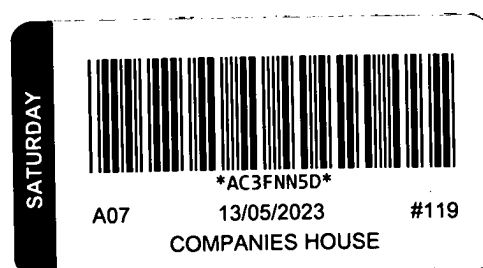


(Registered Number: 2128666)

The London Metal Exchange

Annual report and financial statements

31 December 2022



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:

G Huey Evans, CBE (Chair)	
A N Aguzin	
N C Allen	(appointed 7 February 2023)
L M L Cha	
M J Chamberlain	
M E Fraenkel	(appointed 7 February 2023)
R Leung	
A J Stuart	
P Vareille	(appointed 7 February 2023)
H Von Stiegel	
J M M Williamson	
S K W Yiu	

Registered office

10 Finsbury Square, London EC2A 1AJ

Independent auditors

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

The London Metal Exchange

Strategic report

The Directors present their Strategic report on the Company for the year ended 31 December 2022. This report should be read in conjunction with the Directors' report on pages 10 to 14.

Overview

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

Principal activities

The LME is the world centre for industrial metals trading. The main activity of the Company is the provision of a market place to facilitate pricing and trading, administrative and other services to the members of the LME (hereinafter referred to as Exchange Members) including the operation of a global physical warehouse network. The Company is required to maintain proper standards in accordance with its rules and with regulations made under the Financial Services and Markets Act 2000 as regards business conducted on the LME.

Review of the business

The Directors are satisfied with the performance of the Company, albeit note that volumes are down. LME's 2022 average daily volume (ADV) is 506,364 lots (chargeable volume excluding administrative trades) which continues the pattern of depressed volumes, and represents a 7.5% decrease on 2021 ADV. The COVID-driven 'risk-off' approach that suppressed 2021 volumes has continued into 2022, likely exacerbated by a combination of ongoing macro-economic uncertainty, expected recession, dampened risk appetite observed across all commodity markets, migration of trading to the over-the-counter (OTC) market and a challenging supply / demand backdrop.

In terms of LME's newer contracts, volumes on steel scrap and steel rebar are up by 63% and 66% on 2021, and new liquidity programmes launched on 1 November 2022 are designed to build on this to improve liquidity.

LMEpassport, the LME's centralised digital register has continued to gain traction since its launch in 2021, with over 2 million records registered in the system. The scope of LMEpassport's certificate of analysis requirements was extended to lead and zinc brands on 1 June 2022. LMEpassport also developed its environmental, social and governance standards disclosures in 2022, including the introduction of a range of new sustainability certifications, enabling greater comparability in carbon emissions data, increasing transparency of brands using scrap material, and - for the first time - allowing disclosure opportunities to non-LME brands. LMEpassport's first artisanal mining standard has also been integrated into the platform, supporting the formalisation of this standard in supply chains.

30 June 2022 marked the first reporting deadline for the LME's responsible sourcing rules, with 96% of LME-listed brands submitting compliance information in accordance with the requirements. The LME issued a request for feedback from the market on plans to consult on minor improvements to its processes and ruleset in December 2022 and published the results of this process on 8 February 2023.

In October 2022, the LME publicly committed to its 2040 net-zero target (for scope 1, 2 and 3 emissions), and will use the Science Based Targets initiative (SBTi) – a five-step process enabling companies to demonstrate a greenhouse gas (GHG) emission reduction plan – to formalise its strategy. The underlying analysis to deliver this will begin in 2023; in the meantime, the LME continues to report its existing emissions under the Streamlined Energy and Carbon Report requirements.

The year saw continued challenging commodity market conditions, exacerbated in February 2022 following Russia's invasion of Ukraine. Amid these challenging conditions, on the morning of 8 March 2022 the LME nickel futures market experienced extreme and unprecedented trading conditions. The LME suspended nickel trading, having concluded that the market had become disorderly, and cancelled all trades executed on or after 00:00 UK time on 8 March 2022. Nickel trading resumed on 16 March 2022.

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Strategic report (continued)

Review of the business (continued)

The LME took certain immediate measures to rebuild market resilience, including implementing daily price limits and OTC position reporting for all physically delivered metals. The LME and LME Clear also jointly commissioned an independent report from Oliver Wyman which sought to form a thorough understanding of what led to the market conditions in the nickel market at the time; consider the factors that contributed to these conditions; and identify actions that could be taken by the LME and LME Clear to reduce the likelihood of similar market conditions arising and mitigate and minimise the impact of such conditions in the event they were to arise.

Oliver Wyman's report was published in January 2023 and The LME and LME Clear Limited are now considering its recommendations before approving an implementation plan which it is intended will be published by the end of the first quarter of 2023.

Performance measurement and key performance indicators (KPIs)

Exchange Member satisfaction and the delivery of cost effective services and critical system availability are important measures of performance for the Company. The Company experienced one critical system outage during 2022 due to a power failure at its primary data centre. Further information is set out in the Operational and system resilience section below. Management employs commercial KPIs including transaction volume, breadth of Exchange Member participation in newly launched contracts and the size of open interest in the contracts traded and critical system availability.

