(Registered Number: 07611628)

LME Clear Limited

Directors' report and financial statements

31 December 2018

LME Clear Limited

Directors and Independent auditors

Directors
The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Directors

M J Chamberlain	
R P Chai	(appointed 31 July 2018)
A J W Farnham	
M L Humphery	
R Lamba	(appointed 31 July 2018)
K B Patel	(resigned 28 May 2018)
T W Spanner	(resigned 28 May 2018)
M Strimer	
A J Stuart	
R S Thornhill (Chairman)	
S K W Yiu	

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside, London SE1 2RT

LME Clear Limited

Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2018. The business review should be read in conjunction with the Directors' report on pages 6 to 8.

Review of the business

In 2018 volumes traded on the LME totalled 185 million lots (2017: 157 million), which represents an increase of 17.8% in volumes compared to 2017. Chargeable average daily volume (ADV) increased 5% compared to 2017. Chargeable ADV excludes admin trades, which were introduced during 2017 to assist LME members in complying with certain regulatory obligations arising from MiFID II.

The month of April 2018 recorded exceptionally high chargeable ADV, substantially driven by volatility that arose from the US Treasury Department's decision to impose sanctions on Rusal. The LME responded by temporarily suspending further warranting of Rusal aluminium on 17 April 2018, whilst still allowing warranting of metal supplied prior to 6 April 2018. When excluding the high chargeable ADV in the month of April, chargeable ADV increased 2% compared to 2017.

LME Gold and Silver contracts (LMEprecious) achieved total trading volumes of 148,566 and 732,188 in their first full year of trading following their launch in July 2017. LME Gold had a record trading day on 21 February 2018, with 14,801 lots of gold traded. Contract liquidity remains strong and has increased since launch. Following demand from market participants, the LME also launched an Asian hours' liquidity provision programme on 1 June 2018 for LMEprecious contracts.

2018 also saw continued growth across the LME Ferrous suite, with the scrap contract further cementing its position as a globally used benchmark, and a combined ADV of 2,131 lots, representing a 44% increase year-on-year.

LME Clear has continued to deliver its Strategic Pathway initiatives. The short- and medium-dated carry fee reductions introduced in 2017 were made indefinite in September 2018. Volumes in 2018 for medium-dated carries have continued to grow, ADV for medium-dated carries is up 21% against Jan-Sept 2017 (pre-discounts). In addition, enhancements to the warrants-as-collateral service, which allows members to pledge LME warrants against their margin requirements was delivered.

Associated with the continuation of the Strategic Pathway LME Clear continued to invest in its information technology. During the year the LME Clear had additions to its intangible assets of $7,262,000 (2017: $5,600,000) in respect of its computer systems following several system upgrades.

<u>Key performance indicators (KPIs)</u>
Member satisfaction, the delivery of cost effective services and critical system availability remain important measures of performance for LME Clear. Management employs commercial KPIs including clearing volume and capital ratios.

Financial KPIs include total revenues, total expenses, earnings before interest, tax and depreciation (EBITDA) and profit after tax. In respect of capital, the key performance indicator is compliance with regulatory capital requirements set by the Bank of England (BoE).

Against these KPIs 2018 saw a 5% growth in Average Daily Volume. Additionally during 2018 there were no material critical system outages and LME Clear continued to develop its systems in order to deliver the Strategic Pathway initiatives and be ready to clear new contracts planned to be launched by the LME in 2019.

The LME Clear's revenues and other income increased by 2%. Whilst ADV grew, clearing fee revenue decreased by 6% as a result of the fee discounts introduced for short and medium-dated carry trades. The decrease in clearing fee revenue was offset by increases in other income and net

Strategic report (continued)

Review of the business (continued)

investment income. EBITDA and PAT were lower year on year due to an increase in operating expenses of 22%. Operating expenses increased as LME Clear continued to invest in systems and people to support the business and a charge in respect of licensed rights from the LME to LME Clear. LME Clear continued to hold sufficient capital to meet its requirements set by the BoE (see note 17). The results show a profit before tax for the year of $35,710,000 (2017: $44,945,000), and after accounting for taxation profit of $29,070,000 (2017: $36,458,000).

Derivative financial assets and liabilities in respect of open clearing positions with members as at 31 December 2018 were $6,886,234,000 (2017: $10,916,169,000). The movement during 2018 is as a result of decreasing metal prices, reduction in member open interest.

Cash and cash equivalents as at 31 December 2018 were $7,361,177,000 (2017: $11,631,051,000). The movement during 2018 was due to lower initial and variation margin from members.

As at 31 December 2018 the Company had net assets of $209,489,000 (2017: $241,919,000), margin deposits of $6,500,369,000 (2017: $10,708,919,000) and default funds of $1,091,052,000 (2017: $1,172,820,000).

No final dividend is proposed in respect of 2018 (2017: $nil). The Company paid an interim dividend of $61,275,001 in the year (2017: $21,500,000).

Strategy

The Company's strategy continues to focus on clearing the existing contracts traded on the LME. In addition, the Company will also seek to clear any new products developed by the LME and to diversify its clearing services to existing and prospective members.

LME Clear continues to work alongside the LME on all the initiatives outlined in the Strategic Pathway and deliveries will continue throughout 2019, starting with the launch (subject to regulatory non-objection) of seven new cash settled products.

The Company will seek to assist the ultimate parent company, Hong Kong Exchanges and Clearing Limited (HKEX)'s vision to build a leading global multi asset class exchange and associated clearing business, and capitalise on new opportunities arising, including those from the further development of China's financial markets.

Business environment

The Company operates in a highly regulated, competitive and technology-intensive environment. Against this background, the Company will continue to offer robust and resilient clearing services and improve its offering to its members.

In light of the continuing uncertainty concerning the terms on which the UK will leave the European Union (EU), Brexit contingency planning has been a central priority for LME Clear throughout 2018. Further information is set out below.

Principal risks and uncertainties

As a CCP the Company is the counterparty to every matched trade. It acts as a buyer to every seller and the seller to every buyer and as a result it recognises derivative instruments in respect of both sides of the trade. During the life of a trade the Company processes all cash flows, marks the trade to market and calls collateral in the form of variation and initial margin in relation to the risk of the portfolio, this process is called clearing. If either party defaults on the trade the Company owns the defaulter's risk and becomes accountable for its liabilities. In the event of default the collateral held by the Company is used to fulfil the failed organisation's obligations, which ensure that the party on the other side of the trade is not negatively impacted by the default.

Strategic report (continued)

Principal risks and uncertainties (continued)

The Company's activities as a CCP expose it to a number of risks, including market risk, credit risk and liquidity risk. The Company manages these risks through various control mechanisms which are discussed in detail in note 18. Central to the CCP's risk process is its ability to collect quality collateral from its members as support for their positions.

Cash collateral collected from clearing participants is invested in high quality liquid assets to minimise liquidity risk. The Company avoids foreign exchange risk by investing cash collateral in the same currency in which it is received.

The management views the principal risks and uncertainties that face the Company as those inherent to the provision of clearing services.

Brexit

The principal risk facing LME Clear as a result of Brexit is that certain LME Clear members may face restrictions to clearing their positions after the UK's exit and that the LME's members can no longer access the market.

LME Clear has been putting in place a broad set of contingency plans based on a number of potential outcomes, with a view to such plans being operationally ready for the date of the UK's exit from the EU. The contingency planning has included the possibility of a no-deal, no transitional Brexit.

LME Clear's contingency planning is based on the following three key priorities:

1) Ensuring continued member access to LME trading systems;

2) Continued access to clearing services through LME Clear, and

3) Operational readiness in order to manage any additional regulatory obligations that may arise were there to be an interim period without the LME being granted trading venue equivalence.

LME Clear alongside LME has sought to address these key priorities as follows:

1) The LME has analysed the requirements in place in each jurisdiction from which its Members propose accessing its trading systems following Brexit. It has then sought to ensure the LME has the appropriate permissions in place to maintain Member access in those jurisdictions. As a result the LME has submitted an application to BaFin in Germany for a third country trading venue licence and an application to the AFM in the Netherlands for dispensation from the requirement to be licenced as a third country trading venue. No licence is required in France, Ireland, Cyprus or Norway and accordingly Members proposing to access the LME's trading systems from those jurisdictions will be able to continue doing so following Brexit.

