LCH.CLEARNET

2008

Annual Report and Consolidated Financial Statements

LCH.Clearnet Group Limited

Contents

The images in this annual report are from the '**Open Your Eyes**' photography initiative which formed part of LCH.Clearnet's 2008 corporate responsibility programme. Please turn to the **Corporate Responsibility** section on p82 for more information.

Front cover image: **'Glimpse of Mine'**, Elizabeth Akingbade, Runner Up: Miscellaneous

Financial Highlights

Record operating profit of
€293.6 million

2 billion
contracts cleared, up 16% on 2007

Lehman default successfully managed

Total revenue up 17% to
€1.6 billion

1 | Chairman's Statement

2008 was an exceptional year in which your Company managed the largest and most complex default in its history at a time of highly volatile market conditions, cleared its highest ever volumes of over 2 billion contracts, and produced a record net profit of €2.86 per share vs €1.96 per share in 2007.

As a result of the strong financial performance of your Company in 2008 and first seven months of 2009 and the receipt of a one-off payment of €260.4 million from NYSE Liffe, your Group has generated significant surplus capital. However, LCH.Clearnet sees significant future challenges to its revenue streams, as a result of developments in the exchange and clearing markets, which have led to increased competition. Your Board has consequently approved a voluntary capital restructuring involving the redemption of up to 33,300,000 ordinary shares, which will enable shareholders to reduce or eliminate their shareholding in the Company. In this restructuring, your Company will return up to, in aggregate, €444 million of surplus capital to shareholders via a dividend of €1.50 per share and a voluntary redemption of shares at a price of €10 per share. Your Board believes that the capital restructuring will align the Company's shareholder base more closely to its key users and will thereby enable it to respond more successfully to competitive pressures.

During the course of 2008, the final instalment of €61.8 million of our share repurchase programme was paid to NYSE Euronext and the ownership of the Group became 73.3% users, 15.8% Euroclear and 10.9% exchanges. Furthermore, in January 2009, the financial position of the Group enabled it to repurchase €20 million of the €200 million of the hybrid Tier 1 capital that it issued in 2007 at a profit of €9.6 million.

The Lehman default was undoubtedly the greatest operational challenge faced by the Company in 2008. The successful management of such a large and complex default demonstrates the high level of professionalism of our staff and the resilience of the Company's risk policies and systems. Further information on how the default was managed by both LCH.Clearnet Limited and LCH.Clearnet SA can be found elsewhere in this report. The effects of the default were far reaching and continue to impact your Group in a number of ways. Regulators and policy makers have moved their focus away from competition and cost issues, and towards risk reduction, particularly regarding more illiquid asset classes. This has been mirrored by a heightened awareness of counterparty risk among our customers, leading to increased clearing volumes across a range of over-the-counter (OTC) products, most notably interest rate swaps.

In equities, the impact of MiFID (Market in Financial Instruments Directive) continued to be felt as Multilateral Trading Facilities (MTFs) grew their market share at the expense of the traditional exchanges, albeit at a slower rate than anticipated by many commentators. In line with the strategy of reducing equity clearing fees, LCH.Clearnet Limited and LCH.Clearnet SA reduced equity clearing fees by 25%, in January and April of 2008 respectively.

Despite the impact of MiFID on lowering clearing fees, many of the intended benefits of the Code of Conduct have yet to be seen. Although we began interoperating with SIX x-clear for the London Stock Exchange in December 2008, none of our requests for interoperability in other markets have been accepted.

Your Company continues, however, to observe best practice as regards price transparency as required by the Code. The Group's accounting policies are fully compliant with the Code's third pillar. LCH.Clearnet Limited and LCH.Clearnet SA are audited entirely separately, and the Group does not provide trading or settlement services. There is therefore no requirement for vertical accounting separation.

The trend towards verticalisation has continued. As announced in 2007, ICE created ICE Clear and the business migrated on 3 November 2008. NYSE Liffe has also created a central counterparty, NYSE Liffe Clearing, which has outsourced all clearing activities to LCH.Clearnet Limited. The Company will therefore continue to provide NYSE Liffe with its proven risk management services and the existing clearing guarantee; and will continue to run its normal day-to-day operational clearing processes for NYSE Liffe.

A new set of Articles as detailed in the 2007 Report and Accounts was approved at the June 2008 AGM. Plans to restructure the Group as signalled in the 2007 Report and Accounts have been suspended pending the proposed voluntary capital restructuring.

In October 2008, the Group announced its intention to merge with the US based Depository Trust & Clearing Corporation (DTCC). This merger would have taken your Company to a user-owned, user-governed model and was therefore in line with the established strategy of seeking to align ownership with usage. However, on 29 April 2009 DTCC announced they had been unable to agree a basis for merging with us and were therefore withdrawing from the discussions.

In November 2008, the Company was approached by a consortium of Banks interested in making a bid for the Company. Since this consortium included some of LCH.Clearnet's largest customers, your Board decided it was in the Company's interest to cooperate fully with the consortium and allow them to do the due diligence necessary to make an offer. The Company has had extensive discussions with the consortium but these did not result in an offer that the Company and its advisors could recommend to shareholders.

The strategic challenges facing the Company have never been greater and we are grateful for the guidance and dedication of our Directors during the year. Since our last Report, the following directors have resigned: Philippe Collas, Kevin Davis, Clara Furse, Dominique Hoenn, Charles Stonehill, Bob Wigley and we thank them for their contribution and commitment. We have welcomed to our Board Ian Abrams, Jerome Kemp, Vivien Levy-Garboua, Xavier Rolet, Lawrence Shaw and David Williams and Jean-Pierre Mustier, who has since resigned.

"heightened awareness of counterparty risk among our customers, leading to increased clearing volumes across a range of OTC products"

On behalf of the Board, I would like to thank all the staff of the Group for their hard work during 2008. It remains a challenging time for all market participants, but I am confident that the proposed rebalancing, combined with the capabilities of the Company, will enable the Company to strengthen its position and effectively mitigate risk and maximise benefits for all users in the financial markets it serves.

A. Chris Tupker
Chairman

22 September 2009

2 | Chief Executive's Review

"Risk management is now **the watchword** of the markets and regulators and clearing is very much in the limelight"

2008 was a remarkable year for LCH.Clearnet and clearing in general. It was a year of unprecedented challenges and achievements and one in which clearing came of age. Record volumes were combined with extreme market volatility and the largest default in banking history; unthinkable only a few months previously. These events have changed the financial landscape in which we operate. Risk management is now the watchword of the markets and regulators and clearing is, for the first time, very much in the limelight. Whilst the future shape of the post trade environment remains unclear, what is certain is that it has changed irrevocably and we shall all have to adapt and learn in the months and years to come.

Within this changing environment we are well placed to continue to serve our markets and provide the security and stability required to underpin financial innovation and growth in future. Furthermore, our unique and extensive expertise in clearing complex over-the-counter (OTC) products should enable us to capture opportunities in the current environment.

In 2008 we cleared more contracts than ever before, 2.01 billion; an increase of 16% on 2007, surpassing the two billion landmark for the first time with volumes that were almost two and a half times the volumes cleared in 2005.

Nonetheless, clearing revenues fell by 18.8 % to €328.3 million, due to reductions in clearing fees, most notably in cash equities, where tariff reductions of €52.7 million were granted to our members. This was partially offset by increased volumes and growth in newer clearing services, such as freight.

Increased market activity and volatility resulted in higher cash and collateral margin balances. The treasury teams managed a daily average of €26 billion of assets throughout the year, which peaked at €48 billion in October. Interest payments to members in respect of cash and collateral margin payments increased by 21.1%, or €162.7 million, to €932.4 million.

Default Fund interest earnings decreased by €11.5 million (13.9%) to €71.1 million, due to falling interest rates, and the interest paid to clearing members in respect of contributions to the Default Funds decreased by €8.8 million (9.5%). Administrative expenditure increased by 15% to €279.9 million as we upgraded our infrastructure to ensure its resilience in the face of unprecedented volumes and invested in the development of new services and our new derivatives clearing platform, Synapse.

Equity transaction volumes continued to rise, reaching over 400 million trades for the year. Volumes in the NYSE Euronext markets rose by 20.6% from 161.1 million to 194.3 million trades and LCH.Clearnet SA extended its services to include equities traded on the Luxembourg Stock Exchange. On the London Stock Exchange, volumes increased by 37.9% to 189.9 million and SIX Swiss Exchange volume rose by 60.4% to 24.3 million.

MiFID continued to impact the cash equity markets in 2008. Pressure on fees continued; both LCH.Clearnet Limited and LCH.Clearnet SA reduced cash equity clearing fees by 25% during the course of the year. Also, LCH.Clearnet successfully won clearing mandates from a number of MTFs, including: PLUS Markets, Börse Berlin Equiduct Trading and SmartPool, all of which will begin trading during 2009.

Volumes in Derivatives, Commodites and Energy also held up well, increasing by 16% to 1.61 billion. In 2007 ICE informed us of its intention to internalise clearing in Europe through the creation of a proprietary clearing house. Consequently, in November 2008, the clearing of ICE futures and ICE OTC was transferred to ICE Clear and volumes since have been commensurately affected.

In 2008 we began to clear for BlueNext, a climate exchange owned by NYSE Euronext and the Caisse des Dépôts. During 2009 we are launching a number of new initiatives, including Nodal Exchange, the first financial exchange dedicated to offering participants in the organised North American power markets the ability to transact locational (nodal) power products in a cleared market which went live in April 2009. We continue to work closely with market participants to develop other innovative clearing solutions.

The trend to create vertical clearing operations also saw a realignment of our clearing relationship with NYSE Euronext Liffe. Under the terms of the new arrangement NYSE Liffe will become the central counterparty for London based NYSE Liffe contracts but will outsource all clearing activities, including risk management services and the existing clearing guarantee, to LCH.Clearnet for an annual fee. In addition, LCH.Clearnet received a one off payment of €260.4 million. In 2008, volumes at NYSE Liffe increased by 16.6% to 115.7 million.

Total volumes cleared on the London Metal Exchange (LME) rose by 21.9 % to 113.2 million, the fourth consecutive year of record volumes on this exchange. We extended prompt dates to five and ten years for certain metal futures and launched cleared average price contracts and steel futures. We continue to forge a long term strategic relationship with the LME and have reviewed our working arrangement to focus on our core capability of clearing. Furthermore, the LME will be the first market to migrate on to our new derivatives clearing platform, Synapse.

In fixed income, the value of term adjusted trades cleared rose by 27.8% to €427 trillion. In the aftermath of the Lehman default, our repo clearing service RepoClear saw volumes rise significantly, as the lack of inter-bank confidence resulted in an increasing number of banks turning to cleared repo solutions as a means of facilitating liquidity. The Sterling GC product, launched in 2007 has proved particularly popular and, early in 2008, a Euro version, €GC, was launched. More recently, we have responded to the introduction of euro-denominated Explicit Government Guarantee Bonds (EGGBs) by adding them to our RepoClear service in February of this year.

Perhaps the greatest success for the interest rate swaps service SwapClear, which celebrates its tenth anniversary this year, was the handling of the USD 9 trillion Lehman swaps default, detailed elsewhere in this report. Both this and the growth in volumes and interest we have seen from market participants highlight the success of this as a clearing model for complex OTC derivatives. The 62% growth in cleared swap volumes, from 140,000 to 228,250, is significant. The bulk of this growth came in the latter months of 2008, as concern regarding counterparty risk in the financial markets increased. Most interestingly, we have also seen an increase in the number of trades 'back-loaded' on to SwapClear and interest in the service from a number of international banks which we anticipate will join during 2009.

Freight is one of our newer services. Volumes in 2008 continued to grow dramatically, rising by 186% to 1.3 million. We maintained our 85-90% market share in cleared dry volumes and are increasing our presence in wet. We shall continue to build on our market leading position in this sector with the launch of complementary services and products. Whilst the recent demand for freight has reduced as a result of the global downturn, we are considering a number of opportunities in similar markets.

2008 was the year of risk management. Throughout the year, volatile market conditions presented an ongoing challenge. However, the Lehman default, the largest and most complex in our history, demonstrated the robustness of our policies and procedures and together with the quality of the risk management team, who handled an exceptional default, in exceptional market circumstances.

Our IT systems also successfully handled 2008's record volumes and unprecedented market volatility across a range of asset classes. In addition, 78 projects were successfully delivered. We are also looking to consolidate and enhance our derivatives clearing offering and are working with Tata Consultancy Services to build a proprietary clearing platform, Synapse.

Two key European projects were also successfully completed: ESES stream 3, which created a common settlement platform for the NYSE Euronext markets, and the implementation of the Target 2 payment system.

The current market environment presents us with some real opportunities. LCH.Clearnet has over a decade's experience in clearing OTC derivatives and a risk management team with unparalleled expertise. We are well placed to respond to market and regulator demand and work with market participants to offer clearing solutions to a range of OTC markets, such as foreign exchange. Equally, our expertise and innovative approach enable us to partner with exchanges to offer new initiatives; such as contracts-for-difference (CFDs), or clearing for the locational North American power market.

Furthermore, the proposed restructuring of the Company, as detailed in the Chairman's statement, will provide us with a framework within which we shall most effectively be able to deliver market leading, innovative and cost-effective clearing solutions to our users across OTC and exchange traded markets.

R.A. Liddell

R.A. Liddell
Chief Executive

22 September 2009

The Default of Lehman Brothers

A $10 trillion default - the largest in history - successfully managed

'Cold Metal', Elizabeth Akingbade, Winner: Architecture

On Monday 15 September 2008 Lehman Brothers Holding Inc. filed for Chapter 11 protection in the US, the largest bankruptcy in US history. Consequently, both Lehman Brothers International Europe (LBIE) and Lehman Brothers Special Financing Inc – entities that cleared with LCH.Clearnet – were placed into default.

That default, with a notional value of some $10 trillion, represented the largest and most complex in the history of LCH.Clearnet and, indeed, in the global history of clearing. This section describes how the subsequent risk exposure was handled and the multi-asset portfolio dealt with. One relevant background factor is that, as discussed elsewhere in this Report, London based LCH.Clearnet Limited was due to transfer its energy futures and OTC contracts to ICE Clear on 15 September. Due to the uncertainty in the financial markets, it was agreed – in consultation with the FSA – to postpone this transfer until a later date in order to avoid any unnecessary strain on the financial system.

At the point of default LCH.Clearnet faced two principal challenges; managing the risk it has assumed and transferring over the client positions. When one of its members is placed into default, LCH.Clearnet takes steps to close out existing positions, which can involve the transfer of client positions to other clearing members (this has occurred in all previous defaults). One complicating issue was the difficulty in gaining exact information about a number of US client positions that were being held in Lehman's house account and LCH.Clearnet worked closely with Lehman in the US, which was still trading under Chapter 11, to identify and transfer client positions. This caused a delay in arranging transfers of client portfolios to other members, but was eventually successfully resolved. Indeed, the majority of client positions had been transferred to other clearing members by the end of the week.

In the case of the Lehman default, which involved a wide variety of asset classes, the post-default process occurred in several stages. A significant exposure was in the over-the-counter (OTC) interest rate swap positions with an exposure with a notional value of $9 trillion, representing over 66,000 trades across five currencies. Immediately following the default of the Lehman entities, the SwapClear Default Management Group (DMG) – which includes 6 SwapClear member firms on a rotating basis – allocated experienced traders to hedge the interest rate swap exposure.

