable Delivery versus Payment (DvP) mechanisms where available.

13.22.9 Settlement bank risk

The Group is exposed to the risk that a settlement bank could fail, creating credit losses and liquidity pressures for the Group.

The Group uses a combination of central bank, payment agent and commercial settlement bank models. The Treasury policy is to maintain only minimal balances at commercial settlement banks overnight, placing the majority at the Bank of England and Banque de France. If the payment agent or commercial settlement bank is not able to transfer funds to the Group, the clearing members remain liable for the fulfilment of their payment obligations.

13.22.10 Custody risk

Custody risk is the risk of loss on securities in safekeeping as a result of the custodian's insolvency, negligence, misuse of assets, poor administration or inadequate record keeping.

Although the risk of insolvency of Central Securities Depositories, International Central Securities Depositories, or Custodian banks (subject to minimum credit rating) used by the Group is low the Group mitigates this risk through appropriate legal arrangements and dedicated processes, in addition to minimum eligibility requirements and regular reviews dictated by policy.

13.22.11 Other risk management

In addition to the financial risks above the Group is also exposed to operational, pension, compliance, legal and reputational risk.

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. First line operational risk is managed through systems and procedures in which processes are documented, authorisation is independent, and transactions are monitored and reconciled.

The Group has adopted a framework, supported by tailored enterprise-wide software, systematically to identify, assess, monitor and manage operational risks. This is achieved through departments' self-assessment of risks and controls, the collection and analysis of loss data, and the development of Key Risk Indicators as appropriate, enabling the embedding of operational risk awareness within the corporate culture.

Business operations are subject to a programme of Internal Audit reviews, which are independent of line management, and the results are reported directly to the Group's management (including the Group Chief Executive Officer) and audit committees. Following each review, management will put in place an action plan to address any issues identified. Internal Audit evaluates the adequacy and effectiveness of the Group's systems of internal control, as well as the level of compliance with policies, and reports, in addition to management's own Combined Assurance reporting, to the audit committees and senior management. Any significant weaknesses are reported to the Boards.

The Group maintains contingency facilities to support operations and ensure business continuity. These facilities are regularly and frequently tested.

13.22.12 Pension risk

Pension risk arises from the potential deficit in the Group's defined benefit pension plans due to a number of factors, such as mortality rates or changes in inflation assumptions.

The main scheme in the Group is the LCH Pension scheme in the UK and it is governed under the relevant laws and managed by the Trustees who are required to undertake a formal funding valuation every three years and, where assets are deemed to be insufficient, to agree a schedule of contributions to be paid by LCH.Clearnet Limited to make good any shortfall over a period of time. More details of the pension scheme and assumptions used in valuing their assets and liabilities are included in note 13.18.

13.22.13 Compliance, legal and reputational 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 various authorisation and regulatory requirements regimes. Central counterparties attract specific interest from regulators as they are a critical part of the market infrastructure. 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.

The maintenance of the Group's strong reputation is key to its continued profitability and is the responsibility of the Board, management and staff. In particular the efficiency, reliability and effectiveness of the day to day operations of the Group are paramount to its reputation.

13.23 **Financial instruments**

The Group's financial assets and liabilities are as follows:

		Group		Company	
		2010	**2009**	**2010**	**2009**
	Note	**€'000**	**€'000**	**€'000**	**€'000**
Financial assets at fair value through profit or loss					
Fair value of transactions with clearing members	13.14	480,586,840	419,010,310	-	-
Investment in preferred securities		-	-	14,000	14,000
Government backed, bank issued certificates of deposits		7,008,193	5,895,649	-	-
Treasury bills		3,158,646	4,440,810	-	-
Government backed, bank securities		1,204,509	2,476,499	-	-
Bank issued certificates of deposit		66,676	806,682	-	-
Held-to-maturity assets (in other financial assets)					
Government backed, bank issued certificates of deposits		2,979,399	-	-	-
Other financial assets		14,417,423	13,619,640	14,000	14,000
Loans and receivables					
Trade and other receivables	13.13	46,945	13,409	834	1,474
Short-term loan due from subsidiary		-	-	50,000	71,000
Initial margin and other member balances	13.14	2,266,857	1,494,477	-	-
Cash and short-term deposits in the statement of financial position	13.12	15,769,196	12,247,555	7,806	589
Financial liabilities at fair value through profit or loss					
Fair value of transactions with clearing members	13.14	(480,572,089)	(418,985,594)	-	-
Financial liabilities at amortised cost					
Trade and other payables	13.19	(158,167)	(115,553)	(10,790)	(14,179)
Initial margin and other member balances	13.14	(30,030,195)	(25,155,620)	-	-
Default Funds	13.17	(2,029,293)	(1,796,681)	-	-
Bank overdrafts	13.16	-	(1,627)	-	-
Preferred securities	13.16	(176,969)	(176,494)	-	-
Subordinated loan owed to subsidiary	13.16	-	-	(196,969)	(196,494)
Derivative financial instruments at fair value through profit or loss					
Derivative financial assets		1,418	490	-	-
Derivative financial liabilities		(26,772)	(15,560)	-	-
		(25,354)	(15,070)	-	-

Fair value hierarchy The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs, which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Group has no financial instruments in this category.

