

(Registered Number: 2128666)

The London Metal Exchange

Directors' report and financial statements

31 December 2019

The London Metal Exchange

Directors and Independent auditors

Directors

The Directors of The London Metal Exchange (the Company or the LME) who were in office during the year and up to the date of signing the financial statements were:

Sir B G Bender KCB (Chairman)	(resigned 6 December 2019)
G H Evans, OBE (Chairman)	(appointed 6 December 2019)
L M L Cha	
M J Chamberlain	
D Graham	(resigned 31 December 2019)
R Lamba	
C X Li	
Dr H V Stiegel	(appointed 18 January 2019)
A J Stuart	
S K W Yiu	

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside, London, SE1 2RT

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Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2019. This report should be read in conjunction with the Directors' report on pages 9 – 11.

Overview

The Company is incorporated in England and Wales, and is an indirect subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), a leading financial market operator in the world.

Principal activity

The Company is the world centre for industrial metals trading. The main activity of the Company is the provision of a market place to facilitate trading, administrative and other services to the members of the Company (hereinafter referred to as members and the term "member" shall be construed accordingly).

Review of the business

The Directors are satisfied with the performance of the Company during the year under review. Against a backdrop of slowing global economic growth momentum and geo-political tensions, LME volumes in 2019 were relatively stable, with chargeable average daily volumes (ADV) down 2% compared to 2018, equating to 616,323 lots traded on average each day.

Seven new cash-settled products were launched in the first quarter of the year. LME Steel Hot-Rolled Coil FOB China in particular has seen strong growth in trading activity, with ADV of over 600 lots in December 2019. Further product launches are planned in 2020 across the aluminium and ferrous product suites. Additionally, the Company's intended introduction of a lithium contract has been advanced with the formation (and first meeting in October 2019) of the LME Lithium Committee, which includes representation from leading participants across the value chain.

To support the new products, the Company introduced (i) a new membership category for Registered Intermediating Brokers (RIB) in the first quarter of the year (with 8 members approved as of 31 December 2019), and (ii) a Member Incentive Programme (MIP) on 1 November 2019.

Between March and June 2019, the Company successfully trialled deriving the 3-month Nickel Closing Price electronically via its trading platform, LMEselect, complemented by the introduction of trade-at-settlement functionality for the same contract. A trial of extending LME Zinc kerb trading on the Ring from five minutes to ten minutes over a three month period was also a success, and this change has been rolled out across all of the Company's six main contracts. The Company has also continued to support liquidity with the roll-out of implied pricing which has attracted growing trading activity throughout the year.

The Company and its group affiliate, LME Clear Limited launched a Code of Conduct in April 2019. The Code of Conduct represents a natural extension of the Company's values, providing clear guidance for Company staff, LME member employees at the Company premises and attendees at LME events. The Company believes the Code of Conduct will facilitate the ongoing enhancement of conduct in the wider metals sector and help ensure all individuals in the industry can rightly expect a welcoming, respectful and inclusive environment.

In August 2019, Hong Kong Futures Exchange (HKFE) introduced six US dollar denominated London Metal Minis, providing additional options for investors with exposure to base metals denominated in US dollars in Asian time zones. In support of these contracts, the Company has reintroduced a reciprocal membership agreement with the HKFE where the Company and the HKFE will waive the respective first year's annual subscription and application processing fees for new applicants who already hold a membership at either one of the exchanges.

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Strategic report (continued)

Review of the business (continued)

Following two years of market engagement, including a formal market-wide consultation in October 2019, the Company announced its responsible sourcing requirements underpinned by the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for responsible supply chains, which will apply to all its listed brands. This marks the first time that the Company has applied ethical standards to its listed brands and represents a significant step forwards for the efforts of the Company and the metals market to promote inclusive, sustainable and responsible global metal supply chains.

The Company continued to work closely with its Warehousing Committee to put together a warehouse reform proposal designed to ensure that the LME physical network continues to remain attractive to users and represents best practice. To this end, the Company published both a discussion paper and consultation over the course of 2019. The results of the consultation were published in November 2019, and the Company confirmed it would proceed with its proposed package of measures aimed at optimising its warehousing network for the benefit of the global metals industry.

The Company began an ambitious programme to replace its core trading infrastructure using the HKEX Orion Trading Platform architecture, which will underpin the Company's new trading platform. The implementation project is well underway and aims to go live in 2021.

Key performance indicators (KPIs)

Member satisfaction and the delivery of cost effective services and critical system availability are important measures of performance for the Company. Management employs commercial KPIs including transaction volume, new brands and warehouse listings, breadth of member participation in newly launched contracts and the size of open interest in the contracts traded and critical system availability.

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

Against these KPIs 2019 saw a 6% growth in ADV compared to 2018 (2018: 2% increase). Additionally the Company continued to list new brands and warehouses, and open interest on its recently launched cash settled contracts showed strong growth.

Whilst increases in ADV were primarily driven by the introduction during the year of a new trade type these trades were not chargeable prior to 1 May 2019. Excluding the effect of these new trades ADV decreased 2% compared to 2018. The Company's revenue and other income decreased 1% compared to 2018 (2018: 4% increase) and trading revenues decreased 3% compared to 2018 (2018: 5% decrease). The decrease in trading revenue was partially offset by an increase in other revenue. EBITDA and PAT were lower year-on-year as the Company continued to invest in systems and people to support the business. Operating expenses increased 2% compared to 2018 (2018: 21% increase). The Company continued to hold sufficient capital to meet its requirements set by the FCA.

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Strategic report (continued)

Review of the business (continued)

The results show a profit before tax for the year of \$94,650,000 (2018: \$99,677,000), after accounting for taxation a profit for the year of \$77,148,000 (2018: \$80,440,000). As at 31 December 2019 the Company had total net assets of \$158,880,000 (2018: \$169,724,000).

No final dividend is proposed in respect of 2019 (2018: \$nil). The Company paid an interim dividend of \$88,000,000 in the year (2018: \$125,000,000).

Strategy

The Company's strategy continues to focus on sustaining its premier status in price discovery for base metals futures and options and leveraging from this strength to new areas of opportunity. The Company also continues to work on its wider product expansion. During 2019 the Company launched seven new cash settled products. These products expand the Company's existing ferrous offering by adding two regional Hot Rolled Coil (HRC) contracts. The other new contracts include two regional aluminium premiums, alumina, molybdenum, and a cobalt contract.

The Company continues to work with HKEX to build a leading global multi asset class exchange and capitalise on new opportunities arising from the further development of China's financial markets.

Business environment

The Company operates in an ever increasing competitive and dynamic environment. Against this background, the Company continues to be the world centre for industrial metals trading.

A key area of focus throughout 2019 was the impact of the UK's withdrawal from the European Union (Brexit). Further information regarding Brexit-related considerations for the Company is set out in the Principal risks and uncertainties section below.

Principal risks and uncertainties

The Company's activities as an exchange operating in the United Kingdom exposes it to a number of risks, including credit risk, liquidity risk and foreign exchange risk. The Company manages these risks through various control mechanisms which are discussed in note 22.

The Company's management views the following areas as the principal risks and uncertainties facing the Company.

Brexit

The principal risk originally facing the Company as a result of Brexit was that certain members of the Exchange may have faced restrictions on clearing their positions post-Brexit, and that LME's European Economic Area (EEA) members would no longer be able to access the market.

