

Euroclear UK & Ireland Limited

Directors' Report and Financial Statements for the year ended 31 December 2012



Registered Company Number: 2878738

Euroclear UK & Ireland Limited (Registered Company Number: 2878738)
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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their report and the audited financial statements of Euroclear UK & Ireland Limited (EUI) for the year ended 31 December 2012. EUI is domiciled and incorporated in the United Kingdom. The address of its registered office is 33 Cannon Street, London, EC4M 5SB.

Principal activities, business review and future developments

The principal activities of EUI during the year were the operation and continuing development of the CREST settlement system and the EMX message system. The CREST system provides advanced, low-cost electronic settlement facilities for a wide range of corporate and government securities, including those traded on the London Stock Exchange, Irish Stock Exchange, SWX Europe and various multilateral trading platforms. The CREST system also settles transactions in money market instruments, investment funds and a variety of international securities, and offers a range of asset servicing and optimisation facilities, including corporate action services. The EMX message system provides electronic message order routing, thereby automating the purchase, sale, valuation and settlement of unitised funds.

In the continuing difficult market environment, EUI has performed well in 2012. A fall in revenues from reduced volumes was offset by a programme of initiatives that successfully reduced our costs and improved efficiency in order to maintain profitability on a consistent basis.

The Euroclear group is adapting to the 'new normal' way of operating, reflecting local and regional low-growth economies, new regulations and changes in market behaviour. Delivering relevant and timely services that meet client needs is our top priority. Automating and standardising critical post-trade processes, with business partners or through our own innovative initiatives, remains an important means to reduce risk and processing costs both for our clients and for Euroclear.

Clients in different parts of the group will have benefitted from quick-to-market service enhancements in transaction settlement, collateral management, custody, payments, reference data and tax processing during the year. A key client-driven development in 2012 was the launch of Euroclear's global 'Collateral Highway', which expands our global collateral management capabilities while filling a gap in helping clients meet new market and regulatory collateral requirements.

The Euroclear group's vision is to be the market's post-trade provider of choice – we strive to provide services that are precisely what clients want when they need it. We aim to be one of the world's pre-eminent providers of post-trade services, supporting the stability and development of the capital markets, locally and globally. Key elements of the Euroclear group's strategy are to

- broaden our service offering in fund products,
- build our asset servicing and collateral management capabilities, and
- expand our business opportunities beyond Europe

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

EUI continues to ensure it has sufficient capacity to provide a robust settlement service. Various service enhancements were introduced in the year to provide additional functionality. These include

- Term DBV (delivery by value) service for transactions with maturities of up to two years, in addition to EUI's existing overnight DBV service, which reduces clients' operational risk by reducing the volume of daily settlement flows arising from overnight DBVs,
- Central Bank Money (a 'demand-driven' auto-collateralisation model for payment banks), and
- Enhanced support for fund-transaction order routing, settlement and reconciliation

Further CREST system enhancements will be introduced to provide additional functionality

- Tandem Blade, an upgrade to the current infrastructure to improve efficiency by running a Tandem platform jointly for EUI and Euroclear Bank;
- Cleared Sterling General Collateral, an enhancement to support LCH Clearnet Ltd to deliver a cleared term DBV product to the London market,
- TARGET2 Link, to automate Euro settlement activity in the TARGET2 payment system

These enhancements will directly or indirectly help clients manage risks or reduce costs.

Financial Risk

EUI, as a provider of settlement services, has minimal exposure to price (market) risk and does not extend credit to third parties, other than in the normal invoicing cycle. A prudent investment policy, based upon money market deposits with at least AA- rated institutions, is followed for the investment of surplus cash. In the current market context, however, where a large number of institutions had issuer credit rating downgrades, some cash, exceptionally, is invested with A+ rated banks where government support is provided to them. Cash flow and prudential cash requirements, including those necessary to support working and regulatory capital, are monitored regularly to ensure that sufficient funds are available. There has been no change since the year-end in the major financial risks faced by EUI (see note 24).

Results and dividends

In the opinion of the directors, the key financial performance indicator is profit before tax. EUI made a profit before tax of £15,022,000 (2011: £16,444,000). This is subject to a taxation charge of £3,782,000 (2011: £4,411,000).

EUI's profit after tax for the year was £11,240,000 (2011 profit after tax: £12,033,000).