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

	2010	**Level 1**	**Level 2**
	€'000	**€'000**	**€'000**
Assets measured at fair value			
Fair value of transactions with clearing members	480,586,840	5,786,805	474,800,035
Treasury bills	3,158,646	3,158,646	-
Government backed, bank securities	7,008,193	-	7,008,193
Bank issued certificates of deposit	66,676	-	66,676
Interest rate swap asset	1,418	-	1,418
Liabilities measured at fair value			
Fair value of transactions with clearing members	(480,572,089)	(5,772,054)	(474,800,035)
Interest rate swap liability	(26,772)	-	(26,772)

	2009	**Level 1**	**Level 2**
	€'000	**€'000**	**€'000**
Assets measured at fair value			
Fair value of transactions with clearing members	419,010,310	8,017,792	410,992,518
Government backed, bank issued certificates of deposits	5,895,649	-	5,895,649
Treasury bills	4,440,810	4,440,810	-
Government backed, bank securities	2,476,499	-	2,476,499
Bank issued certificates of deposit	806,682	-	806,682
Interest rate swap asset	490	-	490
Liabilities measured at fair value			
Fair value of transactions with clearing members	(418,985,594)	(7,993,076)	(410,992,518)
Interest rate swap liability	(15,560)	-	(15,560)

Credit risk Financial assets are neither past due nor impaired. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the statement of financial position date.

Credit risk in the Group principally arises from cash and cash equivalents, and exposures to member balances. The Group only makes treasury deposits with banks and financial institutions with a credit rating of at least A and also by reference to counterparty limits with respect to concentration and maturity. The Group's exposure to member balances and the treasury portfolio are managed through the Group's risk policies. Members are subject to strict eligibility criteria which are monitored on a regular basis and, in addition, are required to contribute to the Default Funds as well as depositing initial margin and daily variation margin when entering into clearing contracts.

13.23 Financial instruments (continued)

The table below shows the Group's member balances and treasury portfolio by reference to the credit rating of the counterparty. The treasury portfolio includes Cash at bank and Other financial assets.

	Note	2010 €'000	2009 €'000
Fair value of member balances			
(Ratings as measured by Fitch)			
Members rated AAA		14,981,847	19,078,976
AA+		13,753,828	1,191,615
AA		75,545,362	98,766,389
AA-		134,780,140	130,031,823
A+		82,629,333	94,904,983
A		36,540,229	43,107,268
A-		5,740,153	1,883,962
BBB+		10,779	19,740,111
BBB		102,002,885	9,400,666
BBB-		-	219,067
Unrated		14,602,284	685,450
	13.14	480,586,840	419,010,310
Group Treasury portfolio			
(Ratings assigned with reference to major agencies)			
AAA/AA+/AA- Government backed		15,179,574	13,844,070
AA/AA+/AAA Secured		2,671,725	1,490,539
AA/AA+/AAA Unsecured		772,554	823,621
A+/AA- Secured		11,261,509	9,075,811
A+/AA- Unsecured		301,257	633,154
		30,186,619	25,867,195

The balances due from clearing members are fully secured by collateral held by the Group. As at 31 December 2010, the total of fully collateralised loans in respect of fixed income transactions was €473,828 million (2009: €408,980 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 €31,891 million (2009: €31,517 million) and the total amount of guarantees held was €3,163 million (2009: €2,999 million).

Concentration risk The largest concentration of Treasury exposures as at 31 December 2010 was 11.1% of the total investment portfolio to UK Government backed securities (2009: 19.9%).

Liquidity and interest rate risk The following table sets out the maturity profile of the Group's financial assets and liabilities based on contractual, undiscounted receipts and payments:

2010	On demand €'000	Less than 3 months €'000	3 months to 1 year €'000	1 to 5 years €'000	Over 5 years €'000	Total €'000
Cash and short-term deposits	3,341,737	12,427,459	-	-	-	15,769,196
Other financial assets	-	3,927,555	4,102,303	6,353,321	-	14,383,179
Treasury portfolio	3,341,737	16,355,014	4,102,303	6,353,321		30,152,375
Fair value of transactions with clearing members - asset	480,586,840	-	-	-	-	480,586,840
Initial margin and other member balances - asset	2,266,857	-	-	-	-	2,266,857
Fair value of transactions with clearing members - liability	(480,572,089)	-	-	-	-	(480,572,089)
Initial margin and other member balances - liability	(30,030,195)	-	-	-	-	(30,030,195)
Default Fund	(2,029,293)	-	-	-	-	(2,029,293)
Net balance with members	(29,777,880)	-	-	-	-	(29,777,880)
Trade and other receivables	46,945	-	-	-	-	46,945
Trade and other payables	(158,167)	-	-	-	-	(158,167)
Preferred securities	-	-	(11,837)	(47,348)	(203,674)	(262,859)
Interest rate swaps net outflows	-	(379)	(4311)	(20,664)	-	(25,354)

