

1 March 2019

LONDON STOCK EXCHANGE GROUP PLC PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Unless stated otherwise, all figures in the highlights below refer to 12 months to 31 December 2018 and comparisons with the prior 12 month period on the same basis.

- Continued successful execution of strategy driving strong operational and financial performance, and enhanced shareholder returns
- Strong growth across core business divisions – Information Services, LCH and Capital Markets
- Well positioned as a global financial markets infrastructure provider, operating on an Open Access basis in partnership with customers
- Investment and a focus on greater collaboration to drive further growth opportunities and efficiency

2018 Highlights

- Total revenue up 8% to £1,911 million (2017: £1,768 million)
- Total income up 9% to £2,135 million (2017: £1,955 million)
- FTSE Russell delivered 15% revenue growth (up 8% on an organic constant currency basis)
- LCH OTC revenues up 16% (up 17% on a constant currency basis)
- Adjusted operating expenses¹ well controlled with 2% increase (up 6% including depreciation) reflecting continued investment in growth and efficiency
- Adjusted operating profit² up 15% at £931 million (2017: £812 million); operating profit up 20% at £751 million (2017: £626 million); adjusted EBITDA² up 17% at £1,066 million (2017: £915 million)
- Adjusted EPS² up 17% at 173.8 pence (2017: 148.7 pence); basic EPS of 138.3 pence (2017: 153.6 pence)
- Proposed final dividend increased to 43.2 pence per share - a 17% increase in the full year dividend to 60.4 pence per share – reflecting the strong performance and confident outlook for the Group

Continued organic and inorganic developments including:

- Majority ownership of LCH Group increased to 82.6%
 - LCH SwapClear – 23% growth to \$1 quadrillion notional cleared; \$773 trillion compressed
 - LCH ForexClear - 54% increase in cleared notional – successful launch of FX options
 - Acquisition of a 4.9% minority stake in Euroclear - strengthens operational and commercial partnerships
 - FTSE Russell \$16 trillion assets under benchmark to FTSE Russell with increased multi-asset capabilities and data and analytics opportunities
 - CurveGlobal delivered 88% increase in trading and 148% rise in open interest over the last 12 months
 - Acquisition of minority stake in Nivaura to support capital markets innovation
- Good progress towards achievement of financial targets with strong revenue and margin growth; prioritisation of further investment in growth opportunities means the Group does not plan to achieve cost and Group margin targets in 2019

¹ Before depreciation, amortisation and non-underlying items.

² 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 ISPS, The Yield Book, MillenniumIT ESP and Exactpro. 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 Schwimmer, CEO, LSEG said:

“Since joining LSEG, my early impressions of its strengths have only been reinforced. The Group is distinguished by its open access and customer partnership approach, a set of world class businesses across the capital markets lifecycle and a team of committed colleagues.

“LSEG continues to be well positioned in an evolving macroeconomic and regulatory landscape. Our businesses, including those perceived to be most exposed to Brexit, such as clearing, continue to perform very well, with no change in our market position.

“We have delivered another year of strong performance across the Group, with a 9% increase in income and 17% growth in both adjusted earnings and proposed dividend. We have continued to invest in new initiatives, developing our information services business and increasing our majority holding in LCH, as well as taking a minority stake in Euroclear.

“The strategic positioning of each of our businesses has reinforced for me the continued opportunities for growth. We will continue to invest in our businesses and to increase Group-wide collaboration to better meet the needs of our clients and to continue to drive strong returns for our shareholders.”

Financial Summary

Unless otherwise stated, all figures below refer to continuing operations for the year ended 31 December 2018. Comparative figures are for continuing operations for the year ended 31 December 2017. Variance is also provided on an organic and constant currency basis.

	Twelve months ended 31 December			Organic and constant currency
	2018 £m	2017 £m	Variance %	variance ¹ %
Continuing operations				
Revenue				
Information Services ¹	841	736	14%	9%
Post Trade Services - LCH	487	432	13%	13%
Post Trade Services - CC&G and Monte Titoli	102	109	(6%)	(7%)
Capital Markets	407	391	4%	4%
Technology ¹	65	91	(28%)	7%
Other revenue	9	9	(1%)	(2%)
Total revenue	1,911	1,768	8%	7%
Net treasury income through CCP businesses	218	162	34%	35%
Other income	6	25	(73%)	(73%)
Total income	2,135	1,955	9%	9%
Cost of sales	(227)	(215)	6%	16%
Gross profit	1,908	1,740	10%	8%
Operating expenses before depreciation, amortisation and impairment	(834)	(816)	2%	2%
Underlying depreciation, amortisation and impairment	(135)	(103)	31%	30%
Total operating expenses	(969)	(919)	5%	6%
Share of loss after tax of associate	(8)	(9)	(14%)	(14%)
Adjusted operating profit ²	931	812	15%	11%
Add back underlying depreciation, amortisation and impairment	135	103	31%	30%
Adjusted earnings before interest, tax, depreciation, amortisation and impairment ²	1,066	915	17%	13%
Profit on disposal of business	-	7	-	-
Amortisation of purchased intangible assets and non-underlying items	(180)	(193)	(6%)	(5%)
Operating profit	751	626	20%	14%

Earnings per share

Basic earnings per share (p)	138.3	153.6	(10%)
Adjusted basic earnings per share (p) ²	173.8	148.7	17%
Dividend per share (p)	60.4	51.6	17%

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

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.

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

Variances in table are calculated from unrounded numbers.

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Further information

The Group will host a presentation and conference call on its Preliminary Results for analysts and institutional shareholders today at 09:00am (GMT). On the call will be David Schwimmer (CEO) and David Warren (CFO)

Participant UK Dial-In Numbers: 0800 376 7922

Participant Std International Dial-In: +44 (0) 2071 928 000

Conference ID # 598 7079

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 2018, which was approved by the Board of Directors on 1 March 2019, 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 2017 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 2018 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 2018.

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 2018.

Chief Executive's statement

Overview

When I joined LSEG in August 2018, I had an outsider's perception of the Group's strong businesses and international standing. Since then, my impressions of its strengths have only been reinforced. The Group is distinguished by its customer partnership approach, a set of world class businesses across the capital markets lifecycle and a team of committed colleagues. LSEG's successful strategy and open access philosophy provide a strong foundation for further growth and development.

The Group has grown rapidly through organic growth and acquisition in recent years, building businesses around three core strategic areas - Capital Formation, Information Services and Post Trade and Risk Management Services - supported by Group Technology and a commitment to operational excellence. In the years ahead, we intend to further develop these businesses and focus on delivering the opportunities and efficiencies of operating as a unified Group, to benefit our customers and to drive sustainable long-term growth and value for our shareholders and broader stakeholders.

In 2018, LSEG operated against a backdrop of macroeconomic and political disruption, including the continued uncertainty around the implementation of the United Kingdom's decision to leave the European Union. As a systemically important financial markets infrastructure business, the Group has a responsibility to ensure the orderly functioning of markets and continuity of service for its customers, shareholders and other stakeholders. With a strong global footprint and significant infrastructure businesses across the UK, Eurozone, US and Asia, the Group is well positioned to adapt to any eventual outcome. On behalf of our customers, the Group continues to advocate strongly for a defined implementation period and the prevention of the fragmentation of regulatory systems designed to make financial markets efficient, stable and safe.

The Group has skilfully navigated the challenges of this evolving backdrop and delivered a strong set of results in 2018, continuing to execute its strategy successfully across its core businesses, as outlined below. I'd like to acknowledge and thank David Warren, Group CFO, for his leadership delivering these results as Interim CEO during the first seven months of 2018.

Information Services

With its global reach and multi-asset capabilities, FTSE Russell continues to benefit from industry drivers, including the growth of passive investment, as well as the increasing customer demand for access to data and analytical tools. At the end of 2018, the value of ETF assets tracking its benchmarks was US\$606 billion.

In 2018, FTSE Russell assumed 100% ownership of the FTSE TMX Global Debt Capital Markets business as it continued to strengthen its fixed income capabilities. This follows the 2017 acquisition of The Yield Book and Citi Index business, which substantially enhanced its ability to offer world-class multi-asset investment tools.

In September, FTSE Russell announced that China equity A Shares would be included in its global equity benchmarks beginning in June 2019, an acknowledgement of China's remarkable growth and the significant progress that has been made in Chinese capital markets. Upon completion of the first phase of inclusion, China A Shares will represent approximately 5.5% of the total FTSE Emerging Index. To put this in context, this could equate to US\$10 billion in net passive inflows of assets under management.

In January 2019, we announced that Waqas Samad would succeed Mark Makepeace as Group Director of the Information Services Division and join LSEG's Executive Committee. Waqas is a natural successor to lead the Information Services Division, including FTSE Russell. He will build on the existing strong business and proven strategy to continue to deliver on our growth expectations for this business, as well as continue to deepen our customer partnership approach. Mark has been a pioneer in the development of the global index industry and FTSE Russell today is a world class global business with more than US\$16 trillion in assets benchmarked to its indices. I would like to thank Mark for his leadership and significant contribution to the Group.

Post Trade Services

Post Trade Services continues to be an area of strategic focus for the Group. In 2018, LSEG increased its majority stake in LCH Group to 82.6%, while also reaffirming its commitment to LCH's customer partnership model. LCH achieved another record year for volumes across its equities, fixed income, and OTC derivatives clearing services driven by the roll-out of new products and the growth of client clearing.

SwapClear remains the largest OTC rates liquidity pool in the world, processing over US\$1 quadrillion in notional volume in 2018. More significantly for its members and customers, over US\$773 trillion was compressed, up 27% on the previous year, enabling customers to save approximately US\$39.5 billion in capital during 2018. SwapClear also expanded its global product offering to include non-deliverable interest rate swaps in Chinese Yuan, Korean Won, and Indian Rupee and LCH was the first CCP to introduce clearing of SOFR swaps in July 2018.

LCH remains well placed to address the capital and margin challenges facing customers in the global FX market. ForexClear continued to expand, clearing over US\$17 trillion in notional, up 54% in 2018. It also helped members compress US\$4.5 billion of cleared notional with its first compression runs. The service successfully launched clearing of deliverable FX Options in July 2018, developed in collaboration with the CLS settlement service.

RepoClear reported the largest nominal amount cleared in the service's history with €197 trillion cleared across LCH Ltd and LCH SA, up 13% from 2017. RepoClear has seen good customer growth with 10 new memberships and over 75 market extensions this year. LCH SA now offers clearing of all euro-denominated debt repo products in line with long-standing member demand to consolidate their European government bond repo clearing activity into one CCP in order to leverage the benefits of T2S. CDSClear also showed significantly increased growth, with a record of €1.2 trillion across its CDS index and single names offering.

In November 2018, LCH SwapAgent further extended its non-cleared derivatives offering and processed its first swaptions trades, adding to its existing cross-currency swap offering. LSEG also acquired a minority c.16% stake in AcadiaSoft, supporting LCH's strategy to expand into the non-cleared space. Alongside LSEG's investment, LCH SwapAgent and AcadiaSoft signed a heads of terms agreement to explore opportunities for new products aimed at automating and standardising the margin process for non-cleared derivatives.

The Group also operates post trade businesses Monte Titoli and CC&G in Italy, as well as UnaVista in the UK which primarily focuses on post trade reporting. In February 2018, CC&G was chosen by CCP Austria to provide technology-driven CCP Clearing and Risk Management services. UnaVista processed an average of 34 million reports per day, as it helped clients meet the new reporting requirements under MiFID II.

In January 2019, LSEG announced the purchase of a 4.9% minority stake in Euroclear which will strengthen our existing operational and commercial relationship to the benefit of our respective customers.

Capital Markets

A strong track record of innovation and an international outlook drive London's capital markets. Despite global macroeconomic uncertainty, our capital markets businesses continue to perform well. London Stock Exchange welcomed over three times more international companies to list on its markets than any other European exchange in 2018. Three out of the five largest IPOs in London in 2018 were from international companies. London Stock Exchange continues to partner with exchanges around the world, including with Shanghai Stock Exchange on Shanghai-London Stock Connect, which aims to directly connect investors and companies from both markets for the first time.

AIM continues to be the leading international growth market, helping companies raise £5.5 billion in new and further issues during the course of 2018. Borsa Italiana helped companies raise €2 billion through listings in 2018 across its markets. The total capitalisation of companies listed on Borsa Italiana was €542 billion, around a third of Italian GDP.