"LCH.Clearnet **successfully closed out or transferred** Lehman Brothers' positions using available margin"

Bank of England Payment Systems Oversight Report 2008

The hedging activity was carried out quickly and, accordingly, the DMG was able to suspend its initial hedging on Wednesday 17 September. Subsequently, five auctions, one for each currency in the portfolio, took place to sell the remaining SwapClear trades to other SwapClear members. These were interspersed with further hedging by the DMG to balance its portfolio. These auctions all went well.

LCH.Clearnet Limited also arranged successful blind auctions for the disposal of some of Lehman's other portfolios, such as energy products on ICE, equity derivatives with NYSE Liffe and LME metals contracts. The repo portfolio on RepoClear was hedged by LCH.Clearnet staff and sold at a later date. The cash equity business was closed out and settled with a buy-in process.

The Lehman default also impacted the activities of LCH.Clearnet SA. There was exposure through cash equity trades, Powernext (the European energy exchange), bonds and derivatives, albeit on a smaller scale than in London. These positions were hedged where necessary and either closed out or sold off. The risk exposure had been reduced significantly by the end of the first week.

Throughout the default proceedings, there was sufficient collateral available to LCH.Clearnet to mitigate the increased risk exposure, a consequence of the risk management procedures operated by LCH.Clearnet. Moreover, by 23 September, that exposure across the Group had declined by over 90% since the default and was well within the margin being held. In its Financial Stability Report, October 2008, the Bank of England noted that the ability of LCH.Clearnet to close out the positions without using up all available margin, "illustrates the ability of a clearing house to protect market participants from bilateral counterparty risk, even in the event of default of a major participant."

"As you might expect, unravelling the **largest default in financial history** has thrown up a few issues, but the feeling from member firms is that LCH.Clearnet did a very good job in difficult conditions and under a lot of pressure"

Anthony Belchambers, Chief Executive, Futures and Options Association

3 | Operating and Financial Review

3.1 Operating review

3.1.1 Equities

Tariff reductions on the Group's equity markets contributed to a reduction in revenue from €189.0 million to €137.3 million. The Group delivered a 25% reduction in clearing fees on the London Stock Exchange (LSE) and SIX Swiss Exchange's trades in January 2008, and the same reduction on NYSE Euronext cash markets from April 2008. Together these tariff changes reduced clearing fees charged to members by €52.7 million.

Volumes across the NYSE Euronext cash markets rose by 20.6% from 161.1 million to 194.3 million trades in the year. The LSE's volume rose by 37.9% to 189.9 million trades in the year, and SWX Europe's volume rose by 60.4% to 24.3 million trades.

At the end of 2008 SIX x-clear gained access to LSE and commenced a rival clearing service to the Group. To date, this has attracted two member.

3.1.2 Fixed income

Revenues from the fixed income service have grown from €37.8 million to €81.0 million. Clearing revenue increased by €4.2 million, despite the implementation of the new harmonised fee structure in July 2007.

The nominal value of trades continues to set new records, and has led to significant growth in member balances. During the final three months of 2008, following the Lehman default, the fixed income service saw a record nominal value of trades of €28 trillion, a 14% increase over the previous year as banks sought to reduce their counterparty exposure.

3.1.3 Derivatives and swaps

Overall revenue from derivatives and swaps increased to €210.6 million (2007: €170.3 million), a rise of 23.7%. Clearing volumes for the NYSE Liffe markets increased by 16.6%, compared to 2007. Much of this growth was on the BClear platform which has lower tariffs than the main market.

Trade volumes on SwapClear grew by 61.8% in 2008, for the third year running, but the fourth quarter experienced an exceptional 96% increase on the same period in 2007. The service has seen record daily volumes since the Lehman default, as banks have sought to reduce their counterparty risk. Also, following the Lehman default, the Group has received letters of intent from four members who wish to join the SwapClear service in the first half of 2009. The SwapClear service now accounts for around half of the global inter-bank interest rate swap market, and the Group's collaboration with the industry through OTCDerivNet was further expanded in February 2009 when HSBC and JP Morgan became shareholders of OTCDerivNet.

3.1.4 Commodities and energy

Revenue grew by €41.1 million to €144.6 million.

London Metal Exchange volumes increased by 21.9% to 113.2 million trades. The London Metal Exchange will be migrated on to Synapse during 2009. Synapse is the Group's new multi asset derivatives clearing platform which is being developed in conjunction with Tata Consultancy Services.

The Freight service introduced in 2006 saw another year of very strong growth with volumes increasing by 186% compared to 2007. A new service for Freight options was launched in 2008, and this contributed 44% of the volume growth in Freight. The Group is the clearing house for over 85% of the dry Forward Freight Agreement market, and has a rapidly growing 25% share of the cleared wet freight market.

ICE OTC trades increased by 33% compared to 2007, and ICE Futures trades were in line with the previous year even though there were only ten months trading in 2008. ICE transferred clearing of its markets to its own clearing service at the beginning of November 2008. ICE clearing revenues were €28.5 million during the ten months the Group cleared these markets.

Members benefited from clearing tariff reductions of €20.5 million during the year.

3.2 Financial review

3.2.1 Summarised consolidated income statement for the year

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

	Ref	2008 €'m	2007 €'m
Total revenue	3.2.1a	1,589.5	1,362.7
Interest expense and similar charges	3.2.1c	(1,016.0)	(862.1)
Net revenue		573.5	500.6
Administrative expenditure	3.2.1e	(279.9)	(243.2)
Operating costs		(279.9)	(243.2)
Operating profit	3.2.1f	293.6	257.4
Net finance income	3.2.1g	2.5	4.5
Profit before taxation		296.1	261.9
Taxation expense	3.2.1h	(76.3)	(83.0)
Profit for the year		**219.8**	**178.9**

3.2.1a Total revenue

	Ref	2008 €'m	2007 €'m	Increase/ (decrease) %
Clearing fees	3.2.1b	328.3	404.3	(18.8)
Interest from cash and collateral margin	3.2.1c	1,160.4	847.1	37.0
Interest earned on Default Funds	3.2.1c	71.1	82.6	(13.9)
Other income	3.2.1d	29.7	28.7	3.5
Total revenue		**1,589.5**	**1,362.7**	**16.6**

Percentage changes are on an annualised basis.

Group turnover from continuing operations, on a like-for-like basis, increased by 16.6% to €1,589.5 million, driven by exceptionally high levels of interest income.

Operating and Financial Review continued

3.2.1b Clearing fees

	2008 €'m	2007 €'m	Increase/ (decrease) %
Equities	114.6	172.8	(33.7)
Fixed income	29.8	25.6	16.4
Derivatives and swaps	120.5	130.0	(7.3)
Commodities and energy	63.4	75.9	(16.5)
	328.3	**404.3**	**(18.8)**

The Group delivered tariff reductions of €73.2 million in Equities and Commodities and Energy during the year, which contributed to the decrease in clearing fees of €76.0 million (18.8%) to €328.3 million (2007: €404.3 million), when combined with the full effect of tariff reductions implemented during 2007. Overall trading volumes increased by 16.4% to 2,010.4 million.

3.2.1c Net interest income

	2008 €'m	2007 €'m	Increase/ (decrease) %
Interest earned on cash and collateral margin	1,160.4	847.1	37.0
Interest earned on Default Funds	71.1	82.6	(13.9)
Interest income	1,231.5	929.7	32.5
Interest paid on cash and collateral margin	(932.4)	(769.7)	21.1
Interest paid on Default Funds	(83.6)	(92.4)	(9.5)
Interest expense and similar charges	(1,016.0)	(862.1)	17.9
	215.5	**67.6**	**218.8**

Interest income from cash and collateral margin balances increased by €313.3 million (37.0%) to €1,160.4 million (2007: €847.1 million), principally due to the substantially higher cash and collateral margin balances arising from increased levels of market activity and volatility during the year. Interest payments to clearing members in respect of cash and collateral margins increased by €162.7 million (21.1%) to €932.4 million (2007: €769.7 million).

Default Fund interest earnings decreased by €11.5 million (13.9%) to €71.1 million (2007: €82.6 million) due to falling interest rates. Interest paid to clearing members in respect of contributions to the Default Funds decreased by €8.8 million (9.5%) to €83.6 million (2007: €92.4 million).

3.2.1d Other fee income

Other fee income has increased by €1.0 million (3.5%) to €29.7 million (2007: €28.7 million). Other income includes annual fees charged to members, recovery of settlement fees and transfer fees.

3.2.1e Administrative expenditure

Administrative expenditure has risen by €36.7 million (15.1%) to €279.9 million (2007: €243.2 million). The increase has been mitigated by the exchange effect of converting a significant portion of the cost base of LCH.Clearnet Limited from sterling to euros. At 2007 exchange rates total administrative expenditure would have been €296.6 million, an increase of 22.0%.

This increase reflects a continuation of the high level of investment in core infrastructure which began in the second half of 2007 and the full year effect of the increase in staff numbers in 2007, combined with the further strengthening of staff numbers in 2008. The focus of expenditure has been on the new derivatives platform, Synapse, and the development of new services such as SecFinex to deliver central counterparty services for securities lending transactions, BlueNext to enable clearing on a new environmental market, clearing of credit default swaps on Liffe, and integration of new trading sources within Equities such as SmartPool, Equiduct Trading, Börse Berlin and PLUS Markets.

3.2.1f Operating profit

Basis of calculation

The definition of operating profit used within the Group includes income generated from the investment of clearing member margin and Default Fund balances, but excludes interest income from shareholders' funds and interest expenses relating to the preferred securities, redeemable convertible preference shares (RCPS) and subordinated loans – all of which are included separately in net finance income (3.2.1g).

Operating profit performance

The exceptional level of interest income earned on the increased margin and collateral balances held has more than off-set the additional tariff reductions implemented in 2008, and increased administrative expenditure. Overall this has resulted in an increase in operating profit of €36.2 million (14.1%) to €293.6 million (2007: €257.4 million).

3.2.1g Net finance income

Finance costs relating to:	2008 €'m	2007 €'m	Increase/ (decrease) %
Redeemable convertible preference shares	-	(6.2)	-
Subordinated loan	(1.5)	(1.3)	15.4
Preferred securities	(13.7)	(8.4)	63.1
Bank overdrafts	(0.1)	(0.2)	(50.0)
	(15.3)	(16.1)	(5.0)
Finance income	17.8	20.6	(13.6)
	2.5	**4.5**	**(44.4)**

Interest costs attributable to the RCPS, preferred securities, subordinated loan and bank overdrafts decreased by €0.8 million (5.0%) to €15.3 million. The interest rate on the preferred securities is fixed, and in 2007 there was a period of overlap between issuing the preferred securities and redeeming the RCPS, meaning the charge was inflated in the prior year. The interest derived from the investment of shareholders' funds has fallen by €2.8 million (13.6%) to €17.8 million (2007: €20.6 million). Falling interest rates during 2008 have contributed to this fall. The repurchase of ordinary shares and dividends paid to shareholders have also led to a reduction in shareholder funds throughout most of the period. Also in 2007, there was additional income earned as the proceeds from the issue of the preferred securities were invested for a short period prior to the redemption of the RCPS.

Operating and Financial Review continued

3.2.1h Taxation expense

The effective tax rate for the financial year is 25.8% (2007: 31.7%).

The reduction in the effective tax rate is due to the reduction in the UK Corporation Tax rate, exchange differences on the translation of the closing UK tax creditor and the recognition of credits relating to prior years.

A full reconciliation of the tax expense contained in the income statement is set out in note 12.6.2 to the consolidated financial statements.

3.2.1i Capital resources

The total capital resources of the Group increased during the year by €119.4 million from €719.0 million to €838.4 million.

The 2008 profit for the year of €219.8 million was offset by the repurchase of ordinary shares from NYSE Euronext of €61.8 million, the payment of dividends to shareholders of €26 million and the net actuarial loss on the Group's pension schemes of €12.6m.

3.2.1j Group cashflow and movement in cash and cash equivalents

For the year ended 31 December 2008

	2008 €'m	2007 €'m
Margin monies cash inflow	19,426.4	2,228.8
Increase/(decrease) in Default Funds	34.2	(119.7)
Other net cash inflows	383.0	213.2
Net cash inflows from operating activities	19,843.6	2,322.3
Net cash (outflow)/inflow from investing activities	(13,404.3)	794.0
Net cash used in financing activities	(104.1)	(208.5)
Increase in cash and cash equivalents	6,335.2	2,907.8
Effects of foreign exchange movements	(187.4)	(999.8)
Cash and cash equivalents at 1 January	16,413.6	14,505.6
Cash and cash equivalents at 31 December	**22,561.4**	**16,413.6**
Cash and cash equivalents at 31 December comprise:		
Cash and short term investments	23,018.4	16,823.8
Included are short-term deposits maturing in three to six months	(404.1)	(405.0)
Bank overdrafts and loans	(52.9)	(5.2)
	22,561.4	**16,413.6**

Net cash inflows from operating activities of €19,843.6 million (2007: €2,322.3 million) were generated. The largest component of net cash inflows from operating activities is movements in margin monies, which produced an inflow of €19,426.4 million (2007: €2,228.8 million).

An increase in the level of Default Funds generated an inflow of €34.2 million (2007: outflow of €119.7 million). Other net cash inflows have increased from €213.2 million to €383.0 million, although this includes €165.3 million that was subsequently transferred to the administrators of Lehman Brothers Special Financing Inc. in early January 2009.

A cash outflow from investing activities of €13,404.3 million was generated as the Group invested in different asset classes, such as government backed bank issued certificates of deposits, during the year following the unprecedented levels of margin monies held.

Net cash from financing activities showed an outflow of €104.1 million (2007: €208.5 million). The outflow in 2008 principally comprised the repurchase of ordinary shares from NYSE Euronext of €61.8 million and the dividend payment of €26.0 million to shareholders.

3.2.1k Goodwill

Goodwill of €503.8 million was recognised on the acquisition of LCH.Clearnet SA in 2003. The directors consider that it is appropriate to continue to assign an indefinite useful life to this asset, reflecting the strength and positioning of the business as a provider of clearing services.

In accordance with the requirements of IAS 36, “Impairment of assets”, an impairment review was carried out during the year, which concluded that no impairment provision was required. Full details are provided in note 12.9, “Impairment testing of intangible assets”, to the consolidated financial statements.

3.2.1l Balances with clearing members

Balances with clearing members form the largest component of the Group balance sheet. During the year, amounts owed to clearing members increased by €61,360.9 million (21.0%) to €354,193.3 million (2007: €292,832.4 million). Amounts owed from clearing members increased by €41,934.5 million (15.1%) to €319,976.1 million (2007: €278,041.6 million). Fixed income transactions form by far the largest component of balances with clearing members, as they are recorded according to their economic substance as collateralised loans and they have increased by €39,667 million (14.7%) to €310,079 million (2007: €270,412 million), reflecting the increase in fixed income volumes being cleared through the Group.

A detailed description of balances with clearing members is provided in note 12.14 to the consolidated financial statements.

The directors of LCH.Clearnet Group Limited present their report to shareholders, together with the audited consolidated financial statements for the year ended 31 December 2008.

'White Branches', Elizabeth Akingbade,
Runner Up: Nature / Landscape

"The aim of the default management process is to manage the close out of a member institution in an orderly fashion, with the minimum of disruption to the markets and **without incurring credit losses** at LCH.Clearnet or at other member firms. LCH.Clearnet and the bank members of the default management group executed on a well tested plan in volatile markets and achieved these goals with distinction"

Stephen O'Connor, Managing Director at Morgan Stanley, and Chairman of OTCDerivNet

4 | Director's Report

The directors of LCH.Clearnet Group Limited present their report to shareholders, together with the audited consolidated financial statements for the year ended 31 December 2008.