2009	On demand €'000	Less than 3 months €'000	3 months to 1 year €'000	1 to 5 years €'000	Over 5 years €'000	Total €'000
Cash and short-term deposits	8,918,735	3,328,820	-	-	-	12,247,555
Other financial assets	-	5,215,281	4,420,121	3,948,319	-	13,583,721
Bank overdraft	(1,627)	-	-	-	-	(1,627)
Treasury portfolio	8,917,108	8,544,101	4,420,121	3,948,319	-	25,829,649
Fair value of transactions with clearing members - asset	419,010,310	-	-	-	-	419,010,310
Initial margin and other member balances - asset	1,494,477	-	-	-	-	1,494,477
Fair value of transactions with clearing members - liability	(418,985,594)	-	-	-	-	(418,985,594)
Initial margin and other member balances - liability	(25,155,620)	-	-	-	-	(25,155,620)
Default Fund	(1,796,681)	-	-	-	-	(1,796,681)
Net balance with members	(25,433,108)	-	-	-	-	(25,433,108)
Trade and other receivables	13,409	-	-	-	-	13,409
Trade and other payables	(115,553)	-	-	-	-	(115,553)
Preferred securities	-	-	(11,837)	(47,348)	(215,511)	(274,696)
Interest rate swaps net outflows	-	-	(2,349)	(15,488)	-	(17,837)

For Default Funds, the tenor of the liability, on which interest is paid based on 3 month LIBOR for LCH.Clearnet Limited, is matched with the interest reset dates of the asset and does not exceed 3 months. The weighted average maturity of the total treasury portfolio is 224 days, with strict risk criteria related to interest rate exposure being applied.

The financial liabilities are based upon rates set on a daily basis.

Certificates of deposit (both bank issued, and government backed) are all carried at fair value. For assets not marked to market there is no material difference between the carrying value and fair value.

Based on market prices at 31 December 2010 the fair value of the preferred securities are approximately €126,000,000 at the year-end compared to the amortised cost carrying value of €176,969,000 (see note 13.16). The Company purchased some of the Group's preferred securities in the market with a nominal value of €20,000,000 in January 2009. These preferred securities had been issued initially by Freshwater Finance PLC. These were repurchased at a cost of €10,445,250, and have been revalued at the 31 December 2010 price in the Company statement of financial position.

Interest rate sensitivity analysis The Group's exposure to interest rate fluctuations is minimal. Any exposure is predominantly due to the mismatch between the Group's interest bearing assets, net of interest rate swaps, and interest bearing member liabilities. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis the Group is only exposed for the time it takes to reset the interest rates on its investments. The maximum fixed exposure on any asset in the treasury portfolio is six months and subject to an overall interest rate limit.

The following table shows the estimated impact on consolidated profit after tax and the effect on retained earnings within shareholders' equity for each category of financial instrument held at the statement of financial position date:

	2010 €'000 +25bp of interest rate	2010 €'000 +50bp of interest rate	2010 €'000 +100bp of interest rate	2009 €'000 +25bp of interest rate	2009 €'000 +50bp of interest rate	2009 €'000 +100bp of interest rate
Net exposure of cash and member margin balances	(22,377)	(45,326)	(91,224)	(19,366)	(39,749)	(80,514)
Interest rate swaps	19,069	38,140	76,280	16,470	32,939	65,879
	(3,308)	(7,186)	(14,944)	(2,896)	(6,810)	(14,635)
Tax effect of above	926	1,868	4,184	831	1,954	4,200
Impact on profit after tax	(2,382)	(5,318)	(10,760)	(2,065)	(4,856)	(10,435)

	2010 €'000 -25bp of interest rate	2010 €'000 -50bp of interest rate	2010 €'000 -100bp of interest rate	2009 €'000 -25bp of interest rate	2009 €'000 -50bp of interest rate	2009 €'000 -100bp of interest rate
Net exposure of cash and member margin balances	20,153	39,690	78,765	18,049	35,865	71,498
Interest rate swaps	(19,069)	(38,140)	(76,280)	(16,470)	(32,939)	(65,879)
Subordinated loan	-	-	-	-	-	-
	1,084	1,550	2,485	1,579	2,926	5,619
Tax effect of above	(304)	(434)	(696)	(453)	(840)	(1,613)
Impact on profit after tax	780	1,116	1,789	1,126	2,086	4,006

The current low levels of interest rates mean there is little scope for rates to fall and consequently the sensitivity to negative interest rate movements is limited.

Foreign exchange sensitivity The Group converts or hedges surplus foreign exchange balances or cash flows to Euros on a regular basis which minimises the effect exchange rate fluctuations will have on overall Group net assets and liabilities. There are immaterial amounts of foreign exchange exposure in the Parent Company, LCH.Clearnet SA and LCH.Clearnet (Luxembourg) S.à r.l.

The table below summarises the foreign exchange exposure on the net monetary position of LCH.Clearnet Limited, expressed in Euros, the Group's functional and presentational currency, and the effect of a reasonable shift of the relevant exchange rates on the Group's net profit, shareholders' equity and net assets. The reasonable shift in exchange rates is calculated as the average movement over the past two years.