The Company's contingency plan was based on three key priorities:

1. Ensuring continued member access to LME trading systems;
2. Continued access to clearing services through LME Clear Limited (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 Company being granted trading venue equivalence.

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Strategic report (continued)

Principal risks and uncertainties (continued)

Brexit (continued)

The Company put in place Brexit contingency arrangements which sought to ensure that in the event of a no-deal Brexit, the Company would still be in a position to continue providing trading services to its members.

Brexit occurred on 31 January 2020, with a withdrawal agreement in place. The agreement provides a transition period which will last until 31 December 2020. During this transition period, the existing regulatory framework remains unchanged, and the Company will continue to be able to provide trading services to EEA members and clients without disruption.

During the transition period the European Union (EU) and the UK will aim to conclude a trade agreement, which may include terms governing the reciprocal cross-border provision and receipt of financial services. However, the Company will continue to engage with the relevant European regulatory authorities and take all appropriate steps to ensure it has the necessary trading licences in place should the trade agreement not encompass such terms.

Competition

The global exchange landscape continues to evolve and become more competitive with a risk that other exchanges and new market entrants will seek to attract liquidity away from the Company. To mitigate this risk the Company will continue to be receptive to the views and needs of the market users and provide its products and services in a cost effective manner. It will also seek to enhance its technology in supporting the market.

Downturn in market activity

The key risk facing the Company is a downturn in global commodity markets and a consequent fall in the Company's trading volumes and revenues. In order to mitigate this risk the Company remains close to its members and users of the market and is also actively seeking to develop alternative revenue streams through diversification of its product offerings.

Operational and system resilience

With the ever increasing reliance placed on technology, the Company is aware of the need to 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 the Company continues focus on its people, processes and technology. The Company assesses the risks in its processes on an ongoing basis and seeks to continually improve processes and technology to mitigate those risks. The Company 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. The Company continues to make significant technology investments including cyber security detection and response, infrastructure improvements as well as application upgrades to the LMEselect trading platform and its matching platform. To assist it in maintaining high levels of operational and systems resilience, the Company maintains a dual data centre approach and also retains a permanent remote trading floor facility which can be operated within four hours.

The Company commenced an exercise in 2019 to review its current Operational Resilience position. An external consultancy firm has been engaged to provide the executive with a gap analysis, an Operational Resilience Strategy and a Target Operating Model and we are looking to commence a pilot across one of the key group services as per the methodology set out in The Bank of England, the FCA and the UK Prudential Regulation Authority Consultation Papers of December 2019.

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Strategic report (continued)

Principal risks and uncertainties (continued)

Regulation and compliance

The Company places a high emphasis on regulatory compliance in all jurisdictions in which it operates, and seeks to promote active and co-operative relationships with its lead regulator, the Financial Conduct Authority, and 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 risks are key risks.

Section 172 Companies Act 2006

The Board of Directors is collectively responsible for the success of the Company and take their duties and responsibilities, including those set out in Section 172(1) of the Companies Act 2006, seriously. When making decisions, the Board of Directors seeks to take the course of action that it considers best leads to the success of the Company over the long term, and this includes considering a broad range of stakeholders.

The Board therefore recognises the importance of effective stakeholder engagement in driving the Company's strategic focus of sustaining its premier status in price discovery for base metals futures and options. Effective stakeholder engagement enables the Board to identify key emerging themes and trends in the markets that are served by the Company.

During 2019, the Board reviewed its stakeholder map and the engagement methods adopted by the Company with each stakeholder group. The Company's key stakeholders include HKEX, Company employees, LME members and their clients, regulators and other users of the Company.

The Company uses a variety of approaches to engage with its stakeholders throughout the year, including scheduled meetings, member townhalls and LME notices. Thematic results from these interactions with stakeholders are periodically presented to the Directors, primarily by senior management who lead such engagements.

Senior management, and ultimately, the Board of Directors, closely monitor stakeholder-focused metrics, such as member satisfaction, the delivery of cost effective services and critical system availability. As noted earlier in the Strategic report, these remain important measures of performance for the Company.

Stakeholder engagement and business relationships

Ongoing stakeholder engagement is integral to the Company governance framework. The Company operates a number of advisory committees (the Advisory Committees) which are a part of the way the Company operates. For example, the LME User Committee represents the interests and views of the Company's stakeholders. During 2019, this committee provided valued input and advice to the Board and senior management on a number of important strategic decisions that were made.

Feedback from the Advisory Committees in general, also informed various aspects of product development and business strategy during 2019.

Suppliers

The Board takes the Company's relationships with its suppliers seriously. This continued to be a key area of focus during 2019, with Board and senior management focus on a number of key initiatives.

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Strategic report (continued)

Statement and business relationship (continued)

Suppliers (continued)

The Board also reiterated the Company's commitment to ensuring that there is no modern slavery in its organisation or supply chains. A Board approved Modern Slavery Policy is in place, and this reflects the Company's commitment to acting ethically and with integrity.

Beyond the responsibilities set out in the Modern Slavery Act 2015, the Board also approved proposals for responsible sourcing of metal by LME listed brands. These proposals seek to ensure that LME market participants taking delivery of metal through the Company can be sure that this metal has been sourced responsibly, in line with international principles as set out by the OECD.

Employee engagement

The Board recognises that engagement with Company employees is fundamental to the Company meeting its objective to provide facilities, along with the management and regulatory structure, for trading in LME contracts. Engagement with employees is undertaken primarily by senior management, through townhalls and other focus groups.

During 2019, Company employees were invited to participate in a people survey, aimed at identifying areas of strength, as well as opportunities for further development in relation to employee engagement. Results of the survey were communicated to employees, together with a senior management action plan to address development areas. The Board also reviewed the results of this survey.

With support from the Board and senior management, various forums were also established during the year, to celebrate diversity among Company employees.

During 2019 the Board voluntarily approved publication of gender pay gap information relating to 2018, despite the Company having fewer than 250 employees in that period, as it believes that transparency around gender pay gap reporting continues to play an important role in understanding and addressing the gap that exists in the wider society in which the Company operates. The gender pay gap report approved by the Board and published in 2019 showed that progress had been made and acknowledged that there was still more to do.

Throughout 2020, the Board will continue to review and challenge how the Company can improve engagement with its employees and other stakeholders.

Equal opportunities

The Company is an active equal opportunities employer, which promotes an environment free from discrimination, and where everyone receives equitable treatment and career development regardless of disability, age, gender and sexual orientation, among other diverse attributes. All decisions relating to employment practices are objective, free from bias and based on merit.

The Company gives full and fair consideration to applications for employment made by disabled people, and encourages and assists the recruitment, training, career development and promotion of disabled people. The Company also endeavours to retain employees who become disabled during the course of their employment. This includes a commitment to making reasonable adjustments to the employee's working environment where a physical feature or a provision, criterion or practice puts a disabled person at a substantial comparative disadvantage.

The arrangements outlined above are set out in a Company policy, which is subject to periodic review.

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Strategic report (continued)

Charitable activities

The Company is committed to its charitable initiatives and engages with a variety of charitable causes at both a corporate and individual employee level. The Company's approach, priorities and objectives with regard to charitable activities are primarily led by the Charity Committee, which operates under delegation from the Board.

During the year, the Company made charitable donations amounting to \$85,000 (2018: \$60,000). Additionally, the Company launched a partnership with a new corporate charity partner – The Connection at St-Martins-in-the-Field. This partnership is expected to carry on throughout 2020.

