2 March 2018

# LONDON STOCK EXCHANGE GROUP PLC
# PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Unless stated otherwise, all figures in the highlights below refer to continuing operations[1] for 12 months to 31 December 2017 and comparisons with the prior 12 month period on the same basis.

- Continued execution of strategy driving strong operational and financial performance – deployment of capital for acquisitions and organic investment to drive multiple growth opportunities

- Strong financial results – headline growth across all core business divisions – Information Services, Post Trade and Capital Markets - underpins confidence in delivery of three-year financial targets

- Well positioned to drive further growth as a diversified, global financial markets infrastructure business – operating on an Open Access basis in partnership with customers

2017 Highlights

- Total revenue up 17% to £1,768 million (2016: £1,515 million)

- Total income up 18% to £1,955 million (2016: £1,657 million)

- FTSE Russell delivered 33% revenue growth (up 15% on an underlying basis); LCH OTC revenues up 21% (up 17% on an underlying basis)

- Adjusted operating expenses[2] up 6% on an organic and constant currency basis reflecting continued investment in growth and efficiency projects

- Adjusted operating profit[3] up 18% at £812 million (2016: £686 million); operating profit up 47% at £626 million (2016: £427 million); adjusted EBITDA[2] up 19% at £915 million (2016: £771 million)

- Adjusted EPS[3] up 19% at 148.7 pence (2016: 124.7 pence); basic EPS of 153.6 pence (2016: 63.8 pence)

- Proposed final dividend increased to 37.2 pence per share - a 19% increase in the full year dividend to 51.6 pence per share – reflecting the strong outlook for the Group

- Capital management continues in-line with policy: £200 million share buyback completed; new medium term debt with €1 billion Eurobond issuance to support further growth and leverage reduced to 1.7 times

- New initiatives and achievements in the year include:

  - SwapAgent started new service providing efficiencies for non-cleared products
  - CurveGlobal making good progress one year on from launch and investing for next stage developments
  - Completed acquisitions of The Yield Book and Mergent, further building data and analytics capabilities in our Information Services businesses
  - Increased shareholding in LCH Group to 65.9% (up from 57.8%); expect to acquire a further 2% in March 2018
  - Strong flow of IPOs in London and Italy helped companies raise over £44 billion in new and further issues
  - Turquoise Block Discovery saw 600% rise in total value traded to €54.5 billion as customers started to adjust their trading strategies ahead of MiFID II

- Good progress on recruitment of new CEO with a strong field of high quality candidates

*[1] Continuing operations exclude businesses sold, being Russell Investment Management.*
*[2] Before depreciation, amortisation and non-underlying items.*
*[3] Before amortisation of purchased intangible assets and non-underlying items.*

*Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Russell Investment Management, SwapMatch, ISPS, Mergent and The Yield Book. The Group's principal foreign exchange exposure arises from translating and revaluing its foreign currency earnings, assets and liabilities into LSEG's reporting currency of Sterling.*

Commenting on performance for the year, David Warren, CFO and Interim Group Chief Executive, said:

**"We have delivered another year of strong performance with growth across all of our core businesses, including double-digit revenue increases at FTSE Russell and LCH OTC. The Group has also continued to invest in new initiatives and acquisitions to drive further expansion of our global client offering. Reflecting the strong results, as well as confidence in outlook and focus on shareholder returns, the dividend per share increased in line with earnings at 19%, and the Group completed a £200 million buyback during the year.**

**"The Group is strategically, operationally and financially well positioned to capitalise on a range of opportunities ahead and to enhance shareholder returns. We also remain focused on delivering the financial targets we have set for the next two years. Our Open Access approach in partnership with customers will enable us to benefit from MiFID II and to adapt to an evolving regulatory and macroeconomic environment."**

## Financial Summary

Unless otherwise stated, all figures below refer to continuing operations for the year ended 31 December 2017. Comparative figures are for continuing operations for the year ended 31 December 2016. Variance is also provided on an organic and constant currency basis.

| Continuing operations | Year ended 31 December 2017 £m | Year ended 31 December 2016 £m | Variance % | Organic and constant currency variance[1] % |
|---|---|---|---|---|
| **Revenue** | | | | |
| Information Services [1] | **736** | 595 | 24% | 13% |
| Post Trade Services - LCH | **432** | 356 | 21% | 17% |
| Post Trade Services - CC&G and Monte Titoli | **109** | 104 | 5% | (2%) |
| Capital Markets [1] | **391** | 368 | 6% | 3% |
| Technology Services | **91** | 88 | 3% | - |
| Other revenue | **9** | 4 | - | - |
| **Total revenue** | **1,768** | 1,515 | 17% | 10% |
| Net treasury income through CCP businesses | **162** | 125 | 30% | 22% |
| Other income | **25** | 17 | - | - |
| **Total income** | **1,955** | 1,657 | 18% | 11% |
| Cost of sales | **(215)** | (175) | 23% | 16% |
| **Gross profit** | **1,740** | 1,482 | 17% | 10% |
| Operating expenses before depreciation, amortisation and impairment | **(816)** | (706) | 15% | 6% |
| Depreciation, amortisation and impairment | **(103)** | (85) | 22% | 7% |
| **Total operating expenses** | **(919)** | (791) | 16% | 6% |
| Share of loss after tax of associate | **(9)** | (5) | - | - |
| **Adjusted operating profit [2]** | **812** | 686 | 18% | 15% |
| Add back depreciation, amortisation and impairment | **103** | 85 | 22% | 7% |
| **Adjusted earnings before interest, tax, depreciation and amortisation [2]** | **915** | 771 | 19% | 14% |
| Profit on disposal of businesses | **7** | - | | |
| Amortisation of purchased intangible assets and non-underlying items | **(193)** | (259) | (25%) | (28%) |
| **Operating profit** | **626** | 427 | 47% | 44% |
| **Earnings per share** | | | | |
| Basic earnings per share (p) | **153.6** | 63.8 | 141% | |
| Adjusted basic earnings per share (p) [2] | **148.7** | 124.7 | 19% | |
| Dividend per share (p) | **51.6** | 43.2 | 19% | |