	2010 £ €'000	2010 $ €'000	2009 £ €'000	2009 $ €'000
Net exposure	(11,450)	7,239	(20,540)	3,177
Reasonable shift	5.7%	5.8%	15.7%	3.4%
Total effect on profit/net assets of positive movements	648	(421)	3,224	(109)
Total effect on profit/net assets of negative movements	(648)	421	(3,224)	109

Amounts included in the income statement in relation to financial instruments

	2010 €'000	2009 €'000
Interest income on assets held at fair Value	205,226	276,383
Interest income on assets held at amortised cost	108,325	121,722
Net loss on revaluation of cash and cash equivalents held at fair value included in net interest income	-	(3,971)
Net (loss)/gain on revaluation of other financial assets held at fair value included in net interest income	(1,682)	5,661
Net loss on interest rate swaps	(10,284)	(6,632)
Total revaluation (losses)/gains	(11,966)	(4,942)
Interest income	301,585	393,163
Interest expense on liabilities held at amortised cost	(198,031)	(195,837)
Net interest income	103,554	197,326
Finance income on assets held at amortised cost	1,201	4,438
Other finance income on loans and borrowings held at amortised cost	-	9,555
Finance costs on overdrafts and finance leases held at amortised cost	(137)	(122)
Finance costs on loans and borrowings held at amortised cost	(12,312)	(12,940)
Finance costs	(12,449)	(13,062)
Net finance (cost)/income	(11,248)	931

All financial assets held at fair value are designated as such at initial recognition by the Group.

13.24 Capital management

LCH.Clearnet Group Limited is lead-regulated by the Autorité de Contrôle Prudentiel in Paris. LCH.Clearnet Limited is regulated by the Financial Services Authority as a Recognised Clearing House under the Financial Services and Markets Act 2000. LCH.Clearnet SA is supervised as a credit institution by the Autorité de Contrôle Prudentiel and as an investment service provider by the Autorité des Marchés Financiers . The Group, as well as LCH.Clearnet SA, is subject to standard capital adequacy rules, under the Capital Adequacy Directive (Basel II).

The Group's total regulatory capital is composed of Tier 1 and Tier 2 capital.

- Tier 1 capital consists primarily of share capital, additional paid-in capital, retained earnings and a portion of the perpetual preferred securities issued in May 2007, less goodwill and other intangible assets.
- Tier 2 capital consists of the remaining portion of the perpetual preferred securities issued in May 2007 and partly redeemed in January 2009.

The amount of subordinated debt that may be included in Tier 2 capital is limited to 50 % of Tier 1 capital; the total recognised Tier 2 capital is limited to 100 % of Tier 1 capital; and the amount of perpetual preferred securities that can be recognised as Tier 1 capital is limited to 35% of the total amount of Tier 1 capital.

In accordance with the Basel II "Pillar 1" framework the Group is required to maintain a ratio of total capital to risk weighted assets than cannot fall under a threshold of 8% and a ratio of Tier 1 capital to risk-weighted assets that must always exceed a threshold of 4%.

The Group maintains headroom over and above its "Pillar 1" capital requirement in order to cover for risks which might not be covered within the "Pillar 1" framework. Excess capital of at least €150 million is held at any point in time.

The table below sets out the Group's total capital and relevant ratios which exceed requirements:

	2010 €'000	2009 €'000
Regulatory capital		
Share capital	40,633	40,633
Other reserves/capital reserves	74,810	74,810
Retained earnings	204,549	189,700
Perpetual preferred securities (Limited to 35% of Tier 1)	68,334	72,492
Goodwill	(110,436)	(110,436)
Intangible assets	(82,650)	(60,080)
Tier 1 equity	195,240	207,119
Perpetual preferred securities (remainder)	108,635	104,002
Tier 2 equity	108,635	104,002
Total regulatory capital	**303,875**	**311,121**
Capital requirement		
Credit risk requirement	22,627	29,800
Market risk requirement	1,586	1,900
Operational risk requirement	81,092	89,300
Total capital requirement	**105,305**	**121,000**
Excess capital over capital requirement	**198,570**	**190,121**
Risk weighted assets	**1,316,313**	**1,512,500**
Risk asset ratios		
Tier 1 ratio	14.8%	13.7%
Total capital ratio	23.1%	20.6%

Risk weighted assets are as defined in the 2009 solvency ratio methodology guide issued by the Autorité de Contrôle Prudentiel.

The Group obtained an 'AA-' rating from Standard & Poor's prior to the issue of the preferred securities in May 2007, which was lowered to 'A+' in December 2009, and was reaffirmed in November 2010.

14 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 the Company has complied with the provisions of the Financial Reporting Council's Combined Code on Corporate Governance to the extent such compliance is possible and appropriate given the nature and size of the entities comprised within the Group. However, the Board has identified the following areas of non-compliance:

i) Appointment of a Senior Independent Director – the Board considers this is not required as a majority of Board members are representatives of the Company's shareholders. The Chairman of the Nomination Committee leads the annual appraisal of the Chairman's performance.

ii) A balance of executive and non executive Directors – the Board consists wholly of non executive Directors, the majority of whom represent shareholders.

iii) Independent Directors – all Directors are deemed to be independent, with the longest serving having been appointed in December 2003.

New Articles of Association of the Company ("articles") were adopted at the 2010 AGM, primarily to simplify the articles and bring them up to date further to the completion of the voluntary share capital reorganisation and the final implementation of the Companies Act 2006.

The Board regularly monitors the effectiveness of the Company's governance in the light of published governance guidance and significant changes to the Company's business and ownership.

The following paragraphs explain the Group structure and governance and provide an insight into how the Board and management team run the business for the benefit of shareholders and clearing members.

