



London
Stock Exchange Group

A global markets infrastructure business

Annual Report
31 December 2016



Who we are

London Stock Exchange Group is a global markets infrastructure business. We provide valuable services for a wide range of customers, focusing on Capital Formation, Risk and Balance Sheet Management and Intellectual Property.

The Group plays a vital economic and social role in enabling companies to access funds for growth and development.

Further information on London Stock Exchange Group can be found at: www.lseg.com.

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Registered in England and Wales
No. 5369106

STRATEGIC REPORT

An overview of our business, statements from our Chairman and our Chief Executive, the markets and regulatory environment in which we operate, and strategy. More detail on each of our divisions, our performance, how we consider our wider responsibilities and the principal risks that could affect our business.

Strategic Report sign-off is provided in the Directors' Report on page 96.

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SHAREHOLDER INFORMATION

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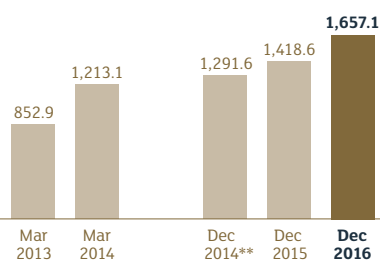
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Highlights

The figures in the graphs below are for the Group on a continuing basis, so exclude businesses classified as held for sale during the periods shown.

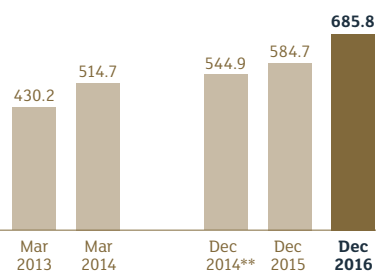
Total income

£ m



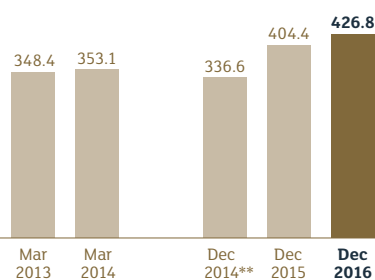
Adjusted operating profit*

£ m

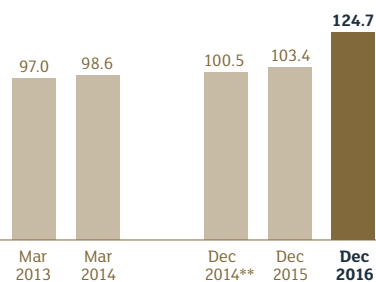


Operating profit

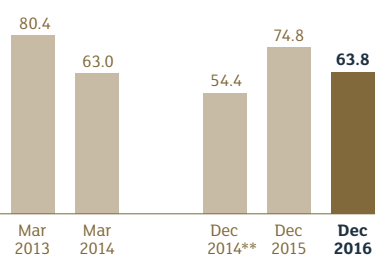
£ m



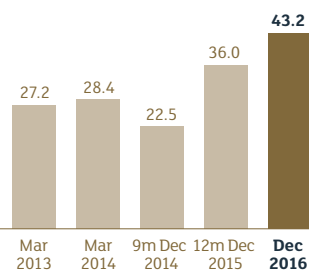
Adjusted earnings per share (pence)*



Basic earnings per share (pence)



Dividends per share (pence)



The Group changed its financial reporting reference date in 2014, hence the graphs show full 12 month figures on either a March or December year-end basis.

Year ended 31 December	12 months to 31 December 2016			12 months to 31 December 2015			Total
	Continuing	Discontinued	Total	Continuing	Discontinued	Total	Variance
Total income	£1,657.1m	£390.8m	£2,047.9m	£1,418.6m	£962.9m	£2,381.5m	(14%)
Adjusted operating profit*	£685.8m	£27.8m	£713.6m	£584.7m	£124.9m	£709.6m	1%
Operating profit	£426.8m	£103.2m	£530.0m	£404.4m	£95.5m	£499.9m	6%
Adjusted profit before tax*	£623.1m	£28.8m	£651.9m	£516.4m	£127.0m	£643.4m	1%
Profit before tax	£364.1m	£104.2m	£468.3m	£336.1m	£97.6m	£433.7m	8%
Adjusted basic earnings per share*	124.7p	5.0p	129.7p	103.4p	26.0p	129.4p	0%
Basic earnings per share	63.8p	(20.3)p	43.5p	74.8p	19.8p	94.6p	(54%)

* London Stock Exchange Group uses non-GAAP performance measures as key financial indicators as the Board believes these better reflect the underlying performance of the business. As in previous years, adjusted operating profit, adjusted profit before tax and adjusted earnings per share all exclude amortisation and impairment of purchased intangibles assets and goodwill and non-recurring items. The non-recurring items for this year are larger than in previous years and the increase is primarily driven by transaction costs of £85.4 million and a loss after tax of £88.2 million relating to the disposal of the Russell Investment Management business.

** December 2014 numbers are unaudited.

The Group continues to execute on its strategy, delivering best-in-class capabilities, driving global growth and developing our partnership approach. Key headlines are provided below:

Capital Markets

- Revenues increased by 12% to £368.3 million (2015: £330.3 million) and up 6% on an organic constant currency basis
- Primary Markets saw total money raised across our equity markets down 39% at £25.6 billion, with 134 new companies admitted to our markets (2015: 176) of which 64 admitted to AIM (2015: 61)
- In Secondary Markets, UK cash equity average daily value traded increased by 4%, average daily number of equity trades in Italy increased by 5% and average daily value traded on Turquoise increased 26%
- IDEM, the Group's Italian derivatives market, saw an increase in volumes of 10%
- In Fixed Income, MTS cash and BondVision value traded declined by 3%, while MTS Repo reduced by 5%
- CurveGlobal, a new joint venture with leading dealer banks and CBOE went live in September 2016, offering short-term and long-term interest rate futures

Post Trade Services – CC&G and Monte Titoli

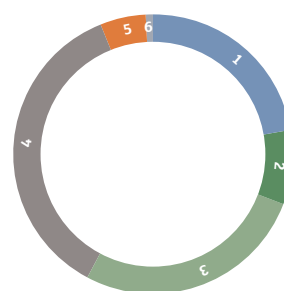
- Income for the year increased by 23% to £146.3 million in sterling terms and by 9% on a constant currency basis
- Net Treasury Income increased by 45% to £42.6 million in sterling terms and by 29% in constant currency terms
- Contracts cleared by CC&G up 8% to 129.6 million
- Monte Titoli prepared the filing to be authorised as Central Depository System under the new implemented EU CSD Regulation (CSDR), which is planned over the course of 2017

Post Trade Services – LCH

- LCH's income for 2016 was £447.1 million, up 24% and increased by 15% on a constant currency basis
- SwapClear, an interest rate swap clearing service, cleared US\$666 trillion notional, up 25%. Client trades cleared increased by 40% to 952,000 and compression up 17% to US\$384 trillion
- ForexClear non-deliverable forwards clearing increased by 204%, to US\$3,191 billion
- Fixed income clearing was stable with a total of €70.8 trillion in nominal value cleared
- Cash equity clearing volumes increased by 27% to 697.2 million trades
- LCH Spider, a new open access portfolio margining service for interest rate derivatives, went live in May 2016

Group Total Continuing Income by segment

£ m



12 months to
31 Dec 2016

1. Capital Markets	368.3
2. Post Trade Services CC&G and Monte Titoli	146.3
3. Post Trade Services LCH	447.1
4. Information Services	594.7
5. Technology Services	88.3
6. Other	12.4
	1,657.1

Information Services

- Revenues for the year increased by 15% to £594.7 million (2015: £517.4 million), and up 7% on an organic constant currency basis driven by strong growth in FTSE Russell.
- FTSE Russell revenue for the year increased by 17% to £409.3 million (2015: £348.9 million) and up 7% on an organic constant currency basis reflecting increased subscriptions and data sales, and growth in index-based products
- Real time data revenues increased by 11% to £90.9 million (2015: £82.2 million), and up 7% on an organic constant currency basis
- UnaVista's MiFID Approved Reporting Mechanism (ARM) went live with a testing environment product ahead of MiFID II implementation
- Other Information Services revenue increased by 10% to £94.5 million (2015: £86.3 million) and up 6% on an organic constant currency basis
- LSEG announced the acquisition of Mergent Inc., a provider of business and financial data on companies which was completed in January 2017

Technology Services

- Technology Services revenues increased by 10% to £88.3 million (2015: £80.6 million) and on an organic constant currency basis, increased by 4% on increased sales
- LSEG Business Services Limited, our Shared Services Company, was launched in January 2016
- Phase 2.0 of Group Ticker Plant was launched in February 2016
- MillenniumIT continued to expand, with Millennium PostTrade implemented in Singapore Exchange's Securities Market, and Millennium Exchange and Millennium Surveillance in Casablanca Stock Exchange

FURTHER INFORMATION

More detailed information on the performance of our business segments can be found on pages 20 – 35.

Note: Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF. The Group's principal foreign exchange exposure arises from translating our European based Euro and US based USD reporting businesses into Sterling.

Chairman's statement



“The Group is strong, financially and operationally, as a well diversified and global market infrastructure business with highly valuable franchises.”

Donald Brydon CBE
Chairman

Overview

2016 was characterised by periods of exceptional unpredictability as geo-political events dominated the headlines. Despite the accompanying global market volatility and uncertainty, London Stock Exchange Group has maintained focus on the execution of its agreed strategy in Capital Formation, Risk and Balance Sheet Management and Intellectual Property with the delivery of a number of new initiatives. We remain true to our Open Access philosophy, having enhanced our customer partnerships across the business. As a Group, we have also continued to focus on cost discipline, while investing for growth, focusing on new opportunities and achieving the benefits of recent acquisitions.

Following the UK's decision to leave the EU, the Group will continue to monitor developments to ensure that our businesses are well prepared. Our priority is to ensure continuity of service and the orderly functioning of our markets and other activities for our customers, members and other stakeholders. The Group operates successfully, and at scale, a full range of market infrastructure services in the UK, Europe and around the world including the provision of trading platforms, indices, data services, clearing and settlement platforms and technology expertise. We are well placed to respond to the needs of our clients and to regulatory changes with a strong footprint and licensed operations in the UK, Europe and the United States.

Financial performance

The Group has delivered another good financial performance with growth across all core business areas. Total continuing income rose to £1,657.1 million, up 17%. Adjusted operating profit increased 17% to £685.8 million and operating profit increased 6% to £426.8 million.

The Board is proposing a final dividend of 31.2 pence per share which results in a 20% year-on-year increase in the total dividend to 43.2 pence per share. The final dividend will be paid on 31 May 2017 to shareholders on the register as at 5 May 2017.

Governance

On my appointment in mid-2015, I led an appraisal of the skills and backgrounds of the Board members with the aim of developing a Board with the right skills balance, diversity and appropriate size. As a result, a number of changes were made to the Board's composition in December 2015 adding additional buy-side, plc, clearing and regulatory expertise to the Board.

This year, Baroness Sharon Bowles, Sherry Coutu, CBE, and Stuart Lewis stepped down from the Board as Non-Executive Directors in April and Andrea Munari also announced his resignation in September after nine years on the Board. I would like to thank them all for their valuable contributions and to Andrea for his deep financial experience through a period of significant development and expansion for the Group. I would also like to welcome Andrea Sironi who joined the Board in October, maintaining our strong link with Borsa Italiana. In addition, I am pleased that the LSE plc board will continue to benefit from Baroness Bowles and Sherry Coutu's skills and experience whilst Stuart Lewis continues to support the Risk Committee.

Good governance involves having expert independent advice when required and last year the Board set out plans to form Regulatory and Technology Advisory Groups to give Directors access to this external counsel. Appointments were made to both groups in the year and we will keep shareholders updated on the progress of these groups.

As explained in greater detail in the Governance Report on page 56, the Board is in transition in terms of its composition and fully supports the aims of improving gender balance of corporate boards and the wider workforce. During 2016, LSEG signed the UK's HM Treasury Women in Finance Charter, signalling the Group's ongoing commitment to equality in the workplace and to actively challenge both ourselves and others in the financial sector to keep addressing these issues. Our Women's Inspired Network (WIN) also expanded its global footprint with events and networks established in all of our major operational hubs.

Corporate Social Responsibility

As the Group's scale and reach grows we continue to seek opportunities to expand through four distinct pillars: our markets; our services; our people; and in our surrounding communities. In 2016, the Group donated almost £1.1 million to charities and worked closely with global and regional partner charities that focus on helping young people to develop the life and business skills they need to fulfil their potential. We also introduced paid volunteering days for all employees to encourage them to become involved in local charity work, which can make a difference not only to our community but also for an individual's personal development. A number of our employees have taken the opportunity to get involved, offering their time and expertise and we will look to continue to roll this out more broadly over the coming year. A summary of our activities can be found on pages 36 – 37 as well as in our standalone Corporate Responsibility Report, which can be accessed from our website www.lseg.com/about-london-stock-exchange-group/corporate-responsibility.

Proposed Merger

In March 2016, London Stock Exchange Group announced the terms of a recommended all share merger with Deutsche Börse. The transaction received approvals from our shareholders and those of Deutsche Börse and we remain focused on obtaining the necessary regulatory and anti-trust approvals. At the time of publication, we expect a decision from the European Commission on or before 3 April 2017.

We have worked through the regulatory requirements in a systematic manner and, as part of that process, in January 2017 announced the disposal of LCH SA, LCH Group's French-regulated operating subsidiary to Euronext N.V. The sale is subject to the review and approval by the European Commission and fulfilment of other customary conditions including relevant regulatory approvals and is conditional on the successful closing of the merger.

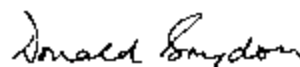
In February 2017, taking all relevant factors into account, and acting in the best interests of shareholders, the LSEG Board concluded that it could not commit to the divestment of MTS, a leading regulated electronic trading platform for European wholesale Government bonds and other fixed income securities. Based on the Commission's current position, LSEG believes that the Commission is unlikely to provide clearance for the Merger.

Nevertheless, the LSEG Board remains convinced of the strategic benefits of the Merger and recognises the strong support from shareholders for the transaction. LSEG will continue to take steps to seek to implement the Merger. In addition to Commission clearance, the Merger is conditional on regulatory clearances from Italian regulators and all relevant regulators including the Bank of England, FCA, BaFin and the Hessian Exchange Supervisory Authority ("HESA"), as well as all other relevant regulators and authorities in all other countries in which LSEG operates. While discussions are being progressed with a number of these regulators, the regulatory process has not yet been concluded and formal engagement has not yet begun with HESA.

The LSEG Board is highly confident in the strength of LSEG's business, strategy and prospects on a stand alone basis, under its strong management team led by Chief Executive Xavier Rolet.

Conclusion

I thank all employees who have contributed to the Group's development and success over the past year. It is a year in which the innovative and partnership culture of the company has been in particular evidence. The Group is strong, financially and operationally, as a well diversified and global market infrastructure business with highly valuable franchises. We have many opportunities to deliver further growth and we look forward to our future prospects with confidence.



Donald Brydon

Chairman

3 March 2017

Chief Executive's statement



“The Group is truly diversified by business activity, by geography and by currency, providing resiliency across market cycles and opportunity for continued growth.”

Xavier R Rolet KBE

Group Chief Executive

Overview

2016 has been another notable year of achievement for London Stock Exchange Group as we build on our position as a leading global markets infrastructure company. We have achieved a strong financial and operational performance with growth and investment across all of our core businesses, delivering on a number of new initiatives and developing our customer partnership approach. The Group is truly diversified by business activity, by geography and by currency, providing resiliency across market cycles and opportunity for continued growth. We operate a full range of Open Access market infrastructure services, at scale, around the world including in the UK, Europe, Asia and the US. This makes the Group well positioned to navigate political and macroeconomic changes in the coming years, adapting as needed to continue to serve our global customer base.

Partnership

Our customer partnership approach and Open Access operating model, which provides true customer choice, are distinctive and differentiating features of our business model which continue to deliver clear benefits. An example is Turquoise Plato, a new partnership which formally brings together, for the first time, buy-side, sell-side and trading venue to deliver increased efficiencies in anonymous European equity block trading. The rebranded Turquoise Plato Block Discovery and Turquoise Plato Uncross platforms have demonstrated strong growth throughout the year with record trading volumes, reflecting investor demand for trading services that will meet the requirements of the impending MiFID II regulation. CurveGlobal, a new interest rate derivatives venture, is another good example of partnership and a business that will also benefit from MiFID II regulation. Its innovative structure, bringing together LSEG with seven major dealer banks and another exchange, CBOE, makes it uniquely equipped to address the need for capital-efficient interest rates products. It has made a positive start since launching in September, offering genuine new competition for the market and making portfolio margining available to a greater number of market participants. The Group's technology companies, including MillenniumIT and GATElab have also continued to develop partnerships with exchange operators around the world including an ultra low-latency access gateway to the National Stock Exchange of India.

Global capital

LSEG remains firmly committed to promoting a financial ecosystem that helps businesses raise capital to grow. Long-term, patient, risk capital is the only way to drive growth and job creation not just in the UK but across Europe. We continue to promote initiatives such as our flagship ELITE programme supporting high growth SMEs, which now has more than 700 companies, advisers and investors across 25 countries within its community. As well as announcing ELITE partnerships in Israel, Morocco and Hungary, we also launched ELITE Club Deal, a new online private placement platform to help bridge the funding gap by bringing together professional investors and high growth companies. Despite a volatile market, the Group welcomed 134 companies to our markets in the UK and Italy raising a combined total of £25.6 billion in new and further issues. AIM, now in its 22nd year, again demonstrated why it is recognised as the world's leading growth market with companies joining in 2016 seeing their average price performance rise by 41%. Since launch, AIM has enabled companies from across the UK and around the world to raise over £100 billion, underlying the market's ability to act as a vital source of growth capital.

In fixed income, London's position as a leading international financial centre is reflected in its ability to offer investors a wide range of innovative products and we have deepened our footprint in two of the world's high-growth economies, China and India. London Stock Exchange is the only international exchange outside Greater China that has bond listings from all four major Chinese banks as well as the China Development Bank and, in June 2016, we were honoured to be chosen as the venue for the listing of the first Chinese sovereign RMB bond to be issued outside of mainland China. In India, London Stock Exchange has the most comprehensive masala bonds offering of any major international exchange with the 33 masala bonds having raised the equivalent of around US\$4.2 billion.

Sustainability

LSEG has supported investors and issuers in the transition to a low carbon and sustainable economy for over a decade, developing products and services in close collaboration with the market. FTSE Russell, in particular, has long been a pioneer in the development of ESG benchmarking tools. In June, FTSE Russell launched an advanced new data model that tracks companies generating green revenues, a critical component missing from investors' current sustainability models. The Low Carbon Economy (LCE) data model and accompanying Green Revenue Index Series complements FTSE Russell's existing benchmarks in this space, capturing managed exposure to companies engaged in the green transition on a country, regional or global basis. London Stock Exchange has been a leading innovator in the space of green bond issuance and was the first exchange to join the climate bonds initiative. There are currently 40 green bonds listed in London which have raised a combined US\$10.5 billion across seven currencies and a diverse set of issuers. LSEG intends to continue broadening its offering and has launched a new Global Sustainable Investment Centre portal to bring together the Group's activities in this space.

Investment in growth and innovation

We continue to focus on investing for growth and on achieving the benefits of our integration projects from previous acquisitions through delivering the stated cost and revenue synergies from recent transactions.

FTSE Russell has continued to perform strongly in 2016 and we are already seeing positive results, ahead of schedule, from the integration of the two index businesses with new mandates, integrated sales systems and a growing global business. FTSE Russell indexes are used throughout the investment and trading value cycle and they are well positioned to capitalise, for example, on the rapid expansion of the ETF market. The global ETF market currently represents around US\$3.5 trillion in assets under management and FTSE Russell's indexes are extensively being chosen as the benchmark for ETF issuers around the world. In November, we also announced the acquisition of Mergent Inc., a leading provider of business and financial information on public and private companies. The acquisition will support the growth of FTSE Russell's core index offering, supplying underlying data and analytics for the creation of a wide range of indexes.

In post trade, LCH launched its new portfolio margining service, LCH Spider, using the world's largest interest rate derivatives liquidity pool from SwapClear. LCH Spider allows users, on an Open Access basis, to maximise their margin offsets between OTC and listed derivatives and we have been pleased with member interest to date. In 2016, SwapClear saw a 25 per cent increase in clearing volumes, clearing a total US\$666 trillion for its members and their clients. In addition, SwapClear compressed a record US\$384 trillion in notional in 2016 as capital and balance sheet management continues to be a top priority for banks impacted by regulatory capital requirements. We have also seen members ramping up their clearing activity in LCH's broader OTC services with significant volume growth at its CDS Clear and Forex Clear services. The launch of LCH SwapAgent, due to go live later this year will deliver the improved standardisation, efficiency and simplicity that the non-cleared derivatives market has long been seeking.

Following the successful conclusion of the joint feasibility study between LSEG and the Shanghai Stock Exchange, it was confirmed, during the UK Government's Economic and Financial Dialogue (EFD) with the Government of China in November, that we would move to the next phase of researching and preparing implementation arrangements for the London-Shanghai Stock Connect. This is a long term project which will help domestic and international investors access markets and is a key part of the strategic partnership between our two exchanges.

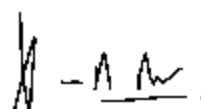
Proposed merger

The Group has worked hard on our proposed merger with Deutsche Börse, which received formal approval from both sets of shareholders. This would be an industry-defining combination, expanding our presence as a global markets infrastructure group, anchored in Europe and we firmly believe that it would deliver significant customer and shareholder benefits through the acceleration of our complementary growth strategies, products, services and geographic footprint. The next milestone is expected to be the outcome of European Commission Phase II process on or before 3 April 2017.

Outlook

One of the key events in 2016 was undoubtedly the vote by the citizens of the UK to leave the European Union. For LSEG, the immediate challenge presented by the vote was to ensure we maintained secure and stable markets for our customers, however volatile the conditions. We met this challenge admirably – across all of our markets and clearing houses – and I would like to offer my congratulations to everyone across the Group who was involved in delivering such seamless continuity. Of course, the more profound consequences of the UK Referendum will take much longer to work themselves out. However, as a well diversified Group with a global footprint, we are well positioned to adapt as needed and, most importantly, to follow and continue to serve our customers as they make decisions about their business.

We remain focused on delivering innovation, partnership and Open Access to our customers and value for our shareholders. The Group is strongly positioned and our commitment to partnering with customers and our Open Access philosophy means that the Group will be able to take full advantage of the MiFID II implementation from January next year. The new rules will deliver greater choice and competition to European financial markets and we are working closely with market participants to ensure a smooth transition. We continue to see opportunities for growth across all of our market-leading businesses and the Group will execute against its strategic objectives, driving both short and longer term growth through organic investment and selective inorganic opportunities.



Xavier R Rolet

Group Chief Executive
3 March 2017

What we do – Our business model

London Stock Exchange Group (LSEG) is a diversified global financial markets infrastructure business that operates with an Open Access model, offering choice and partnership to customers across all of its businesses.

Over the next four pages, we describe the component parts of the Group, how these businesses link together and the way we add value. We also show an overview by business of the customers for our services, the way we derive revenues and the key metrics (KPIs). On pages 12-15, we provide a view of market factors impacting the Group and our response to these.

The Group plays a vital economic and social role, enabling companies to access funding for growth and development, to inform investment decisions and manage financial risks. Headquartered in London, with significant operations also in North America, Italy, France and Sri Lanka, the Group employs approximately 3,976 people.

The Group has evolved into a global financial markets infrastructure provider with operations in multiple regions in order to respond to our customers' needs. This is reflected in the geographical distribution of our revenue, with 40% in Sterling, 35% in Euro, 20% in US Dollar and 5% in other currencies.

Our business activities fall into three interconnected categories: Capital Formation, Risk and Balance Sheet Management, and Intellectual Property, as shown in the model on page 9.

HOW WE ADD VALUE

Our businesses are connected to an increasingly international range of issuers, traders and investors, creating a valuable network across multiple segments:

- Primary markets providing choice and connections between a wide range of issuers and investors, enabling domestic and international companies to raise capital efficiently;
- Secondary markets providing deep liquidity while improving price formation, transparency and trading efficiency;
- Post trade services delivering strong risk management and capital efficiency benefits that allow buy-side and sell-side firms to operate more effectively, thereby enabling increased trading and investment activities;
- Information Services, including indices, data on pricing, trading and valuations that enable informed investment decisions and capital allocation; and
- Technology Services providing global markets infrastructure IT comprising resilient, high-speed, low latency trading platforms, post trade platforms, real time market data and other infrastructure products and services.

Above all, we believe that two unique and key features of our business model continue to position us to deliver increased value to our customers and shareholders, and differentiate us from competitors in the global financial markets infrastructure industry: **Open Access** and **Customer Partnership**.

Open Access

- Open Access is the principle which lies at the heart of free and fair markets, and underpins the approach to the European Union single market philosophy.
- We believe customers should have the choice of where they place their business. In particular, we support non-discriminatory access to trading and clearing infrastructures, which provides greater market efficiencies.
- We provide access to all of our markets and products for a wide range of users, including those that offer competing services to those provided by the Group, in contrast to most other exchanges and capital markets infrastructure providers. The access that we provide is also without requiring mandatory use of other Group services, again in contrast to many competitors.

Example:

LCH provides CCP clearing services to a number of non-Group owned equities, derivatives and fixed income trading venues such as Nasdaq Nordic and Euronext. FTSE Russell licences its indexes to other exchange operators, such as Singapore Exchange and CME Group, enabling them to list and trade derivatives products based on our indexes.

Customer Partnership

- We believe that aligning our strategy, services and products to the interests of our customers supports long-term value creation, enabling innovation in products which can be rapidly adopted.
- In some businesses, we are joint owners with our customers and share the economic rewards. We believe this is beneficial as it increases innovation, the speed of development and customer uptake of new products and services.

Example:

Several of our operating companies are owned and governed in partnership with our customers who have varying minority shareholder interests in each, e.g. LCH, Turquoise, MTS and CurveGlobal. These customers play an active role in shaping the services offered by these businesses for the benefit of all users.

NEED HELP?

Like any industry, global markets infrastructure has its own unique language. For that reason, we have included a glossary on pages 169 – 171.

The Group provides services that meet the requirements of corporate and other issuers, investors and trading firms in the value chain for cash equities, fixed income, derivatives and other financial products. The model below shows how our businesses link together:

CAPITAL FORMATION

London Stock Exchange
Borsa Italiana
Turquoise
MTS

CAPITAL MARKETS

PRIMARY MARKETS (CAPITAL RAISING)

Our central function is to bring together companies seeking capital with investors from around the world.

SECONDARY MARKETS (TRADING)

Our markets and systems provide all market participants with efficient, liquid and deep access to financial securities for the purpose of capital allocation and risk transfer.

RISK AND BALANCE SHEET MANAGEMENT

LCH Group
CC&G
Monte Titoli

POST TRADE SERVICES

The Group offers a full range of post trade services, providing risk and balance sheet management solutions to a range of customers.

Services:

Central counterparty (CCP) clearing services
Custody and settlement
Collateral management and asset services

INTELLECTUAL PROPERTY

FTSE Russell
Real Time Data
UnaVista
SEDOL

INFORMATION SERVICES

We provide customers with an extensive range of valuable and reliable information and data products that inform their investment and trading decisions.

TECHNOLOGY SERVICES

All of our businesses depend on technology that is secure, stable and performs to high levels of accuracy and throughput. MillenniumIT, GATElab and Exactpro are developers of flexible, low-cost, high performance trading, market surveillance and post trade systems as well as network connectivity, hosting, and quality assurance testing services.

Note:
Arrows indicate valuable interconnected relationships between business categories.

WHAT WE NEED TO OPERATE OUR BUSINESSES AND DELIVER VALUE

Technology

– Secure and stable high-performing technology is critical to the operation of the Group's businesses. We continue to innovate and invest in our technology in order to maintain and enhance the quality, resilience and efficiency of our platforms.

People

– Our people are at the heart of what we do, and we are committed to attracting, developing and retaining exceptional talent in order to deliver on our strategy.

Regulatory expertise

– Many of the markets we operate are highly regulated and subject to ongoing regulatory change. We have proven expertise in operating transparent, efficient and well governed market infrastructure in such regulated markets, providing services that are trusted, independent, and resilient.

Risk management

– The management of risk is fundamental to our role as a diversified global financial markets infrastructure provider in order to maintain stakeholder confidence in our businesses.

Intellectual Property

– We rely on proprietary data and analysis generated across our businesses to deliver value-add products and services that meet our customers' needs.

Customer network

– Our valuable network of customers and their ongoing input to, and support for, our businesses is vital to our ability to provide efficient financial markets infrastructure across the value chain.

Overview of Group activities

CAPITAL FORMATION		RISK AND BALANCE SHEET MANAGEMENT	
CAPITAL MARKETS Provides access to capital for domestic and international businesses and efficient electronic platforms for secondary market trading of equities, bonds and derivatives. Group total income: 22%		POST TRADE SERVICES CC&G AND MONTE TITOLI Offers efficient clearing, settlement and custody services for cash equity, derivative, commodity and fixed income markets, mostly in Italy. Group total income: 9%	
TOTAL INCOME CONTRIBUTION £368.3m 2015: £330.3m 		TOTAL INCOME CONTRIBUTION £146.3m 2015: £119.1m 	
CUSTOMER PROFILE Primary Markets – Companies from more than 60 countries around the world have come to our markets to raise money for growth, together with issuers of bonds, ETFs and other instruments Secondary Markets – Banks and brokers worldwide, trading on the Group's equities, derivatives and fixed income trading platforms		CUSTOMER PROFILE CC&G – 158 members, mainly banks and brokers, over 40% of which are based outside Italy Monte Titoli – Wide range of Italian and international banks and brokers for both on market and OTC trades. Issuers of equity and fixed income products (Italian and international)	
MAIN TYPES OF REVENUE Primary Markets – Admission fees for initial listing or raising further capital – Annual fees for securities traded on our markets Secondary Markets – Fees based on value traded (UK equities) or number of trades or contracts (Italian equities, retail bonds and derivatives)		MAIN TYPES OF REVENUE Clearing – CC&G – Fees based on trades or contracts cleared and Central Counterparty (CCP) services provided – Net interest on cash and securities held for margin and default funds Settlement and Custody – Monte Titoli – Revenue mostly from the settlement of equity and fixed income trades – Custody fees are charged on the issuance of an equity or fixed income instrument, when dividend and interest payments are made and on any corporate action	
Primary Markets HIGHLIGHTS – 134 new companies joined our markets in the year (2015: 176) KPIs Number of companies on our markets 2016: 2,590 (2015: 2,685) Capital raised by new and further equity issues 2016: £25.6bn (2015: £41.7bn) Secondary Markets HIGHLIGHTS – UK cash equity value traded increased by 4% – Borsa Italiana cash equity number of trades up 6% – Turquoise average daily value traded increased by 26% – New products launched to meet post MiFID II trading requirements KPIs Average order book equity value traded per day in London 2016: £5.1bn (2015: £4.9bn) Average number of equity order book trades per day in Italy 2016: 295,000 (2015: 280,000) MTS Repo notional value traded €84.4tn (2015: €88.9tn) MTS Cash and Bond Vision volumes €3,944bn (2015: €4,081bn)		Clearing and related services – Fees based on trades or contracts cleared and CCP services provided – Fees for SwapClear interest rate swap service and other OTC derivative clearing primarily based on membership fees or client trades – Fees for managing non-cash collateral and compression services Interest income – Net interest on cash held for margin and default funds	
Primary Markets HIGHLIGHTS – SwapClear continues to grow with record clearing and compressed volumes – LCH Spider, a new portfolio margining service for interest rate derivatives went live KPIs SwapClear notional cleared 2016: US\$666tn (2015: US\$533tn) SwapClear notional compressed 2016: US\$384tn (2015: US\$328tn) SwapClear Client trades cleared 2016: 952,000 (2015: 678,000) Cash equity trades cleared 2016: 697m (2015: 549m) Average cash collateral held 2016: €67.0bn (2015: €56.9bn)		Clearing services – A wide base of banks, brokers and fund manager firms worldwide for OTC derivatives and listed equities, exchange traded derivatives, fixed income and commodities	

Note: Other income £12.4 million (1% of Group total income). Excluded from these figures £390.8 million relating to Russell Investment Management.

INTELLECTUAL PROPERTY**INFORMATION SERVICES**

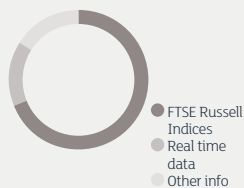
Provides a wide range of information and data products including indexes and benchmarks, real time pricing data, product identification, reporting and reconciliation services.

Group total income: **36%**

TOTAL INCOME CONTRIBUTION**SUB-SEGMENT**

£594.7m

2015: £517.4m

**TECHNOLOGY SERVICES**

Our businesses and customers depend on our secure technology that performs to high levels of availability and throughput.

Group total income: **5%**

TOTAL INCOME CONTRIBUTION

£88.3m

2015: £80.6m

**CUSTOMER PROFILE****Indexes – FTSE Russell**

– Asset owners and managers, active and passive buy-side firms and trading venues

Real time data

– Direct to trading firms and via service providers, such as Bloomberg and Thomson Reuters, that incorporate our data with other information

Other information

– Our customers vary based on the service provided, including banks, brokers and fund managers

CUSTOMER PROFILE**MillenniumIT**

– London Stock Exchange Group divisions, other exchange groups and capital market clients, banks, IT and large Sri Lankan companies

Technology

– Banks, trading firms and depositories in Europe, North America, Africa and Asia-Pacific region

MAIN TYPES OF REVENUE**Indexes – FTSE Russell**

– Subscription fees for data and analytic services
– Licence fees for passive funds and derivatives tracking indexes

Real time data

– Fees primarily based on number of terminals taking our real time price and trading data

Other information

– Fees vary based on the nature of service provided, mostly subscriptions and licence fees

MAIN TYPES OF REVENUE**Technology**

– Sales of capital markets software, including trading, market surveillance and post trade systems
– Provision of enterprise sales and IT infrastructure services in Sri Lanka and to international capital markets customers
– Fees for network connections, server hosting and systems supplied by Group businesses

FTSE Russell**HIGHLIGHTS**

– Smart beta assets benchmarked to FTSE Russell indexes increased by 24%
– Mergent Inc., a leading provider of business and financial information acquired

KPIs

ETF assets benchmarked to FTSE Russell indexes 2016: **US\$452bn** (2015: US\$381bn)

Real time data**HIGHLIGHTS**

– Direct billing, enterprise licence and non-display tariff initiatives

KPIs

Number of professional terminals taking Group data 2016: **200,000** (2015: 207,000)

Other information

Regulatory News Service processed over **321,000** announcements (2015: 325,000)

HIGHLIGHTS

– A range of key worldwide technology deliveries and agreements were completed, with financial sector firms from Singapore, Morocco, India and Argentina
– LSEG Business Services Limited, our Shared Services Company, was launched in January 2016

KPIs

Availability of UK equity market during the year 2016: **100%** uptime (2015: 100%)

Market trends and our response

Through its three core business activities: Capital Formation, Risk and Balance Sheet Management and Intellectual Property, the Group supports global economic growth through the provision of financial markets infrastructure to facilitate capital raising, investment and trading decisions, and associated risk management requirements.

Our customers include the world's largest financial institutions across sell-side, buy-side and trading firms. They all share exposure to the evolving industry landscape, which continues to inform and influence their business needs and, therefore, their demand for the products and services that the Group can provide. There are a number of trends which continue to shape the industry in which the Group operates:

1. Globalisation and changing distribution of wealth
2. Low and uncertain growth redefining investment behaviours
3. Customer balance sheet and operational constraints
4. An innovative and consolidating competitive landscape
5. Regulatory change

1. Globalisation and changing distribution of wealth

Global wealth continues to increase as the regional distribution of wealth evolves. While developed markets are expected to continue to retain the largest share of global wealth, emerging markets continue to increase their share of the world's assets and savings pool. In 2000, emerging markets accounted for just 12% of global wealth, but over the period 2000-2016, they have contributed almost 25% of the growth in global wealth¹. This trend is also reflected in regional growth in assets under management (AuM), with Asia-Pacific AuM forecast to grow at a 9.8% CAGR from 2012 to 2020². We expect this trend to continue as the geographical distribution of wealth increasingly aligns with regions' share of the world population.

Many of our institutional customers are already global companies, with operations in many or all major regions. As globalisation increases, capital allocation and investment decisions will increasingly be made on a global basis, thereby creating opportunities for financial markets infrastructure providers to support customers across multiple geographies and markets.

IMPLICATIONS FOR LSEG

Our Group has evolved into a global financial markets infrastructure provider, with operations in multiple countries and regions, in order to service our customers' needs. We are building a global, interconnected offering with commonality in our approach and interactions with our customers. We continue to develop our geographical presence in selected markets where we see, or expect to see, increased demand for our products and services, including in the US and Asia. This is reflected in the distribution of our income by currency, with 40% in Sterling, 35% in Euro, 20% in US Dollar and 5% in other currencies.

2. Low and uncertain growth redefining investment behaviours

Global economic growth remains subdued, reflecting increased political uncertainty as well as both fiscal and monetary policy headwinds in the global landscape. We continue to operate in a persistently ultra-low interest rate environment, whilst both the UK's vote to leave the European Union (EU) and Donald Trump's election as President of the United States illustrate the potential for geopolitical change to significantly impact global financial markets.

In this low-return environment, investors' search for yield continues to redefine the investment management landscape, changing asset allocation and driving growth in passive management tools. We expect this shift in preferences away from active investment management towards passive solutions to continue, with global ETF AuM in particular expected to grow at a faster pace than its double-digit growth over 2010-15, reaching over US\$7 trillion by 2021³.

IMPLICATIONS FOR LSEG

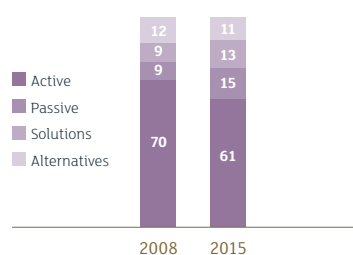
We continue to monitor and evaluate the potential impact of significant macroeconomic and political events on our operating environment and business model, and the Group is an active participant in international and domestic regulatory debates. In particular, the Group has formed a structured Brexit programme to engage with UK and EU Brexit policy leads (more detail in the Regulatory change section on page 14).

With over US\$10 trillion AuM benchmarked to its indexes, FTSE Russell is well positioned to respond to passive investment trends such as the increasing adoption of smart beta and factor-based investing, offering benchmarking services with a low-cost, scalable model and a global sales presence.

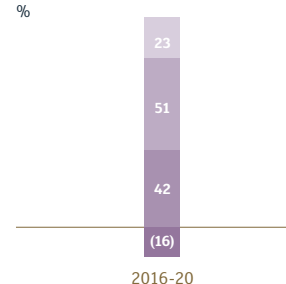
In addition, we continue to enhance our secondary market offerings to facilitate increased trading opportunities for customers across selected asset classes. Recent examples include the expansion of dark trading services in London Stock Exchange and Turquoise and the launch of CurveGlobal to offer exchange-traded interest rate derivatives.

Global AuM by Product

(i) 2008 vs. 2015
%



(ii) Estimated share of cumulative net flows
%



Source: BCG, Global Asset Management 2016: Doubling down on data (2016)

1. Credit Suisse, Global Wealth Report 2016 (2016)

2. PWC, Asset Management 2020: A Brave New World (2014)

3. PWC, ETFs: A roadmap to growth (2016)

3. Customer balance sheet and operational constraints

Regulatory change continues to pose multiple cost, capital, risk and conduct challenges across the industry, with significant implications for our customers' business models. The post-financial crisis focus on reducing the level of systemic risk in financial markets has led to a number of new regulations designed to promote transparency, increase bank balance sheet capital buffers, grow central counterparty clearing and provide enhanced mechanisms to prevent future crises.

Banks continue to face pressure on returns, and shifting revenue profiles, within traditional business models, and are seeking ways to upgrade their operations to improve profitability and capital efficiency. Their own end customers (buy-side institutions) are also facing structural headwinds in response to these regulatory pressures and evolving business models.

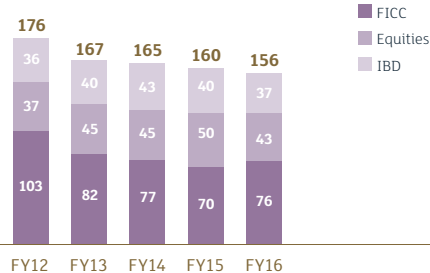
IMPLICATIONS FOR LSEG

The drive for increased balance sheet and operational efficiency may see a long-term reduction in banks' fixed income, currencies & commodities (FICC) businesses, which could adversely impact trading volumes in parts of our Capital Markets business. However, these requirements should also lead to increased demand for our risk management and capital efficiency solutions, particularly CCP clearing, compression and post trade processing services.

As customers continue to adapt in response to new capital and operational constraints, this may present further opportunities for collaboration between financial markets infrastructure providers as well as customers in certain business areas to address industry challenges. Our partnership approach leaves us well positioned to play a leading role in addressing customer challenges across the industry.

Coalition Index revenues by business

US\$ bn



Source: Coalition IB Index Report – FY16 (2017)

Note: Coalition Index tracks the performance of the 12 largest investment banks globally.

4. An innovative and consolidating competitive landscape

In order to continue to meet customer needs, financial markets infrastructure players are becoming increasingly global with scalable, efficient and innovative services. In this context, the Group has witnessed, and participated in, the ongoing consolidation which has transformed our industry. As a result, our position has evolved from a domestically focused stock exchange to a global financial markets infrastructure provider as we have developed our products and services and expanded our geographic presence.

We expect inorganic activity to continue within our industry, particularly as participants seek to expand their presence in high-growth areas with increasing customer demand such as data, analytics and risk management.

There is also increasing potential for further competition across the value chain from adjacent businesses and new entrants, particularly as technology continues to accelerate innovation and facilitate entry for new participants.

IMPLICATIONS FOR LSEG

In this industry context, the Group remains focused on operating and growing our existing businesses, executing on our strategic initiatives and delivering innovative solutions in response to evolving customer needs. Disruptive commercial models and technology may lead to a long-term increase in competition in our core businesses, and we continue to develop and upgrade our technology capabilities to deliver efficiencies and maintain the highest service levels for our customers.

In addition, we also continue to assess inorganic opportunities that can accelerate our growth, enhance our existing businesses or create new opportunities in complementary areas. In March 2016, we set out the strategic case for the proposed all-share merger with Deutsche Börse AG. We believe that the potential merger would accelerate the delivery of our vision to become a leader in global financial markets infrastructure, enhancing our ability to execute against our strategic pillars, and creating significant value for shareholders. The Group is awaiting the outcome of the European Commission Phase II process on or before 3 April 2017.

Market trends and our response continued

5. Regulatory change

During 2016, significant regulatory initiatives that the Group has highlighted in previous reports continued to take shape. Other regulatory initiatives increased in prominence during the past year and are now a significant focus for us, in particular cyber security rules and standards, the dynamic evolution of sustainable investment rules and products, and regulatory scrutiny of emerging financial technology. All these initiatives evolve in the context of the UK referendum decision to leave the European Union and the potential for significant changes in U.S. policy following the 2016 elections. Below we provide our assessment of likely regulatory changes and their impacts for the Group.

Brexit update

On 23 June 2016 a majority of the British public voted in favour of the United Kingdom ending its membership in the European Union. The UK government has not yet commenced the official exit process (Brexit) by serving notice under Article 50 of the Lisbon Treaty; however recent announcements indicate that the notice could be served at the end of March 2017. All EU legislation directly affecting UK persons remains in force until the date of termination of the UK's membership. All EU legislation implemented through UK legislation will remain in force until such time as it is repealed. All cross-border commerce between the UK and EU will be affected, as well as commerce between the UK and non-EU countries which is conducted via the UK's position as a member of the EU.

IMPLICATIONS FOR LSEG

Until the Government announces and begins to implement its 'Brexit strategy', the impacts on LSEG businesses are unknown. The EU and non-EU jurisdictions will help determine the nature and extent of the impacts. As part of a structured Brexit programme formed by the Group, we are engaging with UK and EU Brexit policy leads to advise on financial market infrastructure considerations. Our key objectives are maintaining London's position as a global financial hub, providing continuity of cross-border financial services and protecting against policies which may result in fragmentation of financial markets.

Key legislation

CCP Recovery and Resolution

Authorities in Europe, North America, other major jurisdictions, as well as International Standard Setters are working on frameworks for the recovery and resolution of CCPs. In the unlikely scenario where CCPs face severe distress or failure, this framework will ensure that the critical functions of CCPs are preserved while maintaining financial stability. At the international level, the CPMI and IOSCO are leading a work stream on CCP resiliency and recovery, while the Financial Stability Board (FSB) is conducting the analysis for CCP resolution. Final guidance from these work streams is expected in the first half of 2017. In the EU, the European Commission published on 28 November 2016 its legislative proposal for CCP recovery and resolution. This proposal will be reviewed and discussed by the European Parliament and the Council of the EU over the course of 2017. In the U.S. there continues to be increased focus by lawmakers and regulators on the systemic importance of CCPs and regulation of CCP resiliency, recovery and resolution.

IMPLICATIONS FOR LSEG

Harmonisation of the requirements for CCPs recovery plans, and the introduction of resolution plans prepared by the Authorities responsible for resolving CCPs (i.e. resolution authorities) should provide clarity on the impact on CCPs and identify the critical functions they must maintain in the unlikely event of their failure. LSEG will continue to assist the authorities and provide input for the development of this framework.

Markets in Financial Instruments Directive/Regulation (MiFID II/MiFIR)

MiFID II/MiFIR is the widest ranging of the EU legislative initiatives, in terms of its impact on the Group and its customers. Scope in relation to LSEG includes rules relating to market transparency and trading structures, market data provision and publication, trading market microstructure, transaction reporting, the new SME Growth Market regime, Open Access provisions, clearing houses and benchmarks providers. Those of the Group's customers who are affected will have to ensure they are 'MiFID II compliant' by the implementation date, which is 3 January 2018.

IMPLICATIONS FOR LSEG

Although the Level II technical standards have not yet been completed, contents have been known for some time and the Group believes that the provisions are broadly either neutral or positive for the Capital Markets businesses, with Open Access potentially providing opportunities across all Group segments (see section following on Open Access). In our Information Services segment, UnaVista may benefit from increased transaction reporting opportunities while provisions relating to distribution of some real time data may mean some change to our business and revenue model in due course.

Open Access

Open Access refers to provisions within MiFID II that change the way some clearing houses, trading venues and index/benchmark providers will need to provide their products. Changes, which will apply when MiFID II comes into effect, require access to be provided to all potential users of trading, clearing and indices, on a non-discriminatory basis.

IMPLICATIONS FOR LSEG

Open Access remains a key principle that underpins our strategy and business model and does not present disruption to the way we currently operate. Our clearing services already accept trades for clearing that originate from venues outside of the Group; some of our trading venues already provide choice of clearing through alternative CCPs outside of the Group; and FTSE Russell provides index licences to a number of exchange businesses that are competitors to our trading venues.

Open Access increases competition across a range of services, to the benefit of investors and market participants and potentially provides the Group's relevant businesses with opportunities to launch new products and attract new trading and clearing flows.

Capital Markets Union (CMU)/Prospectus Regulation/Green Finance

CMU is a plan by the EU Commission that aims to create deeper and more integrated European capital markets. The CMU Action Plan sets out work streams designed to unlock investment from the EU and the rest of the world, improve financing for EU companies and investment projects, make the financial system more stable, deepen market integration and enhance competition. LSEG is closely following development of the EU Prospectus Regulation, reviews on the functioning of the corporate bond market, measures to increase securitisation, as well as the Commission's review of national barriers to the free movement of capital and initiatives to support SME growth markets. The Commission aims to implement measures resulting from all Action Plan initiatives by 2019.

The Commission also aims to increase retail participation in capital markets, through CMU initiatives to remove barriers to retail investment and to create a policy framework to create simple and competitive personal pensions.

Both the EU and international institutions have engaged in the topic of green and sustainable finance, focusing on green bonds and environmental, social and governance (ESG) disclosure. The initiatives include an FSB Task Force on climate-related financial disclosures and the launch of the EU Commission High Level Expert Group on sustainable finance, where LSEG is a member.

IMPLICATIONS FOR LSEG

These initiatives may increase activity across our Primary and Secondary Markets, and may lead to more activity in our post trade businesses. Additionally, Green Finance initiatives present enhanced commercial opportunities for FTSE Russell ESG indices.

Benchmarks

The EU Benchmarks Regulation was proposed to help restore confidence in the integrity of benchmarks, in the aftermath of the LIBOR scandal. In 2017, both national and European authorities are expected to publish the final technical details accompanying the regulation. It will apply from January 2018 to all benchmarks used within the European Union. Building on the principles agreed by the International Organisation for Securities Commissions (IOSCO), the regulation will impact benchmark users, contributors and administrators. Apart from interest rate benchmarks, it also covers all benchmarks used to reference financial instruments admitted to trading or traded on a regulated venue, such as energy and currency derivatives, those that are used in financial contracts, such as mortgages, and those that are used to measure the performance of investment funds.

IMPLICATIONS FOR LSEG

FTSE Russell is a key global benchmarks administrator; as such it is expected to apply for authorisation with the national competent authorities. Cost and revenue implications are not yet defined.

Technology

For all industries, primary legislation creating new EU cyber security and data protection regimes were completed during 2016, paving the way for development and implementation of secondary legislation during 2018. EU regulators are scrutinising the data protection framework this year to determine if the rules provide adequate protection for the increasing large scale processing and use of client data (e.g. Big Data).

For the financial services industry, regulators in major jurisdictions are closely monitoring emerging financial technology (FinTech), in particular the potential uses of distributed ledger technology, cloud computing and artificial intelligence. While many FinTech innovations are too nascent to regulate, regulators will focus during 2017 on efforts to facilitate data and other IT standardisation, and in supporting the growth of the FinTech sector.

IMPLICATIONS FOR LSEG

Cyber security, data protection and technology innovation-related regulatory initiatives apply in various degrees to all Group functions, either as compliance obligations or in the services that we provide to and the activities of our customers. As the threat landscape continues to evolve the cyber and data protection evolves. We continue to invest to ensure our continued defences against such threats and always ensure that we have the ability to demonstrate compliance with new regulation. In addition to complying with current cyber and data protection requirements, LSEG complies with significant data and cyber operational controls and standards required under financial services legislation. Regarding Big Data and FinTech proposals, first proposals on non-private Big Data use and ownership are expected during early 2017 and we do not yet know whether our businesses are potentially in scope. We continue to engage with regulators and leading industry working groups on these issues.

North America

United States

Many of the financial services reforms put in place under the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 are expected to be revisited by the 115th Congress in 2017. The 115th Congress is also likely to revisit CFTC Reauthorization legislation in 2017.

IMPLICATIONS FOR LSEG

Although the timing and substantive provisions are not certain, it is expected that the negotiations and final provisions could involve areas that directly or indirectly impact our post trade and capital markets businesses as well as participants in our markets. Assessment of financial impact on LSEG is not possible at this point.

Canada

The Canadian Markets Stability Act (CMSA), a package of reforms to address systemic risks in the financial system, including benchmarks and CCP's, is under review in the Parliament. At the regulatory level, the Canadian Securities Administrators (CSA) are expected to implement a mandate to clear certain classes of interest rate swaps in 2017, although the scope of these rules are not yet final.

IMPLICATIONS FOR LSEG

Although the timing and substantive provisions are not certain, it is expected that the negotiations and final provisions could involve areas that directly or indirectly impact our post trade and information businesses as well as participants in our markets. Our strength in these areas may be beneficial.

More detail is provided in the table at the back of this report (pages 172 – 173) that shows a range of regulatory developments by business area.

Strategy in action

VISION

Our ambition remains consistent – to become a leader in global financial markets infrastructure. We are focused on positioning our Group as an innovative, customer-focused organisation that delivers leading financial markets infrastructure services on a global basis.

Our strategy, and our activities, based on the Group today are aligned to three strategic pillars: driving global growth; developing our partnership approach; and delivering best-in-class capabilities.

STRATEGY

Driving global growth

Our commitment to continuing dynamic expansion across the value chain, products and geographies, and maximising value across the Group's businesses

PROGRESS – SELECTED EXAMPLES

- Acquisition of Mergent Inc. (completed in January 2017), a leading provider of business and financial information on public and private companies
- Remain on track to achieve FTSE Russell cost and revenue synergy targets ahead of schedule
- Further expansion of ELITE programme, including high-growth companies joining from new European and global geographies
- Launch of first ETF in Europe by an independent Chinese issuer on London Stock Exchange
- Receipt of regulatory approvals by LCH in Hong Kong and Singapore, enabling firms to clear at LCH in order to comply with clearing mandates in these countries
- Launch of LSEG Africa Advisory Group, which brings together senior African business leaders and organisations to deliver empirically grounded, actionable and Africa-specific policy recommendations
- Singapore Exchange's central depository business went live with MillenniumIT PostTrade platform

STRATEGY

Developing our partnership approach

A crucial difference between the Group and a number of our competitors. Together with our Open Access philosophy, and driven by continued innovation, this creates optionality to develop commercial and corporate opportunities amidst ongoing industry and regulatory change

PROGRESS – SELECTED EXAMPLES

- Turquoise and Plato Partnership enter cooperation agreement for European equity block trading services
- Go-live of CurveGlobal, a new interest rate derivatives joint venture in partnership with major dealer banks and CBOE
- Launch of TradeEcho, a new multi-asset class MiFID II Trade Reporting solution, in partnership with Boat Services
- ELITE Morocco launched in partnership with the Casablanca Stock Exchange
- Announcement of plans to launch LCH SwapAgent, a new service designed to simplify the processing, margining and settlement of non-cleared derivatives
- ELITE Connect and OpenExchange partner to boost video conferencing between investors and issuers across Europe and the US

STRATEGY

Delivering best in class capabilities

We continue to develop our skills, tools and assets to ensure we are able to capitalise on emerging customer needs – driving increased operational efficiency so we always execute on time, and to budget

PROGRESS – SELECTED EXAMPLES

- Completed the sale of Russell Investment Management to TA Associates and Reverence Capital Partners
- Launch of ELITE Club Deal, a new private placement platform for ELITE companies and professional investors
- Successful roll-out of the Group Ticker Plant real time market data platform, developed by MillenniumIT
- Introduction of London Stock Exchange daily intra-day auction following comprehensive, market-wide consultation
- Launch of FTSE Russell's ground-breaking low carbon economy (LCE) data model, tracking companies that generate green revenues
- Opening of new state-of-the-art LSEG technology facility in Colombo

Executive management team

The Executive Committee manages the business on a day-to-day basis. The team meets regularly to review a wide range of business matters, including financial performance, development of strategy, setting and monitoring performance targets, reviewing projects and other initiatives. Profiles of the Executive team are provided below (for further information on Xavier Rolet, David Warren and Raffaele Jerusalem, who are also members of the Board of Directors, see their biographies on pages 54 – 55).

The team is unchanged from the prior year, with the exception of Len Brennan leaving as a consequence of the sale of Russell Investment Management in H1 2016.



Xavier R Rolet KBE
Group Chief Executive Officer



Raffaele Jerusalem
Chief Executive Officer of Borsa Italiana S.p.A.
and Director of Capital Markets



David Warren
Group Chief Financial Officer

**Suneel Bakhshi**

Chief Executive Officer, LCH Group. Joined in February 2014 from Citigroup with over 30 years of experience in trading, banking and risk management. Most recently, he was President and CEO, Citigroup Global Markets, Japan. Prior to this, he held several senior risk, banking and markets roles, including Sales and Trading in EMEA, Fixed Income Derivatives Trading for Europe and Derivatives in Japan.

**Chris Corrado**

Group Chief Operating Officer and Chief Information Officer. Joined in November 2015 from MSCI where he was responsible for technology, data services and programme management. He has over 30 years of global experience in managing technology platforms and transformational change in the financial services industry. He has also worked for high-growth technology companies including eBay, AT&T Wireless and Asurion.

**Diane Côté**

Group Chief Risk Officer. Appointed Chief Risk Officer and joined the Executive Committee in June 2013. Diane was previously Aviva Plc's Chief Finance Operations Officer. Prior to this, Diane held the position of Aviva's Chief Audit Officer. Diane has many years' experience holding senior positions within Aviva and other leading organisations, including Standard Life Assurance.

**Serge Harry**

Appointed Chief of Staff to the Group CEO in April 2016, Chairman of globeSettle and Group Country Head for France, Benelux and Germany. He was previously Chairman and CEO of BlueNext, a global carbon credits trading exchange, Head of Strategy at NYSE Euronext, and CFO of Euronext from 2000 to 2007.

**Catherine Johnson**

Global General Counsel. Joined the Group in 1996. She advises the Board and senior executives on key legal matters and strategic initiatives. In addition to her role as General Counsel, she was previously also head of the Group's Regulatory Strategy team. Qualified as a lawyer at Herbert Smith in 1993.

**David Lester**

Chief Strategy Officer, Chairman of Turquoise and Chairman of FTSE Russell. Joined the Group in 2001 and sits on the boards of globeSettle and CurveGlobal. He has over 27 years' experience in financial information and technology including with Thomson Financial, Accenture and KPMG.

**Mark Makepeace**

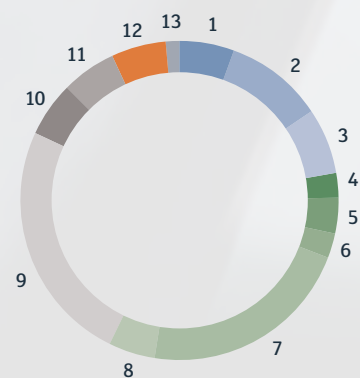
Group Director of Information Services and Chief Executive Officer of FTSE Russell. He was a founding Director of FTSE Group in 1995 and joined LSEG in 2011. Mark has over 20 years' experience of developing successful joint ventures and has forged alliances with stock exchanges, academics and leading industry groups.

**Nikhil Rathi**

Chief Executive Officer of London Stock Exchange plc and Director of International Development. Appointed in May 2014 as Director of International Development, he joined from the UK Treasury, where he held a number of senior positions, including Director of the Financial Services Group, representing the UK Government's financial services interests internationally, and Private Secretary to the UK Prime Minister for three years from 2005 to 2008.

Introduction to segmental review

	12 months to 31 December 2016	12 months to 31 December 2015
● Capital Markets	£m	£m
1 Primary Markets	90.8	88.8
2 Secondary Markets – Equities	164.9	143.7
3 Secondary Markets – Fixed income, derivatives and other	112.6	97.8
	368.3	330.3
● Post Trade Services CC&G and Monte Titoli		
4 Clearing (CC&G)	42.5	38.0
5 Settlement, Custody and other (Monte Titoli)	61.2	51.8
6 Net interest income (CC&G)	42.6	29.3
	146.3	119.1
● Post Trade Services LCH		
7 Clearing	356.5	302.1
8 Net interest income and other	90.6	58.6
	447.1	360.7
● Information Services		
9 FTSE Russell Indexes	409.3	348.9
10 Real time data	90.9	82.2
11 Other information	94.5	86.3
	594.7	517.4
● Technology Services		
12 Technology	88.3	80.6
	88.3	80.6
● Other		
13 Other	12.4	10.5
Total continuing income	1,657.1	1,418.6

Total continuing income

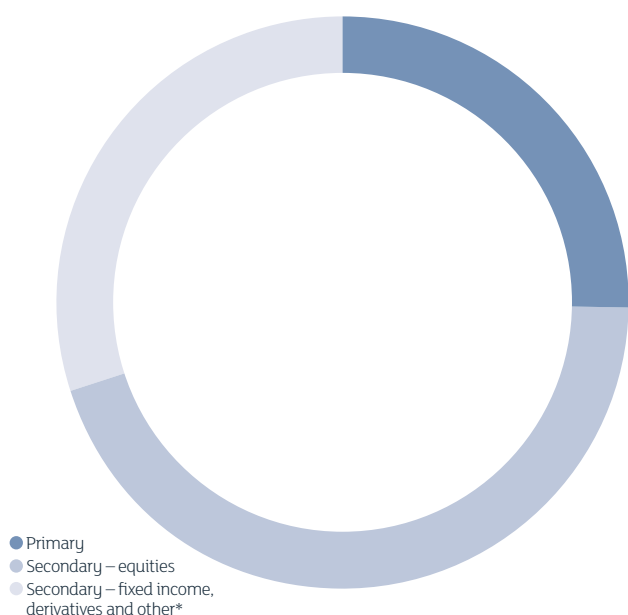
12 months to
31 December 2016

Capital Markets

Revenues

£368.3^m

2015: £330.3m



* Other revenue includes Entrance and Membership fees

FURTHER INFORMATION

Market trends and our response for Capital Markets can be found on pages 12 – 15. Profitability of each segment can be found in the Financial Review on pages 38 – 43. An overview of the regulatory landscape can be found on pages 172 – 173. A glossary of terms can be found on pages 169 – 171. LSEG is a minority shareholder of CurveGlobal, the results of CurveGlobal are not consolidated by the Group.

KEY SUMMARY

- Revenues increased by 12% to £368.3 million (2015: £330.3 million) and up 6% on an organic constant currency basis
- Primary Markets saw total money raised across our equity markets down 39% at £25.6 billion, with 134 new companies admitted to our markets (2015: 176) of which 64 admitted to AIM (2015: 61)
- In Secondary Markets, UK cash equity average daily value traded increased by 4%, average daily number of equity trades in Italy increased by 5% and average daily value traded on Turquoise increased 26%
- IDEM, the Group's Italian derivatives market, saw an increase in volumes of 10%
- In Fixed Income, MTS cash and BondVision value traded declined by 3%, while MTS Repo reduced by 5%
- CurveGlobal, a new joint venture with leading dealer banks and CBOE went live in September 2016, offering short-term and long-term interest rate futures

Introduction

London Stock Exchange Group provides access to capital for a wide range of domestic and international businesses.

Our range of primary markets provides choice for issuers and investors, enabling companies to raise capital efficiently depending on their individual financing needs, whilst also providing increased visibility with a wide group of customers and investors. Our secondary markets create a deep pool of liquidity and allow active and efficient trading through our high-performance trading platforms.

Issuers admitted to our Primary Markets are charged admission fees and annual fees, principally based on the market value of the securities listed.

In Secondary Markets a fee is charged based on value traded for UK equities, Turquoise and MTS fixed income markets. On other markets, Italian equities, derivatives markets and retail fixed income a fee is charged per trade or contract traded.

Primary Markets

In 2016, 134 new companies were admitted to our markets (2015: 176). The total money raised by companies through new equity issues was £5.9 billion (2015: £14.3 billion). In London, 51 companies listed on our Main Market and 64 were admitted to AIM. In Italy, 19 companies joined our markets.

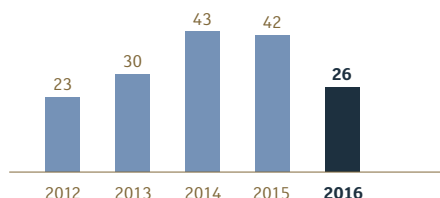
Globally, markets faced uncertainties due to the UK referendum, the US election and the Italian referendum. London continued to attract quality companies from a broad geographic base and diverse range of sectors. We also saw a broad spread of companies listed during the year, for example ConvaTec which raised £1.5 billion, becoming the largest European healthcare IPO since 1993 and subsequently joining the FTSE 100, and Creo Medical Group, a Welsh-based medical device company that raised £20 million on admission, with a market capitalisation of approximately £61 million. Other notable IPOs included the listing of Metro Bank, Britain's first new high street bank in over 100 years, which was valued at £1.6 billion and Vietnam Enterprise Investments listed with a market value of over £570 million.

In Italy six companies listed on the MTA main market including Ferrari and Italgas. The listing of Ferrari, with a valuation of €8.4 billion, followed a number of luxury brands joining the Italian market in recent years, including Moncler and Ferragamo. Italgas, the leading natural gas distribution operator in Italy and the third largest in Europe, became listed following the split from Snam, with a market capitalisation of €3.2 billion.

The total amount of capital raised across our equity markets, through new and further issues, decreased by 39% to £25.6 billion (2015: £41.7 billion). Looking ahead, the pipeline of companies preparing to join our markets is promising. At year end, there were a total of 2,590 companies on our markets (2015: 2,685).

Equity money raised – Group

£ bn

**Exchange Traded Products**

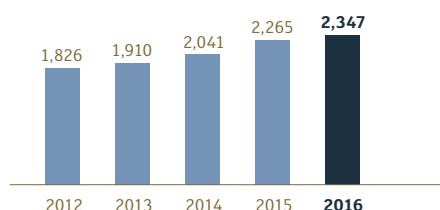
Our Exchange Traded Funds (ETF) and Exchange Traded Products (ETP) markets continued to make good progress. 124 new ETFs (2015: 166) and 50 new ETPs (2015: 55) were listed in London in 2016, across a wide range of asset classes including equity, fixed income, commodities and foreign exchange. In Italy, the ETFplus market listed 112 new ETFs and 4 new ETPs (2015: 82 ETFs and 56 ETPs). The total number of ETFs and other ETPs listed on our markets rose to 2,347 (2015: 2,265).

2 new issuers from China, Fullgoal Asset Management and ICBC Credit Suisse Asset Management, listed ETFs on our market, bringing the total number of issuers to 24. 3 RMB Qualified Institutional Investor (RQFII) ETFs listed on London Stock Exchange, with ICBCCS becoming the seventh Chinese issuer in our markets. RQFII is an initiative intended to allow investors from outside of the People's Republic of China to hold mainland A shares.

In April 2016, London Stock Exchange won the Most Proactive ETF Exchange – Europe and Largest Exchange for ETFs – Europe at the 12th Annual ETF Global Awards in New York.

Exchange Traded Products – Group

number listed at year end

**AIM**

AIM is our highly successful growth market that provides small and medium sized businesses access to a deep pool of long-term international capital. Since its launch in 1995, there have been more than 3,500 admissions, and AIM reached a milestone of £100 billion raised in January 2017.

AIM saw impressive growth in 2016 despite challenging markets. Compared to ten years ago, the average new AIM company is now five times bigger and raises six times as much capital, reflecting investor confidence in the market framework and standards, which we remain committed to developing and enforcing. During the year 64 companies from the UK, North America and Europe and from a diverse range of sectors including Software and Computer Services, Media, Pharmaceuticals and Retailers were admitted to AIM (2015: 61). 38 of the new issues were IPOs and their average share price was up 41% by the end of the year.

The total number of companies on the market at year end was 982 (2015: 1,044). The total market value increased to £80.8 billion (2015: £73.1 billion). Money raised including further issuance was robust in 2016, with £4.8 billion raised (2015: £5.5 billion).

AIM Italia – MAC saw 13 new companies join (2015: 18), and at year end there were 77 companies on the market (2015: 74).

ELITE

ELITE is an innovative offering for businesses across their life cycle. The ELITE offering is structured across three product lines: Growth, Connect and Club Deal.

ELITE Growth, the foundation of ELITE, is a programme and platform to help ambitious companies prepare and structure for further growth and investment, while providing these businesses access to an extensive community of advisers, investors and business leaders. ELITE launched in Italy in 2012 and in the UK in 2014, and has since expanded internationally with nearly 500 companies from 25 countries (2015: 327 companies from 21 countries). Five companies in Italy have progressed to an IPO on AIM Italia and in 2016 we also saw the first UK company Van Elle admitted to AIM raising £40 million.

ELITE Growth has also expanded through strategic partnerships, including launching in Morocco through a licensing agreement with Casablanca Stock Exchange and an agreement with the Budapest Stock Exchange to promote and develop the programme jointly in Hungary.

ELITE Connect is a digital platform that brings together listed companies, institutional investors and intermediaries to facilitate investor relations activities.

ELITE Club Deal is a new online private placement platform for ELITE companies and professional investors. It aims to streamline the capital raising process for high-growth companies in a secure and efficient environment through a digital platform. ELITE Club Deal received full FCA authorisation in February 2017.

International

We have long been active in developing relationships with key international markets. Listings during 2016 underline London's status as international centre for sustainable finance and innovation. The UK's position as a global partner of choice for international fundraising was confirmed with the listing of the first Chinese sovereign RMB bond to be issued outside of China, raising RMB 3 billion. During 2016, we saw a total of 68 RMB bonds issued on our markets, this makes LSEG the biggest exchange for international RMB issuance outside Greater China, with a total of 103 RMB bonds listed on our market.

In June 2016, London Stock Exchange hosted a landmark Indian Green Infrastructure Investment Coalition forum. We saw the issuance of India's first internationally listed certified green bond by Axis Bank, the world's first Masala bond by an Indian corporate, HDFC, and the world's first independently certified Indian green Masala bond and first Masala bond by an Indian quasi-sovereign issuer, NTPC. In 2016, 6 new Masala bonds listed on London Stock Exchange. A total of 33 Masala Bonds have now listed raising US\$4.2 billion.

Green Bonds

LSEG continues to expand green finance initiatives for both investment and capital raising. Green bonds are issued to finance eligible green projects and London Stock Exchange is home to a number of landmark green bond issuances from Finland to India, China and Japan. There are currently 40 green bonds listed on our markets, who have raised US\$10.5 billion (2015: 26 green bonds raising US\$5.4 billion). Among the issues in 2016 was Bank of China which issued the first ever Chinese Green Covered Bond that raised US\$500 million.

Capital Markets continued

Secondary Markets

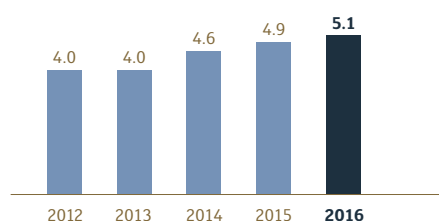
Equity Trading

The equity trading activity in both the UK and Italy increased year-on-year. In the UK, the average daily value traded was up 4% to £5.1 billion (2015: £4.9 billion); in Italy, the average daily number of trades rose by 5% to 295,000 (2015: 280,000).

Our markets in London demonstrated resilience in providing safe and stable markets in the three record trading days in 2016, with 2.7 million trades post the UK referendum on 24 June and 2.2 million trades on 27 June, and then 1.8 million trades on 10 November post the US election. Italy also hit record highs after the UK referendum with over 765,000 trades on 24 June.

London Stock Exchange – average daily value traded

£ bn

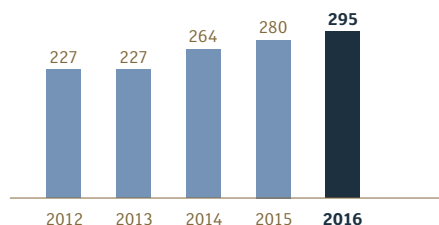


Throughout 2016 products were developed and launched to meet MiFID II requirements. In March, London Stock Exchange launched daily two-minute intra-day auctions, designed to provide new benchmarking opportunities for fund managers and as a mechanism for matching larger sizes in preparation for volume caps to be introduced with MiFID II. The Hidden Midpoint Pegged Orders enhanced in October 2015 experienced significant growth in 2016 with an average order size of over £400,000. In June, LSEG and Boat Services Ltd launched TRADEcho, combining the two companies' existing and complementary trade reporting services. It provides pre and post trade, pan-European solutions covering all MiFID II asset classes, ahead of MiFID II's 2018 implementation.

In 2016, Borsa Italiana reviewed the structure of its equity MTF, now named Borsa Italiana Equity MTF, to include the new 'Global Equity Market' segment, and the Trading After Hours (TAH). The new GEM segment is dedicated to retail investors, allowing them to access liquid stocks traded on other OECD markets through a single venue.

