

The London Metal Exchange

(Registered Number: 2128666)

Directors' report and financial statements

31 December 2014

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The London Metal Exchange

Directors and auditors

Directors

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

Sir B G Bender KCB (Chairman)
G P Jones (Chief Executive)
Sir C K Chow
D Graham
J B Harrison
E N Harwerth
R Lamba
N B le Roux
C X Li

Registered office

The London Metal Exchange
56 Leadenhall Street, London EC3A 2DX.

Independent auditors

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

The London Metal Exchange

Strategic report

The Business Review should be read in conjunction with the Directors' report on pages 5 - 7.

Strategic report

The results show a pre-tax profit of \$51.9m (2013: \$83.6m profit) for the year, and after accounting for taxation was \$41.8m profit (2013: \$63.5m profit). The 2013 profit included a once off exceptional gain in respect of the sale of a partial holding in LCH Clearnet (Ltd) LLC.

No final dividend is proposed in respect of 2014 (2013: \$nil). The Company paid an interim dividend of \$25m in the year (2013: \$54.8m).

2014 saw volumes traded on the Exchange exceed 177 million lots (2013:171m), which represents an increase of 3.5% in volumes traded compared to 2013.

Business environment

The Exchange operates in an ever increasing competitive and dynamic environment. Against this background, the Exchange continues to be the premier non-ferrous futures and options exchange in the world.

Strategy

The Exchange'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 in ferrous and off-exchange trading.

The Exchange continues to work with its ultimate parent company, Hong Kong Exchanges and Clearing Limited (HKEx) to build a leading global vertically-integrated multi asset class exchange and capitalise on new opportunities arising from the further development of China's financial markets.

The Exchange's fellow group subsidiary, LME Clear Limited, a European Markets Infrastructure Regulation (EMIR) authorised central counterparty (CCP) launched on 22 September 2014 and now provides clearing services for the exchange contracts of the LME.

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Strategic report (continued)

Principal risks and uncertainties

The management views the following areas as the principal risks and uncertainties that face the Exchange.

Downturn in market activity

The key risk facing the Exchange is a downturn in the current global interest in commodities and a consequent fall in the LME's trading volumes and revenues. In order to mitigate this risk the Exchange remains close to its members and users of the market and is also actively seeking to develop alternative revenue streams through diversification into ferrous and off-exchange products as well as seeking to enhance its existing product offerings.

Competition

The global exchange landscape continues to evolve and become more competitive with a risk that new market entrants will seek to attract liquidity away from the Exchange. To mitigate this risk the Exchange 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 apply technology in generating further efficiencies.

Regulation and compliance

Whilst the Exchange believes that a well-regulated market is an important and necessary feature to market users, there is a need to ensure that inappropriate regulation and compliance is not imposed on the Exchange as this could have a detrimental impact on operations and, as a consequence, on the users of the market. The Exchange will continue to promote and build on the relationship that it has established with its lead regulator, The Financial Conduct Authority, and also retain an active interest and involvement where appropriate in regulatory matters arising from the European Union and further overseas.

Operational and system resilience

With the ever increasing reliance placed on technology, the Exchange is aware of the need to maintain high degrees of operational and system resilience. To this end the Exchange continues to make significant technology investments including a new network infrastructure and upgrade to the LME Select trading platform. To assist it in maintaining high levels of operational and systems resilience, the Exchange maintains a dual data centre approach and also retains a permanent remote trading floor facility which can be operated within four hours.

Key performance indicators

In terms of trading volumes the Exchange has performed well in the light of the current economic environment. Member satisfaction and the delivery of cost effective services remain important measures of performance for the Exchange. Management employs commercial key performance indicators (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.

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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 2014.

Incorporation

The Company is registered in England and Wales. It is domiciled in the United Kingdom. It was originally registered as a company limited by guarantee; on 13 December 2012 it was re-registered as an unlimited Company under the name of The London Metal Exchange with a share capital of £100. The Company's parent, LME Holdings Limited, is the sole shareholder.

Principal activities

The Company's main activity is the provision of administrative and other services to the Members of The London Metal Exchange and the maintenance of proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards to business conducted on the Exchange.

Results

The profit before taxation for the year ended 31 December 2014 was \$51.9m (2013: \$83.6m profit) and after accounting for taxation was \$41.8m profit (2013: \$63.5m profit).

No final dividend is proposed in respect of 2014 (2013: \$nil), being \$nil per share (2013: \$nil). The company paid an interim dividend of \$25m in the year (2013: \$54.8).

Fixed assets

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

Charitable donations

The Company made charitable donations during the year totalling \$101,000 (2013: \$77,678).

Donations were made in the year to Tower Hamlets Education Business Partnership under the LME's Scholarship Programme. Other donations made were to registered charities.

Directors

The Directors of the Company who served during the year are listed on page 2.

Directors' and officers' liability insurance is maintained which provides insurance cover for Directors of the Company.

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Directors' report (continued)

Financial risk management

Information in respect of the Company's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, credit risk, liquidity risk and capital risk management is provided in Note 22 to the financial statements.

Statement of directors' responsibility for the financial statements

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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Directors' report (continued)

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

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

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

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


Independent auditors

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

Going concern

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

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

A handwritten signature in black ink, appearing to read 'M. Castro', with a stylized flourish at the end.

M. Castro FCIS
Company Secretary

27 February 2015

The London Metal Exchange, registration number 2128666.

