LCH.CLEARNET
ANNUAL REPORT &
ACCOUNTS 2011

ONE FIRM
MANAGING RISK

LCH.CLEARNET

LCH.CLEARNET
THE LEADING
INDEPENDENT
CLEARING HOUSE
GROUP

LCH.Clearnet is the leading independent clearing house group, serving major international exchanges and platforms, as well as a range of OTC markets. It clears and manages risk across a broad range of asset classes including: securities, exchange traded derivatives, commodities, energy, freight, interest rate swaps, credit default swaps and euro and sterling denominated bonds and repos; and works closely with market participants and exchanges to identify and develop clearing services for new asset classes.

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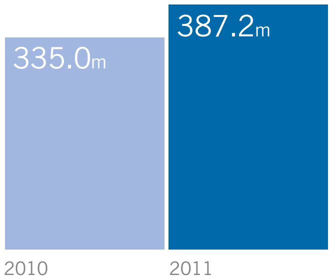


P02

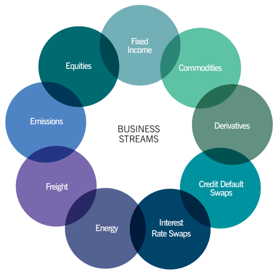
OUR PERFORMANCE

Underlying net realised revenues increased 16% to €387.2 million and underlying operating profit increased 81% to €106.9 million.

P08

CHIEF EXECUTIVE'S STATEMENT

The significantly improved revenues and control over costs has supported year on year improvement.



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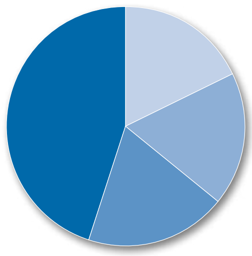
OUR MARKETS AND OPERATIONS

LCH.Clearnet is a multi-asset clearer, managing risk across a range of OTC and listed markets.



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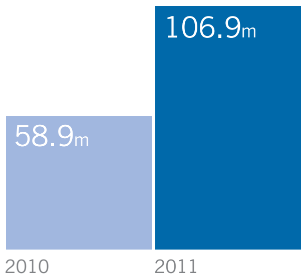
BUSINESS REVIEW

The underlying core businesses performed well, with volumes up across asset classes.

P06

CHAIRMAN'S STATEMENT

LCH.Clearnet has acquitted itself well in managing client risk in extraordinary circumstances.



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GOVERNANCE & FINANCIAL STATEMENTS

Our success has been reflected in our financial performance with underlying profits up 81% to €106.9 million.

OUR YEAR IN REVIEW
OUR PERFORMANCE

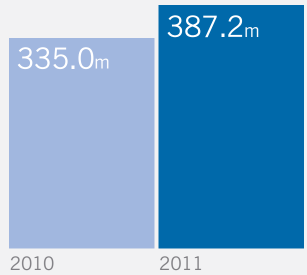
2011 was a strong year for performance and growth. The underlying core businesses performed well, with volumes up across asset classes, in many instances to all time highs. It was also a year of investment in our future, in both new and established services across the business.

OUR FINANCIAL HIGHLIGHTS

- Underlying net realised revenues increased 16% to €387.2 million
- Clearing income increased 16% to €236.7 million
- Realised cash and collateral income increased 21% to €139.3 million
- Underlying operating profit increased 81% to €106.9 million*
- Groupwide volumes increased 13% to 1.9 billion
- Average cash and collateral under management rose 25% to €73.1 billion
- Tier 1 ratio of 17.3% and total capital ratio of 26.6%, well above the minimum requirements of 4% and 8% respectively

* Underlying operating profit and underlying net revenue are defined in the business review on page 12.

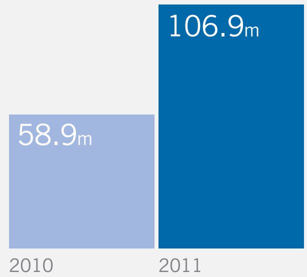
KEY FIGURES OF THIS YEAR



UNDERLYING NET REALISED REVENUES (€millions)

€387.2m

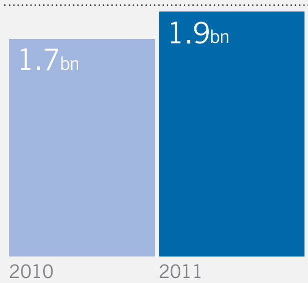
+16% (2010 - €335.0m)



UNDERLYING OPERATING PROFIT* (€millions)

€106.9m

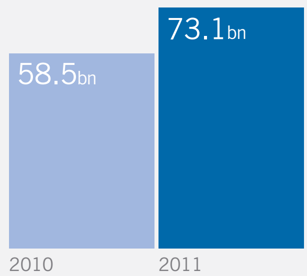
+81% (2010 - €58.9m)



GROUPWIDE VOLUMES (billions)

1.9bn

+13% (2010 - 1.7bn)



COLLATERAL UNDER MANAGEMENT (€billion)

€73.1bn

+25% (2010 - €58.5bn)

OUR YEAR IN REVIEW

2011 was a year of challenging market environments and change for LCH.Clearnet. Demand for risk management services continues to evolve and grow and in 2011 we laid the foundations for the Group's future success.

Record volumes
Fixed income volumes hit an all time record of €152 trillion in notional cleared, up 11% on 2010 and 43% on 2009 and 11 new members joined the services during 2011.

€152
TRILLION
IN FIXED
INCOME

Successful launch of FCM
SwapClear successfully launched its Futures Commission Merchant (FCM) model, offered by 12 FCMs from launch. By year end, the total notional of client IRS cleared stood at $262 billion, out of a total notional of $283 trillion.

$283
TRILLION
IN IRS

CEO of CDSClear appointed
2011 saw new leadership developing the CDS service from a domestic solution, to an international multi-jurisdictional service.

ForexClear developed
ForexClear, an OTC FX clearing service was developed and is set to launch in 2012.

11% increase in listed derivatives
There was steady growth from the broad range of listed derivatives and commodities cleared by LCH.Clearnet. Our 70% market share in Freight was preserved, despite intense competition.

70%
MARKET
SHARE
IN FREIGHT

Interoperability introduced
Interoperability for MTFs was introduced and LCH.Clearnet now clears for Turquoise, BATS and Chi-X, in line with its strategy of becoming the efficient aggregator of European equity volumes.

Transforming LCH.Clearnet
The Transformation will firstly ensure consolidation and efficiency of LCH.Clearnet with 'One firm', secondly, promote the horizontal multi-asset class clearing model as well as expanding our client risk and collateral services model.

One firm
In creating 'One firm' we are leveraging the strength and synergies across LCH.Clearnet and aligning our businesses closer to our clients' demands.

World-class risk management
Risk management is at the heart of our offering. In 2011 we successfully managed challenging market conditions, including the MF Global default. We are continuing to invest in and enhance our risk offering.

Enhancing collateral management
Collateral management has been established as a distinct business service to reflect the increasing importance of efficient collateral management to our clients. In 2011 we also extended the range of acceptable collateral to include a broader range of assets, including gold and KfW bonds.

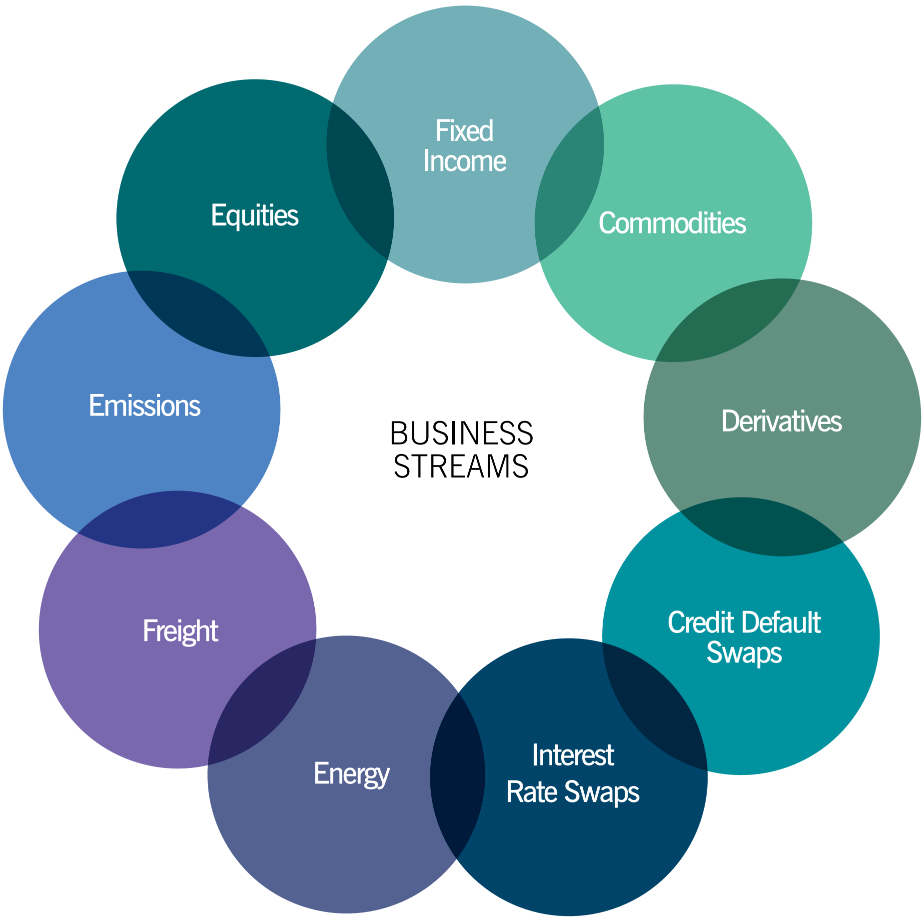
See page 12 for more details

AT A GLANCE
OUR MARKETS & OPERATIONS

Our horizontal multi-asset clearing strategy continued to be popular with both members and clients in 2011.

OUR BUSINESS STREAM

LCH.Clearnet is a multi-asset class clearer, serving a range of OTC and listed markets.



ASSET STREAM

- Fixed Income
- OTC
- Commodities & Listed Derivatives
- Cash Equities
- Collateral & Liquidity Management (CaLM)

COMMODITIES & LISTED DERIVATIVES
- Coal
- Fertilizer
- Freight
- Iron Ore
- Steel
- Soft commodities
- Equity derivatives
- Interest rate derivatives
- OTC Gold Bullion
- Aluminium
- Copper
- Tin
- Nickel
- Zinc
- Lead
- Aluminium Alloy
- NASAAC
- Steel Billet
- Cobalt
- Molybdenum

CREDIT DEFAULT SWAPS
- iTraxxEurope Main HiVol CrossOver indices

ENERGY
- Gas
- Power
- Emissions
- Electricity

EQUITIES
- Asian equities
- European equities
- OTC equities
- Contracts For Difference

FOREIGN EXCHANGE
Non deliverable forwards*

*To be launched pending regulatory approval

INTEREST RATE SWAPS
- Interest rate & zero coupon swap
- Single currency basis swap
- Overnight index swap
- Forward Rate Agreements
- In 17 currencies & tenors to 50 years

FIXED INCOME
Sovereigns:
- Austrian
- Belgian
- Dutch
- German
- Irish
- Italian
- French
- Finnish
- Portuguese
- Slovakian
- Slovenian
- Spanish
- UK

Other:
- Supranationals
- German Jumbo Pfandbriefe
- Corporate bonds

	MARKET DRIVER AND POSITIONING	KEY FACTS
LCH.Clearnet is Europe's largest clearer of fixed income, playing an important role in the facilitation of interbank liquidity.	Concerns about counterparty risk and liquidity are driving demand for an expansion of the service.	• €152 trillion in notional cleared in 2011 • 17% year on year increase in trades cleared • 70%+ market share in cleared European fixed income • 11 new members in 2011
SwapClear is the world's leading Interest Rate Swap (IRS) clearing service. It clears over 50% of the world's interest rate swaps. CDSClear is the only Eurozone based clearing service for index credit default swaps. ForexClear is set to launch early in 2012. It will offer clearing for FX Non Deliverable Forwards.	The regulatory push to clear more OTC is bringing more OTC asset classes and new clients to clearing.	• $283 trillion in IRS notional outstanding • 30% increase in IRS trades cleared • 95%+ market share in cleared IRS globally • 25 new members for SwapClear in 2011, 61 members in total • €58.7 billion in CDS notional • €4.6 billion of CDS open interest • 100% increase in CDS notional year on year
LCH.Clearnet clears a broad range of OTC and exchange traded commodity and financial derivatives markets.	Growth opportunities arise from new entrants looking to challenge the incumbents in Europe and new trading opportunities in Asia.	• 11% increase in volumes across all markets • 70% market share in Freight • Successful Asian expansion • Expanded into precious metals • IOB index futures up 70% • IOB options up 40% • Extended NYSE contract in SA to 2013
LCH.Clearnet clears for traditional listed equity markets, MTFs, OTC markets and CFDs.	LCH.Clearnet's strategy of becoming an efficient, scale aggregator will benefit from interoperability.	• 23% increase in volumes • Interoperating for Turquoise, BATS and Chi-X • Extended NYSE contract in SA to 2013
Recently established, CaLM will offer an efficient, centralised collateral management service.	Clients will require increasingly efficient collateral management services and our CaLM offering will evolve to serve their changing needs.	• €73 billion (daily average) of cash and collateral under management

CHAIRMAN'S STATEMENT
2011 A YEAR OF UNPRECEDENTED CHALLENGES

"There can be no more eloquent demonstration of the value of a well resourced and well managed clearing house than the way our team handled the MF Global situation."

This has been an eventful year. Having weathered 2008 and the collapse of Lehman Brothers, few of us expected to have to face anything like it again. However, 2011 saw the financial system once again tested to its limits.

While the final outcome of the Eurozone crisis has yet to play itself out, I am pleased to say that LCH.Clearnet has acquitted itself well in managing client risk in these extraordinary circumstances and played no small part in ensuring markets continued to function, and clients to trade, despite these shocks.

There can be no more eloquent demonstration of the value of a well resourced and well managed clearing house than the way our team handled the MF Global situation, closing out market positions with a combined nominal value of over €14.7 billion. This was achieved in turbulent market conditions with minimal disruption to clients and no recourse to the Default Fund.

That success has been reflected in our financial performance with underlying operating profits up 81%. This increase is attributable to strong revenue growth in both our traditional exchange clearing business and, which is particularly encouraging, in our fast growing OTC businesses which are an important part of our future.

The renewed regulatory focus on both sides of the Atlantic on clearing and CCPs as a way of modulating and monitoring systemic risk presents tremendous opportunities for a multi-asset class clearer like LCH.Clearnet.

€387.2m
REVENUES HAVE INCREASED 16%

€106.9m
UNDERLYING OPERATING PROFIT IS UP 81%

1.9bn
VOLUMES UP 13%

€73.1bn
AVERAGE DAILY CASH AND COLLATERAL UNDER MANAGEMENT UP 25%

Even while managing these challenges on behalf of our clients and members, our Board and Management team refused to be deflected from their primary goal of ensuring LCH.Clearnet is fit for purpose in the new world in which we are having to operate. In April, I brought in a new Chief Executive, Ian Axe, from Barclays Capital to orchestrate a transformation of the business. Ian has set a clear strategic direction for the firm, in particular ensuring we can compete in an ever changing regulatory environment. This Transformation, coupled with a focus on client and member relationships will support the objective of becoming the premier multi-asset European Central Counterparty (CCP) Service.

As part of that process, the Board has been reinforced by the appointment of Michael Bagguley, Global Head of FX Trading at Barclays Capital, where he is responsible for all aspects of risk and strategic positioning for Barclays Capital FX franchise globally and Naveed Sultan, who is the Global Head of Treasury and Trade Solutions for Citigroup's Global Transaction Services (GTS) business. They will bring invaluable insight to our Board deliberations. Sadly, we have at the same time lost the services of Francesco Vanni d'Archirafi and David Williams. I would like to thank them both for their contribution during their time on the Board.