In respect of capital, the key performance indicator is compliance with regulatory capital requirements set in accordance with the rules of the FCA. The Company held sufficient capital to meet its requirements throughout the year.

Financial KPIs	2022 \$ 000's	2021 \$ 000's	Increase / (decrease)
Revenue and other income	186,984	205,439	(9%)
Operating expenses	118,862	110,769	7%
Earnings before interest, tax, depreciation and amortisation	88,462	118,608	(25%)
Profit before tax	69,901	94,156	(26%)
Profit after tax	56,068	76,451	(27%)
Net assets	253,582	231,514	10%
Related non-financial KPIs			
ADV (000's; chargeable, excluding administrative trades)	506	547	(7.5%)

Lower revenue is predominantly due to the lower ADV experienced in 2022. The increase in operating expenses is due to higher legal and professional fee expense in the year.

As a result profits have decreased compared to 2021.

No final dividend is proposed in respect of 2022 (2021: \$nil). The Company paid an interim dividend of \$35,000,000 during the year (2021: \$35,000,000).

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Strategic report (continued)

Strategy

The Company's strategy is 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 continues to work on its major technology programme, which will deliver a new trading platform to the market in 2024. The Company also 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.

Extensive work in 2022 focused on developing the LME's growth strategy. This included an assessment of progress against existing strategic initiatives and a review of key industry trends, the LME's strengths and weaknesses, and competitor activity. The LME's core ambition is to grow commodities revenue through modernising its market structure, expanding distribution and product / service offering, reinforcing its physical market relevance and leveraging the Group's focus on China to drive growth in regional participation and access new opportunities.

Business environment

The Company operates in a competitive and ever evolving market environment and has maintained its position as the world centre for industrial metals trading. The prices discovered on the Company's trading platforms have retained their usage as global reference prices.

Key areas of focus throughout 2022 were (i) the impact of the Ukraine-Russia conflict on the Company and Exchange Members, and mitigating associated risks; and (ii) the nickel events which occurred on 8 March 2022.

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. Non-financial principal risks and uncertainties are set out below.

Litigation

On 8 March 2022, the LME, in consultation with LME Clear, suspended trading in all nickel contracts with effect from 08:15 UK time, and took steps to ensure that no trading activity that had taken place on the LME's nickel market after 00:00 UK time on 8 March 2022 should result in a binding contract under the LME's rules. These decisions were taken by the LME, having concluded that the market had become disorderly.

The LME and LME Clear were subsequently named as defendants in two judicial review claims filed in the English High Court. The claims seek to challenge the LME's decision to ensure that no trading activity that had taken place on the LME's nickel market after 00:00 UK time on 8 March should result in a binding contract under the LME's rules. The claimants alleged that this decision was unlawful on public law grounds and/or constituted a violation of their human rights. The Company's management is of the view that the claims are without merit and the LME and LME Clear are contesting them vigorously.

There remains a risk that other market participants may also seek to bring claims in relation to these matters.

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Strategic report (continued)

Principal risks and uncertainties (continued)

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 LME. The Company's key competitive advantage is the choice of LME official prices in global commodity contracts which brings physical users to the exchange to hedge their demand or supply. The LME continues to take servicing the physical market extremely seriously and continues through new initiatives to attract new users to focus on improving the Company's competitive strength. The Company will continue to engage with the views and needs of market users and provide its products and services in a cost effective manner.

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 to 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 a well-defined operational incident process to manage incidents and to ensure required improvements 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 dual data centres. The Company delayed the market opening on 11 January 2022 as a result of a total and unprecedented power failure at its primary data centre on the previous day. The Company has undertaken a review of events and has been working with its data centre provider to review the incident and the data centre provider has put in place improvements that mean the Company is confident such an outage and resulting delay to market opening is less likely to recur in the future.

The Company's cyber risk profile and associated defences are the subject of significant ongoing investment and liaison with key government and other bodies and includes regular penetration testing and training for all employees in key cyber techniques which could be used to compromise the Company.

The Company has commenced a programme of work to replace some of the underlying technology including a replacement of LMEselect 9 - which is provided by a third-party - with a commodity derivative platform developed in conjunction with the parent company; this platform will be known as LMEselect 10 and is intended for Exchange Member test late in 2023 for go-live in 2024. Similarly, the Company has invested heavily in some ancillary but critical systems including message transfer and price dissemination using an event streaming protocol which will provide market-leading stability and flexibility. These projects are intended to ensure that the underlying technology of the Company remains robust and resilient for the future.

The Company's expanded operational resilience program commenced in 2019. The governance structure and the important business services have been agreed and approved at senior management level and work has continued on developing the framework during the year. In 2021 the FCA set out rules to firms including Recognised Investment Exchanges for building their operational resilience frameworks, following prior consultation papers on the subject. The Company has implemented its operational resilience framework in 2022.

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 FCA, and maintains an active interest and involvement where appropriate in regulatory matters arising in the UK and other global locations. In particular, following the UK's withdrawal from the EU the Company continues to engage with UK legislators and policy makers as the UK considers its regulatory structure and environment. The implementation of a demanding and still evolving regulatory agenda and other market developments means that regulatory and compliance risks remain key risks.