The London Metal Exchange

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

Report on the financial statements

Our opinion

In our opinion, The London Metal Exchange's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

What we have audited

The London Metal Exchange's financial statements comprise:

- the statement of financial position as at 31 December 2014;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.
- We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Directors' report and financial statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Paolo Taurae (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2015

The London Metal Exchange

Statement of comprehensive income For the year ended 31 December

	Note	2014 \$ 000's	2013* \$ 000's
Revenue	1 (b)	163,763	156,101
Expenses	3	(112,560)	(103,768)
Operating profit		51,203	52,333
Finance income	4	660	767
Net gains on disposal of available-for-sale investment		-	30,454
Profit before tax		51,863	83,554
Taxation	6	(10,038)	(20,060)
Profit for the financial year		41,825	63,494
Other comprehensive income – items that may subsequently not be reclassified to profit and loss:			
Currency translation differences		(8,717)	2,541
Other comprehensive income - items that may subsequently be reclassified to profit and loss:			
Net change in value of available-for-sale investment, net of tax		1,875	(12,467)
Other comprehensive income for the financial year, net of tax		(6,842)	(9,926)
Total comprehensive income attributable to the shareholder		34,983	53,568

* Restated. Refer to note 1 (a)

No final dividend is proposed in respect of 2014 (2013: \$nil).

The notes on pages 15 to 44 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

	Note	31 December 2014 \$ 000's	31 December 2013* \$ 000's	1 January 2013* \$ 000's
Assets				
Non-current assets				
Intangible assets	7	32,777	43,576	43,605
Property, plant and equipment	8	5,928	8,571	4,645
Available for sale investment	9	-	18,140	15,805
		38,705	70,287	64,055
Current assets				
Trade and other receivables	11	34,415	31,058	23,730
Available for sale investment	9	20,141	-	21,829
Cash and cash equivalents	12	76,780	103,173	50,054
Amounts due from group undertakings		17,784	-	23,167
		149,120	134,231	118,780
Liabilities				
Current liabilities				
Trade and other payables	13	20,460	25,492	25,634
Current tax liabilities	14	10,836	23,511	1,927
Amounts due to group undertakings		74	8,708	-
		31,370	57,711	27,561
Net current assets		117,750	76,520	91,219
Non-current liabilities				
Operating lease incentives	15	2,047	2,420	2,626
Deferred tax liability	10	62	61	7,125
		2,109	2,481	9,751
Net assets		154,346	144,326	145,523
Equity				
Share capital	17	-	-	-
Capital reserve		34,726	36,691	36,010
Retained earnings		109,535	92,673	83,944
Available for sale reserve		14,977	13,102	25,569
Foreign Currency Translation		(4,892)	1,860	-
Total equity		154,346	144,326	145,523

* Restated. Refer to note 1 (a)

The notes on pages 15 to 44 are an integral part of these financial statements.

These financial statements were authorised for issues by the Board of Directors on 27 February 2015 and signed on its behalf by:


G P Jones
Director

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Statement of cash flows For the year ended 31 December

	Note	2014 \$ 000's	2013* \$ 000's
Cash flows from operating activities			
Cash generated from operations	18	40,011	96,928
Tax paid		(23,112)	(706)
Net cash from operating activities		16,899	96,222
Cash flows from investing activities			
Gain on exchange rate	4	432	723
Interest received	4	228	44
Purchase of intangible assets	7	(10,927)	(17,967)
Purchase of plant and equipment	8	(754)	(6,571)
Proceeds from disposal of available-for-sale asset	9		34,530
Net cash used in investing activities		(11,021)	10,759
Cash flows from financing activities			
Dividends paid	20	(24,964)	(54,765)
Net effect of foreign currency translation		(7,307)	903
Net (decrease) / increase in cash and cash equivalents		(26,393)	53,119
Cash and cash equivalents at beginning of year		103,173	50,054
Cash and cash equivalents at 31 December	12	76,780	103,173

* Restated. Refer to note 1 (a)

The notes on pages 15 to 44 are an integral part of these financial statements.

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Statement of changes in equity

For the year ended 31 December 2014

	Note	Called-up and fully paid Share Capital \$ 000's	Capital Reserve \$ 000's	Foreign Currency Translation \$ 000's	Retained Earnings \$ 000's	Available- for-sale reserve \$ 000's	Total Equity \$ 000's
1 January 2014		-	36,691	1,860	92,673	13,102	144,326
Profit for the financial year		-	-	-	41,825	-	41,825
Revaluation of the available-for-sale Investment taken to OCI	9	-	-	-	-	2,988	2,988
Transfer to income statement of available for sale assets		-	-	-	-	-	-
Deferred tax on change in available-for-sale investment	11	-	-	-	-	(400)	(400)
Currency translation				(8,717)	-	(713)	(9,430)
Total comprehensive income		-	-	(8,717)	41,825	1,875	34,983
Interim dividend in relation to year ended 31 December 2014		-	-	-	(24,963)	-	(24,963)
Transaction with shareholder		-	-	-	(24,963)	-	(24,963)
Currency translation recognised directly in equity		-	(1,965)	1,965	-	-	-
31 December 2014		-	34,726	(4,892)	109,535	14,977	154,346

* Restated. Refer to note 1 (a)

The notes on pages 15 to 44 are an integral part of these financial statements.

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Statement of changes in equity (continued)

For the year ended 31 December 2013

	Note	Called-up and fully paid Share Capital	Capital Reserve	Foreign Currency Translation	Retained Earnings	Available- for-sale reserve	Total Equity
		\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
1 January 2013		-	36,010	-	83,944	25,569	145,523
Profit for the financial year		-	-	-	63,494	-	63,494
Revaluation of the available-for-sale Investment taken to OCI		-	-	-	-	14,323	14,323
Transfer to income statement of available for sale assets		-	-	-	-	(32,121)	(32,121)
Deferred tax on change in available-for-sale investment		-	-	-	-	4,846	4,846
Currency translation		-	-	2,541	-	485	3,026
Total comprehensive income		-	-	2,541	63,494	(12,467)	53,568
Interim dividend in relation to year ended 31 December 2013		-	-	-	(54,765)	-	(54,765)
Transaction with shareholder		-	-	-	(54,765)	-	(54,765)
Currency translation recognised directly in equity		-	681	(681)	-	-	-
31 December 2013		-	36,691	1,860	92,673	13,102	144,326

* Restated. Refer to note 1 (a)

The notes on pages 15 to 44 are an integral part of these financial statements.