Last autumn, following a number of approaches from interested parties, the Board appointed the investment bank JP Morgan to advise on the options for the business. As a user and exchange owned Group, LCH.Clearnet was clear that as well as providing a fair value for the business and an opportunity for those who wish to exit to do so, any transaction we might contemplate would have to support the long-term objectives of our business and be compatible with user and shareholder preferences for exchange neutrality as a cardinal principle of the way LCH.Clearnet operates. The London Stock Exchange confirmed in September that it was in exclusive discussions with LCH.Clearnet regarding a possible transaction. As things stand at the time of writing, these discussions are still ongoing and there can be no certainty about their outcome.

The challenges ahead are many. The renewed regulatory focus on both sides of the Atlantic on clearing and CCPs as a way of modulating and monitoring systemic risk presents tremendous opportunities for a multi-asset class clearer like LCH.Clearnet. We are working tirelessly with the regulators to ensure that the final shape of legislation achieves its objectives of making the system safer while working with the grain of the markets. At the same time, our clients are demanding more sophisticated services and more efficient and responsive infrastructure while competition is increasing, particularly from exchanges wishing to provide straight through clearing services at marginal cost.

I would like to take this opportunity to thank the Board for their insights, support and undivided attention over this eventful period. I remain grateful to our staff who have continued to show extraordinary commitment to this business, to their clients and to colleagues. Finally, I would like to thank our clients, who have given us their business and continue to put their trust in LCH.Clearnet.

Jacques Aigrain
Chairman
9 February 2012

GROUP CHIEF EXECUTIVE'S STATEMENT
ENGENDERING CONFIDENCE

"The increased revenues, combined with carefully managed investment spend and a rigorous cost control culture, resulted in an underlying operating profit of €106.9 million, up 81%."

The regulatory and market environment for clearing has changed considerably in the last three to four years. Regulatory expectations and obligations have increased, there is greater competitive pressure and clients have continued to place more significant demands on clearers.

Central counterparties (CCPs), such as LCH.Clearnet, are no longer institutions that simply handle clearing related, back office operations that incidentally manage some counterparty risk. Instead they are now seen by regulators and most of the market as the key mechanism for managing counterparty risk and hence subsequent systemic infection risk.

This change has created major opportunities and challenges for LCH.Clearnet. The opportunities come mainly in the form of increased market scope; from new asset classes requiring clearing and wider geographic inclusion. The challenges result from greater competition from exchanges and multilateral trading facilities (MTFs) seeking to 'verticalise' their share of the markets.

In this context, LCH.Clearnet has a strong corporate ambition to:

- Be the most efficient, scale clearing consolidator for EU listed business, with carefully chosen pockets of excellence in Asian listed markets;
- Become a global leader in OTC clearing across asset classes;
- Provide market leading risk and collateral management capabilities to support this; and,
- Remain committed to a membership focused, collegiate philosophy.

2011 has also been a successful financial year for LCH.Clearnet. Underlying net revenues have increased 16% to €387.2 million (2010: €335.0 million), primarily driven by volume growth. We saw a 16% increase in clearing income and a 21% increase in net investment income. Total investment income grew by 58%, and the Group shared a greater proportion of this with its members, returning €354.8 million, an increase of 79% on 2010.

The increased revenues, combined with carefully managed investment spend and a rigorous cost control culture, resulted in an underlying operating profit of €106.9 million, up 81% on 2010. This excludes a €39.3 million mark to market charge on bonds and associated interest rate swaps held for hedging purposes (2010: €12.0 million charge).

Our key business areas performed strongly:

In Fixed Income we cleared over €152 trillion of notional value, up 11% on 2010, and welcomed 11 new members, consolidating our position as the leading clearer of Fixed Income in Europe with a 70% plus market share. Volumes have been driven by increased levels of clearing from both new and existing members, with market participants turning to CCPs for risk management in a highly volatile environment.

During 2011 SwapClear grew steadily to $283 trillion in notional principal outstanding. Average daily volumes rose year on year by 30% to 1,930 trade sides. At year end, there were over a million trades in SwapClear and 61 clearing members. Our original March release of the US Futures Commission Merchant (FCM) model for SwapClear was further enhanced in December, resulting in a sharp increase in client volumes. SwapClear remains the unquestionable leader in Interest Rate Swap clearing globally.

The current CDS offering has also seen steady growth. At 31 December 2011 our French member total of notional value stood at €58.7 billion, an increase of 100% on 2010 and representing €4.6 billion of open interest. The foundations for an international service have been laid; a multi-jurisdictional offering created and operational and technical testing completed. Similarly, our FX clearing service, ForexClear, is ready to launch, pending regulatory approval. The OTC FX clearing service will initially clear interbank Non-Deliverable Forwards, with a view to expanding the client and product set during 2012.

Our Commodities and Listed Derivatives businesses, including Financial Derivatives, Metals, Freight and Energy continued to grow in 2011 with volumes 11% up on 2010, despite aggressive competition. We have maintained our 70% market share in freight and new clearing businesses have emerged such as Iron Ore, Coal and Steel.

Our current Cash Equities market position is strong despite a highly competitive landscape which has significantly lowered fees. Our European consolidation strategy continued to focus on efficiency and interoperability with Group wide, cash equity volumes increasing by 23% (year on year).

These successes were underpinned by a Transformation addressing the demands of an increasingly competitive and regulatory environment. The Transformation has three core objectives:

- To ensure consolidation and efficiency of LCH.Clearnet with 'One firm';
- To promote the horizontal multi-asset class clearing model;
- To expand our Client Risk & Collateral service model.

In creating 'One firm' we are leveraging the strength and synergies across LCH.Clearnet and aligning our businesses closer to our clients' demands. The Transformation is allowing us to develop 'One' infrastructure by reducing the costly duplication of systems across the Group. The implementation of the Group fixed income platform has already commenced and a further 37 Group wide applications have been identified for deduplication. In addition to the IT cost efficiencies, there are multiple process efficiencies under consideration which we expect to deliver a 10% reduction in run rate costs.

The Transformation will only be achieved with the right leadership and we are investing in talented individuals at senior management and Executive Committee level and have made some important hires and appointments in 2011.

Our horizontal multi-asset clearing strategy continued to be popular with both members and clients in 2011. We saw the NYSE Listed Derivatives and Cash Equities contracts extend to 2013 as well as volumes from the LSE, Turquoise and LME increase. New trading venues, such as BATS have included us in their interoperability strategies and firm plans are in place for Chi-X in 2012. We have expanded our emerging markets strategy into China with HKMEx in parallel to our US OTC product expansion led by Swapclear. 2012 will further see the product expansion and launch of our OTC CDS and FX businesses.

The Transformation is also based on complementing the firm's traditional strengths of processing to one that can truly market itself on risk default expertise, risk analytics, credit analysis and collateral efficiency. The importance of this capability is consistently highlighted by our members and clients and is something we are improving while actively leading by example. The Euro sovereign debt crisis in 2011 saw LCH.Clearnet facilitating liquidity in the interbank market and engendering confidence at the most stressed of times. The crisis claimed a high profile financial victim in MF Global and the default of its UK arm, MF Global UK Ltd, brought the clearing house its second member default within three years; a complex book, €14.7 billion in European Fixed Income positions and a myriad of client and house positions across cash equities, commodities, metals, financial and energy derivative markets. The successful resolution of the default, with no use of the Default Fund, highlighted once again the importance and value of our risk and collateral management expertise.

The successes achieved during 2011 are evidence of this firm's ambition to adapt to a challenging market and to continue our journey of becoming the premier European CCP choice for our clients. Finally, I would like to thank our members, clients and regulators for their continued support. I look forward to working with all of you during what promises to be another interesting and challenging year.

Ian J Axe
Group Chief Executive
9 February 2012

QUESTIONS ANSWERED
WITH IAN AXE
GROUP CHIEF EXECUTIVE
OFFICER 2011

"Within the context of legislation, regulation and competition, it is imperative that the Group evolves."

“The Transformation is also based on complementing the firm’s traditional strengths of processing to one that can truly market itself on risk default expertise, risk analytics, credit analysis and collateral efficiency.”

Q. What exactly does LCH.Clearnet do?

A. LCH.Clearnet is the leading independent clearing house group, servicing members and clients on both the buy side, sell side and exchange markets globally.

As a Central Counter Party (“CCP”) we sit in the middle of the trade as the buyer to every seller and the seller to every buyer. If either party defaults on the trade, we become accountable for the liability. During the period of a live trade we track its market exposure and eventually process the trade at its close. This process is called clearing. Traditionally, we have cleared Repo Cash Equities, and Commodities (euro or sterling bonds). However as LCH.Clearnet has grown we have become a Global leader in OTC interest rate swaps and will launch FX and expand CDS in 2012.

The tenure of the trade taking place can be anything from 2 days to 50 years, depending on the product type and terms of the deal. During the trade life markets can move considerably and the capability of our risk and liquidity management becomes imperative. Fundamental to our risk process is our ability to collect quality collateral from our members and clients as insurance. This collateral is often referred to as margin. Margin is calculated on a daily basis, which is important in these turbulent markets, based on the member’s positions (or uncompleted trades) and market risk. If the member fails, as in the example of MF Global, this collateral is used to complete the trades and fulfil their obligations. This ensures that the party on the other side of the trade is not negatively impacted by the default.

Q. As a new CEO, what do you see as the Company’s greatest strengths?

A. Our multi-asset class clearing capability across cash equities, listed derivatives commodities and latterly OTC products has already positioned us as the largest independent clearing house in the world.

It is also true to say that the membership and client governance models for both product development and risk management has created a very productive market knowledge for LCH.Clearnet to strategically grow. Our ability to work with our clients and members around their risk and liquidity concerns in the evolving OTC space is clearly very topical.

Finally we have started to build a reputation for competent and prudent risk management in the event of default – both Lehman and MF Global are large examples of this.

Q. What are the greatest challenges LCH.Clearnet faces?

A. The greatest challenge is adapting to the changing environment. We now face competition, as well as regulatory and client demands, that we have never faced before. This requires a fundamental transformation of the business and we are in the middle of implementing a Transformation plan.

Q. What is the background to the Transformation plan?

A. In 2008 Lehman collapsed and the world changed. The markets we all operate in are now more risky and more turbulent. Clearing houses are no longer seen as just back office operations. Regulators and most of the market recognise us as key in managing risk – whether company-specific, or market-wide. This has meant increased challenges, such as regulatory expectations and obligations, and also greater competitive pressure and client demands.

Q. How are you addressing these challenges?

A. We are implementing a Transformational plan with three core objectives. Firstly, to ensure consolidation and efficiency of our multiple CCPs through a ‘One Firm’ structure; secondly, to promote the horizontal multi-asset class clearing model; thirdly, to expand our client risk and collateral service model.

Q. How are you reacting to this? What strategic changes are you making?

A. We are positioning the Company to become the premier European CCP of choice for all our clients, with carefully chosen pockets of product excellence in Asian listed markets, and the global leader in OTC clearing. Hiring new talent and promoting capability from within the firm is key for the success of our transformation.

Q. What do the regulatory developments, mean for LCH.Clearnet?

A. The regulatory developments present both opportunities and challenges. As regulators push more OTC derivatives to clearing, this has created new product demand for LCH. Clearnet. For this reason we have been investing in our OTC infrastructure and marketing. We now have a US presence and we continue to build our existing capabilities further in Europe.

We believe the regulatory pressure across US and Europe will continue to emphasise the systemic risk importance of CCP’s and that our involvement and leadership in this space will be a differentiator to the firm.

BUSINESS REVIEW
FINANCIAL COMMENTARY

	2011 €'m	2010 €'m	Change €'m	Change %
Clearing revenue	**236.7**	203.4	33.3	16%
Total cash and collateral investment income	**494.1**	313.6	180.5	58%
Interest on collateral paid to members	**(354.8)**	(198.0)	(156.8)	79%
Net investment income	**139.3**	115.6	23.7	21%
Other income	**54.7**	48.6	6.1	13%
Less amounts related to cost recovery	**(43.5)**	(32.6)	(10.9)	33%
Underlying Net Revenue	**387.2**	**335.0**	**52.2**	**16%**
Operating expenses	**(256.8)**	(257.6)	0.8	–
Depreciation and amortisation	**(23.5)**	(18.5)	(5.0)	27%
Underlying Expenses	**(280.3)**	(276.1)	(4.2)	2%
Underlying Operating Profit	**106.9**	**58.9**	**48.0**	**81%**
Unrealised net investment loss	**(39.3)**	(12.0)		
Non-recurring expenditure	**(22.5)**	(3.4)		
Statutory Operating Profit	**45.1**	**43.5**		

Underlying Operating Profit of €106.9 million differs from statutory operating profit of €45.1 million since it excludes unrealised fair value investment movements (shown within interest income on the face of the income statement) of €39.3 million relating to bonds and associated interest rate swaps and also the impairment of intangible assets and other non-recurring items of expenditure of €22.5 million.

Underlying Net Revenue of €387.2 million differs from statutory net revenue of €391.4 million since it excludes unrealised losses of €39.3 million, but includes deductions for development costs of €25.2 million and settlement costs of €18.3 million that are recovered from members.

Underlying Expenses of €280.3 million differs from statutory costs and expenses of €346.3 million since it excludes settlement costs of €18.3 million and €25.2 million of certain development costs which are recovered from members' and impairment and non-recurring items of expenditure of €22.5 million.

Underlying Operating Profit

The Group's underlying operating profit for the year increased by €48.0 million to €106.9 million (2010: €58.9 million), a substantial 81% increase, and was achieved in a year of turbulent market conditions and an increasingly competitive environment. The interaction of significantly improved realised revenues and control over costs has supported the delivery of this significant year on year improvement.

Underlying net revenues in 2011 rose by €52.2 million (16%) to €387.2 million (2010: €335.0 million). There has been strong revenue growth in 2011 across the Group's product offerings, principally driven by a substantial increase in transaction volumes. This is particularly the case with Fixed Income which has seen record levels of activity in the context of the Eurozone crisis. Overall there has been an increase in clearing income of €33.3 million (16%) to €236.7 million (2010: €203.4 million).

Whilst the Group's collateral investment policy is primarily focused on security and liquidity management, significant increases in transaction volumes and levels of collateral have through sound investment management, resulted in net investment income, significantly increasing during the year by €23.7 million (21%) to €139.3 million (2010: €115.6 million).

Despite significant strategic investment, particularly in OTC Derivatives, underlying expenditure excluding depreciation and amortisation fell by €0.8 million to €256.8 million, reflecting a culture of cost control within the business and early benefits of the transformational plan. These efficiencies have allowed the Group to absorb the cost of investments in strategic business lines.

Clearing fees

	2011 €'m	2010 €'m	2011 Volumes m	2010 Volumes m	Increase in fees %	Increase in volumes %
Fixed income	**42.9**	38.0	**2.7**	2.3	13%	17%
OTC derivatives	**44.2**	21.2	**0.5**	0.4	108%	30%
Commodities & listed derivatives	**105.6**	104.1	**1,421.1**	1,276.0	1%	11%
Cash equities	**44.0**	40.1	**427.7**	346.7	10%	23%
	236.7	203.4	**1,946.0**	1,710.8	16%	13%

Revenue from clearing fees increased by €33.3 million (16%) to €236.7 million, and trade volumes increased by 13% to 1,946 million (2010: 1,710 million).

During the Eurozone crisis the Group continued to facilitate liquidity and confidence in the market, resulting in a growth in volumes, particularly in the Fixed Income business. Fixed Income clearing fees increased by €4.9 million (13%) to €42.9 million and volumes increased by 17%, with the notional value cleared rising by 11% to €152 trillion.

OTC Derivatives clearing fees increased to €44.2 million due to both a tariff increase and an increase in the membership of the SwapClear service, which rose from 36 members at the end of 2010 to 61 at the end of 2011. Volumes grew by 30% year on year. During 2011, the amount of notional principal outstanding cleared by SwapClear grew steadily to $283 trillion (net of $88.9 trillion torn up to date), from $248 trillion at the end of 2010.

