Company number: 00025932

LCH.CLEARNET LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Company information

Board of Directors

Type of director	Name	Note
Executive	Suneel Bakhshi	Appointed 3 February 2014
Executive	Michael Davie (CEO)	Resigned 31 December 2014
Executive	Dennis McLaughlin	
Executive	Martin Pluves (CEO)	Appointed 1 January 2015
Independent	Jacques Aigrain (Chairman)	See * below
Independent	Ian Abrams	
Independent	Lex Hoogduin	
Independent	Simon Davies	Appointed 26 June 2014
Independent	Jonathan Eliot	Appointed 23 May 2014
Group shareholder representative	Lawrence Shaw	
Group shareholder representative	Alexander Justham	
Group shareholder representative	Brian Hellmann	
Group shareholder representative	Charlotte Crosswell	

* On 24 February 2015, it was announced that Jacques Aigrain will stand down as a director and Chairman of the Company effective from 5 March 2015.

Secretary

Robert Franklin

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered office

Aldgate House
33 Aldgate High Street
London
EC3N 1EA

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

Registered in England, number: 00025932

LCH.Clearnet Limited (the Company) is a wholly owned subsidiary of LCH.Clearnet Group Limited and is a member of the LCH.Clearnet group of companies. The Company's ultimate parent is London Stock Exchange Group plc.

Business model

The Company's principal activity during the year continued to be the provision of central counterparty (CCP) and related services to clearing members as a part of the LCH.Clearnet Group. The Company remains in a strong financial position at the year end, and is well placed to take advantage of any opportunities that may arise in the future.

The Company is a leading multi-national clearing house. The Company provides services through which counterparty risk is mitigated across multiple asset classes for clearing members and their clients operating on major exchanges and platforms as well as a range of over-the-counter (OTC) markets.

As a CCP, the Company sits in the middle of a trade as the buyer to every seller and the seller to every buyer. If either party defaults on the trade, the Company owns the defaulter's risk and becomes accountable for its liabilities. During the life of a trade, or that of a portfolio of trades, the Company processes all cash flows and marks the trade or book to market, calling variation and initial margin in relation to prevailing risk of the overall portfolio. This process is called clearing.

The tenor of a trade can be anything from two days to 50 years, depending on the product type and terms of the deal. During the life of a trade, markets can move significantly and the capability of a CCP's risk and liquidity management becomes vital. Fundamental to the Company's risk process is its ability to collect quality collateral from clearing members and clients as credit support for their cleared positions. This collateral is often referred to as margin. Margin is calculated on a daily basis, or multiple times a day for certain asset classes, which is important during turbulent markets and is based on clearing members' positions and market risk. If a clearing member fails, this collateral is used by a CCP to fulfil the failed organisation's obligations.

The Company continues to satisfy the requirements of the Bank of England as a Recognised Clearing House in the UK and the requirements of all other regulatory bodies to whose rules it is subject. It provides CCP clearing services in respect of a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the UK, Europe, Asia and the US as well as those traded in the OTC markets.

Strategic objectives

The Company's principal objectives are:

- to reduce risk and safeguard the financial infrastructure in the markets that the Company serves
- to deliver market leading and efficient clearing services
- to independently serve multiple asset classes around the world

The strategy for achieving these objectives is:

- to maintain a sound risk management approach and resilient systems
- to set and maintain the highest standards across all asset classes cleared, in line with evolving regulatory requirements
- to work closely with market participants to develop and deliver new services and products that increase clearing efficiencies globally

Key performance indicators

Financial and non-financial key performance indicators utilised by the directors to measure progress are as follows:

	2014	2013	Variance
SwapClear			
SwapClear clearing members	98	88	11%
Notional cleared ($ trillion)	641.8	461.8	39%
Notional outstanding ($ trillion)	361.9	399.0	-9%
ForexClear			
ForexClear clearing members	21	20	5%
Notional cleared ($ billion)	907.3	888.3	2%
Fixed income: nominal value of trades (€ trillion)	40.8	40.1	2%
Commodities: lots cleared (million)	123.7	123.3	-
Listed derivatives: contracts cleared (million)	32.6	26.2	24%
Cash equities: trades cleared (million)	256.5	168.4	52%
Average cash collateral (€ billion)	36.8	30.4	21%

Discussion of the key performance indicators is included in the development and performance section below.

Development and performance

The Company announced that the Bank of England had approved its application as a central counterparty under the European Market Infrastructure Regulation (EMIR) on 12 June 2014. This is the final step in the process and confirms that the Company's risk management framework, technology, governance, operating model and capital meet the standards required by EMIR. The Company was granted clearing house recognition by Canada's Autorité des Marchés Financiers (AMF).

LCH.Clearnet was named Risk Magazine's 2015 Clearing House of the Year after fulfilling criteria which included risk management, customer satisfaction, responsiveness to new regulations, engagement with regulators, liquidity provision and creativity.

During April 2014, the operating agreements in respect of the SwapClear and ForexClear OTC business lines were renegotiated to ensure compliance with the EMIR regulatory regime. The renegotiated terms were backdated to 1 January 2014. Key aspects of the amended terms of the operating agreements include changes to the governance arrangements and the replacement of surplus profit share arrangements with revenue share arrangements.

SwapClear

SwapClear, the world's leading interest rate swap (IRS) clearing service, led the move to mandatory central clearing, delivering high levels of efficiency and liquidity to an increasing roster of clearing members and clients. During the year, SwapClear cleared $642 trillion total notional and compressed $292 trillion of interest rate swaps. Membership increased by 11% to 98 clearing members. Total clearing fee revenue for the year was €133.8 million.

In September 2014, SwapClear expanded its compression offering with a blended rate compression service, in response to market demand, that provides both operational and capital efficiencies. SwapClear also introduced fees for all types of compression services.

Mandatory IRS client clearing was introduced in the US in 2013, and during the last year SwapClear client clearing increased by 113% per cent to $122 trillion (2013: $57 trillion). European client clearing is expected to be mandated to commence in 2016.

ForexClear

ForexClear is the Company's market-leading service clearing foreign exchange (FX) non-deliverable forwards (NDF) in multiple currencies. The service has seen continued growth in volumes and during the year ForexClear added a 12th currency, the Peruvian Nuevo Sol enabling over 95% of the NDF market to be cleared. With the first Swap Execution Facility (SEF) having now connected to ForexClear and a number in the pipeline for 2015, ForexClear is playing an important role in working with both new and established FX market infrastructure to bring the benefits of clearing, including reduction of risk, operational complexity and regulatory capital, to all market participants. Total clearing fee revenue for the year was €10.5 million.

ForexClear membership increased to 21 (2013: 20) and the notional amount cleared increased to $907 billion (2013: $888 billion).

Fixed Income

RepoClear is the Company's market-leading service clearing cash bond and repurchase agreement (repo) trades across a number of European markets and plays an important role in the facilitation of interbank liquidity. Total clearing fee revenue for the year was €32.7 million.

Trading volumes in the repo market have declined due to more stringent regulatory requirements on clearing member banks' leverage ratios. However, the impact of the leverage ratio has made netting a more valuable proposition to customers, such that cleared volumes have remained stable.

Commodities and Listed Derivatives

The Company provides clearing services for interest rate and equity derivatives as well as a range of commodities markets, including power and associated energy markets, base and precious metals and agricultural products. It also provides clearing for OTC forward freight agreements for the most actively traded routes. Total clearing fee revenue for the year was €59.9 million.

In November 2014, the EnClear swaps were reclassified to block futures, making the market for freight and commodities more transparent whilst boosting margin efficiencies and mitigating risk for clearing members.

As expected, the clearing of commodities for the London Metal Exchange (LME), a major part of commodities clearing, ceased in September 2014 as this business migrated to LME's own clearing house. The Nodal Exchange has given notice that it intends to go live with its own clearing service in late 2015.

Listed Derivatives clearing for multiple venues, including London Stock Exchange Derivatives and NASDAQ NLX, saw an increase in volumes to 33 million contracts during the year (2013: 26 million).

Cash Equities

The Company provides equity clearing services for a variety of European regulated exchanges and MTFs including London Stock Exchange, Turquoise, SIX Swiss Exchange, Oslo Børs, BATS Chi-X Europe, and other venues. LCH.Clearnet is uniquely positioned to provide risk management and clearing services from Asian market hours through European trading to the close of the US markets. It has been at the forefront of industry initiatives to introduce competition and provide cost efficiencies for users of the European cash equities markets through the implementation of interoperability arrangements with other CCPs. Total clearing fee revenue for the year was €16.4 million.

In the last year, clearing volumes increased 52% to 257 million trades (2013: 168 million). This was due to both a natural market increase in trading activity and the addition of a new market venue, Oslo Børs, in March 2014. In June 2014 the Company expanded clearing capacity which facilitated record high clearing volumes in October 2014 with 28 million trades cleared. The launch of OTC equity clearing on Traiana in the later stages of the year increased market coverage. In July the Company expanded its Contracts for Differences (CFD) product range from 1,400 to 2,000 products.

Following on from becoming EMIR compliant the Company launched its post trade Crest model and successfully

migrated to T+2.

Net investment income

Net investment income is the result of interest earned on cash assets lodged with the Company, less interest paid to the clearing members on their initial margin and default fund contributions. The level of funds held is primarily driven by volumes cleared and volatility in the market. Income is also driven by short-term interest rates predominantly in the Euro, US dollar and UK Sterling money markets.

Operating expenses

The original cost synergies target across London Stock Exchange Group (LSEG) of €23 million, was increased to €60 million to be achieved in 2015 (from a total LSEG cost base, including an expected annualised 2013 LCH cost base of €306 million). The majority of the savings are now embedded within the LCH Group cost base, a large proportion of which is within the Company. These savings are offset by amendments to the OTC business line arrangements, capital investment in operational efficiency and business line growth. The cost base has also increased due to foreign exchange movements and inflation.

Future development

SwapClear will continue to develop its offering with the introduction of new products and services such as inflation linked swaps, further compression services, expansion of Asian services including plans to extend with a clearing license in Japan and increased operating hours through the Australian office.

In the coming year ForexClear will be working with clearing members and regulators on a global basis to search for a settlement solution that will allow the clearing of FX options.

RepoClear is set to expand geographically and increase its currency base which will likely result in new clearing members joining the service.

The Company has been granted a clearing and settlement licence in Australia for the new FEX global commodity, energy and environmental exchange. The Company continues its search for expansion opportunities into different market venues and products, such as precious metals.

In the coming year, EquityClear plans to expand into new trading venues and will enhance risk models for cash and derivatives. A new pricing proposal will be implemented in response to clearing member demand.

Principal risks and uncertainties

The Company's activities expose it to a number of risks, principally market risk (foreign exchange risk, interest rate risk, volatility in financial markets), sovereign risk, credit risk, liquidity risk and pension risk. The Company manages these risks through various control mechanisms and its approach to risk management is to be prudent yet responsive to changes in the risk environment.

Note 2 provides descriptions of these risks and details the means by which the Company mitigates them.

Going concern and liquidity risk

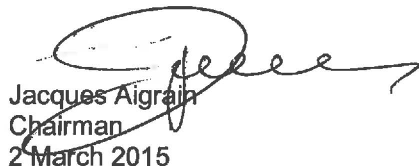
The Directors have made an assessment of the Company's ability to continue as a going concern and to meet current and future regulatory capital requirements and are satisfied that it has the resources to continue in business for the foreseeable future, being at least 12 months from the date on which these accounts were approved by the Board. Contracts for the majority of the exchanges for which the Company clears have a notice period of at least one year. It has a large number of clearing members and is not unduly reliant on any single clearing member or group of clearing members.

The Company was re-authorised during 2014 by the Bank of England under EMIR.

Furthermore, the directors are not currently aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

Details of the Company's financial instruments are provided in note 19 and its capital management processes in note 22.