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Notes to the financial statements

1 Basis of preparation and 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.

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

The financial statements are prepared under the historical cost convention, as modified by the measurement of certain financial assets at fair value through AFS and on the basis of the principal accounting policies set out below.

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

The financial statements are presented in thousands of United States dollars (USD) except where otherwise indicated; this is a change from the prior year, see note 1(a)

New and amended standards adopted by the Company

There are a number of new standards that have been adopted by the Company and are effective for the first time for the financial period beginning on or after 1 January 2014.

In 2014, the Company has adopted the following new/revised IFRSs which were effective for accounting periods beginning on or after 1 January 2014:

- IFRIC Interpretation 21 'Levies'
- Amendments to IAS 32 - Financial instruments: Presentation – offsetting Financial assets and financial liabilities
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- IAS 27 (revised) - 'Separate financial statements'
- IAS 28 (revised) - 'Associates and joint ventures'
- IFRS 10 – 'Consolidated financial statements'
- IFRS 11 – 'Joint arrangements'
- IFRS 12 – 'Disclosure of interests in other entities'

IFRIC Interpretation 21 sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions, contingent liabilities and contingent assets'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not significant. The Company has applied the amendments retrospectively.

Amendments to IAS 32 clarify that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of the amendments to IAS 32 does not have any financial impact to the Company as it already complies with the requirements of the amendments. The Company has applied the amendments retrospectively.

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Notes to the financial statements (continued)

The Annual Improvements to IFRSs 2010-2012 cycle include a number of amendments to various IFRSs. Of these, the amendments to IFRS 2 'Share-based payment' - definition of vesting condition are effective for share-based payment transactions for which the grant date is on or after 1 July 2014. The amendments clarify the definition of a 'vesting condition' and separately define 'performance condition' and 'service condition'. The adoption of the amendments to IFRS 2 does not have any financial impact to the Company as it already complies with the requirements of the amendments. The Company has applied the amendments prospectively.

Amendments to IAS 27 and 28, and to IFRS 10-12 have been applied retrospectively but have had no impact on the Company's results or disclosures as they already are in compliance with the relevant requirements of the amendments.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not adopted early

A number of new standards and amendments to standards and interpretations relevant to the Company's operations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. None of these are expected to have a significant impact on the financial statements of the Company. The impact of these new standards and interpretations will be stated in the financial statements when they become effective and, if relevant, are adopted by the Company.

- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendments to IAS 24 - Related party disclosures – key management personnel
- Amendments to IAS 27 – Equity method in separate financial statements
- Amendments to IFRS 8 – Operating Segments
- IFRS 9 (2014) – 'Financial instruments'
- IFRS 15 – 'Revenue from contracts with customers'

The adoption of the amendments to IAS 24, 27 and IFRS 8 are not expected to have any material impact on the Company as it already complies with the relevant requirements of the amendments. The Company is in the process of making an assessment on the impact of IFRS 9 (2014) and IFRS 15.

(a) Change in functional and presentational currency

Change in functional currency

In prior periods, the Company's functional currency was British pounds sterling (GBP). Following the announcement that the LME's fees were to change from 1 January 2015, from GBP to USD and taking into consideration the existing exposure of the LME to USD, it was assessed that the majority of the Company's business transactions in terms of operating, investing and financing activities were in USD. As a result, with effect from 1 December 2014, the Company has changed its functional currency from GBP to USD. The change in functional currency was applied prospectively from the date of change in accordance with the requirements of IAS 21 'The effects of changes in foreign exchange rates'.

On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit and loss account items were translated into USD at the exchange rate on that date.

Change in presentation currency

USD has also been adopted as the presentation currency of the Company's financial statements. The change in presentation currency has been applied retrospectively in accordance with IAS 8

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Notes to the financial statements (continued)

'Accounting policies, changes in accounting estimates and errors', and the comparative figures have also been restated to USD accordingly.

The change in presentation currency has impacted the 2013 comparatives. As a result, a foreign currency reserve arises.

The changes in functional and presentational currency have no other significant impact on the financial position of the Company.

The 2013 opening and closing comparatives, the associated notes and the results for the period up to the date of change have been retranslated from GBP to USD using the procedures outlined below:

- Assets and liabilities were translated into USD at closing rates of exchange;
- Income and expenses were translated into USD at average rates of exchange as they are a suitable proxy for the prevailing rates at the date of transactions;
- Differences resulting from the retranslation on the opening net assets and the results for the period have been taken to other comprehensive income; and
- Share capital was translated into USD at closing rates of exchange and differences resulting from the retranslation were recognised directly in equity.

The exchange rates used were:

	Period ended 1 December 2014	Year ended 31 December 2013	Period beginning 1 January 2013
	£1:\$	£1:\$	£1:\$
Average rate	1.65547	1.57029	N/A
Closing rate	1.56605	1.65625	1.62550

The above stated procedures resulted in a foreign currency translation reserve of \$4.89m as at 1 December 2014 (31 December 2013: \$1.86m; 1 January 2013: \$nil).

(b) Revenue

Revenue represents the total amount receivable for the provision of services, excluding value added tax.

Subscription and registration fees are recognised over the 12-month period to which the fee relates.

Contract levies, Market Data, Stock levies and Exchange fees are recognised when earned, when the data is provided or the transaction is effected, and all other fees are recognised as and when the transaction occurs.

