



**London**  
Stock Exchange Group

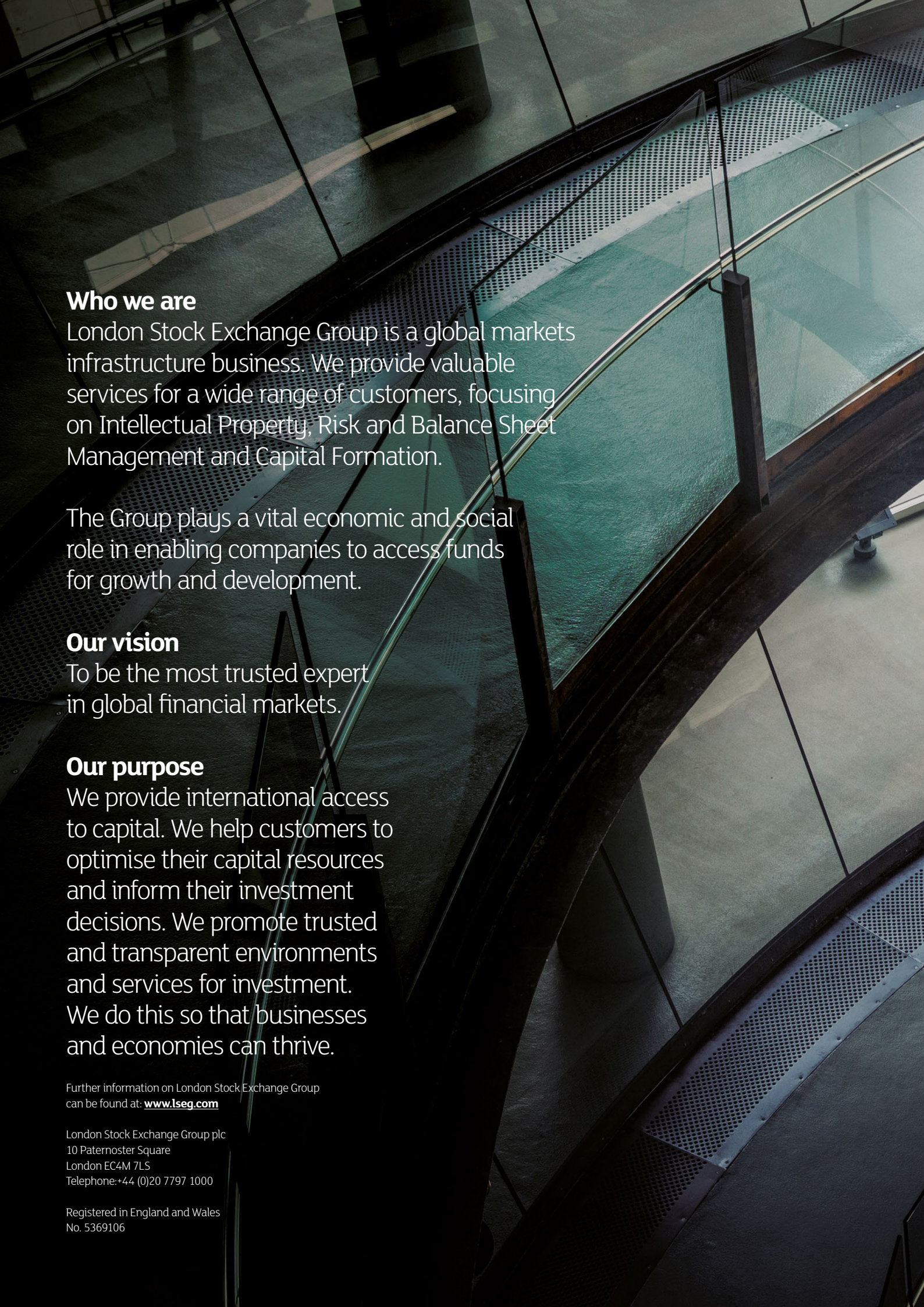
# A global markets infrastructure business

Annual Report

31 December 2017







## 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 Intellectual Property, Risk and Balance Sheet Management and Capital Formation.

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

## Our vision

To be the most trusted expert in global financial markets.

## Our purpose

We provide international access to capital. We help customers to optimise their capital resources and inform their investment decisions. We promote trusted and transparent environments and services for investment. We do this so that businesses and economies can thrive.

Further information on London Stock Exchange Group can be found at: [www.lseg.com](http://www.lseg.com)

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Registered in England and Wales  
No. 5369106



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## STRATEGIC REPORT

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

Sign-off for the Strategic Report is provided in the Directors' Report on page 98.

Highlights	2
Chairman's statement	4
Chief Executive's statement	6
What we do – our business model	8
Overview of Group activities	10
Market trends and our response	12
Strategy in action	16
Executive management team	18
Segmental review	19
Information Services	20
Post Trade Services – LCH	23
Post Trade Services – CC&G and Monte Titoli	26
Capital Markets	28
Technology Services	32
Our wider responsibility	34
Financial review	36
Risk management oversight	42
Principal risks and uncertainties	46

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## GOVERNANCE

An introduction to our Board of Directors, our approach to corporate governance, the reports of committees to the Board and how we reward performance, along with other statutory and regulatory information.

Board of Directors	54
Corporate governance	56
Complying with the provisions of the Code	62
Report of the Nomination Committee	64
Report of the Audit Committee	65
Report of the Risk Committee	70
Directors' Remuneration Report	72
Directors' Report	95
Statement of Directors' responsibilities	99
Independent Auditor's Report to the members of London Stock Exchange Group plc	100

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## GROUP FINANCIAL STATEMENTS

Detailed financial information setting out our performance for the reported 12 month period and financial position at year end.

Consolidated income statement	109
Consolidated statement of comprehensive income	110
Balance sheets	111
Cash flow statements	112
Statements of changes in equity	113
Notes to the financial statements	115

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## SHAREHOLDER INFORMATION

A glossary of terms used in this report and other information for shareholders.

Glossary	162
Overview of regulatory landscape	166
Financial calendar	168
Investor Relations	169

# Highlights

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

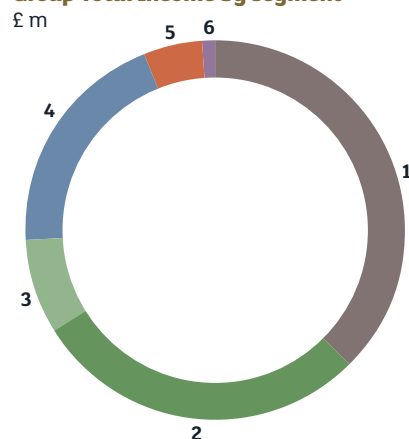


The Group changed its financial reporting reference date in 2014, hence the graphs show full 12 month figures on either a March or December year-end basis.

Year ended 31 December	12 months to 31 December 2017			12 months to 31 December 2016			Total Variance	Continuing Variance
	Continuing	Discontinued	Total	Continuing	Discontinued	Total		
Total income	£1,955m	–	<b>£1,955m</b>	£1,657m	£391m	<b>£2,048m</b>	(5%)	18%
Adjusted operating profit*	£812m	–	<b>£812m</b>	£686m	£27m	<b>£713m</b>	14%	18%
Operating profit	£626m	(£23)m	<b>£603m</b>	£427m	£103m	<b>£530m</b>	14%	47%
Adjusted profit before tax*	£750m	–	<b>£750m</b>	£623m	£28m	<b>£651m</b>	15%	20%
Profit before tax	£564m	(£23)m	<b>£541m</b>	£364m	£104m	<b>£468m</b>	16%	55%
Basic earnings per share	153.6p	(7.2)p	<b>146.4p</b>	63.8p	(20.3)p	<b>43.5p</b>	237%	141%
Adjusted basic earnings per share*	148.7p	–	<b>148.7p</b>	124.7p	5.0p	<b>129.7p</b>	15%	19%

\* 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-underlying items

\*\* December 2014 numbers are unaudited

**Group Total Income by segment**12 months to  
31 Dec 2017

1. Information Services	<b>736</b>
2. Post Trade Services LCH	<b>562</b>
3. Post Trade Services CC&G and Monte Titoli	<b>151</b>
4. Capital Markets	<b>391</b>
5. Technology Services	<b>91</b>
6. Other	<b>24</b>
	<b>1,955</b>

**FURTHER INFORMATION**

More detailed information on the performance of our business segments can be found on pages 19–33.

**NEED HELP?**

Like any industry, global financial markets infrastructure has its own unique language. For that reason, we have included a glossary on pages 162–165.

**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:**

**Information Services**

- Revenues for the year increased by 24% to £736 million (2016: £595 million), and up 13% on an organic constant currency basis driven by strong growth in FTSE Russell
- FTSE Russell revenue for the year increased by 33% to £546 million (2016: £409 million) and up 15% on an organic constant currency basis
- LSEG acquired The Yield Book and Citi Fixed Income Indices for total cash consideration of US\$679 million (£525 million)
- LSEG completed the acquisition of Mergent for total consideration of US\$147 million (£119 million)

**Post Trade Services – LCH**

- LCH's income for 2017 was £562 million, up 26% and increased by 21% on a constant currency basis
- SwapClear cleared US\$874 trillion notional, up 31%, with client trades cleared up by 29% to 1.2 million and compression up by 59% to US\$609 trillion
- ForexClear non-deliverable forwards clearing increased by 252%, to US\$11.2 trillion. Membership increased to 30 (2016: 25)
- Fixed income clearing increased to €87.5 trillion in nominal value cleared
- LSEG increased its majority stake in LCH Group to 65.9% (2016: 57.8%)

**Post Trade Services – CC&G and Monte Titoli**

- Income for the year increased by 3% to £151 million in sterling terms but decreased by 4% on a constant currency basis
- Net Treasury Income decreased by 3% to £42 million in sterling terms and by 9% in constant currency terms
- Contracts cleared by CC&G down 16% to 108.3 million
- CC&G signed contracts to provide CCP hosted solutions to CCP.A Austria. Casablanca Stock Exchange has also selected CC&G for a CCP development project in 2018

**Capital Markets**

- Revenues increased by 6% to £391 million (2016: £368 million) and up 3% on an organic constant currency basis
- Primary Markets saw 194 new companies admitted to our markets (2016: 134) of which 80 joined AIM (2016: 64); total money raised across our equity markets was up 73% at £44.2 billion
- In Secondary Markets, UK cash equity average daily value traded increased by 4%; average daily number of equity trades in Italy decreased by 6%; and, average daily value traded overall on Turquoise decreased 28%. Turquoise Plato dark value traded increased by 15%
- CurveGlobal, a joint venture with leading dealer banks and Cboe, built on its launch in 2016 and has since seen over 2 million contracts traded on its platform

**Technology Services**

- Technology revenues increased by 3% to £91 million (2016: £88 million) and was unchanged on an organic constant currency basis
- LSEG Technology was launched; a re-branding and re-engineering of our technology businesses. We introduced a new Leadership Team, created a more nimble and product-driven delivery capability, and improved our collaboration with innovation teams, all with the aim of better serving existing and new customers
- LSEG Business Services Limited, our shared services company, has broadened into services for corporate functions

**Note:** Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes ISPS, Mergent, Russell IM, Swapmatch and The Yield Book. The Group's principal foreign exchange revenue exposure arises from translating our European based Euro and US based USD reporting businesses into Sterling.



# Chairman's statement



## Overview

During 2017, London Stock Exchange Group continued to make good progress executing its growth strategy, delivering another year of strong performance. The Group has also addressed several strategic corporate, macroeconomic and political events.

In the early part of the year, the Group navigated the termination of its attempted merger with Deutsche Börse following the European Commission's prohibition decision. We worked hard to find the appropriate solutions to the competition review. LSEG has always been committed to maintaining excellent relationships with all of its stakeholders, including the regulators in its significant markets, and taking into account all of the relevant factors, the Board concluded that it could not meet the late stage request from the EU Commission for divestment of a key Italian business.

Throughout the merger discussions, the executive management remained focused on the performance of our business divisions, through organic and inorganic growth, as was evident from the acquisition of The Yield Book and Citi Fixed Income Indices business. The transaction, which completed at the end of August, enhances and complements the Group's Information Services data and analytics offering and will allow FTSE Russell to capitalise further on key industry trends.

Following the UK's decision to leave the EU, the Group continues to ensure that our businesses are well prepared for any eventual outcome. As a systemically important financial markets infrastructure business, the Group has a responsibility to ensure the orderly

functioning of markets and to ensure continuity of service for the benefit of our customers, shareholders and other stakeholders. With a strong global footprint and significant infrastructure in a number of geographies across the UK, Eurozone, US and Asia, the Group is extraordinarily well placed to adapt to the consequences of the eventual exit terms. On behalf of all our stakeholders and partners, the Group continues to argue strongly for a defined implementation period and the minimisation of the fragmentation of systems and processes designed to make the financial markets more efficient, stable and safe. We also firmly believe that enhanced regulatory supervision and regulation on a global scale will far outweigh any short term political benefits of location based policies for financial markets infrastructure.

Throughout the year, a key focus for the Group was planning to ensure that our systems and processes were ready for the major changes resulting from the implementation of MiFID II, which took effect immediately after the year end. All venues went live in January 2018 in one of the most extensive technology roll-outs the Group has ever undertaken. David Warren discusses the opportunities that MiFID II presents for the Group as the only financial markets infrastructure business operating on an Open Access basis elsewhere in this Report.

## Governance

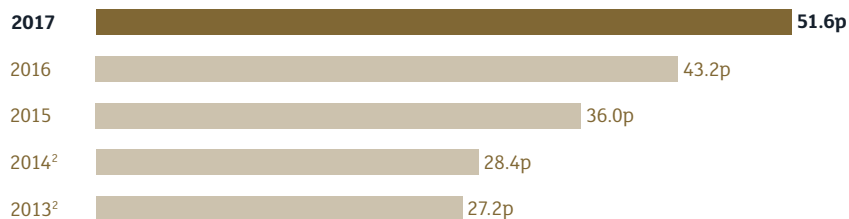
The final quarter of the year saw the announcement of a process for succession of the Chief Executive. In early October, the Board and the Chief Executive, Xavier Rolet, confirmed an agreement that he would leave the Group by the end of 2018 to ensure a smooth transition. Shareholders will recall that Xavier

“The Group remains well positioned for the opportunities ahead and remains confident of delivering further success and value for shareholders.”

**Donald Brydon CBE**  
Chairman

**Full year dividend**

Final dividend of 37.2 pence per share to be paid on 30 May 2018<sup>1</sup> (2016: 31.2 pence per share)

**Dividend policy**

We operate a sustainable, progressive dividend policy, aiming to operate in a target range of 2.5–3.0x dividend cover.<sup>3</sup>

1. Subject to shareholder approval at our AGM
2. For years ending 31 March
3. Ratio of earnings per share divided by dividend per share

Rolet had offered to step down in order to smooth the path for the planned merger. As a result, following the end of the merger process with Deutsche Börse in March 2017, it was clear to the Board that the Group needed clarity over succession. Unfortunately, one shareholder requisitioned a General Meeting to seek to undo the agreed plan. The Chief Executive's departure was, as a consequence, accelerated, and a motion to remove your Chairman proposed by the shareholder was firmly defeated. Regrettably, this process disrupted the organised succession process and caused considerable diversion of time and energy. The process of appointing the new Chief Executive is now advanced with a strong field of high quality candidates. When the new Chief Executive is announced and appropriately integrated into the Group, I will step down at the AGM in 2019, to allow a new team to take the business forward.

The Board firmly believes that it followed appropriate governance principles, considering shareholders' and other stakeholders' interests at all times, but it is important that our actions are reviewed and consideration is given to any lessons to be learned. An external review is being conducted by Simon Collins, a former UK Chairman and Senior Partner of KPMG, who has the deep experience and technical expertise to undertake this work. The Board will share the summary of key conclusions with shareholders in due course.

As I said at the General Meeting in December, Boards must take into account all relevant information in making their decisions. It will never be possible for all of that information to be in the public domain, much as some may wish it to be. That is one reason why

shareholders delegate decisions to a Board. The returns that result from these decisions are not achieved risk free. Boards are not committees, but are real risk taking bodies providing oversight of executive management and guiding the strategic direction of the company. I share my further thoughts on corporate governance later in this report on page 56.

The events of the last quarter of 2017 challenged the Board to think deeply about its role, the culture of the Company and the actions it takes in the best interests of all stakeholders collectively. I am enormously grateful for all the time and effort expended by the Board members during this period. The UK Corporate Governance Code demands that attendance at the Board and its committees are logged. In addition to Board and Committee meetings, the Non-Executive Directors of LSEG attended many more meetings during both the possible merger with Deutsche Börse and the process of preparation of the notice of the December General Meeting than are recorded in our Governance report.

At the end of the year, the Board was joined by Val Rahmani whose strong technology and business background will provide valuable expertise as we continue to grow our global business. As noted, in November, Xavier Rolet stepped down from his role as a Director and CEO. My colleagues and I acknowledge the immense contribution he made to the development of your Company. There have been no other changes to the Board's composition in 2017.

As detailed in the Governance Report on page 56, the Board remains committed to further restoring the gender diversity of the Board, a process that

was interrupted by restructuring ahead of the possible merger with Deutsche Börse. The Group is also a signatory to the UK's HM Treasury Women in Finance Charter to improve gender diversity within senior leadership teams and we have set ourselves a stretching target of 40% female representation in senior roles by the end of 2020. We are currently at 33%.

**Corporate Social Responsibility**

The Group is in a privileged position at the heart of the financial markets and we are pleased to support corporates, issuers and investors integrate sustainability and diversity as a core part of their capital raising and investment decisions. We continue to work closely with global and regional charities in the communities in which we operate. The selected charities focus on helping young people to develop vital life skills and we encourage employees to become actively involved in their work through paid volunteering days. In 2017, the Group's Foundation donated £1.4 million to various charities.

**Financial Performance**

The Group has continued to deliver a strong financial performance across its business divisions. Total income grew to £1,955 million, up 18%. Adjusted operating profit was £812 million, while adjusted EPS was 148.7 pence, an increase of 19%.

Consistent with the Group's capital allocation framework, we conducted an on-market share buyback of £200 million, an amount broadly equivalent to the return we would have made had the merger with Deutsche Börse proceeded as planned.

Reflecting the Group's strong performance and our commitment to sustainable, progressive dividends, the Board is proposing a final dividend of 37.2 pence per share, resulting in a 19% year-on-year increase in the total dividend to 51.6 pence per share. The final dividend will be paid on 30 May 2018 to shareholders on the register as at 4 May 2018.

**Conclusion**

I would like to thank Board members and all of our excellent employees for another successful year in the development of this great company. The Group remains well positioned for the opportunities ahead and remains confident of delivering further success and value for shareholders.

**Donald Brydon**

Chairman  
2 March 2018

# Chief Executive's statement



“We continue to successfully execute our strategy to grow and diversify the Group, operating on an Open Access basis in partnership with our customers”

**David Warren**

Interim Group Chief Executive Officer

## Executing our Strategy

London Stock Exchange Group delivered another strong performance in 2017. We continue to successfully execute our strategy to grow and diversify the Group, operating on an Open Access basis in partnership with our customers. We have seen growth across all of our core business pillars – Intellectual Property, Risk and Balance sheet management and Capital Formation – and have continued to invest in new initiatives and acquisitions to drive further expansion and efficiencies. The Group is strategically, operationally and financially well positioned to capitalise on a range of opportunities ahead and to enhance shareholder returns. Confidence in our outlook led us to set financial targets at an Investor Update event in June, which will deliver growth in Group EBITDA margin to c.55% by 2019.

As a leading financial markets infrastructure group, we have continued to grow our global footprint, including strengthening our presence in Asia and in the United States. We have also made selective acquisitions that develop our client offering, while meeting our strict strategic and financial criteria. This included increasing our majority shareholding in LCH, the acquisition of Mergent and the acquisition of The Yield Book and Citi Fixed Income Indices, which provides opportunities to significantly enhance FTSE Russell's fixed income analytics and index business. These acquisitions also help to expand LSEG's presence in the United States, and our global distribution capabilities.

## MiFID II Opportunities

The implementation of MiFID II, which took place on 3 January 2018, was a key focus for a number of our businesses and the transition to the new regulatory regime has in overall terms been very smooth for LSEG. I would like to thank everyone involved in the programme, which was a truly collaborative effort across the Group and provides us with further opportunities to differentiate ourselves with our customers.

Importantly, MiFID II embeds and recognises Open Access as a key principle in financial markets, and is one we have been operating under for a number of years. The new rules will introduce greater competition in financial markets, promoting transparency and innovation while helping to reduce costs and leading to better risk management. Our Open Access philosophy positions us well as we have a proven track record of operating businesses in partnership with our customers. As we stated in our Investor Update in June, a number of these businesses, such as LCH, CurveGlobal, Turquoise and MTS, are already beginning to benefit from the new MiFID II environment and we expect that they will be able to further grow their customer offerings.

## Intellectual Property

In our Information Services Business, FTSE Russell continued to perform strongly delivering double-digit revenue growth, up by more than 30%. This is a consolidating sector where FTSE Russell has successfully differentiated itself through its global reach and breadth of offering. With the acquisition

of The Yield Book, FTSE Russell is the most diverse index business globally in product terms and is well positioned to seek to benefit from the strong underlying industry trends, including the demand for broader multi-asset capabilities. As a result, FTSE Russell has further enhanced its position as a leading global index provider with approximately US\$15 trillion of assets benchmarked to its indexes.

Indexes are firmly embedded across the investment process and FTSE Russell has the ability to provide customers with a comprehensive product range and a deeper data and analytics offering. Institutional clients remain the core client base for FTSE Russell. The decisions made by these clients around index selection, investment products and strategies have a great influence on the entire investment sector, creating a demand for products and services to execute the strategies, for example ETFs and structured products, tracking the indexes they use. Currently, over US\$600 billion of ETF assets under management track FTSE Russell indexes. FTSE Russell is also well positioned in emerging markets with a strong track record of developing country-focused benchmarks. A number of indexes and partnerships were launched over the year including in Malaysia, China, Taiwan and Saudi Arabia.

The combination of client relationships and product capabilities also drives innovation, often in partnership with our customers, in areas such as environmental, social and governance (ESG). For example, FTSE Russell announced that the world's largest pension fund, The Government Pension



Investment Fund of Japan (GPIF), selected the new FTSE Blossom Japan Index as a core ESG benchmark. The index uses FTSE Russell's innovative ESG Ratings data model and highlights a growing trend among asset owners to integrate ESG considerations into their investment strategies.

Also within Information Services, UnaVista, the Group's platform for all matching, validation and reconciliation needs, continues to help c.6,000 clients from around the world to meet their regulatory reporting including additional requirements under MiFID II.

### **Risk and Balance Sheet Management**

In our Post Trade business, LCH Group achieved another strong performance with record volumes across multiple clearing services in 2017, driven by new business as well as additional flow from existing customers. SwapClear cleared over US\$870 trillion of notional driven by significant on-boarding of new clients across Europe, the Americas and Asia Pacific. The SwapClear service now has more than 100 members and over 200 dealers clearing in 55 countries and remains the leading OTC rates liquidity pool in the world. Compression volumes also continued to rise, with over US\$600 trillion compressed, up 59% on 2016, a further example of how the cycle of trading, clearing and compressing is becoming increasingly routine. The OTC clearing services delivered good, double-digit revenue growth in the year.

LCH is well-placed to address capital and margin challenges prevailing in the vast FX market, which trades around US\$5 trillion a day. The introduction of new bilateral margin rules has been a catalyst for members to start centrally clearing with over US\$11 trillion in notional cleared through ForexClear in 2017, compared to US\$3.2 trillion in the previous year. The search for greater efficiencies is also driving growth in LCH's repo and CDS clearing services, which both continued to expand their product offerings. LCH SwapAgent, a new service for the non-cleared derivatives market, processed its first trades and also extended the efficiencies and infrastructure of clearing to the non-cleared Cross-Currency Basis Swap market.

The Group's post trade services in Italy also recorded a good performance with Monte Titoli delivering the benefits of T2S to its members.

### **Capital Formation**

LSEG's range of debt and equity markets provides firms across the globe with access to deep and liquid pools of capital. Our markets in London and Italy helped companies raise over £44 billion in new and further issues welcoming companies such as Pirelli, Allied Irish Bank and Eddie Stobart. London Stock

Exchange was the largest European exchange with 108 IPOs in 2017 and second globally by money raised. The ongoing success of London's AIM market, which saw a near 45% increase in new capital raised, is also being replicated on AIM Italia with 24 new admissions in 2017.

Our commitment to support growth SME companies was also demonstrated through ELITE, which has continued to expand globally, with partnerships secured in West Africa, Brazil, China and Saudi Arabia in 2017. We also confirmed the launch of the first ELITE Basket Bond, which is made up of 10 innovative Italian ELITE companies. Over 700 companies from across 27 countries are now part of the ELITE community and we expect this number to continue to grow over the coming year.

In May, we launched our new International Securities Market (ISM) in London, an additional market for the issuance of primary debt targeted at institutional and professional investors, with a healthy pipeline of issuers. London Stock Exchange also continues to be at forefront of innovative green finance with the number of green bonds issued double that of the prior year.

CurveGlobal, the new interest rate derivatives platform, has built a firm foundation since launch reflecting a growing appetite for more capital-efficient and open alternatives to existing derivatives trading services. CurveGlobal is proving itself to be a highly efficient differentiator in the exchange traded derivatives space, offering genuine choice and liquidity to the market. Productive partnerships with inter-dealer brokers and technology providers are also helping to increase flow to the platform. Significantly, in the context of Best Execution rules under MiFID II, CurveGlobal products listed on LSE Derivatives Market (LSEDM) continue to be best price or tied the majority of the time.

Our pan-European trading platform, Turquoise, is working with customers as they adjust their trading strategies in response to MiFID II. Turquoise Plato Block Discovery, for example, set new records in 2017 with total value traded in the year up 600% to €54.5 billion.

### **LSEG Technology**

The main focus of Technology is to underpin and support the development of in-house solutions for our capital markets, clearing and information businesses. Our technology, combined with our deep expertise in financial markets infrastructure, enables us to deliver market-leading services that put us at the forefront of new product ideas and innovation. In 2017, we announced that we would better position our

technology offering by bringing several products and businesses together under a new LSEG Technology brand. As part of the re-organisation, we divested 2 small technology assets as we focus on the key development opportunities ahead.

We have continued to work on the application of a range of emerging technologies, including distributed ledger technology, cloud-enabled computing, machine learning and big data. LSEG takes an "active investment" approach, where we seek to combine the best of our domain expertise in financial markets infrastructure and technology with the best of the partner companies we choose to work with. For example, we are collaborating with IBM to create a distributed shared registry containing a record of all shareholder transactions and helping to open up new opportunities for trading and investing for European SMEs.

### **Summary**

LSEG operates in a dynamic global industry and there will continue to be both new challenges and opportunities ahead. LSEG continues to perform strongly in an evolving macroeconomic, regulatory and political environment, including Brexit. With the UK set to leave the EU in March next year, LSEG has a responsibility to ensure the orderly functioning of our markets and to contribute to the financial stability of the global economy as a whole. LSEG currently serves clients in a number of geographies across the United Kingdom, Europe, United States and Asia and, as such, we have plans and options for continuing to provide a seamless service. Our partnership approach with our customers continues to enable us to understand their needs against a changing regulatory and market backdrop and to develop our products and services to help our clients with the challenges they face.

In summary, our strategic ambition remains the same – to deliver best in class capabilities, drive global growth and develop our customer partnership approach. Our highly capable and experienced management team remains focused on the opportunities ahead, to deliver the financial targets we have set for the next 2 years, while at the same time continuing to invest and expand. The Group is well positioned for further successful development and growth.



### **David Warren**

Interim Group Chief Executive  
2 March 2018

# What we do – our business model

**London Stock Exchange Group (LSEG) is a global financial markets infrastructure provider which operates in multiple regions in order to meet our customers' needs. Headquartered in London and with significant operations elsewhere across the world in North America, Italy, France and Sri Lanka, the Group employs approximately 4,900 people. Global presence is also reflected in the geographical distribution of our income, with 40% in Sterling, 32% in Euro, 26% in US Dollar and 2% in other currencies.**

The Group plays a vital economic and social role within the global economy through its interconnected businesses, enabling companies to access funding for growth and development, make informed investment decisions and manage financial risks. In turn, on a broader macro-economic basis, this provides greater efficiency in accessing and managing capital, helping to fund innovation, generate wealth and create jobs.

## How we add value

Our businesses are formed of interconnected business areas: 1) Intellectual Property; 2) Risk and Balance Sheet Management; and 3) Capital Formation. Our presence across the financial markets infrastructure value chain allows us to provide a platform for serving customers at each and every point and meeting a wide range of their needs. The model below shows our businesses and the key connections between them:

### Intellectual Property:

– Our Information Services division provides customers with an extensive range of valuable information and data products, that inform investment decisions and capital allocation, including indexes, data on pricing, trading and valuations

### Risk and Balance Sheet Management:

– The Group offers a full range of central counterparty (CCP) clearing services and collateral management solutions which provide strong risk management and capital efficiency benefits. These allow our buy-side and sell-side customers to operate more effectively, enabling increased trading and investment activities

### Capital Formation:

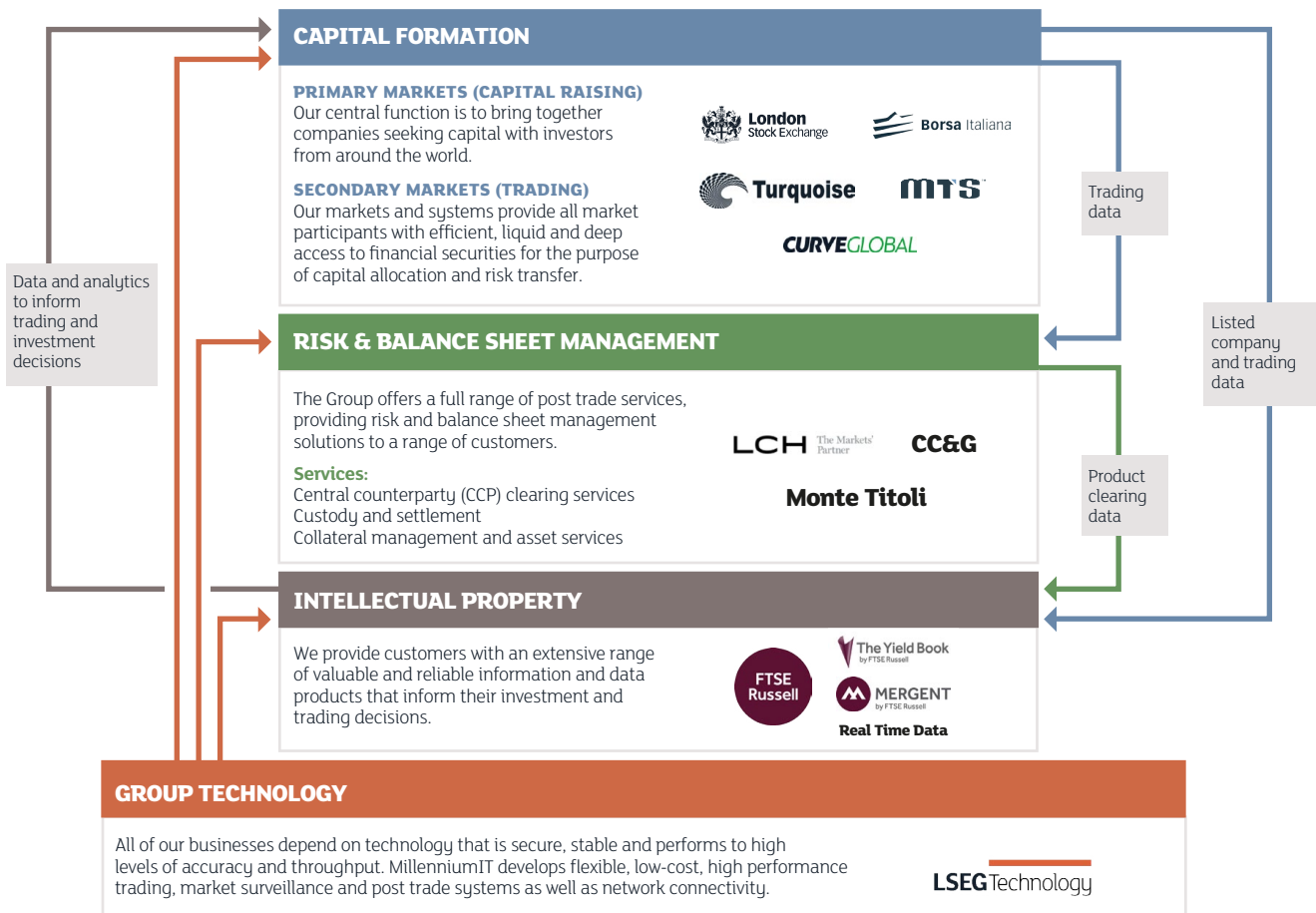
– Our Primary Markets provide choice and connections between a wide range of issuers and investors, enabling domestic and international companies to raise capital effectively

– Our Secondary Markets provide liquid and deep access to financial securities to enable improved price formation, transparency and trading efficiency

### Group Technology

Supports the 3 business segments. It delivers financial markets infrastructure IT to various businesses within the Group. This IT comprises resilient, secure, high performance trading platforms, post trade platforms, real time market data, hosting and other infrastructure products and services. It also provides these services to third parties around the world.

## Our activities across the financial markets value chain





**What makes us different – our competitive advantages**

In addition to providing businesses of scale across the value chain, our business model incorporates 2 key approaches that differentiate us from competitors in the global financial markets infrastructure industry:

**Open Access**

- Open Access is the principle which lies at the heart of free and fair markets, and is enshrined in MiFID II
- 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 as we believe this provides greater market efficiencies by reducing fragmentation and barriers to service uptake
- We provide access to all of our markets and products for a wide range of users, including those that offer competing services to parts of the Group. Access to our services is not conditional on taking a suite or bundle of different services. This open access approach is in contrast to most other exchanges and capital markets infrastructure providers

**Examples:**

LCH provides clearing services to a number of non-Group owned equities, derivatives and fixed income trading venues such as Nex Group, Euronext and Cboe Europe Equities.

FTSE Russell also licences its indexes to other exchange operators, such as CME in the US and the Singapore Stock Exchange, 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 needs and interests of our customers is central to supporting long-term value creation, enabling innovation in products which can be rapidly adopted
- In some businesses, we are joint owners with our customers which helps ensure continued relevance and uptake of the business within the operating landscape, and targeted development goals

**Examples:**

Several of our operating companies such as LCH, Turquoise, CurveGlobal and MTS are owned and governed in partnership with our customers who have varying minority shareholder interests in each.

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 financial markets infrastructure has its own unique language. For that reason, we have included a glossary on pages 162–165.

**What we need to operate our businesses and deliver value**

There are a number of factors that combine to give us competitive advantages:

**Intellectual property**

Our proprietary data and the resulting analysis generated across our businesses deliver value-add products and services that strengthen our customers' ability to make informed risk, trading and investment decisions.

**Risk management**

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

**Technology**

Secure and stable high-performing technology is critical to the operation of the Group's businesses. We continue to invest in our technology in order to maintain and enhance the quality, resilience and efficiency of our platforms, while also creating innovation to serve our customers.

**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 regulated markets globally, providing services that are trusted, independent and resilient.

**Customer trust**

Our network of customers and their ongoing input to, and support for, our businesses are vital to our ability to provide efficient financial markets infrastructure across the value chain and underpin customers' success.

**People**

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

**CAPITAL ALLOCATION FRAMEWORK**

We use an established internal capital allocation framework to help us determine the most effective use of capital to support growth in the business, including investment in new products and services and also acquisitions to further enhance Group capabilities. The returns from such investments are benchmarked against alternative uses of capital, including distribution of cash to shareholders.

# Overview of Group activities

This page shows our business areas and activities across Intellectual Property, Risk and Balance Sheet Management and Capital Formation. The tables describe who are our customers, the revenue drivers and key performance indicators.

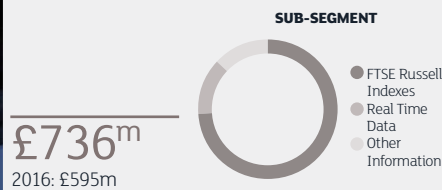
## INTELLECTUAL PROPERTY

### INFORMATION SERVICES

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

**Group total income: 38%**

#### TOTAL INCOME CONTRIBUTION



#### CUSTOMER PROFILE

##### FTSE Russell Indexes

– 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; they include banks, brokers and fund managers

#### MAIN TYPES OF REVENUE

##### FTSE Russell Indexes

– Subscription fees for data and analytic services  
– Asset linked 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

##### FTSE Russell Indexes

#### HIGHLIGHTS

– The Yield Book and Citi Fixed Income Indices, leading providers of analytics and fixed income indexes globally, and Mergent acquired  
– Worldwide assets benchmarked to FTSE Russell indexes increased to US\$15tn

#### KPIs

– ETF assets benchmarked to FTSE Russell indexes 2017: **US\$624bn** (2016: US\$452bn)

##### Real Time Data

#### KPIs

– Number of professional terminals taking Group data 2017: **180,000** (2016: 200,000)

##### Other Information

#### HIGHLIGHTS

– UnaVista and LEI have both seen good growth as firms prepared for MiFID II

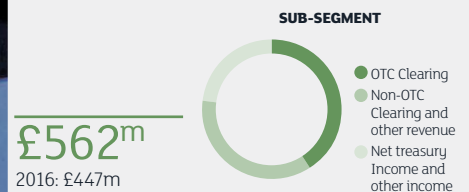
## RISK AND BALANCE SHEET MANAGEMENT

### POST TRADE SERVICES LCH

Provides clearing services through which counterparty risk is mitigated across multiple asset classes for sell-side clearing members and buy-side clients in conjunction with trading venues globally.

**Group total income: 29%**

#### TOTAL INCOME CONTRIBUTION



#### CUSTOMER PROFILE

##### Clearing services

– A worldwide base of banks, brokers and fund manager firms for OTC derivatives and listed equities, exchange traded derivatives, fixed income and commodities

#### MAIN TYPES OF REVENUE

##### 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

##### Net Treasury Income

– Net interest on cash held for margin and default funds

##### Clearing services

#### HIGHLIGHTS

– SwapClear continues to grow with record clearing and compression volumes  
– ForexClear saw 5 new members join the service alongside record clearing  
– LCH SwapAgent, a new service for non-cleared derivatives, saw its first trades in September 2017

#### KPIs

SwapClear notional cleared 2017: **US\$874tn** (2016: US\$666tn)

SwapClear notional compressed 2017: **US\$609tn** (2016: US\$384tn)

SwapClear Client trades cleared 2017: **1,227,000** (2016: 952,000)

RepoClear notional cleared 2017: **€87.5tn** (2016: €70.8tn)

Average cash collateral held 2017: **€84.5bn** (2016: €67.0bn)

Note: Other income £24 million.



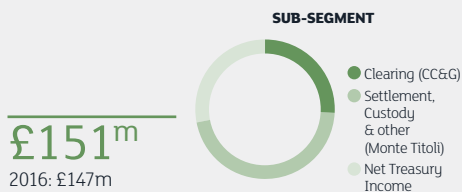
**RISK AND BALANCE SHEET MANAGEMENT**

**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: 8%

**TOTAL INCOME CONTRIBUTION**



**CUSTOMER PROFILE**

**CC&G**

– 149 members, mainly banks and brokers, of which 50% 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**

**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

**CC&G**

**HIGHLIGHTS**

– CC&G signed contracts to provide CCP hosted solutions to CCPA Austria. Casablanca Stock Exchange has also selected CC&G for a CCP development project in 2018

**KPIs**

Number of equity and derivative contracts cleared 2017: **108.3m** (2016: 129.6m)

Average initial margin held 2017: **€11.1bn** (2016: €12.1bn)

**Monte Titoli**

**HIGHLIGHTS**

– Settlement rate of 97% of trades

**KPIs**

Settlement instructions handled 2017: **44.6m** (2016: 43.3m)

Monte Titoli's assets under custody 2017: **€3.27tn** (2016: €3.17tn)

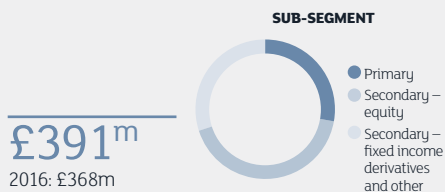
**CAPITAL FORMATION**

**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: 20%

**TOTAL INCOME CONTRIBUTION**



**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**

– Sell-side banks and brokers and buy-side investors worldwide, trading on the Group's equities, derivatives and fixed income trading platforms

**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)

**Primary Markets**

**HIGHLIGHTS**

– **194** new companies joined our markets in the year (2016: 134)

**KPIs**

Number of companies on our markets 2017: **2,588** (2016: 2,590)

Capital raised by new and further equity issues 2017: **£44.2bn** (2016: £25.6bn)

**Secondary Markets**

**HIGHLIGHTS**

– UK cash equity average daily value traded increased by 4%

– Borsa Italiana cash equity average daily number of trades decreased 6%

– Turquoise Plato Block Discovery value traded increased to €54.5bn (2016: €7.8bn)

**KPIs**

Average order book equity value traded per day in London 2017: **£5.3bn** (2016: £5.1bn)

Average number of equity order book trades per day in Italy 2017: **276,000** (2016: 295,000)

MTS Repo notional value traded **€77.7tn** (2016: €84.4tn)

**INTELLECTUAL PROPERTY**

**GROUP TECHNOLOGY**

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**



**CUSTOMER PROFILE**

**LSEG Technology**

– London Stock Exchange Group divisions, other exchange groups and capital market clients

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

**MAIN TYPES OF REVENUE**

**LSEG Technology**

– Sales of capital markets software, including trading, market surveillance and post trade systems

– Fees for network connections, server hosting and systems supplied by Group businesses

**LSEG Technology**

**HIGHLIGHTS**

– An extensive programme of change for the implementation of MiFID II was completed

– Integration underway of Mergent and The Yield Book technologies

**KPIs**

Availability of UK equity market during the year 2017: **100%** uptime (2016: 100%)

# Market trends and our response

**Through its 3 core business activities: Intellectual Property; Risk and Balance Sheet Management; and Capital Formation, the Group supports global economic growth by providing financial markets infrastructure to facilitate safe, effective and transparent global capital allocation, trading and investment decisions, and associated risk and capital management.**

Our customers are global and range from the world's largest financial institutions to retail investors and SMEs; all participants share exposure to the dynamically evolving financial markets landscape which shapes customers' needs and influences the products and services that the Group provides. We observe a number of high level trends that continue to impact the industry and shape our strategy and plans:

1. Globalisation and growing global wealth
2. Changing investment behaviours
3. Customer balance sheet and operational/capital constraints
4. Innovative and consolidating competitive landscape
5. Regulatory change

## 1. Globalisation and growing global wealth

Global wealth continues to grow, with total AUM expected to almost double from US\$84.9 trillion in 2016 to US\$145.4 trillion by 2025<sup>1</sup>. The distribution of wealth has also continued to evolve through 2017, both regionally and across market participant types. Developing markets continue to increase their share of the world's assets – between 2000 and 2017 their share of global wealth increased from 11% to 19%, and by 2022 this is expected to reach 22%<sup>2</sup>. The pace of growth in these economies is expected to continue to outpace that of developed markets, indicating the importance of maintaining a global presence as customers themselves become more global, and serve a geographically wider range of clients.

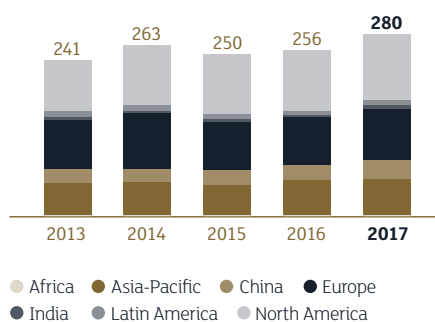
### Implications for LSEG

The Group is a global financial markets infrastructure provider and continues to expand its presence and establish partnerships in strategically important regions to serve customers. Of particular focus are the US and Asia, as emphasised by the acquisitions of Mergent and The Yield Book, and numerous strategic partnerships within China and India which facilitate access to emerging markets through our hubs.

We are building a global, inter-connected relationship management approach with commonality across businesses and customer segments. This is reflected in both our operations, with offices in 19 countries, and the distribution of our income by currency, which is increasingly diversified.

## Credit Suisse Global Wealth reports 2013–2017

Total wealth by region US\$ tn



Source: Global Wealth Report 2017, Credit Suisse, (2017)

## 2. Changing investment behaviours

While the market is starting to observe an uptick in global economic growth<sup>3</sup>, there remains elevated geopolitical uncertainty and low volatility. Accordingly, investor needs and services required from infrastructure providers are evolving. Investors are utilising products that facilitate low cost investment, driving the observed trends in movement of AUM from active to passive management through tracking vehicles such as ETPs. The global ETP market has seen a five-fold rise in AUM over the last decade and is expected to continue to increase through 2018, with portfolio managers seeing the potential for assets in passive management to almost double from the current level of 22%<sup>4</sup>. The importance of data, technology and the innovations and efficiencies that can be provided with new tools is increasingly understood by customers, who are requiring new servicing and commercial models to maximise the opportunities presented.

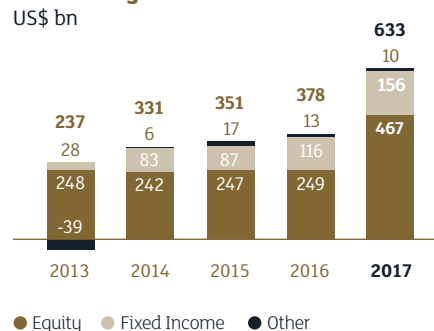
Alongside this, the Environmental, Social and Governance (ESG) space has received significant attention, reflecting both investor appetite to incorporate aspects of Sustainable Investment into strategies, and political support from legislation and initiatives such as the UN Principles for Responsible Investment and 2015 Paris Agreement.

### Implications for LSEG

LSEG is well positioned for the anticipated further growth in assets within passive investment through our FTSE Russell business's low cost, scalable model, as well as its global presence and sales. Our acquisitions of Mergent and The Yield Book expanded our ability to provide customer solutions in additional asset classes, with The Yield Book increasing the AUM benchmarked to our indexes to c.US\$15 trillion.

Additionally, the Group's Sustainable Investment models have helped numerous customers launch ESG products and raise capital through Green Bonds, a product whose profile continues to increase.

## Global ETP Flows by Asset Class 2013 through 2017



Source: BlackRock Global ETP Landscape, Monthly Snapshot, December 2017, BlackRock, (2018)

1. Asset & Wealth Management Revolution; Embracing Exponential Change, PWC, (2017)
2. Global Wealth Report 2017, Credit Suisse, (2017)
3. IMF World Economic Outlook Report, October 2017 Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges
4. BlackRock Global ETP Landscape, BlackRock (2017); Greenwich Associates: 2018 Market Structure Trends report



**3. Customer balance sheet and operational/ capital constraints**

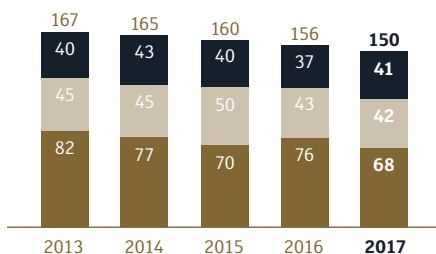
Recent regulation such as MiFID II, Fundamental Review of the Trading Book (FRTB) and EMIR has iteratively developed, and now captures a wider universe of entities; these customers are facing significant regulatory change, creating cost, capital, risk and conduct challenges alongside difficult market conditions. Costs and operational challenges are increasing as a result, and customers are evolving their operating models and seeking methods of reducing inefficiencies in processes.

**Implications for LSEG**

The Group understands that efficiency is key for customers, for both operational processes and capital efficiency, so that their efforts can be directed to value-creating activities through growth, investment decisions and intelligent use of capital. Reduced fragmentation and consolidated, standardised information greatly help customers and the Group is focused on providing solutions that solve these issues, such as LCH SwapAgent, LCH Spider and Turquoise's block trading functionality.

Our partnership approach leaves us well positioned to play a leading role in addressing customer challenges across the industry, and various services within the Group are solely focused on assisting customers in areas aligned with regulation. While low trading volumes may adversely affect our Capital Markets businesses, there is potential for increased demand for risk management and capital efficiency solutions. As customers continue to seek services to help manage capital and operational constraints, there are opportunities for collaborative and innovative solutions, and for LSEG to be central to the future shape of financial markets infrastructure.

**Coalition Index revenues by business**  
US\$ bn



● FICC ● Equities ● IBD

Source: Coalition IB Index Report – FY17 (2018)

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

**4. Innovative and consolidating competitive landscape**

Regulation remains a key driver of client needs and service provision, while developments in new technologies are facilitating a reordering of traditional industry boundaries. Combined with the increasing client need for integrated access points to various fragmented services, these trends are widening the definition of the financial markets infrastructure industry, and thereby driving consolidation of providers within the competitive landscape and encouraging new entrants.

Throughout 2017, there have been ongoing acquisitions and partnerships across trading, information services, post trade and technology services as the industry evolves. We expect this to continue through 2018, in particular within the high-growth areas of data, analytics and risk management, with innovation and collaboration driving the development of new solutions and delivering benefits to customers.

**Implications for LSEG**

LSEG has been active within the industry in 2017, acting upon our strategic pillars through partnerships and inorganic opportunities such as the acquisitions of The Yield Book and Mergent, to enhance our positioning as a global financial markets infrastructure provider. As our product diversity and geographic presence has increased, so has our capability for understanding client needs across the value chain and our ability to respond to them. For instance we have facilitated access to an expanded set of asset classes, supported SME capital-raising through our ELITE programme and provided services to further client segments, such as LCH's Sponsored Clearing model. Through 2018 the Group expects to continue to identify, assess and execute organic and inorganic opportunities that enhance our existing business, or create new opportunities in complementary areas.

**5. Regulatory change**

During 2017, significant regulatory initiatives that the Group has highlighted in previous reports, impacting various businesses, 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 evolution of sustainable investment rules and products, and regulatory scrutiny of emerging financial technology. All these initiatives evolve in the context of the uncertainty caused by the UK referendum decision to leave the European Union (Brexit) and the potential for significant changes in US policy. On the following pages we provide our assessment of likely regulatory changes and their impacts on the Group.

**Brexit update**

In December 2017, the European Commission (EC) recommended to the European Council that it begin discussions on the next phase of 'orderly withdrawal' of the UK from the EU. This followed the joint report publication by the EU and UK on the key issues relating to the Withdrawal Agreement. It was made clear that the institution's position on 'transitional arrangements' was that they must be time limited and consist of the prolongation of the whole EU acquis. Uncertainty continues and could impact market sentiment and levels of activity including IPOs.

**Implications for LSEG**

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. Both EU and UK authorities have approached LSEG and requested contingency plans for several businesses.

**SUMMARY OF REGULATORY CHANGE:**

- Key legislation (EMIR 2.1 and 2.2)
- CCP Recovery and Resolution
- Markets in Financial Instruments Directive/ Regulation (MiFID II)
- European Supervisory Authorities (ESA) Review
- Capital Markets Union (CMU) / Green Finance
- EU Benchmark Regulations and IOSCO Principles
- Technology
- North America

# Market trends and our response continued

## Key legislation

### European Market Infrastructure

#### Regulation (EMIR) 2.1 (REFIT)

The EC has proposed a review of EMIR transaction-level requirements. In particular, it is introducing thresholds for the application of the clearing obligation to financial counterparties, extending the exemption for pension scheme arrangements and introducing an obligation for clearing members to provide clearing services under Fair, Reasonable And Non Discriminatory (FRAND) commercial terms. It has also proposed streamlining trade repositories' reporting requirements. The Commission Proposal still needs to be discussed with the other co-legislators (Council and Parliament) before final adoption.

#### EMIR 2.2 – EU and third country CCP supervision

The EC is proposing to review the supervisory framework applicable to EU and third country CCPs. Concerning EU CCPs, it will provide ESMA with new competences allowing it to review national competent authorities' decisions and potentially amend or reject them. Similar powers are attributed to EU central banks of issue. Concerning third country CCPs, the text proposes to distinguish non-systemic CCPs (Tier 1) that can be recognised according to the current EU regime from systemically important CCPs that have to directly comply with EMIR and are subject to direct supervision of ESMA. In addition, CCPs considered substantially too important to be recognised would therefore need to be established in the EU to be able to provide services to EU customers. LSEG has responded to the Commission Proposal, which still needs to be discussed with the other co-legislators (Council and Parliament) before final adoption.

### Implications for LSEG

LSEG and its customers have raised concerns that the mechanism allows the Commission to potentially deny the recognition of third country CCPs of substantial systemic importance, which would penalise EU market participants through less choice of services and face higher risks and costs. In line with our key objectives to provide continuity of cross-border financial services and protect against policies which may result in fragmentation of financial markets, we consider that a set of alternative requirements would provide EU authorities with the tools to appropriately monitor the risks third country CCPs manage in the EU market, without having recourse to denial of recognition. LSEG is engaging with the industry and policy makers to ensure the right calibration of EMIR requirements as well as a smooth and efficient supervision of both EU and third country CCPs.

### CCP Recovery and Resolution

Authorities in Europe, North America and 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, CPMI-IOSCO is leading a work stream on CCP resiliency and recovery, while the Financial Stability Board (FSB) is conducting the analysis on CCP resolution. Final guidance from these work streams was published in July 2017. In the EU, the EC published on 28 November 2016 its legislative proposal for CCP recovery and resolution. This proposal is currently being reviewed and discussed by the European Parliament and the Council of the EU. In the US 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 CCP's 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)

MiFID II 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 benchmark providers.

### Implications for LSEG

Since MiFID II entered into force in January 2018, the Group believes that the long term impacts have been 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 should start to benefit from increased transaction reporting opportunities while provisions relating to distribution of some real time data may lead to some change in our business and revenue model in due course. The extra-territorial impact of MiFID II on Asian members of LSEG trading venues is likely to become clearer in 2018.

### Open Access

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

### Implications for LSEG

Open Access remains a key principle that underpins our strategy and business model and is fully aligned with 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 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.

### European Supervisory Authorities (ESA) Review

The EC has made proposals to significantly transform ESA, principally by empowering ESMA to be the central supervisor for a range of new financial entities including third country CCPs, third country benchmark administrators, and data service reporting providers, and also the approval authority for certain types of prospectus. ESMA would also be able to levy fees directly on financial institutions even where they are not directly supervised. However the prospects for final political agreement on the proposal are highly uncertain as there are strong objections across the EU member states.

### Implications for LSEG

Transformational change to the supervisory architecture in the EU presents fewer uncertainties for LSEG than other international financial institutions. As a global financial market infrastructure provider, LSEG is experienced at serving customers around the world and working closely with multiple regulators across borders. We therefore see much potential for introducing efficiencies and a more level playing field for regulatory implementation across the Single Market through the ESA review. At the same time LSEG will need to remain engaged in the policy debate in order to ensure that decision makers are properly informed of market structures and impacts and that the design of the new regulatory system is calibrated to achieve an appropriate balance between pan-European and national supervision.