[1] *Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Russell Investment Management, SwapMatch, ISPS, Mergent and The Yield Book.*
*The Group's principal foreign exchange exposure arises from translating and revaluing its foreign currency earnings, assets and liabilities into LSEG's reporting currency of Sterling.*

[2] *Before amortisation of purchased intangible assets and non-underlying items.*

*Unless otherwise stated, all figures refer to the 12 months ended 31 December 2017 and comparisons are against the same corresponding period in the previous year.*

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**Further information**

The Group will host a conference call on its Preliminary Results for analysts and institutional shareholders today at 09:00am (GMT). On the call will be David Warren (CFO and Interim CEO) and Paul Froud (Head of Investor Relations).

Participant UK Dial-In Numbers: 0800 376 7922
Participant Std International Dial-In: +44 (0) 2071 928 000
Conference ID # 408 9059

Presentation slides can be viewed at http://www.lseg.com/investor-relations

For further information, please call the Group's Investor Relations team on +44 (0) 20 7797 3322.

The information in the preliminary announcement of the results for the year ended 31 December 2017, which was approved by the Board of Directors on 1 March 2018, does not constitute statutory accounts as defined in Section 435 of the UK Companies Act 2006. The financial statements for the year ended 31 December 2016 were filed with the Registrar of Companies, and the audit report was unqualified and contained no statements in respect of Sections 498 (2) and 498 (3) of the UK Companies Act 2006. The financial statements for the year ended 31 December 2017 will be filed with the Registrar of Companies in due course.

In accordance with the Listing Rules of the UK Listing Authority, these preliminary results have been agreed with the Company's auditors, Ernst &Young LLP, and the Directors have not been made aware of any likely modification to the auditor's report to be included in the Group's Annual Report and Accounts for the year ended 31 December 2017.

The preliminary results have been prepared on a basis consistent with the accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 December 2017.

## Chief Executive's statement

### 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 Incomes 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 ten 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 two 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 two years, while at the same time continuing to invest and expand. The Group is well positioned for further successful development and growth.

## 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.

### 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[1] of £915 million (2016: £771 million) increased by 19%
- Adjusted operating profit[1] 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[1] 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[1] of £919 million (2016: £955 million) decreased by 4%
- Adjusted EBITDA[1] of £915 million (2016: £798 million) increased by 15%
- Adjusted operating profit[1] 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[1] 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

David Warren
Group Chief Financial Officer

[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

| Revenue | 12 months ended Dec 2017 Continuing £m | Discontinued £m | Total £m | 12 months ended Dec 2016 Continuing £m | Discontinued £m | Total £m | Variance (Continuing) % | Variance at organic and constant currency[2] % |
|---|---|---|---|---|---|---|---|---|
| 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 | – | – |
| **Total revenue** | **1,768** | **–** | **1,768** | 1,515 | 390 | 1,905 | 17 | 10 |
| Net treasury income through CCP businesses | **162** | **–** | **162** | 125 | – | 125 | 30 | 22 |
| Other income | **25** | **–** | **25** | 17 | 1 | 18 | 49 | 44 |
| **Total income** | **1,955** | **–** | **1,955** | 1,657 | 391 | 2,048 | 18 | 11 |
| Cost of sales | **(215)** | **–** | **(215)** | (175) | (200) | (375) | 23 | 16 |
| **Gross profit** | **1,740** | **–** | **1,740** | 1,482 | 191 | 1,673 | 17 | 10 |
| Operating expenses before depreciation, amortisation and impairment[1] | **(816)** | **–** | **(816)** | (706) | (164) | (870) | 15 | 6 |
| Share of loss after tax of associates | **(9)** | **–** | **(9)** | (5) | – | (5) | 80 | 86 |
| **Adjusted earnings before interest, tax, depreciation, amortisation and impairment[1]** | **915** | **–** | **915** | 771 | 27 | 798 | 19 | 14 |
| Depreciation, amortisation and impairment | **(103)** | **–** | **(103)** | (85) | – | (85) | 22 | 7 |
| **Adjusted operating profit[1]** | **812** | **–** | **812** | 686 | 27 | 713 | 18 | 15 |
| Operating profit/(loss) | **626** | **(23)** | **603** | 427 | 103 | 530 | 47 | 44 |
| **Adjusted basic earnings per share[1]** | **148.7p** | **–** | **148.7p** | 124.7p | 5.0p | 129.7p | 19 | – |
| **Basic earnings per share** | **153.6p** | **(7.2p)** | **146.4p** | 63.8p | (20.3p) | 43.5p | 141 | – |

[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

## Information Services

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

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

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 three year target of US$78 million for cost synergies on time and met the five year target for revenue synergies of US$48 million, more than two 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 £32million 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**

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

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

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

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

Capital Markets 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 | – |
| **Total revenue** | **111** | 104 | 7 | 3 |
| Cost of sales | **(29)** | (28) | 6 | 4 |
| **Gross profit** | **82** | 76 | 8 | 3 |
| Operating expenses[1] | **(84)** | (64) | 31 | – |
| **Operating (loss)/profit**[1] | **(2)** | 12 | (117) | – |

[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

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 two 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.

### 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 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 |
| **Operating net debt** | **1,639** | 882 |

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 five-year commitment with two 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 two €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.