2) LME Clear submitted an application to ESMA which has adopted a decision to recognise LME Clear as a third country CCP under EMIR effective from the date the UK leaves the EU. As a result, in the event of no deal being reached between the UK and the EU, LME Clear will be able to continue to provide clearing services in the EU.

   The European Commission has not provided an equivalence decision in relation to UK trading venues.mission in December 2018 therefore LME Clear is able to continue toh determination once it has left the EU. However there could be an interim period during which UK regulated markets will not be considered as equivalent. As such contracts traded on the LME market will be designated as Over the Counter ring rather than Exchange Traded Derivatives (ETD) for the purpose of European Law.atives unter ring which UK regulated markets will not be considered as equivalent

Strategic report (continued)

Principal risks and uncertainties (continued)

Brexit (continued)

3) Additional regulatory obligations may arise as a result of the reclassification of LME contracts to OTC. The LME continues to work to identify what these obligations may be for its members and their clients.

This summary reflects the key risks we have identified over the course of our Brexit planning activity. LME Clear remains aware that there are a number of unknowns even at this late stage of the process in terms of what shape the future relationship between the UK and the EU may take. As a result, LME Clear remains cognitive of needing to adapt its approach as required to mitigate new risks as they arise wherever possible.

Competition
The Company operates in a highly competitive environment, and works closely with market users to understand their needs. Through this inclusive and consultative approach, combined with a focus on offering cost-effective solutions, the Company seeks to ensure its clearing offering remains competitive.

The Company utilises leading edge real-time risk management technology to provide resilient, innovative and cost-effective clearing house services which meet the needs of market users.

Operational and system resilience
With the ever increasing reliance placed on technology, the Company acknowledges the need to promote and maintain high degrees of operational and system resilience. In addition cyber risk is on the rise with financial services companies among the most heavily targeted. In order to mitigate the risks LME Clear continues focus on its people, processes and technology. LME Clear assesses the risks in its processes on an ongoing basis and seeks to continually improve processes and technology to mitigate those risks. LME Clear has an operational incident process whereby when an incident is experienced the incident is managed through the event and learnings from it are identified which may then result in changes to processes or technology. LME Clear continues to make significant technology investments, including cyber security detection and response, as well as application upgrades to the LMEmercury clearing platform. To assist it in maintaining high levels of operational and systems resilience LME Clear maintains a dual data centre approach.

Regulation and compliance
The Company closely monitors regulatory developments, arising from the EU or overseas, that could impact its business The Company also maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. The implementation of a demanding and still evolving regulatory agenda and other market developments means that regulatory and compliance risk are key risks.

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2018.

Incorporation

The Company is a private limited company (limited by shares), incorporated in the United Kingdom, England and Wales on 21 April 2011. It is domiciled in the United Kingdom (UK) and registered in England and Wales.

Principal activities

The Company is a Clearing House authorised under the European Market Infrastructure Regulation (EMIR). The Company acts as a central counterparty (CCP) for exchange contracts traded on the LME. The clearing service principally provides counterparty risk mitigation services for its clearing members.

Results and dividend

The profit before tax for the year ended 31 December 2018 was $35,710,000 (2017: $44,945,000) and after accounting for taxation was $29,070,000 profit (2017: $36,458,000).

The Directors do not propose the payment of a final dividend (2017: $nil). The Company paid an interim dividend of $61,275,001 in the year (2017: $21,500,000).

Fixed assets

Movements in intangible assets and property, plant and equipment are shown in notes 7 and 8 to the financial statements.

Charitable donations

The Company made $29,770 (2017: $nil) of charitable donations during 2018.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

The Company's Articles of Association provide an indemnity (the Indemnity) for each Director of the Company. The Indemnity, which constitutes a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006, was in force during the 2018 financial year and remains in force. Directors' and officers' insurance cover is also maintained for Directors of the Company.

Future developments

Company continues to invest in its core clearing and technology services to ensure it remains competitive and continues to offer innovative and cost-effective clearing services for members of the clearing house. The Strategic Pathway set out LME Clear' s proposed route to further develop the market on the basis of four key principles: serve the physical market, ensure fairness, increase user choice and maximise trading efficiency. The key projects and changes for LME Clear over the next three years include an optional T2 model, change to VAR margin methodology from SPAN and a possible move to realised variation margin.

Directors' report (continued)

Financial risk management

Information in respect of the Company's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, credit risk, liquidity risk and capital risk management is provided in note 18 to the financial statements.

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic report, 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 EU. 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 EU, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each person who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) each Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' report (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed to the shareholder.

Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Strategic report and Directors' report were approved by the Board of Directors and signed on its behalf by:

A. Farnham
Director
22 February 2019
LME Clear Limited
Registration number 07611628

Independent auditors’ report to the members of LME Clear Limited

Report on the audit of the financial statements

Opinion
In our opinion, LME Clear Limited’s financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the ‘Annual report’), which comprise: the Statement of financial position as at 31 December 2018; the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company’s ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company’s trade, customers, suppliers and the wider economy.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

Independent auditors' report to the members of LME Clear Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of LME Clear Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Use of this report
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.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Paolo Taurae

Paolo Taurae (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 February 2019

LME Clear Limited

Statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 $ 000's	2017 $ 000's
Revenue			
Clearing and settlement fees		65,823	69,735
Other revenue		4,454	3,486
Interest income		152,838	89,093*
Interest expense		(129,712)	(71,038)
Net interest income		23,126	18,055*
Revenue and other income		93,403	91,276
Operating expenses	5	(57,001)	(46,843)
Other (losses)/gains		(692)	512
Profit before tax	4	**35,710**	**44,945**
Taxation	6	(6,640)	(8,487)
Profit for the year		29,070	36,458
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		(23)	23
Changes in fair value of financial assets measured at fair value through other comprehensive (expense)/income		(156)	-
Other comprehensive (expense)/income		**(179)**	**23**
Total comprehensive income		**28,891**	**36,481**

** Restated. Refer to note 1.1*

No final dividend is proposed in respect of 2018 (2017: $nil). The Company paid interim dividends of $61,275,001 in the year (2017: $21,500,000).

All of the profits and comprehensive income included above are derived from continuing operations.

The notes on pages 16 to 48 are an integral part of these financial statements.

LME Clear Limited

Statement of financial position
As at 31 December 2018

	Note	At 31 December 2018 $ 000's	At 31 December 2017 $ 000's
Assets			
Non-current assets			
Intangible assets	7	22,897	25,923
Property, plant and equipment	8	1	27
Deferred tax asset	9	158	430
		23,056	**26,380**
Current assets			
Trade and other receivables	10	5,829	5,966
Cash and cash equivalents	11	7,361,177	11,631,051
Financial assets measured at amortised cost		29,912	80,218
Financial assets measured at fair value through profit or loss	13	-	390,355
Financial assets measured at fair value through other comprehensive income	13	390,022	-
Derivative financial asset	13	6,886,234	10,916,169
		14,673,174	**23,023,759**
Liabilities			
Current liabilities			
Trade and other payables	12	6,430	6,556
Derivative financial liabilities	13	6,886,234	10,916,169
Members' contribution to clearing house funds	13	1,091,052	1,172,820
Margin deposits from clearing participants	13	6,500,369	10,708,919
Taxation payable		2,260	3,323
Amount due to fellow undertaking	19	260	145
		14,486,605	**22,807,932**
Net current assets		**186,569**	**215,827**
Non-current liabilities			
Deferred tax liability	9	136	288
		136	**288**
Net assets		**209,489**	**241,919**
Equity			
Share capital	14	178,701	178,701
Foreign currency translation reserve		(1,363)	(1,363)
Hedging reserve		-	23
Revaluation reserve		(695)	-
Retained earnings		32,846	64,558
Total equity		**209,489**	**241,919**

These financial statements, including the notes on pages 16 to 48 were approved by the Board of Directors and signed on its behalf by:

A Farnham
Director
22 February 2019

LME Clear Limited

Statement of changes in equity
For the year ended 31 December 2018

	Share capital (note 14)	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At 1 January 2018 as previously reported	**178,701**	**(1,363)**	**23**	**-**	**64,558**	**241,919**
Effect of adoption of IFRS 9	-	-	-	(539)	539	-
At 1 January 2018	**178,701**	**(1,363)**	**23**	**(539)**	**65,097**	**241,919**
Profit for the year	-	-	-	-	29,070	**29,070**
Other comprehensive expense – cash flow hedge and revaluation reserve	-	-	(23)	(156)	-	**(179)**
Total comprehensive income	-	-	**(23)**	**(156)**	**29,070**	**28,891**
Tax in respect of share schemes	-	-	-	-	(46)	**(46)**
Transactions with shareholder - Interim dividend	-	-	-	-	(61,275)	**(61,275)**
At 31 December 2018	**178,701**	**(1,363)**	**-**	**(695)**	**32,846**	**209,489**

For the year ended 31 December 2017

	Share capital (note 14)	Foreign currency translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
At 1 January 2017	**178,701**	**(1,363)**	**-**	**-**	**49,466**	**226,804**
Profit for the year	-	-	-	-	36,458	**36,458**
Other comprehensive expense – cash flow hedge and revaluation reserve	-	-	23	-	-	**23**
Total comprehensive income	-	-	**23**	**-**	**36,458**	**36,481**
Tax in respect of share schemes	-	-	-	-	134	**134**
Transactions with shareholder - Interim dividend	-	-	-	-	(21,500)	**(21,500)**
At 31 December 2017	**178,701**	**(1,363)**	**23**	**-**	**64,558**	**241,919**

The notes on pages 16 to 48 are an integral part of these financial statements.