Borsa Italiana – average daily number of trades

thousands

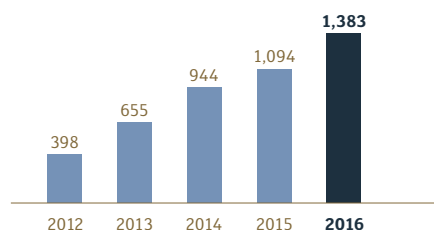


Turquoise

Turquoise is our majority-owned European trading venue in partnership with the user community. With a single connection, users can trade shares, depository receipts, ETFs, and European Rights Issues of 19 European countries in an open access interoperable post trade model. Total value traded for the year on Turquoise was up 26% to €1.38 trillion (2015: €1.09 trillion) across 308 million trades (2015: 205 million) which also benefitted our post trade services. Turquoise markets were resilient during record trading days in 2016 post the UK referendum, with 2.9 million trades on 24 June, 2.6 million trades on 27 June, and 2.0 million trades on 28 June.

Turquoise – total value traded

€ bn



Turquoise operates two order books, Turquoise Integrated (Lit) and Turquoise Plato (non-displayed). This year, Turquoise entered cooperation agreement with Plato Partnership, a not-for-profit industry group of buy and sell-side firms collaborating to bring creative solutions to today's complex equity marketplace. This brings together for the first time buy-side, sell-side and trading venue to deliver increased efficiencies in anonymous European equity block trading.

Turquoise has subsequently rebranded its non-displayed services as Turquoise Plato, including the innovation award winning Turquoise Block Discovery and Turquoise Uncross as Turquoise Plato Block Discovery and Turquoise Plato Uncross. Turquoise Plato offers innovative trading mechanisms ahead of the introduction of MiFID II, including matching with size priority at the midpoint of the primary market best bid and offer price via choice of or combination of continuous and periodic random mechanisms. Turquoise Plato Uncross provides randomised uncrossings during the day and Turquoise Plato Block Discovery matches undisclosed block indications that then execute in Turquoise Plato Uncross. Turquoise Plato Block Discovery celebrated its second anniversary in 2016 and has demonstrated strong growth. Turquoise Plato Block Discovery since its October 2014 launch to the end of December 2016 has matched more than €9 billion of which more than half traded following the September 2016 announcement of the Plato Partnership Cooperation Agreement. Average trade size is €295,900 (2015: €213,000) in Turquoise Plato Block Discovery compared to more typically €4,200 in the lit order book.

In 2016, Turquoise launched a number of additional innovations including:

- Turquoise Plato Dark Lit Sweep which is an order that sweeps the Turquoise Plato Order Book first to try and find as much liquidity as possible at the primary midpoint price during continuous trading before sweeping the Turquoise Integrated (Lit) Order Book with any remaining unexecuted quantity.
- Turquoise TrackInsight ETF Trading Segment which is a dedicated ETF trading segment for constituents of the TrackInsight A-list following cooperation agreement with Koris International, an investment firm that operates the TrackInsight™ ETF analysis platform. Annual order book turnover for all ETFs traded on Turquoise in 2016 grew to €826 million (2015: €257 million).
- Turquoise SwapMatch which provides a neutral arranging mechanism for financial institutions to match block interests in over the counter equity total return swaps.

The Parliamentary Review, published once a year, selected Turquoise to feature in its 2016 Finance edition as an example of best practice: www.lseg.com/sites/default/files/content/documents/Turquoise_Parliamentary%20Review%202016.pdf.

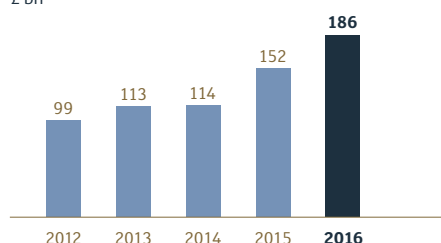
Exchange Traded Products

The Group has strengthened its position in ETF and other ETP trading in Europe by value traded. Total ETF value traded across our markets increased by 22% to £186 billion (2015: £152 billion). ETF trading now accounts for around 8% of equity trading on the LSE and 14% of trading on Borsa Italiana. ETFs trade on our platforms in five currencies including Chinese Renminbi.

MiFID II will change pre and post trade transparency requirements for ETFs. It is estimated that around 70% of ETF trading in Europe takes place over the counter (off-exchange). During the year, in Italy we launched a new MiFID II compliant Request for Quote (RFQ) facility for the execution of larger trades on-exchange (minimum trade size will be €1 million under MiFID II). This service will be launched in the UK in 2017.

Exchange Traded Products – total value traded

£ bn



Derivatives

Derivatives volumes on our markets increased in 2016, with 53.9 million contracts traded (2015: 48.9 million). IDEM, the Group's Italian derivatives market with 27 market making firms, saw record trading with volumes growing by 10% to 49.0 million contracts (2015: 44.4 million). FTSE MIB futures and options, and Italian stock options have been particularly active in 2016. London Stock Exchange Derivatives Market (LSEDM) volumes also increased with a pick up in the final quarter. LSEDM contracts traded amounted to 4.9 million (2015: 4.5 million).

During the year, our UK equity derivatives were complemented by the introduction of FTSE 100 weekly options. In Italy, following demand from institutional clients, we introduced European style single stock options with cash settlement and physical delivery. In addition, for LSEDM we introduced a Pre-Trade Validation Service (PTVS) that complements the risk control system in place by LSEDM participants to control order flow activity. This will be rolled out to IDEM in 2017. LSEDM received approval from the US CFTC as a Foreign Board of Trade (FBOT), which allows LSEDM to provide US-based participants with direct access to its electronic book in FTSE 100 UK Index Futures contract, the FTSE UK Large Cap Super Liquid Index Futures contract and the BIST 30 Index Futures contract.

CurveGlobal

CurveGlobal, a new venture between London Stock Exchange Group, a number of leading dealer banks and Chicago Board Options Exchange (CBOE) went live as a trading segment on LSEDM in September 2016, offering short-term and long-term interest rate futures. The clearing service is provided by LCH, which gives investors access to a single default fund across OTC, and listed trades, and the ability to use, LCH Spider. CurveGlobal is another example of LSEG partnering with its customers to provide an innovative solution for clients and underscores our open access approach. Volumes traded since launch to end January 2017 amounted to 425,000 contracts. As LSEG is a minority shareholder of CurveGlobal, the results of CurveGlobal are not consolidated by the Group.

Fixed Income

MTS is a leading regulated electronic trading platform for European wholesale Government Bonds and other types of fixed income securities. Volumes for MTS Repo, which offers liquidity across all the eurozone repo markets, declined by 5% in an unfavourable European negative interest rate environment with notional value traded of €84.4 trillion (2015: €88.9 trillion). MTS Cash and BondVision combined volumes declined by 3% to €3,944 billion (2015: €4,081 billion) with higher yielding markets of Italy and Spain seeing good growth, offsetting declines in France and Germany.

In 2016, MTS BondsPro, the US-based corporate and emerging markets bond trading platform, continued to expand, launching European denominated corporate bond trading for US, UK and Swiss participants.

MTS Live, an ultra low-latency tick-by-tick market data product supports growth in the use of automated trading strategies on MTS Cash markets. In 2016, MTS Live expanded to include government bond data from additional Central European countries and Israel to meet the growing demand for low-latency pre-trade data across the European government bond market.

Our retail bond markets, including EuroTLX, the UK Order Book for Retail Bonds (ORB), and MOT in Italy, the most liquid and heavily traded retail fixed income platform in Europe, continued to provide liquid markets despite a difficult low interest rate environment. Total trades were 6.1 million (2015: 7.4 million) with value traded at €285 billion (2015: €361 billion). ORB has now seen 56 ORB dedicated issues listed with four new bonds in 2016. There are now 44 active ORB dedicated bonds, unchanged on 2015 as earlier bonds are redeemed.

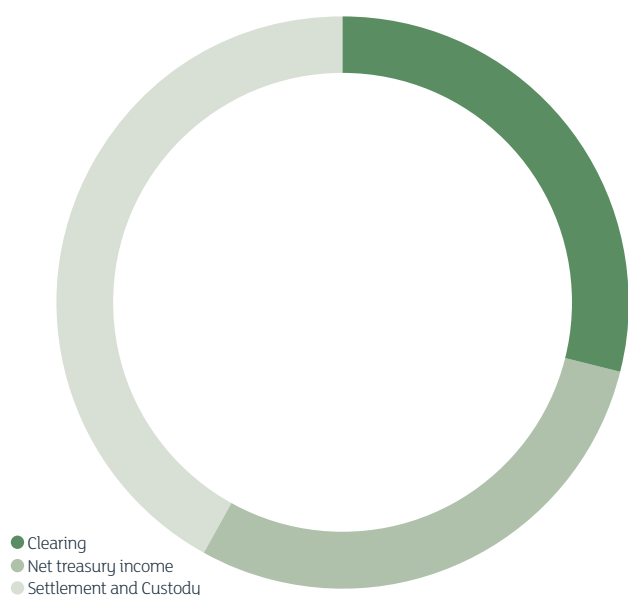
Post Trade Services

CC&G and Monte Titoli

Income

£146.3^m

2015: £119.1m



FURTHER INFORMATION

Market trends and our response for Post Trade Services, CC&G and Monte Titoli can be found on pages 12 – 15. Profitability of each segment can be found in the Financial Review on pages 38 – 43. An overview of the regulatory landscape can be found on pages 172 – 173. A glossary of terms can be found on pages 169 – 171.

KEY SUMMARY

- Income for the year increased by 23% to £146.3 million in sterling terms and by 9% on a constant currency basis
- Net Treasury Income increased by 45% to £42.6 million in sterling terms and by 29% in constant currency terms
- Contracts cleared by CC&G up 8% to 129.6 million
- Monte Titoli prepared the filing to be authorised as Central Depository System under the new implemented EU CSD Regulation (CSDR), which is planned over the course of 2017

Introduction

Post Trade Services in Italy are crucial to the securities trading industry. Our post trade businesses, Monte Titoli and CC&G, provide the markets with settlement, depository, custody, risk and collateral management, clearing and central counterparty (CCP) services in order to mitigate risk and ensure the efficient running of capital markets.

The post trade regulatory landscape is undergoing significant changes, emphasising the importance of the role of clearing houses and Central Securities Depositories (CSDs) in post-crisis financial markets. It also creates opportunities for growth in this area, as more reliance is placed on post trade infrastructure providers. Our continued strong service in volatile market condition emphasises the high quality of our risk management and post trade processes.

CC&G Clearing earns its revenue by charging a fee on each trade or derivative contract cleared. Net treasury income is earned on cash and securities held for margin and default funds. Monte Titoli settlement revenue is earned by charging a fee on each trade settled and lodged for registration into the buyer's name. Monte Titoli custody fees are paid by companies based on market capitalisation and issuance, with fees paid by intermediaries including banks and CCPs based on balance of assets held in custody.

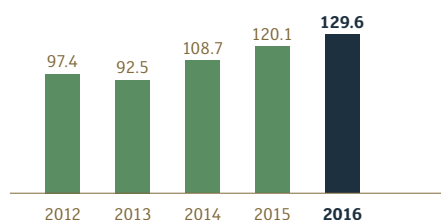
CC&G

CC&G is the Group's Italian-based provider of risk management, open access clearing and CCP services to 12 markets including Borsa Italiana's markets, ICAP BrokerTec and Hi-MTF. CC&G has 158 clearing members, of which over 40% are international. CC&G eliminates counterparty risk by sitting in the middle of a trade as the buyer to every seller and the seller to every buyer, and becoming the guarantor for final settlement of the contracts. CC&G provides services across a diverse range of asset classes including cash equities, derivatives, close-end funds, fixed income and commodity derivatives. CC&G has an interoperability agreement with LCH. S.A. for European Bond and Repo markets.

Clearing revenues on a constant currency basis were broadly unchanged, in Sterling terms revenue increased by 12% to £42.5 million (2015: £38.0 million), Equity and derivatives contract volumes cleared increased by 8% to 129.6 million (2015: 120.1 million).

CC&G – Trades and contracts cleared

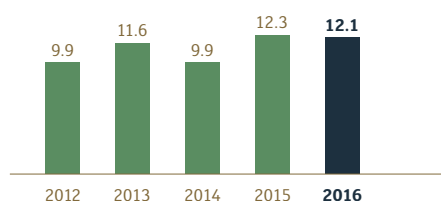
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CC&G generates net treasury income by investing the cash margin it holds. Average daily initial margin declined by 2% to €12.1 billion for the year (2015: €12.3 billion), reflecting lower fixed income volumes. Net treasury income increased by 45% to £42.6 million (2015: £29.3 million), up 29% on a constant currency basis, by achieving increased spreads.

CC&G – Initial margin held

€ bn (average daily)



In the coming year CC&G will continue to offer its support to international banks that wish to connect to CCPs and CSDs through T2S. CC&G is in discussions to offer its CCP services to third parties, including European and African post trade operations.

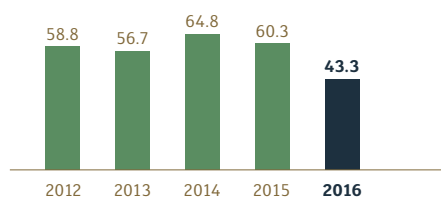
Monte Titoli

Monte Titoli, LSEG's Italian-based CSD, is a leading provider of efficient and secure settlement, custody, asset servicing and collateral management services in Europe, with a client base of 184 users and over 2,300 issuers.

Settlement, custody and related revenues increased by 5% on a constant currency basis and, in Sterling terms, increased by 18% to £61.2 million (2015: £51.8 million).

Monte Titoli – Settlement instructions

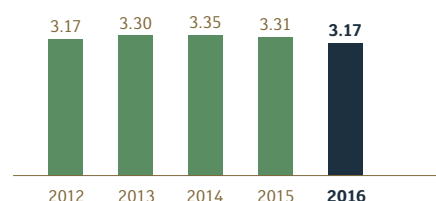
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Monte Titoli handles a wide range of financial instruments, with assets under custody amounting to €3.17 trillion (2015: €3.31 trillion), down 4% reflecting lower equity market capitalisation and lower bond issuance. In 2016, its settlement service processed 43.3 million instructions, down 28% on the previous year largely on the change to T2S (2015: 60.3 million). Monte Titoli continued to provide an efficient settlement system, with a year-end settlement rate of around 97% of trades (2015 year end: 98-99%).

Monte Titoli – Assets under custody

€ tn (annual average)



Monte Titoli celebrated its 30th anniversary of being declared a CSD for Italian financial instruments. A book entitled 'The Future is Now' was published to celebrate its past and showcase its plans. In 2016, Monte Titoli also worked to prepare the filing to be authorised as Central Depository System under the new implemented EU CSD Regulation (CSDR). The filing with authorities is planned over the course of 2017.

In December 2016, BNY Mellon became a participant of Monte Titoli, migrating its clients' assets to direct accounts to benefit fully from the implementation of T2S. Previously BNY Mellon settled transaction in the Italian market through sub-custodian services. This achievement represents a key step in Monte Titoli's strategy to expand its service offering and client base and confirms its capability to support international clients.

X-COM, Monte Titoli's Triparty Collateral Management service, continued to improve its efficiency across 2016. In September 2016, a new reuse feature with the Bank of Italy was released, and BTP Italia, a new basket composed solely of BTP Italia securities guaranteed by CC&G was made available.

globeSettle

globeSettle S.A., the Group's CSD based in Luxembourg, is recognised by the Luxembourg regulators as a 'Professional du Secteur financier' and as Securities Settlement System by the Banque Centrale de Luxembourg and the Eurosystem. globeSettle operates on an open access basis, using the same technology as Monte Titoli, with a fully international approach. Beyond settlement and safekeeping, it offers clients a full set of assets services including corporate actions and fiscal services. globeSettle continues to talk to potential clients in order to launch an efficient liquid service.

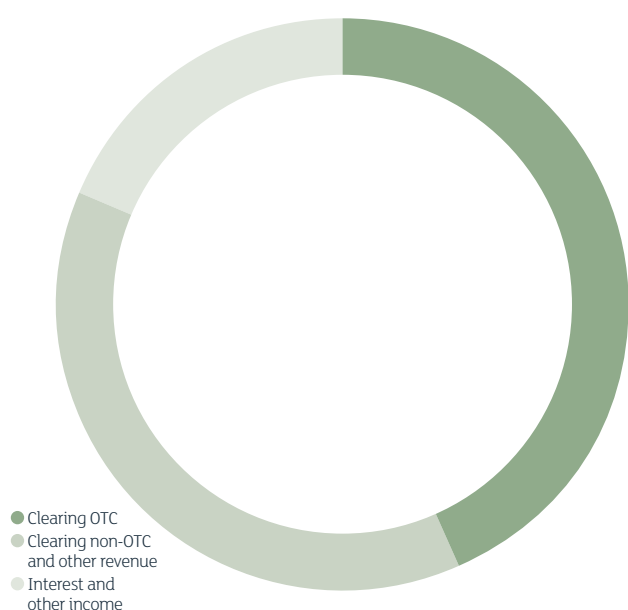
Post Trade Services continued

LCH

Income

£447.1^m

2015: £360.7m



*Other revenue includes non-cash collateral and compression fees

FURTHER INFORMATION

Market trends and our response for Post Trade Services, LCH can be found on pages 12 – 15. Profitability of each segment can be found in the Financial Review on pages 38 – 43. An overview of the regulatory landscape can be found on pages 172 – 173. A glossary of terms can be found on pages 169 – 171.

KEY SUMMARY

- LCH's income for 2016 was £447.1 million, up 24% and increased by 15% on a constant currency basis
- SwapClear, an interest rate swap clearing service, cleared US\$666 trillion notional, up 25%. Client trades cleared increased by 40% to 952,000 and compression up 17% to US\$384 trillion
- ForexClear non-deliverable forwards clearing increased by 204%, to US\$3,191 billion
- Fixed income clearing was stable with a total of €70.8 trillion in nominal value cleared
- Cash equity clearing volumes increased by 27% to 697.2 million trades
- LCH Spider, a new open access portfolio margining service for interest rate derivatives, went live in May 2016

Introduction

LCH is a leading multinational clearing house, with clearing operations in the UK, the Eurozone, the US and an expanding presence in the Asia-Pacific region. LCH provides services to mitigate counterparty risk across multiple asset classes for clearing members and their clients operating through an open access model that clears for the Group's markets and other major exchanges and platforms as well as a range of OTC markets.

LCH sits in the middle of a trade as the buyer to every seller and the seller to every buyer. If either party defaults on the trade, LCH owns the defaulter's risk and becomes accountable for its liabilities. Fundamental to LCH's risk process is its collection of quality collateral from clearing members and clients as insurance to recover or replace defaulted risk. During the life of a trade, or that of a portfolio of trades, LCH processes all cash flows and marks the trade or book to market, calling variation and initial margin in relation to prevailing risk of the overall portfolio.

LCH earns its revenue in the OTC derivatives markets by charging members either an annual fee for all clearing or a lower annual fee with variable fees based on volume. Additional fees are levied for new services such as compression. Clients pay a fee based on OTC volume cleared. In non-OTC markets, all users pay a fee based on volumes or value cleared. Net treasury income is earned on cash and securities held for margin and default funds.

Key developments during the year included the continued growth of new services for the OTC markets, and continued support for clients as clearing mandates and non-cleared margin rules go live, inflation swap clearing and expansion of compression services. LCH Spider, a new portfolio margining service for interest rate derivatives, was launched in May 2016, offering members and their clients opportunities to benefit from risk and collateral efficiencies on an open access basis. Furthermore LCH launched clearing for CurveGlobal.

As a global clearing house, LCH continued to expand. It started to offer clearing on UBS MTF in February 2016, making cash equity clearing service available for users of 19 trading venues. In the Asia-Pacific region, it was granted the status of Recognised Clearing House by the Monetary Authority of Singapore, authorised as a CCP by the Hong Kong Securities and Finance Commission and was approved to clear non-Yen OTC interest rate derivatives for Japanese banks.

Expected to launch mid-2017, LCH SwapAgent is a new service designed to simplify the processing, margining and settlement of non-cleared derivatives. LCH SwapAgent benefits from LCH's expertise in serving and managing risk for the cleared Rates and FX derivatives market providing solutions to improve materially standardisation, efficiency and simplicity in the bilateral derivatives market by extending the clearing infrastructure without requiring novation to a central counterparty.

LCH won the Risk Magazine Clearing House of the Year for the fourth year in a row, and the Market Infrastructure Provider of the Year Award by the Central Banking Journal. It was also recognised by Asia Risk as the Clearing House of the Year in 2016.

Total income in constant currency terms increased by 15% as a result of increased OTC clearing and Net treasury income. In sterling terms, income increased by 24% to £447.1 million (2015: £360.7 million). OTC derivatives clearing revenue was £190.6 million, up 22% and increased by 16% on a constant currency basis (2015: £156.8 million). SwapClear made up almost all of the increase in constant currency revenue, driven by growth in client clearing and adoption of new services. ForexClear and CDSClear revenues were stable as membership increased later in the year. Non-OTC clearing revenue was £116.5 million, up 2% and down 8% on a constant currency basis, driven by fixed income revenue on a constant currency basis up 1% on stable volumes cleared, with equity revenue down 4% as members benefitted from volume discounts and derivatives revenue down by 23% on lower volumes cleared. Other revenue increased by 60% to £49.4 million (2015: £30.8 million) driven mostly by increased use of compression services.

OTC derivatives

SwapClear

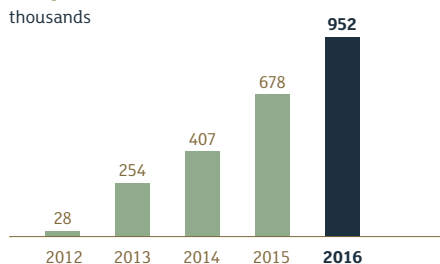
SwapClear offers both buy and sell-side clients access to unrivalled liquidity, cost-saving efficiencies and rigorous risk management. The SwapClear service is used by members who are in general the sell-side banks and by clients who are made up of other banks, pension funds, hedge funds and investment funds.

The results of the increased volumes, client traction, adoption and delivery of new products and services have delivered a strong overall performance for SwapClear. Client clearing activity continues to grow with new annual records achieved. Drivers of this growth include continued access to market liquidity, cost of uncleared margin rules further extenuating the benefits of clearing, evidenced by the increase in inflation swap clearing, and regulatory mandated clearing in Europe.

In 2016, SwapClear Membership increased to 107, after adjusting for the cessation of the US membership category (2015: 101 plus 15 US memberships). Total notional cleared increased by 25% to a record US\$666 trillion (2015: US\$533 trillion), of which client clearing increased by 50%, also to a record US\$139 trillion (2015: US\$93 trillion) with client trades cleared up 40% to a record 952,000 (2015: 678,000). Increased notional cleared also benefited net treasury income by way of increased margin collected.

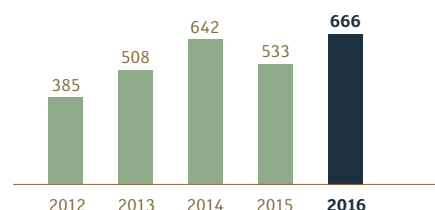
SwapClear – Client: number of cleared trades

thousands



SwapClear – Total notional cleared

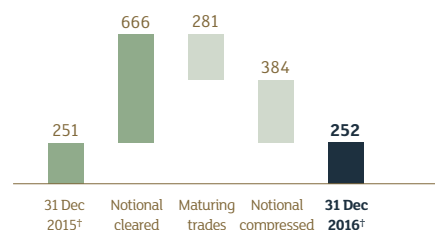
US\$ tn



SwapClear's compression services allow members and clients to combine or offset trades resulting in a reduction in notional outstanding, more efficient portfolios and may result in lower regulatory capital requirements. Compression continued to show good progress with a 17% increase, to a record US\$384 trillion compressed (2015: US\$328 trillion). SwapClear reached a landmark milestone of compressing a total of US\$1 quadrillion in notional since it started offering compression services in 2008. It has also cleared a total of US\$1.4 trillion in notional of inflation swaps since the service launched in April 2015. This achievement followed a significant increase in cleared activity on the buy and sell-side following the implementation of non-cleared margin rules in US, Canada and Japan in September 2016.

SwapClear – Compression volumes

US\$ tn



† Notional outstanding

Post Trade Services continued

LCH

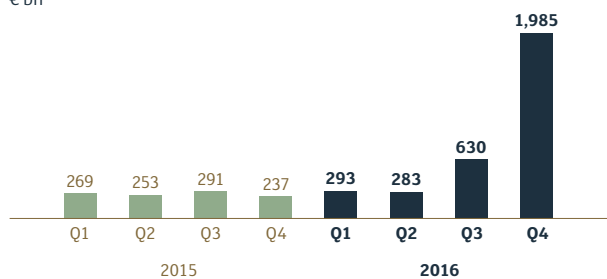
ForexClear

ForexClear is LCH's service clearing foreign exchange (FX) non-deliverable forwards (NDF) in 12 Emerging Market currencies. ForexClear earns the majority of its clearing revenues from annual membership fees. ForexClear membership increased to 25 members (2015: 23), notional cleared increased by 204% to US\$3,191 billion (2015: US\$1,050 billion).

While the uncleared margin rules only applied from September 2016, we are seeing significantly increased participation and interest from all regions in the ForexClear NDF service. Over US\$500 billion of NDFs were cleared in October and average trade volume increased from 500 per day in H1 to over 2,500 per day in H2 with a peak day in November of over 7,000 trades. In 2017 ForexClear expansion includes plans to launch clearing for G10 countries NDFs and FX options.

ForexClear, notional cleared

€ bn



CDSClear

CDSClear clears the broadest set of credit default swaps (CDS) across both European and US underlyings with all the inherent netting benefits from being under the same risk framework. Close to 100 credit indexes and 500 single names, including CDS Referencing Banks, are eligible for clearing, many of which are uniquely available at CDSClear.

CDSClear is dual registered (EMIR authorised in Europe, and in the US registered as a Derivative Clearing Organization (DCO) with the CFTC and as a Clearing Agency with the SEC), which allows it to act for members and clients both in the US and Europe.

CDSClear earns the majority of its clearing revenues from annual membership fees. CDSClear membership increased to 12 members (2015: 11), total notional cleared increased by 160% to €448.7 billion (2015: €172.8 billion).

In September 2016 the introduction of non-cleared margin rules saw clearing volumes of single name increase significantly with notional cleared rising by 277% to €58.4 billion in 2016 (2015: €15.5 billion).

The European mandate to clear European index CDS is being introduced in 2017 with mandatory members clearing effective from February and large clients expected to clear from August.

In 2017, membership is expected to increase with a new membership tier called Select Membership being introduced targeting non-CDS market maker banks. Clients are also set to start onboarding to the CDSClear platform ahead of the CDS clearing obligation expected Q2 2017.

Non-OTC Clearing

Fixed Income

LCH clearing in repo and cash bond markets remained broadly stable at €70.8 trillion in 2016 (2015: €72.6 trillion). LCH fixed income service clears across 15 European government markets including the Group's MTS bond markets and third party venues.

Volumes traded in the repo market overall have declined due to more stringent regulatory requirements on member banks' leverage ratios. However, the leverage ratio has made central clearing and netting more attractive, such that cleared volumes at LCH have remained stable.

Listed Derivatives and Cash Equities

The various Listed Derivatives venues cleared by LCH include London Stock Exchange Derivatives Market (LSEDM), Euronext Derivatives Markets and NASDAQ's NLX. Contracts cleared in 2016 decreased by 8% to 131.9 million (2015: 142.8 million). In 2016, our product base expanded with the launch of Oslo contracts and weekly options with LSEDM. Partnering with Euronext, LCH expanded index futures and options and additional listing of spotlight options. In Commodities, a new nitrogen fertiliser contract was launched.

In Equities, LCH now offers the broadest venue coverage of any European equity CCP, clearing for 19 trading venues. In 2016 LCH expanded pan-European trading venue coverage with the addition of Sigma X MTF and UBS MTF. There was significant volume growth with trades cleared in 2016 increased by 27% to 697.2 million (2015: 549.1 million). Looking ahead we aim to create greater efficiencies and enhanced capabilities in a highly competitive environment. Our next generation clearing platform with Millennium Technology is targeted to go live in late 2017.

Net treasury income

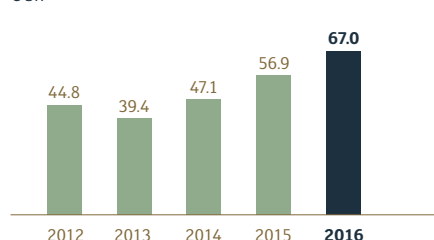
Net treasury income is the result of interest earned on cash assets lodged with the clearing house, on margin and default funds. Users of LCH post cash and receive an overnight interest rate less an agreed spread. The level of funds held is primarily driven by volumes cleared and volatility in the market. Income is also driven by short-term interest rates predominantly in the US Dollar, Euro and UK Sterling money markets. LCH may also benefit from short-term rates, for example 30 days, being higher than the overnight rate.

Average cash collateral held increased 18% to €67.0 billion (2015: €56.9 billion).

Total net treasury income for LCH for 2016 increased by 46% to £82.2 million (2015: £56.4 million) on increased SwapClear margin collected and by achieving increased spreads.

Cash collateral held – daily average

€ bn

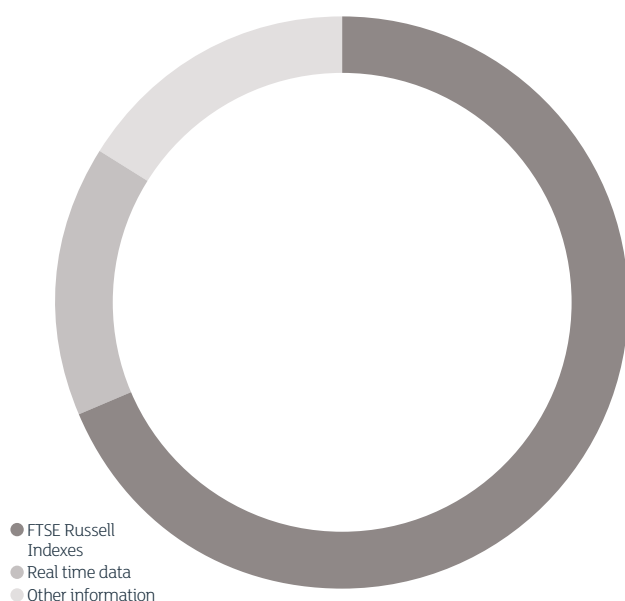


Information Services

Revenues

£594.7^m

2015: £517.4m



FURTHER INFORMATION

Market trends and our response for Information Services can be found on pages 12 – 15. Profitability of each segment can be found in the Financial Review on pages 38 – 43. An overview of the regulatory landscape can be found on pages 172 – 173. A glossary of terms can be found on pages 169 – 171.

KEY SUMMARY

- Revenues for the year increased by 15% to £594.7 million (2015: £517.4 million), and up 7% on an organic constant currency basis driven by strong growth in FTSE Russell
- FTSE Russell revenue for the year increased by 17% to £409.3 million (2015: £348.9 million) and up 7% on an organic constant currency basis reflecting increased subscriptions and data sales, and growth in index-based products
- Real time data revenues increased by 11% to £90.9 million (2015: £82.2 million), and up 7% on an organic constant currency basis
- UnaVista's MiFID Approved Reporting Mechanism (ARM) went live with a testing environment product ahead of MiFID II implementation
- Other Information Services revenue increased by 10% to £94.5 million (2015: £86.3 million) and up 6% on an organic constant currency basis
- LSEG announced the acquisition of Mergent Inc., a provider of business and financial data on companies which was completed in January 2017

Introduction

The Information Services Division (ISD) provides financial market participants with timely, reliable and accurate market information. ISD offers a wide range of services, including global indexes, real time pricing data, product identification, reporting and reconciliation services. Information Services is a key area of strategic focus and growth for LSEG and is diversifying on a global basis.

In November, LSEG announced the acquisition of Mergent Inc., and the transaction completed in January 2017. Mergent is a leading provider of business and financial information on public and private companies, which will support the growth of Information Services, including FTSE Russell's core index offering, and the growing client demand for smart beta and customised indexes.

FTSE Russell was formed by the integration of FTSE and Russell indexes following the acquisition of Frank Russell Company in 2014. Annual run rate cost synergies of US\$78 million and run rate revenue synergies of US\$30 million are being targeted by the end of year three (2017) and we are on track to achieve both these targets ahead of schedule.

In December, LSEG announced the sale of the Italian Information Services Professional Solutions business including the Market Connect service, which completed in February 2017.

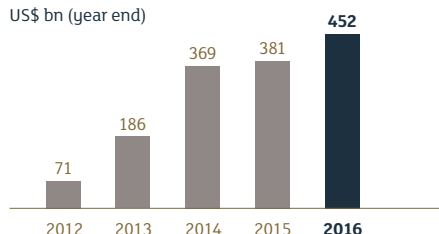
Information Services continued

FTSE Russell

FTSE Russell is a global index leader that provides innovative benchmarking, with approximately US\$10 trillion benchmarked to its indexes. FTSE Russell calculates hundreds of thousands of indexes for investors to measure and benchmark markets across a range of asset classes, styles and strategies. FTSE Russell is used by virtually all of the world's top financial institutions and their clients, including the top ten investment banks, 97 out of 100 of the top asset managers, and 48 out of 50 of the top plan sponsors, to benchmark investment performance and create investment products such as ETFs, index funds, and index-based derivatives. FTSE Russell earned approximately 55% of revenue from index data subscriptions, comprising data services and analytics with high renewal rates, and the remaining 45% of revenue was earned from asset based fees, with revenues based on assets under management (AUM) for tracker funds/ ETPs and traded volumes for derivatives.

ETF assets under management benchmarked to FTSE Russell Indexes

US\$ bn (year end)



FTSE Russell's data product suite has been designed to provide the most precise and in depth view of the markets our clients need. Data is provided as an end-of-day package or real time throughout the trading day for monitoring investments based on FTSE Russell indexes. FTSE Russell's sales and service teams maintain a close relationship with clients to ensure they have the right data and analytics to manage money and monitor investments.

FTSE Russell is a leading provider of indexes for the ETF market, one of the fastest growing product classes amongst institutional and retail investors, with US\$3.5 trillion global AuM at the end of 2016 and a five year CAGR of 19%. ETFs benchmarked to FTSE Russell after a volatile year finished at a record high of US\$452 billion (2015: US\$381 billion). FTSE Russell is also a leading innovator and provider of smart beta or factor-based index solutions. ETF assets benchmarked to FTSE Russell smart beta indexes in 2016 increased by 24% to US\$151 billion (2015: US\$122 billion). An example of such innovation was the launch in 2016 of a new smart beta ESG Index 'FTSE All-World Ex CW Climate Balanced Factor Index', which was chosen by Legal & General Investment Management for its new Future World Fund and HSBC Bank UK Pension Scheme, for its equity default option. FTSE Russell Global Factor Index Services is also expanding a suite of benchmarks designed to achieve controlled exposure to single and multi factor characteristics such as Volatility, Size and Yield and will continue to innovate and expand smart beta indexes throughout 2017.

FTSE Russell is expanding its Fixed Income platform on a global basis, which will enhance multi-asset capabilities. This expansion will add capabilities by providing client access to a broad range of fixed income indexes. Recently, FTSE Russell and Tradeweb were jointly selected as the future providers of Gilt and Treasury Bill end-of-day reference prices succeeding the current provision by the UK Debt Management Office.

Sustainable investing, climate risk, transition to a low carbon economy and environmental, social and governance (ESG) integration are a core focus for many of our clients and for FTSE Russell. In 2016 FTSE Russell celebrated a long record of innovation in this area with the 15th anniversary of its flagship ESG Index Series, FTSE4Good, which consists of companies that meet specific thresholds in relation to ESG practices. The series has now expanded beyond 15 indexes, with the launch of FTSE4Good Emerging Markets Index and FTSE4Good Emerging Latin America Index. In 2016, FTSE Russell launched a Low Carbon Economy (LCE) data model to help investors better understand economic exposures to the LCE industrial transition by measuring the proportion of a company's revenue that comes from 'green' products. Based on this LCE data model, FTSE Russell has developed a Green Revenues Index Series, which is designed to provide investors with indexes capturing managed exposure to companies engaged to the green economy.

China is one of the world's largest economies with one of the largest equity markets and third largest domestic currency bond markets. FTSE Russell has maintained a long-term presence in Asia-Pacific and continued to expand in 2016. In 2016, FTSE became the first major international index provider to launch China A Stock Connect Indexes tracking mainland listed stocks available through the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programmes.

FTSE Russell indexes are licensed globally for derivatives trading in trading venues across Europe, North America and Asia. During the year 221 million contracts benchmarked to FTSE Russell indexes were traded, 8% lower than the previous year, mainly as a result of elevated 2015 trading of FTSE China A50 derivatives.

Robust governance, transparency and integrity are at the foundation of FTSE Russell. We have always been committed to leading global best practice standards in index governance and have earned a reputation for high-quality transparent, and rules-driven index construction. Since July 2014, FTSE Russell has issued annual statements of compliance with respect to the recommendations made by the International Organization of Securities Commissions (IOSCO) in the Principles for Financial Benchmarks Final Report (the IOSCO Principles). The European Regulation on Indices used as Benchmarks in Financial Instruments and Financial Contracts (the European Benchmark Regulation) will apply from 1 January 2018; FTSE Russell will apply for authorisation as a Benchmark Administrator under the Regulation.

Real Time Data

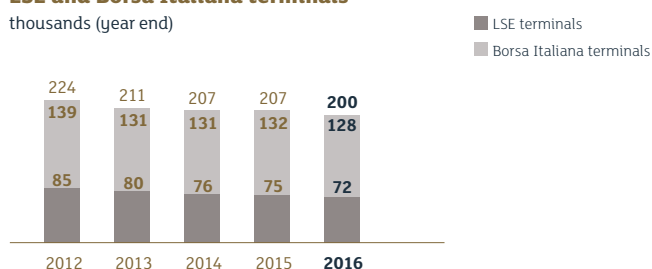
Our Real Time Data service provides primary reference data for UK and Italian markets. Its tick-by-tick data is used by traders, brokers and fund managers globally.

Professional terminal usage across the Group declined to 200,000 from 207,000 in 2015, with LSE at 72,000 (2015: 75,000) and Italy at 128,000 (2015: 132,000).

These declines have been offset by the increasing use of non-display applications, including algorithmic/black-box trading or trading products such as contracts for difference and swaps that are pegged to LSE trading prices.

LSE and Borsa Italiana terminals

thousands (year end)



UnaVista

UnaVista is recognised as an industry leader in regulatory reporting. It is LSEG's platform for all matching, validation and reconciliation needs. It offers business solutions for regulatory reporting, trade confirmations, reconciliations and reference data. In 2016, the user base of UnaVista continued to grow, with 1,500 contracted clients from around the world using the platform.

UnaVista continued to extend its partnership and commit to product innovation ahead of MiFID II reporting and reconciliation regulation expected to go live in January 2018. During the year UnaVista partnered with regulatory reporting compliance firm Kaizen Reporting to offer quality assurance testing of MiFID transaction reporting and launched its MiFIR Accelerator Programme which allows firms to assess their state of readiness and assist in preparations for MiFIR reporting. UnaVista's MiFID Approved Reporting Mechanism (ARM) went live with a testing environment ahead of MiFID II implementation.

Reference Data

SEDOL is our global, multi-asset class numbering system, providing reference data and unique identification codes for global equity, derivatives and fixed income securities. The SEDOL Masterfile Service database provides clients with access to reference data on 8 million live securities. In an extension to its duties as a national numbering agency, London Stock Exchange was sponsored by the Financial Conduct Authority (FCA) to be a Local Operating Unit (LOU) for the global allocation of the new Legal Entity Identifier (LEI), which uniquely identifies every legal entity or structure, in any jurisdiction, which is party to a financial transaction. The LEI is mandatory for a number of global regulations and UnaVista's technology is being used to allocate and maintain the codes. Since the launch in mid-2013, we have become a leading LOU and have allocated over 44,000 LEIs across six continents (2015: 40,000).

Regulatory News Service

Regulatory News Service (RNS) is a leading high-quality service for UK regulatory news announcements and global press releases. RNS partners with companies and intermediaries to fulfil regulatory disclosure obligations in the most effective and time-efficient way. During 2016, over 321,000 announcements were processed by RNS (2015: 325,000), covering the majority of UK company announcements. RNS operates as a Primary Information Provider and is regulated by the FCA.

Technology Services

Revenues

£88.3^m

2015: £80.6m

KEY SUMMARY

- Technology Services revenues increased by 10% to £88.3 million (2015: £80.6 million) and on an organic constant currency basis, increased by 4% on increased sales
- LSEG Business Services Limited, our Shared Services Company, was launched in January 2016
- Phase 2.0 of Group Ticker Plant was launched in February 2016
- MillenniumIT continued to expand, with Millennium PostTrade implemented in Singapore Exchange's Securities Market, and Millennium Exchange and Millennium Surveillance in Casablanca Stock Exchange

FURTHER INFORMATION

Market trends and our response for Technology Services can be found on pages 12 – 15. Profitability of each segment can be found in the Financial Review on pages 38 – 43. An overview of the regulatory landscape can be found on pages 172 – 173. A glossary of terms can be found on pages 169 – 171.

Introduction

Technology Services provides the Group and customers, including banks, specialist trading firms and other capital market venues with resilient, high-speed, low latency trading platforms, post trade platforms, real time market data and infrastructure products and services.

Exchange Technology

Our cash equity and retail bond markets run on the latest version of the Millennium Exchange trading platform. This technology has helped reduce our cost base and increased the opportunities for customers to benefit from enhanced functionality and further expansion of our co-location services. The flexible technology allows us to meet the needs of our customers quickly and cost effectively.

In January 2016, we launched LSEG Business Services Limited (BSL), our Shared Services Company, providing a range of technology services Group-wide and delivering improved service, resiliency, efficiency and effectiveness. BSL is part of our ongoing process to provide uniformity across all LSEG companies as we grow and expand our activities. It supports best practice and allows for continuous improvement in our service provision.

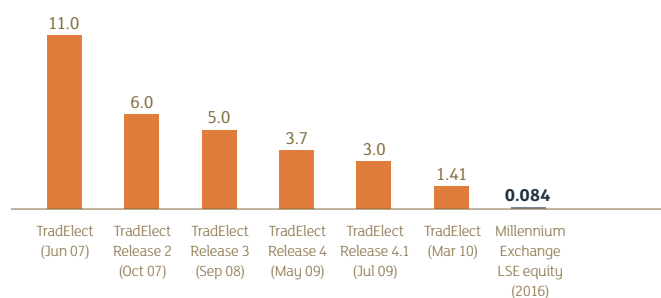
In 2016, we successfully completed the integration of FTSE Russell platforms, while at the same time separating the Russell Investment Management elements ahead of the disposal. A business driven transformation programme with MillenniumIT was launched with the objective of simplifying the IT architecture of LCH. The Group is also assessing opportunities that exist in Financial Technology (FinTech) including distributed ledger which our technology and customer network could benefit from.

Support has been provided to Capital Markets and Post-Trade Services for their business initiatives and to deliver efficiencies and savings. Initiatives include MiFID II implementation, the expansion of ELITE and delivery of TARGET2-Securities (T2S) releases. In addition, CurveGlobal went live in September and Turquoise migrated to MillenniumIT Surveillance platform in December 2016.

Through our Millennium Exchange technology, our UK cash equity continues to exhibit excellent technical performance. Cash equities round-trip latency on London Stock Exchange had an average of 84 microseconds in 2016 and was available for 100% uptime during the year (2015: 100%). Our platforms were put through extensive testing and planning for unprecedented market activity ahead of the UK referendum in June; following the referendum the number of transactions (orders and trades) processed was over 128 million on 24 and 27 June. In November we again received high order volumes following the US presidential elections; the number of transactions processed on 9 November was 128 million. The average daily volume of transactions for 2016 was 78 million.

Trading system latency

milliseconds



Phase 2.0 of our Group Ticker Plant (GTP) was delivered in February 2016. This delivers a high-speed technology platform that provides a single, normalised real time market data protocol for broadcast of market data from across the Group, regardless of asset class, trading platform or geography.

Global Business Development has consolidated the business partnerships between LSEG and our global market infrastructure clients to further expand revenue generating opportunities across the group business divisions.

MillenniumIT

The Group acquired MillenniumIT in 2009. It provides advanced, market leading capital market software solutions as well as enterprise sales and IT infrastructure services to over 40 organisations and exchanges around the world.

A wide range of solutions is offered by MillenniumIT, such as Millennium Exchange, the flagship multi-asset trading platform. All of the Group's cash equity and retail bond markets run on the latest version of Millennium Exchange.

2016 Highlights

- Amongst the 51 live systems, eight were new this year including Singapore, Morocco, India and Argentina, demonstrating MillenniumIT's increasing global reach
- Millennium Exchange for equities and fixed income trading and Millennium Surveillance for monitoring trading and detecting unusual behaviour went live at Casablanca Stock Exchange in August
- Millennium PostTrade was implemented at Singapore Exchange's securities market
- An operational support services deal was awarded to the MillenniumIT platform from the National Commodities and Derivatives Exchange, India (NCDEX)

Looking forward, MillenniumIT is preparing for MiFID II going live in 2018 and integrating and consolidating LCH's multiple post trade platforms.

GATElab

GATElab, our Italy/UK-based technology company, is a provider of trading and post-trading solutions to the global financial community. Fully MiFID compliant, the products and services GATElab offers to buy-side, sell-side and hedge fund partners include multi-asset class electronic and trading platforms, ultra-low latency pre-trade risk market adapters, smart order routing for equities and bonds, and post-trade deal capture and cross-asset margining.

In 2016 GATElab launched an ultra low latency service risk gateway for clients to access the National Stock Exchange of India, and a global real time analytics platform project for a major Investment Bank.

Exactpro

Exactpro Systems was acquired by LSEG in May 2015. The subsidiary specialises in functional and non-functional testing of systems that process wholesale financial products across many asset classes, particularly market infrastructure such as trading systems, risk management, market surveillance, securities data distribution and post trade infrastructures. These services are offered to exchanges, investment banks, brokers and other financial sector organisations worldwide.

Exactpro Systems increases the capabilities to further improve the efficiency and effectiveness of clients' software while providing industry-leading support for businesses across the Group. In 2016 we recruited additional Exactpro staff specifically to support Group companies, most notably LCH. This has reduced our cost base for software testing and our reliance on third parties.

During the year contracts were signed with both Nodal Exchange and ASX for quality assurance and test automation.

Our wider responsibility

The Group fulfils vital economic and social roles in enabling companies to access funds for growth and development. As such, integrity and trust remain at the core of what we do.

Below, we summarise our approach to Corporate Responsibility (CR) and highlight some of the developments over the past year. We have also produced a separate detailed 2016 CR report, which can be downloaded at www.lseg.com/about-london-stock-exchange-group/corporate-responsibility.

Our Approach to CR

Our CR strategy is consistent with last year, which aims to deliver twin goals that underlie our business strategy:

- To play an essential role in enabling sustainable global economic growth
- To ensure our behaviour and actions are consistent with good CR practice while generating long-term value creation

Our CR strategy encompasses six focus areas and is executed through four established pillars: our markets, our services, our people and our communities. During the year, we produced the Group's ESG Reporting Guidance and launched the Global Sustainable Investment Centre as part of our strategy to create a sustainable and climate-aligned investment environment and to be recognised as a global leader in sustainability performance.

Executive Committee members lead working groups made up of cross-Group colleagues, focused on developing specific targets and action plans in each of the four pillars. As part of a materiality assessment, we have applied this framework to direct our CR approach to identify the most relevant and important issues for the Group.

We have seen good progress in our CR performance with our external CR ratings remaining in the top quartile when ranked against peers. Further details can be found in our CR report.

LSEG CR IMPACT FRAMEWORK

OUR MARKETS	OUR SERVICES	OUR PEOPLE	OUR COMMUNITIES
1. Change	3. Disclose	5. Develop	6. Sustain
We will help more companies improve the sustainability of their business and the transparency of their reporting	We will provide investors with the information and tools to engage with and invest in sustainable companies	We will employ and invest in the development of a highly diverse global workforce to deliver on our sustainable vision	We will support communities worldwide, helping less advantaged young people develop business skills and taking care of the environment
2. Grow	4. Manage risk		
We will help SMEs raise capital and fund investments to create employment worldwide	We will manage risks and improve efficiency of trading and clearing through our markets		

Environment

We are committed to using resources in ways that ensure the long-term sustainability and profitability of the business and have a positive impact on the environment. The Group's primary greenhouse gas (GHG) emissions arise from energy, waste and water in our offices and data centres around the world, from staff travel, and indirectly from our supply chain.

During the year, we achieved a 9% reduction in our overall Carbon Emissions per Full Time Employee (FTE), and are making good progress towards our 2020 targets. This significant reduction is attributed to ongoing office consolidation, improvements in our waste management processes, and data centre efficiency projects such as cold-aisle containment. Scope 1 emissions have increased due to a change in landlord usage procedures for Natural Gas in Milan. All building consumption during winter months is now assigned to LSEG.

We are taking an active approach to emissions management, with our global Environmental Management Group accurately measuring GHG impacts across our property portfolio, including managed offices where possible. We report beyond the mandatory reporting guidelines to include Scope 3 emissions. Performance is reported quarterly via our intranet, and we annually disclose through this report and via CDP.

Global 2016 GHG Emissions

(tCO ₂ e – Tonnes of carbon dioxide equivalent)	2016	2015 ²	% Change
Total Group Carbon Footprint ¹	30,900	31,237	(1.08)
per m ²	0.339	0.384	(11.72)
per FTE	6.61	7.26	(8.95)
per £m Revenue	18.63	22.02	(15.4)
Scope 1 ³	1,583	1,094	44.7
Scope 2 ⁴	21,129	22,226	(4.94)
Scope 3	6,591	6,343	3.91
Scope 3 (Electricity Transmission and Distribution)	1,597	1,574	1.46

1. Total Group Carbon Footprint and Scope 2 use market-based Scope 2 emissions factors
2. 2015 figures have been updated on receipt of annual emissions factor guidance and actual figures from suppliers
3. Combustion of fuel and operation of facilities – includes Natural Gas, Diesel, LPG, Fugitive Emissions and Fleet Vehicles
4. Purchase of electricity by the Group for its own use (the Group does not purchase heat, steam or cooling)

In addition to monitoring our environmental impact, we have set environmental targets for the next financial year that include energy, water, waste and travel. More information on these as well as full details of emissions and reporting methodology can be found in our CR report.

Social

People

Attracting, developing and retaining the skills we need to deliver on our strategy is a key imperative for the Group. We continue to work on bringing together our growing company and supporting our employees' development in an environment built on core values of partnership, integrity, innovation and excellence.

Employee engagement is therefore paramount to the continued growth of the Group, which is why we were pleased to see the improvements in our latest colleague engagement survey – 'Have Your Say'. In 2016, our overall engagement index increased by 6% to 82%, outperforming the external benchmark. The improvements in response to various topics were driven by a number of actions which employees influenced through their feedback to previous engagement. These include the development of a career framework to provide greater clarity on career opportunities across the Group. Employees are kept informed of Group strategy and business progress through a comprehensive communication plan, and also have access to a series of learning and development opportunities, as well as a global employee share scheme and a mentoring scheme.

Diversity/ Equal Opportunities

We value diversity as a driver for development and innovation. Our operations span the globe, with offices in Australia, Canada, France, Hong Kong, India, Italy, Japan, Russia, Sri Lanka, the UK and the US. We have employees of 59 different nationalities, reflecting both the international scale of our business and the diversity of our customer base. Five nationalities are represented on our Executive Committee.

We became part of the first list of participating firms for the UK's HM Treasury Women in Finance Charter, as part of an increased focus on diversity and inclusion across the Group. By 2020, we aim to achieve a stretch target of 40% female representation for senior management and our overall staff numbers.

Gender Diversity

	Female	Male
LSEG plc Board	1	10
LSEG Subsidiary Boards ¹ 3	17	128
Executive Committee and Leadership Teams ² 3	111	252
All other staff	1,085	2,528
Total	1,196	2,780

1. Mix of employees and Non-Executive Directors.

2. Executive Committee and Leadership Teams in LSEG.

3. The LSEG Subsidiary Board members and the Executive Committee and Leadership Teams together comprise the 'Senior Managers' for the purposes of section 414C(10)b of the Companies Act 2006.

Note: Figures as of year end 31 December 2016.

Human Rights

The Group prides itself on its high standards of social responsibility. We respect and seek to adhere to the UN Guiding Principles on Business and Human Rights, together with the International Labour Organization Conventions and Recommendations within our working environment in each location where we operate. The Group strongly supports these conventions which aim to abolish forced labour and child labour and promote freedom of association and equality. Human rights considerations are also included in our Supplier Code of Conduct and Group Corporate Responsibility Policy.

Moreover, the Group has a zero-tolerance approach to modern slavery. Our 'Slavery and Human trafficking statement' published on our website and in the CR Report describes the steps taken during 2016 to improve our supply chain management and procurement processes and procedures.

Community

Our activities benefit communities worldwide. We engage with governments, inter-governmental agencies and regulators to promote ESG disclosure and sustainable practices. We work to support local communities and the environment where we have a significant presence.

The Group established the London Stock Exchange Group Foundation in 2010 which provides a primary channel for the Group's charitable giving and a focal point for staff engagement with local charities (see the Our Communities section of the Group CR report for further information). In 2016, the Group donated £962,000 to the LSEG Foundation, and £133,000 directly to a number of charities. The Foundation's approach and positioning is aligned with the overall Group CR strategy, while recognising the global reach of LSEG's business model. We continue our global partnership with UNICEF, and support the community investment programme, with a focus on the development of business skills of teenage girls in Zambia, a charity selected by employees.

Governance

We remain committed to the highest standards of corporate governance and business integrity. In the past year, we have complied with all the UK Corporate Governance Code's provisions and the Board will continue to ensure that we adhere to good governance principles and practices. Our approach to good corporate governance is detailed on pages 62 – 63.

Given the increased size and scope of our businesses, we face a wide and expanding universe of risks. In particular, our presence in post trade services provides direct and indirect exposure to financial market volatility. We also face technology risks such as cyber threats, systems resilience and technological innovation, and political, regulatory and macro-economic risks, which include the impact of our competitors' actions. Pursuing our growth strategy in this dynamic environment requires best-in-class risk management. Our governance and risk management structures have evolved to meet this need (see pages 44 and 56 for further details).

Global Sustainable Investment Centre

The Global Sustainable Investment Centre was launched as part of our strategy to create the most sustainable and climate-aligned investment environment in the world. We are well placed at the heart of global capital markets to integrate sustainable solutions deep into both investment and capital raising, and will be able to use our position to convene the market on the transition to a sustainable and low carbon economy. More details on the Global Sustainable Investment Centre can be viewed at: www.lseg.com/sustainable.

ESG Reporting Guidance

In February 2017, LSEG issued guidance through the Global Sustainable Investment Centre, setting out recommendations for good practice in ESG reporting. The global guide responds to demand from investors for a more consistent approach to ESG reporting, and builds on market standards such as the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures report and the UN Sustainable Development Goals. It has been sent to more than 2,700 companies that have securities listed on LSEG's UK and Italian markets with a combined market capitalisation of more than £5 trillion. The full Guidance can be viewed at: www.lseg.com/esg.

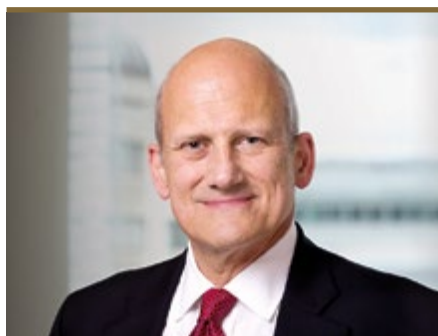
Looking Ahead

As our business expands and diversifies, we continue to review our approach to sustainability. Our objectives for each of our six focus areas are set out in the Looking Ahead section of our CR Report.

Financial review

The financial review covers the financial year ended 31 December 2016. Commentary on performance uses variances on a continuing organic and constant currency basis, unless otherwise stated. Constant currency is calculated by rebasing 2015 at 2016 foreign exchange rates. Sub-segmentation of revenues are unaudited and are shown to assist the understanding of performance.

Disclosure is provided for cost of sales which mainly comprise data and licence fees, data feed costs, expenses incurred in respect of revenue share arrangements that are directly attributable to the construction and delivery of customers' goods or services, and any other costs linked and directly incurred to generate revenues and provide services to customers.



David Warren
Group Chief Financial Officer

On a reported basis:

- Total income of £2,047.9 million (2015: £2,381.5 million) decreased by 14%, and total revenue of £1,905.1 million (2015: £2,285.4 million) decreased by 17%. Adjusted operating expenses* of £954.3 million (2015: £1,052.0 million) decreased by 9%
- Adjusted operating profit* of £713.6 million (2015: £709.6 million) increased by 1%
- Operating profit of £530.0 million (2015: £499.9 million) increased by 6%
- Adjusted basic earnings per share* of 129.7 pence (2015: 129.4 pence) was flat
- Cash generated from operations of £598.3 million (2015: £670.4 million) decreased 11%
- Year end operating net debt to adjusted EBITDA* at 1.1 times (2015: 1.7 times), within the Group's normal target range of 1–2 times

On a continuing basis:

- Total income of £1,657.1 million (2015: £1,418.6 million) increased by 17% and total revenue of £1,515.6 million (2015: £1,324.7 million) increased by 14%
- Adjusted operating profit* of £685.8 million (2015: £584.7 million) increased by 17%
- Operating profit of £426.8 million (2015: £404.4 million) increased by 6%
- Adjusted basic earnings per share* of 124.7 pence (2015: 103.4 pence) increased by 21%
- Basic earnings per share of 63.8 pence (2015: 74.8 pence) decreased by 15%

* London Stock Exchange Group uses non-GAAP performance measures as key financial indicators as the Board believes these better reflect the underlying performance of the business. As in previous years, adjusted operating profit, adjusted profit before tax and adjusted earnings per share all exclude amortisation of purchased intangibles assets and non-recurring items. The non-recurring items for this year are larger than in previous years and the increase is primarily driven by transaction costs of £85.4 million and a loss after tax of £88.2 million, relating to the disposal of the Russell Investment Management business.

	12 months ended 31 Dec 2016			12 months ended 31 Dec 2015				
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m	Continuing variance %	Variance at organic and constant currency ² %
Revenue								
Capital Markets	368.3	—	368.3	330.3	—	330.3	12	6
Post Trade Services – CC&G and Monte Titoli	103.7	—	103.7	89.8	—	89.8	15	3
Post Trade Services – LCH	356.5	—	356.5	302.1	—	302.1	18	10
Information Services	594.7	—	594.7	517.4	7.6	525.0	15	7
Technology Services	88.3	—	88.3	80.6	—	80.6	10	4
Russell Investment Management	—	389.5	389.5	—	953.1	953.1	—	—
Other	4.1	—	4.1	4.5	—	4.5	(9)	(3)
Total revenue	1,515.6	389.5	1,905.1	1,324.7	960.7	2,285.4	14	7
Net treasury income through CCP businesses	124.8	—	124.8	85.7	—	85.7	46	31
Other income	16.7	1.3	18.0	8.2	2.2	10.4	104	100
Total income	1,657.1	390.8	2,047.9	1,418.6	962.9	2,381.5	17	9
Cost of sales	(174.8)	(200.3)	(375.1)	(125.5)	(494.9)	(620.4)	39	30
Gross profit	1,482.3	190.5	1,672.8	1,293.1	468.0	1,761.1	15	7
Operating expenses ¹	(791.6)	(162.7)	(954.3)	(708.4)	(343.6)	(1,052.0)	12	4
Share of (loss)/profit after tax of associates	(4.9)	—	(4.9)	—	0.5	0.5	—	—
Adjusted operating profit¹	685.8	27.8	713.6	584.7	124.9	709.6	17	10
Operating profit	426.8	103.2	530.0	404.4	95.5	499.9	6	(1)
Adjusted basic earnings per share¹	124.7p	5.0p	129.7p	103.4p	26.0p	129.4p	21	—
Basic earnings per share	63.8p	(20.3p)	43.5p	74.8p	19.8p	94.6p	(15)	—

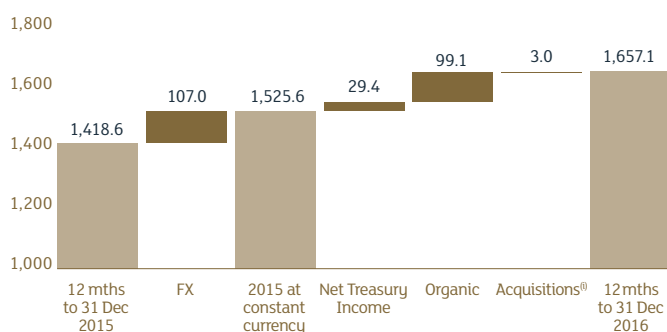
1. Before amortisation of purchased intangible assets and non-recurring items.

2. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF.

Total income (Continuing Operations)

£ m

● increased ● decreased



1. Acquisitions includes non-comparative income for XTF and Exactpro.

Capital Markets

	12 months ended 31 Dec 2016 £m	12 months ended 31 Dec 2015 £m	Variance %	Variance at organic and constant currency ¹ %
Revenue				
Primary Markets	90.8	88.8	2	0
Secondary Markets Equities	164.9	143.7	15	12
Secondary Markets – Fixed Income, Derivatives and other	112.6	97.8	15	3
Total revenue	368.3	330.3	12	6
Cost of sales	(22.5)	(15.1)	49	49
Gross profit	345.8	315.2	10	4
Operating expenses ²	(169.0)	(144.3)	17	—
Operating profit²	176.8	170.9	3	—

1. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF.

2. Operating expenses and operating profit variance percentage is shown on a reported basis only i.e. not on a constant currency basis. Variances will include underlying movements and foreign exchange effects.

Capital Markets revenue, which mainly comprises Primary and Secondary Market activities, was £368.3 million (2015: £330.3 million).

Capital Markets revenue increased by 6% driven by strong Secondary Markets trading and robust Primary Markets performance. Continued strong equity trading volumes and value traded resulted in a 12% increase in equity trading revenue. Primary Markets revenues were in line with prior year on a constant currency basis despite the uncertainty created from the UK referendum, which led to a reduction in Main Market issuances.

In Primary Markets, the total amount of capital raised across our markets,

Financial review continued

both through new and further issues, decreased by 39% to £25.6 billion (2015: £41.7 billion). New issues for the UK Main Market decreased whilst there was an increase in UK AIM listings. In total there were 51 issues on our UK Main Market (2015: 88), 19 in Italy (2015: 27) whilst there were 64 on AIM (2015: 61). Looking ahead, the pipeline of companies looking to join our markets remains promising.

In Secondary Markets, Italian equity trading volumes increased by 5% due to market volatility to 295,000 trades per day (2015: 280,000). In the UK, average order book daily value traded rose by 4% at £5.1 billion (2015: £4.9 billion). Trading on Turquoise, our pan-European equities platform, delivered a 26% rise in average daily equity value traded, to €5.4 billion (2015: €4.3 billion).

Fixed income and Derivatives revenue was relatively unchanged reflecting a 10% increase in derivatives volumes, with growth mostly in Italian derivatives. This was offset by declines of MTS Cash and BondVision notional value by 3%, MTS Repo declined by 5%.

Cost of sales rose by 49% on strong Turquoise revenues with gross profit up by 4%.

Operating expenses increased by 17% on a year on year basis to £169.0 million (2015: £144.3 million) with the main driver being foreign exchange movements from a weakening in Sterling relative to the Euro.

Operating profit increased by 3% to £176.8 million (2015: £170.9 million).

Post Trade Services – CC&G and Monte Titoli

	12 months ended 31 Dec 2016 £m	12 months ended 31 Dec 2015 £m	Variance %	Variance at organic and constant currency ¹ %
Revenue				
Clearing (CC&G)	42.5	38.0	12	(1)
Settlement, Custody and Other (MT + gS)	61.2	51.8	18	5
Total revenue	103.7	89.8	15	3
Inter-segmental revenue	0.6	0.9	(33)	–
Net treasury income (CC&G)	42.6	29.3	45	29
Total income	146.9	120.0	22	9
Cost of sales	(12.6)	(6.7)	88	68
Gross profit	134.3	113.3	19	6
Operating expenses ²	(81.9)	(61.5)	33	–
Operating profit²	52.4	51.8	1	–

1. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF.
2. Operating expenses and operating profit variance percentage is shown on a reported basis only i.e. not on a constant currency basis. Variances will include underlying movements and foreign exchange effects.

Post Trade Services income, which comprises of clearing (CC&G), settlement and custody activities (both Monte Titoli), was £146.3 million excluding inter-segmental income (2015: £119.1 million).

Clearing revenues decreased by 1% influenced by a fall in fails fees after European T2S settlement system go-live. Excluding fail fees, clearing revenues were favourable to prior year by 7% reflecting higher derivatives and equity clearing volumes. Settlement, custody and other revenues increased by 5% in the Monte Titoli business, mainly due to custody revenues following the pricing change applied from May.

CC&G generates net treasury income by investing the cash margin held, retaining any surplus or deficit after members are paid a return on their cash collateral contributions. Net treasury income increased by 29% benefitting from favourable spreads driving income in 2016. The average daily initial margin at €12.1 billion is substantially in line with 2015 (€12.3 billion).

Cost of sales rose by 68% as a result of a full year of Monte Titoli using the T2S settlement system with gross profit up by 6%.

Operating expenses increased by 33% with the main drivers being foreign exchange movements from a weakening in Sterling relative to the Euro and some specific technology assets impairment related to globeSettle (gS) of £7.8 million.

Operating profit increased by 1% to £52.4 million (2015: £51.8 million).

Post Trade Services – LCH

	12 months ended 31 Dec 2016 £m	12 months ended 31 Dec 2015 £m	Variance %	Variance at organic and constant currency ¹ %
Revenue				
OTC	190.6	156.8	22	16
Non-OTC	116.5	114.5	2	(8)
Other	49.4	30.8	60	59
Total revenue	356.5	302.1	18	10
Net treasury income	82.2	56.4	46	29
Other income	8.4	2.2	282	285
Total income	447.1	360.7	24	15
Cost of sales	(55.8)	(28.3)	97	89
Gross profit	391.3	332.4	18	9
Operating expenses ²	(267.8)	(241.5)	11	–
Operating profit²	123.5	90.9	36	–

1. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF.
2. Operating expenses and operating profit variance percentage is shown on a reported basis only i.e. not on a constant currency basis. Variances will include underlying movements and foreign exchange effects.

Post Trade Services – LCH comprises the Group's majority owned global clearing business. Total income was £447.1 million (2015: £360.7 million).

OTC clearing revenue was £190.6 million with growth of 16% driven by continued strong growth in SwapClear, predominantly in client clearing with trade volume increasing by 40% to 952,000 (2015: 678,000). SwapClear membership increased to 107, after adjusting for the cessation of the US membership category (2015 comparable members 101, which is 116 including 15 US memberships).

Non-OTC clearing revenue decreased by 8%. Competitive forces in equities and derivative markets saw a 5% decline in revenues. Fixed income revenue was stable year on year following the favourable impact to clearing volumes as a result of leverage ratio rules for customers under Basel III, which offset the general volume decline in these markets.

Other revenue grew by 59% through increased non cash collateral fees and compression in SwapClear with a 17% increase to US\$384 trillion compressed (2015: US \$328 trillion). Compression increases the efficiency of portfolios which can lower regulatory capital requirements for customers.

Net treasury income increased by 29% to £82.2 million through an increase in average cash collateral held of 18% driven by growth in SwapClear.

Cost of sales increased 89% mainly due to growth in SwapClear and the associated increase in share of surplus which includes all income streams. However, gross profit increased by 9% to £391.3 million.

Operating expenses increased by 11% with the main driver being foreign exchange movements from a weakening in Sterling relative to the Euro, and higher depreciation from investment to support growth.

Operating profit increased by 36% to £123.5 million (2015: £90.9 million).

Information Services

	12 months ended 31 Dec 2016 £m	12 months ended 31 Dec 2015 £m	Variance %	Variance at organic and constant currency ¹ %
Revenue				
FTSE Russell Indexes	409.3	348.9	17	7
Real Time Data	90.9	82.2	11	7
Other Information Services	94.5	86.3	10	6
Total revenue	594.7	517.4	15	7
Cost of sales	(54.4)	(45.4)	20	15
Gross profit	540.3	472.0	14	6
Operating expenses ²	(204.5)	(201.4)	2	—
Operating profit²	335.8	270.6	24	—

1. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF.
2. Operating expenses and operating profit variance percentage is shown on a reported basis only i.e. not on a constant currency basis. Variances will include underlying movements and foreign exchange effects.

Information Services provides global indices products, real time pricing data, product identification, reporting and reconciliation services. Information Services revenue was £594.7 million (2015: £517.4 million).

FTSE Russell's revenue increased by 7% driven by strong subscriptions and data sales, growth in index based products, and supported by continued high subscription renewal rates. Annual run rate revenue synergies following the 2014 acquisition of Frank Russell Company of US\$30m are being targeted by the end of 2017 and are on track to be achieved ahead of schedule.

Real time data revenue increased by 7% year on year due to a focus on enterprise licensing and increased use of non-display applications, whilst the number of terminals decreased by 3% to 200,000 (2015: 207,000).

Other Information Services revenues rose by 6% mainly as a result of continued growth of both UnaVista, driven by continued user base expansion for regulatory reporting, trade confirmations and reconciliations, and SEDOL from continued licence growth.

Cost of sales rose by 15% mainly as a result of increased data charges and partnership costs, both related to growth in FTSE Russell revenues. Gross profit rose in line with revenue growth at 6%.

Operating expenses of £204.5 million (2015: £201.4 million) were broadly flat year on year with cost synergies relating to the integration of Frank Russell Company partially offset by investment to support growing revenues and foreign exchange movements from a weakening in Sterling relative to the US Dollar.

Operating profit rose by 24% to £335.8 million (2015: £270.6 million), driven largely by FTSE Russell.

Technology Services

	12 months ended 31 Dec 2016 £m	12 months ended 31 Dec 2015 £m	Variance %	Variance at organic and constant currency ¹ %
Revenue	88.3	80.6	10	4
Inter-segmental revenue	15.9	12.9	23	—
Total income	104.2	93.5	11	5
Cost of sales	(27.8)	(28.3)	(2)	(6)
Gross profit	76.4	65.2	17	11
Operating expenses ²	(63.6)	(58.8)	8	—
Operating profit²	12.8	6.4	100	—

1. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro, Proquote, Russell Investment Management, SwapMatch and XTF.
2. Operating expenses and operating profit variance percentage is shown on a reported basis only i.e. not on a constant currency basis. Variances will include underlying movements and foreign exchange effects.

Technology Services provides hosting solutions, client connectivity and software products for the Group and third parties. Third party revenue increased by 4% to £88.3 million driven by growth across the solutions offered.

Cost of sales decreased by 6% and combined with the strong revenue performance drove a gross profit increase of 11%.

Operating expenses increased by 8% to £63.6 million (2015: £58.8 million) driven by the centralisation of IT services into a shared services centre to drive operational efficiencies. In addition, there were set up costs related to the acquisition of Exactpro, continued Group technology investment and foreign exchange movements from a weakening in Sterling relative to the Euro.

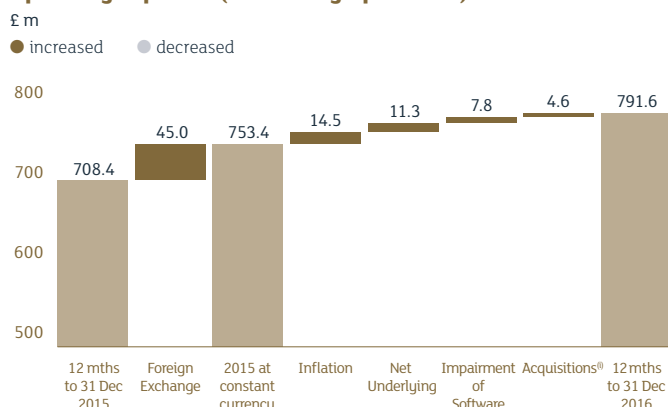
Operating profit was up by 100% to £12.8 million (2015: £6.4 million).