4.1 Principal activities

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

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

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

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

4.2 Business review and future developments and principal risks and uncertainties

A review of the activities within the Group during the year and likely future developments along with a description of the principal risks and uncertainties facing the Group is set out within the Chairman's statement, Chief Executive's review and operating and financial review in Sections 1, 2 and 3 respectively.

4.3 Financial instruments

Details of the financial risk management objectives and policies of the Group and exposure of the Group to interest rate risk, foreign exchange risk, credit risk, financial market volatility, liquidity risk, concentration risk, operational risk and compliance, legal and reputational risk are given in note 12.22.

4.4 Group results and dividend

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

Profits of €219.8 million (2007: €178.9 million) made by the Group have been transferred to reserves.

The two operating subsidiaries paid final dividends of €160m (Ltd) and €64m (SA) in the second quarter of 2009 in respect of their profits for the year ended 31 December 2008. These amounts will form part of the income of the company in 2009, and accordingly the directors propose to pay a final dividend of €1.50 per share which amounts to €110.9 million (2007: €26.0 million) to shareholders.

4.5 Capital

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

Details of movements in capital resources are set out in Section 11 – Consolidated statement of changes in equity.
At 31 December 2008, Group capital resources amounted to €838.4 million (2007: €719.0 million).

4.6 Charitable donations

The Group made donations for charitable purposes during the period of €93,950 (2007: €86,659), 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 15 - General information. According to the Register of Directors' Interests, Hervé Saint-Sauveur and John Townend each hold one share in Banque Centrale de Compensation SA. Each holds a share whilst serving as a director of that company. There were no further disclosable interests recorded in the Register of Directors' Interests.

Information relating to directors' remuneration is given in the Remuneration report in Section 14.

No other director holding office at 31 December 2008 had any beneficial interest in the shares of the Company or any of its subsidiaries during the year.

4.8 Indemnity of Directors

Directors are indemnified out of the assets of the Company against all costs, charges, losses and liabilities incurred by them in the proper exercise of their duties. Directors who have resigned during the year also benefited from the same indemnity arrangement. In addition to this the directors are covered by an indemnity insurance policy.

4.9 Transactions with directors and related parties

Details of transactions with related parties are set out in note 12.21 to the consolidated financial statements. There were no transactions with the directors during the year.

Director's Report continued

4.10 Staff

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

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

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

4.11 Supplier payment policy and practice

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

At 31 December 2008, the Company had an average of 7 days (2007: 18 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 company's auditors are unaware; and

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

4.13 Auditors

Ernst & Young LLP were re-appointed auditors of the Company at the AGM on 23 June 2008 and have indicated their willingness to be re-appointed under the provisions of the Companies Act 1985.

4.14 Purchase of own shares

The Company repurchased 6,183,362 (2007: 20,000,000) of its own shares from NYSE Euronext during the year.

4.15 Post balance sheet events and revised clearing agreement with NYSE Liffe

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

The Group announced on 31 October 2008 that LCH.Clearnet Limited had signed a new clearing agreement with Liffe the international derivatives market of NYSE Euronext. Under this new agreement Liffe becomes the central counterparty for London-based Liffe contracts, whilst LCH.Clearnet Limited provides Liffe with risk management services under the pre-existing arrangements and continues to run all the normal day to day operational clearing processes for Liffe. In the event of a default, LCH.Clearnet Limited will become the counterparty and will be fully responsible for the management of the default.

This new agreement became effective from 30 July 2009, and as part of the termination of the current clearing arrangements LCH.Clearnet Limited received a one-off payment of €260.4 million from NYSE Euronext, and recognised this upon receipt.

As a result of lower volumes experienced in 2009 and both implemented and planned tariff reductions in cash equity markets (LCH.Clearnet SA reduced cash equity clearing fees by an average of 30% from 1 July 2009 and has recently announced that from 1 January 2010 equity clearing fees for blue chip stocks will further reduce to €0.05 per trade) management has re-calculated the value-in-use of LCH.Clearnet SA and determined that its recoverable amount is now less than its carrying value.

Accordingly, an impairment charge of €393,400,000 has been recognised in the July 2009 Interim Condensed Consolidated Financial Statements against this goodwill, prepared for the purpose of the Company's capital restructuring.

The Board has proposed a dividend of €1.50 per share to be paid in December 2009 (€110,898,924) alongside a further capital distribution of €333,000,000 to shareholders as part of a transaction designed to align further the shareholder base with the user base. The dividend and capital distribution are subject to the approval of shareholders.

By order of the Board

A. Chris Tupker

A. Chris Tupker
Chairman

22 September 2009

5 | Statement of Directors' Responsibilities

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

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

- Select suitable accounting policies in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and then apply them consistently;

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and

- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

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

'Question Mark', Emalyn Anyiam, Winner: Miscellaneous

"LCH.Clearnet has
over a decade's experience
in clearing over-the-counter (OTC) derivatives and a risk management team with unparalled expertise"

6 | Independent Auditor's Report to the Members of LCH.Clearnet Group Limited

We have audited the Group and parent company financial statements (the "financial statements") of LCH.Clearnet Group Limited for the year ended 31 December 2008 which comprise the Group income statement, the Group and parent company balance sheets, the Group and parent company cashflow statements, the Group and parent company statement of changes in equity and the related notes 12.1 to 12.25. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Chairman's statement, Chief Executive's review and the operating and financial review that is cross referred from the business review section of the directors' report.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the Chairman's statement, the Chief Executive's review, the operating and financial review, the corporate governance statement and the remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the parent company's affairs as at 31 December 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP.

Ernst & Young LLP
Registered auditor

London

22 September 2009

7 | Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 €'000	2007 €'000
Revenue			
Interest income	12.4.1	1,231,473	929,713
Interest expense and similar charges	12.4.1	(1,016,029)	(862,084)
Net interest income	12.4.1	215,444	67,629
Clearing fees	12.4.1	328,334	404,279
Other fee income	12.4.1	29,707	28,714
Net revenue	12.4.1	**573,485**	**500,622**
Costs and expenses			
Employee benefits expense	12.18.1	(86,830)	(81,486)
Depreciation and amortisation charge	12.5.1	(13,207)	(11,684)
Other operating expenditure	12.5.2	(179,837)	(150,064)
Total costs and expenses		**(279,874)**	**(243,234)**
Operating profit		**293,611**	**257,388**
Finance income	12.5.3	17,805	20,564
Finance costs	12.5.3	(15,317)	(16,094)
Profit before taxation	12.5	**296,099**	**261,858**
Taxation expense	12.6.1	(76,283)	(82,934)
Profit for the year		**219,816**	**178,924**

The dividend paid in the year was €26,000,000 (2007: €nil). The dividend proposed in respect of 2008 is €1.50 per share (2007: €0.35) which amounts to €110,898,924 (2007: €26,000,000).

The results for both years are in respect of continuing operations.
The notes on pages 28 to 67 form an integral part of these consolidated financial statements.

8 | Group and Company Balance Sheets

For the year ended 31 December 2008

	Note	Group 2008 €'000	Group 2007 €'000	Company 2008 €'000	Company 2007 €'000
Non-current assets					
Intangible assets	12.8	540,205	516,616	-	-
Property, plant and equipment	12.10	13,299	13,265	10	24
Investments	12.11	-	-	673,481	673,481
Deferred taxation asset	12.6.3	11,503	12,110	8	5
		565,007	541,991	673,499	673,510
Current assets					
Cash and short-term deposits	12.12	23,018,416	16,823,831	94,565	20,827
Other financial assets	12.23	13,464,383	-	-	-
Derivative financial assets	12.23	-	4,683	-	-
Income tax receivable		11,093	-	8,647	3,778
Debtors and other receivables	12.13	72,317	52,725	1,401	1,101
Balances with clearing members	12.14	319,976,063	278,041,605	-	-
		356,542,272	294,922,844	104,613	25,706
Total assets		**357,107,279**	**295,464,835**	**778,112**	**699,216**
Equity and liabilities					
Capital and reserves					
Called up share capital	11, 12.15	73,933	80,116	73,933	80,116
Capital reserves	11	15,327	15,327	-	-
Capital redemption reserve	11	26,183	20,000	26,183	20,000
Retained earnings	11	722,952	603,515	469,750	389,795
		838,395	718,958	569,866	489,911
Non-current liabilities					
Interest bearing loans and borrowings	12.16	223,019	223,961	196,019	196,961
Default Funds	12.17	1,386,017	1,540,862	-	-
Employee benefits	12.18.2	23,940	7,869	-	-
Deferred taxation liability	12.6.3	1,164	-	-	-
		1,634,140	1,772,692	196,019	196,961
Current liabilities					
Interest bearing loans and borrowings	12.16	52,937	5,276	-	-
Other financial liabilities	12.23	56,010	-	-	-
Derivative financial liabilities	12.23	8,716	278	-	-
Income tax payable		28,799	24,927	-	-
Creditors and other payables	12.19	295,007	110,315	12,227	12,344
Balances with clearing members	12.14	354,193,275	292,832,389	-	-
		354,634,744	292,973,185	12,227	12,344
Total equity and liabilities		**357,107,279**	**295,464,835**	**778,112**	**699,216**

A. Chris Tupker, Chairman

The notes on pages 28 to 67 form an integral part of these consolidated financial statements.
The consolidated financial statements were approved by the Board on 28 April 2009.

9 | Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 €'000	2007 €'000
Cashflows arising from operating activities			
Net profit	7	219,816	178,924
Adjustments to reconcile Group net profit to net cash inflows from operating activities:			
Taxation expense		76,283	82,934
Net finance income		(2,488)	(4,470)
Depreciation and amortisation	12.5.1	13,207	11,491
Loss on disposal of assets	12.5.1	-	193
Increase/(decrease) in debtors and other receivables		(24,108)	18,976
Increase in employee benefits		(1,395)	(15,257)
Increase in creditors and other payables		195,252	16,281
Gains on financial instruments		(13,739)	(3,854)
Margin monies cash inflow		19,426,426	2,228,840
Monies refunded from Euroclear default fund		-	15,000
Increase/(decrease) in Default Funds		34,237	(119,730)
Net cash inflow from operations		19,923,491	2,409,328
Taxation received		2,051	1,813
Taxation paid		(81,910)	(88,841)
Net cash inflows from operating activities		**19,843,632**	**2,322,300**
Investing activities			
Investment in intangible assets	12.8	(31,624)	(5,568)
Purchase of property, plant and equipment	12.10	(5,206)	(9,600)
Investment in short-term deposits maturing in three to six months		968	789,871
Investment in other financial assets		(13,386,196)	
Interest received	12.5.3	17,805	19,251
Net cash (outflow)/inflow from investing activities		**(13,404,253)**	**793,954**

	Note	2008 €'000	2007 €'000
Financing activities			
Interest paid	12.5.3	(14,748)	(6,385)
Redemption of redeemable convertible preference shares		-	(198,840)
Purchase of own shares		(61,834)	(200,000)
(Costs related to)/issue of preferred securities		(1,511)	196,760
Dividends paid		(26,000)	-
Net cash used in financing activities		**(104,093)**	**(208,465)**
Increase in cash and cash equivalents		**6,335,286**	**2,907,789**
Cash and cash equivalents at 1 January		16,413,555	14,505,599
Effects of foreign exchange movements		(187,394)	(999,833)
Cash and cash equivalents at 31 December		**22,561,447**	**16,413,555**
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		21,702,636	13,615,272
Cash at bank and in hand		1,315,780	3,208,559
	12.12	23,018,416	16,823,831
Bank overdrafts and loans	12.16	(52,937)	(5,276)
Short-term deposits maturing in three to six months	12.12	(404,032)	(405,000)
		22,561,447	**16,413,555**

The notes on pages 28 to 67 form an integral part of these consolidated financial statements.

10 | Company Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 €'000	2007 €'000
Cashflows arising from operating activities			
Net profit		167,789	170,141
Adjustments to reconcile Company net profit to net cash outflows from operating activities:			
Taxation		(4,872)	(2,765)
Net finance cost		10,396	10,666
Dividends received from subsidiary undertakings		(180,000)	(182,879)
Depreciation		14	15
(Increase)/decrease in debtors and other receivables		(300)	4,889
(Decrease)/increase in creditors and other payables		(117)	203
Net cash (outflow)/inflow from operating activities		**(7,090)**	**270**
Investing activities			
Interest received		3,325	3,946
Net cash inflow from investing activities		**3,325**	**3,946**
Financing activities			
Interest paid		(13,152)	(6,232)
Dividends received from subsidiary undertakings		180,000	182,879
Redemption of redeemable convertible preference shares	-	(198,840)	
Purchase of own shares		(61,834)	(200,000)
(Costs related to)/issue of subordinated loan		(1,511)	196,760
Dividends paid		(26,000)	-
Net cash generated from/(used in) financing activities		**77,503**	**(25,433)**
Increase/(decrease) in cash and cash equivalents		**73,738**	**(21,217)**
Cash and cash equivalents at 1 January		20,827	42,044
Cash and cash equivalents at 31 December		**94,565**	**20,827**
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		92,567	20,292
Cash at bank and in hand		1,998	535
	12.12	**94,565**	**20,827**

The notes on pages 28 to 67 form an integral part of these consolidated financial statements.

11.1 | Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Called up share capital €'000	Capital reserves €'000	Capital redemption reserve €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2007	100,116	376,371	-	5,263	243,358	725,108
Retained profit for the year	-	-	-	-	178,924	178,924
Actuarial gain recognised in the UK pension scheme	-	-	-	-	20,839	20,839
Deferred tax relating to the UK actuarial gain	-	-	-	-	(6,252)	(6,252)
Actuarial gains recognised in overseas pension schemes	-	-	-	-	497	497
Current tax relating to the overseas actuarial gains	-	-	-	-	(158)	(158)
Transfer	-	-	-	(5,263)	5,263	-
Total recognised income and expense for the year				(5,263)	199,113	193,850
Capital reduction	-	(361,044)	-	-	361,044	-
Shares purchased	(20,000)	-	20,000	-	(200,000)	(200,000)
Shareholders' equity at 31 December 2007	80,116	15,327	20,000	-	603,515	718,958
Retained profit for the year	-	-	-	-	219,816	219,816
Actuarial loss recognised in the UK pension scheme	-	-	-	-	(16,675)	(16,675)
Deferred tax relating to the UK actuarial loss	-	-	-	-	4,669	4,669
Actuarial losses recognised in overseas pension schemes	-	-	-	-	(792)	(792)
Current tax relating to the overseas actuarial losses	-	-	-	-	253	253
Total recognised income and expense for the year	-	-	-	-	207,271	207,271
Shares purchased	(6,183)	-	6,183	-	(61,834)	(61,834)
Dividends	-	-	-	-	(26,000)	(26,000)
Shareholders' equity at 31 December 2008	**73,933**	**15,327**	**26,183**	**-**	**722,952**	**838,395**

The notes on pages 28 to 67 form an integral part of these consolidated financial statements.