No interim dividend was paid during the year (2011: interim dividend of £10,901,000, £0.453 per ordinary share). A final dividend is not currently proposed for 2012 (2011: Nil).

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Creditor payment policy

EUI's policy on the payment of suppliers is to settle according to the terms of payment once all contractual terms have been observed. For all trade creditors, it is EUI's policy to agree the terms of payment at the start of trading with that supplier, ensure that suppliers are aware of the terms of payment, and pay promptly in accordance with its contractual and other legal obligations. Total creditor days are based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. For the year ended 31 December 2012 the creditor days are calculated to be 12 days as supplier invoices outstanding at year end were minimal (2011: 9 days).

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that EUI has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the 'going concern' basis in preparing the financial statements.

Directors

The following directors held office throughout the reporting period:

Frederic Hannequart ‡ (*Chairman*)

Yannic Weber (<i>CEO</i>)	Resigned	29 February 2012
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John Trundle	Appointed CEO	1 March 2012
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Mike Williams ‡ *

Luc Vantomme	Resigned	31 December 2012
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Sue Concannon ‡ *

Peter Sucaet	Appointed	27 February 2013
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‡ Member of Nomination and Remuneration Committee

*Independent Director and Member of the Audit and Risk Committee

Lisa Kelly was the Company Secretary throughout the year.

John Trundle replaced Yannic Weber as Chief Executive Officer on 1 March 2012.

Insurance of directors

EUI maintains insurance for directors in respect of their duties as directors of EUI.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Employees

EUI's policy is to consult and discuss with employees, through staff meetings and bulletins, matters likely to affect employees' interests. Information on matters of interest to employees is given through meetings and newsletters which seek to achieve a common awareness on the part of all employees, including the financial and economic factors affecting EUI's performance.

EUI's training & development mission is to ensure that the organisation has the right skills developed at the right time through appropriate learning and development tools, as to meet the organisation's strategic needs and contribute to employee engagement.

EUI is an equal opportunities employer, its policy is to consider recruiting disabled workers for those vacancies that they are able to fill. Arrangements would be made, wherever possible, for retaining employees who became disabled, to enable them to perform work appropriate to their aptitude and abilities.

Remuneration policy

EUI operates a remuneration policy designed to attract, retain and motivate executive directors and staff of the quality required to operate its business.

Charitable donations

The Community Relations Committee encourages charitable donations and community involvement within the UK based operations of the Euroclear Group. The group operates pro-active policies and supports employees in donating and raising funds. All donations in the UK as determined by this committee are paid through Euroclear SA/NV, London (total UK for 2012 £80,000, 2011 £80,000).

In addition, EUI made a further £10,000 of charitable donations to projects that directly benefit the local community.

Political donations

EUI made no political donations during the year (2011 Nil).

Financial Instruments

The exposure of EUI to price risk, credit risk, liquidity risk and cash flow risk are discussed in note 24 on page 27.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

In accordance with the provisions of Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

Independent auditors

PricewaterhouseCoopers LLP acted as EUI's auditors during the year

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Annual General Meeting

By order of the Board

A handwritten signature in black ink, appearing to be 'Lisa Kelly', with a large loop at the end.

LISA KELLY

Company Secretary

18 March 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED

We have audited the financial statements of Euroclear UK & Ireland Limited for the year ended 31 December 2012 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROCLEAR UK & IRELAND LIMITED (continued)

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Simon Hunt (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 March 2013

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
Revenue	1c	86,177	95,431
Discounts	1c	(796)	(1,203)
Net revenue		85,381	94,228
Administrative expenses	2	(70,631)	(77,934)
Other losses	3	(44)	(50)
Operating profit	4	14,706	16,244
Finance income and costs			
Finance income	7	316	204
Finance costs	7	-	(4)
Profit before tax		15,022	16,444
Income tax expense	8	(3,782)	(4,411)
Profit and total comprehensive income for the year		11,240	12,033

- (i) The total comprehensive income for the year is all attributable to continuing operations
- (ii) The total comprehensive income for the year is attributable to the owners of the parent company

