

LCH.CLEARNET

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**LCH.Clearnet Group Limited**  
**2007 Annual Report and**  
**Consolidated Financial Statements**

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## 1 Chairman's statement

Operationally and financially your company had an excellent 2007, safely clearing a record volume of 1.72 billion contracts which produced record net profit of €178.9 million (€1.96 per share) despite tariff reductions averaging 7% across all classes during the course of the year. Your Board will propose a dividend of €26 million (€0.35 per share) to the annual general meeting of shareholders expected to be held on 23 June, 2008. This is the first dividend paid to shareholders in the four years since the company was founded in 2003.

Last year, shareholders unanimously approved our proposal to repurchase all but 5% of the 41.5% of our shares owned by the NYSE Euronext Group as well as the acceleration of the redemption of their redeemable convertible preference shares. These transactions have now been completed save for the final instalment of €61.8 million to be paid to NYSE Euronext in 2008. When that payment is made your company will be owned 73.3% by its users, 15.8% by Euroclear which, as a user-owned, user-governed company, we regard as a proxy for users, and 10.9% by exchanges.

These transactions were funded out of the company's own resources augmented by the public issue of hybrid Tier One capital of €200 million, another first for the company. We were fortunate to be able to launch this issue before the dramatic widening of credit spreads that has continued to plague markets since last summer.

As foreshadowed in my statement to you last year, we will be asking shareholders at a meeting to take place later this year to approve a more conventional set of Articles for the company in order to make it easier to govern.

The repurchase of most of the NYSE Euronext interest in the company made it possible for us to continue with our policy of lowering our tariffs where possible. This is reported on in detail in the CEO's Report.

For the clearing industry in Europe, 2007 was the year of the voluntary Code of Conduct. While phase one governing price transparency and accounting separation was achieved on schedule, phase two aiming to achieve access and interoperability was not, and is now threatening to derail the Code as an acceptable alternative to legislation. Your company expressed its reservation about the workability of the Code when it was first mooted but signed up to it in the end with the clear caveat that we would not be prepared to interoperate with our continental competitors in London if we could not gain reciprocal access to their markets. To date, such access has been denied by a combination of the hard barrier of national laws and the softer barrier of regulatory unpreparedness and perhaps even obfuscation. We will continue to work with the Code to gain access to clearing cash equities in more continental markets while we await the decision of the European Commission as to whether and when it will be extended to fixed income and derivatives.

2007 was not without its strategic challenges to your company. Last year's merger of CME and CBOT in the US was approved without requiring either the divestment of their clearing function or the unbundling of trading and clearing prices. This has put pressure on other publicly quoted derivatives exchanges to own their clearing so as to benefit from the enhanced earnings and p/e multiples this affords. Your company has felt the brunt of this pressure as, since we last reported to you, two of our customer exchanges have indicated their wish to change their clearing relationship with us.

ICE has announced the creation of ICE Clear and under the terms of its clearing contract has served notice of termination upon us, with effect from 18 July 2008. We will, of course, cooperate with ICE to ensure that there will be no market disruption if, as, and when regulators grant ICE Clear Recognised Clearing House status and subsequently permit it to commence operations. It is ICE's stated intention to exclude us from clearing their contracts and to move all of the open interest on our books relating to contracts traded on ICE to ICE Clear as of 18 July 2008. As the ICE approach denies our customers any choice as to where they could clear, and because we have been advised by counsel that ICE's behaviour could be anti-competitive, we intervened in the OFT's review of ICE Clear's application. As of this date its recommendation has not been made public. Facing the loss of our energy clearing business from ICE, we approached NYMEX and reached agreement to provide clearing for the European trading of their energy contracts. In this way we plan to continue to provide energy clearing for our clients.

Liffe similarly announced its intention to set up Liffe Clear. Whilst we are still in negotiations with Liffe regarding the future of our clearing relationship, indications are that users will continue to be able to rely upon our risk management processes, including access to our Default Fund, via the outsourcing by Liffe Clear of key elements of the clearing process to us.

In order to facilitate the governance of the Group, the non-executive Directors of LCH Clearnet Group Limited and its subsidiary LCH Clearnet Limited are now the same. Pending the outcome of a request to the Commission bancaire, our regulator, to situate LCH Clearnet SA as a subsidiary of LCH Clearnet Limited rather than of LCH Clearnet Group Limited, we intend in future that the Board of LCH Clearnet Group Limited should deal with shareholder matters, group strategy, and finance. These same Directors, when sitting as the Board of LCH Clearnet Limited, will exercise their operational oversight of the entire group. It is intended that LCH Clearnet Group Limited will have no employees. The Group is already managed out of LCH Clearnet Limited by an Executive Committee consisting of Roger Liddell – CEO, Francis Berthomier – CFO, Alberto Pravettoni – Head of Strategy, and Christophe Hémon – CEO of LCH Clearnet S A.

Your Board had a heavy schedule of meetings during the year to deal with the many complex strategic issues mentioned above. We are grateful for our Directors' dedication and sound advice over the period. Since our last report the following Directors have resigned: John Caouette, David Pritchard, Peter Johnston, Ignace Combes, Oliver Lefèbvre, David Peniket, Charles Stonehill and Roger Liddell. We have welcomed to our Board Jenny Ireland, Denise Wylie, Philippe Collas, and John Townend. Having left the Board in early 2007, Martin Abbott rejoined it in early 2008.

This year our Report to you features the customers of LCH Clearnet Group Limited, reflecting our group-wide determination to make LCH Clearnet more customer focused.

On behalf of the Board, I would like to thank the Executive Committee and all the staff of the Group for their hard work in meeting the strategic challenges of 2007 and safely processing its record volumes. Their continued drive and commitment are critical to the Group's success in the future.



A. Chris Tupker  
Chairman

29 April 2008

## 2 Chief Executive's review

I opened my Review last year by saying that 2006 had been a challenging year for the Group. 2007 was certainly no different. A period of enormous change in the industry, coupled with ever greater levels of clearing activity across all sectors, presented us with very considerable opportunities as well as a number of threats to our pre-eminence in European central counterparty clearing. At the same time, the Group has delivered a very robust financial performance.

LCH Clearnet achieved a new record in clearing activity, with 1.72 billion contracts cleared, an increase of 36% over the 1.27 billion contracts cleared in 2006. These reflected a traded value of €616 trillion, 23% up on 2006. It is quite difficult to comprehend the sheer scale of these traded values – but perhaps an indicator is the latest annual Gross Domestic Product figure for all member countries of the OECD, last measured in 2006, which stood at \$37 trillion (€26 trillion), or a little over 4% of the value of the contracts we cleared.

Clearing revenue increased by 11.1% over 2006 to €404.3 million, despite an average reduction of 7% in clearing fees across all classes. Growth was primarily due to the very high levels of activity in several of our business areas, but particularly in the equity, energy and freight markets during the year, and resulted in a higher proportional increase in transaction revenue than in overall volumes. Treasury revenues grew very considerably, driven by not only high levels of cash and non-cash margin commitments, but also by very high demand for short term investment following the general deterioration in capital markets in the second half of the year. Cash margins and default fund contributions under Treasury management peaked in December at €19.7 billion, against an average over the year of €16.4 billion. Interest payments to members, in respect of cash and collateral margin payments, increased by 16.3% to €769.7 million, again reflecting the size of balances arising from these high activity levels. Administrative expenditure increased by 11.4% to €243.2 million reflecting the increase in staff numbers in 2007 and the renewal of some IT infrastructure which has reinforced headcount and the resilience of the systems as well as enhanced the capacity to deliver significant projects to customers, particularly in the second half of 2007.

Our equity franchise again saw a year of startling volumes, fed at least in part by the general increase in volatility caused by increasing uncertainty in the credit markets. In London, LCH Clearnet Ltd cleared an average of almost 610,000 trades per day between the London Stock Exchange and virt-x businesses, reflecting an average transaction volume increase of over 75% from 2006.

In July 2006 LCH Clearnet Ltd's Equityclear service reduced the cost of trading by an average of 23% across its business. This was used as an opportunity to overhaul our tariff model from a market wide structure, where every member paid the same per trade fee regardless of their individual contribution to the business, to a member specific model. The

feedback from the market was overwhelmingly positive to both the fee reductions and the model changes. Equityclear further reduced cash equity clearing fees by 25% on 1 January and increased the simplification of the tariff model, which continues to reflect our commitment to reward volume increase by charging lower fees.

Following the clearing fee reductions announced by LCH Clearnet SA at 1 January 2007, further reductions were announced to come into force on 1 October 2007 and 1 April 2008. These reductions, amounting in all to some 60%, have reduced our clearing fee to €0.21, and have enabled a harmonised tariff for all equity markets cleared by LCH Clearnet SA.

Functionality in LCH Clearnet SA was improved by the launch of the first phase of Euroclear's ESES programme, which has enabled harmonisation of OST processing across cleared cash equity markets, rationalisation of account structures and improvement of file processing production times. Files are now being sent on average one hour earlier than previously. Further, an automated process for trade cancellation has been implemented, bringing to an end the old manual process which was both a source of error and a waste of time.

We have now launched central counterparty services for Bourse du Luxembourg, under which LCH Clearnet SA provides clearing services for securities and for the most liquid bonds which comprise the LuxX Index, with a "non-guaranteed" service being developed for less liquid securities. All cleared transactions will be settled through either Euroclear Bank or Clearstream Luxembourg. During 2008, LCH Clearnet SA will also provide central counterparty services for Equiduct, a multilateral trading facility created by Easdaq NV, for transactions processed in respect of securities listed on NYSE Euronext and on Bourse du Luxembourg.

In addition to tariff changes and market development, we have also been working on the Code of Conduct and after the implementation of the second phase in July 2007, conducting interoperability meetings with a number of major markets we have targeted in Europe. Our intention is to fully leverage the competitive spirit of the Code to offer what we believe is our more compelling clearing services to these markets. This work is only expected to intensify throughout 2008. I will comment further on the Code of Conduct later in this review.

Exchange and Commodity derivatives again delivered considerably increased levels of clearing activity, together with a number of service extensions. In the past, every year has been notable for the numbers of new contracts traded on IntercontinentalExchange (ICE), for which LCH Clearnet has arranged a clearing service. This year has however been different. ICE has decided to internalise clearing within its own structure, and therefore served notice on LCH Clearnet that it would use its own new clearing house with effect from the latter part of July 2008. Whilst a trading venue has the right to decide, subject to the support of its users, where it wants its trades cleared, the arrangements proposed by

ICE have not been approved at the time of writing

Clearing volumes for NYSE Euronext Liffe have continued to grow very encouragingly, with record numbers driven by increasing volumes against existing services and by continued expansion of the scope of services, particularly on the Bclear platform, where we now clear over 1,250 OTC derivative contracts on securities and index products

LCH Clearnet have supported Liffe in a large number of new contract launches over the year, offering new services in Eastern Europe and Iceland. We have expanded the range of currencies that we handle for Liffe members to cover these new markets, facilitating their growth

We are continuing to provide support for Liffe's growth into 2008. We are committed to supporting the Liffe Guardian initiative, designed to replace the older GATS system, which will provide improved service to members and other stakeholders on commodities transactions, and have worked closely with Liffe on the launch of the new 10 tonne Robusta Coffee Futures contract

As part of our ongoing commitment to reducing clearing costs for members we implemented a major tariff reduction at the start of 2007, and offered further incremental benefits during the year, through specific adjustment to a number of individual product clearing fees

Total volume cleared on London Metal Exchange grew some 7% compared to 2006, and margin liabilities grew substantially in line with very volatile market prices

In the first half of the year we were busy implementing the regional plastics contracts and making the necessary changes to SWORD to accommodate the delivery of plastics warrants against the regional and global plastics contracts together with discount factors. This involved changing the prompt dates for the existing global plastics contracts and adding three regional contracts for each of the two plastics products (PP and LLDP), a total of 6 new contracts

During the latter part of the year we were preparing for the introduction of eight non-ferrous monthly average futures contracts and two new steel contracts which are due to go live in February 2008

LME and LCH Clearnet have been examining the options for decoupling and replacing the current matching and clearing system with a new matching engine to be deployed by LME and a new clearing engine to be launched by LCH Clearnet

The LCH Clearnet freight service saw remarkable growth last year, particularly in the second half. Huge volatility in freight prices caused the market to be very active as prices rose to all-time highs. Fears of a market default amidst such volatility led to greatly increased demand for clearing,



and more and more customers signed up to the LCH Clearnet service. LCH Clearnet volumes grew by more than 800% over the previous year, with over 400,000 lots cleared, with a traded value of around \$18bn. Although we face competition from three other clearing houses, these levels of activity confirm LCH Clearnet as the leader in this thriving market. Cleared volumes in the freight market now account for over 60% of total traded bilateral volumes, a huge rise from just 10% a couple of years ago. LCH Clearnet accounts for 85-90% of these volumes.

This year, LCH Clearnet will launch clearing for freight options, an area which is growing fast and attracting a number of new financial players to the market. Traded volumes are expected to continue growing strongly, and the freight market predicts that 90% or more of total market activity will, in the near future, be cleared, a 50% increase on current levels.

The Fixed Income clearing service continued to expand in 2007, hitting new highs for business volume. In March, a new record of €10.4 trillion was established for the nominal value cleared in one month. Taking the year as a whole, the cleared nominal value exceeded €100 trillion for the first time.

March also saw the launch of the new Sterling GC service, a cleared product based on Delivery By Value (DBV) settlement. Trading levels in the product have grown significantly since launch with 23 participants now registered to clear the product. October saw the maximum activity in the year for Sterling GC with trades registered for clearing to the value of €440 billion.

Building on this success, April 2008 has seen the launch of a sister product, RepoClear €GC, which will support repo general collateral trading in standardised baskets of euro-area euro-denominated government bonds utilising triparty settlement.

In line with LCH Clearnet's commitment to fee reduction, a new Fixed Income tariff structure was introduced during the year. In addition to delivering an overall reduction in fee levels of 5%, the revised tariff introduced a harmonised fee structure across all Fixed Income markets cleared by the group.

In January, LCH Clearnet SA launched a new initiative allowing Clearing Members to route French cash bond trades executed on a matched principle basis with an Inter Dealer Broker (IDB) to LCH Clearnet SA for clearing. At this early stage, the service is available for French Government cash bond trades only. Depending on the degree of appetite shown, the service will be later extended to encompass other government bonds currently cleared by LCH Clearnet SA. Tradition London Clearing has been selected as the first trading and matching platform to provide a Designated Gateway for the service, and more may follow in due course. Initial results are encouraging.

2007 was a record year for the SwapClear service. The 20 SwapClear dealers registered 60% more trades than the previous year, with the overall size of the SwapClear interest rate swap portfolio increasing to in excess of \$100 trillion.

Interest rate swaps in two additional currencies, Polish Zloty and South African Rand, have now been added to the service. This brings the total number of currencies supported to 14 and allows SwapClear members to gain CCP benefits from more of their trades. The SwapClear service continues to account for the majority of volume of eligible trading within the dealer segment of single currency interest rate swap market.