11.2 | Company Statement of Changes in Equity

	Called up share capital €'000	Capital reserves €'000	Capital redemption reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2007	100,116	361,044	-	58,610	519,770
Retained profit for the year	-	-	-	170,141	170,141
Capital reduction	-	(361,044)	-	361,044	-
Shares purchased	(20,000)	-	20,000	(200,000)	(200,000)
Shareholders' equity at 31 December 2007	80,116	-	20,000	389,795	489,911
Retained profit for the year	-	-	-	167,789	167,789
Shares purchased	(6,183)	-	6,183	(61,834)	(61,834)
Dividends	-	-	-	(26,000)	(26,000)
Shareholders' equity at 31 December 2008	**73,933**	**-**	**26,183**	**469,750**	**569,866**

The notes on pages 28 to 67 form an integral part of these consolidated financial statements.

"We continue to **work closely with market participants** to develop other innovative clearing solutions"

'Ship', Kayla Sai, Runner Up: Architecture

12 | Notes to the Consolidated Financial Statements

12.1 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 2008 were authorised for issue in accordance with a resolution of the directors on 22 September 2009 and the balance sheets were signed on the Board's behalf by the Group Chairman, A. Chris Tupker.

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

Statement of compliance

Both the financial statements of the Company and the consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Company has taken advantage of the exemption provided under Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out on pages 30 to 36. These policies have been applied during the years ended 31 December 2008 and 31 December 2007.

12.2 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 2008 reporting and with those parts of the Companies Act 1985 (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 investments available for sale and financial assets and liabilities held for trading. A summary of significant accounting policies is set out below, together with an explanation of changes to previous policies on the adoption of new accounting standards.

The 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 and measurement of defined benefit pension obligations. The Group determines whether indefinite life goodwill is impaired on an annual basis and this requires an estimation of the value in use of cash generating units to which the goodwill is allocated. Other assets are assessed when an indication of impairment arises. This requires the estimation of future cash flows and choosing a suitable discount rate (see note 12.9). Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 12.18).

a) Presentational currency

The Group's financial statements are presented in euros, which is the functional currency of the parent company and the Group. 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.

c) Investments

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

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

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 balance sheet date. Foreign currency profits and losses are translated into euros at weighted average rates of exchange for the year. All exchange differences on the translation of balance sheet and income statement items to the functional currency are recognised 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 balance sheet within intangible assets and not amortised.

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

f) Intangible assets other than goodwill

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

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

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

Notes to the Consolidated Financial Statements continued

g) Property, plant and equipment

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

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

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

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

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

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

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, 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 gain or loss on financial assets and liabilities at fair value through profit or loss". 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 balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Repurchase Agreements ("Repos") are recorded at the net present value of the amounts due to be paid or receivable when the underlying security is due to be repurchased or resold.

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 balance sheet).

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.

Trade and other payables and other financial liabilities 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 at cost and subsequently measured at fair value.

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

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.

m) Taxation

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

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, except where the deferred income tax asset arises through investments in subsidiaries and it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

n) Provisions

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

o) Share capital

Called up share capital comprises ordinary shares. Other capital reserves are described in Note 12.15. Other instruments (including redeemable cumulative preference shares) are classified as liabilities if there is an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the income statement in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Notes to the Consolidated Financial Statements continued

p) Redeemable convertible preference shares (RCPS)

RCPS were ordinarily allocated between a liability component and an equity component. The residual value of the equity option after having determined the fair value of the liability portion, was deemed by management to be immaterial and, therefore, the entire balance was disclosed as a liability. Dividends attributable to RCPS were shown as finance costs in the consolidated income statement.

q) Revenue recognition

Clearing fee income and associated rebates, together with other fee income, is recognised on a transaction by transaction basis in accordance with the Group's fee scales.

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. Both interest revenue and interest paid to clearing members are recognised on a time-apportioned basis.

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

r) Segment reporting

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

The Group's primary reporting format is by geographical segment reflecting the performance of the principal operating subsidiaries. The Group's secondary reporting format is by business segment.

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

Business segments are based on the Group's products and are split into Equities, Fixed income, Derivatives and swaps and Commodities and energy.

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

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

s) Employee benefits

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

The Group has also committed to assume obligations in respect of certain staff in the Euronext defined benefit pension scheme in Amsterdam who transferred their employment to LCH.Clearnet SA in 2004. The obligations in respect of certain staff in an independent defined benefit scheme in Porto were assumed in 2006. An updated valuation of these funds was carried out at 31 December 2008 by a qualified independent actuary.

A full actuarial valuation of the LCH Pension Scheme was carried out at 30 June 2007 and partially updated to 31 December 2008 by a qualified independent actuary. Major assumptions used by the actuary are included within note 12.18.2.

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 charge in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction, and gains are measured when all parties whose consent is required are irrevocably committed to the transaction.

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

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

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

t) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

u) Dividends

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

v) Leases

The Group is a lessee. 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.

Notes to the Consolidated Financial Statements continued

w) New standards and interpretations not applied

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

International Accounting Standard (IAS/IFRS)		**Effective date**
IFRS 1/ IAS 27	Amendment – First-time adoption of IFRS/ Consolidated and Separate Financial Statements	1 January 2009
IFRS 3R/ IAS27R	Business Combinations/ Consolidated and Separate Financial Statements	1 January 2009
IAS 1	Revised Presentation of Financial Statements	1 January 2009
IAS 32/ IAS 1	Financial Instruments: Presentation/ Presentation of Financial Statements – Puttable Financial Instruments and Obligations arising on a Liquidation	1 January 2009
IAS 23	Borrowing Costs (Revised)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 15	Agreement for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 October 2008

The Group will adopt these standards in the year they become effective, but does not anticipate that the adoption of the amendments to IFRS 1/IAS 27, IAS 32/IAS 1, IAS 23, IFRS 8 or IAS 39 or the new IFRIC 15 and IFRIC 16 will have a material impact on the Group. IFRS 3R/IAS 27R will be applied to any future acquisitions or disposals of entities. The Group will introduce a separate comprehensive income statement under the revised IAS 1, and it will change disclosure to remove items of income and expense from the statement of changes in equity, and instead include them in this new statement. IFRS 8 will affect the way the Group discloses its segmental information.

12.3 Exchange rates

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

	2008 Closing rate	2008 Average rate	2007 Closing rate	2007 Average rate
Euro (€) to US Dollar ($)	1.40	1.47	1.46	1.37
Euro (€) to Pound (£)	0.96	0.79	0.74	0.68

12.4 Segment information

12.4.1 Geographical segments

	2008 UK[1] €'000	2008 Europe[2] €'000	2008 Total €'000	2007 UK €'000	2007 Europe €'000	2007 Total €'000
Revenue						
Interest income						
Treasury	720,744	439,587	1,160,331	497,960	349,185	847,145
Default Fund	38,268	32,874	71,142	48,708	33,860	82,568
	759,012	472,461	1,231,473	546,668	383,045	929,713
Interest expense						
Treasury	(529,920)	(402,552)	(932,472)	(434,433)	(335,225)	(769,658)
Default Fund	(50,683)	(32,874)	(83,557)	(58,566)	(33,860)	(92,426)
	(580,603)	(435,426)	(1,016,029)	(492,999)	(369,085)	(862,084)
Net Interest income	178,409	37,035	215,444	53,669	13,960	67,629
Sales to external customers:						
Clearing fees	188,352	139,982	328,334	223,179	181,100	404,279
Other fee income	21,923	22,040	43,963	16,650	25,439	42,089
Inter-segment	(11,704)	(2,552)	(14,256)	(9,993)	(3,382)	(13,375)
	10,219	19,488	29,707	6,657	22,057	28,714
Segment Revenue	**376,980**	**196,505**	**573,485**	**283,505**	**217,117**	**500,622**
Result						
Segment result	206,649	86,962	293,611	144,890	112,498	257,388
Net finance income/ (cost)	(1,787)	4,275	2,488	(585)	5,055	4,470
Profit before tax	204,862	91,237	296,099	144,305	117,553	261,858
Tax expense	(45,528)	(30,755)	(76,283)	(45,818)	(37,116)	(82,934)
Profit for the year	**159,334**	**60,482**	**219,816**	**98,487**	**80,437**	**178,924**

Notes to the Consolidated Financial Statements continued

	2008			2007		
	UK[1]	Europe[2]	Total	UK	Europe	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Assets and liabilities						
Total assets	**275,278,823**	**81,828,456**	**357,107,279**	**218,650,252**	**76,814,583**	**295,464,835**
Total liabilities	**(274,500,539)**	**(81,768,345)**	**(356,268,884)**	**(218,012,299)**	**(76,733,578)**	**(294,745,877)**
Other segment information						
Capital expenditure on fixed assets	12,736	24,094	36,830	11,450	3,718	15,168
Depreciation and loss on disposal	4,767	405	5,172	2,548	489	3,037
Amortisation	4,157	3,878	8,035	4,172	4,475	8,647

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

[2] Europe comprises LCH.Clearnet SA, including its branches in Amsterdam, Brussels and Porto and LCH.Clearnet (Luxembourg) S.à.r.l

12.4.2 Business segments

2008	Equities[1] €'000	Fixed income[2] €'000	Derivatives and swaps[3] €'000	Commodities and energy[4] €'000	Total €'000
Net revenue					
Sales to external customers	137,286	81,028	210,619	144,698	573,631
Inter-segment	-	-	-	(146)	(146)
Segment revenue	**137,286**	**81,028**	**210,619**	**144,552**	**573,485**
Other segment information					
Total assets	**851,466**	**346,743,803**	**4,666,148**	**4,845,862**	**357,107,279**
Capital expenditure on fixed assets	**394**	**10,285**	**20,014**	**6,137**	**36,830**

2007	Equities[1] €'000	Fixed income[2] €'000	Derivatives and swaps[3] €'000	Commodities and energy[4] €'000	Total €'000
Revenue					
Sales to external customers	189,043	37,766	170,266	103,935	501,010
Inter-segment	-	-	-	(388)	(388)
Segment revenue	**189,043**	**37,766**	**170,266**	**103,547**	**500,622**
Other segment information					
Total assets	**1,643,776**	**287,584,958**	**3,830,110**	**2,405,991**	**295,464,835**
Capital expenditure on fixed assets	**2,877**	**9,303**	**2,649**	**339**	**15,168**

1 Equities comprise LSE, NYSE Euronext cash markets, SWX Europe and EDX.
2 Fixed Income comprises RepoClear.
3 Derivatives comprise NYSE Liffe and SwapClear.
4 Commodities and energy comprise Powernext, LME, ICE, ICE Futures, Freight and Endex. ICE and ICE Futures transferred clearing to its own clearing services at the beginning of November 2008.

Notes to the Consolidated Financial Statements continued

12.5 Profit before taxation

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

	2008 €'000	2007 €'000
12.5.1 Depreciation, amortisation and impairment		
Depreciation of property, plant and equipment	5,172	2,844
Amortisation of intangible assets	8,035	8,647
Loss on disposal of intangible assets	-	6
Loss on disposal of property, plant and equipment	-	187
	13,207	**11,684**
12.5.2 Other operating expenditure includes		
Hire of plant and machinery under operating leases	591	263
Property lease rentals	8,171	7,179
Outsourced IT infrastructure	36,408	36,300
Self-developed software expensed directly to the income statement	24,371	11,613
Foreign exchange losses	2,962	1,392
Auditors remuneration:		
Audit related - Company	91	105
Audit related - subsidiaries	574	524
Non-audit related – Company	103	22
Non-audit related - subsidiaries	86	85
12.5.3 Net finance income		
Interest paid in respect of:		
Redeemable convertible preference shares	-	(6,232)
Subordinated loan	(1,513)	(1,328)
Preferred securities	(13,721)	(8,381)
Interest on bank loans and overdrafts repayable within 5 years	(83)	(153)
	(15,317)	(16,094)
Interest received on own funds	17,805	20,564
	2,488	**4,470**

12.6 Taxation

The major components of taxation expense are:

12.6.1 Consolidated income statement

	Note	2008 €'000	2007 €'000
Current income tax			
United Kingdom			
Corporation tax		(80,314)	(81,033)
Double taxation relief		31,796	35,154
Current tax charge		(48,518)	(45,879)
Adjustments in respect of current taxation in previous years		3,153	343
		(43,565)	**(45,536)**
Overseas			
Current tax charge		(26,587)	(38,508)
Adjustments in respect of current taxation in previous years		43	296
		(26,544)	(38,212)
Total current taxation		**(71,909)**	**(83,748)**
Deferred tax			
Relating to the origination and reversal of temporary differences	12.6.3	(4,374)	814
Taxation expense reported in the consolidated income statement	7	**(76,283)**	**(82,934)**
Consolidated statement of changes in equity			
Current tax relating to actuarial loss on overseas schemes	11	253	(158)
Deferred tax relating to actuarial loss on UK pension scheme	11	4,669	(6,252)
		4,922	**(6,410)**

12.6.2 Reconciliation of tax expense

	Note	2008 €'000	2007 €'000
Accounting profit before taxation		296,099	261,858
Tax at UK statutory corporation tax rate of 28.5% (2007: 30%)		(84,388)	(78,557)
Effect of:			
Adjustments in respect of tax in previous years		3,196	639
Expenditure not allowable for tax purposes		(1,631)	(3,166)
Net effect of higher rates of overseas taxation		(4,752)	(1,850)
Exchange differences		11,292	-
Total tax charge	12.6.1	**(76,283)**	**(82,934)**
Effective income tax rate (%)		**25.8**	**31.7**

The UK statutory corporation tax rate changed from 30% to 28% on 1 April 2008. Exchange differences have arisen on the translation of the closing sterling tax creditor which is payable to the UK tax authority.

Notes to the Consolidated Financial Statements continued

12.6.3 Deferred tax

	Consolidated balance sheet		Consolidated income statement	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Post-employment benefits	8,356	5,166	(865)	(666)
Reduced depreciation for tax purposes	3,441	4,591	(3,840)	1,139
Other timing differences	(1,458)	2,353	331	341
Deferred tax credit			**(4,374)**	**814**
Net deferred tax asset	**10,339**	**12,110**		

	UK	Luxembourg	Other overseas	Total
	€'000	€'000	€'000	€'000
Net deferred tax asset at 1 January 2008	8,732	-	3,378	12,110
Deferred tax in income statement	(163)	331	(4,542)	(4,374)
Deferred tax relating to actuarial loss	4,669	-	-	4,669
Other movements	(2,066)	-	-	(2,066)
Net deferred tax asset/(liability) at 31 December 2008	**11,172**	**331**	**(1,164)**	**10,339**

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

12.7 Profits of the holding company

The retained profit for the year includes a profit of €167,789,000 (2007: €170,141,000) which is dealt with in the company accounts of LCH.Clearnet Group Limited.

12.8 Intangible assets

	Patents €'000	Self-developed software €'000	Goodwill €'000	Total €'000
Cost				
At 1 January 2008	16	75,221	503,836	579,073
Additions	-	31,624	-	31,624
At 31 December 2008	16	106,845	503,836	610,697
Accumulated amortisation				
At 1 January 2008	16	62,441	-	62,457
Amortisation charge for the year	-	8,035	-	8,035
At 31 December 2008	16	70,476	-	70,492
Net book value				
At 31 December 2008	**-**	**36,369**	**503,836**	**540,205**
At 1 January 2008	-	12,780	503,836	516,616
Cost				
At 1 January 2007	16	73,726	503,836	577,578
Additions	-	5,568	-	5,568
Disposals	-	(187)	-	(187)
Exchange adjustments	-	(3,886)	-	(3,886)
At 31 December 2007	16	75,221	503,836	579,073
Accumulated amortisation				
At 1 January 2007	16	57,301	-	57,317
Amortisation charge for the year	-	8,647	-	8,647
Disposals	-	(181)	-	(181)
Exchange adjustments	-	(3,326)	-	(3,326)
At 31 December 2007	16	62,441	-	62,457
Net book value				
At 31 December 2007	**-**	**12,780**	**503,836**	**516,616**
At 1 January 2007	-	16,425	503,836	520,261

The balance of capitalised self-developed software costs that relates to software not currently brought into use at 31 December 2008, and against which no amortisation has been charged during the year then ended, was €28,584,000 (2007: €3,217,000).