By order of the Board



Jacques Aigrain
Chairman
2 March 2015

The directors of LCH.Clearnet Limited (the Company), registered in England and Wales with company number 00025932, present their report to the shareholder, together with the audited financial statements for the year ended 31 December 2014.

Directors

The current directors and changes made during the year ended 31 December 2014 and subsequently are detailed on page 1.

Indemnity of Directors

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

Transactions with Directors and related parties

Details of transactions with related parties are set out in note 23. There were no transactions, other than those disclosed in note 18, with Directors during the year.

Staff

It is the policy of the Company 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 Company every effort will be made to ensure continuing employment.

Staff involvement is encouraged through regular meetings and information is shared with staff through web based communication.

The Company 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.

Disclosure of information to the auditors

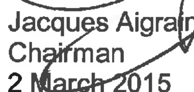
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware there is no relevant audit information of which the Company's auditors are unaware
- the director has taken all steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Ernst & Young LLP are deemed to have been reappointed as the Company's auditor under the provisions of the Companies Act 2006.

By order of the Board



Jacques Aigrain
Chairman
2 March 2015

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements
- make judgements and estimates that are reasonable and prudent

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of LCH.Clearnet Limited for the year ended 31 December 2014

We have audited the financial statements of LCH.Clearnet Limited for the year ended 31 December 2014 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 8) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Maurice McCormick (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, London

2 March 2015

Notes:

1. The maintenance and integrity of the LCH.Clearnet web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

LCH.Clearnet Limited
Financial statements for the year ended 31 December 2014
Income statement

	Note	2014 Before impairment & non-recurring items €'m	2014 Impairment & non-recurring items €'m	2014 Total €'m	2013 Before impairment & non-recurring items €'m	2013 Impairment & non-recurring items €'m	2013 Total €'m
Revenue							
Clearing fees		**253.3**	-	**253.3**	219.4	–	219.4
Interest income		**84.8**	-	**84.8**	128.4	–	128.4
Interest expense		**(26.1)**	-	**(26.1)**	(68.4)	–	(68.4)
Net interest income		**58.7**	-	**58.7**	60.0	–	60.0
Settlement and other income		**54.0**	-	**54.0**	41.7	–	41.7
Settlement fees payable		**(12.3)**	-	**(12.3)**	(10.2)	–	(10.2)
Net settlement and other income		**41.7**	-	**41.7**	31.5	–	31.5
Revenue sharing arrangements		**1.4**	-	**1.4**	(59.8)	–	(59.8)
Net income		**355.1**	-	**355.1**	251.1	–	251.1
Operating expenses before revenue share costs		**(241.8)**	**(5.6)**	**(247.4)**	(200.6)	13.3	(187.3)
Revenue share costs		**(16.4)**	-	**(16.4)**	-	-	-
Operating expenses after revenue share costs	4	**(258.2)**	**(5.6)**	**(263.8)**	(200.6)	13.3	(187.3)
Operating profit		**96.9**	**(5.6)**	**91.3**	50.5	13.3	63.8
Finance income	6	**0.9**	-	**0.9**	3.2	–	3.2
Finance expense	6	**(0.1)**	-	**(0.1)**	(0.2)	–	(0.2)
Profit before taxation		**97.7**	**(5.6)**	**92.1**	53.5	13.3	66.8
Taxation expense	7	**(20.1)**	**1.2**	**(18.9)**	(15.7)	0.3	(15.4)
Profit for the year		**77.6**	**(4.4)**	**73.2**	37.8	13.6	51.4

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

The notes on pages 18 to 58 form an integral part of these financial statements.

Statement of comprehensive income

	Note	**2014 €'m**	2013 €'m
Profit for the year		**73.2**	51.4
Amounts that will subsequently be reclassified to profit for the year when specific conditions are met:			
Revaluation of available for sale assets	19	**(0.3)**	-
Other		**-**	1.0
Amounts that will not subsequently be reclassified to profit for the year:			
Remeasurement gains/(losses) on UK defined benefit plan	18	**(1.1)**	2.4
Deferred tax relating to remeasurement gains/(losses) on UK defined benefit plan	7	**-**	(6.8)
Other comprehensive income for the year, net of tax		**(1.4)**	(3.4)
Total comprehensive income for the year, net of tax		**71.8**	48.0

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

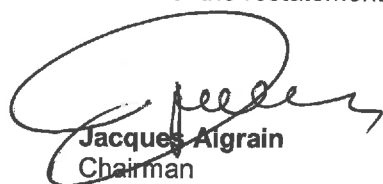
The notes on pages 18 to 58 form an integral part of these financial statements.

LCH.Clearnet Limited
Financial statements for the year ended 31 December 2014
Statement of financial position

	Note	2014 €'m	2013 (restated) €'m	2012 (restated) €'m
Assets				
Non-current assets				
Intangible assets	8	**70.5**	19.3	8.8
Property, plant and equipment	10	**9.4**	10.7	13.4
Investment in subsidiaries	11	**20.3**	20.3	20.3
Trade and other receivables	13	-	44.5	67.8
Employment benefits	18	**20.7**	19.3	-
Deferred tax asset	7	-	1.2	9.7
Total non-current assets		**120.9**	115.3	120.0
Current assets				
Balances with clearing members	12	**145,956.3**	200,673.9	238,253.2
Trade and other receivables	13	**71.7**	39.1	20.6
Cash and cash equivalents	14	**21,907.7**	25,066.2	21,554.0
Other financial assets	19	**14,324.4**	6,025.2	6,042.1
Total current assets		**182,260.1**	231,804.4	265,869.9
Total assets		**182,381.0**	231,919.7	265,989.9
Current liabilities				
Balances with clearing members	12	**(175,244.1)**	(227,076.2)	(261,980.8)
Trade and other payables	15	**(107.9)**	(136.3)	(125.9)
Interest bearing loans and borrowings	16	**(0.4)**	(35.0)	(0.3)
Income tax payable		**(10.3)**	(11.2)	(5.6)
Default funds	17	**(6,402.1)**	(4,104.8)	(3,630.1)
Total current liabilities		**(181,764.8)**	(231,363.5)	(265,742.7)
Non-current liabilities				
Interest bearing loans and borrowings	16	**(0.4)**	(0.8)	(1.1)
Deferred tax liability	7	**(1.1)**	-	-
Trade and other payables	15	**(28.4)**	(40.9)	(39.2)
Employment benefits		-	-	(0.4)
Total non-current liabilities		**(29.9)**	(41.7)	(40.7)
Total liabilities		**(181,794.7)**	(231,405.2)	(265,783.4)
Net assets		**586.3**	514.5	206.5

	Note	2014 €'m	2013 (restated) €'m	2012 (restated) €'m
Capital and reserves				
Called up share capital	21	**313.0**	313.0	53.0
Share premium	21	**41.2**	41.2	41.2
Capital redemption reserve	21	**5.1**	5.1	5.1
Retained earnings	21	**227.0**	155.2	107.2
Total equity		**586.3**	514.5	206.5

Details of the restatements are given in note 1.



Jacques Aigrain
Chairman

Martin Pluves
Chief Executive Officer

The notes on pages 18 to 58 form an integral part of these financial statements.

The consolidated financial statements were approved by the Board on 2 March 2015.

Statement of cash flows

	Note	2014 €'m	2013 €'m
Cash flows arising from operating activities			
Profit for the year		**73.2**	51.4
Taxation expense		**18.9**	15.4
Finance income		**(0.9)**	(3.2)
Finance expense		**0.1**	0.2
Depreciation and amortisation		**20.3**	7.1
Share-based payments expense		**1.9**	-
Decrease in trade and other receivables		**12.0**	4.8
Difference between pension contribution paid and amounts recognised in the income statement		**-**	(17.6)
Increase/(decrease) in trade and other payables		**(86.4)**	11.5
Unrealised fair value (gains)/losses on financial instruments		**(0.4)**	(0.3)
Margin monies cash (outflow)/inflow		**2,885.4**	2,674.7
Increase/(decrease) in default funds		**2,297.3**	474.7
Net cash inflow from operations		**5,221.4**	3,218.7
Taxation paid		**(17.5)**	(4.0)
Net cash inflow from operating activities		**5,203.9**	3,214.7
Investing activities			
Investment in intangible assets		**(22.8)**	(13.6)
Purchase of property, plant and equipment		**(2.7)**	(1.3)
Redemption of/(investment in) other financial assets		**(8,299.2)**	16.9
Interest received		**-**	3.2
Net cash inflow/(outflow) from investing activities		**(8,324.7)**	5.2
Financing activities			
Shares issued		**-**	260.0
Interest paid		**(0.1)**	(0.2)
Borrowings (repaid)/received		**-**	(0.3)
Share-based payments contribution		**(1.9)**	-
Finance lease principal payments		**(0.3)**	(0.3)
Net cash inflow/(outflow) from financing activities		**(2.3)**	259.2
Increase/(decrease) in cash and cash equivalents		**(3,123.1)**	3,479.1
Cash and cash equivalents at 1 January		**25,031.5**	21,554.0
Effects of foreign exchange movements		**(0.7)**	(1.6)
Cash and cash equivalents at 31 December		**21,907.7**	25,031.5

	Note	**2014 €'m**	2013 €'m
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		**21,699.9**	22,206.7
Cash at bank and in hand		**207.8**	2,859.5
	14	**21,907.7**	25,066.2
Bank overdrafts	16	**-**	(34.7)
		21,907.7	25,031.5

The notes on pages 18 to 58 form an integral part of these financial statements.

Statement of changes in equity

	Called up share capital €'m	Share premium €'m	Capital redemption reserve €'m	Retained earnings €'m	Total €'m
Shareholder's equity at 1 January 2013	53.0	41.2	5.1	107.2	206.5
Profit for the year to 31 December 2013	–	–	–	51.4	51.4
Other comprehensive expense	–	–	–	(3.4)	(3.4)
Total comprehensive income	–	–	–	48.0	48.0
Shares issued	260.0	–	–	–	260.0
Shareholder's equity at 31 December 2013	**313.0**	**41.2**	**5.1**	**155.2**	**514.5**
Profit for the year to 31 December 2014	–	–	–	73.2	73.2
Other comprehensive expense	–	–	–	(1.4)	(1.4)
Total comprehensive income	–	–	–	71.8	71.8
Share-based payments contribution	–	–	–	1.9	1.9
Share-based payments expense	–	–	–	(1.9)	(1.9)
Shareholder's equity at 31 December 2014	**313.0**	**41.2**	**5.1**	**227.0**	**586.3**

The notes on pages 18 to 58 form an integral part of these financial statements.

1. 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 2014 reporting and endorsed by the EU, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the valuation of financial assets and liabilities held at fair value. 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 Company uses a columnar format for the presentation of its income statement. This aids the understanding of its results by presenting profit for the year before impairment and non-recurring items. Profit before impairment and non-recurring items is reconciled to profit before taxation on the face of the income statement.

The financial statements are presented in millions of euros except where otherwise indicated.

Changes in accounting treatment

The statement of financial position as at 31 December 2013 has been restated in order to classify default funds as current rather than non-current liabilities following a review of the operating agreements in place. This reflects the fact that the funds are repayable after a period of notice is given by a clearing member. The impact on the consolidated statement of financial position is as follows:

	2013 As originally reported €'m	2013 Adjustment €'m	2013 Restated €'m
Current liabilities	(227,258.7)	(4,104.8)	(231,363.5)
Non-current liabilities	(4,146.5)	4,104.8	(41.7)
Total liabilities	(231,405.2)	-	(231,405.2)

The corresponding effect on the statement of financial position as at 31 December 2012 is as follows:

	2012 As originally reported €'m	2012 Adjustment €'m	2012 Restated €'m
Current liabilities	(262,112.6)	(3,630.1)	(265,742.7)
Non-current liabilities	(3,670.8)	3,630.1	(40.7)
Total liabilities	(265,783.4)	-	(265,783.4)

There is no effect on the net assets or results of the Company at 31 December 2013 or 31 December 2012.