Financial review continued

Operating Expenses (Continuing Operations)

On a continuing basis Group operating expenses before amortisation of purchased intangible assets and non-recurring items were £791.6 million (2015: £708.4 million).

Operating Expenses (Continuing Operations)



(i) Acquisitions includes non-comparative cost for XTF and Exactpro.

Operating expenses increased by 4% on an organic, constant currency basis. Net underlying costs, excluding inflation and the one-off impairment of specific technology assets relating to globeSettle, were up 1%. This reflects increases in expenditure, including depreciation, from investing in revenue-supporting projects, and preparing for regulatory change partially offset by achievement of cost synergies following the Frank Russell acquisition and LCH initiatives (which amounted to £36 million in 2016). The Group's underlying operating expenses, including depreciation and amortisation, are expected to rise slightly in the next year as we continue investment in a number of products and services that will drive further growth and improve operating efficiencies.

Discontinued Operations

Discontinued operations comprises the Russell Investment Management business and contributed adjusted operating profit of £27.8 million to the Group, before it was sold in H1 2016.

Non-Recurring Items and Purchased Intangible Assets

Additional charges included £85.4 million of merger and acquisition-related costs, £13.8 million of restructuring costs and £3.2 million of integration costs. There was also a loss after tax of £88.2 million relating to the disposal of the Russell Investment Management business.

Finance Income and Expense and Taxation

Net finance costs were £62.7 million, down £5.6 million on the prior year on a continuing basis.

The effective tax rate ('ETR') for the year in respect of continuing underlying operations and including the effect of prior year adjustments is 22.5% (2015: 24.0%). This reflects reductions in both the UK and Italian tax rates, the mix of profits in the Group and finalisation of prior year tax returns. Removing the prior year impact would give an underlying continuing ETR of 22.3%.

The UK tax rate is due to fall to 19% from 1 April 2017 to 17% in 2020 which we would expect to impact overall ETR in due course. The contribution of continued underlying operations in the US towards the ETR was stable in the period, however, there are uncertainties with regard to the future contribution of US continued underlying operations to ETR. This is due to potential changes to the US tax system to be proposed by the new US administration as well as changes proposed to existing US double tax treaties which have not yet come into force.

Cash Flow and Balance Sheet

The Group's business continued to be strongly cash generative during the year, with cash generated from operations of £598.3 million (2015: £670.4 million). Total cash inflow from investing activities in the year was £243.1 million (2015 outflow: £86.0 million) principally due to £409.1 million from the sale of the Russell Investment Management business, partially offset by £145.8 million of capital expenditure (2015: £117.3 million).

At 31 December 2016, the Group had net assets of £3,613.7 million (2015: £3,196.1 million). The central counterparty clearing business assets and liabilities within LCH and CC&G largely offset each other but are shown gross on the balance sheet as the amounts receivable and payable are with different counterparties.

Net debt

	2016 £m	2015 £m
31 December		
Gross borrowings	1,165.9	1,608.9
Cash and cash equivalents	(1,150.7)	(1,176.4)
Net derivative financial liabilities/(assets)	19.3	(47.9)
Net debt	34.5	384.6
Regulatory and operational cash	847.6	888.1
Operating net debt	882.1	1,272.7

At 31 December 2016, the Group had operating net debt of £882.1 million after setting aside £847.6 million of cash and cash equivalents held to support regulatory and operational requirements, including regulated cash and cash equivalents at LCH Group together with further amounts covering requirements at other LSEG companies.

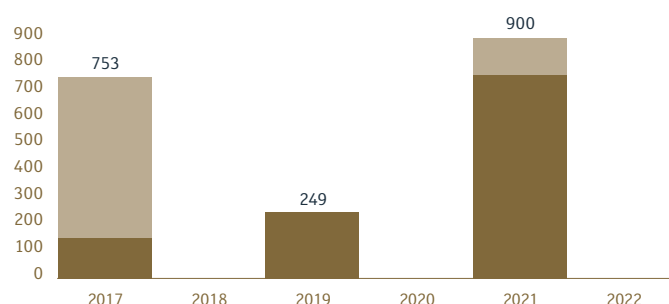
The Group's gross borrowings decreased by £443.0 million during the period to 31 December 2016, with the proceeds of the Russell Investment Management disposal and free cash generated by the Group during the year (after capex, taxes, interest and dividends), applied to repay the 2006 10 year £250 million bond in July 2016 and reduce short dated bank borrowings.

In November 2016, the Group extended the £600 million unsecured, revolving, syndicated bank facility it had arranged in 2015, taking further advantage of favourable market conditions to extend the maturity profile of its debt and provide comfortable headroom for the medium term. The new facility is committed through to November 2021. The Group also took the opportunity to extend its other £600 million syndicated facility by 12 months to 25 June 2017 to provide additional financial flexibility in the short term. At 31 December 2016, the Group had debt and committed credit lines totalling £1,920.5 million, with maturities extending from May 2017 out to 2021. With over £700 million of undrawn bank lines available, together with strong cash generation and improving credit metrics (described below), the Group continues to be well positioned to fund future growth, with scope for further refinancing in 2017 to underpin its longer term debt capital positioning.

Debt maturity profile

£ m

● drawn ● undrawn



The Group's interest cover, the coverage of net finance expense by EBITDA (consolidated earnings before net finance charges, taxation, impairment, depreciation and amortisation, foreign exchange gains or losses and non-recurring items), increased to 13.0 times (31 December 2015: 11.7 times) in the 12 months to 31 December 2016. This was driven primarily by lower interest costs due to an overall reduction of debt and the repayment of the 2006 10 year £250 million bond in July with relatively low cost bank facilities. The Group's organic cash generation remained strong with leverage (operating net debt to EBITDA updated to account for the EBITDA of acquisitions or disposals undertaken in the period) reducing to 1.1 times at 31 December 2016 (31 December 2015: 1.7 times). The Group benefitted from the proceeds from the disposal of the Russell Investment Management business in the first half of the year and leverage now stands well within the targeted range.

The Group's long-term credit rating with both Moody's and S&P remained unchanged during the year, but improved outlooks from both agencies reflect the positive sentiment towards the Group derived from the Deutsche Börse AG merger announcement and the achievement of its leverage targets. Moody's maintained LSEG at Baa1 and changed its outlook from stable to positive. S&P kept its BBB+ rating unchanged and placed the Group on credit watch positive. For LCH, S&P maintained its A+ long term rating but moved the outlook from stable to credit watch negative with the potential outcome limited to a one notch downgrade subject to possible implications for that business should the merger proceed.

Foreign exchange

	2016	2015
Spot £/€ rate as 31 December	1.17	1.36
Spot £/\$ rate as 31 December	1.23	1.47
Average £/€ rate for the year	1.22	1.38
Average £/\$ rate for the year	1.36	1.53

The Group's principal foreign exchange exposure arises as a result of translating its foreign currency earnings, assets and liabilities into LSEG's reporting currency of Sterling. For the 12 months to 31 December 2016, for continuing operations, the main exposures for the Group were its European based Euro reporting businesses and its US based operations, principally FTSE Russell. A 10 Euro cent movement in the average £/€ rate for the year and a 10 cent movement in the average £/\$ rate for the year would have changed the Group's continuing operating profit for the year before amortisation of purchased intangible assets and non-recurring items by approximately £25 million and £16 million, respectively.

The Group continues to manage its translation risk exposure by matching the currency of its debt (including debt effectively swapped from Sterling into currency) to the currency of its earnings, where possible, to ensure its key financial ratios are protected from material foreign exchange rate volatility.

Earnings per share

The Group recorded an adjusted basic earnings per share, which excludes amortisation of purchased intangible assets and non-recurring items, of 129.7 pence (2015: 129.4 pence). Basic earnings per share were 43.5 pence, a decrease of 54% (2015: 94.6 pence). The non-recurring items for this year are larger than in previous years and the increase is primarily driven by transaction costs of £85.4 million and a loss after tax of £88.2 million relating to the disposal of the Russell Investment Management business.

Dividend

The Board is proposing a final dividend of 31.2 pence per share, which together with the interim dividend of 12.0 pence per share paid to shareholders in September 2016, results in a 20% increase in the total dividend to 43.2 pence per share. The final dividend will be paid on 31 May 2017 to shareholders on the register as at 5 May 2017.

In addition, reflecting agreement as part of the proposed merger with Deutsche Börse AG, LSEG shareholders are entitled to receive a special dividend of 58.2 pence per share, which is an equalising payment to reflect the value attributable based on the proposed payment of a dividend by Deutsche Börse AG to its shareholders. The payment of the special dividend is contingent on completion of the merger of LSEG and Deutsche Börse AG, and will be paid to LSEG shareholders on the register at the earlier of 30 June 2017 and close of business on the date prior to closing.

Risk Management oversight

The management of risk is fundamental to the successful execution of our Strategic Plan and to the resilience of our operations. The Group adopts a proactive approach to risk management. During 2016 the Group successfully navigated a number of major geopolitical events ensuring continuity of the Group's standards in the support and servicing of key markets and clients.

LSEG's Risk Culture

While our formal risk framework codifies the objectives and practices that govern our processes, our risk culture determines the manner in which we manage risks every day.

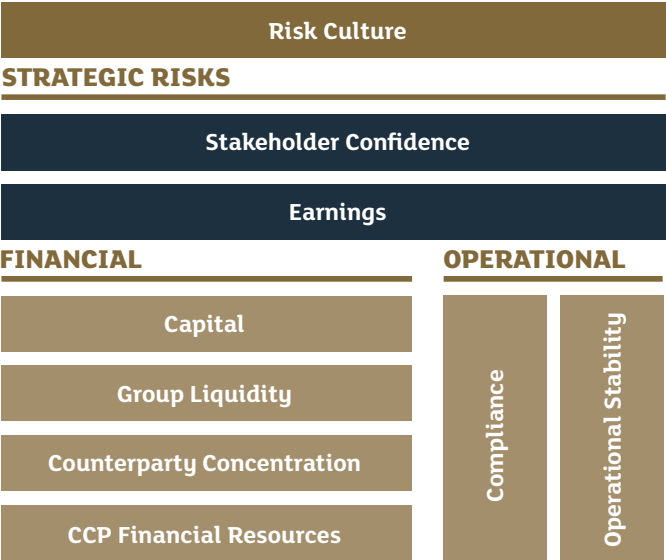
Our management culture embeds risk awareness, transparency and accountability. A strong emphasis is placed on the timely identification and reporting of risk exposures and in the strategic analysis of prevailing or anticipated risks. The responsibility for identifying and managing risks rests with management and with the Executive Committee, with independent oversight from our Group Risk Management Team and from the Group Board Risk Committee. Our risk culture is one of our most fundamental tools for effective risk management. Our behaviour framework feeds into the criteria that we use to assess the effectiveness of our risk culture and the communication, escalation and use of risk analysis to make strategic decisions.

Strategic Risk Objectives

LSEG's Strategic Risk Objectives derive from the strategy of the Group, which is defined annually by the Board. The risk objectives of the Group are as follows:

- **Maintaining a strong risk culture throughout the Group:** the Risk Management Framework is embedded within divisions and functions
- **Maintaining stable earnings growth:** the strategic growth of the business is delivered in a controlled manner with long-term value enhancement and low volatility of underlying profitability
- **Maintaining capital requirements:** the Group has sufficient capital resources to meet regulatory requirements, to cover unexpected losses and to meet the Group's strategic ambitions
- **Maintaining liquidity:** the Group retains or has adequate access to funding to meet its obligations, taking into account the availability of funds
- **Adhering to regulatory requirements:** the Group conducts activities at all times in full compliance with its regulatory obligations

LSEG Risk Appetite Components



- **Maintaining operational stability by facilitating orderly market operations:** the Group's operations are delivered in a secure and efficient manner without disruption
- **Maintaining stakeholder confidence:** the Group's stakeholders have confidence in its ability to deliver its strategic objectives with robust and effective governance and operational controls

Group Risk Appetite

LSEG's Risk Appetite is defined as the level of risk that the Group will accept in pursuit of its strategic objectives. The Group Risk Appetite Statement, proposed by the Executive Committee, is approved by the Board at least annually and is determined in conjunction with the Group's strategy and aligned to the Strategic Risk Objectives. The components of Risk Appetite that relate to CCPs are also approved by the Boards of each CCP within the Group, in compliance with EMIR and other applicable regulations.

The Group Risk Appetite is cascaded down to each business unit. Regular reporting at both Group and Business Unit levels uses Risk Appetite as a benchmark that can then be incorporated into the Group Risk Policy Framework.

Risks that are outside Risk Appetite are escalated to Executive Committee members and to the appropriate Risk Committee. The Risk Appetite status is also reported to the Board Risk Committee and to the Board for all aggregated Group risks.

3 Lines of Defence

LSEG's risk control structure is based on the '3 lines of defence' model:

- The First line (Management) is responsible and accountable for identifying, assessing and managing risk
- The Second line (Risk Management and Compliance) is responsible for defining the Risk Management process and policy framework, providing challenge to the first line on Risk Management activities, assessing risks and reporting to the Group Board Committees on risk exposure
- The Third line (Internal Audit) provides independent assurance to the Board and other key stakeholders over the effectiveness of the systems of controls and the Enterprise Risk Management Framework

Overall Risk Assessment

Key risk categories include strategic, operational, and financial risks, the latter including credit, clearing and market risks. We recognise that each of these risks, if not properly managed and/or mitigated, could have an impact on the Group and on its subsidiaries' reputation. Indications of the relative sizes of these risk types are shown overleaf.

Risk Management Approach

Our approach to managing risks includes a bottom up and a top down approach. Key external and internal factors are stress tested across our Group operations to assess the potential impact on the financial results, strategic plans and operational resilience.

The risk function is centralised at the Group level with the exception of the CCPs where each clearing house has its own risk team in compliance with the EMIR requirements. The function's main role is to maintain a fit for purpose Group Enterprise Risk Management Framework and recommend to the Risk Committee and to the Board Risk Appetite statements. It also reviews and monitors the risk profile of the Group and of its subsidiaries and ensures it remains within Risk Appetite. The function supports the Risk Committee members by providing reports on the Group's risk profile and timely escalation of exceptions. It also monitors compliance with rules and regulations and develops and maintains frameworks to facilitate the identification, assessment, reporting and monitoring of all the principal risks that could materially impact the reputation, financial position or operations of the Group.

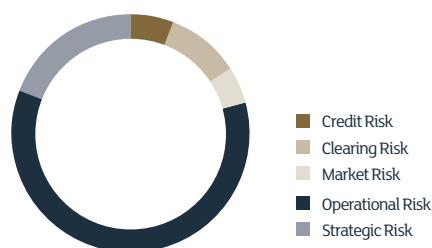
Risk Management Cycle

The Group's Risk Management process is set out in the Risk Management Cycle. The key to the cycle is that it both begins with, and feeds back to, the Business Strategy – which is ultimately determined by both internal and external drivers. This ensures that the management and assessment of risk remains a fundamental component of the Group's strategic decision making process.

Economic Capital

The Group has developed an economic capital model that enables the Group to consistently assess risk and the economic effects of risk-taking activities. The components of the model and their relative contribution to total Group economic capital are shown in the chart below. The Operational risk component, which represents the majority of the Group's economic capital, is quantified with an Advanced Measurement Approach (AMA) using a hybrid approach of internal scenario loss data and scaled external loss data.

LSEG Economic Capital Components



Current Risk Focus

Current risks on which we continue to focus relate to:

- **Geopolitical Uncertainty:** Political uncertainty has been a key risk theme for the Group during 2016 and will persist during 2017, most notably with respect to the timing, progress and outcome of the negotiation process of the UK's relationship with the EU. General elections in the EU and change of political direction in the US introduce the potential for unexpected outcomes and may impact investors' confidence
- **Regulatory Change:** The introduction of new regulations including MiFIR and MiFID II will affect the operations of the Group as well as those of our users and customers. There will be a sizeable implementation impact as a result of the incoming regulation and increased regulatory risk
- **Transformation:** The size and complexity of the recent acquisitions, and potential future merger, increase the transformation risk, whilst delivering opportunities to compete on a global scale
- **Liquidity:** The repo market has been adversely affected by banks contracting their balance sheets in response to forthcoming leverage restrictions. This has impacted CCPs who use secured investments, such as reverse repos, as mandated under EMIR, to maintain sufficient ongoing liquidity and immediate access to funds
- **Security and Resilience:** The security and resilience of systems represents a key global emerging risk

The Group has an ongoing programme of development and enhancement of its Enterprise Risk Management Framework (ERMF). The ERMF metrics and indicators include stress testing used to monitor risks against risk appetite to respond to emerging or expected risks.

Going forward, we will continue to strengthen our Risk Management by building on the frameworks we have put in place. Accordingly, we believe the Group is well positioned to exploit new opportunities in the year ahead.

LSEG Risk Management Cycle



Stress Testing Capabilities and Viability Statement

The Group's viability statement is underpinned by the Group's stress testing process. Under this process, a set of severe but plausible scenarios appropriate to the business of the Group and reflecting our principal risks are defined by Management, and the financial impact of each on the Group is quantified. The stress test scenarios may be updated during the year where the external environment changes.

A three year horizon is used for LSEG's financial viability statement, consistent with the Group's strategic planning cycle. The scenario impacts were evaluated on the Group's key financial metrics: liquidity headroom; leverage; interest cover; and regulatory capital headroom.

In addition, a set of compounded stresses was evaluated to provide further confidence on the ongoing financial viability of the Group even under very highly stressed environments. The process and final output of the stress tests was reviewed by management and by the Board and Audit Committee. They also reviewed and discussed 'reverse' stress testing, which was performed to assess what would be required to breach the Group's covenants.

The Directors' financial viability statement is contained in the Directors' Report on page 99.

CCP Risk Management and Oversight

Each of the Group's CCPs complies with the appropriate regulatory requirements. Consequently, they each manage their risk under the governance of their Board of Directors and of their internal risk management structure. The Group monitors the CCPs aggregated risks positions by using tools that measure the overall exposure to counterparty risk, credit risk (including latent market risk where a default can result in a CCP having the market risk inherent in the defaulter's portfolio) and liquidity risk. It uses a bottom-up approach for the monitoring of operational risks.

The Group's CCPs are managed in accordance with our ERMF, which includes a focused CCP Financial Risk Policy, that specifies minimum risk standards for margin confidence level, default fund cover, liquidity, counterparty concentrations, new member assessment, reporting and collateral. This promotes consistency in the oversight of our clearing risks while protecting the independence of the CCPs' risk management processes as required by relevant regulation.

Risk Management oversight continued

CCP Risk Management and Operations

The Group's CCPs interpose themselves between two counterparties in a trade and assume the legal counterparty risk for eligible transactions that are cleared through their markets. If either party defaults on the trade, the CCP becomes accountable for the defaulter's risk and associated liabilities.

Fundamental to a CCP's risk process is its collection of quality collateral from clearing members and clients as security for potential defaulter risk. The CCPs have in place a variety of margin models, across asset classes, to calculate the collateral requirements appropriate to each member's risk position. Clearing members are also required to pledge collateral to the default fund(s), the overall size of which, for each clearing service, is computed to at least the 'Cover 2' level – large enough to cover the two members that would create the largest liability given a simultaneous default under extreme but plausible market conditions – and allocated across the members of the clearing service.

The adequacy of the CCP's Financial Resources (Margins and Default Fund contributions collected from its members) is assessed on a daily basis and reported regularly in accordance with the CCP Financial Risk Policy using Group Risk Appetite as a benchmark. The Principles for Financial Market Infrastructures (PFMI) produced by CPMI-IOSCO provide the minimum Risk Management standards that a CCP should apply; however, LSEG CCPs apply more stringent margin confidence levels in most cases.

If a clearing member fails, the collateral collected is used by a CCP to complete the trades and fulfil the failed organisation's obligations. This ensures that the party on the other side of the trade is not negatively impacted by the default. The margin is calculated to cover market moves up to a certain confidence level. If losses exceed the defaulter's financial resources, then under EMIR Regulation the CCP is required to utilise a specified proportion of its own capital 'skin-in-the-game' before it can utilise the assets of non-defaulters. The skin-in-the game represents a proportion of the CCP's own capital that is sufficient to act as an incentive for CCPs to minimise the operational risk related to default management. Once the skin-in-the-game has been exhausted, further losses are allocated to members via funded member contributions to a mutualised default fund for each asset class or group thereof followed by further cash calls known as assessments and then a loss distribution waterfall set out in the CCP rulebook. CCP operational risk is managed using a bottom-up approach and is aligned with the Group's operational risk management approach.

During 2016, the Group's CCPs faced a number of challenging, politically driven, market events, including the UK's decision to leave the European Union, presidential elections in the United States, and the Italian Constitutional referendum. Through these turbulent times the Group's CCPs continued to successfully support key markets and its membership to their usual stringent standards.

Further information on the Group's clearing related risk is contained in the Principal Risks and Uncertainties on page 50.

LSEG Risk Governance Structure

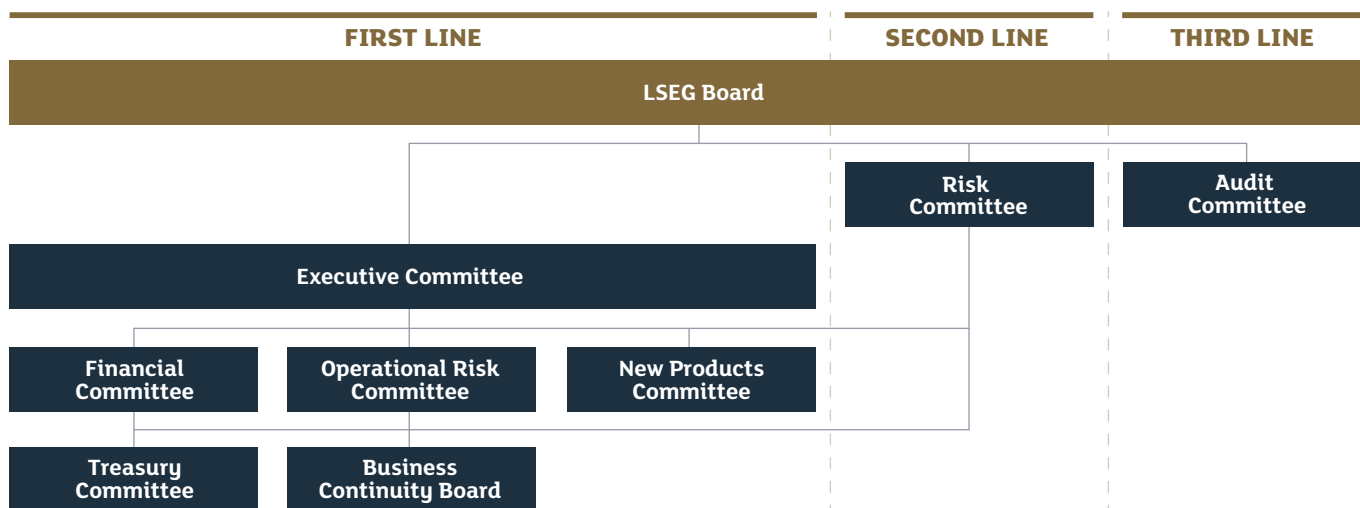
The Risk Governance of the Group is as follows and presented diagrammatically below:

- The Board is responsible for determining the Group Risk Appetite. The Board Risk Committee and the Audit Committee receive regular reports presenting the aggregate risks of the whole Group measured against the Appetite
- The ERMF defines roles and responsibilities for risk management oversight and activities, including for the Board, the Executive Committee and sub-Committees thereof
- The Financial and Operational Risk Committees monitor and report on the risk profile of the Group; review and challenge the application of the Group risk framework; recommend Risk Appetite Statements to the Executive Committee and monitor compliance with the relevant risk policies
- The Group has a Business Continuity Management framework in place which is managed and maintained through a fully established Business Continuity Programme. The Business Continuity Programme is overseen by the Business Continuity Board, a sub-committee of the Operational Risk Committee. The Business Continuity Board receives the self-certification results of all the Group's Business areas
- The New Product (and Market) Committee reviews and recommends business cases to the Executive Committee ensuring product innovation and new market risks are appropriately identified and assessed

Each Group-level risk is owned by a member of the Executive Committee who is responsible for managing or mitigating the risk in order to remain within Risk Appetite. The Board and the Risk Committee receive presentations on material risks and related mitigants as appropriate.

The Reports of the Audit and of the Risk Committees, on pages 64–69, provide details on the work carried out to assist the Board in fulfilling its oversight responsibilities for risk management and systems of internal control.

LSEG Risk Governance



Principal risks and uncertainties

OVERVIEW OF PRINCIPAL RISKS:

Strategic Risks

Global economy
Regulatory Change & Compliance
Competition
Transformation
Reputation/Brand

Financial Risks

Credit risk
Market risk
Liquidity risk
Capital risk

Operational Risks

Technology
Security threats
Change management
Settlement and custodial risks
Employees

KEY:

▲ Risk Level Increasing — Risk Level Static ▼ Risk Level Decreasing

STRATEGIC RISKS

Risks related to our strategy (including the implementation of strategic initiatives and external threats to the achievement of our strategy). The category also includes risks associated with reputation or brand values.

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p>Global economy</p> <p>As a diversified markets infrastructure business, we operate in a broad range of equity, bond and derivative markets servicing clients who increasingly seek global products and solutions. If the global economy underperforms, lower activity in our markets may lead to lower fee revenue.</p> <p>During 2016 market volatility followed results from referenda in the UK and Italy and elections in the US. During 2017, the potential for political upheaval continues with further elections across Europe and this, combined with continued uncertainty regarding both the future of the UK's relationship with the European Union and its broader direction, could impact the Group's businesses.</p> <p>In particular, the outcome of the UK referendum on membership of the EU injected notable uncertainty into global markets and weakened sterling. Despite signs of economic stability towards the latter end of 2016, the prospect of a lengthy negotiation period upon triggering Article 50 may weigh on market sentiment and reduce activity, including IPOs and further issues. Customers may also start contingency plans if location of specific activities in the UK appears threatened by UK exit negotiations.</p> <p>Strong economic data from the US in 2016 has resulted in the second interest rate hike by the US Federal Reserve in consecutive years and there is potential for further rate increases during 2017. There is, however, uncertainty in the global economic outlook and US forecast growth could fail to materialise. The US approach to financial services regulation may also impact market volatility.</p> <p>Ongoing geopolitical tensions continue to add uncertainty in the markets and may impact investors' confidence and activity levels.</p>	<p>The broader footprint of the Group has improved the geographical diversification of the Group's income streams. The Group mitigates the foreign exchange translation exposure created by ownership of overseas businesses by matching, to the extent possible, the currency of its debt to the currency of its income streams. This is supplemented as required by a hedging programme using market standard derivative instruments. Material foreign currency transactions relate mainly to M&A and dividend related payments and are hedged as required by Group Treasury Policy.</p> <p>The Group performs regular analyses to monitor the markets and the potential impacts of market price movements on the business. Activities include Key Risk Indicator tracking, stress testing, and hedging. We continue to actively monitor the ongoing developments following the result of the UK referendum. Special Committees have been set up to respond to the risks to our operations. The Group has formulated contingency plans to remain well positioned to service its clients.</p> <p>The Financial Risk Committee closely monitors and analyses multiple market stress scenarios and action plans in order to minimise any impacts stemming from a potential deterioration of the macroeconomic environment. The stress scenarios are regularly reviewed and updated in response to changes in macroeconomic conditions.</p>	▲

For more information, see Market trends and our response on pages 12 – 15, and Note 2 to the accounts, Financial Risk Management on pages 123 – 127.

Principal risks and uncertainties continued

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p>Regulatory change and compliance</p> <p>The Group and its exchanges, other trading venues, clearing houses, index administrators, central securities depositories, trade repository and other regulated entities operate in areas that are highly regulated by governmental, competition and other regulatory bodies.</p> <p>There is a range of measures which impact our business directly or indirectly including MiFID/MiFIR, EMIR, Benchmark Regulation, SFTR and BRRD. In addition, the European Commission reached agreement with the Council and Parliament on the Prospectus Regulation in a form which supports both EU and international issuers across LSEG's equity and fixed-income markets. New provisions will support SMEs, secondary issuance and retail bond investors. Provisions supporting larger European markets survived review after the Brexit referendum. There is a risk that the UK's exit from the EU may lead to considerable regulatory change. The Group monitors developments closely.</p> <p>The MiFID and MiFIR secondary legislation is nearly completed and the rule sets will come into effect on 3 January 2018. Key provisions on Open Access and SME Growth Markets are complete and we do not expect significant changes to near-final secondary legislation affecting market data and information services. Further delay to legislation finalisation could impact Group system change projects and put implementation timelines at risk.</p> <p>CCP regulatory initiatives are ongoing. In November 2016, the European Commission proposed a framework for recovery and resolution of CCPs. This work is being conducted in parallel with the development of international standards from CPMI-IOSCO and FSB. The European Commission has also confirmed the areas of EMIR that will be modified as part of the official review of the regulation.</p> <p>The Basel III rules on capital requirements for banks' exposure to CCPs and BCBS leverage ratio need to be adjusted to mitigate any impact on our CCP clearing volumes, with implications for the Group's revenues. However, the European Commission published proposed changes in November 2016 to the EU Capital Requirements Regulation which largely neutralise the effects for European clients. The changes would allow CCP clearing members to reduce their exposure measures by the amount of initial margin received from clients for CCP cleared derivatives. This will reduce leverage ratios, thus removing a financial barrier for clearing members to offer client clearing.</p> <p>The Benchmarks Regulation primary legislation was completed in 2016 and secondary legislation will be completed this year, with all rules coming into effect in January 2018. The regulation enshrines the IOSCO Principles and we view the new rule set positively as it raises standards across the industry.</p> <p>There is increasing legislative and regulatory focus on cyber security, data protection and emerging technology. LSEG fully supports emerging regulatory regimes for these issues, as they increase the standards for clients, vendors and other third parties with whom we interact. Regulators are monitoring the development of innovative financial services technologies, but no legislative proposals have yet been proposed.</p> <p>Negotiations also continue on a possible Financial Transaction Tax (FTT). During 2016 little progress was made, however a FTT could adversely impact volumes in financial markets.</p> <p>There is a risk that one or more of the Group's entities may fail to comply with the laws and regulatory requirements to which it is, or becomes, subject. In this event, the entity in question may be subject to censures, fines and other regulatory or legal proceedings.</p>	<p>Changes in the regulatory environment form a key input into our strategic planning, including the impact on our growth strategies, both organic and inorganic. We monitor regulatory developments continually and engage directly with regulatory and governmental authorities at national, EU and international levels.</p> <p>We continue to develop our relationships with the key political stakeholders in the EU, North America and Asia. Potential impacts from regulatory change are assessed and, depending on the impact, opportunities are developed and mitigating strategies and actions are planned.</p> <p>As the various regulatory initiatives progress, there will be greater certainty about their likely final form. The Group continues to focus on remaining well positioned to respond to regulatory developments and further opportunities exist for the Group to deliver solutions to help the market address the changing regulatory environment.</p> <p>The Group continues to maintain systems and controls to mitigate compliance risk. Compliance policies and procedures are regularly reviewed to ensure that Group entities and staff are compliant with applicable laws and regulations and uphold our corporate standards. All staff across the Group are subject to mandatory compliance training.</p>	▲

For more information on regulatory changes, see Market trends and our response on pages 12 – 15.

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p>Competition</p> <p>The Group operates in a highly competitive industry. Continued consolidation has fuelled competition including between groups in different geographical areas.</p> <p>In our Capital Markets operations, there is a risk that competitors will improve their products, pricing and technology in a way that erodes our businesses. There is strong competition for primary listings and capital raises from other global exchanges and regional centres.</p> <p>In Post Trade Services, competition will continue to intensify as we see a shift towards open access and interoperability of CCPs and legislative requirements for mandatory clearing of certain OTC derivative products. While this may create new business opportunities for the Group, competitors may respond more quickly to changing market conditions or develop products that are preferred by customers.</p> <p>The Group's Information Services business faces competition from a variety of sources, notably from other venues that offer market data relating to securities that are traded on the Group's equity markets, as well as from index providers which offer indices and other benchmarking tools which compete with those offered by the Group. Furthermore, if the Group's share of equity trading on its revenue were to come under further pressure, the Group's market data offering might be seen by current and prospective customers as being less valuable, which may adversely affect the Group's business, financial condition and operating results.</p> <p>In Technology Services, there is intense competition across all activities and there are strong incumbents in some of our growth areas.</p>	<p>Competitive markets are, by their very nature, dynamic, and the effects of competitor activity can never be fully mitigated. Senior management actively engages with clients and the Group undertakes constant market monitoring and pricing revision to mitigate risks. Commercial initiatives are aligned with our clients and this is complemented by an ongoing focus on technology.</p> <p>The Group's track record of innovation and diversification ensures the Group offers best-in-class services with a global capability. The Group is focused on integrating acquisitions and delivering tangible synergies. This is supported by robust governance and programme management structures.</p> <p>We maintain a dedicated international team who promote the benefits of listing on our markets to international issuers, the global advisory community and other stakeholders.</p>	<p>—</p>
<p>Transformation</p> <p>The Group is exposed to transformation risks (risk of loss or failure resulting from change/transformation) given the current levels of change and alignment activity taking place across the Group. As part of the alignment processes, the Group targets specific synergy deliveries.</p> <p>A failure to successfully align the businesses of the Group may lead to an increased cost base without a commensurate increase in revenue; a failure to capture future product and market opportunities; and risks in respect of capital requirements, regulatory relationships and management time.</p> <p>The additional work related to M&A and alignment activities could have an adverse impact on the Group's day-to-day performance and/or key strategic initiatives which could damage the Group's reputation.</p> <p>The size and complexity of the recent acquisitions and the recent merger proposal have increased the Group's change management and transformation risks. However, it has also increased its opportunities to compete on a global scale.</p>	<p>The LSEG Enterprise Risk Management Framework (ERMF) ensures appropriate Risk Management across the Group, and the governance of the Group following a merger or acquisition is aligned and strengthened as appropriate. The Group performs regular reporting of change performance, including ongoing alignment activity.</p> <p>Each major initiative is overseen by a steering committee which monitors the associated risks closely and is typically chaired by the Chief Financial Officer and includes Executive Committee members. Regular reports are submitted to the Executive Committee, the Board Risk Committee and the Board.</p>	<p>▲</p>
<p>Reputation/Brand</p> <p>A number of the Group's businesses have iconic national brands that are well-recognised at international as well as at national levels. The strong reputation of the Group's businesses and their valuable brand names are a key selling point. Any events or actions that damage the reputation or brands of the Group could adversely affect its business, financial condition and operating results.</p> <p>Failure to protect the Group's Intellectual Property rights adequately could result in costs for the Group, negatively impact the Group's reputation and affect the ability of the Group to compete effectively. Further, defending or enforcing the Group's Intellectual Property rights could result in the expenditure of significant financial and managerial resources, which could adversely affect the Group's business, financial condition and operating results.</p>	<p>LSEG has policies and procedures in place which are designed to ensure the appropriate use of the Group's brands and to maintain the integrity of the Group's reputation.</p> <p>LSEG actively monitors the use of its brands and other Intellectual Property in order to prevent or identify and address any infringements.</p> <p>The Group protects its intellectual property by relying upon a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements and other contractual arrangements with its affiliates, clients, customers, suppliers, strategic partners and others.</p>	<p>—</p>

Principal risks and uncertainties continued

FINANCIAL RISKS

The risk of financial failure, reputational loss, loss of earnings and/or capital as a result of investment activity, lack of liquidity, funding or capital, and/or the inappropriate recording, reporting and disclosure of financial results, taxation or regulatory information.

RISK DESCRIPTION	MITIGATION	RISK LEVEL
Credit risk Clearing CCPs in the Group are exposed to credit risk as a result of their clearing activities. Default by a CCP clearing member could adversely affect that CCP's revenues and its customers' goodwill. CCPs authorised in the EU are required to make a proportion of their regulatory capital available to cover default losses after the defaulter's resources have been exhausted and prior to allocation of losses to non-defaulters and so, in extreme circumstances, a default could lead to a call on the Group CCPs' own capital 'skin-in-the-game'. CCPs may also be exposed to credit exposure to providers of infrastructure services such as Central Securities Depositories (CSDs) and concentration banks. In addition, certain CCPs within the Group have interoperability margin arrangements with other CCPs requiring collateral to be exchanged in proportion to the value of the underlying transactions. The relevant clearing provider entities within the Group are therefore exposed to the risk of a default of other CCPs under such arrangements.	Clearing As CCP members continue to work towards strengthening of their balance sheets, the risk to LSEG CCPs of a member default, reduces, although continuing geopolitical uncertainty continues and the banking sectors of some countries remain stressed. The financial risks associated with clearing operations are further mitigated by: <ul style="list-style-type: none"> – Strict CCP membership rules including supervisory capital, financial strength and operational capability – The maintenance of prudent levels of margin and default funds to cover exposures to participants. Members deposit margin, computed at least daily, to cover the expected costs which the clearing service would incur in closing out open positions in a volatile market in the event of the member's default. A default fund sized to cover the default of the two members with the largest exposures in each service using a suite of extreme but plausible stress tests mutualises losses in excess of margin amongst the clearing members – Regular 'Fire Drills' are carried out to test the operational soundness of the CCPs' default management processes Infrastructure providers are regularly assessed in line with policy.	—
Non-Clearing CCPs and other parts of LSEG Group are also exposed to credit risk as a result of placing money with investment counterparties on both a secured and unsecured basis. Losses may occur due either to the default of the investment counterparty or of the issuer of bonds bought outright or received as collateral.	Non-Clearing Policies are in place to ensure that investment counterparties are of good credit quality, and at least 95% of CCP commercial bank deposits are secured. CCP and non-CCP counterparty concentration risk is consolidated and monitored daily at the Group level and reported to the Executive Committee and to the Board Risk Committee, including limits and status rating.	

For more information on this risk see the Post Trade Services section of the Segmental Review on pages 26 – 30, and Note 2 to the accounts, Financial Risk Management on pages 123 – 127.

Market risk Clearing The Group CCPs assume the counterparty risk for all transactions that are cleared through their markets. In the event of default of their clearing members, therefore, credit risk will manifest itself as market risk. As this market risk is only present in the event of default this is referred to as 'latent market risk'. The latent market risk includes interest rate risk, foreign exchange risk, equity risk and commodity price risk as well as country risk, issuer risk and concentration risk. This risk is greater if market conditions are unfavourable at the time of the default.	Clearing The margins and default funds referred to above are sized to protect against latent market risk. The adequacy of these resources is evaluated daily by subjecting member and customer positions to 'extreme but plausible' stress scenarios encapsulating not only historical crises, but theoretical forward-looking scenarios and decorrelation events. All our CCPs are compliant with the appropriate regulatory requirements regarding margin calculations, capital and default rules. Latent market risk is monitored and managed on a day-to-day basis by the risk teams within the clearing services. Committees overseeing market risks meet on a regular basis.	—
Non-Clearing The Group is exposed to foreign exchange risk as a result of its broadening geographical footprint. There are, however, also benefits of global diversification including reduced exposure to local events such as the UK Brexit vote. The Group is exposed to interest rate risk through its borrowing activities and treasury investments. A changing environment of increasing interest rates in 2017 may increase the Group's exposure to these risks.	Non-Clearing Foreign Exchange (FX) risk is monitored closely and translation risk is managed by matching the currency of the Group's debt to its earnings to protect key ratios and partially hedge currency net assets. To ensure this is effective, and also to manage any local FX transaction risks, foreign exchange derivatives including cross-currency swaps are used – under a control framework governed by LSEG Board approved policy. The split between floating and fixed debt is managed to support the Group's target of maintaining an interest coverage ratio that underpins a good investment grade credit rating. Authorised derivatives can be used to supplement a mix of floating rate loan borrowings and fixed rate bond debt to achieve the Group's Policy objective.	

For more information on this risk, see Note 2 to the accounts, Financial Risk Management on pages 123 – 127.

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p>Liquidity risk</p> <p>Clearing</p> <p>There are two distinct types of risk to which the Group CCPs are exposed that are commonly referred to as liquidity risk – market liquidity risk and funding liquidity risk. The former is the risk that it may be difficult or expensive to liquidate a large or concentrated position and is addressed under market risk. The latter is the risk that the CCP may not have enough cash to pay variation margin to non-defaulters or to settle physically securities delivered by a non-defaulter that cannot be on-sold to a defaulter and this is the subject of this section.</p> <p>The Group's CCPs collect clearing members' margin and/or default funds contributions in cash and/or in highly liquid securities. To maintain sufficient ongoing liquidity and immediate access to funds, the Group's CCPs deposit the cash received in highly liquid and secure investments, such as sovereign bonds and reverse repos, as mandated under EMIR; securities deposited by clearing members are therefore held in dedicated accounts with CSDs and/or International Central Securities Depositories (ICSDs). The Group's CCPs also hold a small proportion of their investments in unsecured bank and money market deposits subject to the limitations imposed by EMIR. The successful operation of these investment activities is contingent on general market conditions and there is no guarantee that such investments may be exempt from market losses.</p> <p>Non-Clearing</p> <p>Liquidity risk in a non-clearing context is the risk that the firm may be unable to make payments as they fall due.</p>	<p>Clearing</p> <p>The Group's CCPs have put in place regulatory compliant liquidity plans for day-to-day liquidity management, including contingencies for stressed conditions. The Group's CCPs have multiple layers of defence against liquidity shortfalls including; intraday margin calls, minimum cash balances, access to contingent liquidity arrangements, and, for certain CCPs, access to central bank liquidity.</p> <p>Under the ERMF, CCP investments must be made in compliance with the Group CCP Financial Risk Policy (as well as the policies of the CCPs themselves). These policies stipulate a number of Risk Management standards including investment limits (secured and unsecured) and liquidity coverage ratios. Committees overseeing CCP investment risk meet regularly.</p> <p>Each CCP monitors its liquidity needs daily under stressed and unstressed assumptions and reports to the Group Financial Risk Committee each month.</p> <p>Non-Clearing</p> <p>Requirements for liquidity including headroom requirements are set out in the Group Treasury Policy. The Group maintains liquidity facilities and monitors its requirements on an ongoing basis.</p> <p>Group Treasury risk is monitored daily and is managed within the constraints of a Board approved policy by the Group Treasury team, and is overseen by the Treasury Committee (a sub-Committee of the Financial Risk Committee chaired by the CFO). An update on Group Treasury risks and actions is provided monthly to the Financial Risk Committee and to each Board Risk Committee.</p>	<p>—</p>
For more information on this risk, see Note 2 to the accounts, Financial Risk Management on pages 123 – 127.		
<p>Capital risk</p> <p>Principal risks to managing the Group's capital are:</p> <ul style="list-style-type: none"> – In respect of regulated entities, capital adequacy compliance risk (the risk that regulated entities do not maintain and report sufficient qualifying capital to meet regulatory requirements) and capital reporting compliance risk (the risk that regulated entities fail to comply with capital reporting and regulatory obligations). If a regulated entity in the Group fails to ensure that sufficient capital resources are maintained to meet regulatory requirements, this could lead to loss of regulatory approvals and/or financial sanctions – In respect of regulated and unregulated entities, commercial capital adequacy and quality risk (the risk that Group and solo entities do not maintain both sufficient quantity and quality of capital to meet commercial requirements) and investment return risk (the risk that capital is held in subsidiaries or invested in projects that generate a return that is below the Group's cost of capital) – Availability of debt or equity capital (whether specific to the Group or driven by general financial market conditions) 	<p>The Group's Capital Management Policy provides a framework to ensure the Group maintains suitable capital levels (both at Group and solo entity levels), and effectively manages the risks thereof. The Group's Treasury Policy recognises the need to observe regulatory requirements in the management of the Group's resources.</p> <p>The Risk Appetite approved by the Board includes components related to the Group's leverage ratios and capital risks; Key Risk Indicators are monitored regularly. The Group maintains an ongoing review of the capital positions of its regulated entities and operates within capital limits which are overseen by the Treasury Committee, the Financial Risk Committee, the Executive Committee and the Board. The Group can manage its capital structure by varying returns to shareholders, issuing new shares or increasing or reducing borrowings. The Board reviews dividend policy and funding capacity on a regular basis and the Group maintains comfortable levels of debt facility headroom.</p> <p>The Group regularly assesses debt and equity markets to maintain access to new capital at reasonable cost. The Group is mindful of potential impacts on its key metrics when considering changes to its capital structure.</p>	<p>—</p>
For more information on this risk, see Note 2 to the accounts, Financial Risk Management on pages 123 – 127.		

Principal risks and uncertainties continued

OPERATIONAL RISKS

The risk of loss, or other adverse consequences to the business, resulting from inadequate or failed internal processes, people and systems, or from external events.

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p>Technology</p> <p>Secure and stable technology performing to high levels of availability and throughput continues to be critical to the support of the Group's businesses. Technology failures may impact our clients, potentially leading to a loss of trading or clearing volumes or impacting our information services activities.</p> <p>The Group continues to consolidate its IT development and operations in its shared services company – LSEG Business Services Ltd – and in the MillenniumIT infrastructure to provide greater control and efficiency. There is a risk that as the Group continues to consolidate its IT development and operations it creates single points of failure for multiple Group businesses, systems and services.</p> <p>The focus of activity in MillenniumIT means there is also a risk of resource over-stretch to meet both the requirements of the Group and those of third parties. Continued innovation and investment in new trading/information systems can lead to further resource stretch in coping with increased volumes and new product development.</p> <p>The Group also has dependencies on a number of third parties for the provision of hardware, software, communication and networks for elements of its trading, clearing, settlement, data and other systems.</p>	<p>The performance and availability of the Group systems are constantly reviewed and monitored to prevent problems arising where possible and ensure a prompt response to any potential service interruption issues.</p> <p>The Group continues actively to identify, manage and mitigate risks associated with the consolidation of IT development and operations. Regular rigorous Business Impact and Operational Risk Scenario Analysis are performed in conjunction with the Group Risk and Group Business Continuity & Crisis Management functions to identify, assess and remedy potential system and governance vulnerabilities.</p> <p>The Group's technology teams mitigate the risk of resource over-stretch by ensuring prioritisation of key development and operations activities, and resource utilisation and allocation are kept under constant review. The MillenniumIT systems are designed to be fault tolerant and alternative standby computer facilities are maintained to minimise the risk of system disruptions.</p> <p>The Group actively manages relationships with key strategic IT suppliers to avoid any breakdown in service provision which could adversely affect the Group's businesses. Where possible the Group has identified alternative suppliers that could be engaged in the event of a third party failing to deliver on its contractual commitments. The Group actively monitors new technological developments and opportunities such as Blockchain.</p>	—
For more information, see the Technology Services section of the Segmental Review on pages 34 – 35.		
<p>Security threats</p> <p>The Group is reliant upon secure premises to protect its employees and physical assets as well as appropriate safeguards to ensure uninterrupted operation of its IT systems and infrastructure. The threat of cyber crime requires a high level of scrutiny as it may have an adverse impact on our business. Additionally, new emerging technologies can change the level of cyber security risk.</p> <p>The Group and its appointed third party service providers could suffer a security breach resulting in the loss or compromise of sensitive information (both internal and external) or loss of service. A major information security breach could have a significant negative impact on our reputation and on the confidence of our clients.</p> <p>Terrorist attacks and similar activities directed against our offices, operations, computer systems or networks could disrupt our markets, harm staff, tenants and visitors, and severely disrupt our business operations. Civil or political unrest could impact companies within the Group. Long-term unavailability of key premises or trading and information outages and corruption of data could lead to the loss of client confidence and reputational damages. Security risks have escalated in recent years due to the increasing sophistication of cyber crime.</p>	<p>Security threats are treated very seriously. The Group has robust physical security arrangements, and extensive IT measures are in place to mitigate technical security risks.</p> <p>The Group is supported by the Centre for the Protection of National Infrastructure (CPNI) in the UK, with both physical and IT security teams monitoring intelligence and liaising closely with police and global Government agencies. A third party security monitoring service is retained to assist with monitoring global physical security events with the potential to impact Group operations.</p> <p>The Group continues to proactively invest in and enhance its information security control environment and cyber defences as it delivers to its Cyber Security Strategy.</p> <p>The Group has well established and regularly tested business continuity and crisis management procedures. The Group risk function assesses its dependencies on critical suppliers and ensures robust contingency measures are in place.</p>	▲

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p>Change management</p> <p>The considerable change agenda is driven by both internal and external factors. Internal factors include the diversification strategy of the Group and its drive for technology innovation and consolidation. External factors include the changing regulatory landscape and requirements which necessitate changes to our systems and processes.</p> <p>There are a significant number of major, complex projects and strategic actions underway concurrently, that, if not delivered to sufficiently high standards and within agreed timescales, could have an adverse impact on the operation of core services, and revenue growth, as well as damaging the Group's reputation. The volume of simultaneous change could also lead to a loss of client goodwill if the execution is not managed appropriately. Synergies and cost benefits may not be delivered to anticipated levels.</p> <p>The size and complexity of the recent acquisitions and the recent merger proposal have increased the Group's change management and transformation risks. However, it has also increased its opportunities to compete on a global scale.</p> <p>For more information, see the Chairman's statement on pages 4 – 5, and the Chief Executive's statement on pages 6 – 7.</p>	<p>The senior management team is focused on the implementation of the Group's strategy and the project pipeline in view of their importance to the Group's future success. Each major project is managed via a dedicated Programme Board overseen by members of the Executive Committee.</p> <p>Software design methodologies, testing regimes and test environments are continuously being strengthened to minimise implementation risk.</p>	▲
<p>Settlement and custodial risks</p> <p>The Group's CCPs are exposed to operational risks associated with clearing transactions and the management of collateral, particularly where there are manual processes and controls. While the Group's CCPs have in place procedures and controls to prevent failures of these processes, and to mitigate the impact of any such failures, any operational error could have a material adverse effect on the Group's reputation, business, financial condition and operating results.</p> <p>In addition, the Group provides routing, netting and settlement services through its CSDs to ensure that cash and securities are exchanged in a timely and secure manner for a multitude of products. There are operational risks associated with such services, particularly where processes are not fully automated.</p> <p>A failure to receive funds from participants may result in a debiting of the Group's cash accounts which could have a material adverse effect on the Group's business, financial condition and operating results.</p>	<p>Operational risk is minimised via highly automated processes reducing administrative activities while formalising procedures for all services.</p> <p>The CSD mitigates IT risks by providing for redundancy of systems, daily backup of data, fully updated remote recovery sites and SLAs with outsourcers. Liquidity for CSD operations is provided by European National Central Banks.</p>	—
<p>Employees</p> <p>The calibre and performance of senior management and other key employees, taken together, is critical to the success of the Group. The Group's ability to attract and retain key personnel is dependent on a number of factors. This includes (but not exclusively) prevailing market conditions, compensation packages offered by competing companies and any regulatory impact thereon. These factors also encompass the Group's ability to continue to have appropriate variable remuneration and retention arrangements in place, which help drive strong business performance and impact the size of the local labour force with relevant experience and the number of businesses competing for such talent. There can be no assurance that the Group will be successful in attracting and retaining the personnel it requires, which may adversely affect the Group's ability to conduct its business through an inability to execute business operations and strategies effectively.</p>	<p>The Group operates a performance management and appraisal system which assesses performance against financial objectives, strategic deliverables and the way colleagues collaborate and deliver in line with the Group's values and behaviours. Turnover in each division and country in addition to any critical staff turnover is closely monitored with mitigation taken where needed.</p> <p>A performance-related bonus and pay review process for all employees is conducted annually and Long Term Incentive Plans, aligned with performance metrics to deliver the Group's strategic goals and to enhance shareholder value are offered to critical high performers. Regular benchmarking of reward and incentive systems is performed to ensure they are competitive.</p> <p>We continue to enhance our talent management approach and maintain a rigorous in-house recruitment and selection process. A training budget coordinated centrally allows a coordinated approach to development across the Group. Development opportunities are provided for all employees with additional investment offered to identified key talent and executives as well as coaches for key senior successors. The Group undertakes comprehensive annual reviews of critical roles, succession, talent pipelines and risk analysis to minimise the impact of the loss of key staff critical to the operation of the business. There is a focus on internal moves, key external hires and an approach to succession which is reviewed by the Nominations Committee which is responsible for considering succession plans for key senior positions.</p>	—
For more information, see Our wider responsibility on pages 36 – 37 and Remuneration Report on pages 70 – 95.		

Board of Directors

Board structure as at 31 December 2016 The Board comprised:

- Chairman, who was independent on appointment
- 1 Senior Independent Director
- 5 other independent Non-Executive Directors and 1 Non-Executive Director
- 3 Executive Directors

Non-Executive Director Changes during the year

- Baroness Sharon Bowles, Stuart Lewis and Sherry Coutu CBE resigned on 26 April 2016
- Andrea Munari resigned on 1 October 2016
- Andrea Sironi was appointed as an Independent Non-Executive Director on 1 October 2016



Donald Brydon CBE
**Chairman of the Group and the
Nomination Committee (age 71)**
Appointed to the Board in June 2015
and appointed Chairman in July 2015

N R

Key areas of experience: Industry and finance, governance, chairing major companies, pensions.

Donald is currently Chairman of The Sage Group plc and the Medical Research Council.

Donald brings to the Board his wealth of experience gained on the boards of a number of listed companies across a wide range of sectors, as well as his significant knowledge and understanding of the Finance and Insurance industries, gained from his time as Chairman and Chief Executive of both BZW Investment Management Ltd and AXA Investment Managers SA.

Relevant past experience: Donald has also held the post of Chairman at: Smiths Group plc, the London Metal Exchange, Taylor Nelson Sofres plc, AXA Framlington Group Limited, Royal Mail Group plc and The London Institute of Banking & Finance and is a former Director of Amersham plc, Aberdeen UK Tracker Trust plc, Allied Domecq plc, AXA UK plc and Scottish Power plc.

Other current appointments: Donald is currently Chairman of the charity Chance to Shine and Chairman of the Science Museum Foundation. He is also a Trustee Board Member of the Foundation for Science and Technology.



Xavier R Rolet KBE
Group Chief Executive Officer (age 57)
Appointed to the Board in March 2009
and appointed Chief Executive Officer in May 2009

G

Key areas of experience: Corporate finance, investment banking, securities trading, investment management, mergers and acquisitions, risk, strategy, technology and business start-ups.

Xavier has a proven track record as a senior Executive in the global equity trading sector and brings significant experience to the Board gained working in the senior management teams of Global Investment Banks.

Relevant past experience: Xavier was Chief Executive Officer of Lehman Brothers in France from July 2007 to 7 January 2009. He became a member of Lehman Brothers' European Operating Committee in 2003, having joined the firm in February 2000 in New York as co-head of Global Equity Trading.

Xavier started his career on the International Arbitrage desk at Goldman Sachs & Co. in New York in January 1984. In 1990, he moved to London as co-head of European Equity Sales and Trading. He joined Credit Suisse First Boston in 1994 as global head of European Equities before moving to Dresdner Kleinwort Benson as global head of Risk and Trading, and deputy head of Global Equities in 1997.

Other current appointments: Xavier is a member of the Board of Overseers of Columbia Business School and an Honorary Fellow of the Chartered Institute for Securities and Investments, FSCI(Hon). He is also a member of the Financial Services Trade and Investment Board at HM Treasury, a Knight of the French Order of the Legion of Honour, and an Officer of the Royal Sharifian Order of Al-Alawi.



David Warren
Group Chief Financial Officer (age 62)
Appointed to the Board in July 2012

G

Key areas of experience: Accounting, corporate finance, mergers and acquisitions, strategy, treasury management. David brings significant international financial management expertise to the Board.

Relevant past experience: Prior to being appointed Chief Financial Officer of London Stock Exchange Group, David was Chief Financial Officer of NASDAQ OMX from 2001 to 2009 and Senior Adviser to the NASDAQ CEO from 2011 to 2012. Other senior roles David has held include: Chief Financial Officer at the Long Island Power Authority of New York and Deputy Treasurer of the State of Connecticut.

Other current appointments: None.



Raffaele Jerusalemi
**Executive Director, CEO of Borsa Italiana S.p.A.
and Director of Capital Markets (age 55)**
Appointed to the Board in June 2010

G

Key areas of experience: Capital markets, corporate finance, equity and fixed income trading.

Raffaele brings significant experience in capital markets and equity trading to the Group. He has worked for Borsa Italiana S.p.A. for the past 19 years and is Borsa's Chief Executive Officer as well as the Group's Director of Capital Markets. Raffaele also holds a number of other internal senior positions within the Group including: the Vice Chairmanship of Monte Titoli, MTS and CC&G and is Chairman of Elite S.p.A.

Relevant past experience: Prior to joining Borsa, Raffaele was Head of Trading for Italian Fixed Income at Credit Suisse First Boston. Raffaele was also a member of Credit Suisse's proprietary trading group in London as well as representing Credit Suisse First Boston on the Board of MTS S.p.A. Prior to joining Credit Suisse, he was Head of Trading for the fixed income and derivatives divisions at Cimo S.p.A. in Milan.

Other current appointments: Raffaele is a Venture partner of the Advisory Committee of Texas Atlantic Capital.



Jacques Aigrain
**Independent Non-Executive Director and Chairman of the
Remuneration Committee (age 62)**
Appointed to the Board in May 2013

A R

Key areas of experience: Client management, corporate finance, corporate governance, post trade and clearing, investment management, mergers and acquisitions, strategy.

Jacques brings significant expertise and knowledge of global post trade and clearing and investment management to the Board. He also holds a PhD in Economics from the University of Paris (Sorbonne).

Relevant past experience: Jacques was Chairman of LCH. Clearnet Group Limited from 2010 to 2015. He has also been a Non-Executive Director of Resolution Ltd, a Supervisory Board member of Deutsche Lufthansa AG as well as a Non-Executive Director of the Qatar Financial Center Authority and he was Chief Executive Officer of Swiss Re from 2006 to 2009. Prior to this, Jacques spent 20 years, with J.P. Morgan Chase, working in the New York, London and Paris offices.

Other current appointments: Jacques is currently a Senior Advisor of Financial Services at Warburg Pincus LLC, a Supervisory Board member of LyondellBasell Industries NV and a Non-Executive Director of WPP Plc. He is also a Non-Executive Director of Swiss International Airlines AG (a subsidiary of Deutsche Lufthansa AG) and currently serves as a Member of the Financial Industry Consultative Group of the IMF and an Advisory member of Generation Investment Management.



Paul Heiden
**Senior Independent Director
and Chairman of the Audit Committee (age 60)**
Appointed to the Board in June 2010

A N R R

Key areas of experience: Corporate finance and accounting, technology and engineering, corporate governance and risk, commercial manufacturing and supply chain.

Paul is a chartered accountant and provides the Board and the Audit Committee with relevant financial expertise, gained through a long career of senior finance and management roles across a wide range of business sectors.

Relevant past experience: Paul was previously Chairman of Talaris Topco Limited, Non-Executive Director of United Utilities Group plc and Chief Executive Officer of FKI plc. Paul was an Executive Director of Rolls-Royce plc from 1997 to 1999 and Group Finance Director from 1999 to 2003. He has also had previous senior finance roles at Hanson plc and Mercury Communications and was a Non-Executive Director of Bunzl plc and Filtrona plc.

Other current appointments: Paul is a Non-Executive Director of Meggitt plc and Non-Executive Chairman of Intelligent Energy Holdings plc and A-Gas (Orb) Limited.

COMMITTEE MEMBERSHIP KEY

A Audit	N Nomination
R Remuneration	R Risk
G Group Executive	■ Committee Chairman



Professor Lex Hoogduin
Non-Executive Director (age 60)
Appointed to the Board in December 2015

Key areas of experience: Clearing and settlement systems, economic policy and research, financial stability and financial markets, statistics and payment.

Lex brings significant expertise and knowledge of economics and the operation of financial markets to the Board. He is also currently Chairman of the Group subsidiary, LCH.Clearnet Group Limited.

Relevant past experience: Lex previously served as Executive Director at De Nederlandsche Bank (DNB) from January 2009 until July 2011, where his responsibilities included economic policy and research, financial stability, financial markets, statistics and payment, clearing and settlement systems. He has also held a number of economic advisory positions as Chief Economist at Robeco, Managing Director of the IRIS research institute and adviser to the first president of the ECB. Lex holds a Master's degree in Economics from the University of Groningen, the Netherlands and received his PhD degree in Economic Sciences in 1991.

Other current appointments: Lex is Chairman of the supervisory board of the Centre for Integral Revaluation – Health Care. He is an adviser to Wilgenhaege (a Dutch asset manager). He is also a part-time Professor of Economics/complexity and uncertainty in financial markets and financial institutions at the University of Groningen, the Netherlands.



Mary Schapiro
Independent Non-Executive Director (age 61)
Appointed to the Board in July 2015

NR

Key areas of experience: Market regulation, corporate finance, corporate governance and risk, securities.

Mary brings expertise in market regulation and US markets to the Board.

Relevant past experience: Mary has held a number of senior regulatory positions including: the Chair of the US Securities and Exchange Commission, CEO and Chair of the Financial Industry Regulatory Authority (FINRA) Inc. and its predecessor the National Association of Securities Dealers Regulation Inc. (NASDR), Chair of the FINRA Educational Foundation, and the Chair of the US Commodity Futures Trading Commission (CFTC).

Mary is a former Director of Kraft Foods Inc., Duke Energy Corp. and Cinergy Corp. She was also Managing Director, Governance and Markets, Promontory Financial Group LLC.

Other current appointments: Mary is a Non-Executive Board Director of the General Electric Co., Vice-Chairman of the Sustainability Accounting Standards Board (SASB) and Vice-Chairman, Advisory Board at Promontory Financial Group. She also serves as an advisory board member at Spruceview Capital Partners, Morgan Stanley Institute for Sustainable Investing and Hudson Executive Capital LP and is a trustee of MITRE Corporation. She is also an Independent Director at Axiom Law Inc. and joined the International Advisory Board to the China Securities Regulatory Commission in October 2016.



David Nish
Independent Non-Executive Director (age 56)
Appointed to the Board in December 2015

AR

Key areas of experience: Strategy, finance, corporate governance and risk, consumer and market regulation, savings and investments.

David provides significant FTSE 100 expertise to the Board from his experience on a number of other boards, including in the Investment Management and Insurance sectors from his time at Standard Life Plc.

Relevant past experience: David was the Chief Executive Officer of Standard Life Plc from January 2010 to August 2015 having joined the company as Group Finance Director in November 2006. A chartered accountant, David was also previously Group Finance Director of Scottish Power plc and he is a former Partner at Price Waterhouse.

Previously, David has been a Non-Executive Director of Northern Foods plc, Thus plc, HDFC Life (India) and was Deputy Chairman of the Association of British Insurers.

Other current appointments: David is a Non-Executive Director of HSBC Holdings plc, Vodafone Group Plc, the UK Green Investment Bank Plc and Zurich Insurance Group. He is also a member of the Council of the Institute of Chartered Accountants of Scotland.



Andrea Sironi
Independent Non-Executive Director (age 52)
Appointed to the Board in October 2016

Key areas of experience: Finance, financial risk management, banking regulation.

Andrea provides significant banking and finance experience to the Board.

Relevant past experience: Andrea was the Vice Chairman of Banca Aletti & C S.p.A from April 2009 to October 2012.

Andrea was a Non-Executive Director of Banco Popolare Società Cooperativa from October 2008 to May 2013 and SAES Getters S.p.A. from April 2006 to April 2015. He has also been a Member of the Fitch Academic Advisory Board from June 2006 to June 2010.

Other current appointments: Andrea is the Chairman of Borsa Italiana S.p.A., a subsidiary of the London Stock Exchange Group and a Non-Executive Director of Cogentech S.c.a.r.l. Since 1 January 2017, he has been a member of the Board of Cassa di Risparmio di Padova e Rovigo S.p.A. and he is also a Professor of Banking and Finance of Bocconi University, Italy where he has been Rector from 2012-2016.



Stephen O'Connor
Independent Non-Executive Director
and Chairman of the Risk Committee (age 55)
Appointed to the Board in June 2013

RAN

Key areas of experience: OTC derivatives, risk management, capital markets, clearing, corporate finance.

Stephen brings international expertise in clearing and counterparty risk management to the Board. He has worked extensively with global regulators in the area of financial services market reform.

Relevant past experience: Stephen was Chairman of the International Swaps and Derivatives Association from 2011 to 2014 having been appointed as a Non-Executive Director in 2009. Stephen also worked at Morgan Stanley in London and New York for 25 years, where he was a member of the Fixed Income Management Committee and held a number of senior roles including Global Head of Counterparty Portfolio Management and Global Head of OTC Client Clearing.

Stephen was a member of the High Level Stakeholder Group for the UK Government's review of the Future of Computer Trading in Financial Markets and served as Vice-Chairman of the Financial Stability Board's Market Participants Group on Financial Benchmark Reform. He was a Non-Executive Director of OTC DerivNet Ltd from 2001 to 2013 and was Chairman from 2001 to 2011.

Other current appointments: Stephen serves as Chairman of Quantile Technologies Limited and he is Non-Executive Director and Chair of the Board Risk Committee of GE Capital International Holdings Limited. He is a member of the US Commodity Futures Trading Commission (CFTC) Global Markets Advisory Committee. Member of the Scientific Advisory Board at the Systemic Risk Centre, London School of Economics and Political Science.

Corporate governance



“Good governance is about helping to ensure the Company is well run.”

Donald Brydon CBE
Chairman

Dear Shareholders,

The Board of the Group is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. One of the ways in which the Board achieves this is by requiring that good governance principles and practices are adhered to throughout the Company. The Board has determined that the following is a helpful summary of its role.

Good governance is about helping to ensure the Company is well run. It involves being satisfied that an effective internal framework of systems and controls is put in place which clearly defines authority and accountability and promotes success while permitting the management of risk to appropriate levels.

It also involves the exercise of judgement as to the definitions of success for the Group, the levels of risk we are willing to take to achieve that success and the levels of delegation to the executive. The exercise of this judgement is the responsibility of the Board and involves consideration of processes and assumptions as well as outcomes.

It also involves the creation of a sensitive interface for the views of shareholders and other stakeholders to be given appropriate consideration when reaching these judgements.

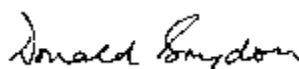
The Executive Team is required to provide such information to the Board as the Board needs to enable it to exercise its judgement over these matters. It must also evidence appropriate process. There is a very fine distinction between the approval of processes and their definition. Only exceptionally would the Board intervene to initiate or define.

The Board also sets the tone for the Group. The way in which it conducts itself, its attitude to ethical matters, its definition of success and the assessment of appropriate risk, all define the atmosphere within which the executive team works.

Good corporate governance is not about adhering to codes of practice (although adherence may constitute a part of the evidence of good governance) but rather about the exercise of a mindset to do what is right. One of the challenges facing any Board is the way in which the Non-Executive and the Executive Directors interact. It is clear that they each have the same legal responsibility but it is generally unrealistic to expect Executive Directors to speak individually with the same freedom as the Non-Executive Directors. Equally, Executive Directors who just ‘toe the executive line’ in contradiction to their own views may not be effectively contributing to good governance. A well-functioning Board needs to find the right balance between hearing the collective executive view, being aware of the natural internal tensions in an executive team and allowing independent input from the Non-Executive Directors.

One of the consequences of both increasing the watchdog role of the Board and finding this balance between individuality and team behaviour is driving more and more Boards to have fewer and fewer Executive Directors. In our circumstances, the consequent Board construction works effectively and an appropriate balance is struck.

Notwithstanding the tensions created by many external expectations, which may be wholly or in part unrealistic, a successful Board should, ideally, be composed of a diverse group of respected, experienced and competent people who coalesce around the common purpose of promoting the long-term success of the Company, provide a unified vision of the definitions of success and appropriate risk, endeavour to support management (i.e. honestly criticise at times but encourage all the time) and create confidence in all stakeholders in the integrity of the business.



Donald Brydon
Chairman
3 March 2017

Compliance with the UK Corporate Governance Code 2014 (the “Code”) and its statement requirements

Throughout the financial year ended 31 December 2016 and to the date of this report, London Stock Exchange Group plc has complied with the provisions of the Code. The Code is publicly available at the website of the UK Financial Reporting Council at www.frc.org.uk. This corporate governance section of the Annual Report and Accounts describes how we have applied the principles of the Code.

This report is intended to give shareholders a clear and comprehensive picture of the Group’s governance arrangements and how they operated during the year.

Pages 56 – 60 set out details of the areas of our focus during the year, followed by the Committee Reports. Descriptions of how we complied with the main principles of the Code are set out on pages 62 – 63.

Board and Committee meetings 2016

The Board held six scheduled meetings and four additional meetings called on at short notice principally relating to the proposed merger with Deutsche Börse. A table of Board and Committee meeting attendance is set out below.

On a number of occasions throughout the year, the Chairman met Non-Executive Directors without Executive Directors present, and the Board met without the presence of the Chairman. Throughout the year, the Chairman also met with Non-Executive Directors individually to discuss other business-related matters. Comprehensive Board and Committee papers, comprising an agenda and formal reports and briefing papers, are sent to Directors in advance of each meeting. Directors are continually updated with written and verbal reports, from senior executives and external advisors.

Each meeting includes a wide-ranging report from the Chief Executive and a report from the Chief Financial Officer on the Group's financial performance. Reports from the committee chairmen, updates on major projects and certain administrative matters are also reported at each Board meeting.

On an annual basis the Board undertakes reviews of the following: Health and Safety, the 3 Year Business Plan and Annual Budget, the FCA's risk mitigation programme, Board effectiveness, Review of independence of Directors pursuant to the Code, Review of key governance and corporate policies, Approval of the Group Risk Register and Risk Appetite, and Approval of Annual and Interim Dividends and the Annual Report and Accounts.

During the year the Board considered the following matters: the proposed all-share merger between the Company and Deutsche Börse, the sale of the Frank Russell Investment Management Business, the sale of LCH SA, the acquisition of Mergent Inc, the establishment of new Elite businesses in Italy and the UK, the risks and opportunities presented by Brexit, the management of Cyber Risk, the Group's Tax Strategy, the Market Abuse Regulation and related group policies, the Group's Insurance policies, Group strategy including Group corporate responsibility strategy, Group debt refinancing, Investor Relations reports, the review of quarterly financial

forecasts and funding of acquisitions, the review and approval of full year and interim results and quarterly Interim Management Statements, and succession planning, including the appointment of a new independent Non-Executive Director.

When Directors have not been able to attend meetings due to conflicts in their schedule, they received and reviewed the relevant meeting papers. Where they had comments or concerns on the matters to be discussed, they provided these to the Chairman of the Board or Committee in advance of the meeting. The Chairman of the Board engages with Directors between Board meetings to discuss business and strategic issues.

When arranging meetings on short notice, every attempt is made to accommodate Directors' diaries; however, inevitably, not all Directors are able to attend all such meetings. The majority of meetings where Directors have been unable to attend were the four additional meetings called at short notice which principally related to the proposed all-share merger between the Company and Deutsche Börse AG.

As part of its ongoing development the Board visited the Group's businesses and met with staff in Milan and Sri Lanka. In Sri Lanka the Board visited the Group's IT business, MillenniumIT and attended the opening of the Group's new state-of-the-art technology facility in Sri Lanka by the Prime Minister of Sri Lanka, Ranil Wickremesinghe and LSEG Chairman, Donald Brydon. Headquartered in the TRACE Expert City precinct of Colombo, the new technology hub will provide technical support services for the Group's global network.

Transaction Committee

In addition to the existing standing committees of the Board, to assist the Board in relation to the proposed merger a Transaction Committee was appointed during the year. Its members were Donald Brydon (Chairman), Jacques Aigrain, Paul Heiden and David Nish. The Committee's role is to oversee the implementation of Board decisions, take decisions and provide advice on behalf of the Board in relation to the merger. The Group CEO, CFO and General Counsel are standing invitees.

