

2009 Annual Report

and Consolidated Financial Statements

Innovative
clearing solutions Secure and
Quality reliable infrastructure
low cost services Global leader
in OTC clearing

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Highlights

€333 million

share buy-back successfully completed

€907.3 million

in total revenues

1.6 billion

contracts cleared

\$215 trillion

interest rate swap trades in SwapClear

€479.8 billion

of repo and bond exposures cleared

7 new

equity trading venues won

1 | Chairman's Statement



“Your Group is now owned 83% by its users and 17% by exchanges which clear through it.”

Dear Shareholder,

Publication of the 2008 Annual Report was delayed to September 2009 until after your Board had approved using €333 million of the Group's excess reserves to fund a voluntary capital restructuring involving the redemption of up to 33,300,000 ordinary shares of the Group at €10.00 per share. This redemption was successfully completed in November and was the last step in a three year programme to align the ownership of the Group more closely to its users. Your Group is now owned 83% by its users and 17% by exchanges which clear through it. Sixty-five shareholders exited or significantly reduced their shareholding in the Group. Euroclear Bank SA/NV exited completely. Since the redemption was oversubscribed and left a number of shareholders with small balances of shares that they would prefer to have sold, we have set up a facility for the buying and selling of LCH.Clearnet shares amongst our users which is described more fully elsewhere in this report.

This improved alignment between usage and share ownership will be reflected in an increase in the number of users on your Board and by greater reliance on user product advisory groups, each of which will have at least one Board Director among its members. It puts the Group in a better position to counter competitive pressure with further fee reductions and to work more closely with our users to capitalise on the substantial opportunities for clearing new products, especially in the over-the-counter (OTC) markets. To this latter end we have expanded our interbank SwapClear service and extended it to include banks' clients, we are working with a pilot group

of users to prepare a clearing solution for OTC foreign exchange products and LCH.Clearnet SA expects to launch its CDS clearing service early in the second quarter of this year. If all of the Group's current clearing projects are brought to a successful conclusion, the Group will change dramatically to having a much larger international user base, supported by a number of regional offices and much longer opening hours of its clearing platforms.

In 2009, the Group's revenues were driven to an all time high by exceptional treasury income and the one-off payment of €260.4 million from NYSE Liffe. However, large fee reductions and lower volume growth projections in LCH.Clearnet SA resulted in the Group recognising a goodwill impairment charge of €393.4 million, which, combined with a tax charge of €121.5 million, pushed it into a loss of €91.0 million for 2009. This impairment charge does not impact the Group's cash or regulatory capital position.

The turmoil of late 2008 and the government interventions which followed the collapse of Lehman continue to shape your Group's prospects. Legislators and regulators in most financial jurisdictions have turned their attention to market infrastructure, and clearing in particular. Alongside a push to encourage and, in some cases, oblige the clearing of OTC contracts, they have begun to extend their interest beyond market transparency to the nature and make-up of the infrastructure itself. Whilst these initiatives would appear to be broadly beneficial, it is still too early to determine their eventual impact on your Group. It is however critical for management of the Group to engage with legislators and

regulators on these matters. Senior executives are spending much time assisting the development of global clearing standards through the work of CPSS-IOSCO and the IMF, as well as, in Washington, lobbying Congress and intensifying their dialogue with the Commodity Futures Trading Commission (CFTC) and the Federal Reserve. Closer to home they are engaging with the European Commission in its preparation of a directive/regulation on clearing, the FSA in its reassessment of the systemic risk of interoperability, and the House of Lords in its enquiry into OTC derivatives markets.

2009 marked the tenth anniversary of two of our flagship OTC clearing services, RepoClear and SwapClear. Since launch, RepoClear has become a key tool for interbank liquidity, facilitating a daily average of over €1,490 billion of interbank lending. SwapClear is the global leader in interest rate swaps clearing, clearing one third of the global \$342 trillion market. More information about these and some of the new market leading services we have launched in 2009 can be found elsewhere in this Report.

Notwithstanding the focus on OTC, regulators continue to influence equity trading and clearing in Europe. Multilateral Trading Facilities (MTFs) have continued to grow their market share at the expense of traditional exchanges. At the same time, we have seen a flight to quality; instability in the financial markets has generated a renewed interest in your Group's equity clearing offerings and we believe that your Group is well placed to benefit from this.

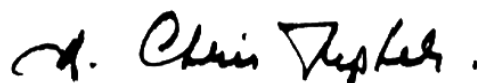
During the past year your Board had six scheduled and six unscheduled Board meetings which, in addition to a full complement of Board Committee meetings, forced a heavy workload on your Directors. On your behalf I thank them for guiding the Group through this year of dramatic challenge and change. Since our last Report Jean-François Théodore has resigned from our Board in conjunction with his retirement from NYSE Euronext. He was the architect of some of the biggest changes in the exchange and clearing world over the past ten years – including the 2003 merger of LCH and Clearnet. We will miss his wealth of experience in our Board deliberations.

We also note with great regret the death in November of Hervé Joubeaud, Chairman of LCH.Clearnet SA. He had served in that function since 2003 and was a great source of support and guidance to our management team in Paris. Fortunately, Hervé Saint-Sauveur, already a Director of the Group, was able to succeed him at short notice.

On behalf of the Board I would like to thank all the staff of the Group for their hard work in 2009. It is their dedication that makes it possible for your Company to navigate successfully through the tumultuous changes of the past years, and those to come.

It is good corporate governance for the Chairman and the Chief Executive to leave a company at different times in order to provide for an orderly succession and stability of leadership of a company. Since your CEO, Roger Liddell, and I arrived at LCH.Clearnet at the same time in 2006, I felt it was appropriate for me to announce in September my intention to resign as your Chairman once a suitable replacement is appointed.

It has been a privilege to serve as your Chairman during this most interesting and challenging period in the Group's long history. I am deeply grateful for the help and support of my fellow Directors over the past four years. Above all it has been a great pleasure to work with the excellent people at LCH.Clearnet.



A. Chris Tupker

Chairman

15 February 2010

2 | Chief Executive's review



Last year was an important year for the company; one in which the foundations for our future were firmly established.

Exceptional treasury revenues, combined with the one-off payment from NYSE Liffe facilitated the successful share buyback and resultant realignment of our shareholder base.

Placing our ownership in the hands of the firms and markets we serve will enable us to compete more effectively, developing and expanding risk mitigating solutions across new and established markets.

The regulatory environment continues to affect our business. The continued interest of regulators in addressing systemic risk is likely to have a meaningful impact, opening new over-the-counter (OTC) markets to clearing and influencing participants' demands for clearing solutions.

As the crisis of late 2008 abated, volatility diminished and markets became more subdued. Overall volumes in 2009 were down on the previous year at 1.6 billion (2008: 2.01 billion) and volumes fell most in equity and listed derivative markets. Other markets, including fixed income and interest rate swaps, held up well. In addition, year on year comparisons are also impacted by the transfer of the ICE business to ICE Clear in the latter part of 2008.

Tariff reductions in UK and continental equity markets generated significant savings for our members during 2009. Equity clearing fees in LCH.Clearnet SA were reduced by 30% in July and tariffs for blue-chip stocks lowered to €0.05 in January 2010. Revenues from clearing fees were consequently impacted, declining 34.6% to €221.3 million. Other key factors include the revision of the clearing agreement with NYSE Liffe and the overall fall in volumes.

The easing of both market volatility and activity reduced the amount of cash and collateral margin held by the Group, with the treasury teams managing a daily average of €30.5 billion interest income from cash and collateral margin balances was commensurately affected by this and the low interest rate environment, falling 67.3% to €376 million. Interest payments to clearing members in respect of cash and collateral margins decreased by €760.3 million to €172.1 million.

Default fund interest earnings decreased by €54.2 million (76.2%) to €16.9 million due to the substantial fall in interest rates at the end of 2008. Interest paid to clearing members in respect of contributions to the default funds decreased by €59.9 million to €23.7 million.

Favourable foreign exchange movements impacted Group administrative expenses which remained constant, despite a slight real increase year on year, as we continued to invest in and expand our capabilities.

Technology continues to be the backbone of the organisation. Across the group 108 projects were successfully delivered in 2009, these enabled the technical launch and enhancement of key initiatives including credit default swap (CDS) clearing in December, buy-side clearing for interest rate swaps (IRS) and the launch of a proprietary fixed income clearing system. This against a backdrop of robust systems which maintained full functionality 99.97% of the time. Importantly for the future, in addition to building our in-house capabilities, we have strengthened our relationships with key suppliers, in particular Tata Consultancy Services. In LCH.Clearnet SA the technology strategy developed with our core supplier ATOS enabled us to commit

to significant fee reductions whilst providing us with an equity clearing platform with the capability and flexibility to handle consolidated and increased Group volumes. In other markets, we are building the platforms with which we shall manage future growth, globally.

It was a positive year for the Group's equity clearing offerings which benefited from competitive fee reductions and the structural shifts in the equity trading environment. Demand for our services resulted in our being appointed by seven Multilateral Trading Facilities (MTFs), which continue to grow their market share at the expense of the traditional exchanges. The selection of EquityClear as the clearer for Chi-East, a pan-Asian MTF, illustrates the potential for the Group to generate efficiencies in established asset classes through geographic expansion. Furthermore, new initiatives, such as the launch of clearing for the London Stock Exchange's International Order Book (IOB), securities lending through SecFinex and development of clearing contracts-for-difference (CFDs) demonstrate the opportunity for innovation even in established asset classes.

After four years of consecutive growth, volumes on the London Metal Exchange (LME) remained relatively flat, however changes in the way trades are recorded at the exchange and subsequently passed on to LCH.Clearnet resulted in cleared volumes falling by 8.8% to 103.3 million trades. Our strategic relationship with the LME continued to evolve and a number of key projects are underway. In addition to the development of our derivatives clearing platform, Synapse, due to be implemented in this market during 2010, other initiatives will enable us to launch new LME contracts in the early part of this year.

The realignment of our relationship with NYSE Liffe was completed this year with the creation of NYSE Liffe Clearing. In our core Liffe markets we continue to provide the existing clearing guarantee and to run its normal day to day operational clearing processes and are working with NYSE Liffe to broaden the scope of products cleared.

In March we began clearing for Nodal Exchange, a new Washington based exchange which enables the trading of cash settled financial nodal power contracts in North America, the first time such contracts have been traded or cleared.

In the niche OTC market segments we saw some interesting developments. We continued to consolidate our position in freight, and are the leader in dry freight, with 85% of cleared dry freight derivatives. Volumes, impacted by the global downturn in trade fell, but less than expected, to 1.12 million lots, down 14% on 2008. We saw an increase in activity in the latter months of the year as global trading activity returned. As intended, we are expanding the range of OTC market

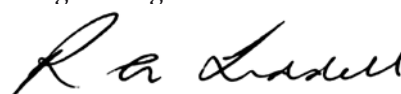
segments we serve and in 2009 we launched clearing for iron ore and fertilizer swaps. Asia is an important region for freight clearing and we are looking to grow our presence there.

Two of our flagship OTC clearing services, RepoClear and SwapClear, had their tenth anniversaries this year, of which more follows later in the report. Launched in 1999, RepoClear complements the strong fixed income business in LCH.Clearnet SA. Last year, the value of term adjusted fixed income trades cleared by the Group rose by over 12% to €479,795 billion, as banks continued to seek to reduce their counterparty risk.

One of the most significant developments of 2009 was the launch of IRS clearing for clients through our SwapClear service. We were the first clearing house to launch IRS clearing for the buy-side, which represents a significant proportion of IRS trades and which has been looking for a clearing solution since the default of Lehman Brothers. SwapClear continues to consolidate its position as the leading global service in IRS clearing. At year end, the total notional value of trades outstanding in SwapClear was US\$215.5 trillion, an increase of 42% on last year. This is a truly global service, which now covers 14 currencies and which is used by banks in Europe, Asia and the Americas. In 2009 four more banks joined the service and we continued to expand the product set, launching clearing for overnight-index-swaps in July.

The Group's market leading expertise in OTC clearing has been leveraged in the development of the CDS clearing offering which went technically live December. The offering was developed with support from both regulatory authorities and our members and we continue to work closely with them to refine the offering which is due to be rolled out in the spring.

Throughout 2009 we have continued to demonstrate the Group's capacity to innovate and deliver. The regulatory and market environment presents us with significant opportunities to expand the services we offer and the markets in which we offer them. Over the last decade, we have worked with industry participants to build market leading OTC clearing services. I believe the recent realignment of our shareholder base will facilitate the development of new OTC clearing services as we work closely with key market participants to bring clearing solutions to new markets.



R.A. Liddell
Chief Executive
15 February 2010

10 Years of Clearing OTC

LCH.Clearnet is the global leader in OTC clearing. We began clearing OTC in 1999 and are the only clearing house to have successfully managed the default of a member of an OTC market.

RepoClear

LCH.Clearnet is the world's largest fixed income multi-market clearer. Since 1999 it has cleared and netted OTC bond and repo trades with a settlement value of circa €1.2 quadrillion (€1.2x10¹⁵).

By the late 1990s fixed income clearing was well established in the US. It was introduced by the GSCC and FICC, now part of the DTCC which is currently the world's largest clearer of fixed income. In Europe, the growing presence of US banks in the City had raised awareness of the operational and capital benefits of clearing in this asset class.

LCH worked closely with market participants to develop the service and, notwithstanding many banks' focus on major IT projects, including the introduction of the Euro and Y2k, eight banks participated in RepoClear initially.

At launch, the service cleared repos in German government debt securities, but the product set was expanded rapidly and, by 2003, government debt from a number of countries: Belgium, Austria, Finland, Ireland, the Netherlands, Portugal and UK, had been added. By this time cash bond trades, jumbo Pfandbrief securities and Euro denominated International Bonds were also cleared.