The Strategic report was approved by the Board of Directors on 18 February 2020.

Signed by order of the Board of Directors by:

J. Odada
Company Secretary
18 February 2020
The London Metal Exchange
Registration number 2128666

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Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2019.

Incorporation

The Company is a private unlimited company. It was originally registered in the UK as a private company limited by guarantee. On 13 December 2012 it was re-registered as an unlimited company.

Principal activities

The Company is the world centre for industrial metals trading. The main activity of the Company is the provision of a market place to facilitate trading, administrative and other services to the members of the Company. The Company is required to maintain proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards business conducted on the LME.

Results

The profit before tax for the year ended 31 December 2019 was \$94,650,000 (2018: \$99,677,000) and after accounting for taxation a profit for the year of \$77,148,000 (2018: \$80,440,000).

No final dividend is proposed in respect of 2019 (2018: \$nil), being \$nil per share (2018: \$nil). The Company paid an interim dividend of \$88,000,000 in the year (2018: \$125,000,000).

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.

Directors' indemnity and insurance

The Company's Articles of Association provide an indemnity (the Indemnity) for (amongst others) 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 2019 financial year and remains in force. Directors' and officers' insurance cover is also maintained for Directors of the Company.

Future developments

As disclosed in the Strategic report, a number of product launches are planned in 2020 across the aluminium and ferrous product suites. The Company will also continue to work on initiatives outlined in the Company Strategic Pathway, including the programme to replace the Company's core trading infrastructure.

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 and liquidity risk management is provided in note 22 to the financial statements.

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Directors' report (continued)

Capital risk management

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern in order to provide returns for the sole shareholder and benefits for other stakeholders;
- To maintain an optimal capital structure to reduce the cost of capital; and
- To meet its regulatory capital obligation.

The London Metal Exchange is a Recognised Investment Exchange under the terms of The Financial Services and Markets Act 2000. The FCA requires that a UK recognised body has at any time liquid financial assets amounting to six months' operating costs plus a risk based capital charge, and net capital of at least this amount.

This capital requirement is monitored on an ongoing basis and its status is reported on a monthly basis to the Board and the FCA. Throughout the year the capital requirement was £49,800,000 (2018: £43,560,000). As at 31 December 2019 it equates to \$65,973,000 (2018: \$55,500,000).

Employee engagement

Disclosures regarding action taken by the Company to engage with its employees have been included in the Employee engagement section of the Strategic report (page 7).

Disabled persons disclosures

A statement describing the company's policy on the hiring, continuing employment and career development of disabled persons has been included in the equal opportunities section of the Strategic report (page 7).

Statement of directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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Directors' report (continued)

Statement of directors' responsibilities (continued)

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.

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

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves 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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

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 Directors' report was approved by the Board of Directors on 18 February 2020.

Signed by order of the Board:

J. Odada
Company Secretary
18 February 2020
The London Metal Exchange
Registration number 2128666

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Independent auditors' report to the member of The London Metal Exchange

Report on the audit of the financial statements

Opinion

In our opinion, The London Metal Exchange's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 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 2019, the Statement of profit or loss and other comprehensive income, the Statement of cash flows, the Statement of changes in equity 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 of the United Kingdom's withdrawal from the European Union 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.

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Independent auditors' report to the member of The London Metal Exchange (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify 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 2019 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 pages 10-11, 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.

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Independent auditors' report to the member of The London Metal Exchange (continued)

Report on the audit of the financial statements (continued)

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.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's member 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.

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 February 2020

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Statement of profit or loss and other comprehensive income For the year ended 31 December 2019

	Note	2019 \$ 000's	2018 \$ 000's
Trading fees		131,962	136,478
Market data fees		25,321	25,223
Other revenue		36,642	33,531
Revenue and other income	3	193,925	195,232
Operating expenses	4	(99,840)	(97,532)
Operating profit		94,085	97,700
Finance income	6	2,284	2,477
Finance costs	6	(855)	-
Other losses	6	(864)	(500)
Profit before tax		94,650	99,677
Taxation	7	(17,502)	(19,237)
Profit for the year		77,148	80,440
Other comprehensive income / (expense), net of tax¹		510	(178)
Total comprehensive income		77,658	80,262

¹ Other comprehensive income / (expense) comprises only items that have been or subsequently will be reclassified to profit and loss

No final dividend is proposed in respect of 2019 (2018: \$nil). The Company paid an interim dividend of \$88,000,000 in the year (2018: \$125,000,000).

The notes on pages 19 to 48 are an integral part of these financial statements.

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

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Statement of financial position As at 31 December 2019

	Note	2019 \$ 000's	2018 \$ 000's
Assets			
Non-current assets			
Intangible assets	8	47,412	42,057
Property, plant and equipment	9	11,955	10,744
Right-of-use assets	10	21,161	-
Deferred tax asset	11	1,816	1,952
		82,344	54,753
Current assets			
Trade and other receivables	12	27,126	27,148
Cash and cash equivalents	13	122,654	146,308
Amounts due from group undertakings	23	1,843	149
		151,623	173,605
Liabilities			
Current liabilities			
Trade and other payables	15	37,930	35,252
Current tax liabilities		7,768	15,216
Amounts due to group undertakings	23	62	317
Operating lease incentives		-	604
Lease liabilities	16	2,296	-
		48,056	51,389
Net current assets		103,567	122,216
Non-current liabilities			
Operating lease incentives		-	6,194
Lease liabilities	16	25,938	-
Provisions	17	1,093	1,051
		27,031	7,245
Net assets		158,880	169,724
Equity			
Share capital	19	-	-
Capital reserve		34,726	34,726
Retained earnings		128,536	139,890
Foreign currency translation reserve		(4,892)	(4,892)
Hedging reserve	14	510	-
Total equity		158,880	169,724

The notes on pages 19 to 48 are an integral part of these financial statements. These financial statements were approved by the Board of Directors on 18 February 2020 and signed on its behalf by:

M J Chamberlain
Director
18 February 2020

The London Metal Exchange

Statement of changes in equity For the year ended 31 December 2019

	Note	Share capital \$ 000's	Capital reserve \$ 000's	Foreign currency translation reserve \$ 000's	Retained earnings \$ 000's	Hedging reserve \$ 000's	Total equity \$ 000's
At 1 January 2019, as originally presented		-	34,726	(4,892)	139,890	-	169,724
Effect of adoption of IFRS 16		-	-	-	(613)	-	(613)
At 1 January 2019 restated		-	34,726	(4,892)	139,277	-	169,111
Profit for the financial year		-	-	-	77,148	-	77,148
Other comprehensive income – cash flow hedge		-	-	-	-	510	510
Total comprehensive income		-	-	-	77,148	510	77,658
Transactions with shareholder - Interim dividend		-	-	-	(88,000)	-	(88,000)
Tax credit to equity reserves	7	-	-	-	111	-	111
At 31 December 2019		-	34,726	(4,892)	128,536	510	158,880

For the year ended 31 December 2018

	Note	Share capital \$ 000's	Capital reserve \$ 000's	Foreign currency translation reserve \$ 000's	Retained earnings \$ 000's	Hedging reserve \$ 000's	Total equity \$ 000's
At 1 January 2018		-	34,726	(4,892)	184,456	178	214,468
Profit for the financial year		-	-	-	80,440	-	80,440
Other comprehensive expenses – cash flow hedge		-	-	-	-	(178)	(178)
Total comprehensive income		-	-	-	80,440	(178)	80,262
Transactions with shareholder - Interim dividend		-	-	-	(125,000)	-	(125,000)
Tax charge to equity reserves	7	-	-	-	(6)	-	(6)
At 31 December 2018		-	34,726	(4,892)	139,890	-	169,724

The notes on pages 19 to 48 are an integral part of these financial statements.