Two important enhancements were made to the service in 2007. A refinement of the initial margin calculation method has made the cover requirement more responsive to prevailing market conditions, increasing collateral usage efficiency for our members. The service was also enhanced by the addition of a screen-based facility for SwapClear dealers to remove trades from clearing on a real time basis. This replaces the paper-based process used previously and gives significant operational benefit by allowing bilaterally agreed deletions to be processed without LCH Clearnet operational intervention.

Early in the year, LCH Clearnet SA successfully implemented intra-day margining for derivatives. This fully automated straight-through process has improved the accuracy and pro-activeness of risk management by providing intra-day margin calculations based on updated prices and positions. This information allows the monitoring of members' exposures throughout the day and action to be taken in the form of an intra-day margin call if required. Similarly, changes were made to enable 'tiered margining' – the ability to set multiple, more accurate margin rates for energy and power contracts, both in LCH Clearnet Ltd and LCH Clearnet SA. This had the effect of reducing initial margin levels by more than \$1.5 billion across the membership and returning the associated collateral to member firms whilst maintaining prudent levels of initial margin. This is a genuine efficiency for the market.

LCH Clearnet Ltd has made improvements to the SwapClear VaR margin methodology; it is now based upon filtered historical simulation, which makes it more responsive to changes in market volatility and has significantly improved performance in interest rate environments. In addition, it has extended its risk management operating hours to fully encompass the US trading day giving risk management capability between 7am and 10pm London time. The extended use of US PPS together with the ability to invest the proceeds of any PPS calls through US tri-party repo has added significant further risk protection to members and to margin monies held.

On a more strategic level we have been assessing the Group needs for risk management and have been through a stringent sourcing process to find a suitable third-party tool through which we can consolidate the

Group's risk management activities and calculations. We are now in the process of implementing the tool Group-wide and throughout 2008 will be in a position to deliver additional internal and member-related benefits as a result of improved efficiencies and new techniques whilst still being able to demonstrate our prudence and strong risk management practices that protect clearing members and their contributions to default funds. In its early stages, this will enable initial margin offset between our SwapClear and RepoClear services, generating significant capital efficiencies for our members.

Any commentary on risk management during 2007 would be incomplete without reference to the credit events experienced during August and the subsequent market fallout. The events were taken seriously very early in August by the Risk Management and Treasury Investment departments and pre-emptive changes in initial margin and the maintenance of our extremely prudent investment policies ensured the utmost security for members and their monies held with LCH Clearnet, indeed we saw a significant influx of cash with LCH Clearnet during this time. This has reinforced our view that members appreciate the strength and stability of LCH Clearnet as a prudent risk manager.

The IT focus in LCH Clearnet Ltd during 2007 has been on capacity, dependability and reliability. We have delivered new production systems that are safe and secure, resilient, and offer significantly increased capacity, and have also delivered a number of new services for our users, both internal and external. We are progressing approaches to delivery that will complement our internal capability to achieve change with a reduced time to market. During the year we have re-established our reputation for timely delivery of products and services through establishing firm control over the project delivery environment. Measures of our success include recording in December the best-ever level of overall business service availability, and delivering twice as many projects of double the size in the second half of the year as in the first half. In total we delivered 78 projects for our customers and the quality of our production systems is significantly improved, as is our problem and incident management capability.

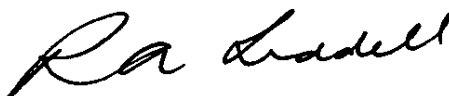
In LCH Clearnet SA we have pursued the improvement of systems and infrastructure in order to reinforce service quality and client benefits and strengthen our Group position. Significant effort has been focused on initiatives related to operational stability and integrity and infrastructure upgrades. For example, a new access solution, eCCW, was launched providing clearing members with more flexible and cheaper access to CLEARING 21®. Several Group-oriented internal projects and strategic studies were conducted. Hyperion is now implemented to support the improvement of financial control across the Group, and we have progressed renewal of the member access framework.

Our aims for 2008 are to consolidate our delivery position with continuing emphasis on efficiency and to seek to reduce the cost of the IT service across the Group.

The trading infrastructure has seen the culmination of considerable corporate activity. The establishment of CME Group and NYSE Euronext, and the acquisition of the New York Board of Trade by ICE have all now been completed, and Borsa Italiana has been acquired by London Stock Exchange. At the same time, the formal implementation of MiFID has seen a proliferation of new trading venues all seeking to offer competing services to the traditional markets. The established markets are being challenged by new ventures that seek at best to transfer substantial liquidity, and if unsuccessful in achieving that bolder aim, to force exchanges to reduce the cost of trading. Either way, the winners will be the market users, who seek lower overall operational costs.

In the post trade environment, the situation is just as lively. New entrants in the European central counterparty area include ICE Clear Europe, EuroCCP and EMCF, whilst the advent in early July of Access and Interoperability - the second element of the Code of Conduct - heralded the beginning of a competitive free-for-all in the provision of CCP services to cash markets. There may be as many as six CCPs seeking to provide clearing to the London Stock Exchange - Eurex Clearing has sought access to LCH Clearnet not only for London Stock Exchange, but for virt-x and NYSE Euronext cash markets as well. x-clear, albeit under a proposed relationship that predates the provisions of the Code of Conduct is also seeking access to us. LCH Clearnet Ltd has itself sought access to trade feeds from Deutsche Borse, Borsa Italiana and NYSE Euronext. We support the Code of Conduct, but if it is to be successful, all of these exchanges and their regulators should provide appropriate access. That is certainly not yet the position.

Over the last year, the senior management team has fully stabilised and we are, with some excellent new managers, moving forward with confidence. My management team leads a truly gifted staff, and I can only reiterate how fortunate the Group is to employ so many committed and highly competent people. Many might think that the strength of the organisation lies in its systems, but whilst that is in part true, the real assets of the Group walk in and out of the door every day. We faced multiple challenges in 2007, and every one of them was met and surmounted by staff determined to keep LCH Clearnet firmly in its position as Europe's premier central counterparty. To my management team, and to every member of our staff I offer my deepest thanks.



R A Liddell  
Chief Executive  
29 April 2008

### **3 Operating and financial review**

#### **3.1 Operating review**

##### **3.1.1 Equities**

Notwithstanding the significant fee reductions implemented during the year as a result of strong volume growth across all markets revenue growth for Equities of 14.3% was generated. The NYSE Euronext cash market segment rose in volume by 46.7% from 109.8 million to 161.1 million trades in the year. LSE's volume rose by 77.7% to 137.7 million trades in the year, and SWX Europe's volume rose by 45.7% to 12.2 million trades.

In July 2006 an average fee reduction of 23% for trades executed on LSE and SWX Europe business was implemented. A further reduction of 25% was introduced in these markets from 1 January 2008. Substantial reductions of more than 40% were implemented in NYSE Euronext cash markets in 2007 and a further reduction of 25% will come into force from April 2008, which will enable a harmonised tariff for all NYSE Euronext cash markets.

##### **3.1.2 Fixed income**

The fixed income service saw another year of growth with revenues increasing by 12.4% during the year to €37.8 million and further monthly trading records set by the business. The Group introduced a harmonised fee structure in July 2007, which resulted in an overall reduction of 5%.

The fixed income service was further extended with the launch of Sterling GC in March 2007 and repeatedly hit new highs during the year, with €1,853 billion of trades registered for clearing.

The new EuroGC service was launched on 28 April 2008 as the fixed income team continues to work with members and other stakeholders to broaden its offering.

### 3.1.3 Derivatives and swaps

Overall revenue from derivatives and swaps rose by 12.2% compared to 2006, at €170.3 million, despite the effect of tariff reductions implemented at the start of 2007.

Clearing volumes for NYSE Euronext Liffe increased by 36%, compared to 2006.

Trades on Swapclear generated by the 20 members grew by 60% in 2007, the same level of growth experienced in 2006. The service was expanded to include two additional currencies in 2007.

### 3.1.4 Commodities and energy

Revenue grew by €6.6 million (6.8%) to €103.5 million as the volatility in energy markets contributed to a very strong growth in volumes. This performance was despite tariff reductions on ICE introduced in July 2007 which reduced revenues by €8.9 million.

ICE Futures experienced volume growth of 52% whilst ICE OTC trades increased by 33% compared to 2006. During 2007 a further 11 new OTC energy contracts were cleared. Volumes also grew by 10% on Powernext.

ICE has decided to internalise clearing within its own structure, and therefore served notice on LCH Clearnet that it would use its own new clearing house with effect from 18 July 2008. ICE clearing revenues were €50.9 million.

The Freight service introduced in 2006 saw spectacular growth with volumes increasing by over 800% compared to 2006, with a traded value of \$18 billion. A new service for Freight options will be launched in 2008.

London Metal Exchange volumes increased by 7% to 92.9 million trades, and new plastic contracts were introduced in 2007.

## 3.2 Financial review

### 3.2.1 Summarised consolidated income statement for the year

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

	Ref	2007 €m	2006 €m
Total revenue	3 2 1a	1,362 7	1,234 9
Interest expense and similar charges	3 2 1c	(862 1)	(733 3)
Fees payable and similar charges	3 2 1e	-	(57 9)
Net revenue		500 6	443 7
Administrative expenditure	3 2 1f	(243 2)	(218 3)
Write off of capitalised development costs	3 2 1g	-	(47 8)
Operating costs		(243 2)	(266 1)
Operating profit	3 2 1h	257 4	177 6
Net finance income	3 2 1i	4 5	4 2
Profit before taxation		261 9	181 8
Taxation expense	3 2 1j	(83 0)	(58 2)
Profit for the year		178 9	123 6

#### 3.2.1a Total revenue

	Ref	2007 €m	2006* €m	Increase %
Clearing fees	3 2 1b	404 3	363 9	11 1
Interest from cash and collateral margin	3 2 1c	847 1	728 8	16 2
Interest earned on Default Funds	3 2 1c	82 6	62 0	33 2
Other income	3 2 1d	28 7	22 3	28 7
Total revenue		1,362 7	1,177 0	15 8

\*Clearing fees in 2006 have been adjusted to deduct fees payable and similar charges to be comparable to 2007

Percentage changes are on an annualised basis and exclude the impact of exchange rate fluctuation

Group turnover from continuing operations, on a like-for-like basis, increased by 15 8% to €1,362 7 million

**3.2.1b Clearing fees**

	Ref	2007 €'m	2006* €'m	Increase %
Equities	3 1 1	172 8	154 0	12 2
Fixed income	3 1 2	25 6	24 2	5 8
Derivatives and swaps	3 1 3	130 0	118 0	10 2
Commodities and energy	3 1 4	75 9	67 7	12 1
		<u>404 3</u>	<u>363 9</u>	<u>11 1</u>

\*Clearing fees in 2006 have been adjusted to include fees payable and similar charges to be comparable to 2007

Clearing fees increased by €40 4 million (11 1%) to €404 3 million (2006 restated €363 9 million). This strong performance was delivered after clearing fee tariff reductions of €29 7 million, and was driven in particular by increasingly high levels of activity in equities and energy throughout the year

**3.2.1c Net interest income**

	2007 €'m	2006 €'m	Increase %
Interest earned on cash and collateral margin	847 1	728 8	16 2
Interest earned on Default Funds	82 6	62 0	33 2
Interest income	929 7	790 8	17 6
Interest paid on cash and collateral margin	(769 7)	(661 6)	16 3
Interest paid on Default Funds	(92 4)	(71 7)	28 9
Interest expense and similar charges	(862 1)	(733 3)	17 6
	<u>67 6</u>	<u>57 5</u>	<u>17 6</u>

Interest income from cash and collateral margin balances increased by €118 3 million (16 2%) to €847 1 million (2006 €728 8 million), principally due to the substantially higher cash and collateral margin balances arising from increased levels of market activity during the year, along with higher market sterling and euro interest rates. Interest payments to clearing members in respect of cash and collateral margins similarly increased by €108 1 million (16 3%) to €769 7 million (2006 €661 6 million).

Default Fund interest earnings increased by €20 6 million (33 2%) to €82 6 million (2006 €62 0 million) due to the higher sterling interest rate. Interest paid to clearing members in respect of contributions to the Default Funds increased by €20 7 million (28 9%) to €92 4 million (2006 €71 7 million).



**3.2.1d Other income**

Other income has increased by €6.4 million (28.7%) to €28.7 million (2006: €22.3 million). Other income includes annual fees charged to members, recovery of settlement fees and transfer fees.

**3.2.1e Fees payable and similar charges**

Since 1 January 2007, the Group is transparently acting as a collection agent for fees that are transferred to NYSE Euronext. Previously these retrocession fees had passed through the Group's income statement.

**3.2.1f Administrative expenditure**

Administrative expenditure has risen by €24.9 million (11.4%) to €243.2 million (2006: €218.3 million).

The rise reflects an increase in staff numbers in 2007, in particular within the IT department, and the renewal of some IT infrastructure. This follows the recruitment of a new IT management team in late 2006. The effect of this has been to reinforce headcount and the resilience of the systems as well as to enhance the capacity to deliver a significant number of projects to customers, particularly in the second half of 2007.

**3.2.1g Write-off of capitalised development costs**

In 2006 the Group wrote off €47.8 million, which substantially related to assets from the Generic Clearing System (GCS) within its technology strategy. The programme was fully written off in 2006.

**3.2.1h Operating profit*****Basis of calculation***

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

***Operating profit performance***

Strong trading volumes across all markets enabled the business to implement a programme of tariff reductions in 2007, which has continued into 2008. This has also resulted in an increase in operating profit of €79.8 million (44.9%) to €257.4 million (2006: €177.6 million after allowing for the write off of capitalised development costs of €47.8 million)

**3.2.1i Net finance income**

	2007 €m	2006 €m	Increase %
<i>Finance costs relating to</i>			
Redeemable convertible preference shares	(6.2)	(8.3)	
Subordinated loan	(1.3)	(1.0)	
Preferred securities	(8.3)	-	
	<u>(15.8)</u>	<u>(9.3)</u>	<u>69.9</u>
Net interest on shareholders' funds	20.3	13.5	50.4
	<u>4.5</u>	<u>4.2</u>	<u>7.1</u>

Interest costs attributable to the RCPS, preferred securities and subordinated loan increased by €6.5 million (69.9%) to €12.8 million due to the higher interest rates on the preferred securities compared to the RCPS, alongside a period of overlap between issuing the preferred securities and redeeming the RCPS, as well as an increase in Euro interest rates in the first half. The interest derived from the investment of shareholders' funds has risen by €6.8 million (50.4%) to €20.3 million (2006: €13.5 million) as the proceeds from the issue of the preferred securities were invested prior to the redemption of the RCPS. Additionally the Group has benefited from both higher UK and Eurozone interest rates and from increased shareholders' funds generated through increasing levels of retained profits.