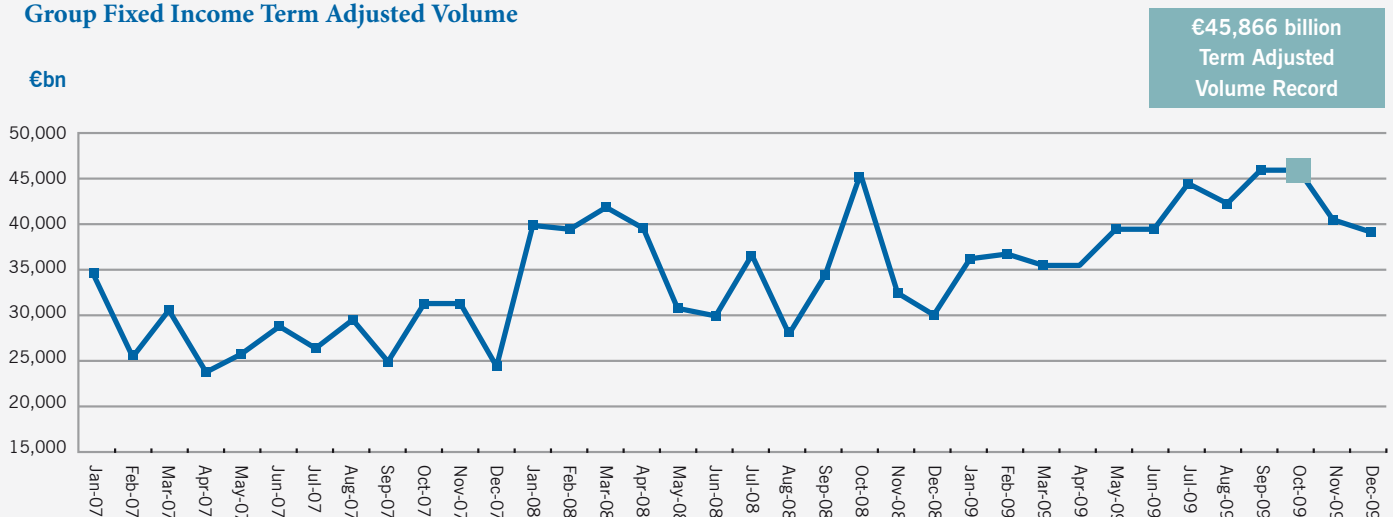
Meanwhile, Paris based Clearnet had started clearing fixed income even earlier, launching clearing for French government debt securities in October 1998 and adding Italian Government debt in 2002.

Since then RepoClear has continued to expand and currently has 45 clearing members. Throughout this time LCH.Clearnet has worked closely with its members to develop innovative clearing solutions designed to facilitate interbank liquidity. Unique services, such as Sterling GC and €GC, have enabled developments in the way baskets of bonds are traded and generated significant efficiencies in the management of collateral in the UK and Euro-zone.

The default of Lehman Brothers and the subsequent market turmoil demonstrated that the real value of clearing lies well beyond the day to day management of risk and maximising collateral efficiency. In addition to successfully managing the defaulted Lehman book, the anonymity provided by repo clearing supported essential interbank lending at a time of extreme concern regarding counterparty risk.

In 2009 the term adjusted value, that is, the value of trades multiplied by the average term weighted by size, of fixed income trades cleared by LCH.Clearnet rose by over 12% to €479.8 billion and the service offering continued to evolve. We remain committed to its continued development in order to further mitigate systemic risk and facilitate liquidity within the financial system.

Group Fixed Income Term Adjusted Volume



SwapClear

LCH.Clearnet is the world's leading provider of interest rate swap (IRS) clearing services. SwapClear clears one third of the global IRS market, with US\$215.5 trillion in notional trades outstanding across 14 currencies and tenors of up to 30 years.

At the time of SwapClear's launch in 1999, many of the banks were focused on other, more pressing projects, such as the introduction of the Euro and Y2k. Take up of the service was consequently slow initially and it launched with only four founder members and a limited product set of the G4 currencies.

Many industry participants were also sceptical of both the clearing house's capability of clearing such complex over-the-counter products and also of the demand for such a service. But management, under David Hardy, remained committed to the idea and the belief that LCH.Clearnet should serve the OTC markets. The interest rate swap market had expanded rapidly; the activity was not only complex, but also capital intensive as all trades had to be individually collateralised. Management believed that, in order to continue growing, the market would have to free up capital and accept a degree of standardisation, both of which clearing could offer.

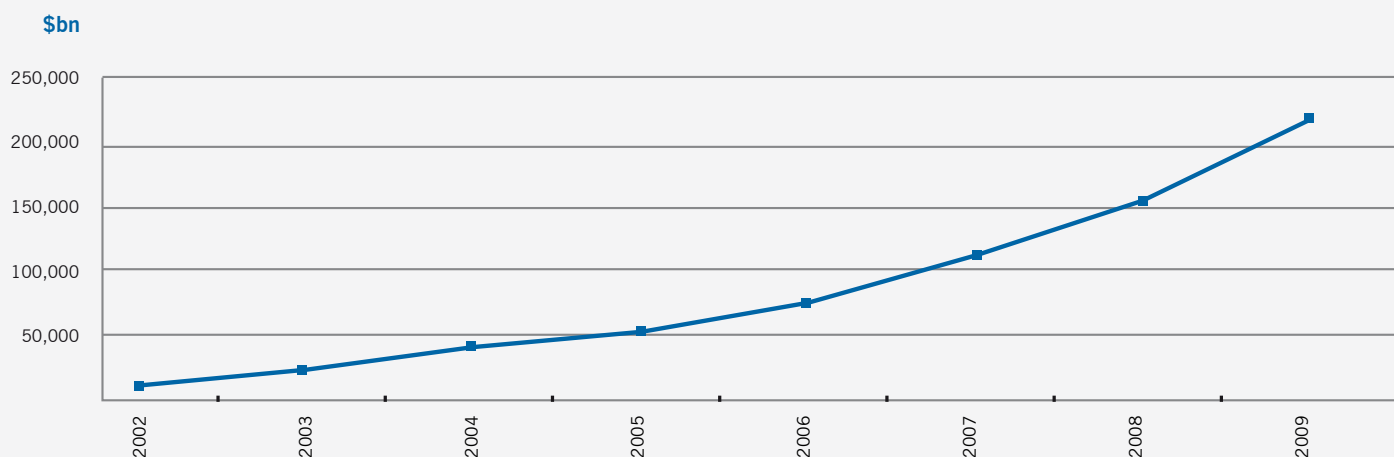
As banks began to appreciate the benefits of clearing, interest in SwapClear began to grow and the membership expanded. From the outset the system had been designed to allow the

'backloading' of trades – as a low volume market, SwapClear's success was dependent upon attracting existing trades onto the platform. Backloading continues to be a valuable function of the service; in the aftermath of the Lehman default, the service saw a significant spike in volumes as fears about counterparty risk drove banks to clear previously uncleared trades.

The banks' involvement in the service has been invaluable since the early days and they form an integral part of the default management process. The successful handling of Lehman's US\$9 trillion notional IRS portfolio following the default was due to their commitment to the service, even in extreme market circumstances.

Lehman also resulted in the first interest from the buy-side in a clearing solution for interest rate swaps. Throughout 2009 we have worked hard to deliver a global service which provides the benefits and protections the buy-side are looking for. The SwapClear client clearing service, launched in December 2009, is the next step in SwapClear's development.

Trade Sides Notional



Credit Default Swaps

Both regulators and market participants have been keen to see clearing for credit default swaps (CDS) introduced. LCH.Clearnet's CDS clearing service in Paris originated with strong sponsorship from regulators in France.

Since early 2009, LCH.Clearnet has worked closely with a number of key users in developing the service, in order to ensure the scope of the offering was aligned with market requirements. Technical capability was launched in December, and we continue to collaborate with the user group to finalise the service offering, with a view to rolling out the service in the spring of 2010.

Initially, the service will clear European indices, though consultations with members regarding further developments are ongoing. These may include the extension of the unique safeguards offered to clients through the SwapClear client clearing service and the clearing of single name CDS. LCH.Clearnet is the only clearing house to have managed

the default of a member of an OTC market, and this unique experience has highlighted the importance of access to liquidity and accurate pricing at a time of extreme market stress.

Due to the nature of the risk inherent in OTC clearing, collaboration with and the support of market participants is critical in the development of OTC clearing services. Given this, LCH.Clearnet is well placed to continue to expand and consolidate its market leading OTC clearing offering.

3 | Operating and Financial Review

3.1 Operating review

3.1.1 Equities

Tariff reductions on the Group's equity markets contributed to a reduction in clearing revenue from €114.6 million to €60.6 million. The Group delivered further reductions in clearing fees on the London Stock Exchange (LSE) and SIX Swiss Exchange's trades in July 2009 of 7%, and on NYSE Euronext cash markets from July 2009 of 30%. Together these tariff changes reduced clearing fees charged to members on NYSE Euronext from €0.15 per trade to €0.10 per trade on average. Further reductions implemented from 1 January 2010 introduced a fee of €0.05 per trade for blue chip stocks on NYSE Euronext cash markets.

Volumes across the NYSE Euronext cash markets fell by 11.4% from 194.3 million to 172.2 million trades in the year. The LSE's volume fell by 19.2% to 153.4 million trades in the year, and SIX Swiss Exchange's Europe's volume fell by 26.3% to 17.9 million trades. These three exchanges suffered from the structural shifts in the equity trading environment but demand for our clearing services in equity markets has increased, which has resulted in us being appointed by seven Multilateral Trading Facilities.

3.1.2 Fixed income

Clearing revenues from the fixed income service have grown from €29.8 million to €32.6 million, an increase of 9.4%.

Banks continue to seek the benefits of clearing and reduced counterparty exposure following the Lehman default. The value of term adjusted trades cleared by the Group increased by 12.4% in 2009 to €479,795 billion. This has led to a significant growth in fixed income member balances, which have increased by 32% to €409 billion. When compared to 2007 it has increased by 51%.

3.1.3 Derivatives and swaps

Clearing revenue from derivatives and swaps fell by €31.7 million which was driven by the revised clearing agreement with NYSE Liffe which commenced on 30 July 2009 and contributed €24.5 million to the fall. The Group received €260.4 million in connection with the termination of the previous clearing agreement between LCH.Clearnet Limited and NYSE Liffe.

Trade volumes on SwapClear grew by 34.1% in 2009, which is the fourth year running of growth. The service has seen a continuation of the high volumes experienced after the Lehman default, as banks have sought to reduce their counterparty risk. During the year four new members joined SwapClear, with further banks expressing an interest in joining the service. The SwapClear service now accounts for around one third of the global interest rate swap market, and the Group's collaboration with the industry through OTCDerivNet was further expanded in February 2009 when HSBC and JP Morgan became shareholders of OTCDerivNet.

IRS clearing for clients through our SwapClear service was launched during the year and the Group was the first clearing house to launch such a service. The buy-side accounts for a significant proportion of IRS trades and has been looking for a clearing solution since the default of Lehman Brothers.

3.1.4 Commodities and energy

Clearing revenue fell by €34.0 million to €29.4 million, principally due to the full year effect of the loss of revenues from the ICE markets of €28.5 million.

After four years of steady growth, cleared London Metal Exchange volumes fell by 8.8% to 103.3 million trades. In addition to the development of the new derivatives clearing platform, Synapse, due to be implemented in this market during 2010, other initiatives will enable the Group to launch new LME contracts in the early part of 2010.

The Group consolidated its position in freight, and is the leader in dry freight, with 85% of cleared dry freight derivatives. Volumes, impacted by the global downturn in trade fell, but less than expected, by 14.2% to 1.1 million lots. Activity increased in the latter months of the year as global trading activity increased. As intended, we are expanding the range of OTC market segments we serve and in 2009 we launched clearing for iron ore, emissions certificates and fertilizer swaps. The Group will also commence clearing trades on the Hong Kong Mercantile Exchange in the first half of 2010.

3.2 Financial review

3.2.1 Summarised consolidated income statement for the year

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

	Ref	2009 €'m	2008 €'m
Total revenue	3.2.1a	907.3	1,589.5
Interest expense and similar charges	3.2.1c	(195.8)	(1,016.0)
Net revenue		711.5	573.5
Administrative expenditure	3.2.1e	(288.5)	(279.9)
Impairment of goodwill	3.2.1f	(393.4)	-
Operating costs		(681.9)	(279.9)
Operating profit	3.2.1g	29.6	293.6
Net finance income	3.2.1h	0.9	2.5
Profit before taxation		30.5	296.1
Taxation expense	3.2.1i	(121.5)	(76.3)
(Loss)/profit for the year		(91.0)	219.8

3.2.1a Total revenue

	Ref	2009 €'m	2008* €'m	Increase/ (decrease) %
Clearing fees	3.2.1b	221.3	338.2	(34.6)
Interest from cash and collateral margin	3.2.1c	376.2	1,150.5	(67.3)
Interest earned on Default Funds	3.2.1c	16.9	71.1	(76.2)
Other income	3.2.1d	32.5	29.7	9.4
Compensation for termination of contract	3.2.1a	260.4	-	-
Total revenue		907.3	1,589.5	(42.9)

Percentage changes are on an annualised basis.

*A reclassification of €9.9 million has been made between net interest income and clearing fees (to increase the latter) within the income statement in relation to a revenue share arrangement. The net revenue balance remains unchanged.

Group turnover from continuing operations (excluding compensation for termination of contract) decreased by 59.3% to €646.9 million, due to the exceptionally high levels of interest income experienced during the dislocation of financial markets during 2008, significant tariff reductions in clearing fees, the revised clearing arrangements for NYSE Liffe in London as described below and the transfer of the ICE and ICE Futures markets near the end of 2008.

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

Operating and Financial Review continued

3.2.1b Clearing fees

	2009 €m	2008 €m	Increase/ (decrease) %
Equities	60.6	114.6	(47.1)
Fixed income	32.6	29.8	9.4
Derivatives and swaps	98.7	130.4	(24.3)
Commodities and energy	29.4	63.4	(53.6)
	221.3	338.2	(34.6)

Clearing fees decreased by €116.9 million (34.6%) to €221.3 million due to the combined effect of the reduction in volatility as trading volumes fell from the high levels experienced in 2008, tariff reductions in UK and continental Equity markets, the revised clearing agreement with NYSE Liffe on the London derivatives market and the full year effect of the loss of clearing on the ICE and ICE Futures markets. Excluding the NYSE Liffe, ICE and ICE Futures markets volumes have fallen by 12.4%, with equities and derivatives the markets most affected. Volumes in Fixed Income and interest rate swaps increased in 2009. Year on year clearing revenues have been reduced by €28.5 million due to the loss of the ICE markets during 2008, and have also been reduced by €24.5 million compared to 2008 following the introduction of the revised clearing agreement with NYSE Liffe.

3.2.1c Net interest income

	2009 €m	2008 €m	Increase/ (decrease) %
Interest earned on cash and collateral margin	376.2	1,150.5	(67.3)
Interest earned on Default Funds	16.9	71.1	(76.2)
Interest income	393.1	1,221.6	(67.8)
Interest paid on cash and collateral margin	(172.1)	(932.4)	(81.5)
Interest paid on Default Funds	(23.7)	(83.6)	(71.7)
Interest expense and similar charges	(195.8)	(1,016.0)	(80.7)
	197.3	205.6	(4.0)

Interest income from cash and collateral margin balances decreased by €774.3 million (67.3%) to €376.2 million (2008: €1,150.5 million), due to the reduction in cash and collateral margin balances as market activity and volatility fell back from their unprecedented levels in 2008. This has been combined with the general reduction in interest rates at the end of 2008, which has persisted throughout 2009. For similar reasons, and to a larger extent as spreads reached all-time highs during the year, interest payments to clearing members in respect of cash and collateral margins decreased by €760.3 million (81.5%) to €172.1 million (2008: €932.4 million).