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Strategic report (continued)

Principal risks and uncertainties (continued)

Regulation and compliance (continued)

In April 2022 the FCA and the BoE jointly announced their intention to undertake reviews of LME and LME Clear Limited respectively in connection with the LME's suspension of nickel trading on 8 March 2022. The FCA's review considers the LME's approach to managing the suspension and resumption of the market in nickel to determine what lessons might be learned in relation to the LME's governance and market oversight arrangements. Both reviews are assisted by the appointment of skilled persons to report on the matter, under section 166 of the Financial Services and Markets Act 2000.

Emerging risks

Geopolitical and macroeconomic environment

The overall geopolitical and macroeconomic environment has generated increased uncertainty in global supply chains and by extension into increased volatility in commodity markets. Events such as Russia's invasion of Ukraine in early 2022 led to increases in market prices for the first half of the year and subsequent falls in prices as increasing interest rates and inflation weighed on global demand for metals. The current environment continues to restrict economic growth and by extension, metal consumption which has put further downward pressure on prices. The uncertainty seems likely to continue through 2023 and may have a negative impact on LME volumes.

Climate risk

The Company considers climate risk to be an emerging risk that may have an impact on its operations, market, Exchange Members and clients in the medium term. The Company has assessed that climate risk does not have any significant impact on its outlook for the near-term.

Section 172 Companies Act 2006

All Directors are 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. Whilst the primary duty of the Directors is owed to the shareholder, the Board considers as part of its discussions and decision-making process the interests of all key stakeholder groups as identified below.

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.

The Company identifies its key stakeholders as Company employees, Exchange Members and their clients, regulators, service providers/suppliers and its ultimate parent, HKEX. The Company uses a variety of approaches to engage with its stakeholders throughout the year, including scheduled meetings, consultation, discussion papers, 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.

Exchange Member satisfaction, the delivery of cost effective services and critical system availability are important measures of performance for the Company.

Stakeholder engagement and business relationships

Exchange Members and clients

Ongoing Exchange Member and client engagement is integral to the Company's governance framework. The Company operates a number of 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 Exchange members and clients. During 2022 feedback from these committees provided valued input and advice to the Board and senior management.

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Strategic report (continued)

Stakeholder engagement and business relationships (continued)

Suppliers and service providers

The Board takes the Company's relationships with its suppliers seriously. This continued to be a key area of focus during 2022.

The Board reaffirmed 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 Company has introduced requirements for responsible sourcing of metal by LME-listed brands. These requirements will 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 Organisation for Economic Co-operation and Development.

Regulators

The Company maintains a regular dialogue with the FCA and its other regulators, engaging on relevant matters such as Board and management changes, capital requirements and proposed new products or services.

HKEX

The Company maintains close links with its ultimate parent company. A number of the Company's Directors hold directorships of HKEX, certain key management personnel represent the Company at the HKEX Management Committee and there is regular contact and interaction between HKEX management and staff and the Company's employees at all levels across the business.

Employee engagement

The Board recognises that engagement with Company employees is fundamental to the Company's success. Engagement with employees is undertaken by senior management, through townhalls, a variety of employee forums and regular surveys.

The Company has continued to be active in implementing measures to maintain staff morale and inclusiveness over the period including the provision of wellness weeks where sessions on mindfulness, stress management, resilience training, physical wellbeing, healthy eating and male and female health were held. The Company continues to strive to be an employer of choice in what is an increasingly tight UK labour market.

Despite the challenging backdrop, good progress continued within the diversity and inclusion arena. The 2022 cohort of apprentices joined throughout August and September, and continue to provide junior talent from underrepresented groups (75% women, 50% ethnic minority). It should also be noted that 50% of the 2020 cohort have successfully completed their apprenticeships and moved into permanent roles at the LME, with the others close to completion – building out the LME's junior talent pipeline.

The Company has also committed to the Women in Finance Charter, reinforcing commitment to gender diversity across the LME Group. The target is to increase female management representation to 40% by September 2025. The Company's gender diversity strategy consists of five key pillars: attraction, governance, benchmarking, retention and education. Internal initiatives within each of these pillars will support the LME in achieving its five-year target of growing its female representation in senior management positions. Annual progress updates are also published on the Company's website.

The Board believes that transparency around gender pay gap reporting continues to play an important role in understanding and addressing the gender-based inequality that persists in the wider society in which the Company operates. The gender pay gap report published in 2022 showed that progress continues to be made whilst acknowledging that there is still more to do.

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Strategic report (continued)

Employee engagement (continued)

Throughout 2023, 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 age, disability, sex, gender, gender reassignment, pregnancy, race (which includes colour, nationality and ethnic or national origins), sexual orientation, religion or belief or because someone is married or in a civil partnership among other diverse attributes. All decisions relating to employment practices are objective, free from bias and based on merit. The Company continues to build on its diversity and inclusion strategy and, as part of this, is committed to further enhancing its equal opportunities monitoring.

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

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.