**3.2.1j Taxation expense**

The effective tax rate for the financial year is 31.7% (2006: 32.0%)

Compared to 2006 a greater proportion of Group profits have been generated in the UK, which has a lower corporation tax rate than the Eurozone, which has led to a slight reduction in the effective rate

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

**3.2.1k Capital resources**

The total capital resources of the Group decreased during the year by €6.1 million from €725.1 million to €719.0 million

The repurchase of ordinary shares from NYSE Euronext caused a €200.0 million reduction in capital resources, although the 2007 profit for the year of €178.9 million and a net actuarial gain from the UK pension scheme of €12.0 million almost offset the reduction

**3.2.1l Group cashflow and movement in cash and cash equivalents**

For the year ended 31 December 2007

	2007 €m	2006 €m
Margin monies cash inflow/(outflow)	2,228.8	(350.8)
(Decrease)/increase in Default Funds	(119.7)	171.7
Other net cash inflows	213.2	204.6
Net cash inflows from operating activities	2,322.3	25.5
Net cash inflow from investing activities	774.7	79.6
Net cash (used in)/from financing activities	(189.2)	4.2
<b>Increase in cash and cash equivalents</b>	<b>2,907.8</b>	<b>109.3</b>
Effects of foreign exchange movements	(999.8)	228.0
Cash and cash equivalents at 1 January	14,505.6	14,168.3
<b>Cash and cash equivalents at 31 December</b>	<b>16,413.6</b>	<b>14,505.6</b>
Cash and cash equivalents at 31 December comprise		
Cash and short term investments	16,823.8	15,701.7
Financial assets maturing in three to six months	(405.0)	(1,194.9)
Bank overdrafts and loans	(5.2)	(1.2)
	<b>16,413.6</b>	<b>14,505.6</b>

Net cash inflows from operating activities of €2,322.3 million (2006: €25.5 million) were generated. The largest component of net cash inflows from operating activities is movements in margin monies, which produced an inflow of €2,228.8 million (2006: outflow of €350.8 million). An outflow of €119.7 million was generated in 2007 due to a decrease in the level of Default Funds (2006: inflow of €171.7 million). Other net cash inflows have increased from €204.6 million to €213.2 million.

A cash inflow from investing activities of €774.7 million was generated in 2007 due to a change in the maturity mix of the Group's short-term investments.

Net cash from financing activities showed an outflow of €189.2m in 2007 (2006: inflow of €4.2m) due to the capital restructuring during the year.

### **3.2.1m Goodwill**

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

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

### **3.2.1n Balances with clearing members**

Balances with clearing members form the largest component of the Group balance sheet. During the year, amounts owed to clearing members increased by €21,564.6 million (7.9%) to €292,832.4 million (2006: €271,267.8 million). Amounts owed from clearing members increased by €20,262.6 million (7.9%) to €278,041.6 million (2006: €257,779.0 million). Fixed income transactions form by far the largest component of balances with clearing members, as they are recorded according to their economic substance as collateralised loans and they have increased by €19,107.0 million (7.6%) to €270,412.0 million (2006: €251,305.0 million).

A detailed description of balances with clearing members is provided in note 12.15 to the consolidated financial statements.

## **4 Directors' report**

The directors of LCH Clearnet Group Limited present their report to shareholders, together with the audited consolidated financial statements for the year ended 31 December 2007

### **4.1 Principal activities**

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

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

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

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

### **4.2 Business review and future developments and principal risks and uncertainties**

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

### **4.3 Financial instruments**

Details of the financial risk management objectives and policies of the Group and exposure of the Group to Interest Rate Risk, Foreign Exchange Risk, Credit Risk, Liquidity Risk and Market Risk is given in note 12.23 on pages 72 to 76

#### 4.4 Group results and dividend

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

Profits of €178.9 million (2006: €123.6 million) made by the Group have been transferred to reserves

The two operating subsidiaries propose to pay final dividends of €100m (Ltd) and €80m (SA) in the second quarter of 2008 in respect of their profits for the year ended 31 December 2007. These amounts will form part of the income of the company in 2008, and accordingly the directors propose to pay an interim dividend of €26m to shareholders after the repurchase of 6,183,362 ordinary shares from NYSE Euronext

#### 4.5 Capital

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

Details of movements in capital resources are set out in Section 11 – Consolidated statement of changes in equity. At 31 December 2007, Group capital resources amounted to €719.0 million (2006: €725.1 million)

#### 4.6 Charitable donations

The Group made donations for charitable purposes during the period of €86,659 (2006: €73,740)

#### 4.7 Directors and directors' interests

The current directors of the Company are listed in Section 15 - General information. According to the Register of Directors' Interests, Roger Liddell, Hervé Saint-Sauveur and Christophe Hémon each hold one share in *Banque Centrale de Compensation SA*. Each holds a share whilst serving as a director of that company. (Patrick Birley, John Caouette and David Pritchard each held a share during 2007 until their resignations as directors of that company). There were no further disclosable interests recorded in the Register of Directors' Interests.

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

No other director holding office at 31 December 2007 had any beneficial interest in the shares of the Company or any of its subsidiaries during the year

**4.8 Indemnity of Directors**

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

**4.9 Transactions with directors and related parties**

Details of transactions with related parties are set out in note 12.22 to the consolidated financial statements. There were no transactions with the directors during the year.

**4.10 Staff**

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

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

Both the Company, and the wider Group, recognise their responsibilities to provide a safe working environment for their staff and measures are in place to ensure that the appropriate health and safety at work regulations are strictly observed in all workplaces.

**4.11 Supplier payment policy and practice**

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

At 31 December 2007, the Company had an average of 18 days (2006: 18 days) purchases owed to trade creditors.

**4.12 Disclosure of information to the auditors**

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

- i. So far as the director is aware, there is no relevant audit information, of which the company's auditors are unaware, and

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

#### **4.13 Auditors**

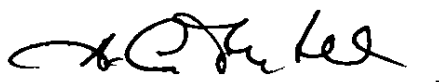
Ernst & Young LLP were re-appointed auditors of the Company at the AGM on 15 June 2007 and have indicated their willingness to be re-appointed under the provisions of the Companies Act 1985

#### **4.14 Purchase of own shares and issue of preferred securities**

The Company repurchased 20,000,000 of its own shares from NYSE Euronext in 2007, and has the authority to repurchase a further 6,183,362 in 2008 granted at the Annual General Meeting. The Company also fully redeemed all of its 19,884,000 Redeemable Convertible Preference Shares (RCPS) which were previously held by NYSE Euronext.

The Group issued €200 million preferred securities during the year to replace the RCPS. These are listed on the Dublin Stock Exchange.

By order of the Board



**A. Chris Tupker**  
Chairman  
29 April 2008



## 5 Statement of Directors' responsibilities

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

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

- ▶ Select suitable accounting policies in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and then apply them consistently,
- ▶ Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- ▶ Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance, and
- ▶ State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements

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

## **6 Independent auditor's report to the shareholders of LCH.Clearnet Group Limited**

We have audited the Group and parent company financial statements (the "financial statements") of LCH Clearnet Group Limited for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the related notes 12.1 to 12.25. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

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

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

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

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other

information comprises only the directors' report, the Chairman's Statement, the Chief Executive's Review, the Operating and Financial Review, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the parent company's affairs as at 31 December 2007 and of the Group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



**Ernst & Young LLP**

Registered auditor

London

Date 29 April 2008

## 7 Consolidated income statement

For the year ended 31 December 2007

	Note	2007 €'000	2006 €'000
<b>Revenue</b>			
Interest income	12 4 1	929,713	790,798
Interest expense and similar charges	12 4 1	(862,084)	(733,278)
Net interest income	12 4 1	67,629	57,520
Clearing fees	12 4 1	404,279	421,844
Other fee income	12 4 1	28,714	22,254
		<u>500,622</u>	<u>501,618</u>
 Fees payable and similar charges	 12 4 1	 -	 (57,926)
<b>Net revenue</b>	<b>12 4 1</b>	<b><u>500,622</u></b>	<b><u>443,692</u></b>
 <b>Costs and expenses</b>			
Employee benefits expense	12 19 1	(81,486)	(71,929)
Depreciation and amortisation charge	12 5 1	(11,684)	(14,639)
Write-off of capitalised development costs	12 5 1	-	(47,822)
Other operating expenditure	12 5 2	(150,064)	(131,667)
<b>Total costs and expenses</b>		<b><u>(243,234)</u></b>	<b><u>(266,057)</u></b>
 <b>Operating profit</b>		<b>257,388</b>	<b>177,635</b>
 Finance income	 12 5 3	 20,564	 14,262
Finance costs	12 5 3	(16,094)	(10,032)
 <b>Profit before taxation</b>	 12 5	 <u>261,858</u>	 <u>181,865</u>
 Taxation expense	 12 6 1	 (82,934)	 (58,216)
 <b>Profit for the year</b>		<b><u>178,924</u></b>	<b><u>123,649</u></b>

Dividends proposed in respect of 2007 are € 0.35 per share (2006: €nil) after the repurchase of 6,183,362 ordinary shares from NYSE Euronext, which amounts to €26,000,000 (2006: €nil)

The results for both years are in respect of continuing operations  
The notes on pages 32 to 83 form an integral part of these consolidated financial statements

## 8 Group and Company balance sheets

As at 31 December 2007

	Note	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
<b>Non-current assets</b>					
Intangible assets	12 8	516,616	520,261	-	-
Property, plant and equipment	12 10	13,265	7,616	24	39
Investments	12 11	-	-	673,481	673,481
Other financial assets	12 12	-	15,000	-	-
Deferred taxation	12 6 3	12,110	18,821	5	3
		<u>541,991</u>	<u>561,698</u>	<u>673,510</u>	<u>673,523</u>
<b>Current assets</b>					
Cash and short-term deposits	12 13	16,823,831	15,701,719	20,827	42,044
Derivative financial assets	12 24	4,683	-	-	-
Income tax receivable		-	-	3,778	1,016
Debtors and other receivables	12 14	52,725	70,563	1,101	5,990
Balances with clearing members	12 15	278,041,605	257,779,047	-	-
		<u>294,922,844</u>	<u>273,551,329</u>	<u>25,706</u>	<u>49,050</u>
<b>Total assets</b>		<u>295,464,835</u>	<u>274,113,027</u>	<u>699,216</u>	<u>722,573</u>
<b>Equity and liabilities</b>					
<b>Capital and reserves</b>					
Called up share capital	11, 12 16	80,116	100,116	80,116	100,116
Capital reserves	11	15,327	376,371	-	361,044
Capital redemption reserve	11	20,000	-	20,000	-
Translation reserve	11	-	5,263	-	-
Retained earnings	11	603,515	243,358	389,795	58,610
		<u>718,958</u>	<u>725,108</u>	<u>489,911</u>	<u>519,770</u>
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	12 17	223,961	225,840	196,961	198,840
Default Funds	12 18	1,540,862	1,732,671	-	-
Employee benefits	12 19 2	7,869	46,953	-	-
		<u>1,772,692</u>	<u>2,005,464</u>	<u>196,961</u>	<u>198,840</u>
<b>Current liabilities</b>					
Interest bearing loans and borrowings	12 17	5,276	1,249	-	-
Derivative financial liabilities	12 24	278	-	-	-
Income tax payable		24,927	30,413	-	-
Creditors and other payables	12 20	110,315	82,949	12,344	3,963
Balances with clearing members	12 15	292,832,389	271,267,844	-	-
		<u>292,973,185</u>	<u>271,382,455</u>	<u>12,344</u>	<u>3,963</u>
<b>Total equity and liabilities</b>		<u>295,464,835</u>	<u>274,113,027</u>	<u>699,216</u>	<u>722,573</u>

Total equity and liabilities

  
**A. Chris Tupker**  
Chairman

The notes on pages 32 to 83 form an integral part of these consolidated financial statements  
The consolidated financial statements were approved by the Board on 29 April 2008

## 9 Consolidated cash flow statement

For the year ended 31 December 2007

	Note	2007 €'000	2006 €'000
<b>Cashflows arising from operating activities</b>			
Operating profit	7	257,388	177,635
<i>Adjustments to reconcile Group operating profit to net cash inflows from operating activities</i>			
Depreciation, amortisation and write-off	12 5 1	11,491	62,302
Loss on disposal of assets	12 5 1	193	159
Decrease in debtors and other receivables		18,976	19,990
Increase in employee benefits		(15,257)	2,135
Increase/(decrease) in creditors and other payables		16,281	(8,818)
Gains on derivative financial instruments		(3,854)	-
Margin monies cash inflow/(outflow)		2,228,840	(350,755)
Monies refunded from Euroclear default fund		15,000	-
(Decrease)/increase in Default Funds		(119,730)	171,743
<b>Net cash inflow from operations</b>		<b>2,409,328</b>	<b>74,391</b>
 Taxation received		 1,813	 2,757
Taxation paid		(88,841)	(51,624)
<b>Net cash inflows from operating activities</b>		<b>2,322,300</b>	<b>25,524</b>
 <b>Investing activities</b>			
Investment in intangible assets	12 8	(5,568)	(3,777)
Purchase of property, plant and equipment	12 10	(9,600)	(2,996)
Proceeds from disposal of intangible assets and property, plant and equipment		-	53
Investment in financial assets maturing in three to six months		789,871	86,231
<b>Net cash inflow from investing activities</b>		<b>774,703</b>	<b>79,511</b>
 <b>Financing activities</b>			
Interest paid	12 5 3	(6,385)	(10,032)
Interest received	12 5 3	19,251	14,262
Redemption of RCPS		(198,840)	-
Purchase of own shares		(200,000)	-
Issue of preferred securities		196,760	-
<b>Net cash (used in) / generated from financing activities</b>		<b>(189,214)</b>	<b>4,230</b>
 <b>Increase in cash and cash equivalents</b>		<b>2,907,789</b>	<b>109,265</b>
 Cash and cash equivalents at 1 January		14,505,599	14,168,282
Effects of foreign exchange movements		(999,833)	228,052
 <b>Cash and cash equivalents at 31 December</b>		<b>16,413,555</b>	<b>14,505,599</b>
<i>Cash and cash equivalents at 31 December comprise</i>			
Investments in secured short-term deposits		13,615,272	10,851,746
Cash at bank and in hand		3,208,559	4,849,973
	12 13	16,823,831	15,701,719
Bank overdrafts and loans	12 17	(5,276)	(1,249)
Financial assets maturing in three to six months		(405,000)	(1,194,871)
		<b>16,413,555</b>	<b>14,505,599</b>

The notes on pages 32 to 83 form an integral part of these consolidated financial statements

## 10 Company cash flow statement

For the year ended 31 December 2007

	Note	2007 €'000	2006 €'000
<b>Cashflows arising from operating activities</b>			
Operating loss		(4,837)	(4,933)
<i>Adjustments to reconcile Company operating loss to net cash outflows from operating activities</i>			
Depreciation		15	5
Decrease in debtors and other receivables		4,889	720
Increase in creditors and other payables		203	1,948
Net cash inflow/(outflow) from operations		<u>270</u>	<u>(2,260)</u>
Taxation paid		-	(78)
<b>Net cash inflow/(outflow) from operating activities</b>		<u>270</u>	<u>(2,338)</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-	(44)
<b>Net cash outflow from investing activities</b>		<u>-</u>	<u>(44)</u>
<b>Financing activities</b>			
Interest paid	12 5 3	(6,232)	(8,279)
Interest received		3,946	882
Dividends received from subsidiary undertakings		182,879	40,050
Redemption of RCPS		(198,840)	-
Purchase of own shares		(200,000)	-
Issue of subordinated loan		196,760	-
<b>Net cash (used in)/generated from financing activities</b>		<u>(21,487)</u>	<u>32,653</u>
<b>(Decrease)/Increase in cash and cash equivalents</b>		<u>(21,217)</u>	<u>30,271</u>
Cash and cash equivalents at 1 January		42,044	11,773
<b>Cash and cash equivalents at 31 December</b>		<u><u>20,827</u></u>	<u><u>42,044</u></u>
<i>Cash and cash equivalents at 31 December comprise</i>			
Investments in secured short-term deposits		20,292	41,500
Cash at bank and in hand		535	544
	12 13	<u><u>20,827</u></u>	<u><u>42,044</u></u>