Self-developed software costs expensed directly to the income statement are set out in note 12.5.2.

Notes to the Consolidated Financial Statements continued

12.9 Impairment testing of intangible assets

Goodwill

Goodwill of €503,836,000 is carried in relation to LCH.Clearnet SA. The recoverable amount associated with this subsidiary is determined based on value-in-use calculations. These calculations use cash flow projections derived from financial forecasts 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 2.5% (2007: 2.5%). 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 clearing volumes and tariff levels are the most important; they are also inter-related. As volumes grow, the Group expects to be able to reduce tariffs. Cash flows are discounted using a pre-tax discount rate of 14.7% (2007: 12.5%), which reflects the specific risks relating to the relevant segments.

As at 31 December 2008, and based on the above assumptions, the recoverable amount of LCH.Clearnet SA was determined to be above its carrying value.

Subsequent to 31 December 2008, as a result of lower volumes experienced in 2009, revised growth assumptions, and the announcement of further tariff reductions in cash equity markets, management has re-calculated the value-in-use of LCH.Clearnet SA and determined that its recoverable amount is now materially less than its carrying value. Accordingly, an impairment charge of €393,400,000 has been recognised in the July 2009 Interim Condensed Consolidated Financial Statements prepared for the purpose of the Company's capital restructuring as detailed in note 12.25. This reduces goodwill to €110,436,000. Further details on the post balance sheet events which led to this impairment are provided in note 12.25.

12.10 Property, plant and equipment

	Leasehold refurbishment €'000	Computer equipment software €'000	Office equipment and other fixed assets €'000	Total €'000
Cost				
At 1 January 2008	6,357	14,920	4,387	25,664
Additions	657	3,448	1,101	5,206
At 31 December 2008	7,014	18,368	5,488	30,870
Accumulated depreciation				
At 1 January 2008	3,155	6,645	2,599	12,399
Depreciation charge for the year	513	3,957	702	5,172
At 31 December 2008	3,668	10,602	3,301	17,571
Net book value				
At 31 December 2008	**3,346**	**7,766**	**2,187**	**13,299**
At 1 January 2008	3,202	8,275	1,788	13,265
Cost				
At 1 January 2007	6,360	18,094	3,669	28,123
Additions	548	7,925	1,127	9,600
Disposals	(210)	(9,686)	(168)	(10,064)
Exchange adjustments	(341)	(1,413)	(241)	(1,995)
At 31 December 2007	6,357	14,920	4,387	25,664
Accumulated depreciation				
At 1 January 2007	2,858	15,157	2,492	20,507
Depreciation charge for the year	510	1,898	436	2,844
Disposals	(31)	(9,678)	(168)	(9,877)
Exchange adjustments	(182)	(732)	(161)	(1,075)
At 31 December 2007	3,155	6,645	2,599	12,399
Net book value				
At 31 December 2007	**3,202**	**8,275**	**1,788**	**13,265**
At 1 January 2007	3,502	2,937	1,177	7,616

Notes to the Consolidated Financial Statements continued

12.11 Investments

Investments in subsidiaries

	Company	
	2008	2007
	€'000	€'000
Investments in subsidiary undertakings at the beginning and end of the year	673,481	673,481

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

The Company's principal subsidiaries are as follows:

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

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

The principal activity of the LCH.Clearnet Limited and LCH.Clearnet SA is the provision of clearing, central counterparty and other services to clearing members, trade matching organisations and exchanges.

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

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

12.12 Cash and short-term deposits

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Cash at bank and in hand	1,315,780	3,208,559	1,998	535
Short-term deposits	21,702,636	13,615,272	92,567	20,292
	23,018,416	**16,823,831**	**94,565**	**20,827**

€18,690,747,000 of short-term deposits are fully collateralised by high quality sovereign and investment grade corporate securities in accordance with Risk approved eligibility criteria. €404,032,000 (2007: €405,000,000) of short-term deposits mature in three to six months.

12.13 Debtors and other receivables

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Amounts falling due within one year:				
Other debtors	5,170	8,251	44	51
Amounts owed by Group undertakings	-	-	1,350	990
	5,170	8,251	1,394	1,041
Prepayments	9,407	14,372	7	60
Accrued income	57,740	30,102	-	-
	72,317	**52,725**	**1,401**	**1,101**

12.14 Balances with clearing members

	Group	
	2008	2007
	€'000	€'000
Assets		
Fair value of transactions with clearing members, less variation margin	319,268,833	277,503,905
Initial margin and other clearing member balances	707,230	537,700
	319,976,063	**278,041,605**
Liabilities		
Fair value of transactions with clearing members, less variation margin	(319,264,882)	(277,487,803)
Initial margin and other clearing member balances	(34,928,393)	(15,344,586)
	(354,193,275)	**(292,832,389)**

The balances due from clearing members recorded in the balance sheet of €319,976 million (2007: €278,042 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 2008, the total of fully collateralised loans in respect of fixed income transactions was €310,079 million (2007: €270,412 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 €45,267 million (2007: €42,148 million) and the total amount of guarantees held was €4,646 million (2007: €5,203 million).

Notes to the Consolidated Financial Statements continued

12.15 Issued capital and reserves

	Group & Company	
	2008	2007
	€'000	€'000
Authorised		
100,916,003 (2007: 100,916,003) ordinary shares of €1 each	100,916	100,916
200,000 (2007: 200,000) non-cumulative callable preference shares of €1 each	200	200
Issued and fully paid		
73,932,616 (2007: 80,115,978) ordinary shares of €1 each	73,933	80,116

6,183,362 shares (2007: 20,000,000) were repurchased as part of the NYSE Euronext buyback at €10 per share.
One additional non-voting share was also issued in 2007.

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 11)

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, the date of the capital reorganisation, less the amount transferred in 2007 as part of the court approved capital restructuring.

Capital redemption reserve (Section 11)

The balance on this reserve represents the nominal value of the ordinary shares that have been repurchased and cancelled.

Distributable reserves (Section 11)

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.

12.16 Interest bearing loans and borrowings

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Current				
Bank overdrafts	52,937	5,276	-	-
Non-current				
Preferred securities	196,019	196,961	-	-
Subordinated loan owed to subsidiary	-	-	196,019	196,961
Subordinated loan	27,000	27,000	-	-
	223,019	**223,961**	**196,019**	**196,961**

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

12.16.1 Bank overdrafts

In order to manage its day-to-day liquidity the Group operates a number of overdrafts in various currencies with effective rates of interest averaging Euro OverNight Index Average (EONIA) plus 100 basis points.

12.16.2 Subordinated loan

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

- From August 2004 to 20 September 2004 at 0.7% above one month EURIBOR
- From 21 September 2004 to 20 September 2009 at 0.7% above three month EURIBOR
- From 21 September 2009 at 1.2% above three month EURIBOR

The initial rate was 2.875%. The loan has a redemption date of 21 September 2014 but may, subject to Commission bancaire approval, be repaid upon 30 days notice, but no earlier than 21 September 2009. It is quoted on the Luxembourg Stock Exchange.

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

Notes to the Consolidated Financial Statements continued

12.16.3 Preferred securities

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

12.16.4 Undrawn borrowing facilities

As at 31 December 2008 the Group has undrawn committed borrowing facilities of €185.6 million (2007: €126.0 million).

12.17 Default funds

	2008 €'000	2007 €'000
LCH.Clearnet SA Default Funds		
OTC fund	312,592	208,431
Other funds	451,005	530,277
	763,597	738,708
LCH.Clearnet Limited Default Fund	622,420	802,154
	1,386,017	**1,540,862**

The purpose of the Default Funds is to fund any losses incurred by the Group in the event of clearing member default if margin collateral is insufficient to cover the management and close out of the positions of the defaulting clearing member. Monies are placed on deposit by the Group and interest has been paid to clearing members in LCH.Clearnet Limited at a rate of not less than three-month LIBOR (or equivalent) plus 100 basis points and to clearing members in LCH.Clearnet SA at the Euro Overnight Average Index rate.

12.18 Employee benefits

12.18.1 Employees and directors

Employee benefits expense	2008 €'000	2007 €'000
Wages and salaries	65,948	60,175
Social security costs	12,153	11,623
Pension costs	8,729	9,688
Employee benefits expense	**86,830**	**81,486**
Average monthly number of people (including executive directors) employed	**595**	**511**

	Company	
Directors	2008 €'000	2007 €'000
Total remuneration paid to directors of the Company		
Emoluments	1,179	2,881
Pension contributions	-	98
	1,179	**2,979**

Full details of directors' remuneration are disclosed in section 14.5.
Remuneration of the highest paid director was €441,000 (2007: €1,607,000) including nil (2007: €98,000) pension contributions.

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is nil (2007: one).

The value of the accrued pension of the highest paid director in office at 31 December 2008 was nil (2007: €4,000).

Aggregate emoluments of the senior executive team, comprising Roger Liddell (Group Chief Executive), Francis Berthomier (Group Chief Financial Officer), Alberto Pravettoni (Managing Director, Corporate Strategy) and Christophe Hémon (Chief Executive of LCH.Clearnet SA), were €3,937,000 (2007: €4,347,000). None of the senior executive team are directors of the Company.

Notes to the Consolidated Financial Statements continued

12.18.2 Pension commitments

The Group operates a defined benefit pension scheme for its employees in the UK (the LCH Pension Scheme). In addition, the Group 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 300 active members, 384 inactive members and 97 pensioners. The Amsterdam scheme has 15 active and 4 inactive members, whilst the Porto scheme has only 4 active members. The following disclosure represents the consolidated position of these arrangements.

The valuations of the UK scheme conducted for financial reporting purposes are based on the triennial actuarial valuation. The other schemes were subject to a full valuation at 31 December 2008. A summary of the triennial valuation for the UK scheme, as at 30 June 2007, is as follows:

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

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:

Assumptions used	2008 UK Scheme	Amsterdam/ Porto	2007 UK Scheme	Amsterdam/ Porto	2006 UK Scheme	Amsterdam/ Porto	2005 UK Scheme	Amsterdam
Discount rate	5.75%	5.50%	5.50%	5.50%	5.10%	4.50%	4.80%	4.25%
Rate of increase in salaries	5.00%	3.75%/ 3.50%	5.25%	3.50%/ 3.25%	5.10%	3.50%/ 3.00%	4.80%	3.50%
Rate of increase in pensions	2.75%	2.00%/ 1.50%	3.25%	1.75%/ 1.50%	3.10%	1.75%/ 2.00%	2.80%	1.75%
Inflation assumption	3.00%	2.25%	3.25%	2.00%	3.10%	2.00%	2.80%	2.00%
Expected rates of return on scheme assets:								
Equities	6.40%	8.70%/ 9.10%	7.10%	7.40%/ 7.00%	7.00%	6.80%/ 7.40%	6.60%	6.40%
Bonds	5.00%	4.10%/ 4.56%	5.20%	4.20%/ 4.10%	4.50%	3.70%	4.10%	3.20%
Property	6.40%	N/A/ 6.70%	5.25%	N/A/ 5.75%	5.00%	N/A/ 3.20%	4.50%	N/A
Cash	2.00%	N/A/ 3.80%	5.25%	N/A/ 4.10%	5.00%	N/A/ 2.00%	4.50%	N/A
Weighted average	5.68%	5.48%/ 5.30%	6.57%	5.16%/ 4.50%	6.58%	4.63%/ 3.91	6.20%	4.16%

Assumptions used	2008 UK Scheme	Amsterdam/ Porto	2007 UK Scheme	Amsterdam/ Porto	2006 UK Scheme	Amsterdam/ Porto	2005 UK Scheme	Amsterdam
Post retirement mortality in years:								
Currently aged 60 – male	28.6	-	26.7	-	26.6	-	21.2	-
Currently aged 60 – female	31.5	-	29.6	-	29.5	-	24.2	-
Currently aged 45 – male	29.6	-	27.6	-	27.6	-	23.9	-
Currently aged 45 - female	32.4	-	30.5	-	30.4	-	26.6	-

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. Due to the recent dislocation in bond markets those bonds identified as "outliers" which would unduly distort the result are excluded from the curve.

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 balance sheet dates. The expected rate of return on assets is determined based on the market prices prevailing at that date.

Change in benefit obligation – 2008	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Benefit obligation at 1 January 2008	119,938	2,301	122,239
Current service cost	9,331	156	9,487
Interest cost	6,028	127	6,155
Actuarial loss/(gain)	(10,461)	212	(10,249)
Employee contributions	223	-	223
Benefits paid	(2,477)	(13)	(2,490)
Exchange rate changes	(30,271)	-	(30,271)
Benefit obligation at 31 December 2008	**92,311**	**2,783**	**95,094**

Change in benefit obligation – 2007	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Benefit obligation at 1 January 2007	137,221	2,832	140,053
Current service cost	8,826	174	9,000
Interest cost	6,841	127	6,968
Actuarial gain	(18,791)	(519)	(19,310)
Employee contributions	463	-	463
Benefits paid	(2,339)	(13)	(2,352)
Net transfers	-	(300)	(300)
Exchange rate changes	(12,283)	-	(12,283)
Benefit obligation at 31 December 2007	**119,938**	**2,301**	**122,239**

Notes to the Consolidated Financial Statements continued

12.18.2 Pension commitments continued

Change in scheme assets – 2008	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Fair value of scheme assets at 1 January 2008	115,601	2,193	117,794
Expected return on scheme assets	7,166	125	7,291
Actuarial losses	(27,136)	(580)	(27,716)
Employer contribution (includes benefits paid and reimbursed)	6,880	220	7,100
Employee contributions	223	-	223
Benefits paid	(2,477)	(13)	(2,490)
Exchange rate changes	(29,034)	-	(29,034)
Fair value of scheme assets at 31 December 2008	**71,223**	**1,945**	**73,168**

Change in scheme assets – 2007	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Fair value of scheme assets at 1 January 2007	93,530	2,158	95,688
Expected return on scheme assets	6,835	100	6,935
Actuarial gains/(losses)	2,048	(22)	2,026
Employer contribution (includes benefits paid and reimbursed)	24,855	270	25,125
Employee contributions	463	-	463
Benefits paid	(2,339)	(13)	(2,352)
Net transfers	-	(300)	(300)
Exchange rate changes	(9,791)	-	(9,791)
Fair value of scheme assets at 31 December 2007	**115,601**	**2,193**	**117,794**

Analysis of pension benefit obligation - 2008	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Present value of funded obligations	92,311	2,783	95,094
Fair value of plan assets	(71,223)	(1,945)	(73,168)
Deficit for funded plans	**21,088**	**838**	**21,926**

Analysis of pension benefit obligation - 2007	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Present value of funded obligations	119,938	2,301	122,239
Fair value of plan assets	(115,601)	(2,193)	(117,794)
Deficit for funded plans	**4,337**	**108**	**4,445**

Net liability shown in balance sheet	2008 €'000	2007 €'000
Deficit for funded plans	21,926	4,445
Other European retirement provisions	2,014	3,424
Employee benefits	**23,940**	**7,869**

Analysis of pension benefit obligation	2008 €'000	2007 €'000	2006 €'000	2005 €'000	2004 €'000
Present value of funded obligations	95,094	122,239	140,053	113,531	86,317
Fair value of plan assets	(73,168)	(117,794)	(95,688)	(78,973)	(59,193)
Deficit for funded plans	**21,926**	**4,445**	**44,365**	**34,558**	**27,124**

Components of pension cost	2008 €'000	2007 €'000
Current service cost	9,487	9,000
Interest cost	6,155	6,968
Expected return on plan assets	(7,291)	(6,935)
	8,351	9,033
Other pension costs	378	655
Total pension expense recognised in the income statement	**8,729**	**9,688**
Net actuarial losses/(gains) immediately recognised	17,467	(21,335)
Total pension expense/(income) recognised in the statement of changes in equity	**17,467**	**(21,335)**

The cumulative amount of actuarial losses recognised in the statement of changes in equity since the Group adopted IFRS on 1 January 2004 is €7,652,000 (2007: €9,815,000 gain).