**Capital Markets Union (CMU) / Green Finance**

CMU is a plan by the EC 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 level II, reviews on the functioning of the corporate bond market, as well as the Commission's proposal for a prudential regime for investment firms including market makers, for a pan-European Personal Pension, and for 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.

Regarding green finance and ESG reporting, LSEG and FTSE Russell continue to actively contribute to this global debate, in particular through the EU High Level Expert Group and the UK Green Finance Taskforce.

**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 indexes.

**Benchmarks**

The EU Benchmarks Regulation was proposed to help restore confidence in the integrity of benchmarks, in the aftermath of the LIBOR scandal, and came into effect January 2018. Building on the principles agreed by 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. The regulation enshrines the IOSCO Principles and we view the new rule set positively as it raises standards across the industry.

**Implications for LSEG**

FTSE Russell is a key global benchmarks administrator; as such FTSE international Limited submitted a draft application at the end of 2017 to the FCA to be authorised as an EU based administrator of benchmarks.

**Technology**

The EC proposed a regulation on a framework for the free flow of non-personal data in the EU and a regulation on European Union Agency for Network and Information Security and Information and Communication Technology cybersecurity certification. LSEG has responded to the Commission Proposals, which still need to be discussed with the other co-legislators (Council and Parliament) in view of final adoption.

For the financial services industry, regulators in major jurisdictions are closely monitoring and considering regulatory frameworks on emerging financial technology (FinTech), in particular the potential uses of distributed ledger technology, cloud computing and artificial intelligence.

**Implications For LSEG**

Cybersecurity, data protection and flow, and emerging technology related regulatory initiatives, apply in various degrees to all Group functions, either as compliance obligations or constituents of the services that we provide to our customers. We continue to invest to ensure cyber resiliency and compliance with regulations. 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 the proposal on the free flow of non-personal data, there may be potential benefits to the Group by removing data localisation requirements and facilitating data portability.

LSEG continues to monitor and engage with regulators and leading industry working groups on these issues for the development of regulatory frameworks.

**North America****United States**

Certain financial services reforms put in place under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 will continue to be reviewed by Congress and the relevant Federal agencies. There are several legislative proposals that, if passed, could impact our business operations in the US, particularly our post trade and capital markets businesses.

We remain closely engaged with the CFTC's own initiative to review the agency rules and regulations to improve the effectiveness of their application. A related CFTC report with recommendations is expected this year. The US Treasury report entitled A Financial System That Creates Economic Opportunities: Capital Markets published in October 2017 provides

recommendations for Congress and relevant financial services agencies to begin implementing some of the US Treasury's recommendations in line with the Administration's goals.

**Implications for LSEG**

Although the timing and substantive provisions remain in development, it is expected that final provisions could involve areas that directly or indirectly impact our post trade, information services and capital markets businesses as well as participants in our markets. We do not anticipate any major efforts to restrict the mandates for central clearing of certain swaps.

**Canada**

The Capital Markets Stability Act (CMSA), a package of reforms to address systemic risks in the financial system, including benchmarks and CCPs, remains under review in the Parliament. At the regulatory level, the Canadian Securities Administrators implemented a mandate to clear certain classes of interest rate swaps in 2017. Although the initial impact has not substantially increased cleared volumes from Canada, we are closely following the review of these provisions.

**Implications for LSEG**

Although the timing and substantive provisions of the CMSA are not certain, further development and passage of these provisions could directly or indirectly impact our post trade and information businesses as well as participants in our markets.

**FURTHER INFORMATION**

More detail is provided in the table at the back of this report (pages 166–167) that shows a range of regulatory developments by business area.



# Strategy in action

## VISION

To be the most trusted expert in global financial markets.

## STRATEGY

To achieve this, we continue to strengthen our performance as an innovative, customer-focused and collaborative organisation, delivering high value products and services across the financial markets value chain.

Open Access, partnership approach, customer service and operational excellence remain key foundations for the Group's growth and our activities are aligned to these principles. Delivery of our strategy is embodied within our 3 strategic pillars: driving global growth, developing our customer partnership approach and delivering best in class capabilities.

## FURTHER INFORMATION

For further information, including video and audio of the presentations, please visit Investor Events at [www.lseg.com/investor-relations/investor-events](http://www.lseg.com/investor-relations/investor-events)

## STRATEGY

### Driving global growth

As a customer-focused organisation, we benefit from deep and broad relationships with market participants globally. This drives product and service innovation and, combined with our ability to respond effectively to secular trends, creates growth opportunities across the financial markets value chain.

#### Progress – Selected Examples

- LSEG completed the acquisitions of both of The Yield Book and Mergent, a leading provider of company information and analysis, enhancing our data and analytics offering across asset classes and sectors
- Our 5 year revenue run rate synergy target for the Russell Indexes transaction was achieved more than 2 years ahead of target
- LCH launched new products to facilitate clearing for buy-side market participants, such as Sponsored Clearing in the RepoClear service and Custodial Segregated account structures working with Euroclear
- LSEG's Primary Markets saw a good year for IPOs; the leader for number of IPOs in Europe; we were chosen for 2 of the top 3 issuances by size worldwide, and we placed first in Europe for further issuance
- FTSE Russell created numerous products for sustainable and emerging markets investment, with launches including the FTSE Global Climate Index Series and the FTSE ESG Index Series, and indexes for China A-shares
- ELITE continued global expansion through agreements with China and Brazil, and agreement was reached to launch the programme across 9 countries in West Africa
- FTSE Russell's Blossom Japan index was selected by the Government Pension Investment Fund of Japan, the world's largest pension fund with over US\$1.3 trillion in assets, as its core ESG benchmark through its flagship fund

**STRATEGY**

## Developing our customer partnership approach

LSEG is set apart in the Financial Markets Infrastructure sector through our open access philosophy and collaborative approach. This gives us maximum flexibility to develop commercial and corporate opportunities amidst ongoing industry and regulatory change.

**Progress – Selected Examples**

- LSEG strengthened its holding in LCH Group to 65.9%, reflecting the strategic importance of this asset to the Group
- CurveGlobal success continued, supported by shareholder banks, with over 2 million lots traded and reaching a record level of open interest since launch
- LCH SwapAgent launched in partnership with major dealers, to simplify the processing, margining and settlement of non-cleared rates derivatives
- FTSE Russell renewed its partnership with CME to launch futures and options on the Russell 2000 Index
- Euronext and LCH S.A. agreed to extend their co-operation on derivatives and commodities clearing services for the next decade
- UnaVista has welcomed 50 firms to its Partner Programme, aiming to increase efficiency and reduce risk for clients
- Turquoise expanded its universe to make FTSE AIM 50 stocks available for trading, reflecting increasing customer demand for small- and mid-caps
- ForexClear grew membership by 20% in 2017 and launched new products including G10 currency pairs
- ELITE welcomed new strategic investors to support international expansion across Europe and Asia

**STRATEGY**

## Delivering best in class capabilities

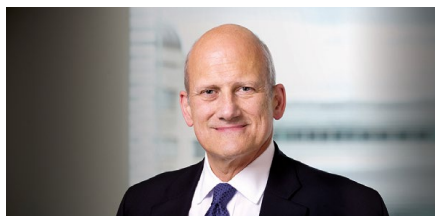
We constantly seek to improve our execution capabilities, customer servicing and expertise in financial markets infrastructure. We utilise technology, our global scale and the skills of our people to innovate, manage risks and operate in the most efficient and responsive way.

**Progress – Selected Examples**

- LSEG secured a leading role in engagement with governments, regulators and customers on implications of Brexit, MiFID II and EU benchmarking regulations
- Investment continued in emerging technology with cloud strategy implemented, enterprise architecture programmes and AI and blockchain R&D
- Borsa Italiana collaborating with IBM to develop a blockchain solution for European SMEs
- LSEG assisted clients with readiness for MiFID II through solutions such as Turquoise Lit Auctions and UnaVista
- BSL, our shared services company, now delivers corporate services to LCH, and the Group has developed new locations, acquired in Asia and the US to deliver increased capabilities at lower unit cost
- LSEG Technology was formed, combining our software companies of MillenniumIT and Gatelab; we have also completed the divestments of MillenniumIT ESP and Exactpro (post-year end) to focus on high value technology businesses which support our core customer base
- LSEG implemented a range of talent development initiatives including expansion of graduate recruitment for technology, introduction of an early careers programme and multiple management development programmes
- Information security was strengthened through technology solutions, training for all staff and investment in people and processes

# 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 as at January 2018 (for further information on David Warren and Raffaele Jerusalemi, who are also members of the Board of Directors, see their biographies on pages 54–55).



**David Warren**  
Interim Group Chief Executive Officer  
and Group Chief Financial Officer.



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



**Chris Corrado**  
Group Chief Operating Officer and Chief  
Information Officer.

Joined the Group in November 2015.

Chris joined 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.

Joined the Group in June 2013.

Diane was previously Aviva Plc's Chief Finance Operations Officer. Prior to this, she 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.



**Catherine Johnson**  
Group General Counsel.

Joined the Group in 1996.

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



**Daniel Maguire**  
Chief Executive Officer of LCH Group.

Joined LCH in September 2008.

Daniel has wide experience in risk management, regulatory strategy, product management and development, programme delivery and sales and operations management. He was previously Global Head of SwapClear and also ForexClear and Listed Rates at LCH, and most recently LCH Group COO.



**Mark Makepeace**  
Group Director of Information Services and  
Chief Executive Officer of FTSE Russell.

Was a founding Director of FTSE in 1995  
and joined the Group 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.

Joined the Group in 2014.

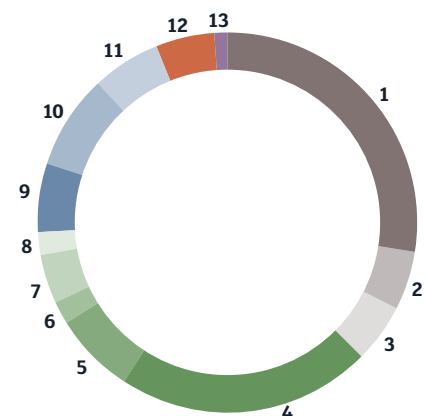
Nikhil joined from the UK Treasury, where he held a number of senior positions, including Director of the Financial Services Group, representing the UK Government's financial services interests internationally, and Private Secretary to the UK Prime Minister for 3 years from 2005 to 2008.



# Segmental review

	12 months to 31 December 2017 £m	12 months to 31 December 2016 £m
<b>Information Services</b>		
1 FTSE Russell Indexes	546	409
2 Real Time Data	94	91
3 Other Information	96	95
	<b>736</b>	<b>595</b>
<b>Post Trade Services LCH</b>		
4 Clearing	432	356
5 Net Treasury Income and other	130	91
	<b>562</b>	<b>447</b>
<b>Post Trade Services CC&amp;G and Monte Titoli</b>		
6 Clearing (CC&G)	39	43
7 Settlement, Custody and other (Monte Titoli)	70	61
8 Net interest income	42	43
	<b>151</b>	<b>147</b>
<b>Capital Markets</b>		
9 Primary Markets	110	91
10 Secondary Markets – Equities	163	165
11 Secondary Markets – Fixed income, derivatives and other	118	112
	<b>391</b>	<b>368</b>
<b>Technology Services</b>		
12 Technology	91	88
<b>Other</b>		
13 Other	24	12
<b>Total Continuing Income</b>	<b>1,955</b>	<b>1,657</b>

## Total Income



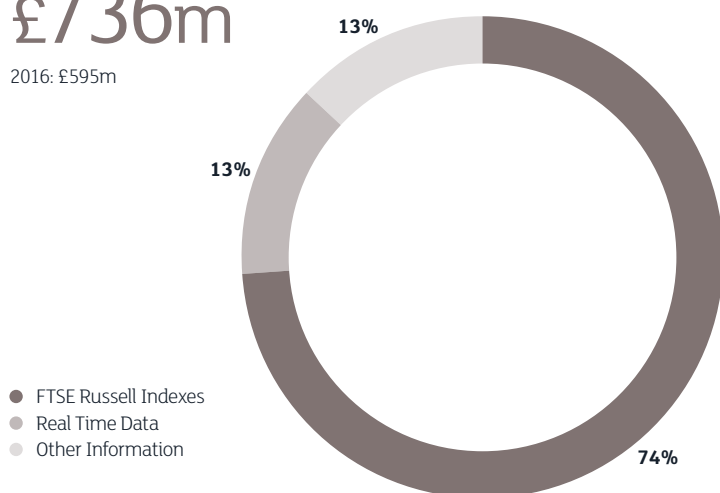
12 months to  
31 December 2017

# Information Services

## Revenue

£736m

2016: £595m



- FTSE Russell Indexes
- Real Time Data
- Other Information

## 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 36–41. An overview of the regulatory landscape can be found on pages 166–167. A glossary of terms can be found on pages 162–165.

## Key Summary

- Revenues for the year increased by 24% to £736 million (2016: £595 million), and up 13% on an organic constant currency basis driven by strong growth in FTSE Russell
- FTSE Russell revenue for the year increased by 33% to £546 million (2016: £409 million) and up 15% on an organic constant currency basis
- LSEG acquired The Yield Book and Citi Fixed Income Indices for total cash consideration of US\$679 million (£525 million)
- LSEG completed the acquisition of Mergent for total consideration of US\$147 million (£119 million)
- The world's largest pension fund, the Government Pension Investment Fund (GPIF) of Japan selected FTSE Blossom Japan Index as a core ESG benchmark
- UnaVista and LEI have both seen good growth as firms prepared for MiFID II

## 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 saw good organic growth in 2017, executed on and integrated acquisitions and continued to expand geographically into new areas for future product launches. With the acquisition of The Yield Book and Citi Fixed Income Indices, FTSE Russell became the largest global benchmark provider and leading multi-asset index company as measured by assets benchmarked.

In January 2017, the Group acquired Mergent, a leading global provider of business and financial information on public and private companies, for US\$147 million (£119 million). This supports the growth of FTSE Russell's core index offering, supplying underlying data and analytics for the creation of a wide range of indexes.

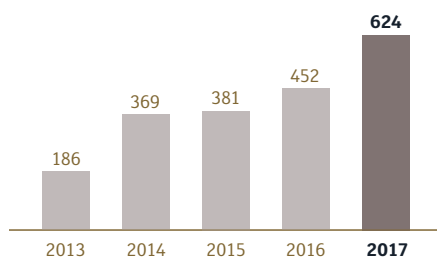
In August 2017, LSEG completed the acquisition of The Yield Book, a fixed income analytics platform, and Citi Fixed Income Indices, an index business comprising a family of fixed income indexes which includes the World Government Bond Index (WGBI), from Citigroup for US\$679 million (£525 million).

Both acquisitions have been integrating well within the Group and allowing FTSE Russell to capitalise further on strong growth in multi-asset solutions and passive investment strategies, realising revenue and cost synergies and extending the Group's global distribution capabilities. The data obtained from these acquisitions will support all areas of the Group and reduce usage of third parties for market data. In particular, we will benefit from the growing client demand for ETFs, smart beta or factor-based indexes and fixed income indexes.

LSEG completed the sale of the Italy-based Information Service Professional Solutions business in February 2017.

**FTSE Russell Indexes**

FTSE Russell is a global index leader that provides innovative benchmarking, covering 98% of the investable market with approximately US\$15 trillion assets benchmarked (2016: US\$12.5 trillion). FTSE Russell is embedded in the entire investment process and calculates hundreds of thousands of indexes for investors to benchmark markets across different asset classes, styles and strategies. It has built global relationships and is used by the majority of the world's top financial institutions and their clients including the top 10 investment banks, 97 out of the top 100 asset managers, and 48 out of the 50 largest US plan sponsors.

**ETF assets under management  
benchmarked to FTSE Russell indexes**  
 US\$ bn (year end)


In June 2017, FTSE Russell presented at a Group Investor Update, where senior managers from individual business areas discussed the benchmarks and analytics landscape, identified future growth drivers and set out our mid-term outlook. In FTSE Russell we see double-digit growth continuing to 2019 and sustainable and attractive margins over the same period. The event presentation and videos are available on our website: <https://www.lseg.com/investor-relations/investor-events>.

# US\$15tn

Assets benchmarked to FTSE Russell indexes

FTSE Russell's sales and service teams are fully integrated to form one global team that is closely aligned and highly engaged with our clients. We support clients around investment strategy, asset allocation and risk management challenges to meet their investment objectives.

FTSE Russell earns approximately 60% of its revenue from index data subscriptions, comprising licences, data services and analytics with high retention rates. The remaining 40% is earned from asset based fees, with revenues based on benchmarked assets under management (AUM) for ETFs, passive funds and contracts traded for index derivatives.

In 2017, revenues increased by 33% to £546 million (2016: £409 million), up 15% on an organic constant currency basis due to continued strong demand for our benchmarks including data and analytics, and strong growth in the ETF market. Upon the integration of FTSE and Russell Indexes after the acquisition of Frank Russell Company in 2014, we set a 3 year run rate cost synergy target of US\$78 million and a 5 year run rate revenue synergy target of US\$48 million. These targets were both delivered ahead of schedule in 2017. With the acquisitions during the year of Mergent and The Yield Book and Citi Fixed Income Indices, the focus going forward will be integrating both businesses into FTSE Russell.

FTSE Russell is a leading provider of indexes for the ETF market, with US\$624 billion benchmarked (2016: US\$452 billion). This is one of the fastest growing investment classes with a 6 year CAGR of 21%. This year, 7 companies issued their first ETFs against FTSE Russell benchmarks including Fidelity and Franklin Templeton. 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 2017 increased by 26% to US\$190 billion (2016: US\$151 billion).

2017 also saw a number of other significant achievements with the geographical expansion of FTSE Russell's services and increased selection of FTSE Russell indexes for ETFs. For example in July 2017, the world's largest pension fund, the Government Pension Investment Fund (GPIF) of Japan selected our new FTSE Blossom Japan Index as a core ESG benchmark. The increased uptake benchmarking of ESG indexes demonstrates the increased demand for, and shift to ESG factors in investment criteria.

In the US, futures and options are traded on FTSE Russell indexes, Cboe trades options while in 2017 futures on the Russell 2000 Index began trading on CME's Globex platform, demonstrating the Group's open access approach.

In China, the first mainland China ETF tracking the FTSE China A50 index, issued by Harvest Fund Management, was listed on the Shanghai Stock Exchange.

In 2017, we launched the FTSE Italia PIR Mid Cap Total Return Index, a benchmark that measures the performance of Italian companies matching the requirements of the new personal savings plan (PIR) Law introduced in Italy.

In the Middle East the FTSE Saudi Arabia Inclusion Index Series was launched, with global, regional and country-level indexes designed to support domestic and international investors in response to regional growth and the opening of the Saudi Arabia capital market to Qualified Foreign Investors.

FTSE Russell indexes are licensed globally for derivatives trading in across Europe, North America and Asia. During the year 210 million contracts benchmarked to FTSE Russell indexes were traded, 5% lower than the previous year, with increased activity in the US offset by lower volumes in Europe.

The European Regulation on Indices used as Benchmarks in Financial Instruments and Financial Contracts (the European Benchmark Regulation) applied from 1 January 2018; FTSE International Limited submitted an application at the end of 2017 to the FCA to be authorised as an EU based administrator of benchmarks.

# US\$624bn

ETF assets benchmarked to FTSE Russell indexes



# Information Services continued

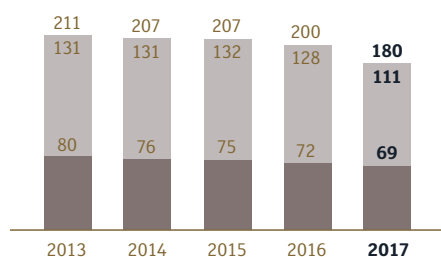
## Real Time Data

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 180,000 from 200,000 in 2016, with LSE at 69,000 (2016: 72,000) and Italy at 111,000 (2016: 128,000) with the reduction largely in lower yield terminals.

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

## LSE and Borsa Italiana terminals thousands (year end)



- LSE terminals
- Borsa Italiana terminals

## Other Information

### UnaVista

UnaVista is LSEG's regulatory reporting platform for all matching, validation and reconciliation needs. It provides business solutions designed to help firms increase efficiency and reduce operational and regulatory risk across all asset classes. In 2017, the user base of UnaVista continued to grow, with 100,000 users and c.6,000 contracted clients from around the world using the platform (2016: 1,500).

UnaVista's MiFID II Approved Reporting Mechanism (ARM) became a MiFIR-approved ARM in September 2017, and was live for the implementation of MiFID II. UnaVista extended its commitment to partnership, open access and product innovation, launching a Partner Programme, to combine member firms' expertise ahead of the introduction of MiFID II. Across the year the programme grew to 50 partners and was extended to incorporate other global regulations including Market Abuse Regulation (MAR).

## 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 16 million live securities. London Stock Exchange LEI Limited is a fully accredited Local Operating Unit (LOU) for the global allocation of Legal Entity Identifiers (LEI). These codes uniquely identify every legal entity or structure, in any jurisdiction, which is party to a financial transaction. An 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 2013, we have become a leading LOU and have allocated almost 150,000 LEIs across 6 continents (2016: 44,000), with the recent upsurge in allocation due to MiFID II transaction reporting obligations.

## Regulatory News Service

Regulatory News Service (RNS) is the leading specialist provider of regulatory disclosure distribution services to UK listed and AIM companies. During 2017, over 310,000 announcements were processed by RNS (2016: 321,000), covering the majority of UK company announcements. RNS operates as a Primary Information Provider and is regulated by the FCA.

# 50 Partners

have joined the UnaVista Partner Programme

# 150,000

Legal Entity Identifiers issued

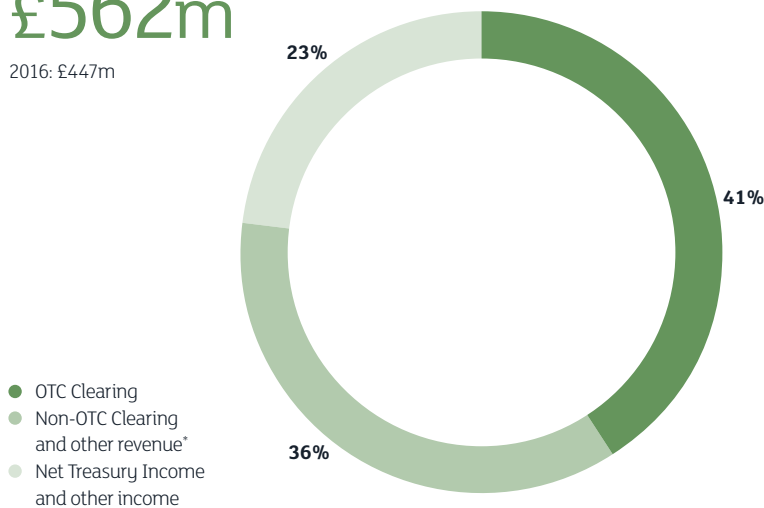
# Post Trade Services

## LCH

### Income

# £562m

2016: £447m



- OTC Clearing
- Non-OTC Clearing and other revenue\*
- Net Treasury Income and other income

\* 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 36–41. An overview of the regulatory landscape can be found on pages 166–167. A glossary of terms can be found on pages 162–165.

### Key Summary

- LCH's income for 2017 was £562 million, up 26% and increased by 21% on a constant currency basis
- SwapClear cleared US\$874 trillion notional, up 31%, with client trades cleared up by 29% to 1.2 million and compression up by 59% to US\$609 trillion
- ForexClear non-deliverable forwards clearing increased by 252%, to US\$11.2 trillion. Membership increased to 30 (2016: 25)
- Fixed income clearing increased to €87.5 trillion in nominal value cleared
- Cash equity clearing volumes increased by 15% to 805.3 million trades
- LCH SwapAgent, a new service for non-cleared derivatives, saw its first trades in September 2017
- LSEG increased its majority stake in LCH Group to 65.9% (2016: 57.8%)

### Introduction

LCH is a leading multinational clearing house, with clearing operations in the UK, Eurozone, 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 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.

During the year we increased our majority stake in LCH Group from 57.8% to 65.9% following the sale by certain minority holders and as a result of Euronext swapping their holding from LCH Group to LCH S.A..

In June 2017, LCH presented at a Group Investor Update, where senior managers from individual business areas discussed the post trade landscape, identified future growth drivers and set out our mid-term outlook. In OTC clearing we see revenues continuing to grow at a double-digit rate to 2019 with EBITDA margin approaching 50% by 2019 (2016: 35.6%). The event presentation and videos are available on our website: <https://www.lseg.com/investor-relations/investor-events>.

# Post Trade Services continued

## LCH

2017 saw LCH benefit from various regulatory requirements incentivising clearing, such as mandatory swap clearing in Europe and a full year of the Uncleared Margin Rules (UMR), alongside the development of existing and new services. Examples of these include the introduction of clearing for 5 G10 currency pairs at ForexClear, LCH's foreign exchange clearing service, and the launch of LCH SwapAgent, a new service to simplify the processing, margining and settlement of non-cleared derivatives.

LCH won 11 awards in 2017, including Risk Magazine's Clearing House of the Year for the fifth consecutive year and Futures and Option World's (FOW) International Awards Clearing House of the Year for Europe and Asia.

In 2018, LCH plans to extend its portfolio margining solution, LCH Spider, to allow Long Term Interest Rate futures to be offset with eligible swaps and Short Term Interest Rate futures.

Total income in constant currency terms increased by 21% as a result of increased Net Treasury Income, volumes in OTC client clearing and strong growth in RepoClear. In sterling terms, income increased by 26% to £562 million (2016: £447 million).

OTC derivatives clearing revenue was up 21% at £231 million, an increase of 17% on a constant currency basis (2016: £191 million). The increase in OTC clearing revenue came largely from the growth in SwapClear client clearing.

OTC clearing has benefitted from the implementation of the Uncleared Margin Rules in the US from September 2016, and Europe in February 2017. Thresholds for users with gross notional amount of uncleared OTC derivatives initially set at €3 trillion / US\$3 trillion are expected to reduce each year, and by September 2020 almost all the market will be covered with thresholds set at €8 billion / US\$8 billion.

Non-OTC clearing revenue was £133 million, up 7% on a constant currency basis, driven by strong growth in fixed income volumes cleared. Other revenue, which includes compression services and fees for managing non-cash collateral, increased by 37% to £68 million (2016: £49 million).

### OTC Clearing

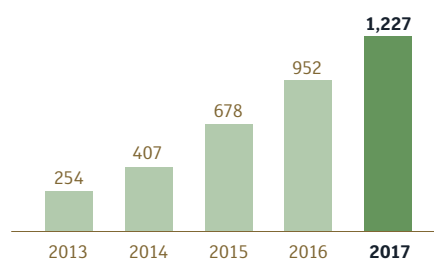
#### SwapClear

SwapClear is a global market leader in OTC interest rate swap (IRS) clearing, offering buy and sell-side clients access to unparalleled liquidity provided by 105 members, capital efficiencies from compression services and a system of rigorous risk management.

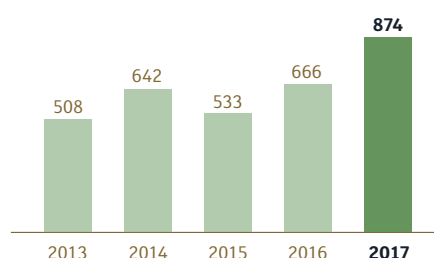
2017 was another strong year for SwapClear with total notional cleared increasing 31% to a record US\$874 trillion (2016: US\$666 trillion). Client clearing increased 46% to a record US\$203 trillion (2016: US\$139 trillion) and client trades up 29% to a record 1,227,000 (2016: 952,000).

Factors driving growth have included regulatory changes such as mandated EU client clearing and Uncleared Margin Rules, increased activity amongst existing members and clients, the onboarding of new clients and increased use of compression services. Interest rate changes in the US and UK were also favourable to volumes. In 2018, LCH will further expand its SwapClear product offering, with plans to introduce Non Deliverable Interest Rate Swaps in Chinese Yuan, Korean Won and Indian Rupee, subject to regulatory approval.

#### SwapClear – Client: no. of cleared trades thousands

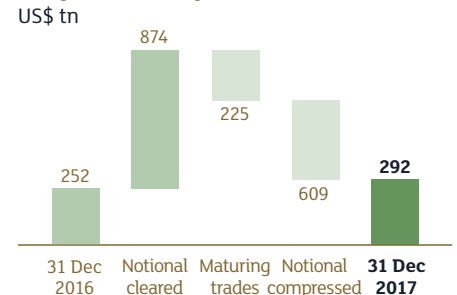


#### SwapClear – Total notional cleared US\$ tn



SwapClear's compression services allow members and clients to reduce the number of trades in their portfolios. This simplifies the management of their positions and frees up valuable capital that would otherwise be held as margin. 2017 saw notional compressed increase by 59% to a record US\$609 trillion (2016: US\$384 trillion), as the services continue to deliver significant value to its users. SwapClear's proprietary compression services grew and demonstrating our open access approach, the services of Quantile Technologies and Capitalab were added as Approved Compression Service Providers (ACSP), alongside the existing ACSP, TriOptima AB.

#### SwapClear – Compression volumes US\$ tn



Inflation swap clearing, launched in 2015, saw volumes cleared increase almost 200% with a total of US\$3.2 trillion in notional cleared in 2017 (2016: US\$1.1 trillion).

LCH SwapAgent is a new service to simplify the processing, margining and settlement of non-cleared derivatives. It executed its first trades in 2017, a Swiss Franc-denominated interest rate swap and Euro-denominated inflation swap and has now extended its service to Cross-Currency Basis Swaps. In 2018, its service will extend further to include swaptions.

# US\$874tn

Total notional cleared at SwapClear



**ForexClear**

ForexClear is LCH's service clearing foreign exchange (FX) non-deliverable forwards (NDF) for 12 Emerging Market currencies and, launched in November 2017, 5 G10 currencies. 2017 also started to see regular flows from Client clearing. ForexClear membership increased to 30 members (2016: 25) while notional cleared increased strongly by 252% to US\$11.2 trillion (2016: US\$3.2 trillion).

In 2018, ForexClear is to launch a clearing service for deliverable OTC FX options, in partnership with settlement provider CLS, subject to regulatory approval. In 2018 and beyond, new phases of UMR are expected to lead to increased use of central clearing and other services such as compression services.

**CDSClear**

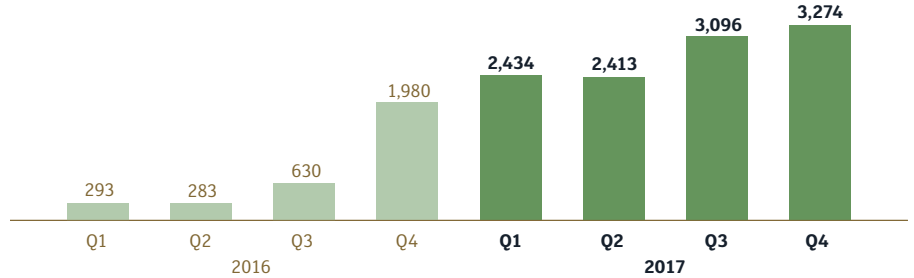
CDSClear clears the broadest range of European and US credit default swaps (CDS) products allowing greater opportunities for capital efficiency through margin offsets. 108 index series and close to 500 single name CDS contracts are eligible for clearing. CDSClear is registered as a CCP in Europe under EMIR, and as a Derivative Clearing Organization (DCO) with the CFTC and a Clearing Agency with the SEC in the US.

Membership has increased in 2017, following the introduction of the new Select Membership tier, bringing the total number of members to 13 (2016: 12). In March 2017, CDSClear onboarded its first buy-side client. CDSClear also extended its platform to include the clearing of credit index options, an industry first. In 2018, additional members are expected to join the service adding liquidity.

Total notional cleared increased to €549.2 billion (2016: €448.7 billion) supported by new rounds of the Uncleared Margin Rules and introduction of the European clearing mandate for index CDS.

**US\$11.2tn**  
Total notional cleared at ForexClear

**ForexClear – notional cleared**  
US\$ bn



**Non-OTC Clearing**  
**RepoClear**

Clearing in repo and cash bond markets increased to €87.5 trillion in 2017 (2016: €70.8 trillion). LCH fixed income service clears across 13 government bond markets including the Group's MTS bond markets and third party venues.

In 2017, RepoClear launched Sponsored Clearing, a service offering buy-side firms direct access to LCH, enabling them to reduce their risk and maximise balance sheet efficiencies. This year, RepoClear has also extended its service in LCH S.A. to offer clearing for cash and repo trades on German Bunds and Belgian Government bonds, allowing members to benefit from settlement netting and risk offsets in Euro-based repos through T2S.

**Listed Derivatives and Cash Equities**

The Listed Derivatives venues cleared by LCH include London Stock Exchange Derivatives Market (LSEDM) and Euronext Derivatives Markets. Contracts cleared in 2017 increased by 11% to 146.9 million (2016: 131.9 million). In 2017, LCH S.A. signed a 10-year long-term agreement with Euronext N.V. for the continued provision of clearing services for listed financial and commodity derivatives.

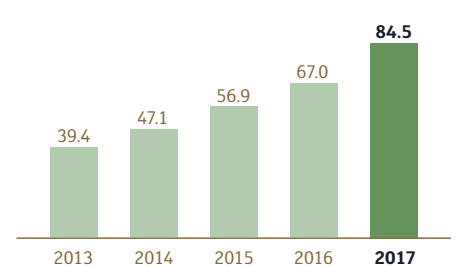
In Equities, LCH, one of Europe's largest equities CCPs by volume cleared, offers the broadest venue coverage of any European equities CCP, clearing for 24 trading venues. The number of trades cleared in 2017 increased by 15% to 805 million (2016: 697 million).

**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 a spread. The level of funds held is primarily driven by market risk under management, volumes cleared and market volatility. Income is also driven by short-term interest rates predominantly in the US Dollar, Euro and UK Sterling money markets. Focus on risk dispersion and efficiency means we have increased the number of counterparties used for investment with more use of central banks and a number of pension funds. The type of investment has also expanded to include floating rate notes and reverse repos.

Average cash collateral held increased 26% to €84.5 billion (2016: €67.0 billion). Total Net Treasury Income for LCH for 2017 increased by 46% to £120 million (2016: £82 million). As collateral collected in both cash and non-cash continues to grow alongside increased usage of LCH's services, this leads to higher levels of Net Treasury Income. LCH may also benefit from changes in interest rates, such as the recent increases made by the US Federal Reserve and the Bank of England, with short-term interest rates, 30 or 60 days, being higher than the overnight rate.

**Cash collateral held – daily average**  
€ bn



**€84.5bn**  
Average daily cash collateral held

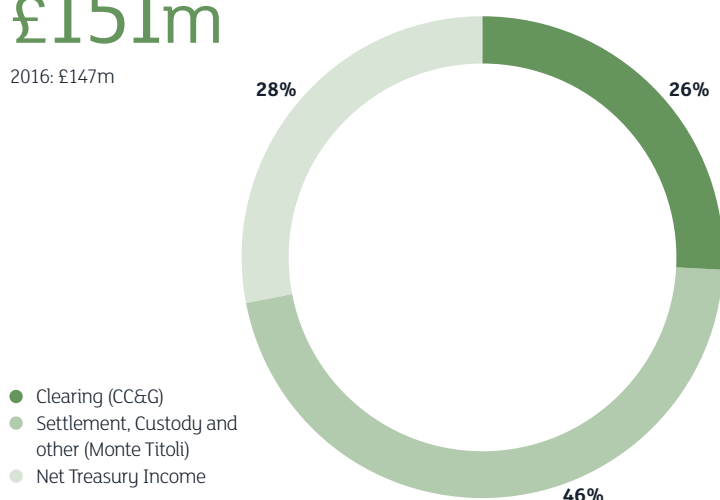
# Post Trade Services

## CC&G and Monte Titoli

### Income

£151m

2016: £147m



- Clearing (CC&G)
- Settlement, Custody and other (Monte Titoli)
- Net Treasury Income

### 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 36–41. An overview of the regulatory landscape can be found on pages 166–167. A glossary of terms can be found on pages 162–165.

### Key Summary

- Income for the year increased by 3% to £151 million in sterling terms but decreased by 4% on a constant currency basis
- Net Treasury Income decreased by 3% to £42 million in sterling terms and by 9% in constant currency terms
- Contracts cleared by CC&G down 16% to 108.3 million
- CC&G signed contracts to provide CCP hosted solutions to CCP.A Austria. Casablanca Stock Exchange has also selected CC&G for a CCP development project in 2018
- Monte Titoli assets held under custody of €3.27 trillion, up 3%
- Monte Titoli applied for a European licence to operate under the CSD Regulation (CSDR), which is expected to be granted in the second half of 2018

### 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 saw the completion of one of the largest infrastructure projects launched by the Eurosystem to date: T2S, a pan-European platform for securities settlement. It removed barriers and eliminated differences between domestic and cross-border settlement.

CC&G clearing earns revenue by charging a fee per trade or derivative contract cleared, and 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 per trade settled and lodged for registration into the buyer's name. Its 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.

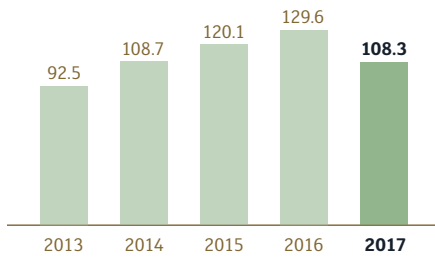
### Clearing (CC&G)

CC&G is the Group's Italian-based provider of risk management, open access clearing and CCP services to 13 markets, including Borsa Italiana's markets, NEX Group's BrokerTec and Hi-MTF. 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. CC&G provides services across a diverse range of asset classes including equities, ETFs, derivatives, close-end funds and fixed income. CC&G has an interoperability agreement with LCH S.A. for European bond and Repo markets.

Clearing revenues on a constant currency basis fell by 14% and in Sterling terms decreased by 8% to £39 million (2016: £43 million) largely due to lower volumes on platforms served by CC&G. Equity and derivatives contract volumes cleared decreased by 16% to 108.3 million (2016: 129.6 million).

**CC&G – Trades and contracts cleared**

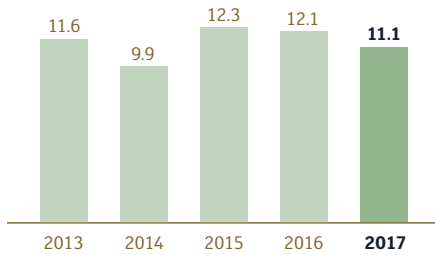
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CC&G has 149 clearing members, of which 50% are international. CC&G has signed contracts to provide CCP hosted solutions to CCP.A Austria. Casablanca Stock Exchange has also selected CC&G for a CCP development project in 2018, demonstrating our international reach.

**CC&G – Initial margin held**

€ bn (average daily)



CC&G generates Net Treasury Income by investing the cash margin it holds. Average daily initial margin declined by 9% to €11.1 billion for the year (2016: €12.1 billion). Net Treasury Income decreased by 3% to €42 million (2016: €43 million), down 9% on a constant currency basis, largely as a result of lower fixed income volumes and lower yields received.

# €11.1bn

Average daily initial margin held

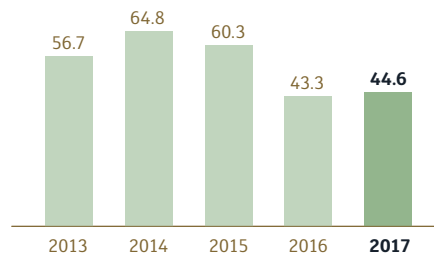
**Settlement, Custody and other (Monte Titoli)**

Monte Titoli, LSEG's Italian-based CSD, is a leading provider of efficient and secure settlement, custody, asset servicing, collateral management and issuer services to a domestic and international client base of 184 users and 2,446 issuers.

Settlement, custody and related revenues increased by 6% on a constant currency basis and, in sterling terms, increased by 14% to £70 million (2016: £61 million).

**Monte Titoli – Settlement instructions**

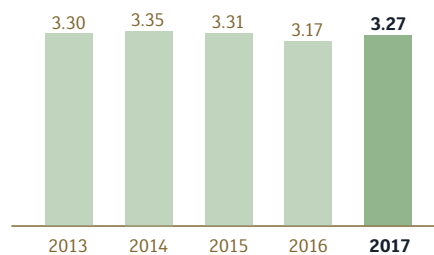
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Monte Titoli manages a wide range of financial instruments, with assets under custody amounting to €3.27 trillion (2016: €3.17 trillion). In 2017, its settlement service processed 44.6 million instructions, up 3% on the previous year (2016: 43.3 million). Monte Titoli continued to provide an efficient settlement system, with a year-end settlement rate of approximately 97% of settled transactions (2016 year end: 97%).

**Monte Titoli – Assets under custody**

€ tn (annual average)



In September 2017, Monte Titoli applied for a European licence to operate under the CSDR, following 2 years of preparation. Granting of the new licence under CSDR is expected in the second half of 2018.

Monte Titoli is increasing its international focus through its T2S Gateway service, to provide customers with settlement, asset servicing and fiscal services. A number of international and domestic clients connected with Monte Titoli in 2017, including Banco Posta and ABN Amro who transferred clients' portfolios to accounts maintained with Monte Titoli.

A new innovative fiscal and issuance service was launched in 2017, which supports Italian issuers placing fixed income securities in the US market (Rule 144A compliance). This played a key role in the success of Unicredit and Wind Tre issuance.

X-COM, Monte Titoli's Triparty Collateral Management service guaranteed by CC&G, saw a strong increase in transacted assets by 191% to €5.7 billion.

# €3.27tn

Monte Titoli assets under custody

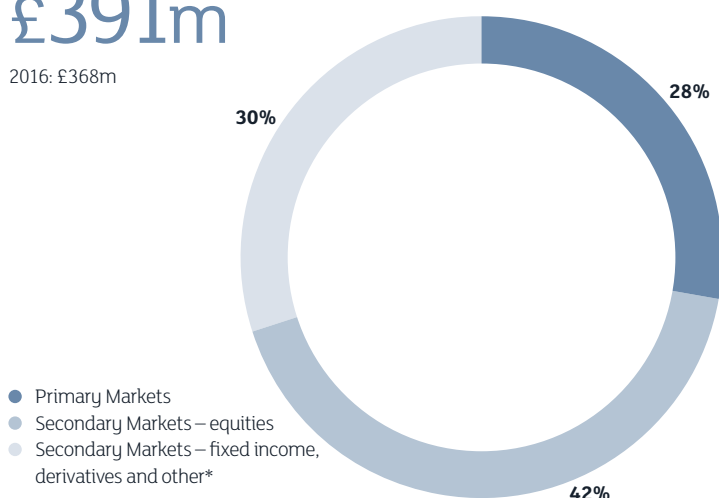


# Capital Markets

## Revenues

£391m

2016: £368m



- Primary Markets
- Secondary Markets – equities
- Secondary Markets – fixed income, derivatives and other\*

\* 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 36–41. An overview of the regulatory landscape can be found on pages 166–167. A glossary of terms can be found on pages 162–165. LSEG is a minority shareholder of CurveGlobal, the results of CurveGlobal are not consolidated by the Group.

## Key Summary

- Revenues increased by 6% to £391 million (2016: £368 million) and by 3% on an organic constant currency basis
- Primary Markets saw 194 new companies admitted to our markets (2016: 134) of which 80 joined AIM (2016: 64); total money raised across our equity markets was up 73% at £44.2 billion
- In Secondary Markets, UK cash equity average daily value traded increased by 4%; average daily number of equity trades in Italy decreased by 6%; and average daily value traded overall on Turquoise decreased 28%. Turquoise Plato dark value traded increased by 15%
- In Fixed Income, MTS Cash and BondVision value traded declined by 6%, while MTS Repo reduced by 8%
- CurveGlobal, a joint venture with leading dealer banks and Cboe, built on its launch in 2016 and has since seen over 2 million contracts traded on its platform

## Introduction

Our position at the heart of the global financial community is one of the reasons why a wide range of domestic and international companies choose to join our markets in London and Milan. Many of the world's leading investment houses and financial institutions are based in London, with professional investors known for their outward-looking approach offering companies from around the world access to a deep and wide pool of long-term investment capital. LSEG offers leading lit and dark trading platforms in well regulated markets.

Our range of primary markets provides choice for issuers and investors, enabling companies to raise capital efficiently and also increase their visibility with a wide group of customers and investors. Our secondary markets create a deep pool of liquidity and allow active and efficient trading of equity and fixed income products through our high-performance trading platforms.

Issuers admitted to our primary markets are charged admission fees and annual fees 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 Summary

In 2017, 194 new companies were admitted to our markets (2016: 134), with the total money raised through new equity at £14.4 billion (2016: £5.9 billion). In London, 83 new companies listed on our Main Market and 80 were admitted to AIM. London saw over 100 new issues across the year, an increase of 54% compared to 2016 and more than anywhere else in Europe. In Italy, 31 companies joined our markets, including 24 admitted to AIM Italia.

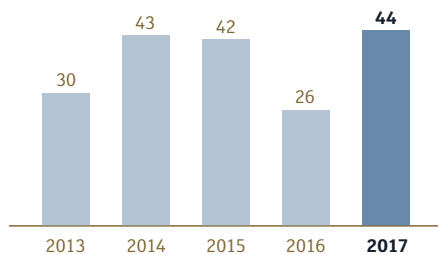
2017 saw a number of international companies list in London, with 9 out of 10 of the top new issues by size coming from outside of the UK, underlining its position as the leading global listing venue for international companies. These included J2 Acquisition, a US investment firm raising £900 million, and TI Fluid Systems, a manufacturer of automotive fluid systems that raised £400 million. Europe's largest IPO in 2017, Allied Irish Bank, chose to dual list in London, raising £3 billion.

LSE attracts a growing number of innovative international fund managers, who have admitted an increasingly diversified range of funds investing in SMEs, real estate, social housing, the private rented sector, student property as well as life science debt securities. These all demonstrate LSE's role in funding all sectors of the economy. New issues in 2017 included Pershing Square Holdings, a close-ended investment company, which successfully listed its £2.9 billion fund, transferring its existing trading line from Amsterdam, BioPharma Credit, a specialist life sciences industry fund, and PRS REIT, the first listed fund to solely focus on Private Rented Sector Properties.

In Italy, Borsa Italiana's MTA main market welcomed the largest continental European IPO in 2017, Pirelli, raising €2.3 billion. In addition, 6 other companies listed on the MTA main market. In 2017 Borsa Italiana established the Italian Listed Brands showcase, promoting many Italian luxury brands which are recognised worldwide. 2017 saw a record number of companies admitted and amount of money raised on AIM Italia since its launch in 2009.

At a Group level, LSEG was placed in the top 3 globally for money raised in IPOs and further offerings. The total capital raised across our equity markets, through new and further issues, increased 73% to £44.2 billion (2016: £25.6 billion). At year end, there were a total of 2,588 companies on our markets (2016: 2,590).

**Equity money raised – Group**  
£ bn

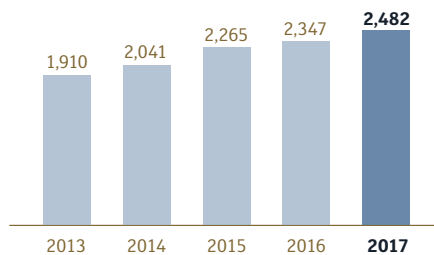


**Exchange Traded Products**

Our Exchange Traded Funds (ETF) and Exchange Traded Products (ETP) markets are leading listing venues with a positive pipeline of issuers and products ahead. 133 new ETFs (2016: 124) and 44 new ETPs (2016: 50) were listed in London in 2017, across a wide range of asset classes including equity, fixed income and commodities across various trading currencies. In Italy, the ETFplus market listed 114 new ETFs and 33 new ETPs (2016: 112 ETFs and 4 ETPs). The total number of ETFs and other ETPs listed on our markets rose to 2,482 (2016: 2,347).

We welcomed 5 new ETP issuers, GF International, Fidelity, Franklin Templeton, JP Morgan and Leverage Shares, to our London market, bringing the total number of issuers to 42 across the Group.

**Exchange Traded Products – Group**  
number listed at year end



**AIM**

AIM is the world's leading international growth market providing small and medium sized businesses with access to a deep pool of capital. Since inception, over 3,700 companies have been admitted and £105 billion raised. On 3 January 2018, both AIM and AIM Italia were recognised as SME Growth Markets following the introduction of the designation in MiFID II.

AIM's success continued in 2017: 80 companies were admitted to AIM raising over £1.5 billion (2016: 64 companies raised £1.1 billion) and £4.8 billion was raised on AIM in follow-on fundraising by existing issuers, up 31% compared to the £3.6 billion raised in 2016. Approximately 60% of all the money ever raised on AIM has been through secondary issues, demonstrating the long-term relationships that exist between companies and investors on AIM.

At year end, the total number of companies on the market was 960 (2016: 982) with a total market value of £106.9 billion (2016: £80.8 billion).

AIM Italia saw 24 new companies join (2016: 13). A total of 95 companies were admitted to the market at year end (2016: 77), with a market value of €5.6 billion, almost double the 2016 year end market value of €2.9 billion.

**ELITE**

ELITE Growth is a programme with a track record of helping SMEs prepare and structure for growth. The ELITE global community has grown to over 700 companies, across 27 countries and 35 sectors (2016: 500 companies across 25 countries). 13 ELITE companies have now joined public markets with 11 Italian ELITE companies progressing to an IPO and 2 UK ELITE companies admitted to AIM. ELITE Growth has also been launched in West Africa, Brazil, China and Saudi Arabia in agreements with local exchanges.

ELITE Club Deal, a private placement platform that streamlines the capital raising process for ELITE companies, has marked its first closed financial transaction with an ELITE Basket Bond. The €122 million 10 year bond is made up of 10 Italian ELITE companies' bonds grouped together as one asset-backed security.

**£44bn**  
Equity money raised on our markets

**194**  
companies were admitted to our markets

# Capital Markets continued

## Fixed Income

LSE cemented its position as a leading global venue for international debt fundraising, with Chinese RMB, Indian Rupee and Indonesian Rupiah bonds raising US\$3.9 billion in 2017. In total, almost 2,000 bonds raised over US\$415 billion, 68% of which was raised by international issuers incorporated outside the UK.

In 2017, LSE launched the International Securities Market (ISM), a new exchange-regulated multilateral trading facility (MTF) for the issuance of primary debt, targeted at institutional and professional investors. Over the year there were 10 issuances onto ISM.

LSE continued to attract green bond issuances, with 28 new green bonds issued during the year. The total number of green bonds now listed on our markets is 65, and these have raised US\$21.2 billion (2016: 40 green bonds raising US\$10.5 billion). From March 2017, Borsa Italiana offered institutional and retail investors the option of identifying a list of instruments on MOT, whose proceeds would go to financing environmental (green bonds) and/or social projects (social bonds).

Our dedicated green bond segments were awarded a Certificate of Recognition at the Climate Bonds Initiative Green Bond Awards in March 2017, for pushing green finance forward and developing the market.

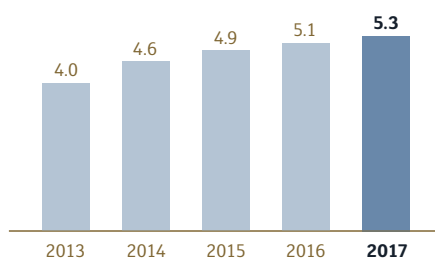
## Secondary Markets

### Equity Trading

In the UK, 2017 saw the highest annual value traded since 2008, with £1.34 trillion traded (2016: £1.28 trillion), while the average daily value traded was up 4% to £5.3 billion (2016: £5.1 billion). In Italy, the average daily number of trades decreased by 6% to 276,000 (2016: 295,000). LSE's share of lit trading increased to 69.7% (2016: 61.3%) in part due to a new sales and marketing programme, which helped to narrow spreads and increase liquidity on exchange. There has also been a move towards closing auctions on incumbent exchanges by passive investors looking to re-weight their portfolios to the end of day prices.

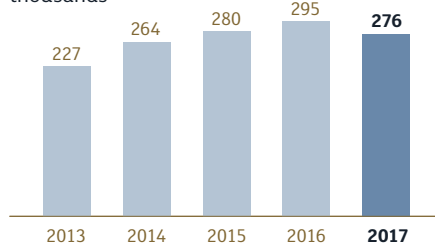
In December 2017, at the 9th UK-China Economic and Financial Dialogue, the UK and Chinese governments agreed to accelerate the final preparations to launch the London-Shanghai Stock Connect. The 2 governments have welcomed the proposals by the Shanghai Stock Exchange and London Stock Exchange to realise the Connect by listing depositary receipts on each other's markets. In 2018, the exchanges, central clearing and depositary institutions, and regulators aim to finalise the rules and required market preparations to enable governments to launch the Connect when conditions permit it.

**LSE – average daily value traded**  
£ bn



TRADEcho, a suite of trade reporting services reaching across all MiFID II asset classes, increased its breadth of clients during 2017 in anticipation of the new MiFID II regulations which began on 3 January 2018. TRADEcho is hosted and operated by London Stock Exchange, in partnership with Simplitium and complemented by the Group's UnaVista transaction reporting service.

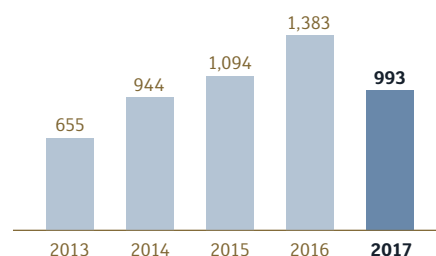
**Borsa Italiana – average daily number of trades**  
thousands



## Turquoise

Turquoise is our majority-owned pan-European MTF in partnership with the user community. With a single connection to LSE, sell-side or buy-side clients can trade European shares including AIM, international depositary receipts, ETFs, and European Rights Issues of 19 European countries, with an open access approach. Users have a choice of 3 clearing options including LCH. Turquoise operates 2 order books, Turquoise Integrated Lit and Turquoise Plato (non-displayed).

**Turquoise – total value traded**  
€ bn



Total value traded for the year on Turquoise was down 28% to €993 billion (2016: €1,383 billion) following a record prior year. Turquoise Plato's dark order book saw value traded increase by 15% to record value traded since the launch of Turquoise, promoting it to the largest dark order book for UK securities by value traded and second largest overall dark order book in Europe in 2017 H2. Turquoise added FTSE AIM 50 to its stock universe, successfully enabling Turquoise Plato midpoint trading and thus offering the same suite of execution channels for FTSE AIM 50 as for FTSE 100 blue chip stocks. Turquoise won The TRADE's Leaders in Trading 2017 Award for Block Trading Venue.

Turquoise Plato Block Discovery, our multi-award-winning and MiFID II compliant mechanism for executing large anonymous block orders, saw strong growth in the year with €54.5 billion value traded, (2016: €7.8 billion). Average trade size was €283,000 compared to more typically around €4,000 in the lit order book.