Default Fund interest earnings decreased by €54.2 million (76.2%) to €16.9 million (2008: €71.1 million) and interest paid to clearing members in respect of contributions to the Default Funds decreased by €59.9 million (71.7%) to €23.7 million (2008: €83.6 million). This was mostly due to the low interest rate environment.

3.2.1d Other fee income

Other fee income has increased by €2.8 million (9.4%) to €32.5 million (2008: €29.7 million). Other income includes annual fees charged to members, recovery of settlement fees and transfer fees. Recovery of settlement fees has increased during the year due to the increase in fixed income activity which has continued to benefit from the move to clearing by market participants following the default of Lehman Brothers in 2008.

3.2.1e Administrative expenditure

Administrative expenditure has risen by €8.6 million (3.1%) to €288.5 million (2008: €279.9 million). However, the increase has been partly mitigated by the exchange effect of converting a significant portion of the cost base of LCH.Clearnet Limited from sterling to euros. At 2008 average exchange rates total administrative expenditure would have been €309.0 million, an increase of 10.4%.

This increase reflects the increase in staff numbers during the year as the business continues to grow and the significant level of spending on projects such as the new derivatives platform, Synapse, and the new clearing platform being developed for continental cash equity and derivatives markets. Both of these systems are due to go live in 2010. Other projects have focused on delivering new services such as CDS and CFDs, as well as clearing for new multi-lateral trading facilities in equities markets.

3.2.1f Impairment of goodwill

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

As a result of lower volumes experienced in 2009, revised growth assumptions, and the tariff reductions implemented in cash equity markets (LCH.Clearnet SA reduced cash equity clearing fees by an average of 30% from 1 July 2009, to €0.10, and from 1 January 2010 equity clearing fees for blue chip stocks further reduced to €0.05 per trade) management has re-calculated the value-in-use of LCH.Clearnet SA and determined that its recoverable amount is now less than its carrying value.

Accordingly, an impairment charge of €393.4 million has been recognised in the period, reducing the goodwill to €110.4 million. The directors consider that it is appropriate to continue to assign an indefinite useful life to this asset, reflecting the strength and positioning of the business as a provider of clearing services.

3.2.1g Operating profit

Basis of calculation

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

Operating profit performance

Overall operating profit has decreased to €29.6 million (2008: €293.6 million) due to the goodwill impairment charge highlighted above (3.2.1f) and reduction in clearing fees (3.2.1b) which have been partially offset by the €260.4 million compensation income received from NYSE Liffe upon the commencement of the revised clearing arrangements on that market.

3.2.1h Net finance income

	2009 €'m	2008 €'m	Increase/ (decrease) %
Finance costs relating to:			
Subordinated loan	(0.5)	(1.5)	(66.7)
Preferred securities	(12.4)	(13.7)	(9.5)
Bank overdrafts	(0.1)	(0.1)	-
	(13.0)	(15.3)	(15.0)
Other finance income: profit on repurchase of preferred securities	9.5	-	
Finance income	4.4	17.8	(75.3)
	0.9	2.5	(64.0)

Operating and Financial Review continued

3.2.1h *Net finance income continued*

Interest costs attributable to the preferred securities, subordinated loan and bank overdrafts decreased by €2.3 million (15.0%) to €13.0 million. The interest rate on the preferred securities is fixed, although the repurchase of 10% of them in January 2009 has meant the associated interest cost has fallen. These were repurchased at a discount to their nominal value of €20 million which gave rise to a profit of €9.5 million. The subordinated loan of €27 million was redeemed in September 2009, and interest on it was linked to EURIBOR. The interest derived from the investment of shareholders' funds has fallen by €13.4 million (75.3%) to €4.4 million (2008: €17.8 million) due to the low level of interest rates in 2009, although shareholders funds also fell substantially in November 2009 following the repurchase of ordinary shares for €333 million and the dividend payment of €110.9 million.

3.2.1i **Taxation expense**

The effective tax rate for the financial year excluding the goodwill impairment charge which is not eligible for tax relief is 28.7% (2008: 25.8%).

The 2008 tax rate was reduced due to exchange differences on the translation of the closing UK tax creditor and the recognition of tax credits relating to prior years.

A full reconciliation of the tax expense contained in the income statement is set out in note 13.6.2 to the consolidated financial statements.

3.2.1j **Capital resources**

The total equity of the Group decreased during the year by €533.3 million from €838.4 million to €305.1 million. This follows the repurchase of ordinary shares of €333 million, the payment of dividends to shareholders of €110.9 million and the loss for the year of €91.0 million netted with the small post-tax actuarial gain of €1.6 million on the Group's pension schemes.

The total regulatory capital of the Group, at €311.1 million (2008: €410.3 million) continues to exceed "Pillar 1" requirements of €121.0 million (2008: €136.5 million) as the goodwill impairment does not impact on these resources which do not include intangible assets.

3.2.1k Group cashflow and movement in cash and cash equivalents

For the year ended 31 December 2009

	2009 €'m	2008 €'m
Margin monies cash (outflow)/inflow	(10,580.8)	19,426.4
Increase in Default Funds	360.8	34.2
Other net cash inflows	184.9	383.0
Net cash (outflows)/inflows from operating activities	(10,035.1)	19,843.6
Net cash inflow/(outflow) from investing activities	165.3	(13,404.3)
Net cash used in financing activities	(494.7)	(104.1)
(Decrease)/increase in cash and cash equivalents	(10,364.5)	6,335.2
Effects of foreign exchange movements	49.0	(187.4)
Cash and cash equivalents at 1 January	22,561.4	16,413.6
Cash and cash equivalents at 31 December	12,245.9	22,561.4
Cash and cash equivalents at 31 December comprise:		
Cash and short term investments	12,247.5	23,018.4
Included are short-term deposits maturing		
Bank overdrafts and loans	(1.6)	(52.9)
	12,245.9	22,561.4

Net cash outflows from operating activities of €10,364.5 million (2008: €19,843.6 million inflow) were incurred. The largest component of net cash outflows from operating activities is movements in margin monies, which produced an outflow of €10,580.8 million (2008: €19,426.4 million inflow). An increase in the level of Default Funds generated an inflow of €360.8 million (2008: €34.2 million). Other net cash inflows have decreased from €383.0 million to €184.9 million, which includes €165.3 million that was transferred to the administrators of Lehman Brothers Special Financing Inc. in early January 2009, although this was related to the 2008 default.

Net cash from financing activities showed an outflow of €494.7 million (2008: €104.1 million). The outflow in 2009 principally comprised the repurchase of ordinary shares €333.0 million and the dividend payment of €110.9 million to shareholders.

3.2.1l Balances with clearing members

Balances with clearing members form the largest component of the Group statement of financial position. During the year, amounts owed to clearing members increased by €89,947.9 million (25.4%) to €444,141.2 million (2008: €354,193.3 million). Amounts owed from clearing members increased by €100,528.7 million (31.4%) to €420,504.8 million (2008: €319,976.1 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 €98,901 million (31.9%) to €408,980 million (2008: €310,079 million) as the fixed income service grew during the year.

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

4 | Directors' Report

The directors of LCH.Clearnet Group Limited present their report to shareholders, together with the audited consolidated financial statements for the year ended 31 December 2009.

4.1 Principal activities

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

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

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

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

4.2 Business review and future developments and principal risks and uncertainties

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

4.3 Financial instruments

Details of the financial risk management objectives and policies of the Group and exposure of the Group to interest rate risk, foreign exchange risk, credit risk, financial market volatility, liquidity risk, concentration risk, operational risk and compliance, legal and reputational risk are given in note 13.22.

4.4 Group results and dividend

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

The loss of €91.0 million (2008: profit of €219.8 million) made by the Group has been transferred to reserves.

The two operating subsidiaries paid final dividends of €160 million (Ltd) and €64 million (SA) in the second quarter of 2009 in respect of their profits for the year ended 31 December 2008, and Ltd paid a further €225 million in the fourth quarter of 2009 in respect of profits for the year ended 31 December 2009. These amounts formed part of the income of the Company in 2009, and accordingly the Company paid to shareholders a final dividend for 2009 of €1.50 per share, which amounted to €110.9 million (2008: €26.0 million). In addition the Company made a capital distribution to shareholders of €333.0 million (2008: €61.8 million) through redemption of shares completed in the fourth quarter of 2009.

4.5 Capital

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

Details of movements in equity are set out in Section 12 – Consolidated statement of changes in equity and note 13.24 – Capital Management. At 31 December 2009, Group capital resources amounted to €305.1 million (2008: €838.4 million); its regulatory capital amounted to €311.1 million (2008: €410.3 million).

4.6 Charitable donations

The Group made donations for charitable purposes during the period of €156,474 (2008: €93,950), the majority of which was paid under the Group's Corporate Responsibility programme.

4.7 Directors and directors' interests

The current directors of the Company are listed in Section 16 - General information. According to the Register of Directors' Interests, Hervé Saint-Sauveur, Ian Abrams and John Townend each hold one share in Banque Centrale de Compensation SA. Each holds a share whilst serving as a director of that company. There were no further disclosable interests recorded in the Register of Directors' Interests.

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

No other director holding office at 31 December 2009 had any beneficial interest in the shares of the Company or any of its subsidiaries during the year.

4.8 Indemnity of directors

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

4.9 Transactions with directors and related parties

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

4.10 Staff

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

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

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

4.11 Supplier payment policy and practice

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

At 31 December 2009, the Company had an average of 5 days (2008: 7 days) purchases owed to trade creditors.

4.12 Disclosure of information to the auditors

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

- "i. So far as the director is aware, there is no relevant audit information, of which the Group's auditors are unaware; and
- ii. The director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information."

4.13 Auditors

Ernst & Young LLP were re-appointed auditors of the Company at the AGM on 14 October 2009 and have indicated their willingness to be re-appointed under the provisions of the Companies Act 2006.

4.14 Purchase of own shares

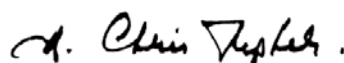
The Company repurchased 33,299,973 (2008: 6,183,362) of its own shares during the year.

4.15 Going concern and Liquidity Risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Report, Chairman's Report and Operating and Financial Review on pages 2 to 15. The Group's financial risk management objectives and policies are described in note 13.22, details of financial instruments and exposure to credit risk and liquidity risk in note 13.23 and its capital management processes in note 13.24.

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

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements.




By order of the Board

A. Chris Tupker

Chairman

15 February 2010

IRON ORE: LCH.Clearnet launched its over-the-counter (OTC) clearing service for iron ore swaps in June. In 2009 some 890 million tonnes of iron ore were shipped around the world, the volumes driven by the continued growth of the Asian economies. Up to 60% of this volume was priced outside the traditional benchmark system, leading to the growth in iron ore swaps trading.



“Clearing from LCH.Clearnet reduces risk and improves transparency, thereby facilitating the growth of this fast developing market”

Richard Herselman
Iron Ore Broker, London Dry Bulk Ltd

5 | Statement of Directors' Responsibilities

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

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:

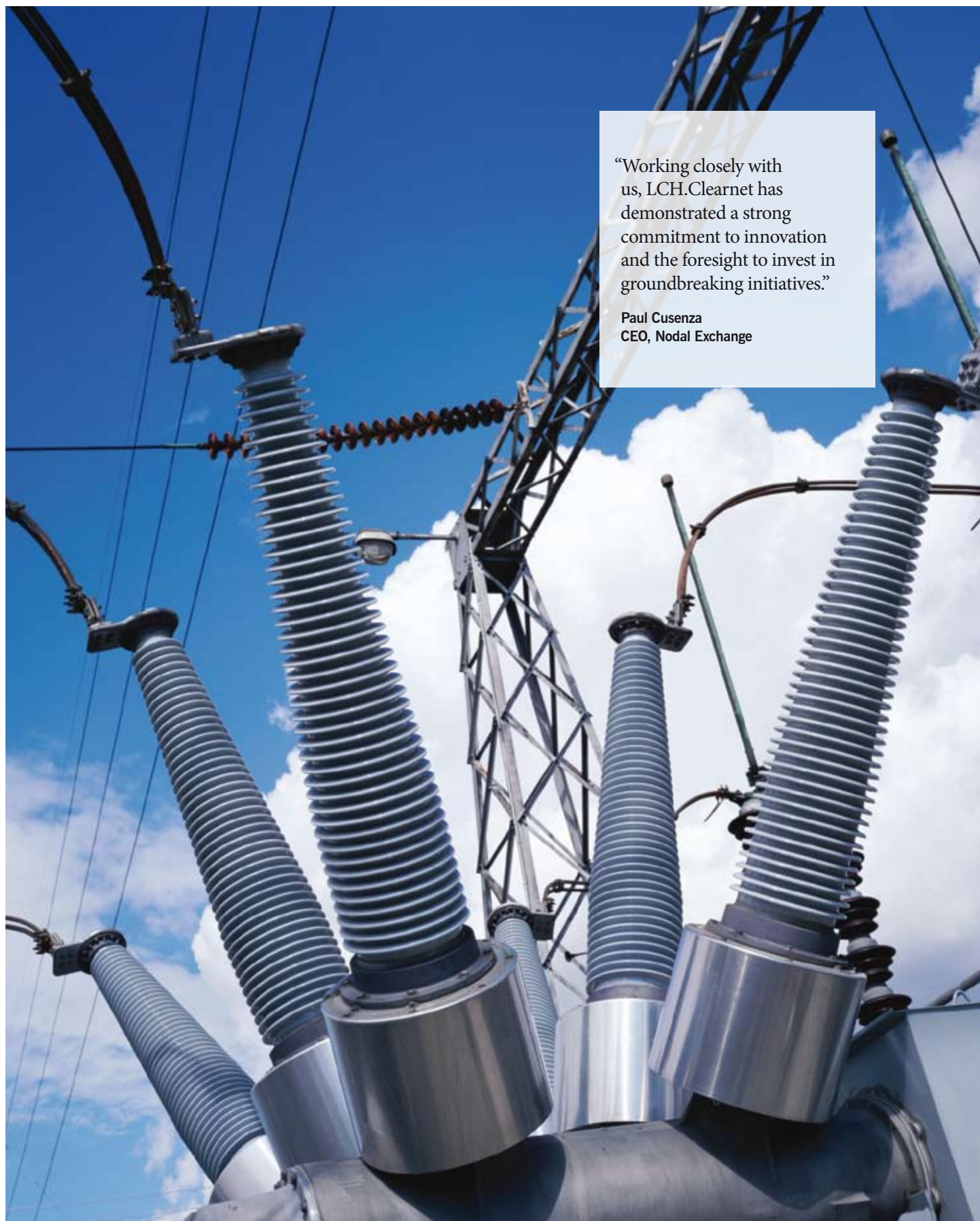
- Select suitable accounting policies in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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 and Company have 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 2006. 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.