In fixed income, bond listings in London surpassed 2,000 for the first time, raising a total of £347 billion. Multiple debut and landmark international bonds came to London in 2018, including Angola's largest-ever international bond and Fiji's first international sovereign green bond. Reflecting the growing investor demand for green finance, a record 36 green bonds listed in London in 2018, including the largest green bond to list in London to date, the £1.2 billion issue from Industrial and Commercial Bank of China London Branch.

The implementation of MiFID II in January 2018 has begun to benefit our secondary market businesses such as CurveGlobal, MTS and Turquoise as customers adapt to the new regulation. CurveGlobal continues to see good volume growth with open interest at 348,000 lots at the end of 2018 and has started 2019 with a record 350% year-on-year growth in average daily trading volumes as participants look for more efficient alternatives to existing futures platforms.

Group-wide Collaboration

The benefits of the broader Group working more closely together to deliver innovative solutions to our global clients is clear. Working across our businesses, we are able to address many of the regulatory, technological and structural challenges facing our clients and the industry overall. For example, as the market transitions to new global reference rates, both LCH and CurveGlobal have developed complementary innovative products for clients while also addressing a priority for many of our government stakeholders. CurveGlobal has seen good uptake of its SONIA three-month futures contract, while LCH is helping to facilitate a smooth transition to new reference rates offering clearing of swaps for new global benchmarks including SOFR, SONIA and SARON.

We are exploring how our Information Services and LCH teams can work together to identify cross-Group data and analytics opportunities that benefit our customers. We are also using emerging technologies to modernise the processes behind our business safely and efficiently. For example, we are piloting artificial intelligence in our market supervision function, as well as in our FTSE Russell data business. In February 2019, we acquired a small minority stake in Nivaura, a UK-based FinTech specialising in developing end-to-end automation and distributed ledger technology solutions for capital raising and administration. The investment represents an attractive strategic fit for LSEG as we work with partners to explore ways to help companies raise capital in a more efficient and streamlined way.

We are committed to operational excellence and are focused on driving efficiency across the Group through several initiatives, including migration to cloud services for data and processes and the operation of shared service centres. We opened our Bucharest office in 2018, now employing over 100 skilled professionals across technology, data services and corporate functions. The office complements the Group's existing shared services centres in Colombo, Sri Lanka. We are also consolidating real estate, including multiple offices in New York City and Tokyo to drive efficiency and collaboration.

Our broader responsibility

As a global financial markets infrastructure business, LSEG provides critical services to clients around the world. We run businesses that are of systemic importance and recognise that in doing so we hold a privileged position in the financial ecosystem with a broad set of responsibilities to our stakeholders. We engage proactively and positively with governments and regulators around the world in more than 90 countries and maintain licences or other direct regulatory engagement in more than 20 jurisdictions. We are committed to supporting global financial stability and sustainable economic growth by enabling businesses and economies to fund innovation, manage risk and create jobs.

Our core businesses are engaged in activities that directly support this purpose. In Capital Markets, helping high growth companies access capital is fundamental to our aim of promoting innovation and creating jobs. We support SMEs through ELITE, our global educational and capital raising programme for private high growth companies, which now includes over 1,000 companies from 40 countries. ELITE partners with local exchanges around the world to develop the local funding ladder and investor base. In Information Services, FTSE Russell has introduced innovative tools to help support investors' interest and investment in environmental, social and governance (ESG) data factors, for example, launching FTSE Russell's STEP Change report to help drive better global standards in reporting and help companies measure their own performance against peers. In Post Trade Services, LCH plays a critical role supporting global financial stability by reducing risk in financial markets through maximising the number of counterparties that have access to an international liquidity pool, simplifying outstanding exposures and delivering significant cost and margin efficiencies for members and customers.

We also recognise our responsibilities to our people and their professional development, and we continue to support a culture that reflects our values of partnership, innovation, integrity and excellence. In 2018, we introduced our first Group-wide Career Framework, 'Futures', designed to support colleagues in their career progression and facilitate internal mobility across the Group. Our 'Mentoring Exchange' programme was expanded globally to include more than 800 colleagues and 50 colleagues also joined the 30% Club cross-company mentoring scheme in the UK. In 2018, we also signed the 'Time to Change' Employer Pledge, affirming our commitment to support mental wellbeing in the workplace.

Looking forward

Collaboration is a strategic and commercial imperative for LSEG. I firmly believe it will allow us to take the Group to the next level of operational, financial and strategic success. Across the Group's businesses and global locations, we will continue to deepen our partnership approach, delivering innovative products and services that meet the needs of our global customers.

We are mindful of the macroeconomic, technological and regulatory challenges in our industry. We must continue to address an evolving landscape. We are committed to continuing to invest in technology and deliver operational excellence, while investing for growth across our core businesses.

In summary, our strategic vision remains the same – to be the world's leading financial markets partner. Together with LSEG's highly capable and experienced team, I look forward to continuing to focus on the opportunities ahead for our business, investing for growth and driving efficiency, while operating as a unified Group for the benefit of our customers, shareholders and broader stakeholders.

Financial review

The financial review covers the financial year ended 31 December 2018.

Commentary on performance uses variances on a continuing organic and constant currency basis, unless otherwise stated. Constant currency is calculated by rebasing 2017 at 2018 foreign exchange rates. Sub-segmentation of revenues are unaudited and are shown to assist the understanding of performance.

Highlights

- Total income of £2,135 million (2017: £1,955 million) increased by 9% and total revenue of £1,911 million (2017: £1,768 million) increased by 7%
- Adjusted EBITDA¹ of £1,066 million (2017: £915 million) increased by 13%
- Adjusted operating profit¹ of £931 million (2017: £812 million) increased by 11%
- Operating profit of £751 million (2017: £626 million) increased by 14%
- Adjusted basic earnings per share¹ of 173.8 pence (2017: 148.7 pence) increased by 17%
- Basic earnings per share of 138.3 pence (2017: 153.6 pence) decreased by 10%
- Total dividend per share of 60.4 pence (2017: 51.6 pence) increased by 17%

There were no discontinued operations in 2018.

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 EBITDA, adjusted operating profit and adjusted earnings per share all exclude amortisation and impairment of purchased intangible assets and goodwill and non-underlying items

	12 months ended Dec 2018			12 months ended Dec 2017			Variance (Continuing) %	Variance at organic and constant currency ² %
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m		
Revenue								
Information Services	841	–	841	736	–	736	14	9
Post Trade Services – LCH	487	–	487	432	–	432	13	13
Post Trade Services – CC&G and Monte Titoli	102	–	102	109	–	109	(6)	(7)
Capital Markets	407	–	407	391	–	391	4	4
Technology Services	65	–	65	91	–	91	(28)	7
Other	9	–	9	9	–	9	(1)	(2)
Total revenue	1,911	–	1,911	1,768	–	1,768	8	7
Net treasury income through CCP businesses	218	–	218	162	–	162	34	35
Other income	6	–	6	25	–	25	(73)	(73)
Total income	2,135	–	2,135	1,955	–	1,955	9	9
Cost of sales	(227)	–	(227)	(215)	–	(215)	6	16
Gross profit	1,908	–	1,908	1,740	–	1,740	10	8
Operating expenses before depreciation, amortisation and impairment ¹	(834)	–	(834)	(816)	–	(816)	2	2
Share of loss after tax of associates	(8)	–	(8)	(9)	–	(9)	(14)	(14)
Adjusted earnings before interest, tax, depreciation, amortisation and impairment¹	1,066	–	1,066	915	–	915	17	13
Depreciation, amortisation and impairment ¹	(135)	–	(135)	(103)	–	(103)	31	30
Adjusted operating profit¹	931	–	931	812	–	812	15	11
Profit on disposal of business	-	–	-	7	–	7	-	-
Amortisation of purchased intangible assets and non-underlying items	(180)	–	(180)	(193)	(23)	(216)	(6)	(5)
Operating profit	751	–	751	626	(23)	603	20	14

Revenue	12 months ended Dec 2018			12 months ended Dec 2017			Variance (Continuing) %	Variance at organic and constant currency ² %
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m		
Adjusted basic earnings per share¹	173.8p	–	173.8p	148.7p	–	148.7p	17	–
Basic earnings per share	138.3p	–	138.3p	153.6p	(7.2p)	146.4p	(10)	–

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

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

Note: Variances in all tables are calculated from unrounded numbers

Information Services

Revenue	12 months ended Dec 2018	12 months ended Dec 2017	Variance %	Variance at organic and constant currency ¹ %
	£m	£m		
FTSE Russell	631	546	15	8
Real Time Data	94	94	-	(1)
Other Information Services	116	96	22	24
Total revenue	841	736	14	9
Cost of sales	(70)	(62)	13	8
Gross profit	771	674	14	9
Operating expenses before depreciation, amortisation and impairment ²	(302)	(274)	10	–
Earnings before interest, tax, depreciation, amortisation and impairment²	469	400	17	–
Depreciation, amortisation and impairment ²	(29)	(17)	73	–
Operating profit²	440	383	15	–

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

²Operating expenses before depreciation, amortisation and impairment; earnings before interest, tax, depreciation, amortisation and impairment; depreciation, amortisation and impairment; 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 index products, real time pricing data, product identification, reporting and reconciliation services. Revenue was £841 million (2017: £736 million).

FTSE Russell's revenue was £631 million (2017: £546 million). On a reported basis, revenue increased 15%, and growth on an organic and constant currency basis was 8%. This is slightly behind our growth target but nonetheless is a good performance, driven by strong subscription renewal rates and data sales as well as increases in average AUM levels in benchmarked ETFs and other investable products. The year end AUM levels were reduced following weaker global equity market performance in the final quarter, which also had a consequential effect on the FTSE Russell revenue growth rate. FTSE Russell benefitted from a first full year contribution from The Yield Book.

Real Time Data revenue decreased by 1% year on year. The number of terminals decreased by 3% to 174,000 (2017: 180,000) although the revenue impact of this was partially offset by increases in enterprise licensing.

Other Information Services revenues increased by 24%, as a result of growth in UnaVista, SEDOL and LEI issuance. UnaVista growth was driven by user base and volume expansion in regulatory reporting following MiFID II implementation at the beginning of 2018 which also led to an increased demand for LEI issuance. SEDOL growth was driven by continued recurring licence growth.

Cost of sales rose by 8%, mainly as a result of increased data charges and partnership costs, both related to growth in FTSE Russell revenues.

On a reported basis, operating expenses excluding depreciation, amortisation and impairment (D&A) increased by 10% to £302 million (2017: £274 million), and D&A rose 73% to £29 million (2017: £17 million) reflecting a full year contribution of The Yield Book cost base and continued investment to support growth. Operating profit margin expansion on 2017 was partially diluted by the lower margin contribution from The Yield Book. The Group remains on track to achieve cost synergies announced as part of The Yield Book acquisition.

Reported operating profit rose by 15% to £440 million (2017: £383 million).

Post Trade Services – LCH

	12 months ended Dec 2018 £m	12 months ended Dec 2017 £m	Variance %	Variance at constant currency %
Revenue				
OTC	268	231	16	17
Non-OTC	136	133	2	2
Other	83	68	22	21
Total revenue	487	432	13	13
Net treasury income	175	120	45	46
Other income ¹	-	10	-	-
Total income	662	562	18	18
Cost of sales ¹	(123)	(88)	40	39
Gross profit	539	474	14	14
Operating expenses before depreciation, amortisation and impairment ²	(235)	(229)	3	-
Earnings before interest, tax, depreciation, amortisation and impairment²	304	245	24	-
Depreciation, amortisation and impairment ²	(62)	(51)	22	-
Operating profit²	242	194	24	-

¹Pass through of LIBOR data fees Cost of sales has been netted against other income, 2018 FY impact £9m

²Operating expenses before depreciation, amortisation and impairment; earnings before interest, tax, depreciation, amortisation and impairment; depreciation, amortisation and impairment; 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 £662 million (2017: £562 million).

OTC clearing revenue increased by 17%, driven by SwapClear, predominantly in client clearing with trade volume increasing by 21% to 1,487,000 (2017: 1,227,000). ForexClear's launch of FX options clearing in July, the first FX clearing service with connected physical FX settlement, also contributed to growth. 2018 performance is in line with the Group's double-digit growth revenue target for OTC clearing.

Non-OTC clearing revenue increased by 2%, reflecting continued good performance in RepoClear. Clearing in repo and cash bond markets increased 13% to €98.7 trillion (2017: €87.5 trillion).

Other revenue, which includes fees from non-cash collateral management and from compression services, grew by 21%.

Net treasury income increased by 46% to £175 million. The growth reflects a 3% rise in average cash collateral held to €86.7 billion (2017: €84.5 billion), expansion of counterparties and active asset allocation, as well as wider spreads due to the changing interest rate environment, particularly in the US.