The London Metal Exchange

Statement of cash flows For the year ended 31 December 2019

	Note	2019 \$ 000's	2018 \$ 000's
Cash flows from operating activities			
Cash inflow from operating activities	20	116,123	114,105
Effects of foreign exchange movements		(355)	(500)
Tax paid		(24,577)	(12,650)
Net cash inflow from operating activities		91,191	100,955
Cash flows from investing activities			
Interest received		2,506	2,019
Purchase of intangible assets	8	(21,128)	(17,449)
Purchase of property, plant and equipment	9	(4,751)	(2,968)
Net cash outflow from investing activities		(23,373)	(18,398)
Cash flows from financing activities			
Lease payments		(3,472)	-
Dividends paid to shareholder	21	(88,000)	(125,000)
Net cash outflow from financing activities		(91,472)	(125,000)
Net decrease in cash and cash equivalents		(23,654)	(42,443)
Cash and cash equivalents at 1 January		146,308	188,751
Cash and cash equivalents at 31 December	13	122,654	146,308

The notes on pages 19 to 48 are an integral part of these financial statements.

The London Metal Exchange

Notes to the 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 International Financial Reporting Standards (IFRS) and 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 financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and adopted by the EU.

The financial statements are prepared under the historical cost convention 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.

1.2 New and amended standards adopted by the Company

In 2019, the Company has adopted the following new/revised IFRSs as adopted by the EU which were effective for accounting periods beginning on or after 1 January 2019. These amendments were adopted with effect from 1 January 2019 and, with the exception of IFRS 16, have had no material impact on the Company's results or disclosures.

- i) Amendments to IFRS 9 – 'Financial Instruments'
- ii) Amendments to IAS 28 – 'Investments in Associates'
- iii) IFRIC 23 – 'Uncertainty over Income Tax Treatments'
- iv) IFRS 16 – 'Leases'

IFRS 16 affects the accounting for the Company's operating leases. The adoption of IFRS 16 resulted in changes in accounting policies and adjustments to amounts recognised in the consolidated financial statements. The new accounting policies for right-of-use-assets and lease liabilities are set out in notes 1.8 and 1.12 respectively and the adjustments to the financial statements are set out below.

Prior to the adoption of IFRS 16, leases where substantially all the rewards and risks of ownership of assets remained with the lessor were accounted for as operating leases. Operating lease rentals were recognised under operating expenses in the Statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. Commitments under operating leases for future periods were not recognised as liabilities.

Upon adoption of IFRS 16, the majority of operating leases (except for short-term leases with lease terms of less than 12 months) are recognised in the Statement of financial position as lease liabilities and right-of-use assets.

The Company has applied IFRS 16 from 1 January 2019. As permitted by the transitional provision of IFRS 16, comparatives for 2018 were not restated.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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

iv) IFRS 16 – ‘Leases’ (continued)

The Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At initial application, right-of-use assets were measured at their carrying amounts as if IFRS 16 had always been applied since the commencement date of the leases, discounted at the lessee’s incremental borrowing rate at the date of initial application.

The following table shows the adjustments recognised for each individual line item in the opening Statement of financial position on 1 January 2019. Line items that were not affected by the changes have not been included, and therefore the line items disclosed do not add up to the sub-totals and totals below.

Statement of financial position (extract as at 1 January 2019)

	As originally presented \$ 000’s	Impact from adoption of IFRS 16 \$ 000’s	Restated \$ 000’s
Assets			
Non-current assets			
Property, plant and equipment	10,744	(894)	9,850
Right-of-use assets	-	21,903	21,903
Deferred tax asset	1,952	126	2,078
	54,753	21,135	75,888
Current assets			
Trade and other receivables	27,148	(709)	26,439
	173,605	(709)	172,896
Liabilities			
Current liabilities			
Operating lease incentives	604	(604)	-
Lease liabilities	-	1,864	1,864
	51,389	1,260	52,649
Net current assets	122,216	551	122,767
Non-current liabilities			
Operating lease incentives	6,194	(6,194)	-
Lease liabilities	-	25,973	25,973
	7,245	19,779	27,024
Net assets	169,724	(613)	169,111
Equity			
Retained earnings	139,890	(613)	139,277
Total equity	169,724	(613)	169,111

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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

iv) IFRS 16 – ‘Leases’ (continued)

The Company recognised right-of-use assets of \$21,903,000 and current and non-current lease liabilities amounting to \$1,864,000 and \$25,973,000 respectively, and de-recognised provision for lease incentives included under current and non-current liabilities of \$604,000 and \$6,194,000 respectively and a prepayment for lease payments included under current assets of \$709,000, and recognised a deferred tax asset of \$126,000 with the net difference of \$613,000 being recognised as a reduction in retained earnings. In addition, reinstatement costs of \$894,000, which were previously included under fixed assets, were reclassified to right-of-use assets.

The following table shows the reconciliation from operating lease commitments disclosed under IAS 17: Leases as at 31 December 2018 to lease liabilities upon adoption of IFRS 16 as at 1 January 2019.

	\$ 000's
Operating lease commitments disclosed under IAS 17 as at 31 Dec 2018	29,061
Discount arising from conversion into present value by discounting cash flows using the Company's incremental borrowing rate at 1 Jan 2019 (weighted average of 3.2%)	(1,224)
Lease liabilities recognised as at 1 Jan 2019	27,837
Current lease liabilities	1,864
Non-current lease liabilities	25,973
	27,837

The following tables show the impact on each individual line item of the Statement of profit or loss and other comprehensive income and the Statement of cash flows for the year ended 31 December 2019, and the Statement of financial position as of 31 December 2019 following the adoption of IFRS 16. Line items that were not affected by the changes have not been included, and therefore the line items disclosed do not add up to the subtotals and totals below.

Statement of profit or loss and other comprehensive income (extract for the year ended 31 December 2019)

	Before adoption of IFRS 16 \$ 000's	Impact from adoption of IFRS 16 \$ 000's	As reported \$ 000's
Operating expenses	(100,121)	281	(99,840)
Operating profit	93,804	281	94,085
Finance costs	-	(855)	(855)
Other gains / (losses)	198	(1,062)	(864)
Profit before tax	96,286	(1,636)	94,650
Taxation	(17,824)	322	(17,502)
Profit for the year	78,462	(1,314)	77,148
Total comprehensive income	78,972	(1,314)	77,658

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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

iv) IFRS 16 – ‘Leases’ (continued)

Statement of cash flows (extract for the year ended 31 December 2019)

	Before adoption of IFRS 16 \$ 000's	Impact from adoption of IFRS 16 \$ 000's	As reported \$ 000's
Cash inflow from operating activities	112,651	3,472	116,123
Net cash inflow from operating activities	88,074	3,472	91,546
Lease payments	-	(3,472)	(3,472)
Net cash outflow from financing activities	(88,000)	(3,472)	(91,472)
Net decrease in cash and cash equivalents	(23,654)	-	(23,654)