14.1 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 Autorité de Contrôle Prudentiel in Paris. A Memorandum of Understanding (MoU) was signed in February 2005 between the French, Dutch, Belgian and Portuguese authorities (responsible for the oversight, regulation and supervision of LCH.Clearnet SA) 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.

A. Chris Tupker resigned as Group Chairman on 6 April 2010 and Jacques Aigrain was appointed as Group Chairman on the same day.

Since 1 January 2010, the following Directors were appointed or reappointed to the Board:

Jacques Aigrain
Laurent Curtat
Olivier Motte
Edward Pla
Edward McAleer
Bruno Prigent
Martin Ryan
Hervé Saint-Sauveur
Francesco Vanni d'Archirafi
Christopher Willcox
Garry Jones

Since 1 January 2010, the following Directors resigned their positions on the Board:

A. Chris Tupker
Xavier Rolet
Jerome Kemp
Jenny Ireland
Jean-François Théodore

The Company has made available a Matched Bargain Facility (the "Service") since January 2010 which provides a facility for existing shareholders and other entities eligible to hold shares under the Company's articles of association (the "Participants") to buy and sell such shares.

The Service is operated by JP Morgan Cazenove at no cost to Participants and is available for defined periods of time each year which are normally publicised to Participants at the start of the calendar year. The settlement of trades affected through the Service is conditional upon compliance with law, the Company's articles of association (in particular restrictions on the ownership and transfer of shares) and approval by the Company's board.

The subsidiaries:

LCH. Clearnet Limited

LCH.Clearnet Limited is a private company, limited by shares and registered in the United Kingdom. It has foreign company registrations in New York City and Australia. The Board of Directors consists of Jacques Aigrain (Chairman), John Townend, Hervé Saint-Sauveur, Nazir Badat, Martin Abbott, Ian Abrams, Vivien Levy-Garboua, Lawrence Shaw and four executive Directors in Roger Liddell (Chief Executive of LCH.Clearnet Limited), Christophe Hémon (Chief Executive of LCH.Clearnet SA), Alberto Pravettoni (Managing Director, Corporate Strategy) and Francis Berthomier (Group Chief Financial Officer).

Since 1 January 2010, the following Directors resigned their positions on the Board:

Jenny Ireland (28 September 2010)

Jerome Kemp (8 October 2010)

A. Chris Tupker (6 April 2010)

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, Asia and the USA, as well as those traded over-the-counter in the OTC markets. The Company continues to satisfy the requirements of the Financial Services Authority as a Recognised Clearing House in the UK and the requirements of all other regulatory bodies to whose rules the Company is subject.

LCH.Clearnet SA

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

The Board of Directors consists of Hervé Saint-Sauveur (Chairman and independent non-executive Director); three other independent non-executive Directors – Ian Abrams, John Townend and Alain Pochet; and two executive Directors – Roger Liddell (Chief Executive of LCH.Clearnet Group Limited) and Christophe Hémon (Chief Executive of LCH.Clearnet SA).

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, Autorité de Contrôle Prudentiel. 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 Financiële 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.

Since 1 January 2010, Alain Pochet has been appointed and Jean-Pierre Ravisé has resigned his position on the Board.

LCH.Clearnet (Luxembourg) S.à.r.l.

LCH.Clearnet (Luxembourg) S.à.r.l. was established in December 2007 to serve as a holding company for the Group's intellectual property. The company is incorporated in Luxembourg and therefore governed by Luxembourg law. It is a private company, limited by shares and is owned by LCH.Clearnet Limited (51%) and LCH.Clearnet SA (49%). The Board of Managers is chaired by Francis Berthomier (Group Chief Financial Officer) and consists of Iona Levine (Group General Counsel), Christophe Hémon (Chief Executive of LCH.Clearnet SA), Martin Taylor (Group Chief Information Officer) and Thierry Plard (Manager).

The Company Board

The articles of association require that at each annual general meeting one third of the Non-Executive Directors (being the longest in office since the last election) retire from office, although each retiree may stand for re-election. In addition, the articles require that Directors appointed between AGMs must offer themselves for re-election at the next AGM. In practice, this means that every Non-Executive Director stands for re-election approximately once every three years.

Since 1 January 2010 the Board has approved a Schedule of Matters Reserved for the Board (the "Schedule"). This confirms that the Board is responsible for the overall management and strategy of the Group, including approving the Group's strategy as set out in the annual Medium Term Financial Plan. All major changes to the Group's structure and share capital must be approved by the Board. Material contracts (as defined in the Schedule) must also be approved by the Board; changes to the structure, size and composition to the Board must be done with the approval of the Board in conjunction with appropriate recommendations from the Nomination Committee.

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 Group Executive Committee, consisting of the Chief Executive Officer of LCH.Clearnet Group Limited, the Group Chief Financial Officer, the Chief Executive Officer of LCH.Clearnet SA and the Managing Director, Corporate Strategy are also invited to attend Board meetings. The Group Executive Committee ensures that decision making across LCH.Clearnet Group Limited, LCH.Clearnet Limited, LCH.Clearnet SA and LCH.Clearnet (Luxembourg) S.à.r.l. is reviewed and is consistent with the strategy of the Board. External auditors are invited to attend Board meetings where appropriate, as are members of senior management and legal advisers.

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.