LME Clear Limited

Statement of cash flows
For the year ended 31 December 2018

	Note	2018 $ 000's	2017 $ 000's
Cash flows from operating activities			
Net cash (outflow) /inflow from operating activities	15	**(4,193,634)**	**2,456,406**
Tax paid		(7,703)	(9,598)
Net cash (outflow) / inflow from operating activities		**(4,201,337)**	**2,446,808**
Cash flows from investing activities			
Purchase of intangible assets	7	(7,262)	(5,600)
Purchase of property, plant and equipment	8	-	(26)
Net cash outflow from investing activities		**(7,262)**	**(5,626)**
Cash flows from financing activities			
Dividends paid	16	(61,275)	(21,500)
Net cash outflow from financing activities		**(61,275)**	**(21,500)**
Net (decrease) / increase in cash and cash equivalents		**(4,269,874)**	**2,419,682**
Cash and cash equivalents at the beginning of year		11,631,051	9,211,369
Cash and cash equivalents at the end of year		**7,361,177**	**11,631,051**

The notes on pages 16 to 48 are an integral part of these financial statements.

1 Significant accounting policies

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

1.1 Basis of preparation

The Company's financial statements have been prepared on a going concern basis, in accordance with IFRS and the IFRS Interpretations Committee (IFRS IC) interpretations adopted by the EU, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company's financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value, and on the basis of the principal accounting policies set out below.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These estimates and assumptions are based on historical experience and other factors that are considered to be relevant. The areas involving a higher degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The comparatives presented in the statement of comprehensive income have been restated reflecting a change in the presentation of interest income. In the prior period net investment income was disclosed separately to interest income. There is no change to total revenue and other income.

1.2 New and amended standards adopted by the Company

In 2018, the Company has adopted the following new/revised IFRSs which were effective for accounting periods beginning on or after 1 January 2018:

- IFRS 9 – 'Financial instruments'
- IFRS 15 – 'Revenue from contracts with customers'
- IFRIC 22 – 'Foreign currency transactions and advance consideration'

IFRS 9 replaces the provisions of IAS 39 'Financial Instruments: Recognition and Measurement'. The new accounting policies are set out in note 1.10.

The adoption of IFRS 9 primarily affected the classification of debt securities held for margin funds. Historically, debt securities held for margin funds amounting to $390 million were classified as financial assets measured at fair value through profit or loss. Under IFRS 9, they satisfy the conditions for classification as financial assets measured at fair value through other comprehensive income. Accordingly, the related cumulative fair value gains as at 31 December 2017 of $0.5 million have been transferred from retained earnings to the revaluation reserve on 1 January 2018. Subsequent changes in fair value of these debt securities are recognised in the revaluation reserve. Interest income, foreign exchange differences, impairment losses, and gains or losses on disposal of these debt securities will continue to be recognised in the statement of comprehensive income.

The new impairment model under IFRS 9 also requires the recognition of provision for impairment losses based on expected credit losses rather than incurred credit losses. There was no material change in the amount of provision for impairment losses required under the expected credit loss model compared with the incurred credit loss model, and there was no material financial impact on such change at 1 January 2018, 31 December 2018, and for the year ended 31 December 2018.

1 Significant accounting policies (continued)

1.2 New and amended standards adopted by the Company (continued)

The adoption of the other new/revised IFRSs from 1 January 2018 have had no material effect on the Company's results.

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not adopted early

The Company has not applied the following new interpretation to IFRSs which was issued before 31 December 2018 and is pertinent to its operations but not yet effective:

- IFRIC 23 - 'Uncertainty over income tax treatments'

The adoption of IFRIC 23 does not have any financial impact on the Company. There are no other new/revised IFRSs not yet effective that are expected to have any impact on the Company.

1.4 Revenue and other income recognition

Revenue and other income excludes value added tax or other sales tax, and is recognised in the statement of comprehensive income on the following basis:

i) Fees for the clearing of trades between members transacted on the London Metal Exchange (LME) are recognised in full on the trade date (or trade match date, if later).

ii) Fees for settlement transactions are recognised upon completion of the settlement.

iii) Other revenue comprises:

- membership fees are recognised on a straight-line basis over time as the performance obligation is satisfied.
- reporting fees in respect of LMEWire are recognised when the related services are rendered.
- Non-cash collateral fees are charged in connection with custody of non-cash collateral provided by clearing members and are included in other revenue. Recognition is on an accruals basis as the performance obligation is satisfied.

iv) Net interest income comprises:

- Interest income is income earned from short term investments and interest charged to clearing members. Interest charged is based on the LME Clear deposit rate. Interest income is recognised on a time apportionment basis using the effective interest rate method.
- Interest expense is interest payable to clearing members. Interest payable is based on the LME Clear deposit rate. Interest expense is recognised on a time apportionment basis using the effective interest rate method.

Deferred revenue (the terminology "contract liability" under IFRS 15 is presented as deferred revenue) is recognised when the customers pay considerations before the Company transfers control of the goods or satisfies a performance obligation. This represents the unsatisfied performance obligations at year end resulting from long-term contracts.

1 Significant accounting policies (continued)

1.5 Staff costs and other expenses

The Company awards shares under the HKEX Group (Group) Share Award Scheme (Share Award Scheme), under which the Group receives services from employees as consideration for share awards granted under the Share Award Scheme (Awarded Shares). The fair value of the employee services received in exchange for the Awarded Shares is recognised as employee share-based compensation expense.

The corresponding credit is recorded as a capital contribution in the Company's financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEX is offset against the capital contribution.

The total amount to be expensed is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the vesting periods, with a corresponding credit to equity. The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount the Company expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Other expenses are charged to the statement of comprehensive income as incurred.

1.6 Intangible assets

Intangible assets consist of computer software-related projects capitalised when the development stage of the project is completed and the asset can be put in to use. Development costs that are directly attributable to the design and testing of identifiable and unique systems controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the system so that it will be available for use;
- management intends to complete the system and use or sell it;
- there is an ability to use or sell the system;
- it can be demonstrated how the system will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the system are available; and
- the expenditure attributable to the system during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Costs associated with maintaining computer systems are recognised as expenses as incurred.

System development costs recognised as assets are over their estimated useful lives on a straight line basis, which do not exceed five years.

The Company selects its amortisation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements, obsolescence and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Company's circumstances. Residual values and economic lives are reviewed at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Capitalised assets under development which are not yet ready for use are not amortised but are reviewed for impairment at each balance sheet date.

1 Significant accounting policies (continued)

1.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. They are depreciated when they are available for use and at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight line basis. The residual values and useful lives are reviewed at the balance sheet date.

Computer systems and equipment (hardware) - three years.

Furniture, fixtures and fittings - three to five years.

Qualifying software system development expenditure and directly attributable costs are capitalised and recognised as a fixed asset if the software forms an integral part of the hardware on which it operates.

1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and other short-term highly liquid investments and reverse repurchase arrangements that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of three months or less.

Reverse repurchase agreements are recorded in the statement of financial position within cash equivalents, reflecting the nature of these arrangements as short-term highly liquid investments as defined in the previous paragraph. Securities purchased under these agreements and that are resold at a specified future date are not recognised in the statement of financial position.

1.9 Hedge accounting

The Company designates certain financial instruments as cash flow hedges in respect of highly probable forecast transactions such payroll costs.