Notes to the Consolidated Financial Statements continued

12.18.2 Pension commitments continued

Pension scheme asset allocation

An analysis of the pension assets is set out below:

At 31 December 2008

	UK Scheme €'000	%	Amsterdam/ Porto €'000	%	Total €'000	%
Equities	45,725	64	564	29	46,289	63
Bonds	18,304	26	1,362	70	19,666	27
Property and cash	7,194	10	19	1	7,213	10
Total	**71,223**	**100**	**1,945**	**100**	**73,168**	**100**

At 31 December 2007

	UK Scheme €'000	%	Amsterdam/ Porto €'000	%	Total €'000	%
Equities	82,886	72	633	29	83,519	71
Bonds	24,161	21	1,535	70	25,696	22
Property and cash	8,554	7	25	1	8,579	7
Total	**115,601**	**100**	**2,193**	**100**	**117,794**	**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 2008 €'000	Year ended 31 December 2007 €'000
Actual return on plan assets	(20,425)	8,960

History of experience gains and losses

	Financial years ending 31 December:				
	2008 €'000	2007 €'000	2006 €'000	2005 €'000	2004 €'000
Difference between expected and actual return on scheme assets:					
Amount	(27,716)	2,025	5,010	10,161	1,965
Percentage of scheme assets	(38%)	2%	5%	13%	3%
Experience (gains) and losses on scheme liabilities:					
Amount	47	(11,317)	15	2,042	(584)
Percentage of scheme liabilities	-	(9%)	-	2%	(1%)

Contributions

The Group expects to contribute €6,973,000 (2008: €6,306,000) to its defined benefit pension plans in 2009. The contribution rate to the LCH Pension Scheme was increased to 26% of pensionable earnings from 1 July 2008. The previous rate was 21%.

Other comments

Included in employee benefits is a provision for compensation for retirement of €1,687,000 (2007: €1,704,000) and €327,000 (2007: €1,720,000) in respect of early retirement in compliance with an agreement with Euronext Paris personnel dated 19 December 2001. These provisions have been calculated by an independent actuary based on changes in the workforce (turnover, seniority and participation in the early retirement scheme). The charge to the income statement for the year in respect of the compensation for retirement commitment was €323,000 (2007: €34,000) and the charge in the early retirement scheme was €55,000 (2007: €621,000).

12.19 Creditors and other payables

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Trade payables	7,150	14,323	149	1,326
Other payables including taxation and social security	212,755	37,214	-	-
Amounts owed to Group Undertakings	-	-	1,445	1,045
Accruals and deferred income	75,102	58,778	10,633	9,973
	295,007	**110,315**	**12,227**	**12,344**

Other creditors include a balance of €165,319,000 owed to the administrator of Lehman Brothers Special Financing Inc. This was settled in January 2009. It also includes a balance of €2,704,000 owed to the administrators of Lehman Brothers International Europe. This balance was settled in March 2009.

Notes to the Consolidated Financial Statements continued

12.20 Commitments and contingencies

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

	2008		2007	
	Property	Plant and equipment	Property	Plant and equipment
	€'000	€'000	€'000	€'000
Within one year	9,573	380	8,381	343
More than one year, but less than five	12,735	361	23,064	662
More than five years*	5,602	-	10,560	-
	27,910	**741**	**42,005**	**1,005**

*The property rentals relate primarily to the lease of offices in London and expire in 2016.

Supplier agreements

In June 2005, the Group entered into a new 10 year agreement with Atos Origin in relation to the operation and development of certain technology applications. The estimated maximum value of the remaining commitment, following the introduction of new developments this year is €201 million (2007: €234 million). The Group has the right to terminate this agreement with one year's notice.

Contingent liabilities

At 31 December 2008 there were no material contingent liabilities.

Treasury assets supporting operational facilities

At 31 December 2008 the Group had assets and collateral in support of the following operational facilities.

	2008 €'000	2007 €'000
Central bank activity	2,861,640	476,648
Concentration bank services	208,714	272,370
Fixed Income settlement*	18,983,218	8,766,228
Equity and derivatives settlement delivery	29,625	116,474
Performance collateral on energy markets	1,044	1,362
	22,084,241	**9,633,082**

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

12.21 Related party disclosure

Key management personnel

Details of key management personnel are disclosed in Section 13 – Corporate Governance, and their total remuneration is disclosed in note 12.18.1.

Group undertakings

Details of the principal Group undertakings are set out in note 12.11 to these consolidated financial statements. In accordance with IAS 27, transactions or balances with Group entities that have been eliminated on consolidation are not reported.

Principal shareholding

The Group repurchased all of the outstanding redeemable convertible preference shares (RCPS) in 2007 at their par value of €198,840,000 which were held by NYSE Euronext Group, in addition to repurchasing 20,000,000 ordinary shares from them. Prior to these repurchases NYSE Euronext Group held 29.85% of the ordinary share capital and 100% of the redeemable convertible preference shares (RCPS) of LCH.Clearnet Group. This was the maximum shareholding in the Group and had been held from 22 December 2003, the date of acquisition of LCH.Clearnet SA.

At 31 December 2007 the NYSE Euronext Group held 12.33% of LCH.Clearnet Group Limited's ordinary share capital. During 2008 the Group completed the agreed buyback programme from NYSE Euronext with the repurchase of 6,183,362 ordinary shares, leaving their holding at 5%. All ordinary shares were repurchased at €10 per share.

12.22 Financial risk management objectives and policies

12.22.1 Introduction

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

The Group manages these risks through various control mechanisms and its approach to risk management is to be both prudent and evolutionary.

Overall responsibility for risk management rests with the Group Board. Day to day responsibility is delegated to the executives in the operating subsidiaries, on the basis of policies that are discussed and agreed in risk committees and/or Boards as appropriate and the individual application of policies, within the operating subsidiaries. Dedicated resources within the subsidiary Risk Management departments control and manage the exposures to members and banks on the basis of policies adopted by each of the subsidiary Boards. 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.

12.22.2 Foreign exchange risk

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

12.22.3 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.

12.22.4 Financial market volatility

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. 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.

As a central counterparty the Group has a balanced position in all cleared contracts and runs no market risk unless a clearing member defaults. The market risk is narrowed by collecting variation margin on marked-to-market positions each day and by establishing initial margin requirements which are the Group's estimate of likely future market risk under normal market conditions which is 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.

This protection was proven to be sufficient during the default of Lehman Brothers in 2008, with all positions being closed out without recourse to the Default Fund. Unused margin and Default Fund contributions were returned to the administrators of Lehman Brothers both during 2008 and in early 2009.

The Group accepts both cash and 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.

Notes to the Consolidated Financial Statements continued

12.22 Financial risk management objectives and policies continued

12.22.5 Credit risk

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

The Group has credit risk exposure as a direct result of the 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 quasi-government securities as collateral or by investing directly in such quasi-government or government securities. Securities received as collateral are subject to a haircut on their market value on a daily basis. The small amount of cash not secured in this way will be deposited in the money markets on an unsecured, short-term basis only to high quality banking institutions, or in government backed assets.

12.22.6 Concentration risk

Concentration risk only arises with respect to the Group's treasury assets, and in order to avoid excessive concentrations of risk, the Group maintains a diversified portfolio of treasury assets, and in accordance with investment policies no single institution can hold more than 25% of funds.

12.22.7 Liquidity risk

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

The Group's liquidity management is subject to strict minimum liquidity targets that are set by the boards and risk committees and which are kept under constant review. On a day-to-day basis the treasury team is tasked with ensuring that the Group can meet its financing needs at all times, in particular to ensure the business continues to operate smoothly in the event of a clearing member default.

Liquidity risk is managed by ensuring the operating clearing houses in the Group have sufficient available cash to meet their payment obligations and by the provision of facilities to meet short-term imbalances between available cash and payment obligations.

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

12.22.8 Other risk management

In addition to the financial risks above the Group is also exposed to operational, 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.

The Group has experienced a heightened level of operational risk during the year, with extreme levels of volatility across all markets together with the biggest and most complex member default to date. The potential exposure of the Group to unexpected events has evidently increased. And although the Group has closed out the positions arising from the Lehman default and returned excess funds to the administrators, the Group cannot completely rule out further exposure to this default until the administration is finalised.

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 additionally reported to the boards.

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

12.22.9 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 authorisation and regulatory requirements regimes in Europe and the USA. 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.

12.23 Financial instruments

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

		Group		Company	
	Note	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Financial assets at fair value through profit or loss					
Term loans held in cash		2,831,305	6,230,510	-	-
Fair value of transactions with clearing members	12.14	319,268,833	277,503,905	-	-
Government backed, bank issued certificates of deposits		7,474,341	-	-	-
Treasury bills		4,751,027	-	-	-
Government notes		436,254	-	-	-
Government backed, bank securities		21,462	-	-	-
Bank issued certificates of deposit		781,299	-	-	-
Other financial assets		13,464,383	-	-	-
Loans and receivables					
Debtors and other receivables	12.13	62,910	38,353	1,394	1,041
Initial margin and other member balances	12.14	707,230	537,700	-	-
Cash and cash equivalents on demand held at cost		20,187,111	10,593,321	94,565	20,827
Add Term loans held at fair value		2,831,305	6,230,510	-	-
Cash and short-term deposits in the balance sheet	12.12	23,018,416	16,823,831	94,565	20,827

Notes to the Consolidated Financial Statements continued

12.23 Financial instruments continued

		Group		Company	
	Note	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Financial liabilities at fair value through profit or loss					
Fair value of transactions with clearing members	12.14	(319,264,882)	(277,487,803)	-	-
Collateral borrowings		(56,010)	-	-	-
Financial liabilities at amortised cost					
Trade and other payables	12.19	(295,007)	(110,315)	(12,227)	(12,344)
Initial margin and other member balances	12.14	(34,928,393)	(15,344,586)	-	-
Default Funds	12.17	(1,386,017)	(1,540,862)	-	-
Bank overdrafts	12.16	(52,937)	(5,276)	-	-
Preferred securities	12.16	(196,019)	(196,961)	-	-
Subordinated loan	12.16	(27,000)	(27,000)	-	-
Subordinated loan owed to subsidiary	12.16	-	-	(196,019)	(196,961)
Derivative financial instruments at fair value through profit or loss					
Interest rate swap receivables		21,224	28,343	-	-
Interest rate swap payables		(29,940)	(28,621)	-	-
Interest rate swap liability		(8,716)	(278)	-	-
Forward foreign exchange contracts – asset		-	176,228	-	-
Forward foreign exchange contracts – liability		-	(171,545)	-	-
Forward foreign exchange contracts - net		-	4,683	-	-

Credit risk

No financial assets are neither past due nor impaired. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet 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 is 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 treasury portfolio and member balances by reference to the credit rating of the counterparty. The treasury portfolio includes Cash at bank and Other financial assets.

	Note	2008 €'000	2007 €'000
Fair value of member balances			
(Ratings as measured by Fitch)			
Members rated AAA		1,786,462	-
AA+		1,228,553	47,494,778
AA		76,098,399	79,107,457
AA-		117,635,909	107,650,850
A+		77,173,551	16,082,862
A		14,861,758	6,817,472
A-		1,255,302	1,809,746
BBB+		3,659,719	6,048,801
BBB		7,209,098	5,271
BBB-		22	-
Unrated		18,360,060	12,486,668
	12.14	**319,268,833**	**277,503,905**
Group Treasury portfolio			
(Ratings assigned with reference to major agencies)			
AAA Government backed		12,683,084	-
AA/AA+/AAA Secured		10,272,894	7,907,200
AA/AA+/AAA Unsecured		3,809,759	4,710,673
A+/AA- Secured		8,383,386	1,345,907
A+/AA- Unsecured		1,333,676	2,860,051
		36,482,799	**16,823,831**

Concentration risk

The largest concentration of Treasury exposures as at 31 December 2008 was 20.49% of the total investment portfolio to AAA rated government backed bank issued certificates of deposit (2007: 12.39% to a UK based AA+ rated banking group).

Notes to the Consolidated Financial Statements continued

12.23 Financial instruments continued

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:

2008	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	12,085,044	10,525,936	403,465	-	-	23,014,445
Other financial assets	-	8,812,015	4,319,637	302,742	-	13,434,394
Bank overdrafts	(52,937)	-	-	-	-	(52,937)
Treasury portfolio	12,032,107	19,337,951	4,723,102	302,742	-	36,395,902
Fair value of transactions with clearing members - asset	319,268,833	-	-	-	-	319,268,833
Initial margin and other member balances - asset	707,230	-	-	-	-	707,230
Fair value of transactions with clearing members - liability	(319,264,882)	-	-	-	-	(319,264,882)
Initial margin and other member balances - liability	(34,928,393)	-	-	-	-	(34,928,393)
Default Fund	(1,386,017)	-	-	-	-	(1,386,017)
Net balance with members	(35,603,229)	-	-	-	-	(35,603,229)
Debtors and other receivables	-	62,910	-	-	-	62,910
Collateral borrowings	-	(24,234)	(31,776)	-	-	(56,010)
Trade and other payables	-	(286,828)	-	-	-	(286,828)
Preferred securities	-	-	(13,152)	(52,608)	(252,608)	(318,368)
Subordinated loan	-	-	(27,000)	-	-	(27,000)
Interest rate swaps - outflows	-	(23,494)	(6,446)	-	-	(29,940)

2007	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	4,065,602	12,351,029	404,856	-	-	16,821,487
Bank overdrafts	(5,276)	-	-	-	-	(5,276)
Treasury portfolio	4,060,326	12,351,029	404,856	-	-	16,816,211
Fair value of transactions with clearing members - asset	277,503,905	-	-	-	-	277,503,905
Initial margin and other member balances - asset	537,700	-	-	-	-	537,700
Fair value of transactions with clearing members - liability	(277,487,803)	-	-	-	-	(277,487,803)
Initial margin and other member balances - liability	(15,344,586)	-	-	-	-	(15,344,586)
Default Fund	(1,540,862)	-	-	-	-	(1,540,862)
Net balance with members	(16,331,646)	-	-	-	-	(16,331,646)
Debtors and other receivables	-	38,353	-	-	-	38,353
Trade and other payables	-	(102,136)	-	-	-	(102,136)
Preferred securities	-	-	(13,152)	(52,608)	(265,760)	(331,520)
Subordinated loan	-	-	-	(27,000)	-	(27,000)
Interest rate swaps - outflow	-	(27,386)	(1,235)	-	-	(28,621)
Forward foreign exchange contracts	-	4,683	-	-	-	4,683

For Default Funds, the tenor of the liability, on which interest is paid based on 3 month LIBOR for LCH.Clearnet Limited, is matched with that of the asset and does not exceed 3 months. The weighted average maturity of the remainder of the portfolio is less than 2 months, with strict internal approval processes being applied for any assets over 6 months.