The notes on pages 13 to 29 form part of the financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
Assets			
Non-current assets			
Intangible assets	9	9	29
Property, plant and equipment	10	100	113
Investments in subsidiary undertakings	11	7	7
Other non-current assets	12	12	7
Deferred tax assets	13	221	296
		<u>349</u>	<u>452</u>
Current assets			
Trade and other receivables	14	8,962	7,659
Cash and cash equivalents	15	70,836	64,583
		<u>79,798</u>	<u>72,242</u>
Current liabilities			
Trade and other payables	16	(4,979)	(8,637)
Current tax liabilities		(1,865)	(1,999)
		<u>72,954</u>	<u>61,606</u>
Net current assets			
		<u>73,303</u>	<u>62,058</u>
Net assets			
Equity			
Ordinary shares	17	6,015	6,015
Share premium account		6,015	6,015
Other Reserves	12	5	-
Retained earnings		61,268	50,028
		<u>73,303</u>	<u>62,058</u>
Total equity			

The notes on pages 13 to 29 form part of the financial statements

The Financial Statements were approved by the Board of Directors on 18 March 2013 and authorised for issue on that date

Signed on behalf of the Board



JOHN TRUNDLE

Chief Executive Officer

18 March 2013

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	2012		2011	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Operating profit	14,706		16,244	
Adjustment for				
Amortisation Charge	20		34	
Depreciation Charge	60		69	
Changes in working capital				
(Increase)/Decrease in trade and other receivables	(1,289)		1,433	
(Decrease)/Increase in trade and other payables	(3,658)		1,088	
Cash generated from operations	9,839		18,868	
Interest received	303		204	
Interest paid	-		(4)	
Tax paid	(3,842)		(4,212)	
Net cash generated from operating activities		6,300		14,856
Cash flows from investment activities				
Purchase of property, plant and equipment	(47)		(20)	
Purchase of intangible assets	-		(9)	
Net cash used in investing activities		(47)		(29)
Cash flows from financing activities				
Ordinary dividends paid	-		(10,901)	
Net cash used in financing activities		-		(10,901)
Net increase in cash and cash equivalents		6,253		3,926
Cash and cash equivalents as at 1 January		64,583		60,657
Cash and cash equivalents as at 31 December		70,836		64,583

The notes on pages 13 to 29 form part of the financial statements

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Ordinary Shares £'000	Share premium account £'000	Other Reserves £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2011	6,015	6,015	-	48,896	60,926
Profit and total comprehensive income for the year	-	-	-	12,033	12,033
Dividends (£0.453 per ordinary share)	-	-	-	(10,901)	(10,901)
Balance as at 31 December 2011	<u>6,015</u>	<u>6,015</u>	<u>-</u>	<u>50,028</u>	<u>62,058</u>
Profit and total comprehensive income for the year	-	-	-	11,240	11,240
Gain in AFS Reserve	-	-	5	-	5
Balance as at 31 December 2012	<u>6,015</u>	<u>6,015</u>	<u>5</u>	<u>61,268</u>	<u>73,303</u>

The total equity is attributable to the owners of the parent company

The notes on pages 13 to 29 form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Summary of significant accounting policies

A summary of the principal accounting policies, which have been applied consistently, is set out below

(a) Statement of compliance

The financial statements of EUI (the 'Company') have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about EUI as an individual undertaking and not with regard to its group.

In preparing the financial statements for the current period, consideration was given to new IFRSs as well as amendments to IFRS and IFRIC interpretations. There are no new IFRSs or amendments to existing IFRSs and IFRIC interpretations which apply to EUI for the year under review.

After making enquiries, the directors have formed a judgement that there is a reasonable expectation that EUI has adequate resources to continue to operate for the foreseeable future. For this reason, the directors continue to adopt the 'going concern' basis in preparing the financial statements.

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of EUI's activities. Revenue is shown net of Value Added Tax. Revenue represents transaction fees, message fees and standing charges for using the systems, revenue earned for collecting Stamp Duty Reserve Tax on behalf of HM Revenue & Customs and Stamp Duty on behalf of the Irish Revenue Commissioners, and income from administering the settlement discipline regime on behalf of the market. All revenue arises in the United Kingdom and Republic of Ireland and is recognised at the point the relevant service is provided.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**

1. Summary of significant accounting policies (continued)

Discounts are standard price reductions based on eligible fees. They are calculated at rates set out in EUI's published tariff and are accounted for on an accruals basis.