NODAL EXCHANGE: LCH.Clearnet worked with Nodal Exchange to launch a ground-breaking new service to provide trading and clearing of cash settled financial nodal power contracts in North America. For the first time, industry participants can more precisely hedge their positions by trading the Locational Marginal Price of power at granular nodes whilst minimising their counterparty risk.

“Working closely with us, LCH.Clearnet has demonstrated a strong commitment to innovation and the foresight to invest in groundbreaking initiatives.”

Paul Cusenza
CEO, Nodal Exchange



6 | Independent Auditor's Report to the Shareholders of LCH.Clearent Group Limited

We have audited the financial statements of LCH.Clearent Group Limited for the year ended 31 December 2009 which comprise the Consolidated and Company Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Equity and the related notes 13.1 to 13.24.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2009 and of the group's loss for the year then ended;

the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

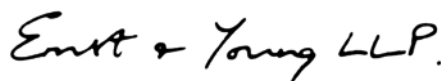
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Andrew Woosey
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor London
15 February 2010

7 | Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 €'000	2008* €'000
Revenue			
Interest income	13.4.1	393,163	1,221,593
Interest expense and similar charges	13.4.1	(195,837)	(1,016,029)
Net interest income	13.4.1	197,326	205,564
Clearing fees	13.4.1	221,279	338,214
Other fee income	13.4.1	32,527	29,707
Compensation for termination of contract	3.2.1a	260,417	-
Net revenue	13.4.1	711,549	573,485
Costs and expenses			
Employee benefits expense	13.18.1	(98,103)	(86,830)
Depreciation and amortisation charge	13.5.1	(13,078)	(13,207)
Impairment of goodwill	13.5.1	(393,400)	-
Other operating expenditure	13.5.2	(177,346)	(179,837)
Total costs and expenses		(681,927)	(279,874)
Operating profit		29,622	293,611
Finance income	13.5.3	4,438	17,805
Other finance income	13.5.3	9,555	-
Finance costs	13.5.3	(13,062)	(15,317)
Profit before taxation	13.5	30,553	296,099
Taxation expense	13.6.1	(121,549)	(76,283)
(Loss)/profit for the year		(90,996)	219,816

The dividend paid in the year was €110,898,924 (2008: €26,000,000). No dividend proposed in respect of 2009 (2008: €1.50 per share).

*Reclassification between treasury and clearing revenue in 2008 (note 13.2)

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

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

8 | Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 €'000	2008 €'000
(Loss)/profit for the year		(90,996)	219,816
Other comprehensive income			
Actuarial gain/(loss) recognised in the UK pension scheme		2,287	(16,675)
Deferred tax relating to the UK actuarial gain/(loss)	13.6.1	(640)	4,669
Actuarial losses recognised in overseas pension schemes		(6)	(792)
Current tax relating to the overseas actuarial losses	13.6.1	2	253
Other comprehensive income/(expense) for the year, net of tax		1,643	(12,545)
Total comprehensive (expense)/income for the year, net of tax		(89,353)	207,271

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

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

FERTILIZERS: LCH.Clearnet worked with FIS to launch an OTC clearing service for the fertilizer swap market in October. The global physical fertilizer market had an estimated turnover of \$400bn in 2009, with some 1bn tonnes of raw materials and products traded annually. Clearing will make the product more appealing to participants from outside the industry, particularly financial institutions.



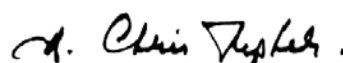
“LCH.Clearnet has brought clearing to a market with great potential. They are at the forefront of OTC clearing and their expertise, combined with our market knowledge, is adding real value.”

Ron Foxon
Fertilizer Broker, FIS

9 | Group and Company Statements of Financial Position

As at 31 December 2009

	Note	Group 2009 €'000	Group 2008 €'000	Company 2009 €'000	Company 2008 €'000
Non-current assets					
Intangible assets	13.8	170,516	540,205	-	-
Property, plant and equipment	13.10	9,845	13,299	-	10
Investments	13.11	-	-	341,481	673,481
Deferred taxation asset	13.6.3	11,488	11,503	9	8
Total non-current assets		191,849	565,007	341,490	673,499
Current assets					
Cash and short-term deposits	13.12	12,247,555	23,018,416	589	94,565
Other financial assets	13.23	13,619,640	13,464,383	85,000	-
Derivative financial asset	13.23	490	-	-	-
Income tax receivable		12,640	11,093	10,070	8,647
Trade and other receivables	13.13	21,732	72,317	1,474	1,401
Balances with clearing members	13.14	420,504,787	319,976,063	-	-
Total current assets		446,406,844	356,542,272	97,133	104,613
Total assets		446,598,693	357,107,279	438,623	778,112
Equity and liabilities					
Capital and reserves					
Called up share capital	12, 13.15	40,633	73,933	40,633	73,933
Capital reserves	12	15,327	15,327	-	-
Capital redemption reserve	12	59,483	26,183	59,483	26,183
Retained earnings	12	189,700	722,952	127,834	469,750
Total equity		305,143	838,395	227,950	569,866
Non-current liabilities					
Interest bearing loans and borrowings	13.16	176,494	223,019	196,494	196,019
Default Funds	13.17	1,796,681	1,386,017	-	-
Employee benefits	13.18.2	3,248	23,940	-	-
Deferred taxation liability	13.6.3	2,852	1,164	-	-
Total non-current liabilities		1,979,275	1,634,140	196,494	196,019
Current liabilities					
Interest bearing loans and borrowings	13.16	1,627	52,937	-	-
Other financial liabilities	13.23	-	56,010	-	-
Derivative financial liabilities	13.23	15,560	8,716	-	-
Income tax payable		40,321	28,799	-	-
Trade and other payables	13.19	115,553	295,007	14,179	12,227
Balances with clearing members	13.14	444,141,214	354,193,275	-	-
Total current liabilities		444,314,275	354,634,744	14,179	12,227
Total liabilities		446,293,550	356,268,884	210,673	208,246
Total equity and liabilities		446,598,693	357,107,279	438,623	778,112

 A. Chris Tupker, Chairman

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board on 15 February 2010.

10 | Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 €'000	2008 €'000
Cashflows arising from operating activities			
(Loss)/profit for the year	7	(90,996)	219,816
Adjustments to reconcile (loss)/profit for the year to net cash inflows from operating activities:			
Taxation expense		121,549	76,283
Finance income		(4,438)	(17,805)
Other finance income		(9,555)	-
Finance costs		13,062	15,317
Depreciation and amortisation	13.5.1	12,743	13,207
Loss on disposal of assets	13.5.1	335	-
Impairment of goodwill		393,400	-
Decrease/(increase) in trade and other receivables		58,126	(24,108)
Decrease in employee benefits		(18,663)	(1,395)
(Decrease)/increase in trade and other payables		(185,802)	195,252
Losses/(gains) on financial instruments		4,942	(13,739)
Margin monies cash (outflow)/inflow		(10,580,776)	19,426,426
Increase in Default Funds		360,786	34,237
Net cash (outflow)/ inflow from operations		(9,925,287)	19,923,491
Taxation received		-	2,051
Taxation paid		(109,795)	(81,910)
Net cash (outflows)/inflows from operating activities		(10,035,082)	19,843,632
Investing activities			
Investment in intangible assets	13.8	(30,848)	(31,624)
Purchase of property, plant and equipment	13.10	(2,487)	(5,206)
Redemption of short-term deposits maturing in three to six months		404,032	968
Investment in other financial assets		(209,855)	(13,386,196)
Interest received	13.5.3	4,438	17,805
Net cash inflow/(outflow) from investing activities		165,280	(13,404,253)

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

	Note	2009 €'000	2008 €'000
Financing activities			
Interest paid		(13,404)	(14,748)
Purchase of own shares		(333,000)	(61,834)
Repurchase of preferred securities		(10,445)	-
Redemption of subordinated loan		(27,000)	-
Costs related to/issue of preferred securities		-	(1,511)
Dividends paid		(110,899)	(26,000)
Net cash used in financing activities		(494,748)	(104,093)
(Decrease)/increase in cash and cash equivalents		(10,364,550)	6,335,286
Cash and cash equivalents at 1 January		22,561,447	16,413,555
Effects of foreign exchange movements		49,031	(187,394)
Cash and cash equivalents at 31 December		12,245,928	22,561,447
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		11,953,406	21,702,636
Cash at bank and in hand		294,149	1,315,780
	13.12	12,247,555	23,018,416
Bank overdrafts and loans	13.16	(1,627)	(52,937)
Short-term deposits maturing in three to six months	13.12	-	(404,032)
		12,245,928	22,561,447

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

EMISSIONS: LCH.Clearnet launched its innovative OTC clearing service for spot and forward EU Allowances and Kyoto credits in July 2009. The rapid adoption of this service makes LCH.Clearnet a leading provider of clearing services to the global carbon market.



“A wealth of carbon clearing expertise coupled with strong links to the OTC market make LCH.Clearnet a leader in emissions clearing.”

Phil Brown
Managing Director, Climate Markets

11 | Company Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 €'000	2008 €'000
Cashflows arising from operating activities			
Profit for the year	13.7	101,983	167,789
Adjustments to reconcile Company profit for the year to net cash outflows from operating activities:			
Taxation		(4,640)	(4,872)
Finance income		(1,948)	(3,325)
Other finance income		(3,555)	-
Finance cost		13,627	13,721
Dividends received from subsidiary undertakings		(449,000)	(180,000)
Depreciation		10	14
Impairment of investment in subsidiary		332,000	-
Increase in trade and other receivables		(73)	(300)
Increase/(decrease) in trade and other payables		1,952	(117)
Net cash outflow from operations		(9,644)	(7,090)
Taxation received		3,216	-
Net cash outflows from operating activities		(6,428)	(7,090)
Investing activities			
Investment in other financial assets		(71,000)	-
Purchase of investments		(10,445)	-
Interest received		1,948	3,325
Net cash (outflow)/inflow from investing activities		(79,497)	3,325
Financing activities			
Interest paid		(13,152)	(13,152)
Dividends received from subsidiary undertakings		449,000	180,000
Purchase of own shares		(333,000)	(61,834)
Costs related to issue of subordinated loan		-	(1,511)
Dividends paid		(110,899)	(26,000)
Net cash generated (used in)/from financing activities		(8,051)	77,503
(Decrease)/increase in cash and cash equivalents		(93,976)	73,738
Cash and cash equivalents at 1 January		94,565	20,827
Cash and cash equivalents at 31 December		589	94,565
Cash and cash equivalents at 31 December comprise:			
Investments in secured short-term deposits		-	92,567
Cash at bank and in hand		589	1,998
	13.12	589	94,565

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

12.1 | Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Called up share capital €'000	Capital reserves €'000	Capital redemption reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2008	80,116	15,327	20,000	603,515	718,958
Profit for the year	-	-	-	219,816	219,816
Other comprehensive expense	-	-	-	(12,545)	(12,545)
Total comprehensive income	-	-	-	207,271	207,271
Shares purchased	(6,183)	-	6,183	(61,834)	(61,834)
Dividends	-	-	-	(26,000)	(26,000)
Shareholders' equity at 31 December 2008	73,933	15,327	26,183	722,952	838,395
Loss for the year	-	-	-	(90,996)	(90,996)
Other comprehensive income	-	-	-	1,643	1,643
Total comprehensive expense	-	-	-	(89,353)	(89,353)
Shares purchased	(33,300)	-	33,300	(333,000)	(333,000)
Dividends	-	-	-	(110,899)	(110,899)
Shareholders' equity at 31 December 2009	40,633	15,327	59,483	189,700	305,143

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

12.2 | Company Statement of Changes in Equity

For the year ended 31 December 2009

	Called up share capital €'000	Capital redemption reserve €'000	Retained earnings €'000	Total €'000
Shareholders' equity at 1 January 2008	80,116	20,000	389,795	489,911
Profit for the year	-	-	167,789	167,789
Shares purchased	(6,183)	6,183	(61,834)	(61,834)
Dividends	-	-	(26,000)	(26,000)
Shareholders' equity at 31 December 2008	73,933	26,183	469,750	569,866
Profit for the year	-	-	101,983	101,983
Shares purchased	(33,000)	33,000	(333,000)	(333,000)
Dividends	-	-	(110,899)	(110,899)
Shareholders' equity at 31 December 2009	40,633	59,483	127,834	227,950

The notes on pages 32 to 75 form an integral part of these consolidated financial statements.

13 | Notes to the Consolidated Financial Statements

13.1 Authorisation of financial statements and statement of compliance with IFRS

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

Authorisation for publication

The financial statements for the Company, and the consolidated financial statements of the Group, for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 15 February 2010 and the statements of financial position were signed on the Board's behalf by the Group Chairman, A. Chris Tupker.

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

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

Statement of compliance

Both the financial statements of the Company and the consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out on pages 32 to 37. These policies have been applied during the years ended 31 December 2009 and 31 December 2008.

13.2 Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2009 reporting and with those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the valuation of financial assets and liabilities held at fair value through profit and loss. A summary of significant accounting policies is set out below, together with an explanation of changes to previous policies on the adoption of new accounting standards.

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

Judgements and key sources of estimation uncertainty

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and other intangible assets and measurement of defined benefit pension obligations. The Group determines whether indefinite life goodwill is impaired on an annual basis and this requires an estimation of the value in use of cash generating units to which the goodwill is allocated. Other assets are assessed when an indication of impairment arises. This requires the estimation of future cash flows and choosing a suitable discount rate (see note 13.9). Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation as well as mortality rates, the expected return on assets and the choice of a suitable discount rate (see note 13.18).

Going concern

The directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

a) Presentational currency

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

b) Basis of consolidation

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

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

c) Investments

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

d) Foreign currencies

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into euros at the rates of exchange ruling on the statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. All exchange differences are recorded in the income statement.

e) Goodwill

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

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

f) Intangible assets other than goodwill

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

Self-developed software	over 3 years
Patents	over 5 years

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

Notes to the Consolidated Financial Statements continued

g) Property, plant and equipment

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

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

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

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

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

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

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

i) Financial instruments

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

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

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

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

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

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

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

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

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

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

j) Interest bearing loans and borrowings

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

k) Derecognition of financial assets and financial liabilities

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

l) Taxation

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

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

Current tax

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

Deferred tax

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

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

m) Provisions

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

n) Share capital

Called up share capital comprises ordinary shares. Other capital reserves are described in Note 13.15. Other instruments (including redeemable cumulative preference shares) are classified as liabilities if there is an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the income statement in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Notes to the Consolidated Financial Statements continued

o) Revenue recognition

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

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

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

p) Segment reporting

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

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

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

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

q) Employee benefits

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

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

qualified independent actuary.

A full actuarial valuation of the LCH Pension Scheme was carried out at 30 June 2007 and partially updated to 31 December 2009 by a qualified independent actuary. Major assumptions used by the actuary are included within note 13.18.2.