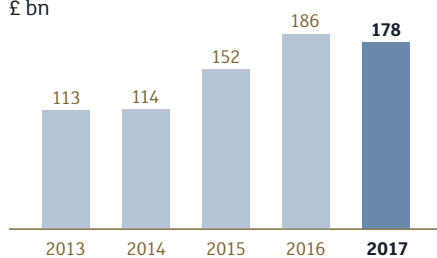
### Exchange Traded Products

The Group has maintained its position in ETF and other ETP trading in Europe by value traded following a record year in 2016. Total ETF value traded across our markets fell by 4% to £178 billion (2016: £186 billion). ETF trading accounts for around 7% of equity trading on LSE and 13% of trading on Borsa Italiana. ETFs trade on our platforms in 4 currencies including Chinese Renminbi.

Pre-MiFID II, it was estimated that approximately 70% of ETF and ETP trading in Europe takes place over the counter (OTC). MiFID II subjected these products to pre and post trade transparency requirements where previously there were none. In 2017, we launched Request for Quote (RFQ) for our London market, following its launch in Italy in 2016. This is a MiFID II compliant facility for the execution of larger trades on-exchange (minimum trade size €1 million under MiFID II), with automated reporting and clearing.

### Exchange Traded Products – total value traded

£ bn



### Derivatives

Derivatives volumes on our markets fell in 2017, with 40.8 million contracts traded (2016: 53.9 million). IDEM, the Group's Italian derivatives market, saw trading volumes fall by 30% to 34.1 million contracts (2016: 49.0 million). London Stock Exchange Derivatives Market (LSEDM) saw increased volumes with 6.6 million (2016: 4.9 million) contracts traded as volumes increased in International Order Book Depository Receipts options and futures.

### CurveGlobal

CurveGlobal, an interest rate derivatives venture between London Stock Exchange Group, Cboe, and a number of leading dealer banks, has seen over 2 million lots trade on the platform and reach a record level of Open Interest, 162,000 contracts in mostly Short-Term Interest Rate futures (STIRs), since launching in September 2016. Clearing is offered by LCH, allowing trading participants access to a single default fund across OTC and listed rates derivatives, and portfolio margin through LCH Spider. In 2018, LCH Spider II will launch Long-Term Interest Rate futures (LTIRs), enabling the offset of LTIRs, STIRs and OTC positions to reduce the risk in participants' portfolios and increase margin efficiency. 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. In 2017, the value traded on MTS Repo, which offers liquidity across all the Eurozone repo markets, fell by 8% to €77.7 trillion (2016: €84.4 trillion). MTS Cash and BondVision's value traded fell by 6% to €3,702 billion (2016: €3,944 billion).

In 2017, MTS launched its new dealer-to-client (D2C) Global Collateral Management (GCM) segment for the repo market on MTS BondVision, with LCH Ltd signing as the first buy-side trading client. GCM introduces new functionality to enable direct electronic D2C trading for bilateral repo contracts and centrally cleared repo contracts via LCH's Sponsored Clearing model for the buy-side.

MTS BondsPro, a web-based, US registered corporate bond trading platform, achieved record buy-side participation in 2017, making up 18% of the total executed on BondsPro (2016: 4%). MTS continued to engage with clients to enhance their trading capabilities by extending availability of the platform beyond US trading hours.

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 5.7 million (2016: 6.1 million) with value traded at €264 billion (2016: €285 billion).

# Technology Services

## Revenue

# £91m

2016: £88m

## 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 36–41. An overview of the regulatory landscape can be found on pages 166–167. A glossary of terms can be found on pages 162–165.

## Key Summary

- Technology revenues increased by 3% to £91 million (2016: £88 million) and were unchanged on an organic constant currency basis
- LSEG Technology was launched; a re-branding and re-engineering of our technology businesses. We introduced a new Leadership Team, created a more nimble and product-driven delivery capability, and improved our collaboration with innovation teams, all with the aim of better serving existing and new customers
- LSEG Business Services Limited, our shared services company, has broadened into services for corporate functions
- Integration underway of Mergent and The Yield Book technologies into the broader Group

## Introduction

Technology Services provides the Group and its 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 surveillance 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 reduced our cost base and increased the opportunities for customers to benefit from enhanced functionality and the further expansion of our co-location services. This has allowed us to meet the needs of our customers quickly and cost effectively.

LSEG completed an extensive programme of change in order to ensure its readiness for the implementation of MiFID II on 3 January 2018. The programme involved a comprehensive assessment across LSEG markets to identify the impact of the new regulation and implement the necessary changes to technology, rules and business processes. All technological upgrades were completed and tested with customers ahead of MiFID II go-live.

Following the completed acquisitions of Mergent and The Yield Book and Citi Fixed Income Indices in 2017, their technologies are being integrated with the Group's to utilise new data and analytic capabilities internally as well as for our customers.

Throughout the year we also completed the migration of the Bolsa Y Mercados Argentinos to the Millennium Exchange platform, and Oslo Børs launched LSE's new Turquoise Lit Auctions functionality on its Millennium Exchange trading system.

The Group continues to assess opportunities that exist in Financial Technology (FinTech) such as distributed ledger / blockchain, machine learning, big data and cloud-computing. LSEG, through Borsa Italiana, announced in July, a collaboration with IBM to develop a blockchain solution to digitise the issuance of securities for unlisted SMEs in Europe. This aims to replace paper trading certificates, commonly issued by private companies, with a more streamlined and transparent process.

LSEG Business Services Limited (BSL), our shared services company, provides a range of resilient and efficient technology services Group-wide, as well as reducing costs by leveraging low cost centres via centralised technology operations and back office. The BSL shared services model is scalable and as such has been extended to corporate functions in 2017.

Through our Millennium Exchange technology, our UK cash equity continues to exhibit excellent technical performance, with the trading systems available for 100% uptime during the year (2016: 100%). The average daily volume of transactions for 2017 was 53 million.

**LSEG Technology**

LSEG Technology is the new name for our technology businesses, which includes MillenniumIT and Gatelab. A new Leadership Team has been introduced, and our development approach is changing to help us further productise the business. Our products will be enhanced to reflect an emphasis on innovation in the areas of emerging technologies such as Artificial Intelligence (AI), large scale data analytics, blockchain and distributed ledger technology.

**MillenniumIT**

MillenniumIT was acquired by the Group in 2009. MillenniumIT provides advanced market leading capital markets software and has implemented solutions for over 40 organisations and exchanges worldwide.

A wide range of software solutions are offered by MillenniumIT; Millennium Exchange, the flagship multi-asset trading platform, through which all of the Group's cash equity and retail bond markets run; Millennium Market Data, the real time data and index calculation platform; Millennium Surveillance, which detects abnormal trading behaviour; and, among others, Millennium PostTrade, which offers real time clearing, settlement, risk management and CSD solutions.

In December 2017, LSEG announced that Lanka Century Investments (LCI) had acquired full ownership of MillenniumIT ESP, a global IT enterprise solutions provider, part of the MillenniumIT business. LSEG retained MillenniumIT Software, the trading technology and software development component of the business.

**Gatelab**

Gatelab, our Italy and UK-based technology company, is a provider of fully MiFID II-compliant trading and post trade solutions to the global financial community. The products and services Gatelab offers to buy-side, sell-side and hedge fund partners include multi-asset cross-market electronic 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.

This year, Gatelab became an approved provider of risk gateway services for third party clients accessing the Bombay Stock Exchange (BSE). This enables users to send orders to the BSE currency derivatives segment provided all pre-trade risk checks are met.

**Exactpro**

In January 2018, Exactpro Systems was divested from LSEG. LSEG will remain a significant customer of Exactpro, which will provide an independent software quality assessment of LSEG's core programs through a multi-year services agreement between the 2 companies.



# 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 Sustainability (CS), including non-financial reporting disclosures, and highlight some of the developments over the past year. We have also produced a separate, detailed 2017 CS report, which can be viewed at [www.lseg.com/about-london-stock-exchange-group/corporate-responsibility](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility).

## Our Approach

Our CS strategy underlies our business strategy, and has 2 core objectives:

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

## CS Impact Framework

### Pillars

Our Markets	Our Services	Our People	Our Communities
Supporting the sustainable growth of companies for long-term economic prosperity	Enabling informed investment decisions and transparent markets operations	Recruiting and developing decisions and transparent markets operations	Empowering people, enriching communities

### Impact Areas

Convene	Grow	Disclose	Transition	Develop	Sustain
We leverage our position at the centre of capital markets to facilitate dialogue and catalyse action towards the development of sustainable finance	We will help small and medium-sized enterprises (SMEs) raise capital and fund investments to create employment worldwide	We will provide investors with information and tools to assess the ESG performance of companies to enable incorporation into engagement and investment	We work with issuers and investors to provide solutions that accelerate and manage the transition to a low carbon and sustainable economy	We will employ and invest in the development of a highly diverse global workforce to deliver on our sustainable vision	We will help the less advantaged in communities worldwide to develop business skills and to support the environment

## Environment

As a Group, we recognise that we must use resources in ways that deliver the long-term sustainability and profitability of the business and have a positive impact on the environment. We are taking such factors into account in developing products and services that support these aims through companies listed on our markets. 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 reporting period, we achieved a 31% reduction in our absolute carbon emissions and a 42% reduction in carbon emissions per Full Time Employee (FTE), accelerating our progress from previous years. This significant reduction is primarily attributed to our move to over 64% of the Group's electricity now being provided by 100% natural renewable energy.

We take an active approach to emissions management, with our global Environmental Management Group measuring GHG impacts across our property portfolio, including managed offices where possible. We report beyond the mandatory guidelines to include Scope 3 emissions. Performance is reported quarterly via our Intranet, and we annually disclose to the CDP, Dow Jones Sustainability Indices (DJSI), FTSE4Good and on our website: [www.lseg.com](http://www.lseg.com).

In June 2017, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) released its reporting recommendations. The Group signed the TCFD statement of support, affirming its commitment to support the recommendations, and sees them as an important step in driving improved global

Our CS strategy is executed through 4 pillars: our markets; our services; our people; and our communities, using 6 impact areas that direct the Group's focus in all CS activities and initiatives. Executive Committee members lead working groups composed of cross-Group colleagues, focused on developing specific targets and action plans in each of the 4 pillars. As part of a materiality assessment, we have applied this framework to direct our CS approach to identify the most relevant and important issues for the Group.

We have seen good progress in our CS performance with our external CS ratings remaining in the top quartile when ranked against peers. As our business expands and diversifies, we continue to review our approach to sustainability. Our objectives for each of our 6 impact areas are set out in the Looking Ahead section of our CS Report.

consistency in voluntary global reporting standards. As the Group, and FTSE Russell in particular, intends to play a critical role in enabling the flow of information envisioned by the TCFD, the recommendations were incorporated into FTSE Russell's climate-related indicators and in the Group ESG Reporting Guidance. Going forward, the Group will continue to review the recommendations.

## Global 2017 GHG Emissions

tCO <sub>2</sub> e – Tonnes of carbon dioxide equivalent	2017	2016 <sup>1</sup>	% Change
Total Group Carbon Footprint <sup>2</sup>	21,902	31,688	(30.9)
– per m <sup>2</sup>	0.236	0.351	(32.8)
– per FTE	3.99	6.91	(42.3)
– per £m Revenue	11.21	19.1	(41.3)
Scope 1 <sup>3</sup>	1,918	1,583	21.2
Scope 2 <sup>4</sup>	11,749	21,738	(46.0)
Scope 3	7,320	6,572	11.4
Scope 3 (Electricity Transmission and Distribution)	915	1,795	(49.0)

- 2016 figures have been updated on receipt of annual emissions factor guidance and actual figures from suppliers
- All Group totals and electricity breakdowns use market-based Scope 2 emissions factors
- Combustion of fuel and operation of facilities – includes Natural Gas, Diesel, LPG, Fugitive Emissions and Fleet Vehicles
- 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 including energy, water, waste and travel, as well as long-term science-based targets out to 2030. More information on these as well as full details of emissions and reporting methodology can be found in our CS report.

## Social People

Attracting, developing and retaining the skills we need to deliver on our strategy is vital for the Group. We are unifying our growing company through a number of processes and we are dedicated to supporting our employees' development in an environment built on core values of partnership, integrity, innovation and excellence.

Employee engagement is of high importance to the continued growth of the Group, and in 2017 this was reflected in our response to the findings of the prior year's colleague engagement survey. 3 key areas on which our employees felt we could improve were communication around change, career satisfaction and cross-Group collaboration. To address these, we invested in a Group Change Framework, designed to help us drive greater consistency and transparency in how we manage change. In addition, we developed the Group Career Framework for launch in 2018, enabling colleagues to explore opportunities. In 2017, we launched a focus on wellbeing in the UK, covering 5 areas: physical, mental, social purpose, financial and work-life balance. The Mentor Exchange is also fostering collaboration and career development by uniting mentors and mentees from across the Group. We plan to host our next Group-wide employee engagement survey in 2018.

## 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, Malaysia, Mexico, Taiwan, China, Sri Lanka, UAE, the UK and the US. We have employees of 72 different nationalities, reflecting both the international scale of our business and the diversity of our customer base. In 2017, we provided unconscious bias training to all colleagues and diversity awareness workshops to line managers. We are working to increase diversity and inclusion such as flexible working and the disability confident employer scheme. 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	2	9
LSEG Subsidiary Boards <sup>1,3</sup>	23	142
Executive Committee and Leadership Teams <sup>2,3</sup>	146	303
All other staff	1,458	3,001
Total	1,604	3,304

1. Mix of employees and Non-Executive Directors

2. Executive Committee and Leadership Teams in LSEG

3. The LSEG Subsidiary Board members and the members of the Executive Committee and Leadership Teams together comprise the 'Senior Managers' for the purposes of section 414C(18) (c)(11) of the Companies Act 2006

**Note:** Figures as of year ended 31 December 2017.

A report on gender pay gap was published in March 2018. The report can be found here: [www.lseg.com/about-london-stock-exchange-group/corporate-responsibility](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility)

## Human Rights

As part of our approach to social responsibility, we 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 promote freedom of association and equality,

and abolish forced labour and child labour. Human rights considerations are also included in our Supplier Code of Conduct and Group Corporate Responsibility Policy.

The Group has a zero-tolerance approach to modern slavery. Our 'Slavery and Human trafficking statement' (published on our website) describes the steps taken during 2017 to improve our supply chain management and procurement processes and procedures. Suppliers that make up the top 75% of spend have been reviewed for modern slavery risks.

## Community

We work to ensure that our activities benefit the communities where we are present. We have an active engagement programme 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.

London Stock Exchange Group Foundation, set up in 2010, provides a primary channel for the Group's charitable giving and a focal point for staff engagement with local charities. In 2017, the Group donated £1,122,000 to the Foundation, and £107,000 directly to a number of charities. The Foundation's approach and positioning is aligned with the overall Group CS strategy, while recognising the global reach of LSEG's business model. UNICEF remains a global charity partner, and we continue to support the community investment programme. A new UK charity partner, School Home Support, was chosen in 2017. The charity provides access to education and life skills for young people with the aim of enabling them to live secure adult lives.

## Governance

The Group is committed to the highest standards of corporate governance and business integrity, and in the past year we have again complied with all of the UK Corporate Governance Code's provisions. The Board will continue to ensure that it provides effective leadership and promotes uncompromising standards. For further information on governance see pages 62–63.

We face a wide and evolving universe of risks. Our presence in post trade services provides exposure to financial market volatility. In addition, we 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. Achieving on our growth strategy in this dynamic environment requires strong risk management. Our governance and risk management structures continue to develop to meet this need (see pages 42 and 56 for further details).

## Anti-bribery and corruption

We have assessed the various risks that the Group faces with regards to employee conduct and behaviour. A range of policies are in place, tailored to the needs of the Group and regularly reviewed and approved by the Board, including anti-bribery and corruption and conflict of interest policies, as part of our wider conduct initiatives. New joiners along with existing staff have, throughout the course of 2017, undertaken mandatory compliance testing on these subjects, with 100% successful completion across the Group's operations. The relevance and spirit of these policies, along with their communication to staff, is regularly reviewed to ensure confidence in meeting expectations and ensuring understanding.

## Capital Market Days

We are supporting the implementation of our ESG reporting guidance through ESG-focused Capital Market Days. The guidance was published in February 2017 and sets out recommendations for ESG reporting. The first Sustainability Day, organised by Borsa Italiana, was held in Italy and welcomed over 250 attendees and 30 ESG investors. UK Sustainability Day, hosted by LSE, is expected to take place in 2018.

# Financial review

## The financial review covers the financial year ended 31 December 2017.

Commentary on performance uses variances on a continuing organic and constant currency basis, unless otherwise stated. Constant currency is calculated by rebasing 2016 at 2017 foreign exchange rates. Sub-segmentation of revenues are unaudited and are shown to assist the understanding of performance.

Cost of sales mainly comprise data and licence fees, data feed costs, expenses incurred in respect of share of surplus 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

### Highlights

- Total income of £1,955 million (2016: £1,657 million) increased by 18% and total revenue of £1,768 million (2016: £1,515 million) increased by 17%
- Adjusted EBITDA<sup>1</sup> of £915 million (2016: £771 million) increased by 19%
- Adjusted operating profit<sup>1</sup> of £812 million (2016: £686 million) increased by 18%
- Operating profit of £626 million (2016: £427 million) increased by 47%
- Adjusted basic earnings per share<sup>1</sup> of 148.7 pence (2016: 124.7 pence) increased by 19%
- Basic earnings per share of 153.6 pence (2016: 63.8 pence) increased by 141%

### Including discontinued operations:

- Total income of £1,955 million (2016: £2,048 million) decreased by 5%, and total revenue of £1,768 million (2016: £1,905 million) decreased by 7%. Adjusted operating expenses<sup>1</sup> of £919 million (2016: £955 million) decreased by 4%
- Adjusted EBITDA<sup>1</sup> of £915 million (2016: £798 million) increased by 15%
- Adjusted operating profit<sup>1</sup> of £812 million (2016: £713 million) increased by 14%
- Operating profit of £603 million (2016: £530 million) increased by 14%
- Adjusted basic earnings per share<sup>1</sup> of 148.7 pence (2016: 129.7 pence) increased by 15%
- Cash generated from operations of £852 million (2016: £618 million) increased 38%
- Year end operating net debt to pro-forma adjusted EBITDA at 1.7 times (2016: 1.1 times), within the Group's normal target range of 1–2 times

1. 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 expenses, adjusted operating profit, adjusted profit before tax and adjusted earnings per share all exclude amortisation and impairment of purchased intangible assets and goodwill and non-underlying items



	12 months ended Dec 2017			12 months ended Dec 2016			Variance (Continuing) %	Variance at organic and constant currency <sup>2</sup> %
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m		
<b>Revenue</b>								
Information Services	736	–	736	595	–	595	24	13
Post Trade Services – LCH	432	–	432	356	–	356	21	17
Post Trade Services – CC&G and Monte Titoli	109	–	109	104	–	104	5	(2)
Capital Markets	391	–	391	368	–	368	6	3
Technology Services	91	–	91	88	–	88	3	–
Russell Investment Management	–	–	–	–	390	390	–	–
Other	9	–	9	4	–	4	–	–
<b>Total revenue</b>	<b>1,768</b>	<b>–</b>	<b>1,768</b>	<b>1,515</b>	<b>390</b>	<b>1,905</b>	<b>17</b>	<b>10</b>
Net Treasury Income through CCP businesses	162	–	162	125	–	125	30	22
Other income	25	–	25	17	1	18	49	44
<b>Total income</b>	<b>1,955</b>	<b>–</b>	<b>1,955</b>	<b>1,657</b>	<b>391</b>	<b>2,048</b>	<b>18</b>	<b>11</b>
Cost of sales	(215)	–	(215)	(175)	(200)	(375)	23	16
<b>Gross profit</b>	<b>1,740</b>	<b>–</b>	<b>1,740</b>	<b>1,482</b>	<b>191</b>	<b>1,673</b>	<b>17</b>	<b>10</b>
Operating expenses before depreciation, amortisation and impairment <sup>1</sup>	(816)	–	(816)	(706)	(164)	(870)	15	6
Share of loss after tax of associates	(9)	–	(9)	(5)	–	(5)	80	86
<b>Adjusted earnings before interest, tax, depreciation, amortisation and impairment<sup>1</sup></b>	<b>915</b>	<b>–</b>	<b>915</b>	<b>771</b>	<b>27</b>	<b>798</b>	<b>19</b>	<b>14</b>
Depreciation, amortisation and impairment	(103)	–	(103)	(85)	–	(85)	22	7
<b>Adjusted operating profit<sup>1</sup></b>	<b>812</b>	<b>–</b>	<b>812</b>	<b>686</b>	<b>27</b>	<b>713</b>	<b>18</b>	<b>15</b>
Operating profit/(loss)	626	(23)	603	427	103	530	47	44
<b>Adjusted basic earnings per share<sup>1</sup></b>	<b>148.7p</b>	<b>–</b>	<b>148.7p</b>	<b>124.7p</b>	<b>5.0p</b>	<b>129.7p</b>	<b>19</b>	<b>–</b>
<b>Basic earnings per share</b>	<b>153.6p</b>	<b>(7.2p)</b>	<b>146.4p</b>	<b>63.8p</b>	<b>(20.3p)</b>	<b>43.5p</b>	<b>141</b>	<b>–</b>

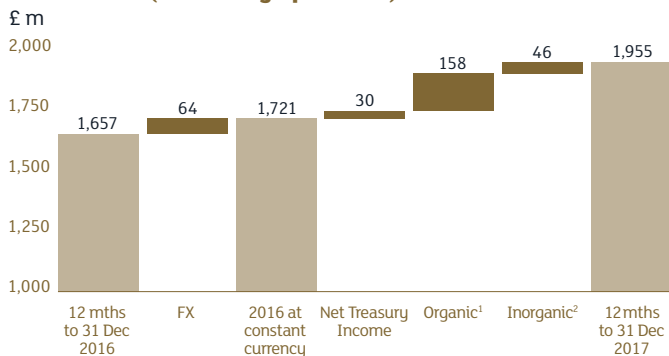
1. Before amortisation of purchased intangible assets and non-underlying items

2. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes ISPS, Mergent, SwapMatch and The Yield Book

**Note:** Variances in all tables are calculated from unrounded numbers.

Commentary on the segments is done on a continuing basis unless stated otherwise.

### Total Income (Continuing Operations)



1. Organic includes £9m of non-core income in 2017

2. Inorganic includes income for businesses held for less than 12 months in either period: ISPS, Mergent, SwapMatch and The Yield Book

### Information Services

	12 months ended Dec 2017 £m	12 months ended Dec 2016 £m	Variance %	Variance at organic and constant currency <sup>1</sup> %
<b>Revenue</b>				
FTSE Russell Indexes	546	409	33	15
Real Time Data	94	91	3	1
Other Information Services	96	95	1	15
<b>Total revenue</b>	<b>736</b>	<b>595</b>	<b>24</b>	<b>13</b>
Cost of sales	(62)	(54)	14	4
<b>Gross profit</b>	<b>674</b>	<b>541</b>	<b>25</b>	<b>13</b>
Operating expenses <sup>2</sup>	(291)	(204)	43	–
<b>Operating profit<sup>2</sup></b>	<b>383</b>	<b>337</b>	<b>14</b>	<b>–</b>

1. Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes ISPS, Mergent and The Yield Book

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 indexes products, real time pricing data, product identification, reporting and reconciliation services. Revenue was £736 million (2016: £595 million).

# Financial review continued

FTSE Russell's revenue was £546 million (2016: £409 million), including first time contributions from Mergent and The Yield Book. FTSE Russell revenue increased by 15%, with performance in line with the Group's announced double-digit growth target for FTSE Russell revenue. This performance was driven by increases in AUM levels in benchmarked ETFs and other investable products, as well as strong subscription renewal rates and data sales. Following the 2014 acquisition of Frank Russell Company, targets were set for both cost and revenue synergies, and in 2017 we achieved the 3 year target of US\$78 million for cost synergies on time and met the 5 year target for revenue synergies of US\$48 million, more than 2 years early.

Real Time Data revenue increased by 1% year on year due to a focus on enterprise licensing, while the number of terminals decreased by 10% to 180,000 (2016: 200,000) with the reduction largely in lower yield terminals.

Other Information Services revenues increased by 15%, mainly as a result of growth in both UnaVista, driven by continued user base expansion for regulatory reporting, trade confirmations and reconciliations especially in anticipation of MiFID II implementation in 2018, and SEDOL from continued licence growth.

Cost of sales rose by 4% mainly as a result of increased data charges and partnership costs, both related to growth in FTSE Russell revenues. Gross profit margin expanded as a result of revenue growth across the division.

Operating expenses of £291 million (2016: £204 million) increased by 43%, driven by the £32 million net impact of Mergent and The Yield Book acquisitions and ISPS disposal, and foreign exchange movements due to the weakening of Sterling relative to the US Dollar. Cost increases were partially offset by the synergy achievement from the Russell Index acquisition.

Operating profit rose by 14% to £383 million (2016: £337 million), driven largely by FTSE Russell revenue growth and contribution from the acquisitions of Mergent and The Yield Book.

## Post Trade Services – LCH

	12 months ended Dec 2017 £m	12 months ended Dec 2016 £m	Variance %	Variance at constant currency %
<b>Revenue</b>				
OTC	231	191	21	17
Non-OTC	133	116	14	7
Other	68	49	37	38
<b>Total revenue</b>	<b>432</b>	356	21	17
Net Treasury Income	120	82	46	39
Other income	10	9	14	9
<b>Total income</b>	<b>562</b>	447	26	21
Cost of sales	(88)	(56)	58	47
<b>Gross profit</b>	<b>474</b>	391	21	17
Operating expenses <sup>1</sup>	(280)	(268)	4	–
<b>Operating profit<sup>1</sup></b>	<b>194</b>	123	58	–

1. 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 £562 million (2016: £447 million).

OTC clearing revenue increased by 17%, driven by SwapClear, predominantly in client clearing with trade volume increasing by 29% to 1,227,000 (2016: 952,000). LCH SwapAgent executed its first trades in 2017, having launched in 2016, to simplify the processing, margining and settlement of non-cleared derivatives. 2017 performance is in line with the Group's announced double-digit growth target for OTC clearing.

Non-OTC clearing revenue increased by 7%, reflecting strong growth in Fixed Income volumes cleared. Clearing in repo and cash bond markets increased to €87.5 trillion (2016: €70.8 trillion). In 2017, RepoClear launched Sponsored Clearing, a service offering buy-side firms direct access to LCH, enabling firms to reduce their risk and maximise balance sheet efficiencies.

Other revenue, which includes non-cash collateral management fees and compression services grew by 38%.

Net Treasury Income increased by 39% to £120 million with a 26% increase in average cash collateral held to €84.5 billion, due to increase in OTC and RepoClear volumes (2016: €67.0 billion).

Cost of sales increased 47%, mainly due to growth in SwapClear and the associated increase in share of surplus. Gross profit increased by 17% to £474 million.

Operating expenses increased by 4% with foreign exchange movements due to the weakening in Sterling relative to the Euro and higher depreciation from investment to support growth, partially offset by the impact of cost saving initiatives.

LCH EBITDA margin increased by 8pp to 44% (2016: 36%), moving towards the announced target of c.50% by 2019.

Operating profit increased by 58% to £194 million (2016: £123 million).

## Post Trade Services – CC&G and Monte Titoli

	12 months ended Dec 2017 £m	12 months ended Dec 2016 £m	Variance %	Variance at constant currency %
<b>Revenue</b>				
Clearing (CC&G)	39	43	(8)	(14)
Settlement, Custody and Other (MT)	70	61	14	6
Inter-segmental revenue	1	–	–	–
<b>Total revenue</b>	<b>110</b>	104	6	(2)
Net Treasury Income (CC&G)	42	43	(3)	(9)
<b>Total income</b>	<b>152</b>	147	3	(4)
Cost of sales	(17)	(13)	36	28
<b>Gross profit</b>	<b>135</b>	134	1	(7)
Operating expenses <sup>1</sup>	(64)	(81)	(21)	–
<b>Operating profit<sup>1</sup></b>	<b>71</b>	53	34	–

1. 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 provides clearing (CC&G), settlement and custody activities (both Monte Titoli). Total income (excluding inter-segmental income) was £151 million (2016: £147 million).

CC&G clearing revenues decreased by 14% influenced by a fall in derivatives clearing volumes mirroring trading performance on the Italian IDEM market. Monte Titoli revenues increased by 6%, due to growth of custody revenues from domestic and international clients who transferred their portfolios to Monte Titoli accounts, and the benefit of a full year of a new domestic pricing structure introduced from May 2016.

CC&G generates Net Treasury Income by investing the cash margin held, retaining any surplus after members are paid a return on their cash collateral contributions. Net Treasury Income decreased by 9% mainly due to unfavourable spreads and lower cash held in 2017. The average daily initial margin at €11.1 billion is down 9% (2016: €12.1 billion) due to lower volatility and volumes from Italian fixed income markets.

Cost of sales rose by 28% largely as a result of the discount phase-out of the settlement acquisition cost from T2S in November 2016.

Operating expenses decreased by 21%, driven by the absence of 2016 globeSettle impairment costs of £8 million.

Operating profit increased by 34% to £71 million (2016: £53 million).

### Capital Markets

	12 months ended Dec 2017 £m	12 months ended Dec 2016 £m	Variance %	Variance at organic and constant currency <sup>1</sup> %
<b>Revenue</b>				
Primary Markets	110	91	21	19
Secondary Markets Equities	163	165	(1)	(3)
Secondary Markets – Fixed Income, Derivatives and Other	118	112	5	(2)
<b>Total revenue</b>	<b>391</b>	<b>368</b>	<b>6</b>	<b>3</b>
Cost of sales	(16)	(22)	(28)	(30)
<b>Gross profit</b>	<b>375</b>	<b>346</b>	<b>8</b>	<b>5</b>
Operating expenses <sup>2</sup>	(195)	(169)	15	–
<b>Operating profit<sup>2</sup></b>	<b>180</b>	<b>177</b>	<b>2</b>	<b>–</b>

- Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes SwapMatch
- 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 comprises Primary and Secondary Market activities. Revenue was £391 million (2016: £368 million).

Revenue increased by 3%, largely driven by Primary Markets performance, with revenue increasing by 19% as UK equity issuance rebounded strongly in the Main Market after prior year uncertainty following the UK referendum to leave the European Union.

The total amount of capital raised across our markets, both through new and further issues, increased by 73% to £44.2 billion (2016: £25.6 billion). There was a 45% increase with 194 new issues across our markets (2016: 134). The pipeline of companies looking to join our markets continues to look promising.

In Secondary Markets, in the UK average order book daily value traded rose by 4% at £5.3 billion (2016: £5.1 billion). Italian equity trading volumes decreased by 6% due to lower market volatility at 276,000 trades per day (2016: 295,000). Trading on Turquoise, our pan-European equities platform, decreased by 28% in average daily equity value traded, against a strong 2016 performance to €3.9 billion (2016: €5.4 billion), with some offset from growth in the higher margin Block Discovery trading.

Fixed Income, Derivatives and Other revenue decreased by 2%. The result reflects a 30% decrease in volumes on the Italian IDEM market, Fixed Income decreased with a decline of 6% in MTS Cash and BondVision notional value, and an 8% decline in MTS Repo.

Cost of sales decreased by 30% reflecting lower Turquoise lit book revenues with gross profit up by 5%.

Operating expenses increased by 15% to £195 million (2016: £169 million) with the main driver being foreign exchange movements due to the weakening in Sterling relative to the Euro.

Operating profit increased by 2% to £180 million (2016: £177 million).

### Technology Services

	12 months ended Dec 2017 £m	12 months ended Dec 2016 £m	Variance %	Variance at constant currency %
Revenue	91	88	3	–
Inter-segmental revenue	20	16	25	–
<b>Total revenue</b>	<b>111</b>	<b>104</b>	<b>7</b>	<b>3</b>
Cost of sales	(29)	(28)	6	4
<b>Gross profit</b>	<b>82</b>	<b>76</b>	<b>8</b>	<b>3</b>
Operating expenses <sup>1</sup>	(84)	(64)	31	–
<b>Operating (loss)/profit<sup>1</sup></b>	<b>(2)</b>	<b>12</b>	<b>(117)</b>	<b>–</b>

- 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 was £91 million (2016: £88 million).

Operating expenses increased by 31% to £84 million (2016: £64 million), driven by continued Group technology investment, centralisation of costs and foreign exchange movements due to the weakening in Sterling relative to the Euro and US Dollar.

The Technology segment made a loss of £2 million (2016: £12 million profit).

The Group disposed of 2 Technology businesses: MillenniumIT ESP was sold on 28 December 2017 and Exactpro was sold on 17 January 2018 post year end. These businesses generated a total of £30 million revenue, £22 million of cost of sales and £8 million operating cost in 2017.

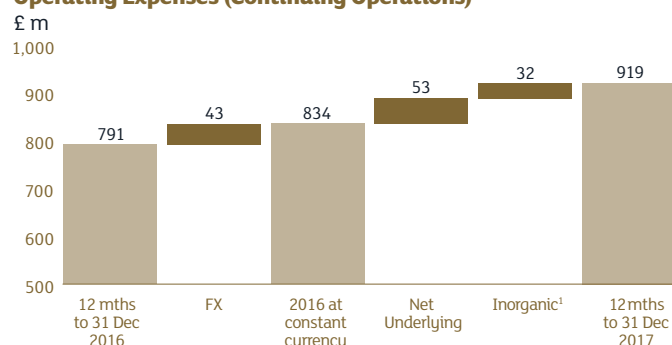


# Financial review continued

## Operating Expenses (Continuing Operations)

On a continuing basis, Group operating expenses before amortisation of purchased intangible assets and non-underlying items were £919 million (2016: £791 million).

### Operating Expenses (Continuing Operations)



1. Inorganic includes costs for businesses held for less than 12 months in either period: ISPS, Mergent, SwapMatch and The Yield Book

Operating expenses increased by 6%. The Group cost base was adversely affected by £43 million of foreign exchange movements arising as a result of translating and revaluing its foreign currency costs, assets and liabilities into LSEG's reporting currency of Sterling. The main drivers of the constant currency cost base increase were variable staff costs and depreciation. Depreciation, amortisation and impairment increased by 34% to £103 million (2016: £77 million excluding £8 million globeSettle impairment) during the year. A similar increase is expected in 2018, as the Group continues to invest in core technology, react to regulatory change and deliver new products. In 2017, the Group achieved the previously announced run rate synergy targets for Frank Russell Company and LCH-related cost savings. Offsetting this was a £32 million net impact of inorganic items, being businesses owned for less than 12 months in either period, principally ISPS, Mergent and The Yield Book. The Group continues to exercise strong cost control and invest in new products to support growth. 2018 will see the effect of a full year of The Yield Book costs and recent Technology disposals.

## Share of Loss after Tax of Associates

The £9 million loss reflects an increase in the Group's share of the operating loss of CurveGlobal to 43.38% (2016: 26%) following further investment, and a £4 million recognition of historic losses due to increased ownership share. Despite client focus on MiFID II implementation during 2017, CurveGlobal volumes continued to grow and open interest at the end of 2017 was 162,000 contracts (2016: 39,000 contracts).

## Non-Underlying Items and Purchased Intangible Assets

Amortisation of purchased intangible assets decreased by £4 million to £153 million (2016: £157 million). Additional charges included £25 million of transaction-related costs, £7 million of restructuring costs and £8 million of integration costs. These were partially offset by a profit after tax of £7 million relating to the disposal of ISPS and MillenniumIT ESP businesses.

## Finance Income and Expense and Taxation

Net finance costs were £62 million, down £1 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 22.4% (2016: 22.5%). 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. The underlying ETR for 2017 excluding one-off items was 23.4%, and is expected to be similar in 2018.

The contribution of continued underlying operations in the US towards the ETR was stable in the period. US tax reform was signed into law in December 2017 with effect from 2018. However, we do not expect the lower Federal tax rate to have a material impact on the Group's combined underlying effective tax rate. In part this is due to the manner in which the US acquisitions have been financed and the introduction of a new base erosion anti-abuse tax (the BEAT), which will apply to intercompany transactions with the wider Group.

## Cash Flow and Balance Sheet

The Group's business continued to be strongly cash generative during the year, with cash generated from continuing activities of £852 million (2016: £618 million).

At 31 December 2017, the Group had net assets of £3,752 million (2016: £3,614 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

Year ended 31 December	2017 £m	2016 £m
Gross borrowings	1,953	1,166
Cash and cash equivalents	(1,381)	(1,151)
Net derivative financial liabilities	25	19
Net debt	597	34
Regulatory and operational cash	1,042	848
<b>Operating net debt</b>	<b>1,639</b>	<b>882</b>

At 31 December 2017, the Group had operating net debt of £1,639 million after setting aside £1,042 million of cash and cash equivalents held to support regulatory and operational requirements, including regulated cash and cash equivalents at LCH Group, and amounts covering requirements at other LSEG companies. Regulatory and operational cash increased by £194 million during the period to 31 December 2017 as a result of over £100 million surplus cash held in LCH, due to be distributed to LSEG in H1 2018, with the balance comprising cash retained at Monte Titoli (to support its CSDR obligations) and other regulatory and operational requirements.

The Group's gross borrowings increased by £787 million during the period to 31 December 2017, primarily due to the acquisitions of The Yield Book and Mergent as well as the completion of a £200 million share buy back programme.

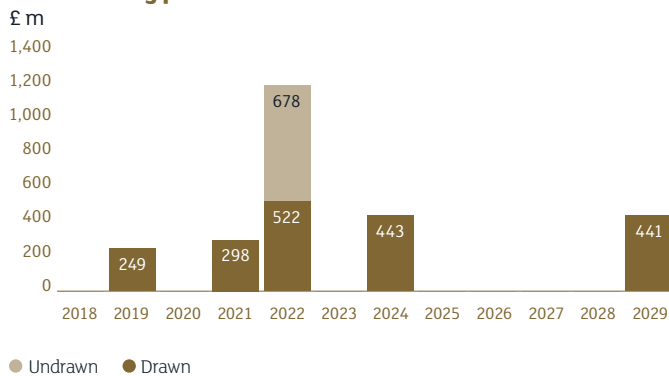
The Group retained total committed bank facilities of £1,200 million during the financial year. A new facility of £600 million was arranged on improved terms whilst an existing facility, also of £600 million, was extended for a further year to November 2022. The new facility is a 5 year commitment with 2 one-year extension options available to the Group, subject to lender approval.

In September 2017, the Group took advantage of favourable debt capital market conditions and extended its debt maturity profile by issuing £1 billion of bonds in 2 €500 million tranches under its updated £2 billion euro medium term notes programme. The bonds are unsecured and the tranches are due for repayment in September 2024 and September 2029. The coupons are fixed at 0.875% per annum

and 1.75% per annum respectively. However, €700 million of the proceeds of the bonds have been swapped into USD as part of the Group's objective to match earnings in currency and protect key ratios, resulting in an effective blended rate of interest of 2.8% per annum overall. The Group redeemed in full LCH Group's €200 million Preferred Securities at the first Issuer Call date in May 2017; it also put in place a £1 billion euro commercial paper programme later in 2017 which, at the end of the year, remained unutilised.

With over £650 million of undrawn, committed bank lines available, together with strong cash generation, the Group continues to be well positioned to fund future growth, with scope for further refinancing in 2018/19 to underpin its longer term debt capital positioning.

### Debt maturity profile



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-underlying items), increased to 15.5 times (2016: 13.0 times) in the 12 months to 31 December 2017. This was driven primarily by earnings growth with interest costs remaining in line with 2016. The Group's organic cash generation remained strong but significant inorganic expansion increased leverage (operating net debt to EBITDA updated to account for the EBITDA of acquisitions or disposals undertaken in the period) to 1.7 times at 31 December 2017 (31 December 2016: 1.1 times). Leverage remains well within the targeted range of 1–2 times.

The Group's long-term credit ratings were raised on the back of strong growth and prudent leverage management. Moody's and S&P increased their ratings of LSEG to A3 and A- respectively and changed their outlooks to stable. LCH Group withdrew its rating upon redemption of its Preferred Securities but initiated new long term ratings with S&P at LCH Ltd and LCH S.A. to support business lines, with both ratings set at A+ with a stable outlook.

### Foreign exchange

	2017	2016
Spot £/€ rate at 31 December	1.12	1.17
Spot £/US\$ rate at 31 December	1.35	1.23
Average £/€ rate for the year	1.14	1.22
Average £/US\$ rate for the year	1.29	1.36

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 2017, for continuing operations, the main exposures for the Group were its European-based Euro reporting businesses and its US based operations, principally FTSE Russell, Mergent and The Yield Book. A 10 Euro cent movement in the average £/€ rate for the year and a 10 cent movement in the average £/US\$ rate for the year would have changed the Group's continuing operating profit for the year before amortisation of purchased intangible assets and non-underlying items by approximately £23 million and £24 million, respectively.

The Group continues to manage its translation risk exposure by matching the currency of its debt 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-underlying items, of 148.7 pence (2016: 129.7 pence). Basic earnings per share were 146.4 pence (2016: 43.5 pence).

### Dividend

The Board is proposing a final dividend of 37.2 pence per share, which together with the interim dividend of 14.4 pence per share paid to shareholders in September 2017, results in a 19% increase in the total dividend to 51.6 pence per share. The final dividend will be paid on 30 May 2018 to shareholders on the register as at 4 May 2018.

### Financial Targets

At the 12 June Investor Update event in 2017, the Group set out financial targets as below and continues to progress against the targets, as referenced earlier in the text.

#### Financial Targets to 2019

<b>FTSE Russell</b>	<b>Double-digit growth to continue</b> Sustainable and attractive margins over the same period
<b>LCH</b>	<b>Double-digit OTC revenue growth to continue</b> <b>Accelerating EBITDA margin growth</b> – approaching 50% by 2019
<b>LSEG</b>	<b>Operating expenses held at c.4% p.a.</b> increase while the Group continues to deliver revenue growth and improved margins <b>Next phase cost saves</b> £50m p.a. by exit 2019 <b>EBITDA margin of c.55%</b>

# 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 2017 the Group has successfully adapted its systems, processes and controls to meet several significant changes in the regulatory environment including MiFID II and the introduction of the EU Benchmark Regulations. Our approach to both regulatory and other changes has allowed the Group to continue to support and service its key markets and clients and maintain the Group's standards for delivering stable and resilient services that meet our clients' needs.**

## **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 stakeholder confidence: the Group's stakeholders have confidence in its ability to deliver its strategic objectives with robust and effective governance and operational controls
- 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
- Monitoring and managing credit risk exposure in conjunction with prevailing macroeconomic and geopolitical factors to ensure Group Thresholds limits are always adhered to
- Ensuring prudent levels of margin, default funds and liquidity arrangements in the Group's CCPs
- Maintaining operational stability by facilitating orderly market operations: the Group's operations are delivered in a secure and efficient manner without disruption
- Achieving operational excellence consistent with the Group's aspiration to be operationally "best in class"
- Maintaining physical and IT security to protect the Group's assets, our people, infrastructure, data and other assets
- Adhering to regulatory requirements: the Group conducts activities at all times in full compliance with its regulatory obligations

**Current Risk Focus**

Current risks on which we continue to focus relate to:

- Geopolitical Uncertainty: Whilst more information with regard to the timing, progress and outcome of the negotiation process of the UK’s future relationship with the EU is starting to emerge uncertainty is expected to continue in 2018 as the UK government moves into the second phase of negotiations
- Regulatory Change: Regulatory change affects the operations of the Group as well as those of our users and customers and increases regulatory risk through increased regulatory compliance risk. Following the requirements of MiFID II and MIFIR coming into effect on 3 January 2018, further changes will continue in 2018
- Transformation: Recent acquisitions increase the transformation risk, whilst delivering opportunities to compete globally
- Liquidity: The repo market has been adversely affected by banks contracting their balance sheets in response to leverage restrictions. This continues to impact 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 across the whole financial services industry

The Group has an ongoing programme of development and enhancement of its Enterprise-wide Risk Management Framework (ERMF). The ERMF metrics and indicators include stress testing used to monitor risks against risk appetite to respond to emerging or unexpected 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 seek new opportunities in the year ahead.

**LSEG Risk Appetite Components**



**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 Central Counterparty Clearing Houses (CCPs) and Central Securities Depositories (CSDs) are also approved by the respective Boards within the Group, in compliance with EMIR, CSDR 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.

**Three 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 ERMF

**Overall Risk Assessment**

Key risk categories include strategic, operational and financial risks. Operational risk includes IT risk as well as risk associated with operational processes with financial risk 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 and CSDs which will be required to have their own risk teams under the forthcoming provisions of CSDR. The function’s main role is to maintain a fit for purpose Group ERMF 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 oversight continued

## 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.

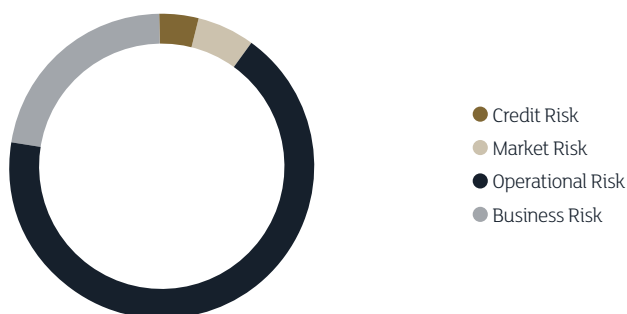
### LSEG Risk Management Cycle



## Economic Capital

The development of an economic capital model, consisting of 4 risk components (credit, market, operational and business), will enable the Group to consistently assess risk and the economic effects of risk-taking activities. The relative contribution of each component to the Group's total economic capital is shown in the chart below. Operational risk represents the largest component of the Group's economic capital; this implies that operational risk is the main source of risk for the Group which is expected given that the Group is a market infrastructure business.

### LSEG Economic Capital Components



## 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 are re-assessed annually and may be updated either during this review process or at other times during the year where the external environment changes.

A 3 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 98.

## 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 CCP's 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 CCP Financial Risk Policy specifying 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.

## CCP Risk Management and Operations

The Group's CCPs interpose themselves between 2 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 high quality and highly liquid 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 2 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 at least 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 and EMIR 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 and to adopt robust risk management processes. Once the skin-in-the-game has been exhausted, further losses are allocated to the non-defaulting 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.

Further information on the Group’s clearing related risk is contained in the Principal Risks and Uncertainties on pages 49–50.

**LSEG Risk Governance Structure**

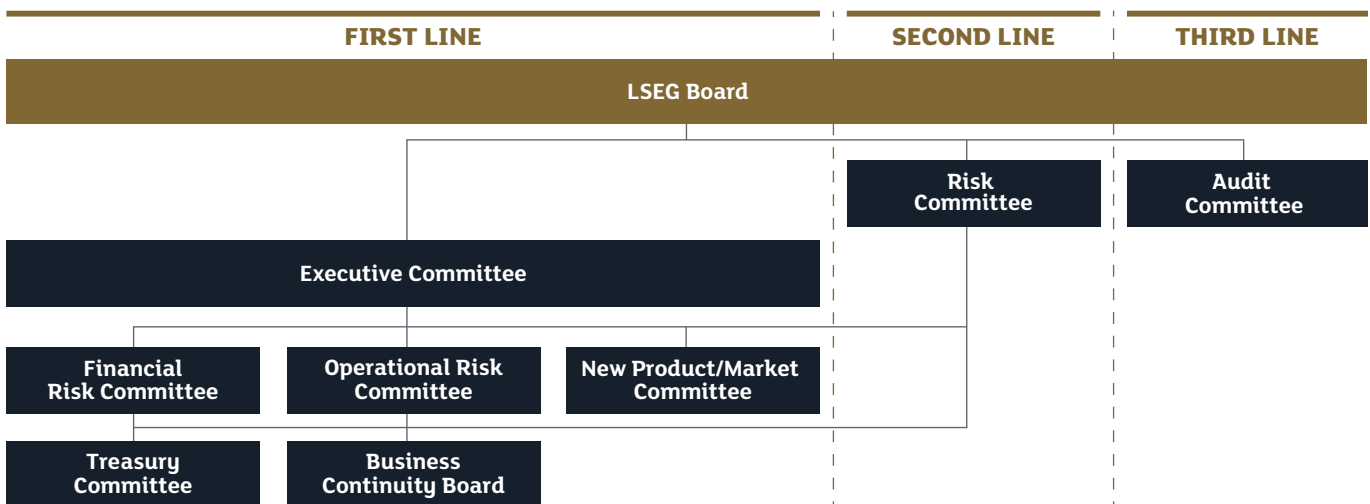
The Risk Governance of the Group is as follows and presented diagrammatically below:

- The Board is responsible for determining the Group Risk Appetite. The Board’s Risk and Audit Committees 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 Executive 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/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 65–71, 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

## LSEG Risk Governance

OVERVIEW OF PRINCIPAL RISKS:		
Strategic Risks	Financial Risks	Operational Risks
Global economy Regulatory change and compliance Competition Transformation Reputation/Brand	Credit risk Market risk Liquidity risk Capital risk	Technology Model risk Security threats – Physical Security threats – Cyber Change management Settlement and custodial risks Employees
<b>KEY:</b> ▲ 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><b>Global economy</b></p> <p>As a diversified markets infrastructure business, we operate in a broad range of equity, fixed income 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 revenue.</p> <p>The UK Brexit negotiations with the EU have added uncertainty into global markets. Discussions between the UK and EU continued through 2017 and the European Council finally accepted in December that progress in the first phase of negotiations was sufficient to move on and indicated that a transition period should not continue beyond the end of 2020.</p> <p>Stronger economic data and inflation concerns have dominated central bank official rate actions. The Federal Open Market Committee (FOMC) increased the Fed Funds target rate 3 times during the course of 2017. In November the Bank of England (BoE) increased the Bank Rate by 25bp. Meanwhile the European Central Bank (ECB) has left rates unchanged though commenced a reduction in its quantitative easing programme. The expected economic growth could fail to materialise and higher rates could lead to a slowdown.</p> <p>Ongoing geopolitical tensions continue to add uncertainty in the markets. This, together with the continuing potential for political change through national elections (for instance, the upcoming Italian elections in March 2018), may impact confidence and activity levels. This will be monitored closely.</p>	<p>The footprint of the Group has continued to broaden, further improving 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 mergers and acquisitions (M&amp;A) and dividend related receipts are hedged as required by Group Treasury Policy.</p> <p>The Group performs regular analysis 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 on leaving the EU. Committees have been established to assess and address areas of impact on our operations and the Group has formulated contingency plans with the objectives of continuity of market function and customer service in the event of a hard Brexit.</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. Additional ad hoc analysis such as special credit reviews of counterparties are presented to the Financial Risk Committee for consideration where events dictate.</p>	<p>—</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 120–124.

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Regulatory change and compliance</b></p> <p>The Group and its exchanges, other trading venues, CCPs, index administrators, central securities depositories, trade repositories and other regulated entities operate in areas that are highly regulated by governmental, competition and other regulatory bodies.</p> <p>There is a risk that the UK's exit from the EU may lead to considerable regulatory change. There is a range of EU and UK measures which impact our business directly or indirectly including EU Benchmark Regulation, Securities Financing Transaction Regulation (SFTR) and Markets in Financial Instruments Directive (MiFID II). Together with MiFIR, its accompanying regulation, MiFID II came into force on 3 January 2018. LSEG has delivered a series of key technological and procedural changes to prepare for the implementation of these new regulations.</p> <p>In addition, several regulatory initiatives are ongoing, some of which directly affect LSEG activities, especially in the context of the departure of the UK from the EU. This is the case with ongoing CCP regulatory initiatives, mainly EMIR Review and CCP Recovery and Resolution. In May and June 2017, the European Commission proposed to review EMIR transaction-level requirements and the supervisory framework applicable to EU and third country CCPs. These reviews and in particular, the proposal to introduce the option to impose enhanced supervision or location requirements on third country CCPs that are of systemic importance for the EU, could have implications for the Group's CCPs. The Group monitors these regulatory developments in order to help the market address the changing regulatory environment through its multiple locations. The European Commission made proposals to significantly transform the European Supervisory Authorities, principally by empowering ESMA to be the central supervisor for a range of new financial entities including systemically important third country CCPs, third country benchmark administrators, data service reporting providers and as the approval authority for certain types of prospectuses. However the nature of final political agreement on the proposal is highly uncertain. The European Commission made proposals to introduce a prudential regime for investment firms which may affect the ability of proprietary trading firms to provide liquidity on LSEG markets.</p> <p>In December 2017, the Basel Committee on Banking Supervision published final recommendations on the Basel III Framework, which as currently drafted could adversely impact CCP clearing volumes with implications for the Group's revenues. However, in November 2016 the European Commission published proposed changes to the EU Capital Requirements Regulation which largely neutralise the effects for European clients and are currently being discussed with the other co-legislators. 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 would reduce leverage ratios, thus removing a financial barrier for clearing members to offer client clearing.</p> <p>The EU Benchmarks Regulation came into effect on 1 January 2018 and FTSE Russell will need to apply for authorisation as a regulated benchmark administrator by 2020.</p> <p>In many of our key jurisdictions, there is an increasing legislative and regulatory focus on cyber security, data flow and protection and emerging technology. LSEG supports the regulatory efforts on these issues, as they increase the standards for clients, vendors and other third parties with whom we interact. Regulators are monitoring and considering regulatory frameworks around the development of innovative financial services technologies, which are important for maintaining the resiliency in the market.</p> <p>Negotiations also continue on a possible Financial Transaction Tax (FTT). During 2017 little progress was made, however a FTT could adversely impact volumes in financial markets.</p> <p>In the US, there is a considerable and comprehensive review of the financial services regulatory framework, including in areas impacting our capital markets, post trade, information services and technology divisions. We remain closely engaged with the relevant policymakers on these potential changes, which are likely to see progress in 2018.</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 political 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. The Group has developed contingency plans to address the UK's exit from the EU and monitors developments closely.</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 with regard to 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 including those linked with the departure of the UK from the EU.</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>	▲
<p>For more information on regulatory changes, see Market trends and our response on pages 12–15.</p>		



# Principal risks and uncertainties continued

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Competition</b></p> <p>The Group operates in a highly competitive and global industry. Continued consolidation has fuelled competition including between peers and service providers in different geographical areas.</p> <p>In our Capital Markets operations, there is a risk that competitors will improve their customer service, 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. 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. Options for both debt and equity funding are also increasing as private equity, venture capital and new options such as crowd-funding and crypto-currencies are increasingly being considered. The Group will need to continue strong and collaborative dialogue with customers to ensure it remains responsive to their changing requirements.</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. The Group's track record of working with customers and other financial market infrastructure providers, including the user focused model in LCH, will help us to continue to deliver innovative new products and services to meet evolving customer needs.</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 indexes and other benchmarking tools which compete with those offered by the Group. As the Information Services offering diversifies and seeks to meet customer needs for new data segments and asset classes, it is facing a broader range of competitors. Furthermore, if the Group's share of equity trading 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. If competitors are quicker to access technology innovations such as artificial intelligence, they may achieve a valuable advantage which may impact the Group's relative profitability and ability to develop new services in a similar way. Our integrated and business-led approach to technology research and development (R&amp;D) will help us to manage this risk and the Group is well advanced in investigating and applying numerous new technology innovations, including in Information Services.</p> <p>In Technology Services, there is intense competition across all activities and there are strong incumbents in some of our growth areas. New entrants are increasing from both within and outside of our traditional competition base. Start-ups, which may be sponsored by existing LSEG competitors or customers, are introducing new technology and commercial models to our customer base which we need to respond to with new products and services of our own. Our continual client dialogue and investment in product management and planning are critical to understanding and managing the impact of changing customer requirements in our technology and other business lines.</p>	<p>Competitive markets are, by their very nature, dynamic, and the effects of competitor activity can never be fully mitigated. Senior management and a broad range of customer-facing staff in all business areas are actively engaged with clients to understand their evolving needs and motivations. We have established a Group Relationship Programme to co-ordinate this across Group businesses globally.</p> <p>The Group undertakes constant market monitoring and pricing revision to mitigate risks and ensure we are competitive. Commercial initiatives are aligned with our clients and this is complemented by an ongoing focus on technology operations, research and development.</p>	<p>—</p>
<p><b>Transformation</b></p> <p>Given the current levels of change and alignment activity taking place across the Group. The Group is exposed to transformation risks (risk of loss or failure resulting from change/transformation). This derives from internal (organic) change and change required by the integration of acquisitions. 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&amp;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 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 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>The Group has an effective track record of integrating acquisitions and delivering tangible synergies. This is supported by robust governance and programme management structures.</p>	<p>▲</p>

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Reputation/Brand</b></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, 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>	—

**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
<p><b>Credit risk</b></p> <p><b>Clearing</b></p> <p>CCPs in the Group are exposed to credit risk as a result of their clearing activities. A default by a CCP clearing member that could not be managed within the resources of the defaulted 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 commercial banks providing investment and operational services. 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.</p> <p>The relevant clearing provider entities within the Group are therefore exposed to the risk of a default of other CCPs under such arrangements.</p> <p><b>Non-Clearing</b></p> <p>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 to the default of either the investment counterparty or of the issuer of bonds bought outright or received as collateral.</p>	<p><b>Clearing</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>– Strict CCP membership rules including supervisory capital, financial strength and operational capability</li> <li>– 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 2 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;</li> <li>– Regular 'Fire Drills' are carried out to test the operational soundness of the CCPs' default management processes</li> <li>– Infrastructure providers are regularly assessed in line with policy</li> </ul> <p><b>Non-Clearing</b></p> <p>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.</p>	—

For more information on this risk see the Post Trade Services section of the Segmental Review on pages 23–27, and Note 2 to the accounts, Financial Risk Management on pages 120–124.