(d) Administrative expenditure

All items of expenditure are included in administrative expenses, as there are no directly attributable selling and marketing costs.

(e) Intangible assets and amortisation

Acquired computer software is capitalized on the basis of the cost incurred to acquire and to bring to use the specific software. These costs are amortised over the assets' estimated useful lives (normally estimated to be over three years with some exceptions).

The cost of internally developed intangible assets is capitalised only where these costs are separately identifiable and where the development project is expected to generate future economic benefit to the Company. The cost of these assets are amortised on a straight-line basis over the life of the system estimated at a period of ten years.

Costs associated with maintaining or upgrading computer software programs are recognised as an expense as incurred.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method of cost less estimated residual value in equal annual instalments over the expected useful economic life of the assets. The periods generally applicable are:

Furniture and fixtures	Over 7 years
Office equipment, including Personal Computers	Over 4 to 5 years
Communications equipment	Over 4 to 5 years

(g) Taxation

Corporation tax payable is provided at the current rate on the profits arising in the period.

Deferred income tax is provided in full on a non discounted basis, using the liability method, on temporary differences arising between the tax bases of asset and liabilities at the anticipated rate of recovery and their carrying amount in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)

(h) Investments

All of the subsidiary undertakings are non-trading and the Company's investment in them is not material. The investments are accounted for in EUI at cost.

(i) Foreign currencies

EUI uses GBP as both its functional and presentational currency. Monetary assets and liabilities denominated in foreign currencies are translated into GBP at the rate of exchange ruling at the end of the financial year. Transactions in foreign exchange are translated at foreign exchange rates present on the date of the transaction. Foreign exchange gains and losses on the retranslated amounts for assets and liabilities are recognised in the income statement as they arise.

(j) Pensions

EUI operates a Company Personal Pension scheme for employees. This is a defined contribution scheme, and the costs of the scheme are charged to the income statement as incurred.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at fair value.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of not more than three months including cash on hand, deposits held on call with banks, and other short-term, highly liquid investments which are subject to insignificant risk of change in fair value.

(l) Financial assets

The Company retains financial assets primarily in the form of trade and other receivables and cash and cash equivalents. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(m) Available-for-sale investments

Available-for-sale investments are those financial assets which are intended to be held for an indefinite period of time, but which may be sold in response to changes in the group's financial environment.

Available-for-sale investments are recognised in the balance sheet on settlement date at fair value. Gains or losses arising from changes in the fair value of such assets are recognised directly in equity, until the asset is either sold or becomes impaired, at which time the cumulative gain or loss previously recognised in equity is released to the income statement. Where the fair value of unlisted equity investments cannot be reliably measured, they continue to be valued at cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)

(n) Impairment of financial assets

The Company assesses at each end of reporting period whether there is objective evidence that financial assets are impaired. Where there is an indication of impairment, an assessment of the difference between the carrying amount and the present value of estimated future cash flows is performed. Any excess of carrying amount over the present value of estimated future cash flows is reduced through the use of an allowances account.

(o) Critical accounting estimates and judgements

There were no critical accounting estimates and judgements applied in the preparation of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)

2. Administrative expenses

	2012	2011
	£'000	£'000
Employee benefit expense (note 5)	5,304	6,072
Services provided by parent company (note 22)	56,412	61,996
Network commissions	3,954	4,483
Other costs	4,961	5,383
	<u>70,631</u>	<u>77,934</u>

3. Other losses

	2012	2011
	£'000	£'000
Exchange rate loss	<u>(44)</u>	<u>(50)</u>

4. Operating profit

Operating profit on ordinary activities before interest and tax after taking into account

	2012	2011
	£'000	£'000
Amortisation charge	20	34
Depreciation charge	60	69
Auditors' remuneration		
audit fees	144	143
other audit related	<u>193</u>	<u>132</u>

5. Employee benefit expense

The number of employees including directors employed by EUI was as follows

	2012	2011
	Number	Number
Total - monthly average for year	<u>77</u>	<u>87</u>
Total - at 31 December	<u>79</u>	<u>77</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**5. Employee benefit expense (continued)**

Employee benefit expense - all employees including directors employed by EUI

	2012	2011
	£'000	£'000
Wages and salaries	3,656	4,062
Social security costs	457	597
Pension costs	378	411
Other benefits (including termination benefits)	255	236
Bonus*	558	766
	<u>5,304</u>	<u>6,072</u>

*The bonus figure represents the amount payable to employees in relation to the performance for the year ended 31 December 2012

6. Pensions

The cost of contributions to the Company Personal Pension scheme in the year was £378,000 (2011: £411,000). There were no outstanding or prepaid contributions at either 31 December 2012 or 31 December 2011. The scheme is classified as a defined contribution scheme.