Statement of financial position (extract as at 31 December 2019)

	Before adoption of IFRS 16 \$ 000's	Impact from adoption of IFRS 16 \$ 000's	As reported \$ 000's
Assets			
Non-current assets			
Property, plant and equipment	12,740	(785)	11,955
Right-of-use assets	-	21,161	21,161
Deferred tax asset	1,701	115	1,816
	61,853	20,491	82,344
Current assets			
Trade and other receivables	27,835	(709)	27,126
	150,914	(709)	151,623
Liabilities			
Current liabilities			
Current tax liabilities	8,101	(333)	7,768
Operating lease incentives	604	(604)	-
Lease liabilities	-	2,296	2,296
	46,697	1,359	48,056
Net current assets	105,635	(2,068)	103,567
Non-current liabilities			
Operating lease incentives	5,588	(5,588)	-
Lease liabilities	-	25,938	25,938
	6,681	20,350	27,031
Net assets	160,807	(1,927)	158,880
Equity			
Retained earnings	130,463	(1,927)	128,536
Total equity	160,807	(1,927)	158,880

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.3 New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 and not adopted early

The following standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2019 and therefore have not been applied in preparing these financial statements.

- i) Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- ii) Amendments to IAS 19 – ‘Employee Benefits’

None of these are expected to have a material impact on the financial statements of the Company.

1.4 Revenue

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

- i) Trading fees are recognised on a trade date basis.
- ii) Market Data fees are recognised when the related services are rendered.
- iii) Other revenue comprises:
 - Subscription and registration fees; recognised on a straight-line basis over time as the performance obligation is satisfied;
 - Intercompany cost recharges in connection with expenditures incurred on behalf of group companies. These recharges are recognised when the related expenditures are incurred; and
 - All other fees are recognised when the related services are rendered.

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.

1.5 Staff costs and other expenses

The Company awards shares under the HKEX Group (Group) Share Award Scheme (Share Award Scheme), under which the Company 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 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 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 London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.5 Staff costs and other expenses (continued)

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 profit or loss and other comprehensive income as incurred.

1.6 Intangible assets

Intangible assets consist of 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:

- i) it is technically feasible to complete the system so that it will be available for use;
- ii) management intends to complete the system and use or sell it;
- iii) there is an ability to use or sell the system;
- iv) it can be demonstrated how the system will generate probable future economic benefits;
- v) adequate technical, financial and other resources to complete the development and to use or sell the system are available; and
- vi) 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 incurred. System development costs recognised as assets are amortised over the 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.

1.7 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 hardware - three years

Leasehold improvements - over the remaining lives of the leases but not exceeding ten years

Furniture and equipment - three to five years

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.8 Right-of-use assets

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability (note 1.12) at the lease commencement date. The right-of-use asset is initially measured at cost (which comprises the initial measurement of lease liabilities, initial direct costs, reinstatement costs, any payments made at or before the commencement date less any lease incentives received), and subsequently at cost less any accumulated depreciation and impairment losses. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Payments associated with short-term leases (i.e., leases with a lease term of 12 months or less) and low value leases are recognised on a straight-line basis as an expense in the Statement of profit or loss and other comprehensive income.

In the comparative period, leases where substantially all the rewards and risks of ownership of assets remained with the lessor were accounted for as operating leases. Operating lease rentals were recognised under operating expenses in the Statement of profit or loss and other comprehensive income on a straight-line basis over the lease term net of any lease incentive. Commitments under operating leases for future periods were not recognised as liabilities.

1.9 Cash and cash equivalents

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

1.10 Hedge accounting

The Company designates certain financial instruments as cash flow hedges in respect of highly probable forecast transactions, principally payroll costs and technology 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 14. Movements on the hedging reserve are shown in note 14 and the Statement of changes in equity. 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 profit or loss and other comprehensive income within other gains / (losses).

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.10 Hedge accounting (continued)

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 profit or loss and other 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 profit or loss and other 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 profit or loss and other comprehensive income within other gains / (losses).

1.11 Financial assets

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

- i) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- ii) 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 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 a loss allowance for expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss and other comprehensive income. Any gains and losses on derecognition are recognised in the Statement of profit or loss and other comprehensive income.

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.

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 remeasured 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 profit or loss and other 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 profit or loss and other comprehensive income in the period in which the recovery occurs.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.12 Lease liabilities

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognises a right-of-use asset (note 1.8) and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate is used. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Each lease payment is allocated between the lease liability and interest expense. The interest expenses is charged to the Statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period.

1.13 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.

1.14 Current and deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the Statement of profit or loss and other comprehensive income.

a) 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.

b) 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.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.15 Foreign currencies

The financial statements are presented in USD, which is the Company's presentational currency. The functional currency of the Company is USD.

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 profit or loss and other comprehensive income.

1.16 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.

1.17 Pension costs

The Company operates a defined contribution pension scheme. The expense of the scheme is charged to the Statement of profit or loss and other comprehensive income as incurred.

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.

The London Metal Exchange

Notes to the financial statements (continued)

2 Critical accounting estimates and judgements

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 believe 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 IFRIC Interpretations.

Intangible assets

As described in notes 1.6 and 9, 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:

- i) whether costs meet the capitalisation criteria under IAS 38 'Intangible Assets'; and
- ii) 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 profit or loss and other comprehensive income will be adjusted.

Deferred taxation

As described in notes 1.14(b) and 11, 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 1.14(b). 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.

Expected credit loss

As described in notes 1.11 and 12, 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 1.11.

The London Metal Exchange

Notes to the financial statements (continued)

3 Timing of revenue recognition

	2019 \$ 000's	2018 \$ 000's
At a point in time	155,552	186,011
Over time	38,373	9,221
	193,925	195,232

4 Operating expenses

Operating expenses comprise the following:

	Note	2019 \$ 000's	2018 \$ 000's
Employee costs	5	47,388	42,962
Amortisation		15,773	16,078
Depreciation		5,339	3,338
Operating lease costs		-	2,004
Technology costs		17,868	17,444
Other costs		13,467	15,713
Bad debt charge / (credit)		5	(7)
		99,840	97,532

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

	2019 \$ 000's	2018 \$ 000's
Audit of the Company's financial statements	145	158
Audit of the Company's related entities	41	43
Audit related assurance services:		
- Company's associated pension scheme for the current period	5	10
- Company's associated pension scheme for the prior period	-	27
- Other	17	7
Tax compliance services	-	4
Other assurance services	-	2
	208	251

Audit of the Company's related entities is the statutory audit fee incurred by the Company on behalf of LME Holdings Limited and for HKEX Investment (UK) Limited.