The notes on pages 32 to 83 form an integral part of these consolidated financial statements

## 11 Consolidated and Company statements of changes in equity

For the year ended 31 December 2007

### *LCH Clearnet Group Limited consolidated financial statements*

	Called up share capital €'000	Capital reserves €'000	Capital redemption reserve €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at						
1 January 2006	100,116	376,371	-	2,403	124,486	603,376
Retained profit for the year	-	-	-	-	123,649	123,649
Actuarial loss recognised in the UK pension scheme	-	-	-	-	(7,212)	(7,212)
Deferred tax relating to the actuarial loss	-	-	-	-	2,164	2,164
Actuarial gain recognised in the Amsterdam pension scheme	-	-	-	-	382	382
Deferred tax relating to the actuarial gain	-	-	-	-	(111)	(111)
Foreign exchange adjustments	-	-	-	2,860	-	2,860
Shareholders' equity at						
31 December 2006	100,116	376,371	-	5,263	243,358	725,108
Retained profit for the year	-	-	-	-	178,924	178,924
Actuarial gain recognised in the UK pension scheme	-	-	-	-	20,839	20,839
Deferred tax relating to the UK actuarial gain	-	-	-	-	(6,252)	(6,252)
Actuarial gains recognised in overseas pension schemes	-	-	-	-	497	497
Current tax relating to the overseas actuarial gains	-	-	-	-	(158)	(158)
Capital reduction	-	(361,044)	-	-	361,044	-
Shares purchased	(20,000)	-	20,000	-	(200,000)	(200,000)
Transfer	-	-	-	(5,263)	5,263	-
Shareholders' equity at						
31 December 2007	80,116	15,327	20,000	-	603,515	718,958

### *LCH Clearnet Group Limited*

	Called up share capital €'000	Capital reserves €'000	Capital redemption reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at					
1 January 2006	100,116	361,044	-	29,754	490,914
Retained profit for the year	-	-	-	28,856	28,856
Shareholders' equity at					
31 December 2006	100,116	361,044	-	58,610	519,770
Retained profit for the year	-	-	-	170,141	170,141
Capital reduction	-	(361,044)	-	361,044	-
Shares purchased	(20,000)	-	20,000	(200,000)	(200,000)
Shareholders' equity at					
31 December 2007	80,116	-	20,000	389,795	489,911

The notes on pages 32 to 83 form an integral part of these consolidated financial statements



## **12 Notes to the consolidated financial statements**

### **12.1 Authorisation of financial statements and statement of compliance with IFRS**

The consolidated financial statements of LCH Clearnet Group Limited (the Company) comprise the financial statements of LCH Clearnet Group Limited and its subsidiary undertakings (the Group)

#### **Authorisation for publication**

The financial statements for the Company, and the consolidated financial statements of the Group, for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 29 April 2008 and the balance sheets were signed on the Board's behalf by the Group Chairman, A Chris Tupker

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

#### **Statement of compliance**

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

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out on pages 33 to 43 These policies have been applied during the years ended 31 December 2007 and 31 December 2006

## 12.2 Summary of significant accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2007 reporting and with those parts of the Companies Act 1985 (the Act) applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the valuation of investments available for sale and financial assets and liabilities held for trading. A summary of significant accounting policies is set out below, together with an explanation of changes to previous policies on the adoption of new accounting standards.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and other intangible assets and measurement of defined benefit pension obligations. The Group determines whether indefinite life goodwill is impaired on an annual basis and this requires an estimation of the value in use of cash generating units to which the goodwill is allocated. Other assets are assessed when an indication of impairment arises. This requires the estimation of future cash flows and choosing a suitable discount rate (see note 12.9). Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 12.19).

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€'000) except where otherwise indicated.

## 12.2 Summary of significant accounting policies continued

### a) Presentational currency

The Group's financial statements are presented in euros, which is the functional currency of the parent company. Items included in the financial statements of each of the Group's entities are measured using their functional currency.

### b) Basis of consolidation

Subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the subsidiary so as to obtain benefit from its activities and is achieved through direct ownership of voting rights.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intra-group balances and transactions have been eliminated on consolidation. LCH Clearnet SA has been consolidated under the acquisition method of accounting, and merger accounting principles are followed as if the Company had always been the parent company of LCH Clearnet Limited following the introduction of the Company as the new holding company of LCH Clearnet Limited by way of a Scheme of Arrangement under Section 425 of the Companies Act 1985.

### c) Investments

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

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

## 12.2 Summary of significant accounting policies continued

### d) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into euros at the rates of exchange ruling on the balance sheet date. Foreign currency profits and losses are translated into euros at weighted average rates of exchange for the year.

### e) Goodwill

Goodwill arising on acquisition is initially measured at cost (being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities) and is capitalised in the balance sheet within intangible assets and not amortised.

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

### f) Intangible assets other than goodwill

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

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

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

## 12.2 Summary of significant accounting policies continued

### g) Property, plant and equipment

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

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

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

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

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

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

## 12.2 Summary of significant accounting policies continued

**h)** The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit

**i) Financial instruments**

The Group has adopted IFRS 7, “Financial Instruments Disclosures” for the year ended 31 December 2007. This has had no effect on net assets or retained earnings for this year or the previous year. Disclosures for the year ended 31 December 2006 have been restated in compliance with IFRS 7.

The Group classifies its financial instruments into the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, cash and cash equivalents, trade and other payables, or interest bearing loans and borrowings or derivative financial instruments.

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

Balances with clearing members are included in this category upon initial recognition, and are recorded on a settlement date basis. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Repurchase Agreements (“Repos”) are recorded at the net present value of the amounts due to be paid or receivable when the underlying security is due to be repurchased or resold. The underlying securities relating to such contracts are not recorded in the balance sheet.

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 cash equivalents 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 three months or less. For the purposes of the cash flow statement, cash and cash equivalents are as

## 12.2 Summary of significant accounting policies continued

- i) defined above, net of bank overdrafts (which are included within interest bearing loans and borrowings in current liabilities on the balance sheet)**

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method

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

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

The Group establishes fair value using recognised valuation techniques. These include the use of discounted cashflow analysis and other valuation techniques commonly used by market participants

### **j) Interest bearing loans and borrowings**

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost

## 12.2 Summary of significant accounting policies continued

### k) Derecognition of financial assets and financial liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

### m) Taxation

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

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

#### ***Current tax***

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

#### ***Deferred tax***

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

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.



## 12.2 Summary of significant accounting policies continued

### n) Provisions

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

### o) Share capital and share premium

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

### p) Redeemable convertible preference shares (RCPS)

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

### q) Revenue recognition

Clearing fee income and associated rebates, together with other fee income, is recognised on a transaction by transaction basis in accordance with the Group's fee scales. Interest revenue and the associated interest paid to clearing members is recognised on a time-apportioned basis.

### r) Segment reporting

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

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

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

## 12.2 Summary of significant accounting policies continued

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

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

### **s) Employee benefits**

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

The Group has also committed to assume obligations in respect of certain staff in the Euronext defined benefit pension scheme in Amsterdam who transferred their employment to LCH Clearnet SA in 2004. The obligations in respect of certain staff in an independent defined benefit scheme in Porto were assumed in 2006. An updated valuation of these funds was carried out at 31 December 2007 by a qualified independent actuary.

A full actuarial valuation of the LCH Pension Scheme was carried out at 30 June 2004 and partially updated to 31 December 2007 by a qualified independent actuary. Major assumptions used by the actuary are included within note 12.19.2.

The cost of providing benefits under the defined benefit plans is determined using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs, the charge in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction, and gains are measured when all parties whose consent is required are irrevocably committed to the transaction.

## 12.2 Summary of significant accounting policies continued

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

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

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

### **t) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

### **u) Dividends**

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

### **v) Exceptional items**

The Group presents as exceptional items on the face of the income statement those material items of income which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

## 12.2 Summary of significant accounting policies continued

### w) Leases

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged in the consolidated income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term.

Where a lease becomes onerous the full value of net future costs is immediately recognised in the income statement.

### x) New standards and interpretations not applied

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

International Accounting Standard (IAS/IFRS)		Effective date
IFRS 8	Operating Segments	1 January 2009
IAS 23	Borrowing Costs - revised	1 January 2009

#### International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Group will adopt these standards in the year they become effective, but does not anticipate that the adoption of IFRS 8, IAS 23, IFRIC 12, IFRIC 13 or IFRIC 14 will have a material impact on the Group's financial statements in the period of initial application.

## 12.3 Exchange rates

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

	2007 Closing rate	2007 Average rate	2006 Closing rate	2006 Average rate
Euro (€) to US Dollar (\$)	1.46	1.37	1.32	1.26
Euro (€) to Pound (£)	0.74	0.68	0.67	0.68

## 12.4 Segment information

### 12.4.1 Geographical segments

	2007			2006		
	UK <sup>1</sup>	Europe <sup>2</sup>	Total	UK	Europe	Total
	€'000	€'000	€'000	€'000	€'000	€'000
<b>Revenue</b>						
Interest income						
Treasury	497,960	349,185	847,145	514,826	213,994	728,820
Default Fund	48,708	33,860	82,568	40,259	21,719	61,978
	546,668	383,045	929,713	555,085	235,713	790,798
Interest expense						
Treasury	(434,433)	(335,225)	(769,658)	(456,099)	(205,452)	(661,551)
Default Fund	(58,566)	(33,860)	(92,426)	(50,008)	(21,719)	(71,727)
	(492,999)	(369,085)	(862,084)	(506,107)	(227,171)	(733,278)
<b>Net Interest income</b>	<b>53,669</b>	<b>13,960</b>	<b>67,629</b>	<b>48,978</b>	<b>8,542</b>	<b>57,520</b>
<b>Sales to external customers</b>						
Clearing fees	223,179	181,100	404,279	192,141	229,703	421,844
Fees payable and similar charges	-	-	-	-	(57,926)	(57,926)
	223,179	181,100	404,279	192,141	171,777	363,918
Other fee income	16,650	25,439	42,089	15,443	21,685	37,128
Inter-segment	(9,993)	(3,382)	(13,375)	(9,914)	(4,960)	(14,874)
	6,657	22,057	28,714	5,529	16,725	22,254
<b>Segment Revenue</b>	<b>283,505</b>	<b>217,117</b>	<b>500,622</b>	<b>246,648</b>	<b>197,044</b>	<b>443,692</b>
<b>Result</b>						
Segment result	144,890	112,498	257,388	76,633	101,002	177,635
Net finance income/ (cost)	(585)	5,055	4,470	417	3,813	4,230
Profit before tax	144,305	117,553	261,858	77,050	104,815	181,865
Tax expense	(45,818)	(37,116)	(82,934)	(23,508)	(34,708)	(58,216)
<b>Profit for the year</b>	<b>98,487</b>	<b>80,437</b>	<b>178,924</b>	<b>53,542</b>	<b>70,107</b>	<b>123,649</b>

## 12.4 Segment information continued

	2007			2006		
	UK <sup>1</sup>	Europe <sup>2</sup>	Total	UK <sup>1</sup>	Europe <sup>2</sup>	Total
	€'000	€'000	€'000	€'000	€'000	€'000
<b>Assets and liabilities</b>						
Total assets	<u>218,650,252</u>	<u>76,814,583</u>	<u>295,464,835</u>	<u>210,224,321</u>	<u>63,888,706</u>	<u>274,113,027</u>
Total liabilities	<u>(218,012,299)</u>	<u>(76,733,578)</u>	<u>(294,745,877)</u>	<u>(209,576,377)</u>	<u>(63,811,542)</u>	<u>(273,387,919)</u>
<b>Other segment information</b>						
Capital expenditure on fixed assets	<u>11,450</u>	<u>3,718</u>	<u>15,168</u>	<u>3,810</u>	<u>2,963</u>	<u>6,773</u>
Depreciation and loss on disposal	2,548	489	3,037	1,763	534	2,297
Amortisation	4,172	4,475	8,647	4,927	7,415	12,342
Impairment losses	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,822</u>	<u>-</u>	<u>47,822</u>

<sup>1</sup> UK comprise LCH Clearnet Ltd and LCH Clearnet Group Ltd

<sup>2</sup> Europe comprises LCH Clearnet SA, including its branches in Amsterdam, Brussels and Porto and LCH Clearnet (Luxembourg) S a r l

## 12.4 Segment information continued

### 12.4.2 Business segments

	2007				
	Equities <sup>1</sup>	Fixed income <sup>2</sup>	Derivatives and swaps <sup>3</sup>	Commodities and energy <sup>4</sup>	Total
	€'000	€'000	€'000	€'000	€'000
<b>Net revenue</b>					
Sales to external customers	189,043	37,766	170,266	103,935	501,010
Inter-segment	-	-	-	(388)	(388)
<b>Segment revenue</b>	<u>189,043</u>	<u>37,766</u>	<u>170,266</u>	<u>103,547</u>	<u>500,622</u>
<b>Other segment information</b>					
Total assets	<u>1,643,776</u>	<u>287,584,958</u>	<u>3,830,110</u>	<u>2,405,991</u>	<u>295,464,835</u>
Capital expenditure on fixed assets	<u>2,877</u>	<u>9,303</u>	<u>2,649</u>	<u>339</u>	<u>15,168</u>
	2006				
	Equities <sup>1</sup>	Fixed income <sup>2</sup>	Derivatives and swaps <sup>3</sup>	Commodities and energy <sup>4</sup>	Total
	€'000	€'000	€'000	€'000	€'000
<b>Revenue</b>					
Sales to external customers	165,360	33,584	147,776	98,054	444,774
Inter-segment	-	-	-	(1,082)	(1,082)
<b>Segment revenue</b>	<u>165,360</u>	<u>33,584</u>	<u>147,776</u>	<u>96,972</u>	<u>443,692</u>
<b>Other segment information</b>					
Total assets	<u>635,413</u>	<u>267,254,275</u>	<u>3,400,918</u>	<u>2,822,421</u>	<u>274,113,027</u>
Capital expenditure on fixed assets	<u>1,513</u>	<u>3,527</u>	<u>927</u>	<u>806</u>	<u>6,773</u>

<sup>1</sup> Equities comprise LSE, NYSE Euronext cash markets, SWX Europe and EDX

<sup>2</sup> Fixed Income comprises RepoClear

<sup>3</sup> Derivatives comprise NYSE Euronext life and SwapClear

<sup>4</sup> Commodities and energy comprise Powermex, LME, ICE, ICE Futures, Freight and Endex