7. Finance income and costs

	2012	2011
	£'000	£'000
Bank interest income	316	204
Other interest expense	-	(4)
Net finance income	<u>316</u>	<u>200</u>

8. Income Tax Expense

	2012	2011
	£'000	£'000
UK Corporation Tax		
Current tax on income for the year	3,647	4,302
Adjustments in respect of prior years	60	39
Total Current Tax	<u>3,707</u>	<u>4,341</u>
Deferred income tax (note 13)		
Origination/Reversal of timing differences	66	60
Remeasurement due to change in tax rate	9	10
Total Deferred tax	<u>75</u>	<u>70</u>
Tax expense	<u>3,782</u>	<u>4,411</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**8. Income Tax Expense (continued)**

The tax on EUI's profit before tax differs from the theoretical amount that would arise using the average tax rate applicable to profit of the Company as follows:

	2012	2011
	£'000	£'000
Profit before tax	15,022	16,444
UK Corporation Tax at 24.5% (2011. 26.5%)	3,680	4,358
Expenses not deductible for tax purposes	4	4
Adjustments in respect of prior years	89	39
Remeasurement of deferred tax due to change in tax rate	9	10
Tax charge	3,782	4,411

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement.

The current income tax charge is calculated on the basis of the UK tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

A change in the UK main corporation tax rate to 24% was substantively enacted on 26 March 2012 and was effective from 1 April 2012, with a further reduction to 23%, which was substantively enacted on 3 July 2012 and will be effective from 1 April 2013.

The change in the previously announced phased reduction of 2012 gave rise to an adjustment of £9,000 in the calculation of deferred tax, which is now measured at 23%.

An announcement has been made during the year to further reduce the main rate from 23% to 22% from 1 April 2014. This expected change had not been substantively enacted at the end of the reporting period, therefore has not been reflected in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**9. Intangible assets**

	Internally developed software £'000	Purchased software £'000	Total £'000
Cost			
At 1 January 2012	24,724	3,190	27,914
Additions	-	-	-
At 31 December 2012	<u>24,724</u>	<u>3,190</u>	<u>27,914</u>
Accumulated amortisation			
At 1 January 2012	24,724	3,161	27,885
Charge for the period	-	20	20
At 31 December 2012	<u>24,724</u>	<u>3,181</u>	<u>27,905</u>
Net book value at 31 December 2012	<u>-</u>	<u>9</u>	<u>9</u>
Net book value at 31 December 2011	<u>-</u>	<u>29</u>	<u>29</u>

Internally developed software consists entirely of the CREST system which has been fully amortised and continues to be in use

10. Property, plant and equipment

	Furniture and fixtures £'000	Office equipment £'000	Communications equipment £'000	Total £'000
Cost				
At 1 January 2012	69	19	667	755
Additions	-	-	47	47
At 31 December 2012	<u>69</u>	<u>19</u>	<u>714</u>	<u>802</u>
Accumulated depreciation				
At 1 January 2012	65	7	570	642
Charge for the period	3	3	54	60
At 31 December 2012	<u>68</u>	<u>10</u>	<u>624</u>	<u>702</u>
Net book value at 31 December 2012	<u>1</u>	<u>9</u>	<u>90</u>	<u>100</u>
Net book value at 31 December 2011	<u>4</u>	<u>12</u>	<u>97</u>	<u>113</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**11. Investments in subsidiary undertakings**

		2012	2011
		£	£
Investments in subsidiary undertakings		7,008	7,008
Subsidiary undertakings		Cost of Investments	
	Holding	2012	2011
	Equity Shares	£	£
<i>In the name of Euroclear UK & Ireland Limited</i>			
CREST Stamp Nominee (No 1) Limited	100%	2	2
CREST Stamp Nominee (No 2) Limited	100%	2	2
Trinity Nominees Limited	100%	2	2
CREST Depository Limited	100%	7,000	7,000
CRESTCo Limited	100%	2	2
<i>In the name of CREST Depository Limited</i>			
CREST International Nominees Limited	100%	2	2
CREST Client Tax Nominee (No 1) Limited	100%	2	2
CIN (Belgium) Limited	100%	2	2

The principal activity of CREST Stamp Nominee (No 1) Limited is the collection of UK Stamp Duty Reserve Tax on behalf of HM Revenue & Customs. The principal activity of CREST Stamp Nominee (No 2) Limited is the collection of Irish Stamp Duty on behalf of the Irish Revenue Commissioners.