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 intangible assets
- the estimated useful economic life of assets
- the measurement of defined benefit pension obligations

Intangible assets are assessed annually and when an indication of impairment arises. This requires the estimation of future cash flows and choosing a suitable discount rate (see note 9). The Company regularly reviews its estimate of useful economic lives to ensure it fairly reflects the period over which the Company expects to derive economic benefits from its assets.

Measurement of defined benefit pension obligations requires estimation of future inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 18).

Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and to meet current and future regulatory capital requirements and are satisfied that it has the resources to continue in business for the foreseeable future, being at least 12 months from the date on which these accounts were approved by the Board. Contracts for the majority of the exchanges for which the Company clears have a notice period of at least one year. It has a large number of clearing members and is not unduly reliant on any single clearing member or group of clearing members. The Company was re-authorised during 2014 by the Bank of England under EMIR. Furthermore, the Directors are not currently aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

Presentational currency

The Company's financial statements are presented in euros, which is the functional currency of the Company.

Investments

The Company recognises its investments in subsidiaries at cost less the value of any impairment provision that may be necessary. Income is recognised from these investments in relation to any distributions received.

Foreign currencies

Monetary assets and liabilities denominated in currencies other than the functional currency of the Company are translated into the functional currency of the Company at the rates of exchange ruling on the statement of financial position date and the resulting exchange differences are recorded in the income statement. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates on the date of the transaction in the income statement and are not revalued.

In the statement of cash flows, cash flows denominated in foreign currencies are translated into euros at the average exchange rates for the year or at the rate prevailing at the time of the transaction where more appropriate.

Intangible assets

Intangible assets are initially recognised at cost and are capitalised on the statement of financial position. Where assets are acquired as a result of a business acquisition or the negotiation of an operating agreement, fair values are attributed to the assets acquired. 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.

An internally generated intangible asset arising from the Company'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. Self developed software is amortised over periods between three and five years.

Other intangible assets in 2013 represented investment in business development that is not expected to be recovered from third parties; this would only be recognised if the requirements for internally generated intangible assets (as detailed above) are met. Amortisation is charged from the date the expenditure is incurred over a five year period.

Property, plant and equipment

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

- leasehold refurbishment over the term of the lease (up to a maximum of ten years)
- computer equipment and purchased software over three years
- office equipment and other fixed assets between three and five years

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

Impairment of intangible assets and property, plant and equipment

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 assets are allocated to cash generating units monitored by management, usually at statutory company level. The impairment review involves a comparison of the carrying amount of the asset allocated to the related cash generating units, with its recoverable amount, which is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of less the costs associated with the sale.

Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of intangible assets or property, plant and equipment are written down by the amount of any impairment and this loss is recognised in the income statement in the year in which it occurs.

Financial instruments

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

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

Balances with clearing members are included in this category upon initial recognition and are recorded on a settlement date basis. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Available for sale assets are non-derivative financial assets with fixed or determinable payments and fixed

maturities which the Group may sell before maturity. After initial measurement available for sale financial assets are subsequently measured at fair value. Changes in fair value are recorded within other comprehensive income until the asset is sold when the whole amount will be recognised in the income statement.

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

If the Company sells or reclassifies a significant amount of held to maturity investments before maturity (other than in certain specific circumstances) the entire category would have to be reclassified as available for sale. The Company would then be prohibited from classifying any financial asset as held to maturity during the following two years.

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

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate method.

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

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

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

Interest bearing loans and other borrowings 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.

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

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.

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 other comprehensive income is charged or credited as appropriate to other comprehensive income and there is no effect on profit for the year.

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 date on which the Board approves the financial statements.

Deferred tax

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

Deferred tax liabilities are recognised for all 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.

Provisions

Provisions are recognised for current 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.

Share capital

Called up share capital comprises ordinary shares. Other capital reserves are described in note 21. Other instruments are classified as liabilities if there is an obligation to transfer economic benefits and if not they are included in shareholder's 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.

The share premium comprises the difference between the issue proceeds of shares and their nominal value.

Revenue recognition

Clearing fee income and rebates, together with other fee income and net settlement fees, are recognised on a transaction by transaction basis in accordance with the Group's fee scales. Non-cash collateral fees are charged on non-cash collateral provided by clearing members and are included in other income.

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

Revenue sharing arrangements – amounts deducted from revenue

Amounts deducted from revenue relate to surplus or revenue share arrangements whereby, as part of an operating agreement, amounts are due back to either the other party to the operating agreement or the actual clearing customers.

Revenue sharing arrangements - revenue share costs

Revenue share costs relate to revenue share arrangements with clearing members where the revenue share is not limited to the amount of revenues receivable from the specific clearing members. As such this has been classified as an expense, as it arises, rather than as a deduction from revenue.

Where a financial liability has been created following the recognition of assets used to generate a revenue share, it will be recognised in the income statement on a systematic basis over the useful life of those assets and offset against the related revenue share costs.

Employee benefits

The Company operated a defined benefit pension scheme for its UK employees which required contributions to be made to a separate trustee administered fund. This was closed to new members from 30 September 2009 and curtailed on 31 March 2013.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method. Under this method each participant's benefits under the scheme are estimated based on the total pension to which each participant is expected to become entitled at retirement. The liability is the total present value of the individuals' attributed benefits for the valuation purposes at the measurement date and is based on actuarial advice. Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement.

The net interest amount charged to profit or loss is calculated using actuarial assumptions fixed at the start of the annual report period and the defined benefit liability and asset value at the start of the annual reporting period adjusted for the actual contributions and benefit payments made during the period.

Actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur. The defined benefit pension liability in the statement of financial position comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less 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 bid market price.

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

Share-based compensation

The Group operates share-based compensation plans for employees, settled in shares of the ultimate parent company, London Stock Exchange Group plc. The charge to the income statement is determined by the fair value

of the options granted or shares awarded at the date of grant as an indirect measure of the value of employee services received by the Company and recognised over the relevant vesting period.

Leases

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

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged in the 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.

Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in an arm's length transaction at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described in note 19.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Non-recurring items

Items of income and expense that are material by size and/or nature and are non-recurring are classified as non-recurring items on the face of the income statement within their relevant category. The separate reporting of these items together with impairment of intangible assets helps give an indication of underlying performance.

New accounting standards, amendments and interpretations

Standards issued and adopted for the financial year beginning 1 January 2014

The Group has applied the following standards for the first time in the current year; the impact of these is limited to the disclosure notes.

	Effective date for periods beginning on or after
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS10 Consolidated Financial Statements	1 January 2014
IFRS 11 Joint Arrangements	1 January 2014
IFRS 12 Disclosure of Interests in Other Entities	1 January 2014
IAS 27 (2011) Separate Financial Statements	1 January 2014
IAS 28 (2011) Investments in Associates and Joint Ventures	1 January 2014
Amendments to IFRS 10, IFRS 12 & IAS 27	1 January 2014
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC Interpretation 21 Levies	1 January 2014

Standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted

The following standards, amendments and interpretations have been issued by the IASB and IFRIC with an effective date, subject to EU endorsement after 1 January 2015. With the exception of IFRS 15 Revenue From Contracts With Customers, the Directors do not expect adoption of these standards to have a material effect on the results of the Group. Further consideration of IFRS 15 will be carried out during 2015 and its likely effects reported in due course.

	Effective date for periods beginning on or after
Amendments to IFRS 11 Joint arrangements on accounting for acquisitions of interest in a joint operations	1 January 2016
Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets on Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Proposed amendments to IAS 27 Separate Financial Statements on equity method in separate financial statements	1 January 2016
Proposed amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Associates and Joint Ventures on sale and contribution of assets between an investor and its associate or joint venture	1 January 2016
Annual Improvements 2012-2014	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue From Contracts With Customers	1 January 2017
IFRS 9 Financial Instruments	1 January 2018

2. Risk management

Introduction

The Company's activities expose it to a number of financial risks, principally market risk (foreign exchange risk, interest rate risk, volatility in financial markets), sovereign risk, credit risk, liquidity risk and pension risk. In addition to the financial risks, the Company is also exposed to operational, compliance, legal and reputational risk. The Company manages these risks through various control mechanisms and its approach to risk management is to be prudent yet responsive to changes in the risk environment.

Overall responsibility for risk management rests with the Company's Board. Day to day responsibility is delegated to the Chief Risk Officer, who ensures effective delegation to the executives in the Company on the basis of risk policies which are calibrated to the Board's risk appetite and are discussed and agreed by the Company's Risk Committee and Board. The application of these policies is undertaken by the business functions as the first line of defence and by the risk management team forming the second line of independent assurance, who control and manage the exposures arising from the various clearing activities. The continued appropriateness of risk policies and key risk data are regularly reviewed by the Risk Committee and Board, and audits of processes within risk management are undertaken periodically. Risk policies are harmonised across the Group.

Foreign exchange risk

Risk description

The Company generally incurs expenses in UK sterling while earning revenues and investment income in several major currencies. The Company is exposed to foreign exchange risk primarily with respect to the translation to its functional currency, the euro, of net assets and liabilities arising in other currencies, principally UK Sterling and US dollars. Movement in other currencies is not generally significant.

Risk management approach

The Company converts foreign currency balances to euros regularly, based upon agreed thresholds which partially mitigate the impact of exchange rate fluctuations on the Company's financial performance. Any exchange differences on the translation of net assets and liabilities that remain are recorded in the income statement.

Foreign exchange sensitivity

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

	2014			2013	
	£	**$**	**AUD**	£	$
	€'m	**€'m**	**€'m**	€'m	€'m
Net exposure	**26.2**	**(4.0)**	**2.8**	18.4	**8.9**
Reasonable shift	**2.1%**	**3.9%**	**8.7%**	0.2%	2.9%
Total increase/(decrease) on profit/net assets of positive movements	**0.6**	**(0.2)**	**0.2**	–	(0.3)
Total increase/(decrease) on profit/net assets of negative movements	**(0.6)**	**0.2**	**(0.2)**	–	0.3

Interest rate risk

Risk description

The Company is exposed to interest rate risk arising from the cash and investment balances it maintains, the margin and default fund balances it holds from clearing members and the loans and borrowings it has issued.

Risk management approach

Interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is generally reset daily. This makes investment revenue vulnerable to volatility in overnight rates and shifts in spreads between overnight and term rates. Interest rate exposures are managed within defined risk appetite parameters against which sensitivities are monitored daily. The risk to the Company's capital is managed within interest rate risk limits expressed as a percentage of the Company's capital and calculated under stressed scenarios.

Interest rate sensitivity analysis

The Company aims to minimise its exposure to interest rate fluctuations. Any exposure is predominantly due to the mismatch between the Company's interest bearing assets and interest bearing clearing member liabilities. Since the return paid on clearing member liabilities is generally reset to prevailing market interest rates on an overnight basis the Company is only exposed for the time it takes to reset the interest rates on its investments. The maximum fixed exposure on any asset in the treasury portfolio is one year and the portfolio is subject to an overall interest rate risk limit.