# Principal risks and uncertainties continued

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Market risk</b></p> <p><b>Clearing</b></p> <p>The Group's 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.</p> <p><b>Non-Clearing</b></p> <p>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.</p> <p>The Group is exposed to interest rate risk through its borrowing activities and treasury investments. Further increases in interest rates in 2018 may increase the Group's exposure to these risks.</p>	<p><b>Clearing</b></p> <p>The margins and default funds referred to previously 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.</p> <p><b>Non-Clearing</b></p> <p>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, FX derivatives including cross-currency swaps are used – under a control framework governed by LSEG Board approved policy.</p> <p>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.</p>	—
<p>For more information on this risk, see Note 2 to the accounts, Financial Risk Management on pages 120–124.</p> <p><b>Liquidity risk</b></p> <p><b>Clearing</b></p> <p>There are 2 distinct types of risk to which the Group's CCPs are exposed to 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 physically settle 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><b>Non-Clearing</b></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><b>Clearing</b></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><b>Non-Clearing</b></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. Stressed facility headroom is assessed using plausible downside business projections.</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 meeting of the Board Risk Committee.</p>	—
<p>For more information on this risk, see Note 2 to the accounts, Financial Risk Management on pages 120–124.</p>		

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Capital risk</b></p> <p>Principal risks to managing the Group's capital are:</p> <ul style="list-style-type: none"> <li>– 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.</li> <li>– 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).</li> <li>– Availability of debt or equity capital (whether specific to the Group or driven by general financial market conditions).</li> </ul>	<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 to ensure that they operate within capital limits which are overseen by 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>	—

For more information on this risk, see Note 2 to the accounts, Financial Risk Management on pages 120–124.

## 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><b>Technology</b></p> <p>Secure and stable technology performing to high levels of availability 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.</p> <p>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's 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 and 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 and Artificial Intelligence (AI).</p>	—

For more information, see the Technology Services section of the Segmental Review on pages 32–33.

<p><b>Model risk</b></p> <p>The Group defines model risk as the risk that a model may not capture the essence of the events being modelled, or inaccuracies in the underlying calculation potentially resulting in adverse consequences resulting from decisions based on incorrect or missed model outputs.</p>	<p>Subsequent to the acquisition during the year of The Yield Book analytics platform from Citigroup Inc, the Group has embarked on a programme of complete review of model policies and procedures to ascertain whether enhancements are required to address changes to the business. The Financial Risk Committee reviews results of model validations carried out.</p>	▲
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# Principal risks and uncertainties continued

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Security threats – Physical</b></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.</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 could lead to the loss of client confidence and reputational damages.</p>	<p>Security threats are treated very seriously. The Group has robust physical security arrangements.</p> <p>The Group is supported by the Centre for the Protection of National Infrastructure (CPNI) in the UK, with security teams monitoring intelligence and liaising closely with police and global government agencies. Across major hubs covering the UK, Europe, the Americas and Asia, the Group maintains close monitoring of geopolitical threats through a third party security monitoring service. Where events are detected, retained response support services are mobilised internationally. 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>	—
<p><b>Security threats – Cyber</b></p> <p>The threat of cyber crime requires a high level of scrutiny as it has the potential to have an adverse impact on our business. Additionally, new emerging technologies such as cloud computing will change our cyber security risk.</p> <p>The Group's technology and operational support 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, financial costs for remediation, fines and regulatory impacts and on the confidence of our clients.</p>	<p>Extensive IT measures aligned to the National Institute of Standards and Technology (NIST) control framework are in place to both mitigate and monitor cyber security risks such as system vulnerabilities and access control. Information Security teams monitor intelligence and liaise closely with police and global Government agencies as well as industry forums and regulators.</p> <p>The Group continues to invest in and enhance its information security control environment, cyber defences and operational process as it delivers to its Board approved Cyber Security Strategy.</p>	—
<p><b>Change management</b></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 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>For more information, see the Chairman's statement on pages 4–5, and the Chief Executive's statement on pages 6–7.</p>		
<p><b>Settlement and custodial risks</b></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>	—

RISK DESCRIPTION	MITIGATION	RISK LEVEL
<p><b>Employees</b></p> <p>The calibre and performance of our leaders and colleagues is critical to the success of the Group.</p> <p>The Group's ability to attract and retain key personnel is dependent on a number of factors. This includes (but not exclusively) organisational culture and reputation, 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 alignment to long-term shareholder value and returns, impact the size of the local labour force with relevant experience, and the number of businesses competing for such talent. Whilst the Group focuses very carefully on the attraction and retention of talent, if unsuccessful it may adversely affect the Group's ability to conduct its business through an inability to execute business operations and strategies effectively.</p>	<p>We focus on a number of strategic enablers to ensure we attract and retain the right calibre of talent for our business, and continue to facilitate a culture of high performance.</p> <p>We have a rigorous in-house recruitment and selection process, to ensure that we are bringing the best possible talent into the organisation, in terms of their skills, technical capabilities, cultural fit and potential.</p> <p>We aim to remove barriers to our colleagues' overall sense of engagement, proactively measuring how satisfied they are with their working experience at LSEG, and the extent to which they would recommend it as a place to work. We measure this sentiment when they join the organisation, via our bi-annual engagement survey 'Have Your Say', and via an exit survey for those who choose to move on. We use that feedback to inform our plans for improvement, and to identify and resolve any barriers to performance and engagement.</p> <p>We recognise that the overall wellbeing of our colleagues is vital for our continued performance, and have introduced a proactive approach to wellbeing in the UK, which we are in the process of rolling out globally. This looks to improve wellbeing across 5 dimensions: physical, mental, financial, social purpose, and work-life balance.</p> <p>Career development remains a key enabler for success, and we have a carefully managed learning budget which enables us to take a coordinated approach, and focus investment in the development of colleagues. We provide colleagues with a range of courses, materials and tools to support them in owning their development, and will be launching a Career Framework in 2018, to further support people in navigating the opportunities that are available for them at LSEG. We also offer additional investment to identified key talent and executives, for instance, by providing coaches for key senior successors.</p> <p>In terms of talent management, we always look to promote internally where possible. We undertake a comprehensive annual review of critical roles, and ensure we have succession plans in place to minimise the impact of losing critical key personnel. We monitor the attrition in each division and country, in addition to any critical staff turnover, so that mitigation can be taken where needed.</p> <p>Performance management plays a key role in mitigating retention and performance risk at LSEG, and the Group operates a robust performance management and appraisal process for all colleagues, which links to how we utilise incentives and compensation to drive organisational performance. This assesses performance against financial objectives, strategic deliverables, and the extent to which colleagues role model the Group's values and behaviours.</p> <p>In terms of other reward approaches, critical high performers are offered Long Term Incentive Plans, aligned with the fulfilment of the Group's strategic goals and increases in shareholder value. We also regularly benchmark our reward and incentive systems to ensure they are competitive.</p>	

For more information, see Our wider responsibility on pages 34–35 and Remuneration Report on pages 72–94.

# Board of Directors

## COMMITTEE MEMBERSHIP KEY

<b>A</b> Audit	<b>N</b> Nomination
<b>R</b> Remuneration	<b>R</b> Risk
<b>G</b> Group Executive	<b>■</b> Committee Chairman



**Donald Brydon CBE**  
Chairman of the Group and the Nomination Committee (age 72)

Appointed to the Board in June 2015 and subsequently Chairman in July 2015

**N R**

**Key areas of experience:** Industry and finance, governance, chair, 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 and acting CEO, BZW.

**Relevant past experience:** Donald has also held the post of Chairman at: Smiths Group plc, the London Metal Exchange, Taylor Nelson Sofres plc, Amersham plc, AXA Investment Managers SA, Royal Mail Group plc and The London Institute of Banking & Finance (formerly ifs School of Finance) and is a former Director of 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.



**David Warren**  
Interim Chief Executive Officer and Group Chief Financial Officer (age 63)

Appointed to the Board in July 2012 and appointed as Interim CEO on 29 November 2017

**G**

**Key areas of experience:** Accounting, corporate finance, investor relations, 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 from 2001 to 2009 and Senior Adviser to the NASDAQ CEO from 2011 to 2012. Other senior roles David has held have included: 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 Jerusalmi**  
Executive Director, CEO of Borsa Italiana S.p.A. and Director of Capital Markets (age 56)

Appointed to the Board in June 2010

**G**

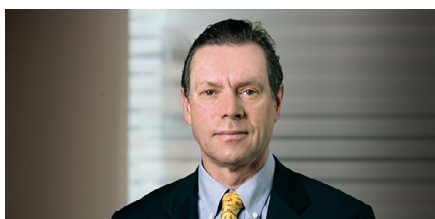
**Key areas of experience:** Capital markets, corporate finance, fixed income, equity and derivatives trading.

Raffaele brings significant experience in capital markets and in fixed income, equity and derivatives trading to the Group.

He has worked for Borsa Italiana S.p.A. for the past 20 years and is Borsa Italiana'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 Chairman of Elite S.p.A..

**Relevant past experience:** Prior to joining Borsa Italiana, 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:** None.



**Jacques Aigrain**  
Independent Non-Executive Director (age 63)

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 Group Holdings Limited from 2010 to 2015. He has also been a Non-Executive Director of Resolution Ltd, a Supervisory Board member of Deutsche Lufthansa AG and a Non-Executive Director of the Qatar Financial Centre Authority. Jacques was also Chief Executive Officer of Swiss Re from 2006 to 2009.

Prior to 2001 (when he joined Swiss Re), 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 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), a role he will be stepping down from in June 2018.



**Paul Heiden**  
Senior Independent Director (age 61)

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 a Non-Executive Director of United Utilities Group plc, Bunzl plc and Filtrona plc and Non-Executive Chairman of A-Gas (Orb) Limited, Talaris Topco Limited and Intelligent Energy Holdings plc.

Paul was Chief Executive Officer of FKI plc from 2003 to 2008, Executive Director of Rolls-Royce plc from 1997 to 1999 and Group Finance Director of Rolls-Royce plc from 1999 to 2003. He also held previous senior finance roles at Hanson plc and Mercury Communications.

**Other current appointments:** Paul is a Non-Executive Director of Meggitt plc.

**Board structure as at 31 December 2017**

**The Board comprised:**

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

**Director Changes During The Year**

- Xavier Rolet stepped down from the Board on 29 November 2017, and CFO, David Warren was appointed as Interim CEO
- Val Rahmani was appointed as an Independent Non-Executive Director on 20 December 2017



**Professor Lex Hoogduin**  
**Non-Executive Director (age 61)**  
 Appointed to the Board in December 2015

**Key areas of experience:** Clearing and settlements 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 Group Holdings 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 Dutch Payment Association and Chairman of the supervisory board of the Centre for Integral Revalidation – 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.



**David Nish**  
**Independent Non-Executive Director (age 57)**  
 Appointed to the Board in December 2015

**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), the UK Green Investment Bank plc 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, and Zurich Insurance Group. He is also a member of the Council of the Institute of Chartered Accountants of Scotland.



**Stephen O'Connor**  
**Independent Non-Executive Director (age 56)**  
 Appointed to the Board in June 2013

**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. Stephen is a member of the US Commodity Futures Trading Commission (CFTC) Global Markets Advisory Committee and a member of the Scientific Advisory Board of the Systematic Risk Centre, London School of Economics and Political Science.



**Val Rahmani**  
**Independent Non-Executive Director (age 60)**  
 Appointed to the Board in December 2017

**Key areas of experience:** Technology, technical risk management, corporate governance, strategy, sales and marketing.

Val brings significant expertise and knowledge of technology and technical risk management to the Board gained from almost 30 years with IBM and 4 years as CEO of a cyber security start up.

Val has wide-ranging experience as a senior executive in the technology sector fulfilling the role of general manager, board member, start up mentor, management consultant and public speaker. Val also holds a DPhil in Chemistry from the University of Oxford.

**Relevant past experience:** Val is a former Non-Executive Director of Aberdeen Asset Management and Teradici Corporation.

**Other current appointments:** Val currently serves as a Non-Executive Director and member of the Audit Committee at RenaissanceRe Holdings Limited. She is also a Non-Executive Director of Computer Task Group Inc, where she chairs the Compensation Committee and serves as a member of the Audit and Governance Committees and a Non-Executive Director of the early stage company, Rungway.



**Mary Schapiro**  
**Independent Non-Executive Director (age 62)**  
 Appointed to the Board in July 2015

**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 CFTC. Mary is a former Director of Kraft Foods Inc., Duke Energy Corp., Cinergy Corp. and a former trustee of the MITRE Corporation. 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. and CVS Health, Vice-Chairman of the Sustainability Accounting Standards Board (SASB) and Vice-Chairman, Advisory Board at Promontory Financial Group LLC. She also serves as an advisory board member at Spruceview Capital Partners, Morgan Stanley Institute for Sustainable Investing and Hudson Executive Capital LP.

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.



**Andrea Sironi**  
**Independent Non-Executive Director (age 53)**  
 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 was Rector from 2012 to 2016.



# 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 and culture within which the Executive Team and all employees work.

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 mind set 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.

A handwritten signature in black ink that reads "Donald Brydon".

**Donald Brydon**  
Chairman  
2 March 2018

## Compliance with the UK Corporate Governance Code 2016 (the Code) and its statement requirements

Throughout the financial year ended 31 December 2017 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](http://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 56–61 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 2017**

The Board held 16 Board meetings of which 6 were scheduled meetings and 10 additional meetings principally relating to the proposed merger with Deutsche Börse, and the Shareholder requisitioned General Meeting. A table of Board and Committee meeting attendance is set out below.

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

	Board	Audit	Nomination	Risk	Remuneration	Other <sup>3</sup>
Donald Brydon CBE	16/16		4/4		6/6	6/6
Jacques Aigrain	16/16	5/5			6/6	7/8
Paul Heiden	13/16	5/5	4/4	3/4	5/6	7/8
Lex Hoogduin	16/16					2/2
Raffaele Jerusalmi	15/16					
David Nish	16/16	5/5		4/4		6/8
Stephen O'Connor	14/16	5/5	4/4	4/4		
Val Rahmani <sup>1</sup>	0/0					
Mary Schapiro	12/16		4/4		6/6	
Andrea Sironi	16/16			2/2		
David Warren	16/16					2/2
<b>Directors who left during the year</b>						
Xavier Rolet <sup>2</sup>	14/14					

- 1. Val Rahmani joined the Board on 20 December 2017 and was not eligible to attend any meetings during the year
- 2. Xavier Rolet stepped down from the Board on 29 November 2017
- 3. Transaction committee, Circular committee

**Note:** Nearly all meetings which were missed by Directors were additional (rather than scheduled) meetings which related to the proposed merger of Deutsche Börse or the Shareholder requisitioned General Meeting. These were often called on exceptionally short notice.

**Attendance at Board Meetings**

When Directors have not been able to attend meetings, 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 at 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 10 additional meetings.

As part of its ongoing development the Board visits the Group's overseas sites and in 2017 it visited the Group's businesses and met with staff in Milan.

On a number of occasions throughout the year, the Chairman met Non-Executive Directors without Executive Directors present in particular to discuss succession planning in relation to the Chief Executive Officer and actions arising in relation to the requisition of a General Meeting by a shareholder. The Board also 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 including succession planning and refreshment of the Board and its composition. Comprehensive Board and committee papers, comprising an agenda and formal reports and briefing papers are sent to Directors in advance of each formal meeting. Directors are continually updated with written and verbal reports, from senior executives and external advisors.

**Matters considered by the Board**

Each of the regular meetings 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 Three Year Business Plan and Annual Budget, 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, Non-Executive Directors' Fees and Approval of Annual and Interim Dividends and the Annual Report and Accounts.

2017 has proven an extremely busy year for the Group and during the year the Board considered the following matters: the recommended all-share merger between the Company and Deutsche Börse AG, the sale of LCH S.A., the General Meeting requisitioned by a shareholder and the subsequent Circular, the acquisition of The Yield Book businesses, the divestments of the MillenniumIT ESP and Exactpro businesses, the Company's share buyback programme, the acquisition of additional shares in LCH Group Holdings Limited, the risks and opportunities presented by Brexit, the ongoing management of Cyber Risk and Information Security, the Group's Tax Strategy, the Modern Slavery Act and related Group policies, the new General Data Protection Regulation (GDPR), 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 Executive and Non-Executive succession planning, including the commencement of the search for a new Chief Executive Officer and the appointment of a new Non-Executive Director.

**Other Board Committees**

As reported in last year's Annual report a transaction committee was appointed in 2016 to consider the proposed merger with Deutsche Börse. Its members were Donald Brydon (Chairman), Jacques Aigrain, Paul Heiden and David Nish. Following the end of the merger discussions in March 2017, the Transaction Committee was disbanded.

A board committee consisting of Paul Heiden (Senior Independent Director and Chair of the Committee), Lex Hoogduin, Jacques Aigrain and David Warren was appointed between October 2017 – December 2017 to assist the Board in preparation of a Circular in respect of the shareholder requisitioned General Meeting held on 19 December 2017. Details of the number meetings held to discuss these matters are outlined in the table above.

# Corporate governance continued

## **BOARD EFFECTIVENESS AND LEADERSHIP**

### **2017 Effectiveness Review**

Since 2005 it has been the Board's policy to conduct an effectiveness review on an annual basis and, where appropriate, to act on the results of the review. The Code recommends that an externally facilitated evaluation should take place at least every 3 years.

During the Period, the Board engaged Professor Rob Goffee (Emeritus Professor, London Business School) to facilitate an external review of its effectiveness. Professor Goffee was appointed following a review of providers in the market and is not currently engaged in any other work on behalf of the Company.

In the Circular dated 30 November 2017 the Board said it would review the steps which ultimately led to the General Meeting to establish the appropriate lessons to be drawn. The Board engaged Simon Collins a former UK Chairman and Senior Partner of KPMG LLP to carry out a review of the events leading to the General Meeting. The Board will share a summary of key conclusions with shareholders in due course.

### **Evaluation Process**

The events leading up to the General Meeting requisitioned by a shareholder, brought Governance, including the proper operation of the Board (and its Committees), into focus.

When designing the 2017 Effectiveness Review, the Board and Professor Goffee felt it appropriate to acknowledge the impact of those events, but to focus on how the Board has operated throughout the year.

The process was in-depth and involved one-to-one interviews with Board members conducted by Professor Goffee and the completion of a very detailed questionnaire to provide insight into how the Board functions covering the following areas associated with the effectiveness of the Board:

1. Strategy & Planning
2. Governance, Risk & Control
3. Performance Management & monitoring
4. Board composition & succession planning
5. Board & Committee working/efficiencies

The Review also included review of individual director performance based on appropriate criteria.

As part of the Review Professor Goffee reviewed papers and documentation provided to the Board. The anonymity of all feedback from board members received was ensured throughout the process.

### **Presentation of findings**

Professor Goffee prepared a report setting out the findings including comparison against a wider set of other Boards. Separate reviews of the Board's assessment of each individual director were also prepared for the Chairman to discuss with directors individually, and in the case of the Chairman, with the SID.

Professor Goffee's report was shared with the Board and a session scheduled for Board directors to discuss the findings with Professor Goffee and agree next steps.

### **Results**

The results suggest that Board members are broadly content with various aspects of governance and functioning. Additionally, the Board sets itself objectives which were reviewed during the process and at the end of the year the Board judged it had made good progress in meeting those objectives.

The Review identified a number of positive attributes including management of Board meetings, shaping of agendas, functioning of the Audit Committee and Chairman's leadership of the Board to ensure focus and good practice.

### **Next Steps**

The Board recognised that greater focus needs to be given to the following areas during 2018:

- **Engagement** – greater engagement with the business outside of board meetings to improve understanding of business activity and depth of executive talent
- **Induction and training** – induction and training to be strengthened
- **Board composition and interaction:**
  - Review of Board membership and balance to ensure it is equipped to meet the shifting competitive landscape and technological changes faced by the Group
  - Further strengthen relationships between directors
- **Structural fine tuning** – improve impact of the Regulatory Advisory Group and Technology Advisory Group.

The Board will agree actions to address these matters during 2018 and report against them in next year's Annual Report and Accounts.

**2016 Effectiveness Review**

**The 2016 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	– Board members attended dinners, company events and also held discussions outside formal Board meetings as a group and on an individual basis
Increased discussion of succession planning at Board level	– CEO succession was a key area of focus for the Nomination Committee and Board in 2017 – Refreshing Board composition continued to be a key focus during the year
Identify further development needs for directors	– Each Non-Executive Director identified areas of business interest and the Company Secretary is facilitating contact with that area of the business – Further in depth “teach in” sessions have been held outside of Board meetings

**Relations with shareholders**

The Group’s Investor Relations (IR) function, reporting to the Chief Financial Officer, manages an ongoing shareholder engagement programme throughout the year. Executive management and the IR team 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, typically to discuss corporate governance matters.

In 2017, Board members, senior executive management and the IR team held over 500 meetings and calls with institutional equity and debt investors, including the Board’s engagement with shareholders to discuss CEO succession.

In the lead up to a shareholder-requisitioned General Meeting, the Chairman and Senior Independent Director held 35 shareholder meetings or calls, and discussions were also held with investor trade organisations and shareholder proxy advisers as part of the wider shareholder communications around the topic. As part of the external review undertaken by Simon Collins, shareholder views will be incorporated in the report’s findings.

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, input on market communications and share register analysis. In June 2017 the Group hosted a market update event, with senior management from the core business divisions presenting on growth and development opportunities. This resulted in the Group setting public financial targets (as described on page 41).

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 Sustainability report that details its approach to ESG matters: [www.lseg.com/about-london-stock-exchange-group/corporate-responsibility](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility).

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

The IR section of the Group’s website ([www.lseg.com/investor-relations](http://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.



# Corporate governance continued

## 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 Group Holdings Limited. LCH Group Holdings 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 Group Holdings 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 65–69 and the Risk Committee on pages 70–71 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.

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## FURTHER INFORMATION

Further detail on the Group's Risk Management oversight can be found on pages 42–45. An overview of the Principal Risks and Uncertainties of the Group is provided on pages 46–53.

**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 Interim Chief Executive Officer and Group Chief Financial 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 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 matters including 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 2017 by the continued roll-out and implementation of the 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 3 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.

**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-wide 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 and Chief Financial Officer jointly assess the performance of the Group Head of Internal Audit.
- The Audit Committee approves the Internal Audit annual budget.

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.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance](http://www.lseg.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 2017 and up to the date of approval of this Annual Report and Accounts. 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 FRC's 2014 Risk management, internal control and related financial and business reporting.

# 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](http://www.frc.org.uk). This table forms part of the Corporate Governance Statement on page 95 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.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance](http://www.lseg.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. The matters considered by the Board in 2017 are summarised on page 57.

### 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](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility) or on request from the Group Company Secretary. The matters considered by the Remuneration, Audit, Risk and Nomination Committees are summarised in the reports of those committees.

### 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 Executives are set out on this page:

### 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. Non-Executive Directors are responsible for determining appropriate levels of remuneration for executive directors and have a principal role in appointing and, where necessary, removing executive directors, and in succession planning. 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 7 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. The experience and other appointments of directors is set out on page 54–55.

**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 64, outlines the changes to the Board that took place during the year. The Board normally uses an external search consultancy for appointments.

**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 continually update their skills and knowledge of the business, and briefings are regularly given at Board meetings on particular parts of the business. 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 offered 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 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. As set out on page 58 Board training and engagement with the business outside of meetings is an area of focus for the Board in 2018.

**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 externally facilitated review of its own effectiveness and that of its Committees and Directors together with actions taken following the 2016 effectiveness review and the results of that review are detailed on page 59 of the Corporate Governance Report.

**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.

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**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 page 99. 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 99 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 70–71. 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 98.

**C.3 Audit Committee and Auditors**

The Audit Committee Report on pages 65–69 sets out details of the composition of the Committee, including the expertise of members, and outlines how the Committee has discharged its responsibilities during 2017. 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.

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

The Directors' Remuneration Report on pages 72–94 outlines the activities of the Remuneration Committee during 2017 and the implementation of the Remuneration Policy during 2017 (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 2017 AGM and was passed with over 98% support. It is available on the Group's website at: [www.lseg.com/investor-relations/shareholder-services/aggm-information](http://www.lseg.com/investor-relations/shareholder-services/aggm-information). There have been no 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 3 years.

**D.2 Procedure**

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

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**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 59 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 (and any General Meeting) are compliant with the Code, with voting by way of a poll to ensure all shareholders' views are taken into account.



# Report of the Nomination Committee



**Donald Brydon**  
**CBE**  
Chairman of the  
Nomination Committee

**The Nomination Committee members as at 31 December 2017 were Donald Brydon (Chairman), Paul Heiden, Stephen O'Connor and Mary Schapiro. The Company Secretary is the Secretary to the Committee and attends all meetings. The Head of Human Resources, CEO and appropriate external advisers attend as required. 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 2017 the Committee focused on:

1. Succession planning for the CEO and Non-Executive Directors
2. Refreshing Board composition

As the Board set out in the Circular to shareholders dated 30 November 2017, one of the most important roles vested in Non-Executive Directors under the Code through the proper operation of the Nomination Committee (and the Board itself) is Board and CEO succession planning.

## CEO Succession Planning

In 2017 the Board undertook succession planning for the CEO. The intention of the Board and Nomination Committee was to achieve an orderly, consensual succession plan for the CEO in the best interests of LSEG.

During 2016 and into the first part of 2017, Xavier Rolet had indicated he would step down as CEO to smooth the path for the planned merger with Deutsche Börse.

Following the end of the proposed merger the Nomination Committee reviewed the Board's composition again and agreed to focus on the increased need for succession planning for the CEO. This ultimately led to the announcement on 19 October 2017, confirming Xavier Rolet's agreed departure from the Group by the end of 2018 and both parties' commitment to an orderly transition. Following the requisition of a General Meeting by a shareholder, Xavier Rolet agreed to step down from the Board on 29 November 2017. The Board agreed that the Chief Financial Officer, David Warren, would be appointed as Interim CEO.

The Committee engaged Egon Zehnder to assist with compiling a CEO role profile and carrying out a global search against the agreed profile.

## Non-Executive Directors

As part of the Committee's ongoing focus on Board composition, the Committee supported the Board's search for another Non-Executive Director to further extend the Board's knowledge and experience in technology and technical risk. Egon Zehnder was engaged to conduct the search against an agreed role profile and the successful candidate, Val Rahmani joined the Board on 20 December 2017. In reaching its decision to appoint Val to the Board, the Committee and other Non-Executive Directors considered a long list of candidates and then (as with previous Board appointments) narrowed the selection list to a short list of candidates for interviews. The Committee and the Board considered that Val's considerable technology knowledge and expertise will be of significant benefit as the Group builds on its position as a global financial markets infrastructure provider.

## Chairman succession

As announced in November 2017 following the requisition of the General Meeting I said I would not stand for re-election in 2019 as I and the Board believe that at that point it will be in shareholders' best interests to have a new team at the helm to steer the future progress of the Company. The Nomination Committee, which I will not chair for these purposes, will initiate the process to identify a successor later in 2018.

## Diversity

The Board remains committed to diversity in the Board room and throughout the Group.

The Board's diversity policy states that the Board will seek to make appointments on merit against objective criteria with due regard for the benefits of diversity, including gender and the Committee can confirm that the policy was adhered to during the year. The Board also recognises the benefit in having access to the diversity of input from people with a wide range of backgrounds, skills, experience and nationalities. This is reflected in the composition of the Board.

The Board remains aligned with the proposals of the Hampton Alexander Review to ensure talented women at the top of business (and indeed throughout the Group as a whole) are recognised, promoted and rewarded and the value in investing in a pipeline of talent by encouraging a broad range of senior individuals within the business to take on additional roles.

## Implementation

The Board is committed to building on existing programmes including WIN and the Group wide mentoring scheme to develop strong talent across the business. LSEG is a signatory to the UK 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. The Group continues to make progress against the stretch target it set itself in 2016 of 40% female representation for senior management and our overall population by 2020. See page 35 for further detail.

The Board has increased its gender diversity during the year by the appointment of an additional female director, Val Rahmani. The Board recognises it has more to do and remains committed to further restoring the gender diversity of the Board, a process that was paused ahead of the possible merger with Deutsche Börse and the disruption during the last quarter of 2017. At Board level, this will include continuing to request head hunters to ensure that as far as practicable a significant proportion of long lists of candidates are female and only using firms that have signed up to the voluntary code of conduct for Executive Search firms.

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

Nomination Committee priorities for 2018 are to:

- Identify a new CEO for recommendation to the Board
- Commence Chairman succession planning
- Review succession plans for the Executive team and Board



**Donald Brydon**  
Chairman  
2 March 2018

# Report of the Audit Committee



**Paul Heiden**  
Chairman of the  
Audit Committee

**The Audit Committee members as at 31 December 2017 were: Paul Heiden (Senior Independent Director), Jacques Aigrain, David Nish and Stephen O'Connor.**

**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 auditor 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 2017.**

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

- Monitored the tax and accounting implications of the acquisition of Mergent Inc. and The Yield Book and Citi Fixed Income Indices divisions of Citigroup. The Committee satisfied itself that the Executives in charge were managing all the aspects of the transactions 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 auditor 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 the merger was terminated after the European Commission's prohibition decision in March 2017
- Received and discussed reports from Executives on the key infrastructure initiatives of the Group including IT operations, the project management framework and the cybersecurity programme
- Discussed the internal processes and controls to ensure that the Group is compliant with the new UK legislation on the failure to prevent the criminal facilitation of tax evasion which became effective on 1 September 2017
- Discussed the Group financing proposal from Corporate Treasury for recommendation to the Board. This included the replacement of the £600 million revolving credit facility and the establishment of a £1 billion euro commercial paper programme
- Discussed a letter from the Financial Reporting Council (FRC) following its review of the annual report and accounts for December 2016. The Audit Committee agreed to update certain disclosures in the 2017 Annual Report disclosures to address the comments from the FRC, in particular the change of definition from non-recurring items to non-underlying items
- 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 2018 internal audit universe, internal audit plan and resources for the Internal Audit 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. Where gaps were identified, the Committee requested remediation plans to be put in place
- Continued to monitor the status of the implementation of the new Group-wide financial system throughout the year and satisfied itself that the project is delivering a more robust process for financial reporting
- Discussed the implications of the implementation of the new accounting standards; IFRS 15 on revenue recognition and IFRS 9 on the recognition and impairment of financial assets (IFRS 15 and IFRS 9 became effective starting 1 January 2018)
- Reviewed the whistleblowing arrangements of the Group and its own Terms of Reference

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 management actions recommended within the external audit management letter from EY
- 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, IFRS 9 and other developments in accounting standards, particularly on the Group's revenue recognition policies, and the related implementation by Finance
- Continuing to monitor progress on the key IT and infrastructure projects of the Group

**Paul Heiden**  
Chairman of the Audit Committee  
2 March 2018

# Report of the Audit Committee continued

## 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 auditor

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 4 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 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 auditor 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. The Chairman of the Board also attends the Committee on a regular basis.

Further details on the functions 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](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance).

## Activities in 2017

The Committee met 5 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 out 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 assessment of indicators of impairment on purchased intangible assets, 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 auditor, 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 Group 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 assessed the effectiveness of the Internal Audit function throughout the year using qualitative and quantitative indicators including:

- Completeness of the audit universe and the audit plan
- Quality of the methodology (updated at least once a year)
- Quality of the audit reports and the issues raised
- Consistency of the audit issues raised and their ratings
- Feedback from Executive Management on specific audits
- Key performance indicators such as percentage of the audit plan completed, duration of audits, distribution of audit ratings, percentage of past due actions and percentage of self identified issues

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 page 99.

**Oversight of the external auditor:**

The Committee assessed the effectiveness of the external audit process including the independence and quality of the Group's external auditor (EY) throughout the year. The Committee relied on its own judgment supported by the following evidence:

- The Committee received a report from management on their own evaluation of the effectiveness of the external auditor
- It received reports from EY on the status of their 2017 plan and the results of their work. The external auditor's reports were discussed at each Committee meeting and their views and opinions used to challenge decisions by Group Finance

- Evidence of matters referred for specialist review, technical review, second partner review and quality control
- The Committee also held separate meetings with EY at each Committee meeting without management being present

Based on all evidence presented, the Audit Committee satisfied itself that the external audit has been conducted independently and effectively with the appropriate rigor and level of testing.

The Committee approved the EY audit plan, the methodology used, the scope of the audit 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 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 2017.

The lead audit partner is required to rotate every 5 years and other key audit partners are required to rotate every 7 years. David Canning-Jones took over as lead audit partner in 2014. Having considered the performance of EY for the past 3 years, 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 2018 be proposed to shareholders at the AGM in April 2018.

**Report on external auditor's 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.

This policy prohibits certain activities from being undertaken by the auditors such as: accounting/bookkeeping services, internal auditing, tax and payroll services, executive recruitment and remuneration services and more generally any work where a mutuality of interest could compromise the independence of the auditors. The policy also places restrictions on the employment of former employees of the auditors. Recognising however 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 with the prior approval of the Committee.

A breakdown of audit and non-audit service fees paid and payable to the external auditor for the year ended 31 December 2017 and prior year is provided below and in Note 35 to the financial statements.

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
<b>Audit services</b>		
Audit of parent company and consolidated financial statements	1	1
Audit of subsidiary companies	2	2
Non-audit services	1	–
<b>Total</b>	<b>4</b>	<b>3</b>

**Note:** Ernst and Young LLP provided non-audit services of £640,201; 15% of total fees (2016: £823,056; 27% of total fees). This comprised of audit related assurance services of £463,602 (2016: £422,238) and other non-audit services of £176,599 (2016: £400,818).



# Report of the Audit Committee continued

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](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance).

## Other matters:

The annual Board Effectiveness Review included a review of the Committee. There were no major modifications to the functioning of the Committee resulting from this.

## Significant matters impacting the financial statements

Significant matters for January – December 2017	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 100–108). 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.
Acquisition of Mergent Inc. and The Yield Book and Citi Fixed Income Indices	In 2017 the Group completed the acquisition of Mergent Inc. for a total consideration of US\$147 million and The Yield Book and Citi Fixed Income Indices for US\$679 million. The activities of the businesses are being incorporated into the Information Services segment (ISD). The Audit Committee reviewed the methodology and the preliminary conclusions for the purchase price allocation to identify the appropriate intangible assets created as part of the acquisitions and fair value the acquisition balance sheets. See Note 30 to the financial statements.
Goodwill and acquired intangibles impairment assessment	The Audit Committee considered the approach and methodology applied to performing the detailed annual goodwill impairment assessment as well as the assessment for indicators of impairment of other purchased intangible assets as required under IAS 36, including the key assumptions for short and long-term growth rates, cash flow expectations and the discount rates 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 of the impairment review can be found in Note 1 to the financial statements on pages 115–119.
Implementation of the new finance system	The Audit Committee reviewed reports from the Finance function on the progress of the on-going implementation of the new Group-wide finance system throughout 2017. The Committee satisfied itself that the implementation of the new finance system has delivered a more robust process for financial reporting, and has not impaired data integrity, or the accounting of financial reporting in any way.

**Other topics of discussion in respect to the financial statements:****Disposal of non controlling interest in LCH S.A.**

LCH Group Holdings Ltd has completed a transaction with Euronext N.V. involving a share swap transaction. LCH Group Holdings Ltd has repurchased Euronext's 2.3% holding in LCH Group in exchange for a 11.1% holding in LCH S.A.. The Audit Committee reviewed the accounting entries to satisfy itself that with the exception of the reallocation of profit between equity shareholders and non controlling interests, there is no impact to the Group's income statement other than the charges from the advisor and contractor associated with negotiating the agreement. The movement in the respective shareholdings occurs in the equity account as there is no change in control. See Consolidated statement of changes in equity in 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 is needed to be recorded in the financial statements. See Note 29 to the financial statements on page 151.

**Non-underlying items:**

The Committee discussed and agreed on the classification of non-underlying items in the financial statements for the year. These are presented in Note 7 to the financial statements on pages 128–129.

**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-underlying items in the income statement.

**Financial viability statement**

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 98.

**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. In order to reach its conclusions, the 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 46–53 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 2017 Annual Report comprises 170 pages compared to the 176 pages of the 2016 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 2017 were Stephen O'Connor, Paul Heiden, David Nish, Val Rahmani and Andrea Sironi. Stuart Lewis (Chief Risk Officer, Deutsche Bank AG) acts as a special adviser to the Committee and is a standing invitee to meetings of the Risk 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 relating to risk management and the adequacy of the systems of internal controls in place to mitigate key risks.**

During the year ended 31 December 2017, the Committee met 4 times. In addition to its regular reviews of the Group's risk map, risk appetite, and emerging risks, the Committee focused on the integration of the newly acquired Mergent and Yield Book businesses and review of the risk profile of specific divisions as part of its regular programme – in 2017 the Committee reviewed the risk profile for the Information Services Division. The Committee also monitored specific geopolitical events and the programmes in place to implement MiFID II requirements across all subsidiaries subject to the legislation as well as the framework in place to manage the Group's cyber security risks, including the approval of the Group's cyber security strategy and related policies.

The Committee closely monitored the continued strengthening of the Group Risk Framework during the year including enhancements made to the cyber security framework and the development of an Economic Capital measure to allow for a better quantification of its operational risks. The monitoring of the Group's risk culture, which represents the foundation of the strong risk management capabilities within the Group, is considered at each meeting.

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 and the monitoring of the Group's Brexit contingency plans, preparedness and potential rollout, as the UK's negotiations with the EU enter its second phase.

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 subsidiaries.

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 read 'S O'Connor', written in a cursive style.

**Stephen O'Connor**  
Chairman of the Risk Committee  
2 March 2018

### 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 Chief Financial Officer, the Chief Risk Officer and the Group Head of Internal Audit are standing invitees to all Risk Committee meetings. 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](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance).

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/divisions 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-wide 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 risks of critical importance, such as risks relating to technology, cyber security, business continuity and disaster recovery, CCP operations, counterparty and reputational risks. It also receives reports on compliance with relevant regulatory requirements for each regulated entity of the Group.

### 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
- Approval of a new Economic Capital model for running in parallel throughout the year to monitor stability, consult further and refine model inputs
- Monitoring the rollout of the MiFID II compliance programme across all our relevant businesses
- Monitoring of the cyber security framework and enhancement programmes and approval of related policies
- Monitoring of geopolitical risks including the Group's Spanish exposure following the referendum in Catalonia
- Monitoring the delivery of actions to manage risks within risk appetite
- Monitoring the Mergent and The Yield Book business integration within the Information Services Division

- 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-wide Risk Management Framework and of the Risk function
- Reviewing an assessment of the credit risk of the pension plan buy-in provider
- Overseeing adequacy of the counterparty limits and ad hoc counterparty credit risk analysis performed as required
- Reviewing detailed reports of the risk profiles of the Group's material businesses 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 60
- Reviewing the adequacy of the Group's Business Continuity Management plans and management programme
- Approving and recommending for approval key policies relating to risk and the terms of reference for the Risk Committee
- Monitoring the Executive performance report on risk culture (awareness, transparency and accountability) which is also shared with the Remuneration Committee
- 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 Interim 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 2017. The report includes our Remuneration Policy Report and the Annual Report on Remuneration.**

### Context

At our April 2017 AGM, shareholders voted 98.5% in favour of our Remuneration Policy. As a result of our proposed merger with Deutsche Börse, we did not make any amendments to our policy in 2017 and appreciated shareholder support for our approach.

We made a commitment to review our policy in the event that the merger did not proceed and as such, the following enhancements are being incorporated into our policy for operation in 2018 to further align to shareholder expectations and corporate governance best practice:

- The mandatory deferral of 50% of bonus will be into shares only
- A 2 year holding period will be added to the current 3 year performance period of the Long Term Incentive Plan (LTIP), resulting in a total 5 year period from the date of grant; and
- The Minimum Shareholding Requirement (MSR) will be increased from 200% to 300% of base salary

We are grateful for shareholder feedback in helping to shape and develop our revised policy. The Remuneration Committee (the Committee) believes that these enhancements ensure that our Remuneration Policy continues to align executive remuneration and shareholders' long-term interests.

As the additional elements provide strong market alignment, it is not our intention to present a new policy for approval. We will continue to engage with shareholders and monitor good practice developments ahead of our AGM in 2020, where it is anticipated that a revised Remuneration Policy will be presented for approval.

### Performance 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 continued to execute on our strategy and achieved a strong financial and operational performance with growth across our core businesses, delivering on a number of new initiatives and developing our customer partnership approach. Total income from continuing operations rose to £1,955 million, up 18%. AOP increased by 18% (£126 million) to £812 million and operating profit increased 47% to £626 million.

This strong performance reflects double-digit growth in our FTSE Russell and LCH OTC clearing businesses, supported by a robust capital markets performance against challenging market conditions.

- Our Information Services Division's revenue for FY2017 was £736 million (2016: £595 million), within which FTSE Russell has continued to perform strongly with a 33% increase in revenue to £546 million (2016: £409 million). Within this performance the US\$48 million run rate 5 year acquisition revenue synergies of the Russell Indexes business, acquired in 2014, have been achieved. In January 2017 we acquired Mergent Inc, and in August we acquired The Yield Book and Citi Fixed Income Indices businesses, which will both support the growth of FTSE Russell's core index offering.
- LCH's income for FY2017 increased 26% to £562 million (2016: £447 million). SwapClear saw a 31% increase in clearing volumes, clearing a total US\$874 trillion (2016: US\$666 trillion) for its members and their clients. The LCH SwapAgent service for uncleared products went live in May 2017.
- In our capital markets business, revenues increased 6% to £391 million (2016: £368 million) and 194 new companies were admitted to our markets in the year, up 45% on 2016, with 9 out of 10 of the top IPOs by size coming from outside of the UK, underlining its position as the leading global listing venue for international companies.
- Income for Post Trade services in Italy increased 3% to £151 million (2016: £147 million).
- FY2017 revenue for the technology division was £91 million (2016: £88 million). At the end of 2017 and in early 2018 we confirmed the disposal of 2 non-core technology businesses: MillenniumIT ESP and Exactpro.



The Group has delivered another strong financial performance with growth across all core business areas. Although the proposed merger with Deutsche Börse failed for exogenous reasons it involved immense management effort. Despite the significant resources and focus required to progress the merger discussions, the business continued to outperform on financial targets during and after the process.

#### **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 79% and 82% of their maximum opportunity.

#### **Share plan vesting**

90.5% of the LTIP awards made in 2014 vested during 2017. AEPS increased from 98.6p (FY to end March 2014) to 129.7p over the period to the end of December 2016, resulting in 81% of the AEPS element vesting. TSR increased by 120% over the period to August 2017, resulting in 100% of the TSR element vesting.

As shown in our 'Single total figure of remuneration' table, the AEPS element of the LTIP awards made in 2015 will vest in full. Based on performance to date it is forecast that the TSR element will also vest in full, however this will be confirmed following the end of the performance period in April 2018 and will be disclosed in our FY2018 DRR. The achievement of stretching targets year on year has delivered significant value. These vesting outcomes reflect AEPS growth of 14.6% year on year and 12.9% compound annual growth rate (CAGR) over the 3 year performance period; and annualised TSR performance to date for these 2015 grants is 19% p.a., incorporating share price growth of 29% in 2017.

During 2017, a significant number of our employees benefited from the maturity of our 2 Sharesave schemes launched in 2014. The 2017 Sharesave Invitation extended the expanded Group's participation overall to 52% of eligible employees, incorporating colleagues in Malaysia and those joining from Mergent Inc. and The Yield Book businesses.

#### **Salary review for Executive Directors**

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

As was announced on 29 November 2017 in connection with his appointment as interim CEO, David Warren was granted a 'step-up' allowance of £212,000, to be paid in addition to his current base salary of £488,000 for the duration of his appointment as interim CEO, providing a new interim salary of £700,000.

The Committee has decided to increase Mr Warren's base salary for his role as Chief Financial Officer to £500,000, which is in line with average employee salary increases of 2.5%. Further details of Mr Warren's remuneration arrangements as interim CEO are provided in the 'Remuneration arrangements for the interim Chief Executive Officer' section on the following page.

The Committee has decided to increase the salary of Raffaele Jerusalem, Chief Executive Officer of Borsa Italiana and Director of Capital Markets to €525,000, recognising the value of his role as an Executive Director. The increase of 1% is below average employee salary increases of 2.5%.

#### **LTIP awards to be made in 2018**

LTIP awards to be granted in 2018 will be granted under our 2014 shareholder-approved plan.

David Warren will be granted a LTIP award of 300% and Raffaele Jerusalem will be granted a LTIP award of 275% of salary in 2018, reflecting their criticality and providing strong alignment to the performance of the Group.

#### **Operation of 2018 annual bonus**

The operation of the 2018 annual bonus will continue to be focused on financial targets, strategic initiatives and personal contribution.

#### **Share plan rules and approvals**

We will seek shareholder approval for 4 share plans at our forthcoming AGM, reflecting routine course of business and our continued commitment to alignment with shareholder interests through employee share ownership. The plans are summarised below and detailed on page 86.

- Renewal of our approved International Sharesave Plan, which reaches the end of its 10 year lifespan in July 2018
- Approval of our Restricted Share Award Plan, which reaches the end of its 10 year lifespan in May 2018. The plan will continue to be used primarily for key new hires to replicate deferred compensation forfeited from prior employment (reflecting the increased prevalence of deferred compensation structures in the markets in which we operate) and for the retention of key talent during acquisitions. The plan will not be used on a normal basis for Executive Directors and will not form part of any of their normal long term incentive; and
- The introduction of a UK tax-favoured all-employee Share Incentive Plan (SIP) and an equivalent international arrangement

# Directors' Remuneration Report continued

## Statement by the Chairman of the Remuneration Committee

### Summary of key executive remuneration decisions

Role	Interim Chief Executive Officer/ Chief Financial Officer	Executive Director, CEO of Borsa Italiana & Director of Capital Markets	Departing Chief Executive Officer (stepped down on 29 November 2017)
Name	David Warren	Raffaele Jerusalemi	Xavier Rolet
Previous salary (with effect from 1 April 2017)	£488,000 <sup>2</sup> + £212,000 'step-up' allowance	€520,000	£800,000
Annual salary (with effect from 1 April 2018)	£500,000 <sup>2</sup> (+2.5%) + £200,000 'step-up' allowance	€525,000 (+1%)	n/a
Bonus for financial year ending 31 December 2017	% of salary	164% of salary <sup>3</sup>	177% of salary <sup>5</sup>
	% of maximum	82%	79% <sup>5</sup>
	£ total amount	£827,000	£1,300,000
	Of which 50% is deferred <sup>1</sup>	£413,500	£650,000
Max. bonus opportunity (% of salary)	200%	200%	225%
LTIP award (subject to performance)	300% of Salary (£1,500,000) <sup>4</sup>	Sterling equivalent of 275% of Salary (€1,443,750) (at prevailing rate at time of grant)	n/a

- All Executive Directors meet the MSR and so, in relation to 2017 performance and policy, 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. From 2018 performance year, deferral will be mandated 100% into shares
- Interim salary of £700,000 including 'step-up' allowance for the duration of his appointment as interim CEO
- Percentage of full year salary of £506,000, comprising 11 months at £488,000 base salary and 1 month at £700,000 interim salary
- LTIP award of 300% of £500,000 i.e. does not include 'step-up' allowance
- Bonus awarded only for 11 months worked in 2017

### Departure arrangements for the Chief Executive Officer

As announced on 29 November 2017, Xavier Rolet agreed to step down from his role as Chief Executive Officer and Director of LSEG plc. with immediate effect.

The financial terms associated with his departure were agreed with Mr Rolet at the time of the CEO succession announcement on 19 October 2017. We are honouring these agreed contractual commitments, all of which are in accordance with the shareholder-approved Remuneration Policy and are detailed on pages 76–80.

### Remuneration arrangements for the interim Chief Executive Officer

As announced on 29 November 2017 in connection with the departure arrangements for Mr Rolet, David Warren was appointed as interim CEO with immediate effect. As part of this appointment, changes were made to his terms until a permanent CEO successor is appointed.

Mr Warren was granted a 'step-up' allowance of £212,000 in addition to his current base salary of £488,000 for the duration of his appointment as interim CEO, providing a new interim salary of £700,000. As stated in the 'Salary review for Executive Directors' section above, the Committee has decided to increase his base salary in relation to his role as Chief Financial Officer by 2.5% to £500,000. His 'step up' allowance will be reduced by £12,000 to £200,000, providing an unchanged interim salary of £700,000 for the duration of his appointment as interim CEO.

Full details of Mr Warren's remuneration arrangements are detailed on page 87.

### 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 are grateful for shareholder feedback in helping to shape our enhanced policy and we look forward to your support for these proposals at the forthcoming AGM.



### Jacques Aigrain

Chairman of the Remuneration Committee

2 March 2018

## 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 2 sections:

### **Remuneration Policy Report Summary (pages 76–80)**

The Remuneration Policy Report was subject to a binding shareholder vote at the 2017 AGM and was passed with 98.5% support. As explained in the Chairman's statement, we have incorporated a number of enhancements to our policy to align with good market practice. As the enhancements are deemed preferential to shareholders, we are not seeking approval for a new policy.

A summary of the Policy Report, including these enhancements, is set out on pages 76 to 80. The full Remuneration Policy Report is set out in the 2016 Directors Remuneration Report as part of our 2016 Annual Report.

### **Annual Report on Remuneration (pages 81–94)**

This section sets out how remuneration arrangements have been operated during the past financial year (12 months from January to December 2017), and also provides details on how we intend to operate our policy during the coming year FY2018. This report will be put to an advisory vote at the 2018 AGM.

The Annual Report on Remuneration includes detail on both the departure terms for the Chief Executive Officer and the employment terms applicable to the interim Chief Executive Officer (see further detail on page 87), all of which are in accordance with the existing shareholder-approved Remuneration Policy.

The Annual Report on Remuneration also includes detail on 4 share plans for which we will seek shareholder approval at our forthcoming AGM (page 86).

# Directors' Remuneration Report continued

## Remuneration Policy Report

Our Remuneration Policy Report was subject to a binding shareholder vote at the 2017 AGM and was approved with 98.5% of the votes. Accordingly, it had a binding effect on the Group from that date. However, as stated in the Chairman's statement, we have incorporated a number of enhancements to our policy to align with good market practice. A summary of the Policy Report, including these enhancements, is set out on pages 76 to 80. The full Remuneration Policy Report is set out in the 2016 Directors Remuneration Report as part of our 2016 Annual Report.

### Current policy table for Executive Directors

A summary of the key elements of remuneration for Executive Directors is shown in the following table and includes the following enhancements to our policy for operation from FY2018:

#### ENHANCEMENTS TO POLICY FOR 2018:

- **The mandatory deferral of 50% of bonus will be into shares only**
- **A 2 year holding period will be added to the current 3 year performance period of the LTIP, resulting in a total 5 year period from the date of grant; and**
- **The Minimum Shareholding Requirement (MSR) will be increased from 200% to 300% of base salary**

**The above enhancements are highlighted in the summarised Policy Report, for ease of reference.**

The Remuneration Policy is designed to support the long term interests of the Group. 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 and 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

#### FURTHER INFORMATION

The full Remuneration Policy Report is set out in the 2016 Directors Remuneration Report as part of our 2016 Annual Report, which can be found on our website: <https://www.lseg.com/investor-relations/presentations-and-webcasts/annual-reports>.