In accordance with the Combined Code on Corporate Governance, the Board has undertaken an annual evaluation of its own performance and of its committees, Chairman and individual Directors. The results of this internal evaluation were considered at a Board meeting in May 2010. There are no matters outstanding from that evaluation and, as recommended by the Walker Review, an independent evaluation of the Board is expected to be conducted in 2011.

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.

14.2 Board committees

The Board requires that each Director devote sufficient time to the role as is deemed reasonably necessary to perform his or her duties to its satisfaction. The Board met on 9 occasions during 2010, 6 of which were scheduled meetings with a further 3 additional meetings. There are regular update calls between scheduled meetings to keep the Board informed of significant developments. For details of attendance at Board and Committee meetings by each Director, please see the table below.

	Board – Scheduled Meetings	Board – Unscheduled Meetings	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee
Jacques Aigrain	4/4	3/3	-	2/2	6/6	4/4
Martin Abbott	6/6	3/3	-	4/6	-	3/4
Ian Abrams	6/6	3/3	4/4	-	-	-
Nazir Badat	3/6	2/3	3/4	-	-	-
Laurent Curtat	1/1	2/3	-	-	-	-
Gerard Hartsink	3/6	2/3	-	-	-	-
Garry Jones	5/6	1/3	-	-	-	-
Vivien Levy-Garboua	5/6	2/3	0/1	-	2/4	4/4
Edward McAleer	1/1	2/3	-	-	-	-
Olivier Motte	1/1	1/2	-	-	-	-
Edward Pla	1/2	2/2	-	-	2/3	-
Bruno Prigent	5/6	3/3	-	-	-	-
Martin Ryan	1/1	1/3	-	-	-	-
Hervé Saint-Sauveur	6/6	2/2	3/4	6/6	-	-
Lawrence Shaw	4/6	3/3	-	-	6/8	1/4
John Townend	6/6	3/3	4/4	-	4/4	4/4
Francesco Vanni d'Archirafi	5/6	2/3	-	6/6	-	-
Christopher Willcox	1/1	2/2	-	-	-	-
David Williams	6/6	2/3	-	-	-	-
Denise Wyllie	4/6	2/3	-	-	7/8	1/1

Audit committee
The audit committee consists of a minimum of 4 non-executive Directors, 3 of which are independent. Membership of the committee is shown below.

Ian Abrams – Chairman

Nazir Badat

Hervé Saint-Sauveur

John Towend

The Group committee met on 4 occasions and the subsidiary committees met on 6 occasions during the course of the year. Members of the Company's executive, the heads of internal audit of each subsidiary company and representatives of the external auditor attend meetings by invitation, in accordance with items on the agenda. There is a standing invitation to the Company's Chief Executive and Chairman. A private session without executive management was held during the course of the year.

The Committee's principal responsibilities are:

- Review of the Company's financial statements;
- Oversight of the external auditor;
- Oversight of the internal audit function;
- Oversight of the Company's regulatory compliance; and
- Oversight of the Company's internal control environment.

There are separate Audit Committees for both LCH.Clearnet Limited and LCH.Clearnet SA and, in line with the principle of subsidiarity, control matters at subsidiary level are reported through the respective subsidiary audit committee. The role of the Group audit committee is complementary to the subsidiary committees in ensuring that issues at a Group level are reviewed.

The committee uses a forward agenda to set its annual work programme. Further items may be added at the request of the committee during the course of the year.

The committee's activities since the beginning of 2010 can be summarised as follows:

Financial statements
The committee reviewed the 2009 and 2010 annual reports and accounts before recommending approval to the Board. The committee also considered management accounts, the medium term financial plan and the 2011 annual budget.

External auditors
One private meeting was held with the committee in the absence of executive management.

The committee reviewed the performance of the external auditors against the four key areas of qualification, expertise & resources, effectiveness and independence & leadership. The 2010 audit plan and fee schedule were reviewed and approved and in line with legal requirements in France to review the external auditors every 3 years the committee recommended that the 2011 audit work be put out to tender. Ernst & Young LLP were reappointed as the Company's auditors by the shareholders at the Annual General Meeting held on 10 June 2010.

Internal audit
One private meeting was held with the committee in the absence of executive management.

Internal audit departments are located within both LCH.Clearnet Limited and LCH.Clearnet SA with reporting lines to the CEO of each company as well as to the Group head of audit. The annual audit plans were considered to ensure sufficient coverage of Group issues and progress against the agreed plan was reviewed.

Internal control
In accordance with the principle of subsidiarity, the Committee relies on the audit committees of LCH.Clearnet Limited and LCH.Clearnet SA to review internal control matters within the respective subsidiary. The committee reviewed the organisational and governance framework for risk and operations in the Group and also the financial control processes.

Governance
The committee reviewed its current practice against the Financial Reporting Council's Guidance on audit committees, undertook a self-assessment exercise and conducted an annual review of its terms of reference.