At the point of designation of each hedge, the Company documents the relationship between the hedging instrument and hedged item(s) as well as its risk management objectives and strategy for undertaking hedge accounting. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instrument is highly effective in offsetting changes in the cash flows of hedged items.

The instruments used for hedging purposes are set out at note 13. Movements on the hedging reserve in other comprehensive income are shown in note 13. All hedged items will be settled within 12 months and therefore hedged instruments are recorded as current assets.

The effective portion of changes in the fair value of financial instruments that are designated as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within other gains / (losses).

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recognised in the statement of comprehensive income within the relevant cost category.

When a hedging instrument no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no

longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income within other gains / (losses).

1 Significant accounting policies (continued)

1.10 Financial assets

The Company classifies its financial instruments into the following categories:

- those measured at fair value (either through profit or loss, or through other comprehensive income); and
- those measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies debt investments only in the event that its business model for managing those investments changes.

Financial assets are classified as current assets unless they are expected to mature or be disposed of after twelve months from the end of the reporting period, in which case they are included in non-current assets. Financial assets derived from margin deposits or members' contributions to clearing house funds are classified as current assets as they will be liquidated whenever required.

In the comparative period, financial assets were classified as financial assets measured at fair value through profit or loss or financial assets measured at amortised cost. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

<u>Financial assets measured at fair value through profit or loss</u>

Assets are classified as financial assets measured at fair value through profit or loss if they do not meet the conditions to be measured at fair value through other comprehensive income or amortised cost. Derivative financial instruments (see further detail in note 1.12) are classified as financial assets measured at fair value through profit or loss when their fair values are positive.

In the comparative period assets were classified as financial assets measured at fair value through profit or loss if they do not meet the conditions to be measured at amortised cost.

<u>Financial assets measured at fair value through other comprehensive income</u>

A financial asset measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets measured at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the consolidated income statement. Other changes in carrying amounts are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to the income statement.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its assets measured at fair value through other comprehensive income. Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls.

1 Significant accounting policies (continued)

1.10 Financial assets (continued)

Impairment (continued)
In measuring expected credit losses, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

For financial assets measured at fair value through other comprehensive income, the Company recognises a provision for impairment losses equal to 12-month expected credit losses unless there has been a significant increase in the credit risk of the financial assets since initial recognition, in which case the provision for impairment losses is measured at an amount equal to lifetime expected credit losses.

Expected credit losses are measured at each reporting date to reflect changes in the financial asset's credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the statement of comprehensive income, with a corresponding adjustment to the carrying amount.

<u>Financial assets measured at amortised cost</u>

Assets are classified under financial assets measured at amortised cost if they satisfy both of the following conditions:

- the assets are held within business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables are also classified under this category.

Financial assets measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. The amortised cost is reduced by loss allowance for expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of comprehensive income. Any gains and losses on de-recognition are recognised in the statement of comprehensive income.

In the comparative period trade and other receivables were initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Impairment
The Company assesses on a forward looking basis the expected credit losses associated with its financial assets measured at amortised cost.

For receivables due from customers, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

1 Significant accounting policies (continued)

1.10 Financial assets (continued)

Financial assets measured at amortised cost (continued)

For other financial assets measured at amortised cost, the Company recognises a provision for impairment losses equal to 12-month expected credit losses unless there has been a significant increase in credit risk of the financial assets since initial recognition, in which case the provision for impairment losses is measured at an amount equal to lifetime expected credit losses.

Expected credit losses are re-measured at each reporting date to reflect changes in the financial assets credit risk since initial recognition. Any change in the expected credit loss amount is recognised as an impairment loss or reversal of impairment loss in the statement of comprehensive income, with a corresponding adjustment to the carrying amount.

The gross carrying amount of a financial asset is written off (partially or in full) to the extent that there is no realistic prospect of recovery. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in the statement of comprehensive income in the period in which the recovery occurs.

Prior to 1 January 2018, receivables were recognised at amortised cost less provision for impairment. Receivables were regularly assessed as collectible or uncollectible. When a trade receivable was determined to be uncollectible, it was written off, being recognised in the statement of comprehensive income within expenses. Subsequent recoveries of amounts previously written off were credited against expenses in the statement of comprehensive income.

1.11 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value, and subsequently measured at amortised cost.

1.12 Derivative financial assets and liabilities

Derivative financial instruments include forward, futures and options contracts, comprising the outstanding derivatives contracts between the Company and its members, as the Company is the central counterparty (CCP) to all contracts traded on the LME.

Derivatives are initially recognised at fair value on the date contracts are entered into and are subsequently re-measured at their fair values. Derivatives are categorised as held for trading with changes in fair value recognised in statement of comprehensive income. All derivatives outstanding on the reporting date are classified as financial assets measured at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

Since the asset and liability positions of the Company arising through its activities as a CCP are matched, the same amount is recorded for both the assets and liabilities with the fair value gain and losses recognised, but offset, in the statement of comprehensive income.

Derivative financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1 Significant accounting policies (continued)

1.13 Members' contributions to clearing house funds

Members' contributions to the clearing house funds (default funds) are included under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

Non-cash collateral (i.e. securities) received from clearing members is not recognised on the statement of financial position.

1.14 Margin deposits and cash collateral from clearing members

The Company receives margin deposits from its clearing members as collateral in connection with the outstanding derivatives contracts between the Company and its members. The obligation to refund the margin deposits is disclosed as margin deposits from clearing members under current liabilities. Liabilities held in this category are initially recognised at fair value and subsequently re-measured at amortised cost using the effective interest rate method.

1.15 Current and deferred tax

Tax charge for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

(i) Current tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the United Kingdom. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised.

1.16 Foreign currencies

The financial statements are presented in US dollars, which is the Company's presentation and functional currency.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into USD at the rates of exchange ruling on the statement of financial position date. Transactions in foreign currencies are recorded at the prevailing foreign exchange rates at the date of the transaction. Exchange differences are recorded in other gains / (losses) in the statement of comprehensive income.

1.17 Provisions

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is more likely than not that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1 Significant accounting policies (continued)

1.18 Share capital

Ordinary shares are classified as equity.

1.19 Dividends

A final dividend distribution to the Company's sole shareholder is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholder.

2 Critical accounting estimates and assumptions

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

In connection with the preparation of the financial statements, management has made assumptions and estimates about future events and applied judgements that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. The assumptions, estimates and judgements are based on historical experience and other factors that management believes to be relevant at the time the financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgements to ensure that the financial statements are presented fairly and in accordance with IFRS as adopted by the EU and IFRS IC Interpretations.

Intangible assets

As described in notes 1.6 and 7, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation and impairment, and the estimation of the useful life of the assets have a material impact on these financial statements.

The Company follows the accounting policy described in note 1.6

The Company has carefully considered the following judgements:

- whether costs meet the capitalisation criteria under IAS 38 'Intangible Assets'; and
- whether the asset is impaired.

No intangible assets were deemed to be impaired in the period.

The Company estimates the useful life of its software to be five years for trading systems and three years for non-trading systems based on the expected technical obsolescence of the asset. However the actual useful life may be shorter or longer. If the actual useful life is determined to be shorter, the amortisation charged to the statement of comprehensive income will be adjusted.

Deferred taxation

As described in notes 1.15(ii) and 9, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available. The Company follows the accounting policy described in note 1.15(ii). The Company has made a judgement that the deferred tax asset will be recoverable using the estimated future taxable income based on the Company's approved budget which forecasts continued taxable income.

Impairment of financial assets

As described in notes 1.10 and 13, expected credit losses of receivables are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors. The Company follows the accounting policy described in note 1.10.

Notes to the financial statements (continued)

3 Timing of revenue recognition

	2018 $ 000's	2017 $ 000's
At a point in time	91,691	89,970
Over time	1,712	1,306
	93,403	**91,276**

Revenue recognised in 2018 that was included in the deferred income balance at 1 January 2018 amounted to $365,000.

At 31 December 2018, the amount of deferred revenue expected to be recognised as revenue after more than one year was $ 389,000 (2017: $543,000).