Commodities and Listed Derivatives clearing fees increased to €105.6 million and total volumes increased by 11%, principally due to the heightened activity in the NYSE and LME markets. The Group was able to be responsive to market price pressures while retaining its position as the leading CCP in the Freight market.

Overall cash equities clearing fees increased by €3.9 million (10%) to €44.0 million, with volumes increasing by 23%, as more members benefited from the changes made to the pricing structure late in 2010.

Net Investment Income

	2011 €'m	2010 €'m	Change €'m	Change %
Realised income from cash and collateral margin	**477.8**	303.1	174.7	58%
Interest earned on Default Funds	**16.3**	10.5	5.8	55%
Total cash & collateral income	**494.1**	313.6	180.5	58%
Interest paid on cash and collateral margin	**(332.7)**	(183.5)	(149.2)	81%
Interest paid on Default Funds	**(22.1)**	(14.5)	(7.6)	52%
Interest expense and similar charges	**(354.8)**	(198.0)	(156.8)	79%
Net income earned on cash and collateral margin	**145.1**	119.6	25.5	21%
Net interest earned on Default Funds	**(5.8)**	(4.0)	(1.8)	45%
Realised investment income	**139.3**	115.6	23.7	21%
Retained share of total interest earned	**28%**	37%		

There was a significant increase both in interest income received and interest paid to members. Total investment income received in relation to both margin collateral and Default Fund deposits increased by €180.5 million (58%) to €494.1 million (2010: €313.6 million).

The Group also pays compensation to its members in relation to cash collateral lodged and amounts deposited in its Default Funds. The amount of interest paid to members increased in total by €156.8 million (79%) to €354.8 million (2010: €198.0 million), reflecting the higher levels of collateral held and higher levels of interest earned on Euro-denominated collateral. A small deficit was incurred in relation to member deposits into the Default Funds which amounted to €5.8 million in the year (2010: €4.0 million).

The Group's realised net investment income increased by €23.7 million (21%) in the year to €139.3 million (2010: €115.6 million).

The Group's share of the total interest earned fell from 37% in 2010 to 28% in 2011 as the Group returned a greater proportion to members. This was due in part to the increase in underlying Euro interest rates during the majority of the year, which meant that the Group's retained return was a smaller proportion of total revenue.

The Group is Europe's largest clearer of government debt and has been at the heart of developments in this area where it has sought to preserve liquidity in Europe's debt markets and protect members' interests. Market volatility resulted in increased levels of activity and substantially increased collateral requirements, particularly during the second half of the year.

Other income

Other fee income increased by €6.1 million (13%) to €54.7 million (2010: €48.6 million). Other income includes annual fees charged to members, recovery of settlement fees and the recovery of certain development costs.

Amounts related to cost recovery

Costs recovered from members include €18.3 million (2010: €13.9 million) settlement fees and €25.2 million (2010: €18.7 million) for certain development costs.

Settlement costs, which are recovered from members through other income, increased by €4.4 million (35%) due to higher underlying volumes in Fixed Income and Cash Equities.

Recovery of technological development costs during the year increased by €6.5 million (35%). 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 arrangements, the members underwrite the development costs and the Group reflects the recovery of amounts expended through other income in accordance with its accounting policies.

Underlying expenses

Underlying expenses rose by €4.2 million (2%) to €280.3 million (2010: €276.1 million).

The early achievements of the rigorous cost control introduced under the transformation plan have not been fully reflected through operating expenses. Cost control procedures implemented during the year resulted in savings of €7.4 million against the original 2011 plan.

At the same time the Group has continued to make investments in its OTC Derivatives business. In particular, the Group invested in the growth of the SwapClear business in the US with the launch of the FCM model for buy-side clients, the development of its CDS offering and the building of the infrastructure to support the FX service. The strategic expansion of these services will help to provide a platform for future revenue growth for the Group. The Group has also invested in the talent pool during the year. Despite the significant strategic investments, the cost control programme managed to achieve a reduction in operating expenses which fell by €0.8 million to €256.8 million.

Other depreciation and amortisation has increased by €5.0 million to €23.5 million reflecting the investment the Group has made over the last two years in its technology infrastructure, in particular the Group's new derivatives platforms.

Unrealised net investment income

A key principle of the Group's investment policy is that it will only invest in high quality assets, typically high grade government issued bonds. Prudent liquidity management allows the Group to benefit from improved yields from longer term investments when facilitated by market conditions. Where investments are made in longer term fixed rate assets, the Group hedges the interest rate risk that arises from receiving a fixed rate of return and paying members a floating rate of return by taking out Interest Rate Swaps. The Interest Rate Swaps and underlying investment are generally held to maturity.

The Group is required to mark to market both the underlying investment and interest rate swap and under the Group's accounting policy, the full impact of any mark to market movement is reflected through the income statement.

At times of stress in the financial markets, as experienced during the sovereign debt crisis, the yield curves of the underlying investment and the interest rate swap may become dislocated reflecting the credit risk perceived by the market. These result in an unrealised credit or charge being reflected through the income statement. These are non cash adjustments made for accounting purposes.

During the year, the mark to market adjustment on bonds and related interest rate hedging instruments resulted in a charge to the income statement of €39.3 million (2010: €12.0 million), representing a 0.3% movement on the portion of the portfolio that is subject to fair value adjustment (2010: 0.1%). At 31 December 2011, the total unrealised losses contained in the balance sheet were €31.1 million (2010: €8.2 million profit). These related to an investment portfolio of €11.2 billion (2010: €11.4 billion) which are individually due to mature between 2012 and 2014. By the time of maturity, and assuming full recovery of the principal, the mark to market positions will have fully reversed through the income statement.

Impairment and non-recurring expenditure

The impairment of intangible assets and other non-recurring costs increased by €19.1 million (562%) to €22.5 million (2010: €3.4 million).

The charge in 2011 includes a write-off €3.4 million (2010: €3.4 million) related to software assets that are now wholly written off.

Further to this, non-recurring costs of €19.1 million substantially relate to the Transformation plan and assisting the new management team to implement the plan, de-duplicate systems and processes and upgrade talent to meet the new business challenges. Other non-recurring costs include costs associated with supporting corporate activity.

Capital resources

The total equity of the Group increased during the year by €13.1 million to €333.1 million (2010: €320.0 million).

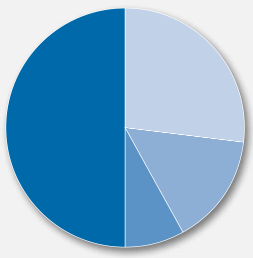
The total regulatory capital of the Group, at €307.4 million (2010: €303.9 million) continues to significantly exceed the minimum “Pillar 1” requirements of €92.6 million (2010: €105.3 million), and the combined “Pillar 1” and “Pillar 2” requirement of €210.3 million (2010: €212.6 million).

The Group’s tier 1 asset ratio of 17.3% (2010: 14.8%) substantially exceeds the minimum requirement of 4%, and the total capital ratio of 26.6% (2010: 23.1%) is also substantially above the 8% minimum required.

The Group’s Standard & Poor’s rating of ‘A+’ was reaffirmed in November 2011.

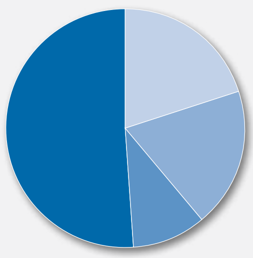
BUSINESS LINE REVIEW

2009 CLEARING REVENUES



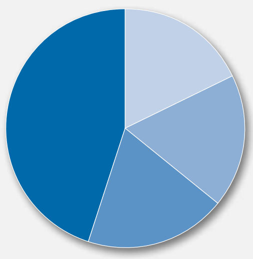
- Cash equities 27%
- Fixed income 15%
- OTC Derivatives 8%
- Commodities & Listed Derivatives 50%

2010 CLEARING REVENUES



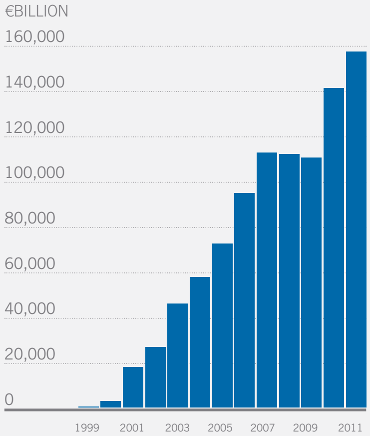
- Cash equities 20%
- Fixed income 19%
- OTC Derivatives 10%
- Commodities & Listed Derivatives 51%

2011 CLEARING REVENUES



- Cash equities 18%
- Fixed income 18%
- OTC Derivatives 19%
- Commodities & Listed Derivatives 45%

FIXED INCOME NOTIONAL VALUE



The Group's revenue base is increasingly diversified. As its OTC and Fixed Income businesses grow, the proportion of the Group's revenues derived from the more traditional asset classes will reduce.

Fixed Income

In 2011 we cleared over €152 trillion of notional value, up 11% on 2010, equivalent to a 17% increase in volumes. We welcomed 11 new members to the services, consolidating our position as the leading clearer of Fixed Income in Europe with a 70% plus market share.

Volumes have been driven by increased levels of clearing from both new and existing members and the influx of new members as market participants have turned to clearing to mitigate risk in a highly volatile environment. There remains continued potential for growth and we have a strong pipeline of new members.

Clearing revenues grew by 13% from €38.0 million to €42.9 million. Member balances have increased to €491 billion (2010: €474 billion).

As part of the Transformation, Fixed Income, which is led by the Repo & Exchanges CEO, Alberto Pravettoni (who is also responsible for the Commodities Listed Derivatives and Cash Equities business lines), will be the first business line to benefit from a single infrastructure. The Fixed Income Clearing platform, developed in-house and deployed in London in 2010, is intended to replace the clearing system currently used in Paris. In addition to generating intra-Group efficiencies, it will harmonise functionality across the Group. We are already working on introducing collateral baskets with pledge in Paris, to complement the London-based service.

OTC Derivatives

SwapClear

During 2011 cleared notional outstanding in SwapClear reached $283 trillion, an additional $88.9 trillion was removed via the Tri-Optima compression utility. Average daily volumes have also risen year on year by 30% to 1,939 trade sides* per day. At year end there were over a million trades* in SwapClear and 61 clearing members. The majority of this activity is between SwapClear members but there has also been a steady increase in end-user client adoption ahead of the regulatory clearing mandate, and to reduce counter party risk.

In 2011 SwapClear, headed by Michael Davie (CEO, SwapClear), generated clearing revenues of €44 million, up from €21m in 2010. This is an increase of 110%, driven by the increase in clearing members, cleared volumes and a tariff increase.

2011 has been an exciting but challenging year for SwapClear on a number of fronts. As the clearing opportunity shifts from the interbank market to end-user clients, LCH.Clearnet has focused on building out its buy-side offering in Europe and the US. In the US, the advanced state of post Dodd Frank rulemaking is creating business opportunities. In response to this, the Futures Commission Merchant (FCM) offering was successfully launched in March, and greatly enhanced in December. There are now 13 FCM members offering the service to some 53 live buy-side accounts, comprising asset managers, hedge funds and banks.

During 2011 we invested considerably in expanding our US presence, growing our local team 10 fold. The move of the head of OTC risk and operations to New York, has been followed by the hiring of a dedicated SwapClear sales and marketing team. We have further grown the NY team to include Client Service staff as well as local operations and risk management professionals. To support all their efforts we have made a significant investment in advertising and marketing.

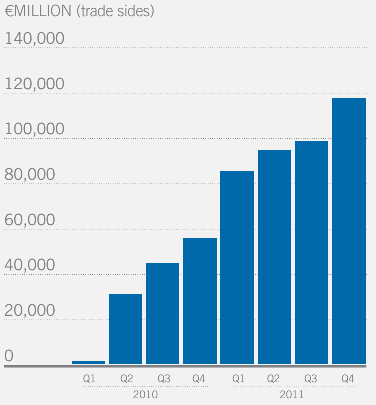
In April a technology and operational refresh was implemented, a core part of which is the new Murex technology platform. As a result of the refresh, new products can be added easily and there is now live capacity for 25,000 IRS trade sides per hour and a total portfolio of 4 million trade sides. The platform has been future proofed and is designed to scale to some 10 million trade sides.

The breadth of SwapClear's offering and the quality of LCH.Clearnet's risk management remain market leading. In August we introduced OIS discounting for JPY, matching an equivalent offering across GBP, EUR and USD. During the year we continually enhanced the product breadth, delivering unadjusted fixed and final period end dates for IRS, a further three currencies (HUF, CZK, SGD taking the total to 17), and FRAs in 10 currencies. In addition we have made a range of enhancements specifically targeted to the end-user, buy-side clients including variable notional swaps in 3 major currencies (EUR, GBP and USD), direct trade flow through the ClearLink API, simplified and futures-like workflow, risk-free compression of offsetting trades and portability of client positions and collateral.

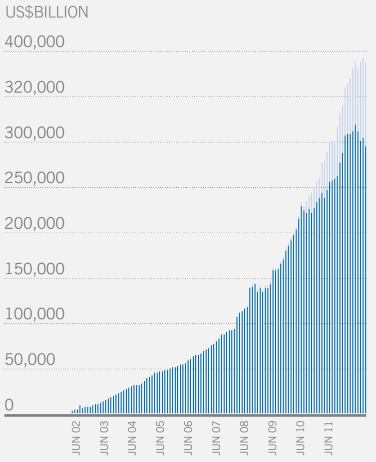
In conjunction with our Buy and Sell side working groups we have a full agenda of additional products and services for 2012 delivery, including ever faster trade registration, further workflow simplification to make OTC trades more futures-like, improved reporting and ever broader product scope. We will continue to run "fire drill" tests to ensure default readiness and will implement such changes to the platform as regulatory mandate requires.

* Trades and trade sides. When two clearing members trade with one another, a single IRS trade is created. When each of them gives up their trade to SwapClear, that creates two trade sides. SwapClear thus books and maintains two trades for every one bi-lateral trade. SwapClear trade sides is an important measure for CCP risk and operating capacity whereas dealer trade volume is a better indicator of member market activity.

CDS VALUE: cumulative since inception



SWAPCLEAR LIVE TRADE SIDES NOTIONALS ($BN) – IMPACT OF TRIREDUCE COMPRESSION



CDSClear

The current French Credit Default Swap (CDS), offering has seen steady growth. At 31 December volumes cleared for our four French member banks stood at €58.7 billion in notional, representing a €4.6 billion open interest.

During 2011 Charlie Longden was appointed as CEO of CDSClear. He will focus on the next phase of development as the service is broadened out to international participants.

The foundations for an international service have been laid and a multi-jurisdictional model built. In response to growing demand from clients for CDS clearing, even ahead of EU regulations, we are developing client focused solutions alongside our inter-bank offering.

Once regulatory approvals have been given, the service will be accessible in multiple jurisdictions, with a legal framework which is compatible with French, UK and US law.

During 2011 the technology and operating system have been successfully built and final testing is complete. This will enable a number of market leading features to be implemented. These include: full intraday clearing services, and upstream platform agnosticism, combined index, single name and client clearing later in the year.

ForexClear

ForexClear, led by Gavin Wells, is ready to launch pending regulatory approval. Starting with FX Non Deliverable Forwards for members, the service will expand to give all market participants access by the middle of 2012, before adding other already developed FX products based upon regulatory direction and user needs.

Whilst other FX products are mandated under Dodd Frank, in particular FX options, discussions around the model to be used by CCPs to settle within CLS are ongoing and not likely to finish until Q3 2012. Thus whilst LCH.Clearnet has developed clearing services for Options, FX Swaps and Forwards, it is unlikely that these will be approved until the settlement model agreed is implemented, sometime in early 2013.

In light of this, once NDFs are live for members and their clients, incremental development will focus on restriking membership and default processes in line with SwapClear, adding more NDF currencies and crosses, enriching the client model and extending access to LCH.Clearnet's risk capabilities.

The service has been designed with members and clients in all regions making best use of lessons learned in the other OTC businesses.