Cost of sales increased 39%, mainly due to growth in SwapClear and the associated increase in share of surplus. Gross profit increased by 14% to £539 million.

On a reported basis, operating expenses excluding D&A increased by 3% and D&A increased 22%, driven by investment to support growth.

LCH EBITDA margin increased by 2 percentage points to 46% (2017: 44%), moving towards the target of approaching 50% by 2019.

Reported operating profit increased by 24% to £242 million (2017: £194 million).

Post Trade Services – CC&G and Monte Titoli

	12 months ended Dec 2018 £m	12 months ended Dec 2017 £m	Variance %	Variance at constant currency %
Revenue				
Clearing (CC&G)	41	39	6	5
Settlement, Custody and Other (MT) ¹	61	70	(13)	(14)
Inter-segmental revenue	1	1	(25)	(25)
Total revenue	103	110	(7)	(7)
Net treasury income (CC&G)	43	42	2	1
Total income	146	152	(4)	(5)
Cost of sales ¹	(7)	(17)	(62)	(62)
Gross profit	139	135	3	2
Operating expenses before depreciation, amortisation and impairment ²	(47)	(53)	(10)	–
Earnings before interest, tax, depreciation, amortisation and impairment²	92	82	12	–
Depreciation, amortisation and impairment ²	(9)	(11)	(21)	–
Operating profit²	83	71	17	–

¹ Pass through of T2S costs, cost of sales have now been netted off against Settlement, Custody and Other, 2018 FY impact £10m

² Operating expenses before depreciation, amortisation and impairment; earnings before interest, tax, depreciation, amortisation and impairment; depreciation, amortisation and impairment; 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 £145 million (2017: £151 million).

CC&G clearing revenues increased by 5% due to growth in derivatives clearing volumes, mirroring trading performance on the Italian IDEM market. Monte Titoli revenues decreased by 14%. This headline decline reflects a change in reporting of settlement activity, with revenues and cost of sales for settlement through the T2S system now netted within revenues, amounting to £10 million in 2018 (2017: £10 million). Underlying Monte Titoli revenues were flat year on year.

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 increased by 1% as a result of a wider spread. The average daily initial margin at €11.0 billion is 1% lower than 2017 (2017: €11.1 billion).

Cost of sales decreased by 62% largely due to the change of accounting, netting the cost of T2S settlement within revenues.

On a reported basis, operating expenses excluding D&A decreased by 10% and D&A decreased 21% driven by lower IT costs from efficiency measures combined with the absence of globeSettle costs in 2018 following closure of the business in 2017.

Reported operating profit increased by 17% to £83 million (2017: £71 million).

Capital Markets

	12 months ended Dec 2018 £m	12 months ended Dec 2017 £m	Variance %	Variance at constant currency %
Revenue				
Primary Markets	113	110	3	2
Secondary Markets Equities	169	163	4	4
Secondary Markets – Fixed Income, Derivatives and Other	125	118	6	5
Total revenue	407	391	4	4
Cost of sales	(16)	(16)	(2)	(3)
Gross profit	391	375	4	4
Operating expenses before depreciation, amortisation and impairment ¹	(189)	(181)	4	–
Share of loss after tax of associates	(1)	–	–	–
Earnings before interest, tax, depreciation, amortisation and impairment¹	201	194	4	–
Depreciation, amortisation and impairment ¹	(17)	(14)	18	–
Operating profit¹	184	180	3	–

¹ Operating expenses before depreciation, amortisation and impairment; earnings before interest, tax, depreciation, amortisation and impairment; depreciation, amortisation and impairment; 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 £407 million (2017: £391 million).

Primary Markets revenue remained resilient, despite the impact of Brexit uncertainty and the change in revenue recognition under IFRS 15 which resulted in a reduction of £13 million in the year. The total amount of capital raised across our markets, through both new and further issues, decreased by 35% to £28.7 billion (2017: £44.2 billion). There was a 10% decrease in the number of new issues across our markets to 177 (2017: 196). ETF admissions in the UK have doubled in 2018 reflecting both a spike in activity in Q2 and general growth from 2017, in line with a global trend toward increased passive investment strategies.

In Secondary Markets, the UK average order book daily value traded rose by 9% to £5.8 billion (2017: £5.3 billion) mainly resulting from higher volatility. Italian equity trading volumes increased by 2% mainly driven by increased macroeconomic uncertainty on the Italian market, with 282,000 trades per day (2017: 276,000). Trading on Turquoise, our pan-European equities platform, decreased by 18% with an average daily equity value traded of €3.2 billion (2017: €3.9 billion). Lower performance in Turquoise Lit Book service was partly offset by Turquoise Plato benefitting from an increase in large-in-scale trading activity.

Fixed Income, Derivatives and Other revenue increased by 5%. The positive growth reflects a 6% increase in derivatives volumes on the Italian IDEM market. Fixed Income saw a 13% increase in MTS Repo and a decline of 11% in MTS Cash and BondVision notional value.

Cost of sales decreased by 3%, primarily driven by lower rebates in Turquoise Lit trading.

On a reported basis, operating expenses excluding D&A increased by 4% to £189 million (2017: £181 million) while D&A increased 18% to £17 million (2017: £14 million).

Reported operating profit increased by 3% to £184 million (2017: £180 million).

Technology Services

	12 months ended Dec 2018 £m	12 months ended Dec 2017 £m	Variance %	Variance at organic and constant currency ¹ %
Revenue	65	91	(28)	7
Inter-segmental revenue	21	20	5	9
Total revenue	86	111	(22)	8
Cost of sales	(9)	(29)	(69)	21
Gross profit	77	82	(6)	6
Operating expenses before depreciation, amortisation and impairment ²	(59)	(77)	(23)	–
Earnings before interest, tax, depreciation, amortisation and impairment²	18	5	–	–
Depreciation, amortisation and impairment ²	(20)	(7)	–	–
Operating profit / (loss)²	(2)	(2)	(16)	–

¹Organic growth is calculated in respect of businesses owned for at least 12 months in either period and so excludes Exactpro and MillenniumIT ESP

²Operating expenses before depreciation, amortisation and impairment; earnings before interest, tax, depreciation, amortisation and impairment; depreciation, amortisation and impairment; and operating profit / (loss) 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 server location solutions, client connectivity and software products for the Group and third parties. Third party revenue was £65 million (2017: £91 million).

Revenue increased by 7%, driven by an expanding product suite and higher sales volumes.

On a reported basis, operating expenses excluding D&A decreased by 23% to £59 million (2017: £77 million), and D&A increased from £7 million in 2017 to £20 million, driven by continued Group technology investment and centralisation of costs.

The Technology segment made a reported loss of £2 million (2017: £2 million loss).

Operating Expenses

Group operating expenses (including D&A) before amortisation of purchased intangible assets and non-underlying items, were £969 million (2017: £919 million).

Operating expenses increased by 6%. While this is higher than our target of 4%, expenses excluding D&A were well controlled, increasing by only 2% to £834 million (2017: £816 million), primarily driven by IT costs and property costs as the Group continues to invest in new products, information security and infrastructure enhancements to support growth. D&A increased by 30% to £135 million in 2018 (2017: £103 million), reflecting investment in new products and efficiency projects. D&A costs will continue to increase in 2019 as a result of the Group's continued investment. D&A costs will also increase on the adoption of IFRS 16, which requires the Group to recognise lease amounts on the balance sheet and amortise the right to use the asset, rather than reporting lease expenses as operating costs. Consequently, we expect D&A to increase to c.£195 million for 2019. Inorganic expenses increased by 83% to £23 million with a full year's recognition of The Yield Book costs, offset by the absence of disposed businesses: ISPS, MillenniumIT ESP and Exactpro. The Group remains on track to achieve cost synergies announced as part of The Yield Book acquisition.

In 2019, the Group will implement a headcount programme to drive further integration, remove role duplication, reduce number of contractors and continue to invest in lower cost centres. This will affect a net c.5% of global headcount (net c.250 employees) and generate a run-rate cost saving of c.£30 million per annum. There will be a one-off cost to implement the programme in 2019 of c.£30 million.

Share of Loss after Tax of Associates

The £8 million loss primarily reflects the Group's 43.38% minority share of the operating loss of CurveGlobal. CurveGlobal volumes continued to grow and open interest at the end of 2018 was up 115%, to 348,000 contracts (2017: 162,000 contracts). The Group recognised a further £1 million share of loss on the Group's share of the HUB Exchange funding platform, which is currently still in a start-up phase.

Non-underlying Items

Non-underlying items before tax decreased by £6 million to £180 million (2017: £186 million). Non-underlying items in 2018 included amortisation of purchased intangible assets of £154 million (2017: £153 million) and £5 million of asset write-offs as these were no longer required following the integration of The Yield Book into the Group. Other non-underlying items included £9 million of transaction-related costs (2017: £25 million) and £12 million of integration costs (2017: £8 million).

Finance Income and Expense and Taxation

Net finance costs were £66 million, up £4 million on the prior year. IFRS 16 changes will add £4 million to net finance costs in 2019. In October 2019 a £250 million bond with a coupon of 9.125% per annum is due for repayment.

The effective tax rate ('ETR') for the year in respect of continuing underlying operations and including the effect of prior year adjustments, is 21.6% (2017: 22.4%). This reflects the continued reductions in the UK statutory rate, reduction in the impact of Italian tax on intercompany dividends, the mix of profits in the Group and finalisation of prior year tax returns.

The underlying ETR for 2018 excluding prior year adjustments was 21.9% (2017: 23.4%). Assuming a similar mix of profits, the ETR for 2019 is likely to remain consistent with 2018 at c.22%.

Cash Flow and Balance Sheet

The Group's business continued to be strongly cash generative during the year, with cash generated from operations of £969 million (2017: £852 million).

At 31 December 2018, the Group had net assets of £3,698 million (2017: £3,752 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	2018 £m	2017 £m
Gross borrowings	2,203	1,953
Cash and cash equivalents	(1,510)	(1,381)
Net derivative financial liabilities	47	25
Net debt	740	597
Regulatory and operational cash	1,120	1,042
Operating net debt	1,860	1,639

At 31 December 2018, the Group had operating net debt of £1,860 million after setting aside £1,120 million of cash and cash equivalents held to support regulatory and operational requirements, including cash and cash equivalents at LCH Group, and amounts covering regulatory requirements at other LSEG companies. The total capital amounts have increased year on year reflecting strong cash generation at regulated entities and to meet the requirements of MiFID II regulations and IFRS 15 accounting standards.

The Group's operating net debt increased primarily due to the purchase of additional shares in LCH Group and continued organic investment in the Group's businesses.

In February 2018, the Group commenced issuance under its newly arranged £1 billion Euro Commercial Paper Programme, further diversifying its sources of liquidity and reducing borrowing costs. Outstanding issuances at 31 December 2018 of €300 million (£270 million) have short dated maturities and may be reissued upon maturity in line with the Group's liquidity requirements.

In December 2018, the Company issued a €500 million bond under its updated £2.5 billion Euro Medium Term Notes Programme further extending its debt maturity profile. The bond is unsecured and due for repayment in December 2027. Interest is paid annually in arrears in December each year. The coupon on the bond is fixed at 1.75% per annum.

The Group retained total committed bank facilities of £1.2 billion during the financial year. The maturity of the 5 year £600 million facility arranged in December 2017 was extended during the period for a year to December 2023, with a further 1 year extension option available to the Group, subject to lender approval. The Group continues to be well positioned to fund future growth. Strong cash generation combined with over £880 million of undrawn committed bank lines (after taking into account committed, swingline backstop coverage for the €300 million euro commercial paper in issuance) as at 31 December 2018, and scope for further refinancing in 2019 and beyond, has underpinned the Group's debt capital base and bolstered its financial flexibility.

The Group's interest cover, the coverage of net finance expense by EBITDA (consolidated earnings before net finance charges, taxation, impairment, depreciation and amortisation, foreign exchange gains or losses and non-underlying items), increased to 16.1 times in the 12 months to 31 December 2018 (31 December 2017: 15.5 times) reflecting stronger earnings. Net leverage (operating net debt to EBITDA updated to account for the EBITDA of acquisitions or disposals undertaken in the period) increased to 1.8 times at 31 December 2018 (31 December 2017: 1.7 times) but remains within the Group's targeted range of 1-2 times.

The Group's long-term credit ratings remained at A3 and A- with Moody's and S&P respectively, with Moody's maintaining its outlook as stable and S&P raising its outlook to positive on the back of improved business diversification into fast growing market segments, strong cashflow generation and improving margins.