Also included in revenue are intercompany cost recharges in connection with expenditures incurred on behalf of group companies.

(c) Foreign currencies

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

Transactions in foreign currencies and currency balances at the year end are converted at the rate ruling at the transaction date or year end date respectively, with any gains or losses recognised in the

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Notes to the financial statements (continued)

income statement.

(d) Intangible assets

Intangible assets consist of software related projects capitalised when the development stage of the project is reached. Development costs that are directly attributable to the design and testing of identifiable and unique systems controlled by the Company are recognised as intangible assets when the following criteria are met:

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

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

System development costs recognised as assets are amortised over the estimated useful lives, 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.

(e) Property, plant and equipment

Furniture, fixtures, fittings and equipment are stated at cost and are depreciated to residual value on a straight line basis over the estimated useful lives of the assets, which are three years.

The Company selects its depreciation 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.

(f) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are regularly assessed as collectible or uncollectible. When a trade receivable is determined to be uncollectible, it is written off, being recognised in the income statement within expenses. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of comprehensive income.

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Notes to the financial statements (continued)

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non-current assets. These are classified as 'trade and other receivables' in the balance sheet (also see note 11). Receivables are initially recognised at fair value and subsequently measured at amortised cost.

(g) 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 original maturities of three months or less.

(h) Financial assets

The Company has the following categories of financial assets: receivables and available-for-sale investment. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Available-for-sale investment

Available-for-sale (AFS) financial assets are equity securities that are designated in this category. They are included as current assets where management considers they will not be disposed of within 12 months of the balance sheet date.

The investment was initially recognised at fair value on acquisition and was recorded at fair value and more information is available in note 2. Movements in fair value are recorded in the AFS reserve unless the asset is impaired.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence existed for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – would be removed from equity and recognised in the income statement.

(j) 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.

(k) Operating lease incentives

An obligation deemed to be a lease incentive is amortised over the remainder of the lease term through the statement of comprehensive income. If the lease was to be terminated at an earlier date, any unamortised element of the operating lease incentive would be recognised in the statement of comprehensive income for that year. Where leasehold re-instatement costs are forgiven by the lessor the estimated value of the re-instatement costs is accounted for as an operating lease incentive.

(l) Operating leases

Rental costs for operating leases are charged to the statement of comprehensive income on a straight line basis.

The London Metal Exchange

Notes to the financial statements (continued)

(m) **Income tax**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Full provision is made, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is determined using tax rates that are in place at the balance sheet date and are expected to apply when the asset is realised or liability settled.

Deferred tax assets are recognised to the extent it is possible that they will be recoverable against future taxable profits. Deferred tax liabilities are recognised where the net book value of fixed assets exceed the tax written down value at the end of the year.

(n) **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. Accounts payable 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.

(o) **Pension costs**

The Company operates a defined contribution pension scheme. The expense of the scheme is charged to the income statement as incurred.

(p) **Staff costs and related expenses**

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

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

The total amount to be expensed is determined by reference to the fair value of the Awarded Shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the vesting periods, with a corresponding credit to equity.

The LME Long-Term Incentive Plan ("Plan") was set up by LME Holdings Limited in 2008 and closed in 2013. The plan was accounted for as a cash settled scheme. The fair value of the employee services received in exchange for the grant of options under the plan (see note 26) was recognised as an expense. Payments made or liabilities assumed on behalf of the parent company in respect of employees of the Company are recognised as an investment and capital contribution in the financial statements of the parent and the Company respectively. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The London Metal Exchange

Notes to the financial statements (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.

(q) Dividends

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

2 Critical accounting estimates and 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 European Union and IFRIC Interpretations.

Available-for-Sale Investment (AFS)

Critical accounting estimates and judgements are those that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities. The Directors consider that the fair value estimate relating to the AFS investment in an unlisted security represents a critical accounting estimate (note 9).

The AFS investment is measured at fair value in the balance sheet with the movement for the year being recorded as other comprehensive income and in the AFS reserve within equity. Consequently the fair value adjustment of the investment has no impact on the reported profit for the year in the statement of comprehensive income.

As the AFS investment is not traded in an active market, its fair value has been determined using discounted cash flow valuation techniques and use of earning multiples valuated methodologies. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, an estimation of weighted average cost of capital and comparable multiples.

Taking the above factors into consideration the Directors have estimated a fair value for the AFS investment as at the balance sheet date of \$20,141k.

The estimate is sensitive to the factors detailed above. A change to any of these factors to other reasonably possible assumptions has a material impact on the fair value of the AFS investment. The possible effects of these assumptions as set out in note 22. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amount of the asset.

The AFS investment is considered to be a 'Level 3' asset under the IFRS 13 hierarchy. This is because the inputs to the fair value estimate are not based on observable market data. Further details are set out in note 22.

The London Metal Exchange

Notes to the financial statements (continued)

Software development

As described in notes 1(d) and 7, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation, 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(d).

3 Expenses

Expenses comprise the following:

	Note	2014 \$ 000's	2013 * \$ 000's
Employee costs	5	38,651	26,028
Depreciation and amortisation		23,454	20,435
Operating lease costs		2,150	1,825
Technology costs		25,760	36,094
Other costs		22,279	19,170
Bad debt written off		266	216
		112,560	103,768

* Restated (note 1a)

The London Metal Exchange

Notes to the financial statements (continued)

3 Expenses (continued)

Services provided by the Company's auditors and network firms

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

	2014 \$ 000's	2013* \$ 000's
Audit services		
- Statutory audit	292	270
- Pension fund	6	8
Tax services		
- Compliance services	15	31
- Advisory services	152	195
Other		
- Other services not covered above		11
	465	515

* Restated.