The following table shows the estimated impact on the profit after tax and the effect on retained earnings within shareholder's equity:

	2014			2013		
	+25bp €'m	**+50bp €'m**	**+100bp €'m**	+25bp €'m	+50bp €'m	+100bp €'m
Net exposure of cash and clearing member margin balances	**(7.1)**	**(14.2)**	**(28.4)**	(3.3)	(6.5)	(13.0)
Tax effect of above	**1.5**	**3.0**	**6.0**	0.7	1.4	2.8
Decrease in profit after tax	**(5.6)**	**(11.2)**	**(22.4)**	(2.6)	(5.1)	(10.2)
	-25bp €'m	**-50bp €'m**	**-100bp €'m**	-25bp €'m	-50bp €'m	-100bp €'m
Net exposure of cash and clearing member margin balances	**7.1**	**14.2**	**28.4**	3.3	6.5	13.0
Tax effect of above	**(1.5)**	**(3.0)**	**(6.0)**	(0.7)	(1.4)	(2.8)
Increase in profit after tax	**5.6**	**11.2**	**22.4**	2.6	5.1	10.2

Financial market volatility (latent market risk)

Risk description

Volatility within the financial markets in which the Company operates can adversely affect its earnings and its ability to meet its business objectives. As a CCP, the Company runs a balanced position in all cleared contracts and runs no significant market risk unless a clearing member defaults. In such an event the Company faces market risk which is correlated to clearing member positions and market conditions.

Risk management approach

The market and credit risk management policies of the Company are reviewed and approved by its Risk Committee and Board at least annually. A variety of measurement methodologies, including both empirical and analytical margin models, stress testing and scenario analysis, are used daily to quantify and assess the levels of credit and market risk to which the Company is exposed, and hence the amount of resources that should be held to cover such risks, under both normal and extreme but plausible market conditions.

Initial margins for all clearing services are calibrated and back-tested to a 99.7% confidence level which has the effect of reducing the probability of loss from the default of a clearing member with the worst acceptable credit to the level of an AAA rated credit for the next 12 months.

This potential market risk is reduced by collecting variation margin on marked to market positions and by establishing initial margin requirements which are the Company's estimate of likely future market risk under normal market conditions, calibrated to a 99.7% confidence level for all products. Margin add-ons are calculated for clearing member specific concentration, liquidity, wrong way risk and credit risk. Both variation and initial margin are collected daily and replenished intraday subject to credit related thresholds.

The Company accepts both cash and high quality non-cash collateral to cover margin requirements. The list of acceptable non-cash collateral is restricted and haircuts are set for each security type taking into account market, credit, foreign exchange, country and liquidity risks and calibrated to a 99.7% confidence level. All non-cash collateral is revalued daily.

As at 31 December 2014 the total margin liability of clearing members amounted to €60.9 billion (2013: €44.3 billion), against which the Company had received €32.1 billion (2013:€17.8 billion) in cash and €28.8 billion (2013: €26.5 billion) in non-cash securities. The maximum margin liability during the year was €69.8 billion (2013: €54.0 billion).

New applicants for clearing must meet strict credit, financial and operational criteria, which are regularly reviewed as part of the Company's risk policies and subject to independent validation at least annually.

The Company also requires all clearing members to contribute to pre-funded default funds to be used should the margins of a defaulted clearing member not fully cover close out costs. Supplementary financial resources include a proportion of own capital and further clearing member contributions to ensure the continuity of ongoing operations. The Company pre-funded default funds are segregated by clearing service and designed to be sufficient at all times to cover the default of the two clearing member groups giving rise to the greatest losses above margin under extreme but plausible market conditions.

As at 31 December 2014 the total of clearing member contributions to the default funds amounted to €6.4 billion (2013: €4.1 billion) (note 17). Clearing members are committed to contribute further amounts in the event of a clearing member default equivalent to approximately twice this amount. The maximum amount during the year was €9.8 billion (2013: €4.3 billion).

The models which calculate margins and default fund contributions are independently validated at least annually and meet all applicable regulatory requirements.

Sovereign risk

Risk description

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

Risk management approach

Specific risk frameworks manage sovereign risk for both fixed income clearing and margin collateral, and all clearing members' portfolios are monitored regularly against a suite of sovereign stress scenarios which model escalations in sovereign risk. In addition, investment limits and both counterparty and clearing membership monitoring frameworks are sensitive to changes in ratings and other financial market indicators, to ensure that the Company is able to measure, monitor and mitigate exposures to sovereign risk and respond quickly to anticipated changes.

The Risk Committee and Board continually monitor such risks and the sovereign risk framework continues to protect the Company against potentially severe market volatility in the sovereign debt markets.

The Company has investments in the following sovereigns (or equivalent issuer) as at 31 December 2014:

	2014		2013	
Sovereign (or equivalent)	**Investment value € billion**	**Proportion**	Investment value € billion	Proportion
France	**3.1**	22%	2.1	33%
USA	**6.9**	48%	1.5	23%
Germany	**2.0**	14%	0.9	14%
United Kingdom	**0.7**	5%	0.9	14%
Other	**1.6**	11%	1.0	16%
Total	**14.3**	**100%**	6.4	100%

The above total represents all other financial assets of €14,324.4 million (2013: €6,025.2 million) along with central bank cash deposits in 2013.

Credit risk

Risk description

Credit risk is the risk that a counterparty of the Company will be unable or unwilling to meet a financial commitment to the Company. Credit risk exposure arises as a direct result of the reinvestment of the cash the Company holds primarily as part of its CCP activities, from collecting margin and default fund contributions from its clearing members.

Risk management approach

The investment portfolio is invested in accordance with clear risk policies which require secure investment of a significant portion of the portfolio either via reverse repurchase agreements with credit institutions, receiving high quality government, government guaranteed or supranational securities as collateral, by investing directly in such securities or by the placement of cash with central banks.

The Investment Risk Policy requires that securities received as collateral are subject to a haircut on their market value, that the average maturity of the portfolio will not exceed two years, and that while cash may be deposited in the money markets on an unsecured basis, this can only be short term with high quality banking institutions and limited to an average of 5% and a maximum of 10% of all credit institution investment.

The amount of the Company's capital at risk to the default of a banking institution or the issuer of a debt instrument is limited to €15 million by the non-default loss allocation model introduced in response to the revision of UK CCP Recognition Requirements which became effective on 1 May 2014. Treasury default losses in excess of €15 million are allocated among clearing members.

The investment portfolio at 31 December 2014 was €36.2 billion (2013: €31.1 billion), 99% (2013: 99%) of which was invested securely with an average maturity of 35 days (2013: 24 days). The maximum portfolio size during the year was €42.8 billion (2013: €35.8 billion). Note 19 contains further analysis of the investment portfolio including by type and fair value hierarchy.

All counterparties, including clearing members, interoperating CCPs, investment counterparties, custodians and settlement and payment institutions, are assessed according to an internal credit scoring framework. This framework incorporates financial analysis, external ratings, market implied ratings, a support assessment and an operational capability assessment. The rating model is independently validated at least annually and the rating scale is continuously monitored for performance. A minimum credit score is set for joining any clearing service and for institutions to be eligible for investment. Increased margins are applied to clearing members when their credit score deteriorates below the entry level. Other actions may include reduced credit tolerances and forced reduction of exposures.

The Company's exposures to clearing member balances and the investment portfolio are managed through the Company's risk policies. Clearing 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 variation margin when entering into clearing contracts.

The Company currently interoperates with several other CCPs in Europe for cash cleared products. Interoperability with another CCP poses risks similar to the risks to which the Company is exposed with its clearing members. Credit risk is managed according to the same credit assessment framework applied to clearing members and other counterparties. To cover the latent market risk arising on interoperating exposures, all interoperating CCPs are subject to daily margining.

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

Analysis by credit rating

The table below shows the Company's clearing member balances and investment portfolio by reference to the credit rating of the counterparty. The treasury portfolio includes cash at bank and other financial assets.

	Note	**2014 €'m**	2013 €'m
Fair value of transactions with clearing members (ratings as measured by Fitch)			
Clearing members rated AAA		**29,422.0**	25,719.2
AA+		**–**	–
AA		**1,044.9**	289.2
AA-		**19,523.9**	27,658.4
A+		**5,421.8**	14,175.6
A		**36,812.3**	52,002.8
A-		**35,279.3**	57,155.5
BBB+		**12,030.5**	9,795.0
BBB		**367.0**	6,053.0
BBB-		**1,594.8**	7,508.0
Unrated		**4,435.9**	261.9
	12	**145,932.4**	200,618.6
Company investment portfolio (ratings assigned with reference to major agencies)			
AAA/AA+/AA/AA- Government backed		**14,324.4**	6,448.2
AA/AA+/AAA Secured		**–**	4,295.9
AA/AA+/AAA Unsecured		**21.9**	53.9
A/A+/A-/AA-/BBB+ Secured		**21,699.9**	20,160.6
A/A+/AA- Unsecured		**185.9**	132.8
	19	**36,232.1**	31,091.4

The total credit risk of the Company is represented by the total financial assets of the Company as disclosed in note 19.

Concentration risk

Risk description

Concentration risk may arise through having large connected individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

Risk management approach

Direct concentration risk arises in several areas of the Company's activities, and in order to avoid excessive concentrations of risk, the Company maintains a diversified portfolio of high quality liquid investments and uses a diversified range of custodians, payment and settlement banks and agents.

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

The largest concentration of investment exposures as at 31 December 2014 was 19.1% of the total investment to US Government (2013: 6.7% to the French Government).

Liquidity risk

Risk description

Liquidity risk is the risk that the Company 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 and investment counterparties or in the event of a clearing member default.

Liquidity risk exists as a result of day to day operational flows such as repayments of cash collateral to clearing members, provision of liquidity to facilitate settlement and cash flows resulting from investment activity. In the case of a clearing member default the Company must transfer or liquidate the defaulter's portfolio. The default management process may give rise to additional liquidity requirements to meet losses arising from close out and the defaulter's settlement and margin obligations until the portfolio is closed out or transferred.

Risk management approach

Liquidity risk is managed by ensuring that the Company has sufficient cash to meet its payment obligations and by the provision of facilities to meet short term imbalances between available cash and payment obligations. The Company maintains liquidity buffers against expected daily operational liquidity needs, based on the maximum relevant liquidity outflow observed from an extensive data history, and against the default of one or more clearing members when additional liquidity will be required so that the Company can continue to meet its obligations to clearing members as a CCP.

The Company's liquidity management is subject to strict minimum liquidity targets set by senior executives within its Risk and Collateral & Liquidity Management (CaLM) departments. These targets are reviewed regularly and reported to the Risk Committee and Board. On a day to day basis, CaLM is tasked with ensuring that the Company can meet its financing needs at all times, in particular to ensure the business continues to operate smoothly in the event of the default of one or more clearing members.

The ability to access liquidity under extreme market conditions is modelled daily. Liquid resources include available cash balances and secured financing facilities.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2014	**On demand €'m**	**Less than three months €'m**	**Three months to one year €'m**	**One to five years €'m**	**More than five years €'m**	**Total €'m**
Fair value of transactions with clearing members	**–**	**(142,333.9)**	**(3,583.3)**	**(15.2)**	**–**	**(145,932.4)**
Initial margin and other clearing member balances	**–**	**(29,311.7)**	**–**	**–**	**–**	**(29,311.7)**
Default funds	**–**	**–**	**(6,402.1)**	**–**	**–**	**(6,402.1)**
Interest bearing loans and borrowings	**–**	**(0.1)**	**(0.3)**	**(0.4)**	**–**	**(0.8)**
Trade and other payables	**(12.4)**	**(8.0)**	**(78.0)**	**–**	**–**	**(98.4)**

As at 31 December 2013 (restated)	On demand €'m	Less than three months €'m	Three months to one year €'m	One to five years €'m	More than five years €'m	Total €'m
Fair value of transactions with clearing members	–	(191,997.7)	(8,419.5)	(199.2)	(2.2)	(200,618.6)
Initial margin and other clearing member balances	–	(26,457.6)	–	–	–	(26,457.6)
Default funds (restated)	–	–	(4,104.8)	–	–	(4,104.8)
Interest bearing loans and borrowings	(34.7)	(0.1)	(0.2)	(0.8)	–	(35.8)
Trade and other payables	(33.7)	(100.3)	–	(40.9)	–	(174.9)

Interest due on the financial liabilities is based upon rates set on a daily basis. For liabilities not marked to market there is no material difference between the carrying value and fair value.