In 2022, the Company continued the support of two responsible sourcing charities – Pact and The Impact Facility – with the aim of tackling child labour and children's rights issues in mining communities directly affected by these concerns. The Company donated \$614,000 in 2022 as part of \$1,700,000 total committed to these charities over three years. These donations are made from enforcement funds that have been charged to Exchange Members as fines or penalties.

Pact is undertaking a project in the Central and Copperbelt provinces of Zambia, working with communities to deliver improved access to education, social services and vocational training, with the aim of reducing the number of children working in mines. In 2022, the baseline study to understand the push and pull factors related to children in mining was completed followed by the launch of seven interventions by Pact. The funds donated to The Impact Facility, through the multi-stakeholder action platform called the Fair Cobalt Alliance, are providing rehabilitation and new construction for three schools in the Democratic Republic of the Congo, encouraging attendance and raising the quality of care for students. The responsible sourcing team visited both project locations in November of 2022 and was encouraged to see the lives being positively impacted by the Company's donations.

During the year, the Company also made charitable donations amounting to \$138,000 (2021: \$114,000).

The Company announced it would make a charitable donation of \$464,000 reflecting its proceeds from trading on 19 September 2022, the day of the funeral of Her Majesty Queen Elizabeth II. A shortlist of charities of which the late Queen was a patron has been considered and work is underway to assess the best use of funds.

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Strategic report (continued)

The Strategic report was approved by the Board of Directors on 17 February 2023.

Signed by order of the Board of Directors by:

A handwritten signature in black ink, appearing to read 'C. McSwiggan', written in a cursive style.

C. McSwiggan
Company Secretary
17 February 2023
The London Metal Exchange
Registration number 2128666

The London Metal Exchange

Directors' report

The Directors submit their annual report to the sole shareholder together with the audited financial statements for the year ended 31 December 2022.

Incorporation

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

Results

The profit before tax for the year ended 31 December 2022 was \$69,901,000 (2021: \$94,156,000) and after accounting for taxation the profit for the year was \$56,068,000 (2021: \$76,451,000).

No final dividend is proposed in respect of 2022 (2021: \$nil). The Company paid an interim dividend of \$35,000,000 in the year (2021: \$35,000,000).

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. The Chair, G Huey Evans CBE will not seek re-appointment in 2023 and will step down once a new Chair has been appointed. On 7 February 2023, N Allen, M Fraenkel and P Vareille were appointed to the Board.

Directors' indemnity and insurance

The Company's Articles of Association provide an indemnity (the Indemnity) for each Director of the Company. The Indemnity, which constitutes a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006, was in force during the 2022 financial year and remains in force at the date of signing the financial statements. Directors' and officers' insurance cover is also maintained for Directors of the Company.

Anti-bribery and corruption policy

The Company supports a culture of integrity, ethical conduct, fairness, honesty and openness when doing business, and zero tolerance of bribery. Accordingly, the Company's policy expressly states that no bribes, kickbacks or similar gifts, payments or advantages are solicited from, or given or offered to, any person, whether in the public or private sector, for any purpose and applies to any persons, when acting on behalf of the Company.

The Modern Slavery Act 2015 (MSA)

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. Modern slavery is a serious global issue and represents one of the worst forms of human rights violation. The Company takes this very seriously and considers that its Directors, management and staff all have a responsibility to be alert to the risks, however small, in the LME's operations and in the wider supply chain. Staff at the LME are expected to report concerns and management are expected to act upon them.

Future developments

In 2023, the Company will focus on addressing the recommendations made by the independent review following events in the nickel market in March 2022 as part of a broader effort to rebuild liquidity and trust in the LME's nickel market. The Company will continue to work on its major technology programme which will deliver a new trading platform to the market in 2024.

The Company will further develop its LMEpassport platform and drive compliance against the LME's established Responsible Sourcing requirements. The Company will also continue 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.

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

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; and
- To meet its regulatory capital obligations.

The LME is a Recognised Investment Exchange under the terms of The Financial Services and Markets Act 2000. The FCA's capital rules require that the Company must maintain liquid financial resources and net capital in excess of its financial resources requirement (FRR). The FRR comprises the cost of orderly closure plus a risk-based capital charge. Liquid financial resources are represented by the Company's cash and cash equivalents, and net capital comprises total equity less share capital, intangible assets and intercompany receivables.

These requirements are closely monitored and the status is reported on a regular basis to the Board and the FCA. In 2022 the FRR was reset to £65,448,000 (2021: £60,177,000) which, as at 31 December 2022, equates to \$78,727,000 (2021: \$81,507,000). The Company's liquid financial resources and net capital measures exceeded the FRR throughout the year.

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.

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.

Charitable activities

Disclosures regarding the Company's charitable activities have been included in the Charitable activities section of the Strategic report.

Streamlined energy and carbon reporting

Carbon dioxide emissions

The Company has calculated its carbon footprint using 2019 as its base year (due to the abnormalities caused by COVID-19 of 2020 and 2021). This was prepared in line with the Greenhouse Gas (GHG) Protocol Corporate Standard. The total emissions included a range of the Company's operations that included (but not limited to):

- The Company's offices and apportioned facilities at 10 Finsbury Square and its office in Singapore;
- Business travel by employees;
- Employee commuting and working from home; and
- Data centres and capital goods.