## 12.5 Profit before taxation

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

	2007	2006
	€'000	€'000
<b>12 5 1 Depreciation, amortisation and impairment</b>		
Depreciation of property, plant and equipment	2,844	2,138
Amortisation of intangible assets	8,647	12,342
Loss on disposal of intangible assets	6	-
Loss on disposal of property, plant and equipment	187	159
	11,684	14,639
Write-off of capitalised development costs	-	47,822
	<u>11,684</u>	<u>62,461</u>
<b>12 5 2 Other operating expenditure</b>		
Hire of plant and machinery		
under operating leases	263	292
Property lease rentals	7,179	6,708
Outsourced IT infrastructure	36,300	38,264
Self-developed software expensed directly		
to the income statement	11,613	12,231
Foreign exchange losses	1,392	2,014
Auditors remuneration		
Audit related - Company	105	134
Audit related - subsidiaries	524	550
Non-audit related - Company	22	89
Non-audit related - subsidiaries	85	185
<b>12 5 3 Net finance income</b>		
Interest paid in respect of		
Redeemable convertible preference shares	(6,232)	(8,279)
Subordinated loan	(1,328)	(990)
Preferred securities	(8,381)	-
Interest on bank loans and overdrafts		
repayable within 5 years	(153)	(763)
	(16,094)	(10,032)
Interest received on shareholders funds	20,564	14,262
	<u>4,470</u>	<u>4,230</u>



## 12.6 Taxation

The major components of taxation expense are

12 6 1 Consolidated income statement		2007	2006
	Note	€'000	€'000
<b>Current income tax</b>			
<i>United Kingdom</i>			
Corporation tax		(81,033)	(52,184)
Double taxation relief		35,154	18,458
Current tax charge		(45,879)	(33,726)
Adjustments in respect of current taxation in previous years		343	2,326
		<u>(45,536)</u>	<u>(31,400)</u>
<i>Overseas</i>			
Current tax charge		(38,508)	(37,224)
Adjustments in respect of current taxation in previous years		296	505
		<u>(38,212)</u>	<u>(36,719)</u>
<b>Total current taxation</b>		<u>(83,748)</u>	<u>(68,119)</u>
<b>Deferred tax</b>			
Relating to the origination and reversal of temporary differences	12 6 3	814	9,903
<b>Taxation expense reported in the consolidated income statement</b>	7	<u>(82,934)</u>	<u>(58,216)</u>
<b>Consolidated statement of changes in equity</b>			
Current tax relating to actuarial gain on overseas schemes	11	(158)	(111)
Deferred tax relating to actuarial gain on UK pension scheme	11	(6,252)	2,164
		<u>(6,410)</u>	<u>2,053</u>
<b>12 6 2 Reconciliation of tax expense</b>			
	Note	2007	2006
		€'000	€'000
Accounting profit before taxation		<u>261,858</u>	<u>181,865</u>
Tax at UK statutory corporation tax rate of 30% (2006 30%)		(78,557)	(54,560)
Effect of			
Adjustments in respect of tax in previous years		639	2,409
Expenditure not allowable for tax purposes		(3,166)	(2,985)
Net effect of higher rates of overseas taxation		(1,850)	(3,080)
<b>Total tax charge</b>	12 6 1	<u>(82,934)</u>	<u>(58,216)</u>
<b>Effective income tax rate (%)</b>		<u>31.7</u>	<u>32.0</u>

## 12.6 Taxation continued

12.6.3 Deferred tax	Consolidated balance sheet		Consolidated income statement	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Post-employment benefits	5,166	14,008	(666)	275
Reduced depreciation for tax purposes	4,591	2,921	1,139	8,070
Other timing differences	2,353	1,892	341	1,558
<b>Deferred tax credit</b>	-	-	<b>814</b>	<b>9,903</b>
<b>Net deferred tax asset</b>	<b>12,110</b>	<b>18,821</b>		

### Reconciliation

Net deferred tax asset at 1 January 2007	18,821
Consolidated income statement	814
Deferred tax relating to actuarial loss	(6,252)
Other movements	(1,273)
Net deferred tax asset at 31 December 2007	<u>12,110</u>

Other movements are principally due to exchange differences

## 12.7 Profits of the holding company

The retained profit for the year includes a profit of €170,141,000 (2006 €28,856,000) which is dealt with in the company accounts of LCH Clearnet Group Limited

## 12.8 Intangible assets

	Patents	Self-developed software	Goodwill	Total
	€'000	€'000	€'000	€'000
<b>Cost</b>				
At 1 January 2007	16	73,726	503,836	577,578
Additions	-	5,568	-	5,568
Disposals	-	(187)	-	(187)
Exchange adjustments	-	(3,886)	-	(3,886)
At 31 December 2007	16	75,221	503,836	579,073
<b>Accumulated amortisation</b>				
At 1 January 2007	16	57,301	-	57,317
Amortisation charge for the year	-	8,647	-	8,647
Disposals	-	(181)	-	(181)
Exchange adjustments	-	(3,326)	-	(3,326)
At 31 December 2007	16	62,441	-	62,457
<b>Net book value</b>				
At 31 December 2007	-	12,780	503,836	516,616
At 1 January 2007	-	16,425	503,836	520,261
<b>Cost</b>				
At 1 January 2006	16	136,786	503,836	640,638
Additions	-	3,777	-	3,777
Disposals	-	(67,981)	-	(67,981)
Exchange adjustments	-	1,144	-	1,144
At 31 December 2006	16	73,726	503,836	577,578
<b>Accumulated amortisation</b>				
At 1 January 2006	16	63,925	-	63,941
Amortisation charge for the year	-	12,342	-	12,342
Write-off	-	47,822	-	47,822
Disposals	-	(67,928)	-	(67,928)
Exchange adjustments	-	1,140	-	1,140
At 31 December 2006	16	57,301	-	57,317
<b>Net book value</b>				
At 31 December 2006	-	16,425	503,836	520,261
At 1 January 2006	-	72,861	503,836	576,697

The balance of capitalised self-developed software costs that relates to software not currently brought into use at 31 December 2007, and against which no amortisation has been charged during the year then ended, was €3,217,000 (2006 €2,567,000)

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

## 12.9 Impairment testing of intangible assets

### Goodwill

Goodwill of €503,836,000 is carried in relation to LCH Clearnet SA. The recoverable amount associated with this subsidiary is determined based on value-in-use calculations. These calculations use cash flow projections derived from financial forecasts by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2.5% (2006: 2%). This long-term growth rate does not exceed the long-term average growth rate for the markets which LCH Clearnet SA clears.

In preparing the forecasts, management has made certain assumptions. Amongst these, growth in clearing volumes and tariff levels are the most important; they are also inter-related. As volumes grow, the Group expects to be able to reduce tariffs. Management determined budgeted gross margin based on past performance and its expectations for the market development. Cash flows are discounted using a pre-tax discount rate of 12.5% (2006: 11.8%), which reflects the specific risks relating to the relevant segments.

### Self-developed software

During 2006 the Group undertook a review of its technology strategy. As a result of this review, the Group decided not to continue to use assets from the Generic Clearing System (GCS) within its technology strategy. Accordingly, a €47,822,000 write-off, which substantially related to those assets, was recognised in the consolidated income statement. The programme was fully written off.

## 12.10 Property, plant and equipment

	Leasehold refurbishment	Computer equipment software	Office equipment and other fixed assets	Total
	€'000	€'000	€'000	€'000
<b>Cost</b>				
At 1 January 2007	6,360	18,094	3,669	28,123
Additions	548	7,925	1,127	9,600
Disposals	(210)	(9,686)	(168)	(10,064)
Exchange adjustments	<u>(341)</u>	<u>(1,413)</u>	<u>(241)</u>	<u>(1,995)</u>
At 31 December 2007	<u>6,357</u>	<u>14,920</u>	<u>4,387</u>	<u>25,664</u>
<b>Accumulated depreciation</b>				
At 1 January 2007	2,858	15,157	2,492	20,507
Depreciation charge for the year	510	1,898	436	2,844
Disposals	(31)	(9,678)	(168)	(9,877)
Exchange adjustments	<u>(182)</u>	<u>(732)</u>	<u>(161)</u>	<u>(1,075)</u>
At 31 December 2007	<u>3,155</u>	<u>6,645</u>	<u>2,599</u>	<u>12,399</u>
<b>Net book value</b>				
At 31 December 2007	<u>3,202</u>	<u>8,275</u>	<u>1,788</u>	<u>13,265</u>
At 1 January 2007	<u>3,502</u>	<u>2,937</u>	<u>1,177</u>	<u>7,616</u>
<b>Cost</b>				
At 1 January 2006	6,547	15,490	3,979	26,016
Additions	427	2,229	340	2,996
Disposals	(701)	-	(701)	(1,402)
Exchange adjustments	<u>87</u>	<u>375</u>	<u>51</u>	<u>513</u>
At 31 December 2006	<u>6,360</u>	<u>18,094</u>	<u>3,669</u>	<u>28,123</u>
<b>Accumulated depreciation</b>				
At 1 January 2006	2,824	13,672	2,705	19,201
Depreciation charge for the year	555	1,171	412	2,138
Disposals	(576)	-	(667)	(1,243)
Exchange adjustments	<u>55</u>	<u>314</u>	<u>42</u>	<u>411</u>
At 31 December 2006	<u>2,858</u>	<u>15,157</u>	<u>2,492</u>	<u>20,507</u>
<b>Net book value</b>				
At 31 December 2006	<u>3,502</u>	<u>2,937</u>	<u>1,177</u>	<u>7,616</u>
At 1 January 2006	<u>3,723</u>	<u>1,818</u>	<u>1,274</u>	<u>6,815</u>

## 12.11 Investments

<b>Investments in subsidiaries</b>	Company	
	2007	2006
	€'000	€'000
Investments in subsidiary undertakings at the beginning and end of the year	<u>673,481</u>	<u>673,481</u>

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

The Company's principal subsidiaries are as follows

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

\*Indirect holding through the Company's other subsidiaries or limited partnership interest

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

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

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

## 12.12 Other financial assets

	Group	
	2007	2006
	€'000	€'000
Euroclear default fund	-	15,000

The contribution LCH Clearnet SA has made to the Euroclear Default Fund was refunded following the introduction of the ESES integrated settlement platform project by Euroclear in November 2007

## 12.13 Cash and short-term deposits

	Group		Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
Cash at bank and in hand	3,208,559	4,849,973	535	544
Short-term deposits	13,615,272	10,851,746	20,292	41,500
	<u>16,823,831</u>	<u>15,701,719</u>	<u>20,827</u>	<u>42,044</u>

## 12.14 Debtors and other receivables

	Group		Company	
	2007	2006	2007	2006
	€'000	€'000	€'000	€'000
<b>Amounts falling due within one year</b>				
Other debtors	8,251	23,838	51	4,960
Amounts owed by Group undertakings	-	-	990	1,011
	<u>8,251</u>	<u>23,838</u>	<u>1,041</u>	<u>5,971</u>
Prepayments and accrued income	44,474	46,725	60	19
	<u>52,725</u>	<u>70,563</u>	<u>1,101</u>	<u>5,990</u>

## 12.15 Balances with clearing members

	Group	
	2007	2006
	€'000	€'000
<b>Assets</b>		
Fair value of transactions with clearing members, less variation margin	277,503,905	257,238,206
Initial margin and other clearing member balances	537,700	540,841
	<u>278,041,605</u>	<u>257,779,047</u>
<b>Liabilities</b>		
Fair value of transactions with clearing members, less variation margin	(277,487,803)	(257,233,786)
Initial margin and other clearing member balances	(15,344,586)	(14,034,058)
	<u>(292,832,389)</u>	<u>(271,267,844)</u>

The balances due from clearing members recorded in the balance sheet of €278,042 million (2006 €257,779 million) are fully secured by collateral held by the Group. All outstanding tri-party repos are fully collateralised after appropriate haircutting. To date this collateral has not been utilised.

At 31 December 2007, the total of fully collateralised loans in respect of Fixed Income transactions was €270,412 million (2006 €251,305 million). This collateral has in turn, been passed on to fixed income counterparties to secure the Group's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral, including that in respect of initial margin, relating to other balances due from clearing members was €42,148 million (2006 €28,160 million) and the total amount of guarantees held was €5,203 million (2006 €4,621 million).



## 12.16 Issued capital and reserves

	Group & Company	
	2007	2006
	€'000	€'000
<b>Authorised</b>		
100,916,003 (2006 130,116,001) ordinary shares of €1 each	<u>100,916</u>	<u>130,116</u>
200,000 (2006 nil) non-cumulative callable preference shares of €1 each	<u>200</u>	<u>-</u>
<b>Issued and fully paid</b>		
80,115,977 (2006 100,115,977) ordinary shares of €1 each	<u>80,116</u>	<u>100,116</u>

20,000,000 shares were repurchased as part of the NYSE Euronext buyback at €10 per share. On 15 June 2007 the Company undertook to repurchase an additional 6,183,362 ordinary shares from NYSE Euronext at a value of €10 per share and will complete this transaction during the first half of 2008.

### Share capital

The balance classified as share capital includes the total nominal value on issue of the Company's equity share capital, comprising €1 ordinary shares.

### Non-cumulative callable preference shares (NCPS)

The NCPS can only be issued in the event that the Group's capital ratios fall below the minimum required by the relevant regulatory authority for a period of six months.

### Capital reserves (Section 11)

The balance on this reserve represents the difference between the called up share capital of the Company and the called up share capital, share premium account and capital redemption reserve of LCH Clearnet Limited at 19 December 2003, the date of the capital reorganisation, less the amount transferred in 2007 as part of the court approved capital restructuring.

### Capital redemption reserve (Section 11)

The balance on this reserve represents the nominal value of the ordinary shares that were repurchased and cancelled during the year.

### Distributable reserves (Section 11)

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

## 12.17 Interest bearing loans and borrowings

	<i>Effective interest rate % in note</i>	<i>Maturity</i>	<i>Group</i>		<i>Company</i>	
			<i>2007 €'000</i>	<i>2006 €'000</i>	<i>2007 €'000</i>	<i>2006 €'000</i>
<b>Current</b>						
Bank overdrafts	12 17 1	On demand	<u>5,276</u>	<u>1,249</u>	<u>-</u>	<u>-</u>
<b>Non-current</b>						
Redeemable convertible preference shares	12 17 2	12 17 2	-	198,840	-	198,840
Preferred securities	12 17 4	12 17 4	196,961	-	-	-
Subordinated loan owed to subsidiary	12 7 4	12 7 4	-	-	196,961	-
Subordinated loan	12 17 3	12 17 3	27,000	27,000	-	-
			<u>223,961</u>	<u>225,840</u>	<u>196,961</u>	<u>198,840</u>

### 12.17.1 Bank overdrafts

The Group operates a number of overdrafts in various currencies with effective rates of interest averaging Euro OverNight Index Average (EONIA) plus 100 basis points

### 12.17.2 Redeemable convertible preference shares (RCPS)

The Group redeemed all the outstanding RCPS from NYSE Euronext at their initial value of €10 per share on 26 July 2007, in addition to the repurchase of 20,000,000 ordinary shares from the same shareholder

Prior to redemption, the holders of RCPS were entitled to a variable non-convertible preferred annual dividend on each RCPS of the higher of an amount equal to its Initial Value (€10 per RCPS) multiplied by six-month LIBOR plus 125 basis points and the dividend paid to the holders of ordinary shares

## 12.17 Interest bearing loans and borrowings continued

### 12.17.3 Subordinated loan

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

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

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

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

### 12.17.4 Preferred securities

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

### 12.17.5 Undrawn borrowing facilities

As at 31 December 2007 the Group has undrawn borrowing facilities of €126.0 million (2006: €152.1 million).