The Group's interest cover, the coverage of net interest 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 SA 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** | |
|---|---|
| **FTSE Russell** | **Double-digit growth to continue**<br>Sustainable and attractive margins over the same period |
| **LCH** | **Double-digit OTC revenue growth to continue**<br>**Accelerating EBITDA margin growth** – approaching 50% by 2019 |
| **LSEG** | **Operating expenses held at c.4% p.a.** increase while Group continues to deliver revenue growth and improved margins<br>**Next phase cost saves** £50m p.a. by exit 2019<br>**EBITDA margin of c.55%** |

## CONSOLIDATED INCOME STATEMENT

**Year ended 31 December 2017**

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | **Underlying** | **Non-underlying** | **Total** | **Underlying** | **Non-underlying** | **Total** |
| | Notes | £m | £m | £m | £m | £m | £m |
| | | | | | **Re-presented[1]** | **Re-presented[1]** | **Re-presented[1]** |
| **Continuing operations** | | | | | | | |
| **Revenue** | 2 | **1,768** | **-** | **1,768** | 1,515 | - | 1,515 |
| **Net treasury income through CCP business** | 2 | **162** | **-** | **162** | 125 | - | 125 |
| **Other income** | 2 | **25** | **-** | **25** | 17 | - | 17 |
| **Total income** | | **1,955** | **-** | **1,955** | 1,657 | - | 1,657 |
| Cost of sales | 2 | **(215)** | **-** | **(215)** | (175) | - | (175) |
| **Gross profit** | | **1,740** | **-** | **1,740** | 1,482 | - | 1,482 |
| **Expenses** | | | | | | | |
| Operating expenses before depreciation, amortisation and impairment | 3, 5 | **(816)** | **(40)** | **(856)** | (706) | (102) | (808) |
| Profit on disposal of businesses | 5 | **-** | **7** | **7** | - | - | - |
| Share of loss after tax of associates | 2 | **(9)** | **-** | **(9)** | (5) | - | (5) |
| **Earnings before interest, tax, depreciation, amortisation and impairment** | | **915** | **(33)** | **882** | 771 | (102) | 669 |
| Depreciation, amortisation and impairment | 3, 5 | **(103)** | **(153)** | **(256)** | (85) | (157) | (242) |
| **Operating profit/(loss)** | | **812** | **(186)** | **626** | 686 | (259) | 427 |
| Finance income | | **8** | **-** | **8** | 7 | - | 7 |
| Finance expense | | **(70)** | **-** | **(70)** | (70) | - | (70) |
| Net finance expense | 6 | **(62)** | **-** | **(62)** | (63) | - | (63) |
| **Profit/(loss) before tax from continuing operations** | | **750** | **(186)** | **564** | 623 | (259) | 364 |
| **Taxation** | 7 | **(168)** | **190** | **22** | (140) | 39 | (101) |
| **Profit/(loss) for the year from continuing operations** | | **582** | **4** | **586** | 483 | (220) | 263 |
| **Discontinued operations** | | | | | | | |
| (Loss)/profit after tax for the year from discontinued operations | 8 | **-** | **(25)** | **(25)** | 18 | (88) | (70) |
| **Profit/(loss) for the year** | | **582** | **(21)** | **561** | 501 | (308) | 193 |
| **Equity holders** | | | | | | | |
| Profit/(loss) for the year from continuing operations | | **513** | **17** | **530** | 436 | (213) | 223 |
| (Loss)/profit for the year from discontinued operations | 8 | **-** | **(25)** | **(25)** | 17 | (88) | (71) |
| Profit/(loss) for the year attributable to equity holders | | **513** | **(8)** | **505** | 453 | (301) | 152 |

**Non-controlling interests**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 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 | 8 | **-** | **-** | **-** | 1 | - | 1 |
| Profit/(loss) for the year attributable to non-controlling interests | | **69** | **(13)** | **56** | 48 | (7) | 41 |
| | | **582** | **(21)** | **561** | 501 | (308) | 193 |

| | | | |
|---|---|---|---|
| **Earnings per share attributable to equity holders** | | | |
| Basic earnings per share | 9 | **146.4p** | **43.5p** |
| Diluted earnings per share | 9 | **143.0p** | **42.6p** |
| Adjusted basic earnings per share | 9 | **148.7p** | **129.7p** |
| Adjusted diluted earnings per share | 9 | **145.3p** | **127.2p** |
| **Earnings per share for continuing operations attributable to equity holders** | | | |
| Basic earnings per share | 9 | **153.6p** | **63.8p** |
| Diluted earnings per share | 9 | **150.1p** | **62.5p** |
| Adjusted basic earnings per share | 9 | **148.7p** | **124.7p** |
| Adjusted diluted earnings per share | 9 | **145.3p** | **122.3p** |
| **Dividend per share in respect of the financial year:** | | | |
| Dividend per share paid during the year | 10 | **14.4p** | **12.0p** |
| Dividend per share declared for the year | 10 | **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.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year ended 31 December 2017**

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| **Profit for the financial year** | | **561** | 193 |
| **Other comprehensive income/(loss):** | | | |
| **Items that will not be subsequently reclassified to profit or loss** | | | |
| Defined benefit pension scheme remeasurement gain/(loss) | | **93** | (58) |
| Income tax relating to these items | 7 | **(25)** | 15 |
| | | **68** | (43) |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Net investment hedges | | **3** | (74) |
| Available for sale financial assets: | | | |
| - Net gains from changes in fair value | | **1** | 7 |
| - Net gains reclassified to the consolidated income statement on disposal | | **(8)** | - |
| Exchange (loss)/gain on translation of foreign operations | | **(64)** | 492 |
| Income tax relating to these items | 7 | **2** | (1) |
| | | **(66)** | 424 |
| **Other comprehensive gains net of tax** | | **2** | 381 |
| **Total comprehensive income for the financial year** | | **563** | 574 |
| | | | |
| Attributable to non-controlling interests | | **81** | 98 |
| Attributable to equity holders | | **482** | 476 |
| **Total comprehensive income for the financial year** | | **563** | 574 |