Settlement risk

Risk description

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

Risk management approach

The Company fully mitigates this risk through the use of guaranteed and irrevocable delivery versus payment mechanisms where available.

Settlement bank risk

Risk description

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

Risk management approach

The Company uses a combination of central bank, payment agent and commercial settlement bank models. The policy requires that only minimal unsecured balances at commercial settlement banks remain overnight, placing the majority at available central banks. Any such unsecured balances are deducted from commercial bank deposit limits. Intraday credit exposures to commercial concentration banks are also monitored and closely controlled.

For monies due from clearing members, if the payment agent or commercial settlement bank is not able to transfer funds to the Company, the clearing members remain liable for the fulfilment of their payment obligations to the Company.

Custody risk

Risk description

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

Risk management approach

Although the risk of insolvency of central securities depositories or custodian banks used by the Company is low, the Company mitigates this risk through a due diligence framework ensuring appropriate legal arrangements and operational processes, in addition to minimum eligibility requirements, credit assessment, regular reviews required by policy and a requirement for back-up contingency arrangements are in place.

Capital risk

Risk description

Capital risk is the risk that the Company may not maintain sufficient capital to meet its obligations. This includes the risks that regulators may increase capital requirements or that own capital levels may become eroded. Capital is specifically allocated, and therefore at risk ahead of clearing member resources, in the event of either a clearing member or investment counterparty default. In addition, capital may be at risk to operational losses in excess of insurance protection.

Risk management approach

The Company's approach to capital management and a review of the current regulatory requirements are detailed in note 22. In addition:

- the default waterfalls for each clearing service feature the Company's capital, to be utilised after the defaulted clearing member's collateral and default fund contributions and before the balance of the mutualised default funds and further, non-prefunded, resources available from the clearing members. In aggregate this capital at risk is equivalent to 25% of regulatory capital requirement
- the non-default loss allocation model (as detailed on page 29) limits the amount of capital at risk to the investment default/loss of a banking institution or the issuer of a debt instrument to €15 million
- the Company would seek support from its shareholder for additional equity if required for transformative initiatives or to meet capital pressures arising from infrequent events

Pension risk

Pension risk arises from the potential deficit in the Company's defined benefit pension plan due to a number of factors such as mortality rates or changes in inflation assumptions. The scheme is exposed to inflation, interest rate risks and changes in the life expectancy for members. As the scheme assets include a significant investment in equity shares, the Company is exposed to equity market risk. The Company's pension scheme is governed under the relevant laws and managed by the Trustees who are required to undertake a formal funding valuation every three years and, where assets are deemed to be insufficient, to agree a schedule of contributions to be paid by the Company to make good any shortfall over a period of time. Details of the pension scheme and assumptions used in valuing its assets and liabilities are included in note 18.

Other risks

In addition to the financial risks above the Company is also exposed to the following risks.

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 by the business, for example through procedures, documentation of processes, independent authorisation and reconciliation of transactions.

The Company has adopted a framework, supported by tailored enterprise-wide software, systematically to identify, assess, monitor and manage operational risks. This is achieved through 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. An independent department performs second line operational risk management, validating the self-assessments of risks and controls and reporting on operational risk to senior management and Board.

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 Company's senior management and Audit Committee. 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 Company'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 Committee and senior management. Any significant weaknesses are reported to the Board.

The Company maintains comprehensive contingency plans to support its operations and ensure business continuity. These facilities are regularly tested.

Legal, compliance and regulatory risk

These risk categories include the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise negatively affect the operations or condition of the organisation, and the risk of loss of license or other penalties imposed due to non-compliance with regulations governing clearing house activities in each jurisdiction in which the Company operates.

It is the responsibility of the heads of the legal, regulatory and compliance functions to provide assurance to the Board that these risks are measured and monitored, while the responsibility for any mitigation actions resides with the relevant business and functional heads.

In the normal course of business, the Company receives legal claims in respect of commercial, employment and other matters. Where a claim is more likely than not to result in an economic outflow of benefits from the Company (and is measureable), a provision is made representing the expected cost of settling such claims.

Reputational risk

The maintenance of the Company'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 Company are paramount to its reputation.

Business and strategic risks

Business risk is the risk of loss or profit decrease where declining volumes lead to lower revenues which cannot be offset by adjusting variable costs within a reasonable time period, while strategic risk is the risk of reduction in earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Business heads are responsible for managing these risks and liaising closely with the Board when issues arise.

Project risk and business continuity, information security and cyber risks

These risk categories include the risk to earnings and capital arising from project execution deficiencies, the risk of loss arising from the disruption of critical business or IT processes due to adverse circumstances or events, and the risk that valuable and sensitive Company data is compromised, lost and/or misused. The heads of dedicated business functions and of each business are responsible for managing these risks.

Model risk

This is the risk that, for example, a margin model may not capture the essence of the stress loss/events being modelled, or that there are mistakes in the underlying calculation, which may result in systemic under-margining for the products in question. Model risk management is the responsibility of the heads of business lines which place reliance on the models, and is effected through appropriate testing and maintenance of the models and in particular through an annual independent review.

Default management risk

The additional risk arising from not having a well defined process in place prior to a default event, so that valuable time may be lost trying to reconcile positions, contacting the relevant people, etc, leading to a material deterioration in the market value of assets held.

For each service, it is the joint responsibility of the Chief Risk Officer and the relevant business head to ensure that a functioning Default Management Group is in place in accordance with Company policies and guidelines, and that drills are held regularly to ensure the default management process functions smoothly.

Enterprise Risk Management framework

Each of the risks identified in this section are governed by the Risk Governance Framework issued by the Group Board. This framework describes the overall risk appetite of the Group and Company, defines each risk type, the tolerance for each and the standards expected for the management of all risks. The framework also requires that all risks are measured, monitored and reported via an Enterprise Risk Management framework which is coordinated by the Chief Risk Officer.

3. Exchange rates

The most significant exchange rates for the Company are as follows:

	2014 Closing rate	**2014 Average rate**	2013 Closing rate	2013 Average rate
Euro (€) to US dollar ($)	**1.21**	**1.33**	1.37	1.33
Euro (€) to pound sterling (£)	**0.78**	**0.81**	0.83	0.85

4. Operating expenses

The following items are included operating expenses:

	2014 €'m	2013 €'m
Employee costs (note 18)	**107.1**	77.0
Depreciation and amortisation (see below)	**20.3**	7.1
Other operating expenses	**136.4**	103.2
Total operating expenses	**263.8**	187.3

Total operating expenses includes non-recurring items. A full analysis is given in note 5.

Depreciation and amortisation	**2014 €'m**	2013 €'m
Depreciation of property, plant and equipment	**4.0**	3.9
Amortisation of intangible assets	**16.3**	3.2
	20.3	7.1

Other operating expenditure includes:		
Hire of plant and machinery under operating leases	**–**	0.3
Property lease rentals	**4.5**	7.9
Foreign exchange (gains)/losses	**(1.8)**	1.5

Auditor's remuneration		
Audit fees	**0.2**	0.3
Other assurance services	**–**	0.4
Total	**0.2**	0.7

5. Non-recurring items

	2014 €'m	2013 €'m
Curtailment gain relating to pension scheme closure	**–**	17.6
Synergy plan costs	**(5.6)**	(4.3)
Total non-recurring items	**(5.6)**	13.3
Tax effect of non-recurring items	**1.2**	0.3
Net non-recurring items	**(4.4)**	13.6

6. Finance income and expense

	2014 €'m	2013 €'m
Interest receivable in respect of recoverable development costs	**–**	3.2
Finance income on pension fund assets	**0.9**	–
Interest income	**0.9**	3.2
Interest paid on finance leases	**(0.1)**	(0.1)
Interest paid on loans and overdrafts	**–**	(0.1)
Net finance income	**0.8**	3.0

7. Taxation

The major components of taxation expense are:

	2014 €'m	2013 €'m
Current tax		
United Kingdom current tax charge	**(19.4)**	(13.7)
Adjustments in respect of current tax in previous years	**2.8**	–
Total current tax	**(16.6)**	(13.7)
Deferred tax		
Deferred tax relating to the origination and reversal of temporary differences	**(2.0)**	0.4
Deferred tax effect of future rate changes	**0.1**	(1.3)
Adjustment in respect of deferred tax in previous years	**(0.4)**	(0.8)
Deferred tax	**(2.3)**	(1.7)
Tax expense reported in the income statement	**(18.9)**	(15.4)
Statement of comprehensive income		
Deferred tax relating to remeasurement gains/(losses) on UK defined benefit pension plan	**–**	(6.8)
Tax expense reported in the statement of comprehensive income	**–**	(6.8)

Reconciliation of tax expense	**2014 €'m**	2013 €'m
Accounting profit before taxation	**92.1**	66.8
Tax at UK statutory corporation tax rate of 21.5% (2013: 23.25%)	**(19.8)**	(15.5)
Effect of:		
Disallowed expenses and non-taxable income	**(0.1)**	-
Tax on pension surplus recognised in other comprehensive income	**–**	3.9
Provision in respect of controlled foreign companies	**–**	(2.1)
Adjustments in respect of prior periods	**2.3**	(0.8)
Re-measurement of deferred tax – change in corporation tax rate	**0.1**	(1.3)
Higher rate of tax on overseas earnings	**(0.4)**	–
Higher rate of tax on pension surplus	**(0.2)**	–
Foreign exchange adjustment	**(0.8)**	0.4
Total tax charge	**(18.9)**	(15.4)
Effective corporate tax rate	**20.5%**	23.1%

The UK Finance Bill 2014 was substantively enacted on 17 July 2014. The reduction to the standard rate of corporation tax from 21% to 20% will be effective from 1 April 2015. Accordingly the UK deferred tax balances at 31 December 2014 have been stated at 20%.

Exchange differences have arisen on the translation of the closing sterling tax creditor which is payable to HM Revenue and Customs.

Deferred tax

	Statement of financial position		Income statement	
	2014 €'m	2013 €'m	**2014 €'m**	2013 €'m
Post-employment benefits	**(7.3)**	(6.7)	**0.3**	(1.3)
Reduced depreciation for tax purposes	**5.2**	6.5	**0.9**	(0.3)
Deferred compensation	**1.0**	1.4	**1.1**	(0.1)
Deferred tax charge			**2.3**	(1.7)
Deferred tax (liability)/asset	**(1.1)**	1.2		

	2014 €'m	2013 €'m
Net deferred tax asset at 1 January	**1.2**	9.7
Deferred tax in income statement	**(2.3)**	(1.7)
Deferred tax relating to remeasurement gains/(losses) on UK defined benefit pension plan	**–**	(6.8)
Net deferred tax (liability)/asset at 31 December	**(1.1)**	1.2

8. Intangible assets

	2014			2013		
	Self-developed software €'m	**Other €'m**	**Total €'m**	Self-developed software €'m	Other €'m	Total €'m
Cost						
At 1 January	**69.9**	**4.6**	**74.5**	60.8	–	60.8
De-recognition	**4.6**	**(4.6)**	**–**	–	–	–
Additions	**67.0**	**–**	**67.0**	9.1	4.6	13.7
At 31 December	**141.5**	**–**	**141.5**	69.9	4.6	74.5
Accumulated amortisation						
At 1 January	**54.7**	**0.5**	**55.2**	52.0	–	52.0
Amortisation charge for the year	**16.3**	**–**	**16.3**	2.7	0.5	3.2
De-recognition	**–**	**(0.5)**	**(0.5)**	–	–	–
At 31 December	**71.0**	**–**	**71.0**	54.7	0.5	55.2
Net book value at 31 December	**70.5**	**–**	**70.5**	15.2	4.1	19.3

The portion of capitalised self-developed software costs disclosed above that relates to software not currently brought into use amounted to €8.6 million (2013: €10.7 million). No amortisation has been charged during the year against these assets (2013: €nil), but instead they are tested for impairment (see note 9).