4 Profit before tax

	2018 $ 000's	2017 $ 000's
Profit before tax stated after charging:		
- Auditors' remuneration	243	420

Services provided by the Company's auditors and network firms

During the year the Company obtained the following services from the Company's external auditors at costs as detailed below:

	2018 $ 000's	2017 $ 000's
Audit of the Company's financial statements	243	225
Other assurance services	-	195
	243	**420**

5 Operating expenses

Operating expenses comprise the following:

	2018 $ 000's	2017 $ 000's
Wages and salaries	19,028	17,226
Social security costs	1,583	1,656
Share based payments	684	2,008
Other pension costs	795	789
Legal and professional fees	1,206	1,784
Depreciation and amortisation	10,289	9,227
Technology costs	5,293	4,378
Other costs	18,123	9,775
Total	**57,001**	**46,843**

The monthly average number of permanent employees within the Company was 52 (2017: 45).

6 Taxation

	Note	2018 $ 000's	2017 $ 000's
Taxation charged to the statement of comprehensive income			
Income tax			
Current year		6,901	8,891
Adjustments in respect of prior years		(145)	(180)
Foreign exchange		(165)	(40)
Total current tax		**6,591**	**8,671**
Deferred tax			
Deferred tax for the current year		(145)	(310)
Adjustments in respect of prior years		190	99
Change in tax rate		4	27
Total deferred tax	9	49	(184)
Taxation charged		**6,640**	**8,487**

6 Taxation (continued)

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 19% (2017: 19.25%) and the taxation charge for the year are explained below:

	2018 $ 000's	2017 $ 000's
Profit before tax	35,710	44,945
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	6,785	8,652
Foreign exchange	(165)	(40)
Taxation on share schemes	(30)	(79)
Income not subject to taxation	(9)	-
Expenses not deductible/income not taxable	10	8
Adjustments in respect of prior years	45	(81)
Change in tax rate	4	27
Taxation charged	**6,640**	**8,487**

Tax charged / (credited) to equity:	**2018** **$ 000's**	**2017** **$ 000's**
Current tax - share options	(25)	(62)
Deferred tax - share options	71	(72)
Taxation charge / (credit)	**46**	**(134)**

LME Clear Limited

Notes to the financial statements (continued)

7 Intangible assets

For the year ended 31 December 2018	Capitalised software in use	Capitalised software under development	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2018	48,395	4,210	52,605
Additions	-	7,262	7,262
Transfer	7,343	(7,343)	-
At 31 December 2018	**55,738**	**4,129**	**59,867**
Accumulated amortisation and impairment			
At 1 January 2018	(26,682)	-	(26,682)
Charge for the year	(10,288)	-	(10,288)
At 31 December 2018	**(36,970)**	**-**	**(36,970)**

For the year ended 31 December 2017	Capitalised software in use	Capitalised software under development	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2017	40,216	6,789	47,005
Additions	-	5,600	5,600
Transfer	8,179	(8,179)	-
At 31 December 2017	**48,395**	**4,210**	**52,605**
Accumulated amortisation and impairment			
At 1 January 2017	(17,529)	-	(17,529)
Charge for the year	(9,153)	-	(9,153)
At 31 December 2017	**(26,682)**	**-**	**(26,682)**
Net book value			
At 31 December 2018	**18,768**	**4,129**	**22,897**
At 31 December 2017	21,713	4,210	25,923

Amortisation of intangibles is recognised in operating expenses in the statement of comprehensive income.

LME Clear Limited

Notes to the financial statements (continued)

8 Property, plant and equipment

For the year ended 31 December 2018	Computer hardware and software	Furniture, fixture and fittings	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2018	1,280	30	1,310
Disposals	-	(25)	(25)
At 31 December 2018	**1,280**	**5**	**1,285**
Accumulated depreciation			
At 1 January 2018	(1,279)	(4)	(1,283)
Charge for the year	**-**	(1)	(1)
At 31 December 2018	**(1,279)**	**(5)**	**(1,284)**

For the year ended 31 December 2017	Computer hardware and software	Furniture, fixture and fittings	Total
	$ 000's	$ 000's	$ 000's
Costs			
At 1 January 2017	1,280	191	1,471
Additions	-	26	26
Disposals	-	(187)	(187)
At 31 December 2017	**1,280**	**30**	**1,310**
Accumulated depreciation			
At 1 January 2017	**(1,206)**	**(190)**	**(1,396)**
Disposals	-	187	187
Charge for the year	(73)	(1)	(74)
At 31 December 2017	**(1,279)**	**(4)**	**(1,283)**
Net book value			
At 31 December 2018	**1**	**0**	**1**
At 31 December 2017	**1**	**26**	**27**

Depreciation of property plant and equipment is recognised in operating expenses in the statement of comprehensive income.

9. Deferred tax asset / (liability)

The movements in the deferred tax asset during the year are shown below:

	Fixed and intangible assets $ 000's	Employee benefits $ 000's	Share options $ 000's	Research and development $ 000s	Total $ 000s
At 1 January 2017	**(360)**	**2**	**232**	**12**	**(114)**
Adjustment in respect of prior years	(99)	-	-	-	(99)
Credited / (charged) to profit or loss during the year	183	-	133	(6)	310
Tax credit/ (charge) relating to equity	-	-	75	-	75
Effects of changes in tax rates credited / (charged) to profit or loss	(12)	-	(15)	-	(27)
Effects of changes in tax rates credited /(charged) to equity	-	-	(3)	-	(3)
At 31 December 2017	**(288)**	**2**	**422**	**6**	**142**
Adjustment in respect of prior years credited / (charged) to profit or loss	2	(2)	(190)	-	(190)
Adjustment in respect of prior years credited / (charged) to equity	-	-	(70)	-	(70)
Credited / (charged) to profit or loss during the year	-	-	2	(6)	(4)
Effects of changes in tax rates credited /(charged) to profit or loss	149	-	(4)	-	145
Effects of changes in tax rates credited / (charged) to equity	-	-	(1)	-	(1)
At 31 December 2018	**(137)**	**-**	**159**	**-**	**22**

Deferred taxation is calculated in full on temporary differences under the liability method.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. $114,000 of the deferred tax asset and $136,000 of the deferred tax liability will be realised in 2019, with the remaining balances being realised in more than 12 months

9 Deferred tax asset / (liability) (continued)

Factors that may affect future tax charges

The Company will receive tax relief on the same basis as amortisation of intangible assets.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Current and deferred tax

The Finance Bill 2015 reduced the main rate of corporation tax from 1 April 2017 to 19%. The Finance Bill 2016 reduced the main rate of corporation tax from 1 April 2020 to 17%.

	2018	2017
	$ 000's	$ 000's
Deferred tax asset	158	430
Deferred tax liability	(136)	(288)
Net deferred tax asset	**22**	**142**

10 Trade and other receivables

	2018	2017
	$ 000's	$ 000's
Accrued income	5,146	5,444
Prepayments	660	506
Other receivables	23	16
	5,829	**5,966**

As of 31 December 2018, no trade receivables were past due or impaired. (2017: none)

The maximum exposure to credit risk at the reporting date is the book value of each class of receivable mentioned above. The Company holds cash and non-cash collateral as security as described further in note 11.

10 Trade and other receivables (continued)

As at 31 December 2018 expected lifetime losses were nil (2017: nil).

The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of customers to settle receivables. There has been no history of default since launch in 2014.

In respect of forward-looking information, the Company takes into account the results of its regular credit assessments of its clearing members and it has default mechanisms which allow it to reclaim any outstanding trade and other receivables. Accordingly, taking these factors into account, the loss provision is nil (2017: $nil).

11 Cash and cash equivalents

The cash and cash equivalents represent cash on hand and short term investments.

	2018	2017
	$ 000's	**$ 000's**
Cash at bank	33,183	31,345
Short term investments		
- reverse repurchase agreements	7,327,994	11,599,706
	7,361,177	**11,631,051**

$7,327,994,000 (2017: $11,599,706) of short term investments are fully collateralised by or are comprised of sovereign and investment grade corporate securities in accordance with eligibility criteria approved by the Company's Risk Committee.

A significant component of cash and cash equivalents comprise amounts initially received from clearing members in cash as initial and variation margin, and as contributions to the default funds. In compliance with EMIR, these amounts are held in accounts separate from the Company's own resources.

The Company's own cash and cash equivalents comprise $160,007,000 (2017: $140,138,000) of cash and cash equivalents, of which $20,300,000 is restricted as the Company's own resources to be used in the default waterfall. This contribution to the default fund is allocated on a pro-rata basis as follows as at 31 December 2018: LME base metals $15,600,000 (2017: $16,700,000) and LMEprecious $4,700,000 (2017: $3,600,000).