Commodities & Listed Derivatives

Commodities & Listed Derivatives clearing income increased to €105.6 million and total volumes increased by 11%, principally due to the NYSE and LME markets.

Commodities

Commodity volumes continue to be driven by growth in Asia. We have preserved our 70% market share in Freight, through competitively pricing our service, in the face of intense competition.

Furthermore, we continued to invest in new and innovative products, launching Coal Options early in 2011, and are at the forefront of market developments, with STP from Freight screens Baltex and ClearTrade which were introduced in 2011.

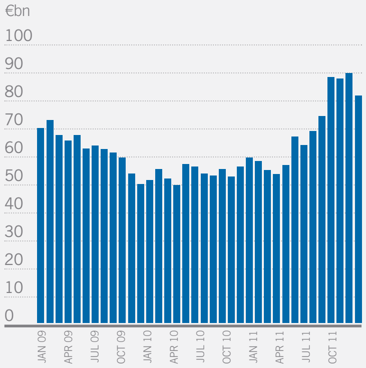
Interest in the OTC Gold Bullion service continues to grow and the launch of Bullion as eligible collateral was a development welcomed by the market.

Fertilizer volumes grew sharply in the early part of the year. Although a dry-bulk commodity, much of the recent interest has been driven primarily from the US where implementation of Dodd Frank will require clearing of commodity swaps.

With HKMEx we are capitalising on mainland China's appetite for trading opportunities. The service was launched in May with a gold contract, a new silver contract has recently been added and there is real engagement from the Chinese trading community.

BUSINESS LINE REVIEW CONTINUED

CASH & COLLATERAL HELD BY GROUP



Listed Derivatives

During 2011 we negotiated a significant extension to the NYSE derivatives contract to June 2013 and began clearing for the London Stock Exchange's derivatives platform, Turquoise.

We have also laid the foundations for the business' future growth in derivatives. The successful expansion of our Synapse clearing platform's capabilities has delivered proprietary, scalable clearing technology. This will enable the Group to capitalise on the increasing interest from trading venues competing in listed derivatives.

Cash Equities

Group wide volumes for Equities grew by 23% year on year.

Clearing revenue increased to €44.0m from €40.1 million despite the tariff reductions implemented in October 2010 in London which introduced free clearing for average daily member volumes over 150,000 per day.

The Group has the ambition to be an efficient, scale aggregator of European equity clearing. The strategy of consolidation has been advanced by the introduction of interoperability for Europe's fast growing equity MTFs. We were the first clearing house to be ready to interoperate on Turquoise and have commenced clearing for Equiduct Italy, BATS and, since year end, Chi-X.

In early 2011 we launched Europe's only CFD clearing service, positioning LCH.Clearnet well in the context of European regulatory developments and the ambition of regulators to drive OTC products into clearing.

The contract with NYSE Euronext was extended during 2011 to the end of 2013 and we continue to discuss long term equity clearing solutions with NYSE Euronext.

Net investment income from Collateral and Liquidity Management (CaLM)

Net investment income is managed by the CaLM service, which was established during the year under the leadership of Andrew Howat, Head of CaLM.

Total cash and collateral income grew by 58% to €494.1 million (2010: €313.6 million), and the Group shared a greater proportion of this with its members who received €354.8 million, an increase of 79% on 2010.

Accordingly, realised net investment income increased by 21% to €139.3 million and was generated from an average cash and non-cash collateral portfolio of €73 billion (2010: € 59 billion), a 23% increase on 2010. The position peaked at €90 billion in November and, at year end, was €83 billion.

The CaLM service was established which combined the various parts of the Treasury function across the Group, in order to create an efficient, centralised collateral management service for our clients.

Prudent investment risk and liquidity management remain at the core of CaLM's strategy, in accordance with the conservative risk parameters set by the Board. These are designed to ensure LCH.Clearnet is well placed to manage a default, such as in the recent case of MF Global, through robust risk and operating procedures and high liquidity targets.

Furthermore, the Group is working with clients to establish the best ways in which the CaLM service can be improved. Potential developments may include:

- widening the range of eligible collateral;
- adding further options for client segregation;
- offering localised services and support in the US and Asia, as well as in Europe; and
- the implementation of a global, automated service for the calling and management of non-cash collateral through a network of CSDs and tri-party providers with the capacity to function in near real time around the world.

4 DIRECTORS' REPORT

The Directors of LCH.Clearnet Group Limited present their report to the shareholders, together with the audited consolidated financial statements for the year ended 31 December 2011.

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, Asia 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 (i) regulated markets in France, the Netherlands, Belgium and Portugal, (ii) fixed income products and (iii) CDS traded either on regulated markets or trading platforms located in France, UK and Italy. Its principal business is the provision of central counterparty clearing services in respect of certain equities and bonds, interest rate and commodity futures and options, equity and index futures and options, OTC bonds and repos, and 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 Business review in Sections 1, 2 and 3 respectively.

4.3 Financial instruments

Details of the financial risk management assessment of the Group and exposure of the Group to interest rate risk, foreign exchange risk, sovereign 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 €21.2 million (2010: €19.1 million) made by the Group has been transferred to reserves.

The two operating subsidiaries will pay final dividends in respect of 2011 to the Company in 2012 of €20,996,000 (Limited) and €2,232,000 (SA). These amounts will form part of the income of the Company in 2012. The two operating subsidiaries paid final dividends in respect of 2010 to the Company in 2011 of €1,930,000 (Limited) and €20,907,000 (SA). These amounts form part of the income of the Company in 2011. No dividends were paid by the operating subsidiaries or the Company during 2010.

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 2011, the Group's capital resources amounted to €333.1 million (2010: €320.0 million); its "Pillar 1" regulatory capital amounted to €307.4 million (2010: €303.9 million).

4.6 Charitable donations

The Group made donations for charitable purposes during the year of €92,421 (2010: €154,091), 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 2011 had any beneficial interest in the shares of the Company. The following each held one share in LCH.Clearnet SA, a subsidiary undertaking, as at 31 December 2011: Messrs Abrams, Axe, Aigrain, Townend and Saint-Sauveur.

4.8 Indemnity of Directors

Directors are entitled to be indemnified out of the assets of the Group 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.

4.9 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 DIRECTORS’ REPORT CONTINUED

4.11 Supplier payment policy and practice
It is the Group’s policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2011, the Group had an average of 15 days (2010: 19 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 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 reappointed auditors of the Company at the AGM on 24 June 2011 and have indicated their willingness to be reappointed under the provisions of the Companies Act 2006.

4.14 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 review, Chairman’s statement and Business review on pages 2 to 19. The Group’s financial risk management assessment is 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.

NYSE Euronext intend to commence their own clearing arrangements in 2013 for European cash equities and derivatives markets, and NYSE Liffe and the London Metal Exchange have announced that they intend to commence their own clearing arrangements at some point in the future, but 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 Liffe and the London Metal Exchange have yet to serve formal notice of termination on the Group for the current clearing agreements with them.

J Aigrain
Chairman
9 February 2012

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 (IFRSs) 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 Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; 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 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of financial position, consolidated and Company statement of cash flows, 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 under 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 21, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;

- the Group financial statements have been properly prepared in accordance with 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 matters 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
London
9 February 2012

7 CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

		2011			2010		
	Note	Before impairment & non-recurring items €'000	Impairment & non-recurring items €'000	Total €'000	Before impairment & non-recurring items €'000	Impairment & non-recurring items €'000	Total €'000
Revenue							
Interest income	13.4.1	**454,783**	**–**	**454,783**	301,585	–	301,585
Interest expense and similar charges	13.4.1	**(354,733)**	**–**	**(354,733)**	(198,031)	–	(198,031)
Net interest income	13.4.1	**100,050**	**–**	**100,050**	103,554	–	103,554
Clearing fees	13.4.1	**236,720**	**–**	**236,720**	203,391	–	203,391
Other income	13.4.1	**54,672**	**–**	**54,672**	48,666	–	48,666
Net revenue	13.4.1	**391,442**	**–**	**391,442**	355,611	–	355,611
Costs and expenses							
Employee benefits expense	13.18.1	**(117,944)**	**(4,718)**	**(122,662)**	(109,043)	–	(109,043)
Depreciation and amortisation charge	13.5.1	**(25,804)**	**(680)**	**(26,484)**	(18,492)	–	(18,492)
Write-off/impairment of intangible assets	13.5.3	**–**	**(3,384)**	**(3,384)**	–	(3,390)	(3,390)
Other operating expenditure	13.5.2	**(180,112)**	**(13,727)**	**(193,839)**	(181,146)	–	(181,146)
Total costs and expenses		**(323,860)**	**(22,509)**	**(346,369)**	(308,681)	(3,390)	(312,071)
Operating profit		**67,582**	**(22,509)**	**45,073**	46,930	(3,390)	43,540
Finance income	13.5.4	**2,678**	**–**	**2,678**	1,201	–	1,201
Finance costs	13.5.4	**(12,660)**	**–**	**(12,660)**	(12,449)	–	(12,449)
Profit before taxation	13.5	**57,600**	**(22,509)**	**35,091**	35,682	(3,390)	32,292
Taxation expense	13.6.1	**(19,859)**	**5,964**	**(13,895)**	(14,137)	949	(13,188)
Profit for the year		**37,741**	**(16,545)**	**21,196**	21,545	(2,441)	19,104

No dividend was paid in the year (2010: €nil).

The results for both years are in respect of continuing operations.

The notes on pages 31 to 64 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**2011 €'000**	2010 €'000
Profit for the year		**21,196**	19,104
Other comprehensive (expense)/income			
Actuarial loss recognised in the UK pension scheme	13.18.2	**(11,606)**	(5,252)
Deferred tax relating to the UK actuarial loss	13.6.1	**2,852**	1,365
Actuarial gains/(losses) recognised in overseas employee benefit plans	13.18.2	**251**	(519)
Tax relating to the overseas actuarial losses	13.6.1	**409**	151
Other comprehensive expense for the year, net of tax		**(8,094)**	(4,255)
Total comprehensive income for the year, net of tax		**13,102**	14,849

The results for both years are in respect of continuing operations.

The notes on pages 31 to 64 form an integral part of these consolidated financial statements.

9 CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	Group 2011 €'000	Group 2010 €'000	Company 2011 €'000	Company 2010 €'000
Non-current assets					
Intangible assets	13.8	203,123	193,086	–	–
Property, plant and equipment	13.10	12,978	10,099	–	–
Investments	13.11	–	–	341,481	341,481
Deferred taxation asset	13.6.3	28,980	15,545	1,656	1,689
Total non-current assets		245,081	218,730	343,137	343,170
Current assets					
Cash and short-term deposits	13.12	20,414,011	15,769,196	2,401	7,806
Other financial assets	13.23	18,749,432	14,417,423	71,400	64,000
Derivative financial assets	13.23	1,002	1,418	–	–
Income tax receivable		2,079	3,994	10,777	8,002
Trade and other receivables	13.13	91,529	60,132	2,748	834
Balances with clearing members	13.14	501,565,348	482,853,697	–	–
Total current assets		540,823,401	513,105,860	87,326	80,642
Total assets		541,068,482	513,324,590	430,463	423,812
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	217,651	204,549	121,219	115,937
Total equity		333,094	319,992	221,335	216,053
Non-current liabilities					
Interest bearing loans and borrowings	13.16	178,019	177,641	197,444	196,969
Default Funds	13.17	2,043,731	2,029,293	–	–
Employee benefits	13.18.2	15,626	10,095	–	–
Total non-current liabilities		2,237,376	2,217,029	197,444	196,969
Current liabilities					
Interest bearing loans and borrowings	13.16	68,116	346	–	–
Derivative financial liabilities	13.23	60,781	26,772	–	–
Income tax payable		1,841	–	–	–
Trade and other payables	13.19	357,614	158,167	11,684	10,790
Balances with clearing members	13.14	538,009,660	510,602,284	–	–
Total current liabilities		538,498,012	510,787,569	11,684	10,790
Total liabilities		540,735,388	513,004,598	209,128	207,759
Total equity and liabilities		541,068,482	513,324,590	430,463	423,812

Jacques Aigrain
Chairman

The notes on pages 31 to 64 form an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Board on 9 February 2012.

10 CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 €'000	2010 €'000
Cash flows arising from operating activities			
Profit for the year	7	**21,196**	19,104
Adjustments to reconcile profit for the year to net cash inflows from operating activities:			
Taxation expense		**13,895**	13,188
Finance income		**(2,678)**	(1,201)
Finance costs		**12,660**	12,449
Depreciation and amortisation	13.5.1	**25,196**	17,448
Loss on disposal and write-off of assets	13.5.1	**1,288**	1,044
Impairment of goodwill and intangible assets	13.5.3	**3,384**	3,390
Increase in trade and other receivables		**(33,064)**	(38,400)
(Decrease)/increase in employee benefits		**(6,270)**	1,336
Increase in trade and other payables		**201,790**	42,614
Unrealised fair value losses on financial instruments		**39,301**	11,966
Margin monies cash inflow		**8,695,682**	4,112,160
(Decrease)/increase in Default Funds		**(5,734)**	209,920
Net cash inflow from operations		**8,966,646**	4,405,018
Taxation received		**–**	1,336
Taxation paid		**(20,383)**	(51,650)
Net cash inflows from operating activities		**8,946,263**	4,354,704
Investing activities			
Investment in intangible assets	13.8	**(34,574)**	(37,777)
Purchase of property, plant and equipment	13.10	**(8,210)**	(5,701)
Investment in other financial assets		**(4,336,025)**	(798,199)
Interest received	13.5.4	**2,678**	1,201
Net cash outflow from investing activities		**(4,376,131)**	(840,476)

Cash flow continued on next page.

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 €'000	2010 €'000
Financing activities			
Interest paid		**(12,185)**	(11,899)
Finance lease principal payments		**(218)**	(210)
Net cash used in financing activities		**(12,403)**	(12,109)
Increase in cash and cash equivalents		**4,557,729**	3,502,119
Cash and cash equivalents at 1 January		**15,769,196**	12,245,928
Effects of foreign exchange movements		**19,304**	21,149
Cash and cash equivalents at 31 December		**20,346,229**	15,769,196
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		**16,809,447**	14,488,753
Cash at bank and in hand		**3,604,564**	1,280,443
	13.12	**20,414,011**	15,769,196
Bank overdrafts and loans	13.16	**(67,782)**	–
		20,346,229	15,769,196

The notes on pages 31 to 64 form an integral part of these consolidated financial statements.

11 COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 €'000	2010 €'000
Cash flows arising from operating activities			
Profit/(loss) for the year	13.7	**5,282**	(11,897)
Adjustments to reconcile Company profit for the year to net cash outflows from operating activities:			
Taxation		**(2,741)**	(3,240)
Finance income		**(1,194)**	(1,515)
Finance cost		**13,627**	13,627
Dividends received from subsidiary undertakings		**(22,837)**	–
(Increase)/decrease in trade and other receivables		**(1,915)**	640
Increase/(decrease) in trade and other payables		**894**	(3,389)
Unrealised fair value losses on financial instruments		**600**	–
Net cash outflow from operations		**(8,284)**	(5,774)
Taxation received		**–**	3,628
Net cash outflows from operating activities		**(8,284)**	(2,146)
Investing activities			
(Investment in)/redemption of other financial assets		**(8,000)**	21,000
Interest received		**1,194**	1,515
Net cash (outflow)/inflow from investing activities		**(6,806)**	22,515
Financing activities			
Interest paid		**(13,152)**	(13,152)
Dividends received from subsidiary undertakings		**22,837**	–
Net cash generated from/(used in) financing activities		**9,685**	(13,152)
(Decrease)/increase in cash and cash equivalents		**(5,405)**	7,217
Cash and cash equivalents at 1 January		**7,806**	589
Cash and cash equivalents at 31 December		**2,401**	7,806
Cash and cash equivalents at 31 December comprise:			
Cash at bank and in hand		**2,401**	7,806
	13.12	**2,401**	7,806

The notes on pages 31 to 64 form an integral part of these consolidated financial statements.