The principal activities of CREST Depository Limited, CREST International Nominees Limited, CREST Client Tax Nominee (No 1) Limited and CIN (Belgium) Limited are in connection with the provision of the CREST custody service for international securities.

Trinity Nominees Limited and CRESTCo Limited did not trade during the year.

All the subsidiary companies are incorporated in England and Wales.

12. Other non-current assets

	2012	2011
	£'000	£'000
At 1 January	7	7
Gains/(losses) transfer to equity	5	-
At 31 December	12	7

The other financial assets represent a holding of 2 26795 (2011: 2 26795) common stock in the Depository Trust and Clearing Corporation (DTCC), an unlisted entity, which is required to support membership of the DTCC system. These shares are held in a nominee capacity via CIN (Belgium) Limited. The investment is designated in US dollars.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**13. Deferred tax asset**

The gross movement on the deferred income tax account is as follows

	2012 £'000	2011 £'000
Beginning of the year	296	366
Income statement charge	(104)	(70)
Adjustment in respect of prior years	29	-
End of year	<u>221</u>	<u>296</u>

A deferred tax asset has been recognised at 31 December 2012 on temporary timing difference arising between the tax basis of accounting for assets and liabilities and their carrying values in the Financial Statements. The asset will be recovered against the expected future profits of the Company.

14. Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	588	385
Amounts owed by group undertakings (note 22)	1,184	87
Other debtors	403	231
Tax and social security	308	-
Prepayments	314	347
Accrued income	<u>6,165</u>	<u>6,609</u>
	<u>8,962</u>	<u>7,659</u>

Amounts owed by group undertakings are categorised as loans and receivables and are short-term, hence their carrying value is a reasonable approximation of their fair value.

15. Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	33,336	8,245
Short-term bank deposits (less than three months)	<u>37,500</u>	<u>56,338</u>
	<u>70,836</u>	<u>64,583</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**16. Trade and other payables**

Current	2012 £'000	2011 £'000
Trade creditors	315	221
Amounts owed to group undertakings (note 22)	467	2,214
Other creditors	447	827
Tax and social security	-	1,170
Employee benefits	702	908
Accruals and deferred income	3,048	3,297
	<u>4,979</u>	<u>8,637</u>

All amounts owed to group undertakings are due on receipt of invoice

All current trade and other payables are due within six months

17. Share capital

	2012 £	2011 £
Authorised, allotted and fully paid share capital:		
24,060,400 (2011 24,060,400) Ordinary Shares of 25 pence each	<u>6,015,100</u>	<u>6,015,100</u>

18. Management of capital

The Company considers the following to be elements of its capital:

- Called up share capital
- Share premium reserve
- Retained earnings

The Company is required by the Financial Services Authority (FSA) to retain financial resources (i.e. liquid financial assets and net capital) sufficient for the proper performance of its regulated activities. The FSA monitors compliance with this based upon 150% of the Financial Resources Requirement, which is calculated as six months cash operating expenses relevant to the delivery of the regulated services.

The above requirement has been met consistently throughout the year.

It is the policy of EUI to maintain high levels of liquidity. Capital is held in the form of cash deposits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)

19. Contingent liabilities

As part of the corporate restructuring arrangements effected in 2005, the property leases held by EUI were novated to Euroclear SA/NV. In 2012 there was a partial surrender and extension of the lease of the premises at 33 Cannon Street. Under the terms of the lease the landlord requested EUI guarantee the rent, currently £2,409,000 per annum (2011: £4,102,000) until the end of the lease in 2026. The total contingent liability is £31,724,000 (2011: 29,399,000).