Nomination committee
The membership of the nomination committee was revised during the year. The committee is comprised of 6 Directors who currently are:

Lawrence Shaw – Chairman (appointed as Chairman 22 October 2010)

Jacques Aigrain (appointed 6 April 2010)

Vivien Levy-Garboua (appointed 22 October 2010)

Edward Pla (appointed 29 September 2010)

John Townend (appointed 22 October 2010)

Denise Wyllie

The committee is responsible for nominating candidates to stand as Directors and Independent Directors, the nomination of members to the committees, succession planning for the new CEO and for nominating the Board Chairman. In view of the desire for the Board to have a rich variety of complementary skills, product knowledge, industry experience, and be representative of users of the services of the operating subsidiaries, the Company does not recruit non-executive Directors by way of open advertising but may use the services of an external search consultancy, whenever deemed appropriate.

Remuneration committee
The remuneration committee is comprised of 4 Directors who currently are:

Hervé Saint-Sauveur – Chairman (appointed 19 November 2010)

Francesco Vanni d'Archirafi – Chairman (retired as Chairman on 19 November 2010)

Martin Abbott

Jacques Aigrain (appointed 5 June 2010)

Nazir Badat (appointed 19 November 2010)

The committee is responsible for considering and reviewing the remuneration policy of the Group and making recommendations to the Board with respect to the Group's remuneration policy and to review specific salary and bonus recommendations on an annual basis, in particular those relating to Executive committee members.

Strategy committee
The strategy committee was formed in 2010 and is made up of a minimum of 6 non-executive Directors who currently are:

Jacques Aigrain (Chairman)

Martin Abbott

Vivien Levy-Garboua

John Townend

Lawrence Shaw

Denise Wyllie

The strategy committee was formed in 2010 to assist the Group's Board and management in developing and implementing the Group's strategy by acting as a sounding board and monitoring competitive forces in all product areas. The final determination of the Group's strategy remains the exclusive competence of the Group's Board.

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. Membership of the subsidiary risk committees as at 31 December 2010 is shown below.

LCH.Clearnet Limited risk committee

John Townend (Chairman)

David Williams – (Vice Chairman) Barclays Bank

Grigorios Markouizous – Citigroup

Demetria O'Sullivan – JP Morgan

Diarmuid O'Hegarty – London Metal Exchange

John Tanner – London Stock Exchange

Nicholas Lincoln – Newedge Group

Nick Carew Hunt – NYSE Euronext

Roger Canton – UBS

Matteo Farina – Goldman Sachs International

Jeanette Gelbhardt – HSBC Holdings

Roger Liddell – CEO, LCH.Clearnet Group

Christophe Hémon – CEO, LCH.Clearnet SA

Francis Berthomier – CFO, LCH.Clearnet Group

Ernest Van Der Hout – Director & Head of Risk, LCH.Clearnet SA

Chris Jones – Director & Head of Risk, LCH.Clearnet Limited

Daniel Maguire – Executive Director, OTC Derivatives, Risk & Operations, LCH.Clearnet Limited

LCH.Clearnet SA risk committee

John Townend (Chairman)

David Williams (Vice Chairman) – Barclays Bank

Edwin Bons – Fortis Bank

François Levé – Oddo & Cie

Simon Gallagher – NYSE Euronext

Kris Wulteputte – KAS Bank

Jean-Marie Dassac – BNP Paribas

Olivier Dubois – Newedge Group

Michel Robert – Credit Agricole CIB

Jérome Frizé – Royal Bank of Scotland

François-Xavier Bouillet – Goldman Sachs

Roger Liddell – CEO, LCH.Clearnet Group

Christophe Hémon – CEO, LCH.Clearnet SA

Francis Berthomier – CFO, LCH.Clearnet Group

Vincent Gros – General Secretary, LCH.Clearnet SA

The Group would like to thank all industry representatives for their work as members of the risk committees.

14.3 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 some of these key stakeholders be 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 through statutory reports, annual general meetings, ad-hoc communications and the Group's website (www.lchclearnet.com).

14.4 Accountability, audit and control

The statement of Directors' responsibilities in relation to the financial statements is set out in Section 5. 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 regulated by the Financial Services Authority and under all other regulatory bodies to whose rules the Company is subject, 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 foster 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 monthly to the Board and compared to the budget.

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 and the Group head of audit 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.

14.5 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.

15 REMUNERATION REPORT

The remuneration committee took advice during the year from Jackie Alexander, MD Corporate Services and Group Human Resources and Jacques Aigrain. The committee has retained Simon Patterson as its independent adviser throughout the year via his consultancy, Patterson Associates LLP.

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

15.1 Members of the remuneration committee

The membership of the remuneration committee is set out in the corporate governance statement in Section 14.2.

15.2 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 managing Directors and other senior management are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration designed to incentivise individuals, 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 managing 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 managing Directors, management and employees of the Group who commenced employment within the UK prior to 30 September 2009 are able to participate in the LCH Pension Scheme, a defined benefit scheme whose assets are held in a separate trustee administered fund. A pension is normally payable on retirement at contractual retirement date and is calculated by reference to length of service and pensionable salary. Employees who joined after that date have been able to join a defined contribution pension scheme. The Company also provides a flexible reward system (BENE.FIT) by means of which employees can select benefits according to their own preferences.