Included within the statutory audit fee are amounts paid on behalf of group companies of \$23k for LME Holdings and \$15k for HKEx Investment (UK) Limited

4 Finance Income

	2014 \$ 000's	2013 * \$ 000's
Interest income on bank accounts and short-term bank deposits	228	44
Gain on foreign exchange	432	723
	660	767

* Restated.

The Company has not incurred any interest expense in the year (2013: nil).

The London Metal Exchange

Notes to the financial statements (continued)

5 Employee costs

Employee costs (including directors) comprise the following:

	Note	2014 \$ 000's	2013* \$ 000's
Wages and salaries		30,284	21,433
Social security costs		3,976	2,230
Other pension costs	16	2,781	1,970
Employee share-based compensation benefits of share award scheme	26	1,610	395
Total		38,651	26,028

* Restated.

The number of employees (excluding directors) was:

	2014	2013
At the year end	214	128
Monthly average for the year	178	113

The London Metal Exchange

Notes to the financial statements (continued)

6 Taxation

		2014	2013 *
Taxation charged / (credited) to the income of comprehensive income	Note	\$ 000's	\$ 000's
<u>Income tax</u>			
Current year		11,747	20,756
Adjustments in respect of prior years		(1,310)	1,534
Total current tax		10,437	22,290
<u>Deferred tax</u>			
Deferred tax for the current year		(540)	(1,073)
Change in tax rate		38	64
Adjustments in respect of prior years		103	(1,221)
Total deferred tax	10	(399)	(2,230)
Taxation charge		10,038	20,060

* Restated

The adjustments in respect of previous years' corporation tax are mainly in respect of tax returns agreed with HM Revenue & Customs.

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%) and the taxation charge for the year are explained below:

	2014	2013 *
	\$ 000's	\$ 000's
Profit before taxation	51,861	83,554
Profit multiplied by the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	11,150	19,426
Expenses not deductible/income not taxable	52	66
Net adjustments in respect of prior years	(1,207)	312
Change in tax rate	39	256
Functional Currency (credit) / charge to Income Statement	4	-
Taxation charge	10,038	20,060

* Restated

The London Metal Exchange

Notes to the financial statements (continued)

7 Intangible assets

	Capitalised software in use	Capitalised software under development	Total
	\$ 000's	\$ 000's	\$ 000's
Costs			
At 1 January 2014	91,997	5,762	97,759
Additions		10,927	10,927
Transfers	2,891	(2,891)	-
Currency Translation	(5,010)	(314)	(5,324)
At 31 December 2014	89,878	13,484	103,362
Accumulated amortisation and impairment			
At 1 January 2014	54,183	-	54,183
Charge for the year	20,371		20,371
Currency Translation	(3,969)		(3,969)
At 31 December 2014	70,585	-	70,585
Prior Year			
Costs			
At 1 January 2013 *	60,922	17,388	78,310
Additions	-	17,967	17,967
Transfers	29,922	(29,922)	-
Currency Translation	1,153	329	1,482
At 31 December 2013	91,997	5,762	97,759
Accumulated amortisation and impairment			
At 1 January 2013 *	34,705	-	34,705
Charge for the year	17,844	-	17,844
Currency Translation	1,634		1,634
At 31 December 2013 *	54,183	-	54,183
Net book values			
At 31 December 2014	19,293	13,484	32,777
At 31 December 2013 *	37,814	5,762	43,576

* Restated

The London Metal Exchange

Notes to the financial statements (continued)

8 Property, plant and equipment

	Assets in the course of construction	Equipment	Furniture, fixtures and fittings	Total
	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Costs				
At 1 January 2014	2,768	20,295	3,838	26,901
Additions	(2,617)	2,879	492	754
Currency Translation	(151)	(1,105)	(208)	(1,464)
At 31 December 2014	-	22,069	4,122	26,191
Accumulated depreciation				
At 1 January 2014	-	16,238	2,092	18,330
Charge for the year	-	2,800	283	3,083
Currency Translation	-	(1,023)	(127)	(1,150)
At 31 December 2014	-	18,015	2,248	20,263
Prior Year				
Costs				
At 1 January 2013	-	18,030	1,923	19,953
Additions	2,768	1,925	1,878	6,571
Currency Translation	-	340	37	377
At 31 December 2013	2,768	20,295	3,838	26,901
Accumulated depreciation				
At 1 January 2013	-	13,486	1,822	15,308
Charge for the year	-	2,368	223	2,591
Currency Translation	-	384	47	431
At 31 December 2013	-	16,238	2,092	18,330
Net book values				
At 31 December 2014	-	4,054	1,874	5,928
At 31 December 2013 *	2,768	4,057	1,746	8,571

* Restated

The London Metal Exchange

Notes to the financial statements (continued)

9 Available-for-sale Investment

	2014 \$ 000's	2013 * \$ 000's
Beginning of year	18,140	37,634
Disposals	-	(34,530)
Net gains/(losses) recognised in other comprehensive income	2,988	14,323
Currency Translation	(987)	713
End of year	20,141	18,140
Analysed as:		
amount falling due within 1 year	20,141	-
amount falling due after 1 year	-	18,140
	20,141	18,140

* Restated

In 2013 LME reclassified profits of \$30,454k from equity into the statement of comprehensive income.

The investment is not impaired as at the balance sheet date.

During the year no dividend (2013: £nil) was received in respect of the available-for-sale investment.

The available-for-sale investment is an unlisted security, denominated in euros and stated at fair value. Further information in respect of this asset is provided in notes 1(h & i), 2 and 22.

The London Metal Exchange

Notes to the financial statements (continued)

10 Deferred tax liability

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

	Note	2014 \$ 000's	2013 * \$ 000's
1 January		61	7,125
Adjustment in respect of prior years		103	-
(Credited)/charged to profit or loss during the year	6	(502)	(2,352)
Tax credit relating to components of other comprehensive income		400	(4,712)
31 December		<u>62</u>	<u>61</u>

* Restated

The deferred tax liability has arisen as a consequence of recognising the unrealised gain on the fair value of available-for-sale investment (note 9).