## CONSOLIDATED BALANCE SHEET

**At 31 December 2017**

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **129** | 108 |
| Intangible assets | 11 | **4,590** | 4,124 |
| Investment in associates | | **5** | 3 |
| Deferred tax assets | | **38** | 68 |
| Derivative financial instruments | 12 | **4** | - |
| Available for sale assets | 12 | **86** | 28 |
| Retirement benefit asset | | **56** | 2 |
| Other non-current receivables | 12 | **55** | 88 |
| | | **4,963** | 4,421 |
| **Current assets** | | | |
| Inventories | | **-** | 3 |
| Trade and other receivables | 12 | **688** | 637 |
| CCP financial assets | | **673,354** | 504,833 |
| CCP cash and cash equivalents (restricted) | | **61,443** | 53,553 |
| CCP clearing business assets | 12 | **734,797** | 558,386 |
| Current tax | | **126** | 124 |
| Available for sale assets | 12 | **19** | 74 |
| Cash and cash equivalents | 12 | **1,381** | 1,151 |
| | | **737,011** | 560,375 |
| Assets held for sale | 8 | **6** | - |
| **Total assets** | | **741,980** | 564,796 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **598** | 601 |
| CCP clearing business liabilities | 12 | **734,981** | 558,478 |
| Current tax | | **70** | 61 |
| Borrowings | 12, 13 | **522** | 619 |
| Provisions | | **1** | 1 |
| | | **736,172** | 559,760 |
| **Non-current liabilities** | | | |
| Borrowings | 12, 13 | **1,431** | 547 |
| Derivative financial instruments | 12 | **29** | 19 |
| Deferred tax liabilities | | **502** | 705 |
| Retirement benefit obligations | | **36** | 75 |
| Other non-current liabilities | 12 | **49** | 66 |
| Provisions | | **9** | 10 |
| | | **2,056** | 1,422 |
| **Total liabilities** | | **738,228** | 561,182 |
| **Net assets** | | **3,752** | 3,614 |

| | | | |
|---|---|---|---|
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Ordinary share capital | 15 | **24** | 24 |
| Share premium | 15 | **964** | 961 |
| Retained earnings | | **419** | 259 |
| Other reserves | | **1,820** | 1,862 |
| **Total shareholders' funds** | | **3,227** | 3,106 |
| **Non-controlling interests** | | **525** | 508 |
| **Total equity** | | **3,752** | 3,614 |

## CONSOLIDATED CASH FLOW STATEMENT

**Year ended 31 December 2017**

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | 16 | **852** | 618 |
| Interest received | | **6** | 6 |
| Interest paid | | **(66)** | (67) |
| Corporation tax paid | | **(130)** | (315) |
| Withholding tax paid | | **(3)** | (1) |
| **Net cash inflow from operating activities** | | **659** | 241 |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | | **(47)** | (34) |
| Purchase of intangible assets | 11 | **(143)** | (112) |
| Proceeds from sale of businesses | 5 | **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 | 18 | **(644)** | (1) |
| Cash inflow from acquisition of business | 18 | **4** | - |
| Investment in associates | | **(2)** | (8) |
| Proceeds from the disposal of available for sale financial assets | | **7** | - |
| Investment in government bonds [1] | | **(5)** | (10) |
| Dividends received | | **-** | 1 |
| **Net cash (outflow)/ inflow from investing activities** | | **(821)** | 233 |
| | | | |
| **Cash flow from financing activities** | | | |
| Dividends paid to shareholders | 10 | **(159)** | (130) |
| Dividends paid to non-controlling interests | | **(19)** | (15) |
| Purchase of treasury shares relating to share buyback | | **(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) |
| Purchase of own shares by the employee benefit trust [2] | | **(26)** | (9) |
| Proceeds from exercise of employee share options | | **2** | - |
| Proceeds from issue of shares | | **-** | 1 |
| Proceeds from the issue of bonds | | **885** | - |
| Bond repayment [3] | | **-** | (250) |
| Additional drawdowns from bank credit facilities [3] | | **242** | 317 |
| Repayments made towards bank credit facilities [3] | | **(87)** | (614) |
| Payments to shareholders on exercise of options | | **-** | (3) |
| Repayments of finance lease | | **-** | (3) |
| **Net cash inflow/(outflow) from financing activities** | | **378** | (687) |
| | | | |
| **Increase/(decrease) in cash and cash equivalents** | | **216** | (213) |
| Cash and cash equivalents at beginning of year | | **1,151** | 1,176 |
| Exchange gain on cash and cash equivalents | | **15** | 188 |
| **Cash and cash equivalents at end of year** | | **1,382** | 1,151 |
| | | | |
| Cash and cash equivalents at end of year from continuing operations | 12 | **1,381** | 1,151 |
| Cash and cash equivalents classified as held for sale | | **1** | - |
| **Cash and cash equivalents at end of year** | | **1,382** | 1,151 |

[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.

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.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**Year ended 31 December 2017**

| | Attributable to equity holders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ordinary share capital | Share premium | Retained earnings | Other reserves | Total attributable to equity holders | Non-controlling interests | Total equity |
| | £m | £m | £m | £m | £m | £m | £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 (Note 15) | - | 1 | - | - | 1 | - | 1 |
| Final dividend relating to the period ended 31 December 2015 (Note 10) | - | - | (88) | - | (88) | - | (88) |
| Interim dividend relating to the year ended 31 December 2016 (Note 10) | - | - | (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 (Note 15) | **-** | **3** | **-** | **-** | **3** | **-** | **3** |
| Final dividend relating to the year ended 31 December 2016 (Note 10) | **-** | **-** | **(109)** | **-** | **(109)** | **-** | **(109)** |
| Interim dividend relating to the year ended 31 December 2017 (Note 10) | **-** | **-** | **(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 [1] | **-** | **-** | **(201)** | **-** | **(201)** | **-** | **(201)** |
| Disposal of business (Note 8) | **-** | **-** | **-** | **30** | **30** | **-** | **30** |
| **31 December 2017** | **24** | **964** | **419** | **1,820** | **3,227** | **525** | **3,752** |

[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.

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 SA, 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of preparation and accounting policies

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention as modified by the revaluation of assets and liabilities held at fair value and on the basis of the Group's accounting policies.