15.3 Service contracts

The Company retains the right to terminate the contract of any Director summarily in accordance with the terms of their service agreement. The service contracts of the Directors include the following:

	Appointment or last re-appointment date	
Jacques Aigrain	6 April 2010	Independent non-executive (Chairman)
Hervé Saint-Sauveur[1]	23 June 2008	Independent non-executive
John Townend[1]	23 June 2008	Independent non-executive
Ian Abrams[1]	14 October 2009	Independent non-executive
Denise Wyllie[1]	5 November 2009	Other Director from Goldman Sachs
Gerard Hartsink[1]	14 October 2009	Other Director from ABN Amro Bank N.V.
Francesco Vanni d'Archirafi[1]	23 June 2008	Other Director from Citigroup
Nazir Badat[1]	14 October 2009	Other Director from HSBC Bank plc
Lawrence Shaw[1]	14 October 2009	Other Director from Deutsche Bank
David Williams[1]	14 October 2009	Other Director from Barclays
Vivien Levy-Garboua[1]	14 October 2009	Other Director from BNP Paribas
Martin Abbott[2]	21 January 2008	Appointed by The London Metal Exchange
Garry Jones[2]	10 February 2010	Appointed by NYSE Euronext
Bruno Prigent	24 March 2010	Other Director from Societe Generale
Edward Pla	16 June 2010	Other Director from UBS
Martin Ryan	29 September 2010	Other Director from Royal Bank of Scotland
Olivier Motte	29 October 2010	Other Director from Credit Agricole
Laurent Curtat	29 October 2010	Other Director from Credit Suisse
Edward McAleer	29 September 2010	Other Director from Morgan Stanley
Christopher Willcox	8 December 2010	Other Director from J.P. Morgan

1 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 as otherwise provided by the articles.

2 Director represents NYSE Euronext or the London Metal Exchange and contract is subject to six months notice by the Director or with immediate effect by NYSE Euronext or the London Metal Exchange.

There are no executive Directors represented on the Board.

15.4 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, attendance of meetings and membership of Board committees. From 2011 only the Independent Non-Executive Directors will receive fees.

15.5 Directors' detailed emoluments

	Salary and fees 2010 €'000	Salary and fees 2009 €'000
Non-executive		
Jacques Aigrain	601	-
A. Chris Tupker	204	392
John Townend	193	130
Dame Clara Furse DBE*	-	24
Xavier Rolet**	12	15
Jean-François Théodore*	-	37
Garry Jones**	47	-
Jenny Ireland**	68	63
Denise Wyllie*	39	34
Edward Pla	12	-
Gerard Hartsink*	23	47
Hervé Saint-Sauveur	145	136
Francesco Vanni d'Archirafi*	45	54
Nazir Badat	52	66
Bruno Prigent*	39	-
Ian Abrams	149	62
Martin Abbott*	73	51
Jerome Kemp*	52	55
Vivien Levy-Garboua	62	63
Martin Ryan	8	-
David Williams*	65	65
Lawrence Shaw**	60	57
Jean-Pierre Mustier*	-	32
	1,949	1,383

* Fee paid to employer
** Fee donated to charity

On behalf of the Board

Hervé Saint-Sauveur
Chairman of the Remuneration Committee
23 March 2011

16 GENERAL INFORMATION

Directors
The Directors who have held office since 1 January 2010 are as follows:

Type of Director	Name	Note
Independent	Jacques Aigrain (Chairman)	Appointed 6 April 2010
Independent	A. Chris Tupker (Chairman)	Resigned 6 April 2010
Independent	Ian Abrams	
Independent	Hervé Saint-Sauveur	
Independent	John Townend	
Other	Gerard Hartsink	
Other	Jerome Kemp	Resigned 8 October 2010
Other	Vivien Levy-Garboua	
Other	Lawrence Shaw	
Other	Francesco Vanni d'Archirafi	
Other	Nazir Badat	
Other	David Williams	
Other	Jenny Ireland	Resigned 29 September 2010
Other	Denise Wyllie	
Other	Bruno Prigent	Appointed 24 March 2010
Other	Edward Pla	Appointed 16 June 2010
Other	Edward McAleer	Appointed 29 September 2010
Other	Martin Ryan	Appointed 29 September 2010
Other	Laurent Curtat	Appointed 29 October 2010
Other	Olivier Motte	Appointed 29 October 2010
Other	Christopher Willcox	Appointed 8 December 2010
Further	Xavier Rolet	Resigned 22 July 2010
NYSE Euronext	Jean-François Théodore	Resigned 10 February 2010
NYSE Euronext	Garry Jones	Appointed 10 February 2010
Exchange	Martin Abbott	

The Chairman and all existing Directors are non-executive Directors.

Company Secretary
Stephan Giraud-Prince

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DIRECTORS


Jacques Aigrain
Chairman


Martin Abbott
The London Metal Exchange


Ian Abrams
Independent


Nazir Badat
HSBC Bank plc


Martin Ryan
Royal Bank of Scotland


Hervé Saint-Sauveur
Independent


Lawrence Shaw
Deutsche Bank


Laurent Curtat
Credit Suisse


Gerard Hartsink
ABN Amro N.V.


Garry Jones
NYSE Euronext


Vivien Levy-Garboua
BNP Paribas


John Townend
Independent


Francesco Vanni d'Archirafi
Citigroup


David Williams
Barclays Group


Edward McAleer
Morgan Stanley & Co
International plc


Olivier Motte
Credit Agricole


Edward Pla
UBS


Bruno Prigent
Société Générale Group


Christopher Willcox
J.P. Morgan


Denise Wyllie
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