As of 31 December 2018, the Company held £nil cash at bank (2017: £1,325,000), equivalent to $nil (2017: $1,792,000) designated as hedging instruments. Further details are set out in note 13.

12 Trade and other payables

	2018 $ 000's	2017 $ 000's
Social security and other taxes	2,695	3,104
Other payables	263	105
Accruals and deferred income	3,472	3,347
	6,430	**6,556**

Trade and other payables with the exception of deferred income have contractual payment terms of less than three months (2017: less than three months).

13 Financial instruments and hedge accounting

Fair value measurements

The following table presents the carrying value of financial assets and financial liabilities measured at fair values according to the levels of the fair value hierarchy defined in IFRS 13: Fair value measurement, with the fair value of each financial asset and financial liability categorised based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using valuation techniques in which all significant inputs other than quoted prices included within Level 1 are directly or indirectly based on observable market data.
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

13 Financial instruments and hedge accounting (continued)

	At 31 Dec 2018		
	Level 1 **$ 000's**	**Level 2** **$ 000's**	**Total** **$ 000's**
Financial assets measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	6,886,234	6,886,234
	-	**6,886,234**	**6,886,234**
Financial assets measured at fair value through other comprehensive income:			
Floating rate notes	390,022	-	390,022
	390,022	**-**	**390,022**
Financial liabilities measured at fair value through profit or loss:			
Base metal futures and options derivative contracts	-	6,886,234	6,886,234
	-	**6,886,234**	**6,886,234**
Net financial assets	**390,022**	**-**	**390,022**

	At 31 Dec 2017		
	Level 1 **$ 000's**	**Level 2** **$ 000's**	**Total** **$ 000's**
Financial assets measured at fair value through profit or loss:			
Floating rate notes	390,355	-	390,355
Base metal futures and options derivative contracts	-	10,916,169	10,916,169
	390,355	**10,916,169**	**11,306,524**
Financial liabilities measured at fair value through profit or loss:			
Derivative financial liabilities measured at fair value through profit or loss	-	-	-
Base metal futures and options derivative contracts	-	10,916,169	10,916,169
	-	**10,916,169**	**10,916,169**
Net financial assets	**390,355**	**-**	**390,355**

During 2018 and 2017, no financial assets or financial liabilities were classified under Level 3 and there were no transfers between instruments in Level 1 and Level 2.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Fair value of financial assets and financial liabilities not reported at fair values

The carrying amounts of short-term receivables (i.e. trade and other receivables, cash and cash equivalent and amounts due from group undertakings) and short-term payables (e.g. trade and other payables, and amounts due to group companies) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

13 Financial instruments and hedge accounting (continued)

Impairment

The Company has assessed that the impairment for financial assets measured at fair value through other comprehensive income and those measured at amortised cost is nil (2017: nil).

The expected credit loss was zero as the investments in debt securities were of investment grade and had a weighted average credit rating of AAA. They had no history of default and there was no unfavourable current and forecast general economic conditions as at the reporting dates.

Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company applies offsetting by settlement date and by member account to its open derivative contracts as at each reporting date.

As a CCP, the Company sits in the middle of members' transactions and holds initial and variation margin amounts as a collateral against the default of a clearing member. A further amount of cash collateral is held comprising the default funds. Whilst these amounts are not available for offset on the statement of financial position, in the event of default these balances would reduce the Company's exposure further under the Rules of the clearing house. Default funds of $1,091,052,000 (2017: $1,172,820,000) and margin funds of $6,500,369,000 (2017:$10,708,919,000) are held by the Company.

The following table shows the impact of netting arrangements on all financial assets and liabilities that are reported net on the balance sheet.

As at 31 December 2018				Related amounts not set off in the statement of financial position		
	Gross amounts recognised	Gross amounts offset	Net amount presented in the statement of financial position	Financial (liabilities) / assets other than cash collateral	Cash collateral received	Total
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Derivative financial						
- assets	164,576,978	157,690,744	6,886,234	(3,447,572)	(3,438,662)	-
- liabilities	(164,576,978)	(157,690,744)	(6,886,234)	3,447,572	-	(3,438,662)

13 Financial instruments and hedge accounting (continued)

As at 31 December 2017	Gross amounts recognised	Gross amounts offset	Net amount presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial (liabilities) / assets other than cash collateral	Related amounts not set off in the statement of financial position: Cash collateral received	Total
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Derivative financial						
- assets	201,142,349	190,226,180	10,916,169	(5,505,397)	(5,410,772)	-
- liabilities	(201,142,349)	(190,226,180)	(10,916,169)	5,505,397	-	(5,410,772)

<u>Hedge accounting</u>

A proportion of the Company's sterling cash has been designated as a cash flow hedge in respect of highly probable forecast transactions in respect of the Company's staff costs.

As at 31 December 2018 the hedging instruments totalled £nil (2017: £1,325,000), equivalent to $nil (2017: $1,792,000).

Movements in the hedging reserve during the year are shown below:

	2018 $ 000's	2017 $ 000's
At 1 January	23	-
Gain on hedging instruments recognised in other comprehensive income	-	234
Reclassified to profit or loss:		
- wages and salaries	96	(211)
- other gains/(losses)	(119)	-
At 31 December	**-**	**23**

No ineffectiveness was recognised during 2018 (2017: $nil).

14 Share capital

	2018 $ 000's	2017 $ 000's
Total share capital	178,701	178,701

The Company has 107,500,001 (2017:107,500,001) ordinary shares in issue. There is no restriction on the number of shares to be issued.

15 Notes to the statement of cash flows

Reconciliation of profit before tax to net cash (outflow) / inflow from operating activities:

	2018 $ 000's	2017 $ 000's
Profit before tax	35,710	44,945
Adjustments for:		
Depreciation and amortisation	10,289	9,227
Increase / (decrease) in intercompany payable	115	(90)
Increase in intercompany receivables	-	2,497
Decrease / (increase) in financial assets measured at amortised cost	50,306	(39,951)
Decrease in financial assets measured at fair value through profit and loss or other comprehensive income	333	70
Other non-cash movements	(80)	(62)
Decrease in accounts receivable	137	719
Decrease in accounts payable, accruals and other liabilities	(126)	(19)
(Decrease) / increase in margin deposits and default fund	(4,290,318)	2,439,070
Net cash (outflow) / inflow from operating activities	**(4,193,634)**	**2,456,406**

16 Dividends paid

The Company paid an interim dividend of $61,275,001 in 2018 (2017: $21,500,000).

17 Capital management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Company's stability and growth;
- To provide capital for the purpose of strengthening the Company's risk management capability; and
- To ensure the Company complies with all regulatory requirements.

The Company holds capital resources in the form of share capital, retained earnings and reserves and actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future expected capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Company is regulated by the Bank of England as a Recognised Clearing House under the Financial Services and Markets Act 2000, and under EMIR. In line with EMIR regulation the Company's capital is determined with reference to the potential costs arising from the following scenarios and risks:

- Winding up of the business;
- Operational risk;
- Credit, counterparty credit and market risk;
- Business risk; and
- Losses resulting from defaulting members

The Company's regulatory capital requirement amounts to $109,700,000 (2017: $109,700,000) and must be maintained in cash or highly liquid financial instruments with minimal market and credit risk. This is composed of a base requirement of $81,300,000 (2017: 81,300,000) together with a 10 per cent minimum reporting threshold of $8,100,000 (2017: 8,100,000) and $20,300,000 (2017: 20,300,000) contribution to the default fund. This contribution to the default fund is allocated on a pro-rata basis as follows as at 31 December 2018: LME base metals $15,600,000 (2017: $16,700,000) and LMEprecious $4,700,000 (2017: $3,600,000). In addition, the Company's capital resources must be in the form of share capital, retained earnings and reserves, reduced by intangible assets and retained losses.

The Company has been fully compliant with the capital adequacy regulations during 2018 and 2017.

18 Financial risk management

The Company's activities expose it to some financial risks: market risk (including foreign exchange risk, interest rate risk, and market price risk), sovereign risk, liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's performance.

Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Company is exposed to market risk primarily through its financial assets and financial liabilities.

The Company's investment policy is to prudently invest all funds managed by the Company in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Company's Investment Policy, is approved by the Board and reviewed regularly. Investment restrictions and guidelines form an integral part of risk control. Investments are diversified to minimise risks and no investments are made for speculative purposes. In addition, specific limits are set to control risks (e.g. liquidity, credit requirement, counterparty concentration, maturity and interest rate risks) of the investments.