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

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

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

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

r) Borrowing costs

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

s) Dividends

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

t) Leases

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

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

u) Changes in accounting policies and disclosures

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

• Amendments to IFRS 7	Financial Instruments: Disclosures
• IFRS 8	Operating Segments
• IAS 1	Presentation of Financial Statements
• IAS 23 (Revised)	Borrowing Costs
• IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items

When the adoption of the IFRS is deemed to have an impact on the Financial Statements of performance of the Group its impact is described below:

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. Financial instrument disclosures are presented in note 13.23.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting. The Group concluded that the operating segments determined in accordance with IFRS 8 follow the legal entities in the Group – LCH.Clearnet Limited (UK), LCH.Clearnet SA (Europe) and Other. Other includes LCH.Clearnet Group Limited (the Group holding company) and LCH.Clearnet Lxembourg S.à.r.l (which holds the Group's intellectual property) and other head office entities. Previously under IAS 14 the Group's primary segments were geographical with the UK including LCH.Clearnet Limited, LCH.Clearnet Group Limited and other head office companies; and Europe including LCH.Clearnet SA and LCH.Clearnet (Luxembourg) S.à.r.l. IFRS 8 disclosures are included in note 13.4, including the related comparative information.

IAS 1 Presentation of Financial Statements

The standard introduces the statement of comprehensive income which presents all items of recognised income and expense. The Group has elected to present this in two linked statements.

v) 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 Financial Reporting Interpretations Committee (IFRIC)		Effective date
IFRIC 17	Distributions of Non-Cash Assets to Owners	Periods beginning on or after 1 January 2009

The Group will adopt IFRIC 17 in the year it becomes effective, but does not anticipate that it will have a material impact on the financial statements.

Notes to the Consolidated Financial Statements continued

13.3 Exchange rates

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

	2009 Closing rate	2009 Average rate	2008 Closing rate	2008 Average rate
Euro (€) to US Dollar (\$)	1.43	1.39	1.40	1.47
Euro (€) to Pound (£)	0.89	0.89	0.96	0.79

13.4 Operating segment information

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

Ltd and SA derive revenues through their activities as clearing houses. They provide central counterparty services in respect of a broad range of cash and derivative products traded on or through various exchanges and trading platforms in the United Kingdom (Ltd), Europe (SA) and the USA (Ltd), or traded in OTC markets. Luxembourg earns royalties from Group companies who use the intellectual property held by it in their operations, and Group Ltd earns revenue from the operating subsidiaries in the form of management fees.

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

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

13.4.1 Segmented income statement

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

Notes to the Consolidated Financial Statements continued

	2008			
	Ltd €'000	SA €'000	Other €'000	Total €'000
Revenue				
Interest income				
Treasury	710,864	439,587	-	1,150,451
Default Fund	38,268	32,874	-	71,142
	749,132	472,461	-	1,221,593
Interest expense				
Treasury	(529,920)	(402,552)	-	(932,472)
Default Fund	(50,683)	(32,874)	-	(83,557)
	(580,603)	(435,426)	-	(1,016,029)
Net interest income	168,529	37,035	-	205,564
Clearing fees	198,232	139,982	-	338,214
Other fee income	10,858	22,040	11,065	43,963
Inter-segment	(639)	(2,552)	(11,065)	(14,256)
	10,219	19,488	-	29,707
Segment Revenue	376,980	196,505	-	573,485
Result				
Segment result	212,595	92,567	(11,551)	293,611
Finance income	8,609	5,871	3,325	17,805
Finance cost	-	(1,596)	(13,721)	(15,317)
Profit before tax	221,204	96,842	(21,947)	296,099
Tax expense	(50,072)	(31,413)	5,202	(76,283)
Profit for the year	171,132	65,429	(16,745)	219,816

13.4.2 Assets and liabilities

	2009			
	Ltd €'000	SA €'000	Other €'000	Total €'000
Assets and liabilities				
Total assets	297,815,366	148,675,550	107,777	446,598,693
Total liabilities	(297,681,318)	(148,424,444)	(187,788)	(446,293,550)
Other segment information				
Capital expenditure on fixed assets	12,081	6,175	15,079	33,335
Non-cash items:				
Fair value (loss)/gain on financial instruments	(20,053)	15,111	-	(4,942)
Impairment of goodwill	-	14,800	378,600	393,400
Depreciation of property, plant and equipment	5,492	428	21	5,941
Amortisation	1,375	3,544	1,883	6,802
	2008			
	Ltd €'000	SA €'000	Other €'000	Total €'000
Assets and liabilities				
Total assets	274,563,069	82,435,347	108,863	357,107,279
Total liabilities	(274,302,325)	(81,755,129)	(211,430)	(356,268,884)
Other segment information				
Capital expenditure on fixed assets	12,736	4,064	20,030	36,830
Non-cash items:				
Fair value gain on financial instruments	22,177	3,344	-	25,521
Depreciation of property, plant and equipment	4,753	398	21	5,172
Amortisation of intangible assets	4,157	3,878	-	8,035

Notes to the Consolidated Financial Statements continued

13.4.3 Geographic information

	2009 €'000	2008 €'000
Revenues from external customers		
UK	532,057	376,980
Europe	179,492	196,505
Net revenue per consolidated income statement	711,549	573,485
Non-current assets		
UK	36,351	31,612
Europe	155,498	533,395
Total	191,849	565,007

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

Including the compensation for termination of contract NYSE Liffe has contributed €273,789,000 to the Group's net revenue.

Non-current assets are as defined in the statement of financial position.

13.5 Profit before taxation

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

	2009 €'000	2008 €'000
13.5.1 Depreciation, amortisation and impairment		
Depreciation of property, plant and equipment	5,941	5,172
Amortisation of intangible assets	6,802	8,035
Impairment of goodwill	393,400	-
Loss on disposal of intangible assets	335	-
	406,478	13,207
13.5.2 Other operating expenditure includes:		
Hire of plant and machinery under operating leases	1,192	591
Property lease rentals	9,023	8,171
Outsourced IT infrastructure	37,385	36,408
Self-developed software expensed directly to the income statement	52,442	24,371
Foreign exchange losses	3,081	2,962
Auditors remuneration:		
Audit related - Company	143	91
Audit related - subsidiaries	555	574
Non-audit related - Company	12	103
Non-audit related - subsidiaries	28	86
13.5.3 Net finance income		
Interest paid in respect of:		
Subordinated loan	(520)	(1,513)
Preferred securities	(12,420)	(13,721)
Interest on bank loans and overdrafts repayable within 5 years	(122)	(83)
	(13,062)	(15,317)
Other finance income: profit on repurchase of preferred securities	9,555	-
Interest received on own funds	4,438	17,805
	931	2,488

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

Notes to the Consolidated Financial Statements continued

13.6 Taxation

The major components of taxation expense are:

13.6.1 Consolidated income statement

	Note	2009 €'000	2008 €'000
Current income tax			
United Kingdom			
Corporation tax		(123,152)	(80,314)
Double taxation relief		26,056	31,796
Current tax charge		(97,096)	(48,518)
Adjustments in respect of current taxation in previous years		(1,398)	3,153
		(98,494)	(45,365)
Overseas			
Current tax charge		(20,945)	(26,587)
Adjustments in respect of current taxation in previous years		(142)	43
		(21,087)	(26,544)
Total current taxation		(119,581)	(71,909)
Deferred tax			
Relating to the origination and reversal of temporary differences	13.6.3	(1,968)	(4,374)
Taxation expense reported in the consolidated income statement	7	(121,549)	(76,283)
Consolidated statement of comprehensive income			
Current tax relating to actuarial loss on overseas schemes	8	2	253
Deferred tax relating to actuarial, gain/loss on UK pension scheme	8	(640)	4,669
		(638)	4,922

13.6.2 Reconciliation of tax expense

	Note	2009 €'000	2008 €'000
Accounting profit before taxation		30,553	296,099
Tax at UK statutory corporation tax rate of 28.0% (2008: 28.5%)		(8,555)	(84,388)
Effect of:			
Adjustments in respect of tax in previous years		5	3,196
Impairment of goodwill not allowable for tax purposes		(110,152)	-
Expenditure not allowable for tax purposes		(338)	(1,631)
Net effect of higher rates of overseas taxation		(4,153)	(4,752)
Exchange differences		1,644	11,292
Total tax charge	13.6.1	(121,549)	(76,283)
Effective income tax rate (%)		397.8	25.8

The effective income tax rate excluding impairment of goodwill, which is not eligible for tax relief, is 28.7% (2008: 25.8%). Exchange differences have arisen on the translation of the closing sterling tax creditor which is payable to the UK tax authority.

13.6.3 Deferred tax

	Consolidated statement of financial position		Consolidated income statement	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Post-employment benefits	5,994	8,356	(2,009)	(865)
Reduced depreciation for tax purposes	4,728	3,441	1,817	(3,840)
Other temporary differences	(2,086)	(1,458)	(1,776)	331
Deferred tax charge			(1,968)	(4,374)
Net deferred tax asset	8,636	10,339		

	UK €'000	Luxembourg €'000	Other overseas	Total €'000
Net deferred tax asset/(liability) at 1 January 2009	11,172	331	(1,164)	10,339
Deferred tax in income statement	(730)	450	(1,688)	(1,968)
Deferred tax relating to actuarial loss	(640)	-	-	(640)
Other movements	905	-	-	905
Net deferred tax asset/(liability) at 31 December 2009	10,707	781	(2,852)	8,636

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

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

Notes to the Consolidated Financial Statements continued

13.7 Profits of the holding company

The retained profit for the year includes a profit of €101,983,000 (2008: €167,789,000) which is dealt with in the company accounts of LCH.Clearnet Group Limited.

13.8 Intangible assets

	Patents €'000	Self-developed software €'000	Goodwill €'000	Total €'000
Cost				
At 1 January 2009	16	106,845	503,836	610,697
Additions	-	(30,848)	-	(30,848)
Disposals	-	(1,590)	-	(1,590)
At 31 December 2009	16	136,103	503,836	639,955
Accumulated amortisation				
At 1 January 2009	16	70,476	-	70,492
Amortisation charge for the year	-	6,802	-	6,802
Impairment	-	-	393,400	393,400
Disposals	-	(1,255)	-	(1,255)
At 31 December 2009	16	76,023	393,400	469,439
Net book value				
At 31 December 2009	-	60,080	110,436	170,516
Cost				
At 1 January 2008	16	75,221	503,836	579,073
Additions	-	31,624	-	31,624
At 31 December 2008	16	106,845	503,836	610,697
Accumulated amortisation				
At 1 January 2008	16	62,441	-	62,457
Amortisation charge for the year	-	8,035	-	8,035
At 31 December 2008	16	70,476	-	70,492
Net book value				
At 31 December 2008	-	36,369	503,836	540,205

The balance of capitalised self-developed software costs that relates to software not currently brought into use at 31 December 2009, and against which no amortisation has been charged during the year then ended, was €42,938,000 (2008: €28,584,000).

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

13.9 Impairment testing of intangible assets

Goodwill

Goodwill is carried in relation to the acquisition of LCH.Clearnet SA, a wholly-owned subsidiary. The recoverable amount associated with this subsidiary is determined based on value-in-use calculations. These calculations use cash flow projections derived from financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2.0% (2008: 2.5%). This long-term growth rate is in line with the long-term average growth rate for the markets which LCH.Clearnet SA clears.

In preparing the forecasts, management has made certain assumptions. Amongst these, growth in cash equity clearing volumes and tariff levels are the most important; they are also inter-related.

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

Accordingly, an impairment charge of €393,400,000 has been recognised in the year within “Impairment of goodwill” in the consolidated income statement, reducing the goodwill to €110,436,000.

Cash flows are discounted using a pre-tax discount rate of 12.8% (2008: 14.7%), which reflects the specific risks relating to the relevant segments.

Notes to the Consolidated Financial Statements continued

13.10 Property, plant and equipment

	Leasehold refurbishment €'000	Computer equipment software €'000	Office equipment and other fixed assets €'000	Total €'000
Cost				
At 1 January 2009	7,014	18,368	5,488	30,870
Additions	245	2,094	148	2,487
At 31 December 2009	7,259	20,462	5,636	33,357
Accumulated depreciation				
At 1 January 2009	3,668	10,602	3,301	17,571
Depreciation charge for the year	614	4,634	693	5,941
At 31 December 2009	4,282	15,236	3,994	23,512
Net book value				
At 31 December 2009	2,977	5,226	1,642	9,845
Cost				
At 1 January 2008	6,357	14,920	4,387	25,664
Additions	657	3,448	1,101	5,206
At 31 December 2008	7,014	18,368	5,488	30,870
Accumulated depreciation				
At 1 January 2008	3,155	6,645	2,599	12,399
Depreciation charge for the year	513	3,957	702	5,172
At 31 December 2008	3,668	10,602	3,301	17,571
Net book value				
At 31 December 2008	3,346	7,766	2,187	13,299

13.11 Investments

Company	Investment in subsidiaries
Investments	
Cost and net book value at 1 January 2009/2008	673,481
Impairment	(332,000)
Net book value at 31 December 2009	341,481

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

The Company's principal subsidiaries are as follows:

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

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

**Holding relates only to Group's issued preferred securities and is through limited partnership interest

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

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

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

Notes to the Consolidated Financial Statements continued

13.12 Cash and short-term deposits

	Group		Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Cash at bank and in hand	294,149	1,315,780	589	1,998
Short-term deposits	11,953,406	21,702,636	-	92,567
	12,247,555	23,018,416	589	94,565

€10,549,381,000 (2008: €18,690,747,000) of short-term deposits are fully collateralised by high quality sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Group risk committee. In 2008 €404,032,000 (2009: €nil) of short-term deposits mature in three to six months.

13.13 Trade and other receivables

	Group		Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Amounts falling due within one year:				
Other receivables	8,390	5,170	128	44
Amounts owed by Group undertakings	-	-	1,346	1,350
	8,390	5,170	1,474	1,394
Prepayments	8,323	9,407	-	7
Accrued income	5,019	57,740	-	-
	21,732	72,317	1,474	1,401

13.14 Balances with clearing members

	Group	
	2009	2008
	€'000	€'000
Assets		
Fair value of transactions with clearing members, less variation margin	419,010,310	319,268,833
Initial margin and other clearing member balances	1,494,477	707,230
	420,504,787	319,976,063
Liabilities		
Fair value of transactions with clearing members, less variation margin	(418,985,594)	(319,264,882)
Initial margin and other clearing member balances	(25,155,620)	(34,928,393)
	(444,141,214)	(354,193,275)

The balances due from clearing members recorded in the statement of financial position of €420,505 million (2008: €319,976 million) are fully secured by collateral held by the Group. All outstanding RepoClear transactions are fully collateralised after appropriate haircutting. To date this collateral has not been utilised.