The three largest contributors to the Company's GHG emissions (by operational areas) in the 2019 base year were business travel (47%), data centres (17%) and employee commuting (14%).

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Directors' report (continued)

Streamlined energy and carbon reporting (continued)

In October 2022, the Company publicly announced its net-zero target (2040) and its intention to publish a further reduction roadmap in the future. The Company is utilising two initiatives to inform commitments, impact and progression reporting against this target– the Science Based Targets initiative (SBTi) and the Task Force on Climate-Related Financial Disclosures (TCFD).

GHG emissions as per the Greenhouse Gas Protocol Corporate Standard

GHG emissions by scope in metric tonnes (carbon dioxide equivalent)	2019
Scope 1 (direct combustion of fuels and company owned vehicles)	-
Scope 2 (emissions from electricity purchased for own use)	267
Scope 3 (indirect emissions from business travel)	2,203
	2,470

In 2022 the Company collected data on energy use and business travel. The Company uses the UK Government GHG conversion factors for reporting.

UK greenhouse gas emissions and energy use	2022	2021
Energy consumption used to calculate emissions (kWh)	2,032,101	1,999,673
Emissions in metric tonnes (carbon dioxide equivalent)		
Scope 1 (direct combustion of fuels and company owned vehicles)	-	-
Scope 2 (emissions from electricity purchased for own use)	21.5	27.7
Scope 3 (indirect emissions from business travel)	1,601.1	251.5
	1,622.6	279.2

During the year the Company emitted 0.4951 metric tonnes carbon dioxide equivalent per metre squared of office space (2021: 0.085 metric tonnes per meter squared).

The figure for scope 2 emissions is based on a location-based calculation – i.e. that tracks scope 2 emissions based on the emissions intensity of the local grid area where the electricity usage occurs. Scope 2 emissions reduced in 2022 as a result of the Company's offices at 10 Finsbury Square moving to electricity supply from renewable sources during 2021, the reduction in 2022 being the full year effect of this change. Scope 3 emissions increased as a result of business travel increasing following the end of most COVID-19 related travel restrictions, although remaining at a lower level than the 2019 base year.

Corporate governance

The Board affirms its commitment to high standard of corporate governance. As a Recognised Investment Exchange, the Company is required to meet certain statutory requirements.

The corporate governance structure adopted by the Company is summarised below.

The Board and board composition

The Articles of Association of the Company prescribe the composition of the Board and the procedures for appointment to it. On 3 May 2022, the shareholders resolved to amend the Articles of Association by Special Resolution amending Article 33.1 to increase the maximum number of directors to twelve, of whom up to four individuals shall be appointed by the Board as independent directors.

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Directors' report (continued)

Corporate governance (continued)

Governance structure

The Board is the main decision making body for the Company. To assist the Board to effectively discharge its roles and responsibilities, day-to-day management of the Company is delegated to the Chief Executive Officer. The scope of the Chief Executive Officer's role is set out in his or her remit of responsibility.

The UK's Senior Managers Regime (SMR) does not apply to the Company other than in respect of its role as a benchmark administrator. The Board fully supports the SMR's aim of embedding a culture of personal responsibility and accountability at the heart of financial services which, in turn, should raise governance standards, increase individual accountability, and support consumer confidence. The Board therefore made the decision in 2021 to amend its governance structure so that it would be similar to that which would operate under the SMR for all of its regulated operations. A key aspect of these changes was a shift towards clear individual accountability. The Board is aware of the legislative proposals to introduce a Senior Manager Certification Regime for exchanges and look forward to working with policy makers to define the detail.

The remit of responsibility for the Chief Executive Officer permits the Chief Executive Officer to sub-delegate his or her responsibilities to accountable executives, and states that ultimate responsibility for any areas of responsibility delegated by the Chief Executive Officer will remain with the Chief Executive Officer, while ultimate oversight of any sub-delegated responsibilities will remain with the Board.

The Executive Committee is the primary committee which assists and advises the Chief Executive Officer in the discharge of the duties delegated to them by the Board in his or her remit of responsibility. The Executive Committee represents all key roles and functions, representing the key functional areas of the organisation.

The Board is supported by sub-committees to which specific responsibilities are delegated and advisory committees. During the year, these included the User Committee, Audit and Risk Committee, Technology and Operational Resilience Committee, Nomination Committee, Remuneration Committee, Charity Committee and Nickel Board Steering Committee.

Gender metrics

As at 31 December 2022, the Board consisted of three women and six men (33% female representation). In 2022, the Company adopted a Board Diversity and Recruitment Policy which governs director recruitment and sets targets for board diversity.

Statement of directors' responsibilities in respect of the financial statements

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 UK-adopted international accounting standards.

Under company law, 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 UK-adopted international accounting standards 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 in respect of the financial statements (continued)

The Directors are also 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.

Directors' confirmations

The Directors who were members of the Board at the time of approving this report are listed on page 1. Each of those Directors confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of this report and no audit information of which the Company's auditors are unaware; and
- he or she has taken all the steps that a director might reasonably be expected to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

Going concern

In determining the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic report (see pages 2 to 9).