The financial liabilities are based upon rates set on a daily basis. Certificates of deposit (both bank issued, and government backed) are all carried at fair value. For assets not marked to market there is no material difference between the carrying value and fair value.

Based on the prices at which the Group repurchased some of its preferred securities, after the balance sheet date (see note 12.25) the fair value of these liabilities are approximately €104,453,000 at the year-end compared to the amortised cost carrying value of €196,019,000 (see note 12.16).

Notes to the Consolidated Financial Statements continued

12.23 Financial instruments continued

Interest rate sensitivity analysis

The Group's exposure to interest rate fluctuations is limited through the number of fixed rate borrowings it has, and the offset that exists between the bulk of the Group's interest bearing assets 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 its investments which are held at rates fixed for a maturity which on average is less than two months.

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

	2008 €'000 +25bp of interest rate	2008 €'000 +50bp of interest rate	2008 €'000 +100bp of interest rate	2007 €'000 +25bp of interest rate	2007 €'000 +50bp of interest rate	2007 €'000 +100bp of interest rate
Net exposure of cash and member margin balances	(9,122)	(18,244)	(36,488)	(1,846)	(3,693)	(7,386)
Interest rate swaps	1,266	2,532	5,064	774	1,549	3,098
Subordinated loan	(68)	(135)	(270)	(68)	(135)	(270)
	(7,924)	(15,847)	(31,694)	(1,140)	(2,279)	(4,558)
Tax effect of above	2,344	4,686	9,374	360	720	1,440
Impact on financial assets after tax	(5,580)	(11,161)	(22,320)	(780)	(1,559)	(3,118)

A reduction in interest rate would have an equal and opposite effect to the change shown above for an increase in interest rate at each level.

The larger monetary variance in response to changes in interest rates in 2008 compared to 2007 has arisen due to the increase in size of the treasury portfolio, as well as the increase in weighted average maturity of the portfolio, from 22 to 37 days. The increase in the portfolio size has enabled the maturity period to be extended without compromising the liquidity requirements of the Group.

Foreign exchange sensitivity

The Group converts surplus foreign exchange balances to Euros on a regular basis which minimises the effect exchange rate fluctuations will have on overall Group net assets. 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.

	2008 £ €'000	2008 $ €'000	2007 £ €'000	2007 $ €'000
Net exposure	(9,776)	4,093	(7,284)	8,382
Reasonable shift	15.8%	3.2%	5.2%	7.7%
Total effect on profit of positive movements	1,546	(129)	379	(645)
Total effect on profit of negative movements	(1,546)	129	(379)	645
Total effect on net assets of positive movements	1,546	(129)	379	(645)
Total effect on net assets of negative movements	(1,546)	129	(379)	645

During 2007 LCH.Clearnet Limited changed its functional currency from sterling to euros and at that point the Group transferred its previous exchange differences from the translation reserve to retained earnings.

Amounts included in the income statement in relation to financial instruments

	2008 €'000	2007 €'000
Interest income on assets held at fair value	422,113	272,995
Interest income on assets held at amortised cost	783,839	649,969
Net gain on revaluation of cash and cash equivalents held at fair value included in net interest income	3,971	2,344
Net gain on revaluation of other financial assets held at fair value included in net interest income	29,988	-
Net loss on interest rate swaps	(8,438)	(278)
Net gain on foreign exchange forward contracts	-	4,683
Total revaluation gains	25,521	6,749
Interest income	1,231,473	929,713
Interest expense on liabilities held at amortised cost	(1,016,029)	(862,084)
Net interest income	**215,444**	**67,629**
Finance income on assets held at amortised cost	17,805	20,564
Finance costs on overdrafts held at amortised cost	(83)	(153)
Finance costs on loans and borrowings held at amortised cost	(15,234)	(15,941)
Finance costs	(15,317)	(16,094)
Net finance income	**2,488**	**4,470**

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

Notes to the Consolidated Financial Statements continued

12.24 Capital management

LCH.Clearnet Group Limited is lead-regulated by the Commission bancaire in Paris. LCH.Clearnet Limited is regulated by the Financial Services Authority as a Recognised Clearing House under the Financial Services and Markets Act 2000. LCH.Clearnet SA is supervised as a credit institution by the Commission bancaire. As such, it is subject to standard capital adequacy rules, in accordance with instructions 91-05 and 95-02.

As an exception to the above, the preferred securities issued in 2007 are fully considered as tier 1 capital, a waiver granted by the Commission bancaire on 6 February 2007. This waiver expired on 1 January 2009, and after that date these preferred securities are limited to be 35% of core tier 1 capital, with the remainder in tier 2. The Group has sufficient resources to meet standard capital adequacy rules after the waiver expired.

From 1 January 2008 the Group has been required to meet standard capital adequacy rules under the Basel II framework, which provides for a different risk weighting method introducing ratings on credit risk valuation and adding an operational risk requirement.

In addition to the above, the Group maintains headroom over and above its capital requirement in order to cover for risks which might not be covered within the Basel II framework. This buffer has been increased from €40 million at 31 December 2007 to €150 million in light of the increased potential exposure of the Group to operational risk. The Group ensures that its regulatory capital plus current income in the year exceeds its regulatory capital requirement plus the buffer.

The table below sets out the Group’s total capital and relevant ratios.

	2008 €’000	2007 €’000
Regulatory capital		
Share capital	73,933	80,116
Other reserves/Capital reserves	41,510	35,327
Retained earnings	612,053	515,681
Perpetual Preferred Securities	196,019	196,961
Goodwill	(503,836)	(503,836)
Intangible assets	(36,369)	(12,780)
Tier 1 equity	383,310	311,469
Tier 2 subordinated loan	27,000	27,000
Regulatory capital	**410,310**	**338,469**
Capital requirement		
Credit risk requirement	58,200	99,400
Market risk requirement	2,400	2,800
Operational risk requirement	75,901	64,697
Regulatory capital requirement	**136,501**	**166,897**
Buffer	150,000	40,000
	286,501	206,897
Headroom	**123.809**	**131,572**

The Group obtained an ‘AA-‘ rating from Standard & Poor’s prior to the issue of the preferred securities in May 2007, which remains the current rating.

12.25 Post balance sheet events and revised clearing agreement with Liffe

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

The two operating subsidiaries paid final dividends of €160 million (Ltd) and €64m (SA) in the second quarter of 2009 in respect of their profits for the year ended 31 December 2008. These amounts will form part of the income of the company in 2009.

The Group announced on 31 October 2008 that LCH.Clearnet Limited had signed a new clearing agreement with Liffe the international derivatives market of NYSE Euronext. Under this new agreement Liffe becomes the central counterparty for London-based Liffe contracts, whilst LCH.Clearnet Limited provides Liffe with risk management services under the pre-existing arrangements and continues to run all the normal day to day operational clearing processes for Liffe. In the event of a default, LCH.Clearnet Limited will become the counterparty and will be fully responsible for the management of the default.

This new agreement became effective from 30 July 2009, and as part of the termination of the current clearing arrangements LCH.Clearnet Limited received a one-off payment of €260,416,667 from NYSE Euronext, and recognised this upon receipt.

As a result of lower volumes experienced in 2009 and both implemented and proposed tariff reductions in cash equity markets (LCH.Clearnet SA reduced cash equity clearing fees by an average of 30% from 1 July 2009 and has recently announced that from 1 January 2010 equity clearing fees for blue chip stocks will further reduce to €0.05 per trade) management has re-calculated the value-in-use of LCH.Clearnet SA and determined that its recoverable amount is now less than its carrying value.

Accordingly, an impairment charge of €393,400,000 has been recognised in the July 2009 Interim Condensed Consolidated Financial Statement against this goodwill.

The Board has planned a dividend of €1.50 per share to be paid in December 2009 (€110,898,924) alongside a further capital distribution of €333,000,000 to shareholders as part of a transaction designed to align further the shareholder base with the user base. The dividend and capital distribution are subject to the approval of shareholders.

13 | 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 has complied with the provisions of the Financial Reporting Council's Combined Code on Corporate Governance to the extent such compliance is possible and appropriate given the nature and size of the entities comprised within the Group. However, the Board has identified a couple of specific areas of non-compliance which it intends to address over the coming few months. Those areas are the adoption of a formal schedule of matters reserved for the Board's decision and the appointment of a senior independent director. Furthermore, the directors' letters of appointment do not specify an expected time commitment as past practice has established that this was not necessary to ensure the level of commitment expected from directors.

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.

13.1 The Group structure

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

LCH.Clearnet Group Limited is lead-regulated by the Commission bancaire in Paris. A Memorandum of Understanding (MoU) was signed 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.

Since 1 January 2008 the following directors were appointed to the Board::

Ian Abrams	Vivien Levy-Garboua
Lawrence Shaw	Jerome Kemp
Jean-Pierre Mustier	David Williams
Martin Abbott	Xavier Rolet

During the course of the year, the following directors resigned their positions on the Board:

Philippe Collas	Robert Wigley
Jean-Pierre Mustier	Kevin Davis
Charles Stonehill	Dominique Hoenn
Dame Clara Furse DBE	

The subsidiaries:

LCH.Clearnet Limited

LCH.Clearnet Limited is a private company, limited by shares and registered in the United Kingdom. The Board of Directors consists of A. Chris Tupker (Chairman), John Townend, Hervé Saint-Sauveur, Nazir Badat, Martin Abbott, Jenny Ireland, Jerome Kemp, Ian Abrams, Vivien Levy-Garboua, Lawrence Shaw and four executive directors in Roger Liddell (Chief Executive of LCH.Clearnet Limited), Christophe Hémon (Chief Executive of LCH.Clearnet SA), Alberto Pravettoni (Managing Director, Corporate Strategy) and Francis Berthomier (Group Chief Financial Officer).

Since 1 January 2008 the following Directors resigned their positions on the Board:

Philippe Collas	Robert Wigley
Kevin Davis	Charles Stonehill
Gerard Hartsink	Jean-François Théodore
Dominique Hoenn	Dame Clara Furse DBE
Denise Wyllie	David Williams
Francesco Vanni d'Archirafi	Jean-Pierre Mustier

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

LCH.Clearnet SA

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

The LCH.Clearnet SA Governing Board consists of Hervé Joubeaud (Chairman and independent non-executive director); four other independent non-executive directors - Catherine Bienstock, Hervé Saint-Sauveur, John Townend and Jean-Pierre Ravisé; and two executive directors – Roger Liddell (Chief Executive of LCH.Clearnet Group Limited) and Christophe Hémon (Chief Executive of LCH.Clearnet SA).

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

Since LCH.Clearnet SA provides CCP services to markets outside France, its clearing activities are also subject to the regulation and oversight of the competent authorities in Belgium (Minister of Finance for the approval of the Rulebook, National Bank of Belgium and Commission bancaire, financière et des assurances - Banking, Financial and Insurance Commission), the Netherlands (the Minister of Finance, De Nederlandsche Bank and the securities supervisor - Nederlandsche Autoriteit 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 (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 is governed by Luxembourg law. It is a private company, limited by shares and is owned by LCH.Clearnet Limited (51%) and LCH.Clearnet SA (49%). The Board of Directors is chaired by Francis Berthomier (Group Chief Financial Officer) and consists of Jackie Alexander (Managing Director, Corporate Services), Christophe Hémon (Chief Executive of LCH.Clearnet SA), Martin Taylor (Group Chief Information Officer) and Thierry Plard (Manager).

The Company Board

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

In broad terms, the Board is responsible for setting strategy, objectives and policies, and approves budgets, material initiatives and commitments for the Company. The Board reviews on an annual basis the system of internal control.

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

The Board meets regularly and Board committee chairmen provide reports of their committee activities to the Board on a regular basis. The Group Executive Committee, consisting of the Chief Executive Officer of LCH.Clearnet Group and Limited, the Group Chief Financial Officer, the Chief Executive Officer of LCH.Clearnet SA and the Managing Director, Corporate Strategy are also invited to attend Board meetings. The Group Executive Committee is established to ensure that decision making across LCH.Clearnet Group Limited, LCH.Clearnet Limited and LCH.Clearnet SA is being thoroughly reviewed and is consistent with the strategy of the Board. Auditors are invited to attend Board meetings where appropriate, as are members of senior management and legal advisers.

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

In accordance with the Combined Code on Corporate Governance, the Board has undertaken an evaluation of its own performance and of its committees, Chairman and individual directors. The results of this evaluation were considered at a Board meeting in February 2009.

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.

Corporate Governance continued

13.2 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 10 occasions during 2008, 6 of which were scheduled meetings with a further 4 additional meetings. 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
A. Chris Tupker	6/6	4/4	4/4	2/2	1/1
John Townend	6/6	2/4	4/4	-	-
Hervé Saint-Sauveur	6/6	2/4	4/4	2/2	-
Nazir Badat	5/6	3/4	4/4	-	-
Dame Clara Furse DBE	3/6	2/4	-	-	0/1
Gerard Hartsink	4/6	2/4	-	-	-
Dominique Hoenn	5/5	3/3	3/4	-	-
Robert Wigley	2/6	1/4	-	-	4/4
Francesco Vanni d'Archirafi	6/6	4/4	-	-	4/4
Jenny Ireland	6/6	3/4	-	-	3/3
Denise Wyllie	5/6	3/4	-	-	-
Jean-François Théodore	5/6	3/4	-	-	0/1
Martin Abbott	6/6	3/4	-	-	-
Kevin Davis	2/4	1/2	-	-	-
Philippe Collas	2/5	1/3	-	-	1/3
Jerome Kemp	1/2	1/3	-	-	-
Ian Abrams	2/2	3/3	-	-	-
Lawrence Shaw	2/2	1/1	-	-	-
David Williams	2/2	0/1	-	-	-
Jean-Pierre Mustier	0/1	1/1	-	-	-
Vivien Levy-Garboua	1/1	0/1	-	-	-

Audit Committee

The Audit Committee consists of no fewer than 4 non-executive directors. Membership of the Committee is shown below.

Hervé Saint-Sauveur – Chairman
Nazir Badat
Dominique Hoenn (resigned 10 December 2008)
Vivien Levy-Garboua (appointed 11 March 2009)
A. Chris Tupker
John Townend

The Committee met on 4 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. Private sessions without executive management are held during the course of the year.

The Committee's principal responsibilities are:

- Review of the Company's financial statements;
- Oversight of the External Auditor;
- Oversight of the internal audit function;
- Oversight of the Company's regulatory compliance; and
- Oversight of the Company's internal control environment

There are separate Audit Committees for both LCH.Clearnet Limited and LCH.Clearnet SA and, in line with the principle of subsidiarity, control matters at subsidiary level are reported through the respective subsidiary Audit Committee. The role of the Committee is complementary 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 in 2008 can be summarised as follows:

Financial Statements

The Committee reviewed the 2007 annual report and accounts before recommending approval to the board. The Committee also considered management accounts and the medium term financial plan.

External Auditor

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

The Committee reviewed the performance of the external auditor against the four key areas of qualification, expertise & resources, effectiveness and independence & leadership. The 2008 Audit Plan and fee schedule were reviewed and approved and the Committee recommended the reappointment of Ernst & Young as the Company's auditor to the Board.