The Group uses a columnar format for the presentation of its consolidated income statement. This enables the Group to aid the reader's understanding of its results by presenting profit for the year before 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 one 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.

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 18. 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:

a) represents a separate major line of business or geographical area of operations;
b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
c) 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.

## 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.

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 not chosen 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 five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers, and replaces the separate models for goods, services and construction contracts currently included in IAS 11 'Construction Contracts' and IAS 18 'Revenue'.

Based on the 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.

## 2. Segmental Information

The Group is organised into operating units based on its service lines and has six 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 | Post Trade Services - LCH | Post Trade Services - CC&G and Monte Titoli | Capital Markets | Technology Services | Other | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Revenue from external customers** | **736** | **432** | **109** | **391** | **91** | **9** | **-** | **1,768** |
| Inter-segmental revenue | **-** | **-** | **1** | **-** | **20** | **-** | **(21)** | **-** |
| **Revenue** | **736** | **432** | **110** | **391** | **111** | **9** | **(21)** | **1,768** |
| **Net treasury income through CCP business** | **-** | **120** | **42** | **-** | **-** | **-** | **-** | **162** |
| **Other income** | **-** | **10** | **-** | **-** | **-** | **15** | **-** | **25** |
| **Total income** | **736** | **562** | **152** | **391** | **111** | **24** | **(21)** | **1,955** |
| Cost of sales | **(62)** | **(88)** | **(17)** | **(16)** | **(29)** | **(3)** | **-** | **(215)** |
| **Gross profit** | **674** | **474** | **135** | **375** | **82** | **21** | **(21)** | **1,740** |
| Share of loss after tax of associates | **-** | **-** | **-** | **-** | **-** | **(9)** | **-** | **(9)** |
| **Earnings before interest, tax, depreciation, amortisation and impairment** | **400** | **245** | **82** | **194** | **5** | **1** | **(12)** | **915** |
| Depreciation, non-acquisition software amortisation and impairment | **(17)** | **(51)** | **(11)** | **(14)** | **(7)** | **(6)** | **3** | **(103)** |
| **Operating profit/(loss) before non-underlying items** | **383** | **194** | **71** | **180** | **(2)** | **(5)** | **(9)** | **812** |
| Amortisation of purchased intangible assets | | | | | | | | **(153)** |
| Non-underlying items | | | | | | | | **(33)** |
| **Operating profit** | | | | | | | | **626** |
| Net finance expense | | | | | | | | **(62)** |
| **Profit before taxation from continuing operations** | | | | | | | | **564** |

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 | Post Trade Services - LCH | Post Trade Services - CC&G and Monte Titoli | Capital Markets | Technology Services | Other | Eliminations | Group |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Revenue from external customers** | 595 | 356 | 104 | 368 | 88 | 4 | - | 1,515 |
| Inter-segmental revenue | - | - | - | - | 16 | - | (16) | - |
| **Revenue** | 595 | 356 | 104 | 368 | 104 | 4 | (16) | 1,515 |
| **Net treasury income through CCP business** | - | 82 | 43 | - | - | - | - | 125 |
| **Other income** | - | 9 | - | - | - | 8 | - | 17 |
| **Total income** | 595 | 447 | 147 | 368 | 104 | 12 | (16) | 1,657 |
| Cost of sales | (54) | (56) | (13) | (22) | (28) | (2) | - | (175) |
| **Gross profit** | 541 | 391 | 134 | 346 | 76 | 10 | (16) | 1,482 |
| Share of loss after tax of associates | - | - | - | - | - | (5) | - | (5) |
| **Earnings before interest, tax, depreciation and amortisation** | 350 | 159 | 71 | 188 | 18 | (2) | (13) | 771 |
| Depreciation, non-acquisition software amortisation and impairment | (13) | (36) | (18) | (11) | (6) | (3) | 2 | (85) |
| **Operating profit/(loss) before non-underlying items** | 337 | 123 | 53 | 177 | 12 | (5) | (11) | 686 |
| Amortisation of purchased intangible assets | | | | | | | | (157) |
| Non-underlying items | | | | | | | | (102) |
| **Operating profit** | | | | | | | | 427 |
| Net finance expense | | | | | | | | (63) |
| **Profit before taxation from continuing operations** | | | | | | | | 364 |

## 3. Expenses by nature

Expenses comprise the following:

| | Note | **2017** £m | **2016** £m |
|---|---|---|---|
| Employee costs | 4 | **497** | 429 |
| IT costs | | **120** | 117 |
| Other costs | | **199** | 160 |
| **Operating expenses before depreciation, non-acquisition software amortisation, and impairment** | | **816** | 706 |
| Depreciation, non-acquisition software amortisation and impairment | | **103** | 85 |
| **Total operating expenses** | | **919** | 791 |

Other costs include foreign exchange losses of £17 million (2016: £3 million gain).

## 4. Employee costs

Employee costs comprise the following:

| | 2017 | 2016 |
|---|---|---|
| | £m | £m |
| Salaries and other benefits | **368** | 329 |
| Social security costs | **64** | 52 |
| Pension costs | **27** | 21 |
| Share-based compensation | **38** | 27 |
| **Total** | **497** | 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 |
| **Total** | **4,741** | 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.

## 5. Non-underlying items

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| Amortisation of purchased intangible assets | 11 | **153** | 157 |
| Transaction costs | | **25** | 85 |
| Restructuring costs | | **7** | 14 |
| Integration costs | | **8** | 3 |
| Profit on disposal of businesses | | **(7)** | - |
| **Total affecting operating profit** | | **186** | 259 |
| | | | |
| **Tax effect on items affecting profit before tax** | | | |
| 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 |
| **Total tax effect on items affecting profit before tax** | | **(190)** | (39) |
| | | | |
| **Total (credit)/charge to continuing operations income statement** | | **(4)** | 220 |
| Loss after tax from discontinued operations | 8 | **25** | 88 |
| **Total charge to income statement** | | **21** | 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 BIt 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 8 for further details.