12.1 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Called up share capital €'000	Capital reserves €'000	Capital redemption reserves €'000	Retained earnings €'000	Total earnings €'000
Shareholders' equity at 1 January 2010	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
Profit for the year	–	–	–	21,196	21,196
Other comprehensive expense	–	–	–	(8,094)	(8,094)
Total comprehensive income	–	–	–	13,102	13,102
Shareholders' equity at 31 December 2011	**40,633**	**15,327**	**59,483**	**217,651**	**333,094**

The notes on pages 31 to 64 form an integral part of these consolidated financial statements.

12.2 COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Called up share capital €'000	Capital redemption reserves €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2010	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
Profit for the year	–	–	5,282	5,282
Shareholders' equity at 31 December 2011	**40,633**	**59,483**	**121,219**	**221,335**

The notes on pages 31 to 64 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 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 2011 were authorised for issue in accordance with a resolution of the Directors on 9 February 2012 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 23 to 29. These policies have been applied during the years ended 31 December 2011 and 31 December 2010.

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 2011 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 the 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. 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 intention of NYSE Euronext to commence its own clearing arrangements in 2013 for European cash equities and derivatives markets, along with the announcements by NYSE Liffe and the London Metal Exchange that they intend to commence their own clearing arrangements at some point in the future. 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.

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.

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.

13.2 Summary of significant accounting policies continued

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 three and five years
Patents	– over five 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 three years
Office equipment and other fixed assets	– between three and five 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 cash flows obtainable as a result of the assets' continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of 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 price 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 cash flow analysis and other valuation techniques commonly used by market participants. Where discounted cash flow analysis and other valuation techniques are used, assumptions are validated against market observable inputs.

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.

13.2 Summary of significant accounting policies continued
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.

The Group has entered into funding arrangements with certain members for the purpose of developing clearing systems for new products or upgrading existing systems. Under these 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 Ltd 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 2011 by a qualified independent actuary.

A full actuarial valuation of the LCH Pension Scheme was carried out at 30 June 2010 and partially updated to 31 December 2011 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 to 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.

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.

u) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted
The following standards, amendments and interpretations have been issued by the IASB and IFRIC with an effective date, subject to EU endorsement, that does not impact on the consolidated financial information.

	Effective date for periods beginning on or after:
Amendments to IFRS 7, "Financial instruments: Disclosures" on derecognition	1 July 2011
Amendment to IAS 12, "Income taxes" on deferred tax	1 January 2012
Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income	1 July 2012
Amendment to IAS 19, "Employee benefits"	1 January 2013
IFRS 9, "Financial instruments"	1 January 2015
IFRS 10, "Consolidated financial statements"	1 January 2013
IFRS 12, "Disclosures of interests in other entities"	1 January 2013
IFRS 13, "Fair value measurement"	1 January 2013

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

	2011 Closing rate	**2011 Average rate**	2010 Closing rate	2010 Average rate
Euro (€) to US dollar ($)	**1.30**	**1.39**	1.34	1.33
Euro (€) to pound (£)	**0.83**	**0.87**	0.86	0.86

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).

13.4 Operating segment information continued
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 Limited 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

	2011			
Revenue	**Ltd €'000**	**SA €'000**	**Other €'000**	**Total €'000**
Clearing fees	146,149	90,571	–	236,720
Interest income				
Treasury	166,275	272,195	–	438,470
Default Fund	3,560	12,753	–	16,313
	169,835	284,948	–	454,783
Interest expense				
Treasury	(72,949)	(259,661)	–	(332,610)
Default Fund	(9,370)	(12,753)	–	(22,123)
	(82,319)	(272,414)	–	(354,733)
Net interest income	87,516	12,534	–	100,050
Other income	30,812	26,519	29,260	86,591
Inter-segment	(90)	(2,569)	(29,260)	(31,919)
	30,722	23,950	–	54,672
Segment Revenue	264,387	127,055	–	391,442
Result				
Segment result before non-recurring items	43,091	28,201	(3,710)	67,582
Non-recurring items	(14,390)	(2,544)	(5,575)	(22,509)
Segment result after non-recurring items	28,701	25,657	(9,285)	45,073
Finance income	1,023	1,177	478	2,678
Finance costs	(108)	–	(12,552)	(12,660)
Profit before tax	29,616	26,834	(21,359)	35,091
Tax expense	(8,620)	(8,085)	2,810	(13,895)
Profit for the year	20,996	18,749	(18,549)	21,196

Revenue	2010 Ltd €'000	SA €'000	Other €'000	Total €'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 before non-recurring items	8,512	43,950	(5,532)	46,570
Non-recurring items	(3,390)	–	–	(3,390)
Segment result after non-recurring items	5,122	43,950	(5,532)	43,450
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

13.4 Operating segment information continued

13.4.2 Assets and liabilities

	2011			
	Ltd €'000	SA €'000	Other €'000	Total €'000
Assets and liabilities				
Total assets	310,076,886	230,952,300	39,296	541,068,482
Total liabilities	(309,934,252)	(230,626,510)	(174,626)	(540,735,388)
Other segment information				
Capital expenditure on fixed assets	26,949	12,920	2,915	42,784
Non-cash items:				
Fair value (gain)/loss on financial instruments	(126)	39,427	–	39,301
Write off of intangible assets	3,384	–	–	3,384
Loss on disposal of property, plant and equipment within non-recurring items	680	–	–	680
Depreciation of property, plant and equipment	4,034	428	11	4,473
Amortisation	5,314	4,955	10,454	20,723

	2010			
	Ltd €'000	SA €'000	Other €'000	Total €'000
Assets and liabilities				
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

13.4.3 Geographic information

	2011 €'000	2010 €'000
Revenues from external customers		
UK	264,387	210,032
Europe	127,055	145,579
Net revenue per consolidated income statement	391,442	355,611
Non-current assets		
UK	64,154	53,149
Europe	180,927	165,581
Total	245,081	218,730

Revenue is based on the location of the Group entity which earns the revenue.

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:

	2011 €'000	2010 €'000
13.5.1 Depreciation and amortisation		
Depreciation of property, plant and equipment	**4,473**	6,242
Amortisation of intangible assets	**20,723**	11,206
Loss on write-off of property, plant and equipment	**178**	433
Loss on disposal of intangible assets	**430**	611
	25,804	18,492
13.5.2 Other operating expenditure includes:		
Hire of plant and machinery under operating leases	**334**	929
Property lease rentals	**9,932**	9,316
Outsourced IT infrastructure	**28,761**	28,170
Self-developed software expensed directly to the income statement	**33,251**	37,058
Foreign exchange (losses)/gains	**935**	(1,291)
Auditors remuneration:		
Audit related – Company	**87**	109
Audit related – subsidiaries	**444**	550
Non-audit related – Company	**164**	–
Non-audit related – subsidiaries	**78**	17
13.5.3 Non-recurring items		
Transformational plan costs including redundancy costs and loss on property refurbishments	**14,358**	–
Write-off/impairment of intangible assets	**3,384**	3,390
Other costs	**4,767**	–
	22,509	3,390
13.5.4 Net finance (expense)/income		
Interest paid in respect of:		
Preferred securities	**(12,312)**	(12,312)
Interest on bank loans and overdrafts and finance leases repayable within five years	**(348)**	(137)
	(12,660)	(12,449)
Interest received on own funds	**2,678**	1,201
	(9,982)	(11,248)

Non-recurring items represent revenue or costs that are not expected to recur on a regular basis within the ordinary activities of the business and thus are presented separately by virtue of their incidence in order to provide additional information.

13.6 Taxation

The major components of taxation expense are:

13.6.1 Consolidated income statement

	Note	2011 €'000	2010 €'000
Current income tax			
United Kingdom			
Current tax credit/(charge)		**260**	(161)
Adjustments in respect of current taxation in previous years		**(760)**	(2,767)
		(500)	(2,928)
Overseas			
Current tax charge		**(24,225)**	(16,939)
Adjustments in respect of current taxation in previous years		**656**	1,136
		(23,569)	(15,804)
Total current taxation		**(24,069)**	(18,732)
Deferred tax			
Relating to the origination and reversal of temporary differences	13.6.3	**10,174**	5,544
Taxation expense reported in the consolidated income statement	7	**(13,895)**	(13,188)
Consolidated statement of comprehensive income			
Tax relating to actuarial loss on overseas schemes	8	**409**	151
Deferred tax relating to actuarial loss on UK pension scheme	8	**2,852**	1,365
		3,261	1,516

13.6.2 Reconciliation of tax expense

	Note	2011 €'000	2010 €'000
Accounting profit before taxation		**35,091**	32,292
Tax at UK statutory corporation tax rate of 26.5% (2010: 28.0%)		**(9,299)**	(9,042)
Effect of:			
Adjustments in respect of prior periods		**(470)**	(2,569)
Disallowed expenses and non-taxable income		**(593)**	(382)
Previously unrecognised temporary differences		**–**	1,221
Remeasurement of deferred tax – change in corporation tax rate		**(763)**	(433)
Net effect of higher rates of overseas taxation		**(1,596)**	(2,025)
Exempt foreign income		**(349)**	–
Tax losses arising in the period that cannot be Group relieved		**(1,047)**	–
Foreign exchange adjustment		**222**	42
Total tax charge	13.6.1	**(13,895)**	(13,188)
Effective income tax rate (%)		**39.5**	40.8

The UK statutory corporation tax rate was reduced from 28% to 26% in April 2011. This is part of a wider policy to reduce the UK corporation tax rate to 23% by April 2014 through annual reductions of 1%. The Finance Bill reducing the corporation tax rate to 25% from April 2012 was substantively enacted on 5 July 2011. This reduction has therefore been accounted for in the Group's deferred tax asset carried forward in 2011. Future anticipated reductions in the corporation tax rate will be accounted for following their substantive enactment.

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		Consolidated income statement	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000
Post-employment benefits	**4,230**	4,727	**(3,429)**	(2,616)
Reduced depreciation for tax purposes	**6,716**	8,593	**(1,877)**	3,847
Other temporary differences	**18,034**	2,225	**15,480**	4,313
Deferred tax charge	**–**	–	**10,174**	5,544
Net deferred tax asset	**28,980**	15,545	**–**	–

	UK €'000	Luxembourg €'000	Other overseas €'000	Total €'000
Net deferred tax asset at 1 January 2011	14,551	921	73	15,545
Deferred tax in income statement	(5,383)	113	15,444	10,174
Deferred tax relating to actuarial loss	2,852	–	409	3,261
Net deferred tax asset at 31 December 2011	12,020	1,034	15,926	28,980

	UK €'000	Luxembourg €'000	Other overseas €'000	Total €'000
Net deferred tax asset 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

Other movements are due to changes to the UK corporation tax rate and adjustments in relation to unrealised losses.

13.7 Profits of the holding company

The retained profit for the year includes a profit of €5,282,000 (2010: loss of €11,897,000) 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 2011	16	171,390	503,836	675,242
Additions	–	34,574	–	34,574
Disposals	–	(1,710)	–	(1,710)
Write-off	–	(6,774)	–	(6,774)
At 31 December 2011	16	197,480	503,836	701,332
Accumulated amortisation				
At 1 January 2011	16	88,740	393,400	482,156
Amortisation charge for the year	–	20,723	–	20,723
Disposals	–	(1,280)	–	(1,280)
Write-off	–	(3,390)	–	(3,390)
At 31 December 2011	16	104,793	393,400	498,209
Net book value				
At 31 December 2011	–	92,687	110,436	203,123

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

The portion of capitalised self-developed software costs disclosed above that relates to software not currently brought into use amounted to €30,052,000 (2010: €23,544,000). No amortisation has been charged during the year against these assets (2010: €nil).

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

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% (2010: 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.

Cash flows are discounted using a pre-tax discount rate of 12.7% (2010: 13.0%), 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 fixed assets €'000	Total €'000
Cost				
At 1 January 2011	6,410	25,660	6,034	38,104
Additions	3,390	4,562	258	8,210
Write-off	(750)	–	–	(750)
Disposals	(1,263)	(2,763)	(375)	(4,401)
At 31 December 2011	**7,787**	**27,459**	**5,917**	**41,163**
Accumulated depreciation				
At 1 January 2011	3,215	20,038	4,752	28,005
Depreciation charge for the year	701	3,253	519	4,473
Write-off	(70)	–	–	(70)
Disposals	(1,263)	(2,763)	(197)	(4,223)
At 31 December 2011	**2,583**	**20,528**	**5,074**	**28,185**
Net book value				
At 31 December 2011	**5,204**	**6,931**	**843**	**12,978**
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

Assets with a net book value of €516,000 (2010: €925,000) are held under finance leases and included within computer equipment.

13.11 Investments

Company	Investment in subsidiaries 2011 €'000	Investment in subsidiaries 2010 €'000
Cost at 1 January and 31 December	**673,481**	673,481
Accumulated impairment		
At 1 January and 31 December	**332,000**	332,000
Net book value	**341,481**	341,481

Investments in subsidiary undertakings are stated at cost less impairment.

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%[1]
England and Wales	LCH.Clearnet Funding LP	100%
England and Wales	LCH.Clearnet GP Limited	100%[1]
England and Wales	LCH.Clearnet PLP Limited	100%[1]
Ireland	Freshwater Finance PLC	–[2]

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

The principal activity of 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, Portugal, Italy, Germany, Luxembourg and Spain.

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.

The partners of LCH.Clearnet Funding LP have taken advantage of the exemption in Regulation 7 of The Partnerships (Accounts) Regulations 2008 from preparing the equivalent Annual Report and Annual Financial Statements as would be required under the Companies Act 2006.

13.12 Cash and short-term deposits

	Group		Company	
	2011 €'000	2010 €'000	**2011 €'000**	2010 €'000
Cash at bank and in hand	**3,604,564**	1,280,443	**2,401**	7,806
Short-term deposits	**16,809,447**	14,488,753	**–**	–
	20,414,011	15,769,196	**2,401**	7,806

€16,226,334,000 (2010: €13,960,958,000) of short-term deposits are fully collateralised by 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 2011 €'000	Group 2010 €'000	Company 2011 €'000	Company 2010 €'000
Amounts falling due within one year:				
Other receivables	**78,082**	43,460	**464**	77
Amounts owed by Group undertakings	**–**	–	**2,273**	757
	78,082	43,460	**2,737**	834
Prepayments	**11,499**	13,187	**11**	–
Accrued income	**1,948**	3,485	**–**	–
	91,529	60,132	**2,748**	834

Other receivables is principally due to amounts recoverable from members relating to the development of clearing systems. There are no trade and other receivables that are past due or impaired.

13.14 Balances with clearing members

	Group 2011 €'000	Group 2010 €'000
Assets		
Fair value of transactions with clearing members, less variation margin	**497,279,703**	480,586,840
Initial margin and other clearing member balances	**4,285,645**	2,266,857
	501,565,348	482,853,697
Liabilities		
Fair value of transactions with clearing members, less variation margin	**(497,261,974)**	(480,572,089)
Initial margin and other clearing member balances	**(40,747,686)**	(30,030,195)
	(538,009,660)	(510,602,284)

The balances due from clearing members recorded in the statement of financial position of €501,565 million (2010: €482,854 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 2011, the total of fully collateralised loans in respect of Fixed Income transactions was €491,410 million (2010: €473,828 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 €37,758 million (2010: €31,891 million) and the total amount of guarantees held was €2,456 million (2010: €3,163 million). To date this collateral has not been utilised.

13.15 Issued capital and reserves

	Group & Company	
	2011 €'000	2010 €'000
Authorised		
100,916,003 (2010: 100,916,003) ordinary shares of €1 each	**100,916**	100,916
200,000 (2010: 200,000) non-cumulative callable preference shares of €1 each	**200**	200
Issued and fully paid		
40,632,643 (2010: 40,632,643) ordinary shares of €1 each (including three non-voting shares)	**40,633**	40,633

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	
	Note	**2011 €'000**	2010 €'000	**2011 €'000**	2010 €'000
Current					
Finance leases	13.20	**334**	346	**–**	–
Bank overdrafts	13.16.1	**67,782**	–	**–**	–
		68,116	346	**–**	–
Non-current					
Preferred securities	13.16.2	**177,444**	176,969	**–**	–
Subordinated loan owed to subsidiary	13.16.2	**–**	–	**197,444**	196,969
Finance leases	13.20	**575**	672	**–**	–
		178,019	177,641	**197,444**	196,969

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 Irish 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 2011 the Group has undrawn uncommitted borrowing facilities of €75 million (2010: €148 million).