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. It was noted that the Company remained profitable during the year despite the downturn in the global commodities markets. The Company holds capital in excess of regulatory requirements and is forecast to be profitable and cash generating for the foreseeable future. Accordingly the going concern basis for preparing the financial statements is considered appropriate.

The Directors' report was approved by the Board of Directors on 17 February 2023.

Signed by order of the Board:



C. McSwiggan
Company Secretary
17 February 2023
The London Metal Exchange
Registration number 2128666

The London Metal Exchange

Independent auditors' report to the members 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 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the Annual Report), which comprise: the Statement of financial position as at 31 December 2022, the Statement of profit or loss and other comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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.

The London Metal Exchange

Independent auditors' report to the members 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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 in respect of the financial statements, 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.

The London Metal Exchange

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

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to manipulate financial performance and management bias in the determination of accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, including internal audit and those charged with governance, in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of internal audit reports and minutes of meetings of the Board and other committees;
- Review of correspondence with, and reports to regulators;
- Identifying and testing journal entries meeting specific criteria including those posted to unusual account combinations, adjustments posted after year-end, journals containing unusual words, backdated journals and those posted by unexpected users;
- Challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to the capitalisation of software costs and impairment assessments of intangible assets;
- Testing of information security controls relating to system access and change management; and.
- Incorporating unpredictability into the nature, timing and extent of audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

The London Metal Exchange

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

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 obtained 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
17 February 2023

The London Metal Exchange

Statement of profit or loss and other comprehensive income For the year ended 31 December 2022

	Note	2022 \$ 000's	2021 \$ 000's
Trading fees		123,503	136,957
Market data fees		29,734	28,372
Other revenue		33,747	40,110
Revenue and other income	3	186,984	205,439
Operating expenses	4	(118,862)	(110,769)
Operating profit		68,122	94,670
Finance income	6	1,683	100
Finance costs	6	(640)	(799)
Other gains / (losses)	6	736	185
Profit before tax		69,901	94,156
Taxation	7	(13,833)	(17,705)
Profit for the year		56,068	76,451
Other comprehensive income / (expense), net of tax¹		1,116	(83)
Total comprehensive income		57,184	76,368

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 2022 (2021: \$nil). The Company paid an interim dividend of \$35,000,000 in the year (2021: \$35,000,000).

The notes on pages 23 to 51 are an integral part of these financial statements.

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

The London Metal Exchange

Statement of financial position As at 31 December 2022

	Note	2022 \$ 000's	2021 \$ 000's
Assets			
Non-current assets			
Intangible assets	8	114,244	88,864
Property, plant and equipment	9	15,321	13,629
Right-of-use assets	10	13,847	16,220
Deferred tax asset	11	834	2,370
		144,246	121,083
Current assets			
Trade and other receivables	12	28,627	31,565
Cash and cash equivalents	13	129,491	136,799
Derivative financial assets	14	1,378	-
Amounts due from group undertakings	23	7,928	6,280
		167,424	174,644
Liabilities			
Current liabilities			
Trade and other payables	15	37,796	39,170
Current tax liabilities		870	536
Amounts due to group undertakings	23	86	48
Lease liabilities	16	1,841	2,322
		40,593	42,076
Net current assets		126,831	132,568
Non-current liabilities			
Lease liabilities	16	15,954	20,790
Provisions	17	1,197	1,347
Deferred tax liability	14	344	-
		17,495	22,137
Net assets		253,582	231,514
Equity			
Share capital	19	-	-
Capital reserve		34,726	34,726
Retained earnings		222,715	201,790
Foreign currency translation reserve		(4,892)	(4,892)
Hedging reserve	11	1,033	(110)
Total equity		253,582	231,514

The notes on pages 23 to 51 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors and signed on its behalf by:



M-J Chamberlain
Director
17 February 2023

The London Metal Exchange

Statement of changes in equity For the year ended 31 December 2022

		Share capital	Capital reserve	Foreign currency translation reserve	Retained earnings	Hedging reserve	Total equity
	Note	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
At 1 January 2022		-	34,726	(4,892)	201,790	(110)	231,514
Profit for the financial year		-	-	-	56,068	-	56,068
Other comprehensive income / (expense) – cash flow hedge and tax credit		-	-	-	(27)	1,143	1,116
Total comprehensive income		-	-	-	56,041	1,143	57,184
Transactions with shareholder - Interim dividend		-	-	-	(35,000)	-	(35,000)
Tax charge to equity reserves	7	-	-	-	(116)	-	(116)
At 31 December 2022		-	34,726	(4,892)	222,715	1,033	253,582

For the year ended 31 December 2021

		Share capital	Capital reserve	Foreign currency translation reserve	Retained earnings	Hedging reserve	Total equity
	Note	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
At 1 January 2021		-	34,726	(4,892)	159,787	-	189,621
Profit for the financial year		-	-	-	76,451	-	76,451
Other comprehensive income / (expense) – cash flow hedge and tax credit		-	-	-	27	(110)	(83)
Total comprehensive income		-	-	-	76,478	(110)	76,368
Transactions with shareholder - Interim dividend		-	-	-	(35,000)	-	(35,000)
Tax credit to equity reserves	7	-	-	-	525	-	525
At 31 December 2021		-	34,726	(4,892)	201,790	(110)	231,514

The notes on pages 23 to 51 are an integral part of these financial statements.