Table shows the number of meetings attended against the number of meetings each Director was eligible to attend

	Board	Audit	Risk	Remuneration	Transaction
Donald Brydon CBE	10/10			4/4	8/8
Xavier R Rolet KBE	10/10				
Jacques Aigrain	10/10	6/6		4/4	8/8
Paul Heiden	9/10	6/6	3/3	3/3	8/8
Lex Hoogduin ¹	8/10 ¹				
Raffaele Jerusalmi	10/10				
David Nish ²	8/10 ²	5/6	2/3		7/8
Stephen O'Connor	9/10	6/6	3/3		
Mary Schapiro	9/10			2/3	
Andrea Sironi ³	3/3				
David Warren	10/10				

Directors who left during the year

Baroness Sharon Bowles (left the Board on 26 April 2016)	3/3	2/2			
Sherry Coutu CBE (left the Board on 26 April 2016)	3/3			1/1	
Stuart Lewis (left the Board on 26 April 2016)	2/3		1/1	1/1	
Andrea Munari (left the Board on 1 October 2016)	5/7		0/2		

1. Lex Hoogduin joined the Board in December 2015. He did not attend two Board meetings by agreement due to a conflict of interest.

2. David Nish joined the Board in December 2015 and attended all the scheduled Board meetings during the year. He was unable to attend two additional Board meetings and an Audit and a Risk Committee meeting (scheduled on the same day and which clashed with a commitment in place prior to him joining the Board).

3. Andrea Sironi joined the Board on 1 October 2016.

Corporate governance continued

BOARD EFFECTIVENESS AND LEADERSHIP

2016 Effectiveness Review

The Board carried out an internal review of its own effectiveness and that of its Committees and Directors. The evaluation process was conducted by the Group Company Secretary using a detailed questionnaire. The results of the review were used to assist the Board in forming Board objectives for 2017 and to assist in consideration of the future development of the Board, its Committees and its individual Directors.

In an extraordinary year with the backdrop of seeking to deliver the merger with Deutsche Börse the main areas the Board identified in the Review as key areas of future focus were succession planning and ongoing training.

2015 Effectiveness Review

The 2015 Effectiveness Review (which was conducted internally by the Group Company Secretary) identified a number of issues. These are summarised below, together with the resulting actions.

ISSUE	ACTION
Board Directors to have increased contact outside the Board room	Following changes in 2015, the Board has spent more time together outside of the Boardroom in frequent Board dinners, on international trips and in individual engagement with the Chairman.
Increased discussion of succession planning at Board level	The Board and a specially appointed Transaction Committee has considered the composition of the Board of the new holding company following the proposed merger.
Identify further development needs for Directors	In response to feedback from the Board (collectively and individually), during 2016 directors have participated in training sessions relating to: aspects of our technology business, AIM, the operation of the Shared Service arrangements and cyber security. To support the Board in the areas of technology and regulation, Technology and Regulatory Advisory Committees have been set up with expert members being appointed from outside the Board.

Relations with shareholders

The Group's Investor Relations 'IR' function, reporting to the Chief Financial Officer, manages day-to-day engagement with shareholders. Executive management, particularly the Chief Executive Officer and Chief Financial Officer engage with investors through meetings and presentations to discuss strategy, performance and other matters. The Chairman, Senior Independent Director and Chairman of the Remuneration Committee are also available to meet major investors, mostly to discuss corporate governance matters. Senior management and the IR team held 392 meetings and calls with institutional investors during the course of the year. Additionally, the Remuneration Committee consulted with a number of the Group's institutional shareholders on remuneration matters.

The Group's AGM provides the opportunity for all shareholders to meet and to put questions to the Board Directors. Procedures for the AGM are compliant with the Code, with voting by way of a poll to ensure all shareholders' views are taken into account.

In addition to information on financial and operational performance, the Group engages with shareholders and relevant shareholder advisory agencies on environmental, social and governance ("ESG") matters. The Group produces an annual Corporate Responsibility report that details its approach to ESG matters: www.lseg.com/about-london-stock-exchange-group/corporate-responsibility.

The Board receives a report on IR matters at each of its scheduled meetings, including market expectations of financial performance, updates on share register composition and feedback from investors. Sell-side analyst research notes are circulated to the Board following publication. The Group's corporate brokers and a specialist IR advisory firm also provide the Board with advice on market sentiment and share register analysis.

The IR section of the Group's website (www.lseg.com/investor-relations) is a primary source of regularly updated information about the Group. All financial reports and statements, news releases, presentations and other documents including regulatory news service disclosures are available on the website together with a list of analysts producing research on the Company and a summary of analysts' forecasts of performance. Recordings of preliminary and interim results calls are accessible to all shareholders via the Group website.

Conflicts of interest

The Company's Articles of Association allow the Board to authorise conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The Group has established procedures whereby actual and potential conflicts of interest are regularly reviewed, appropriate authorisation is sought prior to the appointment of any new Director and new conflicts are addressed appropriately. The decision to authorise a conflict of interest can only be made by non-conflicted Directors and, in making such decisions, the Directors must act in a way they consider, in good faith, would be most likely to promote the Company's success.

Lex Hoogduin is Chairman of LCH.Clearnet Group Limited. LCH Clearnet Group Limited is a non-wholly owned subsidiary of the Company and Mr Hoogduin receives a separate fee for that role. Any potential conflicts of interest arising as a result of Mr Hoogduin's appointment to the Board have been governed by the terms of a conflicts memorandum of understanding between LCH.Clearnet Group Limited and the Company.

Indemnities

Directors have the benefit of indemnity arrangements from the Company in respect of liabilities incurred as a result of their office and execution of their powers, duties and responsibilities. The Company maintained a Directors' and Officers' liability insurance policy throughout the year. This policy covers the Directors for any such liabilities in respect of which they are not indemnified by the Company and, to the extent to which it has indemnified the Directors, also covers the Company. This insurance cover has been renewed. Neither the Company's indemnity nor insurance provides cover for a Director in the event that the Director is proved to have acted fraudulently or dishonestly.

Risk Management and Internal Control

The Board is responsible for the Group's risk management framework and maintaining an appropriate system of internal controls. A Board-approved Enterprise-wide Risk Management Framework and Group Risk Appetite Statement are central to the Group's Risk Management process. The Risk Management Framework is updated on an ongoing basis in response to changes in the Group's business and associated risks. The Group Risk Appetite statement is approved annually as part of the Group's strategic planning process.

The Audit Committee and Risk Committee assist the Board in discharging its responsibilities by reviewing and assessing the Group's Risk Management Framework, system of internal controls and risk management process on a regular basis. Refer to the reports of the Audit Committee on pages 64 – 67 and the Risk Committee on pages 68 – 69 for further detail on their oversight activities during the year.

The system of internal controls is designed to facilitate the management of the Group and its businesses within the Board's risk appetite rather than eliminate the risk of failure to achieve the Group's objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss, fraud or breaches of laws and regulations.

Executive management is accountable for risk identification, evaluation, mitigation, monitoring and reporting in accordance with the framework. A divisional internal control and Risk Management self-certification process is also performed semi-annually. Each business unit is required to confirm that it is in compliance with the Group's policies and governance procedures and managing its risk within appetite: exceptions are reported to the Audit Committee and Risk Committee.

Further detail on the Group's Risk Management oversight can be found on pages 44 – 46. An overview of the Principal Risks and Uncertainties of the Group is provided on pages 47 – 53.

Internal Controls**Management structure**

The Group operates a matrix structure designed to optimise resource allocation and organisational capacity. The day-to-day running of the Group is managed by an Executive Committee, which is chaired by the Group Chief Executive Officer. Each Executive Committee member is responsible for one of the Group's operating divisions or a major area of strategic importance. The Executive Committee meets regularly to review business and financial performance, risk exposure and to approve key decisions. Each legal entity is responsible for engaging with its local regulators and monitoring and ensuring regulatory compliance.

Policies and Procedures

A framework of Group-wide policies establish the principles, minimum standards and risk management activities that LSEG requires the Group's businesses and functions to follow to manage their business within risk appetite. All Group-level policies are approved by the Executive Committee, and may also require approval or ratification from the Audit Committee, the Risk Committee and the Board. The Group runs a rolling programme of mandatory online training courses for all employees covering ethical conduct, risk and control management, regulatory requirements and the group policies.

Financial Control

The Group has a robust system of financial control which has been enhanced during 2016 by the implementation of a new Group-wide financial system in response to the increased size and footprint of the Group. An appropriate framework of delegated authorities is in place.

Comprehensive financial planning, reporting and review procedures are in place, with an annual budget and three year business plan approved by the Board. Financial and key performance indicators are reviewed against operational budgets on a monthly basis at a group, divisional and business unit level. The Chief Financial Officer's management reports are shared with the Board and any key issues are reviewed at each Board meeting. The Executive Investment Committee monitors capital expenditures across the Group and helps the Executive Committee approve and prioritise projects.

The Executive Financial Risk Committee oversees risks related to capital, investments, tax, counterparties and through its Treasury Committee the activities of the Group's Treasury function. The Treasury Committee operates within Board-approved policy and meets regularly to review the management of the Group's credit, market and liquidity risks. Material group counterparty exposures are assessed regularly including through a Group-wide centralised counterparty risk Value at Risk model. Further details on financial risk management are provided in note 2 to the accounts.

Corporate governance continued

Internal Audit

The Internal Audit function provides independent assurance to the Board and other key stakeholders over the adequacy and effectiveness of the Group's system of internal controls, the governance model and the Enterprise Risk Management Framework. The function is the third line of defence in the Group's risk control structure and has no operational responsibilities over the entities or processes which it reviews.

The independence of the Internal Audit function from Executive Management is ensured through the following measures:

- The Group Head of Internal Audit reports directly to the Chairman of the Audit Committee and has direct access to the Chairman of the Board. For administrative matters the Group Head of Internal Audit has a secondary reporting line to the Chief Financial Officer.
- The Chairman of the Audit Committee, the Chief Executive Officer and the Chief Financial Officer jointly assess the performance of the Group Head of Internal Audit.
- The Audit Committee approves the Internal Audit annual budget plan and resourcing.

Further details on the Internal Audit function can be found in the internal audit charter which is reviewed annually and available from the Group Company Secretary or the Group's website at www.londonstockexchange.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance.

Conclusion

The Board confirms that, through the Audit Committee and the Risk Committee, it has reviewed the operation and effectiveness of the Group's system of internal controls throughout 2016 and up to the date of approval of this Annual Report. The Board has satisfied itself that a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance and liquidity, have been carried out during the year. Necessary actions have been or are being taken to remedy any significant failings or weaknesses identified during these reviews. The Board is satisfied that the Risk Management process and system of internal controls conform with the 2014 FRC's Risk management, internal control and related financial and business reporting 'Risk Guidance'.

Report of the Nomination Committee



Donald Brydon CBE

Chairman of the Nomination Committee

The Nomination Committee members as at 31 December 2016 were Donald Brydon (Chairman), Paul Heiden, Stephen O'Connor and Mary Schapiro. The Committee's role is to review the size, structure and skills of the Board, consider succession planning and make recommendations to the Board on potential candidates for Board membership.

In 2016, in addition to its normal work, much of the focus of the Board has been on the proposed merger with Deutsche Börse AG, which was approved by LSEG shareholders on 4 July 2016. The agreed terms of this merger include a commitment that each of the parties nominate eight members of the board of the new holding company and the vast majority so nominated are existing members of the Boards of the two companies.

Non-Executive Directors

During the year Andrea Munari retired after serving for nine years. The Board appointed as his successor Andrea Sironi, recently Rector of Bocconi University and the Chairman of Borsa Italiana S.p.A., as an independent Non-Executive Director. The Committee viewed it as particularly important to maintain a strong Italian presence on the Board in view of the importance of the Group's Italian businesses. Additionally in April 2016, Baroness Sharon Bowles, Sherry Coutu CBE and Stuart Lewis stepped down from the Board.

The overarching importance of the proposed merger led to the Board and a specially appointed Transaction Committee focusing on board composition for the new holding company and given the probability of the merger closing satisfactorily no separate meetings of the Nomination Committee to consider the composition of the LSEG Board were held during 2016.

Executive Directors

Xavier Rolet, CEO, indicated during the merger discussions that he was willing to retire from the Group following the merger if that would be an essential action to ensure a successful outcome to the negotiations with Deutsche Börse. The Board appreciated the shareholder value motivation of this offer. There will be other occasions to write about the extraordinary contribution to the Group that Xavier has made.

Raffaele Jerusalmi has also indicated that he will step down from his LSEG Board role upon completion of the merger, whilst David Warren is to be appointed CFO of the new company and a member of the new company's board.

In Transition

When searching for candidates for Board appointments, the Board reviews its composition on the basis of the Group's ambition to be a global leader in markets infrastructure, with Board member skills and experience to reflect the international nature and the range of the Group's activities and markets.

LSEG also seeks to make appointments on merit against objective criteria with due regard for the benefits of diversity. This includes gender diversity. We recognise the benefit throughout the Group in having access to the diversity of input from people with a wide range of backgrounds and nationalities. This is reflected at Board level by the diverse backgrounds and nationalities of Directors. The Board fully supports the recommendations of the Davies Review that greater efforts should be made in improving the gender balance of corporate boards. On a personal basis, I am a firm believer in the benefits of diversity and am a member of the 30% Club.

The Board is also aligned with the proposals of the Hampton Alexander Review to ensure talented women at the top of business are recognised, promoted and rewarded and the value in investing in a pipeline of talent. To that end during 2016, LSEG signed the UK Treasury Women in Finance Charter signalling the Group's ongoing commitment to equality in the workplace and to challenge actively both ourselves and others in the financial sector to keep addressing these issues. We have set ourselves a stretch target of 40% female representation for senior management and our overall population. We aim to achieve this by 2020.

The Board fully recognises that the current composition of the LSEG Board does not achieve the right balance in terms of gender this year. On my appointment in mid-2015 I led an appraisal of the skills and backgrounds of the Board members with the aim of developing a Board with the right skills' balance, diversity and appropriate size. As a result a number of changes were made to the Board's composition in December 2015 adding additional buy-side/plc and clearing/regulatory expertise to the Board. In 2016 the Board focused on discussions with regard to a possible merger with Deutsche Börse and the process of further reconstruction of the Board was paused pending the outcome of the discussions.

One consequence of the Board review has been that the Board of LSE plc, the recognised investment exchange has Baroness Sharon Bowles and Sherry Coutu CBE as members – a good signal of the Group's commitment to diversity. The other consequence is that, during this transition period, the LSEG Board falls temporarily below the diversity proportion we would prefer, although there are six nationalities represented. I am encouraged that the Board of the new holding company has been constructed to contain seven nationalities and be almost exactly one fifth female.

Further details of the Company's approach to diversity and the LSEG Board's diversity policy can be found at www.londonstockexchange.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance.

Donald Brydon

Chairman

3 March 2017

Complying with the provisions of the Code

The Group is committed to the highest standards of corporate governance and business integrity in all of its activities. Throughout the year, the Company has complied with all principles of the Code. The Code sets out guidance in the form of main principles and more specific provisions for good governance in relation to Board leadership, effectiveness, accountability, remuneration and relations with shareholders. Further information on the Code, its applicability, the principles and their provisions can be found on the Financial Reporting Council's website, at www.frc.org.uk. This table forms part of the Corporate Governance Statement on page 96 of the Directors' Report.

A. Leadership

A.1 Role of the Board

The Board is the principal decision-making forum for the Group and is responsible to shareholders for achieving the Group's strategic objectives and delivering sustainable growth in shareholder value. Directors act in a way they consider will promote the long-term success of the Company, by constructively challenging and supporting the development of the Group's strategy, for the benefit of shareholders as a whole, with regard to the interests of the Group's employees, the impact of the business on the community and environment and the interests of other stakeholders. The Board manages the overall control of the Group's affairs with reference to the formal schedule of matters reserved for the Board. This schedule is available on the Company's website at www.londonstockexchange.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance. The Board views the brands and reputations of its subsidiaries as important assets of the Group. Accordingly, protection of the brand and reputation of the Group, including ensuring that subsidiaries continue to meet local legal requirements, is also a key part of the Board's role.

Board Committees

The Company ensures that all committees are provided with sufficient resources to undertake their duties. All committees have written terms of reference which are available from the corporate responsibility section on the Company's website at www.lseg.com/about-london-stock-exchange-group/corporate-responsibility or on request from the Group Company Secretary.

A.2 Division of Responsibilities

The roles of Chairman and Chief Executive are distinct and separate with a clear division of responsibilities. The Chairman is responsible for the running and leadership of the Board and ensuring its effectiveness. The Chief Executive has delegated authority from, and is responsible to, the Board for managing the Group's business with the power for further delegation in respect of matters which are necessary for the effective running and management of the business. The current key responsibilities of both the Chairman and Chief Executive are set out below.

Chief Executive

- formulates the strategic direction of the Group and periodically agrees this with the Board
- ensures proper financial and business control is exercised within the Group
- chairs the Group Executive Committee

- ensures there is a clear management structure with appropriately delegated responsibilities, staffed by suitably experienced and qualified staff
- ensures appropriate reporting and communication systems are established across the Group
- ensures key performance objectives are set for all operational departments; action plans and budgetary controls are established; and, where necessary, corrective action is taken to maximise the performance of the Group
- ensures the Group's strategy and values are effectively understood and applied by management and staff
- ensures an appropriate Risk Management framework is in operation

A.3 Chairman

- chairs the Board of the Company
- forges an effective Board based on experience, diversity, skills and competencies
- ensures, in collaboration with the Chief Executive, that the Board considers the strategic issues facing the Group in a timely manner and is presented with sound information and analysis appropriate to the decisions that it is asked to make
- acts as a sounding board for the Chief Executive and provides general advice relating to the management and development of the Group's business
- supports the commercial activities of the Group by, inter alia, maintaining contact with the Group's key stakeholders and other industry participants

A.4 Non-Executive Directors

Non-Executive Directors are urged to challenge constructively and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. The Board should appoint one of the independent Non-Executive Directors to be the Senior Independent Director (Mr Paul Heiden is the Senior Independent Director). The responsibilities of the Senior Independent Director include meeting major shareholders as an alternative contact to the Chairman, Chief Executive or Chief Financial Officer.

B. Effectiveness

B.1 The Composition of the Board

There is a strong non-executive element on the Board, and the Non-Executive Directors provide deep corporate experience and knowledge which they apply to their understanding of the Group and its strategy. The Board has six Independent Non-Executive Directors. In assessing each Director's independence, the Board considered whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. In evaluating Directors' independence, the Board has taken into consideration the guidance provided by the Code.

B.2 Appointments to the Board

The Board has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. The Report from the Nomination Committee on page 61, outlines the changes to the Board that took place during the year. The Board normally uses an external search consultancy for appointments. Mr Sironi (who is also Chairman of Borsa Italiana S.p.A.) was appointed to the Board because of the Board's desire to maintain a strong Italian presence on the Board.

B.3 Commitment

The other significant commitments of the Chairman and the Board are set out at pages 54 – 55. The Board is satisfied that these do not conflict with their duties and time commitments as Directors of the Company.

B.4 Development

Directors are encouraged to update continually their skills and knowledge of the business, and briefings are regularly given at Board meetings on particular parts of the business. During the year, the Board attended a number of presentations outside Board meetings including on aspects of our technology business, AIM, the operation of the Shared Service arrangements and cyber security. The Board also continued its practice of undertaking formal visits to its overseas businesses so that the Directors can experience key aspects of the Group's operations first hand.

Each new Director joining the Board is provided with an induction programme covering the key business areas of the Group and including meetings with members of the Executive Committee, other senior managers and external advisers. Directors are provided with key documents including those covering strategy, past Board papers, an overview of the Business, and information on Directors' responsibilities including under the Listing Rules and the Code. Directors are encouraged to meet with executives on an ongoing basis to better understand each of the business areas together with the Group's governance, financial and legal framework.

B.5 Information and Support

The Directors have full access to the advice and services of the Group Company Secretary, who is responsible for advising the Board on corporate governance matters. Directors also have access to independent professional advice if they judge it necessary to fulfil their responsibilities as Directors.

B.6 Evaluation

The Board conducts an annual evaluation of its effectiveness and acts on the results of the review. During the year, the Board carried out an internal review of its own effectiveness and that of its Committees and Directors and the results of that review are detailed on page 58 of the Corporate Governance Report, together with actions taken following the 2015 effectiveness review.

B.7 Re-Election

Each Director is subject to election at the first AGM following their appointment. In line with the Code, all Directors are subject to annual re-election.

C. Accountability**C.1 Financial and Business Reporting**

A statement of the Directors' responsibilities regarding the financial statements, including the status of the Group and Company as a going concern is set out on pages 100 – 101. An explanation of the Group's strategy and business model, together with relevant risks and performance risks and performance metrics are set out on pages 8 – 15. A further statement is provided on page 101 confirming that the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position, performance, business model and strategy.

C.2 Risk Management and Internal Control

The Board has overall responsibility for the sponsorship of a strong risk culture across the Group and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It approves the Risk Appetite each year as part of the strategic business objectives, and ensures there is an ongoing process for identifying, evaluating, and managing the principal risks faced by the Company. The Board has delegated a number of responsibilities to the Risk Committee including oversight of internal Risk Management processes. The report from the Risk Committee can be found on pages 68 – 69. In accordance with paragraph C.2.2 of the Code an explanation of how the Directors have assessed the prospects of the Company is included in the section headed Financial viability statement on page 99.

C.3 Audit Committee and Auditors

The Audit Committee Report on pages 64 – 67 sets out details of the composition of the Committee, including the expertise of members, and outlines how the Committee has discharged its responsibilities during 2016. The Board has delegated a number of responsibilities to the Audit Committee, including oversight of the Group's financial reporting processes and management of the external auditor.

D. Remuneration**D.1 The Level and Components of Remuneration**

The Directors' Remuneration Report on pages 70 – 95 outlines the activities of the Remuneration Committee during 2016 and the implementation of the Remuneration Policy during 2016 (including salary, bonus and share awards and payments for loss of office paid to Directors). The Remuneration Policy was subject to a binding shareholder vote at the 2014 AGM and was passed with 95% support. It is available on the Group's website at: www.lseg.com/investor-relations/shareholder-services/aggm-information. There have been changes to the policy during the financial year. Under Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Remuneration Policy Report must be approved by a binding shareholder vote at least once every three years. Therefore, the Remuneration Policy Report will be subject to a binding shareholder vote at the 2017 AGM.

D.2 Procedure

The Board has delegated responsibilities to the Remuneration Committee including the remuneration of the Chairman and Executive Directors.

E. Relations with Shareholders**E.1 Dialogue with Shareholders**

The Company maintains an active shareholder engagement programme, managed through the Group's IR function. The IR programme provides regular opportunity for contact with existing and potential shareholders, as well as sell-side analysts that produce investment research relating to the Group. IR activities include meetings, calls, presentations and information releases on a regular basis throughout the year, based around the Group's financial reporting calendar and following major corporate events and news flow. For more detail on the Group's IR activities, please see page 58 of the Corporate Governance Report.

E.2 Constructive Use of General Meetings

The Group's AGM provides the opportunity for all shareholders to meet the Directors and to put questions to the Board. Procedures for the AGM are compliant with the Code, with voting by way of a poll to ensure all shareholders' views are taken into account.

Report of the Audit Committee



Paul Heiden

Chairman of the Audit Committee

The Audit Committee members as at 31 December 2016 were: Paul Heiden (Senior Independent Non-Executive Director), Jacques Aigrain, David Nish and Stephen O'Connor. Baroness Sharon Bowles stepped down from the Committee and the Board on 26 April 2016.

This report is intended to give an overview of the role of the Audit Committee in assisting the Board to fulfil its oversight responsibilities relating to the monitoring of the system of internal control, the independence of the external auditors and the integrity of the Group's financial statements. It details the activities, discussions and decisions that enabled the Audit Committee to fulfil its objectives effectively during 2016.

During the year, as part of its key priorities, the Committee:

- Monitored the tax and accounting implications of the sale of the Investment Management division of the Frank Russell Company. The Committee satisfied itself that the Executives in charge were managing all the aspects of the transaction effectively
- Received and discussed the external audit management letter from Ernst & Young LLP (EY). The letter highlighted a number of areas for improvement, in particular regarding the formalisation and better documentation of some control activities. These were noted by the Committee for follow-up
- Reviewed the effectiveness of the external auditors based on their qualifications, expertise, resources, level of independence, execution of their audit plan and the quality of their conclusions and recommendations. On the basis of their own interaction with EY and that of management, the Audit Committee confirmed that the services provided by EY were appropriate and in compliance with relevant auditor independence and integrity rules
- Reviewed and discussed the financial disclosures and assurance work to support the prospectus disclosures in relation to the proposed merger with Deutsche Börse AG
- Discussed a number of internal audit reports during the year and satisfied itself that management action plans were in place to address the recommended improvements within reasonable deadlines
- Approved the 2017 internal audit universe, internal audit plan and resources for the function. The Committee also approved the updated internal audit charter
- Continued to monitor the alignment of the control environment of recent acquisitions with the Group internal control framework. It satisfied itself that these acquisitions were being integrated according to plan and were meeting the financial objectives of the Group

- Continued to monitor the status of the implementation of the new Group-wide financial system throughout the year and satisfied itself that the project remained on track to deliver a more efficient process for financial reporting
- Discussed the implications of the implementation of the new accounting standard IFRS 15 on revenue recognition for the Group (IFRS 15 will become effective in 2018)
- Reviewed the whistle-blowing arrangements of the Group and approved an updated whistle-blowing policy which was benchmarked against industry best practice
- Approved a new policy on services supplied by audit firms incorporating the new guidance from the Financial Reporting Council on independence and objectivity

Priorities in the forthcoming year will include:

- Receiving assurance that the control environment remains robust to support the continued growth and diversification of the Group's activities; including all major projects, as well as key processes such as business continuity planning and disaster recovery
- Monitoring the progress of the integration of newly acquired businesses
- Monitoring the progress of the proposed merger with Deutsche Börse and its potential impact on the financial disclosures of the Group
- Receiving early and continuous understanding of the impact of the Group's acquisitions and divestitures on financial and tax accounting
- Continuing to assess the impact of IFRS 15 and other developments in accounting standards particularly on the Group's revenue recognition policies and the related implementation plans by Finance

A handwritten signature in black ink, appearing to read 'P. Heiden', written over a horizontal line.

Paul Heiden

Chairman of the Audit Committee
3 March 2017

Role and responsibilities of the Audit Committee**1. Financial Reporting**

The Committee recommends the financial statements of the Group to the Board, including the annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing the significant financial reporting judgements that they contain.

2. Internal controls and Risk Management systems

The Committee keeps under review the effectiveness of the Group's system of internal control and Risk Management. The Audit Committee makes recommendations to the Board regarding the effectiveness of the Group's internal control and Risk Management systems and recommends to the Board the statements to be included in the Annual Report concerning internal controls and Risk Management (in collaboration with the Risk Committee). The Committee also monitors and reviews the effectiveness of the Group's Internal Audit function, ensuring that it has adequate resources and appropriate access to information to perform its function independently from Executive Management.

3. External auditors

The Committee oversees the relationship with the external auditor. The Committee reviews and approves the annual audit plan, ensures that it is consistent with the Committee's view of the scope of the audit engagement and reviews the findings of the audit with the external auditor. The Committee monitors and reviews the objectivity and independence of the external auditors including the non-audit activities performed by the auditors for the Group (see the external auditors fees section below for more details). The Committee ensures that the external audit services contract is put out to tender on a periodic basis in line with existing best practices (the current external auditor was appointed in 2014 following a tender process overseen by the Audit Committee). The Committee oversees the selection process for new auditors and if an auditor resigns the Committee investigates the issues leading to this and decides whether any action is required.

4. Other matters**Treasury**

The Committee approves the taking of any actions which fall outside the Group Treasury Policy and considers material financing and treasury transactions reserved for the Board ahead of review by the Board.

Whistleblowing and fraud

The Committee reviews the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Committee also reviews the Group's procedures for detecting fraud and for the prevention of bribery.

Composition and meetings

The Committee meets the requirements of the Code. It is comprised of four independent Non-Executive Directors who all bring recent and relevant financial experience. It is chaired by Paul Heiden who is a qualified chartered accountant with a career in a variety of senior finance roles. The other members are Jacques Aigrain, David Nish and Stephen O'Connor. The skills and experience of each Committee member are provided in the Board of Directors section on pages 54 – 55.

The Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit, Group Chief Risk Officer and the external auditors are standing invitees to all Audit Committee meetings. In addition, various other members of management are invited from time to time to present specific matters relevant to the Committee's remit.

Further details on the functioning and responsibilities of the Audit Committee can be found in the Committee's terms of reference which are reviewed annually and available from the Group Company Secretary or in the corporate governance section of the Group's website at: www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance.

Activities in 2016

The Committee met six times during the year. The Committee maintains a formal agenda which ensures that all matters for which the Committee is responsible are considered at the appropriate meeting. The agenda for each meeting was determined by the key events of the annual financial reporting cycle, the risks identified by the Committee and the standing items under its terms of reference. The following provides details on how the Committee discharged its responsibilities during the year as set in its terms of reference:

Financial matters:

With regards to financial matters, the Committee reviewed, discussed and approved the half-year and full-year financial results. It reviewed, discussed and approved key accounting judgements, the annual review for goodwill impairment and management's view of commitments and contingencies and the adequacy of the proposed disclosures. For more details on the main discussions and decisions reached by the Committee on financial matters see the section below entitled "Significant matters impacting the financial statements" and "Other topics of discussion in respect to the financial statements".

Internal controls:

– The Committee continued to exercise disciplined oversight of the effectiveness of the Group's internal controls throughout the year. It fulfilled its responsibilities by reviewing and discussing regular reports from the external auditors, the Internal Audit and Risk Management functions as well as from external experts, including:

- Reports on compliance with the Code – internal controls (including whistleblowing) at half year and year end
- Quarterly updates on internal audit plans including internal control issues raised and management actions to remedy the deficiencies
- Annual Report on the performance of the Internal Audit Function

The Committee obtained additional comfort by meeting with the Head of Internal Audit at each Audit Committee meeting without Executive Management present.

The activities of the Committee related to internal controls enabled it to satisfy itself that the Internal Audit function is independent, objective and adequately staffed to perform its duties. In addition the Committee relied on the assurance process throughout the year to recommend to the full Board that it could report to shareholders on the effectiveness of the Group's internal control system. The Board statement can be found on pages 100 – 101.

Oversight of the external auditors:

The Committee assessed the independence and quality of the Group's external auditors (EY) throughout the year. It received interim reports from EY on the status of their plan and the results of their work. The external auditors' reports were discussed at each Committee meeting and their views and opinions used to challenge decisions by Group Finance. In addition the Committee held separate meetings with EY at each Committee meeting without management being present.

The Committee approved the EY audit plan, the methodology used, the scope of the audits by location, the risks and areas of focus as well as the materiality threshold for the Group and the threshold for reporting unadjusted audit differences. The Group materiality remained fixed as a percentage of Profit Before Tax (PBT)¹.

The Committee reviewed the audit inspection by the UK Financial Reporting Council (FRC) regarding the audit of the Group for the year ended 31 December 2015 and noted the minor improvements proposed by EY for future audits. The Audit Committee satisfied itself that the matters raised do not give it concerns over the quality, objectivity or independence of the audit and believes that the matters raised in the FRC inspection report have been appropriately addressed by EY in the 2016 audit.

Report of the Audit Committee continued

The Committee discussed the updated FRC Guidance on Audit Committees published in April 2016. Starting from 1 January 2017 this guidance creates new requirements for the Audit Committee to preserve the independence and objectivity of the external auditor with respect to the provision of non-audit services.

The Committee has complied with the relevant parts of the Competition and Markets Authority Final Order on the statutory audit market for the year ended 31 December 2016.

The lead audit partner is required to rotate every five years and other key audit partners are required to rotate every seven years. David Canning-Jones took over as lead audit partner in 2014. The Audit Committee recommended to the Board that a resolution for the reappointment of EY as the Company's external auditor for the year ending 31 December 2017 be proposed to shareholders at the AGM in April 2017.

Report on external auditors fees and safeguards on non-audit services

The Committee has a formal policy governing the engagement of the auditors to provide non-audit services which is reviewed on an annual basis. The policy prohibits certain activities from being undertaken by the auditors. The policy also places restrictions on the employment of former employees of the auditors. Recognising that the auditors are best placed to undertake certain work of a non-audit nature, the policy permits the provision of audit-related services and permitted non-audit services up to limits that are pre-approved by the Committee, with specific approvals required beyond such limits by the Committee.

A breakdown of audit and non-audit service fees paid and payable to the external auditors for the year ended 31 December 2016 and prior year is provided below and in note 36 to the financial statements.

	Year ended 31 December 2016	Year ended 31 December 2015
	£m	£m
Audit services		
Audit of parent company and consolidated financial statements	0.5	0.5
Audit of subsidiary companies	2.1	1.5
Audit related assurance services	0.4	0.2
Other non-audit services:		
– Taxation	0.2	0.3
– Other assurance services	0.2	0.1
Total	3.4	2.6

Note: In total £0.4m was spent on non-audit services in 2016 representing 12% of the total spent with our external auditors (2015: £0.4m representing 15%).

The Chair of the Committee reviewed each of these individual appointments on their merits. Prior to EY being engaged, the review process involved considering management's assessment of:

- the threats to independence and objectivity resulting from the provision of such services
- which accounting firms had the appropriate experience and expertise to undertake the work
- whether there were any conflicts of interest for EY
- whether the conflicts of interest that existed for other potential firms, who were either advising other parties to the transactions or were auditors of the other company, could be appropriately managed
- the quantum of non-audit fees in the context of the overall audit fee and relative significance to EY in the context of its total client fees

In each case, the Audit Committee concluded, on the balance of risks, that the appointment of EY to perform certain non-audit services represented the most effective, secure and efficient way of obtaining the necessary advice and services, given their knowledge of our business and the Group's structure and accounting and tax affairs, together with their wider knowledge of our industry sector.

The policy on audit and non-audit services supplied by the auditors of the Group and of its subsidiaries is available from the Group Company Secretary or in the corporate governance section of the Group's website at: www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance.

Other matters:

As part of its regular annual activities the Committee assessed its own effectiveness, and reviewed and updated its terms of reference to reflect the changes in the Group and the corporate governance context. There were no major modifications to the functioning of the Committee resulting from these activities.

Significant matters impacting the financial statements

Significant matters

for January – December 2016

How the Committee reviewed these matters and what decisions were taken

Revenue recognition and links to management's incentives	The Audit Committee reviewed the external auditors' comments on the recognition of revenues in the secondary capital markets trading area, fees or revenue share clearing arrangements and information services revenue accruals (see EY audit opinion on pages 102 – 111). The Audit Committee was satisfied that sufficient analysis had been performed in this area to demonstrate that there was no evidence that any manipulation of revenues had taken place.
Goodwill and acquired intangibles impairment assessment	The Audit Committee considered the approach and methodology applied to performing the annual goodwill impairment assessment as well as the assessment for indications of impairment of other acquired intangible assets as required under IAS 36, including the key assumptions for short and long-term growth rates, cash flow expectations and the discount rate used for the Group's cost of capital. The impairment review was also an area of focus for the external auditors, who reported their findings to the Committee. Details can be found in note 15 to the financial statements on pages 137 – 138.
Potential disposal of LCH SA	On 3 January 2017 the Group announced that it had received an irrevocable all-cash offer from Euronext N.V. to purchase LCH SA, LCH Group's French-regulated operating subsidiary. The consideration of €510 million will be adjusted for surplus regulatory capital movement between 30 June 2016 and completion of the transaction. The proposed sale of LCH SA is subject to review and approval by the European Commission in connection with the recommended merger of LSEG and Deutsche Börse AG. It is conditional on the successful closing of the merger and the receipt of various regulatory and other consents and approvals. The Audit Committee considered the status of the sale process under IFRS 5 and has agreed that the criteria required for held for sale accounting of LCH SA had not been met as of 31 December 2016. As a result the financial statements disclose a description of the business being disposed and a description of the facts and circumstances leading to the disposal, and the expected manner and timing of that disposal will be provided in the interim statements. More details can be found in note 35 on page 162 of this report.

Divestment of the Russell Investment Management business	The Audit Committee reviewed the accounting considerations for the divestment, as well as the necessary disclosures and the tax implications of the transaction. It satisfied itself that the accounting, tax treatment and disclosures of material matters were appropriate and that all remaining arrangements between the Group and Russell Investments were properly captured
Implementation of the new finance system	The Audit Committee reviewed reports from the Finance function on the progress of the implementation of the new Group-wide finance system throughout 2016 including data conversion and migration, development of the chart of accounts, mapping to the existing ledgers, system interfaces, recertification of access process and deployment across the Group's businesses. The Committee satisfied itself that the implementation of the new finance system has not impaired data integrity, or the accounting of financial reporting in any way

1. The PBT measure excludes the results of the Investment Management division of the Frank Russell Company and non-recurring items but includes the amortisation of purchased intangible assets as disclosed in note 7 of the consolidated financial statements. This is noted in the EY audit opinion on page 102.

Other topics of discussion in respect to the financial statements: **Commitments and contingencies:**

The Audit Committee considered the facts and circumstances surrounding commitments and contingencies for the Group. The Committee agreed that no provision needed to be recorded in the financial statements. See note 30 on page 157.

Non-recurring items:

The Committee discussed and agreed on non-recurring items in the financial statements for the year. These are presented in note 7 of the financial statements.

M&A related insurance:

The Group often enters into certain insurance policies when executing on M&A opportunities. The payments for such policies are often made up front but are then recognised as a prepayment and released over the period of the policy. As these costs are directly linked to a one-off event and insure against breaches of representation pre-dating our ownership, the Committee has agreed that they should be recognised as non-recurring items in the income statement.

Financial viability statement

The Financial viability statement was introduced by the Code in 2014, the adoption of which is required for listed companies with accounting periods starting on or after 1 October 2014. In order to meet the requirements of the Code, the Board needs to explain how it has assessed the prospects of the Group taking into account the current position and principal risks, and over what period they have done so along with why they consider that period to be appropriate.

The Audit Committee discussed the key elements required to make the statement, i.e.:

- Deciding on the appropriate period to cover
- Identifying and describing the relevant evidence and assumptions and ensuring that the various planning scenarios were realistic, taking into account the business, industry and macro-economic factors
- Making an assessment that is appropriate to the Company's circumstances
- Applying appropriate stress testing and reverse stress testing

The Audit Committee satisfied itself that the Board of Directors was in a position to make the statement using the Group Stress testing methodology.

The Financial viability statement can be found within the Directors' Report on page 99.

Fair, balanced and understandable Annual Report

The Audit Committee satisfied itself that the Annual Report is fair, balanced and understandable and has presented its conclusions to the Board of the Group. In order to reach its conclusions, the Audit Committee examined the following criteria:

– Fair:

- The Annual Report does not omit important or sensitive elements necessary to understand the strategy, performance and business model of the Group
- Segmental reporting accurately describes the various activities of the Group and their relative contributions to the strategy, performance and business model of the Group
- The messages in the Strategic Report and the CEO and Chairman's reports are consistent with the financial reporting section

– Balanced:

- There is an appropriate balance between the required statutory accounting metrics and Group-specific adjusted measures
- The messages in all sections appropriately balance the favourable and less favourable events and trends affecting the strategy and performance of the Group
- The principal risks presented in the Strategic Report on pages 47 – 53 accurately reflect the risk registers which are used to set the risk appetite and the strategy of the Group, including those risks which would threaten its business model, future performance, solvency and liquidity

– Understandable:

- There is a clear and comprehensive framework for the Annual Report
- The key messages are adequately highlighted in simple language avoiding specialised terms and acronyms wherever possible
- There is a glossary of technical terms and acronyms used frequently across the report
- The relevant information for shareholders is easy to find and appropriately cross-referenced where necessary without additional clutter (the 2016 Annual Report comprises 176 pages compared to the 156 pages of the 2015 report)
- The various sections taken together present a consistent and easy to comprehend overview of the strategy, performance and business model of the Group

Report of the Risk Committee



Stephen O'Connor
Chairman of the Risk Committee

The Risk Committee members as at 31 December 2016 were Stephen O'Connor, Paul Heiden and David Nish. Stuart Lewis (CRO Deutsche Bank AG and former LSEG Non-Executive Director) acts as an adviser to the Committee.

This report is intended to give an overview of the role of the Risk Committee in assisting the Board to fulfil its oversight responsibilities for risk management and the adequacy of the systems of internal controls in place to mitigate key risks.

During the year ended 31 December 2016, the Committee met three times. In addition to its regular reviews of the Group's risk map, risk appetite, and emerging risks, the Committee focused on: programmes to further align and integrate the risk management framework across the Group and its subsidiaries, specific geopolitical events and programmes to further enhance the Group's cyber security resilience. In particular, the Committee oversaw the Group's preparations prior to the UK referendum on leaving the European Union (EU), including the development of tactical plans to ensure operational resiliency through the resulting peaks in trading volumes and the review of management assessments of the projected impact on financial risks.

The Committee closely monitored the continued strengthening of the Group Risk Framework over the year including enhancements to the capture, management and mitigation of operational, financial and strategic risks, the embedding of the Group's risk culture framework that represents the foundation of the strong risk management capabilities within the Group, and the development of tools relating to the management of financial and strategic risks.

In order to avoid potential duplication of coverage and, more importantly, to reduce the potential for non-coverage of important risk matters, by either the Audit or the Risk Committees, there is a cross membership of both chairmen of the Audit and of the Risk Committees.

Priorities in the forthcoming year will involve the continued monitoring of geopolitical risks including the development of the UK's negotiation of the terms of its exit from the EU and review of associated LSEG risk mitigation plans. It will also focus on risks associated with M&A activity. The Committee will continue to review, on a rotational basis, the risk profile and execution risks of each of the Group's main lines of business and key legal entities. The Committee will also continue to oversee the evolution of the Group's risk culture across the Group and its subsidiaries to ensure the Board maintains effective risk management oversight and control.

A handwritten signature in black ink, appearing to be 'S O'Connor', written in a cursive style.

Stephen O'Connor
Chairman of the Risk Committee
3 March 2017

Composition and responsibilities

The Committee is chaired by Stephen O'Connor who provides recent and relevant financial and risk management experience developed during a career in a variety of senior executive roles in the financial services industry. In addition, the Board is satisfied that each member of the Committee has the skills and experience necessary to enable the Committee to discharge its responsibilities effectively. The names, skill and experience of the members of the Risk Committee are provided on pages 54 – 55.

The Committee maintains non-executive responsibility for high level risk-related matters and risk governance. As part of its mandate, the Committee reviews the risk profile of the Group on a regular basis and comments on the adequacy of the processes in place to identify and report on key risks. It also reviews the risk profile of the major Group subsidiaries/division on an individual basis. It advises the Board on the Company's overall risk appetite, tolerance and strategy and keeps under review the adequacy of the Enterprise Risk Management Framework and its use in the decision-making process, which includes the review of parameters used in the models and methodology adopted. It sets the standards for the accurate and timely reporting of key risks and for certain risk types of critical importance, such as technology, cyber security, business continuity and disaster recovery, CCP operations, counterparty and reputation risks. It also receives reports on compliance with relevant regulatory requirements for each regulated entity of the Group.

Further details of who normally attends meetings and the Committee's terms of reference, which are approved by the Board and reviewed on an ongoing basis, are available from the Group Company Secretary or in the corporate governance section of the Group's website at www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance.

Activities

The Committee maintains a formal agenda which ensures that all matters for which the Committee is responsible are considered at the appropriate meeting. During the year, the Committee discharged its responsibilities as set out in its terms of reference by:

- Providing robust reviews of principal risks;
- Reviewing risk exposures of the Company and emerging risks;
- Reviewing and recommending to the Board the Group Risk Appetite, including stress tests and challenging the scenario results;
- Overseeing the further development and implementation of the Company's Group-wide counterparty risk aggregation and monitoring of the VaR model;
- Monitoring the delivery of actions to manage risks within risk appetite;
- Reviewing the effectiveness programme in place to further align the risk management framework of the Group and its subsidiaries;
- Monitoring the FTSE/Frank Russell Index business integration;
- Reviewing regulatory compliance reports and the actions in place to ensure ongoing compliance;
- Reviewing the adequacy and effectiveness of the systems of the internal controls in place to manage key risks including the review of management's assessment of information security, financial crime, cyber crime and data management risks as well as management's mitigating actions;
- Ensuring the effectiveness of the Group's Enterprise Risk Management Framework and of the Risk function;

- Reviewing the pension plan strategy including reviewing development of an enhanced framework for monitoring pension fund risk;
- Overseeing adequacy of the counterparty limits and ad hoc counterparty credit risk analysis performed as required;
- Reviewing detailed reports of the risk profiles of Group subsidiaries including the Information Services Division and LCH;
- Monitoring compliance with the Group risk management procedures as described in the section on internal controls on page 59;
- Receiving regular reports on the Group's preparations prior to the UK referendum on leaving the European Union (EU), and the development of contingency arrangements;
- Reviewing the adequacy of the Business Continuity Management plans and management programme;
- Approving and recommending for approval of key risk policies and risk committees terms of reference;
- Monitoring the Executive performance report on risk culture (awareness, transparency and accountability) which is also shared with the Remuneration Committee; and
- Monitoring the roll out of the mandatory training programme on ethics, risks, controls and compliance.

Risk Management function

The Risk Management function is headed by the Chief Risk Officer who oversees all aspects of risk management in the Group. She reports to the Chief Executive Officer and, for independence purposes, to the Chairman of the Risk Committee. The Committee approves the remit of the Risk Management function and ensures it has adequate independence to perform its duty. The Committee must be consulted on the appointment or the dismissal of the Chief Risk Officer.

Directors' Remuneration Report

Statement by the Chairman of the Remuneration Committee



Jacques Aigrain

Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2016. The report includes our Remuneration Policy Report and the Annual Report on Remuneration.

Context

Our current Remuneration Policy was approved by shareholders at our 2014 AGM and is therefore up for renewal at our April 2017 AGM. As a result of our proposed merger with Deutsche Börse, we are currently operating in an unusual period as we focus on the transaction.

Our current Remuneration Policy has provided strong alignment between executive remuneration and shareholders' long-term interests and in light of the current transaction we are not intending to amend our policy at this stage as, should the transaction complete, the new policy would only be in operation for a number of months. Having shared this proposed approach with our key shareholders and remuneration governance bodies, I am grateful for their feedback and support for our proposed approach.

Should the envisaged merger with Deutsche Börse proceed, a new Remuneration Policy for the new company will be developed through consultation with shareholders. As proposed Remuneration Committee Chair for the new merged company, I am mindful of market developments and corporate governance best practice and am attentive to shareholder views when setting and evaluating ongoing remuneration principles. If the transaction is successful, the new company intends to convene an EGM in 2017 and seek approval for a new Remuneration Policy. In the event that the merger does not take place, we will review our Remuneration Policy for operation in 2018 to consider any market best practice.

Performance and pay outcomes in the year

The Committee continues to place great importance on ensuring that there is a clear link between pay and performance, including adherence to the Group's Risk framework, and that our remuneration outcomes are reflective of this wider context.

The Group has achieved a strong financial and operational performance with growth and investment across all of our core businesses, delivering on a number of new initiatives and developing our customer partnership approach. Total income from continuing operations rose to £1,657.1 million, up 17%. Adjusted operating profit increased 17% to £685.8 million and operating profit increased 6% to £426.8 million.

This robust performance has been delivered despite the accompanying global market volatility and uncertainty in 2016 and whilst focused on completing the proposed merger with Deutsche Börse.

In our Capital Markets division, revenues increased 12% to £368.3 million (2015: £330.3 million) and 134 new companies were admitted to our markets in the year. CurveGlobal, our new interest rate derivatives venture, has made a positive start since launching in September, offering genuine new competition for the market and making portfolio margining available to a greater number of market participants.

FY2016 income for Post Trade Services in Italy increased by 23% to £146.3 million (2015: £119.1 million).

LCH's income for FY2016 was £447.1 million (2015: £360.7 million). SwapClear saw a 25% increase in clearing volumes, clearing a total US\$666 trillion for its members and their clients. LCH Spider, a new open access portfolio margining service for interest rate derivatives, went live in May 2016.

Our Information Services division's revenue for FY2016 was £594.7 million (2015: £517.4 million), within which FTSE Russell has continued to perform strongly with a 17% increase in revenue to £409.3 million (2015: £348.9 million). We are already seeing positive results from the integration of the two index businesses with new mandates, integrated sales systems and a growing global business. In November we announced the acquisition of Mergent Inc., a leading provider of business and financial information on public and private companies, which will support the growth of FTSE Russell's core index offering.

FY2016 revenues for the Technology division were £88.3 million (2015: £80.6 million). The Group's technology companies, including MillenniumIT and GATElab, have continued to develop partnerships with exchange operators around the world including an ultra low-latency access gateway to the National Stock Exchange of India.

Bonus outcomes for Executive Directors

As a result of the Group's performance and individual performance, the Committee determined that the Executive Directors will be awarded bonuses of between 89% and 91% of their maximum opportunity.

Share plan vesting

94.45% of the Long Term Incentive Plan (LTIP) awards made in 2013 vested during 2016. AEPS increased from 97.0 pence (FY to end March 2013) to 129.4 pence (FY2015) over the period to the end of December 2015, resulting in 88.9% of the AEPS element vesting. TSR more than doubled over the period to June 2016, resulting in 100% of the TSR element vesting.

As shown in our 'Single total figure of remuneration' table, the TSR element of the LTIP awards made in 2014 is currently expected to vest in full, while the AEPS element is expected to vest at 83.7% of the maximum.

During 2016, a significant number of our employees (including for the first-time participants in Hong Kong and the US) derived considerable benefit from the maturity of our 2013 Sharesave scheme, with an almost fourfold share price growth during this period. The 2016 Sharesave invitation saw the Group sustain participation in excess of 50% across all regions and pay levels.

Salary review for Executive Directors

During the year, the Committee conducted its annual review of the base salary levels of our Executive Directors.

At the same time as making progress on the highly complex proposed merger with Deutsche Börse, numerous new products, services and initiatives have been launched (including CurveGlobal, LCH Spider, Turquoise Plato and SwapAgent). There has also been ongoing M&A activity in pursuit of incremental products and services (such as the Mergent Inc. acquisition).

David Warren has been an exemplary Group CFO since he joined in mid-2012 and helped deliver significant shareholder value growing the Group to a market capitalisation of £10 billion. He has delivered superior results and, alongside the CEO, has been instrumental in the Group's success and execution of the ambitious global expansion strategy, achieved despite markets of unprecedented volatility and a challenging geopolitical environment. David has led the focus on cost discipline while investing for growth, focusing on new opportunities and achieving the benefits of recent acquisitions. For example, targeted delivery of annual run rate cost synergies of \$78 million and run rate revenue synergies of \$30 million related to the integration of the FTSE-Russell indexes are on track to be achieved ahead of schedule.

David has also been outstanding in his handling of the transaction with Deutsche Börse to date. In conjunction with the transaction, the proposed disposal of LCH SA, LCH Group's French-regulated operating subsidiary, to Euronext N.V. is expected to be achieved at a very satisfactory valuation (conditional on the successful closing of the merger).

In light of his contribution and in recognition of the scale, scope and responsibilities of the Chief Financial Officer's role, the Committee has decided to increase his salary from £465,000 to £488,000 (5% increase). David did not receive a salary increase in FY2016 and has received one salary increase since his appointment in 2012.

The Committee has decided to increase the salary of Raffaele Jerusalem, Chief Executive Officer of Borsa Italiana and Director of Capital Markets from €510,000 to €520,000 (2% increase), which is below the average employee increases of 2.5%.

Raffaele has delivered a solid performance and continued to promote innovation and drive growth in spite of difficult macro-economic events. For example, the rebranded Turquoise Plato Block Discovery and Turquoise Plato Uncross platforms have demonstrated strong growth throughout the year with record trading volumes. In fixed income our footprint in two of the world's high-growth economies, China and India, has been deepened.

There is no change to the salary of Xavier Rolet, the Chief Executive Officer.

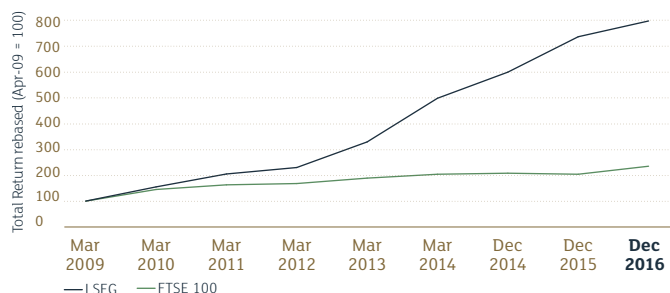
LTIP awards to be made in 2017

LTIP awards to be granted in 2017 will be granted under our 2014 shareholder-approved plan.

David Warren will be granted a LTIP award of 300% of salary in 2017, reflecting his critical role in the Group and his valuable contribution. It will provide strong alignment to the performance of the Group.

Operation of 2017 annual bonus

The operation of the 2017 annual bonus will continue to be focused on financial targets, strategic initiatives and personal contribution.

Increase in shareholder value

Directors' Remuneration Report continued

Summary of key executive remuneration decisions

Role	Chief Executive Officer	Chief Financial Officer	Executive Director, CEO of Borsa Italiana and Director of Capital Markets
Name	Xavier Rolet	David Warren	Raffaele Jerusalem
Previous salary (with effect from 1 April 2016)	£800,000	£465,000	€510,000
Annual salary (with effect from 1 April 2017)	£800,000 (+0%)	£488,000 (+5%)	€520,000 (+2%)
Bonus for financial year ending 31 December 2016	% of salary	205% of salary	179% of salary
	% of maximum	91%	89%
	£ total amount	£1,643,000	€910,000
	Of which 50% is deferred¹	£821,500	€455,000
Max. bonus opportunity (% of salary)	225%	200%	200%
LTIP award (subject to performance)	300% of Salary (£2,400,000) See section below	300% of Salary (£1,464,000) See section below	Sterling equivalent of 275% of Salary (€1,430,000) (at prevailing fx rate at time of grant)

Note:

1. All Executive Directors meet the Minimum Shareholding Requirement (MSR), so will be able to elect whether to defer 100% into shares, or 100% into cash, or 50% into shares and 50% into cash. Any deferral into shares will be disclosed at a later date once confirmed.

Departure arrangements for the Chief Executive Officer

As has been announced, should the merger with Deutsche Börse complete, Xavier Rolet will step down from his role as Chief Executive Officer and Director of LSEG plc.

His departure terms have been discussed with our key investor governance bodies and we are grateful for their feedback. All terms are in accordance with the shareholder-approved Remuneration Policy and are detailed on page 86.

As it is not yet known whether the merger will proceed, Xavier will be granted a conditional LTIP award of 300% of salary in 2017, consistent with previous years. Should the merger complete, this LTIP would be waived upon completion. Should the merger not proceed, Xavier will continue to be aligned with the long-term performance of the Group and the incentive arrangements of his Executive Committee.

Concluding remarks

The Committee continues to ensure the Group's approach to remuneration takes into account best practice and market trends in the financial services sector and wider market while continuing to support the commercial needs of the Group, the interests of shareholders and of all other stakeholders. We look forward to your support for these proposals at the forthcoming AGM.



Jacques Aigrain

Chairman of the Remuneration Committee
3 March 2017

Introduction

This report has been prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and the relevant sections of the Listing Rules.

This year's disclosure has been split into two sections:

Remuneration Policy Report

The Remuneration Policy Report was subject to a binding shareholder vote at the 2014 AGM and was passed with 95% support. As explained in the Chairman's Statement above, as a result of our proposed merger with Deutsche Börse we are not proposing any changes to our policy at this time, save for minor amendments. The Policy Report is presented for approval at our 2017 AGM and is set out on pages 74 – 81.

If the transaction is successful, the new company will seek approval for a new Remuneration Policy. In the event that the merger does not take place, we will review our Remuneration Policy for operation in 2018 to consider any market best practice.

Annual Report on Remuneration (pages 82 – 95)

This section sets out how remuneration arrangements have been operated during the past financial year (12 months from January to December 2016), and also provides details on how we intend to operate our policy during the coming year FY2017. This report will be put to an advisory vote at the 2017 AGM.

The Annual Report on Remuneration includes detail on the departure terms for the Chief Executive Officer, which are subject to the completion of the merger with Deutsche Börse, and on his remuneration arrangements should the transaction not complete (page 86).

Change in financial year

As previously disclosed the Group migrated its financial year in 2014 to align with the calendar year from 1 January 2015. The Committee carefully considered the impact of the change in financial year on the Group's remuneration framework and when making remuneration decisions. The Annual Report on Remuneration includes detail on such in relation to decisions that will be taken in 2017, specifically with regard to the vesting of the LTIPs granted in 2014.

Directors' Remuneration Report continued

Remuneration Policy Report

This Remuneration Policy Report was subject to a binding shareholder vote at the 2014 AGM and was approved with 95% of the votes. Accordingly, it had binding effect on the Company from that date. In light of the proposed merger with Deutsche Börse, this Policy Report represents a rollover of that policy, with minor amendments, and is presented for approval at our 2017 AGM. Our executive remuneration arrangements will be thoroughly reviewed during 2017, depending on the outcome of the proposed merger. We are attentive to shareholder views when setting and evaluating ongoing remuneration principles and, as such, the Remuneration Committee of the new company will be consulting with shareholders during this process. If the transaction is successful, the new Company intends to convene an EGM in 2017 and seek approval for a new Remuneration Policy. In the event that the merger does not take place, we will review our Remuneration Policy for operation in 2018 to consider any market best practice.

Current policy table for Executive Directors

A summary of the key elements of remuneration for Executive Directors is shown in the following table.

The remuneration policy is designed to support the long-term interests of the Company. The Group is committed to paying for performance, rewarding the senior management team only when its goals are achieved. Each year the remuneration framework and the packages of the Executive Directors and members of the Executive Committee are reviewed by the Committee to ensure that they continue to achieve this objective. The Committee takes into account multiple reference points when setting pay including companies in the FTSE 100, the broader Financial Services sector as well as other international exchange groups.

The Committee has taken the following areas into account in establishing the Group remuneration policy:

- a focus on shareholder value;
- the continued global expansion of the Group;
- the need to attract and retain senior management from the international finance and technology sectors;
- the Group's intent to be mindful of best practice as expressed by institutional shareholders and their representative bodies; and
- the unique position of the Group at the heart of capital markets.

Element	SALARY
Purpose and link to strategy	<p>Provides a core element of remuneration which reflects the responsibilities of the role.</p> <p>Enables the recruitment and retention of individuals of the calibre required to execute the Group's strategy.</p>
Operation	<p>Base salaries are normally reviewed annually by taking into account a range of factors, including:</p> <ul style="list-style-type: none"> – size and scope of the role; – skills and experience of the individual; – market competitiveness/relative positioning; – performance of the Group and of the individual; – wider market and economic conditions; and – level of increases being made across the Group. <p>Any changes are normally effective from 1 April each year.</p>
Maximum opportunity	<p>There is no defined maximum salary.</p> <p>Increases are determined based on the factors described in the Operation column.</p> <p>The Committee's normal approach is to initially consider increases within the range awarded to other employees. More significant increases may be awarded in certain circumstances, such as where there is a significant change in the scale, scope or responsibility of a role, development within a role and/or significant market movement.</p> <p>The annual base salaries in FY2016 and FY2017 for each Executive Director are set out in the Annual Report on Remuneration.</p>
Performance measures	n/a

Element	BENEFITS	RETIREMENT BENEFITS
Purpose and link to strategy	Provide local market competitive benefits and support the well-being of employees.	Provide Executives with retirement benefits. Support recruitment and retention of high-calibre people.
Operation	<p>A flexible benefits plan is offered, in which individuals have certain core benefits (such as private medical, life assurance, income protection and, additionally in Italy only, disability, accident, car, fuel allowance and luncheon vouchers) together with (in the UK) a taxable cash allowance which can be spent on elective benefits (such as additional medical, life or dental cover).</p> <p>A chauffeur-driven motor car or car transportation may also be provided for Executive Directors where appropriate.</p> <p>Due to the high profile of the Group, the Committee reserves the right to provide our Executives with the appropriate level of security arrangements to allow them to perform their duties in the safest possible conditions.</p> <p>Benefits are reviewed periodically to ensure they remain affordable and competitive. The Committee retains the discretion to provide reasonable additional benefits as appropriate – for example, relocation and other allowances including expatriate assistance, housing and school fees for a finite period, tax preparation and filing assistance and flights back to the home country for the Executive and his family. Repatriation costs are met by the Company if employment is terminated by the Company, other than for just cause.</p> <p>Where necessary any benefits may be grossed up for taxes.</p> <p>Executives are eligible to participate in the Group's HMRC-approved Save As You Earn Option Scheme (or international equivalent) on the same basis as other employees.</p> <p>Executive Directors are covered by the Directors' and Officers' insurance and indemnification.</p>	<p>Provision of annual pension allowance, invested in the Company's defined contribution plan or taken as a cash allowance.</p> <p>In certain jurisdictions, more bespoke pension arrangements may be provided. In such circumstances, the Committee will give appropriate consideration to local employment legislation, market practices and the cost of the arrangement.</p>
Maximum opportunity	<p>There is no defined maximum.</p> <p>Benefits plans are set at (what are in the Committee's opinion) reasonable levels in order to be market competitive for their local jurisdiction and are dependent on individual circumstances.</p> <p>Participation in the Save As You Earn Option Scheme (or international equivalent) is capped at the same level as all other participants, which is determined by the Company within the parameters of applicable legislation.</p>	<p>The maximum annual pension contribution/cash allowance is 25% of salary (except where determined by local market practice).</p> <p>In Italy, Mr Jerusalem accures mandatory state pension (INPS) benefits which are calculated on salary, benefits and annual bonus. Actual benefit due at retirement is set out by the applicable Italian legislation in force from time to time. Under the Italian Trattamento di Fine Rapporto (TFR), he receives contributions which are funded by the Group at a rate fixed by local law and which are paid to Mr Jerusalem's private pension plan. TFR is calculated on salary, capped benefits, annual bonus and LTIP.</p>
Performance measures	n/a	n/a

Directors' Remuneration Report continued

Remuneration Policy Report

Element	ANNUAL BONUS	LTIP (Long Term Incentive Plan) 2014	SHARE OWNERSHIP
Purpose and link to strategy	<p>Rewards annual performance against challenging financial, strategic and individual targets linked to Group strategy.</p> <p>Deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.</p>	<p>Incentivises performance over the longer term through the award of performance related shares.</p> <p>Aligns reward with long-term, sustainable Group performance and a focus on shareholder value.</p>	<p>Ensures alignment with shareholders' interests.</p>
Operation	<p>The Group operates a Group-wide bonus pool which is funded based on the achievement of financial and strategic goals of the Group. Allocations to individual Executive Directors are made from this pool based on the Committee's assessment of their individual performance, taking into account the Group's financial and strategic performance and the achievement of any individual objectives related to their role.</p> <p>Performance targets are reviewed and set by the Committee at the beginning of each performance year.</p> <p>Awards are determined by the Committee after the year end based upon the actual performance against these targets.</p> <p>The Committee applies judgement where necessary to ensure approved pay-out levels are reflective of actual, overall performance.</p> <ul style="list-style-type: none"> – 50% of the annual bonus will be subject to mandatory deferral, normally for a period of two years. – Until the minimum shareholding requirement (see below) is reached, bonus deferral will be 100% into shares. Once the level of minimum shareholding has been reached, individuals will be able to defer 100% into shares, 50% into shares/50% into cash or 100% into cash. – Dividends (or equivalents) may be paid in respect of deferred shares on vesting. – Deferred awards are subject to malus provisions as described below. Paid bonuses and vested awards are subject to clawback as described below. 	<ul style="list-style-type: none"> – Under the LTIP 2014, which was approved by shareholders at the 2014 AGM, awards of shares (or equivalent) are granted annually subject to performance conditions. – Awards normally vest subject to performance targets assessed over a performance period, normally of at least three financial years. The Committee has discretion to set different performance periods if it considers them to be appropriate. – The Committee shall determine the extent to which the performance measures have been met. The Committee may make adjustments to performance targets if an event occurs that the Committee determines that an adjustment is appropriate. The performance targets will be at least as challenging as the ones originally set. – Dividends (or equivalents) may be paid on vesting. Unvested awards are subject to a malus provision and vested awards are subject to clawback, as described below. 	<p>Executive Directors are expected to build up share ownership over a period of five years and maintain holdings of at least 2x base salary. As stated in the bonus section, bonus is deferred into shares until the requirement is met.</p>
Maximum opportunity	<p>Maximum annual bonus opportunity of 225% of salary for CEO and 200% of salary for other Executive Directors for maximum performance.</p>	<p>Although there is a facility for maximum awards of up to 400% of salary under the plan rules in exceptional cases, it is expected that awards under this plan will normally be up to 300% of salary.</p>	
Performance measures	<p>Based on a combination of financial (e.g. adjusted operating profit), strategic and individual performance targets. Strategic objectives include key targets under the strategic pillars of developing our partnership approach, driving global growth and delivering best in class capabilities. These strategic objectives also impact financial results in the medium term.</p> <p>The Committee will set the detail and mix of performance measures, targets and weighting based on the strategic objectives at the start of each year. At least 50% of the targets relating to the annual bonus pool in any year will be subject to financial measures.</p> <p>No bonuses are paid for below threshold performance. The Committee may award any amount between zero and 100% of the maximum opportunity.</p> <p>The performance measures are applied in the performance year only.</p>	<p>The Committee determines performance targets each year to ensure that the targets are stretching and support value creation for shareholders while remaining motivational for management.</p> <p>Vesting of awards is subject to achievement of total shareholder return and financial performance targets. For grants under this LTIP, awards are subject to absolute TSR and adjusted EPS measures.</p> <p>Measures will normally be equally weighted but in any event, any total shareholder return element will represent at least 50% of the award.</p> <p>For each performance element, achievement of the threshold performance level will result in no more than 25% of the maximum award paying out. For achievement of the maximum performance level, 100% of the maximum pays out. Normally, there is straight-line vesting between these points.</p>	

Notes to the Policy Table**Selection of performance measures**

Performance targets are set by the Committee to be both stretching and achievable, taking into account the Group's strategic priorities and the economic landscape.

The performance measures that are used for our annual bonus and Long Term Incentive Plan (LTIP) have been chosen to support the Group's strategy.

For the annual bonus plan, the Committee continues to believe that it is appropriate to use a balance between financial targets, strategic objectives and individual performance objectives.

The Committee considers that the measures to be used for the LTIP, i.e. TSR and adjusted EPS, are currently the most appropriate measures of long-term performance for the Group.

Malus and clawback provisions

A malus provision applies to awards granted under the 2014 LTIP and to unvested awards under the Deferred Bonus Plan. This would allow the Committee in its absolute discretion to determine, at any time prior to the vesting of an award, to reduce, cancel or impose further conditions in certain circumstances, including (i) where there is a material misstatement or restatement of the results of the Group in its audited accounts, (ii) the negligence, fraud or serious misconduct of the individual which results in significant reputational damage to the Group or which has a material adverse effect on the financial position of the Group or the business opportunities of the Group, or (iii) if the individual is a member of a company in the Group which suffers significant reputational damage or material adverse effect on its financial position or on its business opportunities.

A clawback provision applies to vested awards granted under the 2014 LTIP, vested awards under the Deferred Bonus Plan and annual bonuses paid previously. This would allow the Committee in its absolute discretion to claw back from individuals some or all of the vested awards or paid bonus in certain circumstances, including (i) if there is a material misstatement or restatement of the results of the Group in its audited accounts, (ii) the negligence, fraud or serious misconduct of the individual which results in significant reputational damage to the Group or a material adverse effect on the financial position of the Group or the business opportunities of the Group, or (iii) if the individual is a member of a company in the Group which suffers significant reputational damage or material adverse effect on its financial position or on its business opportunities. Clawback will normally apply for a period of three years following vesting of shares/deferred cash bonus and/or payment of bonus, unless the Committee determines otherwise.

Recruitment policy

When determining the remuneration package for a newly appointed Executive Director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre required by the Group. Consistent with the UK Corporate Governance Code, the Committee would intend to pay no more than it believes is necessary to secure the required talent.
- The ongoing remuneration package would normally include the key elements on the same terms as those set out in the policy table for Executive Directors.
- The maximum level of variable remuneration which may be awarded on recruitment (excluding any buy-outs referred to below) is 625% of salary. Incentive awards made in the first year of appointment may be subject to different performance measures and targets appropriate to the newly recruited Executive Director.
- Recognising that the Group competes for talent in the international financial services sector, on an exceptional basis, the Committee has the ability to include other elements of pay which it feels are appropriate taking into account the specific commercial circumstances (e.g. for an interim appointment). However, this would remain subject to the limit on variable remuneration set out above. The rationale for any such component would be appropriately disclosed.
- In addition, where an individual forfeits arrangements as a result of appointment, the Committee may offer a buy-out, in such form as the Committee considers appropriate taking into account all relevant factors which may include the vehicle, expected value and timing of forfeited opportunities. Any such buy-out will be limited to the commercial value of payments and awards forfeited by the individual.
- Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide reasonable relocation assistance and other allowances including expatriate assistance. Global relocation support (normally for up to five years) and any associated costs or benefits (including but not limited to housing, school fees, tax preparation and filing assistance and flights back to the home country) may also be provided if business needs require it. Should the Executive's employment be terminated without cause by the Group, repatriation costs will be met by the Group.
- In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.
- The remuneration package for a newly appointed Non-Executive Director would normally be in line with the structure set out in the policy table for Non-Executive Directors (see page 80 of the 2016 Annual Report).

Directors' Remuneration Report continued

Remuneration Policy Report

Service contracts and payments for departing Directors

The Group's current policy is that Executive Directors' service agreements should have notice periods that are no longer than 12 months. The Group may terminate an Executive Director's service agreement by making a payment in lieu of notice of a sum equal to 12 months' salary, pension, flexible benefits allowance, life and medical insurance (but excluding bonus and share incentives) plus any accrued unused holiday entitlement. Consideration will be given to appropriate mitigation terms to reduce payments in lieu of notice made on termination in the event of the Executive Director commencing alternative employment, being appointed as a Non-Executive Director or providing services pursuant to a consultancy agreement in the 12 months following the Executive Director's departure.

The Group may pay an Executive Director's reasonable legal fees for receiving advice in connection with their employment.

The lawful termination mechanisms described above are without prejudice to the Group's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby to be liable for damages to the Executive Director. Liquidated damages clauses are not used.

In the event of termination by the Group, each Executive Director may have an entitlement to compensation in respect of his statutory rights under employment protection legislation in the UK and potentially elsewhere. Directors' and Officers' liability insurance and an indemnity to the fullest extent permitted by the law and the Group's Articles of Association are provided to the Executive Directors for the duration of their employment and for a minimum of seven years following termination.

The Committee considers that this is consistent with current best practice and this approach will generally be adopted for new appointments. Where appropriate and when recruiting non-UK based Directors, the Committee may agree different terms based on local legal requirements or market practice.