13.17 Default Funds

	2011 €'000	2010 €'000
LCH.Clearnet SA Default Funds		
OTC fund	**603,707**	314,421
Other funds	**727,617**	1,018,653
	1,331,324	1,333,074
LCH.Clearnet Limited Default Fund	**712,407**	696,219
	2,043,731	2,029,293

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 a 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	2011 €'000	2010 €'000
Wages and salaries	**89,593**	82,259
Social security costs	**17,520**	15,088
Pension costs	**10,831**	11,696
Employee benefits expense	**117,944**	109,043
Redundancy costs included in non-recurring items (Note 13.5.3)	**4,718**	–
Average monthly number of people (including Executive Directors) employed	**719**	713

The Executive Committee has expanded from four members to nine during 2011, with two members leaving the employment of the Group.

Ian Axe[1] (Group Chief Executive and Chief Executive of LCH.Clearnet Limited)
Michael Davie[1] (SwapClear Chief Executive Officer)
Charlie Longden[1] (CDSClear Chief Executive Officer)
Gavin Wells[1] (ForexClear Chief Executive Officer)
Alberto Pravettoni (Repo and Exchanges Chief Executive Officer)
Christopher Doukaki[1] (Group Chief Administration Officer)
Christophe Hémon (Chief Executive of LCH.Clearnet SA and Chief Operating Officer)
Andrew Howat[1] (Head of CaLM)
Jeffrey Hughes[1] (Group Chief Financial Officer)

Roger Liddell[2] (former Group Chief Executive)
Francis Berthomier[2] (former Group Chief Financial Officer)

1 Appointed to the Group Executive Committee during 2011.
2 Left the employment of the Group during 2011.

13.18 Employee benefits continued

13.18.1 Employees and Directors continued

	2011 €'000	2010 €'000
Ongoing remuneration	**7,536**	5,108
Termination payment to former Committee member	**886**	–
	8,422	5,108
Compensation for loss of benefits from previous employment	**863**	–
Aggregate emoluments of Group Executive Committee	**9,285**	5,108

Aggregate emoluments include €242,000 (2010: €75,000) contribution to pension schemes.

Only Ian Axe is a Director of the Company.

	Company	
Directors	**2011 €'000**	2010 €'000
Total remuneration paid to Directors of the Company		
Ongoing remuneration	**2,733**	1,949
Compensation for loss of benefits from previous employment	**863**	–
Total	**3,596**	1,949

Full details of Directors' remuneration are disclosed in section 15.6.

On going remuneration of the highest paid Director from the Group was €1,532,000. This includes €431,000 deferred under the long-term incentive plan of which only €144,000 is recognised in the income statement under the Group's accounting policies. No Directors are accruing retirement benefits under a defined benefit scheme.

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 353 active members, 462 inactive members and 102 pensioners. The Amsterdam scheme has 14 active and five inactive members, whilst the Porto scheme has only four 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 2011. A summary of the triennial valuation for the UK scheme, as at 30 June 2010, is as follows:

Actuarial method used	Projected unit
Rate of investment returns per annum – pre-retirement	6.00%
Rate of investment returns per annum – post-retirement	4.625%
Increase in earnings per annum	5.20%
Scheme assets taken at market value	€109,113,000
Wind-up funding level	67%

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:

	2011		2010		2009		2008		2007	
Assumptions used	UK Scheme	Amsterdam/ Porto	UK Scheme	Amsterdam/ Porto	UK Scheme	Amsterdam/ Porto	UK Scheme	Amsterdam/ Porto	UK Scheme	Amsterdam/ Porto
Discount rate	4.75%	5.00%	5.30%	4.75%	5.75%	5.00%	5.75%	5.50%	5.50%	5.50%
Rate of increase in salaries	4.60%	3.50%/ 3.00%	5.00%	3.50%	5.00%	3.75%/ 3.50%	5.00%	3.75%/ 3.50%	5.25%	3.50%/ 3.25%
Rate of increase in pensions	2.80%	0.50%/ 1.50%	3.25%	1.50%	3.25%	1.50%	2.75%	2.00%/ 1.50%	3.25%	1.75%/ 1.50%
Inflation assumption	3.10%	2.00%	3.50%	2.00%	3.50%	2.25%	3.00%	2.25%	3.25%	2.00%
Expected rates of return on scheme assets:										
Equities/Diversified growth portfolio	6.15%	7.20%	6.70%	6.70%/ 8.90%	6.50%	7.90%/ 10.50%	6.40%	8.70%/ 9.10%	7.10%	7.40%/ 7.00%
Bonds	3.15%	3.90%	5.00%	3.50%/ 3.52%	5.30%	4.20%/ 3.26%	5.00%	4.10%/ 4.56%	5.20%	4.20%/ 4.10%
Property	6.15%	4.10%	6.70%	N/A/ 6.40%	6.50%	N/A/ 7.40%	6.40%	N/A/ 6.70%	5.25%	N/A/ 5.75%
Cash	–	2.60%	–	N/A/ 1.50%	–	N/A/ 2.00%	2.00%	N/A/ 3.80%	5.25%	N/A/ 4.10%
Weighted average	5.25%	5.25%	6.19%	5.00%/ 4.00%	6.14%	5.31%/ 4.54%	5.68%	5.48%/ 5.30%	6.57%	5.16%/ 4.50%
Post retirement mortality in years:										
Currently aged 60 – male	29.1		28.8		28.7		28.6		26.7	
Currently aged 60 – female	31.1		31.7		31.6		31.5		29.6	
Currently aged 45 – male	30.2		29.7		29.6		29.6		27.6	
Currently aged 45 – female	32.3		32.5		32.5		32.4		30.5	

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 – 2011	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Benefit obligation at 1 January 2011	149,347	3,265	152,612
Current service cost	9,642	179	9,821
Interest cost	7,730	155	7,885
Actuarial loss/(gain)	2,138	(68)	2,070
Benefits paid	(3,263)	(20)	(3,283)
Amendments	660	–	660
Exchange rate changes	4,970	–	4,970
Benefit obligation at 31 December 2011	**171,225**	**3,511**	**174,736**

13.18 **Employee benefits** continued
13.18.2 Pension commitments continued

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 scheme assets – 2011	**UK Scheme €'000**	**Amsterdam/ Porto €'000**	**Total €'000**
Fair value of scheme assets at 1 January 2011	**143,215**	**2,998**	**146,213**
Expected return on scheme assets	**8,936**	**149**	**9,085**
Actuarial losses	**(9,468)**	**(196)**	**(9,664)**
Employer contribution (includes benefits paid and reimbursed)	**15,072**	**464**	**15,536**
Benefits paid	**(3,263)**	**(20)**	**(3,283)**
Exchange rate changes	**5,041**	**–**	**5,041**
Fair value of scheme assets at 31 December 2011	**159,533**	**3,395**	**162,928**

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

Analysis of pension benefit obligation – 2011	**UK Scheme €'000**	**Amsterdam/ Porto €'000**	**Total €'000**
Present value of funded obligations	**171,225**	**3,511**	**174,736**
Fair value of plan assets	**(159,533)**	**(3,395)**	**(162,928)**
Deficit for funded plans	**11,692**	**116**	**11,808**

Analysis of pension benefit obligation – 2010	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'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

Net liability shown in statement of financial position	2011 €'000	2010 €'000
Deficit for funded plans	**11,808**	6,399
Other European retirement provisions	**3,818**	3,696
Employee benefits	**15,626**	10,095

Analysis of pension benefit obligation	2011 €'000	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Present value of funded obligations	**174,736**	152,612	125,254	95,094	122,239
Fair value of plan assets	**(162,928)**	(146,213)	(123,915)	(73,168)	(117,794)
Deficit for funded plans	**11,808**	6,399	1,339	21,926	4,445

Components of pension cost	2011 €'000	2010 €'000
Current service cost	**9,821**	10,587
Interest cost	**7,885**	7,308
Amendments	**660**	–
Expected return on plan assets	**(9,085)**	(8,018)
	9,281	9,877
Other employee benefit costs:		
UK defined contribution scheme	**1,107**	490
Other European retirement schemes	**443**	1,329
Total expense recognised in the income statement	**10,831**	11,696

Net actuarial losses/(gains) immediately recognised:		
On pension schemes	**11,734**	4,931
On other European retirement schemes	**(379)**	840
Total expense recognised in the statement of changes in equity	**11,355**	5,771

The cumulative amount of actuarial losses recognised in the statement of changes in equity since the Group adopted IFRS on 1 January 2004 is €22,497,000 (2010: €11,142,000).

Pension scheme asset allocation

An analysis of the pension assets is set out below:

At 31 December 2011	UK Scheme €'000	%	Amsterdam/ Porto €'000	%	Total €'000	%
Equities	**68,281**	**42**	**1,464**	**43**	**69,745**	**43**
Diversified growth portfolio	**23,451**	**15**	**–**	**–**	**23,451**	**14**
Bonds	**45,467**	**29**	**1,477**	**44**	**46,944**	**29**
Property	**7,658**	**5**	**454**	**13**	**8,112**	**5**
Cash	**14,676**	**9**	**–**	**–**	**14,676**	**9**
Total	**159,533**	**100**	**3,395**	**100**	**162,928**	**100**

13.18 Employee benefits continued
13.18.2 Pension commitments continued

At 31 December 2010	UK Scheme €'000	%	Amsterdam/ Porto €'000	%	Total €'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

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.

	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Actual return on plan assets	**(579)**	15,051

History of experience gains and losses

	Financial years ending 31 December:				
	2011 €'000	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Difference between expected and actual return on scheme assets:					
Amount	**(9,664)**	7,033	10,678	(27,716)	2,025
Percentage of scheme assets	**(6%)**	5%	9%	(38%)	2%
Experience (gains) and losses on scheme liabilities:					
Amount	**(2,043)**	(2,730)	47	(11,317)	15
Percentage of scheme liabilities	**(1%)**	(2%)	–	(9%)	–

Contributions
The Group expects to contribute €8,236,000 (2010: €9,765,000) to its defined benefit pension plans in 2012. 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 €1,107,000 (2010: €490,000) represents contributions payable to the plan by the Group at rates specified in the rules of the plan.

Other comments
Included in employee benefits is a long service award scheme of €3,595,000 (2010: €3,415,000) and €223,000 (2010: €281,000) 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 €434,000 (2010: €1,318,000) and the charge in the early retirement scheme was €9,000 (2010: €11,000). The amount recognised directly in reserves relating to actuarial gains is €379,000 (2010: €840,000 loss).

13.19 Trade and other payables

	Group		Company	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Trade payables	7,983	9,261	–	–
Other payables including taxation and social security	225,624	40,766	–	–
Amounts owed to Group Undertakings	–	–	843	517
Accruals and deferred income	124,007	108,140	10,841	10,273
	357,614	158,167	11,684	10,790

€37,714,000 (2010: €15,007,000) included in other payables and €36,227,000 (2010: €20,971,000) included in deferred income relate to amounts due under funding arrangements for the development of new clearing systems.

Other payables include a balance of €161,860,000 owed to the administrator of MF Global UK Limited.

13.20 Commitments and contingencies

Operating leases

	2011 Property €'000	2010 Property €'000
Within one year	8,418	9,837
More than one year, but less than five	13,721	19,321
More than five years[1]	24,020	24,313
	46,159	53,471

1 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.

Finance leases

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

	2011		2010	
	Minimum payments €'000	Present value of payments €'000	Minimum payments €'000	Present value of payments €'000
Within one year	406	334	408	346
In two to five years	621	575	719	672
Total minimum lease payments	1,027	909	1,127	1,018
Less future financing charges	(118)	–	(109)	–
	909	909	1,018	1,018

Supplier agreements

In June 2005, the Group entered into a new ten 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 €56 million (2010: €76 million), assuming no early termination. The Group has the right to terminate this agreement with one year's notice under certain conditions.

13.20 Commitments and contingencies continued

Treasury assets supporting operational facilities

At 31 December 2011 the Group had assets and collateral in support of the following operational facilities.

	2011 €'000	2010 €'000
Central bank activity[1]	**11,693,974**	10,309,471
Concentration bank services	**910,776**	582,240
Fixed Income settlement[2]	**15,800,000**	20,100,000
	28,404,750	30,991,711

1 LCH.Clearnet SA pledges securities that have been provided by members as collateral for clearing activity with Banque de France for the purpose of overnight borrowing.

2 LCH.Clearnet Limited holds 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 assessment

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 Group Chief Risk Officer, who through the subsidiary Chief Risk Officers, ensures effective delegation 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.

13.22.4 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 Sovereign risk

Distress amongst sovereigns by market concerns over the levels of government debt and the ability of certain governments to service their debts over time could have adverse effects on the Group's cleared products, margin collateral, investments, the membership and the financial industry as a whole.

The Risk Committees and Boards have reviewed the situation and approved enhancements to the risk framework in order to better protect the Group against severe market volatility of that nature. Such enhancements have included the development of specific risk frameworks to manage sovereign risk for both Fixed Income clearing and margin collateral, and a suite of sovereign stress scenarios which model escalations in sovereign risk against which all members are monitored regularly. In addition, investment limits and both counterparty and membership monitoring, are sensitive to changes in ratings and other financial market indicators, to ensure that the Group is able to measure, monitor and mitigate exposures to sovereign risk.

13.22.6 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. Unsecured investments are strictly limited by policy.

The Group currently interoperates with several other CCPs in Europe for cash cleared products. Interoperability with another CCP poses risks similar to the risks the Group is currently exposed to with its clearing members. All of our interoperable links are subject to daily margining with the CCP involved to mitigate any of the market risks to which the Group would be exposed in the event of a default.

13.22.7 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 Financial risk management assessment continued

13.22.8 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 collateral and liquidity management 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 therefore access to central bank money.

13.22.9 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.

13.22.10 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 Collateral and liquidity management 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.

13.22.11 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.

13.22.12 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.

13.22.13 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.

13.22.14 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:

	Note	Group 2011 €'000	Group 2010 €'000	Company 2011 €'000	Company 2010 €'000
Financial assets at fair value through profit or loss					
Fair value of transactions with clearing members	13.14	**497,279, 703**	480,586,840	**–**	–
Investment in preferred securities		**–**	–	**13,400**	14,000
Government backed, bank issued certificates of deposits		**8,431,171**	8,212,702	**–**	–
Treasury bills		**2,631,604**	3,158,646	**–**	–
Bank issued certificates of deposit		**134,532**	66,676	**–**	–
Held-to-maturity assets (in other financial assets)					
Government backed, bank issued certificates of deposits		**7,552,125**	2,979,399	**–**	–
Other financial assets		**18,749,432**	14,417,423	**13,400**	14,000
Loans and receivables					
Trade and other receivables	13.13	**80,030**	46,945	**2,737**	834
Short-term loan due from subsidiary		**–**	–	**58,000**	50,000
Initial margin and other member balances	13.14	**4,285,645**	2,266,857	**–**	–
Cash and short-term deposits in the statement of financial position	13.12	**20,414,011**	15,769,196	**2,401**	7,806
Financial liabilities at fair value through profit or loss					
Fair value of transactions with clearing members	13.14	**(497,261,974)**	(480,572,089)	**–**	–
Financial liabilities at amortised cost					
Trade and other payables	13.19	**(357,614)**	(158,167)	**(11,684)**	(10,790)
Initial margin and other member balances	13.14	**(40,747,686)**	(30,030,195)	**–**	–
Default Funds	13.17	**(2,043,731)**	(2,029,293)	**–**	–
Bank overdrafts	13.16	**(67,782)**	–	**–**	–
Preferred securities	13.16	**(177,444)**	(176,969)	**–**	–
Subordinated loan owed to subsidiary	13.16	**–**	–	**(197,444)**	(196,969)
Derivative financial instruments at fair value through profit or loss					
Derivative financial assets		**1,002**	1,418	**–**	–
Derivative financial liabilities		**(60,781)**	(26,772)	**–**	–
		(59,779)	(25,354)	**–**	–

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 2011, the Group held the following financial instruments measured at fair value:

	2011 €'000	Level 1 €'000	Level 2 €'000
Assets measured at fair value			
Fair value of transactions with clearing members	**497,279,703**	5,869,703	491,410,000
Treasury bills	**2,631,604**	2,631,604	–
Government backed, bank issued certificates of deposit	**8,431,171**	–	8,431,171
Bank issued certificates of deposit	**134,532**	–	134,532
Foreign exchange forward contract	**1,002**	1,002	–
Liabilities measured at fair value			
Fair value of transactions with clearing members	**(497,261,974)**	5,851,974	491,410,000
Interest rate swap liability	**(60,781)**	–	(60,781)

	2010 €'000	Level 1 €'000	Level 2 €'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 issued certificates of deposits	8,212,702	–	8,212,702
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)

Credit risk

Financial assets are neither past due nor impaired. The maximum credit risk exposure relating to financial assets is represented by the 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.