ELEMENT	Salary
<b>PURPOSE AND LINK TO STRATEGY</b>	Provides a core element of remuneration which reflects the responsibilities of the role.  Enables the recruitment and retention of individuals of the calibre required to execute the Group's strategy.
<b>OPERATION</b>	Base salaries are normally reviewed annually by taking into account a range of factors, including: <ul style="list-style-type: none"> <li>– size and scope of the role;</li> <li>– skills and experience of the individual;</li> <li>– market competitiveness/relative positioning; performance of the Group and of the individual; wider market and economic conditions; and</li> <li>– level of increases being made across the Group.</li> </ul> Any changes are normally effective from 1 April each year.
<b>MAXIMUM OPPORTUNITY</b>	There is no defined maximum salary.  Increases are determined based on the factors described in the Operation row.  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.  The annual base salaries in FY2017 and for FY2018 for each Executive Director are set out in the Annual Report on Remuneration.
<b>PERFORMANCE MEASURES</b>	n/a

ELEMENT	Benefits	Retirement benefits
<b>PURPOSE AND LINK TO STRATEGY</b>	Provide local market competitive benefits and support the wellbeing of employees.	Provide Executives with retirement benefits. Support recruitment and retention of high-calibre people.
<b>OPERATION</b>	<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>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>
<b>MAXIMUM OPPORTUNITY</b>	<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 Jerusalmi accrues 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 <i>Trattamento di Fine Rapporto</i> (TFR), he receives contributions which are funded by the Group at a rate fixed by local law and which are paid to Mr Jerusalmi's private pension plan. TFR is calculated on salary, capped benefits, annual bonus and LTIP.</p>
<b>PERFORMANCE MEASURES</b>	n/a	n/a



# Directors' Remuneration Report continued

## Remuneration Policy Report

ELEMENT	Annual bonus	LTIP (Long Term Incentive Plan) 2014	Share ownership
<b>PURPOSE AND LINK TO STRATEGY</b>	<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>	Ensures alignment with shareholders' interests.
<b>OPERATION</b>	<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"> <li>– 50% of the annual bonus will be subject to mandatory deferral, normally for a period of 2 years.</li> <li>– <b>Enhancement: Bonus deferral will be 100% into shares.</b></li> <li>– Dividends (or equivalents) may be paid in respect of deferred shares on vesting.</li> <li>– Deferred awards are subject to malus provisions as described below. Paid bonuses and vested awards are subject to clawback as described below.</li> </ul>	<ul style="list-style-type: none"> <li>– 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.</li> <li>– <b>Enhancement:</b> Awards normally vest subject to performance targets assessed over a performance period, normally of at least 3 financial years <b>with an additional holding period of 2 years.</b> The Committee has discretion to set different performance periods if it considers them to be appropriate.</li> <li>– 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.</li> <li>– 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.</li> </ul>	<p><b>Enhancement:</b> Executive Directors are expected to build up share ownership over a period of 5 years <b>and maintain holdings of at least 3x base salary.</b></p>
<b>MAXIMUM OPPORTUNITY</b>	Maximum annual bonus opportunity of 225% of salary for CEO and 200% of salary for other Executive Directors for maximum performance.	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.	
<b>PERFORMANCE MEASURES</b>	<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**

**Malus and clawback provisions**

A malus provision applies to awards granted under the 2014 LTIP and to invested 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 3 years following vesting of shares/deferred cash bonus and/or payment of bonus, unless the Committee determines otherwise.

**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 7 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**

<b>Annual bonus</b>	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.
<b>Deferred Bonus Plan 2014</b>	<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>
<b>Long-Term Incentive Plan 2014</b>	<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>Invested awards are subject to malus and vested awards are subject to clawback as detailed above.</p>

# Directors' Remuneration Report continued

## Policy for Non-Executive Directors

Approach to setting fees	Basis of fees	Other items
<p>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.</p> <p>The Chairman's fee is determined by the Remuneration Committee, and the Board is responsible for determining all other Non-Executive Director fees.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Details of current fees are set out on page 88 of the 2017 Annual Report.</p>	<p>Non-Executive Directors receive a basic annual fee with additional fees payable for committee chairmanship.</p> <p>Certain Non-Executive Directors are also entitled to receive fees from subsidiary companies.</p> <p>The Non-Executive Chairman of the Group and Senior Independent Director receive an all-inclusive fee for the role.</p> <p>Fees are neither performance-related nor pensionable.</p> <p>Non-Executive Directors are not eligible to participate in the annual bonus or LTIP plans and are not entitled to any payments on termination.</p>	<p>Non-Executive Directors do not receive any benefits or entitlements other than their fees and reasonable expenses.</p> <p>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.</p> <p>Non-Executive Directors are covered by the Directors' and Officers' insurance and indemnification.</p>

Non-Executive Directors have letters of appointment with no notice period except for the Group Chairman who has a notice period of 6 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 3 years from the date of appointment and are also subject to re-election by shareholders.

## Annual Report on Remuneration

This section sets out how remuneration arrangements have operated during the past financial year (FY2017), and also provides details on how we intend to operate our policy during the coming year (FY2018). This report will be put to an advisory vote at the 2018 AGM. The information from this page 81 to page 94 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	David Warren				Raffaele Jerusalem <sup>8</sup>				Xavier Rolet <sup>10</sup> (stepped down on 29 November 2017)			
	FY2017 £000	% of total	FY2016 £000	% of total	FY2017 £000	% of total	FY2016 £000	% of total	FY2017 £000	% of total	FY2016 £000	% of total
<b>Fixed pay</b>												
Salary	502		465		453		415		733		788	
Flexible benefits allowance	20		20		–		–		18		20	
Benefits	134 <sup>3</sup>		131		27 <sup>5</sup>		24		120 <sup>11</sup>		42	
Pension	121 <sup>2</sup>		116		292 <sup>6</sup>		254		183 <sup>2</sup>		197	
Other	–		–		233 <sup>7</sup>		177		–		–	
	776	22%	733	24%	1,005	31%	870	23%	1,055	19%	1,046	15%
<b>Pay for performance</b>												
Annual bonus	827		849		727		744		1,300		1,643	
Long term incentives:	1,984 <sup>4</sup>		1,429 <sup>4</sup>		1,548 <sup>1</sup>		2,096 <sup>9</sup>		3,209 <sup>1</sup>		4,191 <sup>12</sup>	
	2,811	78%	2,278	76%	2,275	69%	2,840	77%	4,509	81%	5,834	85%
<b>Total remuneration</b>	<b>3,587</b>		<b>3,011</b>		<b>3,280</b>		<b>3,710</b>		<b>5,564</b>		<b>6,880</b>	

#### Notes to the table:

- Value for Long Term Incentives shown for FY2017 represents estimated value of share awards granted in 2015 that vest in April 2018. The estimate is based on the confirmed 100% vesting of the EPS element and forecast 100% vesting of the TSR element, which will be confirmed in April 2018. The value is based on a 3 month average share price from 1 October 2017 to 31 December 2017, being £38.07.
- Annual pension allowance of 25% of salary.

#### David Warren

- Benefits include the cash value of private medical, income protection and life assurance plus expatriate allowances and commuting expenses (including car transportation where appropriate) with associated taxes.
- 36,189 Performance shares vested on 27 August 2017 at £39.50 per share. This equates to £1,429,466.

#### Raffaele Jerusalem

- 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 Jerusalem's pension plan for the 12-month period.
- FY2017 rate of £1 = €1.14 and FY2016 rate of £1 = €1.22.
- 53,067 Performance shares vested on 27 August 2017 at £39.50 per share. This equates to £2,096,147.

#### Xavier Rolet

- Data reflects the 11-month period worked during 2017 as CEO. Bonus awarded only for 11 months worked in 2017; all other elements are pro-rata for this 11 month period.
- Benefits included the cash value of private medical, income protection and life assurance, Save As You Earn (SAYE) and commuting expenses with associated taxes (including car transportation where appropriate). The data also incorporates legal fees incurred in agreeing departure arrangements in relation to the proposed merger with Deutsche Börse and subsequently with the departure arrangements that were agreed in October 2017. Mr Rolet contributed £500 per month to the SAYE plan in January and £250 per month between February and December 2017. SAYE has been valued based on the monthly savings amount and the discount provided (20%)
- 106,111 Performance shares vested on 27 August 2017 at £39.50 per share. This equates to £4,191,385.

# Directors' Remuneration Report continued

## Annual Report on Remuneration

### **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 SAYE Scheme (or international equivalent).

Xavier Rolet and David Warren receive a flexible benefits allowance of £20,000 per annum, which is unchanged since last year. In addition they receive benefits in kind which include private health care, permanent health insurance and life assurance arrangements.

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 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 that include 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 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 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.

##### **Bonus awarded for FY2017**

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 FY2017 annual bonus is as per last year. For the financial year ending 31 December 2016, the Committee determined that the sole annual financial target should again be AOP. The Committee considers AOP 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 2016, the maximum bonus opportunity is 225% of salary for the Chief Executive Officer and 200% of salary for other Executive Directors. For 2016 the balance between financial and strategic objectives for the Group bonus pool was 60:40, increased from 50:50 in 2015, reflecting the increasing importance of financial performance to the Group. This 60:40 balance is unchanged for 2017.

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.



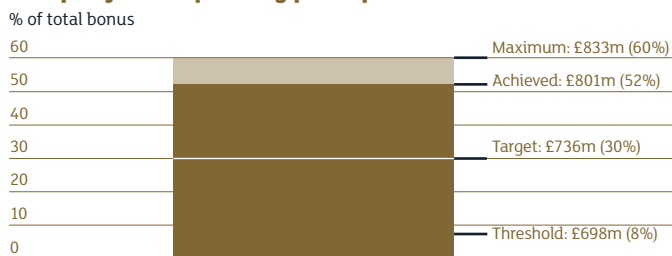
**Determination of Bonus for FY2017**

The Committee determined the overall Group bonus pool with reference to the 12 month performance period ending 31 December 2017. The performance measures and targets are set out below:

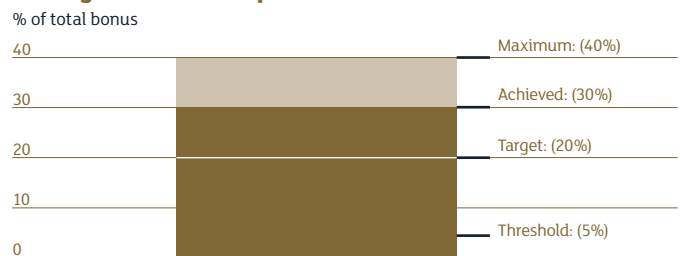
		<b>Actual performance</b>	<b>Target</b>	<b>Performance relative to target</b>	<b>Maximum percentage of bonus</b>	<b>Actual percentage of bonus</b>
<b>FY2017</b>	<b>Group AOP</b>	FY2017 AOP of £801m. <sup>3</sup>	FY2017 AOP of £736m.	Above target	60	52%
<b>Group Bonus Pool</b>	<b>Strategic Deliverables</b>	<ul style="list-style-type: none"> <li>– Robust management and growth of core business during and subsequent to proposed merger with Deutsche Börse. Although the proposed merger failed for exogenous reasons, it involved immense management effort. Despite the significant resources and focus required to progress the discussions, the business continued to outperform on financial targets during and after the process;</li> <li>– Successful and well-received Investor Day held in June 2017;</li> <li>– Leadership of regulatory engagement – navigation and execution of Brexit strategy and successful preparation for go-live of MiFID II;</li> <li>– Growth in international markets and global reach – through our global brands FTSE Russell and SwapClear in the US and Asia, and strengthening relationships with Middle East and China;</li> <li>– Successful acquisitions of Mergent Inc. and The Yield Book fixed income analytics platform and Citi Fixed Income Indices business;</li> <li>– Achievement of FTSE-Russell indexes integration 5 year revenue synergies of US\$48 million;</li> <li>– Strategic increase of shareholding in LCH Group from 58% to 66% and 10 year derivatives clearing partnership with Euronext N.V.;</li> <li>– LCH S.A. launched CDS/Clear client clearing and repo clearing on German debt;</li> <li>– Launch of LCH SwapAgent, a service designed to simplify the processing, margining and settlement of non-cleared derivatives, and other key new products;</li> <li>– £2 billion EMTN strengthening debt capital structure, facilitating future investments;</li> <li>– Delivery of BSL into full operation in Sri Lanka and substantial subsequent upscaling; and</li> <li>– Focus on core operations through the disposal of non-growth and low margin businesses, for example ISPS, MillenniumIT ESP and Exactpro.</li> </ul>		Above target	40	30%
<b>Total</b>					<b>100</b>	<b>82%</b>

1. AOP excludes amortisation of purchased intangibles, non-underlying items and unrealised net investment gains/losses at LCH
2. For the FY2017 Group AOP bonus measure, Threshold was set at Target minus 5% and Maximum was set at Target plus 13%
3. For 2017 the Remuneration Committee excluded £11 million contribution by The Yield Book businesses from AOP for the Group bonus pool calculation

**Group adjusted operating profit performance**



**Strategic deliverables performance**



1. Actual result for Group AOP performance is 86% of maximum
2. Actual result for Strategic deliverables performance is 75% of maximum

# Directors' Remuneration Report continued

## Annual Report on Remuneration

### Interim Chief Executive Officer and Chief Financial Officer

As well as being an exemplary Group CFO, David Warren has stepped up as interim CEO, providing vital continuity and leadership during the period of change for the Group.

David has led the focus on all aspects of financial performance, driving income growth by focusing on a successful mix of core product lines, supporting new opportunities and ensuring successful integration of recent acquisitions. Notable integration success includes Russell Indexes, where the Group has achieved the 5 year US\$48 million revenue synergies from the acquisition 2 years ahead of target. As the Group's income grows, David has reinforced continued discipline in operating cost levels and focus on delivering value from our investments for growth.

David has led the Group through several refinancing activities in 2017: Refinancing of short dated facilities, rebalancing of bank/bond debt mix with €1 billion Euro bond and £600 million 5 year bank facilities, plus £1 billion Euro CP Programme launched, strengthening debt capital structure, materially reducing borrowing costs and strengthening lending appetite that would facilitate further small/medium sized investments. This activity and the translation of Group financial performance into a strong cashflow has seen credit rating upgrades from both Standard & Poors and Moody's in the year, enhancing lending bank appetite to provide headroom for further investments.

David was central to the Group's M&A activities in the year, which included the acquisition of Mergent Inc, a leading provider of business and financial data on public and private companies; and The Yield Book fixed income analytics platform and Citi Fixed Income Indices, an index business including the World Government Bond Index (WGBI). In addition, our shareholding of LCH Group was increased from 57.8% to 65.9% and a 10-year derivatives clearing partnership was achieved with Euronext N.V.

David has also led the focus on core operations through the disposal of our non-growth and low margin businesses, including ISPS, Exactpro and MillenniumIT ESP.

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

In addition to his responsibilities as an Executive Director for the Group, Raffaele Jerusalmi has led our capital markets and Post Trade divisions in Italy. Against a challenging macroeconomic backdrop and low levels of volatility he has continued to promote innovation and drive growth. Capital markets had a 6% increase in revenues to £391 million (FY2016: £368 million).

The Group welcomed 194 companies to our markets in the year, raising a combined total of £44.2 billion (2016: £25.6 billion) in new and further issues. This has been achieved despite significant levels of uncertainty around the potential outcomes of the Brexit negotiations between the EU and UK which has required significant engagement with key stakeholders.

Other notable achievements include preparing our business for the launch of MiFID II in January 2018, AIM capital raised since launch reaching £105 billion, launch of the ELITE Basket Bond, and launch of the International Securities Market in London. In addition to the new products launched in-year, 2017 has seen growth in products launched in 2016 such as CurveGlobal and ELITE Club Deal as our customers respond positively to our continued innovation.

### Departing Chief Executive Officer

The Group has delivered another strong financial performance with growth across all core business areas. Although the proposed merger with Deutsche Börse failed for exogenous reasons, it involved immense management effort and despite the significant resources and focus required to progress the merger discussions, the business continued to outperform on financial targets during and after the process.

Following the strong historic financial performance, the Executive Directors and key members of the of the Group's Leadership Team held a successful and well-received Investor Day in June 2017, whereby our investors were updated on our medium term performance expectations and financial targets.

The Group's openness to innovation was demonstrated by the launch of numerous new products, services and initiatives that expand and leverage our open access strategy. Notable examples include: International Securities Market, ELITE Basket Bond €112 million 10-year bond, LCH SwapAgent, CDS/Clear client clearing, MTS Global Collateral Management and the launch of Russell 2000 Index futures on CME's Globex platform.

Despite strong economic performance, aspects of Xavier's operating style and the uncertainty surrounding whether or not he was prepared to give his consent to continue in office if the second resolution of the 19 December 2017 General Meeting was passed negatively impacted relationships between him and the Board. As was announced at the time, Xavier's garden leave was accelerated and he agreed to step down as CEO on 29 November 2017, resulting in him working 11 of 12 months of the year. The Committee considered this and deemed it appropriate to pro-rate his FY2017 bonus accordingly.

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

Role	Interim Chief Executive Officer / Chief Financial Officer	Executive Director, CEO of Borsa Italiana & Director of Capital Markets	Departing Chief Executive Officer (stepped down on 29 November 2017)
<b>Bonus for FY2017</b>	<b>% of salary</b>	164% of salary <sup>1</sup>	160% of salary
	<b>% of maximum</b>	82% <sup>1</sup>	80%
	<b>£ total amount</b>	£827,000	£830,000
	<b>Of which 50% is deferred</b>	£413,500	£415,000
<b>Bonus Component</b>	<b>Financial Performance (55%)</b>	86% of maximum	86% of maximum
	<b>Strategic Deliverables (35%)</b>	75% of maximum	75% of maximum
	<b>Personal Objectives (10%)</b>	80% of maximum	60% of maximum
			50% of maximum

1. Percentage of full year salary of £506,000, comprising 11 months at £488,000 base salary and 1 month at £700,000 interim salary

2. Bonus awarded in relation to the 11 months worked as CEO in 2017

**Compulsory deferral under existing Remuneration Policy**

Executive Directors must compulsorily defer 50% of their bonus for a period of 2 years. This provision applies to the bonus amount for the FY2017 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 3 different approaches: 100% of the deferral amount into shares; 50% into shares and 50% into cash; or 100% into cash.
- Dividend equivalents will be paid in respect of deferred shares on vesting.
- Any deferral into shares will be disclosed at a later date once confirmed.

**Long term incentive plan (LTIP)**

All currently outstanding LTIP awards have been made under the 2014 LTIP.

**Awards granted in August 2014 with a performance period ended in FY2017**

The performance period for the absolute TSR element of the Performance Share awards ended in August 2017. The awards granted in 2014 were based on absolute TSR performance in the 3 years from grant, and adjusted EPS performance in the 33-month performance period to December 2016. Over the period annualised absolute TSR performance in the 3 years to August 2017 was 30% per annum and therefore vested at 100% for this element. The Company also delivered average adjusted EPS growth of 10.5% per annum over the performance period and therefore vested at 81%. Vesting price as at 27 August 2017 was £39.50.

**Awards granted in April 2015 with a performance period ending in FY2018**

The value shown in the single figure table on page 81 for the financial year ending December 2017 represents the estimated value of the 2015 awards which will vest in April 2018. The estimate is based on the confirmed 100% vesting of the EPS element and forecast 100% vesting of the TSR element, which will be confirmed in April 2018. The estimated value is based on a 3 month average share price from 1 October 2017 to 31 December 2017. 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 FY2018.

The performance conditions applying to awards granted in April 2015 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% p.a.	Less than 8% p.a.	0%
6% p.a.	8% p.a.	25%
12% p.a. or more	16% p.a. or more	100%

Straight-line pro-rating applies between these points

Further to the financial year-end change, awards made in FY2015 and onwards returned to being measured over 36 months, on a calendar year basis, for EPS. The financial year-end change did not affect the TSR measurement period which remained 3 calendar years from grant. Vesting remained at 36 months.

**LTIP Awards Granted in FY2017 (Audited)**

Awards during FY2017 were granted in April under the LTIP and were made with a value of 300% of salary for David Warren, 275% of salary for Raffaele Jerusalemi (at rate of £1 = €1.18), and 300% for Xavier Rolet. The same EPS performance conditions and vesting schedules described above for 2015 awards also apply to these 2017 awards; similarly for TSR, except that the TSR performance range was set at 6% to 14% further to shareholder consultation at that time.

	Interim Chief Executive Officer / Chief Financial Officer	Executive Director, CEO of Borsa Italiana & Director of Capital Markets	Departing Chief Executive Officer (stepped down on 29 November 2017)
<b>2014 LTIP (Nil-cost performance options) granted on 3 April 2017<sup>2</sup></b>	<b>% of salary</b>	300% of salary	275% of salary
			300% of salary
	<b>Face value</b>	£1,464,000	£1,214,128 (being sterling equivalent of €1,430,000 on date of grant)
	<b>Share price<sup>1</sup></b>	£31.71	£31.71
	<b>Number of LTIP shares granted</b>	46,168	38,288
			75,685

1. The share price of £31.71 was determined using the closing price (MMQ) on 31 March 2017 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 3 year performance period which will end on 2 April 2020. EPS is measured over 3 financial years ending 31 December 2019 and compared to the FY2016 baseline

# Directors' Remuneration Report continued

## Annual Report on Remuneration

### 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 3 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, including Executive Directors, who are not based in the UK on similar terms to the options that are available to UK employees through the SAYE. Employees in France, Hong Kong, Italy, Malaysia, Sri Lanka and the US participate in the ISP. As a core component of our employee proposition and benefits offering it acts as a modest retention tool with over 50% of eligible employees participating globally.

Xavier Rolet contributed £250 per month into the 2014–2017 scheme prior to its maturity date in March 2017 and contributes £250 per month into the 2015–2018 SAYE scheme.

### Share plan rules and approvals

We will seek shareholder approval for 4 share plans' rules at our forthcoming AGM. These reflect routine course of business as well as our continued commitment to alignment with shareholder interests through employee share ownership.

- Renewal of our approved International Sharesave Plan (ISP), which reaches the end of its 10 year lifespan in July 2018. As detailed in the 'Other share plans' section above, the plan currently operates in 6 countries and over 50% of eligible employees participate globally.
- Approval of our Restricted Share Award Plan, which reaches the end of its 10 year lifespan in May 2018. The plan will continue to be used primarily for key new hires to replicate deferred compensation forfeited from prior employment (reflecting the increased prevalence of deferred compensation structures in the markets in which we operate) and for the retention of key talent during acquisitions. The plan will not be used on a normal basis for Executive Directors and will not form part of any of their normal long term incentive; and
- The introduction of a UK tax-favoured all-employee Share Incentive Plan (SIP) and an equivalent international arrangement. Together with our existing UK and International Sharesave plans, the SIP is intended to present an opportunity for an all-employee offering including those jurisdictions where we do not operate Sharesave, as our footprint extends through acquisition and increased global reach.

Should the Restricted Share Award Plan be utilised as one component of any incoming Executive's deferred compensation buyout, full consideration would be given to shareholder expectations and the Plan's use and award construct be fully disclosed. Any such award would be consistent with the shareholder-approved Remuneration Policy.

**Remuneration arrangements for the departing Chief Executive Officer:**

As has been announced, Xavier Rolet stepped down from his role as CEO and Director of LSEG plc on 29 November 2017 after almost 9 years of service.

The financial terms below were agreed with Mr Rolet in October 2017 in connection with his announced departure and all are in line with the shareholder approved Remuneration Policy 2017. The Company is honouring those contractual commitments.

The following arrangements will apply in respect of Mr Rolet's notice period:

- Mr Rolet's 12 month notice period commenced on 29 November 2017 and will be spent on garden leave.
- He may accelerate his termination on 4 weeks' notice (in which case he will receive a payment in lieu of notice, calculated by reference to base salary and contractual benefits. Such payment would be made in instalments and subject to reduction if alternative employment or engagement is secured).
- During his garden leave Mr Rolet will be available to be consulted at the Board's discretion.

Other terms agreed with Mr Rolet in October 2017, which were the subject of careful consideration by the Committee, are as follows:

- Annual bonus – Mr Rolet received a bonus for the 11 months he worked as CEO in FY2017, 50% of which will be deferred until March 2020. He will be not be eligible for a bonus in respect of FY2018.
- Deferred bonus – he will be a 'good leaver' and awards will vest, in line with vesting schedules, in March 2018, 2019 and 2020.
- LTIP – he will be a 'good leaver' and awards will vest on a 'wait and see' basis in line with existing vesting schedules and subject to the normal performance conditions.
  - No time pro-rating will apply to his 2015 award as it is anticipated he will still be on notice on its vesting date on 2 April 2018.
  - As it was anticipated that he would have been in employment for the 3 full financial years applicable to the 2016 LTIP award, the Committee determined that this award would vest in full subject to the achievement of normal performance conditions. This was agreed with Mr Rolet as part of the legal agreement reached in October 2017 in connection with his announced departure.

- Mr Rolet's 2017 LTIP will be time pro-rated to 31 December 2018 (the date by which it was originally intended that his employment would cease). Should he elect to leave earlier than the expiry of his 12 month notice period once a successor has been appointed, the time pro-rating will apply to his leaving date.
- Mr Rolet will not be granted an LTIP award in 2018.

- Minimum Shareholding Requirement (MSR) – as Mr Rolet has demonstrated throughout his tenure, he is fully aligned to shareholders and has constantly far exceeded his MSR. He will maintain the required MSR until his departure date.

The Committee remains of the view that this treatment of Mr Rolet's LTIP and deferred bonus, agreed in October 2017, is appropriate in light of his significant contribution to the Company's performance to date and the fact that he will remain available to be consulted on strategic and succession issues during his garden leave.

The tables below set out the relevant number of shares under each of Mr Rolet's 2015, 2016 and 2017 LTIP awards and his 2016 and 2017 Deferred Bonus Plan (DBP) awards, along with date of vesting. In the case of the LTIP, vesting (and therefore future value) is subject to the achievement of stretching performance measures, which are designed to provide a long-term focus towards enhanced shareholder value and do not reward for failure. The DBP awards relate to deferred bonuses already earned for previous performance years.

Award	Number of shares under award	Date of vesting (subject to performance)	Time pro-rating %
2015 LTIP	91,949	April 2018	100%
2016 LTIP	83,623	March 2019	100%
2017 LTIP	75,685	April 2020	55% <sup>1</sup>

1. Assuming pro-rating by reference to 31 December 2018

Award	Number of shares under award	Date of vesting
2016 DBP	27,874	March 2018
2017 DBP	25,906	March 2019

The Company has made a contribution of £25,000 (plus VAT) towards Mr Rolet's legal fees incurred in connection with the above arrangements that were agreed in October 2017.

**Remuneration arrangements for the interim Chief Executive Officer:**

As announced on 29 November 2017 in connection with the departure arrangements for Mr Rolet, David Warren was appointed as interim CEO with immediate effect. As part of his appointment, the following changes were made to his terms until a permanent CEO successor is appointed:

- A 'step-up' allowance of £212,000 will be paid in addition to his current base salary of £488,000 for the duration of his appointment as interim CEO, providing a new interim salary of £700,000.
- Any bonus paid for 2017 and 2018 performance will be adjusted on a pro-rata basis to reflect his new interim salary.

- For 2018 his LTIP award will be calculated by reference to his current base salary.
- His benefits, pension allowance and all other employment terms will remain unchanged.

As stated in the Chairman's statement, the Committee has decided to increase his base salary in relation to his role as Chief Financial Officer by 2.5% to £500,000. His 'step up' allowance will be reduced by £12,000 to £200,000; therefore Mr Warren's interim salary of £700,000 is unchanged.



# Directors' Remuneration Report continued

## Annual Report on Remuneration

### Implementation of the Remuneration Policy during 2018 (1 January 2018 to 31 December 2018)

#### Base salary operation:

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

The Committee has decided to increase Mr Warren's base salary for his role as Chief Financial Officer to £500,000, which is in line with average employee salary increases of 2.5%. The Committee has decided to increase the salary of Raffaele Jerusalmi, Chief Executive Officer of Borsa Italiana and Director of capital markets by 1% to €525,000.

Base salaries effective from 1 April 2018 are set out in the table below:

Annual salary	With effect from 1 April 2017	With effect from 1 April 2018
David Warren	£488,000 <sup>1</sup> +'step-up' allowance of £212,000	£500,000 (+2.5%) <sup>1</sup> +'step-up' allowance of £200,000
Raffaele Jerusalmi	€520,000	€525,000 (+1%)

1. Total salary for duration of appointment as interim CEO is £700,000 per annum

#### Annual bonus operation:

- For FY2018 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. The Committee determined that there should be a greater focus on the development of culture for the Group and a real emphasis on behaviour as to how the Executive Directors achieved their targets. As such, for FY2018, performance against strategic and personal deliverables will include an assessment against specific cultural objectives, including 360 degree feedback as an input measure.
- Any bonus payment will be paid out in March 2019. In accordance with the enhancements made to our policy, mandatory deferral of 50% of bonus will be into shares for a period of 2 years.
- The minimum shareholding requirement is 3x base salary, increased from 2x base salary in prior years.
- 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:

Awards are intended to be made in 2018 under the 2014 LTIP, as described in our Remuneration Policy Report. The 2018 LTIP awards will be granted under our enhanced Remuneration Policy and will therefore be subject to a 2 year holding period in addition to the current 3 year performance period, resulting in a total 5 year period from the date of grant.

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

2018 awards will vest 3 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 2017 awards):

EPS element (50%) – average adjusted EPS growth	TSR element (50%) – absolute TSR growth	Proportion of relevant element which vests
Less than 6% p.a.	Less than 6% p.a.	0%
6% p.a.	6% p.a.	25%
12% p.a. or more	14% p.a. or more	100%

Straight-line pro-rating applies between these points

#### Awards to be made during 2018

Based on the context and an assessment of individual performance, the Remuneration Committee intends to make grants to each of the Executive Directors under the 2014 LTIP as set out below.

Role	Interim Chief Executive Officer / Chief Financial Officer	Executive Director, CEO of Borsa Italiana & Director of Capital Markets
2018 LTIP award (subject to performance)	% of salary <sup>1</sup> Amount	300% of annual salary <sup>2</sup> 275% of salary Sterling equivalent of €1,443,750 (at prevailing FX rate at time of grant)
		£1,500,000

1. Salary refers to annual salary with effect from 1 April 2018

2. The award for the interim CEO / CFO is 300% of base salary of £500,000 i.e. does not include his 'step-up' allowance

#### Non-Executive Directors' fees for 2018

Fees were last reviewed and revised with effect from 1 January 2016. To reflect the increased scope, time commitment and complexity of the roles, the fees for the Senior Independent Director and Non-Executive Director roles have been increased, with effect from 1 January 2018. The fee schedule for 2018 is therefore as follows:

Fees	With effect from 1 Jan 2017	With effect from 1 Jan 2018
Group Chairman	£400,000	£400,000
Senior Independent Director	£140,000	£145,000
Non-Executive Director base fee	£70,000	£75,000
Audit Committee Chairman	£30,000	£30,000
Remuneration Committee Chairman	£30,000	£30,000
Risk Committee Chairman	£30,000	£30,000
Audit Committee, Risk Committee or Remuneration Committee membership	nil	nil
Nomination Committee	nil	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.

**The original date of appointment as Directors of the Company is as follows:**

Name	Date Appointed	Date of letter of appointment	Time to expiry	Notice period	Date of resignation	LSEG Committee membership/Chairmanship	Other subsidiaries/committees
Paul Heiden	04/06/2010	04/06/2016	03/06/2019	None		SID, Audit Chair, Nomination, Remuneration, Risk	LSE plc
Jacques Aigrain	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	19/06/2015	19/06/2015 as Director; 01/07/2015 as Chairman	End of AGM 2018	6 months		Group Chairman, Nomination Chair, Remuneration	LSE plc Chairman
Mary Schapiro	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 <sup>1</sup>	01/10/2016	01/10/2016	30/09/2019	None		Risk	Borsa Italiana Chairman, LSEGH Italia Chairman
Val Rahmani <sup>2</sup>	20/12/2017	20/12/2017	19/12/2020	None		Risk	

1. Andrea Sironi was appointed to the Risk Committee on 21 June 2017

2. Val Rahmani was appointed to the Board and the Risk Committee on 20 December 2017

**Non-Executive Directors' Remuneration Table (Audited)**

	FY2017 LSEG Fees £000	FY2017 Other Fees <sup>1</sup> £000	FY2017 Total Fees £000	FY2017 Taxable benefits <sup>2</sup> £000	FY2017 Total £000	FY2016 LSEG Fees £000	FY2016 Subsidiary Fees £000	FY2016 Total Fees £000	FY2016 Taxable benefits £000	FY2016 Total £000
Paul Heiden	140	–	140	19	159	140	–	140	12	152
Jacques Aigrain	100	5	105	6	111	101	1	102	5	107
Stephen O'Connor	100	–	100	–	100	100	–	100	–	100
Donald Brydon	400	–	400	1	401	400	–	400	–	400
Mary Schapiro <sup>3</sup>	70	25	95	68	163	70	17	87	79	166
Lex Hoogduin <sup>4</sup>	43	307	350	37	387	40	286	326	30	356
David Nish	70	–	70	11	81	70	–	70	10	80
Andrea Sironi <sup>5</sup>	70	140	210	13	223	18	127	144	2	146
Val Rahmani	2	–	2	–	2	–	–	–	–	–
Total Non-Executive Directors' fees <sup>6</sup>	995	477	1,472	155	1,627	1,056	448	1,504	140	1,644

1. Other fees relate to subsidiaries and other committees

2. Taxable benefits relate to travelling expenses, including grossed up taxes where applicable

3. Mary Schapiro received an annualised fee of £25,000 as Chair of the Regulatory Advisory Group

4. Lex Hoogduin received an annualised fee of €350,000 (or £306,668 using rate £1 = €1.14 for FY2017) as Chairman of LCH and €49,000 as a Group Director (or £42,933 using rate £1 = €1.14 for FY2017). Historic rate of £1 = €1.22 for FY2016

5. Andrea Sironi received a combined annualised fee of €160,000 (£140,191) for his roles as Chairman and Director of Borsa Italiana and Chairman and Director of LSEGH Italia

6. FY2016 totals incorporate prior directors who stood down from the Board in that year (see FY2016 Directors' Remuneration Report for full details)

# Directors' Remuneration Report continued

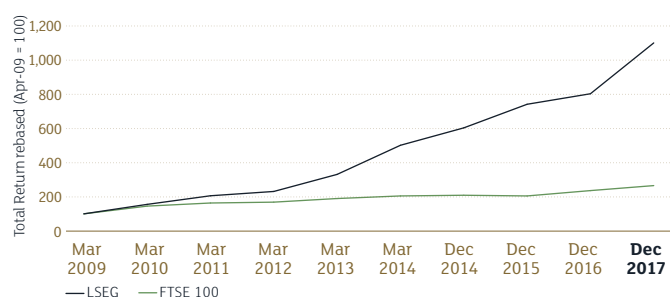
## Annual Report on Remuneration

### Alignment between pay and performance

#### Total Shareholder Return (TSR) performance

The following graph shows, for the financial period ended 31 December 2017 and for each of the previous 8 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 2017, 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 9 financial periods.

#### TSR chart v FTSE 100 over 9 financial periods



#### 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 %
29 November 2017	Xavier Rolet <sup>1</sup>	5,564 <sup>5</sup>	79%	100% <sup>5</sup>
31 December 2016	Xavier Rolet	6,880 <sup>4</sup>	91%	91% <sup>4</sup>
31 December 2015	Xavier Rolet	6,526	95%	94%
9 months ended 31 December 2014	Xavier Rolet	4,587	89% <sup>3</sup>	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	1,873	71%	–
	Clara Furse <sup>2</sup>	400	49%	0%

- Xavier Rolet was in the role of CEO from 20 May 2009, appointed to the Board 16 March 2009 until he stepped down on 29 November 2017. Data is as per the Single total figure table and therefore represents 11-month figures
- Clara Furse was in the role of CEO until 20 May 2009. She resigned from the Board on 15 July 2009
- 89% of maximum for the 9-month period to December 2014 – equivalent to 67% of annualised maximum
- Value shown for the period ended 31 December 2016 represents the actual vesting of LTIP awards granted in 2014 that vested on 27 August 2017 at £39.50
- Forecast for LTIP awards to vest in April 2018. The estimate is based on confirmed 100% vesting of the EPS element and forecast 100% vesting of the TSR element, which will be confirmed in April 2018

### Percentage change in remuneration of CEO

The table below 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 <sup>1</sup>	+0%	+6% <sup>3</sup>	-14%
Average pay of Group UK employees <sup>2</sup>	+2.5%	+5%	-10%

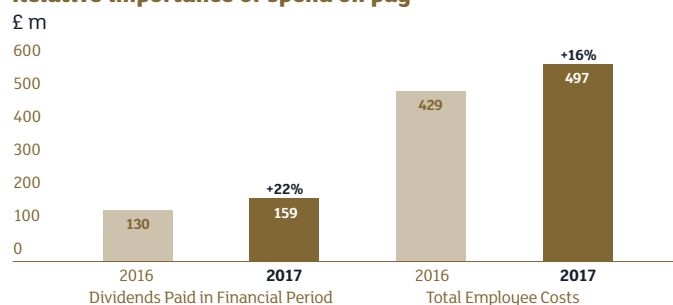
- The data refers to the departing CEO as he was in the role for the majority of the year. Amounts have been annualised to provide a like-for-like comparison
- This group has been selected to reflect the jurisdiction in which the CEO is based
- This data refers to the departing CEO's core benefits and taxable expenses. It does not include legal fees incurred in connection with departure arrangements in relation to the proposed merger with Deutsche Börse and subsequently the departure arrangements that were agreed in October 2017

### Relative importance of spend on pay

The table below shows the relative FY2017 versus FY2016 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 (%)	FY2017	FY2016	Annual Increase
Dividends Paid In Financial Period	£159m	£130m	+22%
Total Employee Costs <sup>1</sup>	£497m	£429m	+16%

### Relative importance of spend on pay



- The increase in total employee costs is principally the result of expansion through acquisition (Mergent Inc. and The Yield Book businesses)

**Statement of Directors' shareholdings and share interests as at 31 December 2017 (Audited)**

All Executive Directors own shares outright. David Warren and Raffaele Jerusalmi currently own shares at a level exceeding their revised minimum required shareholding of 3x base salary based on a share price of £37.48 (being the closing share price on 29 December 2017). Current shareholdings are summarised in the following table:

	Shares held		Options held <sup>1</sup>			Requirement (% salary)	Shareholding as at 31 December 2017 (% salary)		Requirement met
	Owned Outright		Unvested and subject to performance conditions	Unvested and subject to continued employment <sup>2</sup>	Vested but not exercised				
<b>Executive Directors</b>									
David Warren	59,378		142,827	27,323	–	300	456 <sup>3</sup>	Yes	
Raffaele Jerusalmi <sup>4</sup>	52,130		116,807	–	–	300	429 <sup>5</sup>	Yes	
<b>Non-Executive Directors</b>									
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	1,065		–	–	–	–	–	N/A	
Andrea Sironi	–		–	–	–	–	–	N/A	
Val Rahmani	–		–	–	–	–	–	N/A	
<b>Directors who stood down from the Board during the year:</b>									
Xavier Rolet <sup>6</sup>	330,356		251,257	54,220	–	200	1,548	Yes	

- Xavier Rolet exercised 772 options under SAYE; no further options were exercised by the Directors during the year to 31 December 2017
- Refers to Deferred Bonus Plan and SAYE
- Calculated against £488,000 base salary, excluding step-up allowance
- Raffaele Jerusalmi elected to defer his €455,000 Deferred Bonus Plan Award for FY2016 into cash
- FY2017 rate of £1 = €1.14
- Shareholding as at 29 November 2017

**Directors' Interests in Ordinary Shares – Beneficial, Family and any Connected Persons Interests (Audited)**

	Ordinary Shares Held		Options with performance conditions <sup>1</sup>		Options without performance conditions <sup>2,3</sup>		Total Interests	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Executive Directors</b>								
David Warren	59,378	53,426	142,827	136,648	27,323	25,175	229,528	215,249
Raffaele Jerusalmi <sup>5</sup>	52,130	80,861	116,807	137,157	–	–	168,937	218,018
<b>Non-Executive Directors</b>								
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	1,065	550	–	–	–	–	1,065	550
Andrea Sironi	–	–	–	–	–	–	–	–
Val Rahmani	–	–	–	–	–	–	–	–
<b>Directors who stood down from the Board during the year:</b>								
Xavier Rolet <sup>6</sup>	330,356	601,088	251,257	292,822	54,220 <sup>4</sup>	51,562	635,833	945,472

- LTIP Performance shares are structured as nil-cost options
- Unvested awards in the Deferred Bonus Plan and share options granted under SAYE
- Deferred Bonus Plan shares are structured as nil-cost options; they are subject to continued employment and malus provisions
- Incorporates 440 SAYE options; the balance relates to Deferred Bonus Plan
- Raffaele Jerusalmi elected to defer his €455,000 Deferred Bonus Plan Award for FY2016 into cash
- Shareholding as at 29 November 2017
- There have been no further changes in these interests between 31 December 2016 and 2 March 2018

# Directors' Remuneration Report continued

## Annual Report on Remuneration

### Long Term Incentive Plan table

The 2014 Long Term Incentive Plan has one element applicable to Executive Directors, a conditional award of Performance shares.

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 88.

The table below sets out the Executive Directors' Long Term Incentive Plan awards (including the exercise of vested shares in FY2017), as at 31 December 2017:

	Date of award	Price at award date (£)	Number of shares					Vesting date	Price at vesting date (£)	Value at vesting date (£)	Exercise date	Price at exercise date <sup>3</sup> (£)	Value at exercise date (£)	Comment
			At start of year	Award during the year	Vested during year	Lapsed during year	At end of year							
<b>David Warren</b>	27/08/2014	20.36	39,989	–	36,189	3,800	–	27/08/2017 <sup>2</sup>	39.50	1,429,466	30/08/2017	39.50	1,429,598	FY2017 Actual
	02/04/2015	24.47	52,104	–	–	–	52,104	03/04/2018	<b>38.07</b>	<b>1,983,599</b>	–	–	–	<b>FY2018 Estimate<sup>1</sup></b>
	17/03/2016	28.70	44,555	–	–	–	44,555	18/03/2019	–	–	–	–	–	
	03/04/2017	31.71	–	46,168	–	–	46,168	03/04/2020	–	–	–	–	–	
			136,648	46,168	36,189	3,800	142,827	–	–	1,429,466	–	–	1,429,598	FY2017 Actual
										<b>1,983,599</b>				<b>FY2018 Estimate<sup>1</sup></b>
<b>Raffaele Jerusalmi</b>	27/08/2014	20.36	58,638	–	53,067	5,571	–	29/08/2017 <sup>2</sup>	39.50	2,096,147	30/08/2017	39.50	2,096,341	FY2017 Actual
	02/04/2015	24.47	40,659	–	–	–	40,659	03/04/2018	<b>38.07</b>	<b>1,547,888</b>	–	–	–	<b>FY2018 Estimate<sup>1</sup></b>
	17/03/2016	28.70	37,860	–	–	–	37,860	18/03/2019	–	–	–	–	–	
	03/04/2017	31.71	–	38,288	–	–	38,288	03/04/2020	–	–	–	–	–	
			137,157	38,288	53,067	5,571	116,807	–	–	2,096,147	–	–	2,096,341	FY2017 Actual
										<b>1,547,888</b>				<b>FY2018 Estimate<sup>1</sup></b>
<b>Xavier Rolet</b>	27/08/2014	20.36	117,250	–	106,111	11,139	–	27/08/2017 <sup>2</sup>	39.50	4,191,385	30/08/2017	39.50	4,191,772	FY2017 Actual
	02/04/2015	24.47	91,949	–	–	–	91,949	03/04/2018	<b>38.07</b>	<b>3,500,498</b>	–	–	–	<b>FY2018 Estimate<sup>1</sup></b>
	17/03/2016	28.70	83,623	–	–	–	83,623	18/03/2019	–	–	–	–	–	
	03/04/2017	31.71	–	75,685	–	–	75,685	03/04/2020	–	–	–	–	–	
			292,822	75,685	106,111	11,139	251,257	–	–	4,191,385	–	–	4,191,772	FY2017 Actual
										<b>3,500,498</b>				<b>FY2018 Estimate<sup>1</sup></b>

1. FY2018 Estimate: Average share price over the period from 1 October 2017 to 31 December 2017 price with vesting forecast at 100%

2. Vesting of shares granted on 27 August 2017 at actual vesting price of £39.50

3. Price achieved = £39.503656

4. All estimates are shown separately in bold. They will be fully disclosed in next year's Annual Report on Remuneration



**Remuneration Committee – Governance**

The Remuneration Committee is appointed by the Board and comprises the Chair and 3 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 page 18 for details of the Group's Executive Committee.

At least 3 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](http://www.lseg.com/about-london-stock-exchange-group/corporate-responsibility/ethics-and-governance).

During the financial period ending 31 December 2017, the Committee held 3 scheduled meetings and 3 additional meetings called on at short notice, relating to CEO succession planning.

Here is a summary of the items they discussed:

	<b>Routine</b>	<b>Non-Routine</b>
February 2017	<ul style="list-style-type: none"> <li>– FY2016 Performance and Bonus approval</li> <li>– FY2017 LTIP grants and anticipated vesting of previous LTIP and DBP schemes</li> <li>– Sharesave vesting and FY2017 grants</li> <li>– Performance and determination of CEO and Executive Committee members' remuneration</li> <li>– FY2016 Directors' Remuneration Report</li> <li>– LCH Remuneration Committee proposals</li> <li>– Regulatory updates</li> </ul>	<ul style="list-style-type: none"> <li>– Merger-related items</li> <li>– Shareholder consultation planning</li> <li>– Gender pay reporting</li> </ul>
July 2017	<ul style="list-style-type: none"> <li>– Deloitte Market Overview</li> <li>– FY2016 Directors' Remuneration Report and Policy-Shareholder feedback</li> <li>– FY2017 Performance and Bonus update</li> <li>– FY2017 LTIP grants and anticipated vesting of previous LTIP and DBP schemes</li> <li>– Regulatory update</li> <li>– LCH Remuneration Committee updates</li> <li>– FY2017 Remuneration Committee calendar</li> </ul>	<ul style="list-style-type: none"> <li>– 2018 Remuneration Policy</li> <li>– M&amp;A activity</li> <li>– Gender pay reporting</li> </ul>
October 2017		<ul style="list-style-type: none"> <li>– Additional meetings held, relating to CEO succession planning</li> </ul>
December 2017	<ul style="list-style-type: none"> <li>– Deloitte Market Overview</li> <li>– Governance updates</li> <li>– FY2017 Directors' Remuneration Report key themes</li> <li>– FY2017 Performance and Bonus update</li> <li>– FY2018 Bonus considerations</li> <li>– FY2018 LTIP grants and anticipated vesting of previous LTIP and DBP schemes</li> <li>– 2018 salary review</li> <li>– LCH Remuneration Committee updates</li> </ul>	<ul style="list-style-type: none"> <li>– 2018 Remuneration Policy</li> <li>– M&amp;A activity</li> <li>– CurveGlobal update</li> </ul>
February 2018 This meeting took place during FY2018 and will be repeated in next year's report.	<ul style="list-style-type: none"> <li>– FY2017 Performance and Bonus approval</li> <li>– FY2018 LTIP grants and anticipated vesting of previous LTIP and DBP schemes</li> <li>– Performance and determination of former CEO and Executive Committee members' remuneration</li> <li>– FY2017 Directors' Remuneration Report</li> <li>– LCH Remuneration Committee proposals</li> <li>– Regulatory &amp; governance updates</li> </ul>	<ul style="list-style-type: none"> <li>– Shareholder consultation relating to Remuneration Policy enhancements</li> <li>– Gender pay reporting and disclosure</li> <li>– Treatment of acquisitions and disposals</li> </ul>

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.

# Directors' Remuneration Report continued

## Annual Report on Remuneration

### Statement of shareholder voting

The table below sets out the results of the vote on the Directors' Remuneration Report at the 2017 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration Policy Report	252,081,916	98.48	3,886,744	1.52	255,968,660	6,200,579
Annual Report on Remuneration	258,328,323	98.56	3,772,162	1.44	262,100,485	68,763

### Advisors

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 advisor 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 advisor and re-appointed Deloitte as its principal advisor with effect from 1 April 2016.

During the year, Deloitte LLP received £150,000 (excluding VAT) based on actual time spent for these services. In addition, Deloitte received £16,000 (excluding VAT) at the beginning of the year for advice related to the potential merger with Deutsche Börse. Separately, other parts of Deloitte LLP also advised the Company during 2017 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.

Signed on behalf of the Board of Directors



### Jacques Aigrain

Chairman of the Remuneration Committee  
2 March 2018

# 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 2017 with comparatives for the year ended 31 December 2016.**

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-underlying items for the year, of £750 million (2016: £623 million). After taking into account amortisation of purchased intangible assets and non-underlying items, the profit of the Group before taxation for the year from continuing operations was £564 million (2016: £364 million). Profit after taxation from continuing operations for the year was £586 million (2016: £263 million).

During the year the Group classified certain of its businesses as discontinued operations. The discontinued profit before taxation, before amortisation of purchased intangible assets and non-underlying items for the year, was £nil (2016: £28 million). After taking into account amortisation of purchased intangible assets and non-underlying items, the profit of the discontinued operations for the year was £23 million (2016: £104 million). Loss after taxation from discontinued operations for the year was £25 million (2016: £70 million loss).

## Dividends

The Directors are recommending a final dividend for the year of 37.2 pence (2016: 31.2 pence) per share which is expected to be paid on 30 May 2018 to shareholders on the register on 4 May 2018. Together with the interim dividend of 14.4 pence (2016: 12.0 pence) per share paid in September 2017, this produces a total dividend for the period of 51.6 pence (2016: 43.2 pence) per share estimated to amount to £179 million (2016: £151 million).

## Share capital

As at 31 December 2017, the Company had 350,531,339 ordinary shares in issue with a nominal value of 6<sup>79/86</sup> pence each, representing 100% of the total issued share capital.

The Company holds 3,794,585 of its ordinary shares in Treasury. Therefore, the total number of voting rights in the company is 346,736,754. The figure 346,736,754 may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, the company under the FCA's Disclosure Guidance and Transparency Rules.

During the year, the Company issued 224,965 new ordinary shares and transferred 1,757,774 ordinary shares out of treasury, 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 56–71 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 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 2 March 2018 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	3.98%

## Authority to Purchase Shares

The authority for the Company to purchase in the market up to 35,040,453 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. This authority was used by the Company during the year for its buyback programme and the Company repurchased 5,552,359 of its own shares during the year. Shareholders will be asked to give a similar authority to purchase shares at the forthcoming AGM.

# Directors' Report continued

## Purchase of Company's shares during the year

The Company has a capital management framework (previously disclosed) that takes account of balance position, investment for growth and distributions to shareholders through ordinary dividends and other possible returns of capital. Share buybacks are a means of returning capital when the Board expects to hold surplus cash for a prolonged period. Accordingly, the Company undertook its buyback programme to return surplus cash to shareholders in a manner that increased total earnings per share and net asset value per share.

The Company purchased 5,552,359 of its ordinary shares for an aggregate consideration of £199 million (excluding costs) at an average price per share of £35.84 (excluding costs). These shares were ordinary shares with a nominal value of 6 79/86 pence each, and represented 1.6% of the Company's ordinary shares in issue at the start of the year. Of these shares, the Company transferred 1,757,774 shares (representing 0.5% of the Company's ordinary shares in issue at the start of the year) out of treasury to settle employee share scheme awards.

## 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 £8,081,035 (representing 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 £16,162,069 (representing 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 2017, according to the register maintained under the Companies Act 2006, are set out in the Directors' Remuneration Report on page 91. 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 2017 can be found on page 60. Such qualifying third party indemnity provisions remain in force as at the date of approving this 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 35 and information on the Group's share schemes is provided in the Directors' Remuneration Report on pages 78, 85-86 and 88.. 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, providing a briefing of specific areas of the business.

## Environment

As a group, we recognise that we must use resources in ways that deliver the long-term sustainability and profitability of the business and have a positive impact on the environment. We are taking such factors into account in developing products and services that support these aims through companies listed on our markets. 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 reporting period, we achieved a 31% reduction in our absolute carbon emissions and a 42% reduction in Carbon Emissions per Full Time Employee (FTE), accelerating our progress from previous years. This significant reduction is primarily attributed to our move to over 64% of the Group's electricity now being provided by 100% natural renewable energy.

We are taking an active approach to emissions management, with our global Environmental Management Group 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 to the Carbon Disclosure Project, DJSI, FTSE4Good and on our website [www.lseg.com](http://www.lseg.com).

In June 2017, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) released its reporting recommendations. The Group signed the TCFD statement of support, affirming its commitment to support the recommendations, and sees them as an important step in driving improved global consistency in voluntary global reporting standards. As the Group, and FTSE Russell in particular, intends to play a critical role in enabling the flow of information envisioned by the TCFD, the recommendations were incorporated into FTSE Russell's climate-related indicators and in the Group ESG Reporting Guidance. Going forward, the Group will continue to review the recommendations.

**Global 2017 GHG Emissions**

tCO <sub>2</sub> e – Tonnes of carbon dioxide equivalent	2017	2016 <sup>1</sup>	% Change
Total Group Carbon Footprint <sup>2</sup>	21,902	31,688	(30.9)
– per m <sup>2</sup>	0.236	0.351	(32.8)
– per FTE	3.99	6.91	(42.3)
– per £m Revenue	11.21	19.1	(41.3)
Scope 1 <sup>3</sup>	1,918	1,583	21.2
Scope 2 <sup>4</sup>	11,749	21,738	(46.0)
Scope 3	7,320	6,572	11.4
Scope 3 (Electricity Transmission and Distribution)	915	1,795	(49.0)

- 2016 figures have been updated on receipt of annual emissions factor guidance and actual figures from suppliers
- All Group totals and electricity breakdowns use market-based Scope 2 emissions factors
- Combustion of fuel and operation of facilities – includes Natural Gas, Diesel, LPG, Fugitive Emissions and Fleet Vehicles
- 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 and long-term science based targets 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 CS report.

**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 with 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, we recognise the rights of our employees to participate in the political process. Their rights to do so are governed by the applicable laws in the countries in which we operate. For example in the US under the Federal Election Campaign Act, US employees can establish non-partisan political action committees known as "PACs" that encourage voluntary employee participation in the political process. PACs are a common feature of the US political system and operate independently of any political party or candidate.

Following the divestment of the Russell Investment Management Business on 1 June 2016, a new PAC was established during the year by one of the Group's other US entities, LSEG US Holdco, Inc.. Consistent with US law, LSEG US Holdco, Inc. paid for the PAC's establishment and administrative expenses; providing such

support is not considered to be a political donation or expenditure under US law. As the PAC was a new programme, no political contributions were made during the reporting period. In accordance with the applicable law the PAC will be funded entirely by voluntary contributions from eligible employees. All decisions on the amounts and recipients of contributions are directed by a steering committee comprising employees eligible to contribute to the PAC.

All LSEG US Holdco, Inc contributions will be reviewed for legal compliance and will be publicly reported in accordance with US election laws.

**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 of the Company.

**– Facility Agreement**

The Company has entered into 2 syndicated, committed, revolving facility agreements dated 9 November 2015 and 11 December 2017; 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 to the wholesale fixed income market £250 million of Sterling notes due in 2019, and under its Euro Medium Term Note Programme (the value of which the Company increased from £1 billion to £2 billion during the course of 2017), two €500 million tranches of euro notes due in 2024 and 2029. 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 £300 million in Sterling denominated retail bonds, under the Euro Medium Term Note Programme referred to above, 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 Company 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).



# Directors' Report continued

## Events since the balance sheet date

### Acquisition

On 23 February 2018, the Group became committed to acquiring an additional 2.04% interest in LCH Group Holdings Limited from certain minority shareholders. This acquisition will increase the Group's total stake in LCH Group Holdings Limited to 67.97%. The transaction is expected to complete in early March 2018. Further details are provided in Note 34 to the Financial Statements on page 157.

### Disposal of business

On 17 January 2018, the Group completed the sale of Exactpro Systems Limited and its subsidiaries (Exactpro). The Exactpro business was part of the Technology Services segment and was contained within a stand alone cash generating unit. Further details are provided in Note 34 to the Financial Statements on page 157.