In respect of pension liabilities, during the year an Alternative Funding Framework was agreed by the Board and Trustee – to achieve self-sufficiency of UK Defined Benefit pension schemes by 2023 through increased contributions, investment de-risking and liability management, providing greater security for members.

Foreign exchange

	2018	2017
Spot £/€ rate at 31 December	1.11	1.12
Spot £/US\$ rate at 31 December	1.27	1.35
Average £/€ rate for the year	1.13	1.14
Average £/US\$ rate for the year	1.34	1.29

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 2018, the main exposures for the Group were its European based Euro reporting businesses and its US based operations, principally Russell Indexes, 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 operating profit for the year before amortisation of purchased intangible assets and non-underlying items by approximately £25 million and £29 million, respectively.

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

Earnings per share

The Group delivered a 17% increase in adjusted basic earnings per share, which excludes amortisation of purchased intangible assets and non-underlying items, to 173.8 pence (2017: 148.7 pence). Basic earnings per share were 138.3 pence (2017: 146.4 pence).

Dividend

The Board is proposing a final dividend of 43.2 pence per share, which together with the interim dividend of 17.2 pence per share paid to shareholders in September 2018, results in a 17% increase in the total dividend to 60.4 pence per share. The final dividend will be paid on 29 May 2019 to shareholders on the register as at 3 May 2019.

Financial Targets

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

While there has been, and will continue to be, a strong focus on cost discipline, the Group no longer expects to achieve the target 4% CAGR increase in operating expenses (including D&A) for 2017-19, due to the ongoing investment in the Group to support growth and efficiency. As a result, and despite good momentum towards achievement, the Group does not expect to meet the target Group EBITDA margin of c.55% in 2019. The other targets in respect of revenue growth at LCH OTC clearing and FTSE Russell, as well as the EBITDA margin for LCH, remain in place for 2019.

Financial Targets to 2019		Update
FTSE Russell	Double-digit growth to continue	2018: Up 15% on a reported basis; up 8% on an organic and constant currency basis
	Sustainable and attractive margins over the same period	
LCH	Double-digit OTC revenue growth to continue	2018: Up 16% on a reported basis; up 17% on an organic and constant currency basis
	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	2018: 6% on an organic and constant currency basis. <ul style="list-style-type: none"> 4% target includes depreciation which is expected to grow further, so target is not achievable in 2019 if we continue to invest Excluding depreciation, we will achieve the target in 2019
	EBITDA margin of c.55%	2018: 49.9% <ul style="list-style-type: none"> Margin improvement remains a focus; prioritisation of investment means target unlikely to be met in 2019

Capital Management Framework

The Group has reviewed its Capital Management Framework, which remains broadly unchanged (shown below). The Group continues to focus on maintaining a prudent balance sheet while also continuing to deploy capital for select organic and inorganic investments. Returns to shareholders, including share buy-backs, will continue to be kept under review.

<p>Prudent Balance Sheet management Maintain existing leverage target of 1.0-2.0x Net Debt / EBITDA</p>	<p>Flexibility to operate within this range for normal investment / development and to go above this range in the short term for compelling strategic opportunities</p> <p>Manage credit rating, debt profile, and regulatory requirements</p>
<p>Investment for growth Preserve flexibility to pursue growth both organically and through 'bolt-on'/strategic M&A</p>	<p>Selective inorganic investment opportunities - meeting high internal hurdles</p> <p>Continued organic investments</p>
<p>Ordinary dividend policy Progressive ordinary dividend policy</p>	<p>Progressive dividend - reflects confidence in strong future financial position</p> <p>Operating in target 2.5-3.0x dividend cover range</p> <p>Interim dividend payment of 1/3 of prior full year dividend results</p>
<p>Other capital returns</p>	<p>Continue to keep other returns under review</p>

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

	Notes	2018			2017		
		Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
Continuing operations							
Revenue	4	1,911	-	1,911	1,768	-	1,768
Net treasury income through CCP business	4	218	-	218	162	-	162
Other income	4	6	-	6	25	-	25
Total income		2,135	-	2,135	1,955	-	1,955
Cost of sales	4	(227)	-	(227)	(215)	-	(215)
Gross profit		1,908	-	1,908	1,740	-	1,740
Expenses							
Operating expenses before depreciation, amortisation and impairment	5, 7	(834)	(21)	(855)	(816)	(40)	(856)
Profit on disposal of businesses	7	-	-	-	-	7	7
Share of loss after tax of associates	4	(8)	-	(8)	(9)	-	(9)
Earnings before interest, tax, depreciation, amortisation and impairment		1,066	(21)	1,045	915	(33)	882
Depreciation, amortisation and impairment	5, 7	(135)	(159)	(294)	(103)	(153)	(256)
Operating profit/(loss)		931	(180)	751	812	(186)	626
Finance income		13	-	13	8	-	8
Finance expense		(79)	-	(79)	(70)	-	(70)
Net finance expense	8	(66)	-	(66)	(62)	-	(62)
Profit/(loss) before tax from continuing operations		865	(180)	685	750	(186)	564
Taxation	9	(187)	55	(132)	(168)	190	22
Profit/(loss) for the year from continuing operations		678	(125)	553	582	4	586
Discontinued operations							
Loss after tax for the year from discontinued operations	10	-	-	-	-	(25)	(25)
Profit/(loss) for the year		678	(125)	553	582	(21)	561
Equity holders							
Profit/(loss) for the year from continuing operations		603	(123)	480	513	17	530
Loss profit for the year from discontinued operations	10	-	-	-	-	(25)	(25)
Profit/(loss) for the year attributable to equity holders		603	(123)	480	513	(8)	505

Non-controlling interests

Profit/(loss) for the year attributable to non-controlling interests from continuing operations	75	(2)	73	69	(13)	56
Profit/(loss) for the year attributable to non-controlling interests	75	(2)	73	69	(13)	56
	678	(125)	553	582	(21)	561

Earnings per share attributable to equity holders

Basic earnings per share	11		138.3p			146.4p
Diluted earnings per share	11		136.0p			143.0p
Adjusted basic earnings per share	11		173.8p			148.7p
Adjusted diluted earnings per share	11		170.8p			145.3p

Earnings per share for continuing operations attributable to equity holders

Basic earnings per share	11		138.3p			153.6p
Diluted earnings per share	11		136.0p			150.1p
Adjusted basic earnings per share	11		173.8p			148.7p
Adjusted diluted earnings per share	11		170.8p			145.3p

Dividend per share in respect of the financial year

Dividend per share paid during the year	12		17.2p			14.4p
Dividend per share declared for the year	12		43.2p			37.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 £m	2017 £m
Profit for the financial year		553	561
Other comprehensive income/(loss):			
Items that will not be subsequently reclassified to profit or loss			
Defined benefit pension scheme remeasurement (loss)/gain		(12)	93
Income tax relating to these items	9	5	(25)
		(7)	68
Items that may be subsequently reclassified to profit or loss			
Net investment hedges		(55)	3
<u>Debt instruments at fair value through other comprehensive income:</u>			
- Net loss from changes in fair value		(21)	-
- Net gains reclassified to the consolidated income statement on disposal		4	-
<u>Investments in equity instruments under IAS 39:</u>			
- Net gain from changes in fair value		-	1
- Net gains reclassified to the consolidated income statement on disposal		-	(8)
Exchange gain/(loss) on translation of foreign operations		168	(64)
Income tax relating to these items	9	4	2
		100	(66)
Other comprehensive gains net of tax		93	2
Total comprehensive income for the financial year		646	563
Attributable to non-controlling interests		74	81
Attributable to equity holders		572	482
Total comprehensive income for the financial year		646	563

CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Notes	2018 £m	2017 £m (revised) ¹
Assets			
Non-current assets			
Property, plant and equipment		149	129
Intangible assets	13	4,687	4,589
Investment in associates		25	5
Deferred tax assets		42	38
Derivative financial instruments	14	-	4
Investments in financial assets	14	31	86
Retirement benefit asset		46	56
Other non-current receivables	14	30	55
Contract assets	14	3	-
		5,013	4,962
Current assets			
Trade and other receivables	14	644	689
Contract assets	14	141	-
Clearing member financial assets		764,411	673,354
Clearing member cash and cash equivalents		70,927	61,443
Clearing member business assets	14	835,338	734,797
Current tax		147	126
Investments in financial assets	14	53	19
Cash and cash equivalents	14	1,510	1,381
		837,833	737,012
Assets held for sale	10	-	6
Total assets		842,846	741,980
Liabilities			
Current liabilities			
Trade and other payables	14	538	598
Contract liabilities		153	-
Derivative financial instruments	14	30	-
Clearing member business liabilities	14	835,508	734,981
Current tax		61	70
Borrowings	14, 15	561	522
Provisions		2	1
		836,853	736,172
Non-current liabilities			
Borrowings	14, 15	1,642	1,431
Derivative financial instruments	14	17	29
Contract liabilities		118	-
Deferred tax liabilities		475	502
Retirement benefit obligations		22	36
Other non-current payables	14	11	49
Provisions		10	9
		2,295	2,056
Total liabilities		839,148	738,228
Net assets		3,698	3,752

Equity

Capital and reserves attributable to the Company's equity holders

Ordinary share capital	17	24	24
Share premium	17	965	964
Retained earnings		424	419
Other reserves		1,930	1,820
Total shareholders' funds		3,343	3,227
Non-controlling interests		355	525
Total equity		3,698	3,752

¹ The 31 December 2017 comparatives have been revised for IFRS 3 fair value adjustments on the acquisition of the Yield Book business. Refer to Note 13 for further details.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flow from operating activities			
Cash generated from operations	18	969	852
Interest received		3	6
Interest paid		(76)	(66)
Royalties paid		(2)	-
Corporation tax paid		(173)	(130)
Withholding tax received/(paid)		1	(3)
Net cash inflow from operating activities		722	659
Cash flow from investing activities			
Purchase of property, plant and equipment		(50)	(47)
Purchase of intangible assets	13	(144)	(143)
Proceeds from sale of businesses	7, 10	58	14
Cash disposed as part of the sale of businesses		(2)	(5)
Acquisition of businesses		3	(644)
Cash inflow from acquisition of businesses		-	4
Investment in associates		(28)	(2)
Proceeds from the disposal of financial assets		-	7
Investment in financial assets		-	(5)
Net cash outflow from investing activities		(163)	(821)
Cash flow from financing activities			
Dividends paid to shareholders	12	(189)	(159)
Dividends paid to non-controlling interests		(42)	(19)
Purchase of treasury shares relating to share buyback		-	(201)
Redemption of preferred securities		-	(157)
Acquisition of non-controlling interests		(452)	(111)
Proceeds from investment by non-controlling interest		-	12
Purchase of own shares by the employee benefit trust		(4)	(26)
Proceeds from exercise of employee share options		7	2
Proceeds from the issue of bonds		445	885
Arrangement fee paid		(4)	(3)
Proceeds from the issue of commercial paper		255	-
Repayments made towards bank credit facilities		(489)	(87)
Additional drawdowns from bank credit facilities		-	242
Repayments of finance lease		(2)	-
Net cash (outflow)/inflow from financing activities		(475)	378
Increase in cash and cash equivalents		84	216
Cash and cash equivalents at beginning of year		1,382	1,151
Exchange gain on cash and cash equivalents		44	15
Cash and cash equivalents at end of year		1,510	1,382
<hr/>			
Cash and cash equivalents at end of year from continuing operations	14	1,510	1,381
Cash and cash equivalents classified as held for sale		-	1
Cash and cash equivalents at end of year		1,510	1,382

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 2018

	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 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 17)	-	3	-	-	3	-	3
Final dividend relating to the year ended 31 December 2016 (Note 12)	-	-	(109)	-	(109)	-	(109)
Interim dividend relating to the year ended 31 December 2017 (Note 12)	-	-	(50)	-	(50)	-	(50)
Dividend payments to non-controlling interests	-	-	-	-	-	(19)	(19)
Employee share scheme expenses	-	-	11	-	11	-	11
Tax in relation to employee share scheme expenses	-	-	12	-	12	-	12
Purchase of non-controlling interest within acquired subsidiary	-	-	(21)	-	(21)	(89)	(110)
Purchase by non-controlling interest	-	-	(36)	-	(36)	44	8
Share buyback	-	-	(201)	-	(201)	-	(201)
Disposal of business	-	-	-	30	30	-	30
31 December 2017 (as previously presented)	24	964	419	1,820	3,227	525	3,752
Impact of adopting new accounting standards (Note 2)	-	-	(95)	-	(95)	-	(95)
1 January 2018 (restated)	24	964	324	1,820	3,132	525	3,657
Profit for the year	-	-	480	-	480	73	553
Other comprehensive (loss)/income for the year	-	-	(18)	110	92	1	93
Issue of shares (Note 17)	-	1	-	-	1	-	1
Final dividend relating to the year ended 31 December 2017 (Note 12)	-	-	(129)	-	(129)	-	(129)
Interim dividend relating to the year ended 31 December 2018 (Note 12)	-	-	(60)	-	(60)	-	(60)
Dividend payments to non-controlling interests	-	-	-	-	-	(42)	(42)
Employee share scheme expenses	-	-	38	-	38	-	38
Tax in relation to employee share scheme expenses	-	-	7	-	7	-	7
Purchase of non-controlling interest within acquired subsidiary	-	-	(218)	-	(218)	(202)	(420)
31 December 2018	24	965	424	1,930	3,343	355	3,698

Shares held in the Employee Benefit Trust to settle exercises on employee share awards were 573,672 (2017: 944,495).