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.

13.23 Financial instruments continued

	Note	2011 €'000	2010 €'000
Fair value of member balances			
(Ratings as measured by Fitch)			
Members rated AAA		**16,292,173**	14,981,847
AA+		**34,259,041**	13,753,828
AA		**71,728,549**	75,545,362
AA–		**91,562,397**	134,780,140
A+		**102,574,758**	82,629,333
A		**118,326,877**	36,540,229
A–		**13,790,110**	5,740,153
BBB+		**26,736,663**	10,779
BBB		**1,330,161**	102,002,885
BBB–		**–**	–
Unrated		**20,678,974**	14,602,284
	13.14	**497,279,703**	480,586,840

	2011 €'000	2010 €'000
Group Treasury portfolio		
(Ratings assigned with reference to major agencies)		
AAA/AA+/AA- Government backed	**22,163,205**	15,179,574
AA/AA+/AAA Secured	**–**	2,671,725
AA/AA+/AAA Unsecured	**439,349**	772,554
A+/AA- Secured	**16,195,398**	11,261,509
A+/AA- Unsecured	**365,491**	301,257
	39,163,443	30,186,619

The balances due from clearing members are fully secured by collateral held by the Group. As at 31 December 2011, the total of fully collateralised loans in respect of Fixed Income transactions was €491,410 million (2010: €473,828 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 €37,758 million (2010: €31,891 million) and the total amount of guarantees held was €2,456 million (2010: €3,163 million).

Concentration risk

The largest concentration of Treasury exposures as at 31 December 2011 was 8.8% of the total investment portfolio to UK Government backed securities (2010: 11.1%).

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:

2011	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	**3,110,752**	**17,303,259**	**–**	**–**	**–**	**20,414,011**
Other financial assets	**–**	**9,345,619**	**5,578,011**	**3,795,346**	**–**	**18,718,976**
Treasury portfolio	**3,110,752**	**26,648,877**	**5,578,011**	**3,795,346**	**–**	**39,132,986**
Fair value of transactions with clearing members – asset	**497,279,703**	**–**	**–**	**–**	**–**	**497,279,703**
Initial margin and other member balances – asset	**4,285,645**	**–**	**–**	**–**	**–**	**4,285,645**
Fair value of transactions with clearing members – liability	**(497,261,974)**	**–**	**–**	**–**	**–**	**(497,261,974)**
Initial margin and other member balances – liability	**(40,747,686)**	**–**	**–**	**–**	**–**	**(40,747,686)**
Default Fund	**–**	**–**	**–**	**(2,043,731)**	**–**	**(2,043,731)**
Net balance with members	**(36,444,312)**	**–**	**–**	**(2,043,731)**	**–**	**(38,488,043)**
Trade and other receivables	**80,030**	**–**	**–**	**–**	**–**	**80,030**
Foreign exchange forward contract	**–**	**1,002**	**–**	**–**	**–**	**1,002**
Trade and other payables	**(357,614)**	**–**	**–**	**–**	**–**	**(357,614)**
Preferred securities	**–**	**–**	**(11,837)**	**(47,348)**	**(191,837)**	**(251,022)**
Interest rate swaps – net outflows	**–**	**(1,803)**	**(10,570)**	**(48,408)**	**–**	**(60,781)**

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	(277,485,587)	–	–	(2,029,293)	–	(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)	(4,311)	(20,664)	–	(25,354)

For Default Funds, the tenor of the liability, on which interest is paid is based on three month LIBOR for LCH.Clearnet Limited, is matched with the interest reset dates of the asset and does not exceed three 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.

13.23 Financial instruments continued
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 2011 the fair value of the preferred securities are approximately €120,600,000 (2010: €126,000,000) at the year-end compared to the amortised cost carrying value of €177,444,000 (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 2011 price in the Company's 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 the 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:

	2011 €'000 +25bp of interest rate	2011 €'000 +50bp of interest rate	2011 €'000 +100bp of interest rate	2010 €'000 +25bp of interest rate	2010 €'000 +50bp of interest rate	2010 €'000 +100bp of interest rate
Net exposure of cash and member margin balances	(20,274)	(43,003)	(88,461)	(22,377)	(45,326)	(91,224)
Interest rate swaps	16,355	32,711	65,421	19,069	38,140	76,280
	(3,919)	(10,292)	(23,040)	(3,308)	(7,186)	(14,944)
Tax effect of above	1,039	2,727	6,106	926	1,868	4,184
Impact on profit after tax	(2,880)	(7,565)	(16,934)	(2,382)	(5,318)	(10,760)

	2011 €'000 -25bp of interest rate	2011 €'000 -50bp of interest rate	2011 €'000 -100bp of interest rate	2010 €'000 -25bp of interest rate	2010 €'000 -50bp of interest rate	2010 €'000 -100bp of interest rate
Net exposure of cash and member margin balances	2,274	36,521	72,485	20,153	39,690	78,765
Interest rate swaps	(91)	(32,711)	(65,421)	(19,069)	(38,140)	(76,280)
	2,183	3,810	7,064	1,084	1,550	2,485
Tax effect of above	(578)	(1,010)	(1,872)	(304)	(434)	(696)
Impact on profit after tax	1,605	2,800	5,192	780	1,116	1,789

The current low levels of interest rates means 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.

	2011 £ €'000	2011 $ €'000	2010 £ €'000	2010 $ €'000
Net exposure	**(37,198)**	**9,190**	(11,450)	7,239
Reasonable shift	**3.1%**	**4.4%**	5.7%	5.8%
Total effect on profit/net assets of positive movements	**1,157**	**(401)**	648	(421)
Total effect on profit/net assets of negative movements	**(1,157)**	**401**	(648)	421

Amounts included in the income statement in relation to financial instruments

	2011 €'000	2010 €'000
Interest income on assets held at fair value	**282,534**	205,226
Interest income on assets held at amortised cost	**211,550**	108,325
Net fair value loss on revaluation of other financial assets held at fair value included in net interest income	**(3,874)**	(1,682)
Net fair value loss on interest rate swaps	**(35,427)**	(10,284)
Total revaluation losses	**(39,301)**	(11,966)
Interest income	**454,783**	301,585
Interest expense on liabilities held at amortised cost	**(354,733)**	(198,031)
Net interest income	**100,050**	103,554
Finance income on assets held at amortised cost	**2,678**	1,201
Finance costs on overdrafts and finance leases held at amortised cost	**(348)**	(137)
Finance costs on loans and borrowings held at amortised cost	**(12,312)**	(12,312)
Finance costs	**(12,660)**	(12,449)
Net finance cost	**(9,982)**	(11,248)

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 as a Compagnie Financière under French law. 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 a CCP and 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 comprised 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 that 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%.

13.24 Capital management continued

As well as the "Pillar 1" capital requirement the Group uses its Internal Capital Adequacy Assessment Process (ICAAP) to identify additional risks and to assess extra capital under "Pillar 2" which are not covered within the "Pillar 1" framework.

The table below sets out the Group's total capital and relevant ratios which exceed both the "Pillar 1" requirement, and the combination with the internal "Pillar 2" assessment:

	2011 €'000	2010 €'000
Regulatory capital		
Share capital	40,633	40,633
Other reserves/capital reserves	74,810	74,810
Retained earnings	217,651	204,549
Perpetual preferred securities (Limited to 35% of Tier 1)	69,984	68,334
Goodwill	(110,436)	(110,436)
Intangible assets	(92,687)	(82,650)
Tier 1 equity	199,955	195,240
Perpetual preferred securities (remainder)	107,460	108,635
Tier 2 equity	107,460	108,635
Total regulatory capital	307,415	303,875
Capital requirement		
Credit risk requirement	15,478	22,627
Market risk requirement	3,970	1,586
Operational risk requirement	72,930	81,092
Counterparty Risk	214	–
"Pillar 1" capital requirement	92,592	105,305
Latent market risk	24,000	22,800
Concentration risk	81,358	72,199
Pension risk	12,300	12,300
"Pillar 2" capital assessment	117,658	107,299
Total "Pillar 1" and "Pillar 2"	210,250	212,604
Excess capital over "Pillar 1" capital requirement	214,823	198,570
Excess capital over "Pillar 1" and "Pillar 2"	97,165	91,271
Risk weighted assets	1,154,188	1,316,313
Risk asset ratios		
Tier 1 ratio	17.3%	14.8%
Total capital ratio	26.6%	23.1%

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 2011.

14 CORPORATE GOVERNANCE

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 UK Corporate Governance Code 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 – other than the Group Chief Executive Officer, the Board consists wholly of Non-Executive Directors, the majority of whom represent shareholders.
iii) Independent Directors – four Directors are deemed to be independent.
iv) Annual re-election of Board members – given the composition of the Board, who are largely representatives of the Company's shareholders, the Board consider that it is not necessary for annual re-election to be introduced at this time.
v) External Board evaluation – it is anticipated that during 2012 an external Board evaluation will be conducted.

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 as a Compagnie Financière under French law. 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.

Jacques Aigrain has been the Group Chairman throughout the year.

Since 1 January 2011, the following Directors were appointed or reappointed to the Board:

Ian Axe
Naveed Sultan
Michael Bagguley
Ian Abrams
John Townend
Nazir Badat
Laurent Curtat
Gerard Hartsink
Vivien Levy-Garboua
Edward McAleer
Olivier Motte
Edward Pla
Martin Ryan
Lawrence Shaw
Christopher Willcox

Since 1 January 2011, the following Directors resigned their positions on the Board:

Francesco Vanni-d'Archirafi
David Williams

The Company has made available a Matched Bargain Facility (the Service) throughout the year 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.

14.1 The Group structure continued
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 a foreign company registration in New York City. 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 three Executive Directors: Ian Axe (Group Chief Executive Officer), Christophe Hémon (Group Chief Operating Officer and CEO (SA)) and Alberto Pravettoni (Head of Repo and Exchanges).

Since 1 January 2011, the following Directors resigned their positions on the Board:

Francis Berthomier (17 June 2011)
Roger Liddell (4 April 2011)

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. LCH.Clearnet SA has developed cross border activities in Italy, Luxembourg, Germany, the UK and Spain.

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 Jacques Aigrain; two Executive Directors – Ian Axe (Chief Executive Officer of LCH.Clearnet Group Limited) and Christophe Hémon (Chief Executive of LCH.Clearnet SA) and one user (BNP Paribas Securities Services) Alain Pochet.

As it is incorporated in France, LCH.Clearnet SA is subject to the authorisations (including a banking licence) granted by the ACP (Autorité du Contrôle Prudentiel) 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. As a securities settlement system[1] 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 (National Bank of Belgium and Financial Services Market Authority), the Netherlands (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.

LCH.Clearnet SA has been recognised by the FSA as a Recognised Overseas Clearing House for the purposes of the Financial Services and Market Act 2000, on 18 May 2010.

Since 1 January 2011, Ian Axe and Jacques Aigrain have been appointed as Directors of LCH.Clearnet SA.

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 Ltd (51%) and LCH.Clearnet SA (49%). The Board of Managers is chaired by Renaud Kerspern (Finance Director LCH.Clearnet SA and Group Tax Director) and consists of Iona Levine (Group General Counsel), Christophe Hémon (Group Chief Operating Officer and Chief Executive of LCH.Clearnet SA), Tom Zschach (Group Chief Information Officer) and Thierry Plard (Manager).

1 The company appears on the list of interbank settlement and financial instrument settlement systems notified to the EU Commission by the French Ministry of Finance on 31 January 2001.

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.

The Schedule of Matters Reserved for the Board (the "Schedule") 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 Board may invite members of the Group's Executive Committee to attend Board meetings as appropriate. The Group Executive Committee assists the Chief Executive Officer in implementing and executing the Board's strategy across the Group. External auditors are invited to attend Board meetings where appropriate, as are 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 The UK Corporate Governance Code, 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 December 2011. An independent evaluation of the Board is expected to be conducted in 2012.

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 11 occasions during 2011, five of which were scheduled meetings with a further six 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	5/5	6/6	–	4/4	2/2	1/1
Ian Axe	3/3	5/5	–	–	–	–
Martin Abbott	4/5	5/6	–	2/4	–	1/1
Ian Abrams	5/5	6/6	4/4	–	–	–
Nazir Badat	5/5	5/6	2/4	3/4	–	–
Mike Bagguley	2/3	5/5	–	–	–	–
Laurent Curtat	5/5	6/6	–	1/1	–	–
Gerard Hartsink	4/5	5/6	–	–	–	–
Garry Jones	5/5	3/6	–	–	–	–
Vivien Levy-Garboua	5/5	6/6	–	–	2/2	0/1
Edward McAleer	5/5	5/6	–	–	–	1/1
Olivier Motte	5/5	5/6	–	–	–	–
Edward Pla	5/5	5/6	–	–	1/2	–
Bruno Prigent	4/5	3/6	–	–	–	–
Martin Ryan	4/5	6/6	–	1/1	–	–
Hervé Saint-Sauveur	5/5	5/6	4/4	4/4	–	–
Lawrence Shaw	5/5	6/6	–	–	2/2	1/1
Naveed Sultan	2/2	5/5	–	–	–	–
John Townend	4/5	6/6	4/4	–	1/2	1/1
Francesco Vanni d'Archirafi	3/3	0/1	–	1/1	–	–
Christopher Willcox	5/5	4/6	–	–	–	–
David Williams	2/2	1/1	–	–	–	–
Denise Wyllie	3/5	6/6	–	–	1/2	0/1

Audit Committee
The Audit Committee consists of four Non-Executive Directors, three of whom are independent. Membership of the Group Committee is shown below.

Ian Abrams (Chairman) – Independent Non-Executive
Nazir Badat
Hervé Saint-Sauveur – Independent Non-Executive
John Townend – Independent Non-Executive

Membership of the LCH.Clearnet SA Audit Committee is:

Ian Abrams (Chairman) – Independent Non-Executive Director
John Townend – Independent Non-Executive Director
Alain Pochet – Non-Executive Director

Membership of the LCH.Clearnet Ltd Audit Committee is:

Ian Abrams (Chairman) – Independent Non-Executive Director
Hervé Saint-Sauveur – Independent Non-Executive Director
John Townend – Independent Non-Executive Director
Nazir Badat – Non-Executive Director

The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience. The Group Audit Committee met on four occasions and the Audit Committee of its subsidiary company LCH.Clearnet Limited met on six 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 the executive management being present was held during the course of the year.

The Chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work.

The Committee's principal responsibilities as set out in its terms of reference 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 2011 can be summarised as follows:

Financial Statements
The Committee reviewed the 2010 annual reports and accounts before recommending approval to the Board. The Committee also considered management accounts, the medium-term financial plan and the 2012 Annual Budget.