Factors that may affect future tax charges

The Company will receive tax relief on the same basis of amortisation for intangible assets. Any disposal of available-for-sale investment will result in current taxes becoming payable.

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 2012 reduced the main rate of corporation tax from 24% to 23% from April 2013. The Finance Bill 2013 reduced the main rate of Corporation tax from 1 April 2014 to 21%, and from 1 April 2015 this will further reduce to 20%.

The London Metal Exchange

Notes to the financial statements (continued)

11 Trade and other receivables

	2014 \$ 000's	2013 * \$ 000's
Contract levy receivable	9,954	11,563
Other receivables	6,648	4,121
Prepayments and accrued income	17,813	15,374
	34,415	31,058

* Restated

As of 31 December 2014, trade receivables of \$1,423k (2013: \$1,945k) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Directors expect the amounts past due but not impaired to be recovered in full. The ageing analysis of these trade receivables is as follows:

	2014 \$ 000's	2013 * \$ 000's
Up to 3 months	862	982
More than 3 months but up to 6 months	321	146
Over 6 months	240	817
	1,423	1,945

* Restated

The carrying amounts of the Company's trade and other receivables are denominated in US dollars, apart from \$8,132k which is denominated in sterling (2013: \$3,035k).

The trade and other receivables do not contain any impaired assets (2013: nil).

The maximum exposure to credit risk at the reporting date is the book value of each class of receivable mentioned above. The Company does not hold any collateral as security.

The London Metal Exchange

Notes to the financial statements (continued)

12 Cash and cash equivalents

	2014 \$ 000's	2013 * \$ 000's
Cash at bank	24,903	77,783
Short term deposits	51,877	25,390
	76,780	103,173
Average maturity of short term deposits	1 month	1 month
Weighted average interest rate	0.44%	0.61%

* Restated

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, and net capital of at least this amount.

13 Trade and other payables

	Note	2014 \$ 000's	2013 * \$ 000's
Social security and other taxes		924	598
Other payables		-	15,707
Accruals and deferred income		19,295	8,932
Operating lease incentives	15	241	255
		20,460	25,492

* Restated

The forecast of the contractual payment of these trade and other payables is as follows:

	2014 \$ 000's	2013 * \$ 000's
Up to 3 months	19,902	25,492
More than 3 months but up to 6 months	558	-
Over 6 months	-	-
	20,460	25,492

* Restated

The London Metal Exchange

Notes to the financial statements (continued)

14 Current tax liabilities

	2014 \$ 000's	2013 * \$ 000's
Current tax liabilities	10,836	23,511

* Restated

15 Operating lease incentives

	2014 \$ 000's	2013 * \$ 000's
Balance at 1 January	2,420	2,626
Amount amortised in the year	(241)	(255)
Currency Translation	(132)	49
Balance at 31 December	2,047	2,420

	2014 \$ 000's	2013 * \$ 000's
Analysed		
- Current	241	255
- Non-current	1,806	2,165
Balance at 31 December	2,047	2,420

* Restated

In previous years the Company restructured its leasehold obligations and its re-instatement and dilapidation liabilities. In accordance with the Standards Interpretation Committee (SIC) paper, 'Operating Leases – Incentives' (SIC 15) the provision of \$3.9 million for estimated reinstatement and dilapidation liabilities was reclassified as a lease incentive.

16 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	2014 \$ 000's	2013 * \$ 000's
Defined contribution scheme	5	2,781	1,970

* Restated

The London Metal Exchange

Notes to the financial statements (continued)

17 Share capital

Allotted, called-up and fully paid	2014	2013
	\$	\$
At 1 January	156	166
Issued	-	-
Total share capital as at 31 December	156	166

18 Cash flows from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

Cash generated from operations	2014	2013*
	\$ 000's	\$ 000's
Continuing operations		
Profit before tax	51,863	83,554
Adjustments:		
Depreciation	3,083	2,591
Amortisation of intangibles	20,371	17,844
Amortisation of operating lease incentive	(241)	(255)
Interest income	(228)	(44)
(Decrease) / Increase in Intercompany payables	(8,634)	8,708
(Increase) / Decrease in Intercompany receivables	(17,784)	23,167
Provision for bad debt	266	216
Other non-cash movements	509	-
Gain on foreign exchange	(432)	(723)
Gain on disposal of available-for-sale asset	-	(30,454)
(Increase) in trade and other receivables	(3,357)	(7,328)
(Decrease) in trade and other payables	(5,405)	(348)
Cash generated from operations	40,011	96,928

The London Metal Exchange

Notes to the financial statements (continued)

19 Operating lease commitments – minimum lease payments

	2014 \$ 000's	2013* \$ 000's
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	2,514	2,185
Later than one year and less than five years	218	5,078
	2,732	7,263

* Restated

The principal operating lease, which runs until 23 June 2024, that the Company has entered into has a break with effect from the 24th December 2015, which either party can exercise. To effect the break 12 months prior written notice by either party is required.

20 Dividends

A dividend of \$25m (equal to \$25k per share) was paid in 2014 (2013: \$54.8m).

21 Financial commitments

Expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2014 \$ 000's	2013* \$ 000's
Within one year or less	5,900	10,825
Between two and five years	-	310
	5,900	11,135

* Restated

The above commitments are in respect of technology contracts and business continuity arrangements.

The London Metal Exchange

Notes to the financial statements (continued)

22 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange rate risk arising from various currency exposures, primarily with respect to GBP. Foreign exchange risk arises from costs denominated in a foreign currency (principally GBP).

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 a specific and fixed liability.