Employee share scheme expenses include costs related to the issue and purchase of own shares for employee share schemes of £(4) million (2017: £(29) million), subscriptions, net of sundry costs, received on the vesting of employee share schemes of £6 million (2017: £2 million) and equity-settled share scheme expenses for the year of £36 million (2017: £38 million).

Purchase of non-controlling interests in the year relates to the acquisition of shareholdings in LCH Group and FTSE TMX Global Debt Capital Markets Limited. The consideration transferred in relation to the LCH Group transaction was £413 million cash and resulted in the Group recognising an additional £195 million interest attributable to its equity holders. The consideration transferred in relation to FTSE TMX Global Debt Capital Markets Limited was £39 million cash and resulted in the Group recognising an additional £39 million interest attributable to its equity holders.

During the prior year the Group completed the purchase of shareholdings from non-controlling equity holders in a number of the Group's subsidiaries, notably the LCH Group, MTS S.p.A. and Gatelab S.r.l..

Other reserves comprise the following:

Merger reserve of £1,305 million (2017: £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 (2017: £514 million), a reserve set up as a result of a court approved capital reduction.

Reverse acquisition reserve of £(512) million (2017: £(512) million), a reserve arising on consolidation as a result of the capital reduction scheme.

Foreign exchange translation reserve of £740 million (2017: £575 million), a reserve reflecting the impact of foreign currency changes on the translation of foreign operations.

Hedging reserve of £(117) million (2017: £(62) 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 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.

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. 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 standards and amendments were endorsed by the EU and have been adopted in these financial statements:

- IFRS 9, 'Financial instruments' on classification and measurement and amendments regarding general hedge accounting
- IFRS 15, 'Revenue from contracts with customers'
- Amendment to IFRS 2, 'Share-based payment' on classification and measurement of share-based payment transactions
- IFRIC 22, 'Foreign currency transactions and advance consideration'

The impact of adopting IFRS 9 and IFRS 15 on the Group's financial results is described in detail in Note 2. The adoption of the other standards did not have a material impact on the results of the Group.

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) and IFRIC, but have not been adopted either because they were not endorsed by the EU at 31 December 2018 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
IFRS 16, 'Leases'	1 January 2019
IFRIC 23, 'Uncertainty over Income Tax Treatments'	1 January 2019
Amendments to IAS 28, 'Long-term interest in Associates and Joint Ventures'	1 January 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	1 January 2019
Amendments to IFRS 9, 'Prepayment features with negative compensation'	1 January 2019
IFRS 17, 'Insurance Contracts'	1 January 2021

With the exception of IFRS 16, the changes in the other standards are not expected to have a material effect on the Group.

IFRS 16 Leases

IFRS 16 Leases is effective for the year ending 31 December 2019 and will require all lease amounts to be recognised on the balance sheet. Currently, IAS 17 Leases only requires lease amounts categorised as finance leases to be recognised on the balance sheet, with leases categorised as operating leases not recognised. The Group expects to recognise right of use assets of £145 million, and investment in lease assets of £3 million and corresponding lease liabilities of £190 million on 1 January 2019 in relation to property leases. Differences of £42 million between the leased assets and liabilities will be recognised in opening reserves on transition to the new standard.

Amounts previously recognised in operating expenses in relation to lease expenses will be recognised as a combination of depreciation and lease interest expense. This will affect earnings before interest, tax, depreciation and amortisation and impairment (EBITDA) and profit before tax on adoption. The expected impact is as follows:

Estimated effect on the income statement	Increase/(decrease)	Description
Operating expenses before depreciation, amortisation and impairment	(31)	Amounts formerly recognised as rent
Earnings before interest, tax, depreciation, amortisation and impairment	31	
Depreciation	26	Depreciation of the right of use asset
Finance expense	4	Finance expense on lease liabilities
Finance income	-	Finance income on investment in lease
Depreciation and net finance expense	30	
Profit before tax	1	Net effect on profit
Estimated effect on the balance sheet		
Right of use asset	145	Net book value of right of use assets
Investment in lease	3	Present value of future rent receipts
Total assets	148	
Lease liabilities	190	Present value of future lease obligations
Total liabilities	190	
Net assets	(42)	Net effect on net assets
Retained earnings	(42)	
Total equity	(42)	Opening balance adjustment on adoption
Basic and adjusted earnings per share	0.3p	

Costs relating to items that do not qualify as leased assets under the new standard because they are short-term arrangements or low value items will continue to be recognised in operating expenses.

2. Adoption of new accounting standards and interpretations

On 1 January 2018, the Group adopted IFRS 15 'Revenue from contracts with customers' (IFRS 15) and IFRS 9 'Financial instruments' (IFRS 9). The impact of adopting the new standards has been reflected through transition adjustments to the Group's opening retained earnings at the start of the current year, as presented in the consolidated statement of changes in equity. The table below provides a summary of the impact at the date of transition:

	Note	As previously reported 31 December 2017 £m	Transition adjustments				After adoption 1 January 2018 £m
			IFRS 15 Capital Markets - Revenue £m	IFRS 15 Contract costs £m	IFRS 15 Other ¹ £m	IFRS 9 £m	
Intangible assets (revised) ²	13	4,589	-	12	-	-	4,601
Trade and other receivables (revised) ²		689	-	-	-	10	699
Deferred tax assets		38	27	-	-	-	65
Accrued income		156	-	-	(156)	-	-
Contract assets		-	-	-	156	-	156
Other assets		736,508	-	-	-	-	736,508
Total assets		741,980	27	12	-	10	742,029
Deferred income		104	-	-	(104)	-	-
Contract liabilities		-	139	-	104	1	244
Deferred tax liabilities		502	-	2	-	2	506
Other liabilities		737,622	-	-	-	-	737,622
Total liabilities		738,228	139	2	-	3	738,372
Share capital, share premium and other reserves		2,808	-	-	-	-	2,808
Retained earnings		419	(112)	10	-	7	324
Non-controlling interests		525	-	-	-	-	525
Total equity		3,752	(112)	10	-	7	3,657

¹ Under IFRS 15, accrued income and deferred income are now referred to as 'contract assets' and 'contract liabilities' respectively, and are presented as separate line items on the face of the Group's consolidated balance sheet.

² The 31 December 2017 comparatives have been revised for IFRS 3 fair value adjustments on the acquisition of the Yield Book business.

Further details on the impact of each of the new accounting standards is provided below.

IFRS 15 Revenue from contracts with customers – impact of adoption

The Group adopted IFRS 15 with effect from 1 January 2018. This new accounting standard requires the Group to recognise revenue when the Group transfers promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The new guidance requires more detailed revenue disclosures and policies to identify the Group's performance obligations to customers.

The Group has adopted IFRS 15 prospectively from 1 January 2018 under the modified retrospective approach, and consequently the comparative amounts in the Group's consolidated financial statements remain unchanged and are reported under IAS 18 'Revenue' (IAS 18). As permitted by IFRS 15, the Group applied the new standard to contracts that were not completed as at the 1 January 2018 transition date.

IFRS 15 has impacted the Group's consolidated financial statements from 1 January 2018 in the following ways:

Capital Markets - Revenue

In the period since issuing its Interim Report on 2 August 2018, the Group received clarification guidance from the IFRIC regarding the impact of adopting IFRS 15 on admission and listing services provided by the Group's Primary Markets businesses, within the Capital Markets segment. Under IAS 18, initial admission fees were recognised at the time of admission to trading. On conversion to IFRS 15, with the effect back dated to 1 January 2018, the Group treats the initial admission and the ongoing listing service as one performance obligation and recognises revenue from initial admissions and further issues over the period the Group provides the listing service. This is estimated to be between 12 and 4 years dependent on the nature of the listing and the service provided. As a result the Group recorded a £112 million adjustment to opening retained earnings as at 1 January 2018, as presented in the consolidated statement of changes in equity comprising a £139 million increase in the total contract liabilities, representing admission fee revenues previously recognised as revenue prior to transition which are now deferred, and a consequential £27 million increase in deferred tax assets.

Revenues deferred as at 1 January 2018 result in a recovery of tax paid at the prevailing rate on adoption of IFRS 15 by means of a reduction in the corporation tax payable due to the relevant tax authorities. The Group will subsequently incur corporation tax charge as the deferred revenues from initial admission and further issue fees are recognised in the income statement.

All new and further listing fees will continue to be billed and the cash collected upfront. In the first year of adoption of IFRS 15, the Group's cash and cash equivalent position will incrementally benefit from a reduction in corporation tax payable to the relevant tax authorities than what would have otherwise been payable had the new accounting standard not been adopted.

Contract costs

The adoption of the new standard required the Group's incremental sales commission costs that were previously expensed when incurred, to be capitalised when they are expected to be recovered. The capitalised contract costs are amortised over the period from which a customer benefits from existing software technology supporting the underlying product or service, which the Group has determined to be between 3 to 5 years. As a result the Group recorded a £10 million adjustment to opening retained earnings as at 1 January 2018, as presented in the consolidated statement of changes in equity comprising a £12 million increase in the intangible assets from capitalising sales commissions previously expensed prior to transition, and a consequential £2 million increase in deferred tax liabilities.

The table below shows the amounts by which the Group's financial statements are affected as at and for the year ended 31 December 2018 as a result of adopting IFRS 15.

Year ended 31 December 2018

Effect on the income statement	IFRS 15 reported £m	Capital Markets -	Contract costs £m	IAS 18 £m
		Revenue £m		
Total income	2,135	13	-	2,148
Cost of sales	(227)	-	-	(227)
Gross profit	1,908	13	-	1,921
Operating expenses before depreciation, non-acquisition software amortisation, and impairment	(855)	-	(10)	(865)
Depreciation, non-acquisition software amortisation and impairment	(294)	-	6	(288)
Operating profit/(loss)	751	13	(4)	760
Net finance expense	(66)	-	-	(66)
Profit/(loss) before tax	685	13	(4)	694
Taxation	(132)	(2)	1	(133)
Profit/(loss) for the year	553	11	(3)	561

At 31 December 2018

Effect on the balance sheet	IFRS 15 reported £m	Capital Markets -	Contract costs £m	IAS 18 £m
		Revenue £m		
Intangible asset	4,687	-	(16)	4,671
Current tax	147	(29)	2	120
Other assets	838,012	-	-	838,012
Total assets	842,846	(29)	(14)	842,803
Contract liabilities	271	(152)	-	119
Deferred tax liabilities	475	-	(1)	474
Other liabilities	838,402	-	-	838,402
Total liabilities	839,148	(152)	(1)	838,995
Share capital, share premium and other reserves	2,919	-	-	2,919
Retained earnings	424	123	(13)	534
Non-controlling interests	355	-	-	355
Total equity	3,698	123	(13)	3,808

Year ended 31 December 2018

Effect on the earnings per share attributable to equity holders	IFRS 15 reported	Capital Markets -	Contract costs	IAS 18
		Revenue		
Basic earnings per share	138.3p	3.2p	(0.9p)	140.6p
Diluted earnings per share	136.0p	3.1p	(0.8p)	138.3p
Adjusted basic earnings per share	173.8p	3.2p	(0.9p)	176.1p
Adjusted diluted earnings per share	170.8p	3.1p	(0.8p)	173.1p

IFRS 9 Financial instruments – impact of adoption

On 1 January 2018 the Group adopted IFRS 9 'Financial instruments' and applied the standard retrospectively. The Group has elected to continue to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement'.