## 6. Net finance expense

| | 2017 | 2016 |
|---|---|---|
| | £m | £m |
| **Finance income** | | |
| Expected return on defined benefit pension scheme assets | **-** | 1 |
| Bank deposit and other interest income | **3** | 1 |
| Other finance income | **5** | 5 |
| | **8** | 7 |
| **Finance expense** | | |
| Interest payable on bank and other borrowings | **(63)** | (65) |
| Defined benefit pension scheme interest cost | **(2)** | (2) |
| Other finance expenses | **(5)** | (3) |
| | **(70)** | (70) |
| **Net finance expense** | **(62)** | (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.

## 7. Taxation

The standard UK corporation tax rate was 19.25% (20% for the year ended 31 December 2016).

| | 2017 | 2016 |
|---|---|---|
| **Taxation charged to the income statement** | £m | £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) |
| | **161** | 131 |
| Deferred tax: | | |
| Deferred tax for the year | **(9)** | 7 |
| Adjustments in respect of previous years | **10** | 4 |
| Deferred tax liability on amortisation of purchased intangible assets | **(184)** | (41) |
| **Taxation (credit)/charge** | **(22)** | 101 |

The adjustments in respect of previous years' corporation tax are mainly in respect of tax returns submitted to relevant tax authorities.

| | 2017 | 2016 |
|---|---|---|
| **Taxation on items not credited/(charged) to income statement** | £m | £m |
| Current tax credit: | | |
| Tax allowance on share options/awards in excess of expense recognised | **8** | 11 |
| | **8** | 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) |
| | **(11)** | 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 | 2016 |
|---|---|---|
| | £m | £m |
| Profit before taxation from continuing operations | **564** | 364 |
| (Loss)/profit before taxation from discontinued operations | **(23)** | 104 |
| | **541** | 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) |
| | **(20)** | 275 |
| **Income tax from continuing operations** | **(22)** | 101 |
| **Income tax attributable to discontinued operations** | **2** | 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.

## 8. 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 five 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 |
| **Total income** | | **-** | 391 |
| Cost of sales | | **-** | (200) |
| **Gross profit** | | **-** | 191 |
| **Expenses** | | | |
| Expenses before amortisation of purchased intangible assets and non-underlying items | | **-** | (164) |
| Non-underlying items | | **(23)** | 76 |
| **Operating (loss)/profit** | | **(23)** | 103 |
| **Net finance income** | | **-** | 1 |
| **(Loss)/profit before tax from discontinued operations** | | **(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) |
| **Taxation** | 7 | **(2)** | (174) |
| **Loss after tax from discontinued operations** | | **(25)** | (70) |
| **Attributable to:** | | | |
| 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 19.

## 9. Earnings per share

Earnings per share is presented on four bases: basic earnings per share; diluted earnings per share; adjusted basic earnings per share; and adjusted diluted earnings per share. Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on conversion or vesting of 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 |
| **Basic earnings per share** | **153.6p** | **(7.2p)** | **146.4p** | 63.8p | (20.3p) | 43.5p |
| **Diluted earnings per share** | **150.1p** | **(7.1p)** | **143.0p** | 62.5p | (19.9p) | 42.6p |
| **Adjusted basic earnings per share** | **148.7p** | **-** | **148.7p** | 124.7p | 5.0p | 129.7p |
| **Adjusted diluted earnings per share** | **145.3p** | **-** | **145.3p** | 122.3p | 4.9p | 127.2p |

**Profit and adjusted profit for the financial year attributable to the Company's equity holders:**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Continuing | Discontinued | Total | Continuing | Discontinued | Total |
| | £m | £m | £m | £m | £m | £m |
| Profit for the financial year attributable to the Company's equity holders | **530** | **(25)** | **505** | 223 | (71) | 152 |
| **Adjustments:** | | | | | | |
| **Amortisation of purchased intangibles and non-underlying items:** | | | | | | |
| Amortisation of purchased intangible assets | 153 | - | 153 | 157 | - | 157 |
| Transaction costs | 25 | - | 25 | 85 | - | 85 |
| Restructuring costs | 7 | - | 7 | 14 | - | 14 |
| Integration costs | 8 | - | 8 | 3 | - | 3 |
| Profit on disposal of businesses | (7) | 23 | 16 | - | (76) | (76) |
| **Other adjusting items:** | | | | | | |
| Tax effect of amortisation of purchased intangible assets and non-underlying items | (190) | 2 | (188) | (39) | 164 | 125 |
| Amortisation of purchased intangible assets, non-underlying items and taxation attributable to non-controlling interests | (13) | - | (13) | (7) | - | (7) |
| **Adjusted profit for the financial year attributable to the Company's equity holders** | **513** | **-** | **513** | 436 | 17 | 453 |
| **Weighted average number of shares - million** | | | **345** | | | 349 |
| Effect of dilutive share options and awards - million | | | **8** | | | 7 |
| **Diluted weighted average number of shares - million** | | | **353** | | | 356 |

The weighted average number of shares excludes those held in the Employee Benefit Trust and treasury shares held by the Group.

## 10. Dividends

| | 2017 | 2016 |
|---|---|---|
| | £m | £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: 31.2 per Ordinary share | **109** | - |
| Interim dividend for 31 December 2017 paid 19 September 2017: 14.4p per Ordinary share | **50** | - |
| | **159** | 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.