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Notes to the financial statements (continued)

5 Employee costs

Employee costs (including directors) comprise the following:

	Note	2019 \$ 000's	2018 \$ 000's
Wages and salaries		35,638	32,423
Social security costs		5,725	5,324
Other pension costs	18	2,374	2,338
Employee share-based compensation benefits of share award scheme	26	3,651	2,877
Total		47,388	42,962

The number of permanent employees (excluding directors) was:

	2019	2018
At 31 December	271	252
Monthly average for the year	260	240

6 Net finance income and other losses

	2019 \$ 000's	2018 \$ 000's
<u>Finance income</u>		
Interest income on bank accounts and short-term bank deposits	2,284	2,477
<u>Finance costs</u>		
Interest on lease liabilities	(855)	-
<u>Other losses</u>		
Loss on foreign exchange	(864)	(500)
	565	1,977

The London Metal Exchange

Notes to the financial statements (continued)

7 Taxation

	Note	2019 \$ 000's	2018 \$ 000's
Income tax			
Current year		17,151	18,787
Adjustments in respect of prior years		(167)	(152)
Foreign exchange		233	201
Total current tax		17,217	18,836
Deferred tax			
Deferred tax for the current year	11	342	300
Change in tax rate	11	(10)	88
Adjustments in respect of prior years	11	(47)	13
Total deferred tax		285	401
Taxation charge		17,502	19,237

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 19% (2018: 19%) and the taxation charge for the year are explained below:

	2019 \$ 000's	2018 \$ 000's
Profit before taxation	94,650	99,677
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	17,984	18,939
Expenses not deductible / (income) not taxable	116	146
Adjustments in respect of prior years	(215)	(139)
Change in tax rate	(10)	88
Tax in respect of share schemes	(7)	2
Effects of Group Relief	(599)	-
Foreign exchange	233	201
Total Taxation charge	17,502	19,237

	2019 \$ 000's	2018 \$ 000's
Tax (credited) / charged to equity:		
Current tax - share options	(88)	(91)
Deferred tax - share options	(23)	97
Taxation (credit) / charge	(111)	6

The London Metal Exchange

Notes to the financial statements (continued)

8 Intangible assets

For the year ended 31 December 2019	Capitalised software in use	Capitalised software under development	Total
	\$ 000's	\$ 000's	\$ 000's
Costs			
At 1 January 2019	161,216	12,319	173,535
Additions	-	21,128	21,128
Disposals	(42,119)	-	(42,119)
Transfers	11,545	(11,545)	-
At 31 December 2019	130,642	21,902	152,544
Accumulated amortisation and impairment			
At 1 January 2019	131,478	-	131,478
Charge for the year	15,773	-	15,773
Disposals	(42,119)	-	(42,119)
At 31 December 2019	105,132	-	105,132
For the year ended 31 December 2018			
Costs			
At 1 January 2018	138,783	17,303	156,086
Additions	-	17,449	17,449
Transfers	22,433	(22,433)	-
At 31 December 2018	161,216	12,319	173,535
Accumulated amortisation and impairment			
At 1 January 2018	115,400	-	115,400
Charge for the year	16,078	-	16,078
At 31 December 2018	131,478	-	131,478
Net book values			
At 31 December 2019	25,510	21,902	47,412
At 31 December 2018	29,738	12,319	42,057

Amortisation of intangibles is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

The London Metal Exchange

Notes to the financial statements (continued)

9 Property, plant and equipment

For the year ended 31 December 2019	Computer hardware	Leasehold improvement, furniture and equipment	Total
	\$ 000's	\$ 000's	\$ 000's
Costs			
At 1 January 2019	34,768	11,406	46,174
Effect of IFRS 16	-	(1,216)	(1,216)
Additions	4,522	229	4,751
Disposals	(3,561)	(2,250)	(5,811)
At 31 December 2019	35,729	8,169	43,898
Accumulated depreciation			
At 1 January 2019	29,655	5,776	35,431
Effect of IFRS 16	-	(322)	(322)
Charge for the year	1,943	702	2,645
Written back on disposal	(3,561)	(2,250)	(5,811)
At 31 December 2019	28,037	3,906	31,943
For the year ended 31 December 2018			
Costs			
At 1 January 2018	32,164	11,042	43,206
Additions	2,604	364	2,968
At 31 December 2018	34,768	11,406	46,174
Accumulated depreciation			
At 1 January 2018	27,140	4,952	32,092
Charge for the year	2,514	824	3,338
At 31 December 2018	29,654	5,776	35,430
Net book values			
At 31 December 2019	7,692	4,263	11,955
At 31 December 2018	5,114	5,630	10,744

Depreciation of property plant and equipment is recognised in operating expenses in the Statement of profit or loss and other comprehensive income.

The London Metal Exchange

Notes to the financial statements (continued)

10 Right-of-use assets

For the year ended 31 December 2019

	2019 \$ 000's	2018 \$ 000's
Costs		
At 1 January upon adoption of IFRS 16 (note 1.2)	21,903	-
Additions	1,952	-
Depreciation	(2,694)	-
At 31 December 2019	21,161	-

11 Deferred tax asset

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

	Fixed and intangible assets \$ 000's	Employee benefits \$ 000's	Share options \$ 000's	IFRS 16 adoption \$ 000's	Research and development \$ 000's	Total \$ 000's
At 1 January 2018	1,736	1	691	-	22	2,450
Adjustments in respect of prior years credited / (charged)						
- to profit or loss	10	(1)	(22)	-	-	(13)
- to equity	-	-	(6)	-	-	(6)
Effects of changes in tax rates credited /(charged)						
- to profit or loss	(76)	-	(12)	-	-	(88)
- to equity	-	-	(91)	-	-	(91)
Other credits /(charges)						
- to profit or loss	(200)	-	(78)	-	(22)	(300)
At 31 December 2018, as originally stated	1,470	-	482	-	-	1,952
Effect of adoption of IFRS 16	-	-	-	126	-	126
At 31 December 2018 restated	1,470	-	482	126	-	2,078
Adjustments in respect of prior years credited / (charged)						
- to profit or loss	47	-	-	-	-	47
Effects of changes in tax rates credited /(charged)						
- to profit or loss	50	-	(41)	1	-	10
- to equity	-	-	(5)	-	-	(5)
Other credits /(charges)						
- to profit or loss	(474)	-	144	(12)	-	(342)
- to equity	-	-	28	-	-	28
At 31 December 2019	1,093	-	608	115	-	1,816

The London Metal Exchange

Notes to the financial statements (continued)

11 Deferred tax asset (continued)

The deferred tax asset has arisen as a consequence of movements in fixed assets, short lease premium, adoption of IFRS 16, share options and pensions. \$510,000 of the deferred tax asset will be realised in less than 12 months (2018: \$329,000) with the remaining balance realised in more than 12 months.

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 in place at the balance sheet date.

Current and deferred tax

The Finance Bill 2015 reduced the main rate of corporation tax on 1 April 2017 from 20% to 19%. The Finance Bill 2016 reduced the main rate of corporation tax from 1 April 2020 to 17%.

12 Trade and other receivables

	2019 \$ 000's	2018 \$ 000's
Accrued income – trading fees	11,425	10,196
Accrued income - other	6,115	8,590
Trade receivables	3,638	2,416
Other receivables	433	280
Prepayments	5,515	5,666
	27,126	27,148

The carrying amounts of the Company's trade and other receivables are denominated in US dollars, apart from \$543,000 which is denominated in sterling (2018: \$561,000) and \$92,000 which is denominated in Singapore dollars.

The London Metal Exchange

Notes to the financial statements (continued)

12 Trade and other receivables (continued)

For trade and other receivables, the Company applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2019 and 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade receivables:

	At 31 December 2019				Total
	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	
Expected loss rate	0.02%	0.33%	0.98%	8.61%	0.08%
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Gross carrying amount – accrued income and trade receivables	19,590	1,261	232	95	21,178
Loss allowance	4	4	2	8	18

	At 31 December 2018				Total
	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	
Expected loss rate	0.03%	1.11%	0.34%	11.98%	0.07%
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Gross carrying amount – accrued income and trade receivables	20,443	284	441	34	21,202
Loss allowance	6	3	1	4	14

For other receivables the expected credit loss is close to zero as these receivables are have no recent history of default. Details of risk management are set out in note 22(b).