The Group has not restated comparative amounts in the financial statements, as this would require the use of hindsight in factors influencing measurement such as fair values and expected credit loss calculations and therefore is prohibited by the standard. Instead the Group has recognised any differences between the carrying amounts measured in accordance with IFRS 9 at the date of transition with previously reported carrying amounts in the opening retained earnings of the current period. This has resulted in a £7 million adjustment to opening retained earnings as at 1 January 2018, as presented in the consolidated statement of changes in equity. This comprises a £10 million reduction in the provision for impairment of trade receivables and a £1 million reversal of contract liabilities (prior to the adoption of IFRS 15 referred to as 'deferred income') previously provided for as the Group modified its previous impairment model to an expected credit loss approach which takes into account historic collection rates as well as forward-looking information, and a consequential £2 million increase in deferred tax liability.

Amounts presented in the Group's consolidated financial statements as at 31 December 2017 have been updated to adopt the new terminology under IFRS 9. The previously reported 'loans and receivables' and 'available for sale at fair value through other comprehensive income' categories are now referred to as 'financial assets at amortised cost' and 'financial assets at fair value through other comprehensive income' ('FVOCI') respectively in Note 14.

The new standard requires financial instruments to be classified as fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) or amortised cost, each of which are explained further below. The classification depends on the Group's business model for managing its financial instruments and whether the cash flows generated are 'solely payments of principal and interest' (SPPI).

- *Financial assets at amortised cost* are assets that are held to collect the contractual cash flows (solely payments of principal and interest); this includes the Group's cash and cash equivalents and trade and other receivables. Clearing member trading balances relating to sale and buy-back transactions and other receivables from clearing members within the Central Counterparty (CCP) businesses also fall within this category. At the date of transition, £164,906 million previously reported as loans and receivables are now referred to as financial assets at amortised cost.
- *Financial assets at fair value through other comprehensive income (FVOCI)* are assets used by the business mainly to collect the contractual cash flows, but also to be sold from time to time. This category includes investments in financial assets and quoted debt instruments (predominantly government bonds) held by the CCP businesses. Previously these assets were classified as either 'available for sale at FVOCI' or 'FVPL'. At the date of transition, £3,652 million of other financial assets of the CCP clearing businesses previously designated as FVPL were reclassified as FVOCI with no change in valuation, and £18,541 million of assets previously designated as available for sale at FVOCI are now referred to as FVOCI with no change in valuation. Any profit or loss recognised in other comprehensive income on debt instruments is recycled to the income statement if the asset is sold. Any profit or loss on an equity investment remains in other comprehensive income and is not recycled.
- *Financial assets at fair value through profit or loss (FVPL)* are either assets that are designated as FVPL on recognition, or that are traded on a regular basis. This category includes derivative instruments held by the Group and CCP clearing member trading balances comprising derivatives, equity and debt instruments that are marked to market on a daily basis. There is no change to the previous treatment for these instruments. At the date of transition £549,891 million of assets remained as FVPL.
- *Financial liabilities at amortised cost* are all financial liabilities that are not included within financial liabilities at FVPL. This comprises the Group's trade and other payables balances and borrowings as well as clearing member trading balances related to sale and buy back transactions and other payables to clearing members. There was no change on the previous treatment for these instruments.
- *Financial liabilities at fair value through profit or loss (FVPL)* includes all the CCP clearing member trading balances, comprising derivatives, equity and debt instruments, which are marked to market on a daily basis, along with any derivative instruments held by the Group. There was no change to the previous treatment for these instruments.

IFRS 9 adopts a new approach to calculating impairment losses on financial instruments, with the Group required to adopt a forward-looking approach to estimate expected credit losses (ECLs). ECLs are based on the difference between the contractual cash flows due and the expected cash flows, the difference is then discounted at the asset's original effective interest rate. The impact of the new approach on the Group's financial statements is as follows:

- *Financial assets at amortised cost* – the ECL for trade receivables, contract assets and cash and cash equivalents is calculated using IFRS 9's simplified approach using lifetime ECL. The new provision is calculated using an expected loss matrix which has been developed using the Group's historic experience of collection rates, adjusted for forward looking factors specific to each counterparty and the economic environment at large. Applying this approach to the trade receivables as at 31 December 2017 created a lower provision than previously recognised: accordingly a £7 million net of tax credit to the opening reserves has been recognised in the consolidated statement of changes in equity. There is no expected loss on cash and cash equivalents on transition to the new standard.
- *Financial assets held at FVOCI* – the Group's financial assets held at FVOCI are largely held by the CCP businesses and consist of high quality government bonds that have a low credit risk. The Group's policy is to calculate a 12 month ECL on these assets. If there is a significant increase in credit risk, then a lifetime ECL will be calculated. A significant increase in credit risk is considered to have occurred when contractual payments are more than 30 days past due. As at the date of adoption, the Group has determined that the 12-month ECL on these assets is nil, and there have been no significant increases in credit risk, and therefore no lifetime ECL has been calculated for these assets.

Expected credit losses on the remaining financial assets are measured using the general approach. The Group calculates an allowance based on the 12-month ECL at each reporting date until there is a significant increase in the financial instrument's credit risk, at which point the Group will calculate a loss allowance based on the lifetime ECL, as described above for FVOCI assets. The expected loss in the year was nil.

- *Financial assets at fair value through profit or loss (FVPL)* – in accordance with IFRS 9, no ECLs are required for assets held at FVPL.

The table below illustrates the changes to the classification of the Group's financial assets under IFRS 9 and IAS 39 at the date of initial application of IFRS 9:

Instrument	Description	IAS 39	IFRS 9
Assets			
Clearing member financial assets:			
- Clearing member trading assets	Sale and buyback transactions	Amortised cost	Amortised cost
- Clearing member trading assets	All other clearing member trading assets	FVPL	FVPL
- Other receivables from clearing members	Interest and margin receipts due	Amortised cost	Amortised cost
- Other financial assets	Investments relating to cash collateral held	FVPL or Available for sale	FVOCI
Cash and cash equivalents	Cash and cash of clearing members	Amortised cost	Amortised cost
Trade and other receivables including non-current receivables	Trade receivables and other receivables	Amortised cost	Amortised cost
Contract assets	From contracts with customers	Amortised cost	Amortised cost
Investments in financial assets	Typically comprise investments in government debt	Available for sale	FVOCI
Derivative financial instruments	Both assets and liabilities	FVPL	FVPL
Liabilities			
Clearing member financial liabilities:			
- Clearing member trading liabilities	Sale and buyback transactions	Amortised cost	Amortised cost
- Clearing member trading liabilities	All other clearing member trading liabilities	FVPL	FVPL
- Other payables to clearing members	Interest and margin payments due	Amortised cost	Amortised cost
Trade and other payables, including other non-current payables	Trade payables, accruals and deferred consideration	Amortised cost	Amortised cost
Borrowings	Bank borrowings and other forms of financing	Amortised cost	Amortised cost

3. Significant judgements and estimates

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

Estimates:

For the year ended 31 December 2018, the following areas require the use of estimates:

Impairment of purchased intangible assets, goodwill and investment in subsidiaries – these assets form a significant part of the balance sheet and are key assets for the cash generating business in the Group. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimate of future performance and estimates of the return required by investors to determine an appropriate discount rate. Details are provided in Note 13;

Defined benefit pension asset or liability - determined based on the present value of future pension obligations using assumptions determined by the Group with advice from an independent qualified actuary; and

Estimated service period for admission and listing services within the Primary Markets business – the Group determines the estimated period for admission services using historical analysis of listing durations in respect of the companies on our markets. The estimated service period inherently incorporates an element of uncertainty in relation to the length of a customer listing which is subject to factors outside of the Group's control. The estimated service periods are provided in Note 2 and are reassessed at each reporting date to ensure the period reflects the Group's best estimates. The Group estimates that a 1-year decrease in the deferral period would cause an estimated £5 million increase in revenue and a 1-year increase in the deferral period would cause an estimated £4 million decrease in revenue recognised in the year.

Judgements:

In preparing the financial statements for the year ended 31 December 2018, the following judgement has been made:

Clearing member trading assets and trading liabilities - The Group uses its judgement to carry out the offsetting within clearing member balances. The carrying values of the balances are offset at what the Group considers an appropriate level to arrive at the net balances reported in the balance sheet. The Group has an aligned approach for its CCP subsidiaries to ensure the principles applied are consistent across similar assets and liabilities. The approach is reviewed on a timely basis to ensure the approach used is the most appropriate.

4. Segmental information

The Group is organised into operating units based on its service lines and has 6 reportable segments: Information Services, Post Trade Services – LCH, Post Trade Services – CC&G and Monte Titoli, Capital Markets, Technology Services and Other. These segments generate revenue in the following areas:

- **Information Services** – Subscription and licence fees for data and index services provided;
- **Post Trade Services – LCH** - Fees based on CCP and clearing services provided, non-cash collateral management and net interest earned on cash held for margin and default funds;
- **Post Trade Services – CC&G and Monte Titoli** – Clearing fees based on trades and contracts cleared, net interest earned on cash, securities held for margin and default funds, and fees from settlement and custody services;
- **Capital Markets** – Admission fees from initial listing and further capital raises, annual fees charged for securities traded on the Group's markets, and fees from our secondary market services;
- **Technology Services** – Capital markets software licences and related IT infrastructure, network connection and server hosting services; and
- **Other** – Includes events and media services.

The Executive Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Sales between segments are carried out at arm's length and are eliminated on consolidation.

Segmental disclosures for the year ended 31 December 2018 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	841	487	102	407	65	9	-	1,911
Inter-segmental revenue	-	-	1	-	21	-	(22)	-
Revenue	841	487	103	407	86	9	(22)	1,911
Net treasury income through CCP business	-	175	43	-	-	-	-	218
Other income	-	-	-	-	-	6	-	6
Total income	841	662	146	407	86	15	(22)	2,135
Cost of sales	(70)	(123)	(7)	(16)	(9)	(2)	-	(227)
Gross profit	771	539	139	391	77	13	(22)	1,908
Share of loss after tax of associate	-	-	-	(1)	-	(7)	-	(8)
Earnings before interest, tax, depreciation, amortisation and impairment	469	304	92	201	18	(5)	(13)	1,066
Underlying depreciation, amortisation and impairment	(29)	(62)	(9)	(17)	(20)	(2)	4	(135)
Operating profit/(loss) before non-underlying items	440	242	83	184	(2)	(7)	(9)	931
Amortisation of purchased intangible assets								(159)
Other non-underlying items								(21)
Operating profit								751
Net finance expense								(66)
Profit before tax from continuing operations								685

Revenue from external customers principally comprises fees for services rendered of £1,837 million (2017: £1,668 million) and Technology Services of £65 million (2017: £91 million).

Net treasury income through CCP businesses of £218 million (2017: £162 million) comprises gross interest income of £1,025 million (2017: £813 million) less gross interest expense of £807 million (2017: £651 million). During the year the Group recognised a total of £106 million (2017: £74 million) of net treasury income on financial assets and liabilities held at amortised cost comprising £732 million (2017: £559 million) gross treasury income and £626 million (2017: £485 million) gross treasury expense, and £112 million net gain (2017: £88 million net loss) on assets held at fair value comprising £293 million (2017: £254 million) fair value gain and £181 million (2017: £166 million) fair value loss.

Presented within revenue are net settlement expenses from the CCP business of £2 million (2017: £1 million expense) which comprise gross settlement income of £24 million (2017: £22 million) less gross settlement expense of £26 million (2017: £23 million).

The Group's revenue from contracts with customers disaggregated by segment, major product and service line, and timing of revenue recognition for the year ended 31 December 2018 is shown below:

	Information Services	Post Trade Services - LCH	Post Trade Services - CC&G and Monte Titoli	Capital Markets	Technology Services	Other	Group
	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers							
Major product & service lines							
FTSE Russell Indexes	631	-	-	-	-	-	631
Real time data	94	-	-	-	-	-	94
Other information services	116	-	-	-	-	-	116
Clearing	-	487	41	-	-	-	528
Settlement, custody and other	-	-	61	-	-	-	61
Primary capital markets	-	-	-	113	-	-	113
Secondary capital markets - Equities	-	-	-	169	-	-	169
Secondary capital markets - Fixed income, derivatives and other	-	-	-	125	-	-	125
Capital markets software licences	-	-	-	-	65	-	65
Other	-	-	-	-	-	9	9
Total revenue from contracts with customers	841	487	102	407	65	9	1,911
Timing of revenue recognition							
Services satisfied at a point in time	45	479	93	237	2	8	864
Services satisfied over time	796	8	9	170	63	1	1,047
Total revenue from contracts with customers	841	487	102	407	65	9	1,911

The disaggregated revenue table presented above for the year ended 31 December 2018 is a new requirement as a result of the Group adopting IFRS 15 on 1 January 2018. The Group has used the modified retrospective approach to transition to IFRS 15 and therefore no comparative disclosures are presented.