Treatment of variable incentives

Annual bonus	Individuals may be considered for an annual bonus in respect of the period prior to cessation. Any award would be at the discretion of the Committee, subject to the Executive Director's performance and period of employment.
Deferred Bonus Plan 2014	<p>For good leavers, awards vest at the normal vesting date, although the Committee may determine that awards vest on cessation of employment. The award will usually vest in full or on a prorated basis at the Committee's discretion. Good leavers are those who cease to be an employee of a member of the Group by reason of death, injury, disability, ill-health, redundancy, the sale of the individual's employing business or the transfer of the Company out of the Group, or any other reason which the Committee decides in its discretion, having regard to a range of relevant factors including the Executive Director's performance, length of service and circumstances of their departure.</p> <p>Where an individual is not considered to be a good leaver, unvested awards will lapse. Where an individual is summarily dismissed, all his awards will lapse.</p> <p>Deferred awards are subject to malus and vested awards are subject to clawback as detailed above.</p>
Long-Term Incentive Plan 2014	<p>For good leavers, awards will normally vest at the normal vesting date and following the end of the performance period, unless the Committee determines that awards should vest following cessation of employment. Vesting will be subject to performance and unless the Committee determines otherwise (or that another basis of reduction is appropriate) prorated for time in employment. Good leavers are those who cease to be an employee of a member of the Group by reason of death, injury, disability, ill-health, redundancy, and the sale of the individual's employing business or transfer of the Company out of the Group, or any other reason which the Committee decides in its discretion, having regard to a range of relevant factors including the Executive Director's performance, length of service and circumstances of their departure.</p> <p>Where an individual is not considered to be a good leaver, unvested awards will lapse.</p> <p>Unvested awards are subject to malus and vested awards are subject to clawback as detailed above.</p>

Detailed share plan provisions

Share awards are subject to the terms of the relevant plan rules under which the award has been granted. The Committee may adjust or amend awards only in accordance with the provisions of the plan rules. This includes making adjustments to awards to reflect certain corporate events, including a variation in the Company's share capital, a demerger or a special dividend. In change of control circumstances, all LTIP awards will normally vest on an accelerated basis subject to the extent that the performance conditions are satisfied, and, unless the Committee determines otherwise, time pro-rating. Deferred Bonus awards will normally vest in full. The Committee may also allow some or all of an award to be exchanged if not yet vested.

Individual terms

Xavier Rolet entered into a service agreement with the Group on 25 February 2009 and was appointed with effect from 16 March 2009. Xavier Rolet's service agreement can be terminated by either party giving not less than 12 months' notice. Alternatively, the Group may terminate the contract by making a payment in lieu of notice of a sum equal to 12 months' salary, pension, flexible benefits allowance, life and private medical insurance (but excluding bonus and share incentives) paid in a lump sum or, at the Committee's absolute discretion, paid in 12 equal monthly instalments from the date of termination of the employment. Alternatively, the Group may in its discretion continue to provide pension, life and private medical insurance for the 12 months following termination. If the payment is made in instalments and Mr Rolet commences alternative employment, is appointed as a Non-Executive Director or provides services pursuant to a consultancy agreement in the relevant period (of 12 months) following his departure from the Group, the instalments will be reduced by one-twelfth of the annual remuneration earned from the alternative employment, directorship or consultancy. On termination (other than by reason of summary dismissal) Mr Rolet will be eligible to receive a pro-rata bonus for the year in which his employment is terminated subject to company and individual performance.

David Warren entered into a service agreement with the Group on 11 June 2012 and was appointed with effect from 2 July 2012. David Warren's service agreement may be terminated by either party giving at least 12 months' notice. Alternatively, the Group may terminate the contract by payment in lieu of notice of a sum equal to 12 months' salary, pension, flexible benefits allowance, life and private medical insurance (but excluding bonus and share incentives). Any payment in lieu of notice will be paid in 12 equal monthly instalments from the date of termination of the employment. Alternatively, the Group may in its discretion continue to provide pension and life and private medical insurance for the 12 months following termination. Should Mr Warren commence alternative employment, be appointed as a Non-Executive Director or provide services pursuant to a consultancy agreement in the relevant period (of 12 months) following his departure from the Group, the instalments will be reduced by one-twelfth of the annual remuneration earned from the alternative employment, directorship or consultancy. Payments of the instalments may be required to be deferred until six months after termination by US tax rules applying to Mr Warren. To the extent that any payment or benefits payable to Mr Warren under his service agreement or under any bonus or share incentive plan would be subject to US excise tax, the payments and benefits may be reduced if this would result in Mr Warren receiving a greater after tax amount than if the benefits were not reduced. On termination (other than by reason of summary dismissal) Mr Warren will be eligible to receive a pro-rata bonus for the year in which his employment is terminated subject to company and individual performance.

Raffaele Jerusalem entered into a service agreement with Borsa Italiana on 1 October 2001, amended on 3 May 2011, and a service agreement with LSEG Holdings (Italy) on 3 May 2011, which reflects his period of continuous service from 1 October 2001. On 1 April 2013, Raffaele Jerusalem's employment contract transferred from LSEG Holdings (Italy) to LSEG Holdings Italia S.p.A. Raffaele Jerusalem's employment contracts with Borsa Italiana and LSEG Holdings Italia S.p.A. expressly state that no collective bargaining agreements apply to his employment and accordingly, the terms applying to the termination of his employment are governed by Italian law. If Raffaele Jerusalem is dismissed, his notice period will be equal to nine months from 2 October 2016 onwards. If Raffaele Jerusalem resigns, he is required to give three months' notice. On termination of either employment for any reason, Raffaele Jerusalem is entitled to severance payments under Italian law equal to: (i) *Trattamento di Fine Rapporto* (TFR) which Raffaele Jerusalem has elected to transfer to his private pension plan on a monthly basis since August 2007. He will therefore not be entitled to further TFR benefits post-employment. The TFR contributions currently equate to 7.407% (including solidarity tax at the current rate of 0.5%, which does not count towards Raffaele Jerusalem's contributions to his private pension plan) of base salary, benefits, annual bonus and LTIP paid to Raffaele Jerusalem during his employment; (ii) prorated supplementary monthly payments (the annual salary is normally paid in 12 instalments plus two supplementary monthly payments); and (iii) a payment in lieu of untaken holidays, if any. Where no just cause for termination exists, a payment in lieu of notice is payable if the employment is terminated with immediate effect. The payment in lieu of notice is in addition to the payments at (i), (ii) and (iii) above and is equal to the overall salary due to Raffaele Jerusalem during the notice period. For these purposes, overall salary includes base salary, average of any variable pay and TFR contributions paid during the last 36 months of the employment, and benefits in kind.

Remuneration policy for other employees and consideration of wider employee remuneration

The remuneration policy for senior Executives and other employees is determined based on similar principles to Executive Directors. For roles below the main Board, the exact structure and balance are tailored based on various factors including the scale, scope or responsibility of the role, development within a role and/or significant market movement. The Committee reviews and comments on the salary, bonus and LTIP awards of the senior Executives immediately below Board level and approves the overall design and distribution of incentive awards available to all employees, including share-based plans.

The approach in respect of base salary and benefits is generally consistent across the organisation. Executive Directors' and other senior managers' remuneration includes a greater proportion of performance related pay when compared to other employees. The Committee considers this is essential to differentiate levels of responsibility and align pay to sustainable long-term performance and shareholders' interests.

All employees are eligible to participate in the annual bonus plan which is subject to similar metrics to those used for the Executive Directors. Some Sales employees are eligible to participate in commission plans rather than the annual bonus plan. Opportunities vary by organisational level.

Directors' Remuneration Report continued

Remuneration Policy Report

Other senior employees participate in long-term incentive plans on similar terms to Executive Directors but with reduced award levels for less senior roles.

The malus provision on unvested awards applies automatically to all awards granted under the Deferred Bonus Plan and the 2014 LTIP. However, the Committee will have the discretion to determine at the grant date whether the clawback rule on paid bonuses and vested awards will apply to awards granted to participants other than Executive Directors. Below the Board, LTIP participants (excluding Executive Directors) may continue to be eligible for matching share awards if they acquire invested shares up to 50% of their net salary at or around the time the award is granted.

In setting remuneration for Executive Directors, the Committee considers the overall approach to reward employees across the Group taking into account the scale, scope or responsibility of the role, development within a role and/or significant market movement.

Salary increases of Executive Directors in percentage terms are normally in line with those of employees in their local jurisdictions. The Committee does not formally consult directly with employees on Executive Directors' pay. The Committee receives ongoing regulatory updates and information on external market practices from its independent external advisers who provide additional context for decisions.

Consideration of shareholders' views

The Committee is mindful of shareholder views when setting and evaluating ongoing remuneration principles, and commits to consulting with shareholders prior to any significant changes to the remuneration policy.

Shareholders have been particularly supportive of the simplification of the Group incentive arrangements without increasing the overall incentive opportunities.

Malus and clawback provisions remain unaltered.

Policy for Non-Executive Directors

Approach to setting fees	Basis of fees	Other items
The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to make an important contribution to the Group's affairs.	Non-Executive Directors receive a basic annual fee with additional fees payable for committee chairmanship.	Non-Executive Directors do not receive any benefits or entitlements other than their fees and reasonable expenses.
The Chairman's fee is determined by the Remuneration Committee, and the Board is responsible for determining all other Non-Executive Director fees.	Certain Non-Executive Directors are also entitled to receive fees from subsidiary companies.	Travel and other appropriate expenses with associated taxes (including fees incurred in obtaining professional advice in the furtherance of their duties) incurred in the course of performing their duties are reimbursed to Non-Executive Directors.
Fees are reviewed periodically to ensure they remain appropriate. The Committee retains the flexibility to increase, adjust and make one-off payments to Non-Executive Directors based on their remit.	The Non-Executive Chairman of the Group and Senior Independent Director receive an all-inclusive fee for the role.	Non-Executive Directors are covered by the Directors' and Officers' insurance and indemnification.
Fees are set taking into account the level of responsibility of each Non-Executive Director and fees at other companies of a similar size and complexity.	Fees are neither performance-related nor pensionable.	
The aggregate fees payable to all Non-Executives combined (excluding the Chairman and excluding fees paid for any appointments on subsidiary boards) are capped as set out in the Group's Articles of Association as they may be amended by a resolution of shareholders from time to time. The current limit on the aggregate fees that are payable is £1,500,000 per financial year.	Non-Executive Directors are not eligible to participate in the annual bonus or LTIP plans and are not entitled to any payments on termination.	
Details of current fees are set out on page 87 of the 2016 Annual Report.		

Non-Executive Directors have letters of appointment with no notice period except for the Group Chairman who has a notice period of six months unless he is not re-elected by shareholders in which case his appointment will terminate immediately. The Non-Executive Directors' appointments are for an initial period of three years from the date of appointment and are also subject to re-election by shareholders.

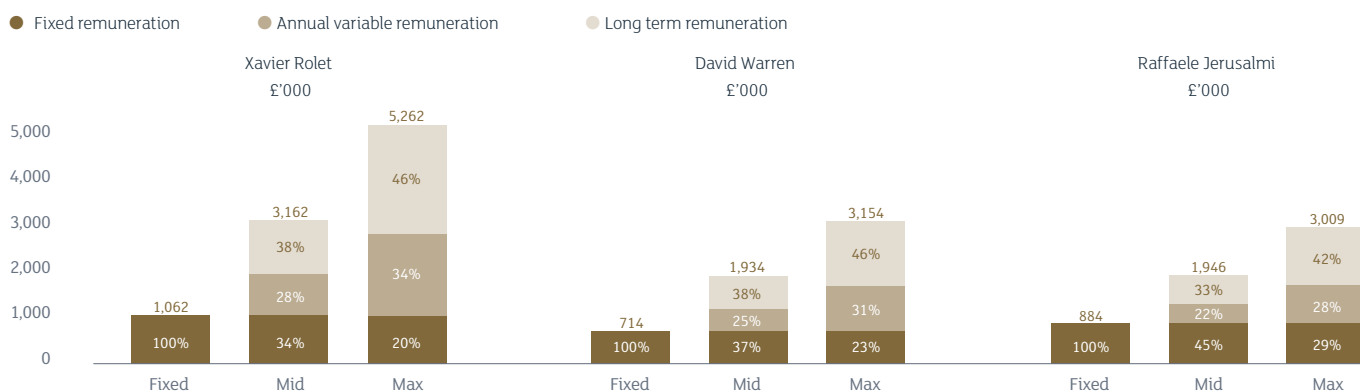
Amendments to the Remuneration Policy Report

The Committee remains mindful that regulation of companies in the financial services sector continues to evolve. The Committee recognises that remuneration arrangements may need to be amended in order to comply with any new regulations which become applicable to the Group. The Committee reserves the right to make changes to the Policy described above in order to comply with any such regulatory requirements which apply to the Group including any changes required under the UK Corporate Governance Code or for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining shareholder approval for that amendment. Where this results in a major structural change, the Committee would expect to present a revised policy to shareholders for approval at the following AGM.

Illustration of the application of the remuneration policy for Executive Directors

The chart below illustrates how much the current Executive Directors could receive under different scenarios in the first year of this policy taking effect i.e. 2017, assuming a constant share price. Note that London Stock Exchange Group plc does not have a stated 'target' level for bonus and share awards, so we have assumed 50% of maximum awards to illustrate a mid-range scenario.

Element of remuneration	Detail of assumptions
Fixed remuneration	This comprises: – Base salary with effect from 1 April 2017 – Benefits as they applied on 31 December 2016 and set out in the single figure table in the Annual Remuneration Report – Pension
Annual Bonus	Assumes maximum opportunity of 225% of salary for CEO and 200% of salary for other Executive Directors For mid-range scenario: assumes payment of 50% of the maximum opportunity For maximum: assumes payment of 100% of the maximum opportunity
Long Term Incentive Plan	Assumes maximum opportunity of 300% of salary in conditional shares For mid-range scenario: assumes 50% of the maximum opportunity For maximum: assumes vesting of 100% of the maximum opportunity



Legacy arrangements

The Committee may make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed/granted (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Group.

Directors' Remuneration Report continued

Annual Report on Remuneration

This section sets out how remuneration arrangements have operated during the past financial year (FY2016), and also provides details on how we intend to operate our policy during the coming year (FY2017). This report will be put to an advisory vote at the 2017 AGM. The information from this page 82 to page 95 has been audited where required under the regulations and is indicated as audited where applicable.

Single total figure of remuneration for Executive Directors (Audited)

Single total figure of remuneration	Xavier Rolet				David Warren				Raffaele Jerusalmi ¹¹			
	FY2016 £000	% of total	FY2015 £000	% of total	FY2016 £000	% of total	FY2015 £000	% of total	FY2016 £000	% of total	FY2015 £000	% of total
Fixed pay												
Salary	788		746		465		455		415		359	
Flexible benefits allowance	20		20		20		20					
Benefits	42 ³		43		131 ⁶		159		24 ⁸		23	
Pension	197 ²		186		116 ²		114		254 ⁹		185	
Other									177 ¹⁰		114	
	1,046	18%	995	15%	733	28%	748	25%	870	28%	681	26%
Pay for performance												
Annual bonus	1,643		1,600		849		800		744		600	
Long-term incentives:												
Performance shares	3,022 ¹		2,621 ⁴		1,031 ¹		1,394 ⁷		1,511 ¹		1,320 ¹²	
Matching shares			1,310 ⁵				—				—	
	4,665	82%	5,531	85%	1,880	72%	2,194	75%	2,255	72%	1,920	74%
Total remuneration	5,711		6,526		2,612		2,942		3,125		2,601	

Notes:

- Value for Long Term Incentives shown for FY2016 represents estimated value of share awards granted in 2014 that are expected to vest in August 2017. The estimate assumes 100% vesting of the TSR element and 83.7% vesting of the EPS element. The value is based on a three-month average share price from 1 October 2016 to 31 December 2016, being £28.06.
- Annual pension allowance of 25% of salary.

Xavier Rolet

- Benefits include the cash value of private medical and life assurance, Save As You Earn (SAYE) and commuting expenses with associated taxes (including car transportation where appropriate). Mr Rolet contributed £500 per month to the SAYE plan between January and December 2016. SAYE has been valued based on the monthly savings amount and the discount provided (20%) between 1 January 2016 and 31 December 2016.
- 104,160 Performance shares vested on 13 June 2016 at £25.16 per share. This equates to £2,620,666.
- 52,079 Matching shares vested on 13 June 2016 at £25.16 per share. This equates to £1,310,308.

David Warren

- Benefits include the cash value of private medical and life assurance and expatriate allowances with associated taxes.
- 55,403 Performance shares vested on 13 June 2016 at £25.16 per share. This equates to £1,393,939.

Raffaele Jerusalmi

- Benefits represent the cash value of private medical, disability and life insurance cover, luncheon vouchers, car and fuel benefit.
- Pension: mandatory INPS contributions calculated on salary, benefits and bonus for the 12-month period.
- Trattamento di Fine Rapporto mandatory arrangements calculated on salary, capped benefits, bonus and shares and paid into Mr Jerusalmi's pension plan for the 12-month period.
- FY2016 rate of £1 = €1.22 and FY2015 rate of £1 = €1.38.
- 52,448 Performance shares vested on 13 June 2016 at £25.16 per share. This equates to £1,319,592.

Additional notes to the Single total figure of remuneration (Audited)

Fixed pay

Base salary

When reviewing Executive Director salaries, and in line with our policy, the Committee considers multiple reference points including companies in the FTSE 100, the broader Financial Services sector and other international exchange groups.

Benefits

A flexible benefits plan is offered, in which individuals have certain core benefits (such as private medical, life assurance, income protection and, additionally in Italy only, disability, illness, accident, car, fuel allowance and luncheon vouchers) together with (in the UK) a taxable cash allowance which can be spent on elective benefits (such as additional medical, life or dental cover).

Where received as a cash supplement, this allowance is not used to calculate bonus payments or pension contributions. Benefits are reviewed periodically to ensure they remain affordable and competitive. Executives are eligible to participate in the Group's HMRC-approved Save as You Earn Option (SAYE) Scheme (or international equivalent).

Xavier Rolet and David Warren each receive a flexible benefits allowance of £20,000 per annum. These values have not been increased since last year. Both of them also receive benefits in kind which principally include private health care and life assurance arrangements.

Xavier Rolet contributes £250 per month into each of the 2014-2017 and 2015-2018 SAYE schemes. These schemes will mature in March 2017 and July 2018 respectively, with a six-month exercise window.

As an expatriate from the US to UK, David Warren is also entitled to receive the following:

- Each year he is entitled to tax preparation and filing assistance in the US and the UK.
- The Group will meet the costs of repatriating Mr Warren's effects back to the US if it terminates his employment other than in circumstances such as serious misconduct which would justify summary termination.
- An allowance to cover the cost of renting accommodation in the UK during the first four years of his appointment. Mr Warren received £30,000 net per annum until October 2016 when this benefit ceased.
- An annual allowance of £30,000 net per annum to cover flights between London and New York for Mr Warren and his family.

Raffaele Jerusalmi receives benefits in kind such as private medical, disability and life insurance cover, luncheon vouchers, car and fuel. He also contributes towards the Italian mandatory national insurance system.

There are no contractual malus or clawback provisions in place in relation to benefits.

Executive Directors are covered by the Directors' and Officers' insurance and indemnification.

Retirement Benefits

In the UK, pension provision for our Executive Directors takes the form of a non-consolidated cash allowance.

Xavier Rolet and David Warren each receive an allowance equivalent to 25% of base salary as a taxable cash supplement. Only base salary is used to calculate pension entitlement and no other pension supplements apply.

Raffaele Jerusalmi accrues mandatory state pension (INPS) benefits in Italy. Actual benefit due at retirement is set out by the applicable Italian legislation in force from time to time. Under the Italian Trattamento di Fine Rapporto (TFR), he receives contributions which are funded by the Company at a rate fixed by local law and which are paid to Mr Jerusalmi's private pension plan. Both INPS and TFR contributions are included in the single total figure of remuneration table on the previous page.

Determination of Bonus for FY2016

The Committee determined the overall Group bonus pool with reference to the 12 month performance period ending 31 December 2016.

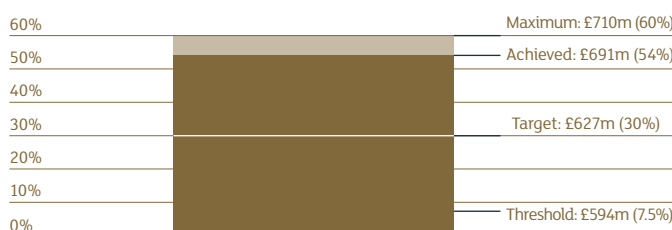
The performance measures and targets are set out below:

		Actual performance	Target	Performance relative to target	Maximum percentage of bonus	Actual percentage of bonus
FY2016 Group Bonus Pool	Group AOP	FY2016 Adjusted operating profit of £691 million.	FY2016 Adjusted operating profit of £627 million.	Above target	60%	54%
	Strategic Deliverables	<ul style="list-style-type: none"> Detailed plan developed to deliver industry-leading performance by 2020; Full integration of FTSE Russell Indexes; Successful sale of Russell IM; Robust management and growth of core business faced with macroeconomic implications whilst making substantial progress on the proposed merger with Deutsche Börse; Launch of BSL in Colombo, Sri Lanka; Ongoing M&A in pursuit of incremental products and services (XTF & Mergent); Launch of new products, services and initiatives that expand and leverage open access strategy (CurveGlobal, LCH Spider, Turquoise Plato and SwapAgent); Launch of LSE daily intra-day auction following comprehensive market-wide consultation; Further growth of ELITE; and Complex navigation of Brexit engaging with key stakeholders across regulatory, government and investor relations. 		Above target	40%	36%
Total					100%	90%

- AOP excludes amortisation of purchased intangibles, non-recurring items and unrealised net investment gains/losses at LCH.
- For the FY2016 Group AOP bonus measure, Threshold was set at Target minus 5% and Maximum was set at Target plus 13%.
- For 2016, the Remuneration Committee excluded £5 million Russell-IM related costs from AOP for the Group bonus pool calculation.

Group adjusted operating profit performance

% of total bonus



- Actual result for Group AOP performance is 90.5% of maximum.
- Actual result for strategic deliverables performance is 90% of maximum.

Bonus awarded for FY2016

Executive Directors are eligible to receive an annual bonus based on meeting or exceeding bonus targets that are set at the beginning of the year, looking at the Group's financial performance, strategic deliverables and their personal contribution.

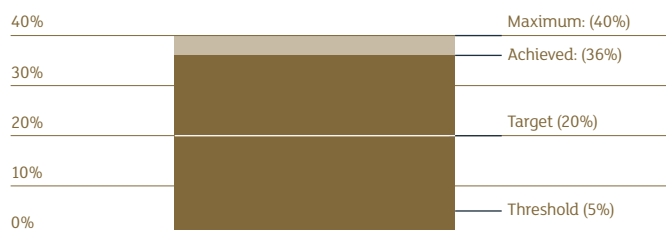
The Committee also receives input from the Risk Committee with regard to performance related to risk culture (awareness, transparency and accountability) when assessing remuneration decisions.

The operation of the FY2016 annual bonus is broadly as per last year. For the financial year ending 31 December 2016, the Committee determined that the sole annual financial target should again be adjusted operating profit. The Committee considers adjusted operating profit to be of particular significance for the Group and believes it should continue to be the main financial measure for annual bonus plan purposes. As per 2015, the maximum bonus opportunity is 225% of salary for the Chief Executive Officer and 200% of salary for other Executive Directors. However, whereas for 2015, the balance between financial and strategic objectives was 50:50, for 2016 the balance is 60:40, reflecting the increasing importance of financial performance to the Group.

The Executive Directors' awards are funded from the Group bonus pool; their individual awards are based on an assessment of their contribution weighted against 55% Group AOP, 35% against strategic deliverables and 10% delivery against personal objectives as determined by the Board.

Strategic deliverables performance

% of total bonus



Directors' Remuneration Report continued

Annual Report on Remuneration

Chief Executive Officer

Under Xavier Rolet's leadership, the Group has delivered another strong financial performance with growth across all core business areas. Total income from continuing operations rose to £1,657.1 million, up 17%. Adjusted operating profit on a continuing basis for FY2016 was £685.8 million (FY2015: £584.7 million for continuing operations).

There has been strong management and growth of our core businesses, despite being faced with significant macroeconomic implications. This has been conducted whilst providing significant focus on the highly complex proposed merger with Deutsche Börse.

Xavier Rolet has been the architect of LSEG's considerable shareholder value creation. Key successes in 2016 to note are:

- The successful sale of Russell Investment Management, preserving the business' value under challenging AUM market conditions.
- Full integration of the FTSE-Russell indexes. Targeted delivery of annual run rate cost synergies of \$78 million and run rate revenue synergies of \$30 million are on track to be achieved ahead of schedule, concurrent with growth in key US and Fixed Income markets.
- Numerous new products, services and initiatives have been launched that expand and leverage open access strategy, for example, CurveGlobal, LCH Spider, Turquoise Plato, TradeEcho, FTSE Russell FI & MA Benchmarks and SwapAgent.
- In addition to the proposed merger with Deutsche Börse, there has been ongoing M&A activity in pursuit of incremental products and services, particularly in the Information Services Division. For example, in November we announced the acquisition of Mergent Inc., a leading provider of business and financial information on public and private companies. This will support the growth of FTSE Russell's core index offering.
- LCH revenue growth, in particular the development in the Rates franchise (SwapClear, FXClear and SwapAgent).
- The proposed disposal of LCH SA, LCH Group's French-regulated operating subsidiary to Euronext N.V. at a very satisfactory valuation (conditional on the successful closing of the merger).
- LSEG signed the UK Treasury Women in Finance Charter signalling the Group's ongoing commitment to equality in the workplace.

Chief Financial Officer

David Warren has been an exemplary Group CFO since he joined in mid-2012. He has delivered superior results and, alongside the CEO, has been instrumental in the Group's success and execution of the ambitious global expansion strategy, achieved despite markets of unprecedented volatility and a challenging geopolitical environment.

In addition to the strong financial results noted for Xavier Rolet above, David has led the focus on cost discipline while investing for growth, focusing on new opportunities and achieving the benefits of recent acquisitions. For example, targeted delivery of annual run rate cost synergies of \$78 million and run rate revenue synergies of \$30 million related to the integration of the FTSE-Russell indexes are on track to be achieved ahead of schedule, concurrent with growth in key US and Fixed Income markets. In addition, the launch of BSL in Colombo, Sri Lanka, provides future outsourcing opportunities in a low-cost location.

David was central to the successful sale of Russell Investment Management and has been vital in the ongoing M&A activity, such as XTF and Mergent Inc. in the Information Services Division. He has also been outstanding in his handling of the transaction with Deutsche Börse to date. In conjunction with the transaction, the proposed disposal of LCH SA, LCH Group's French-regulated operating subsidiary, to Euronext N.V. is expected to be achieved at a very satisfactory valuation (conditional on the successful closing of the merger).

Executive Director, CEO of Borsa Italiana & Director of Capital Markets

In addition to his responsibilities as an Executive Director for the Group, Raffaele Jerusalem has led our Capital Markets and Post Trade Divisions in Italy. He has delivered a solid performance and continued to promote innovation and drive growth in spite of difficult macro-economic events. Capital Markets had a 12% increase in revenues to £368.3 million (FY2015: £330.3 million).

The Group welcomed 134 companies to our markets in the year, raising a combined total of £25.6 billion in new and further issues. This has been achieved despite a volatile market and the complexity arising from Brexit, which has required careful navigation and significant engagement with key stakeholders.

Other key achievements have been the launch of the LSE daily intra-day auction following comprehensive, market-wide consultation. Additionally, ELITE has expanded further, including ELITE Club Deal which has demonstrated early revenue progress. The rebranded Turquoise Plato Block Discovery and Turquoise Plato Uncross platforms have also demonstrated strong growth throughout the year with record trading volumes. In fixed income, London's position as a leading international financial centre has been strengthened and our footprint in two of the world's high-growth economies, China and India, has been deepened. Additionally, CurveGlobal was launched in September, bringing together LSEG with seven major dealer banks and CBOE.

Based on the above context and an assessment of individual performance, the Remuneration Committee awarded bonuses to each of the Executive Directors as follows:

		Chief Executive Officer	Chief Financial Officer	Executive Director, CEO of Borsa Italiana and Director of Capital Markets
Bonus for FY2016	% of salary	205% of salary	183% of salary	179% of salary
	% of maximum	91%	91%	89%
	£ total amount	£1,643,000	£849,000	€910,000
	Of which 50% is deferred	£821,500	£424,500	€455,000
Bonus for	Financial Performance (55%)	90.5% of maximum	90.5% of maximum	90.5% of maximum
	Strategic Deliverables (35%)	90% of maximum	90% of maximum	90% of maximum
	Personal Objectives (10%)	100% of maximum	100% of maximum	80% of maximum

Compulsory deferral

Executive Directors must compulsorily defer 50% of their bonus for a period of two years. This provision applies to the bonus amount for the FY2016 bonus above and operates as follows:

- Until the minimum shareholding requirement of 2x base salary is reached, the percentage of bonus that is deferred will be deferred 100% into shares; and

- Once the level of minimum shareholding has been reached, individuals are able to elect to defer under three different approaches: 100% of the deferral amount into shares; 50% into shares and 50% into cash; or 100% into cash.
- Any deferral into shares will be disclosed at a later date once confirmed.

Long-term incentive plan (LTIP)

The final awards which Executive Directors had outstanding under the 2004 Long Term Incentive Plan have now vested during FY2016. All currently outstanding LTIP awards have been made under the 2014 LTIP.

To the extent that awards granted under the 2014 LTIP have not vested at the completion of the proposed merger with Deutsche Börse, they will 'roll over' into shares of the new entity and will vest, subject to the performance outcomes as they are determined in the new entity, on their scheduled vesting dates. Further detail on these arrangements is set out in the scheme document for the proposed merger.

Awards granted in June 2013 with a performance period ended in FY2016

The performance period for the absolute TSR element of the Performance Share and Matching Share awards ended in June 2016. The awards granted in 2013 were based on absolute TSR performance in the three years from grant, and adjusted EPS performance in the 33-month performance period to December 2015. Over the period Annualised Absolute TSR performance in the three years to June 2016 was 32% per annum and therefore vested at the full 100% for this element. The Company also delivered average adjusted EPS growth 11.1% over the performance period and therefore vested at 88.9%. Vesting price as at 13 June 2016 was £25.16 both for Performance shares and for Matching shares.

Awards granted in August 2014 with a performance period ending in FY2017

The value shown in the single figure table on page 82 for the financial year ending December 2016 represents the estimated value of the 2014 awards which will vest in

August 2017. The estimate assumes 100% vesting of the TSR element and 83.7% vesting of the EPS element; the estimated value is based on a three-month average share price from 1 October 2016 to 31 December 2016. The final vesting outcome (including the actual share price at vesting) following the end of the performance period will be disclosed in the next Annual Report on Remuneration covering FY2017.

The performance conditions applying to awards granted in August 2014 are as follows:

EPS element (50%) – average adjusted EPS growth	TSR element (50%) – absolute TSR growth	Proportion of relevant element which vests
Less than 6% per annum	Less than 8% per annum	0%
6% per annum	8% per annum	25%
12% per annum or more	16% per annum or more	100%
Straight-line pro-rating applies between these points		

Due to the financial year-end change, EPS will be measured against unchanged annualised growth targets over three complete financial periods over 33 months for 2014 grants. For awards made in FY2015 and onwards, grants return to being measured over 36 months, on a calendar year basis. The financial year-end change does not affect the TSR measurement period which remains three calendar years from grant. Vesting remains over 36 months. The Committee will continue to determine final outcomes to ensure there is no material advantage or disadvantage to participants due to the financial year-end change in 2014 and the 33-month EPS measurement period.

LTIP Awards Granted in FY2016 (Audited)

LTIP awards during FY2016 were granted in March 2016 under the LTIP and were made with a value of 300% of salary for Xavier Rolet, 275% of salary for David Warren, and 275% of salary for Raffaele Jerusalmi (at rate of £1 = €1.29). The same EPS performance conditions and vesting schedules described above for 2014 awards also apply to these 2016 awards. This also applies for TSR, except that the TSR targets range from 6% to 14%

	Chief Executive Officer	Chief Financial Officer	Executive Director, CEO of Borsa Italiana and Director of Capital Markets
2014 LTIP (Nil-cost performance options) granted on 17 March 2016²	% of salary	300% of salary	275% of salary
	Face value	£2,400,000	£1,278,750
	Share price¹	£28.70	£28.70
	Number of LTIP shares granted	83,623	44,555
			37,860

1. The share price of £28.70 was determined using the closing price (MMQ) on 16 March 2016 and approved by the Share Scheme Committee (a sub-committee of the Remuneration Committee).

2. TSR is measured over a 60-day trailing average at the start and end of the three-year performance period which will end on 15 March 2019. EPS is measured over three financial years ending 31 December 2018 and compared to the 2015 baseline.

Other share plans (SAYE)

All UK employees, including Executive Directors, are eligible to participate in the HM Revenue & Customs approved Save As You Earn Scheme (SAYE). Under the rules of the SAYE, participants can save up to £500 each month, for a period of three years. At the end of the saving period, savings plus interest may be used to acquire shares by exercising the related option.

The options may be granted at an exercise price which represents a discount of up to 20% to market value at the date of invitation. No performance conditions are

attached to SAYE options. There is also an International Sharesave Plan (ISP), which is designed to provide share options to Group employees who are not based in the UK on similar terms to the options that are available to UK employees through the SAYE. To date, employees in France, Hong Kong, Italy, Sri Lanka and the US have participated in the ISP.

In 2016 Mr Rolet saved the maximum of £500 per month (in aggregate across both SAYE grants in which he participates), pertaining to options granted on exactly the same terms as to all eligible employees.

Directors' Remuneration Report continued

Annual Report on Remuneration - Implementation of the Remuneration Policy during 2017 (1 January 2017 to 31 December 2017)

Departure arrangements for the Chief Executive Officer, should the merger proceed:

The Committee has carefully considered the departure arrangements of the CEO should the proposed merger proceed and discussed them in detail with key governance bodies. The Committee was grateful for their suggestions, which have been taken into account.

Should the merger with Deutsche Börse complete, Xavier Rolet will step down from his role as CEO and Director of LSEG plc upon close of the transaction. He will remain an employee and will continue to receive salary and contractual benefits during his notice period. His terms are in accordance with the shareholder-approved Remuneration Policy:

- Notice period – Xavier's leadership is required to run LSEG until such time as the transaction completes and, as such, his twelve month notice period will commence once it is certain the transaction will complete. If his employment terminates before the end of the notice period, any remaining notice period would be paid in instalments and be subject to a reduction to reflect any alternative employment income.
- Annual bonus – He will be eligible for a bonus for time worked during 2017, which will be pro-rated for time accordingly and subject to performance and deferral.
- Deferred bonus – he will be granted 'good leaver' status and awards will vest, in line with vesting schedules, in March 2018 and 2019.
- LTIP – his 2014 and 2015 LTIP awards will vest in August 2017 and April 2018 respectively. Both awards vest within his anticipated twelve month notice period. Should his notice period terminate earlier than April 2018, the 2015 award will not be time pro-rated. Upon completion, shares will 'roll over' into shares of the new entity and will vest, subject to the performance outcomes as they are determined in that new entity, on the third anniversary of grant and in accordance with the leaver provisions of the Plan.

- Xavier was awarded a LTIP in 2016 after the proposed merger was announced. He will waive his entitlement to the LTIP award for 2016 which is due to vest in March 2019 and would have been granted 'good leaver' status by the Committee.
- As it is not yet known whether the merger will proceed, Xavier will be granted a conditional LTIP award of 300% of salary in 2017. Should the merger proceed, this LTIP would be waived upon completion.
- Should Xavier's notice period terminate earlier than April 2018 and his 2015 LTIP award not be pro-rated, his net position will be negative due to relinquishing his 2016 and 2017 LTIP awards. The gain via not pro-rating the 2015 award (which will be zero if he remains in employment through April 2018) would be significantly exceeded by the loss arising from waiving the 2016 and 2017 awards. This is demonstrated in the table below, which assumes 100% achievement of performance conditions and is based on the share price as at 30 December 2016.

Illustrative gain/loss¹ based on potential termination date² assuming full vesting

Award	Vesting date	30 Oct 2017	30 April 2018
2015 LTIP	3 April 2018	£446,566	£0
2016 LTIP	18 March 2019	(£1,286,075)	(£1,692,204)
Estimated net position		(£839,510)	(£1,692,204)

1. Illustration uses MMQ of £29.14 as at 30 December 2016.
2. As the exact timing is not yet known, an indicative commencement of notice date of 30 April 2017 is shown with subsequent termination dates at six and twelve months to illustrate the potential impact on LTIP vesting.
3. As the 2017 LTIP is yet to be granted, it has not been valued.

- Should the merger not proceed, the above treatment will not apply. Any outstanding awards will vest in accordance with the rules of each respective Plan.

Base salary operation:

During the year, the Committee conducted its annual review of the base salary levels of our Executive Directors.

In recognition of the scale, scope and responsibilities of the Chief Financial Officer's role, the Committee has decided to increase David's salary from £465,000 to £488,000 (5% increase). David did not receive a salary increase in FY2016.

The Committee has decided to increase the salary of Raffaele Jerusalmi, Chief Executive Officer of Borsa Italiana and Director of Capital Markets from €510,000 to €520,000 (2% increase), which is below the average employee increase of 2.5%.

There is no change to the salary of Xavier Rolet, the Chief Executive Officer.

Base salaries effective from 1 April 2017, are set out in the table below:

Annual Salary	With effect from 1 April 2016	With effect from 1 April 2017
Xavier Rolet	£800,000	£800,000 (+0%)
David Warren	£465,000	£488,000 (+5%)
Raffaele Jerusalmi	€510,000	€520,000 (+2%)

Annual bonus operation:

- For FY2017 the Group bonus pool will be determined based on performance measures weighted 60% Group AOP and 40% strategic deliverables to be intended to be tested over a 12-month performance period.

- The Executive Directors' awards are funded from the Group bonus pool; their individual awards will be based on an assessment of their contribution weighted against 55% Group AOP, 35% against strategic deliverables and 10% delivery against personal objectives, as determined by the Board.

- Any bonus payment will be paid out in March 2018, with mandatory deferral of 50% of bonus for a period of two years.

- Until the minimum shareholding requirement of 2x base salary is reached, the percentage of bonus that is deferred will be deferred 100% into shares. Once the level of minimum shareholding has been reached, individuals are able to elect to defer under three different approaches: 100% of the deferral amount into shares; 50% into shares and 50% into cash; or 100% into cash.

- Deferred awards are subject to malus provisions. Bonuses already paid out under the Deferred Bonus Plan and vested awards are subject to clawback (e.g. in cases of material misstatement or gross misconduct) with judgement applied by the Committee.

- For good leavers, awards will usually vest at the normal vesting date and in full, unless the Committee determines to scale back the award based on any factors deemed relevant. Where an individual is not considered to be a good leaver, unvested awards will lapse.

Long Term Incentive Plan:

To the extent that any awards granted under the 2014 LTIP have not vested at the completion of the proposed merger with Deutsche Börse, they will 'roll over' into shares of the new entity and will vest, subject to the performance outcomes as they are determined in the new entity, on their scheduled vesting dates. Further detail on these arrangements is set out in the scheme document for the proposed merger.

Awards are currently intended to be made in 2017 under the 2014 LTIP, as described in our Remuneration Policy Report.

Malus and clawback provisions will apply to these awards, allowing the Committee to reduce subsisting awards or request the refund of already paid or vested awards in certain circumstances (e.g. material misstatement or gross misconduct).

The 2017 awards will vest three years after the grant date subject to absolute TSR and adjusted EPS performance measures as follows (i.e. the same measures as those that applied to the 2016 awards):

EPS element (50%) – average adjusted EPS growth	TSR element (50%) – absolute TSR growth	Proportion of relevant element which vests
Less than 6% per annum	Less than 6% per annum	0%
6% per annum	6% per annum	25%
12% per annum or more	14% per annum or more	100%
Straight-line pro-rating applies between these points		

Awards to be made during 2017

Based on the context and an assessment of individual performance, the Remuneration Committee is currently intending to make grants to each of the Executive Directors under the 2014 LTIP as set out below.

		Chief Executive Officer	Chief Financial Officer	Executive Director, CEO of Borsa Italiana and Director of Capital Markets
2017 LTIP award (subject to performance)	% of salary²	300% on conditional basis ¹	300% of annual salary	275% of salary
	amount	£2,400,000¹	£1,464,000	Sterling equivalent of €1,430,000 (at prevailing FX rate at time of grant)

Notes:

1. Xavier Rolet will be granted a LTIP award of 300% of salary in 2017, which will be waived upon completion of the merger with Deutsche Börse.
2. Salary refers to annual salary with effect from 1 April 2017.

David Warren will be granted a LTIP award of 300% of salary in 2017, reflecting his critical role in the Group. The long-term award recognises the importance of David's role and his valuable contribution and provides strong alignment to the performance of the Group.

Non-Executive Directors' fees for 2017

Fees were last reviewed and revised with effect from 1 January 2016. No changes are being proposed for 2017. The fee schedule for 2017 is therefore as follows:

Fees	With effect from 1 January 2017
Group Chairman	£400,000
Senior Independent Director	£140,000
Non-Executive Director base fee	£70,000
Audit Committee Chairman	£30,000
Remuneration Committee Chairman	£30,000
Risk Committee Chairman	£30,000
Audit Committee, Risk Committee or Remuneration Committee membership	nil
Nomination Committee	nil

Non-Executive Directors' Remuneration

Non-Executive Directors' remuneration is determined by the Board and is neither performance-related nor pensionable. The Chairman's fee is determined by the Remuneration Committee. The fees for Non-Executive Directors are set at a level which is intended to recognise the significant responsibilities of Directors and to attract individuals with the necessary experience and ability to make an important contribution to the Company's affairs. Comparisons are made with fees paid at FTSE 100 companies.

Travel and other appropriate expenses with associated taxes (including fees incurred in obtaining professional advice) incurred in the course of performing their duties are reimbursed to the Chairman and to the Non-Executive Directors.

The Chairman and the Non-Executive Directors do not participate in any of the Company's annual bonus or LTIP plans and are not entitled to any payments on termination.

Certain Non-Executive Directors are entitled to receive fees from subsidiary companies, details of which are set out below.

Directors' Remuneration Report continued

Annual Report on Remuneration

The original date of appointment as Directors of the Company is as follows:

	Date Appointed	Date of letter of appointment	Time to expiry	Notice period	Date of resignation	LSEG Committee membership/ chairmanship	Other subsidiaries membership/ chairmanship
Paul Heiden ¹	04/06/2010	04/06/2016	03/06/2019	None		SID, Audit Chair, Nomination, Remuneration, Risk	LSE plc
Jacques Aigrain ²	01/05/2013	01/05/2016	30/04/2019	None		Audit, Remuneration Chair	LCH (Remuneration)
Stephen O'Connor	12/06/2013	12/06/2016	11/06/2019	None		Audit, Nomination, Risk Chair	LSE plc
Donald Brydon	19/6/2015	19/6/2015 as Director; 1/7/2015 as Chairman	End of AGM 2018	6 months		Group Chairman, Nomination Chair, Remuneration	LSE plc Chairman
Mary Schapiro ³	01/07/2015	01/07/2015	30/06/2018	None		Nomination, Remuneration	Regulatory Advisory Group Chair
Lex Hoogduin	04/12/2015	04/12/2015	03/12/2018	None		None	LCH Chairman
David Nish	04/12/2015	04/12/2015	03/12/2018	None		Audit, Risk	
Andrea Sironi ⁴	01/10/2016	01/10/2016	30/09/2019	None		None	Borsa Italiana Chairman, LSEGH Italia Chairman

Directors who stood down from the Board during the Year:

Andrea Munari ⁵	01/10/2007	01/10/2013	30/09/2016	None	01/10/2016	Risk	Borsa Italiana
Stuart Lewis ⁶	12/06/2013	12/06/2013	11/06/2016	None	26/04/2016	Remuneration, Risk	LCH (Remuneration), Adviser to Risk Committee
Sherry Coutu ⁷	17/01/2014	17/01/2014	16/01/2017	None	26/04/2016	Remuneration	LSE plc, Technology Advisory Group Chair
Baroness Bowles ⁸	15/08/2014	15/08/2014	14/08/2017	None	26/04/2016	Audit	LSE plc, Regulatory Advisory Group

Notes:

- Paul Heiden was appointed to the Remuneration Committee on 27 April 2016.
- Jacques Aigrain was appointed to the LCH Remuneration Committee on 1 October 2016 in place of Stuart Lewis.
- Mary Schapiro was appointed to the Remuneration Committee on 27 April 2016 and was appointed as Chair of the Group's Regulatory Advisory Group formed during 2016.
- Andrea Sironi was appointed to the Board on 1 October 2016.
- Andrea Munari stepped down from the Board on 1 October 2016.
- Stuart Lewis stepped down from the Board on 26 April 2016 and continues to serve as an adviser to the Board's Risk Committee.
- Sherry Coutu stepped down from the Board on 26 April 2016 and was appointed to the Board of LSE plc on 3 March 2016. Sherry Coutu was appointed as Chair of the Group's Technology Advisory Group, formed during 2016.
- Baroness Bowles stepped down from the Board on 26 April 2016 and also joined the Board's Regulatory Advisory Group, formed during 2016.

Non-Executive Directors' Remuneration Table (Audited):

£ thousands

	FY2016 LSEG Fees	FY2016 Other Fees ¹	FY2016 Total Fees	FY2016 Taxable benefits ²	FY2016 Total	FY2015 LSEG Fees	FY2015 Subsidiary Fees	FY2015 Total Fees	FY2015 Taxable benefits	FY2015 Total
Paul Heiden	140	–	140	12	152	113	1	114	18	132
Jacques Aigrain	101	1	102	5	107	80	67	147	3	150
Stephen O'Connor	100	–	100	–	100	88	5	93	13	106
Donald Brydon	400	–	400	–	400	212	–	212	–	212
Mary Schapiro ³	70	17	87	79	166	30	–	30	3	33
Lex Hoogduin ⁴	40	286	326	30	356	2	241	243	38	281
David Nish	70	–	70	10	80	6	–	6	2	8
Andrea Sironi ⁵	18	127	144	2	146	–	–	–	–	–
Directors who stood down from the Board during the Year:										
Andrea Munari ⁶	53	16	68	1	69	70	19	89	–	89
Stuart Lewis	22	2	24	–	24	80	3	83	–	83
Sherry Coutu	21	–	21	–	21	78	–	78	–	78
Baroness Bowles	22	–	22	1	23	69	5	74	1	74
Total Non-Executive Directors' fees	1,056	448	1,504	140	1,644	1,180	441	1,620	124	1,744

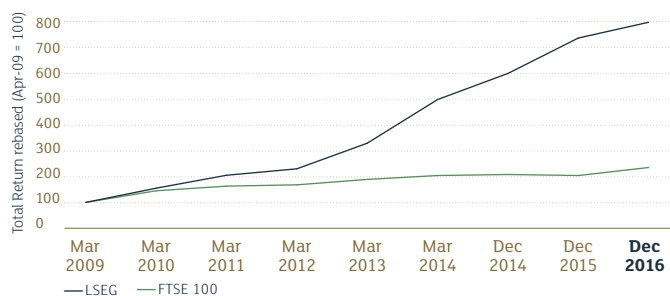
Notes:

- Other fees relate to subsidiaries and other committees.
- Taxable benefits relate to travelling expenses, including grossed up taxes where applicable.
- Mary Schapiro received an annualised fee of £25,000 as Chair of the Regulatory Advisory Group.
- Lex Hoogduin received an annualised fee of €350,000 (or £285,948 using rate £1 = €1.22 for FY2016) as Chairman of LCH and €49,000 as a Group Director (or £40,033 using rate £1 = €1.22 for FY2016). Historic rate of £1 = €1.38 for FY2015.

- Andrea Sironi received a combined annualised fee of €155,000 (£126,644) for his roles as Chairman and Director of Borsa Italiana and Chairman and Director of LSEGH Italia.
- Andrea Munari received an annualised fee of €26,000 (£21,244) for his combined role as Vice Chairman and Director of Borsa Italiana, using rate of £1 = €1.22 for FY2016. Historic rate of £1 = €1.38 for FY2015.

Alignment between pay and performance**Total Shareholder Return (TSR) performance**

The following graph shows, for the financial period ended 31 December 2016 and for each of the previous seven financial periods, the TSR on a holding of the Company's ordinary shares of the same kind and number as those by reference to which the FTSE 100 is calculated. The TSR graph represents the value, at 31 December 2016, of £100 invested in London Stock Exchange Group plc on 31 March 2009, compared with the value of £100 invested in the FTSE 100 Index over the same period. As a member of the FTSE 100, we have chosen the FTSE 100 Index as it is currently the most relevant index for benchmarking our performance over the seven financial periods.

TSR chart v FTSE 100 over 8 financial periods

Directors' Remuneration Report continued

Annual Report on Remuneration

Historic levels of CEO pay

Period ended: (12 months unless otherwise stated)	CEO	CEO single total figure of remuneration (£'000)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
31 December 2016	Xavier Rolet	5,711 ⁵	91%	92% ⁵
31 December 2015	Xavier Rolet	6,526 ⁴	95%	94% ⁴
9 months ended 31 December 2014	Xavier Rolet	4,587	89% ³	50%
31 March 2014	Xavier Rolet	6,383	93%	100%
31 March 2013	Xavier Rolet	6,015	89%	100%
31 March 2012	Xavier Rolet	5,245	100%	65%
31 March 2011	Xavier Rolet	2,134	89%	—
31 March 2010	Xavier Rolet ¹	1,873	71%	—
	Clara Furse ²	400	49%	0%

Notes:

1. Xavier Rolet has been in the role of CEO from 20 May 2009, appointed to the Board 16 March 2009.
2. Clara Furse was in the role of CEO until 20 May 2009. She resigned from the Board on 15 July 2009.
3. 89% of maximum for the 9-month period to December 2014 – equivalent to 67% of annualised maximum.

4. Value shown for the period ended 31 December 2015 represents the actual vesting of LTIP awards granted in 2013 that vested on 13 June 2016 at £25.16 for both Performance awards and Matching awards.
5. Forecast for LTIPs to vest in August 2017. The estimate assumes 100% vesting of the TSR element and 83.7% vesting of the EPS element.

Percentage change in remuneration of CEO

The table to the right shows the percentage year-on-year change in salary, benefits and annual bonus for the CEO compared to the average of the representative sample of UK employees (all LSEG UK employees). Where appropriate, amounts have been annualised to provide a like-for-like comparison.

	Salary	Benefits	Annual bonus
CEO	+0%	+4% ²	+3%
Average pay of Group UK employees ¹	+3%	+3%	+5%

Notes:

1. This group has been selected to reflect the jurisdiction in which the CEO is based.
2. This change relates to taxable expenses, offset by an increase in the charges for insurance and medical benefits the CEO is entitled to receive as part of his remuneration package.

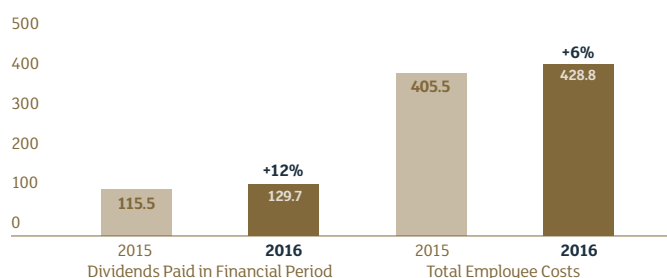
Relative importance of spend on pay

The table below shows the relative FY2016 versus FY2015 expenditure of the Group on Dividends versus Total Employee Costs. These figures are underpinned by amounts from the Notes to the Financial Statements at the back of this report.

Year-on-year increases (%)	FY2016	FY2015	Annual Increase
Dividends Paid In Financial Period	£129.7m	£115.5m	+12%
Total Employee Costs	£428.8m	£405.5m	+6%

Relative importance of spend on pay

£ m



Statement of Directors' shareholdings and share interests as at 31 December 2016 (Audited)

All Executive Directors own shares outright, at a level exceeding their minimum required shareholding of 2x base salary based on a share price of £29.14 (being the closing share price at 31 December 2016). Current shareholdings are summarised in the following table:

	Shares held	Options held ¹			Shareholding as at 31 December 2016		
	Owned Outright	Unvested and subject to performance conditions	Unvested and subject to continued employment ²	Vested but not exercised	Requirement (% salary)	31 December 2016 (% salary)	Requirement met
Executive Directors							
Xavier Rolet	601,088	292,822	51,562	–	200	2,108	Yes
David Warren	53,426	136,648	25,175	–	200	322	Yes
Raffaele Jerusalem ³	80,861	137,157	–	–	200	545 ⁴	Yes
Non-Executive Directors							
Paul Heiden	3,818	–	–	–	–	–	N/A
Jacques Aigrain	–	–	–	–	–	–	N/A
Stephen O'Connor	–	–	–	–	–	–	N/A
Donald Brydon	5,000	–	–	–	–	–	N/A
Mary Schapiro	–	–	–	–	–	–	N/A
Lex Hoogduin	–	–	–	–	–	–	N/A
David Nish	550	–	–	–	–	–	N/A
Andrea Sironi	–	–	–	–	–	–	N/A
Directors who stood down from the Board during the Year:							
Andrea Munari	–	–	–	–	–	–	N/A
Stuart Lewis	–	–	–	–	–	–	N/A
Sherry Coutu	–	–	–	–	–	–	N/A
Baroness Bowles	–	–	–	–	–	–	N/A

Notes:

1. No options were exercised by the Directors during the year to 31 December 2016.
 2. Refers to Deferred Bonus Plan and SAYE.

3. Raffaele Jerusalem elected to defer his €413,500 Deferred Bonus Plan Award, for FY2015, into cash.
 4. FY2016 rate of £1 = €1.22.

Directors' Remuneration Report continued

Annual Report on Remuneration

Directors' Interests in Ordinary Shares – Beneficial, Family and any Connected Persons Interests (Audited)

	Ordinary Shares Held		Options with performance conditions ¹		Options without performance conditions ^{2,3}		Total Interests	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Executive Directors								
Xavier Rolet	601,088	519,069	292,822	374,620	51,562 ⁴	23,688 ⁴	945,472	917,377
David Warren	53,426	24,342	136,648	150,752	25,175	11,238	215,249	186,332
Raffaele Jerusalmi ⁵	80,861	52,130	137,157	154,827			218,018	206,957
Non-Executive Directors								
Paul Heiden	3,818	3,818	–	–	–	–	3,818	3,818
Jacques Aigrain	–	–	–	–	–	–	–	–
Stephen O'Connor	–	–	–	–	–	–	–	–
Donald Brydon	5,000	5,000	–	–	–	–	5,000	5,000
Mary Schapiro	–	–	–	–	–	–	–	–
Lex Hoogduin	–	–	–	–	–	–	–	–
David Nish	550	–	–	–	–	–	550	–
Andrea Sironi	–	–	–	–	–	–	–	–
Directors who stood down from the Board during the Year:								
Andrea Munari	–	–	–	–	–	–	–	–
Stuart Lewis	–	–	–	–	–	–	–	–
Sherry Coutu	–	–	–	–	–	–	–	–
Baroness Bowles	–	–	–	–	–	–	–	–

Notes:

1. LTIP performance and matching shares are structured as nil-cost options.
2. Unvested awards in the Deferred Bonus Plan and share options granted under SAYE.
3. Deferred Bonus Plan shares are structured as nil-cost options; they are subject to continued employment and malus provisions.
4. Incorporates 1,212 SAYE options; the balance relates to Deferred Bonus Plan.
5. Raffaele Jerusalmi elected to defer his €413,500 Deferred Bonus Plan Award, for FY2015, into cash.
6. There have been no further changes in these interests between 31 December 2016 and 3 March 2017.

Long Term Incentive Plan Table

The 2004 Long Term Incentive Plan had two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the Executive in the Company's shares. The 2014 Long Term Incentive Plan has the same two elements as the 2004 LTIP; however, Executive Directors can receive conditional awards of Performance Shares only.

The awards are dependent on Absolute TSR performance for 50% of the award, with the other 50% dependent on an Adjusted EPS growth target. Details of performance conditions are set out on page 87.

The table below sets out the Executive Directors' Long Term Incentive Plan awards (including the exercise of vested shares in FY2016), as at 31 December 2016:

	Date of award	Price at award date £	Number of shares			Award during the year	Vested during year	Lapsed during year	At end of year	Vesting date	Price at vesting date £	Value at vesting date £	Exercise date	Prices at exercise date £	Value at exercise date £	Comment
			At start of year													
Xavier Rolet	12/06/2013	13.88	110,281	—	104,160	6,121	—	13/06/2016 ²	25.16	2,620,666	05/08/2016	27.68	2,883,490	FY2016 Actual		
	12/06/2013	13.88	55,140	—	52,079	3,061	—	13/06/2016 ³	25.16	1,310,308	05/08/2016	27.68	1,441,718	FY2016 Actual		
	27/08/2014	20.36	117,250	—	—	—	117,250	29/08/2017	28.06	3,021,897	—	—	—	FY2017 Estimate ¹		
	02/04/2015	24.47	91,949	—	—	—	91,949	03/04/2018	—	—	—	—	—			
	17/03/2016	28.70	—	83,623	—	—	83,623	18/03/2019	—	—	—	—	—			
			374,620	83,623	156,239	9,182	292,822	—	—	3,930,973	—	—	4,325,208	FY2016 Actual		
										3,021,897				FY2017 Estimate ¹		
David Warren	12/06/2013	13.88	58,659	—	55,403	3,256	—	13/06/2016 ²	25.16	1,393,939	05/08/2016	27.68	1,533,737	FY2016 Actual		
	27/08/2014	20.36	39,989	—	—	—	39,989	29/08/2017	28.06	1,030,641	—	—	—	FY2017 Estimate ¹		
	02/04/2015	24.47	52,104	—	—	—	52,104	03/04/2018	—	—	—	—	—	—		
	17/03/2016	28.70	—	44,555	—	—	44,555	18/03/2019	—	—	—	—	—	—		
			150,752	44,555	55,403	3,256	136,648	—	—	1,393,939	—	—	1,533,737	FY2016 Actual		
										1,030,641				FY2017 Estimate ¹		
Raffaele Jerusalmi	12/06/2013	13.88	55,530	—	52,448	3,082	—	13/06/2016 ²	25.16	1,319,592	05/08/2016	27.68	1,451,933	FY2016 Actual		
	27/08/2014	20.36	58,638	—	—	—	58,638	29/08/2017	28.06	1,511,284	—	—	—	FY2017 Estimate ¹		
	02/04/2015	24.47	40,659	—	—	—	40,659	03/04/2018	—	—	—	—	—	—		
	17/03/2016	28.70	—	37,860	—	—	37,860	18/03/2019	—	—	—	—	—	—		
			154,827	37,860	52,448	3,082	137,157	—	—	1,319,592	—	—	1,451,933	FY2016 Actual		
										1,511,284				FY2017 Estimate ¹		

Notes:

1. FY2017 Estimate: Average share price over the period from 1 October 2016 to 31 December 2016 price with vesting forecast at 91.85%.
2. Vesting of Performance shares granted on 12 June 2013 at actual vesting price of £25.16.

3. Vesting of Matching shares granted on 12 June 2013 at actual vesting price of £25.16.
4. All estimates are shown separately in bold. They will be fully disclosed in next year's Annual Report on Remuneration.

Directors' Remuneration Report continued

Annual Report on Remuneration

Remuneration Committee – Governance

The Remuneration Committee is appointed by the Board and comprises the Chair and three independent Non-Executive Directors. The Committee's remit includes the remuneration (including the awards made under the performance-related incentive schemes where applicable) of the Chairman of the Group, Executive Directors, the Executive Committee as well as other regulated staff. Please see pages 54 – 55 for details of the Group's Executive Committee.

At least three members of the Committee are considered to be independent. Details of the Committee's remit and activities are set out in this Directors' Remuneration Report. The Committee has written terms of reference which are available from the Group Company Secretary or at the corporate governance section of the Company's website at www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance.

During the financial period ending 31 December 2016, the Committee met on four occasions.

Here is a summary of the items they discussed:

	Routine	Non-Routine
February 2016:	<ul style="list-style-type: none"> – FY2015 Performance and Bonus approval – FY2016 Bonus design – FY2016 LTIP grants and anticipated vesting of previous LTIP schemes – Sharesave vesting and FY2016 grants – Performance and determination of CEO and Executive Committee members' remuneration – FY2015 Directors' Remuneration Report – LCH.Clearnet Remuneration Committee proposals – Frank Russell Company 2015 bonus and Executive Committee awards 	
April 2016	– None	– Merger-related items
September 2016:	<ul style="list-style-type: none"> – FY2016 Performance and Bonus Update – LTIP updates – Shareholder feedback – 2016 Shareholder and Governance trends – Regulatory update 	<ul style="list-style-type: none"> – Gender pay reporting – LCH Remuneration Committee representation – CurveGlobal LTIP update – Merger-related items – Shareholder consultation planning
December 2016	<ul style="list-style-type: none"> – Salary Review FY2017 – Review draft FY2016 Directors' Remuneration Report – FY2016 Performance and Bonus update – FY2017 Bonus considerations – FY2017 LTIP – LCH Remuneration Committee proposals – Review of market analysis and regulatory updates 	<ul style="list-style-type: none"> – Gender pay reporting – M&A activity – LSEG Remuneration Policy 2017-20 considerations – Merger-related items
February 2017	<ul style="list-style-type: none"> – FY2016 Performance and Bonus approval – FY2017 LTIP grants and anticipated vesting of previous LTIP and DBP schemes – Sharesave vesting and FY2017 grants – Performance and determination of CEO and Executive Committee members' remuneration – FY2016 Directors' Remuneration Report – LCH Remuneration Committee proposals – Regulatory Update 	<ul style="list-style-type: none"> – Merger-related items – Shareholder consultation planning – Gender pay reporting
This meeting took place during FY2017 and will be repeated in next year's report.		

To assist the Committee, the results of market surveys are made available. Where appropriate, the Committee invites the views of the Chief Executive Officer, Chief Financial Officer, Group Head of Human Resources and the Chief Risk Officer via the Risk Committee. None of these individuals nor the Chairman participated in any discussion relating to their own remuneration.

Statement of shareholder voting

The table below sets out the results of the vote on the Directors' Remuneration Report at the 2014 and 2016 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration Policy Report (2014 AGM)	207,082,981	94.94	11,040,635	5.06	218,123,616	206,951
Annual Report on Remuneration (2016 AGM)	251,541,604	96.86	8,155,140	3.14	259,696,744	1,124,831

Advisers

The Remuneration Committee continues to be mindful of recommendations from key stakeholders, including institutional investor bodies. The Committee consults with major shareholders on any key decisions taken.

Deloitte LLP is the principal adviser appointed by the Committee to provide independent advice on executive remuneration policy and practice, and reviews the implementation of our approved policy against current and emerging corporate governance best practice. During 2015, the Committee undertook a competitive tender process for the role of Remuneration Committee adviser and re-appointed Deloitte as its principal adviser with effect from 1 April 2016.

During the year, Deloitte LLP received £125,100 (excluding VAT) based on actual time spent for these services. In addition, Deloitte received £157,300 (excluding VAT) for advice related to the potential merger with Deutsche Börse. Separately, other parts of Deloitte LLP also advised the Company during 2016 in relation to tax, internal audit, consulting and transaction support services. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice provided by Deloitte LLP is independent and objective.

Outside appointments

Executive Directors are allowed to accept appointments as Non-Executive Directors of other companies with the prior approval of the Chairman. Approval will only be given where the appointment does not represent a conflict of interest with the Company's activities and where the wider exposure gained will be beneficial to the development of the individual. Executive Directors may retain fees to encourage them to seek out the development opportunities and valuable experience afforded by these appointments and in recognition of the personal responsibility Executives assume in such roles and we would disclose these fees.

At present, none of the Executive Directors are in receipt of additional fees.

No payments were made for loss of office during the year and no payments were made to past directors.


Jacques Aigrain

Chairman of the Remuneration Committee
3 March 2017

Directors' Report

The Directors of the Company are pleased to present their Annual Report to shareholders, together with the financial statements for the year ended 31 December 2016 with comparatives for the year ended 31 December 2015.

The following sections of the Annual Report are incorporated into this Directors' Report by reference:

- The information that fulfils the requirements of the Strategic Report (including the Financial Review) can be found on pages 2 – 53
- Board of Directors on pages 54 – 55

Results

The Group made a profit before taxation from continuing operations, before amortisation of purchased intangible assets and non-recurring items for the year, of £623.1 million (2015: £516.4million). After taking into account amortisation of purchased intangible assets and non-recurring items, the profit of the Group before taxation for the year from continuing operations was £364.1 million (2015: £336.1 million). Profit after taxation from continuing operations for the year was £262.5 million (2015: £288.0 million).

During the year the Group disposed of its interest in the Russell Investment Management business. The discontinued profit before taxation, before amortisation of purchased intangible assets and non-recurring items for the year, was £27.8 million (2015: £124.9 million). After taking into account amortisation of purchased intangible assets and non-recurring items, the profit of the discontinued operations for the year was £104.2 million (2015: £97.6 million). Loss after taxation from discontinued operations for the year was £69.6 million (2015: £69.1 million profit).

Dividends

The Directors are recommending a final dividend for the year of 31.2 pence (2015: 25.2 pence) per share which is expected to be paid on 31 May 2017 to shareholders on the register on 5 May 2017. Together with the interim dividend of 12.0 pence (2015: 10.8 pence) per share paid in September 2016, this produces a total dividend for the period of 43.2 pence (2015: 36.0 pence) per share estimated to amount to £151.3 million (2015: £125.2 million).

In addition, reflecting agreement as part of the proposed merger with Deutsche Börse AG, LSEG shareholders are entitled to receive a special dividend of 58.2 pence per share, which is an equalising payment to reflect the value attributable based on the proposed payment of a dividend by Deutsche Börse to its shareholders. The payment of the special dividend is contingent on successful completion of the proposed merger of LSEG and Deutsche Börse AG, and will be paid to LSEG shareholders on the register at the earlier of 30 June 2017 and the close of business on the date prior to closing.

Share capital

As at 31 December 2016, the Company had 350,306,374 ordinary shares in issue with a nominal value of 6 79/86 pence each, representing 100% of the total issued share capital. During the year, the Company issued 1,930,308 new ordinary shares, to settle employee share scheme awards.

Share rights

The rights and obligations attached to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Group Company Secretary.

No shareholder shall be entitled to vote at a general meeting, either in person or by proxy, in respect of any share held by him or her unless all monies presently payable by him or her in respect of that share have been paid. In addition, no shareholder shall be entitled to vote, either in person or by proxy, if he or she has been served with a notice under section 793 of the Companies Act 2006 (concerning interests in those shares) and has failed to supply the Company with the requisite information.

Other than restrictions considered to be standard for a UK-listed company, there are no limitations on the holding or transfer of ordinary shares in the Company, both of which are governed and regulated by the Company's Articles of Association and applicable legislation and regulation. The Company is not aware of any agreements between holders of shares that may result in restrictions on the transfer of shares or on voting rights.

Corporate Governance Statement

The Company's Corporate Governance Report and the reports of the Audit, Nomination and Risk Committees are set out on pages 56 – 69 and are, together with the information on share rights set out above, incorporated into this Corporate Governance Statement by reference.

Articles of Association

The Company's Articles of Association (amended by special resolution at the General Meeting held on 4 July 2016 for the purpose of giving effect to the scheme of arrangement dated 1 June 2016) may only be amended by special resolution at a general meeting of the shareholders. The Company's Articles of Association contain provisions relating to the appointment and removal of Directors.

Substantial Shareholders

As at 3 March 2017 the Company had been notified of the following interests amounting to more than 3% in the issued share capital of the Company in accordance with DTR 5 of the FCA's Disclosure, Guidance and Transparency Rules:

Qatar Investment Authority	10.31%
Blackrock, Inc	6.91%
TCI Fund Management Limited	5.05%
Lindsell Train Limited	5.00%
Invesco Limited	4.97%
Veritas Asset Management LLP	3.03%

Authority to Purchase Shares

The authority for the Company to purchase in the market up to 34,800,000 of its ordinary shares (representing 10% of the issued share capital of the Company as at the latest practicable date before publication of the Notice of the Company's last AGM) granted at the Company's last AGM, expires on the date of the forthcoming AGM. Although the latter authority has not been used by the Company, shareholders will be asked to give a similar authority to purchase shares at the forthcoming AGM.

Authority to Issue Shares

Subject to the provisions of the Companies Act 2006 and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine.

Authority to Allot Shares

The authority conferred on the Directors at last year's AGM to allot shares in the Company up to a maximum nominal amount of £8,034,000 (representing approximately 33.3% of the issued share capital of the Company as at the latest practicable date before publication of the Notice of the Company's last AGM) or, in connection with a pre-emptive offer to existing shareholders by way of a rights issue, up to a maximum nominal amount of £16,069,000 (representing approximately 66.6% of the issued share capital of the Company as at the latest practicable date before publication of the Notice of the Company's last AGM), expires on the date of the forthcoming AGM. Shareholders will be asked to give a similar authority to allot shares at the forthcoming AGM.

Directors' interests

Directors' interests in the shares of the Company as at 31 December 2016, according to the register maintained under the Companies Act 2006, are set out in the Directors' Remuneration Report on pages 91 – 92. No company in the Group was, during or at the end of the year, party to any contract of significance in which any Director was materially interested.

Directors' indemnity

Details of qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) in force during the course of the year ended 31 December 2016 can be found on page 59. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

Employees

Information on the Company's wider responsibilities in relation to employees including the Company's approach to human rights and diversity is given on page 37 and information on the Group's share schemes is provided in the Directors' Remuneration Report on pages 76 and 85. The Company provides an induction programme for new employees, including training employees on health and safety, and a range of development programmes for all employees to develop their skills and knowledge. The Group gives full consideration to applications for employment from persons with a disability where the candidate's particular aptitudes and abilities are consistent with and adequately meet the requirements of the role. The Group encourages and assists employees with a disability with training, career development and promotion opportunities, and where, existing employees become disabled, our policy is to provide continuing employment and training wherever possible. Where changes to working practices or structure affect staff, staff are consulted and given the appropriate support. All employees are provided with information on matters of concern to them in their work, through regular briefing meetings and internal publications. To inform employees of the economic and financial factors affecting our business, regular updates are posted on our intranet and engagement events are hosted, such as 'Townhall' style meetings with members of our Executive Committee and functional leaders, providing a briefing of specific areas of the business.

Environment

We are committed to using resources in ways that ensure the long-term sustainability and profitability of the business and have a positive impact on the environment. The Group's primary greenhouse gas (GHG) emissions arise from energy, waste and water in our offices and data centres around the world, from staff travel, and indirectly from our supply chain.

During the year, we achieved a 9% reduction in our overall Carbon Emissions per Full Time Employee (FTE), and are making good progress towards our 2020 targets. This significant reduction is attributed to ongoing office consolidation, improvements in our waste management processes, and data centre efficiency projects such as cold-aisle containment. Scope 1 emissions have increased due to a change in landlord usage procedures for Natural Gas in Milan. All building consumption during winter months is now assigned to LSEG.

We are taking an active approach to emissions management, with our global Environmental Management Group accurately measuring GHG impacts across our property portfolio, including managed offices where possible. We report beyond the mandatory reporting guidelines to include Scope 3 emissions. Performance is reported quarterly via our intranet, and we annually disclose through this report and via CDP.

Global 2016 GHG Emissions

(tCO ₂ e – Tonnes of carbon dioxide equivalent)	2016	2015 ²	% Change
Total Group Carbon Footprint ¹	30,900	31,237	(1.08)
per m ²	0.339	0.384	(11.72)
per FTE	6.61	7.26	(8.95)
per £m Revenue	18.63	22.02	(15.4)
Scope 1 ³	1,583	1,094	44.7
Scope 2 ⁴	21,129	22,226	(4.94)
Scope 3	6,591	6,343	3.91
Scope 3 (Electricity Transmission and Distribution)	1,597	1,574	1.46

1. Total Group Carbon Footprint and Scope 2 use market-based Scope 2 emissions factors
2. 2015 figures have been updated on receipt of annual emissions factor guidance and actual figures from suppliers
3. Combustion of fuel and operation of facilities – includes Natural Gas, Diesel, LPG, Fugitive Emissions and Fleet Vehicles
4. Purchase of electricity by the Group for its own use (the Group does not purchase heat, steam or cooling)

In addition to monitoring our environmental impact, we have set environmental targets for the next financial year that include energy, water, waste and travel. More information on these as well as full details of emissions and reporting methodology can be found in our CR report.