During 2014, the operating agreements in respect of the SwapClear and ForexClear OTC business lines were renegotiated to ensure compliance with the EMIR regulatory regime. The renegotiated terms were amended from 1 January 2014. This resulted in the recognition of intangible assets in respect of self-developed software of €51.7 million (included within additions in the table above) and the de-recognition of the other intangible assets of €4.1 million.

9. Impairment testing of intangible assets

The Company carries out annual impairment testing on software not currently brought into use in December of each year, or more often if circumstances show that an impairment may be likely.

In respect of other intangible assets/self developed software, impairment has been assessed by reviewing the carrying value of the asset against its recoverable amount, which has been determined by value in use calculations for the relevant cash generating unit using cash flow projections approved by the Board.

Assumptions

The key assumptions used in the valuations relate to cash flow projections derived from financial forecasts prepared by management covering a five year period based on an analysis of the likely development of each business line.

Cash flows are then discounted using the Company's pre-tax weighted average cost of capital discount rate of 10.1% (2013: 12.0%)

Impairment results

Having completed the tests as described above, self developed software assets were found not to be impaired.

Sensitivity analysis

Reasonably possible changes in key assumptions and rates at 31 December 2014 are detailed below and the impact on the impairment recognised noted:

	Base case	Adjusted	Increase to impairment €'m
Reduction in clearing revenues	various	-10%	–
Pre-tax discount rate	10.1%	13.1%	–

10. Property, plant and equipment

2014	**Leasehold refurbishment €'m**	**Computer equipment €'m**	**Office equipment €'m**	**Total €'m**
Cost				
At 1 January	**9.3**	**29.4**	**3.9**	**42.6**
Additions	**–**	**2.7**	**–**	**2.7**
Disposals	**(0.2)**	**–**	**–**	**(0.2)**
At 31 December	**9.1**	**32.1**	**3.9**	**45.1**
Accumulated depreciation				
At 1 January	**2.3**	**25.8**	**3.8**	**31.9**
Depreciation charge for the year	**0.9**	**3.0**	**0.1**	**4.0**
Disposals	**(0.2)**	**–**	**–**	**(0.2)**
At 31 December	**3.0**	**28.8**	**3.9**	**35.7**
Net book value at 31 December	**6.1**	**3.3**	**–**	**9.4**

2013	Leasehold refurbishment €'m	Computer equipment €'m	Office equipment €'m	Total €'m
Cost				
At 1 January	9.1	29.6	3.9	42.6
Additions	0.2	1.0	–	1.2
Disposals	–	(1.2)	–	(1.2)
At 31 December	9.3	29.4	3.9	42.6
Accumulated depreciation				
At 1 January	1.5	24.0	3.7	29.2
Depreciation charge for the year	0.8	3.0	0.1	3.9
Disposals	–	(1.2)	–	(1.2)
At 31 December	2.3	25.8	3.8	31.9
Net book value at 31 December	7.0	3.6	0.1	10.7

Assets with a net book value of €0.3 million (2013: €0.5 million) are held under finance leases and included within office equipment.

11. Investment in subsidiaries

	2014 €'m	2013 €'m
Cost at 1 January & 31 December	**20.3**	20.3

The Company owns 51% of LCH.Clearnet (Luxembourg) S.a.r.l., a company that holds intellectual property rights.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006 as its parent company, LCH.Clearnet Group Limited, prepares consolidated financial statements which are publicly available.

The Company also owns the following dormant companies that are not material.

Company name	Principal activity	Country of incorporation
BondClear Limited	Dormant	England and Wales
SwapClear Limited	Dormant	England and Wales
LCH Pensions Limited	Trustee company	England and Wales
RepoClear Limited	Dormant	England and Wales
Bondnet Limited	Dormant	England and Wales
EquityClear Limited	Dormant	England and Wales
The London Clearing House Limited	Dormant	England and Wales
RepoNet Limited	Dormant	England and Wales
ForexClear Limited	Dormant	England and Wales
International Commodities Clearing House Limited	Dormant	England and Wales
The London Produce Clearing House Limited	Dormant	England and Wales

12. Balances with clearing members

	2014 €'m	2013 €'m
Assets		
Fair value of transactions with clearing members	**145,932.4**	200,618.6
Other clearing member balances	**23.9**	55.3
	145,956.3	200,673.9
Liabilities		
Fair value of transactions with clearing members	**(145,932.4)**	(200,618.6)
Initial margin and other clearing member balances	**(29,311.7)**	(26,457.6)
	(175,244.1)	(227,076.2)

The balances due from clearing members recorded in the statement of financial position of €145,932.4 million (2013: €200,618.6 million) are fully secured by collateral held by the Company.

At 31 December 2014 the total of fully collateralised loans in respect of fixed income transactions was €144,335.1 million (2013: €230,379.8 million). This collateral has in turn, been passed on to fixed income counterparties to secure the Company's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral, including that in respect of initial margin, at 31 December 2014 was €28,842.1 million (2013: €31,998.8 million).

13. Trade and other receivables

	2014 €'m	2013 €'m
Non-current		
Other receivables	–	44.5
Current		
Development costs recoverable	–	17.5
Trade & other receivables	**60.5**	11.3
Provision for doubtful debts	**(1.3)**	(1.3)
Prepayments	**5.9**	5.2
Amount owed by parent companies	**1.5**	–
Amount owed by fellow subsidiary companies	**5.1**	5.3
Amount owed by subsidiary company	–	1.1
	71.7	39.1

Non-current other receivables in 2013 principally relate to amounts recoverable from clearing members relating to the development of clearing systems. These were repaid in the year as a result of the renegotiated operating agreements.

A doubtful debt provision has been made in respect of €1.3 million (2013: €1.3 million) due from one customer, there were no movements in the year.

14. Cash and cash equivalents

	2014 €'m	2013 €'m
Cash at bank and in hand	**207.8**	2,859.5
Short-term deposits	**21,699.9**	22,206.7
	21,907.7	25,066.2

€21,699.9 million (2013: €22,206.7 million) of short-term deposits are fully collateralised by sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Group's Risk Committees.

Of the total cash and cash equivalents, €561.9 million (2013: €474.3 million) is own cash. €64.0 million of this amount (2013: €24.1 million; £20.0 million) is restricted as the Company's own resources to be used in the default waterfall. This is allocated by default fund on a pro rata basis as follows at 31 December 2014: SwapClear €46.4 million, ForexClear €3.4 million, RepoClear €10.2 million, Commodities €1.8 million, Equities €1.8 million and Listed Derivatives €0.4 million.

15. Trade and other payables

	2014 €'m	2013 €'m
Non-current		
Other payables	28.4	40.9
Current		
Trade payables	7.8	7.9
Other taxation and social security	–	2.3
Accruals	64.9	52.0
Amount owed to parent companies	2.6	27.4
Amount owed to fellow subsidiary companies	2.7	6.3
Amount owed to subsidiary company	9.8	–
Deferred income	1.2	–
Other payables	18.9	40.4
	107.9	136.3

Non-current payables in 2013 included amounts relating to funding arrangements for the development of new clearing systems. These amounts were settled in the year as a result of the renegotiated operating agreements.

Other payables include liabilities of €47.6 million that were created on the recognition of intangible assets as a result of the renegotiated operating agreements in respect of SwapClear and ForexClear. These liabilities are being recognised in the income statement on a systematic basis over the useful life of the assets recognised.

16. Interest bearing loans and borrowings

	2014 €'m	2013 €'m
Current		
Finance leases	0.4	0.3
Bank overdrafts	–	34.7
	0.4	35.0
Non-current		
Finance leases	0.4	0.8
	0.4	0.8

Bank overdrafts

In order to assist with day to day liquidity management the Company maintains a number of uncommitted money market and overdraft facilities with a number of major banks. Effective interest rates on these facilities vary depending on market conditions.

17. Default funds

The purpose of the default funds is to absorb any losses incurred by the Company 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. Default funds are split into several different funds to cover the different business lines of the Company. The total default funds held by the Company at 31 December 2014 were €6,402.1 million (2013: €4,104.8 million).

Default funds are now treated as a current liability, see note 1 for more details.

18. Employee benefits

i) Staff costs

All employees and directors	**2014 €'m**	2013 €'m
Wages and salaries	**82.0**	73.8
Social security costs	**10.1**	8.0
Share-based payment costs	**1.9**	–
Pension costs	**8.3**	8.5
Staff costs before non-recurring items	**102.3**	90.3
Staff costs included in non-recurring items (note 5)	**4.8**	(13.3)
Total staff costs	**107.1**	77.0
Average monthly number of staff employed	**549**	597

Key management personnel	**2014 €'m**
Remuneration	**4.6**
Deferred bonus and other long-term benefits	**2.5**
Share-based payment costs	**0.4**
Pension contributions	**0.2**
Compensation for loss of office	**–**
Aggregate emoluments of key management personnel	**7.7**

The costs above include deferred bonuses, other long-term incentive plan (LTIP) awards and share-based payment costs on an accrued basis.

In light of regulatory changes, the Company re-assessed the composition of its key management personnel and amended its disclosure accordingly.

For the year ended 31 December 2013, the key management personnel of the Company were the members of the Group Executive Committee (ExCo); further details of ExCo were disclosed in the consolidated accounts of LCH.Clearnet Group Limited.

Directors' remuneration	**2014 €'m**	2013 €'m
Remuneration	**2.9**	1.6
Compensation for loss of office	–	0.2
Total directors' remuneration	**2.9**	1.8

Remuneration of directors who are also directors of other Group companies is charged by way of a management charge from LCH.Clearnet Group Limited and is included above.

The costs above include deferred bonuses, other long-term incentive plan (LTIP) awards and share-based payment costs when they vest or become payable. No amounts have vested or been paid in the year, except to a former director who was paid €0.7 million in the year in respect of an LTIP award (excluded from the table above) in relation to the cost allocated to the Company.

The highest paid director received total remuneration of €939,671 in the year.

No directors are in the Company's defined benefit pension scheme. Contributions of €9,000 have been made on behalf of one director to the defined contribution scheme.

Three directors, including the highest paid director, participate in the share-based award schemes detailed below.

Independent non-executive directors received fees for their services. The Board determines fees that reflect the level of individual responsibilities, attendance of meetings and membership of Board committees. Non-executive directors representing shareholders did not receive fees.

ii) Share-based payments

Company employees were eligible to participate in one or more of the following LSEG share option based arrangements during the financial year:

i. The London Stock Exchange Group Long Term Incentive Plan (LSEG LTIP)
ii. The LCH.Clearnet Group Long Term Incentive Plan (LCH LTIP)
iii. The LSEG SAYE Option Scheme and LSEG International Sharesave Plan (SAYE)
iv. The LSEG Restricted Share Award Plan 2008 and LCH.C Companies' Retention Plan 2014 (Restricted Plans)

The **LSEG LTIP** has two elements, a conditional award of Performance Shares and an award of Matching Shares, which is linked to a co-investment being made by the executive. Awards are made in the form of nil-cost options. Under the Matching Shares arrangement, selected executives may invest up to the value of 50% of their net-of-tax base salary in LSEG shares (Invested Value). The Invested Value is then matched with a performance related Matching Share award, up to a maximum of 4:1 on a post-tax basis.

Vesting of the LSEG LTIP awards is dependent upon LSEG's total shareholder return (TSR) performance and adjusted basic earnings per share growth (EPS) (50% on each) over a three year period. The following targets applied to options granted in 2014:

EPS element (50%): Average growth over 3 years	TSR element (50%): Absolute growth over 3 years	Proportion of element that vests
Less than 6% p.a	Less than 8% p.a.	0%
6% p.a.	8% p.a.	25%/30%*
More than 12% p.a.	More than 16% p.a.	100%

* Vesting triggers vary based on timing of awards as per the 2004 LSEG LTIP that prevailed at the time the grant was made. Straight line pro-rating applies between this trigger and 100% vesting.