## 11. Intangible assets

| | | Purchased intangible assets | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | Customer relationships | Brands | Software, licences and intellectual property | Software and other | Total |
| | £m | £m | £m | £m | £m | £m |
| 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 | **289** | **151** | **57** | **168** | **11** | **676** |
| Additions | **-** | **-** | **-** | **-** | **143** | **143** |
| Disposal of business | **(1)** | **-** | **-** | **-** | **(8)** | **(9)** |
| Disposals | **-** | **(15)** | **(3)** | **(12)** | **(9)** | **(39)** |
| Reclassification to assets held for sale | **(3)** | **-** | **-** | **-** | **-** | **(3)** |
| Transfer of asset | **-** | **-** | **-** | **-** | **(1)** | **(1)** |
| Foreign exchange | **(4)** | **(20)** | **(65)** | **(6)** | **14** | **(81)** |
| **31 December 2017** | **2,378** | **1,848** | **960** | **584** | **652** | **6,422** |
| | | | | | | |
| **Accumulated amortisation and impairment:** | | | | | | |
| 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 | **-** | **90** | **38** | **25** | **76** | **229** |
| Disposal of business | **-** | **-** | **-** | **-** | **(6)** | **(6)** |
| Disposals | **-** | **(15)** | **(3)** | **(12)** | **(9)** | **(39)** |
| Foreign exchange | **21** | **9** | **(6)** | **1** | **11** | **36** |
| **31 December 2017** | **521** | **566** | **151** | **291** | **303** | **1,832** |
| | | | | | | |
| **Net book values:** | | | | | | |
| **31 December 2017** | **1,857** | **1,282** | **809** | **293** | **349** | **4,590** |
| 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 18.

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 8.

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 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 ten 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 five to 20 years.

There are no other individual purchased intangible assets with a carrying value that is considered material to each asset class.

*Software*
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 but 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 five 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).

## 12. Financial assets and financial liabilities

**Financial instruments by category**

The financial instruments of the Group are categorised as follows:

| 31 December 2017 | 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 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| 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** |
| Cash and cash equivalents | 1,381 | - | - | **1,381** |
| Available for sale financial assets | - | 105 | - | **105** |
| Derivative financial instruments | - | - | 4 | **4** |
| **Total** | **164,905** | **18,541** | **553,543** | **736,989** |

There were no transfers between categories during the year.

Prepayments within trade and other receivables are not classified as financial instruments.

| 31 December 2017 | Financial liabilities at amortised cost £m | Financial liabilities at fair value through profit and loss £m | Total £m |
|---|---|---|---|
| **Financial liabilities** | | | |
| 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** |
| Borrowings | 1,953 | - | **1,953** |
| Provisions | 10 | - | **10** |
| Derivative financial instruments | - | 29 | **29** |
| **Total** | **187,572** | **549,921** | **737,493** |

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 at the previous year's balance sheet date were as follows:

| 31 December 2016 (re-presented) | 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 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| 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 |
| Cash and cash equivalents | 1,151 | - | - | 1,151 |
| Available for sale financial assets | - | 102 | - | 102 |
| **Total** | 214,298 | 16,077 | 329,950 | 560,325 |

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) | Financial liabilities at amortised cost £m | Financial liabilities at fair value through profit and loss £m | Total £m |
|---|---|---|---|
| **Financial liabilities** | | | |
| 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 |
| Borrowings | 1,166 | - | 1,166 |
| Provisions | 11 | - | 11 |
| Derivative financial instruments | - | 19 | 19 |
| **Total** | 239,652 | 320,567 | 560,219 |

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.

## 13. Borrowings

| | 2017 | 2016 |
|---|---|---|
| | £m | £m |
| **Current** | | |
| Bank borrowings | **522** | 466 |
| Preferred securities | **-** | 153 |
| | **522** | 619 |
| | | |
| **Non-current** | | |
| Bonds | **1,431** | 547 |
| | **1,431** | 547 |
| | | |
| **Total** | **1,953** | 1,166 |

The Group has the following committed bank facilities and unsecured notes:

| Type | Expiry Date | Notes/Facility £m | Carrying value at 31 December 2017 £m | Interest rate percentage at 31 December 2017 % |
|---|---|---|---|---|
| **Drawn value of Facilities** | | | | |
| Multi-currency revolving credit facility | Nov 2022 | 600 | **369** | LIBOR + 0.45 |
| Multi-currency revolving credit facility | Dec 2022 | 600 | **153** | LIBOR + 0.3 |
| Total Bank Facilities | | | **522** | |
| | | | | |
| Bond due October 2019 | Oct 2019 | 250 | **249** | 9.125 |
| Bond due November 2021 | Nov 2021 | 300 | **298** | 4.75 |
| Bond due September 2024 | Sep 2024 | 444 | **443** | 0.875 |
| Bond due September 2029 | Sep 2029 | 444 | **441** | 1.75 |
| Total Bonds | | | **1,431** | |
| Total Committed Facilities | | | **1,953** | |

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 SA has a French banking licence and is able to access refinancing at the European Central Bank to support its liquidity position. LCH Limited is deemed to have sufficient fungible liquid assets to maintain an appropriate liquidity position, and has direct access to certain central bank facilities to support its liquidity risk management in accordance with the requirements under the EMIR. In accordance with the Committee on Payments and Market Infrastructures (CPMI), International Organization of Securities Commissions (IOSCO) and Principals 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 one 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:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Group | £m | £m | £m | £m |
| Borrowings | | | | |
| - within one year | **522** | **522** | 619 | 626 |
| - after more than one year | **1,431** | **1,520** | 547 | 643 |
| | **1,953** | **2,042** | 1,166 | 1,269 |

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:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Drawn | Swapped | Effective | Drawn | Swapped | Effective |
| **Currency** | £m | £m | £m | £m | £m | £m |
| Sterling | **1,032** | **(267)** | **765** | 713 | (256) | 457 |
| Euro | **921** | **(355)** | **566** | 352 | 256 | 608 |
| US Dollar | **-** | **622** | **622** | 101 | - | 101 |
| **Total** | **1,953** | **-** | **1,953** | 1,166 | - | 1,166 |