## 12.18 Default funds

	2007 €'000	2006 €'000
LCH Clearnet SA Default Funds		
OTC fund	208,431	162,833
Other funds	530,277	700,522
	<u>738,708</u>	<u>863,355</u>
LCH Clearnet Limited Default Fund	802,154	869,316
	<u>1,540,862</u>	<u>1,732,671</u>

## 12.18 Default funds continued

### **Default Funds**

The purpose of the Default Funds is to fund losses incurred by the Group in the event of clearing member default where margin collateral is insufficient to cover the management and close out of the positions of the defaulting clearing member. Monies are placed on deposit by the Group and interest has been paid to clearing members as follows

#### ► **Clearing members of LCH.Clearnet Limited**

At a rate of not less than three-month LIBOR (or equivalent) plus 100 basis points. Clearing members' contributions are adjusted on a quarterly basis and are refundable on resignation subject to the rules and regulations of LCH Clearnet Limited

#### ► **Clearing members of LCH Clearnet SA**

At the Euro Overnight Average Index rate. Clearing members' contributions are adjusted on a monthly basis or following the default of a clearing member. Repayment of contributions is made upon the effective termination of membership

## 12.19 Employee benefits

### 12.19.1 Employees and directors

<b>Employee benefits expense</b>	<b>2007</b>	<b>2006</b>
	<b>€'000</b>	<b>€'000</b>
Wages and salaries	60,175	52,515
Social security costs	11,623	10,110
Pension costs	<u>9,688</u>	<u>9,304</u>
<b>Employee benefits expense</b>	<b><u>81,486</u></b>	<b><u>71,929</u></b>
<b>Average monthly number of people</b>		
<b>(including executive directors) employed</b>	<b><u>511</u></b>	<b><u>464</u></b>
	<b>Group</b>	
<b>Directors</b>	<b>2007</b>	<b>2006</b>
	<b>€'000</b>	<b>€'000</b>
Total remuneration paid to directors of the Company		
Emoluments	2,881	2,654
Pension contributions	<u>98</u>	<u>168</u>
	<b><u>2,979</u></b>	<b><u>2,822</u></b>

Directors' emoluments recorded in the income statement were €2,540,000, which is €341,000 lower than total emoluments due to the accounting treatment of the long term incentive plan as described in section 14.2. Full details of directors' remuneration are disclosed in section 14.5.

Remuneration of the highest paid director was €1,607,000 (2006 €1,052,000) including €98,000 (2006 €154,000) pension contributions.

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is one (2006 one).

The value of the accrued pension of the highest paid director in office at 31 December 2007 was €4,000 (2006 €1,000).

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

## 12.19 Employee benefits continued

### 12.19.2 Pension commitments

The Group operates a defined benefit pension scheme for its employees in the UK (the LCH Pension Scheme). In addition, the Group is committed to take on obligations in respect of certain staff in a Euronext defined benefit pension scheme in Amsterdam and an independent defined benefit scheme in Porto. As at 31 December 2007 the UK scheme has 300 active members (2006 335) and 384 inactive members (2006 333). The Amsterdam scheme has 16 (2006 15) active and 3 (2006 7) inactive members, whilst the Porto scheme (which only transferred to the Group in December 2006) has only 4 (2006 4) active members. The following disclosure represents the consolidated position of these arrangements.

The valuations of the UK scheme conducted for financial reporting purposes are based on the triennial actuarial valuation. The other schemes are subject to a full valuation at 31 December 2007. A summary of the triennial valuation for the UK scheme, as at 30 June 2004, is as follows:

Actuarial method used	Projected unit
Rate of investment returns per annum	7.0%
Increase in earnings per annum	4.75%
Scheme assets taken at market value	€54,721,000
Funding level	47%

The latest triennial valuation of the UK scheme, as at 30 June 2007, is currently being carried out.

The most recent triennial valuation is then updated by an independent professionally qualified actuary for financial reporting purposes in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

## 12.19 Employee benefits continued

### 12.19 2 Pension commitments continued

Assumptions used	2007		2006		2005	
	UK Scheme	Amsterdam/ Porto	UK Scheme	Amsterdam/ Porto	UK scheme	Amsterdam
Discount rate	5.50%	5.50%	5.10%	4.50%	4.80%	4.25%
Rate of increase in salaries	5.25%	3.50%/ 3.25%	5.10%	3.50%/ 3.00%	4.80%	3.50%
Rate of increase in pensions	3.25%	1.75%/ 1.50%	3.10%	1.75%/ 2.00%	2.80%	1.75%
Inflation assumption	3.25%	2.00%	3.10%	2.00%	2.80%	2.00%
Expected rates of return on scheme assets						
Equities	7.10%	7.40%/ 7.00%	7.00%	6.80%/ 7.40%	6.60%	6.40%
Bonds	5.20%	4.20%/ 4.10%	4.50%	3.70%	4.10%	3.20%
Property and cash	5.25%	N/A/ 5.75%	5.00%	N/A/ 3.20%	4.50%	N/A
Weighted average Post retirement mortality in years	6.57%	5.16%/ 4.50%	6.58%	4.63%/ 3.91%	6.20%	4.16%
Currently aged 60 – male	26.7		26.6		21.2	
Currently aged 60 – female	29.6		29.5		24.2	
Currently aged 45 – male	27.6		27.6		23.9	
Currently aged 45 – female	30.5		30.4		26.6	

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

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

## 12.19 Employee benefits continued

### 12.19.2 Pension commitments continued

Change in benefit obligation - 2006	UK Scheme €'000	Amsterdam/ Porto €'000	Total €'000
Benefit obligation at 1 January 2006	110,613	2,918	113,531
Current service cost	8,576	207	8,783
Interest cost	5,311	123	5,434
Actuarial loss/(gain)	12,106	(266)	11,840
Employee contributions	188	-	188
Benefits paid	(2,127)	(12)	(2,139)
Net transfers	-	(57)	(57)
Curtailments	-	(81)	(81)
Exchange rate changes	2,554	-	2,554
<b>Benefit obligation at 31 December 2006</b>	<b>137,221</b>	<b>2,832</b>	<b>140,053</b>

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

Change in scheme assets - 2006			
Fair value of scheme assets at 1 January 2006	77,054	1 919	78,973
Expected return on scheme assets	4,973	86	5,059
Actuarial gains	4,894	116	5,010
Employer contribution (includes benefits paid and reimbursed)	6,751	135	6,886
Employee contributions	188	-	188
Benefits paid	(2,127)	(12)	(2,139)
Net transfers	-	(86)	(86)
Exchange rate changes	1,797	-	1,797
<b>Fair value of scheme assets at 31 December 2006</b>	<b>93,530</b>	<b>2,158</b>	<b>95,688</b>



## 12.19 Employee benefits continued

### 12.19.2 Pension commitments continued

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

<b>Analysis of pension benefit obligation - 2006</b>	<b>UK Scheme</b>	<b>Amsterdam/ Porto</b>	<b>Total</b>
	€000	€000	€000
Present value of funded obligations	137,221	2,832	140,053
Fair value of plan assets	(93,530)	(2,158)	(95,688)
<b>Deficit for funded plans</b>	<b>43,691</b>	<b>674</b>	<b>44,365</b>

<b>Net liability shown in balance sheet</b>	<b>2007</b>	<b>2006</b>
	€000	€000
Deficit for funded plans	4,445	44,365
Other European retirement provisions	3,424	2,588
<b>Employee benefits</b>	<b>7,869</b>	<b>46,953</b>

## 12.19 Employee benefits continued

### 12.19.2 Pension commitments continued

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

Components of pension cost	2007	2006
	€'000	€'000
Current service cost	9,000	8,783
Interest cost	6,968	5,434
Expected return on plan assets	(6,935)	(5,059)
	9,033	9,158
Other pension costs	655	146
<b>Total pension expense recognised in the income statement</b>	<b>9,688</b>	<b>9,304</b>
Net actuarial (gains)/losses immediately recognised	(21,335)	6,830
<b>Total pension (income)/expense recognised in the statement of changes in equity</b>	<b>(21,335)</b>	<b>6,830</b>

The cumulative amount of actuarial gains recognised in the statement of changes in equity since 1 January 2004 is €9,815,000 (2006 €11,520,000 loss)

## 12.19 Employee benefits continued

### 12.19.2 Pension commitments continued

#### Pension scheme asset allocation

An analysis of the pension assets is set out below

At 31 December 2007

	UK Scheme		Amsterdam/ Porto		Total	
	€'000	%	€'000	%	€'000	%
Equities	82,886	72	633	29	83,519	71
Bonds	24,161	21	1,535	70	25,696	22
Property and cash	8,554	7	25	1	8,579	7
Total	<u>115,601</u>	<u>100</u>	<u>2,193</u>	<u>100</u>	<u>117,794</u>	<u>100</u>

At 31 December 2006

	UK Scheme		Amsterdam/ Porto		Total	
	€'000	%	€'000	%	€'000	%
Equities	77,256	83	627	29	77,883	81
Bonds	11,411	12	1,511	70	12,922	14
Property and cash	4,863	5	20	1	4,883	5
Total	<u>93,530</u>	<u>100</u>	<u>2,158</u>	<u>100</u>	<u>95,688</u>	<u>100</u>

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

	Year ended 31 December 2007	Year ended 31 December 2006
	€'000	€'000
Actual return on plan assets	8,960	10,069

## 12.19 Employee benefits continued

### 12.19.2 Pension commitments continued

#### History of experience gains and losses

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

#### Contributions

The Group expects to contribute €6,306,000 (2006 €25,936,000) to its defined benefit pension plans in 2008. The 2007 contributions included a one-off additional payment of €19,296,000 in to the LCH Pension Scheme in June 2007. Contributions to the LCH Pension Scheme will continue to be paid at a rate of 21% of pensionable earnings.

#### Other comments

Included in employee benefits is a provision for compensation for retirement of €1,704,000 (2006 €1,507,000) and €1,720,000 (2006 €1,081,000) in respect of early retirement in compliance with an agreement with Euronext Paris personnel dated 19 December 2001. These provisions have been calculated by an independent actuary based on changes in the workforce (turnover, seniority and participation in the early retirement scheme). The charge to the income statement for the year in respect of the compensation for retirement commitment was €34,000 (2006 €179,000) and the charge in the early retirement scheme was €621,000 (2006 €36,000).

## 12.20 Creditors and other payables

	Group		Company	
	2007	2006	2007	2006
	€000	€000	€000	€000
Trade payables	14,323	12,612	1,326	153
Other payables including taxation and social security	37,214	39,924	-	-
Amounts owed to Group undertakings	-	-	1,045	2,283
Accruals and deferred income	58,778	30,413	9,973	1,527
	<u>110,315</u>	<u>82,949</u>	<u>12,344</u>	<u>3,963</u>

## 12.21 Commitments and contingencies

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

	2007		2006	
	Property	Plant and equipment	Property	Plant and equipment
	€'000	€'000	€'000	€'000
Within one year	8,381	343	7,773	48
More than one year, but less than five	23,064	662	26,836	-
More than five years	10,560	-	15,052	-
	<u>42,005</u>	<u>1,005</u>	<u>49,661</u>	<u>48</u>

The property rentals relate primarily to the lease of offices in London and Paris. The majority of the leases expire in 2016 and 2010 respectively.

## 12.21 Commitments and contingencies continued

### Supplier agreements

In June 2005, the Group entered into a new 10 year agreement with Atos Origin in relation to the operation and development of certain technology applications. The estimated maximum value of the remaining commitment, following the introduction of new developments this year is €234 million (2006 €278 million)

### Contingent liabilities

At 31 December 2007 there were no material contingent liabilities

### Treasury assets supporting operational facilities

At 31 December 2007 the Group had assets in support of the following operational facilities

	2007 €'000	2006 €'000
Central bank activity	476,648	-
Concentration bank services	272,370	296,868
Fixed Income settlement	8,766,228	8,946,117
Equity and derivatives settlement delivery	116,474	113,662
Performance collateral on energy markets	1,362	1,484
	<u>9,633,082</u>	<u>9,358,131</u>

## 12.22 Related party disclosure

### Key management personnel

Details of key management personnel are disclosed in Section 13 – Corporate Governance, and their total remuneration is disclosed in note 12 19

### Group undertakings

Details of the principal Group undertakings are set out in note 12 11 to these consolidated financial statements In accordance with IAS 27, transactions or balances with Group entities that have been eliminated on consolidation are not reported

### Principal shareholding

At 31 December 2007 the NYSE Euronext Group held 12 33% of LCH Clearnet Group Limited's ordinary share capital At 31 December 2006, the NYSE Euronext Group held 29 85% of the ordinary share capital and 100% of the redeemable convertible preference shares (RCPS) This was the maximum shareholding in the Group and has been held from 22 December 2003, the date of acquisition of LCH Clearnet SA

Sales to and purchases from related parties are at arms length and at normal market rates Outstanding balances at the year-end are unsecured and are settled in cash There have been no guarantees provided or received in relation to any related party receivables For the year ended 31 December 2007, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates

Details of the transactions with the NYSE Euronext group which have passed through the income statement during the year, together with details of amounts due to and due from the NYSE Euronext group at the 31 December 2007 and 31 December 2006 are set out below

## 12.22 Related party disclosure continued

	Income attributable to Related Parties €000	Expenses attributable to Related Parties €000	Amounts owed from Related Parties €000	Amounts owed to Related Parties €000
<b>NYSE Euronext Group - 2007</b>				
IT software development	53	-	-	-
Management fees, accommodation costs and other management services	-	2,180	-	-
IT costs	-	2,962	-	-
RCPS dividends	-	6,232	-	-
Balances outstanding at 31 December 2007	-	-	503	10,819
	<u>53</u>	<u>11,374</u>	<u>503</u>	<u>10,819</u>
<b>NYSE Euronext Group - 2006</b>				
IT software development	125	-	-	-
Gross retrocession fees	-	63,534	-	-
Revenue and fee guarantees	-	(6,000)	-	-
Fees payable and similar charges	-	57,534	-	-
Management fees, accommodation costs and other management services	-	1,763	-	-
IT costs	-	5,121	-	-
RCPS dividends	-	8,279	-	-
RCPS Capital	-	-	-	198,840
Balances outstanding at 31 December 2006	-	-	352	9,103
	<u>125</u>	<u>72,697</u>	<u>352</u>	<u>207,943</u>



## **12.23 Financial risk management objectives and policies**

### **12.23.1 Introduction**

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

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

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

### **12.23.2 Foreign currency risk**

The Group is exposed to foreign exchange risk primarily with respect to sterling and US dollars in the translation of net assets and earnings denominated in foreign currency. The Group also has transactional exposure to US dollars and sterling. The Group converts surplus foreign exchange balances to euros on a regular basis based upon agreed thresholds which minimises the effect exchange rate fluctuations will have on overall Group net assets. Any exchange differences on translation of net assets that remain are recorded in the income statement, and the Group does not view this as a material risk and does not actively hedge against these movements.