The **LCH LTIP** also has two elements, a conditional award of Performance Shares and an award of Matching Shares, which is linked to a co-investment being made by the executive. The Matching Shares element only applies to selected senior management. The Performance Shares are available to a wider group of executives. Awards are made in the form of nil-cost options. Under the Matching Shares arrangement, selected executives may invest up to the value of 50% of their net-of-tax base salary in LSEG shares (Invested Value). The Invested Value is then matched with a performance related Matching Share award, up to a maximum of 4:1 on a post-tax basis.

Vesting of the LCH LTIP award is initially dependent upon the achievement of a risk management gateway. If this is achieved, the degree of vesting of the award is assessed against three conditions, measured independently over three years:

1) **Regulatory metric**: a qualitative assessment of LCH Group performance on regulatory matters (comprising up to 34% of the award)
2) **Cost metric:** a quantitative assessment of qualifying cost savings during the performance period (comprising up to 33% of the award)
3) **EBIT metric:** a quantitative assessment of LCH Group earnings before interest/tax (EBIT) performance at the end of the performance period (comprising up to 33% of the award)

For Internal Audit, Risk and Compliance participants, the Cost and EBIT metrics do not apply. Assuming the risk management gateway is achieved, the vesting of the award is assessed against the Regulatory metric only.

The risk management gateway will be assessed by the Group Remuneration Committee ('Committee') who will assess if the LCH Group has managed its risk effectively over the three year period. The award lapses in full if any of the LCH Group CCPs suffers an aggregate loss of more than €12 million (Higher Level Losses). Equally, if, during the performance period, any of the LCH Group CCPs suffers losses below this level or circumstances arise in the reasonable opinion of the Committee that have or could have resulted in a significant adverse event which did or could have materially damaged future business operations, the Committee shall determine whether Management could or should have taken action to prevent such circumstances and may lapse the award accordingly.

The Regulatory metric shall vest at 100% if it is determined that LCH Group management actions in relation to regulatory matters were wholly effective during the performance period. If it is determined that management actions in relation to regulatory matters were not wholly effective during the performance period, then the Remuneration Committee shall determine a lesser level of vesting as it deems appropriate.

In order for the portion of the Performance Share Award subject to the Cost metric to vest, the LCH Remuneration Committee, must determine the amount of cumulative net consolidated cost savings of the London Stock Exchange Group achieved over the performance period by reference to specified cost saving projections and adjustments set out in the rules of the Plan.

The Cost and EBIT metrics shall vest as follows:

Cost metric: amount of qualifying cost savings determined to have been achieved	EBIT metric: EBIT level	Percentage of shares that vest
€100 million or more	€120 million or more	100%
€75 million	€106 million	62.5%
€50 million	€92 million	25%
Below €50 million	Below €92 million	0%

At the end of the performance period, the Remuneration Committee shall calculate LCH Group EBIT for the last financial year in the performance period, as approved by the LCH.Clearnet Group Limited Audit Committee. EBIT means earnings before interest, tax and non-recurring items, as reported in the consolidated accounts for LCH.Clearnet Group Limited, subject to such adjustments as the Remuneration Committee considers necessary to take account of matters that it considers to be appropriate.

Straight line vesting applies between the relevant percentages listed above in respect of the Cost and EBIT metrics.

If circumstances occur, which, in the reasonable opinion of the Committee, justify a reduction to awards granted the Committee may at its discretion reduce an award or not grant future awards. In the event that an award has already vested, the Committee may determine that a repayment is made. The circumstances and timeframe in which the Committee may consider it appropriate to exercise such discretions are covered in the Plan Rules.

The **SAYE schemes** provide for grants of options to employees who enter into a SAYE savings contract; options are granted at 20% below fair market value. The scheme is available to employees based in the UK and US (and approved by HMRC in the UK). The options vest in full after three years, providing the employee remains employed by the LCH Group or wider LSEG group of companies.

The **Restricted Plans** allow for grants to be made in the form of conditional awards over ordinary shares of LSEG, in the form of nil-cost options to certain executives. The vesting of such awards granted to date under the plans are conditional upon tenure and furthermore in the case of the LCH.Clearnet Companies' Retention Plan 2014 upon successful achievement of a risk management gateway.

Movements in the number of share options and awards outstanding and their weighted average exercise price are as follows:

	LSEG LTIP	**LCH LTIP**	**SAYE schemes**		**Restricted Plans**
	Number	**Number**	**Number**	**Weighted average exercise price (£)**	**Number**
1 January 2014	-	-	-	-	-
Granted in year	123,555	248,721	202,056	12.69	72,271
Exercised	-	-	-	-	-
Lapsed/forfeited in year	-	-	(22,527)	12.15	-
31 December 2014	**123,555**	**248,721**	**179,529**	**12.76**	**72,271**

None of the options were exercisable as at 31 December 2014. The weighted average exercise price is nil for all other schemes except the SAYE. The weighted average share price of LSEG plc shares during the year was £19.56.

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

As at 31 December 2014	Number outstanding	Weighted average remaining contractual life Years
LSEG LTIP - nil	123,555	2.40
LCH LTIP - nil	248,721	2.66
SAYE - over £12	179,529	2.39
Restricted Plans - nil	72,271	0.76
Total	**624,076**	**2.26**

The fair value of share options granted during the year was determined using a stochastic valuation model. The key assumptions used in the valuation were as follows:

	LSEG LTIP				**LCH LTIP**	
	Performance shares	Performance shares	Matching shares	Matching shares	Performance shares	Matching shares
Grant date	5/2/14	27/8/14	5/2/14	30/9/14	27/8/14	30/9/14
Grant date share price	£18.34	£20.61	£18.34	£18.68	£20.61	£18.69
Options granted	58,999	3,038	32,449	29,069	217,608	31,113
Expected life (years)	3.07	3.00	3.07	3.01	3.00	3.01
Dividend yield	1.60%	1.50%	1.60%	1.70%	1.50%	1.70%
Risk-free interest rate	1.00%	1.30%	1.00%	1.30%	1.30%	1.30%
Volatility	29%	27%	29%	26%	27%	26%
Fair value TSR	£6.05	£6.39	£6.05	£5.44	n/a	n/a
Fair value EPS	£17.48	£19.70	£17.48	£17.75	n/a	n/a
Fair value non-market conditions	n/a	n/a	n/a	n/a	£19.70	£17.75

	2014 SAYE		**Restricted Plans**	
Grant date	10/1/14	11/7/14	5/2/14	5/2/14
Grant date share price	£17.99	£19.15	£18.34	£18.34
Options granted	117,904	84,152	29,364	42,907
Expected life (years)	3.00	3.14	1.07	2.07
Exercise price	£12.64	£15.38	-	-
Dividend yield	1.70%	1.60%	1.60%	1.60%
Risk-free interest rate	1.10%	1.50%	0.5%	0.6%
Volatility	30%	29%	29%	29%
Fair value	£6.06	£5.39	£18.05	£17.76

The volatility is based on a statistical analysis of LSEG's weekly share price since its flotation in July 2001.

The fair value for LSEG LTIP performance and matching shares granted during the year is based on a total shareholder return (TSR) pricing model which takes into account the TSR vesting conditions. All other fair values of options granted are based on a Black-Scholes model. Holders of share awards and share options are not entitled to receive dividends declared during the vesting period.

iii) Pension commitments

Defined contribution scheme

The Company pays fixed contributions to the defined contribution scheme and there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Company in a fund under the control of the trustees. The total expense charged to the income statement of €7.4 million (2013: €6.1 million) represents contributions payable to the plan by the Company at rates specified in the rules of the plan.

Defined benefit scheme

The Company operated a defined benefit pension scheme for its employees in the UK (the defined benefit section of the LCH Pension Scheme), which was closed to new members from 30 September 2009. Details of the regulatory environment and risks can be found in note 2.

The scheme was closed to further employee contributions on 31 March 2013. As a result of this closure, the Company made a curtailment gain of €17.6 million in 2013 which was recognised as a non-recurring item (note 5).

The valuations of the scheme conducted for financial reporting purposes are based on the triennial actuarial valuation as at 30 June 2013. A summary of the principal assumptions used is detailed below. The Company is not aware of any events subsequent to 31 December 2014, which would have a material impact on the results of the valuation. There was no impact of the asset ceiling test.

	2014	2013
Weighted average assumptions to determine benefit obligations:		
Discount rate	**3.7%**	4.6%
Rate of salary increase	**n/a**	n/a
Rate of price inflation	**3.1%**	3.4%
Rate of pension increases	**2.2%**	2.2%
Life expectancy from age 60 (years):		
Non-retired male member	**30.4**	**30.7**
Non-retired female member	**32.8**	**32.9**
Retired male member	**28.1**	**29.2**
Retired female member	**30.4**	**31.2**

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 estimated weighted average duration of the scheme's liabilities at around 25 years. Scheme assets are stated at their market value at the respective statement of financial position dates.

Changes in benefit obligation

	2014 €'m	2013 €'m
Benefit obligation as at 1 January	**179.2**	189.8
Pension (income)/expense:		
Current service cost	**–**	2.5
Past service gain (curtailment gain)	**–**	(17.6)
Net interest	**8.5**	8.1
Re-measurement (losses)/gains:		
Effect of changes in demographic assumptions	**(4.0)**	-
Effect of changes in financial assumptions	**42.6**	3.1
Effect of experience adjustments	**–**	0.3
Benefits paid	**(2.8)**	(3.3)
Foreign exchange	**15.0**	(3.7)
Benefit obligation as at 31 December	**238.5**	179.2

Changes in scheme assets

	2014 €'m	2013 €'m
Fair value of scheme assets as at 1 January	**198.5**	189.4
Pension income:		
Net interest	**9.1**	8.2
Re-measurement gains:		
Return on plan assets (excluding interest income)	**37.5**	5.8
Employer contributions	**0.6**	2.2
Benefits paid	**(2.8)**	(3.3)
Administrative expenses	**(0.3)**	–
Foreign exchange	**16.6**	(3.8)
Fair value of scheme assets as at 31 December	**259.2**	198.5

An analysis of the pension assets is set out below:

	2014 €'m	2013 €'m
Fair value of scheme assets with a quoted market price:		
Cash and cash equivalents	**9.1**	7.7
Equity instruments	**118.4**	104.5
Debt / LDI instruments	**131.7**	86.3
Total	**259.2**	198.5

Sensitivity analysis

A quantitative sensitivity analysis showing the impact of changes in the significant assumptions upon the benefit obligation as at 31 December 2014 is shown below:

		2014 €'m	2013 €'m
Discount rate	- 25 basis points	223.4	168.3
Discount rate	+ 25 basis points	254.9	191.1

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Payment from the defined benefit obligation

The weighted average duration of the defined benefit pension scheme is 26.58 years (2013: 25.53 years). The following payments are expected to be made in future years out of the defined benefit plan obligation:

	2014 €'m
Within the next 12 months	**3.1**
Between 2 and 5 years	**12.9**
Following 5 years	**18.0**
Total	**34.0**

Contributions

During 2014, contributions of €0.6 million were made to the defined benefit pension plan. A contingent commitment in respect of the scheme has been made to make contributions up to £2.5 million in the event of an agreed level of deficit at 30 June 2016.

The Company does not expect to make any contributions to its defined benefit pension plan in 2015.