The London Metal Exchange

Statement of cash flows

For the year ended 31 December 2022

	Note	2022 \$ 000's	2021 \$ 000's
Cash flows from operating activities			
Cash inflow from operating activities	20	88,379	110,974
Effects of foreign exchange movements		(2,209)	(211)
Tax paid		(12,107)	(17,509)
Net cash inflow from operating activities		74,063	93,254
Cash flows from investing activities			
Interest received		1,433	97
Purchase of intangible assets	8	(40,445)	(38,149)
Purchase of property, plant and equipment	9	(3,858)	(2,067)
Net cash outflow from investing activities		(42,870)	(40,119)
Cash flows from financing activities			
Lease payments	16	(3,501)	(4,157)
Dividends paid to shareholder	21	(35,000)	(35,000)
Net cash outflow from financing activities		(38,501)	(39,157)
Net (decrease) / increase in cash and cash equivalents		(7,308)	13,978
Cash and cash equivalents at 1 January		136,799	122,821
Cash and cash equivalents at 31 December	13	129,491	136,799

The notes on pages 23 to 51 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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

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

Change in accounting policy

During the year ended 31 December 2022, the estimated useful lives of the computer hardware within fixed assets were revised from 'three years' to 'three to five years' to better reflect the useful life of the assets. The effect of the change in accounting estimate during the year was a decrease in depreciation charge of \$1,230,000.

Assuming the assets are held until the end of their estimated useful lives, depreciation charge in the future years in relation to these assets will be decreased by \$90,000 in 2023 and increased by \$498,000 in 2024, \$581,000 in 2025 and \$241,000 in 2026. There will be no impact on the total depreciation charge of those assets during the assets' lives.

There have been no other significant changes in accounting policies.

1.2 New and amended standards adopted by the Company

In 2022, the Company adopted the following new/revised international accounting standards which were effective for accounting periods beginning on or after 1 January 2022. These amendments were adopted with effect from 1 January 2022 and have had no financial impact on the Company and no impact on the disclosures.

- i) Amendment to IFRS 16 – 'Leases'
- ii) Annual Improvements to IFRSs 2018-2020 Cycle

1.3 New standards, amendments and interpretations issued but not effective for the financial years beginning 1 January 2022 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 2022 and therefore have not been applied in preparing these financial statements.

- i) Amendment to IAS 1 – 'Presentation of financial statements'
- ii) Amendment to IAS 8 – 'Accounting policies'
- iii) Amendment to IAS 12 – 'Income taxes'

They are not expected to have a material impact on the financial statements of the Company.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.4 Revenue

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

- i) Trading fees are recognised on a trade date basis, net of any applicable discounts or rebates.
- 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 – 'Revenue from contracts with customers' 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.

Accrued revenue (the terminology 'contract asset' under IFRS 15 – 'Revenue from contracts with customers' is presented as accrued income) is recognised when the Company transfers control of goods or satisfies a performance obligation to a customer and has a right to consideration arising therefrom.

1.5 Staff costs and other expenses

The Company awards shares under the HKEX 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 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.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

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 into 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 incurred in configuring or customising software in a cloud computing arrangement can only be recognised as intangible assets if the activities create an intangible asset that the Company controls and the intangible asset meets the recognition criteria. Those costs that do not result in intangible assets are expensed as incurred, or, in certain circumstances, over the expected renewable terms of the cloud computing arrangement. Costs associated with maintaining computer systems are recognised as expenses incurred. System development costs recognised as assets are amortised on a straight line basis 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.

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 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 to five 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.

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 in 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 or the Statement of financial position when the hedge item is a prepayment (trade and other receivables) or the purchase of intangible assets.

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 and amounts due from group undertakings 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 – 'Financial instruments', 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 London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.11 Financial assets (continued)

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.

1.12 Derivative financial assets and liabilities

Derivative financial assets and liabilities are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Company designates its derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions and changes in the fair value of the derivatives are recognised in other comprehensive income to the extent that the hedges are effective.

1.13 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 expense 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.

1.14 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.

1.15 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.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.15 Current and deferred tax (continued)

c) Deferred tax (continued)

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 Company has made a determination that recognised deferred tax asset will be recoverable using the estimated future taxable income based on the Company's approved budget which forecasts continued taxable income.

1.16 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.

1.17 Provisions and contingencies

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.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the financial statements but are disclosed, if material, unless the possibility of an outflow of economic resources is considered remote.

1.18 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.

The London Metal Exchange

Notes to the financial statements (continued)

1 Significant accounting policies (continued)

1.19 Equity

a) Share capital

Ordinary shares are classified as equity.

b) Capital reserve

The capital reserve represents capital contributions from the Company's immediate parent, LME Holdings Limited.

c) Retained earnings

Retained earnings includes all current and prior period retained profits, taxation recognised directly in equity and transactions with the Company's shareholder, such as dividends paid.

d) Foreign currency translation reserve

The Company changed its presentation currency from British pounds sterling to US dollars in 2014. In doing so, the 2013 comparative financial results were restated in US dollars, resulting in the recognition of a foreign currency translation reserve.

e) Hedging reserve

The hedging reserve arises from the effective portion of fair value gains and losses on hedging instruments prior to the recognition of the related hedged item, and the associated deferred taxation. Further details of hedging are set out in note 1.10.