(i) Foreign exchange risk management

Foreign exchange risk is the risk that the value or cash flows of an asset, liability or highly probable forecast transaction denominated in foreign currency (ie, a currency other than the functional currency of the Company) will fluctuate because of changes in foreign exchange rates. The Company may invest in non-USD securities from time to time.

The Company is exposed to foreign currency risk arising from payments of various expenditures (predominately in GBP) and investments and bank deposits denominated in foreign currencies (mainly EUR). Its risk management policy is to forecast the amount of GBP payments and to retain some GBP bank deposits to cover future expenditure or convert from USD to GBP as soon as deemed appropriate.

The Company primarily receives margin from members in USD, but also holds margin in its other core clearing currencies – EUR, GBP, JPY and CNH. Margin received from members is deposited or invested in the same currency in which it is received and as a result the asset and liability positions are matched. Accordingly the Company experiences minimal foreign exchange risk on these balances.

Similarly, the Company's derivative asset and liability positions are denominated in the Company's core clearing currencies – which are equal and opposite positions and as a result there is no net foreign exchange exposure for the Company on these positions.

18 Financial risk management (continued)

The tables below summarise the Company's financial assets and financial liabilities denominated in foreign currencies.

	At 31 December 2018					
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
	EUR	**HKD**	**GBP**	**JPY**	**CNH**	**Total**
Cash and cash equivalents	49,532	-	1,112,749	29,244	87	1,191,612
Trade and other receivables	56	-	436	9	-	501
Total assets	49,588	-	1,113,185	29,253	87	1,192,113
Trade and other payables	(44)	(468)	(3,598)	-	(89)	(4,199)
Amounts due to parent / fellow subsidiaries	-	(127)	(48)	-	-	(175)
Margin deposits and default fund	(48,465)	-	(1,095,180)	(29,166)	(5)	(1,172,816)
Total liabilities	(48,509)	(595)	(1,098,826)	(29,166)	(94)	(1,177,190)
Total assets / (liabilities)	**1,079**	**(595)**	**14,359**	**87**	**(7)**	**14,923**
Notional effect if exchange rates change by +/- 10%	**+/-108**	**+/-60**	**+/-1,436**	**+/-9**	**+/-1**	**+/-1,614**

	At 31 December 2017					
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
	EUR	**HKD**	**GBP**	**JPY**	**CNH**	**Total**
Cash and cash equivalents	129,701	-	1,127,874	28,476	95	1,286,146
Trade and other receivables	37	-	162	5	-	204
Total assets	129,738	-	1,128,036	28,481	95	1,286,350
Trade and other payables	-	-	(4,001)	-	(89)	(4,090)
Amounts due to parent / fellow subsidiaries	-	(120)	(14)	-	-	(134)
Margin deposits and default fund	(128,894)	-	(1,115,950)	(28,407)	(6)	(1,273,257)
Total liabilities	(128,894)	(120)	(1,119,965)	(28,407)	(95)	(1,277,481)
Total assets / (liabilities)	**844**	**(120)**	**8,071**	**74**	**-**	**8,869**
Notional effect if exchange rates change by +/- 10%	**+/-84**	**+/-12**	**+/-807**	**+/-7**	**-**	**+/-908**

18 Financial risk management (continued)

(ii) Interest rate risk management

The Company is exposed to interest rate risk arising from the cash and investment balances it maintains, the margin and default fund balances it holds from clearing members.

The Company determines the returns paid on member liabilities with reference to a spread against external overnight benchmark rates, as such the investment risk relates to the difference between the rate received on its investments and the amount it determines in payable to members with reference to the overnight benchmark rates. The Company retains the ability to adjust the spread in the event of its investment activity departing from the benchmark rates.

The following table shows the average interest rates for the year applicable to each relevant category of interest bearing financial instrument held at the statement of financial position date:

Financial assets/ (liabilities)	**Amount (USD)**	**Contractual interest rate receivable by / (payable) from the Company**	**Notional effect if interest rates change by +/- 10%**
	$ 000's	%	$ 000's
Short term deposits (reverse repurchase agreements)			
- USD (own funds)	139,257	2.51%	350
- GBP (own funds)	17,027	0.55%	9
- USD (margin deposits and default fund)	6,028,128	2.68%	16,155
- GBP	1,095,180	0.63%	690
- EUR	48,465	(1.00)%	48
Financial assets measured at fair value through other comprehensive income (USD)	390,022	2.50%	976
Financial assets measured at amortised cost (USD)	29,912	2.43%	73
Margin deposits and default fund			
- USD	(6,418,459)	2.20%	14,121
- GBP	(1,095,180)	0.40%	438
- EUR	(48,465)	(0.86)%	41
- JPY	(29,166)	(0.37)%	11
- CNH	(151)	(0.63)%	0

(iii) Market price risk management

As a CCP the Company has a balanced position in all cleared contracts and runs no significant market price risk unless a clearing member defaults as described at the 'Clearing and settlement-related risk management' section below. The Company has limited exposure to market price risk arising from fluctuations in the value of market-traded securities; all purchased securities are floating rate and are held to collect the contractual cashflows and therefore LME Clear's business model minimises market price risk.

18 Financial risk management (continued)

Sovereign risk

Distress amongst sovereigns through market concerns over the level of government debt and the ability of certain governments to service their debts over time could have adverse effects on the Company's cleared products, margin, collateral, investments, clearing membership and the financial industry as a whole.

The Company has specific risk frameworks that manage sovereign risk for both clearing and margin collateral, and all clearing members are monitored regularly against a suite of stress scenarios. In addition, investment limits and counterparty and clearing membership monitoring frameworks are sensitive to changes in ratings and other financial market indicators, to ensure the Company is able to measure, monitor and mitigate exposure to sovereign risk and respond quickly to anticipated changes.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset, and it results from amount and maturity mismatches of assets and liabilities.

The Company employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Company to ensure that all liabilities due and known funding requirements could be met.

Surplus cash of the Company is invested in high quality short term investments, and the investments of the Company are kept sufficiently liquid to meet the operating needs and possible liquidity requirements of the clearing house funds and members' margin. Other than derivative financial assets and liabilities and certain floating rate notes, all financial instruments of the Company have contractual maturities of less than three months.

As a result of the Company's position as the central party to each cleared trade the maturity of derivative assets will perfectly match the maturity of derivative liabilities and as a result the Company has minimal liquidity risk from derivatives.

Credit risk management

(i) Investment and accounts receivable-related risk management

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Company's derivative financial assets and accounts receivables. Impairment provisions are made for losses that have been incurred at the end of the reporting period. The Company limits its exposure to credit risk by rigorously selecting the counterparties (i.e., deposit-takers, bond issuers and debtors) and by diversification. At 31 December 2018, the cash and cash equivalents held for members' margin, the clearing house funds and corporate funds held were all held only with banks with a minimum rating of Baa1 (Moody's). All investments are subject to concentration limits for counterparty, sovereign and maturity approved by the Board as part of the Investment Policy.

The Company mitigates its exposure to risks relating to accounts receivable from its members by requiring the members to meet the Company's established financial requirements and criteria for admission as members.

In addition, the Company holds non-cash collateral in the form of debt securities, gold bullion and warrants in respect of initial and variation margin posted by clearing participants. The fair value of this collateral was $1,490,000,000 as at 31 December 2018 (2017: $1,319,000,000).

18 Financial risk management (continued)

Credit risk management (continued)

(ii) Investment and accounts receivable-related risk management (continued)

The Company also holds securities as collateral in respect of its investments in overnight triparty reverse repurchase agreements under which it is obliged to return equivalent securities to the investment counterparties at maturity of the reverse repurchase agreements. The fair value of this collateral was $7,660,000,000 as at 31 December 2018 (2017: $12,002,000,000). The collateral held was not recorded on the statement of financial position as at 31 December 2018.

The collateral held, together with certain on-balance sheet debt securities amounting to $420,000,000 as at 31 December 2018 (2017: $471,000,000) have been repledged to its investment agents and custodian banks under first floating charge and security arrangements for the settlement and depository services they provide in respect of the collateral and investments held. The floating charge could convert to a fixed charge in the event of contract termination, or default or insolvency of the Company.