### Employee Benefit Trust

As at 31 December 2017, the trustee of the London Stock Exchange Employee Benefit Trust, which is an independent trustee, held 944,495 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 unencumbered shares while they are held in trust. The trustee has full discretion to exercise the voting rights attaching to the unencumbered 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 46–53 of this Annual Report, and in the Notes to the Financial Statements, on pages 115–161 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 is approved 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 3 years. A period of 3 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 3 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 3 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 3 year period in each scenario. No scenario over the 3 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.

## FURTHER INFORMATION

Stress testing capabilities are detailed in the Risk Management oversight section on page 44.

### 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 page 99.

### 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 1 March 2018 and signed on its behalf.

By Order of the Board



### Lisa Condron

Group Company Secretary  
2 March 2018

# 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. The Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law.

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 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 and the Company's financial position and financial performance
- state whether the Group and the Company 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 and the Company 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 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 Guidance 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 46.

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 49–50. 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 2017 was £2,638 million which is committed until October 2019 or beyond (2016: £1,903 million), described further in the Financial Review on pages 36–41.

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 and the Company 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; and
- they consider that the Annual Report and Accounts 2017, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

By Order of the Board



**Lisa Condron**  
Group Company Secretary  
2 March 2018

# Independent Auditor's Report to the members of London Stock Exchange Group plc

## Opinion

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 2017 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 EU 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

We have audited the financial statements of London Stock Exchange Group plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2017	Balance sheet as at 31 December 2017
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 35 to the financial statements, including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Related Notes 1 to 35 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

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.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 46 to 53 that describe the principal risks and explain how they are being managed or mitigated
- the directors' confirmation set out on pages 44 and 98 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 directors' statement set out on page 99 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 12 months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page pages 44 and 98 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.

## Overview of our audit approach

<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>– Risk that goodwill and purchased intangible assets may be impaired</li> <li>– Risk of fraud in recognition of revenue in secondary capital markets trading, revenue share for clearing arrangements, and information services revenue accruals</li> <li>– Risk that the acquisition of businesses was accounted for incorrectly</li> <li>– Risk that the implementation of the Oracle finance system could lead to errors in data integrity, accounting or financial reporting</li> </ul>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>– We performed an audit of the complete financial information of 7 components and audit procedures on specific balances for a further 18 components.</li> <li>– The components where we performed full and specific audit procedures accounted for approximately 94% of the Group's revenue, pre-tax profit, adjusted pre-tax profit measure used to calculate materiality, and total assets.</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>– Overall Group materiality is £30.0 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-underlying items as disclosed in Note 7 of the financial statements.</li> </ul>

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Risk that goodwill and purchased intangible assets may be impaired</b></p> <p><i>Balance of £4.2 billion, prior year comparative £3.9 billion</i></p> <p>The Group holds significant intangible assets on its balance sheet, including goodwill, customer relationships, brands, software licenses, and intellectual property.</p> <p>We have determined this to be a key audit matter due to the quantum of the intangible assets as at 31 December 2017, the involvement of significant judgement by management on the valuation of the intangible assets, and the risk of misstatement either due to fraud or error.</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><i>Refer to the Report of the Audit Committee (page 68); Accounting policies (page 117); and Notes 3 and 14 of the Financial Statements (pages 125 and 134 to 135)</i></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 evaluated the design effectiveness of key controls, concluding that a substantive audit approach should be adopted.</p> <p>For 7 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, comparing the expected growth rates to relevant market expectations, and considering recent market developments including changes in tax rates.</p> <p>In respect of purchased intangible assets, we tested management's assessment as to whether indicators of impairment exist as at the balance sheet date, 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 LTGR applied within each 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 LTGR used, and assessed 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. We benchmarked the inputs against observed risk rates in the markets where the Group operates.</p> <p>We also performed sensitivity analysis on the cash flow forecasts and key inputs (including WACC discount rates, LTGR 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>In addition to the above procedures, we performed overall analytical procedures and journal entry testing in order to identify and test the risk of misstatement arising from management override of controls.</p> <hr/> <p>We performed full scope audit procedures over this risk area in 5 components, which covered 99.8% 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, LTGR, customer retention rates and cash flow forecasts used by management in the impairment assessment are within a reasonable range as at 31 December 2017.</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 2017.</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><b>Risk of fraud in recognition of revenue in secondary capital markets trading, revenue share for clearing arrangements, and information services revenue accruals</b></p> <p><i>Balance of £0.5 billion, prior year comparative £0.5 billion</i></p> <p>Compensation tied to the performance of the entity may create an incentive for management to manipulate results.</p> <p>We have determined this to be a key audit matter having identified 3 revenue streams with heightened risk of misstatement:</p> <ul style="list-style-type: none"> <li>– 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.</li> <li>– Contracts relating to revenue sharing in respect of clearing arrangements, between the Group's central counterparty (CCPs) and third party participants, in some cases, involve complex calculations to determine the appropriate level of revenue to recognise within the Group.</li> <li>– Information services revenue accruals can require estimation, for instance based on prior billings or preliminary usage.</li> </ul> <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><i>Refer to the Report of the Audit Committee (page 68); Accounting policies (page 116); and Note 4 of the Financial Statements (pages 125 to 127)</i></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, revenue share clearing arrangements and information services revenue accruals processes. On the secondary capital markets trading process, we performed testing of the operating effectiveness of key controls in 1 full scope component and concluded that a substantive audit approach should be adopted in other components that are in scope. We tested the operating effectiveness of key controls in revenue share clearing arrangement process. We adopted a substantive audit approach in relation to the information services revenue accruals process.</p> <p>We considered whether the Group's revenue recognition policy is appropriate and in accordance with IFRS as adopted by the EU. We performed testing on a sample basis to gain assurance that the selected contracts were accounted for in accordance with the policy.</p> <p>We performed overall 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 substantive and transactional testing, including the assessment of debit balances, and unusual items and trends.</p> <p>We also performed cut-off testing to gain assurance that revenue was recognised in the correct period. We selected transactions on a sample basis before and after the year end to test the appropriateness of revenue recognition.</p> <p><b>Secondary capital markets trading</b></p> <p>We increased our standard sample size for transactional testing by at least 1.5 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 invoices and cash receipts. Where appropriate, we also recalculated the fee charged and checked back to the pricing policy and relevant tariff schedule.</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><b>Revenue share for clearing arrangements</b></p> <p>We tested revenue 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; any anomalies identified were investigated.</p> <p><b>Information services revenue accruals</b></p> <p>We selected a sample of revenue accruals using a lower testing threshold when compared to our standard transaction testing approach. For the selected samples, we obtained supporting evidence, including customer input/consent, for accrued amounts.</p> <p>For revenue based on assets under management (AUM), we tested the calculations on a sample basis and checked back to the supporting agreements. We also validated the AUM used in the calculations to an independent third party source.</p> <p>For Q4 accruals, we tested the appropriateness of using Q3 information for purposes of the year end accruals, and performed corroborative testing.</p> <p>We performed full and specific scope audit procedures over this risk area in 8 components, which covered 99.3% of the risk amount.</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, revenue share for clearing arrangements, and information services revenue accruals.</p> <p>We concluded that the revenue recognised related to secondary capital markets trading, revenue share for clearing arrangements, and information services revenue accruals for the year ended 31 December 2017 is materially correct.</p>



Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Risk that the acquisition of businesses was accounted for incorrectly</b></p> <p><i>Net assets acquired £355 million</i></p> <p>The Group undertook 2 significant acquisitions in the current year:</p> <ul style="list-style-type: none"> <li>– Mergent Inc.; and</li> <li>– The Yield Book and Citi Fixed Income Indices.</li> </ul> <p>The acquired entities were consolidated into the Group's results from the date of acquisition.</p> <p>We have determined this to be a key audit matter due to the size of the acquisitions and the judgement involved in determining the fair value of the assets acquired and liabilities assumed.</p> <p>There is a risk of error in:</p> <ul style="list-style-type: none"> <li>– The appropriate accounting for the acquisitions, including the significant judgement involved in the determination of goodwill and purchased intangible assets;</li> <li>– The completeness and accuracy of disclosures relating specifically to the transactions, but also in respect of the impact of new business lines on pre-existing disclosures; and</li> <li>– The conversion of the financial performance of the components from United States Generally Accepted Accounting Principles (US GAAP) to IFRS as adopted by the EU.</li> </ul> <p><i>Refer to the Report of the Audit Committee (page 68); Accounting policies (page 115); and Note 30 of the Financial Statements (pages 152 to 153)</i></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 business acquisition process and assessed the design effectiveness of key controls, concluding that a substantive audit approach should be adopted.</p> <p>We inspected the final signed sale and purchase agreements (SAPA) and agreed the purchase consideration to the SAPA and the cash payments to the bank statements.</p> <p>We assessed the accounting of the business combinations for compliance with IFRS 3 'Business Combinations'.</p> <p>We tested the book values of acquired assets and liabilities assumed, performing substantive audit procedures on material balances as at the acquisition date.</p> <p>Management engaged a third-party firm to perform the intangible assets fair value calculations and associated purchase price allocation. We assessed the competency of the firm and, together with EY technical and valuation specialists, examined and challenged key inputs into the intangible assets fair value calculations and purchase price allocations, including the deal model, deal value, the discount rates used, performance forecasts and the remaining useful lives of the intangible assets identified.</p> <p>Together with EY valuation specialists, we assessed the appropriateness of the amounts recognised in respect of goodwill and purchased intangible assets, such as brands and customer relationships, benchmarking to similar market participants.</p> <p>Together with EY valuation and tax specialists, we assessed whether the changes in the US tax law that occurred as part of the Tax Cuts and Jobs Act of 2017 had an impact on the valuation of amounts recognised as goodwill and purchased intangible assets as at the acquisition date.</p> <p>We assessed the appropriateness of tax-related components from the acquisitions, specifically over the opening balance sheet and purchase price allocations.</p> <p>We tested the presentation and disclosures in the financial statements.</p> <p>We performed full scope audit procedures on the 2 material acquisitions completed in the year which covered 100% of the risk.</p>	<p>No material issues were identified from the execution of our audit procedures over the risk that the acquisition of businesses was accounted for incorrectly.</p> <p>We concluded that the accounting and the related disclosures of the acquisition of Mergent Inc. and The Yield Book and Citi Fixed Income Indices are materially correct.</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><b>Risk that the implementation of the Oracle finance system could lead to errors in data integrity, accounting or financial reporting</b></p> <p>We have determined this to be a key audit matter as the implementation of a new finance system could lead to errors in data integrity, accounting or financial reporting.</p> <p>The general ledger for LCH Group (excluding LCH S.A.) was migrated to Oracle in January 2017, whilst the general ledger for LSEG US Holdco Inc. was migrated in May 2017.</p> <p><i>Refer to the Report of the Audit Committee (page 68).</i></p> <p>The risk has neither increased nor decreased in the current year.</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"> <li>– Governance – verification of approvals at different stages of the project and meeting minute reviews;</li> <li>– Data conversion – evaluation of data migration and conversion procedures, and verification of approvals for data migration;</li> <li>– Migration procedures – inspection of documentation for data migration procedures, evaluation of migration plan and execution against the plan;</li> <li>– System interface – inspection of documentation around the process flows and understanding the data flows into Oracle; and</li> <li>– Access review – inspection of documentation confirming initial load of users and testing of IT general controls over user administration processes.</li> </ul> <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"> <li>– Reconciliation of FY2017 opening balances to the audited FY2016 closing balances;</li> <li>– 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</li> <li>– Testing of manual adjustments related to migration of the data (including those related to duplication of data and its manual reversal).</li> </ul> <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> <hr/> <p>We performed audit procedures in 2 full scope components that implemented the Oracle system during 2017.</p>	<p>Our testing identified exceptions in respect of certain IT general controls; these exceptions have been mitigated by testing relevant compensating controls which were concluded as effective and by performing additional substantive 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 in respect of LCH Group (excluding LCH S.A.) and LSEG US Holdco Inc.</p>

In the prior year, our auditor's report included a key audit matter in relation to the risk that the divestment of the Russell Investment Management business was accounted for incorrectly. This matter is not relevant in the current year as the divestment occurred in 2016.

**An overview of 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, of the 88 reporting components of the Group, we selected 25 components covering entities headquartered within the United Kingdom, United States of America, Italy, France and Sri Lanka, which represent the principal business units within the Group.

Of the 25 components selected, we performed an audit of the complete financial information of 7 components (full scope components) which were selected based on their size or risk characteristics. For the remaining 18 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	4
Full	Component teams	3
Specific	Primary team	17
Specific	Component team	1
<b>Total</b>		<b>25</b>

Details of the 4 components which were audited by component teams are set out below:

Component	Headquartered location	Scope	Auditor
London Stock Exchange Group Holdings Italy S.p.A.	Italy	Full	EY
LSEG US Holdco Inc. <sup>1</sup>	United States of America	Full	EY
LCH S.A.	France	Full	EY and BDO
Millennium Information Technologies (Private) Limited	Sri Lanka	Specific	EY

1. Some specific accounts within LSEG US Holdco Inc. were audited by the EY primary audit team

The components where we performed audit procedures accounted for 99% (2016: 99%) of the Group's revenue, 97% (2016: 98%) of the Group's pre-tax profit, 94% (2016: 99%) of the Group's adjusted pre-tax profit measure used to calculate materiality, and 100% (2016: 100%) of the Group's total assets.

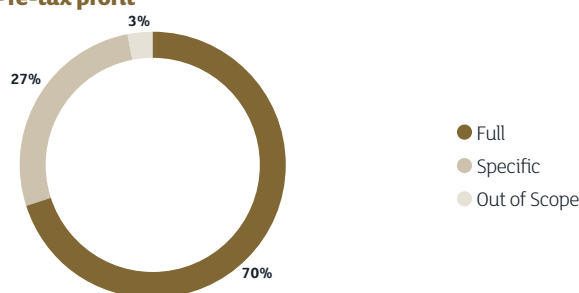
For the current year, the full scope components contributed 93% (2016: 92%) of the Group's revenue, 70% (2016: 92%) of the Group's pre-tax profit, 72% (2016: 89%) of the Group's adjusted pre-tax profit measure used to calculate materiality, and 100% (2016: 99%) of the Group's total assets.

The specific scope components contributed 6% (2016: 7%) of the Group's revenue, 27% (2016: 6%) of the Group's pre-tax profit, 22% (2016: 10%) of the Group's adjusted pre-tax profit measure used to calculate materiality, and less than 1% (2016: 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.

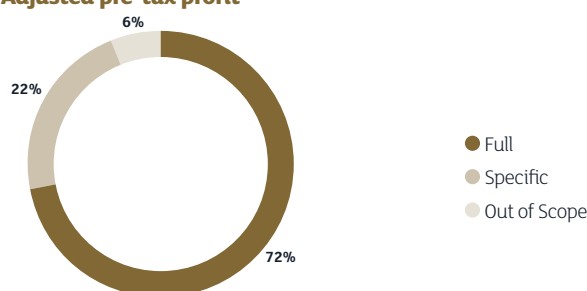
The remaining 63 components together represent less than 6% of the Group's revenue, pre-tax profit, adjusted pre-tax profit and total assets. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations, to respond 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.

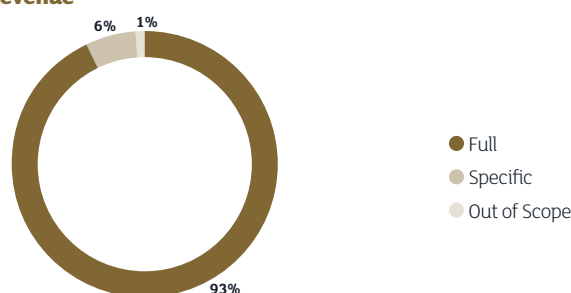
**Pre-tax profit\*\***



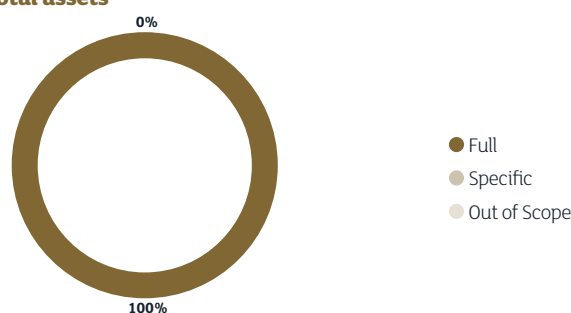
**Adjusted pre-tax profit\*\***



**Revenue**



**Total assets**



\*\* The percentages were calculated based on absolute values.

# 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 7 full scope components. As a result of the divestment of the Russell Investment Management business in the prior year, we separately scoped in LSEG US Holdco Inc. (Index) and LSEG US Holdco Inc. (Investment Management) as 2 full scope components. Further, LCH.Clearnet Group Limited was scoped in as 1 full scope component in the prior year; in the current year, we separated this into 2 full scope components: LCH Limited, which was audited by the EY primary team, and LCH S.A., which was jointly audited by EY Paris and BDO Paris.

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 from other EY global network firms or other firms operating under our instruction.

Of the 7 full scope components, audit procedures were performed on 4 of these directly by the primary audit team. For the 3 full scope and 1 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/or other senior members of the primary audit team to the following locations:

Component	Location	Scope	Number of visits
London Stock Exchange Group Holdings Italy S.p.A.	Milan, Italy	Full	2
LSEG US Holdco Inc.	New York, United States of America	Full	1
LCH S.A.	Paris, France	Full	2
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 key 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 Group level, gave us appropriate evidence for our opinion on the Group 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 £30.0 million (2016: £23.3 million), which is 5% (2016: 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-underlying items as disclosed in Note 7 of the financial statements.

We determined overall materiality for the parent company to be £5.6 million (2016: £4.8 million), which is based on the allocated performance materiality for purposes of the Group audit. The allocated performance materiality is based on the relative scale and risk of the parent company to the Group as a whole, and our assessment of the risk of misstatement at the parent company.

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-underlying 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.

<b>Starting basis</b>	– £564 million – Profit before tax from continuing operations
<b>Adjustments</b>	– £33 million – Non-underlying items, mostly costs related to the acquisition of Mergent Inc. and The Yield Book and Citi Fixed Income Indices, and the ongoing restructuring of LCH and integration of the acquired businesses
<b>Adjusted basis</b>	– £597 million – Adjusted profit before tax from continuing operations, but including amortisation of purchased intangible assets
<b>Materiality</b>	– Materiality of £30 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% (2016: 50%) of our overall materiality, namely £15.0 million (2016: £11.7 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 £30.0 million (2016: £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 performance materiality allocated to components was as follows:

Component	Allocated performance materiality
London Stock Exchange Group plc	£2.8m
London Stock Exchange plc	£7.7m
LCH Limited	£6.3m
LCH S.A.	£4.2m
London Stock Exchange Group Holdings Italy S.p.A.	£7.0m
LSEG US Holdco, Inc.	£5.6m
FTSE International Limited	£6.3m
All specific scope components	£2.8m

**Reporting threshold**

*An amount below which identified misstatements are considered to be clearly trivial.*

We agreed with the Audit Committee that we report to them all uncorrected audit differences in excess of £1.0 million (2016: £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.

**Other information**

The other information comprises the information included in the Annual Report set out on pages 2 to 99 including the Strategic Report (including Highlights, Chairman's statement, Chief Executive's statement, What we do – our business model, Overview of Group activities, Market trends and our response, Strategy in action, Segmental review, Our wider responsibility, Financial review, Risk management oversight, and Principal risks and uncertainties), Governance information and disclosures (including Board of Directors, Corporate Governance, Complying with the provisions of the Code, Report of the Nomination Committee, Report of the Audit Committee, Report of Risk Committee, Directors' Remuneration Report, Directors' Report and Statement of Directors' responsibilities), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 99 – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 65 to 69 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on pages 56, 62 to 63 and 95 – the parts of the directors' statement which are required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2), do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code

**Opinions 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.

In our opinion, 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

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or



# Independent Auditor's Report to the members of London Stock Exchange Group plc continued

- 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

## Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 99, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

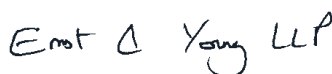
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group have a direct impact on the preparation of the financial statements. We determined that the most significant are the UK Companies Act 2006, UK Corporate Governance Code 2016, The Financial Conduct Authority's (FCA) Listing Rules, other relevant FCA rules and regulations, and tax legislation (governed by HM Revenue and Customs).
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of senior management, including the Group General Counsel, the Chief Risk Officer, the Head of Compliance and the Group Head of Internal Audit. We also reviewed significant correspondence between the Group and regulatory bodies, reviewed minutes of the Board, Risk Committee and Executive Committee, and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework and internal control processes.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the Group, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of senior management, legal counsel, the compliance officer and internal audit, review of significant correspondence with regulatory bodies and minutes of meetings of the Board and Board committees, and focused testing, as referred to in the Key Audit Matters section above.
- The Group operates in the exchange and CCP industries which are regulated environments. As such, the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of experts where appropriate.
- The FCA has regulatory oversight over London Stock Exchange plc and certain other entities within the Group. The Bank of England (BOE) supervises CCPs in the UK and therefore regulates LCH Limited. In addition, local regulatory bodies in France and Italy regulate other subsidiaries of the Group, including: LCH S.A. which is regulated by L'Autorité de Contrôle Prudentiel et de Résolution (ACPR) and US Commodity Futures Trading Commission (CFTC); and Borsa Italiana S.p.A., Cassa Di Compensazione e Garanzia S.p.A. (CC&G) and Monte Titoli S.p.A. which are all regulated by Commissione Nazionale per la Società e la Borsa and Banca d'Italia.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Other matters we are required to address

- We were appointed by the Company on 12 June 2014 to audit the financial statements for the 9 months period ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the 9 months period ended 31 December 2014 to the year ended 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.



## David Canning-Jones (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
2 March 2018

1. The maintenance and integrity of the London Stock Exchange Group plc website 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 website
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 2017		2017			2016		
		Underlying £m	Non-underlying £m	Total £m	Underlying £m Re-presented <sup>1</sup>	Non-underlying £m Re-presented <sup>1</sup>	Total £m Re-presented <sup>1</sup>
	Notes						
<b>Continuing operations</b>							
Revenue	4	1,768	–	1,768	1,515	–	1,515
Net treasury income through CCP business	4	162	–	162	125	–	125
Other income	4	25	–	25	17	–	17
<b>Total income</b>		<b>1,955</b>	<b>–</b>	<b>1,955</b>	<b>1,657</b>	<b>–</b>	<b>1,657</b>
Cost of sales	4	(215)	–	(215)	(175)	–	(175)
<b>Gross profit</b>		<b>1,740</b>	<b>–</b>	<b>1,740</b>	<b>1,482</b>	<b>–</b>	<b>1,482</b>
<b>Expenses</b>							
Operating expenses before depreciation, amortisation and impairment	5, 7	(816)	(40)	(856)	(706)	(102)	(808)
Profit on disposal of businesses	7	–	7	7	–	–	–
Share of loss after tax of associates	4, 15	(9)	–	(9)	(5)	–	(5)
<b>Earnings before interest, tax, depreciation, amortisation and impairment</b>		<b>915</b>	<b>(33)</b>	<b>882</b>	<b>771</b>	<b>(102)</b>	<b>669</b>
Depreciation, amortisation and impairment	5, 7	(103)	(153)	(256)	(85)	(157)	(242)
<b>Operating profit/(loss)</b>		<b>812</b>	<b>(186)</b>	<b>626</b>	<b>686</b>	<b>(259)</b>	<b>427</b>
Finance income		8	–	8	7	–	7
Finance expense		(70)	–	(70)	(70)	–	(70)
Net finance expense	8	(62)	–	(62)	(63)	–	(63)
<b>Profit/(loss) before tax from continuing operations</b>		<b>750</b>	<b>(186)</b>	<b>564</b>	<b>623</b>	<b>(259)</b>	<b>364</b>
<b>Taxation</b>	9	<b>(168)</b>	<b>190</b>	<b>22</b>	<b>(140)</b>	<b>39</b>	<b>(101)</b>
<b>Profit/(loss) for the year from continuing operations</b>		<b>582</b>	<b>4</b>	<b>586</b>	<b>483</b>	<b>(220)</b>	<b>263</b>
<b>Discontinued operations</b>							
(Loss)/profit after tax for the year from discontinued operations	10	–	(25)	(25)	18	(88)	(70)
<b>Profit/(loss) for the year</b>		<b>582</b>	<b>(21)</b>	<b>561</b>	<b>501</b>	<b>(308)</b>	<b>193</b>
<b>Equity holders</b>							
Profit/(loss) for the year from continuing operations		513	17	530	436	(213)	223
(Loss)/profit for the year from discontinued operations	10	–	(25)	(25)	17	(88)	(71)
Profit/(loss) for the year attributable to equity holders		513	(8)	505	453	(301)	152
<b>Non-controlling interests</b>							
Profit/(loss) for the year attributable to non-controlling interests from continuing operations		69	(13)	56	47	(7)	40
Profit for the year attributable to non-controlling interests from discontinued operations	10	–	–	–	1	–	1
Profit/(loss) for the year attributable to non-controlling interests		69	(13)	56	48	(7)	41
		582	(21)	561	501	(308)	193
<b>Earnings per share attributable to equity holders</b>							
Basic earnings per share	11			146.4p			43.5p
Diluted earnings per share	11			143.0p			42.6p
Adjusted basic earnings per share	11			148.7p			129.7p
Adjusted diluted earnings per share	11			145.3p			127.2p
<b>Earnings per share for continuing operations attributable to equity holders</b>							
Basic earnings per share	11			153.6p			63.8p
Diluted earnings per share	11			150.1p			62.5p
Adjusted basic earnings per share	11			148.7p			124.7p
Adjusted diluted earnings per share	11			145.3p			122.3p
<b>Dividend per share in respect of the financial year:</b>							
Dividend per share paid during the year	12			14.4p			12.0p
Dividend per share declared for the year	12			37.2p			31.2p

1. Comparatives have been re-presented to reflect earnings before interest, tax, depreciation and amortisation ("EBITDA") by separately identifying depreciation and amortisation, with no impact to profit before tax or after tax for the year

The notes on pages 115 to 161 form an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

Year ended 31 December 2017	Notes	2017 £m	2016 £m
<b>Profit for the financial year</b>		<b>561</b>	193
<b>Other comprehensive income/(loss):</b>			
<b>Items that will not be subsequently reclassified to profit or loss</b>			
Defined benefit pension scheme remeasurement gain/(loss)	18	<b>93</b>	(58)
Income tax relating to these items	9	<b>(25)</b>	15
		<b>68</b>	(43)
<b>Items that may be subsequently reclassified to profit or loss</b>			
Net investment hedges		<b>3</b>	(74)
Available for sale financial assets:			
– Net gains from changes in fair value		<b>1</b>	7
– Net gains reclassified to the consolidated income statement on disposal		<b>(8)</b>	–
Exchange (loss)/gain on translation of foreign operations		<b>(64)</b>	492
Income tax relating to these items	9	<b>2</b>	(1)
		<b>(66)</b>	424
<b>Other comprehensive gains net of tax</b>		<b>2</b>	381
<b>Total comprehensive income for the financial year</b>		<b>563</b>	574
Attributable to non-controlling interests		<b>81</b>	98
Attributable to equity holders		<b>482</b>	476
<b>Total comprehensive income for the financial year</b>		<b>563</b>	574

The notes on pages 115 to 161 form an integral part of these consolidated financial statements.

# Balance sheets

At 31 December 2017		Group		Company	
		Notes	2017 £m	2016 £m	2017 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	129	108	–	–
Intangible assets	14	4,590	4,124	–	–
Investment in associates	15	5	3	3	8
Investment in subsidiary companies	16	–	–	6,098	5,365
Deferred tax assets	17	38	68	–	–
Derivative financial instruments	19	4	–	4	–
Available for sale assets	19	86	28	–	–
Retirement benefit asset	18	56	2	–	–
Other non-current receivables	19, 21	55	88	37	12
		<b>4,963</b>	<b>4,421</b>	<b>6,142</b>	<b>5,385</b>
<b>Current assets</b>					
Inventories		–	3	–	–
Trade and other receivables	19, 21	688	637	610	474
CCP financial assets		673,354	504,833	–	–
CCP cash and cash equivalents (restricted)		61,443	53,553	–	–
CCP clearing business assets	19	734,797	558,386	–	–
Current tax		126	124	–	–
Available for sale assets	19	19	74	–	–
Cash and cash equivalents	22	1,381	1,151	4	1
		<b>737,011</b>	<b>560,375</b>	<b>614</b>	<b>475</b>
Assets held for sale	10	6	–	–	–
<b>Total assets</b>		<b>741,980</b>	<b>564,796</b>	<b>6,756</b>	<b>5,860</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	19, 23	598	601	275	204
CCP clearing business liabilities	19	734,981	558,478	–	–
Current tax		70	61	–	–
Borrowings	19, 24	522	619	490	274
Provisions	26	1	1	–	–
		<b>736,172</b>	<b>559,760</b>	<b>765</b>	<b>478</b>
<b>Non-current liabilities</b>					
Borrowings	19, 24	1,431	547	1,431	547
Derivative financial instruments	19	29	19	29	19
Deferred tax liabilities	17	502	705	–	–
Retirement benefit obligations	18	36	75	–	–
Other non-current liabilities	19, 23	49	66	–	–
Provisions	26	9	10	–	–
		<b>2,056</b>	<b>1,422</b>	<b>1,460</b>	<b>566</b>
<b>Total liabilities</b>		<b>738,228</b>	<b>561,182</b>	<b>2,225</b>	<b>1,044</b>
<b>Net assets</b>		<b>3,752</b>	<b>3,614</b>	<b>4,531</b>	<b>4,816</b>
<b>Equity</b>					
<b>Capital and reserves attributable to the Company's equity holders</b>					
Ordinary share capital	27	24	24	24	24
Share premium	27	964	961	964	961
Retained earnings		419	259	1,724	2,012
Other reserves		1,820	1,862	1,819	1,819
<b>Total shareholders' funds</b>		<b>3,227</b>	<b>3,106</b>	<b>4,531</b>	<b>4,816</b>
<b>Non-controlling interests</b>		<b>525</b>	<b>508</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>3,752</b>	<b>3,614</b>	<b>4,531</b>	<b>4,816</b>

The Company recorded profit for the year of £36 million (2016: £531 million).

The notes on pages 115 to 161 form an integral part of these consolidated financial statements.

The financial statements on pages 109 to 161 were approved by the Board on 1 March 2018 and signed on its behalf by:



**David Warren**

Interim Chief Executive Officer and Chief Financial Officer  
London Stock Exchange Group plc  
Registered number 5369106

2 March 2018

# Cash flow statements

Year ended 31 December 2017		Group		Company	
		Notes	2017 £m	2016 £m	2017 £m
<b>Cash flow from operating activities</b>					
Cash generated from operations	28	852	618	17	(65)
Interest received		6	6	13	13
Interest paid		(66)	(67)	(49)	(58)
Corporation tax paid		(130)	(315)	–	–
Withholding tax paid		(3)	(1)	–	–
<b>Net cash inflow/(outflow) from operating activities</b>		<b>659</b>	<b>241</b>	<b>(19)</b>	<b>(110)</b>
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment	13	(47)	(34)	–	–
Purchase of intangible assets	14	(143)	(112)	–	–
Proceeds from sale of business	7	14	594	–	–
Cash disposed as part of the sale of businesses		(5)	(185)	–	–
Costs in relation to sale of a disposal group		–	(12)	–	–
Acquisition of businesses	30	(644)	(1)	–	–
Cash inflow from acquisition of businesses	30	4	–	–	–
Investment in subsidiaries	16	–	–	(719)	(470)
Investment in associates	15	(2)	(8)	–	(8)
Proceeds from the disposal of available for sale financial assets		7	–	–	–
Investment in government bonds <sup>1</sup>		(5)	(10)	–	–
Dividends received		–	1	–	537
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(821)</b>	<b>233</b>	<b>(719)</b>	<b>59</b>
<b>Cash flow from financing activities</b>					
Dividends paid to shareholders	12	(159)	(130)	(159)	(130)
Dividends paid to non-controlling interests		(19)	(15)	–	–
Purchase of treasury shares relating to share buyback		(201)	–	(201)	–
Redemption of preferred securities		(157)	–	–	–
Acquisition of non-controlling interests		(111)	–	–	–
Proceeds from investment by non-controlling interest		12	20	–	–
Arrangement fee paid		(3)	(1)	(3)	(1)
Loans to subsidiary companies		–	–	(26)	(75)
Loans from subsidiary companies		–	–	25	336
Purchase of own shares by the employee benefit trust <sup>2</sup>		(26)	(9)	–	–
Proceeds from exercise of employee share options		2	–	2	–
Proceeds from issue of shares		–	1	–	1
Funds gifted to the employee benefit trust		–	–	(1)	–
Proceeds from the issue of bonds		885	–	885	–
Bond repayment <sup>3</sup>		–	(250)	–	(250)
Additional drawdowns from bank credit facilities <sup>3</sup>		242	317	215	275
Repayments made towards bank credit facilities <sup>3</sup>		(87)	(614)	(2)	(105)
Payments to shareholders on exercise of options		–	(3)	–	–
Repayments of finance lease		–	(3)	–	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>378</b>	<b>(687)</b>	<b>735</b>	<b>51</b>
<b>Increase/(decrease) in cash and cash equivalents</b>					
Cash and cash equivalents at beginning of year		1,151	1,176	1	1
Exchange gain on cash and cash equivalents		15	188	6	–
<b>Cash and cash equivalents at end of year</b>		<b>1,382</b>	<b>1,151</b>	<b>4</b>	<b>1</b>
Cash and cash equivalents at end of year from continuing operations	22	1,381	1,151	4	1
Cash and cash equivalents classified as held for sale		1	–	–	–
<b>Cash and cash equivalents at end of year</b>		<b>1,382</b>	<b>1,151</b>	<b>4</b>	<b>1</b>

1. Investments in available for sale financial assets have been reclassified from net cash flow generated from operations to cash flow from investing activities. Cash flows arising on available for sale financial assets are now presented within investment in government bonds. There is no impact to cash and cash equivalents at the end of the year as a result of this change

2. Cash expenditure for the purchase of own shares by the employee benefit trust in the prior year of £9 million was included in working capital movements

3. Within cash from financing activities, the prior year net amount of receipts and repayments of borrowings has been re-presented to show the gross cash flows

The notes on pages 115 to 161 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 2017	Group	Notes	Attributable to equity holders				Total attributable to equity holders £m	Non- controlling interests £m	Total equity £m
			Ordinary share capital £m	Share premium £m	Retained earnings £m	Other reserves £m			
	31 December 2015		24	960	255	1,505	2,744	452	3,196
	Profit for the year		–	–	152	–	152	41	193
	Other comprehensive (loss)/income for the year		–	–	(32)	356	324	57	381
	Issue of shares	27	–	1	–	–	1	–	1
	Final dividend relating to the period ended 31 December 2015	12	–	–	(88)	–	(88)	–	(88)
	Interim dividend relating to the year ended 31 December 2016	12	–	–	(42)	–	(42)	–	(42)
	Dividend payments to non-controlling interests		–	–	–	–	–	(19)	(19)
	Net contributions in relation to non-controlling interest		–	–	–	–	–	15	15
	Employee share scheme expenses		–	–	20	–	20	–	20
	Tax in relation to employee share scheme expenses		–	–	4	–	4	–	4
	Purchase of non-controlling interest within acquired subsidiary		–	–	(10)	–	(10)	–	(10)
	Disposal of business		–	–	–	1	1	(38)	(37)
	31 December 2016		24	961	259	1,862	3,106	508	3,614
	Profit for the year		–	–	505	–	505	56	561
	Other comprehensive income/(loss) for the year		–	–	49	(72)	(23)	25	2
	Issue of shares	27	–	3	–	–	3	–	3
	Final dividend relating to the year ended 31 December 2016	12	–	–	(109)	–	(109)	–	(109)
	Interim dividend relating to the year ended 31 December 2017	12	–	–	(50)	–	(50)	–	(50)
	Dividend payments to non-controlling interests		–	–	–	–	–	(19)	(19)
	Employee share scheme expenses		–	–	11	–	11	–	11
	Tax in relation to employee share scheme expenses		–	–	12	–	12	–	12
	Purchase of non-controlling interest within acquired subsidiary		–	–	(21)	–	(21)	(89)	(110)
	Purchase by non-controlling interest		–	–	(36)	–	(36)	44	8
	Share buyback <sup>1</sup>		–	–	(201)	–	(201)	–	(201)
	Disposal of business	10	–	–	–	30	30	–	30
	<b>31 December 2017</b>		<b>24</b>	<b>964</b>	<b>419</b>	<b>1,820</b>	<b>3,227</b>	<b>525</b>	<b>3,752</b>

1. During the year, the Company completed a £199 million share buyback programme, purchasing 5.5 million of its own shares from the market, and subsequently transferred 1.8 million treasury shares to the Employee Benefit Trust to satisfy the vesting of the Group's various share schemes. Total costs directly attributable to the share buyback programme amounted to £2 million. The Company did not engage in any share buyback programmes in 2016.

The notes on pages 115 to 161 form an integral part of these consolidated financial statements.

Shares held in the Employee Benefit Trust to settle exercises on employee share awards were 944,495 (2016: 376,456).

Employee share scheme expenses include costs related to the issue and purchase of own shares for employee share schemes of £(29) million (2016: £(9) million), subscriptions, net of sundry costs, received on the vesting of employee share schemes of £2 million (2016: £2 million) and equity-settled share scheme expenses for the year of £38 million (2016: £27 million).

Purchase of non-controlling interest in the year relates to the acquisition of shareholdings from non-controlling equity holders in certain of the Group's subsidiaries, notably the LCH Group, Mercato dei Titoli di Stato S.p.A. and Gatelab S.r.l..

Purchase by non-controlling interest relates to the purchase of shareholdings by non-controlling equity holders in Group subsidiaries in the year, principally the Elite S.p.A. Group and LCH S.A., LCH Group's French-regulated operating subsidiary.

Other reserves comprise the following:

- Merger reserve of £1,305 million (2016: £1,305 million), a reserve arising on consolidation when the Company issued shares as part of the consideration to acquire subsidiary companies.
- Capital redemption reserve of £514 million (2016: £514 million), a reserve set up as a result of a court approved capital reduction.
- Reverse acquisition reserve of £(512) million (2016: £(512) million), a reserve arising on consolidation as a result of the capital reduction scheme.
- Foreign exchange translation reserve of £575 million (2016: £490 million), a reserve reflecting the impact of foreign currency changes on the translation of foreign operations.
- Hedging reserve of £(62) million (2016: £65 million), a reserve representing the cumulative fair value adjustment recognised in respect of net investment and cash flow hedges undertaken in accordance with hedge accounting principles.

# Statements of changes in equity continued

Year ended 31 December 2017		Attributable to equity holders					Total attributable to equity holders £m
		Notes	Ordinary share capital £m	Share premium £m	Retained earnings £m	Other reserves	
Company	Capital redemption reserve £m					Merger reserve £m	
31 December 2015		24	960	1,593	514	1,305	4,396
Profit for the year		–	–	531	–	–	531
Issue of shares	27	–	1	–	–	–	1
Final dividend relating to the year ended 31 December 2015	12	–	–	(88)	–	–	(88)
Interim dividend relating to the year ended 31 December 2016	12	–	–	(42)	–	–	(42)
Employee share scheme expenses		–	–	18	–	–	18
31 December 2016		24	961	2,012	514	1,305	4,816
Profit for the year		–	–	36	–	–	36
Issue of shares	27	–	3	–	–	–	3
Final dividend relating to the year ended 31 December 2016	12	–	–	(109)	–	–	(109)
Interim dividend relating to the year ended 31 December 2017	12	–	–	(50)	–	–	(50)
Employee share scheme expenses		–	–	36	–	–	36
Share buyback <sup>1</sup>		–	–	(201)	–	–	(201)
<b>31 December 2017</b>		<b>24</b>	<b>964</b>	<b>1,724</b>	<b>514</b>	<b>1,305</b>	<b>4,531</b>

1. During the year, the Company completed a £199 million share buyback programme, purchasing 5.5 million of its own shares from the market and subsequently transferred 1.8 million treasury shares to the Employee Benefit Trust to satisfy the vesting of the Group's various share schemes. Total costs directly attributable to the share buyback programme amounted to £2 million. The Company did not engage in any share buyback programmes in 2016.

The notes on pages 115 to 161 form an integral part of these financial statements.

Employee share scheme expenses of the Company include movement in the fair value of loan balances with the Employee Benefit Trust of £(1) million (2016: £(9) million), costs relating to the issue of own shares for employee share schemes of £(3) million (2016: £(1) million), subscriptions received on the vesting of employee share schemes of £2 million (2016: £1 million) and equity-settled share scheme expenses for the year of £38 million (2016: £27 million).

The merger reserve of £1,305 million (2016: £1,305 million) is a potentially distributable reserve arising on consolidation when the Company issued shares as part of the consideration to acquire subsidiary companies.

The capital redemption reserve of £514 million (2016: £514 million) is a non-distributable reserve set up as a result of a court approved capital reduction.

# Notes to the financial statements

## 1. Basis of preparation and accounting policies

The Group's consolidated and the Company's 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 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 any non-underlying items. Non-underlying items include amortisation of purchased intangible assets and other income or expenses not considered to drive the operating results of the Group. This is the profit measure used to calculate adjusted earnings per share. Profit before non-underlying items is reconciled to profit before taxation on the face of the income statement.

The Group consolidated income statement includes an additional performance measure for the year ended 31 December 2017. Earnings before interest, tax, depreciation and amortisation (EBITDA) is included on the face of the income statement to further assist users in understanding the financial performance of the Group. The results for the year ended 31 December 2016 have been re-presented accordingly. There is no impact on the previously reported profit for the year as a result of this change. Additionally, the Group consolidated financial statements have changed its reporting from 1 decimal place to whole numbers.

### Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies with all inter-company balances and transactions eliminated, together with the Group's attributable share of the results of associates. The results of subsidiary companies sold or acquired in the period 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 subsidiary companies 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 30. 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 the amounts potentially due are recognised at their fair value 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 which meet the criteria for discontinued operations.

Investments in subsidiary companies' 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.

The Company is a public company, incorporated and domiciled in England and Wales. The address of its registered office is 10 Paternoster Square, London, EC4M 7LS.

### Recent accounting developments

The following amendments were endorsed by the EU during the year and have been adopted in these financial statements:

- Amendment to IAS 7, 'Statement of cash flows' on changes in liabilities arising from financing activities
- Amendment to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealised losses

The adoption of these standards did not have a material impact on the results of the Group; however additional disclosure in relation to cash flows arising from financing activities is now provided in Note 28.

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 2017 or they are not yet mandatory and the Group has chosen not to early adopt. The Group plans to adopt these standards and interpretations when they become effective. The impact on the Group's financial statements of the 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
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
Amendments to IAS 40, 'Transfers of Investment Property'	1 January 2018
IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'	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
IFRIC 23, 'Uncertainty over Income Tax Treatments'	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 for the year ending 31 December 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 5 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 Group's assessment, the key areas of judgement expected on initial adoption of IFRS 15 are in relation to the timing of revenue recognition for services provided. The Group continues to assess the impact the new standard will have on the Group's future financially reported position and performance.

IFRS 9 'Financial instruments' is effective for the year ending 31 December 2018 and will simplify the classification of financial assets for measurement purposes. The implementation of IFRS 9 will not have a significant impact on the results of the Group.

IFRS 16 'Leases' is effective for the year ending 31 December 2019 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 31.

## 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, or in cases where there is a fixed annual fee, monthly in arrears, 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;
- 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.

#### Net treasury income

Income recognised through the CCP clearing business includes net treasury income earned on margin and default funds, held as part of the 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 is 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.

#### 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.

Revenue share expenses presented within cost of sales relate to arrangements with customers where the revenue share payment is not limited to the amount of revenues receivable from the specific customer.

#### Non-underlying items

Items of income and expense that are material by size and/or nature and are not considered to be incurred in the normal course of business are classified as non-underlying 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 sustainable performance. Non-underlying items are disclosed in Note 7.

#### 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 comprise 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.

In conditions where negative interest rates apply, the Group recognises interest paid on cash deposits as an expense and interest received on liabilities as income.

Recurring fees and charges levied on committed bank facilities, the cash management transactions and the payment 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.

### 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.

Land is not depreciated. Freehold buildings, fixed plant and plant and equipment 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.

#### Investment in associates

An associate is a company over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the company, but is not control nor joint control over those policies. The Group's investments in associates are accounted for using the equity method.

The Company accounts for its investments in associates at cost, less any impairments recognised through the income statement.

#### 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 and licences 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 interest 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 and supplier relationships, software licences and 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 – 2 to 25 years (material assets are amortised over a life exceeding 15 years);
- b. Brand names – 10 to 25 years (material assets are amortised over a life of 25 years); and
- c. Software licences and intellectual property – 2 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 3 to 5 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 3 to 7 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. For assets with an indefinite useful life a full impairment assessment is performed annually. 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 within 1 year from the reporting date, or intended for trade or consumption and realised 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 1 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 substantively 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 and liabilities (non-CCP businesses)

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available for sale or 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 that 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 subsidiary companies) are designated as available for sale and are recorded on trade date at fair value plus transaction costs, with subsequent 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 derecognised. 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 and comprise trade and other receivables and cash and cash equivalents. 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.

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.

#### d. 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 expense 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) and clearing businesses

The Group has adopted the settlement date as the reference date for recognising financial assets and liabilities in the CCP businesses.

#### a. Derivative or equity trading assets and liabilities

These transactions are initially recorded at fair value, and are subsequently marked to market every day with the movement recognised in the income statement. Since the asset and liability positions of the CCP 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. Repurchase transactions (repos) trading assets and liabilities

These balances represent repurchase transactions (repos) novated by clearing members to 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 all initially recognised at fair value and are either revalued through profit or loss at fair value or are subsequently measured at amortised cost, depending on the terms and conditions set out in the Rulebook of the CCP business.

#### c. Other receivables from and payables to clearing members and default funds

These comprise accounts receivable and payable deriving from the trading activities of clearing members. They mainly represent amounts to be received or paid in relation to initial and variation margin calls, 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.

#### d. Other financial assets at fair value

These represent bond securities in which the CCPs invest to hold their significant asset balances securely. These are initially recognised at fair value and are subsequently marked to market. Some bonds are treated as fair value through the profit or loss, and some are treated as fair value through equity. The classification of each bond depends on the investment intention when the bond is acquired.

#### e. Cash and cash equivalents (restricted)

These include amounts received from clearing members to cover initial and variation margins and default fund contributions that are not invested in bonds and are deposited with banks, including central banks. Such amounts are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

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.

#### Fair value measurement

All assets and liabilities for which fair value is measured are categorised within the fair value hierarchy which is described in detail in Note 19.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at each balance sheet date.

#### 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 expense.

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.

**Commitments to purchase non-controlling interests**

Where the Group has granted put options to non-controlling interest shareholders, these are treated as liabilities as the Group has no control over whether these options are exercised or not. The amounts due are recognised at fair value and are revalued on each balance sheet date. When the liability is recognised initially, the redemption amount is reclassified from non-controlling interests. The changes in the fair value of the liability are recognised in the income statement. Changes in the measurement of the liability that do not change the relative interests in the subsidiary company that are held by the parent and the non-controlling interest shareholder and therefore are not equity transactions.

**Trade and other receivables**

Trade receivables are non-interest bearing and are initially recognised at their fair value, which is usually the original invoiced amount, less any provisions 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. Other receivables are initially recognised at fair value and subsequently measured at amortised cost.

**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. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

**Equity and related items****Share capital**

The share capital of the Company includes balances relating to the Company's ordinary equity shares, own shares held by the Employee Benefit Trust and treasury shares held by the Company.

When the Company issues new shares to the Employee Benefit Trust at par, the share capital of the Company is increased by the par value of these own shares, and a corresponding deduction or debit is recorded to the employee share scheme reserves within retained earnings.

From time to time, the Company may also issue new shares to the Employee Benefit Trust to satisfy vesting of specific employee share schemes. These shares may be issued at a subscription price above par value, reflecting the option cost payable by the participant in the employee share scheme. In such instances, the share capital of the Company is increased by the par value of these own shares and the difference between the subscription price and the par value of the own share is recorded in share premium. A corresponding deduction or debit is recognised in the employee share scheme reserves within retained earnings.

Shares reacquired by the Company from the open market as part of share buyback programmes are referred to as treasury shares and are held by the Company. The consideration payable is deducted from retained earnings.

The par value of the treasury shares is then recorded as a transfer from the Company's ordinary equity shares to treasury shares within share capital.

No gain or loss is recognised by the Company in the income statement on the purchase, sale, issue or cancellation of the Company's own shares held by the Employee Benefit Trust and treasury shares.

**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. The Group maintains a sustainable progressive dividend policy. The interim dividend will generally be payable each year in September and final dividend in May. The Group's dividend policy determines that the interim dividend is calculated as one-third of the prior full year dividend.

## 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, settlement, custodial and market (including foreign exchange, cash flow and fair value interest rate) risks.

The Group's financial risk management approach is not speculative and adopts a '3 lines of defence' model. 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 approved risk and investment policies.

The Group Chief Risk Officer's team provides assurance that the governance and operational controls are effective to manage risks within the Board approved risk appetite, supporting a robust Group risk management framework. 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 rate, 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-wide Risk Management Framework to the Group Risk Committee. See 'Risk Management Oversight' on pages 42 to 45, 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"> <li>– increases in the capital requirements of its regulated companies, or</li> <li>– negative yields on its investments of cash, or</li> <li>– a scarcity of debt or equity (driven by its own performance or financial market conditions)</li> </ul> <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 regular capital structure is presented below:</p> <table border="1"> <thead> <tr> <th>Book value of capital</th> <th>31 December 2017 £m</th> <th>31 December 2016 £m</th> </tr> </thead> <tbody> <tr> <td>Group consolidated equity excluding non-controlling interests</td> <td>3,227</td> <td>3,106</td> </tr> <tr> <td>Group consolidated debt</td> <td>1,953</td> <td>1,166</td> </tr> </tbody> </table> <p>Whilst the Company is unregulated, the regulated entities within the Group 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> <table border="1"> <thead> <tr> <th>Regulatory and operational capital</th> <th>31 December 2017 £m</th> <th>31 December 2016 £m</th> </tr> </thead> <tbody> <tr> <td>Total regulatory and operational capital</td> <td>1,147</td> <td>943</td> </tr> <tr> <td>Amount included in cash and cash equivalents</td> <td>1,042</td> <td>848</td> </tr> </tbody> </table> <p>The total capital amounts have increased year on year reflecting strong cash generation at regulated entities and now include cash held by Monte Titoli as at 31 December 2017 in response to the new Central Securities Depositories Regulation ("CSDR") regulatory requirements.</p> <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 proforma adjusted EBITDA (Group consolidated earnings before net finance charges, taxation, impairment, depreciation and amortisation, foreign exchange gains or losses and non-underlying items, prorated 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 2017, net leverage was 1.7 times (2016: 1.1 times), but remains well 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>	Book value of capital	31 December 2017 £m	31 December 2016 £m	Group consolidated equity excluding non-controlling interests	3,227	3,106	Group consolidated debt	1,953	1,166	Regulatory and operational capital	31 December 2017 £m	31 December 2016 £m	Total regulatory and operational capital	1,147	943	Amount included in cash and cash equivalents	1,042	848
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Amount included in cash and cash equivalents	1,042	848																	

**Credit and concentration risk****Risk description**

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:

- customer receivables,
- repayment of invested cash and cash equivalents, and
- settlement of derivative financial instruments.

In their roles as 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 46 to 53.

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 some risk of direct loss from a deterioration or failure of one or more of its unsecured investment counterparties.

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.

**Risk management approach****Group**

Credit risk is governed through policies developed at a Group level. Limits and thresholds for credit and concentration risk are kept under review.

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.

**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 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.

**CCPs**

To address 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 revalued daily.

		31 December 2017 £bn	31 December 2016 £bn
Clearing members' margin liability		(139)	(139)
Collateral security	Cash	73	72
	Non-cash	66	67
Maximum aggregate margin liability for the year		(155)	(145)

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:

<b>Clearing member contributions to default funds</b>	<b>31 December 2017 £bn</b>	<b>31 December 2016 £bn</b>
Aggregate at year end	16	12
Maximum during the year	18	12

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 bilateral 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 2017 £bn	31 December 2016 £bn
Total investment portfolio	87	86
Maximum portfolio size during the year	95	89
Additional portfolio information:		
Weighted average invested securely	99%	99%
Overall maturity (days)	74	62

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 2017 was 24% of the total investment portfolio to the French Government (2016: 21% 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 ongoing 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>																											
<table border="1"> <thead> <tr> <th>Group Aggregate Sovereign Treasury Exposures</th> <th>2017</th> <th>2016</th> </tr> <tr> <th>Country</th> <th>£bn</th> <th>£bn</th> </tr> </thead> <tbody> <tr> <td>France</td> <td>21</td> <td>18</td> </tr> <tr> <td>USA</td> <td>12</td> <td>14</td> </tr> <tr> <td>Netherlands</td> <td>7</td> <td>6</td> </tr> <tr> <td>UK</td> <td>6</td> <td>4</td> </tr> <tr> <td>Italy</td> <td>3</td> <td>12</td> </tr> <tr> <td>Switzerland</td> <td>1</td> <td>1</td> </tr> <tr> <td>Spain</td> <td>–</td> <td>2</td> </tr> </tbody> </table>		Group Aggregate Sovereign Treasury Exposures	2017	2016	Country	£bn	£bn	France	21	18	USA	12	14	Netherlands	7	6	UK	6	4	Italy	3	12	Switzerland	1	1	Spain	–	2
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Spain	–	2																										

## Liquidity, settlement and custodial risk

Risk description	Risk management approach																																										
<p>The Group's operations are exposed to liquidity risk to the extent that they are unable to meet their daily payment obligations.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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, meet its pension commitments, support acquisitions or repay borrowings. With the exception of regulatory constraints impacting certain entities, funds can generally be lent across the Group and cash earnings remitted through dividend payments. This is an important component of the Group Treasury cash management policy and approach.</p> <p>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.</p> <p>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 2017, the LCH Group €200 million Preferred Securities were redeemed in full utilising the Group's committed credit facilities together with available cash and cash equivalents. In addition, the Group put in place a new, 5 year, £600 million committed revolving credit facility to replace a maturing facility of the same amount and issued €1 billion of senior notes due in 2024 and 2029, materially extending its debt maturity profile. It has also recently established a £1 billion euro commercial paper programme to further broaden its sources of liquidity; the programme was unutilised at the end of the financial year. At 31 December 2017, £675 million (2016: £733 million) of the Group's facilities were unutilised.</p> <p>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 normal and stressed market conditions.</p> <p>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.</p> <p>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.</p> <p>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 future interest on debt that is not accrued for in relation to bonds which are not yet due.</p>																																										
<p><b>At 31 December 2017</b></p>	<table border="1"> <thead> <tr> <th></th> <th>Less than 1 year £m</th> <th>Between 1 and 2 years £m</th> <th>Between 2 and 5 years £m</th> <th>Over 5 years £m</th> <th>Total £m</th> </tr> </thead> <tbody> <tr> <td>Borrowings</td> <td>556</td> <td>299</td> <td>364</td> <td>951</td> <td>2,170</td> </tr> <tr> <td>Trade and other payables</td> <td>471</td> <td>–</td> <td>–</td> <td>–</td> <td>471</td> </tr> <tr> <td>CCP liabilities</td> <td>734,981</td> <td>–</td> <td>–</td> <td>–</td> <td>734,981</td> </tr> <tr> <td>Derivative financial instruments</td> <td>–</td> <td>29</td> <td>–</td> <td>–</td> <td>29</td> </tr> <tr> <td>Other non-current liabilities</td> <td>–</td> <td>34</td> <td>12</td> <td>3</td> <td>49</td> </tr> <tr> <td></td> <td><b>736,008</b></td> <td><b>362</b></td> <td><b>376</b></td> <td><b>954</b></td> <td><b>737,700</b></td> </tr> </tbody> </table>		Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m	Borrowings	556	299	364	951	2,170	Trade and other payables	471	–	–	–	471	CCP liabilities	734,981	–	–	–	734,981	Derivative financial instruments	–	29	–	–	29	Other non-current liabilities	–	34	12	3	49		<b>736,008</b>	<b>362</b>	<b>376</b>	<b>954</b>	<b>737,700</b>
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## Liquidity, settlement and custodial risk Continued

At 31 December 2016	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	654	37	638	14	1,343
Trade and other payables	479	–	–	–	479
CCP liabilities	558,478	–	–	–	558,478
Derivative financial instruments	–	–	19	–	19
Other non-current liabilities	–	46	12	8	66
	559,611	83	669	22	560,385

## Market risk – Foreign Exchange

Risk description	Risk management approach
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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 certain operations of the LCH Group (a Euro reporting subsidiary), which generate material revenues in Sterling and US Dollars and incur material 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 and the currency debt interest obligations of the Company 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.