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
Underlying depreciation, 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)
Other non-underlying items								(33)
Operating profit								626
Net finance expense								(62)
Profit before taxation from continuing operations								564

5. Expenses by nature

Expenses comprise the following:

	Note	2018 £m	2017 £m
Underlying items			
Employee costs	6	510	497
IT costs		136	120
Other costs		188	199
Operating expenses before depreciation, amortisation and impairment		834	816
Underlying depreciation, amortisation and impairment		135	103
Total operating expenses		969	919

Other costs include foreign exchange gains of £5 million (2017: £17 million loss).

6. Employee costs

Employee costs comprise the following:

	2018	2017
	£m	£m
Salaries and other benefits	387	368
Social security costs	62	64
Pension costs	25	27
Share-based compensation	36	38
Total	510	497

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:

	2018	2017
UK	1,628	1,532
USA	659	626
Italy	612	573
France	166	165
Sri Lanka	1,025	1,094
Other	315	751
Total	4,405	4,741

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.

7. Non-underlying items

	Note	2018 £m	2017 £m
Amortisation and impairment of intangible assets		159	153
Transaction costs		9	25
Restructuring costs		-	7
Integration costs		12	8
Profit on disposal of businesses		-	(7)
Total affecting operating profit		180	186
Tax effect on items affecting profit before tax			
Deferred tax on amortisation of purchased intangible assets		(33)	(184)
Current tax on amortisation of purchased intangible assets		(11)	(2)
Tax effect on other items		(11)	(4)
Total tax effect on items affecting profit before tax		(55)	(190)
Total charge/(credit) to continuing operations income statement			
		125	(4)
Loss after tax from discontinued operations	10	-	25
Total charge to income statement		125	21

During the year the Group incurred a £154 million (2017: £153 million) amortisation charge in relation to purchased intangible assets and £5 million (2017: nil) asset write-off expense comprising £3 million software (see Note 13) and £2 million IT hardware work in progress assets which are no longer required for development as a result of the integration of Yield Book into the Group.

Transaction costs comprise charges incurred for services relating to potential merger and acquisition transactions.

Integration costs in the current and prior year relate to the activities to integrate the Mergent and Yield Book businesses into the Group.

In the prior year, the Group incurred restructuring costs in relation to the LCH Group.

In the prior year, the Group disposed of Information Services Professional Solutions (ISPS) a business line of Blt Market Services S.p.A, for a cash consideration of €10 million (£9 million). The profit on disposal was £5 million, and the net assets disposed contained brands, intellectual property and work-in-progress assets, 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 in the prior year related 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.

The loss after tax on discontinued operations in the prior year relates to the disposal of the Russell Investment Management business. See Note 10 for further details.

8. Net finance expense

	2018	2017
	£m	£m
Finance income		
Expected return on defined benefit pension scheme assets	1	-
Bank deposit and other interest income	8	3
Other finance income	4	5
	13	8
Finance expense		
Interest payable on bank and other borrowings	(72)	(63)
Defined benefit pension scheme interest cost	(1)	(2)
Other finance expenses	(6)	(5)
	(79)	(70)
Net finance expense	(66)	(62)

Bank deposits and other income includes negative interest earned on the Group's borrowings. Interest payable includes amounts where the Group earns negative interest on its cash deposits.

During the year the Group recognised a total of £66 million (2017: £60 million) of net interest expense on financial assets and liabilities held at amortised cost, comprising £12 million (2017: £8 million) gross finance income and £78 million (2017: £68 million) gross finance expense. Presented within finance income and finance expense are amounts in relation to defined benefit pension schemes which are measured at fair value.

9. Taxation

The standard UK corporation tax rate was 19% (19.25% for the year ended 31 December 2017).

	2018	2017
	£m	£m
Taxation charged to the income statement		
Current tax:		
UK corporation tax for the year	53	76
Overseas tax for the year	107	95
Adjustments in respect of previous years	(12)	(10)
	148	161
Deferred tax:		
Deferred tax for the year	15	(9)
Adjustments in respect of previous years	2	10
Deferred tax liability on amortisation of purchased intangible assets	(33)	(184)
Taxation charge/(credit)	132	(22)

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

	2018	2017
	£m	£m
Taxation on items not credited/(charged) to income statement		
Current tax credit:		
Tax allowance on share options/awards in excess of expense recognised	5	8
	5	8
Deferred tax credit/(charge):		
Tax on defined benefit pension scheme remeasurement	5	(25)
Tax allowance on share options/awards in excess of expense recognised	2	4
Tax on movement in value of investments in financial assets	4	2
	16	(11)

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% (2017: 19.25%) as explained below:

	2018	2017
	£m	£m
Profit before taxation from continuing operations	685	564
Loss before taxation from discontinued operations	-	(23)
	685	541
Profit multiplied by standard rate of corporation tax in the UK	130	104
(Income not taxable)/expenses not deductible	(7)	9
Adjustment arising from change in tax rates	-	2
Overseas earnings taxed at higher rate	25	10
Adjustments in respect of previous years	(10)	-
Adjustment arising from changes in tax rates on amortisation of purchased intangible assets	(2)	(147)
Deferred tax previously not recognised	(4)	2
	132	(20)
Income tax from continuing operations	132	(22)
Income tax attributable to discontinued operations	-	2

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 2018 have been stated at 19% or 17% dependent on when the temporary differences are expected to reverse. The deferred tax balances in other countries are recognised at the substantively enacted rates at the balance sheet date.

Uncertain tax positions

The Group does not have any uncertain tax positions as at 31 December 2018. In the prior year an amount of £2 million was provided for in respect of uncertain tax positions in relation to an uncertainty arising from the introduction of UK Diverted Profits Tax. The Group no longer considers this amount to be uncertain.

EU State Aid

The Group is monitoring developments in relation to the EU's ongoing State Aid investigation into the UK's Controlled Foreign Company (CFC) regime and whether the rules constitute unlawful State Aid.

The Group has made claims under the CFC legislation for practical reasons, however given that the Group's financing activities are properly established and operated in accordance with EU and local law as well as the OECD's transfer pricing guidelines, we do not anticipate any significant impact should a finding of unlawful State Aid be ultimately upheld.

Therefore, the Group does not currently consider that any provision is required in relation to EU State Aid.

We will continue to monitor the position as the review develops.

10. Discontinued operations and assets held for sale

On 17 January 2018, the Group completed the sale of Exactpro Systems Limited and its subsidiaries (Exactpro) for an aggregate consideration of £6 million, comprising a purchase price of £3 million and an unconditional waiver on £3 million of deferred consideration payable to the Exactpro purchasers recognised on the acquisition of Exactpro by the Group.

A total of £6 million of Exactpro assets were disposed and comprised goodwill, property, plant and equipment, trade receivables, cash and accumulated foreign exchange translation reserve.

The Exactpro business was part of the Technology Services segment and was contained within a standalone CGU.

Exactpro was classified as a disposal group held for sale in the Group's 31 December 2017 balance sheet.

Discontinued operations

As previously reported, on 31 May 2016 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, of which \$150 million consideration was deferred and payable in cash instalments until 31 December 2022. In the prior year, the Group incurred a non-underlying loss before tax of \$29 million (£23 million) (loss after tax of \$31 million (£25 million)) relating to the disposal of the Russell Investment Management business comprising a \$21 million (£17 million) adjustment to the disposal balance sheet relating to tax balances at the disposal date and an \$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 \$2 million (£2 million) cash payment by the Group. During the prior year, the Group also recognised \$18 million (£13 million) current tax and other receivables in relation to the disposed business. The disposal accounting and final tax position will be finalised on completion of the relevant tax returns.

There were no cash flows generated or incurred by discontinued operations from operating, investing or financing activities in the year ended 31 December 2018 (2017: nil).

11. Earnings per share

Earnings per share is presented on 4 bases: basic earnings per share; diluted earnings per share; adjusted basic earnings per share; and adjusted diluted earnings per share. Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on conversion or vesting of all outstanding share options and share awards under the Employee Share Ownership Plan (ESOP). Adjusted basic earnings per share and adjusted diluted earnings per share exclude amortisation of purchased intangible assets and non-underlying items to enable a better comparison of the underlying earnings of the business with prior periods.

	2018	2017		
	Total	Continuing	Discontinued	
Basic earnings per share	138.3p	153.6p	(7.2p)	146.4p
Diluted earnings per share	136.0p	150.1p	(7.1p)	143.0p
Adjusted basic earnings per share	173.8p	148.7p	-	148.7p
Adjusted diluted earnings per share	170.8p	145.3p	-	145.3p

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

	2018	2017		
	Total £m	Continuing £m	Discontinued £m	
Profit/(loss) for the financial year attributable to the Company's equity holders	480	530	(25)	505
Adjustments:				
Non-underlying items:				
Amortisation and impairment of intangible assets	159	153	-	153
Transaction costs	9	25	-	25
Restructuring costs	-	7	-	7
Integration costs	12	8	-	8
Profit on disposal of businesses	-	(7)	23	16
Other adjusting items:				
Tax effect of amortisation of purchased intangible assets and non-underlying items	(55)	(190)	2	(188)
Amortisation of purchased intangible assets, non-underlying items and taxation attributable to non-controlling interests	(2)	(13)	-	(13)
Adjusted profit for the financial year attributable to the Company's equity holders	603	513	-	513
Weighted average number of shares - million	347			345
Effect of dilutive share options and awards - million	6			8
Diluted weighted average number of shares - million	353			353

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

12. Dividends

	2018	2017
	£m	£m
Final dividend for 31 December 2016 paid 31 May 2017: 31.2p per Ordinary share	-	109
Interim dividend for 31 December 2017 paid 19 September 2017: 14.4p per Ordinary share	-	50
Final dividend for 31 December 2017 paid 30 May 2018: 37.2p per Ordinary share	129	-
Interim dividend for 31 December 2018 paid 18 September 2018: 17.2p per Ordinary share	60	-
	189	159

Dividends are only paid out of available distributable reserves.

The Board has proposed a final dividend in respect of the year ended 31 December 2018 of 43.2p per share, which is estimated to amount to £150 million, to be paid in May 2019. This is not reflected in the financial statements.

13. Intangible assets

Purchased intangible assets

	Goodwill	Customer relationships	Brands	Software, licences and intellectual property	Software and other	Total
Cost:	£m	£m	£m	£m	£m	£m
31 December 2016	2,097	1,732	971	434	502	5,736
Acquisition of subsidiaries (revised)	288	151	57	168	11	675
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 (revised)	2,377	1,848	960	584	652	6,421
Impact of adopting new accounting standard (note 2)	-	-	-	-	26	26
1 January 2018 (restated)	2,377	1,848	960	584	678	6,447
Additions	-	-	-	-	187	187
Disposals	-	(6)	-	(14)	(4)	(24)
Transfer of asset	-	-	-	-	3	3
Write-off	-	-	-	-	(5)	(5)
Foreign exchange	70	50	45	12	13	190
31 December 2018	2,447	1,892	1,005	582	872	6,798
Accumulated amortisation and impairment:						
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 (as previously presented)	521	566	151	291	303	1,832
Impact of adopting new accounting standard (note 2)	-	-	-	-	14	14
1 January 2018 (restated)	521	566	151	291	317	1,846
Amortisation charge for the year	-	91	39	24	102	256
Impairment	-	-	-	-	1	1
Disposals	-	(6)	-	(14)	(4)	(24)
Write-off	-	-	-	-	(1)	(1)
Foreign exchange	7	11	7	3	5	33
31 December 2018	528	662	197	304	420	2,111
Net book values:						
31 December 2018	1,919	1,230	808	278	452	4,687
31 December 2017 (revised)	1,856	1,282	809	293	349	4,589

Goodwill

During the current year, the Group completed the exercise of attributing fair value adjustments to the assets and liabilities acquired in the Yield Book business combination. As a result, final fair value adjustments have been made to the previously presented provisional fair values for Yield Book at 31 December 2017 arising from a reduction in the value of purchase consideration of £1 million and an increase in other receivables of £1 million. The impact of these final fair value adjustments resulted in a decrease in goodwill of £1m to amounts previously disclosed in our 31 December 2017 Annual Report, reducing the total goodwill on acquisition of the Yield Book business from £215 million to £214 million. The impact of these final fair value adjustments have been incorporated with effect from the acquisition date of the Yield Book business and the comparative 31 December 2017 balance sheet and related notes have been revised. The revised total goodwill arising on acquisition of the Mergent and Yield Book businesses is £289 million.

In the prior year, the Group disposed of the Millennium Enterprise Systems Integration business, which resulted in a reduction of £1 million in goodwill.