At 31 December 2009, the total of fully collateralised loans in respect of Fixed Income transactions was €408,980 million (2008: €310,079 million). This collateral has in turn, been passed on to fixed income counterparties to secure the Group's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral, including that in respect of initial margin, relating to other balances due from clearing members was €31,517 million (2008: €45,267 million) and the total amount of guarantees held was €2,999 million (2008: €4,646 million).

Notes to the Consolidated Financial Statements continued

13.15 Issued capital and reserves

	Group & Company	
	2009	2008
	€'000	€'000
Authorised		
100,916,003 (2008: 100,916,003) ordinary shares of €1 each	100,916	100,916
200,000 (2008: 200,000) non-cumulative callable preference shares of €1 each	200	200
Issued and fully paid		
40,632,643 (2008: 73,932,616) ordinary shares of €1 each	40,633	73,933
(Including 3 non-voting shares)		

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

In 2008 6,183,362 shares were repurchased as part of the NYSE Euronext buyback at €10 per share.

Share capital

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

Non-cumulative callable preference shares (NCPS)

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

Capital reserves (Section 12)

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

Capital redemption reserve (Section 12)

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

Distributable reserves (Section 12)

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

13.16 Interest bearing loans and borrowings

	Note	Group		Company	
		2009 €'000	2008 €'000	2009 €'000	2008 €'000
Current					
Bank overdrafts	13.16.1	1,627	52,973	-	-
Non-current					
Preferred securities	13.16.3	176,494	196,019	-	-
Subordinated loan owed to subsidiary	13.16.3	-	-	196,494	196,019
Subordinated loan	13.16.2	-	27,000	-	-
		176,494	223,019	196,494	196,019

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

13.16.1 Bank overdrafts

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

13.16.2 Subordinated loan

The subordinated loan was redeemed on 21 September 2009 at its nominal value.

Interest on the subordinated loan was 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 the rate would have become 1.2% above three month EURIBOR

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

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

Notes to the Consolidated Financial Statements continued

13.16.3 Preferred securities

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

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

13.16.4 Undrawn borrowing facilities

As at 31 December 2009 the Group has undrawn committed borrowing facilities of €186.1 million (2008: €185.6 million).

13.17 Default funds

	2009 €'000	2008 €'000
LCH.Clearnet SA Default Funds		
OTC fund	443,287	312,592
Other funds	669,435	451,005
	1,112,722	763,597
LCH.Clearnet Limited Default Fund	683,959	622,420
	1,796,681	1,386,017

Default Funds

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

13.18 Employee benefits

13.18.1 Employees and directors

	2009 €'000	2008 €'000
Employee benefits expense		
Wages and salaries	72,182	65,948
Social security costs	14,126	12,153
Pension costs	11,795	8,729
Employee benefits expense	98,103	86,830
Average monthly number of people (including executive directors) employed	677	595

	2009 €'000	Company 2008 €'000
Directors		
Total remuneration paid to directors of the Company		
Emoluments	1,384	1,179

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

Remuneration of the highest paid director was €393,000 (2008: €441,000).

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

Aggregate emoluments of the Group Executive Committee, comprising Roger Liddell (Group Chief Executive), Francis Berthomier (Group Chief Financial Officer), Alberto Pravettoni (Managing Director, Corporate Strategy) and Christophe Hémon (Chief Executive of LCH.Clearnet SA), were €3,884,000 (2008: €3,937,000). This includes €175,000 (2008: €175,000) contribution to pension schemes. None of the senior executive team are directors of the Company.

13.18.2 Pension commitments

The Group operates a defined benefit pension scheme for its employees in the UK (the LCH Pension Scheme). In addition, the Group has obligations in respect of certain staff in a Euronext defined benefit pension scheme in Amsterdam and an independent defined benefit scheme in Porto. The UK scheme has 463 active members, 395 inactive members and 96 pensioners. The Amsterdam scheme has 15 active and 4 inactive members, whilst the Porto scheme has only 4 active members. The following disclosure represents the consolidated position of these arrangements.

The valuations of the UK scheme conducted for financial reporting purposes are based on the triennial actuarial valuation. The other schemes were subject to a full valuation at 31 December 2009. A summary of the triennial valuation for the UK scheme, as at 30 June 2007, is as follows:

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

Notes to the Consolidated Financial Statements continued

13.18.2 Pension commitments continued

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

Assumptions used	2009		2008		2007		2006		2005	
	UK Scheme	Amsterdam/ Porto Scheme	UK Scheme	Amsterdam/ Porto Scheme	UK Scheme	Amsterdam/ Porto Scheme	UK Scheme	Amsterdam/ Porto Scheme	UK Scheme	Amsterdam
Discount rate	5.75%	5.00%	5.75%	5.50%	5.50%	5.50%	5.10%	4.50%	4.80%	4.25%
Rate of increase in salaries	5.00%	3.75%/ 3.50%	5.00%	3.75%/ 3.50%	5.25%	3.50%/ 3.25%	5.10%	3.50%/ 3.00%	4.80%	3.50%
Rate of increase in pensions	3.25%	3.50%	2.75%	2.00%/ 1.50%	3.25%	1.75%/ 1.50%	3.10%	1.75%/ 2.00%	2.80%	1.75%
Inflation assumption	3.50%	2.25%	3.00%	2.25%	3.25%	2.00%	3.10%	2.00%	2.80%	2.00%
Expected rates of return on scheme assets:										
Equities	6.50%	7.90%/ 10.50%	6.40%	8.70%/ 9.10%	7.10%	7.40%/ 7.00%	7.00%	6.80%/ 7.40%	6.60%	6.40%
Bonds	5.30%	4.20%/ 3.26%	5.00%	4.10%/ 4.56%	5.20%	4.20%/ 4.10%	4.50%	3.70%/ 4.10%	4.10%	3.20%
Property	6.50%	N/A/ 7.40%	6.40%	N/A/ 6.70%	5.25%	N/A/ 5.75%	5.00%	N/A/ 3.20%	4.50%	N/A
Cash	-	N/A/ 2.00%	2.00%	N/A/ 3.80%	5.25%	N/A/ 4.10%	5.00%	N/A/ 2.00%	4.50%	N/A
Weighted average	6.14%	5.31%/ 4.54%	5.68%	5.48%/ 5.30%	6.57%	5.16%/ 4.50%	6.58%	4.63%/ 3.91%	6.20%	4.16%
Post retirement mortality in years:										
Currently aged 60 – male	28.7		28.6		26.7		26.6		21.2	
Currently aged 60 – female	31.6		31.5		29.6		29.5		24.2	
Currently aged 45 – male	29.6		29.6		27.6		27.6		23.9	
Currently aged 45 – female	32.5		32.4		30.5		30.4		26.6	

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

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

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

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

Notes to the Consolidated Financial Statements continued

13.18.2 Pension commitments continued

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

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

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

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

	2009 €'000	2008 €'000
Net liability shown in statement of financial position		
Deficit for funded plans	1,339	21,926
Other European retirement provisions	1,909	2,014
Employee benefits	3,248	23,940

	2009 €'000	2008 €'000	2007 €'000	2006 €'000	2005 €'000
Analysis of pension benefit obligation					
Present value of funded obligations	125,254	95,094	122,239	140,053	113,531
Fair value of plan assets	(123,915)	(73,168)	(117,794)	(95,688)	(78,973)
Deficit for funded plans	1,339	21,926	4,445	44,365	34,558

Notes to the Consolidated Financial Statements continued

13.18.2 Pension commitments continued

	2009	2008
	€'000	€'000
Components of pension cost		
Current service cost	10,439	9,487
Interest cost	5,797	6,155
Expected return on plan assets	(4,665)	(7,291)
	11,571	8,351
Other pension costs	224	378
Total pension expense recognised in the income statement	11,795	8,729
Net actuarial (gains)/losses immediately recognised	(2,281)	17,467
Total pension (income)/expense recognised in the statement of changes in equity	(2,281)	17,467

The cumulative amount of actuarial losses recognised in the statement of changes in equity since the Group adopted IFRS on 1 January 2004 is €5,371,000 (2008: €7,652,000 loss).

Pension scheme asset allocation

An analysis of the pension assets is set out below:

At 31 December 2009

	UK Scheme €'000	%	Amsterdam/ Porto €'000	%	Total €'000	%
Equities	69,025	57	749	29	69,774	56
Bonds	21,472	18	1,824	70	23,296	19
Property and cash	30,812	25	33	1	30,845	25
Total	121,309	100	2,606	100	123,915	100

At 31 December 2008

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

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 2009 €'000	Year ended 31 December 2008 €'000
Actual return on plan assets	15,343	(20,425)

Notes to the Consolidated Financial Statements continued

13.18.2 Pension commitments continued

History of experience gains and losses

	Financial years ending 31 December:				
	2009	2008	2007	2006	2005
	€'000	€'000	€'000	€'000	€'000
Difference between expected and actual return on scheme assets:					
Amount	10,678	(27,716)	2,025	5,010	10,161
Percentage of scheme assets	9%	(38%)	2%	5%	13%
Experience (gains) and losses on scheme liabilities:					
Amount	-	47	(11,317)	15	2,042
Percentage of scheme liabilities	-	-	(9%)	-	2%

Contributions

The Group expects to contribute €9,147,000 (2009: €31,566,000) to its defined benefit pension plans in 2010. The contributions in 2009 include a one-off additional payment of €22,459,000 into the LCH Pension Scheme in December 2009. The LCH Pension Scheme was closed to new members from 1 September 2009. New employees in LCH.Clearnet Limited have the option of joining a new defined contribution scheme from 1 January 2010.

Other comments

Included in employee benefits is a provision for compensation for retirement of €1,642,000 (2008: €1,687,000) and €267,000 (2008: €327,000) 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 €179,000 (2008: €323,000) and the charge in the early retirement scheme was €45,000 (2008: €55,000).

13.19 Trade and other payables

	Group		Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Trade payables	7,606	7,150	179	149
Other payables including taxation and social security	39,488	212,755	-	-
Amounts owed to Group undertakings	-	-	1,634	1,445
Accruals and deferred income	68,459	75,102	12,366	10,633
	115,553	295,007	14,179	12,227

Other payables in 2008 included a balance of €180,188,000 owed to the administrator of Lehman Brothers which was settled in 2009.

13.20 Commitments and contingencies

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

	2009		2008	
	Property	Plant and equipment	Property	Plant and equipment
	€'000	€'000	€'000	€'000
Within one year	8,339	390	9,573	380
More than one year, but less than five	27,190	-	12,735	361
More than five years*	16,377	-	5,602	-
	51,906	390	27,910	741

*The property rentals relate primarily to the lease of offices in London and Paris which expire in 2016 and 2018 respectively. The previous Paris lease which was due to expire in 2010 was extended during the year.

Notes to the Consolidated Financial Statements continued

13.20 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. This agreement was renegotiated in 2009 to reduce the on-going costs to around €15 million per annum. The estimated maximum value of the remaining commitment, following the introduction of new developments this year is €104 million (2008: €201 million), assuming no early termination. The Group has the right to terminate this agreement with one year's notice.

Contingent liabilities

At 31 December 2009 there were no material contingent liabilities.

Treasury assets supporting operational facilities

At 31 December 2009 the Group had assets and collateral in support of the following operational facilities.

	2009 €'000	2008 €'000
Central bank activity	6,797,312	2,861,640
Concentration bank services	225,441	208,714
Fixed income settlement*	14,138,917	18,983,218
Equity and derivatives settlement delivery	174,423	29,625
Performance collateral on energy markets	1,138	1,044
	21,337,231	22,084,241

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

13.21 Related party disclosure

Key management personnel

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

Group undertakings

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

13.22 Financial risk management objectives and policies

13.22.1 Introduction

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

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

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

13.22.2 Foreign exchange risk

This risk arises from the fact the presentational and functional currency of the Group is euros, although LCH.Clearnet Limited incurs a significant portion of its costs and revenues in sterling and other currencies. The Group is exposed to foreign exchange risk primarily with respect to sterling and US dollars in the translation of net assets and 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.

13.22.3 Interest rate risk

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

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

13.22.4 Financial market volatility (Latent market risk)

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

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

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

Notes to the Consolidated Financial Statements continued

13.22.4 Financial market volatility (Latent market risk) continued

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.

13.22.5 Credit risk

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

The Group has credit risk exposure as a direct result of the cash it holds which is primarily a result of its central counterparty activities. This cash portfolio is invested within the confines of clear risk policies which aim to secure a significant portion of the cash portfolio via tri-party repo receiving high quality government and quasi-government securities as collateral or by investing directly in such quasi-government or government securities. Securities received as collateral are subject to a haircut on their market value on a daily basis. The small amount of cash not secured in this way will be deposited in the money markets on an unsecured, short-term basis only to high quality banking institutions, or in government backed assets.

13.22.6 Concentration risk

Concentration risk includes large connected individual exposures and significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors. Concentration risk only arises with respect to the Group's treasury assets (see 13.23) and, in order to avoid excessive concentrations of risk, the Group maintains a diversified portfolio of treasury assets. In accordance with investment policies no single institution can hold more than 25% of funds.

13.22.7 Liquidity risk

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

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

As a result liquidity risk is managed by ensuring that the operating clearing houses in the Group have sufficient available cash to meet its payment obligations and by the provision of facilities to meet short-term imbalances between available cash and payment obligations. The Group has identified two scenarios to evaluate the need for liquidity; a daily operational liquidity need, based on the maximum relevant liquidity outflow observed over an extensive data history; and the default liquidity need which aims to evaluate the liquidity requirement on the day of a default and subsequent days so that the Group can meet its obligations to members as a central counterparty.

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

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

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

13.22.8 Settlement risk

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

The Group fully mitigates this risk since it always uses guaranteed and irrevocable Delivery versus Payment (DvP) mechanisms where available. If not available (e.g. commodities) the payment or delivery is always called first before the Group delivers or makes a payment to the counterparty.

13.22.9 Settlement bank risk

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

The Group uses a combination of central bank, payment agent and commercial settlement bank models. The Treasury process is set up to have no balances at commercial settlement banks overnight, and instead have them at the Bank of England and Banque de France. If the payment agent or commercial settlement bank is not able to transfer funds to the Group the clearing members remain liable for the fulfilment of their payment obligations.

13.22.10 Custody risk

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

Although the risk of insolvency of Central Securities Depositories, International Central Securities Depositories, or Custodian banks (subject to minimum credit rating) used by the Group is low the Group mitigates other risks through legal arrangements and dedicated processes.