## 14. Analysis of net debt

| | 2017 | 2016 |
|---|---|---|
| | £m | £m |
| **Due within one year** | | |
| Cash and cash equivalents | **1,381** | 1,151 |
| Bank borrowings | **(522)** | (466) |
| Preferred securities | **-** | (153) |
| | **859** | 532 |
| **Due after one year** | | |
| Bonds | **(1,431)** | (547) |
| Derivative financial assets | **4** | - |
| Derivative financial liabilities | **(29)** | (19) |
| **Total net debt** | **(597)** | (34) |

**Reconciliation of net cash flow to movement in net debt**

| | 2017 | 2016 |
|---|---|---|
| | £m | £m |
| **Increase/(decrease) in cash in the year** | **216** | (213) |
| Bond issue proceeds | **(885)** | - |
| Redemption of preferred securities | **157** | - |
| Bond repayment | **-** | 250 |
| Additional drawdowns from bank credit facilities | **(242)** | (317) |
| Repayments made towards bank credit facilities | **87** | 614 |
| Utilisation of drawn funds for financing activities | **103** | - |
| **Change in net debt resulting from cash flows** | **(564)** | 334 |
| | | |
| Foreign exchange movements | **2** | 152 |
| Movement on derivative financial assets and liabilities | **(6)** | (67) |
| Bond valuation adjustment | **5** | (1) |
| Reclassification of cash to assets held for sale | **(1)** | - |
| Movement in bank credit facility arrangement fees | **1** | - |
| Cash disposed of as part of discontinued operations | **-** | 185 |
| Net debt at the start of the year | **(34)** | (637) |
| **Net debt at the end of the year** | **(597)** | (34) |

## 15. Share capital and share premium

**Ordinary shares issued and fully paid**

| | Number of shares | Ordinary shares [1] | Share premium | Total |
|---|---|---|---|---|
| | millions | £m | £m | £m |
| 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** |
| **31 December 2017** | **350** | **24** | **964** | **988** |

[1] Ordinary Shares of $6^{79/86}$ pence

The Board approved the allotment and issue of 224,965 ordinary shares of par value $6^{79/86}$ pence at a weighted average exercise price of 1,251 pence to the Employee Benefit Trust (2016: 180,308 ordinary shares of par value $6^{79/86}$ 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.

## 16. Net cash flow generated from operations

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| Profit before tax from continuing operations | | **564** | 364 |
| (Loss)/profit before tax from discontinued operations | 8 | **(23)** | 104 |
| **Profit before tax** | | **541** | 468 |
| | | | |
| **Adjustments for depreciation, amortisation and impairments:** | | | |
| Depreciation and amortisation | | **255** | 233 |
| Impairment of software | 11 | **-** | 8 |
| Impairment of property, plant and equipment | | **1** | - |
| | | | |
| **Adjustments for other non-cash items:** | | | |
| Profit on disposal of businesses | 5 | **(7)** | - |
| Loss/(profit) on disposal of investment in subsidiary | 8 | **23** | (76) |
| Gain on disposal of financial assets | | **(7)** | (1) |
| Other (gains)/losses on disposal of assets | | **(2)** | 1 |
| Share of loss of associates | | **9** | 5 |
| Net finance expense | 6 | **62** | 63 |
| Share scheme expense | 4 | **38** | 37 |
| Movement in pensions and provisions | | **31** | 2 |
| Net foreign exchange differences | | **(103)** | (10) |
| | | | |
| **Movements in working capital:** | | | |
| Decrease in inventories | | **1** | 1 |
| Increase in trade and other receivables | | **(36)** | (215) |
| Decrease in trade and other payables | | **(47)** | (66) |
| | | | |
| **Movement in other assets and liabilities relating to operations:** | | | |
| 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 |
| Purchase of investment fund | | **-** | (19) |
| Unrealised (gain)/loss on the revaluation of financial assets | | **(3)** | 2 |
| | | | |
| **Cash generated from operations** | | **852** | 618 |
| | | | |
| Comprising: | | | |
| Ongoing operating activities | | **1,130** | 802 |
| Non-underlying items | | **(278)** | (184) |
| | | **852** | 618 |

Comparatives have been reclassified to align prior year disclosure to the current year.

## 17. 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 were nil (2016: nil).

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

## 18. Business combinations

**Acquisitions in the year to 31 December 2017**

The Group made two 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 indices.

On 31 August 2017, the Group acquired the entire share capital of the Yield Book business, a leading global provider of fixed income indices 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.

| | | | | | Contribution post acquisition | |
|---|---|---|---|---|---|---|
| | Date acquired | Total investment | Goodwill | Fair value of assets acquired | Revenue | Operating profit |
| Acquisition | | £m | £m | £m | £m | £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 Fair value £m | Yield Book Fair value £m | Total Fair value £m |
|---|---|---|---|---|
| **Non-current assets:** | | | | |
| Intangible assets | 11 | 80 | 307 | 387 |
| Property, plant and equipment | | - | 2 | 2 |
| Deferred tax assets | | 4 | 2 | 6 |
| **Current assets:** | | | | |
| Cash and cash equivalents | | 1 | 3 | 4 |
| Other current assets | | 7 | 11 | 18 |
| **Current liabilities:** | | | | |
| Trade and other payables | | (14) | (15) | (29) |
| **Non-current liabilities:** | | | | |
| Deferred tax liabilities | | (26) | - | (26) |
| Other non-current payables | | (7) | - | (7) |
| **Net assets** | | **45** | **310** | **355** |
| **Goodwill** | 11 | 74 | 215 | 289 |
| | | **119** | **525** | **644** |
| **Satisfied by:** | | | | |
| Cash | | 119 | 525 | 644 |
| **Total investment** | | **119** | **525** | **644** |

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 twelve 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 one 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.

## 19. Events after the reporting period

On 17 January 2018, the Group announced it had completed the sale of Exactpro Systems Limited and its subsidiaries 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 Exactpro. Details are provided in note 8.

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.

**For the purposes of DTR 6.4.2R, the Home State of London Stock Exchange Group plc is the United Kingdom.**