In the prior year, the Group classified Exactpro as a disposal group held for sale which resulted in £3 million of goodwill being reclassified as an asset held for sale. Further details are provided in Note 10.

The goodwill arising on consolidation represents the growth potential and assembled workforces of the Italian Group, LCH Group, FTSE Group, MillenniumIT, the US Information Services Group and Turquoise.

Purchased intangible assets

The fair values of the purchased intangible assets were principally valued using discounted cash flow methodologies and are being amortised over their useful economic lives, which do not normally exceed 25 years. The Group's purchased intangible assets include:

Customer relationships

These assets have been recognised on acquisition of major subsidiary companies by the Group. The amortisation period remaining on these assets are between 8 to 24 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 £583 million (2017: £574 million). The remaining amortisation period on these assets are between 4 to 24 years.

Software, licences and intellectual property

These assets have been recognised on acquisition of subsidiary companies and have a remaining amortisation period of 3 to 19 years.

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

Software and other

As a part of the business operating model the Group develops technology solutions where software products are developed internally, for use within the Group or to sell externally. The cost of self-developed software products in the year includes £133 million (2017: £94 million) representing assets not yet brought into use. No amortisation has been charged on these assets and instead they are tested for impairment annually.

During the year, additions relating to internally generated software amounted to £175 million (2017: £143 million).

Following a review of software assets, the Group has recognised net write-offs of £4 million in relation to assets not yet brought into use and £1 million impairment. The £5 million income statement charge comprises £3 million non-underlying asset write-off expense, £1 million underlying write-off expense and £1 million underlying impairment charge (2017: nil).

Other amounts represent the internally built and developed trading systems within the various business lines, licences and capitalised contract costs. In general these assets have a useful economic life of up to 5 years.

The carrying value of licences held under finance leases at 31 December 2018 was £6 million (2017: £7 million).

During the year, the Group capitalised £10 million of incremental contract costs in respect of revenue generating contracts with customers and recognised a £6 million amortisation charge relating to contract cost assets. No impairment was recognised in the year in relation to contract cost assets.

Transfers in the year relate to £3 million reclassification of property, plant and equipment to software intangible assets.

14. Financial assets and financial liabilities

Financial instruments by category

The financial instruments of the Group are categorised as follows:

	Financial assets at amortised cost	Financial assets at fair value through OCI	Financial instruments at fair value through profit or loss	Total
	£m	£m	£m	£m
31 December 2018				
Financial assets				
Clearing member financial assets:				
– Clearing member trading assets	138,153	-	604,303	742,456
– Other receivables from clearing members	2,261	-	-	2,261
– Other financial assets	-	19,694	-	19,694
– Clearing member cash and cash equivalents	70,927	-	-	70,927
Clearing member business assets	211,341	19,694	604,303	835,338
Trade and other receivables	621	-	-	621
Cash and cash equivalents	1,510	-	-	1,510
Investments in financial assets	-	84	-	84
Contract assets	144	-	-	144
Total	213,616	19,778	604,303	837,697

There were no transfers between categories during the year.

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

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total
	£m	£m	£m
31 December 2018			
Financial liabilities			
Clearing member financial liabilities:			
– Clearing member trading liabilities	138,153	604,303	742,456
– Other payables to clearing members	93,052	-	93,052
Clearing member business liabilities	231,205	604,303	835,508
Trade and other payables	510	10	520
Borrowings	2,203	-	2,203
Derivative financial instruments	-	47	47
Total	233,918	604,360	838,278

There were no transfers between categories during the year.

Social security and other tax liabilities within trade and other payables, and contract liabilities are not classified as financial instruments.

The financial instruments of the Group at the previous year's balance sheet date were as follows:

	Financial assets at amortised cost	Financial assets at fair value through OCI	Financial instruments at fair value through profit or loss	Total
	£m	£m	£m	£m
31 December 2017				
Financial assets				
Clearing member financial assets:				
– Clearing member 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
– Clearing member cash and cash equivalents	61,443	-	-	61,443
Clearing member business assets	162,822	18,436	553,539	734,797
Trade and other receivables (revised) ¹	703	-	-	703
Cash and cash equivalents	1,381	-	-	1,381
Investments in financial assets	-	105	-	105
Derivative financial instruments	-	-	4	4
Total	164,906	18,541	553,543	736,990

¹ The 31 December 2017 comparatives have been revised for IFRS 3 fair value adjustments on the acquisition of the Yield Book business.

There were no transfers between categories during the prior year.

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

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
	£m	£m	£m
31 December 2017			
Financial liabilities			
Clearing member financial liabilities:			
– Clearing member trading liabilities	98,076	549,874	647,950
– Other payables to clearing members	87,031	-	87,031
Clearing member business liabilities	185,107	549,874	734,981
Trade and other payables	502	18	520
Borrowings	1,953	-	1,953
Derivative financial instruments	-	29	29
Total	187,562	549,921	737,483

Deferred income, social security and other tax liabilities within trade and other payables are not classified as financial instruments.

Financial liabilities as at 31 December 2017 have been re-presented to exclude provisions, which are no longer classified as a financial liability.

15. Borrowings

	2018	2017
	£m	£m
Current		
Bank borrowings	41	522
Commercial paper	270	-
Bonds	250	-
	561	522
Non-current		
Bonds	1,642	1,431
	1,642	1,431
Total	2,203	1,953

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

Type	Expiry Date	Notes/Facility £m	Carrying value at		Interest rate
			31 December 2018 £m	31 December 2018 £m	percentage at %
Drawn value of Facilities					
Multi-currency revolving credit facility	Nov 2022	600	42		LIBOR + 0.45
Multi-currency revolving credit facility	Dec 2023	600	(1)		LIBOR + 0.3
Total Committed Bank Facilities			41		
Commercial paper	Jan 2019	270	270		(0.260) ¹
Bond due October 2019	Oct 2019	250	250		9.125
Bond due November 2021	Nov 2021	300	300		4.750
Bond due September 2024	Sep 2024	451	449		0.875
Bond due December 2027	Dec 2027	451	446		1.750
Bond due September 2029	Sep 2029	451	447		1.750
Total Bonds			1,892		
Total Committed Facilities and Unsecured Notes			2,203		

¹ The Commercial paper interest rate reflected is the average interest rate achieved on the outstanding borrowings.

The carrying values of drawn bank facilities, commercial paper and bonds at 31 December 2018 were £41 million (2017: £522 million), £270 million (2017: nil) and £1,892 million (2017: £1,431 million), respectively.

Current borrowings

The Group retained total committed bank facilities of £1,200 million during the financial year. The 5 year £600 million facility arranged in December 2017 was extended for a year to December 2023, with a further 1-year extension option available to the Group, subject to lender approval. These facilities were partially drawn at 31 December 2018 with carrying value of £41 million (2017: £522 million) which includes £2 million of deferred arrangement fees (2017: £3 million).

In February 2018, the Group commenced issuance under its newly arranged £1 billion Euro Commercial Paper Programme. Outstanding issuances at 31 December 2018 of €300 million (£270 million) (2017: nil) may be reissued upon maturity in line with the Group's liquidity requirements.

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, which were unchanged at A3 and A- respectively. The bond coupon remained at 9.125% per annum throughout the financial year.

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 totaled €420 million at 31 December 2018 (2017: €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 Principles for Financial Market Infrastructures (PFMIs), many Central Banks now provide for CCPs to apply for access to certain Central Bank facilities.

In addition, a number of Group entities have access to uncommitted operational, money market and overdraft facilities which support post trade activities and day-to-day liquidity requirements across its operations.

Non-current borrowings

In 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 (£451 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.

In December 2018, the Company issued a €500 million (£451 million) bond under its updated Euro Medium Term Notes Programme. The bond is unsecured and due for repayment in December 2027. Interest is paid annually in arrears in December each year. The issue price was €99.547 per €100 nominal. The coupon on the bond is fixed at 1.75% per annum.

Fair values

The fair values of the Group's borrowings are as follows:

Group	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Borrowings				
- within 1 year	561	561	522	522
- after more than 1 year	1,642	1,914	1,431	1,520
	2,203	2,475	1,953	2,042

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 the appropriate inter-bank reference rate.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

Currency	2018			2017		
	Drawn	Swapped	Effective	Drawn	Swapped	Effective
	£m	£m	£m	£m	£m	£m
Sterling	572	(270)	302	1,032	(267)	765
Euro	1,631	(361)	1,270	921	(355)	566
US Dollar	-	631	631	-	622	622
Total	2,203	-	2,203	1,953	-	1,953

16. Analysis of net debt

	2018	2017
	£m	£m
Due within 1 year		
Cash and cash equivalents	1,510	1,381
Bank borrowings	(41)	(522)
Commercial paper	(270)	-
Bonds	(250)	-
Derivative financial liabilities	(30)	-
	919	859
Due after 1 year		
Bonds	(1,642)	(1,431)
Derivative financial assets	-	4
Derivative financial liabilities	(17)	(29)
Total net debt	(740)	(597)

Reconciliation of net cash flow to movement in net debt

	2018	2017
	£m	£m
Increase in cash in the year	84	216
Bond issue proceeds	(445)	(885)
Redemption of preferred securities	-	157
Commercial paper issuance	(255)	-
Additional drawdowns from bank credit facilities	-	(242)
Repayments made towards bank credit facilities	489	87
Utilisation of drawn funds for financing activities	-	103
Change in net debt resulting from cash flows	(127)	(564)
Foreign exchange movements	4	2
Movement on derivative financial assets and liabilities	(22)	(6)
Bond valuation adjustment	3	5
Movement in bank credit facility arrangement fees	(1)	1
Reclassification of cash to assets held for sale	-	(1)
Net debt at the start of the year	(597)	(34)
Net debt at the end of the year	(740)	(597)

17. Share capital and share premium

Ordinary shares issued and fully paid

	Number of shares millions	Ordinary Shares ¹ £m	Share premium £m	Total £m
1 January 2017	350	24	961	985
Issue of shares to the Employee Benefit Trust	-	-	3	3
31 December 2017	350	24	964	988
Issue of shares to the Employee Benefit Trust	1	-	1	1
31 December 2018	351	24	965	989

¹ Ordinary Shares of 6 ^{79/86} pence

The Board approved the allotment and issue of 72,763 ordinary shares of par value 6 ^{79/86} pence at a weighted average exercise price of 2,042 pence to the Employee Benefit Trust (2017: 224,965 ordinary shares of par value 6 ^{79/86} pence at 1,251 pence), to settle employee 'Save As You Earn' share plans. This generated a premium of £1 million (2017: £3 million).

Included within the current year Ordinary Share Capital of 351 million shares are 2 million treasury shares, recorded at par.

18. Net cash flow generated from operations

	Notes	2018 £m	2017 £m
Profit before tax from continuing operations		685	564
Loss before tax from discontinued operations	10	-	(23)
Profit before tax		685	541
Adjustments for depreciation, amortisation and impairments:			
Depreciation and amortisation		287	255
Impairment of software	13	5	-
Impairment of property, plant and equipment		2	1
Adjustments for other non-cash items:			
Profit on disposal of businesses	7	-	(7)
Loss on disposal of investment in subsidiary	10	-	23
Gain on disposal of financial assets		-	(7)
Other gains on disposal of assets		-	(2)
Share of loss of associates		8	9
Net finance expense	8	66	62
Share scheme expense	6	36	38
Royalties		3	-
Movement in pensions and provisions		(19)	31
Net foreign exchange differences		30	(103)
Movements in working capital:			
Decrease in inventories		-	1
Increase in receivables and contract assets		(107)	(36)
Increase/(decrease) in payables and contract liabilities		3	(47)
Movement in other assets and liabilities relating to operations:			
Increase in clearing member financial assets		(101,678)	(162,005)
Increase in clearing member financial liabilities		101,646	162,095
Movement in derivative assets and liabilities		2	6
Unrealised gain on the revaluation of financial assets		-	(3)
Cash generated from operations		969	852
Comprising:			
Ongoing operating activities		978	1,130
Non-underlying items		(9)	(278)
		969	852

19. Commitments and contingencies

The Group has no contracted capital commitments or any other commitments not provided for in the financial statements as at 31 December 2018 (2017: 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.

20. Events after the reporting period

On 30 January 2019 the Group acquired a 4.92% equity interest in Euroclear Holding SA/NV for £242 million. The transaction was funded from existing cash and debt facilities.

On 25 February 2019 the Group acquired a 7.3% equity interest in Nivaura Limited for £2 million, a UK-based fintech specialising in developing end-to-end automation and distributed ledger technology solutions for capital raising and administration.

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