Directors' Report continued

Political Donations and Expenditure

During the year the Group did not make any political donations to EU or non-EU organisations, or incur any political expenditure.

It remains the Company's policy not to make political donations or to incur political expenditure; however, the application of the relevant provisions of the Companies Act 2006 is potentially very broad in nature and, as last year, the Board is seeking shareholder authority to ensure that the Group does not inadvertently breach these provisions as a result of the breadth of its business activities, although the Board has no intention of using this authority. As in previous years, the Board is proposing that shareholders pass a resolution at the forthcoming AGM to authorise the Group to:

- make political donations to political parties and independent election candidates not exceeding £100,000 in total;
- make political donations to political organisations other than political parties not exceeding £100,000 in total; and
- incur political expenditure not exceeding £100,000 in total,

provided that in any event the aggregate amount of any such donations and expenditure made or incurred by the Group shall not exceed £100,000.

Notwithstanding the Company's policy not to make political donations, the Company supported an employee-operated Political Action Committee ("PAC") that facilitated voluntary political donations by eligible Frank Russell Company employees up until 1 June 2016 when the divestment of the Russell Investment Management business took place. PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act.

The PAC was not controlled by the Company or Frank Russell Company. Decisions on the amounts and recipients of contributions are made by participating employees exercising their legal right to pool their resources and make political contributions. From 1 January 2016 – 31 May 2016, a total of US\$41,500 was donated to political organisations by the Frank Russell Company employee operated PAC.

Events since the balance sheet date

Business combinations

On 3 January 2017, the Group acquired the entire share capital in Mergent Inc. ("Mergent"), a leading global provider of business and financial information on public and private companies for cash consideration of \$144 million (£116.7 million). The acquisition will support the growth of FTSE Russell's core index offering, supplying underlying data and analytics for the creation of a wide range of indexes.

At the date of issue of these financial statements, the initial accounting for the Mergent business combination has not been completed and as such certain disclosures in respect of the acquisition cannot be made, including: the fair value and major classes of identifiable assets acquired and liabilities assumed; the goodwill arising on the business combination; the qualitative factors contributing to the recognition of goodwill; and the amount of goodwill expected to be deductible for tax purposes.

The acquisition accounting for Mergent will be finalised within twelve months of the acquisition date.

Disposal of businesses

On 3 January 2017, the Group announced that it had agreed the sale of the LCH SA business to Euronext N.V for an irrevocable cash offer of €510 million (£434.9 million). The proposed sale is subject to the review and approval by the European Commission in connection with the proposed merger of London Stock Exchange Group and Deutsche Börse, which was announced on 16 March 2016, and the receipt of various regulatory and other consents and approvals, including completion of the Works Council consultation process. It is also conditional on the successful closing of the merger.

The LCH SA business forms part of the LCH Group CGU and the Group has determined that there is no impairment of the carrying value of the goodwill in the LCH Group CGU.

On 28 February 2017, the Group completed the sale of Information Services Professional Solutions ("ISPS") a business line of Bit Market Services S.p.A. for a cash consideration of €10.5 million. The net assets disposed contained brands, intellectual property and capitalised research and development investments, used for carrying out the ISPS' business along with identified agreements with suppliers and clients and employment relationships.

The ISPS business form part of the Information Services segment and is contained within the Italian Group CGU.

Significant agreements

The following are significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

– SwapClear

LCH, along with a number of investment banks, is party to an agreement for the clearing of OTC interest rate swaps in relation to the SwapClear business. Such arrangements contain certain provisions that entitle the banks to terminate the agreement on a change of control.

– Facility Agreement

The Company (as borrower) has entered into two syndicated, committed, revolving facility agreements dated 25 June 2014 and 9 November 2015 respectively which provide an aggregate £1.2 billion of flexible financing capacity. The facilities are partially drawn and sized to provide comfortable headroom to the Group. The terms of the above agreements are consistent and appropriate for an investment grade borrower including change of control provisions which, if triggered, allow the Facility Agent, upon instructions from the majority lenders, to cancel the facility and declare all outstanding loans under the agreement, together with accrued interest and all other amounts accrued, due and payable.

– Notes

The Company has issued Sterling notes to the wholesale fixed income market due in 2019. The notes contain a 'redemption upon change of control' provision which, if triggered by the combination of a change of control and, within 120 days thereafter, a credit rating downgrade to non-investment grade, allows note holders to exercise their option to require the company to redeem the notes and pay any accrued and unpaid interest due.

– Retail Bond Issue

The Company has issued Sterling denominated retail bonds, under its £1,000 million Euro Medium Term Note Programme, which are due in 2021. The retail bonds contain change of control provisions which, if triggered, by the combination of a change of control and, within 120 days thereafter, a credit rating downgrade to non-investment grade, allow the holder of these bonds to have the option to require the Issuer to repay early or to purchase the bonds of that holder at their face value together with the accrued interest.

– Employee Share Plans

The rules of the Company's employee share plans set out the consequences of a change of control of the Company on employees' rights under the plans. Generally such rights will vest on a change of control and participants will become entitled to acquire shares in the Company (although in certain circumstances the Remuneration Committee has the discretion to defer vesting and to require rights to be exchanged for equivalent rights over the acquiring company's shares).

– Co-operation Agreement

The Company has entered into a co-operation agreement with Deutsche Börse AG and HLDCO123 plc in connection with the proposed merger between the Company and Deutsche Börse AG. This agreement contains termination provisions which, inter alia, provide for termination on notice by either party upon an offer by a third party for the Company being declared unconditional or being completed.

Employee Benefit Trust

As at 31 December 2016, the trustee of the London Stock Exchange Employee Benefit Trust, which is an independent trustee, held 376,456 shares under the terms of the trust for the benefit of employees and former employees of the Company and its subsidiaries. The trust is a discretionary trust and the shares are held to meet employees' entitlements under the Company's share plans. Employees have no voting rights in relation to the shares while they are held in trust. The trustee has full discretion to exercise the voting rights attaching to the shares or to abstain from voting. Shares acquired by employees through the Company's employee share plans rank equally with the ordinary shares in issue and have no special rights.

Branches outside the UK

Certain of the Company's subsidiaries have established branches in a number of different countries in which they operate.

Financial Risk Management

The use of financial instruments by the Group and the Group's Financial Risk Management have been specifically considered by the Directors, and relevant disclosures appear in Principal Risks and Uncertainties, on pages 50 – 51 of this Annual Report, and in the notes to the Financial Statements, on pages 123 – 127 of this Annual Report, and in each case are incorporated by reference into this Directors' Report.

Directors' statement as to disclosure of information to auditors

In accordance with Section 418(2) of the Companies Act 2006, the Directors confirm, in the case of each Director in office at the date the Directors' Report as listed on pages 54 – 55, that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Financial viability statement

In accordance with provision C.2.2 of the Code, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. A period of three years has been chosen for the purpose of this viability statement, in line with the Group's Business plan. The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's three-year business plan, the Group's risk appetite and the expected impact of a selected group of severe but plausible downside scenarios.

The business plan makes certain assumptions about the performance of the core revenue streams and segments, using existing product lines as well as assumptions on take-up of new product lines, assumptions on appropriate levels of investment to support expected performance, known inorganic activity, the ability to refinance debt as required, and expected returns to shareholders.

The plan is stress tested using a selected group of severe but plausible downside scenarios as determined relevant by the Group Risk Committee, over the full three-year plan period. Impacts on the performance of core revenue streams and segments are modelled through business inputs, with appropriate mitigating factors also considered.

The impact on the Group's cash flows, liquidity headroom, and debt covenants are detailed throughout the three-year period in each scenario. No scenario over the three-year period leads to a breach in Group covenants or an inability to meet the Group's obligations through insufficient headroom. Further, a reverse stress test has been completed, to evaluate the financial impacts required to breach the Group Risk Committee's risk appetite.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and its objectives and policies in managing the financial risks to which it is exposed and its capital are set out in the Strategic Report on pages 2 – 53. The Directors' statement in relation to going concern is set out in the Statement of Directors' Responsibilities on pages 100 – 101.

Future developments

The Executive Management team monitors future development and market trends affecting the Group and its subsidiaries on an ongoing basis. Details of these developments and trends and the potential implications for the Group can be found in the "Market trends and our response" section of the Annual Report (pages 12 – 15).


Auditors

A resolution to reappoint Ernst & Young LLP as the Company's auditors will be proposed at the AGM.

Strategic Report

The Strategic Report (pages 2 – 53) was approved by the Board on 2 March 2017 and signed on its behalf.

By Order of the Board



Lisa Condron

Group Company Secretary
3 March 2017

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Group and the Company and of the profit or loss for that year.

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;
- make judgements and accounting estimates that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and the Company's financial position and financial performance;
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006, other applicable laws and regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules, and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Overview and Strategic Report sections of the Annual Report on pages 2 – 53. In particular, the current economic conditions continue to pose a number of risks and uncertainties for the Group and these are set out in Principal Risks and Uncertainties on page 47.

The Financial Risk Management objectives and policies of the Group and the exposure of the Group to capital risk, credit risk, market risk and liquidity risk are discussed on pages 50 – 51. The Group continues to meet Group and individual entity capital requirements and day-to-day liquidity needs through the Group's cash resources and available credit facilities. Committed term funding at 31 December 2016 was £1,903.3 million which is committed until June 2017 or beyond (Period ended 2015: £2,132.2 million), described further in the Financial Review on pages 38 – 43.

The Directors have reviewed the Group's forecasts and projections, taking into account reasonably possible changes in trading performance, which show that the Group has sufficient financial resources. On the basis of this review, and after making due enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Each of the Directors, whose names and functions are set out on pages 54 – 55 of this Annual Report confirms that, to the best of their knowledge and belief:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole;
- the report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face;
- they consider that the Annual Report and Accounts 2016, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By Order of the Board



Lisa Condron

Group Company Secretary

3 March 2017

Independent Auditor's Report to the members of London Stock Exchange Group plc

Our opinion on the financial statements

In our opinion:

- London Stock Exchange Group plc's (the "Company", the "Group") consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU");
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union 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, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

London Stock Exchange Group plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2016	Balance sheet as at 31 December 2016
Consolidated income statement for the year then ended	Cash flow statement for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated cash flow statement for the year then ended	Related notes 1 to 36 to the financial statements
Consolidated statement of changes in equity for the year then ended	
Related notes 1 to 36 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement

- Risk that goodwill and purchased intangible assets may be impaired
- Risk of fraud in recognition of revenue in secondary capital markets trading, fees or revenue shares for clearing arrangements, and information services revenue accruals
- Risk that the divestment of the Russell Investment Management business was accounted for incorrectly
- Risk that the implementation of the Oracle finance system could lead to errors in data integrity, accounting or financial reporting

Audit scope

- We performed an audit of the complete financial information of seven components and audit procedures on specific balances for a further 13 components.
- The components where we performed full or specific audit procedures accounted for approximately 99% of the Group's revenue, pre-tax profit, adjusted pre-tax profit measure used to calculate materiality, and total assets.

Materiality

- Overall Group materiality is £23.3 million which represents 5% of adjusted pre-tax profit from continuing operations calculated by including the impact of the amortisation of purchased intangible assets, but excluding other non-recurring items as disclosed in Note 7 of the financial statements.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
<p>Risk that goodwill and purchased intangible assets may be impaired Balance of £3.9 billion, prior year comparative £3.5 billion</p> <p>The Group holds significant intangible assets on its balance sheet, including goodwill, customer relationships, brands, software licenses, and intellectual property.</p> <p>On an annual basis, management are required to perform an impairment assessment for goodwill, and to assess for indicators of impairment in respect of other intangible assets. Where indicators of impairment of other intangible assets are identified, a full impairment assessment is performed. These assessments involve significant management judgement in the application of valuation models and assumptions.</p> <p>As a consequence, there is a greater risk of misstatement in these balances, either by fraud or error, including through the potential override of controls by management.</p> <p>Refer to the Report of the Audit Committee (page 66); Accounting policies (page 120); and Note 15 of the Consolidated Financial Statements (pages 137 – 138).</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We confirmed our understanding of the impairment assessment process and assessed the design effectiveness of key controls, concluding that a substantive audit approach should be adopted.</p> <p>For five material cash generating units ("CGU"), we examined the cash flow forecasts which support management's impairment assessment and tested compliance with the requirements of IAS 36 'Impairment of Assets'. We assessed the reasonableness of those forecasts and the evidence supporting the underlying assumptions, by comparing to Board-approved budgets, considering prior periods' budget accuracy, and comparing the expected growth rates to relevant market expectations.</p> <p>In respect of purchased intangible assets, we tested management's assessment as to whether indicators of impairment exist, by reference to factors specific to each class of assets. Examples included customer retention rates within specific business lines and the current returns made on intellectual property.</p> <p>We tested the weighted-average cost of capital ("WACC") discount rates assigned to each of the CGUs, as well as the long-term growth rates ("LTGR"), with reference to our understanding of the business, comparisons to other similar companies and broader market considerations.</p> <p>The WACC discount rates and LTGRs applied within the impairment model were critically assessed by EY valuation specialists, including comparison to economic and industry forecasts where appropriate. We considered evidence available to support the WACC discount rates and LTGRs used, and consistency with findings from other areas of the audit.</p> <p>Together with EY valuation specialists, we assessed specific inputs in the determination of the WACC discount rates, including the risk-free rate, equity beta and market/size premium, along with gearing and cost of debt. Such inputs were benchmarked against observed risk rates in markets where the Group operates.</p> <p>We also performed sensitivity analysis on the key inputs (including WACC discount rates, LTGRs and customer retention rates) to the impairment model, to understand the impact that reasonably possible changes to key assumptions would have on the overall carrying value of the goodwill and purchased intangible assets at the balance sheet date.</p> <p>We performed recalculation of the amortisation of purchased intangible assets, and assessed that the amortisation policy had been appropriately applied. We also assessed the appropriateness of the remaining amortisation period by comparing management's forecasts against historic data.</p> <p>We also tested the reasonableness of the translation of non-Sterling balances into the Group's presentation currency.</p> <p>We performed full scope audit procedures over this risk area in six components, which covered 99.5% of the risk amount.</p>	<p>No material issues were identified when executing the audit procedures over the risk that goodwill and purchased intangible assets may be impaired.</p> <p>We concluded that the WACC discount rates, LTGRs, customer retention rates and cash flow forecasts used by management in the impairment assessment are within a reasonable range as at 31 December 2016.</p> <p>We did not identify any additional factors that would lead to a revision of the amortisation periods applied for purchased intangible assets.</p> <p>We concluded that the carrying value of goodwill and purchased intangible assets is materially correct as at 31 December 2016.</p>

Independent Auditor's Report to the members of London Stock Exchange Group plc continued

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
<p>Risk of fraud in recognition of revenue in secondary capital markets trading, fees or revenue shares for clearing arrangements, and information services revenue accruals Balance of £0.8 billion, prior year comparative £0.7 billion</p> <p>Compensation tied to the performance of the entity may create an incentive for management to manipulate results.</p> <p>We have identified three revenue streams as having heightened risk of misstatement:</p> <ul style="list-style-type: none"> – Secondary capital markets revenue (for certain business lines) involves multiple pricing structures based on product types, customer activity and volumes. This complexity leads to a heightened risk that revenue may not be recognised appropriately, either as a result of fraud or error. – Contracts relating to fee or revenue sharing in respect of clearing arrangements, between the Group's CCPs and third party participants, in some cases involve complex calculations to determine the appropriate level of revenue to recognise within the Group. – Information services revenue accruals can require estimation, for instance based on prior billings or preliminary usage. <p>As a consequence, there is a greater risk of misstatement in these balances, either by fraud or error, including through the potential override of controls by management.</p> <p>Refer to the Report of the Audit Committee (page 66); Accounting policies (page 119); and Note 4 of the Consolidated Financial Statements (pages 128 – 129).</p> <p>The risk has neither increased nor decreased in the current year.</p>	<p>We confirmed our understanding of the secondary capital markets trading, fee and revenue shares clearing arrangement and information services revenue accruals processes. On secondary capital markets trading process, we performed testing of the operating effectiveness of key controls in one full scope component and concluded that a substantive audit approach should be adopted in other components that are in scope as well as in relation to the information services revenue accruals process. We performed testing of the operating effectiveness of key controls in fee and revenue shares clearing arrangement process.</p> <p>We considered whether the revenue recognition policy is appropriate and in accordance with IFRS as adopted by the EU; performing testing on a sample basis to gain assurance that the selected contracts had been accounted for in accordance with the policy.</p> <p>We performed analytical procedures and journal entry testing in order to identify and test the risk of misstatement arising from management override of controls.</p> <p>We performed other substantive and transactional testing, including the review of debit balances, unusual items and trends.</p> <p>We also performed cut-off testing to obtain evidence that revenue is recognised in the correct period. We selected transactions on a sample basis before and after the year end to ascertain the appropriateness of revenue recognition.</p> <p>Secondary capital markets trading We increased our standard sample size for transactional testing by at least 3 times according to our statistical sampling methodology, to respond to the risk of fraud. We agreed a random selection of transactions back to supporting audit evidence, such as receipt of cash and invoices. Where appropriate, we also recalculated the fee charged and checked back to the pricing policy and tariff.</p> <p>We reconciled trading platform data to the general ledger and tested material topside adjustments.</p> <p>We also used analytical tools to identify outliers in high volumes of transactional data for focused follow-up testing. This analysis included comparing the fee per transaction to volume (notional) traded and investigating any particularly high values which were outliers to the overall population.</p> <p>Fees or revenue shares for clearing arrangements We tested revenue and fee sharing calculations for all material business lines on a sample basis and checked for consistency with the underlying contracts.</p> <p>We also used analytical tools in the analysis of the related revenue streams. This included analysing monthly trading volumes and their correlation with monthly revenue recognised; anomalies were investigated.</p> <p>Information services revenue accruals We selected a sample of revenue accruals using a lower testing threshold when compared to standard transaction testing approach. For the selected samples, we obtained supporting evidence, including customer input/consent, for accrued amounts.</p> <p>For assets under management ("AUM") based revenues, we tested the calculations and checked back to the supporting agreements. We also validated the AUM used in the calculation to an independent third party source.</p> <p>For Q4 accruals, we challenged management on the appropriateness of using Q3 information for purposes of the accruals, and performed corroborative testing.</p>	<p>No material issues were identified from the execution of our audit procedures over the risk of fraud in recognition of revenue in secondary capital markets trading, fees or revenue shares for clearing arrangements, and information services revenue accruals.</p> <p>We concluded that the revenue recognised related to secondary capital markets trading, fees or revenue shares for clearing arrangements, and information services revenue accruals for the year ended 31 December 2016 is materially correct.</p>
	<p>We performed full and specific scope audit procedures over this risk area in 10 components, which covered 100% of the risk amount.</p>	

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
<p>Risk that the divestment of the Russell Investment Management business was accounted for incorrectly</p> <p>Loss on discontinued operations £69.6 million, prior year comparative £47.7 million profit</p> <p>In light of the materiality and non-standard nature of this transaction, which occurred in H1 2016, there is a risk that the divestment was accounted for or disclosed inappropriately.</p> <p>Further, ongoing arrangements between Russell Investment Management ("Russell IM") and the Group may not be identified or appropriately accounted for.</p> <p>Refer to the Report of the Audit Committee (page 67); Accounting policies (page 118); and Notes 10 and 11 of the Consolidated Financial Statements (pages 133 – 134).</p> <p>This is a new risk this year. Our audit approach and assessment of key areas of audit focus changes in response to circumstances affecting the Group.</p>	<p>We confirmed our understanding of the divestment process and assessed the design effectiveness of key controls, concluding that a substantive audit approach should be adopted.</p> <p>We evaluated management's assessment of the closing date (being 31 May 2016) for accounting purposes and concluded that it is in accordance with IFRS as adopted by the EU.</p> <p>We inspected the final signed sale and purchase agreement ("SAPA") and agreed the purchase consideration of US\$860 million to the SAPA and the cash proceeds to the bank statements.</p> <p>We audited the deferred consideration element of the purchase price amounting to US\$150 million which is being deferred over the next four years. We engaged our EY valuation specialists to assess the appropriateness of the discount rate. We performed a corroborative assessment, including consideration of credit rating and yields, maturity tenor and illiquidity premium.</p> <p>Russell IM's assets and liabilities amounting to £1.2 billion and £0.5 billion, respectively, as at 31 May 2016, which were derecognised as at the date of disposal, were audited.</p> <p>We audited management's calculation of the loss on disposal after taxation of £88.2 million.</p> <p>We tested the related costs of disposal amounting to £12.0 million on a sample basis, and agreed them to the underlying documentation (i.e. invoices and agreements).</p> <p>We also assessed the appropriateness of the allocation of the expenses to entities within the Group, and the related tax impact.</p> <p>We tested the adjustments to the purchase consideration and agreed them to the SAPA or underlying support, including review of correspondence with the purchasers and validating management's position with management's third party advisors. The adjustments to the purchase consideration will be finalised when the completion statement has agreed by both parties.</p> <p>We tested the accuracy and appropriateness of the recycling of foreign exchange translation reserve relating to the Russell IM business.</p> <p>We involved tax specialists in auditing the tax arising on the divestment of the Russell IM business.</p> <p>We assessed the ongoing arrangements between Russell IM and the Group to ensure that they have been appropriately identified and accounted for.</p>	<p>No material issues were identified from the execution of our audit procedures over the risk that the divestment of the Russell IM business was accounted for incorrectly.</p> <p>We concluded that the accounting and the related disclosures of the divestment of the Russell IM business is materially correct, and the ongoing arrangements between Russell IM and the Group have been appropriately identified, accounted and disclosed for.</p>
		<p>We performed full scope audit procedures over this risk area in one component, which covered 100% of the risk amount.</p>

Independent Auditor's Report to the members of London Stock Exchange Group plc continued

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
<p>Risk that the implementation of the Oracle finance system could lead to errors in data integrity, accounting or financial reporting</p> <p>The implementation of a new finance system could lead to errors in data integrity, accounting or financial reporting.</p> <p>Refer to the Report of the Audit Committee (page 67).</p> <p>This is a new risk this year. Our audit approach and assessment of key areas of audit focus changes in response to circumstances affecting the Group.</p>	<p>We confirmed our understanding of the implementation of the Oracle finance system, including confirming our understanding of the relevant processes pre and post Oracle implementation.</p> <p>We assessed the following areas of the migration project:</p> <ul style="list-style-type: none"> – Governance – verification of approvals at different stages of the project and meeting minute reviews; – Data conversion – evaluation of data migration and conversion procedures, and verification of approvals for data migration; – Migration procedures – inspection of documentation for data migration procedures, evaluation of migration plan and execution against the plan; – System interface – inspection of documentation around the process flows and understanding the data flows into Oracle; and – Access' review – inspection of documentation confirming initial load of users and testing of IT general controls over user administration processes. <p>We performed audit procedures over the migrated data in the new system to the data in the previous general ledgers, including:</p> <ul style="list-style-type: none"> – Reconciliation of FY2016 opening balance to the audited FY2015 closing balances; – Substantive testing of the data which was migrated into the new general ledger, including reconciliation of transactions listings from the new system with those from the previous general ledgers; and – Testing of manual adjustments related to migration of the data (including those related to duplication of data and its manual reversal). <p>We inspected the chart of accounts and validated the mapping from the legacy ledgers, to Oracle, as well as from Oracle to the Group consolidation tool.</p> <p>We performed audit procedures in all full scope components that implemented the Oracle system in 2016.</p>	<p>Our testing identified exceptions in respect of certain IT general controls; these exceptions have been mitigated either by testing relevant compensating controls which were concluded as effective, or performing additional audit procedures. As a result, we concluded that we are able to place reliance on the Oracle finance system.</p> <p>We concluded that there were no material errors in the financial statements as a result of the implementation of the Oracle finance system.</p>

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, these enable us to form an opinion on the Group financial statements. We take into account the size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment, and other factors, such as recent Internal Audit findings, when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to make sure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 20 components covering entities headquartered within the United Kingdom, United States of America, Italy and Sri Lanka, which represent the principal business units within the Group. Of the 20 components selected, we performed an audit of the complete financial information of seven components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 13 components ("specific scope components"), we performed audit procedures on specific accounts within each component that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile.

Scope	Procedures performed by	Number of components
Full	Primary team	3
Full	Component teams	4
Specific	Primary team	12
Specific	Component teams	1
Total		20

Details of the five components which were audited by component teams are set out below:

Component	Location	Scope	Auditor
LCH.Clearnet Group Limited	United Kingdom	Full	EY
London Stock Exchange Group Holdings Italy S.p.A.	Italy	Full	EY
LSEG US Holdco Inc. (Index)	United States of America	Full	EY
LSEG US Holdco Inc. (Investment Management)	United States of America	Full	Non-EY*
Millennium Information Technologies (Private) Limited	Sri Lanka	Specific	EY

* Some specific accounts within LSEG US Holdco Inc. (Investment Management) were audited by the EY primary team.

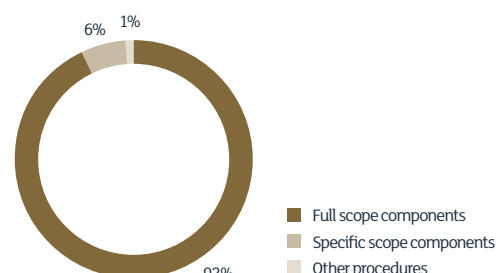
Components subject to a full scope audit account for 92% (2015: 94%) of the Group's revenue, 92% (2015: 93%) of the Group's pre-tax profit, 89% (2015: 86%) of the Group's adjusted pre-tax profit measure used to calculate materiality, and 99% (2015: 99%) of the Group's total assets.

Components subject to specific scope audit account for 7% (2015: 5%) of the Group's revenue, 6% (2015: 5%) of the Group's pre-tax profit, 11% (2015: 13%) of the Group's adjusted pre-tax profit measure used to calculate materiality, and 1% (2015: 1%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.

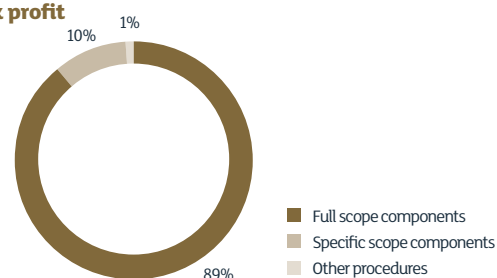
The remaining 32 components together represent less than 1% of the Group's revenue, pre-tax profit, adjusted pre-tax profit and total assets. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

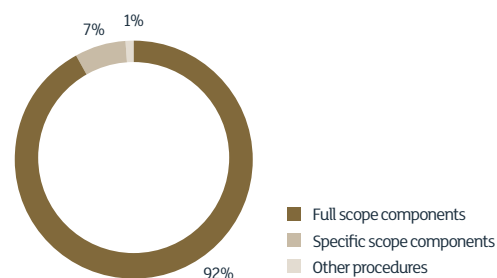
Pre-tax profit



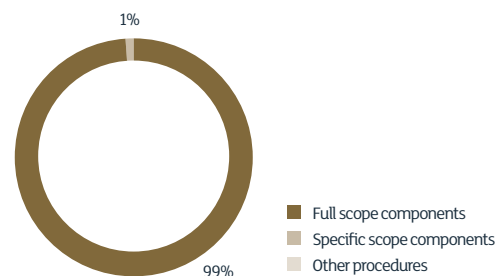
Adjusted pre-tax profit



Revenue



Total assets



Independent Auditor's Report to the members of London Stock Exchange Group plc continued

Changes from the prior year

In the prior year, we identified six full scope components. As a result of the divestment of the Russell Investment Management business in the current year, we separately scoped in LSEG US Holdco Inc. (Index) and LSEG US Holdco Inc. (Investment Management) as full scope components. All other full scope components remained consistent. Specific scope components have been re-assessed as the contribution of these smaller parts of the business to the Group financial statements varies each year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors operating under our instruction.

For the four full scope and one specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to make sure that the Senior Statutory Auditor visits the principal locations of the Group.

During the current year's audit cycle, visits were undertaken by the Senior Statutory Auditor and the primary audit team to the following locations:

Component	Location	Scope	Number of visits
LCH.Clearnet Group Limited	London, United Kingdom	Full	1
London Stock Exchange Group Holdings Italy S.p.A.	Milan, Italy	Full	2
LSEG US Holdco Inc. (Index)	New York, United States of America	Full	1
LSEG US Holdco Inc. (Investment Management)	Seattle, United States of America	Full	1
Millennium Information Technologies (Private) Limited	Colombo, Sri Lanka	Specific	1

These visits involved discussing the audit approach with the component team and any issues arising from their work, as well as meeting with local management. In addition, we participated in planning and closing meetings and reviewed selected audit working papers. The primary audit team interacted regularly with the component teams where appropriate during various stages of the audit and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at primary team level, gave us appropriate evidence for our opinion on the financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

- We determined overall materiality for the Group to be £23.3 million (2015: £18.3 million), which is 5% (2015: 5%) of adjusted pre-tax profit from continuing operations (i.e. excluding Russell Investment Management) calculated by including the impact of the amortisation of purchased intangible assets, but excluding other non-recurring items as disclosed in Note 7 of the financial statements.
- We consider the basis of our materiality to be one of the important considerations for shareholders of the Company in assessing the financial performance of the Group. It is linked to the key earnings measures discussed when the Group presents the financial results. In addition to non-recurring items, the Group also excludes amortisation of purchased intangibles to present adjusted operating profit; this amount is not excluded from our materiality calculation.
- Our overall materiality threshold provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

STARTING BASIS

- £364.1 million
- Profit before tax from continuing operations



ADJUSTMENTS

- £102.4 million
- Non-recurring items, mostly costs related to the proposed merger with Deutsche Börse, the ongoing restructuring of LCH.Clearnet and integration of Frank Russell Company



MATERIALITY

- Total of £466.5 million
- Materiality of £23.3 million (5% of materiality basis)

During the course of our audit, we reassessed initial materiality and made adjustments based on the final financial performance of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015: 50%) of our overall materiality, namely £11.7 million (2015: £9.2 million). We have set performance materiality at this percentage (which is the lowest in the range) due to misstatements which were identified in the prior year audit. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected misstatements does not exceed our overall materiality of £23.3 million for the Group financial statements as a whole.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole, and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was as follows:

Component	Allocated performance materiality
London Stock Exchange Group plc	£ 2.4m
London Stock Exchange plc	£ 6.5m
LCH.Clearnet Group Ltd	£ 3.6m
London Stock Exchange Group Holdings Italy S.p.A.	£ 5.9m
LSEG US Holdco, Inc. (Index)	£ 3.6m
LSEG US Holdco, Inc. (Investment Management)	£ 6.5m
FTSE International Ltd	£ 3.6m
All specific scope components	£ 1.2m

Reporting threshold

An amount below which identified misstatements are considered to be clearly trivial

The Audit Committee requested that we report to them all uncorrected audit differences in excess of £0.5 million (2015: £0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This is less than the threshold of 5% of overall materiality that we would typically use,

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 100 – 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- based on the work undertaken in the course of the audit:
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
 - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the members of London Stock Exchange Group plc continued

Matters on which we are required to report by exception

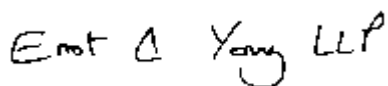
ISAs (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report and accounts appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.</p> <p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> – 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 and the part of the Directors' Remuneration Report to be audited 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. 	We have no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> – the directors' statement in relation to going concern, set out on page 100, and longer-term viability, set out on page 99; and – the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. 	We have no exceptions to report.

Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity**ISAs (UK and Ireland) reporting**

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.


David Canning-Jones (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
3 March 2017

Notes:

1. The maintenance and integrity of the London Stock Exchange Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

Year ended 31 December 2016		Year ended 31 December 2016			Year ended 31 December 2015		
	Notes	Before acquisition amortisation and non-recurring items £m	Acquisition amortisation and non-recurring items £m	Total £m	Before acquisition amortisation and non-recurring items £m	Acquisition amortisation and non-recurring items £m	Total £m
Continuing operations							
Revenue	4	1,515.6	–	1,515.6	1,324.7	–	1,324.7
Net treasury income through CCP business	4	124.8	–	124.8	85.7	–	85.7
Other income	4	16.7	–	16.7	8.2	–	8.2
Total income		1,657.1	–	1,657.1	1,418.6	–	1,418.6
Cost of sales	4	(174.8)	–	(174.8)	(125.5)	–	(125.5)
Gross profit		1,482.3	–	1,482.3	1,293.1	–	1,293.1
Expenses							
Operating expenses	5, 7	(791.6)	(259.0)	(1,050.6)	(708.4)	(180.8)	(889.2)
Gain on disposal of assets held for sale	7	–	–	–	–	0.5	0.5
Share of loss after tax of associates	4, 16	(4.9)	–	(4.9)	–	–	–
Operating profit/(loss)	7	685.8	(259.0)	426.8	584.7	(180.3)	404.4
Finance income		7.1	–	7.1	2.9	–	2.9
Finance expense		(69.8)	–	(69.8)	(71.2)	–	(71.2)
Net finance expense	8	(62.7)	–	(62.7)	(68.3)	–	(68.3)
Profit/(loss) before tax from continuing operations		623.1	(259.0)	364.1	516.4	(180.3)	336.1
Taxation	9	(140.4)	38.8	(101.6)	(124.1)	76.0	(48.1)
Profit/(loss) for the year from continuing operations		482.7	(220.2)	262.5	392.3	(104.3)	288.0
Discontinued operations							
Profit/(loss) after tax for the year from discontinued operations	10	18.6	(88.2)	(69.6)	90.8	(21.7)	69.1
Profit/(loss) for the year		501.3	(308.4)	192.9	483.1	(126.0)	357.1
Equity holders							
Profit/(loss) for the year from continuing operations		435.1	(212.5)	222.6	358.7	(99.1)	259.6
Profit/(loss) for the year from discontinued operations	10	17.5	(88.2)	(70.7)	90.4	(21.7)	68.7
Profit/(loss) for the year attributable to equity holders		452.6	(300.7)	151.9	449.1	(120.8)	328.3
Non-controlling interests							
Profit/(loss) for the year attributable to non-controlling interests from continuing operations		47.6	(7.7)	39.9	33.6	(5.2)	28.4
Profit for the year attributable to non-controlling interests from discontinued operations	10	1.1	–	1.1	0.4	–	0.4
Profit/(loss) for the year attributable to non-controlling interests		48.7	(7.7)	41.0	34.0	(5.2)	28.8
		501.3	(308.4)	192.9	483.1	(126.0)	357.1
Earnings per share attributable to equity holders							
Basic earnings per share	12			43.5p			94.6p
Diluted earnings per share	12			42.6p			93.2p
Adjusted basic earnings per share	12			129.7p			129.4p
Adjusted diluted earnings per share	12			127.2p			127.6p
Earnings per share for continuing operations attributable to equity holders							
Basic earnings per share	12			63.8p			74.8p
Diluted earnings per share	12			62.5p			73.7p
Adjusted basic earnings per share	12			124.7p			103.4p
Adjusted diluted earnings per share	12			122.3p			101.9p
Dividend per share in respect of the financial year:							
Dividend per share paid during the year	13			12.0p			10.8p
Dividend per share declared for the year	13			31.2p			25.2p

The notes on pages 118 to 168 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

Year ended 31 December 2016		Year ended 31 December 2016	Year ended 31 December 2015
	Notes	£m	£m
Profit for the financial year		192.9	357.1
Other comprehensive income/(loss):			
Items that will not be subsequently reclassified to profit or loss			
Defined benefit pension scheme remeasurement (loss)/gain	19	(57.8)	7.8
Income tax relating to these items	9	14.7	(2.8)
		(43.1)	5.0
Items that may be subsequently reclassified to profit or loss			
Net investment hedges		(73.9)	27.6
Change in value of available for sale financial assets		7.5	3.7
Exchange gain/(loss) on translation of foreign operations		491.6	(62.6)
Income tax relating to these items	9	(1.4)	—
		423.8	(31.3)
Other comprehensive gain/(loss) net of tax		380.7	(26.3)
Total comprehensive income for the financial year		573.6	330.8
Attributable to non-controlling interests		97.8	16.8
Attributable to equity holders		475.8	314.0
Total comprehensive income for the financial year		573.6	330.8

The notes on pages 118 to 168 form an integral part of these consolidated financial statements.

Balance sheets

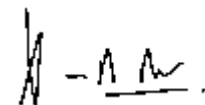
At 31 December 2016

At 31 December 2016		Group		Company	
		2016 £m	2015 £m	2016 £m	2015 £m
	Notes				
Assets					
Non-current assets					
Property, plant and equipment	14	107.8	93.9	—	—
Intangible assets	15	4,123.5	3,704.2	—	—
Investment in associates	16	3.3	0.3	7.8	—
Investment in subsidiary undertakings	17	—	—	5,365.2	4,896.8
Deferred tax assets	18	68.0	34.6	—	—
Derivative financial instruments	21	—	22.4	—	22.4
Available for sale investments	21	27.9	61.0	—	—
Retirement benefit asset	19	1.8	25.2	—	—
Other non-current assets	21	88.2	46.0	12.5	—
		4,420.5	3,987.6	5,385.5	4,919.2
Current assets					
Inventories		3.3	3.7	—	—
Trade and other receivables	20	636.6	331.3	473.5	550.2
Derivative financial instruments	21	—	25.5	—	25.1
CCP financial assets		504,832.7	428,244.3	—	—
CCP cash and cash equivalents (restricted)		53,553.2	28,444.2	—	—
CCP clearing business assets	21	558,385.9	456,688.5	—	—
Current tax		124.1	7.2	—	—
Assets held at fair value	21	74.4	9.9	—	—
Cash and cash equivalents	23	1,150.7	923.9	1.2	0.9
		560,375.0	457,990.0	474.7	576.2
Assets held for sale	10	—	1,273.6	—	—
Total assets		564,795.5	463,251.2	5,860.2	5,495.4
Liabilities					
Current liabilities					
Trade and other payables	24	601.1	452.4	203.5	201.9
CCP clearing business liabilities	21	558,478.3	456,663.3	—	—
Current tax		61.5	3.5	—	—
Borrowings	25	618.7	930.2	274.4	338.6
Provisions	27	0.6	1.5	—	—
		559,760.2	458,050.9	477.9	540.5
Liabilities directly associated with assets held for sale	10	—	539.0	—	13.4
Non-current liabilities					
Borrowings	25	547.2	678.7	547.2	546.5
Other non-current payables	21, 24	—	43.5	—	—
Derivative financial instruments	21	19.3	—	19.3	—
Deferred income		—	2.2	—	—
Deferred tax liabilities	18	704.7	625.6	—	—
Retirement benefit obligations	19	75.1	40.6	—	—
Other non-current liabilities	21	65.5	65.3	—	—
Provisions	27	9.8	9.3	—	—
		1,421.6	1,465.2	566.5	546.5
Total liabilities		561,181.8	460,055.1	1,044.4	1,100.4
Net assets		3,613.7	3,196.1	4,815.8	4,395.0
Equity					
Capital and reserves attributable to the Company's equity holders					
Ordinary share capital	28	24.2	24.0	24.2	24.0
Share premium	28	961.3	960.0	961.3	960.0
Retained earnings		259.2	255.3	2,011.8	1,592.5
Other reserves		1,861.2	1,504.6	1,818.5	1,818.5
Total shareholders' funds		3,105.9	2,743.9	4,815.8	4,395.0
Non-controlling interests		507.8	452.2	—	—
Total equity		3,613.7	3,196.1	4,815.8	4,395.0

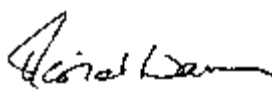
The Company recorded profit for the year of £531.2 million (2015: £54.1 million).

The notes on pages 118 to 168 form an integral part of these consolidated financial statements.

The financial statements on pages 112 to 168 were approved by the Board on 2 March 2017 and signed on its behalf by:



Xavier Rolet
Chief Executive



David Warren
Chief Financial Officer

3 March 2017

London Stock Exchange Group plc. Registered number 5369106

Cash flow statements

Year ended 31 December 2016

	Notes	Group		Company	
		Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
		£m	£m	£m	£m
Cash flow from operating activities					
Cash generated from operations	29	598.3	670.4	(65.0)	118.2
Interest received		6.2	1.8	13.4	–
Interest paid		(67.0)	(65.2)	(58.7)	(51.5)
Corporation tax paid		(315.7)	(172.3)	–	–
Withholding tax paid		(0.8)	(0.5)	–	–
Net cash inflow/(outflow) from operating activities		221.0	434.2	(110.3)	66.7
Cash flow from investing activities					
Purchase of property, plant and equipment		(33.6)	(30.1)	–	–
Purchase of intangible assets		(112.2)	(87.2)	–	–
Disposal proceeds from sale of property, plant and equipment and assets held for sale		0.1	5.8	–	–
Net proceeds from sale of a disposal group	11	594.3	21.8	–	–
Cash disposed as part of a disposal group	11	(185.2)	(0.3)	–	–
Costs in relation to sale of a disposal group	11	(12.0)	–	–	–
Investment in other acquisition		–	(1.5)	–	–
Investment in subsidiaries		–	–	(470.0)	–
Investment in associates	16	(7.8)	–	(7.8)	–
Acquisition of businesses	31	(1.0)	(2.9)	–	–
Net cash inflow from acquisitions		–	0.2	–	–
Dividends received		0.5	8.2	536.5	125.2
Net cash inflow/(outflow) from investing activities		243.1	(86.0)	58.7	125.2
Cash flow from financing activities					
Dividends paid to shareholders	13	(129.7)	(115.5)	(129.7)	(115.5)
Dividends paid to non-controlling interests		(15.4)	(7.2)	–	–
Capital contributions in relation to non-controlling interests		20.2	12.7	–	–
Arrangement fee paid		(1.2)	–	(1.2)	–
Loans to subsidiary companies		–	–	(75.0)	(39.4)
Loans from subsidiary companies		–	–	336.6	–
Proceeds from exercise of employee share options		0.3	2.4	0.3	2.4
Proceeds from issue of shares		1.2	–	1.2	–
Payments to shareholders on exercise of options		(3.0)	–	–	–
Repayments of finance lease		(3.0)	(6.8)	–	–
Net repayments of borrowings		(547.0)	(143.5)	(80.3)	(38.7)
Net cash (outflow)/inflow from financing activities		(677.6)	(257.9)	51.9	(191.2)
(Decrease)/increase in cash and cash equivalents		(213.5)	90.3	0.3	0.7
Cash and cash equivalents at beginning of year		1,176.4	1,127.2	0.9	0.2
Exchange gain/(loss) on cash and cash equivalents		187.8	(41.1)	–	–
Cash and cash equivalents at end of year		1,150.7	1,176.4	1.2	0.9
Cash and cash equivalents at end of year from continuing operations	21	1,150.7	923.9	1.2	0.9
Cash and cash equivalents at end of year from discontinued operations		–	252.5	–	–
Cash and cash equivalents at end of year		1,150.7	1,176.4	1.2	0.9

The notes on pages 118 to 168 form an integral part of these consolidated financial statements.

Group cash flow does not include cash and cash equivalents held by the Group's Post Trade operations on behalf of its clearing members for use in its operation as manager of the clearing and guarantee system. These balances represent margins and default funds held for counterparties for short periods in connection with this operation.

Statements of changes in equity

Year ended 31 December 2016		Attributable to equity holders					Non-controlling interests	Total equity
Group	Notes	Ordinary share capital	Share premium	Retained earnings/(losses)	Other reserves	Total attributable to equity holders		
		£m	£m	£m	£m	£m	£m	£m
31 December 2014		23.9	957.7	20.0	1,524.9	2,526.5	428.8	2,955.3
Profit for the year		—	—	328.3	—	328.3	28.8	357.1
Other comprehensive income/(loss) for the year		—	—	6.0	(20.3)	(14.3)	(12.0)	(26.3)
Issue of shares	28	0.1	2.3	—	—	2.4	—	2.4
Interim dividend relating to the period ended 31 December 2014	13	—	—	(33.6)	—	(33.6)	—	(33.6)
Final dividend relating to the period ended 31 December 2014	13	—	—	(44.4)	—	(44.4)	—	(44.4)
Interim dividend relating to the year ended 31 December 2015	13	—	—	(37.5)	—	(37.5)	—	(37.5)
Dividend payments to non-controlling interests		—	—	—	—	—	(7.2)	(7.2)
Employee share scheme expenses		—	—	10.8	—	10.8	—	10.8
Tax in relation to employee share scheme expenses		—	—	5.7	—	5.7	—	5.7
Capital contributions in relation to non-controlling interest		—	—	—	—	—	13.8	13.8
31 December 2015		24.0	960.0	255.3	1,504.6	2,743.9	452.2	3,196.1
Profit for the year		—	—	151.9	—	151.9	41.0	192.9
Other comprehensive (loss)/income for the year		—	—	(31.9)	355.8	323.9	56.8	380.7
Issue of shares	28	0.2	1.3	—	—	1.5	—	1.5
Final dividend relating to the year ended 31 December 2015	13	—	—	(87.7)	—	(87.7)	—	(87.7)
Interim dividend relating to the year ended 31 December 2016	13	—	—	(42.0)	—	(42.0)	—	(42.0)
Dividend payments to non-controlling interests		—	—	—	—	—	(18.9)	(18.9)
Net contributions in relation to non-controlling interest		—	—	—	—	—	14.5	14.5
Employee share scheme expenses		—	—	19.5	—	19.5	—	19.5
Tax in relation to employee share scheme expenses		—	—	4.0	—	4.0	0.4	4.4
Purchase of non-controlling interest within acquired subsidiary		—	—	(9.9)	—	(9.9)	—	(9.9)
Disposal of business		—	—	—	0.8	0.8	(38.2)	(37.4)
31 December 2016		24.2	961.3	259.2	1,861.2	3,105.9	507.8	3,613.7

The notes on pages 118 to 168 form an integral part of these consolidated financial statements.

Shares held in the Employee Benefit Trust to settle exercises on employee share awards were 376,456 (2015: 462,378).

Other reserves comprise the following:

Merger reserve of £1,304.3 million (2015: £1,304.3 million), a distributable reserve arising on consolidation when the Company issued shares as part of the consideration to acquire subsidiary undertakings.

Capital redemption reserve of £514.2 million (2015: £514.2 million), a non-distributable reserve set up as a result of a court approved capital reduction.

Reverse acquisition reserve of £(512.5) million (2015: £(512.5) million), a non-distributable capital reserve arising on consolidation as a result of the capital reduction scheme.

Foreign exchange translation reserve of £489.9 million (2015: £184.3 million), a non-distributable reserve reflecting the impact of foreign currency changes on the translation of foreign operations.

Hedging reserve of £65.3 million (2015: £14.3 million), a non-distributable reserve representing the cumulative fair value adjustment recognised in respect of net investment and cash flow hedges undertaken in accordance with hedge accounting principles.

Company	Attributable to equity holders					
	Notes	Ordinary share capital	Share premium	Retained earnings	Other reserves	
					Capital redemption reserve	Merger reserve
		£m	£m	£m	£m	£m
31 December 2014		23.9	957.7	1,641.2	514.2	1,304.3
Profit for the year		–	–	54.1	–	–
Issue of shares	28	0.1	2.3	–	–	–
Interim dividend relating to the period ended 31 December 2014	13	–	–	(33.6)	–	–
Final dividend relating to the period ended 31 December 2014	13	–	–	(44.4)	–	–
Interim dividend relating to the year ended 31 December 2015	13	–	–	(37.5)	–	–
Employee share scheme expenses		–	–	12.7	–	–
31 December 2015		24.0	960.0	1,592.5	514.2	1,304.3
Profit for the year		–	–	531.2	–	–
Issue of shares	28	0.2	1.3	–	–	–
Final dividend relating to the year ended 31 December 2015	13	–	–	(87.7)	–	–
Interim dividend relating to the year ended 31 December 2016	13	–	–	(42.0)	–	–
Employee share scheme expenses		–	–	17.8	–	–
31 December 2016		24.2	961.3	2,011.8	514.2	1,304.3

The notes on pages 118 to 168 form an integral part of these financial statements.

Notes to the financial statements continued

1. Basis of preparation and accounting policies

The Company's and Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention as modified by the revaluation of assets and liabilities held at fair value and on the basis of the Group's accounting policies.

The Group uses a columnar format for the presentation of its consolidated income statement. This enables the Group to aid the reader's understanding of its results by presenting profit for the year before amortisation of purchased intangible assets and non-recurring items. This is the profit measure used to calculate adjusted earnings per share and is considered to be the most appropriate as it best reflects the Group's underlying, recurring cash earnings and is the primary measure of performance monitored by the Group's Executive Committee. Profit before acquisition amortisation and non-recurring items is reconciled to profit before taxation on the face of the income statement.

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries with all inter-company balances and transactions eliminated, together with the Group's attributable share of the results of associates. The results of subsidiaries sold or acquired are included in the income statement up to, or from, the date that control passes. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements.

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Upon completion of the Group's fair value exercise, comparatives are revised up to 12 months after the acquisition date, for the final fair value adjustments. Further details are provided in Note 31. Adjustments to fair values include those made to bring accounting policies into line with those of the Group.

The Group applies a policy of treating transactions with non-controlling interests through the economic entity model. Transactions with non-controlling interests are recognised in equity. Where the non-controlling interest has an option to dispose of their holding to the Group, then these costs are recognised at the fair value of the option at the balance sheet date.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. Comparatives are also re-presented to reclassify disposed businesses or held for sale businesses as discontinued operations.

Investments in subsidiaries shares, loans and other contributions are recognised at cost. These are reviewed for impairment when events indicate the carrying amount may not be recoverable and are accounted for in the Company's financial statements at cost less accumulated impairment losses.

Recent accounting developments

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) and IFRIC and have been adopted in these financial statements:

- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interests in other entities' and IAS 28, 'Associates and joint ventures' on applying the consolidated exception for investment entities;
- Amendments to IFRS 11, 'Joint arrangements' on accounting for acquisitions of interest in joint operations;
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 27, 'Separate financial statements' on equity method in separate financial statements;
- Proposed amendments to IAS 1, 'Presentation of financial statements' disclosure initiative; and
- Annual Improvements 2012-2014.

The adoption of these standards did not have a material impact on these consolidated financial statements.

The following standards and interpretations were issued by the IASB and IFRIC, but have not been adopted either because they were not endorsed by the EU at 31 December 2016 or they are not yet mandatory and the Group has not chosen to early adopt. The impact on the Group's financial statements of the above future standards, amendments and interpretations is still under review, and where appropriate, a description of the impact of certain standards and amendments is provided below:

International accounting standards and interpretations	Effective date
IFRS 14, 'Regulatory deferral accounts'	1 January 2016
Amendment to IAS 7, 'Statement of cash flows' on changes in liabilities arising from financing activities	1 January 2017
Amendment to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealised losses	1 January 2017
Amendment to IFRS 2, 'Share-based payment' on classification and measurement of share-based payment transactions	1 January 2018
Amendment to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'	1 January 2018
IFRS 9, 'Financial instruments' on classification and measurement and amendments regarding general hedge accounting	1 January 2018
IFRS 15, 'Revenue from contracts with customers'	1 January 2018
IFRS 16, 'Leases'	1 January 2019

IFRS 15 'Revenue from contracts' with customers introduces new accounting principles for revenue recognition for all types of sales of goods or services. It is effective from 1 January 2018 and as a result the Group will adopt IFRS 15 in both the interim and annual 2018 financial statements. IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers, and replaces the separate models for goods, services and construction contracts currently included in IAS 11 'Construction Contracts' and IAS 18 'Revenue'.

Based on the provisional assessment, the key areas of judgement expected on initial adoption of IFRS 15 are in relation to: (i) the timing of revenue recognition for services provided; (ii) the measurement of variable consideration which changes against to factors outside of the Group's control; and (iii) how performance obligations are satisfied in contracts providing several services to customers. The Group will continue to assess the impact during 2017.

IFRS 9 'Financial instruments' is effective for the year ended 31 December 2018 and will simplify the classification of financial assets for measurement purposes. The implementation of IFRS 9 is not currently expected to have a significant impact on the financial statements; however, the Group will finalise its assessment of the new standard in 2017.

IFRS 16 'Leases' is effective for the year ended 31 December 2019 (not yet endorsed by the EU) and will require all leases to be recognised on the balance sheet. Currently, IAS 17 'Leases' only requires leases categorised as finance leases to be recognised on the balance sheet, with leases categorised as operating leases not recognised. In broad terms, the impact will be to recognise a lease liability and corresponding asset for the operating lease commitments set out in note 32.

Accounting policies

Income Statement

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes.

Revenue is recognised in the period when the service or supply is provided. The sources of revenue are:

- a) Maintenance contracts, membership and other fees – revenue is recognised on a straight-line basis over the period to which the fee relates;
- b) Admission fees – revenue is recognised at the time of admission to trading;
- c) Clearing fee income and rebates, together with other fee income and net settlement fees, are recognised on a transaction by transaction basis in accordance with the Group's fee scales;
- d) Royalties – revenue is recognised at the date at which they are earned or measurable with certainty;
- e) IT products – where there is no significant service obligation the revenue is recognised upon delivery and acceptance of the software or hardware by the customer, in other circumstances revenue is recognised on provision of contracted services;
- f) IT solutions – where software is sold requiring significant modification, integration or customisation, the consideration is allocated between the different elements on a fair value basis. Revenue is recognised using a percentage of completion method. The stage of completion is determined by reference to the costs incurred to date as a proportion of the total estimated costs or the services performed to date as a percentage of total services to be performed. Provision is made for all foreseeable future losses in the period in which they are identified;
- g) Software and Licence fees – revenue is recognised when the performance under the contract has occurred and the revenue has been earned; and
- h) Other – all other revenue is recognised in the month in which the service is provided. The Borsa Italiana Group defers some of the income received from cash trading and FTSE MIB futures trading and clearing. This deferral results in revenues being recognised at the average price of transactions forecast for the full year, as pricing levels reduce during the year when incremental volume targets are achieved.

The main source of revenue is through fees.

Cost of sales

Cost of sales comprises data and licence fees, data feed costs, expenses incurred in respect of revenue share arrangements and costs incurred in the MillenniumIT business that are directly attributable to the construction and delivery of customers' goods or services, and any other costs linked and directly incurred to generate revenues and provide services to customers.

Non-recurring items

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

Pension costs

The Group operates defined benefit and defined contribution pension schemes. For the defined benefit schemes the service cost, representing benefits accruing to employees, is included as an operating expense. The interest cost and expected return on plan assets is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions or differences between actual and expected returns on assets are recognised at each period end net of tax in the statement of comprehensive income. The net asset or liability recognised on the balance sheet comprises the difference between the present value of pension obligations and the fair value of scheme assets. For defined contribution schemes, the expense is charged to the income statement as incurred.

Share based compensation

The Group operates a number of equity settled share based compensation plans for employees. The charge to the income statement is determined by the fair value of the options granted or shares awarded at the date of grant and recognised over the relevant vesting period.

Foreign currencies

The consolidated financial statements are presented in Sterling, which is the Company's presentation and functional currency.

Foreign currency transactions are converted into the functional currency using the rate ruling at the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Exceptions to this are where the non-monetary items form part of the net investment in a foreign operation or are designated as hedges of a net investment, or as cash flow hedges. Such exchange differences are initially recognised in equity.

The results and financial position of all Group entities that have a functional currency different from the presentation currency are converted into the presentation currency as follows:

- a) assets and liabilities including goodwill, purchased intangible assets and fair value adjustments are converted at the closing balance sheet rate;
- b) income and expenses are translated and recorded in the income statement at the rate prevailing at the date of the transaction; and
- c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowing and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Finance income and expense

Finance income and expense comprises interest earned on cash deposited with financial counterparties and interest paid on borrowings which reflect the agreed market-based or contractual rate for each transaction undertaken during the financial period, and calculated using the effective interest rate method.

Recurring fees and charges levied on committed bank facilities and the payments and cash management transactions and services provided by the Group's banks are charged to the income statement as accrued. Credit facility arrangement fees are capitalised and then amortised back to the income statement over the term of the facility subject to projected utilisation. Fees and charges are included within other finance costs.

Fair value gains and losses on financial instruments include the movement in the market valuations of derivative instruments held as fair value hedges.

Notes to the financial statements continued

Balance Sheet

Property, plant and equipment

Property, plant and equipment are included in the financial statements at cost less accumulated depreciation and any provision for impairment.

Freehold buildings, fixed plant and plant and equipment are stated at cost and are depreciated to residual value on a straight line basis over the estimated useful economic lives of the assets which are as follows:

- a) Freehold buildings – 30 to 50 years;
- b) Fixed plant – 3 to 20 years; and
- c) Plant and equipment – 3 to 15 years.

Leasehold properties and improvements are included at cost and depreciated to residual value over the shorter of the period of the lease or the useful economic life of the asset.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis. Lease incentives are spread over the term of the lease.

The Group leases certain plant and equipment where the Group has substantially all the risks and rewards of ownership. These are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance charge and the liability so as to achieve a constant rate on the finance balance outstanding. Plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Intangible assets

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

On the acquisition of a business, fair values are attributed to the assets and liabilities acquired. These may include brand names, customer relationships, licences and software intellectual property, all of which are recorded as intangible assets and held at cost less accumulated amortisation. These assets are amortised on a straight line basis over their useful economic lives which are as follows:

- a) Customer and supplier relationships – two to 25 years (material assets are amortised over a life exceeding 15 years);
- b) Brands – 10 to 25 years (material assets are amortised over a life of 25 years); and
- c) Software licenses and intellectual property – two to 25 years (the majority of material assets are amortised over a life not exceeding 5 years).

The useful economic lives are based on management's best estimates such as attrition rates on customer relationships, product upgrade cycles for software and technology assets, market participant perspective for brands and pace of change of regulation for business.

Third party software costs for the development and implementation of systems which enhance the services provided by the Group are capitalised and amortised over their estimated useful economic lives of three to five years.

Internal product development expenditure is capitalised if the costs can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are probable and the Group has sufficient resources to complete the development and to use or sell the asset. The assets are recorded at cost including labour, directly attributable costs and any third party expenses, and amortised over their useful economic lives of three to five years.

Intangible assets are assessed for any indicators of impairment at each balance sheet date. Where indicators of impairment for a particular intangible asset are identified, a full impairment assessment is performed, with any diminution in value recognised in the income statement. When performing any impairment assessment, in addition to considering matters particular to the relevant Group business area, management evaluates the overall value of the asset from the perspective of a market participant. Accordingly, any reduction in value recorded represents the Group's view of the market fair value of the intangible asset.

Current and non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for trade or consumption in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Current and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

Full provision is made, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is determined using tax rates that are substantially enacted at the balance sheet date and are expected to apply when the asset is realised or liability settled. Deferred tax assets are recognised to the extent it is probable that they will be recoverable against future taxable profits.

Financial assets and liabilities

Financial assets (excluding clearing business)

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale and loans and receivables. The classification of the Group's financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for liquidity purposes, they are initially recognised at fair value and any subsequent changes in fair value are recognised directly in the income statement. These assets are financial instruments not designated as hedges.
- b) Available-for-sale financial assets
Investments (other than term deposits and interests in joint ventures, associates and subsidiaries) are designated as available-for-sale and are recorded on trade date at fair value plus transaction costs with changes in fair value recognised in equity. Cumulative fair value gains or losses on an asset are recycled through the income statement when the asset is disposed or impaired. Where the fair value is not reliably measurable, the investment is held at cost less any provision for impairment. Assets such as shares in clearing and payment transmission operations and long-term equity investments that do not qualify as associates or joint ventures are usually classified as available-for-sale.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Financial assets are derecognised when the right to receive cash-flows from the assets has expired, or has been transferred, and the Group has transferred substantially all of the risks and rewards of ownership.

Financial liabilities

Financial liabilities are classified at initial recognition as either financial liabilities at fair value through profit or loss or financial liabilities at amortised cost. Financial liabilities at fair value through profit and loss include CCP financial liabilities (see below) and other non-current liabilities. Financial liabilities at amortised cost include trade and other payables, borrowings and provisions.

Subsequent to initial recognition, financial liabilities at amortised cost are measured using the effective interest rate method, with gains and losses recognised in finance income and expenses respectively. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities of the central counterparty (CCP) business

Assets and liabilities of the CCP clearing service relate to subsidiaries that perform the CCP clearing business. The activities include clearing of financial derivatives, equities and bond transactions on regulated markets. The Group enters into a contractual arrangement in respect of each side of the transaction, bears the risk associated with counterparties failing to honour their obligations and, in the event of a failure to deliver by any counterparty, is required itself to complete the delivery. Accordingly, the Group must record an asset and a liability on its balance sheet in respect of each of the sale and purchase sides of each transaction. However, except in respect of failed transactions the Group as a CCP clearer does not bear any price risk and the value of the sale and purchase side of each transaction are the same; consequently, the principal CCP asset and liability amounts largely match each other. The Group has adopted the settlement date as the reference date for recognising financial assets.

Income recognised through the CCP clearing business includes net treasury income earned on margin and default funds, held as part of our risk management process, and is shown separately from the Group revenues. Net treasury income is the result of interest earned on cash assets lodged with the clearing house, less interest paid to the members on their initial margin and default fund contributions. Net treasury income has been shown separately on the face of the income statement to distinguish this income stream from revenues arising from the Group's other activities and provides the reader with a greater understanding of the operating activities of the Group. Where negative interest rates apply, the Group recognises interest paid on cash assets as a net treasury expense and interest received on clearing member's margin as net treasury income.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Accounting treatments of CCP financial assets and liabilities include the following:

- a) **Derivatives, trading assets and liabilities**
These transactions are initially recorded at fair value, and are subsequently re-measured on the basis of the market price of each derivative instrument at the period end. Since the asset and liability positions of the CCP clearer are matched, the same amount is recorded for both the assets and liabilities and no net fair value gains or losses are recognised in the income statement.
- b) **Receivables for and liabilities under repurchase transactions**
These represent repurchase transactions (repos) by clearing members using the Group's clearing and guarantee service. They represent the value of transactions already settled spot and not yet settled at term. These transactions are initially recognised at fair value and are subsequently measured at amortised cost, by allocating the yield on the repo pro-rated over the duration of the contract (the coupon accrued in the period and the difference between the spot and forward prices). Since the asset and liability positions for repos are matched, the same amount is recorded for both assets and liabilities and no gain or loss is recorded in the income statement.
- c) **Other receivables from and payables to clearing members and default funds**
These comprise accounts receivable and payable deriving from the activities of clearing members in derivatives, equities and bond transactions. They mainly represent amounts to be received or paid in relation to initial and variation margins, option premiums, securities as collateral and default fund contributions and are initially recorded at fair value. They are generally settled on the next day and, accordingly, are not discounted back to current value. Default funds absorb any losses incurred by the Group in the event of clearing members default where margin collateral is insufficient to cover the management and close out of the positions of the defaulting members.
- d) **Financial assets and liabilities at fair value**
These represent quoted equity and bond securities which have already withdrawn from the settlement system but have not yet delivered to the intermediaries who have bought them and securities traded but not yet settled as part of the CCP function. These are initially recognised at fair value and subsequently re-measured at fair value, based on the market price of each security. The difference between the settlement price of each security at trade date and the market price of that security at the period end is recognised as a fair value gain or loss in the income statement.
- e) **Held to maturity**
These are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group has the intention and ability to hold to maturity. After initial measurement held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate less impairment. The amortisation of any premium or discount is included in interest income.
- f) **Cash and cash equivalents (restricted)**
These include amounts received from clearing members to cover initial and variation margins and default fund contributions as collateral against default or insolvency and are deposited with banks. Such amounts are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

Notes to the financial statements continued

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether or not the derivative is designated as a hedging instrument, and if so the nature of the item being hedged.

The Group applies fair value hedge accounting for hedging interest rate risk on borrowings. Any gain or loss is recognised in the income statement within finance expenses.

The Group designates as cash flow hedges both foreign currency derivatives and hedges of interest rate movements associated with highly probable forecast transactions. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity.

The Group hedges a proportion of its net investment in its Italian companies by designating Euro borrowings as a net investment hedge.

In order to qualify for hedge accounting, a transaction must meet strict criteria as regards documentation, effectiveness, probability of occurrence and reliability of measurement. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Effectiveness testing is conducted at each reporting date and at the commencement and conclusion of any hedge in order to verify that the hedge continues to satisfy all the criteria for hedge accounting to be maintained. The ineffective portion is recognised in the income statement within finance costs.

Amounts accumulated in equity are recycled in the income statement in the period when the hedged item affects profit or loss (for example, when the forecast transaction that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Put options written on non-controlling interests

Commitments to purchase minority interests and put options granted to minority shareholders are recognised at fair value as a financial liability. When the financial liability is recognised initially, the redemption amount is reclassified from equity. The changes in the measurement of the financial liability are recognised in the income statement. Changes in the measurement of that financial liability do not change the relative interests in the subsidiary that are held by the parent and the non-controlling-interest shareholder and therefore are not equity transactions.

Trade receivables

Trade receivables are non-interest bearing and are stated at their fair value, which is usually the original invoiced amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or will be subject to a financial reorganisation or default on, or be delinquent on, its payment obligations are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the portion deemed recoverable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, short-term deposits and investments in money market funds and other instruments and structures that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Assets and liabilities held for sale

Assets and liabilities are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Borrowings

Borrowings are initially recorded at the fair value of amounts received, net of direct issue costs and transaction costs (including upfront facility fees). Subsequently, these liabilities are carried at amortised cost, and interest is charged to the income statement over the period of the borrowings using the effective interest rate method. Similarly direct issue costs and transaction costs (including upfront facility fees) are charged to the income statement over the period of the borrowings using the effective interest rate method.

Preference shares

Preference shares or components of preference shares are classified on initial recognition as a financial liability or equity based on the terms of the contract. They are classified as a financial liability if the terms impose a contractual obligation to deliver cash.

Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision shall be the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Group would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

Property provisions are made in the financial statements at the lower of the cost of fulfilling lease commitments for property space surplus to business requirements after taking into account income from sub-letting, and any compensation or penalties arising from failure to fulfil the lease commitments.

All provisions are discounted where the time value of money is considered material.

Equity and related items

Share capital

The Company's own shares held by the Employee Benefit Trust are deducted from equity until they vest unconditionally for employees and are held at cost. Consideration paid in respect of these treasury shares is deducted from equity until the shares are cancelled, reissued or disposed of.

Dividend distributions

Dividend distributions to the Company's equity holders are recognised as a liability in the Group financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Financial Risk Management

The Group seeks to protect its financial performance and the value of its business from exposure to capital, credit, concentration, country, liquidity and market (including foreign exchange, fair value, cash flow and interest rate) risks.

The Group's financial risk management approach is not speculative. It is performed both at a Group level, where the treasury function identifies, evaluates and hedges financial risks from a Group perspective and also locally, where operating units manage their regulatory and operational risks. This includes clearing operations at the Group's CCPs (at LCH Group and CC&G) that adhere to local regulation and operate under locally approved risk and investment policies.

The Group Chief Risk Officer's team provides assurance that the Group's risk management, governance and internal control processes are operating effectively. The Financial Risk Committee, a sub-committee of the Group Executive Committee and chaired by the Chief Financial Officer, meets monthly to oversee the consolidated financial risks of the Group. In addition, the Treasury Committee, a sub-committee of the Financial Risk Committee (which is also chaired by the Chief Financial Officer), meets regularly to monitor the management of and controls around foreign exchange, interest rates, credit and concentration risks and the investment of excess liquidity in addition to its oversight of the Group's funding arrangements. Both committees provide the Group's senior management with assurance that the treasury and risk operations are performed in accordance with Group Board approved policies and procedures. Regular updates, on a range of key criteria as well as new developments, are provided through the Enterprise Risk Management Framework to the Group Risk Committee. See 'Risk Management Oversight', pages 44 – 46, for further detail on the Group's risk framework.

On 23 June 2016 the UK voted to exit the EU. The UK companies within the Group, as members of the EU or European Economic Area (EEA), rely on a number of rights that are available to them to conduct business with other EU or EEA members. This includes, without limitation, the right for UK CCPs to offer clearing services to EU regulated firms under EMIR, and the right for UK trading venues to offer services to members in the EU or EEA. The Group companies have analysed the potential impacts and considered contingency plans that they may choose to execute should these rights not be replaced by rights that persist outside EU membership.