### **12.23.3 Interest rate risk**

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

The interest bearing assets are generally invested for a longer term than the interest bearing liabilities, whose interest rate is reset daily, this makes the associated revenue vulnerable to volatility in overnight rates and shifts in spreads between overnight and term rates.

## **12.23 Financial risk management objectives and policies**

continued

### **12.23.4 Financial market volatility**

The level or volatility of financial markets in which the Group operates can adversely affect its ability to meet its business objectives and its earnings. The market and credit risk management policies of the Group are approved by its risk committees and boards. A variety of measurement methodologies, including stress testing and scenario analysis, are used to quantify and assess the levels of credit and market risk to which the Group is exposed.

The Group's overall exposure to market risk is mitigated by its operations as a central counterparty, through the two clearing houses in the Group. As a central counterparty the Group has a balanced position in all cleared contracts and runs no market risk unless a clearing member defaults. As protection against this latent market risk which is contingent upon a clearing member default, the market risk is narrowed by collecting in losses on marked-to-market positions each day and by establishing initial margin requirements which are the Group's estimate of likely future market risk under normal market conditions which is collected daily and, if necessary, replenish intra-day. The operating subsidiaries also maintain default funds for use should the initial margin of a defaulted clearing member not fully cover close-out costs, and also have access to supplementary financial resources to ensure the continuity of ongoing operations.

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

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

## 12.23 Financial risk management objectives and policies continued

### 12.23.5 Credit risk

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

The Group's exposure to credit risk with respect to member balances is, as outlined above, mitigated by its margining policies, clearing members' contributions to default funds and the strict membership criteria imposed. The Group also has credit risk exposure as a direct result of the cash it holds which is primarily a result of its central counterparty activities. This cash portfolio is invested within the confines of clear risk policies which aim to secure a significant portion of the cash portfolio via tri-party repo receiving high quality government and quasi-government securities as collateral. These securities are also subject to a haircut on their market value on a daily basis. Any cash not secured in this way will be deposited in the money markets on an unsecured, short-term basis only to high quality banking institutions.

### 12.23.6 Concentration risk

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

### 12.23.7 Liquidity risk

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

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

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

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

## **12.23 Financial risk management objectives and policies**

continued

### **12.23.8 Other risk management**

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

#### **Operational risk**

Operational risk is the risk of loss arising through failures associated with personnel, processes or systems, or from external events. It is inherent in every business organisation and covers a wide spectrum of issues. First line operational risk is managed through systems and procedures in which processes are documented, authorisation is independent, and transactions are monitored and reconciled.

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

Business operations are subject to a programme of Internal Audit reviews, which are independent of line management, and the results are reported directly to the Group's audit committees. Internal Audit evaluates the adequacy and effectiveness of the Group's systems of internal control, as well as the level of compliance with policies, and reports, in addition to management's own Combined Assurance reporting, to the audit committees and senior management. Any significant weaknesses are additionally reported to the Boards.

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

## **12.23 Financial risk management objectives and policies**

continued

### **12.23.9 Compliance, legal and reputational risk**

Compliance or regulatory risk arises from a failure or inability to comply with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance can lead to fines, public reprimands, enforced suspensions of services, or in extreme cases, withdrawal of authorisation to operate.

The Group is subject to authorisation and regulatory requirements regimes in Europe and the USA. Central counterparties attract specific interest from regulators as they are a critical part of the market infrastructure. Specific resources and expertise are applied to meet the various regulatory requirements.

A key part of the role of the legal function is to identify and, in conjunction with management, manage the legal risks of the Group. Legal risk is managed by use of internal and external legal advisors.

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

## 12.24 Financial instruments

The Group's financial assets and liabilities are as follows

	Note	Group		Company	
		2007	2006	2007	2006
		€'000	€'000	€'000	€'000
<b>Financial assets at fair value through profit or loss</b>					
Term loans held in cash		6,230,510	4,825,199	-	-
Fair value of transactions with clearing members	12 15	277,503,905	257,238,206	-	-
<b>Loans and receivables</b>					
Debtors and other receivables	12 14	52,725	70,563	1,101	5,990
Initial margin and other member balances	12 15	537,700	540,841	-	-
Cash and cash equivalents on demand		10,593,321	10,876,520	20,827	42,044
Add Term loans held at fair value		6,230,510	4,825,199	-	-
Cash and short-term deposits in the balance sheet	12 13	16,823,831	15,701,719	20,827	42,044
<b>Financial liabilities at fair value through profit or loss</b>					
Fair value of transactions with clearing members	12 15	(277,487,803)	(257,233,786)	-	-
<b>Financial liabilities at amortised cost</b>					
Trade and other payables	12 20	(110,315)	(82,949)	(12,344)	(3,963)
Initial margin and other member balances	12 15	(15,344,586)	(14,034,058)	-	-
Default Funds	12 18	(1,540,862)	(1,732,671)	-	-
Bank overdrafts	12 17	(5,276)	(1,249)	-	-
Redeemable convertible preference shares	12 17	-	(198,840)	-	(198,840)
Preferred securities	12 17	(196,961)	-	-	-
Subordinated loan	12 17	(27,000)	(27,000)	(196,961)	-
<b>Derivative financial instruments at fair value through profit or loss</b>					
Interest rate swap receivables		28,343	17,303	-	-
Interest rate swap payables		(28,621)	(17,303)	-	-
Interest rate swap (liability)/asset		(278)	-	-	-
<b>Forward foreign exchange contracts – asset</b>		176,228	30,009	-	-
Forward foreign exchange contracts – liability		(171,545)	(30,009)	-	-
Forward foreign exchange contracts – net		4,683	-	-	-

## 12.24 Financial instruments (continued)

### Credit risk

All financial assets are neither past due nor impaired. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

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

The table below shows the Group's treasury portfolio and member balances by reference to the credit rating of the counterparty.

	2007 €'000	2006 €'000
<b>Fair value of member balances</b>		
(Ratings as measured by Fitch)		
Members rated AA+	47,494,778	45,020,396
AA	79,107,457	74,353,982
AA-	107,650,850	104,039,934
A+	16,082,862	9,543,533
A	6,817,472	3,233,014
A-	1,809,746	992,172
BBB+	6,048,801	9,836,090
BBB	5,271	-
Unrated	12,486,668	10,219,085
	<u>277,503,905</u>	<u>257,238,206</u>
<b>Group Treasury portfolio</b>		
(Ratings assigned with reference to major agencies)		
AA/AA+/AAA Secured	7,907,200	3,611,395
AA/AA+/AAA Unsecured	4,710,673	2,983,327
A+/AA- Secured	1,345,907	5,338,584
A+/AA- Unsecured	2,860,051	3,768,413
	<u>16,823,831</u>	<u>15,701,719</u>

### Concentration risk

The largest concentration of Treasury exposures as at 31 December 2007 was 12.39% (2006: 12.57%) of the total investment portfolio to a UK based AA+ rated banking group. 97.45% (2006: 91.95%) of this exposure was secured through tri-party repo activity.

## 12.24 Financial instruments (continued)

### Liquidity and interest rate risk

With respect to member balances as the clearing houses run matched positions liquidity risk is managed as the liability positions will unwind as the asset positions are realised

All other financial assets and liabilities mature or are repayable within one year, with the exception of the Group's subordinated loans which are repayable in 2009, or the preferred securities which are repayable in 2018

All of the financial assets of the Group are either based upon floating rates or upon fixed rates with an interest term of less than six months. For Default Funds, the tenor of the liability is matched with that of the asset and does not exceed 3 months. The weighted average maturity of the remainder of the portfolio is less than 2 months, with strict internal approval processes being applied for any assets over 3 months.

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

### Interest rate sensitivity analysis

The Group's exposure to interest rate fluctuations is limited through the number of fixed rate borrowings it has, and the offset that exists between the bulk of the Group's interest bearing assets and interest bearing member liabilities. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis the Group is only exposed for the time it takes to reset its investments which are held at rates fixed for a maturity which cannot exceed six months.

The following table shows the estimated impact on consolidated profit after tax for each category of financial instrument held at the balance sheet date.



## 12.24 Financial instruments (continued)

	2007 €'000 +/-25bp of interest rate	2007 €'000 +/-50bp of interest rate	2006 €'000 +/-25bp of interest rate	2006 €'000 +/-50bp of interest rate
Net exposure of cash and member margin balances	(1,846)/1,846	(3,693)/3,693	(2,243)/2,243	(4,487)/4,487
Interest rate swaps	774/(744)	1,549/(1,549)	1,525/(1,525)	3,050/(3,050)
RCPS	-	-	(497)/497	(994)/994
Preferred securities	-	-	-	-
Subordinated loan	(68)/68	(135)/135	(68)/68	(135)/135
	(1,140)/1,140	(2,279)/2,279	(1,283)/1,283	(2,566)/2,566
Tax effect of above	360/(360)	720/(720)	411/(411)	821/(821)
Impact on financial assets after tax	(780)/780	(1,559)/1,559	(872)/872	(1,745)/1,745

### Foreign exchange sensitivity

The Group converts surplus foreign exchange balances to Euros on a regular basis which minimises the effect exchange rate fluctuations will have on overall Group net assets. There are immaterial amounts of foreign exchange exposure in the parent company, or LCH Clearnet SA.

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

	2007 £ €'000	2007 \$ €'000	2006 £ €'000	2006 \$ €'000
Net exposure	(7,284)	8,382	170,647	6,493
Reasonable shift	5.2%	7.7%	2.2%	8.7%
Total effect on profit of positive movements	(379)	(645)	-	(565)
Total effect on profit of negative movements	379	645	-	565
Total effect on net assets of positive movements	(379)	(645)	3,754	(565)
Total effect on net assets of negative movements	379	645	(3,754)	565

The Group has been converting its surplus funds into euros from 2007. LCH Clearnet Limited's functional currency is now euros. In 2006 the functional currency of this subsidiary was sterling and exchange differences due to movements in the sterling/euro exchange rate were reflected in the translation reserve.

## 12.24 Financial instruments (continued)

### Fair value of financial instruments

There is no difference between the carrying value and fair value of any of the Group's financial assets or liabilities with the exception of the preferred securities whose fair value, based on quoted market prices, is €198,115,000 (2006 €nil) compared to an amortised cost carrying value of €196,961,000 (2006 €nil)

### Amounts included in the income statement in relation to financial instruments

	2007 €'000	2006 €'000
Interest income on assets held at fair value	272,995	264,421
Interest income on assets held at amortised cost	649,969	526,732
Net gain/(loss) on revaluation of cash and cash equivalents held at fair value included in net interest income	2,344	(355)
Net gain on interest rate swaps	(278)	-
Net gain on foreign exchange forward contracts	4,683	-
Interest income	929,713	790,798
Interest expense on liabilities held at amortised cost	(862,084)	(733,278)
Net interest income	67,629	57,520
Finance income on assets held at amortised cost	20,564	14,262
Finance costs on overdrafts held at amortised cost	(153)	(763)
Finance costs on loans and borrowings held at amortised cost	(15,941)	(9,269)
Finance costs	(16,094)	(10,032)
Net finance income	4,470	4,230

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

## 12.25 Capital management

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

As an exception to the above, the preferred securities issued in 2007 are considered as tier 1 capital, a waiver granted by the Commission bancaire on February 6<sup>th</sup> 2007. This waiver will expire on January 1<sup>st</sup> 2009.

From 1 January 2008 the Group will be required to meet the ratio under the Basel II framework, which provides for a different risk weighting method introducing ratings on credit risk valuation and adding an operational risk requirement.

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

	Basel I 2007 €'000	Basel I 2006 €'000	Basel II pro-forma 2007 €'000
<b>Regulatory capital</b>			
Share capital	80 116	100 116	80 116
Other reserves / Capital reserves	35 327	376 371	35 327
Retained earnings	409 665	129 749	409 665
Perpetual Preferred Securities	196 961	-	196 961
RCPS	-	198 840	-
Tier 1 equity	<u>722 069</u>	<u>805 076</u>	<u>722 069</u>
Tier 2 subordinated loan	27 000	27 000	27 000
Goodwill	(503 836)	(503 836)	(503 836)
Intangible assets	<u>(12 780)</u>	<u>(16 425)</u>	<u>(12 780)</u>
Regulatory capital	<u><u>232 453</u></u>	<u><u>311 815</u></u>	<u><u>232 453</u></u>
<b>Capital requirement</b>			
Credit risk requirement	50 505	79 805	102 200
Market risk requirement	11 993	7 146	-
Operational risk requirement	-	-	64 697
Regulatory capital requirement	<u><u>62 498</u></u>	<u><u>86 951</u></u>	<u><u>166 897</u></u>

The Group obtained an 'AA-' rating from Standard & Poor's prior to the issue of the preferred securities in May 2007.

## **12.26 Post balance sheet events**

The two operating subsidiaries propose to pay final dividends of €100m (Ltd) and €80m (SA) in the second quarter of 2008 in respect of their profits for the year ended 31 December 2007. These amounts will form part of the income of the company in 2008, and accordingly the directors propose to pay an interim dividend of €26m to shareholders after the repurchase of 6,183,362 ordinary shares from NYSE Euronext.

## 13 Corporate governance

The Group is committed to business integrity, high ethical values and professionalism in all its activities. The Board supports the highest standards in corporate governance and aims to adopt the provisions of the UK Listing Authority's Combined Code on Corporate Governance where appropriate.

The following statement explains the Group structure and governance and provides an insight into how the Board and management run the business for the benefit of the shareholders and clearing members.

### 13.1 The Group structure

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

LCH Clearnet Group Limited is lead-regulated by the *Commission bancaire* in Paris. A Memorandum of Understanding (MoU) was signed on February 2005 between the French, Dutch, Belgian and Portuguese authorities responsible for the oversight, regulation and supervision of LCH Clearnet SA and their UK counterparts. This MoU describes the basis on which the different authorities aim to co-operate insofar as the LCH Clearnet Group is concerned.

During the course of the year the following directors were appointed to the Board:

Phillipe Collas	Charles Stonehill	Denise Wyllie
Jenny Ireland	John Townend	

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

Peter Johnston	John Caouette	Martin Abbott
David Peniket	Ignace Combes	Charles Stonehill
Olivier Lefebvre	David Pritchard	Roger Liddell

Martin Abbott was re-appointed 21 January 2008.

For streamlining all of the Board was appointed to the Board of LCH Clearnet Limited during the year, except for John Townend who was already a member.

## The subsidiaries

### LCH Clearnet Limited

LCH Clearnet Limited is a private company, limited by shares and registered in the United Kingdom. The Board of Directors now comprises all members of LCH Clearnet Group Limited and four executive directors in Roger Liddell (Chief Executive of LCH Clearnet Group Limited), Christophe Hémon (Chief Executive of LCH Clearnet SA), Alberto Pravettoni (Managing Director, Corporate Strategy) and Francis Berthomier (Group Chief Financial Officer). This change was effected from 1 November 2007, as was the appointment of Jackie Alexander as Company Secretary as a replacement for Dan Davies.