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 US Dollars.

Currency of debt	31 December 2017 £m	31 December 2016 £m
Euro denominated drawn debt	921	352
Euro denominated cross-currency interest rate swaps	(355)	256
US Dollar denominated drawn debt	–	100
US Dollar denominated cross-currency interest rate swaps	622	–

The cross currency interest rate swaps are directly linked to Sterling and Euro fixed debt. The Euro and US Dollar denominated debt, including the cross-currency swaps, provides a hedge against the Group's net investment in Euro and US Dollar denominated entities.

As at 31 December 2017, the Group's designated hedges of 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 cash flows of more than £1 million or equivalent per annum to 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 2017 and year ended 31 December 2016 and, based on actual market observations between its principal currency pairs, has concluded that a 10% movement in rates is a reasonable level to illustrate 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:

		2017		2016	
		Post tax profit £m	Equity £m	Post tax profit £m	Equity £m
Euro	Sterling weaken	4	21	(4)	38
	Sterling strengthen	(3)	(19)	3	(34)
US Dollar	Sterling weaken	6	(39)	2	5
	Sterling strengthen	(5)	35	(2)	(5)

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-underlying 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:

		2017	2016
		£m	£m
Euro	Sterling weaken	25	27
	Sterling strengthen	(21)	(23)
US Dollar	Sterling weaken	26	17
	Sterling strengthen	(22)	(15)

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## Market risk – Cash Flow and Fair Value Interest Rate Risk

### Risk description

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.

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 predominantly secured investment activities.

### Risk management approach

Group interest rate management policy focuses 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:

- 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 2017, consolidated net interest expense cover by EBITDA was measured over the 12 month period at 15.5 times (2016: 13.0 times) and the floating rate component of total debt was 27% (2016: 40%).

In the Group's CCPs, interest bearing assets are generally invested in secured instruments or structures and 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 2017, 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 have been £5 million higher (2016: £5 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 2017, 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 £2 million lower (2016: £2 million lower). This deficit is expected to be recovered as investment yields increase as the portfolio matures and is reinvested.

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### 3. Significant judgements and estimates

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

#### Estimates:

For the year ended 31 December 2017, 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 14;

**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. Details are provided in Note 14; and

**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 18.

#### Judgements:

In preparing the financial statements for the year ended 31 December 2017, the following judgement has been made:

**CCP trading assets and trading liabilities** – The Group uses its judgement to carry out the offsetting within clearing member balances. The carrying values of the balances are offset at what the Group considers an appropriate level to arrive at the net balances reported in the balance sheet. The Group has an aligned approach for its CCP subsidiaries to ensure the principles are applied are consistent across similar assets and liabilities. The approach is reviewed on a timely basis to ensure the approach used is the most appropriate. Details of amounts offset are provided in Note 20.

### 4. Segmental Information

The Group is organised into operating units based on its service lines and has 6 reportable segments: Information Services, Post Trade Services – LCH, Post Trade Services – CC&G and Monte Titoli, Capital Markets, Technology Services and Other. These segments generate revenue in the following areas:

- **Information Services** – Subscription and licence fees for data and index services provided
- **Post Trade Services – LCH** – Fees based on CCP and clearing services provided, non-cash collateral management and net interest earned on cash held for margin and default funds
- **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
- **Capital Markets** – Admission fees from initial listing and further capital raises, annual fees charged for securities traded on the Group's markets, and fees from our secondary market services
- **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 2017 are as follows:

	Information Services £m	Post Trade Services – LCH £m	Post Trade Services – CC&G and Monte Titoli £m	Capital Markets £m	Technology Services £m	Other £m	Eliminations £m	Group £m
<b>Revenue from external customers</b>	<b>736</b>	<b>432</b>	<b>109</b>	<b>391</b>	<b>91</b>	<b>9</b>	<b>–</b>	<b>1,768</b>
Inter-segmental revenue	–	–	1	–	20	–	(21)	–
<b>Revenue</b>	<b>736</b>	<b>432</b>	<b>110</b>	<b>391</b>	<b>111</b>	<b>9</b>	<b>(21)</b>	<b>1,768</b>
<b>Net treasury income through CCP business</b>	<b>–</b>	<b>120</b>	<b>42</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>162</b>
<b>Other income</b>	<b>–</b>	<b>10</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>15</b>	<b>–</b>	<b>25</b>
<b>Total income</b>	<b>736</b>	<b>562</b>	<b>152</b>	<b>391</b>	<b>111</b>	<b>24</b>	<b>(21)</b>	<b>1,955</b>
Cost of sales	(62)	(88)	(17)	(16)	(29)	(3)	–	(215)
<b>Gross profit</b>	<b>674</b>	<b>474</b>	<b>135</b>	<b>375</b>	<b>82</b>	<b>21</b>	<b>(21)</b>	<b>1,740</b>
Share of loss after tax of associates	–	–	–	–	–	(9)	–	(9)
<b>Earnings before interest, tax, depreciation, amortisation and impairment</b>	<b>400</b>	<b>245</b>	<b>82</b>	<b>194</b>	<b>5</b>	<b>1</b>	<b>(12)</b>	<b>915</b>
Depreciation, non-acquisition software amortisation and impairment	(17)	(51)	(11)	(14)	(7)	(6)	3	(103)
<b>Operating profit/(loss) before non-underlying items</b>	<b>383</b>	<b>194</b>	<b>71</b>	<b>180</b>	<b>(2)</b>	<b>(5)</b>	<b>(9)</b>	<b>812</b>
Amortisation of purchased intangible assets								(153)
Non-underlying items								(33)
<b>Operating profit</b>								<b>626</b>
Net finance expense								(62)
<b>Profit before taxation from continuing operations</b>								<b>564</b>

Revenue from external customers principally comprises fees for services rendered of £1,668 million (2016: £1,423 million) and Technology Services of £91 million (2016: £88 million).

Net treasury income through CCP businesses of £162 million (2016: £125 million) comprises gross interest income of £813 million (2016: £497 million) less gross interest expense of £651 million (2016: £372 million). During the year the Group recognised a total of £74 million (2016: £140 million) of net treasury income on financial assets and liabilities held at amortised cost comprising of £559 million (2016: £357 million) gross treasury income and £485 million (2016: £217 million) gross treasury expense, and £88 million net gain (2016: £15 million net loss) on assets held at fair value comprising of £254 million (2016: £140 million) fair value gain and £166 million (2016: £155 million) fair value loss.

Presented within revenue are net settlement expenses from the CCP business of £1 million (2016: £5 million expense) which comprise gross settlement income of £22 million (2016: £16 million) less gross settlement expense of £23 million (2016: £21 million).

Segmental disclosures for the year ended 31 December 2016 are as follows:

	Information Services £m	Post Trade Services – LCH £m	Post Trade Services – CC&G and Monte Titoli £m	Capital Markets £m	Technology Services £m	Other £m	Eliminations £m	Group £m
<b>Revenue from external customers</b>	595	356	104	368	88	4	–	1,515
Inter-segmental revenue	–	–	–	–	16	–	(16)	–
<b>Revenue</b>	595	356	104	368	104	4	(16)	1,515
<b>Net treasury income through CCP business</b>	–	82	43	–	–	–	–	125
<b>Other income</b>	–	9	–	–	–	8	–	17
<b>Total income</b>	595	447	147	368	104	12	(16)	1,657
Cost of sales	(54)	(56)	(13)	(22)	(28)	(2)	–	(175)
<b>Gross profit</b>	541	391	134	346	76	10	(16)	1,482
Share of loss after tax of associates	–	–	–	–	–	(5)	–	(5)
<b>Earnings before interest, tax, depreciation and amortisation</b>	350	159	71	188	18	(2)	(13)	771
Depreciation, non-acquisition software amortisation and impairment	(13)	(36)	(18)	(11)	(6)	(3)	2	(85)
<b>Operating profit/(loss) before non-underlying items</b>	337	123	53	177	12	(5)	(11)	686
Amortisation of purchased intangible assets								(157)
Non-underlying items								(102)
<b>Operating profit</b>								427
Net finance expense								(63)
<b>Profit before taxation from continuing operations</b>								364

#### Geographical disclosures

	2017 £m	2016 £m
<b>Revenue from external customers</b>		
UK	999	866
Italy	316	306
France	106	92
USA	276	177
Other	71	74
<b>Total</b>	1,768	1,515

	2017 £m	2016 £m
<b>Total assets</b>		
UK	366,608	159,996
Italy	118,082	176,526
France	254,645	226,089
USA	2,428	1,977
Other	217	208
<b>Total</b>	741,980	564,796

	2017 £m	2016 £m
<b>Non-current operating assets</b>		
UK	1,107	1,128
Italy	1,284	1,279
France	58	47
USA	2,120	1,685
Other	155	96
<b>Total</b>	4,724	4,235

Non-current operating assets consist of property, plant and equipment, intangible assets and investment in associates.



## 5. Expenses by nature

Expenses comprise the following:

	Notes	2017 £m	2016 £m
Employee costs	6	497	429
IT costs		120	117
Other costs		199	160
<b>Operating expenses before depreciation, non-acquisition software amortisation, and impairment</b>		<b>816</b>	706
Depreciation, non-acquisition software amortisation and impairment	13, 14	103	85
<b>Total operating expenses</b>		<b>919</b>	791

Other costs include foreign exchange losses of £17 million (2016: £3 million gain).

## 6. Employee costs

Employee costs comprise the following:

	Note	2017 £m	2016 £m
Salaries and other benefits		368	329
Social security costs		64	52
Pension costs	18	27	21
Share-based compensation		38	27
<b>Total</b>		<b>497</b>	429

Staff costs include the costs of contract staff who are not on the payroll, but fulfil a similar role to employees.

The average number of employees in the Group from total operations was:

	2017	2016
UK	1,532	1,352
Italy	573	568
France	165	172
Sri Lanka	1,094	946
USA	626	258
Other	751	452
<b>Total</b>	<b>4,741</b>	3,748

Average staff numbers are calculated from the date of acquisition for subsidiary companies acquired in the year and up to the date of disposal for businesses disposed in the year.

The Company had no employees in the year (2016: nil).

**7. Non-underlying items**

	Notes	2017 £m	2016 £m
Amortisation of purchased intangible assets	14	153	157
Transaction costs		25	85
Restructuring costs		7	14
Integration costs		8	3
Profit on disposal of businesses		(7)	–
<b>Total affecting operating profit</b>		<b>186</b>	259
<b>Tax effect on items affecting profit before tax</b>			
Deferred tax on amortisation of purchased intangible assets		(184)	(41)
Current tax on amortisation of purchased intangible assets		(2)	(2)
Tax effect on other items affecting profit before tax		(4)	4
<b>Total tax effect on items affecting profit before tax</b>		<b>(190)</b>	(39)
<b>Total (credit)/charge to continuing operations income statement</b>			
Loss after tax from discontinued operations	10	25	88
<b>Total charge to income statement</b>		<b>21</b>	308

Transaction costs comprise charges incurred for ongoing services relating to potential merger and acquisition transactions.

Restructuring and integration costs in the current year principally relate to the restructuring of LCH Group and the integration of the Mergent and Yield Book businesses. In the prior year, the Group incurred restructuring costs in relation to the LCH Group and integration and restructuring costs in relation to the Frank Russell Company.

The £7 million profit on disposal comprises £5 million profit in relation to the sale of Information Services Professional Solutions (ISPS), a business line of BI Market Services S.p.A., for a cash consideration of £9 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 remaining £2 million profit on disposal relates to the sale of the Millennium Enterprise Systems Integration business, a business that formed part of the Technology Services segment and the MillenniumIT cash generating unit, for cash consideration of £5 million.

Loss after tax on discontinued operations relates to the disposal of Russell Investment Management business. See Note 10 for further details.

Further details on the recognition of deferred tax in relation to the amortisation of purchased intangible assets are provided in Note 9.

**8. Net finance expense**

	Notes	2017 £m	2016 £m
<b>Finance income</b>			
Expected return on defined benefit pension scheme assets	18	–	1
Bank deposit and other interest income		3	1
Other finance income		5	5
		<b>8</b>	7
<b>Finance expense</b>			
Interest payable on bank and other borrowings		(63)	(65)
Defined benefit pension scheme interest cost	18	(2)	(2)
Other finance expenses		(5)	(3)
		<b>(70)</b>	(70)
<b>Net finance expense</b>		<b>(62)</b>	(63)

Interest payable includes amounts where the Group earns negative interest on its cash deposits.

During the year the Group recognised a total of £60 million (2016: £62 million) of net interest expense on financial assets and liabilities held at amortised cost, comprising of £8 million (2016: £6 million) gross finance income and £68 million (2016: £68 million) gross finance expense. Presented within finance income and finance expense are amounts in relation to defined benefit schemes which are measured at fair value.

## 9. Taxation

The standard UK corporation tax rate was 19.25% (20% for the year ended 31 December 2016).

<b>Taxation charged to the income statement</b>	Note	2017 £m	2016 £m
Current tax:			
UK corporation tax for the year		76	46
Overseas tax for the year		95	88
Adjustments in respect of previous years		(10)	(3)
		<b>161</b>	131
Deferred tax:			
Deferred tax for the year	17	(9)	7
Adjustments in respect of previous years		10	4
Deferred tax liability on amortisation of purchased intangible assets		(184)	(41)
<b>Taxation (credit)/charge</b>		<b>(22)</b>	101

The adjustments in respect of previous years' corporation tax are mainly in respect of tax returns submitted to relevant tax authorities.

<b>Taxation on items not credited/(charged) to income statement</b>	2017 £m	2016 £m
Current tax credit:		
Tax allowance on share options/awards in excess of expense recognised	8	11
	<b>8</b>	11
Deferred tax (charge)/credit:		
Tax on defined benefit pension scheme remeasurement	(25)	15
Tax allowance on share options/awards in excess of expense recognised	4	(7)
Tax on movement in value of available for sale financial assets	2	(1)
	<b>(11)</b>	18

### 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 19.25% (2016: 20%) as explained below:

	2017 £m	2016 £m
Profit before taxation from continuing operations	564	364
(Loss)/profit before taxation from discontinued operations	(23)	104
	<b>541</b>	468
Profit multiplied by standard rate of corporation tax in the UK	104	94
Expenses not deductible	9	18
Adjustment arising from change in tax rates	2	2
Overseas earnings taxed at higher rate	10	167
Adjustments in respect of previous years	–	1
Adjustment arising from changes in tax rates on amortisation of purchased intangible assets	(147)	(6)
Deferred tax previously not recognised	2	(1)
	<b>(20)</b>	275
<b>Income tax from continuing operations</b>	<b>(22)</b>	101
<b>Income tax attributable to discontinued operations</b>	<b>2</b>	174

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 2017 have been stated at 19% or 17% dependent on when the temporary differences are expected to reverse. The Group recognised a one off deferred tax credit of £142 million relating to the reduction in the deferred tax liability which arises from consolidation of US acquisitions and reflects the lower Federal tax rate of 21% substantively enacted following US tax reform signed into law in December 2017. The deferred tax balances in other countries are recognised at the substantively enacted rates at the balance sheet date.

### Uncertain tax positions

An amount of £2 million (2016: £1 million) has been provided for in respect of uncertain tax positions in relation to uncertainty arising from the introduction of UK Diverted Profits Tax. In the prior year, an additional uncertain tax position of £3 million was provided for, reflecting ongoing discussions with the tax authorities regarding the tax effect of certain changes in accounting policy for intangible assets. The Group no longer considers this amount to be uncertain, following further discussions with the tax authorities during the year.

### Judgements

The Group is monitoring developments in relation to EU State Aid investigation into the UK's Controlled Foreign Company regime. The Group does not currently consider that any provision is required in relation to EU State Aid.

**10. Discontinued operations and assets and liabilities held for sale**

In the prior year, the Group completed the sale of the Russell Investment Management business to TA Associates and Reverence Capital Partners for US\$1,150 million (£794 million) total consideration.

The Group incurred a non-underlying loss of US\$29 million (£23 million) in the year (2016: £76 million gain) relating to the disposal of the Russell Investment Management business.

During the year, the Group recognised US\$18 million (£13 million) current tax and other receivable in relation to the disposed business. Subsequently, the Group recorded a US\$21 million (£17 million) adjustment to the disposal balance sheet relating to tax balances at the disposal date and a US\$8 million (£6 million) reduction to the net proceeds received on disposal as a result of the finalisation of the completion statement, which resulted in a US\$2 million (£2 million) cash payment by the Group. The disposal accounting and final tax position will be finalised on completion of the relevant tax returns.

The results of the Russell Investment Management business for the 5 month period to 31 May 2016 are included in the comparatives as discontinued operations in the Group's consolidated income statement.

The results of discontinued operations are presented below:

	Note	2017 £m	2016 £m
Revenue		–	390
Other income		–	1
<b>Total income</b>		–	391
Cost of sales		–	(200)
<b>Gross profit</b>		–	191
<b>Expenses</b>			
Expenses before amortisation of purchased intangible assets and non-underlying items		–	(164)
Non-underlying items		(23)	76
<b>Operating (loss)/profit</b>		(23)	103
<b>Net finance income</b>		–	1
<b>(Loss)/profit before tax from discontinued operations</b>		(23)	104
Taxation on profit before amortisation of purchased intangible assets and non-underlying items		–	(10)
Taxation on amortisation of purchased intangible assets and non-underlying items		(2)	(164)
<b>Taxation</b>	9	(2)	(174)
<b>Loss after tax from discontinued operations</b>		(25)	(70)
<b>Attributable to:</b>			
Equity holders		(25)	(71)
Non-controlling interests		–	1
		(25)	(70)

There were no cash flows generated or incurred by discontinued operations from operating, investing or financing activities in the year ended 31 December 2017. In the prior year, the net cash inflow from discontinued operations amounted to £71 million, which comprised of £59 million cash inflow from operating activities, £8 million outflow from investing activities and £20 million inflow from financing activities.

During the year, the Group classified Exactpro Systems Limited and its subsidiaries (Exactpro) as a disposal group held for sale, a business that forms part of the Technology Services segment.

As at 31 December 2017, a total of £6 million of Exactpro assets have been classified as held or sale on the Group's balance sheet and comprise goodwill, property, plant and equipment, trade receivables and cash and cash equivalents.

The Group completed the disposal of the Exactpro business on 17 January 2018. Further details are provided in Note 34.

## 11. Earnings per share

Earnings per share is presented on 4 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 all outstanding 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 and non-underlying items to enable a better comparison of the underlying earnings of the business with prior periods.

	2017			2016		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
<b>Basic earnings per share</b>	<b>153.6p</b>	<b>(7.2p)</b>	<b>146.4p</b>	63.8p	(20.3p)	43.5p
<b>Diluted earnings per share</b>	<b>150.1p</b>	<b>(7.1p)</b>	<b>143.0p</b>	62.5p	(19.9p)	42.6p
<b>Adjusted basic earnings per share</b>	<b>148.7p</b>	–	<b>148.7p</b>	124.7p	5.0p	129.7p
<b>Adjusted diluted earnings per share</b>	<b>145.3p</b>	–	<b>145.3p</b>	122.3p	4.9p	127.2p

Profit and adjusted profit for the financial year attributable to the Company's equity holders:

	2017			2016		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Profit for the financial year attributable to the Company's equity holders	<b>530</b>	<b>(25)</b>	<b>505</b>	223	(71)	152
<b>Adjustments:</b>						
<b>Non-underlying items:</b>						
Amortisation of purchased intangible assets	<b>153</b>	–	<b>153</b>	157	–	157
Transaction costs	<b>25</b>	–	<b>25</b>	85	–	85
Restructuring costs	<b>7</b>	–	<b>7</b>	14	–	14
Integration costs	<b>8</b>	–	<b>8</b>	3	–	3
Profit on disposal of businesses	<b>(7)</b>	<b>23</b>	<b>16</b>	–	(76)	(76)
<b>Other adjusting items:</b>						
Tax effect of amortisation of purchased intangible assets and non-underlying items	<b>(190)</b>	<b>2</b>	<b>(188)</b>	(39)	164	125
Amortisation of purchased intangible assets, non-underlying items and taxation attributable to non-controlling interests	<b>(13)</b>	–	<b>(13)</b>	(7)	–	(7)
<b>Adjusted profit for the financial year attributable to the Company's equity holders</b>	<b>513</b>	–	<b>513</b>	436	17	453
<b>Weighted average number of shares – million</b>			<b>345</b>			349
Effect of dilutive share options and awards – million			<b>8</b>			7
<b>Diluted weighted average number of shares – million</b>			<b>353</b>			356

The weighted average number of shares excludes those held in the Employee Benefit Trust and treasury shares held by the Group.

## 12. Dividends

	2017 £m	2016 £m
Final dividend for 31 December 2015 paid 1 June 2016: 25.2p per Ordinary share	–	88
Interim dividend for 31 December 2016 paid 20 September 2016: 12.0p per Ordinary share	–	42
Final dividend for 31 December 2016 paid 31 May 2017: 31.2p per Ordinary share	<b>109</b>	–
Interim dividend for 31 December 2017 paid 19 September 2017: 14.4p per Ordinary share	<b>50</b>	–
	<b>159</b>	130

Dividends are only paid out of available distributable reserves.

The Board has proposed a final dividend in respect of the year ended 31 December 2017 of 37.2p per share, which is estimated to amount to £129 million, to be paid in May 2018. This is not reflected in the financial statements.



**13. Property, plant and equipment**

	Land & Buildings		Fixed plant, other plant and equipment £m	Total £m
	Freehold £m	Leasehold £m		
<b>Cost:</b>				
31 December 2015	50	44	147	241
Additions	1	3	30	34
Disposals	–	(1)	(11)	(12)
Transfers	(1)	3	(8)	(6)
Foreign exchange	1	1	14	16
31 December 2016	51	50	172	273
Additions	–	–	47	47
Acquisition of subsidiaries	–	–	2	2
Disposals	(1)	–	–	(1)
Disposal of business	–	–	(3)	(3)
Reclassification to assets held for sale	–	–	(1)	(1)
Transfers	2	2	(3)	1
Foreign exchange	(1)	–	2	1
<b>31 December 2017</b>	<b>51</b>	<b>52</b>	<b>216</b>	<b>319</b>
<b>Accumulated depreciation and impairment:</b>				
31 December 2015	28	34	84	146
Disposals	–	(1)	(11)	(12)
Charge for the year	–	1	21	22
Transfers	–	–	(3)	(3)
Foreign exchange	–	–	12	12
31 December 2016	28	34	103	165
Disposal of business	–	–	(2)	(2)
Charge for the year	–	3	23	26
Impairment	1	–	–	1
<b>31 December 2017</b>	<b>29</b>	<b>37</b>	<b>124</b>	<b>190</b>
<b>Net book values:</b>				
<b>31 December 2017</b>	<b>22</b>	<b>15</b>	<b>92</b>	<b>129</b>
31 December 2016	23	16	69	108

As at 31 December 2017, the Group held no items of equipment under finance leases (2016: nil).

Transfers 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 (2016: nil).

## 14. Intangible assets

	Purchased intangible assets					Total £m
	Goodwill £m	Customer relationships £m	Brands £m	Software, licences and intellectual property £m	Software and other £m	
<b>Cost:</b>						
31 December 2015	1,823	1,517	852	422	341	4,955
Additions	1	–	–	–	113	114
Disposals	–	–	–	–	(8)	(8)
Foreign exchange	273	215	119	12	56	675
31 December 2016	2,097	1,732	971	434	502	5,736
Acquisition of subsidiaries	<b>289</b>	<b>151</b>	<b>57</b>	<b>168</b>	<b>11</b>	<b>676</b>
Additions	–	–	–	–	<b>143</b>	<b>143</b>
Disposal of business	<b>(1)</b>	–	–	–	<b>(8)</b>	<b>(9)</b>
Disposals	–	<b>(15)</b>	<b>(3)</b>	<b>(12)</b>	<b>(9)</b>	<b>(39)</b>
Reclassification to assets held for sale	<b>(3)</b>	–	–	–	–	<b>(3)</b>
Transfer of asset	–	–	–	–	<b>(1)</b>	<b>(1)</b>
Foreign exchange	<b>(4)</b>	<b>(20)</b>	<b>(65)</b>	<b>(6)</b>	<b>14</b>	<b>(81)</b>
<b>31 December 2017</b>	<b>2,378</b>	<b>1,848</b>	<b>960</b>	<b>584</b>	<b>652</b>	<b>6,422</b>
<b>Accumulated amortisation and impairment:</b>						
31 December 2015	449	349	71	239	143	1,251
Impairment	–	–	–	–	8	8
Amortisation charge for the year	–	85	41	31	55	212
Disposals	–	–	–	–	(6)	(6)
Foreign exchange	51	48	10	7	31	147
31 December 2016	500	482	122	277	231	1,612
Amortisation charge for the year	–	<b>90</b>	<b>38</b>	<b>25</b>	<b>76</b>	<b>229</b>
Disposal of business	–	–	–	–	<b>(6)</b>	<b>(6)</b>
Disposals	–	<b>(15)</b>	<b>(3)</b>	<b>(12)</b>	<b>(9)</b>	<b>(39)</b>
Foreign exchange	<b>21</b>	<b>9</b>	<b>(6)</b>	<b>1</b>	<b>11</b>	<b>36</b>
<b>31 December 2017</b>	<b>521</b>	<b>566</b>	<b>151</b>	<b>291</b>	<b>303</b>	<b>1,832</b>
<b>Net book values:</b>						
<b>31 December 2017</b>	<b>1,857</b>	<b>1,282</b>	<b>809</b>	<b>293</b>	<b>349</b>	<b>4,590</b>
31 December 2016	1,597	1,250	849	157	271	4,124

Transfers in the year relate to re-classification of software intangibles to property, plant and equipment.

During the year, the Group acquired the entire share capital of the Mergent and Yield Book businesses, which resulted in an increase of £289 million in goodwill. Further details are provided in Note 30.

During the year, the Group disposed of the Millennium Enterprise Systems Integration business, which resulted in a reduction of £1 million in goodwill.

During the year, the Group classified Exactpro as a disposal group held for sale which resulted in £3 million of goodwill being reclassified as an asset held for sale. Further details are provided in Note 10.

The goodwill arising on consolidation represents the growth potential and assembled workforces of the Italian Group, LCH Group, FTSE Group, MillenniumIT, the US Information Services Group and Turquoise. The Company has no intangible assets (2016: none).

### Purchased intangible assets

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 Group's purchased intangible assets include:

#### Customer relationships

These assets have been recognised on acquisition of major subsidiary companies by the Group. The amortisation period remaining on these assets are between 10 to 25 years.

#### Brands

Brands have been recognised in a number of major acquisitions, including FTSE, LCH, Russell and Yield Book. Included within brands are trade names relating to the acquisition of Frank Russell Group of £574 million (2016: £658 million). The remaining amortisation period on these assets are between 20 to 25 years.

#### Software, licences and intellectual property

These assets have been recognised on acquisition of subsidiary companies and have a remaining amortisation period of 5 to 20 years.

There are no other individual purchased intangible assets with a carrying value that is considered material to each asset class.

**Software and other**

The cost of self-developed software includes £94 million (2016: £67 million) representing assets not yet brought into use. No amortisation has been charged on these assets and instead they are tested for impairment annually.

Following a review of software assets across the Group, no impairment was recognised during the year (2016: £8 million).

Other amounts represent the internally built and developed trading systems within the various business lines. In general these assets have a useful economic life of 5 years.

During the year, additions relating to internally generated software amounted to £143 million (2016: £113 million).

The carrying value of licences held under finance leases at 31 December 2017 was £7 million (2016: nil).

**Impairment tests for goodwill**

Goodwill has been allocated for impairment testing purposes to 11 cash generating units (CGUs).

The recoverable amounts of these CGUs have been determined based on value in use calculations using discounted cash flow forecasts based on business plans prepared by management for a 3 year period ending 31 December 2020, and then projected for a further 2 years to 31 December 2022. 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 2016 £m	Acquisition of subsidiaries £m	Disposal of business £m	Reclassified to assets held for sale £m	Foreign exchange £m	31 December 2017 £m	2017	2016
<b>Italian Group:</b>								
Capital Markets	247	–	–	–	10	257	12.6%	11.6%
Information Services	136	–	–	–	6	142	12.7%	12.3%
Technology Services	22	–	–	–	1	23	11.4%	11.2%
Post Trade Services	419	–	–	–	18	437	13.4%	12.3%
<b>MillenniumIT</b>	2	–	(1)	–	–	1	20.7%	20.0%
<b>Turquoise</b>	9	–	–	–	–	9	9.7%	9.2%
<b>FTSE Group</b>	193	–	–	–	(2)	191	10.1%	9.6%
<b>LCH Group</b>	121	–	–	–	5	126	10.4%	9.7%
<b>US Information Services Group:</b>								
Frank Russell Group	445	–	–	–	(46)	399	11.9%	13.1%
Yield Book	–	215	–	–	(10)	205	9.5%	N/A
Mergent	–	74	–	–	(7)	67	14.0%	N/A
<b>Exactpro</b>	3	–	–	(3)	–	–	N/A	10.4%
	<b>1,597</b>	<b>289</b>	<b>(1)</b>	<b>(3)</b>	<b>(25)</b>	<b>1,857</b>		

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 2018 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 1.6% for each of the Italian CGUs (2016: 1.7%), 9.4% for MillenniumIT (2016: 10.1%), 3.8% for each of the US Information Services CGUs (2016: 4.1%) and 3.7% for the other CGUs (2016: 3.7%) represent management's internal forecasts based on external estimates of GDP and inflation analysis for the 10 year period 1 January 2013 to 31 December 2022, 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 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 CGU 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 2017. Revenue and cost sensitivities assume a 5% change in revenues or costs for each of the 5 years in the value in use calculations.

## 15. Investment in associates

	Group £m	Company £m
31 December 2015	–	–
Acquisition of associates	8	8
Share of loss after tax	(5)	–
31 December 2016	3	8
Acquisitions and investments	11	9
Share of loss after tax	(9)	–
Impairment	–	(14)
<b>31 December 2017</b>	<b>5</b>	<b>3</b>

In the prior year, the Company acquired a 26% equity interest in Curve Global Limited (Curve Global), an interest rate derivatives company, also owned by major dealer banks and the Chicago Board Options Exchange.

During the current year, the Company increased its equity interest in Curve Global to 43.38% through a non-cash contribution of £9 million. During the year, Elite Club Deal Limited, a subsidiary of the Group, acquired a 27.35% equity interest in The Hub Exchange Limited, a provider of enterprise-grade platforms for investment networks, for £2 million cash consideration.

## 16. Investment in subsidiary companies

Company	Shares £m	Other £m	Total £m
31 December 2015	3,892	1,005	4,897
Investment in LSEGH (Luxembourg) Ltd	470	–	470
Other movements	–	(2)	(2)
<b>31 December 2016</b>	<b>4,362</b>	<b>1,003</b>	<b>5,365</b>
Investment in LSE Group Holdings (Italy) Limited	94	–	94
Investment in LSEG US Holdco Inc	297	–	297
Investment in LSEGH (Luxembourg) Ltd	328	–	328
Other movements	–	14	14
<b>31 December 2017</b>	<b>5,081</b>	<b>1,017</b>	<b>6,098</b>

Other includes amounts invested in subsidiary companies by way of capital contributions and awards granted under the Group's share schemes.

Principal subsidiaries:	Principal activity	Country of incorporation	Country of principal operations	% equity and votes held
<b>Held directly by the Company:</b>				
London Stock Exchange plc	Recognised investment exchange	England and Wales	England and Wales	100
<b>Held indirectly by the Company:</b>				
BANQUE CENTRALE DE COMPENSATION (LCH S.A.)	CCP clearing services	France	France	58.62
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	75
Frank Russell Company	Market indexes provider	USA	USA	100
FTSE International Ltd	Market indexes provider	England and Wales	England and Wales	100
LCH Limited	CCP clearing services	England and Wales	England and Wales	65.93
Mergent, Inc.	Business and financial information provider	USA	USA	100
Monte Titoli S.p.A.	Pre-settlement, settlement and centralised custody	Italy	Italy	98.87
Millennium Information Technologies Software Ltd	IT solutions provider	Sri Lanka	Sri Lanka	100
Mercato dei Titoli di Stato S.p.A.	Wholesale fixed income bonds	Italy	Italy	62.53
The Yield Book Inc.	Fixed income indexes and analytics	USA	USA	100
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 35.

LCH Group is the only subsidiary that has material non-controlling interests within the Group. Financial information relating to this subsidiary is provided below:

<b>Summarised statement of comprehensive income</b>	<b>2017 £m</b>	<b>2016 £m</b>
Accumulated balances of material non-controlling interests	421	400
Profit for the year attributable to material non-controlling interests	49	29
Dividend paid to non-controlling interests	(11)	(10)
<b>Total comprehensive income attributable to material non-controlling interests</b>	<b>77</b>	<b>71</b>
<b>Summarised statement of financial position</b>	<b>2017 £m</b>	<b>2016 £m</b>
Non-current assets	542	452
Current assets	621,814	391,385
Current liabilities	(621,125)	(390,828)
Non-current liabilities	(89)	(53)
<b>Total equity</b>	<b>1,142</b>	<b>956</b>
<b>Attributable to:</b>		
Equity holders of the company	721	556
Non-controlling interests	421	400
<b>Net increase in cash and cash equivalents</b>	<b>62</b>	<b>173</b>

Accumulated balances in the above analysis includes goodwill, purchased intangible assets and associated amortisation and impairments attributable to non-controlling interests.

The summarised total comprehensive income of the LCH Group is provided below. This information is based on amounts excluding goodwill, purchased intangible assets and associated amortisation and impairments attributable to non-controlling interests.

<b>Summarised statement of total comprehensive income</b>	<b>2017 £m</b>	<b>2016 £m</b>
Total income	561	447
Profit for the year	139	68
Other comprehensive income/(loss) excluding exchange on translation of foreign operations	38	(10)
<b>Total comprehensive income excluding exchange translation of foreign operations</b>	<b>177</b>	<b>58</b>
Gains on translation of foreign operations	35	112
<b>Total comprehensive income before eliminations</b>	<b>212</b>	<b>170</b>
Eliminations	(3)	(23)
<b>Total comprehensive income</b>	<b>209</b>	<b>147</b>
<b>Attributable to:</b>		
Equity holders of the company	124	76
Non-controlling interests	85	71

LCH Group was acquired on 1 May 2013. Their results have been incorporated from that date.

#### Subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2017.

<b>Company Name</b>	<b>Registration number</b>
London Stock Exchange Group Holdings Limited	6795362
London Stock Exchange Group Holdings (R) Limited	7388645
London Stock Exchange (C) Limited	7943990
London Stock Exchange Reg Holdings Limited	7378551
London Stock Exchange Group (Services) Limited	9313935
LSEG (M) Financing Limited	10532155
FTSE (Australia) Limited	6182374
FTSE International (France) Limited	3793705
FTSE International (Italy) Limited	6858736
FTSE (Japan) Limited	4511214
LSEG Employment Services Limited	9100833
SSC Global Business Services Limited	7584392
LSEG Technology Limited	7484865
Gatelab Limited	6606847

## 17. Deferred tax

The movements in deferred tax assets and liabilities during the year are shown below.

Group	Accelerated tax depreciation £m	Acquisition deferred tax and amortisation £m	Provisions and other temporary differences £m	Total £m
31 December 2015	8	(614)	15	(591)
Reclassification from assets held for sale	–	–	10	10
Transfer to current tax	–	–	5	5
Tax credited/(charged) to the income statement	–	41	(11)	30
Tax credited/(charged) to other comprehensive income:				
– defined benefit scheme remeasurement loss	–	–	15	15
– movement in value of available for sale financial assets	–	–	(1)	(1)
– foreign exchange	–	(98)	–	(98)
Allowance on share options/awards – to equity	–	–	(7)	(7)
31 December 2016	8	(671)	26	(637)
Transfer between categories	(4)	–	4	–
Deferred tax recognised on acquisition of businesses	(1)	(23)	4	(20)
Tax credited/(charged) to the income statement	3	184	(4)	183
Tax (charged)/credited to other comprehensive income:				
– defined benefit scheme remeasurement gain	–	–	(25)	(25)
– movement in value of available for sale financial assets	–	–	2	2
– foreign exchange	1	26	–	27
Allowance on share options/awards – to equity	–	–	4	4
Disposal of business	2	–	–	2
<b>31 December 2017</b>	<b>9</b>	<b>(484)</b>	<b>11</b>	<b>(464)</b>
<b>Assets at 31 December 2017</b>	<b>9</b>	<b>–</b>	<b>29</b>	<b>38</b>
<b>Liabilities at 31 December 2017</b>	<b>–</b>	<b>(484)</b>	<b>(18)</b>	<b>(502)</b>
<b>Net assets/(liabilities) at 31 December 2017</b>	<b>9</b>	<b>(484)</b>	<b>11</b>	<b>(464)</b>
Assets at 31 December 2016	8	–	60	68
Liabilities at 31 December 2016	–	(671)	(34)	(705)
Net assets/(liabilities) at 31 December 2016	8	(671)	26	(637)

The deferred tax assets are recoverable against future taxable profits and are due after more than 1 year.

The net deferred tax asset of £11 million (2016: £26 million) in respect of provisions and other temporary differences mainly relates to share based payments of £14 million (2016: £7 million), retirement benefits liability of £(15) million (2016: £10 million), trading losses of £5 million (2016: £24 million), withholding tax on distributable reserves of subsidiary companies of £(5) million (2016: £(5) million) and other provisions and temporary differences of £12 million (2016: £(10) 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 £18 million (2016: £21 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 (2016: nil).



**18. Retirement benefit obligations**

The Group operates separate defined benefit and defined contribution schemes. The assets of the defined benefit and defined contribution schemes are held separately from those of the Group.

In the UK, the defined benefit scheme is administered by trustees with the assets primarily being managed by BMO Global Asset Management, Legal & General Investment Management Limited, PIMCO Europe Limited, Schroder Investment Management Limited, and a 'buy in' insurance asset with Pension Insurance Corporation.

On 5 September 2016, the London Stock Exchange Retirement Plan ("LSERP") and the LCH Pension Scheme in the UK ("LCH 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 other pension commitments of the LCH Group outside of the UK.

The only schemes operated by FTSE International and US entities are defined contribution schemes recorded in Other plans.

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.

**Defined benefit schemes****United Kingdom**

The LSE section of LSEGPS was a non-contributory defined benefit scheme that closed to new members in 1999. With effect from 31 March 2012, the LSERP also closed to accrual of future benefits for active members and it has been agreed that the benefits already accrued for affected members will remain linked to their salary with the Group.

The LCH section of LSEGPS 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 April 2017, when the Legal & General mastertrust was provided to all UK employees.

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.

**Overseas**

LCH Group also operates a retirement indemnity and long-service award schemes in Paris, for which the scheme obligations are calculated by an independent qualified actuary. They also operate an independent defined benefit scheme in Porto, assumed in 2006. Updated valuations of these funds are carried out by an independent qualified 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 an unfunded 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 5 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.

The principal risks to which the defined benefit schemes expose the Group arises from an increase in pension liability.

The pension liabilities could increase in the following circumstances:

- if increases in the plan liabilities are not accompanied by corresponding increases in the plan assets
- if investment returns are lower than assumed in assessing the adequacy of plans
- if the salaries of active members increase more rapidly than assumed, increasing liabilities
- if inflation is higher than expected, increasing liabilities through indexing of pension payments; and
- the risk that members live longer than expected, increasing the length of time for which pensions have to be paid, potentially due to a medical breakthrough

Such an increase in pension liabilities could lead to an increase in pension deficit. Defined benefit schemes are normally revalued by actuaries every 3 years. Where any material funding gap is identified by this process, the Trustees will agree a schedule of contributions with the sponsor company. Such contributions would result in financial impact to the Group.

In addition with regard to the LSERP, the Group is exposed to the credit of the buy-in insurance provider. A failure of the buy-in insurance provider would reduce the pension assets and could thus also lead to a pension deficit or an increase in pension deficit and the need for contributions from the Group.

### Defined contribution schemes

In the UK, the only pension scheme open to employees is a defined contribution scheme, provided by Legal & General. Following a pension consultation, from April 2017, all UK employees are eligible to participate in the same pension scheme. A core contribution of 8% of basic salary is paid by the Group, who will also match employee contributions up to 4% of basic salary.

Amounts recognised in the income statement from continuing operations are as follows:

Notes	2017				2016			
	LSERP £m	LCH UK £m	Other plans £m	Total £m	LSERP £m	LCH UK £m	Other plans £m	Total £m
Defined contribution schemes	(5)	(4)	(9)	(18)	(3)	(5)	(6)	(14)
Defined benefit scheme – current service cost and expenses	(1)	(1)	(7)	(9)	(1)	(1)	(5)	(7)
Total pension charge included in employee costs	6	(6)	(5)	(16)	(27)	(4)	(6)	(11)
Net finance (expense)/income	8	(2)	–	–	(2)	(1)	1	(1)
<b>Total recognised in the income statement</b>	<b>(8)</b>	<b>(5)</b>	<b>(16)</b>	<b>(29)</b>	<b>(5)</b>	<b>(5)</b>	<b>(12)</b>	<b>(22)</b>

Defined benefit assets/(obligations) for pension schemes:

	2017				2016			
	LSERP £m	LCH UK £m	Other plans £m	Total £m	LSERP £m	LCH UK £m	Other plans £m	Total £m
Fair value of assets:								
Equities (quoted)	–	114	–	114	–	104	–	104
Bonds (quoted)	163	148	1	312	153	149	1	303
Property	5	–	–	5	4	–	–	4
Cash	4	2	–	6	1	2	–	3
Pensioner buy in policy	184	–	–	184	192	–	–	192
<b>Total fair value of assets</b>	<b>356</b>	<b>264</b>	<b>1</b>	<b>621</b>	<b>350</b>	<b>255</b>	<b>1</b>	<b>606</b>
<b>Present value of funded obligations</b>	<b>(376)</b>	<b>(208)</b>	<b>(17)</b>	<b>(601)</b>	<b>(410)</b>	<b>(253)</b>	<b>(16)</b>	<b>(679)</b>
<b>(Deficit)/surplus</b>	<b>(20)</b>	<b>56</b>	<b>(16)</b>	<b>20</b>	<b>(60)</b>	<b>2</b>	<b>(15)</b>	<b>(73)</b>

As at 31 December 2017, the Group has recognised a net defined benefit asset of £56 million (2016: £2 million asset) in relation to the LCH UK scheme on the basis that the Group has access to the surplus in the event of wind up of the scheme and therefore no asset ceiling has been applied to the net surplus recognised. Further, no minimum funding commitments are associated with the plan.

UK pension plan actuarial assumptions are set out below:

	2017		2016	
	LSERP	LCH UK	LSERP	LCH UK
Inflation rate – RPI	3.1%	3.2%	3.3%	3.3%
Inflation rate – CPI	1.9%	2.0%	2.3%	2.3%
Rate of increase in salaries	3.1%	n/a	3.3%	n/a
Rate of increase in pensions in payment	3.6%	2.2%	3.6%	2.3%
Discount rate	2.7%	2.8%	2.7%	2.7%
Life expectancy from age 60 (years)				
– Non-retired male member	28.3	28.2	28.8	29.7
– Non-retired female member	30.6	30.5	30.5	32.2
– Retired male member	27.3	27.6	27.4	28.1
– Retired female member	29.4	29.3	29.3	30.4

The mortality assumptions are based on S2PA tables 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 2016 projections and applied a 1.25% for male and female long term trend rate in respect of future mortality improvements.

### Sensitivities

The sensitivities regarding the principal assumptions used to measure the LSERP and LCH UK scheme obligations are:

Assumption	Change in assumption	2017		2016	
		Impact on scheme obligations		Impact on scheme obligations	
		LSERP	LCH UK	LSERP	LCH UK
Inflation rate (CPI) and salary increase	Increase by 0.5%	Increase by £7m	Increase by £6m	Increase by £9m	Increase by £12m
Rate of increase in pensions payment	Increase by 0.5%	Increase by £24m	Increase by £13m	Increase by £32m	Increase by £20m
Discount rate	Increase by 0.5%	Reduce by £29m	Reduce by £22m	Reduce by £37m	Reduce by £38m
Mortality rate	Increase by 1 year	Increase by £14m	Increase by £6m	Increase by £16m	Increase by £8m

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

The impact of the salary increase assumption as a standalone sensitivity has an immaterial impact on the scheme obligations.

Changes in the present value of the defined benefit obligations during the year

	2017				2016			
	LSERP £m	LCH UK £m	Other plans £m	Total £m	LSERP £m	LCH UK £m	Other plans £m	Total £m
<b>Benefit obligation as at beginning of year</b>	<b>410</b>	<b>253</b>	<b>16</b>	<b>679</b>	323	174	12	509
Pension expense:								
Current service cost	–	–	7	7	–	–	5	5
Interest cost	11	7	–	18	12	7	1	20
<b>Subtotal included in the income statement</b>	<b>11</b>	<b>7</b>	<b>7</b>	<b>25</b>	12	7	6	25
Re-measurement (gains)/losses:								
Actuarial (gains)/losses – financial assumptions	(9)	(11)	(1)	(21)	91	77	–	168
Actuarial (gains)/losses – demographic assumptions	(13)	(11)	–	(24)	2	(3)	–	(1)
Actuarial (gains)/losses – experience	(6)	(22)	–	(28)	(5)	–	–	(5)
<b>Subtotal included in total comprehensive income</b>	<b>(28)</b>	<b>(44)</b>	<b>(1)</b>	<b>(73)</b>	88	74	–	162
Benefits paid	(17)	(7)	(5)	(29)	(13)	(5)	(4)	(22)
Foreign exchange	–	(1)	–	(1)	–	3	2	5
<b>Benefit obligation as at end of year</b>	<b>376</b>	<b>208</b>	<b>17</b>	<b>601</b>	410	253	16	679

Movement in fair value of scheme assets during the year

	2017				2016			
	LSERP £m	LCH UK £m	Other plans £m	Total £m	LSERP £m	LCH UK £m	Other plans £m	Total £m
<b>Fair value of scheme assets as at beginning of year</b>	<b>350</b>	<b>255</b>	<b>1</b>	<b>606</b>	294	199	1	494
Pension income:								
Interest income	9	7	–	16	11	8	–	19
<b>Subtotal included in the income statement</b>	<b>9</b>	<b>7</b>	<b>–</b>	<b>16</b>	11	8	–	19
Re-measurement gains:								
Return on plan assets, excluding interest income	11	9	–	20	55	49	–	104
<b>Subtotal included in total comprehensive income</b>	<b>11</b>	<b>9</b>	<b>–</b>	<b>20</b>	55	49	–	104
Contributions by employer	4	–	–	4	4	2	–	6
Expenses	(1)	–	–	(1)	(1)	–	–	(1)
Benefits paid	(17)	(7)	–	(24)	(13)	(5)	–	(18)
Foreign exchange	–	–	–	–	–	2	–	2
<b>Fair value of scheme assets as at end of year</b>	<b>356</b>	<b>264</b>	<b>1</b>	<b>621</b>	350	255	1	606

The actual gain on plan assets was £36 million (2016: £123 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.

	2017			2016		
	LSERP £m	LCH UK £m	Other plans £m	LSERP £m	LCH UK £m	Other plans £m
Recognised up to beginning year	(68)	(9)	–	(35)	16	–
Net actuarial gain/(loss) recognised in the year	39	53	1	(33)	(25)	–
Cumulative amount recognised at end of year	(29)	44	1	(68)	(9)	–

The last actuarial valuation of the LSERP 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 has funded its defined benefit scheme deficit with payments of £2 million in 2015, £3 million in 2016 and £3 million in 2017 with funding commitments of £2 million per annum 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 section is currently in discussion on the results of the valuation as at 31 December 2016, which is being finalised and which may result in an adjustment to future contributions to the plan.

The weighted average duration of the LSERP and LCH UK defined benefit obligations at the end of the reporting period is estimated to be 17 years and 22 years, respectively.

## 19. Financial assets and financial liabilities

### Financial instruments by category

The financial instruments of the Group and Company are categorised as follows:

31 December 2017	Group				Company		
	Loans and receivables £m	Available for sale at fair value through OCI £m	Financial instruments at fair value through profit or loss £m	Total £m	Loans and receivables £m	Financial instruments at fair value through profit or loss £m	Total £m
<b>Financial assets</b>							
Financial assets of the CCP clearing business:							
– CCP trading assets	98,076	–	549,874	647,950	–	–	–
– Other receivables from clearing members	3,303	–	–	3,303	–	–	–
– Other financial assets	–	18,436	3,665	22,101	–	–	–
– Cash and cash equivalents of clearing members	61,443	–	–	61,443	–	–	–
Financial assets of the CCP clearing business	162,822	18,436	553,539	734,797	–	–	–
Trade and other receivables	702	–	–	702	646	–	646
Cash and cash equivalents	1,381	–	–	1,381	4	–	4
Available for sale financial assets	–	105	–	105	–	–	–
Derivative financial instruments	–	–	4	4	–	4	4
<b>Total</b>	<b>164,905</b>	<b>18,541</b>	<b>553,543</b>	<b>736,989</b>	<b>650</b>	<b>4</b>	<b>654</b>

There were no transfers between categories during the year.

Prepayments within trade and other receivables are not classified as financial instruments.

31 December 2017	Group			Company		
	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m
<b>Financial liabilities</b>						
Financial liabilities of the CCP clearing business:						
– CCP trading liabilities	98,076	549,874	647,950	–	–	–
– Other payables to clearing members	87,031	–	87,031	–	–	–
Total financial liabilities of the CCP clearing business	185,107	549,874	734,981	–	–	–
Trade and other payables	502	18	520	275	–	275
Borrowings	1,953	–	1,953	1,921	–	1,921
Provisions	10	–	10	–	–	–
Derivative financial instruments	–	29	29	–	29	29
<b>Total</b>	<b>187,572</b>	<b>549,921</b>	<b>737,493</b>	<b>2,196</b>	<b>29</b>	<b>2,225</b>

There were no transfers between categories during the year.

Deferred income, social security and other tax liabilities within trade and other payables are not classified as financial instruments.

The financial instruments of the Group and Company at the previous year's balance sheet date were as follows:

31 December 2016 (re-presented)	Group				Company	
	Loans and receivables £m	Available for sale at fair value through OCI £m	Financial instruments at fair value through profit or loss £m	Total £m	Loans and receivables £m	Total £m
<b>Financial assets</b>						
Financial assets of the CCP clearing business:						
– CCP trading assets	149,831	–	320,530	470,361	–	–
– Other receivables from clearing members	9,077	–	–	9,077	–	–
– Other financial assets	–	15,975	9,420	25,395	–	–
– Cash and cash equivalents of clearing members	53,553	–	–	53,553	–	–
Financial assets of the CCP clearing business	212,461	15,975	329,950	558,386	–	–
Trade and other receivables	686	–	–	686	481	481
Cash and cash equivalents	1,151	–	–	1,151	1	1
Available for sale financial assets	–	102	–	102	–	–
<b>Total</b>	<b>214,298</b>	<b>16,077</b>	<b>329,950</b>	<b>560,325</b>	<b>482</b>	<b>482</b>

There were no transfers between categories during the prior year.

Consistent with the current year treatment, prepayments within trade and other receivables are not classified as financial instruments. The comparative table above has been re-presented from that previously disclosed to reflect this treatment.

31 December 2016 (re-presented)	Group			Company		
	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m
<b>Financial liabilities</b>						
Financial liabilities of the CCP clearing business:						
– CCP trading liabilities	149,831	320,530	470,361	–	–	–
– Other payables to clearing members	88,117	–	88,117	–	–	–
Financial liabilities of the CCP clearing business	237,948	320,530	558,478	–	–	–
Trade and other payables	527	18	545	204	–	204
Borrowings	1,166	–	1,166	821	–	821
Provisions	11	–	11	–	–	–
Derivative financial instruments	–	19	19	–	19	19
<b>Total</b>	<b>239,652</b>	<b>320,567</b>	<b>560,219</b>	<b>1,025</b>	<b>19</b>	<b>1,044</b>

There were no transfers between categories during the prior year.

Consistent with the current year treatment, deferred income, social security and other tax liabilities within trade and other payables are not classified as financial instruments.

Within trade and other payables, a deferred consideration liability amounting to £30 million as at 31 December 2016 has been re-presented from financial liabilities at fair value through profit and loss to amortised cost, to reflect the measurement principles applied to the balance.

The comparative table above has been re-presented from that previously disclosed to reflect these treatments.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 31 December 2017:

31 December 2017	Group			
	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Total fair value £m
<b>Financial assets measured at fair value:</b>				
<b>CCP trading assets:</b>				
Derivative instruments	5,834	1,557	–	7,391
Non-derivative instruments	14	542,469	–	542,483
Other financial assets	22,101	–	–	22,101
<b>Fair value of CCP clearing business assets</b>	<b>27,949</b>	<b>544,026</b>	<b>–</b>	<b>571,975</b>
Available for sale financial assets	105	–	–	105
<b>Derivatives used for hedging:</b>				
– Cross currency interest rate swaps	–	4	–	4

The Company had derivative assets of £4 million (2016: nil). All derivatives assets in the Company are cross currency swaps and are classified as Level 2 in the fair value hierarchy.