Capital risk

Risk description	Risk management approach	
<p>The Group is profitable and strongly cash generative and its capital base comprises equity and debt capital.</p> <p>However, the Group recognises the risk that its entities may not maintain sufficient capital to meet their obligations or they may make investments that fail to generate a positive or value enhancing return.</p> <p>The Group comprises regulated and unregulated entities. It considers that:</p> <ul style="list-style-type: none"> – increases in the capital requirements of its regulated companies, or – negative yields on its investments of cash, or – a scarcity of debt or equity (driven by its own performance or financial market conditions) <p>either separately or in combination are the principal risks to managing its capital.</p>	<p>The Group focuses upon its overall cost of capital as it seeks, within the scope of its risk appetite, to provide superior returns to its shareholders, fulfil its obligations to the relevant regulatory authorities and other stakeholders and ensure that it is not overly dependent upon short and medium term debt that might not be available at renewal. Maintaining the flexibility to invest for growth is a key capital management consideration.</p> <p>The Group can manage its capital structure and react to changes in economic conditions by varying returns to shareholders, issuing new shares or increasing or reducing borrowings. The Board reviews dividend policy and funding capacity on a regular basis and the Group maintains comfortable levels of debt facility headroom. A summary of the Group's capital structure is presented below:</p>	
	31 December 2016	31 December 2015
	£m	£m
Book value of capital		
Group consolidated equity before non-controlling interests	3,105.9	2,743.9
Group consolidated debt	1,165.9	1,608.9
<p>Whilst the Company is unregulated, the regulated entities within the Group continuously monitor compliance with the capital requirements set by their respective competent authorities and the terms of reference of the Financial Risk Committee includes oversight of the Group's Capital Management Policy. The Capital Management Policy seeks to ensure that compliance with local regulations is maintained and that there is a robust evaluation, undertaken by the Group's Investment Committee, of the impact of new investments, across the Group, on its capital position. Regulated entities within the Group have to date predominantly issued equity and held cash to satisfy their local regulatory capital requirements.</p> <p>We believe that capital held by Group companies is sufficient to comfortably support current regulatory frameworks. The level of amounts set aside by the Group for these purposes remains subject to on-going review with regulators, particularly in Europe. A summary of the Group's regulatory and operational capital is shown below:</p>		
	31 December 2016	31 December 2015
	£m	£m
Regulatory and operational capital		
Total regulatory and operational capital	942.6	952.8
Amount included in cash and cash equivalents	847.6	719.1
<p>The total capital amounts have remained relatively stable through the year and include:</p> <ul style="list-style-type: none"> – cash and cash equivalents; – certain liquid investments classified as financial assets held at fair value; – the LCH Group's regulated cash and cash equivalents; and – the £200.0 million generally set aside by other Group operations. <p>To maintain the financial strength to access new capital at reasonable cost and sustain an investment grade credit rating, the Group monitors its net leverage ratio which is operating net debt (i.e. net debt after excluding cash and cash equivalents set aside for regulatory and operational purposes) to adjusted EBITDA (Group consolidated earnings before net finance charges, taxation, impairment, depreciation and amortisation, foreign exchange gains or losses and non-recurring items, proforma'd for acquisitions or disposals undertaken in the period) against a target range of 1-2 times. The Group is also mindful of potential impacts on the key metrics employed by the credit rating agencies in considering increases to its borrowings.</p> <p>As at 31 December 2016, net leverage had reduced back to 1.1 times (2015: 1.7 times), and is within the Group's target range. The Group is comfortably in compliance with its bank facility ratio covenants (net leverage and interest cover) and these measures do not inhibit the Group's operations or its financing plans.</p>		

Notes to the financial statements continued

Credit and concentration risk

Risk description	Risk management approach																		
<p>The Group's credit risk relates to its customers and counterparties being unable to meet their obligations to the Group either in part or in full, including:</p> <ul style="list-style-type: none"> – customer receivables – repayment of invested cash and cash equivalents – settlement of derivative financial instruments <p>In their roles as central counterparty (CCP) clearers to financial market participants, the Group's CCPs guarantee final settlement of transactions acting as buyer towards each seller and as seller towards each buyer. They manage substantial credit risks as part of their operations including unmatched risk positions that might arise from the default of a party to a cleared transaction. For more information see 'Principal Risk and Uncertainties', pages 47 – 53.</p> <p>Notwithstanding regulations that require CCPs to invest predominantly in secured instruments or structures (such as government bonds and reverse repos), CC&G and the LCH Group CCPs continue to be able to maintain up to 5% of their total deposits at commercial banks on an unsecured basis. Through this potential for its CCPs to invest on an unsecured basis (as well as by certain other regulated and unregulated operations observing agreed investment policy limits), the Group will continue to face the risk of direct loss from a deterioration or failure of one or more of its unsecured investment counterparties.</p> <p>Concentration risk may arise through Group entities having large individual or connected exposures to groups of counterparties whose likelihood of default is driven by common underlying factors. This is a particular focus of the investment approach at the Group's CCPs.</p>	<p>Group Credit risk is controlled through policies developed at a Group level.</p> <p>Group companies make a judgement on the credit quality of their customers based upon the customer's financial position, the recurring nature of billing and collection arrangements and, historically, a low incidence of default. Furthermore, the Group is exposed to a large number of customers and so concentration risk on its receivables is deemed by management as low.</p> <p>Non-CCP entities Credit risk of cash and cash equivalents is managed by limiting exposure to counterparties with credit rating levels below policy minimum thresholds, potentially overlaid by a default probability assessment. Except where specific approval is arranged to increase this limit for certain counterparties, a maximum of £50.0 million may be invested for up to 12 months with counterparties rated long term AAA (or equivalent), through to a maximum £25 million overnight with counterparties rated short term A-2 (or equivalent). Derivative transactions and other treasury receivable structures are undertaken or agreed with well capitalised counterparties and are authorised by policy, to limit the credit risk underlying these transactions.</p> <p>CCPs To address the market participant and latent market risk, the Group's CCPs have established financial safeguards against single or multiple defaults. Clearing membership selection is based upon supervisory capital, technical and organisational criteria. Each member must pay margins, computed and collected at least daily, to cover the exposures and theoretical costs which the CCP might incur in order to close out open positions in the event of the member's default. Margins are calculated using established and internationally acknowledged risk models and are debited from participants' accounts through central bank accounts and via commercial bank payment systems. Minimum levels of cash collateral are required and non-cash collateral is re-valued daily.</p>																		
		<table> <tr> <th></th><th>31 December 2016</th><th>31 December 2015</th></tr> <tr> <th></th><th>£ bn</th><th>£ bn</th></tr> <tr> <td>Clearing members' margin liability</td><td>(138.8)</td><td>(85.7)</td></tr> <tr> <td rowspan="2">Collateral security</td><td>Cash</td><td>45.6</td></tr> <tr> <td>Non-cash</td><td>40.1</td></tr> <tr> <td>Maximum aggregate margin liability for the year</td><td>(145.2)</td><td>(99.6)</td></tr> </table>		31 December 2016	31 December 2015		£ bn	£ bn	Clearing members' margin liability	(138.8)	(85.7)	Collateral security	Cash	45.6	Non-cash	40.1	Maximum aggregate margin liability for the year	(145.2)	(99.6)
	31 December 2016	31 December 2015																	
	£ bn	£ bn																	
Clearing members' margin liability	(138.8)	(85.7)																	
Collateral security	Cash	45.6																	
	Non-cash	40.1																	
Maximum aggregate margin liability for the year	(145.2)	(99.6)																	

Clearing members also contribute to default funds managed by the CCPs to guarantee the integrity of the markets in the event of multiple defaults in extreme market circumstances. Amounts are determined on the basis of the results of periodic stress testing examined by the risk committees of the respective CCPs. Furthermore, each of the Group's CCPs reinforces its capital position to meet the most stringent relevant regulatory requirements applicable to it, including holding a minimum amount of dedicated own resources to further underpin the protective credit risk framework in the event of a significant market stress event or participant failure. An analysis of the aggregate clearing member contributions to default funds across the CCPs is shown below:

	31 December 2016	31 December 2015
	£ bn	£ bn
Clearing member contributions to default funds		
Aggregate at year	12.0	9.4
Maximum during the year	12.1	10.6

Investment counterparty risk for CCP margin and default funds is managed by investing the cash element in instruments or structures deemed "secure" by the relevant regulatory bodies including through direct investments in highly rated, "regulatory qualifying" sovereign bonds and supra-national debt, investments in tri-party and bi-lateral reverse repos (receiving high quality government securities as collateral) and, in certain jurisdictions, deposits with the central bank. The small proportion of cash that is invested unsecured is placed for short durations with highly rated counterparties where strict limits are applied with respect to credit quality, concentration and tenor.

	31 December 2016	31 December 2015
	£ bn	£ bn
Total investment portfolio	85.6	54.3
Maximum portfolio size during the year	88.9	61.1
Additional portfolio information:		
Weighted average invested securely	98.9%	99.0%
Overall maturity (days)	62	90

Associated liquidity risks are considered in the investment mix and discussed further below.

To address concentration risk, the Group maintains a diversified portfolio of high quality, liquid investments and uses a broad range of custodians, payment and settlement banks and agents. The largest concentration of treasury exposures as at 31 December 2016 was 21.7% of the total investment portfolio to the French Government (2015: 24.8% to the French Government).

Country risk

Risk description	Risk management approach	
Distress can result from the risk that certain governments may be unable or find it difficult to service their debts. This could have adverse effects, particularly on the Group's CCPs, potentially impacting cleared products, margin collateral, investments, the clearing membership and the financial industry as a whole.	<p>Specific risk frameworks manage country risk for both fixed income clearing and margin collateral and all clearing members are monitored regularly against a suite of sovereign stress scenarios. Investment limits and counterparty and clearing membership monitoring are sensitive to changes in ratings and other financial market indicators, to ensure the Group's CCPs are able to measure, monitor and mitigate exposures to sovereign risk and respond quickly to anticipated changes. Risk Committees maintain an on-going watch over these risks and the associated policy frameworks to protect the Group against potentially severe volatility in the sovereign debt markets.</p> <p>The Group's sovereign exposures of £1 billion or more at the end of either of the financial reporting periods shown below are:</p>	
Group Aggregate Sovereign Treasury Exposures		
Country	31 December 2016	31 December 2015
	£ bn	£ bn
France	18.5	13.4
Italy	11.7	5.6
USA	13.9	4.0
Netherlands	5.7	–
UK	4.4	2.6
Spain	2.1	1.9
Switzerland	1.0	–
Belgium	–	1.5

Liquidity, settlement and custodial risk

Risk description	Risk management approach
The Group's operations are exposed to liquidity risk to the extent that they are unable to meet their daily payment obligations.	The combined Group businesses are profitable, generate strong free cash flow and operations are not significantly impacted by seasonal variations. The Group maintains sufficient liquid resources to meet its financial obligations as they fall due and to invest in capital expenditure, make dividend payments, support acquisitions or repay borrowings. With the exception of regulatory constraints impacting certain entities, funds can generally be lent across the Group or remitted through dividend payments. This is an important component of the Group Treasury cash management policy and approach.
In addition, the Group's CCPs and certain other subsidiary companies are required to maintain a level of liquidity (consistent with regulatory requirements) to ensure the smooth operation of their respective markets and to maintain operations in the event of a single or multiple market stress event or member failure. This includes the potential requirement to liquidate the position of a clearing member under a default scenario including covering the associated losses and the settlement obligations of the defaulting member.	Management monitors forecasts of the Group's cash flow and overlays sensitivities to these forecasts to reflect assumptions about more difficult market conditions or stress events.
The Group is exposed to the risk that a payment or settlement bank could fail or that its systems encounter operational issues, creating liquidity pressures and the risk of possible defaults on payment or receivable obligations.	Treasury policy requires that the Group maintains adequate credit facilities provided by a diversified lending group to cover its expected funding requirements and ensure a minimum level of headroom for at least the next 24 months. The financial strength of lenders to the Group is monitored regularly. During the year ended 31 December 2016, the July 2016 £250 million bond was repaid utilising the Group's committed credit facilities. At 31 December 2016, £732.6 million (2015: £518.3 million) of the Group's facilities were unutilised.
The Group uses third party custodians to hold securities and is therefore exposed to the custodian's insolvency, its negligence, a misuse of assets or poor administration.	The Group's CCPs maintain sufficient cash and cash equivalents and, in certain jurisdictions, have access to central bank refinancing or commercial bank liquidity support credit lines to meet the cash requirements of the clearing and settlement cycle. Revised regulations require CCPs to ensure that appropriate levels of back up liquidity are in place to underpin the dynamics of a largely secured cash investment requirement, ensuring that the maximum potential outflow under extreme market conditions is covered (see Credit and concentration risk section above). The Group's CCPs monitor their liquidity needs daily under stressed and unstressed assumptions.
	Where possible, the Group employs guaranteed delivery versus payment settlement techniques and manages CCP margin and default fund flows through central bank or long-established, bespoke commercial bank settlement mechanisms. Monies due from clearing members remain the clearing members' liability if the payment agent is unable to effect the appropriate transfer. In addition, certain Group companies, including the CCPs, maintain operational facilities with commercial banks to manage intraday and overnight liquidity.

Custodians are subject to minimum eligibility requirements, ongoing credit assessment, robust contractual arrangements and are required to have appropriate back-up contingency arrangements in place.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table reflect the contractual undiscounted cash flows. The borrowings line includes interest on debt that is not yet accrued for.

At 31 December 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Borrowings	653.7	37.1	638.4	14.3	1,343.5
Trade and other payables	601.1	–	–	–	601.1
CCP liabilities	558,478.3	–	–	–	558,478.3
Derivative liabilities	–	–	19.3	–	19.3
Other non-current liabilities	–	46.2	12.2	7.1	65.5
	559,733.1	83.3	669.9	21.4	560,507.7

Notes to the financial statements continued

At 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Borrowings	973.8	178.3	338.4	314.3	1,804.8
Trade and other payables	452.4	—	—	—	452.4
CCP liabilities	456,663.3	—	—	—	456,663.3
Other non-current payables	—	—	40.7	2.8	43.5
Other non-current liabilities	—	14.7	47.8	2.8	65.3
	458,089.5	193.0	426.9	319.9	459,029.3

Market risk – Foreign Exchange

Risk description

The Group operates primarily in the UK, Europe and North America, but also has growing and strategically important businesses in Asia, and other alliances and investments across the globe. Its principal currencies of operation are Sterling, Euro and US Dollars.

With the exception of MillenniumIT (a Sri Lankan Rupee reporting entity), which invoices a material proportion of its revenues in US Dollars, and LCH.Clearnet Limited (a Euro reporting entity), which incurs a majority of its costs in Sterling, Group companies generally invoice revenues, incur expenses and purchase assets in their respective local currencies. As a result, foreign exchange risk arises mainly from the translation of the Group's foreign currency earnings, assets and liabilities into its reporting currency, Sterling, and from occasional, high value intragroup transactions.

Intragroup dividends may create short term transactional FX exposures but play their part in controlling the level of translational FX exposures the Group faces.

The Group may be exposed from time to time to FX risk associated with strategic investments in or divestments from operations denominated in currencies other than Sterling.

Risk management approach

The Group seeks to match the currency of its debt liabilities to the currency of its earnings and cash flows which to an extent balances the currency of its assets with its liabilities. In order to mitigate the impact of unfavourable currency exchange movements on earnings and net assets, non-Sterling cash earnings are centralised and applied to matching currency debt and interest payments, and where relevant, interest payments on Sterling debt re-denominated through the use of cross-currency swaps.

A proportion of the Group's debt is held in or swapped into Euro and a proportion is held in US Dollars.

	31 December 2016	31 December 2015
	£m	£m
Currency of debt		
Euro denominated drawn debt	352.0	132.2
Euro denominated cross-currency interest rate swaps	255.8	368.5
USD denominated drawn debt	100.5	591.6

The cross currency interest rate swaps are directly linked to Sterling fixed debt. The Euro and USD denominated debt, including the cross-currency swaps, provides a hedge against the Group's net investment in Euro and USD denominated entities.

The Group's designated hedges in its net investments were fully effective.

Whilst transactional foreign exchange exposure is limited, the Group hedges material transactions in accordance with Group Treasury policy (which requires that cash flows of more than £1 million or equivalent per annum should be hedged) with appropriate derivative instruments or by settling currency payables or receivables within a short timeframe. Where appropriate, hedge accounting for derivatives is considered in order to mitigate material levels of income statement volatility.

In addition to projecting and analysing its earnings and debt profile by currency, the Group reviews sensitivities to movements in exchange rates which are appropriate to market conditions. The Group has considered movements in the Euro and the US Dollar over the year ended 31 December 2016 and year ended 31 December 2015, and has concluded that a 10% movement in rates is a reasonable level to measure the risk to the Group. The impact on post tax profit and equity for the years ended 31 December is set out in the table below:

		2016		2015	
		Post tax profit	Equity	Post tax profit	Equity
		£m	£m	£m	£m
Euro	Sterling weaken	(3.8)	37.6	3.5	17.7
	Sterling strengthen	3.5	(34.2)	(3.1)	(16.0)
US Dollar	Sterling weaken	2.3	5.2	3.8	(51.2)
	Sterling strengthen	(2.1)	(4.7)	(3.4)	46.4

This reflects foreign exchange gains or losses on translation of Euro and US Dollar denominated trade receivables, trade payables, financial assets at fair value through profit or loss including Euro and US Dollar denominated cash and borrowings.

The impact on the Group's operating profit for the year before amortisation of purchased intangible assets and non-recurring items, of a 10 Euro cent and 10 US Dollar cent movement in the Sterling-Euro and Sterling-US Dollar rates respectively, can be seen below:

		2016	2015
		£m	£m
Euro	Sterling weaken	26.9	24.5
	Sterling strengthen	(22.8)	(21.2)
US Dollar	Sterling weaken	16.9	5.5
	Sterling strengthen	(14.6)	(6.3)

Market risk – Cash Flow and Fair Value Interest Rate Risk

Risk description	Risk management approach
The Group's interest rate risk arises through the impact of changes in market rates on cash flows associated with cash and cash equivalents, investments in financial assets and borrowings held at floating rates.	Group interest rate management policy focusses on protecting the Group's credit rating and maintaining compliance with bank covenant requirements. To support this objective, a minimum coverage of interest expense by EBITDA of 7 times, and a maximum floating rate component of 50% of total debt are targeted. This approach reflects:
The Group's CCPs face interest rate exposure through the impact of changes in the reference rates used to calculate member liabilities versus the yields achieved through their investment activities.	<ul style="list-style-type: none"> (i) a focus on the Group's cost of gross debt rather than its net debt given the material cash and cash equivalents set aside for regulatory purposes; (ii) the short duration allowed for investments of cash and cash equivalents held for regulatory purposes which, by their nature, generate low investment yields; (iii) a view that already low market yields are unlikely to move materially lower; and (iv) the broad natural hedge of floating rate borrowings provided by the significant balances of cash and cash equivalents held effectively at floating rates of interest.
	As at 31 December 2016, consolidated net interest expense cover by EBITDA was measured over the 12 month period at 13.0 times (2015: 11.7 times) and the floating rate component of total debt was 40% (2015: 42%).
	In the Group's CCPs, interest bearing assets are generally invested for a longer term than interest bearing liabilities, whose interest rate is reset daily. This makes investment revenue vulnerable to volatility in overnight rates and shifts in spreads between overnight and term rates. Interest rate exposures (and the risk to CCP capital) are managed within defined risk appetite parameters against which sensitivities are monitored daily.
	In its review of the sensitivities to potential movements in interest rates, the Group has considered interest rate volatility over the last year and prospects for rates over the next 12 months and has concluded that a 1 percentage point upward movement (with a limited prospect of material downward movement) reflects a reasonable level of risk to current rates. At 31 December 2016, at the Group level, if interest rates on Sterling-denominated, Euro-denominated and US Dollar-denominated cash and borrowings had been 1 percentage point higher with all other variables held constant, post-tax profit for the year would actually have been £4.6 million higher (2015: £2.8 million higher) mainly as a result of higher interest income on floating rate cash and cash equivalents partially offset by higher interest expense on floating rate borrowings.
	At 31 December 2016, at the CCP level (in aggregate), if interest rates on the common interest bearing member liability benchmarks of Eonia, Fed Funds and Sonia, for Euro, US Dollar and Sterling liabilities respectively, had been 1 percentage point higher, with all other variables held constant, the daily impact on post-tax profit for the Group would have been £1.7 million lower (2015: £1.0 million lower). This deficit would be recovered as investment yields increase as the portfolio matures and is re-invested.

3. Significant judgements and estimates

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events. For the year ended 31 December 2016 the following areas require the use of estimates:

Intangible assets acquired as part of a business combination – valued on acquisition using appropriate methodologies and amortised over their estimated useful economic lives. These valuations and lives are based on management's best estimates of future performance and periods over which value from the intangible assets are realised. Intangible assets acquired as part of a business combination are provided in note 15;

Impairment of purchased intangible assets, goodwill and investment in subsidiaries – tested for impairment annually. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimate of future performance and estimates of the return required by investors to determine an appropriate discount rate. Sensitivity analysis is provided in note 15;

Defined benefit pension asset or liability – determined based on the present value of future pension obligations using assumptions determined by the Group with advice from an independent qualified actuary. Sensitivity analysis is provided in note 19; and

Corporation taxes – estimates are required in determining the provision for corporation taxes. The Group recognises liabilities for the estimated tax charge at the period end and where the final tax liability is different from that estimate; such differences are reflected in the period in which such determination is made. Income tax provisions are recognised on the basis that the relevant tax authorities are fully aware of any situations giving rise to uncertainty. Details are provided in note 9 and 18.

The judgements applied by management for the year ended 31 December 2016 are as follows:

Assets held for sale and discontinued operations – are assessed against the conditions prevailing at the reporting date as to whether the carrying amount of assets and liabilities will be recovered principally through a sale transaction rather than through continuing use. As at 31 December 2016, no potential business disposal or asset sale met the criteria set out in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and as such the Group classified no assets or disposal groups as held for sale. Details are provided in note 10.

Notes to the financial statements continued

4. Segmental Information

The Group is organised into operating units based on its service lines and has six reportable segments: Capital Markets, Post Trade Services – CC&G and Monte Titoli, Post Trade Services – LCH, Information Services, Technology Services and Other. These segments generate revenue in the following areas:

- **Capital Markets** – Admission fees from initial listing and further capital raises, annual fees charged for securities traded securities on the Group's markets, and fees from our secondary market services;
- **Post Trade Services** – CC&G and Monte Titoli – Clearing fees based on trades and contracts cleared, net interest earned on cash, securities held for margin and default funds, and fees from settlement and custody services;
- **Post Trade Services** – LCH – Fees based on Central Counterparty (CCP) services provided, non-cash collateral management and net interest earned on cash held for margin and default funds;
- **Information Services** – subscription and licence fees for data and index services provided;
- **Technology Services** – capital markets software licences and related IT infrastructure, network connection and server hosting services; and
- **Other** – includes events and media services.

The Executive Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Sales between segments are carried out at arm's length and are eliminated on consolidation.

Segmental disclosures for the year ended 31 December 2016 are as follows:

	Capital Markets	Post Trade Services – CC&G and Monte Titoli	Post Trade Services – LCH	Information Services	Technology Services	Other	Eliminations	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	368.3	103.7	356.5	594.7	88.3	4.1	–	1,515.6
Inter-segmental revenue	–	0.6	–	–	15.9	–	(16.5)	–
Revenue	368.3	104.3	356.5	594.7	104.2	4.1	(16.5)	1,515.6
Net treasury income through CCP business	–	42.6	82.2	–	–	–	–	124.8
Other income	–	–	8.4	–	–	8.3	–	16.7
Total income	368.3	146.9	447.1	594.7	104.2	12.4	(16.5)	1,657.1
Cost of sales	(22.5)	(12.6)	(55.8)	(54.4)	(27.8)	(1.7)	–	(174.8)
Gross profit	345.8	134.3	391.3	540.3	76.4	10.7	(16.5)	1,482.3
Share of loss after tax of associates	–	–	–	–	–	(4.9)	–	(4.9)
Operating profit/(loss) before amortisation of purchased intangible assets and non-recurring items	176.8	52.4	123.5	335.8	12.8	(3.9)	(11.6)	685.8
Amortisation of purchased intangible assets								(156.6)
Non-recurring items								(102.4)
Operating profit								426.8
Net finance expense								(62.7)
Profit before taxation from continuing operations								364.1
Other income statement items								
Depreciation, software amortisation and impairment	(11.1)	(18.2)	(35.8)	(12.8)	(5.7)	(2.9)	1.5	(85.0)

Revenue from external customers principally comprises fees for services rendered amounting to £1,423.2 million (2015: £1,239.6 million) and Technology Services amounting to £88.3 million (2015: £80.6 million).

Net treasury income through CCP business of £124.8 million (2015: £85.7 million) comprises gross interest income of £469.9 million (2015: £261.7 million) less gross interest expense of £345.1 million (2015: £176.0 million). Interest from investment in securities amounts to £8.8 million (2015: £4.1 million). Other income includes a £1.6 million fair value loss (2015: £2.2 million gain in gross interest income) relating to the revaluation of CCP clearing business assets.

Presented within revenue are net settlement expenses from the CCP business of £5.2 million (2015: £3.2 million expense) which comprise gross settlement income of £15.6 million (2015: £13.3 million) less gross settlement expense of £20.8 million (2015: £16.5 million).

Comparative segmental disclosures for the year ended 31 December 2015 are as follows:

	Capital Markets	Post Trade Services – CC&G and Monte Titoli	Post Trade Services – LCH	Information Services	Technology Services	Other	Eliminations	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	330.3	89.8	302.1	517.4	80.6	4.5	–	1,324.7
Inter-segmental revenue	–	0.9	–	–	12.9	–	(13.8)	–
Revenue	330.3	90.7	302.1	517.4	93.5	4.5	(13.8)	1,324.7
Net treasury income through CCP business	–	29.3	56.4	–	–	–	–	85.7
Other income	–	–	2.2	–	–	6.0	–	8.2
Total income	330.3	120.0	360.7	517.4	93.5	10.5	(13.8)	1,418.6
Cost of sales	(15.1)	(6.7)	(28.3)	(45.4)	(28.3)	(1.7)	–	(125.5)
Gross profit	315.2	113.3	332.4	472.0	65.2	8.8	(13.8)	1,293.1
Operating profit/(loss) before amortisation of purchased intangible assets and non-recurring items	170.9	51.8	90.9	270.6	6.4	(2.1)	(3.8)	584.7
Amortisation of purchased intangible assets								(149.6)
Non-recurring items								(30.7)
Operating profit								404.4
Net finance expense								(68.3)
Profit before taxation from continuing operations								336.1
Other income statement items:								
Depreciation, software amortisation and impairment	(10.5)	(6.7)	(28.5)	(11.6)	(5.4)	(0.2)	4.0	(58.9)

Geographical disclosure

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Revenue		
UK	866.0	749.3
Italy	306.1	264.7
France	92.1	83.7
USA	177.6	156.7
Other	73.8	70.3
Total	1,515.6	1,324.7
	31 December 2016 £m	31 December 2015 £m
Total assets		
UK	159,995.6	123,166.8
Italy	176,525.9	148,558.9
France	226,089.4	188,662.5
USA	1,977.0	2,581.6
Other	207.6	281.4
Total	564,795.5	463,251.2

Notes to the financial statements continued

5. Expenses by nature

Expenses comprise the following:

	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Employee costs	6	428.8	405.5
Depreciation, non-acquisition software amortisation and impairment		85.0	58.9
Amortisation of purchased intangible assets and non-recurring items	7	259.0	180.3
IT costs		117.6	107.4
Other costs		160.2	136.6
Total		1,050.6	888.7

6. Employee costs

Employee costs comprise the following:

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Salaries and other short term benefits		328.8	322.4
Social security costs		51.3	42.5
Pension costs	19	21.5	18.1
Share-based compensation		27.2	22.5
Total		428.8	405.5

The average number of employees in the Group from total operations was:

	Year ended 31 December 2016	Year ended 31 December 2015
UK	1,352	1,731
Italy	568	565
France	172	242
Sri Lanka	946	926
USA	258	1,296
Other	452	791
Total	3,748	5,551

Average is calculated from date of acquisition of a subsidiary company by the Group.

The Company had no employees in the year (2015: nil).

7. Amortisation of purchased intangible assets and non-recurring items

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Amortisation of purchased intangible assets	15	156.6	149.6
Transaction costs		85.4	1.0
Transaction credit		–	(1.1)
Restructuring costs		13.8	9.9
Integration costs		3.2	21.4
Profit on disposal of assets held for sale		–	(0.5)
Total affecting operating profit		259.0	180.3
Tax effect on items affecting profit before tax			
Deferred tax on amortisation of purchased intangible assets		(41.3)	(56.2)
Current tax on amortisation of purchased intangible assets		(1.3)	(1.8)
Tax effect on other items affecting profit before tax		3.8	(18.0)
Total tax effect on items affecting profit before tax		(38.8)	(76.0)
Total charge to income statement		220.2	104.3

Transaction costs comprise charges incurred for ongoing services related to potential or completed merger and acquisitions transactions.

Restructuring and integration costs principally relate to the restructuring of LCH Group and the restructuring and integration of Frank Russell Company.

The transaction credit in the prior year relates to the release of a contingent consideration liability in respect of a past acquisition of a Group subsidiary. The contractual terms under which the consideration was payable expired and the financial liability was derecognised.

The £0.5 million profit on disposal of assets held for sale in the prior year relates to the sale of a freehold property and related equipment held by a subsidiary. The carrying value of the assets at the date of disposal was £5.3 million.

8. Net finance expense

	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Finance income			
Expected return on defined benefit pension scheme assets	19	1.0	0.6
Bank deposit and other interest income		1.0	0.9
Other finance income		5.1	1.4
		7.1	2.9
Finance expense			
Interest payable on bank and other borrowings		(64.7)	(66.0)
Defined benefit pension scheme interest cost	19	(1.6)	(1.2)
Other finance expenses		(3.5)	(4.0)
		(69.8)	(71.2)
Net finance expense		(62.7)	(68.3)

Net finance expense includes amounts where the Group earns negative interest on its cash deposits.

Notes to the financial statements continued

9. Taxation

The standard UK corporation tax rate was 20% (20.25% for the year ended 31 December 2015).

Taxation charged to the income statement		Year ended 31 December 2016	Year ended 31 December 2015
	Note	£m	£m
Current tax:			
UK corporation tax for the year		46.3	49.8
Overseas tax for the year		88.6	51.6
Adjustments in respect of previous years		(2.7)	(4.2)
		132.2	97.2
Deferred tax:	18		
Deferred tax for the year		6.5	(0.2)
Adjustments in respect of previous years		4.2	2.0
Deferred tax liability on amortisation of purchased intangible assets		(41.3)	(50.9)
Taxation charge		101.6	48.1

The adjustments in respect of previous years' corporation tax are mainly in respect of tax returns submitted to relevant tax authorities.

Taxation on items not credited/(charged) to income statement		Year ended 31 December 2016	Year ended 31 December 2015
		£m	£m
Current tax credit:			
Tax allowance on share options/awards in excess of expense recognised		10.6	5.8
Deferred tax credit/(charge):			
Tax on defined benefit pension scheme remeasurement		14.7	(2.8)
Tax allowance on share options/awards in excess of expense recognised		(6.2)	(0.1)
Tax on movement in value of available for sale financial assets		(1.4)	—
		17.7	2.9

Factors affecting the tax charge for the year

The income statement tax charge for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 20.25%) as explained below:

	Year ended 31 December 2016	Year ended 31 December 2015
	£m	£m
Profit before taxation from continuing operations	364.1	336.1
Profit before taxation from discontinued operations	104.2	97.6
	468.3	433.7
Profit multiplied by standard rate of corporation tax in the UK	93.7	87.8
Expenses not deductible	17.9	3.5
Adjustment arising from change in tax rate	2.6	(4.6)
Overseas earnings taxed at higher rate	166.8	16.6
Adjustments in respect of previous years	1.5	(2.2)
Amortisation of purchased intangible assets	—	(0.2)
Adjustment arising from changes in tax rates on amortisation of intangible assets	(6.0)	(17.0)
Deferred tax previously not recognised	(1.1)	(7.3)
Income tax from continuing operations	101.6	48.1
Income tax attributable to discontinued operations	173.8	28.5

The UK Finance Bill 2015 was enacted in November 2015 reducing the standard rate of corporation tax from 20% to 19% effective from 1 April 2017 and the UK Finance Bill 2016 was enacted in September 2016 reducing the standard rate of corporation tax further to 17% effective from 1 April 2020. Accordingly, the UK deferred tax balances at December 2016 have been stated at 19% or 18% dependent on when the timing differences are expected to reverse. The deferred tax balances in other countries are recognised at the substantially enacted rates at the balance sheet date.

Judgements and estimates

An amount of £4.5 million has been provided for uncertain tax positions. This reflects ongoing discussions with the tax authorities regarding the tax effect of certain changes in accounting policy for intangible assets and uncertainty arising from the introduction of UK Diverted Profits Tax.

10. Discontinued operations and assets and liabilities held for sale

On 8 October 2015, the Group announced that it had agreed the sale of the Russell Investment Management business to TA Associates. As a result, the Russell Investment Management business was classified as a disposal group held for sale and as a discontinued operation.

On 31 May 2016, the Group completed the sale of the Russell Investment Management business to TA Associates and Reverence Capital Partners in exchange for US\$1,150 million (£794.4 million) total consideration. Further details are provided in Note 11.

The results of the Russell Investment Management business for the five month period to 31 May 2016 and the prior year comparatives are included as discontinued operations in the Group's consolidated income statement. The Investment Management segment was not presented within the income statement analysis in the Segmental Information note (Note 4) in the current year or in the prior year.

In October 2015, the Group completed the disposal of Proquote Ltd for cash consideration of £22.0 million. The carrying value of net assets on disposal amounted to £1.9 million and after transaction costs of £0.2 million, a non-recurring profit on disposal of £19.9 million was recognised in the income statement from discontinued operations. The results of the Proquote Ltd business were included as discontinued operations for the period of Group's ownership in the prior year.

The results of discontinued operations are presented below:

	Note	2016 £m	2015 £m
Revenue		389.5	960.7
Other income		1.3	2.2
Total income		390.8	962.9
Cost of sales		(200.3)	(494.9)
Gross profit		190.5	468.0
Share of profit after tax of associate		–	0.5
Expenses			
Expenses before amortisation of purchased intangible assets and non-recurring items		(162.7)	(343.6)
Amortisation of purchased intangible assets		–	(7.1)
Non-recurring items		75.4	(22.3)
Operating profit		103.2	95.5
Net finance income		1.0	2.1
Profit before tax from discontinued operations		104.2	97.6
Taxation on profit before amortisation of purchased intangible assets and non-recurring items		(10.2)	(36.2)
Taxation on amortisation of purchased intangible assets and non-recurring items		(163.6)	7.7
Taxation	9	(173.8)	(28.5)
(Loss)/profit after tax from discontinued operations		(69.6)	69.1
Attributable to:			
Equity holders		(70.7)	68.7
Non-controlling interests		1.1	0.4
		(69.6)	69.1

Discontinued revenue for the year ended 31 December 2016 relates to Russell Investment Management of £389.5 million (2015: £953.1 million) and Proquote of nil (2015: £7.6 million).

The non-recurring item in the current year of £75.4 million relates to the profit on disposal of the Russell Investment Management business. Further details are provided in Note 11.

During the year, the Group recognised £12.0 million (2015: £28.4 million) of costs in relation to the disposal of the Russell Investment Management business.

As the Russell Investment Management business was sold prior to 31 December 2016, the assets and liabilities held for sale as at 31 December 2015 are no longer included on the Group's balance sheet.

The net cash flows incurred by discontinued operations during the year are as follows:

	2016 £m	2015 £m
Cash inflow from operating activities	59.1	51.5
Cash (outflow)/inflow from investing activities	(8.3)	2.9
Cash inflow/(outflow) from financing activities	20.0	(5.8)
Net cash inflow	70.8	48.6

Notes to the financial statements continued

11. Disposal of business

On 31 May 2016, the Group sold the entire issued share capital it owned in the Russell Investment Management business, a subsidiary of the Group, to TA Associates and Reverence Capital Partners (the "Acquirers") in exchange for US\$1,150 million (£794.4 million) total consideration, before working capital and other adjustments, and foreign exchange movements aggregating to US\$139.5 million (£96.5 million) as of 31 May 2016. Of the total consideration, US\$150 million (£103.6 million) is deferred and will be paid annually in four equal cash instalments starting from 31 December 2017. After the adjustments to the consideration and the deferred consideration, the sale resulted in net cash proceeds of US\$860.5 million (£594.3 million).

The deferred consideration has been discounted, resulting in a balance of US\$130.8 million (£90.3 million).

Net proceeds will be confirmed following the finalisation of discussions between the Group and the Acquirers on the completion statement, including the finalisation of the working capital and other adjustments. The disposal accounting will be finalised on completion of the relevant tax returns. On the date of disposal, the net assets of the Russell Investment Management business, the consideration and the profit on disposal were as follows:

Assets	£m
Property, plant and equipment	33.4
Intangible assets	704.8
Investment in associates	5.4
Trade and other receivables	189.3
Cash and cash equivalents	185.2
Other assets	44.4
	1,162.5
Liabilities	
Borrowings	3.7
Trade and other payables	225.7
Current tax	2.9
Deferred tax liabilities	218.7
Provisions	1.0
Other liabilities	38.6
	490.6
Total carrying value of net assets disposed	671.9
Attributable to non-controlling interests	(38.2)
Group's share of net assets disposed	633.7
Amounts accumulated in Other Comprehensive Income:	
Foreign exchange translation reserves reclassified to profit or loss	(36.5)
Reserve of disposal group	(36.5)
Group's share of net assets and reserves disposed	597.2
Consideration	
Cash consideration (after adjustments to consideration)	594.3
Deferred consideration (discounted)	90.3
Total consideration	684.6
Profit on disposal before disposal costs and tax	87.4
Cost of disposal	(12.0)
Profit on disposal before tax	75.4
Taxation:	
Deferred tax arising on the disposal of subsidiary	(29.6)
Current tax arising on the disposal of subsidiary	(134.0)
Total tax on disposal	(163.6)
Loss on disposal after tax	(88.2)
Net cash inflow arising on disposal:	
Initial consideration	690.8
Adjustments to consideration	(96.5)
Net cash inflow	594.3

The profit on disposal is included as a non-recurring item within discontinued operations and is disclosed in note 10.

12. Earnings per share

Earnings per share is presented on four bases: basic earnings per share; diluted earnings per share; adjusted basic earnings per share; and adjusted diluted earnings per share. Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on conversion or vesting of share options and share awards under the Employee Share Ownership Plan (ESOP). Adjusted basic earnings per share and adjusted diluted earnings per share exclude amortisation of purchased intangible assets, non-recurring items and unrealised gains and losses to enable a better comparison of the underlying earnings of the business with prior periods.

	Year ended 31 December 2016			Year ended 31 December 2015		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Basic earnings per share	63.8p	(20.3p)	43.5p	74.8p	19.8p	94.6p
Diluted earnings per share	62.5p	(19.9p)	42.6p	73.7p	19.5p	93.2p
Adjusted basic earnings per share	124.7p	5.0p	129.7p	103.4p	26.0p	129.4p
Adjusted diluted earnings per share	122.3p	4.9p	127.2p	101.9p	25.7p	127.6p

Profit and adjusted profit for the financial year attributable to the Company's equity holders of the parent:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Profit for the financial year attributable to the Company's equity holders	222.6	(70.7)	151.9	259.6	68.7	328.3
Adjustments:						
Amortisation of purchased intangibles and non recurring items:						
Amortisation of purchased intangible assets	156.6	–	156.6	149.6	7.1	156.7
Transaction costs	85.4	–	85.4	1.0	–	1.0
Transaction credit	–	–	–	(1.1)	–	(1.1)
Restructuring costs	13.8	–	13.8	9.9	42.2	52.1
Integration costs	3.2	–	3.2	21.4	–	21.4
Profit on disposal of assets and liabilities held for sale	–	(75.4)	(75.4)	(0.5)	(19.9)	(20.4)
Other adjusting items:						
Tax effect of amortisation of purchased intangible assets and non-recurring items	(38.8)	163.6	124.8	(76.0)	(7.7)	(83.7)
Amortisation of purchased intangible assets, non-recurring items and taxation attributable to non-controlling interests	(7.7)	–	(7.7)	(5.2)	–	(5.2)
Adjusted profit for the financial year attributable to the Company's equity holders	435.1	17.5	452.6	358.7	90.4	449.1
Weighted average number of shares – million			348.9			347.0
Effect of dilutive share options and awards – million			7.0			5.1
Diluted weighted average number of shares – million			355.9			352.1

The weighted average number of shares excludes those held in the Employee Benefit Trust.

13. Dividends

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Interim dividend for 31 December 2014 paid 5 January 2015: 9.7p per Ordinary share	–	33.6
Final dividend for 31 December 2014 paid 2 June 2015: 12.8p per Ordinary share	–	44.4
Interim dividend for 31 December 2015 paid 22 September 2015: 10.8p per Ordinary share	–	37.5
Final dividend for 31 December 2015 paid 1 June 2016: 25.2p per Ordinary share	87.7	–
Interim dividend for 31 December 2016 paid 20 September 2016: 12.0p per Ordinary share	42.0	–
	129.7	115.5

The Board has proposed a final dividend in respect of the year ended 31 December 2016 of 31.2 pence per share, which is estimated to amount to £109.3 million, to be paid in May 2017. In addition, a separate special dividend of 58.2 pence per share, which is estimated to amount to £203.9 million, is payable to LSEG shareholders contingent on completion of the Merger. These are not reflected in the financial statements.

Notes to the financial statements continued

14. Property, plant and equipment

	Land and Buildings		Fixed plant, other plant and equipment	Total
	Freehold	Leasehold		
	£m	£m	£m	£m
Cost:				
1 January 2015	49.9	60.0	151.8	261.7
Additions	1.0	1.5	28.7	31.2
Foreign exchange	(0.2)	0.2	(2.4)	(2.4)
Acquisition of subsidiaries	–	–	0.1	0.1
Reclassification to assets held for sale	(0.3)	(15.4)	(17.8)	(33.5)
Disposals	(0.2)	(2.7)	(12.0)	(14.9)
Disposal of business	–	–	(1.7)	(1.7)
31 December 2015	50.2	43.6	146.7	240.5
Additions	0.6	2.5	29.8	32.9
Foreign exchange	0.9	2.2	14.5	17.6
Transfers	(0.5)	2.7	(7.6)	(5.4)
Disposals	–	(1.4)	(11.1)	(12.5)
31 December 2016	51.2	49.6	172.3	273.1
Accumulated depreciation:				
1 January 2015	27.7	34.3	84.1	146.1
Charge for the year	0.2	3.1	17.5	20.8
Foreign exchange	–	(0.2)	(2.7)	(2.9)
Reclassification to assets held for sale	–	(0.9)	(0.6)	(1.5)
Disposals	–	(2.7)	(11.7)	(14.4)
Disposal of business	–	–	(1.5)	(1.5)
31 December 2015	27.9	33.6	85.1	146.6
Charge for the year	0.3	1.3	20.0	21.6
Foreign exchange	0.2	1.0	11.6	12.8
Transfers	–	(0.1)	(3.2)	(3.3)
Disposals	–	(1.4)	(11.0)	(12.4)
31 December 2016	28.4	34.4	102.5	165.3
Net book values:				
31 December 2016	22.8	15.2	69.8	107.8
31 December 2015	22.3	10.0	61.6	93.9

The carrying value of equipment held under finance leases at 31 December 2016 was £0.3 million (2015: £7.3 million).

Transfers during the year relate to re-classification of property, plant and equipment to other asset classes and re-allocations between property, plant and equipment types.

The Company has no property, plant and equipment (2015: nil).

15. Intangible Assets

	Purchased intangible assets					Total £m
	Goodwill	Customer and supplier relationships	Brands	Software, licenses and intellectual property	Software	
	£m	£m	£m	£m	£m	
1 January 2015	1,998.5	1,932.9	932.3	441.3	273.2	5,578.2
Additions	3.9	–	–	–	96.5	100.4
Disposals	–	–	–	(0.8)	(4.8)	(5.6)
Disposal of business	–	–	–	–	(3.8)	(3.8)
Reclassification to assets held for sale	(142.4)	(413.9)	(118.7)	(23.4)	(0.3)	(698.7)
Foreign exchange	(37.3)	(2.5)	38.6	4.6	(19.1)	(15.7)
31 December 2015	1,822.7	1,516.5	852.2	421.7	341.7	4,954.8
Additions	1.0	–	–	–	112.7	113.7
Disposals	–	–	–	–	(7.9)	(7.9)
Foreign exchange	273.1	214.9	118.6	12.6	55.7	674.9
31 December 2016	2,096.8	1,731.4	970.8	434.3	502.2	5,735.5
Accumulated amortisation and impairment:						
1 January 2015	466.9	283.3	37.8	200.0	105.5	1,093.5
Impairment	–	–	–	–	1.0	1.0
Amortisation charge for the year	–	81.9	33.8	41.0	39.9	196.6
Disposals	–	–	–	(0.7)	(4.7)	(5.4)
Disposal of business	–	–	–	–	(1.9)	(1.9)
Reclassification to assets held for sale	–	(4.7)	(1.2)	(1.4)	(0.1)	(7.4)
Foreign exchange	(18.3)	(11.9)	1.0	(0.3)	3.7	(25.8)
31 December 2015	448.6	348.6	71.4	238.6	143.4	1,250.6
Impairment	–	–	–	–	8.2	8.2
Amortisation charge for the year	–	84.2	41.1	31.3	55.2	211.8
Disposals	–	–	–	–	(6.5)	(6.5)
Foreign exchange	51.2	48.7	9.6	7.2	31.2	147.9
31 December 2016	499.8	481.5	122.1	277.1	231.5	1,612.0
Net book values:						
31 December 2016	1,597.0	1,249.9	848.7	157.2	270.7	4,123.5
31 December 2015	1,374.1	1,167.9	780.8	183.1	198.3	3,704.2

The fair values of the purchased intangible assets were principally valued using discounted cash flow methodologies and are being amortised over their useful economic lives, which do not normally exceed 25 years. The remaining amortisation periods of the Group's purchased intangible assets range between: 1 and 16 years for the Italian Group; 1 and 21 years for the LCH Group and the FTSE Group; and 1 and 23 years for the Frank Russell Group.

During the year, Group acquired an initial 50% equity shareholding in SwapMatch Limited (SwapMatch) for a cash consideration of £1.0 million. The Group recognised £1.0 million in goodwill. Further details are provided in Note 31.

The goodwill arising on consolidation represents the growth potential and assembled workforces of the Italian Group, LCH Group, FTSE Group, MillenniumIT, the Frank Russell Group, Turquoise and Exactpro. The Company has no intangible assets (2015: none).

Following a review of software assets across the Group, an impairment charge of £8.2 million was recognised in the year (2015: £1.0 million).

During the year, additions relating to internally generated software amounted to £112.7 million (2015: £96.5 million).

The carrying value of licenses held under finance leases at 31 December 2016 was £0.2 million (2015: £0.8 million).

Notes to the financial statements continued

Impairment tests for goodwill

Goodwill has been allocated for impairment testing purposes to 10 cash generating units (CGUs).

The recoverable amounts of these CGUs have been determined based on value in use calculations, using discounted cash flow projections prepared by management covering the 5 year period ending 31 December 2021. Cash flows beyond this period are extrapolated using the estimated long term growth rates and applying the pre-tax discount rates referred to below.

The amount of the net book value of goodwill allocated to each CGU is set out below:

	Net book value of goodwill				Pre-tax discount rate used in value in use calculations	
	31 December 2015 (reclassified) ¹	Acquisition of a subsidiary	Foreign exchange	31 December 2016		
	£m	£m	£m	£m	2016	2015
Italian Group:						
Capital Markets	214.6	–	33.7	248.3	11.6%	11.0%
Information Services	117.6	–	18.4	136.0	12.3%	11.3%
Technology Services	18.9	–	3.0	21.9	11.2%	11.2%
Post Trade Services	363.7	–	55.1	418.8	12.3%	11.2%
MillenniumIT	1.4	–	0.2	1.6	20.0%	19.1%
Turquoise	7.6	1.0	–	8.6	9.2%	10.3%
FTSE Group	187.6	–	5.6	193.2	9.6%	7.5%
LCH Group	104.6	–	16.4	121.0	9.7%	9.2%
Frank Russell Group						
Information Services	355.2	–	89.5	444.7	13.1%	8.7%
Exactpro	2.9	–	–	2.9	10.4%	N/A
	1,374.1	1.0	221.9	1,597.0		

1. The goodwill within the Italian Group has been corrected to reflect the expected synergies at acquisition. There has been no change to the overall goodwill recognised in the Group and no change to the resulting impairment testing performed for the year ended 31 December 2016 and the year ended 31 December 2015.

Management has based its value in use calculations for each CGU on key assumptions about short and medium term revenue and cost growth, long term economic growth rates (used to determine terminal values) and pre-tax discount rates.

The values assigned to short and medium term revenue and cost growth assumptions are based on the 2017 budget and the Group's approved business plan. The assumptions are derived from an assessment of current trends, anticipated market and regulatory developments, discussions with customers and suppliers, and management's experience. These factors are considered in conjunction with the Group's long-term strategic objectives to determine appropriate short and medium growth assumptions.

Long-term growth rates assumed to be 1.7% for each of the Italian CGUs (2015: 1.8%), 10.1% for MillenniumIT (2015: 12.7%), 4.1% for Frank Russell Group (2015: 3.0%) and 3.7% for the other CGUs (2015: 3.0%) represent management's internal forecasts based on external estimates of GDP and inflation for the 6 year period 1 January 2016 to 31 December 2021, and do not exceed the long term average growth rates for the countries in which the CGUs operate.

Pre-tax discount rates are based on a number of factors including the risk-free rates in Italy, France, Sri Lanka, USA, Russia and the UK as appropriate, the Group's estimated market risk premium and a premium to reflect the inherent risks of each of the CGUs.

Based on the results of the impairment tests performed, management believes there is no impairment of the carrying value of the goodwill in any CGU.

Value in use calculations for each CGU are sensitive to changes in short and medium term revenue and cost growth assumptions, long term growth rates and pre-tax discount rates.

Management believes goodwill allocated to each CGUs is unlikely to be materially impaired under reasonable changes to key assumptions. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2016. Revenue and cost sensitivities assume a 5% change in revenues or costs for each of the five years in the value in use calculations.

16. Investment in associates

	Group	Company
	£m	£m
1 January 2015	12.1	—
Share of profit	0.5	—
Liquidation of associate	(5.8)	—
Reclassification to assets held for sale	(5.3)	—
Foreign exchange	(1.2)	—
31 December 2015	0.3	—
Acquisition of associates	7.8	7.8
Share of loss after tax	(4.9)	—
Foreign exchange	0.1	—
31 December 2016	3.3	7.8

During the year, the Group and the Company acquired a 25.996% equity interest in Curve Global Limited (Curve Global), an interest rate derivatives joint venture with major dealer banks and the Chicago Board Options Exchange. The Group's investment in Curve Global is accounted for using the equity method.

In the prior year, Ping AN Russell Investment Management (Shanghai) Co Limited, the Group's principal associate, was liquidated and the invested capital was returned to the Group.

Notes to the financial statements continued

17. Investment in subsidiary undertakings

Company	Shares £m	Other £m	Total £m
1 January 2015	3,891.8	997.3	4,889.1
Movements during the year	—	7.7	7.7
31 December 2015	3,891.8	1,005.0	4,896.8
Capital contribution to LSEGH (Luxembourg) Ltd	470.0	—	470.0
Other movements	—	(1.6)	(1.6)
31 December 2016	4,361.8	1,003.4	5,365.2

Principal subsidiaries:	Principal activity	Country of incorporation	Country of principal operations	% equity and votes held
Held directly by the Company:				
London Stock Exchange plc	Recognised investment exchange	England and Wales	England and Wales	100
Held indirectly by the Company:				
BIT Market Services S.p.A.	Retail information services and market technology	Italy	Italy	99.99
Borsa Italiana S.p.A.	Recognised investment exchange	Italy	Italy	99.99
Cassa di Compensazione e Garanzia S.p.A.	CCP clearing services	Italy	Italy	99.99
Elite S.p.A.	Business support programme	Italy	Italy	99.99
Exactpro LLC	Quality assurance provider	Russian Federation	Russian Federation	100
Frank Russell Company	Market indices provider	USA	USA	100
FTSE International Ltd	Market indices provider	England and Wales	England and Wales	100
LCH.Clearnet Group Limited	CCP clearing services	England and Wales	England and Wales	57.80
Monte Titoli S.p.A.	Pre-settlement, settlement and centralised custody	Italy	Italy	98.86
Millennium Information Technologies Software Ltd	IT solutions provider	Sri Lanka	Sri Lanka	100
MTS S.p.A.	Wholesale fixed income bonds	Italy	Italy	60.36
Turquoise Global Holdings Ltd	Multi-lateral trading facility	England and Wales	England and Wales	51.36

Under Regulation 7 of The Partnerships (Accounts) Regulations 2008, the Group elected not to prepare partnership accounts for its indirect partnership interest in London Stock Exchange Connectivity Solutions LP, as its results are contained in the consolidated group accounts.

A full list of subsidiaries is provided in note 36.

LCH.Clearnet Group Limited is the only subsidiary that has material non-controlling interests within the Group. Financial information relating to this subsidiary is provided below:

	2016 £m	2015 £m
Accumulated balances of material non-controlling interests	400.0	339.0
Profit for the year attributable to material non-controlling interests	28.8	20.1
Dividend paid to non-controlling interests	(10.1)	—
Total comprehensive income attributable to material non-controlling interests	71.1	9.7

Accumulated balances included goodwill, purchased intangible assets and associated amortisation and impairments attributable to non-controlling interests.

The summarised financial information of LCH Group is provided below. This information is based on amounts before inter-company eliminations and excludes goodwill, purchased intangible assets and associated amortisation and impairments attributable to non-controlling interests.

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Total income	447.1	360.6
Profit for the year	68.3	57.0
Total comprehensive income	58.2	69.3
Attributable to non-controlling interests	24.6	29.2

	31 December 2016	31 December 2015
	£m	£m
Summarised statement of financial position		
Non-current assets	283.6	239.4
Current assets	391,384.6	312,360.9
Current liabilities	(390,828.0)	(311,764.8)
Non-current liabilities	(15.4)	(152.6)
Total equity	824.8	682.9
Attributable to:		
Equity holders of the company	476.7	394.7
Non-controlling interests	348.1	288.2

	Year ended 31 December 2016	Year ended 31 December 2015
	£m	£m
Net increase in cash and cash equivalents	173.3	14.3

LCH Group was acquired on 1 May 2013. Their results have been incorporated from that date.

18. Deferred tax

The movements in deferred tax assets and liabilities during the year are shown below.

Group	Accelerated tax depreciation	Acquisition deferred tax and amortisation	Provisions and other temporary differences	Total
	£m	£m	£m	£m
31 December 2014	5.6	(847.6)	57.2	(784.8)
Transfer between categories	–	(3.1)	3.1	–
Tax credited to the income statement	1.2	56.2	(0.6)	56.8
Tax credited/(charged) to other comprehensive income:				
– defined benefit pension scheme remeasurement loss	–	–	(2.8)	(2.8)
– foreign exchange	–	(19.2)	–	(19.2)
Allowance on share options/awards – to equity	–	–	(0.1)	(0.1)
Reclassification to assets held for sale	1.6	199.8	(42.3)	159.1
31 December 2015	8.4	(613.9)	14.5	(591.0)
Reclassification from assets held for sale	–	–	9.8	9.8
Transfer to current tax	–	–	5.6	5.6
Tax credited/(charged) to the income statement	–	41.3	(10.7)	30.6
Tax credited/(charged) to other comprehensive income:				
– defined benefit pension scheme remeasurement loss	–	–	14.7	14.7
– movement in value of available for sale financial assets	–	–	(1.4)	(1.4)
– foreign exchange	–	(98.8)	–	(98.8)
Allowance on share options/awards – to equity	–	–	(6.2)	(6.2)
31 December 2016	8.4	(671.4)	26.3	(636.7)
Assets at 31 December 2016	8.4	–	59.6	68.0
Liabilities at 31 December 2016	–	(671.4)	(33.3)	(704.7)
Net assets/(liabilities) at 31 December 2016	8.4	(671.4)	26.3	(636.7)
Assets at 31 December 2015	8.4	–	26.2	34.6
Liabilities at 31 December 2015	–	(613.9)	(11.7)	(625.6)
Net assets/(liabilities) at 31 December 2015	8.4	(613.9)	14.5	(591.0)

The deferred tax assets are recoverable against future taxable profits and are due after more than one year.

The deferred tax asset of £26.3 million (2015: £14.5 million) in respect of provisions and other temporary differences mainly relates to share based payments of £7.2 million (2015: £7.5 million), retirement benefits liability of £9.6 million (2015: £3.1 million), trading losses of £24.3 million (2015: £6.1 million) and other provisions and temporary differences of £14.8 million (2015: £4.0 million).

The purchased intangible assets of the acquired subsidiaries create a deferred tax liability due to the difference between their accounting and tax treatment. This liability is amortised at the same rate as the purchased intangible assets.

The Group has unrecognised deferred tax assets in respect of losses of £21.1 million (2015: £20.5 million) within certain Group subsidiaries. The assets would be recognised in the future only if suitable taxable income were to arise within the Group.

There was no deferred tax in the Company (2015: nil).

Notes to the financial statements continued

19. Retirement benefit obligations

The Group operates separate defined benefit and defined contribution schemes. The assets of the defined benefit and defined contribution schemes in the UK are held separately from those of the Group in funds administered by trustees. The funds are primarily managed by Schroder Investment Management Limited, Legal & General Investment Management Limited, PIMCO Europe Limited and a 'buy in' insurance asset with Pension Insurance Corporation.

On 5 September 2016, the London Stock Exchange Retirement Plan and the LCH Pension Scheme in the UK underwent a sectionalised merger into a new London Stock Exchange Group Pension Scheme (LSEGPS). The scheme maintains separate LCH and LSE sections.

The assets of the LSEGPS are held by the trustees who are responsible for the scheme's governance. The schemes are invested in a wide range of assets in the UK and overseas, which seek to balance risk and investment return, through investment managers appointed by the scheme's trustees. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The 'Other plans' relate to the severance and leaving indemnity scheme Trattamento di Fine Rapporto (TFR) operated by the Italian group in accordance with Italian law, the employee benefit and retirement plan operated by MillenniumIT and the pension commitments of LCH Group.

All schemes are governed by the local regulatory framework and employment laws in the country in which they operate.

The Company has no retirement benefit obligations.

The only schemes operated by FTSE International and Frank Russell Company are defined contribution schemes.

Defined benefit schemes

Prior to the sectionalised merger described above, the London Stock Exchange Retirement Plan was a non-contributory defined benefit scheme and closed to new members in 1999. With effect from 31 March 2012, the scheme also closed to accrual of future benefits for active members and it has been agreed that the benefits for affected members will remain linked to their salary with the Group.

The defined benefit section of the pension scheme operated by LCH Group in the UK was closed to new members from 30 September 2009. It was closed to further employee contributions and accrual of future benefits from 31 March 2013 with the defined contribution section remaining open until the benefits were transferred to LSEGPS.

Pension scheme obligations and costs are determined by an independent qualified actuary on a regular basis using the projected unit credit method. The obligations are measured by discounting the best estimate of future cash flows to be paid out by the scheme and are reflected in the Group balance sheet.

LCH Group also operates a retirement indemnity and long-service award schemes in Paris, for which the scheme obligations are calculated by a qualified independent actuary. They also operate an independent defined benefit scheme in Porto, assumed in 2006. An updated valuation of these funds are carried out by a qualified independent actuary.

The TFR operated by the Italian group is classified as an unfunded defined benefit scheme for funds accumulated prior to 1 July 2007. The service cost, representing deferred salaries accruing to employees, was included as an operating expense and was determined by law at 6.91% of salary payments subject to certain adjustments. The scheme obligation comprises accumulated service costs and is revalued by law at a rate equal to 75% of 'national life price index +1.5%' by an independent qualified actuary. Since 1 July 2007, the Group retains no obligation, as contributions are made directly into Italian state funds in the manner of a defined contribution scheme.

The employee benefit and retirement plan operated by MillenniumIT is classified as a defined benefit plan. The net obligation in respect of this plan is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Once an employee is continuously employed for more than five years, he or she is entitled to a payment equivalent to half a month's gross salary multiplied by the number of years in service at MillenniumIT.

Defined contribution schemes

The Group's defined contribution schemes are now the only schemes open to new employees in the Group. For the new employees in the UK, a core contribution of eight per cent of pensionable pay is provided and the Group will match employee contributions up to a maximum of 4% to 6% of pensionable pay. Some LCH employees are in a legacy arrangement where three different levels of contributions are payable by the Group. A consultation to harmonise the UK pension arrangements started on 14 December 2016.

Amounts recognised in the income statement from continuing operations are as follows:

Notes	Year ended 31 December 2016				Year ended 31 December 2015			
	LSEG UK	LCH UK	Other plans	Total	LSEG UK	LCH UK	Other plans	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Defined contribution schemes	(3.2)	(5.4)	(5.4)	(14.0)	(2.7)	(5.4)	(6.4)	(14.5)
Defined benefit scheme – current service cost and expenses	(1.5)	(0.8)	(5.2)	(7.5)	(1.0)	(1.1)	(1.5)	(3.6)
Total pension charge included in employee costs	6	(4.7)	(6.2)	(10.6)	(21.5)	(3.7)	(6.5)	(7.9)
Net finance (expense)/income	8	(1.1)	1.0	(0.5)	(0.6)	(1.0)	0.6	(0.2)
Total recognised in the income statement	(5.8)	(5.2)	(11.1)	(22.1)	(4.7)	(5.9)	(8.1)	(18.7)

Defined benefit assets/(obligations) for pension schemes

	31 December 2016				31 December 2015			
	LSEG UK	LCH UK	Other plans	Total	LSEG UK	LCH UK	Other plans	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Fair value of assets:								
Equities (quoted)	–	104.2	–	104.2	6.7	93.6	–	100.3
Bonds (quoted)	152.9	148.3	0.3	301.5	116.9	102.5	0.4	219.8
Property	4.1	–	–	4.1	2.1	–	–	2.1
Cash	1.1	2.3	0.1	3.5	2.3	2.9	–	5.2
Pensioner buy in policy	192.2	–	–	192.2	167.0	–	–	167.0
Total fair value of assets	350.3	254.8	0.4	605.5	295.0	199.0	0.4	494.4
Present value of funded obligations	(410.3)	(253.0)	(15.5)	(678.8)	(323.5)	(173.8)	(12.5)	(509.8)
(Deficit)/surplus	(60.0)	1.8	(15.1)	(73.3)	(28.5)	25.2	(12.1)	(15.4)

UK pension plan actuarial assumptions are set out below:

	Year ended 31 December 2016		Year ended 31 December 2015	
	LSEG UK	LCH UK	LSEG UK	LCH UK
Inflation rate – RPI	3.3%	3.3%	3.1%	3.1%
Inflation rate – CPI	2.3%	2.3%	2.1%	2.1%
Rate of increase in salaries	3.3%	n/a	3.1%	n/a
Rate of increase in pensions in payment	3.6%	2.3%	3.4%	2.1%
Discount rate	2.7%	2.7%	3.9%	4.0%
Life expectancy from age 60 (years)				
– Non-retired male member	28.8	29.7	28.7	30.5
– Non-retired female member	30.5	32.2	30.6	32.9
– Retired male member	27.4	28.1	27.2	28.3
– Retired female member	29.3	30.4	29.3	30.5

The mortality assumptions are based on the standard tables S1NA published by the Institute and Faculty of Actuaries adjusted to take account of projected future improvements in life expectancy from the Self Administered Pension Scheme (SAPS) mortality survey, which was published in 2008. We have used an allowance for CMI 2013 projections and applied a 1.25%/1.00% for male/female long term trend rate in respect of future mortality improvements.

Notes to the financial statements continued

Sensitivities

The sensitivities regarding the principal assumptions used to measure the LSEG UK and LCH scheme obligations are:

Assumption	Change in assumption	Impact on scheme obligations 2016		Impact on scheme obligations 2015	
		LSEG UK	LCH UK	LSEG UK	LCH UK
Inflation rate (CPI)	Increase by 0.5%	Increase by £9.2m	Increase by £12.1m	Increase by £4.2m	Increase by £8.5m
Rate of increase in pensions payment	Increase by 0.5%	Increase by £31.7m	Increase by £19.6m	Increase by £21.5m	Increase by £10.1m
Discount rate	Increase by 0.5%	Reduce by £36.7m	Reduce by £38.6m	Reduce by £24.1m	Reduce by £20.8m
Mortality rate	Increase by 1 year	Increase by £16.5m	Increase by £8.1m	Increase by £10.1m	Increase by £3.8m

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

Changes in the present value of the defined benefit obligations during the year

	Year ended 31 December 2016				Year ended 31 December 2015			
	LSEG UK £m	LCH UK £m	Other plans £m	Total £m	LSEG UK £m	LCH UK £m	Other plans £m	Total £m
Benefit obligation as at beginning of year	323.5	173.8	12.5	509.8	331.9	185.8	13.1	530.8
Pension expense:								
Current service cost	—	—	4.6	4.6	—	—	1.8	1.8
Interest cost	12.4	6.6	0.5	19.5	12.1	6.8	0.2	19.1
Subtotal included in the income statement	12.4	6.6	5.1	24.1	12.1	6.8	2.0	20.9
Re-measurement losses/(gains):								
Actuarial losses/(gains) – financial assumptions	91.0	77.1	(0.4)	167.7	(10.6)	(15.6)	(1.1)	(27.3)
Actuarial losses/(gains) – demographic assumptions	1.7	(2.7)	0.3	(0.7)	—	—	—	—
Actuarial (gains)/losses – experience	(5.4)	—	(0.1)	(5.5)	0.7	—	(0.1)	0.6
Other actuarial movements through the income statement	—	—	0.2	0.2	—	—	(0.1)	(0.1)
Subtotal included in other comprehensive income	87.3	74.4	—	161.7	(9.9)	(15.6)	(1.3)	(26.8)
Benefits paid	(12.9)	(4.7)	(4.1)	(21.7)	(10.6)	(2.8)	(0.6)	(14.0)
Foreign exchange	—	2.9	2.0	4.9	—	(0.4)	(0.7)	(1.1)
Benefit obligation as at end of year	410.3	253.0	15.5	678.8	323.5	173.8	12.5	509.8

Movement in fair value of scheme assets during the year

	Year ended 31 December 2016				Year ended 31 December 2015			
	LSEG UK £m	LCH UK £m	Other plans £m	Total £m	LSEG UK £m	LCH UK £m	Other plans £m	Total £m
Fair value of scheme assets as at beginning of year	295.0	199.0	0.4	494.4	304.8	201.8	0.4	507.0
Pension income:								
Interest income	11.3	7.6	—	18.9	11.1	7.4	—	18.5
Subtotal included in the income statement	11.3	7.6	—	18.9	11.1	7.4	—	18.5
Re-measurement gains:								
Return on plan assets, excluding interest income	54.7	49.0	—	103.7	(11.9)	(7.1)	—	(19.0)
Subtotal included in other comprehensive income	54.7	49.0	—	103.7	(11.9)	(7.1)	—	(19.0)
Contributions by employer	3.7	2.4	—	6.1	2.6	0.1	—	2.7
Expenses	(1.5)	—	—	(1.5)	(1.0)	—	—	(1.0)
Benefits paid	(12.9)	(4.7)	—	(17.6)	(10.6)	(2.8)	—	(13.4)
Foreign exchange	—	1.5	—	1.5	—	(0.4)	—	(0.4)
Fair value of scheme assets as at end of year	350.3	254.8	0.4	605.5	295.0	199.0	0.4	494.4

The actual gain on plan assets was £122.6 million (2015: loss £0.5 million).

Defined benefit actuarial gains and losses recognised

The experience adjustments and the effects of changes in actuarial assumptions of the pension scheme during the year are recognised in the statement of comprehensive income:

	Year ended 31 December 2016			Year ended 31 December 2015		
	LSEG UK	LCH UK	Other plans	LSEG UK	LCH UK	Other plans
	£m	£m	£m	£m	£m	£m
Recognised up to beginning year	(35.3)	15.7	(0.2)	(33.3)	7.2	(1.5)
Net actuarial (loss)/gain recognised in the year	(32.6)	(25.4)	0.2	(2.0)	8.5	1.3
Cumulative amount recognised at end of year	(67.9)	(9.7)	–	(35.3)	15.7	(0.2)

The last actuarial valuation of the LSEG UK defined benefit scheme was carried out as at 31 March 2015 by an independent qualified actuary. According to the schedule of contributions of this valuation the Group expects to fund its defined benefit scheme deficit with payments of £2m in 2015, £3m in 2016, £3m in 2017 and £2m p.a. in years 2018 to 2022.

The last actuarial valuation of the LCH UK defined benefit scheme was carried out as at 30 June 2013 by an independent qualified actuary. LCH UK section is currently in discussion on the results of the valuation as at 31 December 2016, which may result in an adjustment to contributions to the plan following completion during 2017.

The weighted average duration of the LSEG UK and LCH UK defined benefit obligation at the end of the reporting period is estimated to be 18.8 years and 25.0 years, respectively.

20. Trade and other receivables

	Notes	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		£m	£m	£m	£m
Trade receivables		268.3	178.6	–	–
Less: provision for impairment of receivables		(13.2)	(6.7)	–	–
Trade receivables – net		255.1	171.9	–	–
Amounts due from Group undertakings	34	–	–	436.2	547.9
Amounts due from associates	34	15.0	0.2	3.4	–
Group relief receivable		–	–	24.4	–
Other receivables		200.1	46.2	4.5	0.9
Prepayments and accrued income		166.4	113.0	5.0	1.4
		636.6	331.3	473.5	550.2

The carrying values less impairment provision of trade and other receivables are reasonable approximations of fair values.

Trade receivables that are not past due are not considered to be impaired as at 31 December 2016; these balances are spread across a number of high quality counterparties.

The ageing of past due debtors for the Group is as follows:

	31 December 2016		31 December 2015	
	Impaired	Not impaired	Impaired	Not impaired ¹
	£m	£m	£m	£m
0 to 3 months past due	0.5	60.7	0.6	25.6
Greater than 3 months past due	12.7	59.5	6.1	29.0
	13.2	120.2	6.7	54.6

1. The ageing of past due debtors not impaired has been restated to reflect balances previously not included.

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2016	31 December 2015
	£m	£m
Sterling	167.4	126.7
Euro	199.4	79.6
US Dollar	236.0	108.3
Other Currencies	33.8	16.7
	636.6	331.3

Notes to the financial statements continued

Movements on the Group's provision for impairment of trade receivables are as follows:

	31 December 2016	31 December 2015
	£m	£m
1 January	6.7	5.0
Provision for impairment of receivables	6.8	3.0
Receivables written off during the year as uncollectible	(1.0)	(1.1)
Foreign exchange	0.7	(0.2)
31 December	13.2	6.7

The creation and release of the provision for impaired receivables have been included in operating expenses in the income statement. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables and the other categories of financial assets do not contain impaired assets.

21. Financial assets and financial liabilities

Financial instruments by category

The financial instruments of the Group and Company are categorised as follows:

	Group					Company		
	Loans and receivables	Held-to- maturity assets	Available for sale at fair value through OCI	Financial instruments at fair value through profit or loss	Total	Loans and receivables	Financial instruments at fair value through profit or loss	Total
	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2016								
Assets as per balance sheet								
Financial assets of the CCP clearing business:								
– CCP trading assets	–	–	–	320,528.9	320,528.9	–	–	–
– Receivables for repurchase transactions	149,831.8	–	–	–	149,831.8	–	–	–
– Other receivables from clearing members	9,077.2	–	–	–	9,077.2	–	–	–
– Financial assets	–	–	15,975.2	9,419.3	25,394.5	–	–	–
– Cash and cash equivalents of clearing members	53,553.2	–	–	–	53,553.2	–	–	–
Financial assets of the CCP clearing business	212,462.2	–	15,975.2	329,948.2	558,385.6	–	–	–
Assets held at fair value	–	–	–	0.3	0.3	–	–	–
Total financial assets for CCP clearing business	212,462.2	–	15,975.2	329,948.5	558,385.9	–	–	–
Other non-current assets	88.2	–	–	–	88.2	12.5	–	12.5
Trade and other receivables	636.6	–	–	–	636.6	473.5	–	473.5
Cash and cash equivalents	1,150.7	–	–	–	1,150.7	1.2	–	1.2
Assets held at fair value	–	–	74.4	–	74.4	–	–	–
Available for sale financial assets	–	–	27.9	–	27.9	–	–	–
Total	214,337.7	–	16,077.5	329,948.5	560,363.7	487.2	–	487.2

There were no transfers between categories during the year.

During the year ended 31 December 2016, the Group reclassified a £1.5 million loss (2015: £0.3 million gain) from other comprehensive income to the income statement on disposal of available for sale financial assets.

	Group			Company		
	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total
31 December 2016	£m	£m	£m	£m	£m	£m
Liabilities as per balance sheet						
Financial liabilities of the CCP clearing business:						
– CCP trading liabilities	–	320,528.9	320,528.9	–	–	–
– Liabilities under repurchase transactions	149,831.8	–	149,831.8	–	–	–
– Other payables to clearing members	88,117.6	–	88,117.6	–	–	–
– Financial liabilities held at fair value	–	–	–	–	–	–
Total financial liabilities of the CCP clearing business	237,949.4	320,528.9	558,478.3	–	–	–
Trade and other payables	601.1	–	601.1	203.5	–	203.5
Borrowings	1,165.9	–	1,165.9	821.6	–	821.6
Provisions	10.4	–	10.4	–	–	–
Other non-current liabilities	17.0	48.5	65.5	–	–	–
Net investment hedges:						
– Cross currency interest rate swaps	–	19.3	19.3	–	19.3	19.3
Total	239,743.8	320,596.7	560,340.5	1,025.1	19.3	1,044.4

There were no transfers between categories during the year.

The financial instruments of the Group and Company at the previous year's balance sheet date were as follows:

	Group					Company		
	Loans and receivables	Held-to-maturity assets	Available for sale at fair value through OCI	Financial instruments at fair value through profit or loss	Total	Loans and receivables	Financial instruments at fair value through profit or loss	Total
31 December 2015	£m	£m	£m	£m	£m	£m	£m	£m
Assets as per balance sheet								
Financial assets of the CCP clearing business:								
– CCP trading assets	–	–	–	273,531.5	273,531.5	–	–	–
– Receivables for repurchase transactions	127,603.0	–	–	–	127,603.0	–	–	–
– Other receivables from clearing members	7,119.5	–	–	–	7,119.5	–	–	–
– Financial assets	–	102.4	10,038.3	9,849.6	19,990.3	–	–	–
– Cash and cash equivalents of clearing members	28,444.2	–	–	–	28,444.2	–	–	–
Financial assets of the CCP clearing business	163,166.7	102.4	10,038.3	283,381.1	456,688.5	–	–	–
Assets held at fair value	–	–	–	1.4	1.4	–	–	–
Total financial assets for CCP clearing business	163,166.7	102.4	10,038.3	283,382.5	456,689.9	–	–	–
Other non-current assets	46.0	–	–	–	46.0	–	–	–
Trade and other receivables	331.3	–	–	–	331.3	550.2	–	550.2
Cash and cash equivalents	923.9	–	–	–	923.9	0.9	–	0.9
Assets held at fair value	–	–	8.5	–	8.5	–	–	–
Available for sale financial assets	–	–	61.0	–	61.0	–	–	–
Derivatives not designated as hedges								
– Foreign exchange forward contracts	–	–	–	0.4	0.4	–	–	–
Derivatives used for hedging								
Net investment hedges:								
– Cross currency interest rate swaps	–	–	–	47.5	47.5	–	47.5	47.5
Total	164,467.9	102.4	10,107.8	283,430.4	458,108.5	551.1	47.5	598.6

There were no transfers between categories during the prior year.