External Auditors
The 2011 Audit Plan and fee schedule were reviewed and approved. The Committee reviewed the performance of the external auditors against the four key areas of qualification, expertise & resources, effectiveness and independence & leadership. During the year the audit was put out to tender and after careful consideration of the above factors, and noting audit partner rotation for the 2012 audit, the incumbent auditors, Ernst & Young LLP, were recommended for reappointment. Ernst & Young LLP were reappointed as the Company's auditors by the shareholders at the Annual General Meeting held on 24 June 2011.

One private meeting was held with the Committee in the absence of executive management.

14.2 Board Committees continued

Internal Audit

Two private meetings were 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. The annual Audit Plans were reviewed and considered to ensure sufficient coverage of Group issues and progress against the agreed plan was reviewed. An independent assessment of the internal audit function of LCH.Clearnet Limited was carried out during the year and the implementation of proposals arising was considered.

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's effectiveness is reviewed annually. The Committee reviewed its current practice against the Financial Reporting Council's Guidance on Audit Committees and, undertook a self-assessment questionnaire with the findings being discussed by the Committee. As a result of the evaluation, ongoing training on the principles of and developments in financial reporting and related company law would be provided to the members during the course of 2012. An annual review of the Committee's terms of reference was also conducted and subsequently updated to reflect that, in the interests of maximising efficiencies and rationalisation, future audit committee meetings of Group and its subsidiaries would be combined and held simultaneously for 2012 onwards.

Remuneration Committee

Details of the Committee's members, remit and activities are set out in the Remuneration Committee Report on pages 74 to 76.

Nomination Committee

The Nomination Committee consists of six Non-Executive Directors. Membership of the Committee is shown below:

Lawrence Shaw – Chairman
Jacques Aigrain
Vivien Levy-Garboua
Edward Pla
John Townend
Denise Wyllie

Other Board members may be invited to attend meetings at the discretion of the Chairman.

The Committee is responsible for nominating candidates to stand as Directors and Independent Directors, the nomination of members to the committees, succession planning 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.

The Nomination Committee met on two occasions during the course of the year at which they considered the recommendations to appoint Michael Bagguley and Naveed Sultan as new Board members.

Strategy Committee

The Strategy Committee consists of a minimum of six Non-Executive Directors. Membership of the Committee is shown below:

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. The Strategy Committee will not be convened if matters under discussion are the responsibility of all Directors.

Subsidiary Risk Committees

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.

The Chairman and/or Vice Chairman of the Committee of each subsidiary reports to the Board on the discussions, decisions (for LCH.Clearnet Limited) and recommendations (for LCH.Clearnet SA) of the Committee in order for the Board to understand the business implications and where necessary to formally ratify these decisions and recommendations. Under powers formally delegated by the Board, the Chief Executive of each subsidiary has responsibility for all risk decisions taken within the framework of agreed risk policies. All changes to risk policy require thorough review by the Risk Committees and either their approval or recommendation for Board approval.

The LCH.Clearnet Limited and LCH.Clearnet SA Risk Committees have the same Chairman and Deputy Chairman and meet together in order to ensure consistent application of the Board's Risk Tolerance Statement.

Membership of the subsidiary Risk Committees as at 31 December 2011 is shown below:

LCH.Clearnet Limited Risk Committee
John Townend – Chairman
Grigorios Markouizous – Citigroup
John Anderson – J.P. Morgan
Diarmuid O'Hegarty – LME
John Tanner – LSE
Denis Lyons – Newedge Group
Nick Carew-Hunt – NYSE Euronext
Adrian Burbanks – UBS
Matteo Farina – Goldman Sachs International
Neill Pattinson – HSBC Holdings
Antony Baldwin – Daiwa Capital Markets Europe
Julian Cathrew – Crédit Suisse
Nick Hallett – Barclays Capital
Neil Tranter – Deutsche Bank
Ian Axe – CEO LCH.Clearnet Group
Christophe Hémon – CEO LCH.Clearnet SA
Chris Jones – Executive Director & Head of Risk, LCH.Clearnet Limited
Gordon Alexander – COO SwapClear, LCH Clearnet Limited

LCH.Clearnet SA Risk Committee
John Townend – Chairman
Edwin Bons – ABN Amro
François Levé – Oddo & Cie
Hester Serafini – Deutsche Bank
Marco Pouw – Crédit Suisse
Gary Dunn – HSBC
Kris Wulteputte – KAS Bank
Anne Genest – BNP Paribas
Denis Lyons – Newedge Group
Christine Cremel – Credit Agricole CIB
Francois-Xavier Bouillet – Goldman Sachs
Stephen Weston – J.P. Morgan
Ian Axe – CEO LCH.Clearnet Group
Christophe Hémon – CEO LCH.Clearnet SA
Jeffrey Hughes – CFO LCH.Clearnet Group
Vincent Gros – General Secretary, LCH.Clearnet SA
Ernest Van Der Hout – Director & Head of Risk, LCH.Clearnet SA

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

The Risk Committee of LCH.Clearnet Limited met on eight occasions during the course of the year and the Risk Committee of LCH.Clearnet SA met on seven occasions.

14.2 Board Committees continued

The responsibilities of the two Risk Committees as set out in their terms of reference specifically include the following:

- membership eligibility criteria
- new markets and products
- margining
- collateral eligibility
- default management policy and framework
- default resource adequacy
- payment and money settlement arrangements
- investment and liquidity risk management
- regulatory issues
- review of comprehensive risk reporting

All policies relating to the above are reviewed and approved by the Risk Committees annually.

The principal activities of the Committees during 2011 can be summarised as follows:

Regulatory matters

The Risk Committees considered the implications of proposed regulations governing CCP activity and risk management as embodied in the European Markets Infrastructure Regulation (EMIR) and Dodd-Frank, as well as the proposed CPSS-IOSCO Principles for FMIs and the BIS proposals for the capitalisation of banks' exposures to CCPs.

Sovereign Risk

The Risk Committees were fully consulted by the Executive on the ongoing distress seen among European sovereigns and their implications for cleared products, margin collateral, the membership and the financial industry as a whole. As part of this consultation, the Risk Committees reviewed and approved enhancements to risk frameworks to provide greater protection to the subsidiary CCPs and a new suite of sovereign stress scenarios which model the further escalation against which all members are being monitored regularly.

Default Management

In addition to their regular review of default management arrangements, the Risk Committees were consulted and kept fully informed of developments during the default of MF Global.

New services and enhancements to existing services

The Risk Committees reviewed and recommended to the Board for approval the ForexClear Non-deliverable Forwards service, enhancements to SwapClear client clearing services and changes to the SwapClear membership, default fund structure and default management process.

Further risk reviews

The Risk Committees also reviewed the two subsidiaries' Default Fund structures and resource waterfalls, and the risk frameworks for both the CDS and Cassiopeia clearing services.

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 regulated by the ACP and the AMF and under all other regulatory bodies to whose rules the Company is subject.

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

15 Remuneration report
15.1 This report describes the composition of the Remuneration Committee, its terms of reference, the components of the Group's remuneration policy and details the remuneration of each of the Directors during the period.

Members of the Remuneration Committee
The Remuneration Committee is comprised of six Non-Executive Directors. Membership of the Committee is shown below:

Hervé Saint-Sauveur – Chairman
Martin Abbott
Jacques Aigrain
Nazir Badat
Laurent Curtat (appointed 24 November 2011)
Martin Ryan (appointed 24 November 2011)

The Remuneration Committee took advice during the year from Chris Doukaki, Group Chief Administration Officer. The Company has appointed New Bridge Street (an Aon Hewitt Company) as its independent advisers during the year. Members of the Company's senior management may be invited to attend meetings on an ad hoc basis.

15.2 Activities of the Remuneration Committee
The Remuneration Committee met on four occasions during the course of the year.

The Committee's principal responsibilities as set out in its terms of reference are:

- to consider and review the remuneration policy of the Group and making recommendations to the Board;
- to review specific salary and bonus recommendations on an annual basis, in particular those relating to Executive Committee members;
- to review any major changes proposed in the employee benefit structures in the Group and to monitor the level and structure of remuneration across the Group;
- to approve targets for performance related pay schemes; and
- to consider changes to pension arrangements in the Group.

The Chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work.

The Committee's activities since the beginning of 2011 can be summarised as follows:

- Reviewing the remuneration and bonus arrangements for the Group to ensure that they are aligned with the Group's business strategy and remain competitive in the external market.
- Reviewing individual Executive Committee performance and remuneration packages and making recommendations to the Board, including undertaking a comprehensive benchmarking exercise for Executive Committee members.
- Reviewing the Group's defined Benefit Pension Scheme in light of current trends and making recommendations to the Board.
- Approval of the introduction of a new Transformation Long-term Incentive Plan which is aligned to increases in value of the Group.
- Considering the applicability of the FSA Remuneration Code to the Group and other relevant remuneration guidance and best practice in the market.

15.3 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.

15.4 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)
Ian Axe[3]	4 April 2011	Group Chief Executive Officer
Hervé Saint-Sauveur[1]	10 June 2010	Independent Non-Executive
John Townend[1]	24 June 2011	Independent Non-Executive
Ian Abrams[1]	14 October 2009	Independent Non-Executive
Denise Wyllie[1]	10 June 2010	Other director from Goldman Sachs
Gerard Hartsink[1]	24 June 2011	Other director from ABN Amro Bank N.V.
Nazir Badat[1]	24 June 2011	Other director from HSBC Bank plc
Lawrence Shaw[1]	24 June 2011	Other director from Deutsche Bank
Vivien Levy-Garboua[1]	24 June 2011	Other director from BNP Paribas
Martin Abbott[4]	21 January 2008	Appointed by The London Metal Exchange
Garry Jones[4]	10 February 2010	Appointed by NYSE Euronext
Bruno Prigent[1]	10 June 2010	Other director from Société Générale
Edward Pla[2]	24 June 2011	Other director from UBS
Martin Ryan[1]	24 June 2011	Other director from Royal Bank of Scotland
Olivier Motte[1]	24 June 2011	Other director from Credit Agricole
Laurent Curtat[1]	24 June 2011	Other director from Credit Suisse
Edward McAleer[1]	24 June 2011	Other director from Morgan Stanley
Christopher Willcox[1]	24 June 2011	Other director from J.P. Morgan
Michael Bagguley[1]	23 March 2011	Other director from Barclays Capital
Naveed Sultan[1]	17 June 2011	Other director from Citigroup

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's contract is subject to a three 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 Article.
3 Director's contact is subject to either party giving to the other six month's notice.
4 Director represents NYSE Euronext or the London Metal Exchange and contract is subject to six month's notice by the director or with immediate effect by NYSE Euronext or the London Metal Exchange.

Ian Axe is the only Executive Director represented on the Board.

15.5 Non-Executive Directors' Remuneration

During 2011 only Independent Non-Executive Directors received a fee for their services. The Board determines the fees of the Independent Non-Executive Directors that reflect the level of individual responsibilities, attendance of meetings and membership of Board committees.

15 REMUNERATION REPORT CONTINUED

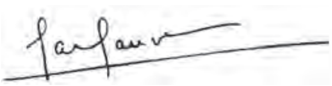
15.6 Directors' detailed emoluments

	Salary and fees 2011 €'000	Salary and fees 2010 €'000
Ian Axe – Remuneration	1,532	–
– Compensation for loss of benefits from previous employment	863	–
Non-Executive		
Jacques Aigrain	700	601
A. Chris Tupker	–	204
John Townend	187	193
Hervé Saint-Sauveur	166	145
Ian Abrams	148	149
Xavier Rolet[2]	–	12
Garry Jones[2]	–	47
Jenny Ireland[2]	–	68
Denise Wyllie[1]	–	39
Edward Pla	–	12
Gerard Hartsink[1]	–	23
Francesco Vanni d'Archirafi[1]	–	45
Nazir Badat	–	52
Bruno Prigent[1]	–	39
Martin Abbott[1]	–	73
Jerome Kemp[1]	–	52
Vivien Levy-Garboua	–	62
Martin Ryan	–	8
David Williams[1]	–	65
Lawrence Shaw[2]	–	60
	3,596	1,949

Ian Axe's remuneration includes €431,000 deferred under the long-term incentive plan of which only €144,000 is recognised in the income statement for under the Group's accounting policies.

[1] Fee paid to employer.
[2] Fee donated to charity.

On behalf of the Board



Hervé Saint-Sauveur
Chairman of the Remuneration Committee
9 February 2011

16 GENERAL INFORMATION

16 General information
Directors
The Directors who have held office since 1 January 2011 are as follows:

Type of director	Name	Note
Independent	Jacques Aigrain (Chairman)	
Executive	Ian Axe (Group Chief Executive Officer)	Appointed 4 April 2011
Independent	Ian Abrams	
Independent	Hervé Saint-Sauveur	
Independent	John Townend	
Other	Gerard Hartsink	
Other	Vivien Levy-Garboua	
Other	Nazir Badat	
Other	Lawrence Shaw	
Other	Francesco Vanni d'Archirafi	Resigned 26 May 2011
Other	David Williams	Resigned 23 March 2011
Other	Denise Wyllie	
Other	Bruno Prigent	
Other	Edward Pla	
Other	Edward McAleer	
Other	Martin Ryan	
Other	Laurent Curtat	
Other	Olivier Motte	
Other	Christopher Willcox	
Other	Michael Bagguley	Appointed 23 March 2011
Other	Naveed Sultan	Appointed 17 June 2011
NYSE Euronext	Garry Jones	
Exchange	Martin Abbott	

The Chairman and all existing Directors, other than the Group Chief Executive Officer are Non-Executive Directors.

Company Secretary Christopher Doukaki

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CORPORATE RESPONSIBILITY

LCH.Clearnet's young Corporate Responsibility programme illustrates the Company's awareness of the society in which it operates and intention to improve, where it can, the quality of life for employees, the local community and others in society.

The location of the London office, on the fringe of the border of the City and the less affluent areas which surround it, continue to provide opportunities and inspiration. Staff have worked with students from the Petchey Academy in Hackney on a photography project.

There were a number of additional projects and support was given to organisations including the London Symphony Orchestra for their Early Years outreach programme, The Whitechapel Art Gallery, The Magic Breakfast.

LCH.Clearnet staff also participated in skills enhancing activities, ranging from workshops on interview skills and CV writing to reading and maths sessions with children from Queensbridge Primary School, Hackney.

The Paris office supported a number of initiatives, both local and international, including supporting the Orchestre de Paris' initiatives to take live music to hospitals, charities which work with sick children and an Olympic hopeful. Closer to home, ongoing help is given to a charity providing aid to children in Paris' hospitals.

Across the Group, Corporate Responsibility initiatives are keenly supported by staff, highlighting the Company's commitments, at all levels, to our Corporate Responsibility goals.

NOTES

DIRECTORS

JACQUES AIGRAIN
CHAIRMAN

MARTIN ABBOTT
THE LONDON METAL EXCHANGE

IAN ABRAMS
INDEPENDENT

IAN AXE
GROUP CHIEF EXECUTIVE

MIKE BAGGULEY
BARCLAYS CAPITAL

LAURENT CURTAT
CREDIT SUISSE

GERARD HARTSINK
ABN AMRO N.V.

EDWARD MCALEER
MORGAN STANLEY & CO
INTERNATIONAL PLC

OLIVIER MOTTE
CREDIT AGRICOLE

EDWARD PLA
UBS

LAWRENCE SHAW
DEUTSCHE BANK

NAVEED SULTAN
CITIGROUP

NAZIR BADAT
HSBC BANK PLC

GARRY JONES
NYSE EURONEXT

VIVIEN LEVY-GARBOUA
BNP PARIBAS

BRUNO PRIGENT
SOCIÉTÉ GÉNÉRALE GROUP

MARTIN RYAN
ROYAL BANK OF SCOTLAND

HERVÉ SAINT-SAUVEUR
INDEPENDENT

JOHN TOWNEND
INDEPENDENT

CHRISTOPHER WILLCOX
J.P. MORGAN

DENISE WYLLIE
GOLDMAN SACHS

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