13.22.11 Other risk management

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

Operational risk

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

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

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

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

13.22.12 Pension risk

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

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

13.22.13 Compliance, legal and reputational risk

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

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

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

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

Notes to the Consolidated Financial Statements continued

13.23 Financial instruments

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

		Group		Company	
	Note	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Financial assets at fair value through profit or loss					
Term loans held in cash		-	2,831,305	-	-
Fair value of transactions with clearing members	13.14	419,010,310	319,268,833	-	-
Investment in preferred securities		-	-	14,000	-
Government backed, bank issued certificates of deposits		5,895,649	7,474,341	-	-
Treasury bills		6,205,155	4,751,027	-	-
Government notes		-	436,254	-	-
Government backed, bank securities		712,154	21,462	-	-
Bank issued certificates of deposit		806,682	781,299	-	-
Other financial assets		13,619,640	13,464,383	14,000	-
Loans and receivables					
Debtors and other receivables	13.13	13,409	62,910	1,474	1,394
Short-term loan due from subsidiary		-	-	71,000	-
Initial margin and other member balances	13.14	1,494,477	707,230	-	-
Cash and cash equivalents on demand held at cost		12,247,555	20,187,111	589	94,565
Add term loans held at fair value		-	2,831,305	-	-
Cash and short-term deposits in the statement of financial position	13.12	12,247,555	23,018,416	589	94,565
Financial liabilities at fair value through profit or loss					
Fair value of transactions with clearing members	13.14	(418,985,594)	(319,264,882)	-	-
Collateral borrowings		-	(56,010)	-	-
Financial liabilities at amortised cost					
Trade and other payables	13.19	(115,553)	(295,007)	(14,179)	(12,227)
Initial margin and other member balances	13.14	(25,155,620)	(34,928,393)	-	-
Default Funds	13.17	(1,796,681)	(1,386,017)	-	-
Bank overdrafts	13.16	(1,627)	(52,937)	-	-
Preferred securities	13.16	(176,494)	(196,019)	-	-
Subordinated loan	13.16	-	(27,000)	-	-
Subordinated loan owed to subsidiary	13.16	-	-	(196,494)	(196,019)
Derivative financial instruments at fair value through profit or loss					
Interest rate swap receivables		17,838	21,224	-	-
Interest rate swap payables		(32,908)	(29,940)	-	-
Net Interest rate swap liability		(15,070)	(8,716)	-	-
of which:					
Derivative financial assets		490	-	-	-
Derivative financial liabilities		(15,560)	(8,716)	-	-
		(15,070)	(8,716)	-	-

Fair value hierarchy

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

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

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

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

	2009 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Assets measured at fair value				
Fair value of transactions with clearing members	419,010,310	8,017,792	410,992,518	-
Government backed, bank issued certificates of deposits	5,895,649	-	5,895,649	-
Treasury bills	4,440,810	4,440,810	-	-
Government backed, bank securities	2,476,499	-	2,476,499	-
Bank issued certificates of deposit	806,682	-	806,682	-
Interest rate swap asset	490	-	490	-
Liabilities measured at fair value				
Fair value of transactions with clearing members	(418,985,594)	(7,993,076)	(410,992,518)	-
Interest rate swap liability	(15,560)	-	(15,560)	-

Credit risk

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

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

Notes to the Consolidated Financial Statements continued

13.23 Financial instruments continued

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

	Note	2009 €'000	2008 €'000
Fair value of member balances			
(Ratings as measured by Fitch)			
Members rated AAA		19,078,976	1,786,462
AA+		1,191,615	1,228,553
AA		98,766,389	76,098,399
AA-		130,031,823	117,635,909
A+		94,904,983	77,173,551
A		43,107,268	14,861,758
A-		1,883,962	1,255,302
BBB+		19,740,111	3,659,719
BBB		9,400,666	7,209,098
BBB-		219,067	22
Unrated		685,450	18,360,060
	13.14	419,010,310	319,268,833
Group Treasury portfolio			
(Ratings assigned with reference to major agencies)			
AAA/AA+/AA- Government backed		13,844,070	12,683,084
AA/AA+/AAA Secured		1,490,539	10,272,894
AA/AA+/AAA Unsecured		823,621	3,809,759
A+/AA- Secured		9,075,811	8,383,386
A+/AA- Unsecured		633,154	1,333,676
		25,867,195	36,482,799

The balances due from clearing members are fully secured by collateral held by the Group. As at 31 December 2009, the total of fully collateralised loans in respect of fixed income transactions was €408,980 million (2008: €310,079 million). The collateral has in turn been passed on to fixed income counterparties to secure the Group's liabilities in respect of fixed income contracts.

The total net amount of non-cash collateral, including that in respect of initial margin, relating to other balances due from clearing members was €31,577 million (2008: €45,267 million) and the total amount of guarantees held was €2,999 million (2008: €4,646 million).

Concentration risk

The largest concentration of Treasury exposures as at 31 December 2009 was 19.92% of the total investment portfolio to UK Government backed securities (2008: 20.49% to AAA rated government backed bank issued certificates of deposit).

Liquidity and interest rate risk

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

	On demand €'000	Less than 3 months €'000	3 months to 1 year €'000	1 to 5 years €'000	Over 5 years €'000	Total €'000
2009						
Cash and short-term deposits	8,918,735	3,328,820	-	-	-	12,247,555
Other financial assets	-	5,215,281	4,420,121	3,948,319	-	13,583,721
Bank overdrafts	(1,627)	-	-	-	-	(1,627)
Treasury portfolio	8,917,108	8,544,101	4,420,121	3,948,319	-	25,829,649
Fair value of transactions with clearing members - asset	419,010,310	-	-	-	-	419,010,310
Initial margin and other member balances - asset	1,494,477	-	-	-	-	1,494,477
Fair value of transactions with clearing members - liability	(418,985,594)	-	-	-	-	(418,985,594)
Initial margin and other member balances - liability	(25,155,620)	-	-	-	-	(25,155,620)
Default Fund	(1,796,681)	-	-	-	-	(1,796,681)
Net balance with members	(25,433,108)	-	-	-	-	(25,433,108)
Trade and other receivables	-	13,409	-	-	-	13,409
Trade and other payables	-	(115,553)	-	-	-	(115,813)
Preferred securities	-	-	(11,837)	(47,348)	(215,511)	(274,696)
Interest rate swaps - net outflows	-	(1)	(3,927)	(11,142)	-	(15,070)

Notes to the Consolidated Financial Statements continued

13.23 Financial instruments continued

	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
2008	€'000	€'000	€'000	€'000	€'000	€'000
Cash and short-term deposits	12,085,044	10,525,936	403,465	-	-	23,014,445
Other financial assets	-	8,812,015	4,319,637	302,742	-	13,434,394
Bank overdrafts	(52,937)	-	-	-	-	(52,937)
Treasury portfolio	12,032,107	19,337,951	4,723,102	302,742	-	36,395,902
Fair value of transactions with clearing members - asset	319,268,833	-	-	-	-	319,268,833
Initial margin and other member balances - asset	707,230	-	-	-	-	707,230
Fair value of transactions with clearing members - liability	(319,264,882)	-	-	-	-	(319,264,882)
Initial margin and other member balances - liability	(34,928,393)	-	-	-	-	(34,928,393)
Default Fund	(1,386,017)	-	-	-	-	(1,386,017)
Net balance with members	(35,603,229)	-	-	-	-	(35,603,229)
Trade and other receivables	-	62,910	-	-	-	62,910
Collateral borrowings	-	(24,234)	(31,776)	-	-	(56,010)
Trade and other payables	-	(295,007)	-	-	-	(295,007)
Preferred securities	-	-	(13,152)	(52,608)	(252,608)	(318,368)
Subordinated loan	-	-	(27,000)	-	-	(27,000)
Interest rate swaps – net outflows	-	(6,840)	(1,876)	-	-	(8,716)

For Default Funds, the tenor of the liability, on which interest is paid based on 3 month LIBOR for LCH.Clearnet Limited, is matched with the interest reset dates of the asset and does not exceed 3 months, although the assets themselves have a longer maturity. The weighted average maturity of the total portfolio is 157 days, with strict risk criteria related to interest rate exposure being applied for any assets over 6 months.

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

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

Based on market prices at 31 December 2009 the fair value of the preferred securities are approximately €126,000,000 at the year-end compared to the amortised cost carrying value of €176,494,000 (see note 13.16). The Company purchased some of the Group's preferred securities in the market with a nominal value of €20,000,000 in January 2009. These preferred securities had been issued initially by Freshwater Finance PLC. These were repurchased at a cost of €10,445,250, and have been revalued at the 31 December 2009 price in the Company statement of financial position.

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, net of interest rate swaps, and interest bearing member liabilities. Since the return paid on member liabilities is generally reset to prevailing market interest rates on an overnight basis the Group is only exposed for the time it takes to reset the interest rate on its investments which are held at rates which are fixed for a duration of less than six months, even for assets with a longer maturity.

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

	2009 €'000 +25bp of interest rate	2009 €'000 +50bp of interest rate	2009 €'000 +100bp of interest rate	2008 €'000 +25bp of interest rate	2008 €'000 +50bp of interest rate	2008 €'000 +100bp of interest rate
Net exposure of cash and member margin balances	(19,366)	(39,749)	(80,514)	(9,122)	(18,244)	(36,488)
Interest rate swaps	16,470	32,939	65,879	1,266	2,532	5,064
Subordinated loan	-	-	-	(68)	(135)	(270)
	(2,896)	(6,810)	(14,635)	(7,924)	(15,847)	(31,694)
Tax effect of above	831	1,954	4,200	2,344	4,686	9,374
Impact on profit after tax	(2,065)	(4,856)	(10,435)	(5,580)	(11,161)	(22,320)

	2009 €'000 - 25bp of interest rate	2009 €'000 - 50bp of interest rate	2009 €'000 - 100bp of interest rate	2008 €'000 - 25bp of interest rate	2008 €'000 - 50bp of interest rate	2008 €'000 - 100bp of interest rate
Net exposure of cash and member margin balances	18,049	35,865	71,498	9,122	18,244	36,488
Interest rate swaps	(16,470)	(32,939)	(65,879)	(1,266)	(2,532)	(5,064)
Subordinated loan	-	-	-	68	135	270
	1,579	2,926	5,619	7,924	15,847	31,694
Tax effect of above	(453)	(840)	(1,613)	(2,344)	(4,686)	(9,374)
Impact on profit after tax	1,126	2,086	4,006	5,580	11,161	22,320

Notes to the Consolidated Financial Statements continued

13.23 Financial instruments continued

Foreign exchange sensitivity

The Group converts surplus foreign exchange balances to euros on a regular basis which minimises the effect exchange rate fluctuations will have on overall Group net assets. There are immaterial amounts of foreign exchange exposure in the parent company, LCH.Clearnet SA and LCH.Clearnet (Luxembourg) S.à r.l.

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

	2009 £ €'000	2009 \$ €'000	2008 £ €'000	2008 \$ €'000
Net exposure	(20,540)	3,177	(9,776)	4,093
Reasonable shift	15.7%	3.4%	15.8%	3.2%
Total effect on profit of positive movements	3,224	(109)	1,546	(129)
Total effect on profit of negative movements	(3,224)	109	(1,546)	129
Total effect on net assets of positive movements	3,224	(109)	1,546	(129)
Total effect on net assets of negative movements	(3,224)	109	(1,546)	129

Amounts included in the income statement in relation to financial instruments

	2009 €'000	2008 €'000
Interest income on assets held at fair value	276,383	422,113
Interest income on assets held at amortised cost	121,722	773,959
Net gain on revaluation of cash and cash equivalents held at fair value included in net interest income	(3,971)	3,971
Net gain on revaluation of other financial assets held at fair value included in net interest income	5,661	29,988
Net loss on interest rate swaps	(6,632)	(8,438)
Total revaluation (losses)/gains	(4,942)	25,521
Interest income	393,163	1,221,593
Interest expense on liabilities held at amortised cost	(195,837)	(1,016,029)
Net interest income	197,326	205,564
Finance income on assets held at amortised cost	4,438	17,805
Other finance income on loans and borrowings held at amortised cost	9,555	-
Finance costs on overdrafts held at amortised cost	(122)	(83)
Finance costs on loans and borrowings held at amortised cost	(12,940)	(15,234)
Finance costs	(13,062)	(15,317)
Net finance income	931	2,488

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

13.24 Capital management

LCH.Clearnet Group Limited is lead-regulated by the 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. The Group, as well as LCH.Clearnet SA, is subject to standard capital adequacy rules, under the Basel II framework.

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

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

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

	2009 €'000	2008 €'000
Regulatory capital		
Share capital	40,633	73,933
Other reserves/capital reserves	74,810	41,510
Retained earnings	189,700	612,053
Perpetual preferred securities (2009: Limited to 35% of Tier 1)	72,492	196,019
Goodwill	(110,436)	(503,836)
Intangible assets	(60,080)	(36,369)
Tier 1 equity	207,119	383,310
Perpetual preferred securities (remainder)	104,002	-
Subordinated loan	-	27,000
Tier 2 equity	104,002	27,000
Regulatory capital	311,121	410,310
Capital requirement		
Credit risk requirement	29,800	58,200
Market risk requirement	1,900	2,400
Operational risk requirement	89,300	75,901
Regulatory capital requirement	121,000	136,501
Excess capital over capital requirement	190,121	273,809
Risk weighted assets	1,512,500	1,706,203
Risk asset ratios		
Tier 1 ratio	13.7%	22.5%
Total capital ratio	20.6%	24.0%

Risk weighted assets are defined in the 2009 solvency ratio methodology guide issued by the Commision Bancaire.

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

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

As an exception to the above rules, the preferred securities issued in 2007 were fully considered as Tier 1 capital, following a waiver granted by the Commission Bancaire on 6 February 2007. This waiver expired on 1 January 2009, and since that date these preferred securities have been subject to the standard limits described above.

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

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

14 | Corporate Governance

The Group is committed to business integrity, high ethical values and professionalism in all its activities. The Board supports the highest standards in corporate governance and the Company has complied with the provisions of the Financial Reporting Council's Combined Code on Corporate Governance to the extent such compliance is possible and appropriate given the nature and size of the entities comprised within the Group. However, the Board has identified the following areas of non-compliance:

- i) Adoption of matters reserved for the Board – work is proceeding on the production of a written draft for Board review.
- ii) Appointment of a Senior Independent Director – the Board considers this is not required as a majority of Board members are representatives of the Company's shareholders. The Chairman of the Nomination Committee leads the annual appraisal of the Chairman's performance.
- iii) A balance of executive and non executive directors – the Board consists wholly of non executive directors, the majority of which represent shareholders. No domination of the Board's decision making is considered likely.
- iv) Independent directors – all directors are deemed to be independent, with the longest serving having been appointed in December 2003.
- v) Committee's terms of reference – the Nominations, Remuneration and Audit Committee's Terms of Reference will be made available on the Company's website.