20. Future commitments

As part of the transfer of the EMX business, EUI has adopted EMX Company Limited's commitment to discount the future charges (in respect of the use of the EMX system) of the four original system sponsors. The current aggregate value of £359,055 is to compensate all sponsors for the expenditure incurred at the outset of the system development. The commitment is limited to £15,000 per annum per sponsor. Compensation is provided via usage of the EMX system, if usage of the system is discontinued then EUI will be released from the commitment.

21. Ultimate parent company

EUI is a wholly owned subsidiary of Euroclear SA/NV, which is incorporated in Belgium. The ultimate parent and the controlling entity is Euroclear plc, which is incorporated in England and Wales.

The largest group in which the results of EUI and its subsidiaries are consolidated is that of Euroclear plc. The smallest group in which the results of EUI and its subsidiaries are consolidated is that of Euroclear SA/NV.

The registered office of EUI is 33 Cannon Street, London EC4M 5SB. Copies of the Euroclear plc group financial statements and the Euroclear SA/NV financial statements can be obtained from this address.

22. Related party transactions

EUI has entered into various agreements with group entities for the provision of services. These are priced on an arm's length basis in accordance with the group's intercompany transaction policy.

Services provided by the parent are invoiced monthly and settled by way of a monthly prepayment. At the end of the year a final adjustment for each invoice is prepared.

Other services are either invoiced subsequent to the service being provided, or on a quarterly or annual basis if the service is ongoing. All invoicing is in accordance with agreed arrangements for that particular service.

None of the intercompany charges is secured.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**22. Related party transactions (continued)**

The following transactions have been made with related parties during the year

Related Party	Services provided (by)/to the group	Revenue		(Charge)	
		2012	2011	2012	2011
		£'000	£'000	£'000	£'000
Parent	IT Services	-	-	(35,940)	(44,144)
	Commercial, Product Management & Strategy	-	-	(6,690)	(8,320)
	Support Services	-	377	(13,782)	(9,532)
	Dividend Paid	-	-	-	(10,901)
Fellow subsidiaries	Commercial, Product Management & Strategy	201	195	(1,289)	(1,818)
	Support Services	262	267	(66)	-
	Royalty Payment	-	-	(354)	(327)
Other	Other services	-	-	(17)	(11)

Related Party	Receivable		(Payable)	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Parent	1,152	-	-	(1,779)
Fellow subsidiaries*	32	170	(454)	(432)
Other	-	-	(13)	(3)

*of the total receivable for 2012, none (2011 £83,000) represents cash and cash equivalents (note 15)

KEY

Parent Euroclear SA/NV

Fellow subsidiaries Euroclear Bank, Euroclear Nederland, Euroclear France, Euroclear Sweden, EMX Company Limited and Xtrakter Limited

Other Euroclear Investments

Key management personnel remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity or of the parent of the entity

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)****22. Related party transactions (continued)**

The Board considers key management personnel to comprise the directors of EUI and the Group as well as members of EUI's Executive Committee. The following information is presented only in respect of those members of key management personnel who have rendered services to EUI.

	2012	2011
	£'000	£'000
Short-term employee benefits	820	806
Post employment benefits	13	42
Other long-term benefits	46	71
Total remuneration and compensation	879	919

Directors' emoluments

The following information is presented only in respect of the directors of EUI. At 31 December 2012, the number of directors and non-executive directors was 5 (2011: 6). Of these, 2 did not receive any remuneration from EUI (2011: 4). The number of directors and non-executive directors who participate in the defined contribution pension scheme is 0 (2011: 0).

	2012	2011
	£'000	£'000
Aggregate remuneration	406	397
Short-term employee benefits	2	13
Long-term benefits	46	53
Total remuneration and compensation	454	463

The emoluments of the highest paid director

Aggregate remuneration	266	341
Short-term employee benefits	1	13
Long-term benefits	34	53
Total remuneration and compensation	301	407

The highest paid director has not exercised any share options or received any shares under a long term incentive scheme for the year ending 31 December 2012.