Internal Audit

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

Internal Audit departments are located within both LCH.Clearnet Limited and LCH.Clearnet SA and a Group Head of Audit is in place. The annual Audit plans were considered to ensure sufficient coverage of Group issues and progress against the agreed plan was reviewed.

Internal Control

In accordance with the principle of subsidiarity, the Committee relies on the Audit Committees of LCH.Clearnet Limited and LCH.Clearnet SA to review internal control matters within the respective subsidiary. The Committee reviewed the organisational and governance framework for Risk and Operations in the Group and also the financial control processes.

Governance

The Committee reviewed its current practice against the Financial Reporting Council's Guidance on Audit Committees, undertook a self-assessment exercise and reviewed its terms of reference to harmonise these with the subsidiary Audit Committees.

Nomination Committee

The membership of the Nomination Committee was revised following adoption of new Articles of Association at the Annual General Meeting on 23 June 2008. The Committee's membership is shown below:

Dame Clara Furse DBE (resigned 23 June 2008)
Jean-François Théodore (resigned 23 June 2008)
Francesco Vanni d'Archirafi (resigned 11 March 2009)
Robert Wigley - Chairman (resigned 18 December 2008)
Sir Adam Ridley (resigned 23 June 2008)
A. Chris Tupker (resigned 23 June 2008)
Philippe Collas (appointed 23 June 2008,
resigned 10 December 2008)
Jenny Ireland – Chairwoman (appointed 23 June 2008)
Denise Wyllie (appointed 11 March 2009)
Lawrence Shaw (appointed 11 March 2009)
Jean Pierre-Mustier (appointed 11 March 2009,
resigned 6 August 2009))

The Committee is responsible for nominating candidates to stand as Other and Independent directors 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 or employment of an external search consultancy.

Corporate Governance continued

13.2 Board committees continued

Remuneration Committee

The Remuneration Committee consists of Independent non-executive directors only and its membership is shown below:

Francesco Vanni d'Archirafi – Chairman (appointed 11 March 2009)
Martin Abbott (appointed 11 March 2009)
A. Chris Tupker (Chairman to 11 March 2009)
Hervé Saint-Sauveur

Subsidiary Risk Committees

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

Membership of the subsidiary Risk Committees are shown below:

LCH.Clearnet Limited Risk Committee

John Townend (Chairman)
David Williams (Vice Chairman) - Barclays
Peter Barrowcliff - Nomura
Greg Markouizous - Citigroup
Diarmuid O'Hegarty - LME
Nick Carew-Hunt - Liffe
Lee Betsill - EDX London
Nicholas Lincoln - Newedge Group
Demetria O'Sullivan - JP Morgan
Michael Cyrus - RBS
Matteo Farina - Goldman Sachs
Roger Canton - UBS
David Stoten - HSBC
David Kelly - Deutsche Bank
Christopher Jones - Secretary, LCH.Clearnet Limited
Roger Liddell - CEO LCH.Clearnet Group Limited
Christophe Hémon - CEO LCH.Clearnet SA
Francis Berthomier - CFO LCH.Clearnet Group Limited
Daniel Gisler - MD, Risk & Operations, LCH.Clearnet Group Limited

LCH.Clearnet SA Risk Committee

John Townend (Chairman)
David Williams (Vice Chairman) - Barclays
Jean-Pierre Ravisé - LCH.Clearnet SA
Edwin Bons - Fortis Bank
François Levé - ODDO & Cie
Fabrice Peresse - NYSE.Euronext
Roland Van der Baan - Kas Bank
Laurent Garret - Royal Bank of Scotland
Michel Robert - Calyon
Olivier Dubois - Newedge
Jean-Marie Dassac - BNP Paribas
Roger Liddell - CEO LCH.Clearnet Group Limited
Christophe Hémon - CEO LCH.Clearnet SA
Francis Berthomier - CFO LCH.Clearnet Group Limited
Daniel Gisler - MD, Risk & Operations, LCH.Clearnet Group Limited
Vincent Gros - LCH.Clearnet SA
Ernest van der Hout - Secretary, LCH.Clearnet SA

13.3 Relations with shareholders

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

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

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

13.4 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 and as a Derivatives Clearing Organization in the US, and those of LCH.Clearnet SA (Banque Centrale de Compensation SA) as a bank and a clearing house to regulated markets in the Netherlands, France, Belgium and Portugal.

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

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

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

Organisation and culture

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

Financial reporting

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

13.5 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.

14 | Remuneration Report

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

14.1 Members of the remuneration committee

The membership of the Group Remuneration Committee is set out in the corporate governance statement in Section 13.2.

14.2 Remuneration policy

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

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

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

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

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

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

During the course of the year, the Company introduced a flexible reward system (BENE.FIT) by means of which employees can select benefits according to their own preferences.

14.3 Service contracts

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

The Company retains the right to terminate the contract of any director summarily in accordance with the terms of their service agreement.

The service contracts of the directors include the following terms:

	Effective appointment date	
A. Chris Tupker[1]	10 July 2006	Independent non-executive (Chairman)
Herve Saint-Sauveur[2]	22 December 2003	Independent non-executive
John Townend[2]	18 October 2007	Independent non-executive
Ian Abrams[2]	24 June 2008	Independent non-executive
Jean-François Théodore[3]	15 May 2003	Appointed by NYSE Euronext
Jenny Ireland[3]	12 September 2007	Appointed by Euroclear from Morgan Stanley
Denise Wyllie[3]	12 September 2007	Appointed by Euroclear from Goldman Sachs
Dame Clara Furse DBE[2]	29 January 2004	Other director from The London Stock Exchange plc
Gerard Hartsink[2]	10 March 2005	Other director from ABN Amro Bank N.V.
Francesco Vanni d'Archirafi[2]	10 March 2005	Other director from Citigroup
Nazir Badat[2]	30 July 2004	Other director from HSBC Bank plc
Jerome Kemp[2]	24 June 2008	Other director from JP Morgan
Lawrence Shaw[2]	15 October 2008	Other director from Deutsche Bank
David Williams[2]	15 October 2008	Other director from Barclays
Jean-Pierre Mustier[2]	10 December 2008	Other director from Société Générale
Vivien Levy-Garboua[2]	10 December 2008	Other director from BNP Paribas
Martin Abbott[3]	21 January 2008	Appointed by The London Metal Exchange

1. Director's contract is subject to a one month notice period by either party
2. Director's contract is subject to a six month notice period by the director or with immediate effect by the Company at any time by resolution at AGM or otherwise provided by the Articles
3. Director represents Euroclear, NYSE Euronext or Exchange and contract is subject to six months notice by the director or with immediate effect by Euroclear, NYSE Euronext or the Exchange.

There are no executive Directors represented on the Board.

14.4 Non-executive directors

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

Remuneration Report continued

14.5 Directors' detailed emoluments

	Salary and fees €'000	Total 2007 €'000
Executive		
Roger Liddell	-	1,509
Non-executive		
A. Chris Tupker	440	513
David Pritchard	-	97
John Caouette	-	53
John Townend	93	96
Dominique Hoenn	58	64
Olivier Lefebvre*	-	28
Dame Clara Furse DBE*	25	42
Jean-François Théodore*	43	25
Ignace Combes*	-	34
Jenny Ireland**	54	17
Denise Wyllie	42	11
Phillipe Collas*	18	6
Kevin Davis**	17	34
Gerard Hartsink*	34	46
Herve Saint-Sauveur	96	78
Francesco Vanni d'Archirafi*	55	56
Nazir Badat	62	56
Robert Wigley	24	40
Ian Abrams	17	-
Martin Abbott*	50	-
Jerome Kemp*	8	-
Vivien Levy-Garboua	8	-
David Williams*	17	-
Lawrence Shaw**	17	-
Peter Johnston	-	28
David Peniket*	-	17
Charles Stonehill	-	31
	1,178	**2,881**

*Director's 2008 fees are paid to the company the director is representing on the Board.
** Fee donated to charity.

A. Chris Tupker also received €1,000 benefits in kind in the form of private health care contributions.

On behalf of the Board

F. Vanni d'Archirafi
Chairman of the Remuneration Committee

22 September 2009

15 | General Information

Directors

The directors who have held office since 1 January 2008 are as follows:

A. Chris Tupker	(Chairman)
Martin Abbott	(appointed 21 January 2008)
Ian Abrams	(appointed 24 June 2008)
Nazir Badat	
Phillipe Collas	(resigned 10 December 2008)
Kevin Davis	(resigned 1 July 2008)
Dame Clara Furse DBE	(resigned 16 June 2009)
Dominique Hoenn	(resigned 10 December 2008)
Gerard Hartsink	
Jenny Ireland	
Jerome Kemp	(appointed 24 June 2008)
Vivien Levy-Garboua	(appointed 10 December 2008)
Jean-Pierre Mustier	(resigned 6 August 2009)
Xavier Rolet	(appointed 17 June 2009)
Hervé Saint-Sauveur	
Lawrence Shaw	(appointed 15 October 2008)
Charles Stonehill	(resigned 21 January 2008))
Jean-François Théodore	
John Townend	
Francesco Vanni d'Archirafi	
Robert Wigley	(resigned 18 December 2008)
David Williams	(appointed 15 October 2008)
Denise Wyllie	

Company Secretary

Stephan Giraud-Prince	(appointed 28 April 2009)
Jackie Alexander	(resigned 28 April 2009)

The Chairman and all other existing directors are non-executive directors. The Chairman, Ian Abrams, Hervé Saint-Sauveur and John Townend have been appointed independent non-executive directors.

Registered Office

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Telephone: +44 (0) 20 7426 7000
Facsimile: +44 (0) 20 7426 7001

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

Auditors

Ernst & Young LLP,
London

'My Hand', Cheyenne Blythe, Special Award: Director's Cut

Directors

A. Chris Tupker
Chairman

Martin Abbott
The London Metal Exchange
(appointed 21 January 2008)

Ian Abrams
Independent
(appointed 24 June 2008)

Gerard Hartsink
ABN Amro Bank N.V.

Jenny Ireland
Morgan Stanley

Jerome Kemp
JP Morgan
(appointed 24 June 2008)

Lawrence Shaw
Deutsche Bank
(appointed 15 October 2008)

Jean-François Théodore
NYSE Euronext

John Townend
Independent

Nazir Badat
HSBC Bank plc

Hervé Saint-Sauveur
Independent

David Williams
Barclays
(appointed 15 October 2008)

Vivien Levy-Garboua
BNP Paribas
(appointed 10 December 2008)

Denise Wyllie
Goldman Sachs

Xavier Rolet
The London Stock Exchange plc
(appointed 17 June 2009)

Francesco Vanni d'Archirafi
Citigroup

Corporate Responsibilty

The winning shot from **'Open Your Eyes'** came from Muhiba Delkic of The Petchey Academy, for **'Eye of the Storm'** from the Nature/Landscape category.

LCH.Clearnet is committed to helping improve the environment in which it operates. We have endeavoured to reduce our environmental impact and, in 2008, we introduced a corporate responsibility programme. As a relatively small company, we have sought to focus the programme on supporting initiatives which are close to home.

LCH.Clearnet's London office is located in Aldgate, on the very fringes of the City. Consequently, many of the London office's corporate responsibility initiatives have supported projects in London's less affluent East End, which borders the City. In Paris, many of the staff are involved in charities and the programme has been developed to assist these existing initiatives.

In both London and Paris the company is supporting 2012 Olympic hopefuls; sponsoring three athletes in London and one in Paris.

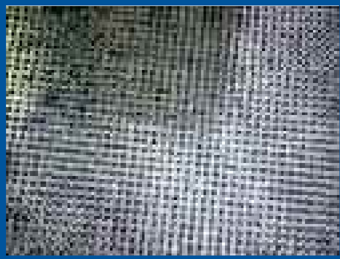
Also in Paris, micro-initiatives in Vietnam, Brazil, India and Mali have been helped, as has a charity providing aid to children in Paris' hospitals, through donations made to a number of the nominated charities.

In London there have been a number of artistic community outreach programmes, often involving staff. The 'Open Your Eyes' photography initiative, aimed to inspire children from The Petchey Academy in Hackney whose exposure to arts and creative endeavours was previously limited. LCH.Clearnet also sponsors the London Symphony Orchestra's Early Years Outreach programme at St. Luke's, an educational and music centre, and an artists' development programme at the Hackney Empire, where forty children were taught by professional facilitators, how to organise, co-ordinate and manage a theatre production. A relationship has also been forged with Hoxton Hall, which has a visible artistic and creative presence in the community, entertaining, supporting and educating local people.

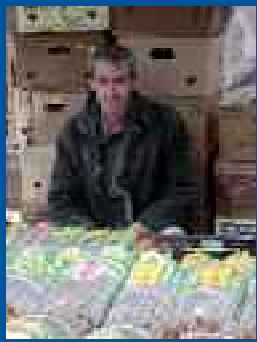
Staff are also involved in a number of volunteering programmes, such as Reading & Number Partners, run with Inspire, the Education Business Partnership for the London borough of Hackney, through which they attend lunchtime reading and maths sessions at Queensbridge Primary School in Hackney.

LCH.Clearnet has worked hard to reduce its environmental impact. In London 54% of waste is now recycled and electricity consumption per person has fallen by over 25% in the last two years. We continuously review methods of 'greener' practice and monitor the environmental impact of our suppliers. LCH.Clearnet is also a member of the Steering Group for Fairtrade in the City in London.





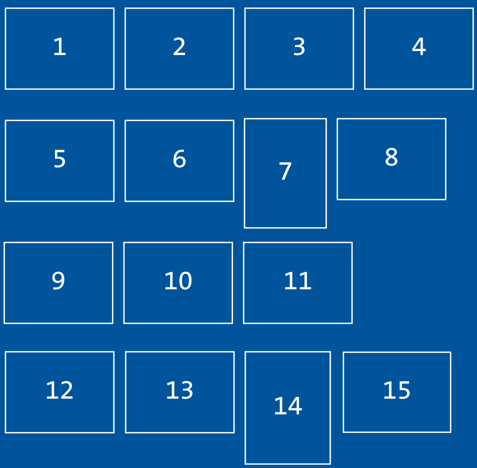












1. **'Ship'**, Kayla Sai, Runner Up: Architecture
2. **'Cold Metal'**, Elizabeth Akingbade, Winner: Architecture
3. **'Untitled'**, Hanah Opoku-Mensah, Runner Up: Fine Art
4. **'Untitled'**, Hanah Opoku-Mensah, Special Award: Director's Cut
5. **'Ghost'**, Sienna Bowerbank-Robinson, Winner: Fine Art
6. **'My Hand'**, Cheyenne Blythe, Special Award: Director's Cut
7. **'Incense Seller'**, Ashlie Murray, Runner Up: Portrait
8. **'Glimpse of Mine'**, Elizabeth Akingbade, Runner Up: Miscellaneous
9. **'Eye of the Storm'**, Muhiba Delkic, Overall Winner & Winner: Nature/Landscape
10. **'Gordon's Apprentices'**, Henry Enilolobo, Winner: Portrait
11. **'Untitled'**, Natalie Aitcheson, Special Award: Director's Cut
12. **'Question Mark'**, Emalyn Anyiam, Winner: Miscellaneous
13. **'Untitled'**, Ruth Adu-Boahen, Winner: Street Photography
14. **'White Branches'**, Henry Enilolobo, Runner Up: Nature / Landscape
15. **'Alone with Beer'**, Tolu Okanlawon, Runner Up: Street Photograph

LCH.CLEARNET