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

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

14.1 The Group structure

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

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

Since 1 January 2009, the following directors were appointed or reappointed to the Board:

Chris Tupker	Xavier Rolet
Ian Abrams	Nazir Badat
Gerard Hartsink	Jerome Kemp
Vivien Levy-Garboua	Lawrence Shaw
David Williams	Jenny Ireland
Denise Wyllie	Garry Jones

Since 1 January 2009, the following Directors resigned their positions on the Board:

Dame Clara Furse DBE	Jean-Pierre Mustier
Jean-François Théodore	

In the circular sent to shareholders to implement a voluntary redemption of its shares in the last quarter of 2009, the Company stated that it would investigate ways to improve the liquidity and ease of transferability of its shares. As the redemption was slightly oversubscribed, a number of redemption applications had to be scaled back. Some shareholders whose elections could not be satisfied in full subsequently communicated to the Company their wish to sell the balance of their shareholdings, whilst some clearing members not currently holding shares in the Company expressed an interest in acquiring some.

In order to facilitate that process, the Company has made available a matched bargain facility (the "Service") since January 2010 which provides a facility for existing shareholders and other entities eligible to hold shares under the Company's articles of association (the "Participants") to buy and sell such shares.

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

The subsidiaries:

LCH.Clearnet Limited

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

Since 1 January 2009, the following Directors resigned their positions on the Board:

Gerard Hartsink	Jean-François Théodore
Dame Clara Furse DBE	Denise Wyllie
Francesco Vanni d'Archirafi	Jean Pierre-Mustier
David Williams	

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 limited by shares incorporated in France and therefore governed by French law. It has branches in Amsterdam and Brussels, and a representative office in Portugal.

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

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

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

Since 1 January 2009, the following directors were appointed to the Board:

Hervé Saint-Sauveur	Ian Abrams
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Since 1 January 2009, the following directors resigned their position on the Board:

Catherine Bienstock	Hervé Joubeaud
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LCH.Clearnet (Luxembourg) S.à.r.l.

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

The Company Board

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

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

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

Corporate Governance continued

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

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

In accordance with the Combined Code on Corporate Governance, the Board has undertaken an annual evaluation of its own performance and of its committees, Chairman and individual directors. The results of this internal evaluation were considered at a Board meeting in February 2009. There are no matters outstanding from that evaluation.

Professional Development

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

14.2 Board Committees

The Board requires that each director devote sufficient time to the role as is deemed reasonably necessary to perform his or her duties to its satisfaction. The Board met on 12 occasions during 2009, 6 of which were scheduled meetings with a further 6 additional meetings. For details of attendance at Board and Committee meetings by each director, please see the table below.

	Board – Scheduled meetings	Board – Unscheduled meetings	Audit Committee	Remuneration Committee	Nomination Committee
A.Chris Tupker	6/6	6/6	6/6	4/4	-
John Townend	6/6	6/6	6/6	-	-
Hervé Saint-Sauveur	6/6	6/6	6/6	2/4	-
Nazir Badat	5/6	6/6	6/6	-	-
Xavier Rolet	2/3	3/5	-	-	-
Dame Clara Furse DBE	3/3	0/1	-	-	-
Gerard Hartsink	6/6	6/6	-	-	-
Francesco Vanni d'Archirafi	6/6	6/6	-	4/4	-
Jenny Ireland	6/6	5/6	-	-	4/4
Denise Wyllie	4/6	5/6	-	-	4/4
Jean-François Théodore	5/6	6/6	-	-	-
Martin Abbott	5/6	5/6	-	4/4	-
Jerome Kemp	4/6	6/6	-	-	2/2
Ian Abrams	6/6	6/6	1/2	-	-
Lawrence Shaw	6/6	4/6	-	-	3/4
David Williams	6/6	6/6	-	-	-
Jean-Pierre Mustier	4/4	1/1	-	-	2/3
Vivien Levy-Garboua	6/6	6/6	3/5	-	-

Audit Committee

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

Ian Abrams – Chairman (appointed 22 September 2009)
 Hervé Saint-Sauveur
 Nazir Badat
 Vivien Levy-Garboua
 A. Chris Tupker
 John Townend

The Committee met on 6 occasions during the course of the year. Members of the Company's executive, the Heads of Internal Audit of each subsidiary company and representatives of the external auditor attend meetings by invitation, in accordance with items on the agenda. There is a standing invitation to the Company's Chief Executive. A private session without executive management was held during the course of the year.

The Committee's principal responsibilities are:

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

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

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

The Committee's activities since the beginning of 2009 can be summarized as follows:

Financial Statements

The Committee reviewed the 2008 and 2009 annual reports and accounts before recommending approval to the Board. The Committee also considered management accounts, interim financial statements produced for the purposes of the share redemption, the medium term financial plan and the 2010 Annual Budget.

External Auditors

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

The Committee reviewed the performance of the external auditors against the four key areas of qualification, expertise & resources, effectiveness and independence & leadership. The 2009 Audit Plan and fee schedule were reviewed and approved and the Committee recommended the reappointment of Ernst & Young LLP as the Company's auditors to the Board. Ernst & Young LLP were reappointed as the Company's auditors by the shareholders at the Annual General Meeting held on 14 October 2009.

Internal Audit

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

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

Internal Control

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

Governance

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

Nomination Committee

The membership of the Nomination Committee was revised on 22 September 2009. The Committee is comprised of 4 directors who currently are:

Jenny Ireland – Chairman
 Denise Wyllie
 Lawrence Shaw
 Jerome Kemp (appointed 22 September 2009)

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

Corporate Governance continued

14.2 Board committees continued

Remuneration Committee

The Remuneration Committee is comprised of up to 4 directors who currently are :

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

The Committee is responsible for determining, on behalf of the Board and shareholders, the Group's remuneration policy and to review specific salary and bonus recommendations on an annual basis, in particular those relating to Executive Committee members.

Subsidiary Risk Committees

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

LCH.Clearnet Limited Risk Committee

John Townend (Chairman)
 David Williams – Barclays Bank (Vice-Chairman)
 Grigorios Markouizous – Citigroup
 David Kelly – Deutsche Bank
 Demetria O'Sullivan – JP Morgan
 Diarmuid O'Hegarty – LME
 Nick Carew-Hunt – NYSE Liffe
 Lee Betsill – EDX London
 Nicholas Lincoln – FIMAT
 Roger Canton – UBS
 Michael Cyrus – RBS
 Matteo Farina – Goldman Sachs International
 Roger Liddell – CEO, LCH.Clearnet Group Limited
 Christophe Hémon – CEO, LCH.Clearnet SA
 Francis Berthomier – CFO, LCH.Clearnet Group Limited
 Daniel Gisler – Managing Director, Group Operations & Risk Officer, LCH.Clearnet Group Limited
 Ernest Van Der Hout – Director, Head of Risk, LCH.Clearnet SA
 Chris Jones – Director, Head of Risk, LCH.Clearnet Limited

LCH.Clearnet SA Risk Committee

John Townend (Chairman)
 David Williams (Vice Chairman) – Barclays Bank
 Jean-Pierre Ravisé – Independent
 Edwin Bons - Fortis Bank
 François Levé – Oddo & Cie
 Fabrice Peresse – NYSE Euronext
 Roland Van der Baan – KAS Bank
 Jean-Marie Dassac – BNP Paribas
 Olivier Dubois - Newedge Group
 Michel Robert – Calyon
 Roger Liddell – CEO LCH.Clearnet Group Limited
 Christophe Hémon – CEO, LCH.Clearnet SA
 Francis Berthomier – CFO, LCH.Clearnet Group Limited
 Daniel Gisler – Managing Director, Group Operations & Risk Officer, LCH.Clearnet Group Limited
 Vincent Gros – General Secretary, LCH.Clearnet SA
 Ernest Van Der Hout – Director, Head of Risk, LCH.Clearnet SA

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

14.3 Relations with shareholders

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

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

The Board keeps shareholders informed of progress in the Group through statutory reports, annual general meetings, via ad-hoc communications and the Group's website (www.lchclearnet.com).

14.4 Accountability, audit and control

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

- safeguard assets;
- ensure that proper accounting records are maintained;
- ensure that the financial information used within the business for publication is reliable; and
- ensure that the Company, and the wider Group, continue to meet their legal requirements, including those of LCH.Clearnet Limited as a Recognised Clearing House in the UK 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 foster a culture of integrity, competence, fairness and responsibility.

Financial reporting

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

Identification of business risks

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

Internal audit function

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

14.5 External auditors

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

Audit related services

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

General consulting

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

15 | Remuneration Report

The Remuneration Committee took advice during the year from Simon Patterson, Jackie Alexander and A. Chris Tupker. The committee has retained Simon Patterson as its independent advisor throughout the year via his consultancy, Patterson Associates LLP.

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

15.1 Members of the remuneration committee

The membership of the Group Remuneration Committee is set out in the corporate governance statement in Section 14.2.

15.2 Remuneration policy

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

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

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

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

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

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

The Company also provides a flexible reward system (BENE.FIT) by means of which employees can select benefits according to their own preferences.

15.3 Service contracts

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

The service contracts of the directors include the following:

	Effective appointment date	
A. Chris Tupker ¹	14 October 2009	Independent non-executive (Chairman)
Hervé Saint-Sauveur ²	23 June 2008	Independent non-executive
John Townsend ²	23 June 2008	Independent non-executive
Ian Abrams ²	14 October 2009	Independent non-executive
Garry Jones ³	10 February 2010	Appointed by NYSE Euronext
Jenny Ireland ²	5 November 2009	Other director from Morgan Stanley
Denise Wyllie ²	5 November 2009	Other director from Goldman Sachs
Xavier Rolet ²	14 October 2009	Other director from The London Stock Exchange plc
Gerard Hartsink ²	14 October 2009	Other director from ABN Amro Bank N.V.
Francesco Vanni d'Archirafi ²	23 June 2008	Other director from Citigroup
Nazir Badat ²	14 October 2009	Other director from HSBC Bank plc
Jerome Kemp ²	14 October 2009	Other director from JP Morgan
Lawrence Shaw ²	14 October 2009	Other director from Deutsche Bank
David Williams ²	14 October 2009	Other director from Barclays
Vivien Levy-Garboua ²	14 October 2009	Other director from BNP Paribas
Martin Abbott ³	21 January 2008	Appointed by The London Metal Exchange

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

There are no executive Directors represented on the Board.

Remuneration Report continued

15.4 Non-executive directors

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

15.5 Directors' detailed emoluments

	Salary and fees	Total
	2009	2008
	€'000	€'000
Non-executive		
A. Chris Tupker	392	440
John Townend	130	93
Dominique Hoenn	-	58
Dame Clara Furse DBE*	24	25
Xavier Rolet**	15	-
Jean-François Théodore*	37	43
Jenny Ireland**	63	54
Denise Wyllie***	34	42
Philippe Collas*	-	18
Kevin Davis**	-	17
Gerard Hartsink*	47	34
Hervé Saint-Sauveur	136	96
Francesco Vanni d'Archirafi*	54	55
Nazir Badat	66	62
Robert Wigley	-	24
Ian Abrams	62	17
Martin Abbott*	51	50
Jerome Kemp*	55	8
Vivien Levy-Garboua	63	8
David Williams*	65	17
Lawrence Shaw**	57	17
Jean-Pierre Mustier*	32	-
	1,383	1,178

* Fee paid to employer

** Fee donated to charity

*** Fee partly paid to employer

A. Chris Tupker also received €1,000 benefits in kind in the form of private health care contributions (2008: €1,000).

On behalf of the Board



F Vanni d'Archirafi

Chairman of the Remuneration Committee

15 February 2010

16 | General Information

Directors

The directors who have held office since 1 January 2009 are as follows:

Name	Type of director	Note
A. Chris Tupker	Independent	
Ian Abrams	Independent	
Hervé Saint-Sauveur	Independent	
John Townend	Independent	
Gerard Hartsink	Other	
Jerome Kemp	Other	
Vivien Levy-Garboua	Other	
Lawrence Shaw	Other	
Francesco Vanni d'Archirafi	Other	
David Williams	Other	
Jenny Ireland	Other	Resigned and re-appointed 5 November 2009
Denise Wyllie	Other	Resigned and re-appointed 5 November 2009
Jean-Pierre Mustier	Other	Resigned 6 August 2009
Dame Clara Furse DBE	Further	Resigned 16 June 2009
Xavier Rolet	Further	Appointed 17 June 2009
Jean-François Théodore	NYSE Euronext	Resigned 10 February 2010
Garry Jones	NYSE Euronext	Appointed 10 February 2010
Martin Abbott	The London Metal Exchange	

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

Jenny Ireland and Denise Wyllie ceased to be Euroclear appointed directors further to the redemption of Euroclear's shares and were re-appointed as Other directors.

Company Secretary

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

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www.lchclearnet.com

Directors



A. Chris Tupker
Chairman



David Williams
Barclays



Denise Wyllie
Goldman Sachs



Francesco Vanni d'Archirafi
Citigroup



Gerard Hartsink
ABN Amro Bank N.V.



Hervé Saint-Sauveur
Independent



Ian Abrams
Independent



Garry Jones
NYSE Euronext



Jenny Ireland
Morgan Stanley



Jerome Kemp
JP Morgan



John Townsend
Independent



Lawrence Shaw
Deutsche Bank



Martin Abbott
The London Metal Exchange



Nazir Badat
HSBC Bank Plc



Vivien Levy-Garboua
BNP Paribas



Xavier Rolet
The London Stock Exchange plc

Corporate Responsibility



‘Technology-Addicted Zombies of the Future’, Esme Kirk,
Winner: Message to the Future,
Winner: Best Overall Photograph

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

The location of the London office, on the fringe of the border of the City and the less affluent areas which surround it, continues to provide opportunities and inspiration. For the second year running staff have worked with students from the Petchey Academy in Hackney on a photography project, ‘I have a dream’ in which students were challenged to capture their world through images and the award winning images appear opposite.

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

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

The Paris office supported a number of initiatives, both local and international, including those aimed at working with abandoned orphans in Russia and the funding of a rural library and medical camp in India. Closer to home, ongoing help is given to a charity providing aid to children in Paris’ hospitals.

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



1	2	3	4
5	6	7	
8	9	10	
11	12	13	

1. 'Untitled', Sweet Lordson, Winner: Message to a Stranger
2. 'Take Mighty Pride', Sweet Lordson, Runner Up: Message to the Principal
3. 'Thunderstorms over McDonald's', Jahan Miah, Runner Up: Message to Barack Obama
4. 'Beauty', Esme Kirk, Runner Up: Message to a Stranger
5. 'Capitalism Means a Free Market', Kim Ann Ngyuen, Special Award: Director's Cut
6. 'God Save America!', Esme Kirk, Winner: Message to Barack Obama
7. 'Who Watches the Watchers?', Hugh Littlehales, Winner: Message to the Principal
8. 'Dilemma', Henry Enilobodo, Special Award: Director's Cut
9. 'Recession', Elizabeth Akingbade, Runner Up: Message to the Future
10. 'Untitled', Henry Enilobodo, Runner Up: Message to Myself
11. 'Untitled', Cassandra Fassan, Winner: Message to Myself
12. 'Technology- Addicted Zombies of the Future', Esme Kirk, Winner: Message to the Future, Winner: Best Overall Photograph
13. Sweet Lordson, Winner: Best Journal