At 31 December 2014 a 10% weakening/strengthening of GBP against USD, with all other variables held constant, would have resulted in a foreign exchange gain/loss of \$6,150k (2013: \$9,917k), all as a result of translation of GBP denominated trade receivables and bank balances amounting to \$61,498k.

(ii) Price risk

The Company is exposed to price risk on the investment held by the Company and classified on the balance sheet as available-for-sale investment; as referred to in note 2 and 9, the Company's ability to sell this investment is restricted. The investment is stated at fair value. 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 subject to change in 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.

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 \$509k (2013: \$251k).

The Company manages its cash flow interest rate risk by placing funds on short-term deposit to avoid being locked into rates significantly below the prevailing market rate.

The London Metal Exchange

Notes to the financial statements (continued)

22 Financial risk factors (continued)

The Company's call and short-term deposits as at the year end are as follows:-

	2014 \$'000	2013 * \$'000
Call Account	1,822	1,715
Short-term deposits		
- up to 3 months	49,047	23,413
- more than 3 months	-	-
- over 12 months	-	-

* Restated

(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 a minimum rating of F1 (Fitch). As at the end of 2014 the cash was placed with Lloyds Bank plc, Close Brothers Limited, Clydesdale Bank plc, HSBC plc and National Westminster Bank Plc. The Company's only significant concentration of credit risk is with these five banks. Trade and other receivables are primarily settled in cash within 3 months of the balance sheet date.

(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. Management monitors rolling forecasts of the company's liquidity reserve on the basis of expected cash flows.

The Company's operating lease commitments are shown in note 19 and its expenditure contracted for at the balance sheet date is shown in note 21.

(d) 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 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 Financial Conduct Authority (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. The company has exceeded the capital requirement of \$54,011k throughout the year.

The London Metal Exchange

Notes to the financial statements (continued)

(e) Financial risk factors (continued)

Fair value estimation

The available-for-sale financial asset is not traded in an active market and is an investment in ordinary shares of a private company. The investment is stated at fair value. The fair value was determined using discounted cash flow valuation techniques. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, an estimate of weighted average cost of capital (WACC) and an adjustment for the value of the investment attributable to a minority stake. The sensitivity of fair value to the possible reasonable changes in unobservable inputs were as set out below. The investment is considered to be a level 3 asset in the IFRS 13 hierarchy and is the only financial asset of this category held by the Company.

Description	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation	
					31-Dec-14 \$m	31-Dec-13 \$m
Investment in shares in an unlisted company	Future growth rates of the company	2% to 4%	The higher the future growth rates, the higher the fair value;	+/-1%	[+2.7/-3.5]	[+2.4/-3.5]
Fair value at 31 Dec 2014 was \$20.1million (2013: \$18.1 million)	Estimated WACC	8% to 12%	The higher the WACC, the lower the fair value;	+/-1%	[+3.2/-2.5]	[+2.3/-2.3]

Changes in level 3 instruments for the year end 31 December 2014

	Unlisted Equities \$ 000's
Opening balance	18,140
Gains recognised in other comprehensive income	2,001
Disposals	-
31 December 2014	20,141

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

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 16.

Parent and group subsidiaries

During the year the Company conducted transactions with the former ordinary shareholders and current B shareholders of its parent (note 29) on an arms-length basis in its normal course of business. These transactions are recorded as revenue and are not considered to represent related party transactions since they occur on arms-length commercial terms and in the normal course of the company's operating activities.

During the year the amounts due to the Company from LME Holdings Limited and LME Clear Limited of 2014: \$nil (2013: \$11,370) and 2014: \$16,389 (2013: \$22,414) respectively, relate to expenses incurred on behalf of fellow group companies and have subsequently been recharged at cost and settled in full. At the year end date, the amounts due from Hong Kong Exchanges and Clearing Limited was \$16,530 (2013: due to of \$1,208k), amounts due from LME Clear was \$1,254k (2013: due to of \$7,481k) and \$74k was due to Ganghui Financial Information Services.

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:

	2014 \$ 000's	2013* \$ 000's
Salaries and other short-term benefits	6,923	5,337
Share-based payments	962	199
Pensions	631	487
Remuneration for loss of office	521	448
	9,037	6,471

* Restated

25 Directors' emoluments

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

	2014 \$ 000's	2013* \$ 000's
Aggregate emoluments	2,245	1,622
Company contributions paid to defined contribution pension scheme	126	90
	2,371	1,712

* Restated

There were no accrued amounts under the defined contribution scheme at the year end (2013: \$nil).

Benefits accrued under the LME Share scheme 2014: \$nil (2013: \$nil).

Remuneration of highest paid director	2014 \$ 000's	2013* \$ 000's
Aggregate emoluments	1,618	506
Company contributions paid to defined contribution pension scheme	126	60
	1,744	566

* Restated

There were no accrued amounts under the defined contribution scheme at the year end (2013: \$nil).

Benefits accrued under the LME Share scheme 2014: \$nil (2013: \$nil).

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Notes to the financial statements (continued)

26 LME long –term incentive plan

The LME Long-Term Incentive Plan was set up by LME Holdings Limited to provide its chief executive and other selected employees of LME with an entitlement, in the form of share options, to a receipt of cash when the options were exercised, calculated by reference to the unit value price of notional LME Holdings Limited shares over the exercise price of the options. The unit value price was determined by the Remuneration Committee of the LME Holdings Limited the scheme closed in 2013.

At the date of acquisition of the LME Group (6 December 2012) and 31 December 2012, the unit value price was determined to be £73.90, which was calculated using a formula with reference to the consideration paid by HKEx Investment (UK) Limited to acquire the LME Holdings Limited.