For 2012, the National Bank of Belgium (NBB) must approve the compensation principles for certain members of Euroclear senior management. This review process is being finalised but the written approval will most likely not be received until after the 2012 consolidated financial statements have been reviewed and approved by the Board. The amounts for 2012 above therefore include the level of variable remuneration as approved by the respective Remuneration Committees/Boards during 2012 and the currently expected allocation between short-term and long term benefits. Material changes, if any, will be explained in the 2013 consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)

23. Monies held in trust

Two of the subsidiary companies of EUI hold monies in trust as disclosed below

Subsidiary	Held in trust for	2012 £'000	2011 £'000
CREST Stamp Nominee (No 1) Limited	HM Revenue and Customs	75,891	52,831
CREST Stamp Nominee (No 2) Limited	Irish Revenue Commissioners	8,133	10,972

24. Financial risk management

The Company's activities expose it to a variety of financial risks (including currency risk, cash flow interest rate risk and credit risk) The Company manages these risks through various control mechanisms

Overall responsibility for risk management rests with the Board of EUI Day to day responsibility is delegated to the Executive Committee.

Additional information on EUI's financial risk management policies has been included in the Directors' Report

(a) Management of market risk

Market risk is the uncertainty on future earnings and on the value of assets and liabilities (on or off the statement of financial position) due to changes in interest rates and foreign exchange rates Market risk comprises currency risk, interest rate risk and other price risk

(i) Currency risk

The Euroclear Group operating model is designed to facilitate the supply of services between entities in different locations, including to EUI from various European countries Foreign exchange risk arises from the supply of services where the underlying cost has been accounted for in Euro Related party transactions are accounted for in GBP This mitigates a significant proportion of the Company's exposure to foreign exchange risk arising from currency exposures

A consistent approach has been applied to the management of foreign currency transactions A group view is taken in relation to the requirement for hedging exchange rate exposure, given the bi-directional flows of recharge arrangements

The Company does not actively hedge against currency exposures

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)

24. Financial risk management (continued)

The Company has no significant investments in foreign operations

(ii) Interest rate risk

Interest rate risk arises on interest-bearing assets (e.g. loans, deposits placed and receivables) and borrowings

The Company's exposure to interest rate risk in relation to interest expense is minimal, as EUI does not maintain overdrafts or loans

The average rate of interest received in the year was 0.36% (2011: 0.27%). If the average interest rate in the year had been 1.36% (2011: 1.27%), the resulting effect would be an increase in revenue of £1.6 million (2011: £1.7 million). This would have increased profit before tax for the year by 10% (2011: 10%).

The Company employs a prudent treasury policy whereby surplus funds are placed on money market deposit for periods of up to six months. Interest rates obtained are monitored to ensure that interest income is maximised.

(iii) Price risk

The Company does not hold investments or trade in any financial instruments where value fluctuates with market prices (with the exception of the other financial asset disclosed in note 12).

(b) Management of credit risk

Credit risk is the risk that EUI is exposed to loss if another party fails to perform its financial obligations to the Company. Credit risk exposure is minimised as

- The majority of customers are regulated entities: more than 70% (by value of fees) are entities subject to capital adequacy requirements, and
- Customers largely settle amounts by monthly direct debit.

Exposure to credit risk is monitored on an ongoing basis through regular review of customer's outstanding balances. Exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position. At the end of the reporting period there were no significant concentrations of credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(continued)**24. Financial risk management (continued)**

Impairment provisions are provided for balances which are considered to be at risk and could result in a loss to the Company. These balances are identified as other parties in administration. Further analysis of trade receivables by payment due status is provided in the table below.

	2012	2011
	£'000	£'000
Neither past due or impaired	164	34
Past due but not impaired		
less than 6 months	306	309
6 to 12 months	37	20
over 12 months	81	22
	588	385
Impaired		
less than 6 months	-	51
6 to 12 months	6	10
over 12 months	131	121
	137	182

(c) Management of liquidity risk

Liquidity risk is the risk that EUI, though solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due.

Responsibility for EUI's liquidity has been delegated by the Board to the Executive Committee. Cash reserves are managed to ensure that EUI is able to meet its financial obligations at all times. As detailed in note 1(I), EUI holds most of its liquid assets in the form of cash or cash equivalents, which give rise to little or no liquidity risk.

In addition, the Financial Services Authority has set a Financial Resources Requirement which requires that sufficient liquid financial assets are retained. Monthly reports are filed with the FSA to evidence that the requirement is met.

25. Events after the reporting period

There were no events after the reporting period that have a material impact on the financial performance or position of the Company.