13 Cash and cash equivalents

	2019	2018
	\$ 000's	\$ 000's
Cash at bank	18,980	7,493
Short term deposits	103,674	138,815
	122,654	146,308
Average maturity of short term deposits	1 month	1 month
Weighted average interest rate	1.65%	2.01%

The London Metal Exchange

Notes to the financial statements (continued)

13 Cash and cash equivalents (continued)

All cash and cash equivalents have a maturity of 3 months or less. As a Recognised Investment Exchange, the Company is required to keep liquid financial assets amounting to at least six months operating costs plus a risk based capital charge. It is also required to hold net capital of at least this amount.

Included within cash is \$9,772,000 of monies received in respect of enforcement actions (2018: \$10,075,000). These funds will be applied in accordance with the Financial Conduct Authority's REC requirements.

Included within cash at bank is an amount of £6,900,000 (2018: £nil), equivalent to \$8,606,000 (2018: \$nil) designated as hedging instruments. Further details are set out in note 14.

14 Hedge accounting

Throughout the year a proportion of the Company's sterling cash was designated as a cash flow hedge of foreign exchange risks associated with the cash flows of highly probable forecast transactions relating to the Company's staff and technology costs.

As at 31 December 2019 the hedging instruments totalled £6,900,000 (2018: £nil), equivalent to \$8,606,000 (2018: \$nil).

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

	2019 \$ 000's	2018 \$ 000's
At 1 January	-	178
Gain on hedging instruments recognised in other comprehensive income	622	-
Reclassified to profit or loss:		
– wages and salaries	(22)	239
– technology costs	(90)	173
– other losses	-	(590)
At 31 December	510	-

No ineffectiveness was recognised during 2019 (2018: \$nil).

15 Trade and other payables

	2019 \$ 000's	2018 \$ 000's
Social security and other taxes	11,973	10,787
Other payables	14,539	14,241
Accruals and deferred income	11,418	10,224
	37,930	35,252

With the exception of deferred income, trade and other payables totalling \$8,979,000 have contractual payment terms of less than three months (2018: \$8,466,000).

The London Metal Exchange

Notes to the financial statements (continued)

16 Lease liabilities

	2019 \$ 000's	2018 \$ 000's
At 1 January upon the adoption of IFRS 16	27,837	-
Finance cost	855	-
Lease payment	(3,472)	-
Additions	1,952	-
Effects of foreign currency movements	1,062	-
At 31 December	28,234	-
Analysed		
- Current	2,296	-
- Non-current	25,938	-
At 31 December	28,234	-

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current reporting period and at the date of transition to IFRS 16:

	2019		Adoption of IFRS 16	
	Present value of the minimum lease payments \$ 000's	Total minimum lease payments \$ 000's	Present value of the minimum lease payments \$ 000's	Total minimum lease payments \$ 000's
Within 1 year	-	-	-	-
After 1 year but within 2 years	-	-	-	-
After 2 years but within 5 years	1,224	1,244	1,735	1,794
After 5 years	27,010	31,522	26,102	31,072
	28,234	32,766	27,837	32,866
Present value of lease liabilities	28,234		27,837	
Less: total future interest expenses		(4,532)		(5,029)
Present value of lease liabilities		28,234		27,837

The Company leases various properties and information technology facilities through contracts. These leases typically run for an initial period of 5 to 15 years. Some leases include an option to renew the lease for an additional period after the end of the agreement term. Where practicable, the Company seeks to include such extension options exercisable by the Company to provide operational flexibility.

The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Company is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. At 31 December 2019, potential future cash flows of \$nil (undiscounted) have not been included in the lease liabilities.

The London Metal Exchange

Notes to the financial statements (continued)

17 Provisions

	2019 \$ 000's	2018 \$ 000's
At 1 January	1,051	1,116
Effects of foreign currency movements	42	(65)
At 31 December	1,093	1,051

The provision is in respect of the estimated reinstatement and dilapidation costs arising from the Company's leasehold premises that expires on 31 March 2030.

18 Pension costs

The Company has one pension scheme covering its employees. The principal funds are those in the UK.

Pension costs for the scheme are as follows:

	Note	2019 \$ 000's	2018 \$ 000's
Defined contribution scheme	5	2,374	2,338

19 Share capital

Allotted, called-up and fully paid	2019 \$	2018 \$
At 1 January	156	156
Total share capital as at 31 December	156	156

The Company has 100 ordinary shares in issue. The shares are wholly owned by LME Holdings Limited.

The London Metal Exchange

Notes to the financial statements (continued)

20 Cash flows from operating activities

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

	2019 \$ 000's	2018 \$ 000's
Continuing operations		
Profit before tax	94,650	99,677
Adjustment for:		
Depreciation of property, plant and equipment	2,646	3,338
Depreciation of right-of-use assets	2,694	-
Amortisation of intangible assets	15,773	16,078
Interest on lease liabilities	855	-
Additions of operating lease incentive	-	1,114
Amortisation of operating lease incentive	-	(308)
Interest income	(2,284)	(2,477)
(Decrease) / increase in Intercompany payables	(255)	169
Increase in Intercompany receivables	(1,694)	(124)
Provision for bad debt	5	(7)
Other non-cash movements	281	(244)
Effects of foreign exchange movements	752	500
Decrease / (increase) in trade and other receivables	22	(1,532)
Increase / (decrease) in trade and other payables	2,678	(2,079)
Cash generated from operations	116,123	114,105

21 Dividends paid to shareholder

A dividend of \$88,000,000 (\$880,000 per share) was paid in 2019 (2018: \$125,000,000, equivalent to \$1,250,000 per share).

The London Metal Exchange

Notes to the financial statements (continued)

22 Financial risk management

The Company's activities expose it to some financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity 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 financial performance. Financial risk management is carried out by the Finance department under policies approved by the Board of Directors.

(a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates 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.

Investment and fund management is governed by the Company's Investment Policy, Restrictions and Guidelines, which is approved by the Board and reviewed regularly. The Company's investment policy is designed to ensure diversification of investments across a range of highly rated financial institutions and to minimise risk through the use of risk based limits. No investments are made for speculative purposes. In addition specific limits are set for each counterparty in control of the investments.

(i) Foreign exchange risk

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 (i.e. a currency other than the functional currency of the Company) will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign exchange risk arising from payments of various expenditures (predominately in GBP, a significant component of which is staff costs) and bank deposits denominated in foreign currencies. The Company's treasury risk management policy in the normal course of events is to convert non-USD currencies into USD (the functional currency) as soon as deemed reasonably appropriate to do so in order to reduce exposure to exchange rate fluctuation. An exception to this policy is where an amount of foreign currency is held against future GBP expenditure. The Company seeks to minimise the risk of adverse effects to its Statement of profit or loss and other comprehensive income as a result of fluctuations in foreign exchange rates by undertaking hedge accounting in the form of cash flow hedges. The Company designates cash flow hedges in respect of highly probable forecast sterling transactions – typically for payroll and technology for a time horizon of 1-6 months.

At 31 December 2019 a 10% weakening/strengthening of GBP against USD, with all other variables held constant, would have resulted in a foreign exchange gain/loss of \$4,427,000 (2018: \$4,959,000), all as a result of translation of GBP denominated trade receivables and bank balances amounting to \$44,270,000.