19. Financial instruments

Financial assets and liabilities

	Note	**2014 €'m**	2013 €'m
Financial assets at fair value through profit or loss			
Fair value of transactions with clearing members	12	**145,932.4**	200,618.6
Treasury bills		**8,785.1**	4,481.3
Available for sale assets			
Government issued bonds		**5,539.3**	–
Held to maturity assets			
Government issued bonds		–	1,543.9
Other financial assets in the statement of financial position		**14,324.4**	6,025.2

	Note	**2014 €'m**	2013 €'m
Loans and receivables			
Trade and other receivables	13	**65.8**	78.4
Other clearing member balances	12	**23.9**	55.3
Cash and short-term deposits	14	**21,907.7**	25,066.2
Financial liabilities at fair value through profit or loss			
Fair value of transactions with clearing members	12	**(145,932.4)**	(200,618.6)
Financial liabilities at amortised cost			
Trade and other payables	15	**(98.4)**	(174.9)
Initial margin and other member balances	12	**(29,311.7)**	(26,457.6)
Default funds	17	**(6,402.1)**	(4,104.8)
Interest bearing loans and borrowings	16	**(0.8)**	(35.8)

Prepayments within trade and other receivables are not classified as financial assets. Other taxes and the liability in respect of the renegotiated operating agreements within trade and other payables are not classified as financial liabilities.

For assets not marked to market there is no material difference between the carrying value and fair value.

All financial assets held at fair value are designated as such on initial recognition by the Company. During the year, the Company reclassified its government issued bonds asset portfolio (€5,539.3 million) as available for sale from held to maturity; this reflects a limited number of sales of these assets during 2014. This has resulted in an additional loss of €0.3 million within other comprehensive income.

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs, which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Company has no financial instruments in this category

As at 31 December 2014 the Company held the following significant financial instruments measured at fair value:

	2014			2013		
	Level 1 €'m	**Level 2 €'m**	**Total €'m**	Level 1 €'m	Level 2 €'m	Total €'m
Assets measured at fair value						
Fair value of transactions with clearing members	**7.4**	**145,925.0**	**145,932.4**	4.1	200,614.5	200,618.6
Treasury bills	**8,785.1**	**–**	**8,785.1**	4,481.3	–	4,481.3
Government issued bonds	**5,539.3**	**–**	**5,539.3**	–	–	–
Liabilities measured at fair value						
Fair value of transactions with clearing members	**(7.4)**	**(145,925.0)**	**(145,932.4)**	(4.1)	(200,614.5)	(200,618.6)
Other items where fair value is known						
Government backed, bank issued certificates of deposit	**–**	**–**	**–**	1,543.9	–	1,543.9

For assets and liabilities classified as level 1, the fair value is based on market price quotations at the reporting date.

For assets and liabilities classified as level 2, the fair value is calculated using valuation techniques with market observable inputs. Frequently applied techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and forward rate curves.

Income statement

Amounts included in the income statement in relation to financial instruments are as follows:

	2014 €'m	2013 (restated) €'m
Interest income on assets held at fair value through the income statement	**7.9**	4.2
Interest income on other financial assets	**76.5**	123.9
Net fair value gain/(loss) on revaluation of other financial assets held at fair value included in net interest income	**0.4**	0.3
Interest income	**84.8**	128.4
Interest expense on liabilities held at amortised cost	**(26.1)**	(68.4)
Net interest income	**58.7**	60.0
Interest receivable in respect of recoverable development costs	**–**	3.2
Finance income on pension fund assets	**0.9**	–
Finance expense on liabilities held at amortised cost	**(0.1)**	(0.2)
Net finance income	**0.8**	3.0

Interest income includes amounts earned from clearing members' cash collateral deposits which attract negative interest rates. Interest expense includes amounts where the Company incurs negative interest in its cash deposits.

Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet.

As at 31 December 2014	**Gross amounts €m**	**Amount offset €m**	**Net amount as reported €m**
Derivative financial assets	**27,279,189**	**(27,277,592)**	**1,597**
Reverse repurchase agreements	**339,950**	**(195,615)**	**144,335**
Other	–	–	–
Total assets	**27,619,139**	**(27,473,207)**	**145,932**
Derivative financial liabilities	**(27,279,189)**	**27,277,592**	**(1,597)**
Reverse repurchase agreements	**(339,950)**	**195,615**	**(144,335)**
Other	–	–	–
Total liabilities	**(27,619,139)**	**27,473,207**	**(145,932)**

As at 31 December 2013	Gross amounts €m	Amount offset €m	Net amount as reported €m
Derivative financial assets	28,572,945	(28,571,553)	1,392
Reverse repurchase agreements	394,239	(195,858)	198,381
Other	88,265	(87,419)	846
Total assets	29,055,449	(28,854,830)	200,619
Derivative financial liabilities	(28,572,945)	28,571,553	(1,392)
Reverse repurchase agreements	(394,239)	195,858	(198,381)
Other	(88,265)	87,419	(846)
Total liabilities	(29,055,449)	28,854,830	(200,619)

As a CCP, the Company sits in the middle of clearing members' transactions and holds default funds and margin amounts as a contingency against the default of a clearing member. As such, further amounts are available to offset in the event of a default reducing the asset and liability of €145,932 million (2013: €200,619 million) to nil. Default funds for derivatives of €4,975.9 million (2013: €2,681.8 million), repurchase agreements of €1,024.9 million (2013: €841.2 million) and other transactions of €401.3 million (2013: €581.8 million) are held by the Company. In addition, the Company holds initial margin of €43,432.9 million (2013: €10,551.6 million) for derivatives, €9,898,5 million (2013: €3,119.1 million) for repurchase agreements and €899.6 million (2013: €3,992.9 million) for other transactions, as well as additional variation margin amounts which are not allocated by business line.

20. Commitments and contingencies

Operating leases

At 31 December 2014 the Company had annual commitments under non-cancellable operating leases.

Property	**2014 €'m**	2013 €'m
Within one year	**4.4**	4.8
More than one year, but less than five	**14.0**	15.9
More than five years	**23.0**	27.3
	41.4	48.0

The main London office lease expires in 2026. The main New York office lease expires in 2023.

Finance leases

The Company has finance leases for various items of office equipment.

	2014		2013	
	Minimum payments €'m	**Present value of payments €'m**	Minimum payments €'m	Present value of payments €'m
Within one year	**0.4**	**0.4**	0.4	0.3
In one to five years	**0.5**	**0.4**	0.8	0.8
Total minimum lease payments	**0.9**	**0.8**	1.2	1.1
Less: future financing charges	**(0.1)**	**–**	(0.1)	–
	0.8	**0.8**	1.1	1.1

Treasury assets supporting operational facilities

At 31 December 2014 the Company had assets and collateral in support of the following operational facilities:

	2014 €'m	2013 €'m
Central bank activity	**349.5**	421.7
Concentration bank services	**202.0**	313.3
Fixed Income settlement*	**18,873.1**	21,373.9
	19,424.6	22,108.9

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

21. Issued capital and reserves

Share capital

Ordinary shares

No shares were issued in the year. In 2013, the Company issued 260,000,000 new ordinary shares of €1.00 each for consideration of €260.0 million. All the Company's shares are owned by LCH.Clearnet Group Limited.

The company has 313,036,873 fully paid-up ordinary shares of €1.00 each in issue as at 31 December 2014 (2013: 313,036,873).

Other reserves

Share premium

No additional share premium has been recognised on the shares issued in the year and the balance of €41.2 million is unchanged in the year.

Capital redemption reserve

The balance of €5.1 million is unchanged during the year represents the nominal value of ordinary shares that have been repurchased and cancelled.

Distributable reserves

Retained earnings of €227.0 million (2013: €155.2 million) are regarded as distributable under the Companies Act 2006, but may be subject to additional regulatory restrictions (see note 22). Included within retained earnings is a revaluation reserve of negative €0.3 million (2013: nil) in relation to the Company's available for sale assets.

22. Capital management

The Company's approach to capital management is to maintain a strong capital base that will support the development of the business, meet regulatory capital requirements at all times and maintain good credit ratings. This is managed with reference to external capital requirements, including a consideration of future impacts to LCH. Capital plans are included within the Company's medium-term financial plan which is presented to the Board annually. The capital plans take into account current and future regulatory requirements and the development of the Company's business.

The Company is considered as a Qualifying Central Counterparty (QCCP) under the European Capital Requirements Regulations (CRR) as it has received authorisation under European Markets Infrastructure Regulations (EMIR). It is also registered as a Derivatives Clearing Organization (DCO) in the USA affording it QCCP status for USA members.

The Company is regulated by the Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000 and is subject to capital adequacy rules under the EMIR. It is also regulated by the CFTC as a DCO in the USA. It is also licensed by the Swiss Financial Markets Supervisory Authority (FINMA) as a CCP to SIX Swiss Exchange in Switzerland, In Canada, it is recognised as a Clearing Agent by the Ontario Securities Commission (OSC) in Ontario and Autorité des Marchés Financiers (AMF) in Québec. During 2014, it was also recognised as a CCP by the Australian Securities & Investments Commission (ASIC) in Australia.

The Company has fully complied with its externally imposed capital requirements in the year.

In particular the Company is required to ensure that its EMIR Capital Requirement (required by the Bank of England) is met by both its capital and audited reserves and adjusted liquid financial resources.

The Capital Requirement at the end of 2014 was €271.6 million (2013: €121.1 million calculated under the previous FRR regime) and as at the 31 December 2014 the Company's adjusted liquid financial assets were measured as €497.9 million (2013: €450.2 million) after deduction of the own capital contribution to a clearing member default of €64.0 million (2013: £20.0 million (€24.1 million)). The Company's adjusted net capital as at 31 December 2014 was €450.5 million (2013: €422.1 million) after deduction of the own capital contribution to a clearing member default. The audited retained earnings for the year of €71.8 million will be included in the adjusted net capital of the Company when the financial statements have been approved for publication.

23. Related party transactions

Key management personnel

Details of key management personnel and their total remuneration are disclosed in note 18.

Ultimate parent company and group companies

London Stock Exchange Group plc (LSEG) is the ultimate parent company of the Company and the largest group that prepares consolidated accounts. LCH.Clearnet Group Limited is the immediate parent company and the smallest group that prepares consolidated accounts.

Copies of the consolidated financial statements for LCH.Clearnet Group Limited for the period ended 31 December 2014 are available from the Company Secretary at the registered office. Copies of the consolidated financial statements for London Stock Exchange Group plc for the period ended 31 December 2014 are available from the Company Secretary, London Stock Exchange Group plc, 10 Paternoster Square, London, EC4M 7LS.

Other group companies

Sales to and purchases from other group companies are at arm's length and at normal market rates. Outstanding balances at the year end are unsecured and are settled in cash. For the year ended 31 December 2014, the Company has not raised any provision for doubtful debts relating to amounts owed by other group companies.

Details of transactions with the Company's parent, subsidiary and fellow subsidiary companies which have passed through the income statement during the year, together with details of outstanding balances, are set out below.

	2014 **€m**	2013 €m
Transactions with parent companies		
Income statement		
Services recharged to parent companies	**19.3**	11.3
Services recharged from parent companies	**(17.1)**	(9.6)
	2.2	1.7
Statement of financial position		
Amount due to parent companies at 31 December	**(1.1)**	(27.4)
Transactions with fellow subsidiaries		
Income statement		
Services recharged to fellow subsidiaries	**23.6**	21.7
Services recharged from fellow subsidiaries	**(9.3)**	(6.1)
	14.3	15.6
Statement of financial position		
Amount due from/(to) fellow subsidiaries at 31 December	**2.4**	(1.0)

Transactions with subsidiary company

Income statement		
Project recharge income (netted with administrative expenses)	**2.9**	11.8
Royalties and maintenance recharged from subsidiary	**(23.9)**	(16.2)
	(21.0)	(4.4)
Statement of financial position		
Amount due from/(to) subsidiary company at 31 December	**(9.8)**	1.1