(ii) Clearing and settlement-related risk management

In the normal course of business, the Company will offer to act as the buying and selling counterparty to trades between participants, on acceptance of the Company's offer by each party two cleared contracts are formed, one between the Company and the buyer and between the Company and the seller. As a result, the Company has considerable market risk and credit risk since the members' ability to honour their obligations in respect of their trades may be adversely impacted by economic conditions affecting the commodities markets. If the members default on their obligations on settlement, the Company could be exposed to potential risks not otherwise accounted for in these financial statements.

The Company mitigates its exposure to risks described above by requiring the members to meet the Company's established financial requirements and operational and other criteria for admission as a clearing member. All clearing members are required to deposit initial margin to cover the positions that they hold and also to contribute to the default fund set up by the Company to cover losses in excess of initial margin. The Company can draw upon the default fund contributions from the non defaulting members and if these loss-absorbing resources were fully utilised the Company then has the right to call upon surviving members to contribute up to a further three replenishments of the default fund for additional defaults. For each additional replenishment the Company is obliged to also contribute a further amount equal to the $20,300,000 'skin-in-the-game'.

If a member were to default the Company has arrangements and resources in place to ensure that it can respond in an orderly and efficient way. Firstly, the Company would seek to find a new counterparty to take on the positions of the defaulting member to return the Company to a matched book of contracts. If this was not possible the Company can utilise the default waterfall process. The Company is able to draw upon the defaulting member's initial margin. Due to the Company's margin policies the probability of the amounts owed by a defaulting member exceeding the amount of margin held is small. However, if the collateral posted by the defaulter was insufficient to meet the amount owed, the Company can then draw upon the defaulting party's contribution to the Default fund. If this was still insufficient to meet the amounts owed then the Company will utilise its own contribution to the default funds towards meeting the loss. If this was fully utilised it could mutualise any outstanding loss amongst all other non-defaulting members.

The Company can draw upon the default fund contributions from the non-defaulting members and if these loss-absorbing resources were fully utilised the Company then has the right to call upon surviving members to contribute a further amount up to a pre-determined limit.

18 Financial risk management (continued)

Credit risk management (continued)

(iii) Exposure to credit risk

At 31 December, the maximum exposure to credit risk of the financial assets of the Company were equal to their carrying amounts.

(iv) Financial assets that were past due but not impaired

At 31 December 2018 there were no assets that were past due but not impaired (2017: $nil).

(v) Fair values of financial assets and financial liabilities not reported at fair values

The carrying value of trade receivables and payables approximates their fair values due to their short-term nature.

19 Transactions with related parties

Directors

During the financial year, no contracts were entered into by the Company in which any of the Directors had a material interest.

There are no other related party transactions other than those disclosed in these financial statements.

Pension fund

The Company is a participating employer in the London Metal Exchange 1989 Pension Scheme. The principal funds are those managed in the UK.

The contributions in respect of the Company's pension scheme are disclosed in note 5.

Parent and group subsidiaries

During the years ended 31 December 2018 and 31 December 2017 the Company undertook the following transactions with other related parties.

The London Metal Exchange	**2018**	**2017**
	$ 000's	**$ 000's**
Intra group licensing fee	(10,000)	(2,500)
Payroll costs for LME Clear employees paid by LME	(11,719)	(12,299)
Shared services – staff-related	(6,937)	(5,718)
IT related services	(2,161)	(1,715)
Facilities costs	(665)	(990)
Other costs	(1,964)	(707)
	(33,446)	**(23,929)**

19 Transactions with related parties continued)

Total monies collected by the Company as agent and paid to LME in 2018 were $173,082,000 (2017: $181,031,000).

Hong Kong Exchanges and Clearing Limited	**2018**	**2017**
	$ 000's	**$ 000's**
Expenses in relation to share based payments	(684)	(2,356)
Insurance costs	(59)	(26)
Other costs	(48)	(66)
	(791)	**(2,448)**

Gangsheng Technology Services (Shenzhen) Limited	**2018**	**2017**
	$ 000's	**$ 000's**
IT related staff costs	(413)	(423)
	(413)	**(423)**

For the years ended 31 December 2018 and 31 December 2017 the balances with other related parties were as follows:

	2018		**2017**	
	$ 000'ss	**$ 000'ss**	**$ 000'ss**	**$ 000'ss**
	Owed by:	Owed to:	Owed by:	Owed to:
The London Metal Exchange	-	133	-	25
Hong Kong Exchanges and Clearing Limited	-	127	-	120
Total	**-**	**260**	**-**	**145**

No amounts due from related parties were past due or impaired. Amounts due to related parties have contractual payment terms of less than three months (2017: less than three months).

20 Key management compensation

Compensation for directors (included within the relevant costs in note 5) of the Company and the members of the executive committee, regarded as the key personnel who have authority for planning, directing and controlling the Company:

	2018 $ 000's	2017 $ 000's
Salaries and other short term benefits	2,682	2,926
Share based payments	638	1,901
Remuneration for loss of office	254	913
Pensions	245	238
	3,819	**5,978**

21 Directors' emoluments

Directors' emoluments for the year included in staff costs are as follows:

	2018 $ 000's	2017 $ 000's
Aggregate emoluments	1,892	1,825
Company contributions paid to defined contribution pension scheme	63	60
	1,955	**1,885**

There are no retirement benefits accruing to directors under a defined contribution scheme (Year ended 31 December 2017: nil).

Benefits accrued under the scheme 2018: $nil (2017: $nil).

Remuneration of highest paid director

	2018 $ 000's	2017 $ 000's
Aggregate emoluments	1,113	1,032
Company contributions paid to defined contribution pension scheme	63	60
	1,176	**1,092**

Benefits accrued under the scheme 2018: $nil (2017: $nil).

22 Long term incentive plan

Employees of the Company are eligible to receive share awards under the Groups' HKEXs Share Award Scheme. Following the decision to award an award sum (Awarded Sum) for the purchase of Awarded Shares to eligible employees and/or selected senior executives, the Awarded Shares are either purchased from the market or are awarded by re-granting the forfeited or unallocated shares held by the Group's Share Award Scheme. Before vesting the Awarded Shares are held in a trust set up by the Scheme.

Further shares are derived from dividends payable on the Awarded Shares held in the Scheme from scrip shares received under the scrip dividend scheme (dividend shares), and are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Awarded Shares.

Employee Share Awards vest progressively over the vesting period after the shares are granted, provided that the relevant awardees (i) remain employed by the Group (ii) are made redundant or (iii) are deemed to be "good leavers" or retired on reaching normal retirement age or suffers from permanent disability. Unless otherwise determined by the HKEX Board, the Remuneration Committee or the Chief Executive, the vesting period of Employee Share Awards granted was 3 years, and the shares would be vested in two equal tranches from the second to the third year after the shares are granted.

For awardees who do not meet the vesting criteria, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Scheme who may award such shares to the awardees, taking into consideration recommendations of the HKEX Board.

For Awarded Shares granted to the employees of the Company, the fair value of the employees services received, measured by reference to the grant date fair value, is recognised over the projected vesting period, being the period for which the services from the employees are received and is charged to staff costs and related expenses. The corresponding credit is recorded as a capital contribution in the Company's financial statements and an increase to investment in subsidiaries in HKEX's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEX is offset against the capital contribution.

Details of the awarded shares vesting in part or in full in 2018:

Date of award	Number of shares awarded	Average fair value per share $	Vesting period
31-Dec-15	74,371	25.68	9 Dec 2017 – 9 Dec 2018
30-Dec-16	42,989	24.63	7 Dec 2018 – 7 Dec 2019
01-Feb-17	25,960	24.96	1 Feb 2017 - 13 Jan 2020
29-Dec-17	40,311	29.42	8 Dec 2017 – 8 Dec 2020
31-Dec-18	65,371	29.68	7 Dec 2018 – 7 Dec 2021

22 Long term incentive plan (continued)

Movement in the number of awarded shares:

	2018	2017
Outstanding at 1 January	89,889	132,695
Awarded	65,371	66,271
Vested	(32,946)	(107,717)
Forfeited	(2,699)	(1,360)
Outstanding at 31 December	**119,615**	**89,889**

23 Immediate and ultimate controlling entity

HKEX Investment (UK) Limited, a company incorporated in England and Wales, is the Company's immediate parent company. The registered address of HKEX Investment (UK) Limited is 10 Finsbury Square, London, EC2A 1AJ

Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong, is the ultimate controlling entity and is the largest and smallest group to consolidate these financial statements. The registered address of Hong Kong Exchanges and Clearing Limited is 8/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.