Notes to the financial statements continued

	Group			Company		
	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total
31 December 2015	£m	£m	£m	£m	£m	£m
Liabilities as per balance sheet						
Financial liabilities of the CCP clearing business:						
– CCP trading liabilities	–	273,531.5	273,531.5	–	–	–
– Liabilities under repurchase transactions	127,603.1	–	127,603.1	–	–	–
– Other payables to clearing members	55,528.4	–	55,528.4	–	–	–
– Financial liabilities held at fair value	–	0.3	0.3	–	–	–
Total financial liabilities of the CCP clearing business	183,131.5	273,531.8	456,663.3	–	–	–
Trade and other payables	452.4	–	452.4	201.9	–	201.9
Borrowings	1,608.9	–	1,608.9	885.1	–	885.1
Provisions	10.8	–	10.8	–	–	–
Other non-current liabilities	33.8	31.5	65.3	–	–	–
Other non-current payables	43.5	–	43.5	–	–	–
Total	185,280.9	273,563.3	458,844.2	1,087.0	–	1,087.0

There were no transfers between categories during the prior year.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 31 December 2016:

	Group			Total Fair Value
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£m	£m	£m	£m
Financial assets measured at fair value:				
CCP trading assets				
Derivative instruments:				
– Futures	3,892.9	–	–	3,892.9
– Options	1,914.0	–	–	1,914.0
– Commodities derivatives	79.8	–	–	79.8
Non-derivative instruments:				
– CCP transactions	2.1	314,640.1	–	314,642.2
Financial assets:				
– Equities and bonds	18,439.0	–	–	18,439.0
– Securities	6,955.8	–	–	6,955.8
Fair value of transactions with CCP members	31,283.6	314,640.1	–	345,923.7
Assets held at fair value:				
– Government bonds	74.4	–	–	74.4
Available for sale financial assets:				
– Investment in unquoted equity – Euroclear	–	7.3	–	7.3
– Government bonds	20.6	–	–	20.6

At 31 December 2016, the Company had no derivative assets (2015: £47.5 million). All derivatives in the Company in the previous year were cross currency interest rate swaps and classified as Level 2.

	Group			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
	£m	£m	£m	£m
Financial liabilities measured at fair value:				
CCP trading liabilities				
Derivative instruments:				
– Futures	3,892.9	–	–	3,892.9
– Options	1,914.0	–	–	1,914.0
– Commodities derivatives	79.8	–	–	79.8
Non-derivative instruments:				
– CCP transactions	–	314,640.1	–	314,640.1
Financial liabilities held at fair value:				
– Equities and bonds	2.1	–	–	2.1
Fair value of transactions with CCP members	5,888.8	314,640.1	–	320,528.9
Other non-current liabilities:				
– Canadian dollar denominated Put Option	–	30.0	–	30.0
– Euro denominated Put Option	–	9.3	–	9.3
– GBP denominated Put Option	–	9.2	–	9.2
Derivatives used for hedging:				
– Cross currency interest rate swaps	–	19.3	–	19.3

At 31 December 2016, the Company had derivative liabilities of £19.3 million (31 December 2015: nil). All derivatives in the Company are cross currency interest rate swaps and classified as Level 2.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 31 December 2015:

	Group			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
	£m	£m	£m	£m
Financial assets measured at fair value:				
CCP trading assets				
Derivative instruments:				
– Futures	6,546.1	–	–	6,546.1
– Options	1,355.0	–	–	1,355.0
– Commodities derivatives	42.8	–	–	42.8
Non-derivative instruments:				
– CCP transactions	5.0	265,582.6	–	265,587.6
Financial assets:				
– Equities and bonds	9,851.0	–	–	9,851.0
– Securities	6,605.4	–	–	6,605.4
– Government backed, bank issue certificates of deposits	3,432.9	–	–	3,432.9
Fair value of transactions with CCP members	27,838.2	265,582.6	–	293,420.8
Assets held at fair value:				
– Government bonds	8.5	–	–	8.5
Available for sale financial assets:				
– Investment in unquoted equity – Euroclear	–	4.8	–	4.8
– Government bonds	56.2	–	–	56.2
Derivatives not used for hedging:				
– Foreign exchange forward contracts	–	0.4	–	0.4
Derivatives used for hedging:				
– Cross currency interest rate swaps	–	47.5	–	47.5

Government bonds totalling £64.7 million as at 31 December 2015 have been re-classified from Level 2 to Level 1.

Notes to the financial statements continued

	Group			Total Fair Value
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£m	£m	£m	£m
Financial liabilities measured at fair value:				
CCP trading liabilities				
Derivative instruments:				
– Futures	6,546.1	–	–	6,546.1
– Options	1,355.0	–	–	1,355.0
– Commodities derivatives	42.8	–	–	42.8
Non-derivative instruments:				
– CCP transactions	4.9	265,582.7	–	265,587.6
Financial liabilities held at fair value:				
– Equities and bonds	0.3	–	–	0.3
Fair value of transactions with CCP members	7,949.1	265,582.7	–	273,531.8
Other non-current liabilities:				
– Canadian dollar denominated Put Option	–	24.0	–	24.0
– Euro denominated Put Option	–	7.5	–	7.5

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

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

For assets and liabilities classified as Level 2, the fair value is calculated using one or more valuation techniques (e.g. the market approach or the income approach) with market observable inputs. The selection of the appropriate valuation techniques may be affected by the availability of the relevant inputs as well as the reliability of the inputs. The inputs may include currency rates, interest rate and forward rate curves and net asset values. The results of the application of the various techniques may not be equally representative of fair value, due to factors such as assumptions made in the valuation.

There have been no transfers between Level 1 and Level 2 during the year or in the prior year.

At 31 December 2016, the Group had no assets or liabilities classified as Level 3 (2015: nil).

With the exception of Group borrowings, management has assessed that the fair value of financial assets and financial liabilities categorised as 'Loans and receivables', 'Held to Maturity' and 'Financial liabilities at amortised cost' approximate their carrying values. The fair value of the Group's borrowings is disclosed in Note 25.

The Group's financial assets and liabilities held at fair value consist largely of securities restricted in use for the operations of the Group's CCPs as managers of their respective clearing and guarantee systems. The nature and composition of the CCP clearing business assets and liabilities are explained in the accounting policies section in Note 1.

As at 31 December 2016, there were no provisions for impairment in relation to any of the CCP financial assets (2015: nil) and none of these assets were past due (2015: nil). Other non-current assets include deferred consideration receivable of £83.4 million (2015: nil), amounts due from associates of £3.0 million (2015: nil), tax and insurances of nil (2015: £42.5 million), rental deposits of £0.9 million (2015: £0.8 million), finance lease receivable of £0.6 million (2015: £1.9 million) and other financial assets are £0.3 million (2015: £0.8 million).

Other non-current liabilities include deferred consideration of £2.6 million (2015: £17.1 million), non-current compensations of £2.2 million (2015: nil), put options of £48.5 million (2015: £31.5 million), rental deposits of £2.8 million (2015: £2.8 million), financial liabilities related to the clearing business of £8.1 million (2015: £13.9 million) and other non-current liabilities of £1.3 million.

Other non-current payables included incentive compensation liabilities of nil (2015: £40.7 million), tax liabilities of nil (2015: £2.7 million) and long term liabilities including tenant improvements and rentals of nil (2015: £0.1 million).

Hedging activities and derivatives

Derivative financial liabilities of £19.3 million represents the fair value of the cross currency interest rate swaps (amounting to 6 contracts totalling €300.0 million notional). These instruments effectively exchange some of the obligations and coupons of the 2019 £250.0 million bond from Sterling into Euros in order to more closely match the currency of borrowings to the Group's currency of net assets and earnings. This also results in a reduction in balance sheet translation exposure on Euro denominated net assets and the protection of Sterling cash flows. These swaps have been designated as a hedge of the Group's net investment in the Italian group and qualify for effective hedge accounting.

For the year ended 31 December 2016, the Group recognised a net £54.2 million loss on mark to market valuation and settlement of these derivatives in reserves (2015: £24.8 million). This amount includes a £12.6 million gain on the settlement of €200 million of cross currency interest rate swap contracts which matured in July 2016.

Foreign exchange forward contracts were arranged during the year to hedge the fair value of Euro and USD denominated exposures. These hedges forward buy and sell payables and receivables denominated in Euro and USD, with the mark to market adjustments offsetting the hedged item revaluation in the income statement. This also offers more predictable cash flows to the Group at maturity. At 31 December 2016, payables of nil (2015: €17 million) and US\$12.9 million (2015: US\$28.5 million) and receivables of nil (2015: JPY4.2 billion) were hedged forward into the next financial year. The market value of the derivatives was nil (2015: £0.4 million) in aggregate.

22. Offsetting financial assets and financial liabilities

The Group reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liabilities simultaneously.

The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet as at 31 December 2016.

	Gross amounts £m	Amount offset £m	Net amount as reported £m
31 December 2016			
Derivative financial assets	2,124,455.5	(2,122,089.2)	2,366.3
Reverse repurchase agreements	501,749.0	(189,475.6)	312,273.4
Total assets	2,626,204.5	(2,311,564.8)	314,639.7
Derivative financial liabilities	(2,125,460.9)	2,123,094.6	(2,366.3)
Reverse repurchase agreements	(501,749.0)	189,475.6	(312,273.4)
Total liabilities	(2,627,209.9)	2,312,570.2	(314,639.7)

Notes to the financial statements continued

The impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet as at 31 December 2015 is as follows:

	Gross amounts	Amount offset	Net amount as reported
	£m	£m	£m
31 December 2015			
Derivative financial assets	1,619,842.3	(1,617,730.3)	2,112.0
Reverse repurchase agreements	434,753.9	(171,278.6)	263,475.3
Total assets	2,054,596.2	(1,789,008.9)	265,587.3
Derivative financial liabilities	(1,614,067.0)	1,611,955.0	(2,112.0)
Reverse repurchase agreements	(434,753.9)	171,278.6	(263,475.3)
Total liabilities	(2,048,820.9)	1,783,233.6	(265,587.3)

All offset amounts are held in the CCP trading assets and CCP trading liabilities within the Group's financial instruments.

As CCPs, the Group's operating companies sit in the middle of members' transactions and hold default funds and margin amounts as a contingency against the default of a member. As such, further amounts are available to offset in the event of a default reducing the asset and liability of £314,639.7 million (2015: £265,587.3 million) to nil. Default funds for derivatives of £7,447.8 million (2015: £3,860.0 million), repurchase agreements of £1,991.1 million (2015: £1,481.9 million) and other transactions of £97.2 million (2015: £197.5 million) are held by the Group. In addition, the Group holds margin of £91,265.6 million (2015: £52,437.7 million) for derivatives, £27,937.3 million (2015: £21,683.1 million) for repurchase agreements and £2,631.6 million (2015: £2,269.7 million) for other transactions, as well as additional variation margin amounts which are not allocated by business line.

Included within member assets and liabilities are £279.3 million (2015: £277.5 million) and £187.8 million (2015: £83.1 million) respectively in relation to contracts where changes in net present value have settled to market (available for members to opt in with effect from December 2015).

23. Cash and cash equivalents

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	£m	£m	£m	£m
Cash at bank	595.6	359.0	1.2	0.9
Short-term deposits	555.1	564.9	—	—
	1,150.7	923.9	1.2	0.9

Cash and cash equivalents are held with authorised counterparties of a high credit standing, in secured investments at LCH Group companies and at CC&G and unsecured interest bearing current and call accounts, short-term deposits and AAA rated money market funds elsewhere in the Group. Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values. Cash and cash equivalents do not include amounts held by certain subsidiaries on behalf of their clearing members, the use of which is restricted to the operation of the clearers as managers of the clearing and guarantee system (see note 21).

At 31 December 2016, cash and cash equivalents shown above include £847.6 million (2015: £719.1 million) of amounts held by regulated entities for regulatory and operational purposes. Total amounts set aside for regulatory and operational purposes include current assets held at fair value of £74.4 million (2015: £8.5 million), non-current assets held at fair value of £20.6 million (2015: £56.2 million).

All amounts are subject to regular reviews with regulators in the UK, France and Italy.

24. Trade and other payables

	Note	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		£m	£m	£m	£m
Trade payables		104.6	39.4	—	—
Amounts owed to Group undertakings	34	—	—	169.2	176.5
Social security and other taxes		23.2	19.3	—	0.3
Other payables		145.9	189.8	12.3	14.0
Accruals and deferred income		327.4	247.4	22.0	11.1
		601.1	495.9	203.5	201.9
Current		601.1	452.4	203.5	201.9
Non-current		—	43.5	—	—
		601.1	495.9	203.5	201.9

25. Borrowings

		Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		£m	£m	£m	£m
Current					
Bank borrowings and trade finance loans		465.4	680.0	274.4	88.4
Preferred securities		153.3	—	—	—
Bonds		—	250.2	—	250.2
		618.7	930.2	274.4	338.6
Non-current					
Bonds		547.2	546.5	547.2	546.5
Preferred securities		—	132.2	—	—
		547.2	678.7	547.2	546.5

The Group has the following committed bank facilities and unsecured notes:

Type	Expiry Date	Notes/Facility	Carrying value at 31 December 2016	Interest rate percentage at 31 December 2016
		£m	£m	%
Drawn value of Facilities				
Multi-currency revolving credit facility	Jun 2017	600.0	(0.6)	LIBOR + 0.6
Multi-currency revolving credit facility	Nov 2021	600.0	466.0	LIBOR + 0.45
Total Bank Facilities		1,200.0	465.4	
Bonds due October 2019	Oct 2019	250.0	249.0	9.125
Bonds due November 2021	Nov 2021	300.0	298.2	4.75
LCH.Clearnet Preferred Securities	May 2017	170.5	153.3	6.576
Total Bonds and Preferred Securities		720.5	700.5	
Total Committed Facilities		1,920.5	1,165.9	

The carrying value of bank drawn facilities and bonds at 31 December 2015 was £680.0 million and £928.9 million, respectively.

Current borrowings

The Group's total committed bank facilities of £1,200 million (split into two facilities of £600 million) remained in place during the financial year. One facility will expire in June 2017 and the other was extended for another year to November 2021. These facilities were partially utilised at 31 December 2016 with £465.4 million (2015: £680.0 million) drawn which includes £2.0 million of deferred arrangement fees (2015: £1.7 million).

In July 2016, the Company repaid the £250 million unsecured bond at maturity using the Group's committed facilities. Interest on these bonds was paid semi-annually in arrears in January and July each year. The issue price of the bond was £99.679 per £100 nominal. The coupon on the bond was dependent on movements in the Company's credit rating with Moody's which remained at Baa1 during the financial year. The bond coupon rate remained at 5.875% per annum until maturity.

In May 2007, LCH.Clearnet Group Limited issued through Freshwater Finance plc €200 million of Perpetual Preferred Securities to underpin its capital structure. €20 million of these Securities were subsequently repurchased in the market by LCH.Clearnet Group Limited. The coupon on these Securities is currently a fixed rate of 6.576% per annum and interest is paid annually. In May 2017, this coupon will be replaced by a rate of 3 month Euribor plus 2.1% per annum, and is the trigger point for a first call of the Securities.

Notes to the financial statements continued

In addition, a number of Group entities have access to uncommitted operational, money market and overdraft facilities which support post trade activities and day to day liquidity requirements across its operations. The aggregate drawings against these facilities as at 31 December 2016 was nil (2015: nil).

CC&G has direct intra-day access to refinancing with the Bank of Italy to cover its operational liquidity requirements in the event of a market stress or participant failure. In addition, it has arranged back-up credit lines with a number of commercial banks, which totaled €420 million at 31 December 2016 (2015: €420 million), for overnight and longer durations to broaden its liquidity resources consistent with requirements under the European Markets Infrastructure Regulation (EMIR).

LCH SA has a French banking licence and is able to access refinancing at the European Central Bank to support its liquidity position. LCH Limited is deemed to have sufficient fungible liquid assets to maintain an appropriate liquidity position, and has direct access to certain central bank facilities to support its liquidity risk management in accordance with the requirements under the European Markets Infrastructure Regulation (EMIR). In accordance with the Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO) Principles for Financial Market Infrastructures (PFMIs) many Central Banks now provide for CCPs to apply for access to certain Central Bank facilities.

Non-current borrowings

In June 2009, the Company issued a £250 million bond which is unsecured and is due for repayment in October 2019. Interest is paid semi-annually in arrears in April and October each year. The issue price of the bond was £99.548 per £100 nominal. The coupon on the bond is dependent on the Company's credit ratings with Moody's and Standard & Poor's, both maintaining their respective Baa1 and BBB+ ratings. The bond coupon remained at 9.125% per annum throughout the financial year.

In November 2012, the Company issued a £300 million bond under its Euro medium term notes programme (launched at the same time) which is unsecured and is due for repayment in November 2021. Interest is paid semi-annually in arrears in May and November each year. The issue price of the bond was £100 per £100 nominal. The coupon on the bond is fixed at 4.75% per annum.

Fair values

The fair values of the Group's borrowings are as follows:

Group	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Borrowings				
– within one year	618.7	626.2	930.2	935.7
– after more than one year	547.2	642.8	678.7	772.6
	1,165.9	1,269.0	1,608.9	1,708.3

The fair values of the Company's borrowings are as follows:

Company	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Borrowings				
– within one year	274.4	274.4	338.5	344.0
– after more than one year	547.2	642.8	546.6	637.4
	821.6	917.2	885.1	981.4

Borrowings are classified as Level 2 in the Group's hierarchy for determining and disclosing the fair value of financial instruments. The fair values of borrowings are based on discounted cash flows using a rate based on borrowing cost. Floating rate borrowings bear interest at an agreed margin over LIBOR.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

Currency	31 December 2016			31 December 2015		
	Drawn	Swapped	Effective	Drawn	Swapped	Effective
	£m	£m	£m	£m	£m	£m
Sterling	713.4	(255.8)	457.6	885.1	(368.5)	516.6
Euro	352.0	255.8	607.8	132.2	368.5	500.7
USD	100.5	–	100.5	591.6	–	591.6
Total	1,165.9	–	1,165.9	1,608.9	–	1,608.9

The carrying amounts of the Company's borrowings are denominated in the following currencies:

Currency	31 December 2016			31 December 2015		
	Drawn	Swapped	Effective	Drawn	Swapped	Effective
	£m	£m	£m	£m	£m	£m
Sterling	713.4	(255.8)	457.6	885.1	(368.5)	516.6
Euro	75.0	255.8	330.8	–	368.5	368.5
USD	33.2	–	33.2	–	–	–
Total	821.6	–	821.6	885.1	–	885.1

26. Analysis of net debt

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	£m	£m	£m	£m
Due within one year				
Cash and cash equivalents	1,150.7	923.9	1.2	0.9
Bank borrowings	(465.4)	(680.0)	(274.4)	(88.4)
Bonds	–	(250.2)	–	(250.2)
Preferred securities	(153.3)	–	–	–
Derivative financial assets	–	25.5	–	25.0
	532.0	19.2	(273.2)	(312.7)
Due after one year				
Bonds	(547.2)	(546.5)	(547.2)	(546.5)
Preferred securities	–	(132.2)	–	–
Derivative financial assets	–	22.4	–	22.4
Derivative financial liabilities	(19.3)	–	(19.3)	–
Total net debt	(34.5)	(637.1)	(839.7)	(836.8)

Reconciliation of net cash flow to movement in net debt

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	£m	£m	£m	£m
(Decrease)/increase in cash in the year	(213.5)	90.2	0.3	0.7
Bond repayment	250.0	–	250.0	–
Bank loan repayments less new drawings	297.0	143.5	(169.7)	38.7
Change in net debt resulting from cash flows	333.5	233.7	80.6	39.4
Foreign exchange movements	151.7	(67.0)	(16.6)	(0.1)
Movement on derivative financial assets and liabilities	(67.2)	24.8	(66.7)	24.7
Bond valuation adjustment	(0.9)	–	(0.5)	–
Movement in deferred arrangement fees	0.3	–	0.3	–
Reclassification to assets held for sale	–	(252.5)	–	–
Cash disposed of as part of discontinued operations	185.2	–	–	–
Net debt at the start of the year	(637.1)	(576.1)	(836.8)	(900.8)
Net debt at the end of the year	(34.5)	(637.1)	(839.7)	(836.8)

27. Provisions

Group	Property	Other	Total
	£m	£m	£m
1 January 2016	10.2	0.6	10.8
Utilised during the year	(1.1)	–	(1.1)
Unwinding of discount on provision	1.2	–	1.2
Provisions no longer required	–	(0.6)	(0.6)
Additional charge in the year	0.3	–	0.3
Foreign exchange	(0.2)	–	(0.2)
31 December 2016	10.4	–	10.4
Current	0.6	–	0.6
Non-current	9.8	–	9.8
31 December 2016	10.4	–	10.4

The property provision represents the estimated net present value of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting space which is surplus to business requirements. The leases have between 1 and 12 years to expiry.

Other provisions primarily included legal provisions in relation to ongoing disputes with third parties and other claims against the Group.

The Company has no provisions (2015: nil).

Notes to the financial statements continued

28. Share capital and share premium

Ordinary shares issued and fully paid	Number of shares millions	Ordinary shares ¹ £m	Share premium £m	Total £m
At 1 January 2015	346.9	23.9	957.7	981.6
Issue of shares	1.0	0.1	–	0.1
Issue of shares to the Employee Benefit Trust	0.4	–	2.3	2.3
At 31 December 2015	348.3	24.0	960.0	984.0
Issue of shares to the Employee Benefit Trust	2.0	0.2	1.3	1.5
At 31 December 2016	350.3	24.2	961.3	985.5

1. Ordinary Shares of 6 ^{79/86} pence

The Board approved the allotment and issue of 180,308 ordinary shares of par value 6 ^{79/86} pence at 755.34 pence (2015: 419,602 ordinary shares of par value 6 ^{79/86} pence at 564.663 pence), to settle employee 'Save As You Earn' share plans. This generated a premium of £1.3 million (2015: £2.3 million).

In addition, the Group issued 1,750,000 ordinary shares (2015: 1,000,000 ordinary shares) at par value 6 ^{79/86} pence to the Employee Benefit Trust in relation to the Group's employee share option schemes.

29. Net cash flow generated from operations

		Group		Company	
		Year ended 31 December 2016	Year ended 31 December 2015 ¹	Year ended 31 December 2016	Year ended 31 December 2015
	Notes	£m	£m	£m	£m
Profit before taxation		468.3	433.7	516.7	46.5
Depreciation and amortisation	14,15	233.4	217.4	–	–
Disposal of work in progress		1.1	–	–	–
Profit on disposal of investment in a subsidiary	11	(75.3)	(19.9)	–	–
Net finance expense	8, 10	61.7	66.2	36.7	34.0
Dividend income		–	–	(705.2)	(125.2)
Share of loss from associates	16	4.9	–	–	–
Decrease in inventories		0.9	2.7	–	–
(Increase)/decrease in trade and other receivables		(214.6)	104.2	(37.3)	153.2
(Decrease)/increase in trade and other payables		(75.8)	(19.2)	39.6	34.4
Gain on available for sale investments		(1.1)	–	–	–
Impairment of software	15	8.2	1.0	–	–
Research and development tax credit		(0.6)	–	–	–
Increase in CCP financial assets		(30,384.9)	(31,702.3)	–	–
Decrease in CCP clearing business liabilities		30,506.4	31,649.4	–	–
(Increase)/decrease in assets held at fair value		(2.8)	2.7	–	–
Defined benefit pension obligation - contributions in excess of expenses charged		(4.2)	(2.8)	–	–
Net provisions movement during the year		6.3	(4.6)	–	–
Share scheme expense		37.4	32.1	–	–
Unrealised loss on revaluation on financial assets		1.6	–	–	–
Foreign exchange loss/(gains) on operating activities		56.4	(4.6)	84.5	(24.7)
Purchase of investment funds		(19.2)	(21.1)	–	–
Investments in available for sale financial assets		(9.8)	(63.7)	–	–
Gain on disposal of property, plant and equipment and assets held for sale		–	(0.8)	–	–
Cash generated from operations		598.3	670.4	(65.0)	118.2
Comprising:					
Ongoing operating activities		782.0	740.0	(25.4)	159.9
Non-recurring items		(183.7)	(69.6)	(39.6)	(41.7)
		598.3	670.4	(65.0)	118.2

1 Investments in available for sale financial assets have been reclassified from cash flow from financing activities to net cash flow generated from operations.

30. Commitments and contingencies

Connected with the disposal of Russell Investment Management on 31 May 2016, the Group entered into an indemnity arrangement with the acquirer relating to certain ongoing litigation between the disposed business and third parties. The provisions of the indemnity limit the Group's exposure to 50 per cent of any liability arising from this litigation up to a maximum of US\$25 million. No provision has been made in the financial statements of the Group relating to these matters, at this time, on the basis that it is not currently considered to be probable that any amount will be paid under the arrangement.

The Group had commitments of £54.0 million for professional fees relating to the proposed merger with Deutsche Börse. The amounts are payable on the successful completion of the merger.

Contracted capital commitments and other contracted commitments not provided for in the financial statements of the Group were £0.3 million (2015: £0.9 million) and £20.7 million (2015: £27.4 million), respectively.

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

31. Business combinations**Acquisitions in the year to 31 December 2016**

The Group made 1 acquisition in the year ended 31 December 2016.

Turquoise SwapMatch Limited

On 11 July 2016, the Group acquired a 50% equity shareholding in SwapMatch Limited (SwapMatch) for a cash consideration of £1.0 million. Immediately following the acquisition, the Group made a £0.5 million cash investment in exchange for an additional 10% equity in SwapMatch. The investment was made to assist the business' capital requirement and technology development. The non-controlling interest did not participate in the share purchase, and as a result the Group's equity interest in SwapMatch increased to 60%. The non-controlling interest has an option to sell the remaining 40% interest to the Group after a year, subject to mutual acceptance conditions, and as a result, a financial liability has been recorded in the Group balance sheet representing the fair value of the initial exercise price and associated earn out payments attached to the option.

The main activity of SwapMatch is to provide a neutral platform allowing prime brokers to match and net off synthetic equity positions with other brokers. The provisional fair value of net assets acquired was nil and the Group recognised £1.0 million in goodwill; these fair values will be finalised within 12 months of the acquisition date. The goodwill represents the growth of future expected income streams from SwapMatch's customer base. The goodwill is not expected to be deductible for tax purposes.

If the acquisition had occurred on 1 January 2016, the estimated Group revenue for the year from continuing operations would have been £1,516.1 million, with operating profit (before amortisation of purchased intangible assets and non-recurring items) of £685.9 million. These amounts have been calculated using the Group's accounting policies and based on available information.

Acquisitions in the year to 31 December 2015

The Group made 2 acquisitions during the year ended 31 December 2015.

Exactpro Systems Limited

On 29 May 2015, the Group acquired a 100% interest in Exactpro Systems Limited (Exactpro) for a total consideration of US\$6.8 million (£4.3 million), comprising £2.2 million cash consideration and £2.1 million deferred consideration. The main activity of Exactpro is to provide quality assurance to exchanges, investment banks, brokers and other financial sector organisations worldwide. The fair value of net assets acquired was £1.4 million and the Group recognised £2.9 million in goodwill.

The valuation on the acquisition of Exactpro was finalised during the current year and resulted in no change to the fair values attributed on acquisition.

XTF Inc.

On 21 December 2015, the Group acquired the trade and assets from XTF Inc. (XTF) for consideration of US\$1.5 million (£1.0 million). Cash consideration amounting to £0.7 million was paid to the seller in the year ended 31 December 2015 and £0.3 million was paid on completion of the purchase price exercise. XTF is a U.S. based provider of high-quality ETF data, analytics and ratings. The Group recognised goodwill of £1.0 million and the fair value of net assets acquired was nil.

The valuation on the acquisition of XTF was finalised during the current year and resulted in no change to the fair values attributed on acquisition.

Notes to the financial statements continued

32. Leases

Operating lease commitments – Group as lessee

The Group leases various office properties and equipment under non-cancellable operating leases. The total future minimum lease payments under non-cancellable operating leases are due as follows:

	Property		Equipment	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	£m	£m	£m	£m
Leases expiring in:				
Less than one year	30.3	27.7	–	0.1
More than one year but less than five years	108.5	91.8	–	–
More than five years	76.8	82.6	–	–
	215.6	202.0	–	0.1

Operating lease payments of £29.5 million (2015: £29.2 million) were charged to the income statement in the year in relation to property and £0.1 million (2015: £0.6 million) in the year in relation to equipment.

Operating lease commitments – Group as lessor

The total future minimum lease payments expected to be received under non-cancellable operating leases for property where the Group is lessor are due as follows:

	Property	
	31 December 2016	31 December 2015
	£m	£m
Leases expiring in:		
Less than one year	6.6	6.6
More than one year but less than five years	21.4	25.0
More than five years	4.7	7.8
	32.7	39.4

Finance lease commitments – Group as lessee

The Group has finance lease contracts for certain property rentals and software licenses. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31 December 2016		31 December 2015	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	£m	£m	£m	£m
Leases expiring in:				
Less than one year	–	–	0.2	0.2
More than one year but less than five years	–	–	–	–
Total minimum lease payments	–	–	0.2	0.2
Less amounts representing finance charges	–	–	–	–
Present value of minimum lease payments	–	–	0.2	0.2

The Company has no lease commitments (2015: none).

Finance lease commitments – Group as lessor

The Group has finance lease contracts for certain property rentals and software licenses. Future minimum lease payments receivable under finance leases together with the present value of the net minimum lease payments are as follows:

	31 December 2016		31 December 2015	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	£m	£m	£m	£m
Leases expiring in:				
Less than one year	0.8	0.7	0.7	0.6
More than one year but less than five years	0.7	0.7	1.5	1.4
More than five years	–	–	–	–
Total minimum lease payments	1.5	1.4	2.2	2.0
Less amounts representing finance charges	(0.1)	–	(0.2)	–
Present value of minimum lease payments	1.4	1.4	2.0	2.0

The Company has no lease commitments (2015: none).

33. Share Schemes

The London Stock Exchange Group Long Term Incentive Plan (LTIP), approved at the 2016 AGM, has two elements, a conditional award of Performance Shares and an award of Matching Shares linked to investment by the executive of annual bonus in the Company's shares – the latter element is not applicable to executive directors. Vesting of these awards is dependent upon the Company's total shareholder return performance and adjusted basic earnings per share. Further details are provided in the Remuneration Report on pages 70 to 95. Awards are granted at nil cost to employees.

The SAYE scheme and International Sharesave Plan provide for grants of options to employees who enter into a SAYE savings contract and options were granted at 20 per cent below fair market value during the year.

The Group has an ESOP discretionary trust to administer the share plans and to acquire the shares to meet commitments to Group employees. At the year end, 376,456 (2015: 462,378) shares were held by the trust, funded in part by an interest free loan from the Group and in part by the issue of 1.9 million shares (2015: 1.4 million) shares.

The Company has no employees but, in accordance with IFRS 10 "Consolidated financial statements", has the obligation for the assets, liabilities, income and costs of the ESOP trust and these have been consolidated in the Group's financial statements. The cost of the Group's shares held by the trust are deducted from retained earnings.

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

	Share options		SAYE Scheme		LTIP	
	Number	Weighted average exercise price £m	Number	Weighted average exercise price £m	Number	Weighted average exercise price £m
31 December 2014	99,262	8.36	1,159,991	9.44	6,873,894	0.17
Granted	–	–	247,582	20.54	2,148,055	–
Exercised	(60,152)	8.73	(422,081)	5.67	(1,397,635)	0.79
Lapsed/forfeited	(2,768)	7.73	(64,675)	12.89	(1,370,646)	0.07
31 December 2015	36,342	8.36	920,817	9.44	6,253,668	0.17
Granted	–	–	243,656	22.38	1,964,875	–
Exercised	(10,186)	8.00	(163,205)	8.44	(2,210,607)	–
Lapsed/forfeited	(22,709)	7.52	(108,426)	12.82	(450,273)	–
31 December 2016	3,447	8.88	892,842	17.96	5,557,663	–

Exercisable at:

31 December 2016	3,447	8.88	13,833	16.37	2,897	–
31 December 2015	36,342	7.79	3,236	5.65	190,965	–

The weighted average share price of London Stock Exchange Group plc shares during the year was £26.96 (2015: £24.89).

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

	31 December 2016		31 December 2015	
	Number outstanding	Weighted average remaining contractual life Years	Number outstanding	Weighted average remaining contractual life Years
Share options				
Less than £7	100	–	4,750	–
Between £7 and £8	–	–	20,140	–
Between £8 and £9	3,347	–	11,452	–
SAYE				
Less than £10	–	–	190,956	–
Between £10 and £20	436,403	0.2	490,956	0.3
More than £20	456,439	1.0	238,905	0.4
LTIP				
Nil	5,557,663	1.4	6,253,668	1.0
Total	6,453,952	1.4	7,210,827	1.4

Notes to the financial statements continued

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

	Performance Shares			Matching Shares			Restricted Share Award			Share Save Plan
	17 March 2016	23 June 2016	14 October 2016	18 March 2016	23 June 2016	14 October 2016	17 March 2016	23 June 2016	14 October 2016	5 May 2016
Grant date share price	£28.90	£27.35	£28.43	£28.92	£27.35	£28.43	£28.90	£27.35	£28.43	£26.14
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	0.8 years to 3 years	0.5 years to 2.7 years	0.38 years to 3.54 years	3.16 years
Exercise price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	£22.38
Dividend yield	1.0%	0.8%	1.3%	1.0%	0.8%	1.3%	1.0%	0.8%	1.3%	0.9%
Risk-free interest rate	0.6%	0.6%	0.2%	0.5%	0.6%	0.2%	0.3% to 0.6%	0.3% to 0.6%	0.12% to 0.29%	0.6%
Volatility	25%	26%	26%	25%	26%	26%	25%	26%	25.2% to 29.4%	25%
Fair value	—	—	—	—	—	—	£28.04 to £28.61	£26.85 to £27.28	£27.14 to £28.29	£6.11
Fair value TSR	£10.22	£9.55	£10.43	£10.15	£9.55	£10.43	n.a.	n.a.	n.a.	n.a.
Fair value EPS	£28.04	£26.70	£27.33	£28.06	£26.70	£27.33	n.a.	n.a.	n.a.	n.a.

The approach adopted by the Group in determining the fair value for the Performance and Matching Shares granted during the year was based on a Total Shareholder Return pricing model which incorporates TSR and EPS performance conditions and references the vesting schedules of the awards.

For all other share awards, including the Share Save Plan, the Black-Scholes model was used.

The significant inputs into both models are the share price at grant date, expected volatility, dividend yields and annual risk-free interest rate. The volatility assumption is based on the historical 3-year volatility as at the date of grant. The risk-free interest rate represents the yield available on a UK zero-coupon government bond on the date of grant for a term commensurate with the vesting period of the award. The expected life refers to the time from the date of grant to the date the awards vest. Holders of share awards and share options are not entitled to receive dividends declared during the vesting period.

34. Transactions with Related Parties

Key management compensation

Compensation for Directors of the Company and key personnel who have authority for planning, directing and controlling the Group:

	Year ended 31 December 2016	Year ended 31 December 2015
	£m	£m
Salaries and other short-term benefits	14.9	13.0
Pensions	1.2	0.9
Share-based payments	17.8	13.1
	33.9	27.0

Inter-company transactions with subsidiary undertakings

The Company has loans with some subsidiary undertakings. Details as at 31 December 2016 are shown in the table below:

Loan counterparty	Amount in millions (owed to)/due from as at		Term	Interest rate as at 31 December 2016	Interest in millions (charge) /credit	
	31 December 2016	31 December 2015			Year ended 31 December 2016	Year ended 31 December 2015
London Stock Exchange plc	£(111.3)m	£(170.9)m	25 years from May 2006 with 5 equal annual repayments commencing in May 2027.	LIBOR plus 2% per annum	£(4.1)m	£(4.4)m
London Stock Exchange Employee Benefit Trust	£12.5m	£21.0m	Repayable on demand.	Non-interest bearing	–	–
London Stock Exchange Group Holdings (Italy) Limited	€(12.8)m	€97.7m	Fifth anniversary of the initial utilisation date which was April 2013.	EURIBOR plus 1.5% per annum	€0.2m	€2.4m
London Stock Exchange Group Holdings (Italy) Limited	£0.8m	–	Fifth anniversary of the initial utilisation date which was April 2013.	LIBOR plus 1.5% per annum	–	–
London Stock Exchange Group Holdings Limited	£399.7m	£340.0m	Tenth anniversary of the initial utilisation date which was October 2009.	LIBOR plus 4.0% per annum	£18.5m	£18.3m
London Stock Exchange Group Holdings Limited	\$ (105.0)m	\$(62.3)m	Tenth anniversary of the initial utilisation date which was October 2009.	LIBOR plus 4.0% per annum	\$ (4.3)m	\$(1.4)m
London Stock Exchange Group Holdings Limited	€(43.9)m	€(35.5)m	Tenth anniversary of the initial utilisation date which was October 2009.	EURIBOR plus 4.0% per annum	€(1.4)m	€(1.1)m
LSE Reg Holdings Limited	€18.4m	€13.5m	Fifth anniversary of the initial utilisation date which was July 2013.	EURIBOR plus 1.2% per annum	€0.2m	–
LSE Reg Holdings Limited	£(2.4)m	£(1.0)m	Fifth anniversary of the initial utilisation date which was July 2013.	LIBOR plus 1.2% per annum	–	–
London Stock Exchange (C) Limited	€(1.0)m	€48.4m	Fifth anniversary of the initial utilisation date which was April 2012.	EURIBOR plus 1.5% per annum	–	€0.7m
London Stock Exchange (C) Limited	–	£12.2m	Fifth anniversary of the initial utilisation date which was April 2012.	LIBOR plus 1.5% per annum	–	£0.2m
London Stock Exchange Group Holdings (Luxembourg) Ltd	\$ (2.9)m	\$17.4m	Fifth anniversary of the initial utilisation date which was December 2014.	LIBOR plus 1.5% per annum	\$0.3m	\$0.1m
LSEG Employment Services Limited	£53.4m	£11.0m	Fifth anniversary of the initial utilisation date which was January 2015.	LIBOR plus 1.2% per annum	£0.5m	£0.1m
London Stock Exchange Group (Services) Limited	£(6.7)m	–	Fifth anniversary of the initial utilisation date which was January 2016.	LIBOR plus 0.9% per annum	£(0.1)m	–

During the year, the Company charged in respect of employee share schemes £11.3 million (2015: £5.0 million) to LSEG Employment Services Limited, £6.3 million (2015: £4.3 million) to LCH.Clearnet Group Limited, £4.2 million (2015: £3.1 million) to London Stock Exchange Group Holdings Italia S.p.A group of companies, £1.3 million (2015: £1.9 million) to FTSE Group, £1.0 million (2015: £0.7 million) to London Stock Exchange Group Holdings Inc, £0.9 million (2015: £1.1 million) to Millennium Group, £0.8 million (2015: £0.7 million) to LSEG US Holdco Inc., £0.3 million (2015: £0.2 million) to Turquoise Global Holdings Limited, £0.3 million (2015: nil) to LSEG Business Services Colombo (Private) Limited, £0.2 million (2015: £0.3 million) to SSC Global Business Services Limited, £0.2 million (2015: £0.2 million) to UnaVista Limited and £0.2 million (2015: £3.7 million) to London Stock Exchange plc.

In the current year, the Company received dividends of £407.8 million from LSEG US HoldCo Inc (2015: nil), £168.8 million from London Stock Exchange plc (2015: £125.2 million), £64.6 million from LSEGH (Luxembourg) Ltd (2015: nil) and £64.0 million from LSE Group Holdings (Italy) Ltd (2015: nil). The Company recognised £60.8 million income and £42.2 million expenses with Group undertakings in relation to corporate recharges. At 31 December 2016, the Company had £107.3 million (2015: £47.5 million) other receivables due from Group companies and other payables of £55.7 million (2015: £7.2 million) owed to Group undertakings.

In the year ended 31 December 2016, the Group recognised £2.2 million revenue (2015: nil) and £1.1 million other income from associates (2015: nil). The Group had £18.0 million (2015: £0.2 million) receivable from associates which includes a £3.0 million loan (2015: nil) presented within other non-current assets, and £15.0 million (2015: £0.2 million) of current receivable presented within trade and other receivables.

All transactions with associates were carried out on an arm's length basis.

Notes to the financial statements continued

35. Events after the reporting period

Business combinations

On 3 January 2017, the Group acquired entire share capital in Mergent Inc. (Mergent), a leading global provider of business and financial information on public and private companies, for cash consideration of US\$144 million (£116.7 million). The acquisition will support the growth of FTSE Russell's core index offering, supplying underlying data and analytics for the creation of a wide range of indices.

At the date of issue of these financial statements, the initial accounting for the Mergent business combination has not been completed and as such certain disclosures in respect of the acquisition cannot be made, including: the fair value and major classes of identifiable assets acquired and liabilities assumed; the goodwill arising on the business combination; the qualitative factors contributing to the recognition of goodwill; and the amount of goodwill expected to be deductible for tax purposes.

The acquisition accounting for Mergent will be finalised within twelve months of the acquisition date.

Disposal of businesses

On 3 January 2017, the Group announced it had agreed the sale of the LCH SA business to Euronext N.V for an irrevocable cash offer of €510 million (£434.9 million). The proposed sale is subject to the review and approval by the European Commission in connection with the proposed merger of London Stock Exchange Group plc and Deutsche Börse AG, which was announced on 16 March 2016, and the receipt of various regulatory and other consents and approvals, including completion of the Works Council consultation process. It is also conditional on the successful closing of the Merger.

The LCH SA business forms part of the LCH Group CGU and the Group has determined that there is no impairment of the carrying value of the goodwill in the LCH Group CGU. Details are provided in note 15.

On 28 February 2017, the Group completed the sale of Information Services Professional Solutions (ISPS) a business line of BIt Market Services S.p.A. for a cash consideration of €10.5 million (£9.0 million). The net assets disposed contained brands, intellectual property and capitalised research and development investments, used for carrying out the ISPS' business along with identified agreements with suppliers and clients and employment relationships.

The ISPS business forms part of the Information Services segment and is contained within the Italian Group Information Services CGU.

36. Other Statutory Information

Auditors' remuneration payable to Ernst and Young LLP and its associates comprise the following:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Audit of parent and consolidated financial statements	0.5	0.5
Audit of subsidiary companies	2.1	1.5
Audit related assurance services	0.4	0.2
Other non-audit services:		
– Taxation	0.2	0.3
– Other assurance services	0.2	0.1
Total	3.4	2.6

Further details of the services provided by Ernst and Young LLP are given in the Report of the Audit Committee on pages 64 – 67.

Directors' emoluments comprise the following:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Salary and fees	3.3	3.2
Performance bonus	3.2	3.0
Gains made on share awards	7.3	4.5
Benefits	0.3	0.3
	14.1	11.0
Contributions to defined contribution schemes	0.7	0.6
	14.8	11.6

During the year, one Director (2015: one) had retirement benefits accruing under defined contribution schemes and one Director (2015: one) had retirement benefits accruing under a defined benefit scheme.

Further details of Directors' emoluments are included in the Remuneration Report on pages 70 to 95.

Notes to the financial statements continued

Related undertakings

A list of the Group's subsidiaries as at 31 December 2016 is given below including the percentage of each class held and the Group's ownership percentages.

The share ownership percentage records the percentage of each subsidiary's share capital owned within the LSEG Group. Shares owned directly by LSEG plc are listed as being a "direct" shareholding, shares owned by other LSEG Group companies are listed as an "indirect (group interest)" shareholding. Where more than one LSEG Group company owns shares in a subsidiary these interests have been added together. The ultimate economic interest percentage on the other hand does not show actual share ownership. It records LSEG plc's effective interest in the subsidiary, allowing for situations where subsidiaries are owned by partly owned intermediate subsidiaries.

All subsidiaries are consolidated in the Group's financial statements.

Name of subsidiary undertaking	Country of incorporation	Registered Office Address	Identity of each class of share held in the subsidiary undertaking	Direct or indirect holding	Share ownership %	LSEG plc ultimate economic interest %
BANQUE CENTRALE DE COMPENSATION (LCH Group SA)	France	18 Rue du Quatre-Septembre, 75002, Paris, France	Ordinary	Indirect (group interest)	100	57.8
Bit Market Services S.p.A.	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	99.99	99.99
Bondclear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
Borsa Italiana S.p.A.	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	99.99	99.99
Cassa Di Compensazione e Garanzia S.p.A. (CC&G)	Italy	Via Tomacelli, 146, 00186 Rome, Italy	Ordinary	Indirect (group interest)	100	99.99
CommodityClear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
Elite Club Deal Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Elite S.p.A.	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	100	99.99
Equityclear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
EuroMTS Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A	Indirect (group interest)	100	60.36
EuroTLX SIM S.p.A.	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	70	69.99
Exactpro Systems Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Exactpro Systems, LLC	United States	4040 Civic Center Drive, Suite 200, San Rafael, California, 94903, United States	Member Interest	Indirect (group interest)	100	100
Exactpro, LLC	Russian Federation	Building 4, 20A 2nd Yuzhnoportoviy Proezd, Moscow, 115088, Russian Federation	Member Interest	Indirect (group interest)	100	100
ForexClear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
Frank Russell Company	United States	c/o CT Corporation System, 505 Union Ave SE, Suite 120, Olympia, Washington, 98501, United States	Common	Indirect (group interest)	100	100
FTSE (Australia) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
FTSE (Beijing) Consulting Limited	China	Room 02D-H, 6/F Dongwai Diplomatic Building, 23 Dongzhimenwai Dajie, Beijing, China	Ordinary	Indirect (group interest)	100	100
FTSE (Japan) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
FTSE Americas, Inc	United States	80 State Street, Albany, New York, 12207- 2543	Ordinary	Indirect (group interest)	100	100
FTSE China Index Ltd	Hong Kong	6th Floor, Alexandra House, 18 Chater Road, Central Hong Kong	Ordinary	Indirect (group interest)	100	100
FTSE International (France) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
FTSE International (Hong Kong) Limited	Hong Kong	6th Floor, Alexandra House, 18 Chater Road, Central Hong Kong	Ordinary	Indirect (group interest)	100	100

Name of subsidiary undertaking	Country of incorporation	Registered Office Address	Identity of each class of share held in the subsidiary undertaking	Direct or indirect holding	Share ownership %	LSEG plc ultimate economic interest %
FTSE International (India) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
FTSE International (Italy) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
FTSE International (MEA) Ltd	United Arab Emirates	Office 50, Level 15 The Gate, PO Box 121208, Dubai, United Arab Emirates	Ordinary	Indirect (group interest)	100	100
FTSE International Brasil Representacoes LTDA	Brazil	Edificio Argentina, Praia de Botafogo 228, 16 andar, Sala1617, Rio de Janeiro, Brazil	Ordinary	Indirect (group interest)	100	100
FTSE International Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
FTSE Mexico Sociedad de Responsabilidad Limitada de Capital Variable	Mexico	Paseo de los Tamarindos 400 ^a , 5 piso, Col. Bosques de las Lomas, Mexico City, C.P. 05120, Mexico	Ordinary	Indirect (group interest)	100	100
FTSE TMX Global Debt Capital Markets Inc ¹	Canada	70 York Street, Suite 1520, Toronto, Ontario, Canada	Ordinary	Indirect (group interest)	100	74.55
FTSE TMX Global Debt Capital Markets Limited ¹	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A Ordinary B	Indirect (group interest)	100 11.03	72.74 1.81
Gatelab Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	67
Gatelab S.r.l.	Italy	Via dei Pentri , 161, 86170, Isernia, Italy	Ordinary	Indirect (group interest)	67	67
globeSettle SA	Luxembourg	16 boulevard d'Avranches, Luxembourg, L-1160, Luxembourg	Ordinary	Indirect (group interest)	100	100
Innovative Trading Systems UK Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Innovative Trading Systems, LLC	Russian Federation	20A, St. 4 2nd Yuzhnoportovyy, Proezd, 115088 Moscow, Russian Federation	Ordinary	Indirect (group interest)	100	100
International Commodities Clearing House Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
LCH Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
LCH Group (Luxembourg) S.A.R.L	Luxembourg	52 rue Charles Martel, Luxembourg, L-2134, Luxembourg	Ordinary	Indirect (group interest)	100	57.8
LCH Group Funding LP	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Capital Contribution	Indirect (group interest)	100	57.8
LCH.Clearnet Group Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary (Non Voting) Ordinary (Voting)	Indirect (group interest)	100 57.8	57.8 –
LCH.Clearnet LLC	United States	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, United States	Units	Indirect (group interest)	100	57.8
LCH GP Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
LCH Group Holdings Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
LCH Pensions Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
LCH PLP Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
London Stock Exchange (C) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
London Stock Exchange Connectivity Solutions LP	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Partnership	Indirect (group interest)	100	100

Notes to the financial statements continued

Name of subsidiary undertaking	Country of incorporation	Registered Office Address	Identity of each class of share held in the subsidiary undertaking	Direct or indirect holding	Share ownership %	LSEG plc ultimate economic interest %
London Stock Exchange Group (Services) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
London Stock Exchange Group Holdings (Italy) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
London Stock Exchange Group Holdings (R) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
London Stock Exchange Group Holdings Italia S.p.A	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	100	100
London Stock Exchange Group Holdings Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
London Stock Exchange Plc	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
London Stock Exchange Group Reg Holdings Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
LSEG (M) Financing Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
LSEG Business Services Colombo (Private) Limited	Sri Lanka	Trace Expert City, Maradana, Colombo 10, Sri Lanka	Ordinary	Indirect (group interest)	100	100
LSEG Business Services Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
LSEG Derivatives Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
LSEG Employment Services Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
LSEG Information Services (US), INC.	United States	CT Corporation Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801 United States	Ordinary	Indirect (group interest)	100	100
LSEG LuxCo 1 S.a.r.l	Luxembourg	16 boulevard d'Avranches, Luxembourg, L-1160, Luxembourg	Ordinary	Indirect (group interest)	100	100
LSEG LuxCo 2 S.a.r.l	Luxembourg	16 boulevard d'Avranches, Luxembourg, L-1160, Luxembourg	Ordinary	Indirect (group interest)	100	100
LSEG Pension Trustees Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
LSEG Post Trade Services Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
LSEG US Holdco, Inc	United States	c/o Corporation Service Company 2711 Centerville Road, Wilmington, Delaware 19808 United States	Common	Direct	100	100
LSEGH (I) LLC	United States	c/o Capital Services Inc 1675 State Street Suite B,Dover, Delaware 19901 United States	Ordinary	Indirect (group interest)	100	100
LSEGH (Luxembourg) Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Direct	100	100
LSEGH Inc.	United States	c/o Capital Services Inc 1675 State Street Suite B,Dover, Delaware 19901 United States	Ordinary	Indirect (group interest)	100	100
LSEM LLC	Mongolia	Landmark 7th Floor, Chinggis Avenue Ulaanbaatar Mongolia	Ordinary	Indirect (group interest)	100	100

Name of subsidiary undertaking	Country of incorporation	Registered Office Address	Identity of each class of share held in the subsidiary undertaking	Direct or indirect holding	Share ownership %	LSEG plc ultimate economic interest %
Marché de TitreS France (MTS France)	France	18 Rue du Quatre-Septembre, 75002, Paris, France	Ordinary	Indirect (group interest)	100	60.36
Millennium Information Technologies (India) (Private) Limited	India	83 – C, Mittal Towers, Nariman Point, Mumbai – 400 021, India	Ordinary	Indirect (group interest)	100	100
Millennium Information Technologies (Private) Limited	Sri Lanka	No 1 Millennium Drive, Malabe, Sri Lanka	Ordinary	Indirect (group interest)	100	100
Millennium IT (USA) Inc	United States	1013 Centre Road, Suite 403S, Wilmington, New Castle County, Delaware 19805, United States	Common	Indirect (group interest)	100	100
Millennium IT Services (Private) Limited	Sri Lanka	No 48 Marcus Fernando Mawatha, Colombo 07, Sri Lanka	Ordinary	Indirect (group interest)	100	100
Millennium IT Software (Private) Limited	Sri Lanka	No.01 Millennium Drive, Malabe, Sri Lanka	Ordinary	Indirect (group interest)	100	100
Millennium Software (Canada) Inc	Canada	Suite 2400, 333 Bay Street, Toronto, Ontario, Canada	Common	Indirect (group interest)	100	100
Monte Titoli S.p.A.	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	98.88	98.87
MTS Markets International Inc.	United States	14 Wall Street Suite 4G New York NY 10005 United States	Ordinary	Indirect (group interest)	100	60.36
MTS S.p.A.	Italy	Via Tomacelli, 146, 00186 Rome, Italy	Ordinary	Indirect (group interest)	100	60.36
Mtsnext Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	74.55
Nexus Marque Sdn.Bhd.	Malaysia	Suite 2-4, Level 2 Tower Block, Menara Millennium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Ordinary	Indirect (group interest)	100	100
Repoclear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
SSC Global Business Services Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Stock Exchange (Holdings) Limited (The)	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
SwapAgent Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
Swapclear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
The London Clearing House Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
London Produce Clearing House Limited (The)	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	57.8
The London Stock Exchange Retirement Plan Trustee Company Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Turquoise Global Holdings Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A Ordinary B	Indirect (group interest)	100 –	51.36 –
Turquoise Swapmatch Limited ²	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A Ordinary B	Indirect (group interest)	100 –	30.82 –
Turquoise Trading Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	51.36
UnaVista LEI Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Unavista Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100

1. The absolute indirect (group interest) and direct holdings by the London Stock Exchange Group is 75.75%

2. The absolute indirect (group interest) and direct holdings by Turquoise Global Holdings Limited, a subsidiary of the London Stock Exchange Group, is 60%

Notes to the financial statements continued

The Group's associate undertakings were:

Name of subsidiary undertaking	Country of incorporation	Registered Office Address	Identity of each class of share held in the subsidiary undertaking	Direct or indirect holding	Share ownership %	LSEG plc ultimate economic interest %
Curve Global Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A Ordinary B	Direct	30 —	26 —
MTS Associated Markets S.A.	Belgium	Rue des Comédiens, 16-22, 1000 Brussels, Belgium	Ordinary	Indirect (group interest)	23.3	14.07

1. The accounting reference dates for all of the associates are 31 December.

Glossary

AIM

The Group's market for smaller and growing companies established in London and now extended to AIM Italia – MAC

Borsa Italiana (BIT)

Borsa Italiana S.p.A., the Group's Italian exchange business

CAGR

Compound annual growth rate

CCP

Central Counterparty – stands between two parties to a trade to eliminate counterparty risk by ensuring that settlement takes place

CC&G

Cassa di Compensazione e Garanzia S.p.A., the Group's Italian subsidiary which manages the Italian CCP for equity, derivative, commodity and fixed income trades

Central Securities Depository (CSD)

An entity that enables securities to be processed, settled and held in custody

Central Securities Depositories Regulation (CSDR)

EU regulations framework to harmonise CSD operations

Company or LSEG, London Stock Exchange Group

London Stock Exchange Group plc and its subsidiaries

CONSOB

Commissione Nazionale per le Società e la Borsa, Italy's official body for regulating and supervising companies and trading infrastructure providers

CPI

Consumer Price Index which measures changes in the price of consumer goods and services purchased by households

CurveGlobal

An interest rate derivatives venture between LSEG and a number of major dealer banks together with the Chicago Board Options Exchange

Dark Pool

Electronic trading networks developed by regulated venues such as Regulated Markets, MTFs and by OTC broker dealers to enable the matching of orders between buyers and sellers without pre-trade transparency (non-displayed) until the trade is complete

Depository Receipts/Global Depository Receipts (GDR)

Tradable certificates representing ownership of a number of underlying shares, mainly for companies in developing or emerging markets

Derivatives

Tradable financial instruments whose value is determined by the value of underlying instruments; this could be equity, an index, a commodity or any other tradable instrument

Exchange traded derivatives (ETD)

Listed derivatives traded on an electronic trading venue such as an exchange and cleared through a clearing house

Over the counter (OTC)

Derivatives are negotiated privately between two parties and may be cleared through a clearing house

EBITDA

Earnings before interest, tax, depreciation and amortisation

European Market Infrastructure Regulation (EMIR)

European legislation on regulation of clearing of derivatives, and the operation and governance of CCPs and trade repositories

ESOP

Employee Share Option Plan

ETC

Exchange Traded Commodity – securities that provide exposure to a range of commodities and commodity indices

ETF

Exchange Traded Fund – low-cost and flexible investments that track indices and sectors

ETP

Exchange traded products including ETFs and ETCs

ELITE

An international programme and platform to help ambitious companies prepare and structure for further growth and investment, while providing these businesses access to an extensive community of advisers, investors and business leaders.

ELITE Connect

An open access technology platform allowing public companies, Investor Relations professionals, institutional investors and brokers, amongst others, to efficiently engage in Investor Relations activity, manage local and worldwide IR relationships and discover global business opportunities

ELITE Club Deal

An online private placement platform designed to streamline the capital raising process for companies

EuroTLX

The Group's 70% subsidiary which owns and operates a European MTF for the trading of fixed income securities in retail-size and investment products distributed to retail clients

Exactpro

The Group's subsidiary focused on functional and non-functional testing of securities data distribution, trading systems, risk management, market surveillance and post trade infrastructures

FCA

Financial Conduct Authority, the current regulator of conduct of providers of financial services in the UK and of UK trading venues such as Recognised Investment Exchanges (RIEs) and MTFs

FTSE Group or FTSE Russell

FTSE International Limited and its subsidiaries, the Group subsidiary that is a leading global provider of index and analytics solutions

Glossary continued

FTSE 100 Index

The index developed by FTSE of leading UK quoted companies

FTSE MIB Index

The index developed by FTSE of leading Italian quoted companies

GATElab

The Group's subsidiary providing advanced trading and connectivity solutions for global financial markets

globeSettle

The Group's Central Securities Depository in Luxembourg

Group

The Company and its Group Undertakings

Group undertakings

Group undertakings shall be construed in accordance with s1161 of the Companies Act 2006 and, in relation to the Company

International Central Securities Depository (ICSD)

An entity that enables international securities to be processed, settled and held in custody

IDEM

The Group's Italian Derivatives Market, trading contracts based on equities and related indices

IOB

International Order Book – the Group's electronic trading service for international securities

International Organisation of Securities Commission (IOSCO)

IOSCO sets out recommendations 'Principles for Financial Benchmarks', with the objective to address conflicts of interest in the benchmark-setting process, enhance the reliability of benchmark determinations, and promote transparency and openness

IPO

Initial Public Offering – the process whereby companies join our markets and raise capital for the first time

Latency

A measure of time delay experienced in a system, measured in milliseconds (1/1,000th of a second) or microseconds (1/1,000,000th of a second)

LCH or LCH Group

LCH.Clearnet Group Limited and its subsidiaries, the Group's 57.8% owned global clearing and risk management business

LCH Spider

Portfolio margining tool for cleared OTC products and listed interest rate futures

LSE

London Stock Exchange plc

LSEG

London Stock Exchange Group plc

Main Market

The market for companies which have been admitted to trading on the London Stock Exchange's principal market; and in Italy, the market for companies listed on Borsa Italiana's principal MTA market

Mergent Inc.

LSEG announced the acquisition of Mergent Inc., a provider of business and financial data on companies, which was completed January 2017

MiFID or Markets in Financial Instruments Directive

EU Directive introduced in November 2007 to harmonise cross-border trading of equities, providing greater choice of trading venues. A revised MiFID and MiFIR (a directive and regulation) are now being finalised with the EU Commission and ESMA and expected to be in effect in 2018.

Millennium Exchange

MillenniumIT's multi-asset trading platform, deployed for the UK, Italian and Turquoise equities markets

MillenniumIT

Millennium Information Technologies (Pvt) Limited, the Group's subsidiary that is the developer of flexible, low-cost, high performance trading platforms and financial markets software serving both the Group's own businesses and third parties

Monte Titoli

Monte Titoli S.p.A., the Group's Italian Central Securities Depository and settlement provider

MOT

Mercato Obbligazionario Telematico is the Group's Italian retail bond trading platform

MTS

Società per il Mercato dei Titoli di Stato S.p.A., the Group's 60.36% subsidiary which owns and operates an electronic trading platform for European and US fixed income securities

Multilateral Trading Facility (MTF)

Alternative electronic trading systems as categorised under MiFID

ORB

The Group's UK Order Book for Retail Bonds

OTC

Over-the-counter trades in financial instruments executed outside a Regulated Market or MTF – see also Derivatives

Primary market

The listing of securities for the first time via an IPO or introduction of existing securities

Proquote

The Group's former financial market software and data services provider, disposal completed November 2015

Regulated Market

A multilateral system which brings together multiple third party buying and selling in financial instruments in accordance with rules, authorised under provisions of MiFID

Repo

Repurchase Agreement – the process of borrowing money by combining the sale and subsequent repurchase of an asset, traded through MTS and cleared through CC&G or LCH

RNS

Regulatory News Service, the Group's Primary Information Provider, for dissemination of regulatory and non-regulatory news to the market

RPI

The Retail Price Index which measures inflation in the UK economy

Secondary Market

The public market on which securities once issued are traded

SEDOL

The Group's securities identification service

SETS

The electronic order book operated by the London Stock Exchange for the trading of the most liquid securities

Smart Beta (also known as Factor indexes)

An alternative index-based methodology that seeks to enhance portfolio returns or reduce portfolio risk, or both. Smart beta indices have rules-based strategies designed to provide focused exposure to specific factors, market segments or investment strategies. These may include volatility indices, defensive and high dividend yield indexes, or a combination of fundamentals

SwapClear

LCH's OTC interest rate swap clearing service

TARGET2-Securities (T2S)

Initiative led by the European Central Bank to provide a platform for settlement of bonds and equities traded in the Eurozone

Turquoise

Turquoise Global Holdings Limited, the Group's 51.36% owned pan-European MTF equity trading subsidiary, a venture between the Group and 12 global investment bank clients

UnaVista

The Group's web-based matching, reconciliation and data integration engine that provides matching of post trade data in a simple, automated process and the Trade Repository approved by ESMA under EMIR

Overview of regulatory landscape

The wide scope of regulation and the breadth of the operations of the Group mean that regulation inevitably has a growing impact on the Group and its activities. Set out below are some of the key areas where there is likely to be some impact or opportunity:

LSEG DIVISION AND BUSINESS AREA	LEGISLATION/MEASURE	SCOPE
Capital Markets		
Primary Markets	MiFID II/MiFIR Level 1 finalised; work on technical aspects (Level 2) continues – in effect 2018	– SME (Small and Medium-Sized Enterprises) Growth Market proposals to support SME funding and markets
	Proposal for a Prospectus Regulation	– Reduce administrative burdens and costs for companies already on regulated markets and SME Growth Markets who wish to raise further capital – Streamline capital raising for SMEs, frequent issuers and non-equity issuers – Promote more cross-border listing and investment – Support investors with more relevant and tailored information
Secondary (trading) Markets	Capital Markets Union	– Review regulatory barriers for SMEs to access capital markets funding, promoting capital markets as a competitive alternative to bank financing – Support for SME growth markets – Review functioning of corporate bond markets, increasing liquidity and lead to more electronic trading – Report on national barriers to the free movement of capital, leading to more capital raising and liquidity in markets – Adjustment to Solvency II and Capital Requirements Regulation to boost institutional investment in risk capital – Review progress in removing Giovannini barriers, leading to more efficient European post trade infrastructure – Strategy for providing technical assistance to Member States to support capital markets capacity, possibly extending LSEG ELITE programme – Review on efficiency and competitiveness of retail markets and development of pan-European pension product, designed to boost retail investment in capital markets
	MiFID II/MiFIR Level 1 finalised; work on technical aspects, (Level 2) continues – in effect 2018	– Non-discriminatory open access to trading venues and CCPs – Extension of pre and post trade transparency to non-equity asset classes, including bonds and derivatives – Increased regulatory requirements for high frequency trading strategies and algorithmic trading – Additional organisational, transparency and market surveillance requirements for trading venues – Platform trading obligation for shares and OTC derivatives
	MAD/MAR political agreement reached at Level 1; work on technical aspects, Level 2 completed	– Index manipulation and expanded scope transactions and financial instruments
	Packaged Retail and Insurance-based Investment Products Regulation (PRIIPS) – in effect 2017	– Will require regulated markets to make available a key information document (KID) before the sale of any options or futures admitted to trading
	Financial transaction tax (FTT) currently in effect in Italy and France. Commission proposal under negotiation, but UK not participating	– To impose transaction tax on equity, bond and derivatives trades that involve one financial institution with its headquarters in the EU FTT zone. (FTT may also impact LSEG CCPs if required by rules to register as collection agents.)

Post Trade

CCPs	EMIR Review	<ul style="list-style-type: none"> – Commission likely to propose changes to EMIR as part of the EMIR Review – No fundamental changes expected to the core requirements of EMIR – Some areas could be adjusted to simplify and increase the efficiency of the requirements, and reduce disproportionate costs and burden
	EC regime for recovery and resolution for CCPs	<ul style="list-style-type: none"> – Commission proposed CCP recovery and resolution measures in November 2016 – Proposal provides regulators with expanded powers to intervene at an early stage, including the power to require an entity to implement measures under its recovery plan – Authorities will also be provided with a wide range of resolution tools – Legislative proposal will be reviewed by European Parliament and Council over the course of 2017
	MiFID II/MiFIR Level 1 finalised; work on technical aspects, (Level 2) continues – in effect 2018	<ul style="list-style-type: none"> – Trading venues should have non-discriminatory access to CCPs. CCPs should have non-discriminatory access to trading venues – CCPs shall ensure non-discriminatory treatment of contracts traded on any trading venue
Settlement Monte Titoli globeSettle	CSDR (Level 1 finalised; work on technical aspects, Level 2) – in effect 2018	<ul style="list-style-type: none"> – Measures to harmonise: <ul style="list-style-type: none"> – the authorisation and operation of central securities depositories – certain aspects of securities settlement including settlement periods and settlement discipline
UnaVista	EMIR – in effect 2014	<ul style="list-style-type: none"> – Mandates the reporting of derivative trades to Trade Repositories – Establishes harmonised requirements Trade Repositories, so that they can demonstrate safety, soundness and efficiency
	Securities Financing Transaction Regulation (SFTR) – in effect 2017	<ul style="list-style-type: none"> – Introduction of an EU requirement to report SFTs to a Trade Repository registered under EMIR: expands range of UnaVista reporting but applicable securities financing transactions cleared by LSEG CCPs and the SFTs in which they invest
	MiFID II/MiFIR Level 1 finalised; work on technical aspects (Level 2) continues – in effect 2018	<ul style="list-style-type: none"> – Introduction of more detailed regime for Approved Reporting Mechanisms (ARMs) – Increased scope of transaction reporting requirements across all equity and non-equity instruments

Information Services

FTSE	Benchmark Regulation – in effect 2018	<ul style="list-style-type: none"> – Regulated governance and controls standards for benchmark administration, in particular conflicts of interest management – Requirements on the quality of the input data and methodologies – Rules to ensure that contributors to benchmarks are subject to adequate controls, and, where necessary, mandatory contribution
	MiFID II/MiFIR Level 1 finalised; work on technical aspects, (Level 2) continues – in effect 2018	<ul style="list-style-type: none"> – Open Access under MiFIR Art 37 requires non-exclusive licensing of benchmarks
Market data	MiFID II/MiFIR Level 1 finalised; work on technical aspects, (Level 2) continues – in effect 2018	<ul style="list-style-type: none"> – Introduction of Approved Publication Arrangements (APAs) for OTC trade reports – Introduction of requirements for harmonised post trade data reporting to enable consolidated tape (CT) – Market data provision on a 'reasonable commercial basis', disaggregated data feeds and non-discriminatory pricing

Technology

EU operators of trading venues and EU CCPs, potentially other FMI services later deemed 'essential'	<p>NIS level 1 finalised; EU and member state work on Level 2 during 2017 – in effect 2018</p> <p>(NEW Definition/acronym: Cyber security Directive: (EU) 2016/1148 Network and Information Security)</p>	<ul style="list-style-type: none"> – Requires FMIs deemed operators of essential services to: <ul style="list-style-type: none"> – Ensure the continuity of their services and manage the risks posed to the security of their networks and information systems – Provide to the competent authority information needed to assess the security of their networks and information systems, filing documented security policies – Provide to the competent authority evidence of effective implementation of security policies, such as results of a security audit carried out by a qualified external or internal auditor – Notify the competent authority of incidents having a significant impact on the continuity of the essential service they provide
Market data	<p>GDPR level 1 finalised; EU work on Level 2 during 2017 – in effect 2018</p> <p>(New definition/acronym: General Data Protection Regulation (Regulation (EU) 2016/679) – implementation May 2018)</p>	<ul style="list-style-type: none"> – Applies to processing carried out by organisations operating within the EU. It also applies to organisations outside the EU that offer goods or services to individuals in the EU. Entities in scope will be required to: <ul style="list-style-type: none"> – Revise existing privacy notices – Check procedures operate in accordance with individual rights – Update procedures on subject access requests – Identify legal basis for carrying out various types of data processing – Update procedures to detect, report and investigate personal data breaches – Designate data protection officer and compliance responsibility – Determine which data protection supervisory authority is governing authority

Financial calendar

(Provisional)

AGM	26 April 2017
Q1 Interim Management Statement (revenues only)	26 April 2017
Ex-dividend date for final dividend	4 May 2017
Final dividend record date	5 May 2017
Final dividend payment	31 May 2017
Half year end	30 June 2017
Interim Results	August 2017
Financial year end	31 December 2017
Preliminary Results	March 2018

The financial calendar is updated on a regular basis throughout the year.

Please refer to our website: www.lseg.com/investor-relations and click on the shareholder services section for up-to-date details.

The Group's AGM for the year ended 31 December 2016 will be held on 26 April 2017 at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ, starting at 10.00am.

Investor Relations

Shareholder services

Equiniti registrars Shareview service

Shareholders who hold London Stock Exchange Group shares in certificated form or within an Equiniti Investment Account or ISA can access Shareview. Shareview is a free service provided by our registrars, Equiniti. It may be accessed through the internet at: www.shareview.co.uk.

By creating a Shareview portfolio, you will gain online access to information about your London Stock Exchange Group shares and other investments including:

- Direct access to information held for you on the share register including share movements
- A daily indicative valuation of all investments held in your portfolio
- A range of information and practical help for shareholders

To register at Shareview you will need your shareholder reference (which can be found on your share certificate) and you will be asked to select your own personal identification number. A user ID will then be posted to you.

If you have any problems in registering your portfolio for the Shareview service, contact Equiniti on 0371 384 2544. For calls from outside the UK, contact Equiniti on +44 (0)121 415 7047.

Group's share price service

To obtain share price information for London Stock Exchange Group plc, see our website at: www.lseg.com.

By clicking on the Investor Relations tab, you will find the Company's share price, historical closing prices and volumes and an interactive share price graph.

Substantial Shareholders

As at 3 March 2017 the Company had been notified of the following interests amounting to more than 3% in the issued share capital of the Company in accordance with DTR 5 of the FCA's Guidance and Transparency Rules:

Qatar Investment Authority	10.31%
Blackrock, Inc	6.91%
TCI Fund Management Limited	5.05%
Lindsell Train Limited	5.00%
Invesco Limited	4.97%
Veritas Asset Management LLP	3.03%

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Visit the Investor Relations section of our website for up-to-date information including the latest share price, announcements, financial reports and details of analysts and consensus forecasts: www.lseg.com/investor-relations.

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