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

David Robins	Patrick Birley
David Pritchard	Charles Stonehill
John Caouette	

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

### LCH Clearnet SA

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

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

As it is incorporated in France, LCH Clearnet SA is subject to the authorisations (including a banking licence) granted by the CECEI (*Comité des Etablissements de Crédit et des Entreprises d'Investissements* -

Credit Institutions and Investment Firms Committee) and is supervised as a credit institution by the French banking supervisor, *Commission bancaire* (Banking Commission). As a Central Counterparty (CCP), it is regulated by the securities supervisor, the *Autorité des Marchés Financiers* (Financial Markets Authority), which approves its operating rules. As a securities clearing system and a CCP, LCH Clearnet SA is overseen by *Banque de France*.

Since LCH Clearnet SA provides CCP services to markets outside France, its clearing activities are also subject to the regulation and oversight of the competent authorities in Belgium (Minister of Finance for the approval of the Rulebook, *National Bank of Belgium* and *Commission bancaire, Financière et des Assurances* - Banking, Financial and Insurance Commission), the Netherlands (the Minister of Finance, *De Nederlandsche Bank* and the securities supervisor -*Nederlandsche Autoriteit Financiële Markten* - the Netherlands Authority of Financial Markets), and Portugal (*Banco de Portugal* and the *Comissão do Mercado de Valores Mobiliários*), in accordance with, and to the extent permitted and required by, their national legal and statutory framework.

#### **LCH.Clearnet (Luxembourg) S. à r.l.**

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

#### **The Company Board**

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

In broad terms, the Board is responsible for setting strategy, objectives and policies, and approves budgets, material initiatives and commitments for the Company.

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

within the subsidiaries

The Board meets regularly and Board committee chairmen provide reports of their committee activities to the Board on a regular basis. Chief Executives are also invited to attend Board meetings. Auditors are invited to attend Board meetings where appropriate, as are members of senior management and legal advisers.

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

In accordance with the Combined Code on Corporate Governance, the Board has undertaken an evaluation of its own performance and of its committees and individual directors. The results of this evaluation were considered at a Board meeting in March 2008.

#### Professional Development

The Company has developed an induction programme that is designed to enhance new directors' understanding of the business of the Group and of the sector. Additional training is also available to directors on request, and continuing development on matters specific to the Group is effected by means of presentations to the Board and Board Committees.

### 13.2 Board committees

**There are four Board committees. Their composition is detailed below.**

#### Audit Committee

Hervé Saint-Sauveur – Chairman  
 Nazir Badat  
 John Caouette (resigned 9 May 2007)  
 Dominique Hoenn  
 David Pritchard (resigned 18 October 2007)  
 A Chris Tupker (appointed 12 October 2007)  
 John Townsend (appointed 18 October 2007)

#### Nomination Committee

John Caouette – Chairman (resigned 9 May 2007)  
 Clara Furse  
 Jean-François Théodore  
 Francesco Vanni d'Archirafi  
 Robert Wigley - Chairman (appointed 10 September 2007)  
 Sir Adam Ridley  
 A Chris Tupker (appointed 10 September 2007)



It is a requirement of the Company's Articles of Association that the Nomination Committee includes an individual who is not a director or otherwise connected to an Exchange or User. Sir Adam Ridley satisfies this requirement.

#### **Independent Directors' Committee**

Chris Tupker – Chairman  
 John Caouette (resigned 9 May 2007)  
 David Pritchard (resigned 18 October 2007)  
 Hervé Saint-Sauveur (appointed 7 May 2007)  
 John Townend (appointed 18 October 2007)

#### **Remuneration Committee**

Chris Tupker – Chairman  
 John Caouette (resigned 9 May 2007)  
 David Pritchard (resigned 18 October 2007)  
 Charles Stonehill (appointed 28 November 2007, resigned 21 January 2008)  
 Hervé Saint-Sauveur (appointed 28 November 2007)

#### **Subsidiary Risk Committees**

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

### **13.3 Relations with shareholders**

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

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

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

### 13.4 Accountability, audit and control

The statement of directors' responsibilities in relation to the financial statements is set out in Section 5. When reporting to shareholders, the Board aims to produce a balanced and comprehensible assessment of the Group's position and prospects. The Board has overall responsibility for Group-wide systems of internal control and for reviewing their effectiveness. These systems are designed to

- safeguard assets,
- ensure that proper accounting records are maintained,
- ensure that the financial information used within the business for publication is reliable, and
- ensure that the Company, and the wider Group, continue to meet their legal requirements, including those of LCH Clearnet Limited as a Recognised Clearing House in the UK and as a Derivatives Clearing Organization in the US, and those of LCH Clearnet SA (Banque Centrale de Compensation SA) as a bank and a clearing house to regulated markets in the Netherlands, France, Belgium and Portugal

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

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

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

#### Organisation and culture

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

#### Financial reporting

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

#### Identification of business risks

The Board is responsible for identifying the major business risks faced by the Company and the wider Group and for determining the appropriate course of action to manage those risks.

**Internal audit function**

The internal audit function in each subsidiary is responsible for monitoring the system of internal controls for that subsidiary. A joint team made up of members of both internal audit departments operates to monitor internal controls at a Group level. The Audit Committee approves the plans for internal audit review and receives the reports of the audit committees of the subsidiaries on a regular basis. Actions are agreed with management in response to any issues raised in the internal audit reports produced.

**13.5 External auditors**

The Audit Committee reviews the performance of the external auditors on a regular basis. The policy in respect of services provided by external auditors is as follows:

**Audit related services**

The external auditors are invited to provide services that, in their position as auditors, they must or are best placed to undertake. This includes services related to borrowings, shareholders, regulatory reporting, acquisitions and disposals and other assurance services.

**General consulting**

To mitigate the risk that their independence might be compromised, the external auditors are not invited to tender for more general consulting work.

## 14 Remuneration report

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

### 14.1 Members of the remuneration committee

The membership of the Group Remuneration Committee is set out in the corporate governance statement in Section 5.2

### 14.2 Remuneration policy

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

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

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

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

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

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

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

### 14.3 Service contracts

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

The Company retains the right to terminate the contract of any director summarily in accordance with the terms of their employment agreement, on payment of a sum equivalent to the contractual notice entitlement

The service contracts of the directors include the following terms:

	Effective appointment date	
A Chris Tupker <sup>1</sup>	10 July 2006	Independent non-executive (Chairman)
Herve Saint-Sauveur <sup>2</sup>	22 December 2003	Independent non-executive
John Townend <sup>2</sup>	18 October 2007	Independent non-executive
Jean Francois Theodore <sup>3</sup>	15 May 2003	Appointed by NYSE Euronext
	12 September 2007	Appointed by Euroclear from Morgan Stanley
Jenny Ireland <sup>3</sup>	12 September 2007	Appointed by Euroclear from Goldman Sachs
Denise Wyllie <sup>3</sup>	29 January 2004	User representative from The London Stock Exchange plc
Clara Furse <sup>5</sup>	22 December 2003	User representative from BNP Paribas
Dominique Hoenn <sup>5</sup>	18 October 2007	User representative from Societe Generale
Phillipe Collas <sup>2</sup>	22 December 2003	User representative from MF Global Limited
Kevin Davis <sup>4</sup>	10 March 2005	User representative from ABN Amro Bank N V
Gerard Hartsink <sup>2</sup>	10 March 2005	User representative from Citigroup
Francesco Vanni d'Archirafi <sup>2</sup>	30 July 2004	User representative from HSBC Bank plc
Nazir Badat <sup>2</sup>	30 November 2005	User representative from Merrill Lynch International
Robert Wigley <sup>2</sup>	21 January 2008	Exchange representative from The London Metal Exchange
Martin Abbott <sup>2</sup>		

1 Director's contract is subject to a one month notice period by either party

2 Director's contract is subject to a six month notice period by the director or with immediate effect by the Company at any time by resolution at AGM or otherwise provided by the Articles

3 Director represents Euroclear or Exchange and contract is subject to six months notice by the director or with immediate effect by the Exchange

4 Director's contract is terminable by the director or by the Company with immediate effect at any time by resolution at AGM or otherwise provided by the Articles

5 Directors were previously appointed by NYSE Euronext Following reduction in NYSE Euronext shareholding, Directors were designated as User representatives

Following Roger Liddell's resignation from the Board of Directors, there are no executive Directors represented on the Board

### 14.4 Non-executive directors

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

## 14.5 Directors' detailed emoluments

	Salary and fees	Benefits in kind	Annual bonus	Long term incentive plan	Total 2007	Total 2006
	€'000	€'000	€'000	€'000	€'000	€'000
<b>Executive</b>						
Roger Liddell	465	20	512	512	1,509	485
David Hardy	-	-	-	-	-	898
<b>Non-executive</b>						
A Chris Tupker	512	1	-	-	513	246
David Pritchard	97	-	-	-	97	108
Gerard de la Martinere	-	-	-	-	-	40
John Caouette	53	-	-	-	53	112
John Townend	96	-	-	-	96	-
Richard Ward	-	-	-	-	-	13
Dominique Hoenn*	64	-	-	-	64	64
Simon Heale	-	-	-	-	-	52
Olivier Lefebvre*	28	-	-	-	28	51
Clara Furse*	42	-	-	-	42	64
Jean Francois Theodore*	25	-	-	-	25	64
Ignace Combes*	34	-	-	-	34	51
Jenny Ireland**	17	-	-	-	17	-
Denise Wyllie	11	-	-	-	11	-
Phillipe Collas*	6	-	-	-	6	-
Kevin Davis**	34	-	-	-	34	51
Gerard Hartsink*	46	-	-	-	46	51
Herve Saint-Sauveur*	78	-	-	-	78	66
Francesco Vanni d'Archirafi*	56	-	-	-	56	64
Nazir Badat	56	-	-	-	56	64
Robert Wigley	40	-	-	-	40	64
Peter Johnston	28	-	-	-	28	17
David Peniket*	17	-	-	-	17	29
Charles Stonehill	31	-	-	-	31	-
	1,836	21	512	512	2,881	2,654

\*Director's 2007 fees are paid to the company the director is representing on the Board

\*\*Director has donated his fee to charity

Benefits in kind include company car allowance, and private health care contributions

Roger Liddell's full award under the long-term incentive plan was €512,000, of which €171,000 was recognised in the income statement under the Group's accounting policies

**14.6 Interests in the long term incentive plan**

Set out below are the total awards the directors have been awarded during the year as described in section 6.2

	At 1 January 2007 €'000	Awarded in year entitlement €'000	Paid in year €'000	At 31 December 2007 €'000
Roger Liddell	83	512	-	605

**14.7 Executive directors' pension entitlement**

Set out below are details of the pension benefits to which the executive directors during the year are entitled. This disclosure relates solely to the UK scheme.

	Increase in pension entitlement during the period €'000	Accrued pension entitlement at 31 December 2007 €'000	Transfer value at 31 December 2007 €'000	Transfer value at 31 December 2006 €'000	Increase in transfer value less directors' contributions €'000
Roger Liddell	3	4	42	12	7

The accrued pension entitlement is that which would be paid annually on retirement based on service to the end of the year. Retained benefits from previous employments are taken into account.

The increase in the accrued entitlement is the difference between the accrued entitlement at the end of the period and that at the previous year-end, after allowing for inflation at the rate of 3.25%.

The transfer value represents an obligation of the pension scheme that could be paid to another pension scheme for the benefit of the director. It is not a sum paid or due to the director.

The increase in the transfer value less directors' contributions is the increase in the transfer value of the accrued entitlement in respect of qualifying services during the period, after deducting the directors' personal contributions to the scheme.

On behalf of the Board



**A. Chris Tupker**

Chairman of the Remuneration Committee  
29 April 2008

## General information

### 15

#### Directors

The directors who held office during the year are as follows

A Chris Tupker (Chairman)	
Roger Liddell (Chief Executive) (resigned 2 November 2007)	
Martin Abbott	(resigned 22 January 2007, reappointed 21 January 2008)
Nazir Badat	
John Caouette	(resigned 9 May 2007)
Phillipe Collas	(appointed 18 October 2007)
Ignace Combes	(resigned 12 September 2007)
Kevin Davis	
Clara Furse	
Dominique Hoenn	
Gerard Hartsink	
Jenny Ireland	(appointed 12 September 2007)
Peter Johnston	(resigned 12 September 2007)
Olivier Lefebvre	(resigned 27 July 2007)
David Peniket	(resigned 23 April 2007)
David Pritchard	(resigned 18 October 2007)
Hervé Saint-Sauveur	
Charles Stonehill	(appointed 9 May 2007, resigned 21 January 2008)
Jean-François Théodore	
John Townend	(appointed 18 October 2007)
Francesco Vanni d'Archirafi	
Denise Wyllie	(appointed 12 September 2007)
Robert Wigley	

#### Company Secretary

Jackie Alexander

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

#### Registered Office

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

#### Auditors

Ernst & Young LLP,  
London



## History of the LCH.Clearnet Group

LCH Clearnet Group Limited is an English registered private company limited by shares and is the holding company created to oversee the operating subsidiaries that were merged in December 2003, namely The London Clearing House Limited (LCH) and Clearnet SA (Banque Centrale de Compensation SA)

LCH Clearnet Group Limited holds 100% of the shares in each of the two subsidiaries, LCH Clearnet Limited (the former London Clearing House Limited) and Banque Centrale de Compensation SA (which trades under the name of LCH Clearnet SA and which became an independent legal entity at the time of the merger, having previously been part of the then Euronext group of companies)

The London Clearing House was founded in 1888 to clear commodity contracts traded in London. Both the Company and its activities changed radically in the 1980's when ownership passed from United Dominions Trust to a consortium of six British banks. At the same time, LCH expanded to clear contracts traded on IPE (1981), LIFFE (1982) and LME (1987). In the early 1990's, overseas clearing activities were discontinued, leaving clearing of international business in London's financial centre as the renewed and exclusive focus. Clearing of cash equities began in 1995, and in October 1996 majority ownership of LCH transferred to the whole clearing membership, with the three exchanges acquiring minority ownership. During the late 1990's and early years of the new century, LCH's business expanded rapidly to introduce clearing for cash bonds, repos, inter-bank interest rate swaps, energy (gas and power) and freight.

Banque Centrale de Compensation SA was formed in 1969 to clear contracts traded in the Paris commodity markets. It became a subsidiary of Matif in 1990, and then in turn, became an indirect subsidiary of SBF – Bourse de Paris when that body took over Matif in 1998. In 1999, the French markets underwent a restructuring with all of the regulated markets in Paris being brought together and being run by a single body – the Société des Bourses Françaises – whose trading name is Euronext Paris. In March 2000, ParisBourse, the Amsterdam Exchanges (AEX), and the Brussels Exchanges (BXS) announced their agreement to merge the Belgian, Dutch and French exchanges to create Euronext.

Euronext merged with the New York Stock Exchange in 2007 to become NYSE Euronext. LCH Clearnet Group Limited began the repurchase of its shares from NYSE Euronext in 2007, which when completed in 2008, will reduce NYSE Euronext's shareholding in the Group to 5% of the ordinary share capital.

### Disclaimer

This 2007 Annual Report of LCH.Clearnet Group Limited and the consolidated financial statements are documents provided to our shareholders in accordance with legal requirements. If you are not a shareholder, please note that the information contained in these documents is provided for general information purposes only and is not intended to confer any legal rights on you.

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