At the date of acquisition all outstanding options were vested and exercisable at a weighted average exercise price of £7.18 per share with a remaining contractual life of 8 months from 31 December 2012. The Company's parent, LME Holdings Limited was responsible for making payments under the plan. The company recognised these amounts on behalf of its holding company with such amounts being recorded as capital contributions by the holding company (note 1(p)).

During 2013 all remaining options were exercised as shown below:

Movements to 31 December 2013	Notional shares
1 January 2013	294,285
Exercised in the period	(294,285)
Forfeited	-
Issued in the period	-
At 31 December 2013	-

Fifteen members of the Plan exercised options to the value of \$36,607k in the period to 31 December 2013.

HKEx Employee Share Awards Scheme

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

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

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Notes to the financial statements (continued)

26 LME long –term incentive plan (continued)

Employee Share Awards vest progressively over the vesting period (of three years) after the shares are granted, provided that the relevant awardee remained employed by the Group or retired on reaching normal retirement age. For awardees that cease employment with the Group before vesting, 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 Group 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 accounts and an increase to investment in subsidiaries in HKEx's financial statements, with a corresponding credit to employee share-based compensation reserve. Any reimbursement by the Company to HKEx is offset against the capital contribution.

Details of the Awarded Shares during 2014:

Date of Award	Number of shares awarded	Average Fair Value per share \$	Vesting period
03-Dec-14	44,715	23.02	25 April 2015 -25 April 2016
03-Dec-14	12,828	23.02	1 May 2015 -1 May 2016
03-Dec-14	2,003	23.02	10 June 2015 - 10 June 2016
03-Dec-14	1,480	23.02	14 Oct 2015 - 14 Oct 2016
03-Dec-14	97,219	23.02	9 Dec 2015 -9 Dec 2016
03-Dec-14	1,790	23.02	6 Jan 2015 - 6 Jan 2016
02-Jan-15	216,426	22.17	20 Jan 2016 - 20 Jan 2017

During the year there were no vested shares or dividend shares were awarded.

Movement in the number of Awarded Shares awarded

	Number of Awarded shares
Outstanding at 1 January	-
Awarded	160,035
Forfeited	(12,687)
Outstanding at 31 December 2014	147,348

Subsequent to 31 December 2014 on 2 January 2015, 216,426 shares were awarded to employees at average fair value of \$22.17 per share.

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Notes to the financial statements (continued)

27 Members

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

Category	Number of Members at 31 December	
	2014	2013
Ring Dealing	10	11
Associate Broker Clearing	32	30
Associate Trade Clearing	2	2
Associate Broker	3	3
Associate Trade	50	50
Individual	9	5

28 Contingent liabilities

US litigation

Since August 2013, 26 class actions have been filed against the LME in the United States (US) alleging anti-competitive and monopolistic behaviour in the warehousing industry in connection with aluminium prices. In March 2014, 24 of the class actions were consolidated into 3 complaints (the "first level" purchasers of primary aluminium complaints, the consumer end-users of aluminium complaints and the commercial end-users of aluminium complaints), with 2 complaints remaining unconsolidated. HKEx was named as a defendant only in the "first level" purchasers of primary aluminium complaints; LME Holdings Limited (LMEH) was named as a defendant in all 3 of the consolidated complaints, and the LME was named in all 5 of the complaints.

At the end of August 2014, the US District Court for the Southern District of New York (US District Court) dismissed all 5 complaints brought against the LME on the ground of sovereign immunity. The US District Court also dismissed all the claims brought against HKEx and LMEH.

In September 2014, the plaintiffs of the dismissed consumer end-users and commercial end-users of aluminium complaints filed appeals before the US Court of Appeals for the Second Circuit. The appeals are currently stayed. Parties to the appeal provided a status report to the court on 9 February 2015, and the court is considering whether to lift the stay.

The plaintiffs in the dismissed "first level" purchasers of primary aluminium complaints moved for reconsideration of the US District Court's decision to dismiss the LME on sovereign immunity grounds. The court denied that motion in November 2014.

The plaintiffs of the "first level" purchasers of primary aluminium complaints also filed a motion for leave to amend their complaints in October 2014, again naming the LME, LMEH, and HKEx as defendants (the Amended First Level Purchasers Complaints). After filing their opposition motions and further replies against the amendment of the complaints in December 2014 and January 2015, HKEx and LMEH are waiting for the US District Court's decision on whether to permit the amendment.

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Notes to the financial statements (continued)

28 Contingent liabilities (continued)

Since May 2014, 3 class actions have been filed against the LME, LMEH, and HKEx in the US alleging anti-competitive and monopolistic behaviour in the warehousing market in connection with zinc prices. On 22 September 2014, the US District Court ordered that all the zinc cases be stayed until after it has made a decision on the Amended First Level Purchasers Complaints.

The LME and HKEx management continue to take the view that all the lawsuits are without merit, and each of the LME, LMEH and HKEx will contest them vigorously.

As it is not yet clear how the US proceedings will be dealt with by the US District Court, the Group does not currently have sufficient information to estimate the financial effect (if any) relating to the lawsuits, the timing of the ultimate resolution of the proceedings, or what the eventual outcomes might be.

UK litigation

In December 2013, the LME was named as a defendant in a judicial review claim filed by United Company RUSAL Plc (Rusal) in the English High Court to challenge the LME's decision to introduce rule changes to the delivery out rates of LME approved warehouses. This case has now been resolved, all claims against the LME have been dismissed and Rusal was ordered to pay the LME's costs. A settlement of approximately \$1.8m has been agreed and payment of this amount was made by Rusal to the LME on 11 February 2015. This settlement is recognised as a receivable in the balance sheet and the amount is offset against legal costs incurred.

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Notes to the financial statements (continued)

29 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 56 Leadenhall Street, London EC3A 2DX.

The ultimate 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 12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.