31 December 2017	Group			
	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Total fair value £m
<b>Financial liabilities measured at fair value:</b>				
<b>CCP trading liabilities:</b>				
Derivative instruments	5,834	1,557	–	7,391
Non-derivative instruments	14	542,469	–	542,483
<b>Fair value of transactions with CCP members</b>	<b>5,848</b>	<b>544,026</b>	<b>–</b>	<b>549,874</b>
Deferred consideration	–	–	18	18
<b>Derivatives used for hedging:</b>				
– Cross currency interest rate swaps	–	29	–	29

The Company had derivative liabilities of £29 million (2016: £19 million). All derivative liabilities in the Company are cross-currency interest rate swaps and are classified as Level 2 in the fair value hierarchy.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 31 December 2016:

31 December 2016 (re-presented)	Group			Total fair value £m
	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	
<b>Financial assets measured at fair value:</b>				
<b>CCP trading assets:</b>				
Derivative instruments	5,887	2,367	–	8,254
Non-derivative instruments	2	312,274	–	312,276
Other financial assets	25,395	–	–	25,395
<b>Fair value of CCP clearing business assets</b>	<b>31,284</b>	<b>314,641</b>	<b>–</b>	<b>345,925</b>
Available for sale financial assets	95	7	–	102

Within Level 2 of the fair value hierarchy, £2,367 million of CCP non-derivative instruments have been re-presented as derivative instruments.

31 December 2016 (re-presented)	Group			Total fair value £m
	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	
<b>Financial liabilities measured at fair value:</b>				
<b>CCP trading liabilities:</b>				
Derivative instruments	5,887	2,367	–	8,254
Non-derivative instruments	2	312,274	–	312,276
<b>Fair value of CCP clearing business liabilities</b>	<b>5,889</b>	<b>314,641</b>	<b>–</b>	<b>320,530</b>
Deferred consideration <sup>1</sup>	–	–	18	18
<b>Derivatives used for hedging:</b>				
– Cross currency interest rate swaps	–	19	–	19

1. In the hierarchy for determining fair value, the Group has re-presented £18 million of deferred consideration liabilities in relation to the purchase of non-controlling interests of acquired subsidiaries, from Level 2 to Level 3 to reflect the measurement principles applied to the balances

Within Level 2 of the fair value hierarchy, £2,367 million of CCP non-derivative instruments have been re-presented as derivative instruments.

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 current and prior period.

When observable market data is not available, the Group uses one or more valuation techniques (e.g. the market approach or the income approach) for which sufficient and reliable data is available. These inputs used in estimating the fair value of Level 3 financial instruments include expected timing and level of future cash flows, timing of settlement, discount rates and net asset values of certain investments.

The Group has classified deferred consideration in relation to put options over the non-controlling interests of subsidiaries as Level 3 in the hierarchy for determining the fair value, due to the significant inputs used in the valuation that are not based on observable data. The valuation of the deferred consideration is set out in the terms of the option agreement, where the cash flow forecasts of the underlying business over the deferred consideration payment period are discounted at the Group's pre-tax cost of debt. The key inputs into the valuation of the deferred consideration are cash flow forecasts over a 5 year period from the date of acquisition and the discount rate.

A 10% increase or decrease in the total cash flows or a 1% change in the discount rate applied would not have a material effect on the valuation of the amounts payable.

The Group does not consider there to be any alternative assumptions that will be used in the valuation of the liability.

With the exception of Group borrowings, management has assessed that the fair value of financial assets and financial liabilities categorised as 'Loans and receivables' and 'Financial liabilities at amortised cost' approximate their carrying values. The fair value of the Group's borrowings is disclosed in Note 24.

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 2017, there were no provisions for impairment in relation to any of the CCP financial assets (2016: nil) and none of these assets were past due (2016: nil).

#### Hedging activities and derivatives

During the year the Company issued €1 billion of bonds in two €500 million tranches maturing in 2024 and 2029. At the same time €700 million of these bonds was swapped on a coordinated basis into US\$836 million through a series of 9 cross currency interest rate swaps. As at 31 December 2017, derivative financial assets of £4 million (2016: nil) represents the fair value of these cross currency interest rate swaps. These instruments effectively exchange some of the obligations and coupons of the 2024 and 2029 €500 million bonds from Euros into US Dollars in order to more closely match the currency of borrowings to the Group's currency of borrowings to the currency of its net assets and earnings. These swaps have been designated as a hedge of the Group's net investments in its US Dollar reporting subsidiaries and qualify for effective hedge accounting.

The remaining €300 million of bonds outstanding remain in place as a hedge of the Group's net investments in Euro denominated subsidiaries and qualify for effective hedge accounting.

Derivative financial liabilities of £29 million (2016: £19 million) represents the fair value of the cross currency interest rate swaps comprising 6 contracts totalling €300 million notional (2016: €300 million). These instruments effectively exchange the obligations and coupons of the 2019 £250 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 2017, the Group recognised a net £5 million loss on mark to market valuation and settlement of these derivatives in reserves (2016: £54 million loss).

Foreign exchange forward contracts were arranged during the year to hedge the fair value of Euro and US Dollar denominated exposures. These contracts forward buy and sell payables and receivables denominated in Euro and US Dollar, with the mark to market adjustments offsetting the revaluation of the underlying hedged item in the income statement. They also offer more predictable cash flows to the Group at maturity. At 31 December 2017, payables of €19 million (2016: nil) and US\$10 million (2016: US\$13 million) were hedged forward into the next financial year. The market value of the derivatives was nil (2016: nil) in aggregate.

#### 20. 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 2017:

	Gross amounts £m	Amount offset £m	Net amount as reported £m
<b>31 December 2017</b>			
Other financial assets	980,465	(973,067)	7,398
Repurchase agreements	729,833	(89,281)	640,552
<b>Total assets</b>	<b>1,710,298</b>	<b>(1,062,348)</b>	<b>647,950</b>
Other financial liabilities	(1,000,100)	992,702	(7,398)
Reverse repurchase agreements	(729,833)	89,281	(640,552)
<b>Total liabilities</b>	<b>(1,729,933)</b>	<b>1,081,983</b>	<b>(647,950)</b>

The impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet as at 31 December 2016 is as follows:

	Gross amounts £m	Amount offset £m	Net amount as reported £m
<b>31 December 2016 (restated)</b>			
Other financial assets	1,862,771	(1,854,514)	8,257
Repurchase agreements	501,749	(189,476)	312,273
<b>Total assets</b>	<b>2,364,520</b>	<b>(2,043,990)</b>	<b>320,530</b>
Other financial liabilities	(1,863,777)	1,855,520	(8,257)
Reverse repurchase agreements	(501,749)	189,476	(312,273)
<b>Total liabilities</b>	<b>(2,365,526)</b>	<b>2,044,996</b>	<b>(320,530)</b>

All offset amounts are held in the CCP trading assets and CCP trading liabilities within the Group's financial instruments.

An extensive review of the member balances, and the amounts offset to arrive at the net balances reported, has been undertaken. This has resulted in updates to the offsetting approach and the identification of adjustments in relation to the application of the Group's policies. The gross amounts and amounts offset in relation to other financial assets and liabilities have been amended from those previously reported at 31 December 2016. There has been no impact to the net amount reported in the balance sheet, amounts reported in the income statement, cash flow statement or any other disclosures in the financial statements. Additionally, changes in the basis of netting during the year have resulted in measurements that are more representative of fair value and additional balances being included in the total.

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 £647,950 million (2016: £320,530 million) to nil.

## 21. Trade and other receivables

	Notes	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
<b>Non-current</b>					
Deferred consideration		52	83	–	–
Amounts due from Group companies	33	–	–	37	12
Amounts due from associates	33	–	3	–	–
Other receivables		3	2	–	–
		55	88	37	12
<b>Current</b>					
Trade receivables		326	268	–	–
Less: provision for impairment of receivables		(21)	(13)	–	–
Trade receivables – net		305	255	–	–
Amounts due from Group companies	33	–	–	566	436
Amounts due from associates	33	–	15	–	3
Group relief receivable		–	–	41	25
Deferred consideration		51	25	–	–
Other receivables		135	175	2	5
Prepayments		41	39	1	5
Accrued income		156	128	–	–
		688	637	610	474
<b>Total</b>		<b>743</b>	<b>725</b>	<b>647</b>	<b>486</b>

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 2017. These balances are spread across a number of high quality counterparties.

The ageing of past due trade receivables for the Group is as follows:

	2017		2016	
	Impaired £m	Not impaired £m	Impaired £m	Not impaired £m
0 to 3 months past due	3	78	1	61
Greater than 3 months past due	18	86	12	59
	21	164	13	120

The carrying amount of the Group's current trade and other receivables are denominated in the following currencies:

	2017 £m	2016 £m
Sterling	217	168
Euro	157	199
US Dollar	296	236
Other currencies	18	34
	688	637

Movements on the Group's provision for impairment of trade receivables are as follows:

	2017 £m	2016 £m
1 January	13	6
Provision for impairment of receivables	10	7
Receivables written off during the year as uncollectible	(2)	(1)
Foreign exchange	–	1
31 December	21	13

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.

**22. Cash and cash equivalents**

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Cash at bank	578	596	4	1
Short-term deposits	803	555	–	–
	<b>1,381</b>	1,151	<b>4</b>	1

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 19).

At 31 December 2017, cash and cash equivalents shown above include £1,042 million (2016: £848 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 £19 million (2016: £74 million) and non-current assets held at fair value of £86 million (2016: £21 million).

All amounts are subject to regular reviews with regulators in the UK, France and Italy.

**23. Trade and other payables**

	Note	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
<b>Non-current</b>					
Deferred consideration		38	52	–	–
Other non-current payables		11	14	–	–
		<b>49</b>	66	–	–
<b>Current</b>					
Trade payables		50	105	–	–
Amounts owed to Group companies	33	–	–	251	169
Social security and other taxes		23	23	–	–
Other payables		128	146	16	13
Accruals		293	228	8	22
Deferred income		104	99	–	–
		<b>598</b>	601	<b>275</b>	204
<b>Total</b>		<b>647</b>	667	<b>275</b>	204

**24. Borrowings**

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Current</b>				
Bank borrowings	522	466	490	274
Preferred securities	–	153	–	–
	<b>522</b>	619	<b>490</b>	274
<b>Non-current</b>				
Bonds	1,431	547	1,431	547
<b>Total</b>	<b>1,953</b>	1,166	<b>1,921</b>	821

The Group has the following committed bank facilities and unsecured notes:

Type	Expiry Date	Notes/Facility £m	Carrying value	Interest rate
			at 31 December 2017 £m	percentage at 31 December 2017 %
<b>Drawn value of Facilities</b>				
Multi-currency revolving credit facility	Nov 2022	600	<b>369</b>	LIBOR + 0.45
Multi-currency revolving credit facility	Dec 2022	600	<b>153</b>	LIBOR + 0.3
Total Bank Facilities			<b>522</b>	
Bond due October 2019	Oct 2019	250	<b>249</b>	9.125
Bond due November 2021	Nov 2021	300	<b>298</b>	4.75
Bond due September 2024	Sep 2024	444	<b>443</b>	0.875
Bond due September 2029	Sep 2029	444	<b>441</b>	1.75
Total Bonds			<b>1,431</b>	
Total Committed Facilities			<b>1,953</b>	

The carrying value of drawn bank facilities and bonds at 31 December 2017 was £522 million (2016: £466 million) and £1,431 million (2016: £547 million), respectively. The prior year included £153 million in preferred securities.

#### Current borrowings

The Group retained total committed bank facilities of £1,200 million during the financial year. A new facility of £600 million was arranged on improved terms whilst an existing facility, also of £600 million, was extended for a further year to November 2022. The new facility is a 5 year commitment with two 1 year extension options available to the Group, subject to lender approval. These facilities were partially drawn at 31 December 2017 with carrying value of £522 million (2016: £465 million) which includes £3 million of deferred arrangement fees (2016: £2 million).

In May 2017, LCH Group exercised its call option on the net €180 million Perpetual Preferred Securities previously issued through Freshwater Finance plc, and repaid the outstanding amount using a combination of free cash and Group committed bank facilities. The coupon on these securities was fixed at 6.576% per annum with interest paid annually.

Cassa di Compensazione e Garanzia S.p.A (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 commercial bank back-up credit lines with a number of commercial banks, which totalled €420 million at 31 December 2017 (2016: €420 million), for overnight and longer durations to broaden its liquidity resources consistent with requirements under the European Markets Infrastructure Regulation (EMIR).

LCH S.A. 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 EMIR. In accordance with the Committee on Payments and Market Infrastructures (CPMI), International Organization of Securities Commissions (IOSCO) and Principles for Financial Market Infrastructures (PFMIs), many Central Banks now provide for CCPs to apply for access to certain Central Bank facilities.

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.

#### 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 of which improved during the year by 1 notch to A3 and A- respectively. 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.

In September 2017, the Company issued €1 billion of bonds in two €500 million tranches under its updated Euro Medium Term Notes Programme. The bonds are unsecured and the tranches are due for repayment in September 2024 and September 2029 respectively. Interest is paid annually in arrears in September each year. The issue prices of the bonds were €99.602 per €100 nominal for the 2024 tranche and €99.507 per €100 nominal for the 2029 tranche. The coupon on the respective tranches is fixed at 0.875% per annum and 1.75% per annum respectively.

#### Fair values

The fair values of the Group's borrowings are as follows:

Group	2017		2016	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Borrowings				
– within 1 year	<b>522</b>	<b>522</b>	619	626
– after more than 1 year	<b>1,431</b>	<b>1,520</b>	547	643
	<b>1,953</b>	<b>2,042</b>	1,166	1,269

The fair values of the Company's borrowings are as follows:

Company	2017		2016	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Borrowings				
– within 1 year	490	490	274	274
– after more than 1 year	1,431	1,520	547	643
	1,921	2,010	821	917

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	2017			2016		
	Drawn £m	Swapped £m	Effective £m	Drawn £m	Swapped £m	Effective £m
Sterling	1,032	(267)	765	713	(256)	457
Euro	921	(355)	566	352	256	608
US Dollar	–	622	622	101	–	101
<b>Total</b>	<b>1,953</b>	<b>–</b>	<b>1,953</b>	<b>1,166</b>	<b>–</b>	<b>1,166</b>

The carrying amounts of the Company's borrowings are denominated in the following currencies:

Currency	2017			2016		
	Drawn £m	Swapped £m	Effective £m	Drawn £m	Swapped £m	Effective £m
Sterling	1,032	(267)	765	713	(256)	457
Euro	889	(355)	534	75	256	331
US Dollar	–	622	622	33	–	33
<b>Total</b>	<b>1,921</b>	<b>–</b>	<b>1,921</b>	<b>821</b>	<b>–</b>	<b>821</b>

## 25. Analysis of net debt

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Due within 1 year</b>				
Cash and cash equivalents	1,381	1,151	4	1
Bank borrowings	(522)	(466)	(490)	(274)
Preferred securities	–	(153)	–	–
	859	532	(486)	(273)
<b>Due after 1 year</b>				
Bonds	(1,431)	(547)	(1,431)	(547)
Derivative financial assets	4	–	4	–
Derivative financial liabilities	(29)	(19)	(29)	(19)
<b>Total net debt</b>	<b>(597)</b>	<b>(34)</b>	<b>(1,942)</b>	<b>(839)</b>

## Reconciliation of net cash flow to movement in net debt

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Increase/(decrease) in cash in the year</b>	<b>216</b>	<b>(213)</b>	<b>(3)</b>	<b>–</b>
Bond issue proceeds	(885)	–	(885)	–
Redemption of preferred securities	157	–	–	–
Bond repayment	–	250	–	250
Additional drawdowns from bank credit facilities	(242)	(317)	(215)	(275)
Repayments made towards bank credit facilities	87	614	2	105
Utilisation of drawn funds for financing activities	103	–	–	–
<b>Change in net debt resulting from cash flows</b>	<b>(564)</b>	<b>334</b>	<b>(1,101)</b>	<b>80</b>
Foreign exchange movements	2	152	(2)	(15)
Movement on derivative financial assets and liabilities	(6)	(67)	(6)	(67)
Bond valuation adjustment	5	(1)	5	(1)
Movement in bank credit facility arrangement fees	1	–	1	–
Reclassification of cash to assets held for sale	(1)	–	–	–
Cash disposed of as part of discontinued operations	–	185	–	–
Net debt at the start of the year	(34)	(637)	(839)	(836)
<b>Net debt at the end of the year</b>	<b>(597)</b>	<b>(34)</b>	<b>(1,942)</b>	<b>(839)</b>

## 26. Provisions

Group	Property £m
1 January 2017	11
Utilised during the year	(1)
Unwinding of discount on provision	1
Provisions no longer required	(2)
Additional charge in the year	1
<b>31 December 2017</b>	<b>10</b>
Current	1
Non-current	9
<b>31 December 2017</b>	<b>10</b>

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 11 years to expiry.

The Company has no provisions (2016: nil).

## 27. Share capital and share premium

### Ordinary shares issued and fully paid

	Number of shares millions	Ordinary shares <sup>1</sup>	Share premium	Total
1 January 2016	348	24	960	984
Issue of shares to the Employee Benefit Trust	2	–	1	1
31 December 2016	350	24	961	985
Issue of shares to the Employee Benefit Trust	–	–	3	3
<b>31 December 2017</b>	<b>350</b>	<b>24</b>	<b>964</b>	<b>988</b>

1. Ordinary Shares of 6<sup>79/86</sup> pence

The Board approved the allotment and issue of 224,965 ordinary shares of par value 6<sup>79/86</sup> pence at a weighted average exercise price of 1,251 pence to the Employee Benefit Trust (2016: 180,308 ordinary shares of par value 6<sup>79/86</sup> pence at 755.34 pence), to settle employee 'Save As You Earn' share plans. This generated a premium of £3 million (2016: £1 million).

Included within the current year Ordinary Share Capital of 350 million shares are 4 million treasury shares, recorded at par.



**28. Net cash flow generated from operations**

	Notes	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Profit before tax from continuing operations		564	364	18	517
(Loss)/ profit before tax from discontinued operations	10	(23)	104	–	–
<b>Profit before taxation</b>		<b>541</b>	<b>468</b>	<b>18</b>	<b>517</b>
<b>Adjustments for depreciation, amortisation and impairments:</b>					
Depreciation and amortisation	13, 14	255	233	–	–
Impairment of software	14	–	8	–	–
Impairment of property, plant and equipment	13	1	–	–	–
<b>Adjustments for other non-cash items:</b>					
Profit on disposal of businesses	7	(7)	–	–	–
Loss/(profit) on disposal of investment in subsidiary	10	23	(76)	–	–
Gain on disposal of financial assets		(7)	(1)	–	–
Other (gains)/losses on disposal of assets		(2)	1	–	–
Share of loss of associates	15	9	5	–	–
Impairment of investment in associate	15	–	–	14	–
Net finance expense	8	62	63	45	37
Share scheme expense	6	38	37	–	–
Movement in pensions and provisions		31	2	–	–
Net foreign exchange differences		(103)	(10)	(1)	17
Dividend income	33	–	–	(142)	(705)
<b>Movements in working capital:</b>					
Decrease in inventories		1	1	–	–
(Increase)/decrease in trade and other receivables		(36)	(215)	30	(37)
(Decrease)/increase in trade and other payables		(47)	(66)	47	39
<b>Movement in other assets and liabilities relating to operations:</b>					
Increase in CCP financial assets		(162,005)	(30,385)	–	–
Increase in CCP financial liabilities		162,095	30,506	–	–
Increase in assets held at fair value		–	(3)	–	–
Movement in derivative assets and liabilities		6	67	6	67
Purchase of investment fund		–	(19)	–	–
Unrealised (gain)/loss on the revaluation of financial assets		(3)	2	–	–
<b>Cash generated from operations</b>		<b>852</b>	<b>618</b>	<b>17</b>	<b>(65)</b>
Comprising:					
Ongoing operating activities		1,130	802	30	(25)
Non-underlying items		(278)	(184)	(13)	(40)
		<b>852</b>	<b>618</b>	<b>17</b>	<b>(65)</b>

Comparatives have been reclassified to align prior year disclosure to the current year.

Movement in financial liabilities arising from financing activities:

	As at 1 January 2017 £m	Cash flows £m	Acquisition of businesses £m	Foreign exchange £m	Other £m	31 December 2017 £m
Bank borrowings	466	52	–	2	2	522
Preferred securities	153	(157)	–	4	–	–
Bonds	547	885	–	3	(8)	1,427
Finance lease liabilities	–	–	10	–	(3)	7
Derivative financial instruments	19	–	–	1	5	25
	<b>1,185</b>	<b>780</b>	<b>10</b>	<b>10</b>	<b>(4)</b>	<b>1,981</b>

**29. Commitments and contingencies**

The Group had commitments of nil as at 31 December 2017 (2016: £54 million). The amounts for the prior year relate to professional fees on the proposed merger with Deutsche Börse. The amounts were payable on the successful completion of the merger.

As at 31 December 2017, contracted capital commitments and other contracted commitments not provided for in the financial statements of the Group and the Company were nil (2016: nil) and nil (2016: £21 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.

### 30. Business combinations

#### Acquisitions in the year to 31 December 2017

The Group made 2 acquisitions in the year ended 31 December 2017.

On 3 January 2017, the Group acquired the entire share capital of Mergent, a leading global provider of business and financial information on public and private companies. The cash consideration paid by the Group at completion was US\$146 million (£118 million) and US\$1 million (£1 million) was paid on finalisation of the purchase price exercise. 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.

On 31 August 2017, the Group acquired the entire share capital of The Yield Book business, a leading global provider of fixed income indexes and analytics. The cash consideration paid by the Group at completion was US\$679 million (£525 million). The acquisition enhances and complements LSEG's Information Services data and analytics offering, building on FTSE Russell's US market presence and fixed income client base globally.

Acquisition	Date acquired £m	Total investment £m	Goodwill £m	Fair value of assets acquired £m	Group contribution post acquisition	
					Revenue £m	Operating profit £m
Mergent	3 January 2017	119	74	45	29	–
Yield Book	31 August 2017	525	215	310	29	11
		644	289	355	58	11

The Group acquired Mergent on 3 January 2017. If the acquisition had occurred on 1 January 2017, the results of the additional period of ownership would have had an immaterial impact on the Group's revenue and operating profit from continuing operations for the year ended 31 December 2017.

If The Yield Book acquisition had occurred on 1 January 2017, the Group revenue from continuing operations for the year would have been £1,823 million, with operating profit (before acquisition amortisation and non-underlying items) of £834 million. These amounts have been calculated using the Group's accounting policies and based on available information.

In the year ended 31 December 2017, a total of £9 million transaction costs in respect of both acquisitions have been recognised as a non-underlying expense in the Group income statement.

The fair values of the identifiable assets and liabilities arising out of each acquisition at the relevant acquisition date are as follows:

	Notes	Mergent	Yield Book	Total
		Fair value £m	Fair value £m	Fair value £m
<b>Non-current assets:</b>				
Intangible assets	14	80	307	387
Property, plant and equipment	13	–	2	2
Deferred tax assets		4	2	6
<b>Current assets:</b>				
Cash and cash equivalents		1	3	4
Other current assets		7	11	18
<b>Current liabilities:</b>				
Trade and other payables		(14)	(15)	(29)
<b>Non-current liabilities:</b>				
Deferred tax liabilities		(26)	–	(26)
Other non-current payables		(7)	–	(7)
<b>Net assets</b>		<b>45</b>	<b>310</b>	<b>355</b>
<b>Goodwill</b>	14	<b>74</b>	<b>215</b>	<b>289</b>
		<b>119</b>	<b>525</b>	<b>644</b>
<b>Satisfied by:</b>				
Cash		119	525	644
<b>Total investment</b>		<b>119</b>	<b>525</b>	<b>644</b>

The valuation of the acquisition of Mergent was finalised in the year and resulted in no change to the fair values attributed on acquisition. The fair values attributed to The Yield Book acquisition are preliminary and will be finalised within 12 months of the acquisition date.

The fair value adjustments are explained below:

#### Mergent

The Group recognised £69 million of purchased intangible assets arising on acquisition representing £54 million attributable to customer relationships, £14 million attributable to various technologies and £1 million relating to brands and trade names. The deferred tax liability arising on the recognition of these intangible assets was £19 million. The fair values of these purchased intangible assets are being amortised over their remaining useful lives from the date of completion.

The goodwill of £74 million arising on consolidation represents the growth of future expected income streams from Mergent's customer base and development of the Group's product offering, along with the assembled workforce and value of expected synergies arising from the acquisition. The goodwill recognised is not deductible for tax purposes.

### The Yield Book and Citi Fixed Income Indices

The Group recognised £307 million of intangible assets arising on acquisition representing £97 million attributable to customer relationships, £154 million attributable to various technologies and £56 million relating to brands and trade names. The fair values of these purchased intangible assets are being amortised over their remaining useful lives from the date of completion.

The goodwill of £215 million arising on consolidation represents the growth of future expected income streams from the integration of Yield Book's enhanced data and analytics capabilities to better serve the Group's global customer base, and the value of the assembled workforce and expected synergies arising from the acquisition. An election has been made to treat the goodwill arising on acquisition to be deductible for tax purposes.

### 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 Turquoise SwapMatch Limited (SwapMatch) for a cash consideration of £1 million. 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 fair value of net assets acquired was nil and the Group recognised £1 million in goodwill. Immediately following the acquisition, the Group made a £1 million cash investment in exchange for an additional 10% equity in SwapMatch.

The valuation on the acquisition of SwapMatch was finalised during the current year and resulted in no change to the fair values attributed on acquisition.

During the current year, the Group purchased the remaining 40% equity interest of SwapMatch it did not already own. As at 31 December 2017, the Group holds a financial liability representing the fair value of associated earn out payments attached to the transaction.

### 31. Leases

#### Operating lease commitments – Group as lessee

The Group leases various office properties under non-cancellable operating leases. The total future minimum lease payments under non-cancellable operating leases are due as follows:

	Property	
	2017 £m	2016 £m
<b>Leases expiring in:</b>		
Less than 1 year	33	30
More than 1 year but less than 5 years	111	109
More than 5 years	54	77
	<b>198</b>	<b>216</b>

Operating lease payments of £32 million (2016: £30 million) were charged to the income statement in the year in relation to property.

#### 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	
	2017 £m	2016 £m
<b>Leases expiring in:</b>		
Less than 1 year	5	7
More than 1 year but less than 5 years	13	21
More than 5 years	3	5
	<b>21</b>	<b>33</b>

#### Finance lease commitments – Group as lessee

The Group has finance lease contracts for certain property rentals and distribution licences. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2017		2016	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
<b>Leases expiring in:</b>				
Less than 1 year	(3)	(3)	–	–
More than 1 year but less than 5 years	(4)	(4)	–	–
Total minimum lease payments	(7)	(7)	–	–
Less amounts representing finance charges	–	–	–	–
<b>Present value of minimum lease payments</b>	<b>(7)</b>	<b>(7)</b>	<b>–</b>	<b>–</b>

The Company has no lease commitments (2016: none).

### Finance lease commitments – Group as lessor

The Group has finance lease contracts for certain property rentals and software licences. Future minimum lease payments receivable under finance leases together with the present value of the net minimum lease payments are as follows:

	2017		2016	
	Minimum payments £m	Present value of payments £m	Minimum payments £m	Present value of payments £m
<b>Leases expiring in:</b>				
Less than 1 year	–	–	1	1
More than 1 year but less than 5 years	–	–	1	1
Total minimum lease payments	–	–	2	2
Less amounts representing finance charges	–	–	–	–
<b>Present value of minimum lease payments</b>	–	–	2	2

The Company has no lease commitments (2016: none).

### 32. Share schemes

The London Stock Exchange Group Long Term Incentive Plan (LTIP), approved at the 2016 AGM, has 2 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 72 to 94. 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 employee benefit discretionary trust to administer the share plans and to acquire the shares to meet commitments to Group employees. At the year end, 944,495 (2016: 376,456) shares were held by the trust, funded in part by an interest free loan from the Group and in part by the issue of 224,965 (2016: 1,930,380) shares and transfer of 1,757,774 (2016: nil) shares held in treasury.

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 employee benefit 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 £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
1 January 2016	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	0.17
Granted	–	–	<b>453,437</b>	<b>31.11</b>	<b>2,087,838</b>	–
Exercised	<b>(1,771)</b>	<b>8.83</b>	<b>(425,784)</b>	<b>14.41</b>	<b>(1,681,434)</b>	–
Lapsed/forfeited	–	–	<b>(52,622)</b>	<b>20.82</b>	<b>(525,195)</b>	–
<b>31 December 2017</b>	<b>1,676</b>	<b>8.94</b>	<b>867,873</b>	<b>26.40</b>	<b>5,438,872</b>	–
Exercisable at:						
<b>31 December 2017</b>	<b>1,676</b>	<b>8.94</b>	<b>9,964</b>	<b>18.27</b>	–	–
31 December 2016	3,447	8.88	13,833	16.37	2,897	–

The weighted average share price of London Stock Exchange Group plc shares during the year was £35.32 (2016: £26.96).

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

	31 December 2017		31 December 2016	
	Number outstanding	Weighted average remaining contractual life Years	Number outstanding	Weighted average remaining contractual life Years
<b>Share options</b>				
Less than £7	–	–	100	–
Between £7 and £8	–	–	–	–
Between £8 and £9	1,676	–	3,347	–
<b>SAYE</b>				
Between £10 and £20	4,788	–	436,403	0.2
Between £20 and £30	414,144	0.5	456,439	1.0
More than £30	448,941	1.5	–	–
<b>LTIP</b>				
Nil	5,438,872	1.3	5,557,663	1.4
<b>Total</b>	<b>6,308,421</b>	<b>1.4</b>	<b>6,453,952</b>	<b>1.4</b>

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
	03-Apr-17	10-Apr-17	18-Aug-17	07-Sep-17	17-Nov-17	10-Apr-17	17-Nov-17	03-Apr-17	10-Apr-17	18-Aug-17	07-Sep-17	17-Nov-17	03-Oct-17
Grant date share price	£31.91	£32.27	£39.44	£38.46	£38.46	£32.27	£38.46	£31.91	£32.27	£39.44	£38.46	£38.46	£38.75
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	0.9 years to 3 years	2 years to 3 years	1.6 years to 2.6 years	2 years to 3 years	0.9 years to 2.8 years	3.33 years
Exercise price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	£31.11
Dividend yield	1.4%	1.3%	1.2%	1.2%	1.2%	1.3%	1.2%	1.4%	1.3%	1.2%	1.2%	1.2%	1.2%
Risk-free interest rate	0.2%	0.2%	0.3%	0.2%	0.6%	0.2%	0.6%	0.02% to 0.16%	0.08% to 0.16%	0.17% to 0.23%	0.1% to 0.19%	0.4% to 0.56%	0.7%
Volatility	26%	26%	26%	26%	26%	26%	26%	22.9% to 26.8%	25.5% to 26.5%	26.7% to 27.4%	26.0% to 26.8%	14.6% to 26.3%	26%
Fair value	–	–	–	–	–	–	–	£30.64 to £31.52	£31.00 to £31.42	£38.27 to £38.71	£37.11 to £37.56	£37.19 to £38.06	£10.21
Fair value TSR	£11.87	£12.29	£15.71	£13.91	£14.12	£12.29	£14.12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Fair value EPS	£30.64	£31.00	£38.09	£37.11	£37.11	£31.00	£37.11	n.a.	n.a.	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.

### 33. 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:

	2017 £m	2016 £m
Salaries and other short-term benefits	13	15
Pensions	1	1
Share-based payments	21	18
	35	34

#### Inter-company transactions with subsidiary undertakings

The Company has loans with some subsidiary undertakings. Details as at 31 December 2017 are shown in the table below:

Loan counterparty	Amount (owed to)/due from as at		Term	Interest rate as at 31 December 2017	Interest (charge)/credit	
	2017	2016			2017	2016
London Stock Exchange plc	£(130)m	£(111)m	25 years from May 2006 with 5 equal annual repayments commencing in May 2027.	LIBOR plus 2% per annum	£(3)m	£(4)m
London Stock Exchange Employee Benefit Trust	£37m	£13m	Repayable on demand.	Non-interest bearing	–	–
London Stock Exchange Group Holdings (Italy) Limited	–	€(13)m	Fifth anniversary of the initial utilisation date which was April 2013.	EURIBOR plus 1.5% per annum	–	–
London Stock Exchange Group Holdings (Italy) Limited	–	£1m	Fifth anniversary of the initial utilisation date which was April 2013.	LIBOR plus 1.5% per annum	–	–
London Stock Exchange Group Holdings Limited	£240m	£400m	Tenth anniversary of the initial utilisation date which was October 2009.	LIBOR plus 4.0% per annum	£10m	£18m
London Stock Exchange Group Holdings Limited	–	US\$(105)m	Tenth anniversary of the initial utilisation date which was October 2009.	LIBOR plus 4.0% per annum	US\$(1)m	US\$(4)m
London Stock Exchange Group Holdings Limited	€(1)m	€(44)m	Tenth anniversary of the initial utilisation date which was October 2009.	EURIBOR plus 4.0% per annum	–	€(1)m
London Stock Exchange Reg Holdings Limited	€1m	€18m	Fifth anniversary of the initial utilisation date which was July 2013.	EURIBOR plus 1.2% per annum	–	–
London Stock Exchange Reg Holdings Limited	£20m	£(2)m	Fifth anniversary of the initial utilisation date which was July 2013.	LIBOR plus 1.2% per annum	–	–
London Stock Exchange (C) Limited	€19m	€(1)m	Fifth anniversary of the initial utilisation date which was May 2017.	EURIBOR plus 1.5% per annum	–	–
London Stock Exchange Group Holdings (Luxembourg) Ltd	US\$(4)m	US\$(3)m	Fifth anniversary of the initial utilisation date which was December 2014.	LIBOR plus 1.5% per annum	–	–
LSEG Employment Services Limited	£111m	£53m	Fifth anniversary of the initial utilisation date which was January 2015.	LIBOR plus 1.2% per annum	£1m	£1m
London Stock Exchange Group (Services) Limited	£67m	£(7)m	Fifth anniversary of the initial utilisation date which was January 2016.	LIBOR plus 0.9% per annum	–	–

During the year, the Company charged in respect of employee share schemes £10 million (2016: £11 million) to LSEG Employment Services Limited, £6 million (2016: £6 million) to LCH Group, £6 million (2016: £4 million) to London Stock Exchange Group Holdings Italia S.p.A. group of companies, £2 million (2016: £1 million) to FTSE Group, £5 million (2016: £1 million) to London Stock Exchange Group Holdings Inc, £1 million (2016: £1 million) to Millennium Group and £8 million (2016: nil million) to London Stock Exchange plc.

In the current year, the Company received dividends of £142 million from London Stock Exchange plc (2016: £169 million). In the prior year the Company received dividends of £408 million from LSEG US HoldCo Inc, £65 million from LSEGH (Luxembourg) Ltd and £64 million from LSE Group Holdings (Italy) Ltd. The Company recognised £32 million income (2016: £61 million) and £49 million expenses (2016: £42 million) with Group undertakings in relation to corporate recharges. At 31 December 2017, the Company had £106 million (2016: £107 million) other receivables due from Group companies and other payables of £116 million (2016: £56 million) owed to Group undertakings.

In the year ended 31 December 2017, the Group recognised £4 million revenue (2016: £2 million) and nil other income from associates (2016: £1 million). At 31 December 2017, the Group had no amounts receivable from associates (2016: £3 million non-current loan receivable and £15 million current receivable).

All transactions with associates were carried out on an arm's length basis.



**34. Events after the reporting period**

On 17 January 2018, the Group completed the sale of Exactpro Systems Limited and its subsidiaries (Exactpro) for an aggregate consideration of £6 million, comprising a purchase price of £3 million and an unconditional waiver of £3 million of deferred consideration payable to the Exactpro purchasers and recognised on the acquisition of Exactpro by the Group.

The Exactpro business was part of the Technology Services segment and was contained within a stand alone CGU. The Group has determined that there is no impairment of the carrying value of the goodwill in the Exactpro. Details are provided in Note 10.

On 23 February 2018 the Group became committed to acquiring an additional 2.04% interest of LCH Group Holdings Limited from certain minority shareholders. This will increase the Group's holding to 67.97%. The aggregate consideration to be paid by the Group is €35 million. The transaction is expected to complete in early March 2018.

**35. Other statutory information**

Auditors' remuneration payable to Ernst and Young LLP and its associates comprise the following:

	2017 £m	2016 £m
Audit of parent and consolidated financial statements	1	1
Audit of subsidiary companies	2	2
Non-audit services	1	–
<b>Total</b>	<b>4</b>	<b>3</b>

Ernst and Young LLP provided non-audit services of £640,201; 15% of total fees (2016: £823,056; 27% of total fees). This comprised of audit related assurance services of £463,602 (2016: £422,238) and other non-audit services of £176,599 (2016: £400,818).

Further details of the services provided by Ernst and Young LLP are given in the Report of the Audit Committee on pages 65–69.

**Directors' emoluments comprise the following:**

	2017 £m	2016 £m
Salary and fees	3	3
Performance bonus	3	3
Gains made on share awards	7	7
Benefits	1	1
	<b>14</b>	<b>14</b>
Contributions to defined contribution schemes	1	1
	<b>15</b>	<b>15</b>

During the year, 1 Director (2016: 1) had retirement benefits accruing under defined contribution schemes and 1 Director (2016: 1) had retirement benefits accruing under a defined benefit scheme.

Further details of Directors' emoluments are included in the Remuneration Report on pages 72 to 94.

## Related undertakings

A list of the Group's subsidiaries as at 31 December 2017 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 1 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 S.A.)	France	18 Rue du Quatre-Septembre, 75002, Paris, France	Ordinary	Indirect (group interest)	88.91	58.62
Blt 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	65.93
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	65.93
Elite Club Deal Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	74.99
Elite S.p.A.	Italy	Piazza degli Affari 6, 20123, Milano, Lombardia, Italy	Ordinary	Indirect (group interest)	75	74.99
Equityclear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
EuroMTS Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A	Indirect (group interest)	100	62.53
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	65.93
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, United States	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 Fixed Income LLC	United States	c/o Corporation Service Company, 251 Little Falls Drive, Wilmington, DE, 19808, United States	Member Interest	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
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 400ª, 5 piso, Col. Bosques de las Lomas, Mexico City, C.P. 05120, Mexico	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 TMX Global Debt Capital Markets Inc <sup>1</sup>	Canada	70 York Street, Suite 1520, Toronto, Ontario, Canada	Ordinary	Indirect (group interest)	100	74.62
FTSE TMX Global Debt Capital Markets Limited <sup>1</sup>	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A	Indirect (group interest)	100	72.74
			Ordinary B		11.03	1.88
Gatelab Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Gatelab S.r.l.	Italy	Via dei Pentri, 161, 86170, Isernia, Italy	Ordinary	Indirect (group interest)	100	100
Glacier Taiwan Limited	Taiwan	12F, No.415, Sec. 4, Xinyi Rd., Xinyi Dist., Taipei City Taiwan	Ordinary	Indirect (group interest)	100	100
globeSettle S.A.	Luxembourg	19 Rue De Bitbourg, L-1273, 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 Yuzhnoportovoy, 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	65.93
Intrinsic Research Systems Inc.	United States	COGENCY GLOBAL INC. 10 East 40th Street, 10th Floor New York, NY 10016	Ordinary	Indirect (group interest)	100	100
LCH Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
LCH.Clearnet (Luxembourg) S.a.r.l	Luxembourg	52 rue Charles Martel, Luxembourg, L-2134 Luxembourg	Ordinary	Indirect (group interest)	100	65.93
LCH Group Holdings 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	65.93
					65.93	–
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	65.93
LCH GP Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
LCH.Clearnet Group Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
LCH Pensions Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
LCH PLP Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
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
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 LEI Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	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 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 (ELT) 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

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 %
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 Ireland Limited	Ireland	10 Earlsfort Terrace, Dublin, D02 T380 Ireland	Ordinary	Indirect (group interest)	100	100
LSEG LuxCo 1 S.a.r.l	Luxembourg	19 Rue De Bitbourg, L-1273 Luxembourg	Ordinary	Indirect (group interest)	100	100
LSEG LuxCo 2 S.a.r.l	Luxembourg	19 Rue De Bitbourg, L-1273 Luxembourg	Ordinary	Indirect (group interest)	100	100
LSEG Malaysia Sdn. Bhd.	Malaysia	Level 19-1, Menara Milenium, Wilayah Persekutuan, Kuala Lumpur Malaysia	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 Technology 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
Marché de TitreS France (MTS France)	France	18 Rue du Quatre-Septembre, 75002, Paris, France	Ordinary	Indirect (group interest)	100	62.53
M-CCP Holdings, Inc	United States	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, United States	Ordinary	Indirect (group interest)	100	100
M-CCP Parent, Inc	United States	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, United States	Ordinary	Indirect (group interest)	100	100
Mergent Japan K.K.	Japan	12th Yurakuchoekimae Bldg., 7-1, Yurakucho 2-chome, Chiyoda-ku, Tokyo	Ordinary	Indirect (group interest)	100	100
Mergent, Inc	United States	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, United States	Ordinary	Indirect (group interest)	100	100
Millennium Information Technologies (India) (Private) Limited	India	83 – C, Mittal Towers, Nariman Point, Mumbai -400 021, India	Ordinary	Indirect (group interest)	100	100
Millennium IT (USA) Inc	United States	1013 Centre Road, Suite 403S, Wilmington, DE, 19805	Common	Indirect (group interest)	100	100
Millennium IT Services (Private) Limited	Sri Lanka	65/2, Sir Chittampalam A Gardiner Mawatha, Colombo 02 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	62.53
Mercato dei Titoli di Stato S.p.A.	Italy	Via Tomacelli, 146, 00186 Rome, Italy	Ordinary	Indirect (group interest)	62.53	62.53
MTSNext Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	74.62
Repoclear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
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	65.93
SwapClear Limited	England and Wales	Aldgate House, 33 Aldgate High Street, London, England and Wales, EC3N 1EA	Ordinary	Indirect (group interest)	100	65.93
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	65.93
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	65.93

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 %
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
The Yield Book, Inc.	United States	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, United States	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 Global Holdings US, Inc	United States	THE CORPORATION TRUST COMPANY, CT Corporation, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, United States	Ordinary	Indirect (group interest)	100	51.36
Turquoise SwapMatch Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A Ordinary B	Indirect (group interest)	100 100	51.36 –
Turquoise Trading Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	51.36
Unavista Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary	Indirect (group interest)	100	100
Yield Book Software BRE LLC	United States	C/O The Corporation Trust Company 1209 Orange Street, Wilmington DE 19801 United States	Member Interest	Indirect (group interest)	100	100
Yield Book Tangible Property BRE LLC	United States	C/O The Corporation Trust Company, 1209 Orange Street, Wilmington DE 19801 United States	Member Interest	Indirect (group interest)	100	100

1. The absolute indirect (group interest) and direct holdings by the London Stock Exchange Group is 75.75%

The Group's associate undertakings were:

Associate name	Country of incorporation	Registered office address	Identity of each class of share held in the subsidiary undertaking	Direct or indirect holding	Share ownership % held by the Parent Company	Group ultimate economic interest %
Curve Global Limited	England and Wales	10 Paternoster Square, London, England and Wales, EC4M 7LS	Ordinary A Ordinary B	Direct	48.32 –	43.38 –
MTS Associated Markets S.A.	Belgium	Rue des Comédiens, 16–22, 1000 Brussels, Belgium	Ordinary	Indirect (group interest)	23.3	14.57
The Hub Exchange Limited	England and Wales	843 Finchley Road, London, England and Wales, NW11 8NA	Ordinary	Indirect (group interest)	27.35	20.51

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 2 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 or 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 Cboe

## **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 2 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 indexes
- ETF**  
Exchange Traded Fund – low-cost and flexible investments that track indexes 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 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
- 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
- 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
- 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 indexes
- 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

# Glossary continued

## **LCH or LCH Group**

LCH Group Limited and its subsidiaries, the Group's 65.9% owned global clearing and risk management business

## **LCH Spider**

Portfolio margining tool for cleared OTC products and listed interest rate futures

## **Legal Entity Identifiers (LEI)**

The Legal Entity Identifier (LEI) initiative is designed to create a global reference data system that uniquely identifies every legal entity or structure, in any jurisdiction, that is party to a financial transaction

## **Local Operating Unit (LOU)**

London Stock Exchange is accredited by the Global Legal Entity Identifier Foundation (GLEIF) as an authorised Local Operating Unit (LOU) for the global allocation of Legal Entity Identifiers (LEI)

## **LSE**

London Stock Exchange plc

## **LSEG**

London Stock Exchange Group plc

## **LSEG Business Services Limited**

Our shared services company providing a range of technology and corporate functions Group-wide

## **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.**

Mergent Inc. is a leading provider of business and financial information on public and private companies. 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

## **MiFID II**

The revised MiFID and the accompanying Markets in Financial Instruments Regulation – better known as MiFID II and MiFIR – came into effect across all EU member states from January 2018. MiFID II is intended to build on the achievements of MiFID I, with the aim of making financial markets more open, efficient, resilient and transparent

## **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

**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 indexes have rules-based strategies designed to provide focused exposure to specific factors, market segments or investment strategies. These may include volatility indexes, defensive and high dividend yield indexes, or a combination of fundamentals

**SwapClear**

LCH's over-the-counter 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

**The Yield Book**

The Yield Book and Citi Fixed Income Indices, a fixed income analytics platform and index business comprising a family of fixed income indexes (including the WGBI). LSEG completed the acquisition of The Yield Book and Citi Fixed Income Indices in August 2017

**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
<b>Capital Markets</b>		
<b>Primary Markets</b>	MiFID II/MiFIR Level 1 finalised; work on technical aspects (Level 2) continues – in effect 2018	– LSEG operations are now live with full MiFID II compliance however LSEG will have to consider the third country authorisation and eligibility aspects in the context of Brexit
	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
	Quoted Eurobond Exemption	– LSEG's new International Securities Market is well positioned to benefit from the extension of the Quoted Eurobond Exemption also to include MTFs.
	US Treasury Capital Markets Report	– Comprehensive recommendations for changes to US capital markets legislative and regulatory framework
	Capital Markets Reform Legislation	– Numerous pieces of capital markets reform legislation were introduced in Congress in 2017, including the Financial CHOICE Act of 2017 – The legislation aims to reduce the regulatory burden as well as increase capital formation by amending the Dodd-Frank Act of 2010
<b>Secondary (trading) Markets</b>	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 – Prudential Regime for Investment Firms may impact market making by principal traders – Emerging scrutiny of the operation of the ETF market by regulators
	MiFID II/MiFIR	– LSEG is well positioned to benefit from the following features of MiFID II / MiFIR: <ul style="list-style-type: none"> <li>• Non-discriminatory open access to trading venues and CCPs</li> <li>• Extension of pre and post trade transparency to non-equity asset classes, including bonds and derivatives</li> <li>• Increased regulatory requirements for high frequency trading strategies and algorithmic trading</li> <li>• Additional organisational, transparency and market surveillance requirements for trading venues</li> <li>• Platform trading obligation for shares and OTC derivatives</li> </ul>
	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	– Requires 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) proposal under negotiation	– 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.)
<b>Post Trade</b>		
<b>CCPs</b>	EMIR Review 2.1 (REFIT)	– The European Commission published a legislative proposal amending EMIR focused on proportionality of transaction-level requirements – The Proposal reduces the scope of the clearing obligations and margin requirements and proposes several changes to the reporting mechanisms (delegating ETD reporting to CCPs) – The final text is expected Q3 2018, in order to allow for an extension of the exemption from the clearing obligation for pensions funds
	EMIR Review 2.2 (supervision of EU and third-country CCP)	– The EC Commission to amend EMIR on the supervision of EU and third-country CCPs – For EU CCPs it proposes a more coordinated supervision of EU CCPs (ESMA) and an increased role for the central banks of issue – For third country CCPs it introduces a two-Tier approach: <ul style="list-style-type: none"> <li>• Tier 1: Non-systemically important third country CCPs that can benefit from the current recognition system.</li> <li>• Tier 2: Systemically important third country CCPs directly supervised by ESMA and that directly apply EMIR.</li> </ul> – In addition the Commission proposes a mechanism to deny the recognition of Tier 2 CCPs that are considered substantially too important to be recognised by ESMA and therefore be required to be established in the Union. – The legislative Proposal is currently reviewed by the Council and the European Parliament. A final text is expected in H2 2018.

<b>LSEG DIVISION AND BUSINESS AREA</b>	<b>LEGISLATION/MEASURE</b>	<b>SCOPE</b>
<b>Post Trade continued</b>		
<b>CCPs continued</b>	EC regime for recovery and resolution for CCPs	<ul style="list-style-type: none"> <li>– Commission proposed CCP recovery and resolution measures in November 2016</li> <li>– Proposal provides regulators with expanded powers to intervene at an earlier stage, including the power to require an entity to implement measures under its recovery plan</li> <li>– Authorities should also be provided with a wide range of resolution tools</li> <li>– Legislative proposal currently reviewed by European Parliament and Council. Final text expected H2 2018.</li> </ul>
<b>LCH</b>	US Treasury Capital Markets Report	– Comprehensive recommendations for changes to US clearing house legislative and regulatory framework
	CFTC Project KISS – initiated in 2017	– Comprehensive review of CFTC regulations aimed to simplify and modernize CFTC rules and regulations
	CFTC Swaps Reporting Review – initiated in 2017	– Comprehensive review of CFTC Parts 43, 45, and 49 reporting intended to simplify reporting requirements and harmonise reporting requirements with International standards
	USD Libor Transition – final implementation in 2021	– Multi-agency effort to transition from Libor referenced products to SOFR referenced products
	Capital Markets Stability Act (Canada)	<ul style="list-style-type: none"> <li>– Creates and delegates authority to the Capital Markets Regulatory Authority (CMRA) that would act as the federal financial regulatory authority for Canada</li> <li>– The CMRA would have regulatory oversight over products, practices, and benchmarks</li> </ul>
	Mandatory Central Counterparty Clearing of Derivatives – in effect 2017 (Canada)	– Mandates the central clearing of certain USD, GBP, EUR, and CAD swaps products in Canada
<b>Central Security Depositories</b>	CSDR (requirements related to Central Security Depository will enter into force once the CSD obtains the European licence – expected: end of 2019)	– Measures to harmonise: <ul style="list-style-type: none"> <li>• certain aspects of securities settlement including settlement periods and settlement discipline</li> </ul>
<b>UnaVista</b>	MIFID II/MIFIR & SFTR	– The entry into force of MiFIR (2018) and SFTR (2019) and the introduction of similar legal frameworks for trade reporting in non-EU jurisdictions is expected to provide opportunities for existing TRs and their group entities
	EMIR REFIT	– Amending EMIR in some specific areas so as to eliminate disproportionate costs and burdens on certain derivatives counterparties and to simplify rules without compromising the essence of the legislation
	Others (2018)	<ul style="list-style-type: none"> <li>– Data Quality Action Plan</li> <li>– Information technology and internal controls: TR's system development life cycle and internal control systems</li> <li>– Strategy and Governance: Focusing on TR's governance structures and management quality</li> </ul>
	SEC Consolidated Audit Trail	– SEC finalized framework for US equities reporting; implementation 2018–2020
<b>Information Services</b>		
<b>FTSE Russell</b>	Benchmark Regulation – in effect 2018	<ul style="list-style-type: none"> <li>– Regulated governance and controls standards for benchmark administration, in particular conflicts of interest management</li> <li>– Requirements on the quality of the input data and methodologies</li> <li>– Rules to ensure that contributors to benchmarks are subject to adequate controls, and, where necessary, mandatory contribution</li> </ul>
<b>Technology</b>		
<b>EU operators of trading venues and EU CCPs, potentially other FMI services later deemed 'essential'</b>	NIS in effect 2018  (NEW Definition/acronym: Cyber security Directive: (EU) 2016/1148 Network and Information Security)	<ul style="list-style-type: none"> <li>– Requires FMIs deemed operators of essential services to: <ul style="list-style-type: none"> <li>• Ensure the continuity of their services and manage the risks posed to the security of their networks and information systems</li> <li>• Provide to the competent authority information needed to assess the security of their networks and information systems, filing documented security policies</li> <li>• 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</li> <li>• Notify the competent authority of incidents having a significant impact on the continuity of the essential service they provide</li> </ul> </li> </ul>
<b>Market data</b>	GDPR in effect 2018  (New definition/acronym: General Data Protection Regulation (Regulation (EU) 2016/679) – implementation May 2018)	<ul style="list-style-type: none"> <li>– 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"> <li>• Revise existing privacy notices</li> <li>• Check procedures operate in accordance with individual rights</li> <li>• Update procedures on subject access requests</li> <li>• Identify legal basis for carrying out various types of data processing</li> <li>• Update procedures to detect, report and investigate personal data breaches</li> <li>• Designate data protection officer and compliance responsibility</li> <li>• Determine which data protection supervisory authority is governing authority</li> </ul> </li> </ul>

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# Financial calendar

## (Provisional)

Preliminary Results (for year end 31 December 2017)	2 March 2018
AGM	24 April 2018
Q1 Interim Management Statement (revenues only)	24 April 2018
Ex-dividend date for final dividend	3 May 2018
Final dividend record date	4 May 2018
Final dividend payment	30 May 2018
Half year end	30 June 2018
Interim Results	August 2018
Financial year end	31 December 2018
Preliminary Results	March 2019

The financial calendar is updated on a regular basis throughout the year.

Please refer to our website: [www.lseg.com/investor-relations](http://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 2017 will be held on 24 April 2018 at Hilton London Bankside Hotel, Bear Lane, London SE1 0UH, starting at 10.30am.



# 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](http://www.shareview.co.uk).

By creating a Shareview portfolio, shareholders will gain online access to information about their 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 shareholders will need their shareholder reference (which can be found on your share certificate) and they will be asked to select their own personal identification number. A user ID will then be posted to them.

If shareholders have any problems in registering their portfolio for the Shareview service, contact Equiniti on 0371 384 2233. For calls from outside the UK, contact Equiniti on +44 (0)121 415 7065.

### Group's share price service

To obtain share price information for London Stock Exchange Group plc, see our website at: [www.lseg.com](http://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 2 March 2018 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	3.98%

# Investor Relations contacts

## **Investor Relations**

London Stock Exchange Group plc  
10 Paternoster Square  
London  
EC4M 7LS

For enquiries relating to shareholdings in London Stock Exchange Group plc:

Shareholder helpline: +44 (0)20 7797 3322  
email: [irinfo-r@lsegroup.com](mailto:irinfo-r@lsegroup.com)

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](http://www.lseg.com/investor-relations).

## **Registered office**

London Stock Exchange Group plc  
10 Paternoster Square  
London  
EC4M 7LS

## **Registered company number**

London Stock Exchange Group plc: 5369106

## **Registrar information**

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Aspect House  
Spencer Road  
Lancing  
West Sussex  
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T +44 (0)371 384 2544 or +44 (0)121 415 7047  
Lines open 8.30 to 17.30, Monday to Friday.

[www.shareview.co.uk](http://www.shareview.co.uk)

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[www.rbccm.com](http://www.rbccm.com)

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# London

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