The London Metal Exchange

Notes to the financial statements (continued)

22 Financial risk management (continued)

(ii) Price risk

The Company is not directly exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Company has significant interest-bearing assets comprising of deposits on call and short-term. The Company's income and operating cash flows however are not materially affected by market interest rates.

The Company's interest rate risk arises from its call and short-term deposits. It has no borrowings and, as a consequence, its interest rate risk is restricted to the impact upon the interest income generated from its call and short-term deposits.

(iv) Sensitivity analysis of movements in interest rates

Based on cash deposits held at the year end, the Company calculated the impact on profit or loss of a 100 basis-point shift in interest rates would be a maximum increase or decrease of \$1,037,000 (2018: \$1,388,000).

The Company places its term deposits to manage its liquidity needs and to maximise revenue within the Board approved investment policy.

The Company's short-term deposits as at the year-end are \$103,674,000 (2018: \$138,815,000).

(b) Credit risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, deposits with banks and trade and other receivables. Cash and deposit balances are held only with banks with long term credit rating minimum of Baa3. Trade and other receivables are primarily settled in cash within 3 months of the balance sheet date. Impairment provisions are made against trade and other receivables based on the accounting policies set out in note 1.

(c) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash to meet ongoing operational commitments and adhere to the requirements of The Financial Services and Markets Act 2000 to maintain liquid financial assets amounting to at least six months' operating costs and a risk calculated buffer. Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flows.

The London Metal Exchange

Notes to the financial statements (continued)

23 Transactions with related parties

Directors

During the financial year, no contracts of significance were entered into by the Company in which the Directors had a material interest. See note 25 for directors' emoluments.

Pension fund

The contributions in respect of the Company's pension scheme are disclosed in note 18.

Parent and group subsidiaries

During the years ended 31 December 2019 and 31 December 2018 the Company undertook the following transactions with other related parties.

LME Clear Limited	2019	2018
	\$'000's	\$'000's
Intragroup licensing fee	10,000	10,000
Payroll costs for LME Clear Limited employees paid by LME	13,648	11,719
Shared services – staff-related	7,589	6,937
IT related services	2,480	2,161
Facilities costs	305	665
Other costs	2,186	1,964
	36,208	33,446

Hong Kong Exchanges and Clearing Limited	2019	2018
	\$'000's	\$'000's
Expenses in relation to share based payments	(3,670)	(2,879)
Data license fee	600	-
Insurance charges	-	(172)
IT related costs	2,394	(126)
Marketing services	246	-
Other costs	(1,334)	(575)
	(1,764)	(3,752)

Ganghui Financial Information Systems (Shanghai) Limited	2019	2018
	\$'000's	\$'000's
Marketing services	(209)	(226)

The Stock Exchange of Hong Kong Limited	2019	2018
	\$'000's	\$'000's
Other costs	31	35

The Hong Kong Futures Exchange Limited	2019	2018
	\$'000's	\$'000's
Other costs	31	35

The London Metal Exchange

Notes to the financial statements (continued)

23 Transactions with related parties (continued)

HKEX Investments (UK) Limited	2019	2018
	\$'000's	\$'000's
Other costs	65	329

Gangsheng Technology Services (Shenzen) Limited	2019	2018
	\$'000's	\$'000's
IT related staff costs	(372)	(261)

Total monies collected by LME Clear Limited as agent and paid to the Company in 2019 were \$174,151,000 (2018: \$ 173,082,000).

For the years ended 31 December 2019 and 31 December 2018 the balances with other related parties were as follows

	2019		2018	
	\$ 000's	\$ 000's	\$ 000's	\$ 000's
	Owed by:	Owed to:	Owed by:	Owed to:
LME Clear Limited	150	-	133	-
Hong Kong Exchanges and Clearing Limited	1,582	-	-	249
Ganghui Financial Information Systems (Shanghai) Limited	-	33	-	68
The Stock Exchange of Hong Kong Limited	23	-	8	-
Hong Kong Futures Exchange Limited	23	-	8	-
HKEX Investments (UK) Limited	65	-	-	-
Gangsheng Technology Services (Shenzen) Limited	-	29	-	-
	1,843	62	149	317

During the year the Company paid dividends of \$88,000,000 to its parent, LME Holdings Limited (2018: \$125,000,000).

Amounts due from related parties are typically settled on a monthly basis. An assessment of these intercompany positions has been made and it was determined that the probability of default is extremely low and any expected credit losses would therefore be immaterial. Amounts due to related parties have contractual payment terms of less than three months (2018: less than three months).

The London Metal Exchange

Notes to the financial statements (continued)

24 Key management compensation

Compensation for Directors 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:

	2019	2018
	\$ 000's	\$ 000's
Salaries and other short-term benefits	4,579	4,580
Share-based payments	1,444	1,359
Pensions	213	207
Remuneration for loss of office	-	912
	6,236	7,058

25 Directors' emoluments

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

	2019	2018
	\$ 000's	\$ 000's
Aggregate emoluments	2,939	2,480
Company contributions paid to defined contribution pension scheme	13	13
	2,952	2,493

There are no retirement benefits accruing to directors under the defined contribution scheme (2018: \$nil).

Remuneration of highest paid director

	2019	2018
	\$ 000's	\$ 000's
Aggregate emoluments	1,865	1,628
Company contributions paid to defined contribution pension scheme	13	57
	1,878	1,685

There are no retirement benefits accruing under the defined contribution scheme (2018: \$nil).

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Notes to the financial statements (continued)

26 Long term incentive plan

Employees of the Company are eligible to receive share awards under the Company's 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 Company'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 Company (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 HKEX 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. Fair values of awarded shares are derived from quoted market prices on date of purchase. 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 2019:

Date of Award	Number of shares awarded	Average Fair Value per share \$	Vesting period
30-Dec-16	141,722	24.63	7 Dec 2018 – 7 Dec 2019
29-Dec-17	128,688	29.42	8 Dec 2017 - 8 Dec 2020
31-Dec-18	165,273	29.68	07 Dec 2018 – 07 Dec 2021
31-Dec-19	157,767	32.59	12-Dec-2019 – 12 Dec-2022

Movement in the number of awarded shares:

	2019	2018
Outstanding at 1 January	327,898	355,253
Awarded	157,767	170,915
Vested	(101,649)	(112,684)
Forfeited	(20,591)	(85,586)
Outstanding at 31 December	363,425	327,898

The London Metal Exchange

Notes to the financial statements (continued)

27 Members

At 31 December the number of Members of LME by category was as follows:

Base Metals	Number of Members at 31 December	
	2019	2018
Category 1	9	9
Category 2	32	32
Category 3	4	5
Category 4	5	3
Category 5	54	49
Category 6	2	2
Category 7	23	21
<hr/>		
LMEprecious members		
<hr/>		
General Clearing Member	9	9
Individual Clearing Member	1	1
Non-Clearing Member	3	3
<hr/>		
Registered Intermediating Brokers		
<hr/>		
Tier 1	-	-
Tier 2	8	-

28 Immediate and ultimate controlling holding company

LME Holdings Limited, registered in England and Wales, is the Company's immediate parent company, the registered address of which is 10 Finsbury Square, London EC2A 1AJ.

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

29 Events after the reporting period

The Board approved an interim dividend of \$32,000,000 at its meeting in February 2020, to be paid in March 2020.