1.20 Dividends

The 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Intangible assets

As described in notes 1.6 and 8, 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.

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.

Contingent liabilities

As described in note 17, the Company has been named as a defendant in two judicial review claims filed in the English High Court.

The Company follows the accounting policy described in note 1.17.

The Company has carefully considered the following judgements:

- i) whether there is 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
- ii) if a present obligation exists, whether a reliable estimate can be made of the amount of the obligation.

Based on the progress of the judicial review process, the Company does not currently have sufficient information to estimate the financial effect (if any) of the claims, the timing of the ultimate resolution of the proceedings, or what the eventual outcomes might be. Accordingly no provision has been made in these financial statements but a contingent liability has been disclosed as set out in note 17.

The London Metal Exchange

Notes to the financial statements (continued)

3 Revenue and other income

Timing of revenue recognition	2022 \$ 000's	2021 \$ 000's
At a point in time	146,265	163,014
Over time	40,719	42,425
	186,984	205,439

4 Operating expenses

Operating expenses comprise the following:

	Note	2022 \$ 000's	2021 \$ 000's
Employee costs	5	56,282	54,161
Amortisation	8	15,065	17,008
Depreciation		4,539	6,745
Impairment of intangible assets		-	924
Technology costs		21,090	20,940
Other costs		21,784	10,997
Bad debt charge		102	(6)
		118,862	110,769

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

	2022 \$ 000's	2021 \$ 000's
Statutory audit of the Company's financial statements	190	199
Statutory audit of the Company's related entities	28	30
Audit related assurance services:		
- Company's associated pension scheme for the current period	6	6
- Other	20	23
	244	258

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

The London Metal Exchange

Notes to the financial statements (continued)

5 Employee costs

Employee costs (including directors) comprise the following:

	Note	2022 \$ 000's	2021 \$ 000's
Wages and salaries		42,594	39,589
Social security costs		6,682	7,399
Other pension costs	18	2,814	2,865
Employee share-based compensation benefits of share award scheme		4,192	4,308
Total		56,282	54,161

The number of employees (excluding directors) was:

	2022	2021
At 31 December	310	316
Monthly average for the year	300	306

6 Net finance income, finance costs and other gains

	2022 \$ 000's	2021 \$ 000's
<u>Finance income</u>		
Interest income on bank accounts and short-term bank deposits	1,683	100
<u>Finance costs</u>		
Interest on lease liabilities	(640)	(799)
<u>Other gains</u>		
Gain on foreign exchange	736	185
	1,779	(514)

The London Metal Exchange

Notes to the financial statements (continued)

7 Taxation

	Note	2022 \$ 000's	2021 \$ 000's
Income tax			
Current year		12,289	17,459
Adjustments in respect of prior years		2	104
Foreign exchange		282	108
Total current tax		12,573	17,671
Deferred tax			
Deferred tax for the current year	11	1,146	466
Change in tax rate	11	170	(338)
Adjustments in respect of prior years	11	(56)	(94)
Total deferred tax		1,260	34
Taxation charge		13,833	17,705

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 19% (2021:19%) and the taxation charge for the year are explained below:

	2022 \$ 000's	2021 \$ 000's
Profit before taxation	69,901	94,156
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	13,281	17,890
(Income not taxable) / expense not deductible	(107)	35
Adjustments in respect of prior years	(54)	10
Change in tax rate	170	(338)
Tax in respect of share schemes	261	-
Foreign exchange	282	108
Taxation charge	13,833	17,705

	2022 \$ 000's	2021 \$ 000's
Tax charge / (credit) to equity:		
Current tax - share options	(132)	(766)
Deferred tax - share options	248	241
Taxation charge / (credit)	116	(525)

The London Metal Exchange

Notes to the financial statements (continued)

8 Intangible assets

For the year ended 31 December 2022	Capitalised software in use \$ 000's	Capitalised software under development \$ 000's	Total \$ 000's
Costs			
At 1 January 2022	160,488	67,382	227,870
Additions		40,445	40,445
Disposals	(23,038)	-	(23,038)
Transfers	9,650	(9,650)	-
At 31 December 2022	147,100	98,177	245,277
Accumulated amortisation			
At 1 January 2022	139,006	-	139,006
Charge for the year	15,065	-	15,065
Disposals	(23,038)	-	(23,038)
At 31 December 2022	131,033	-	131,033
For the year ended 31 December 2021			
Costs			
At 1 January 2021	149,369	42,792	192,161
Additions	-	38,149	38,149
Impairment charge	-	(924)	(924)
Cloud computing adjustment	-	(1,516)	(1,516)
Transfers	11,119	(11,119)	-
At 31 December 2021	160,488	67,382	227,870
Accumulated amortisation			
At 1 January 2021	121,998	-	121,998
Charge for the year	17,008	-	17,008
At 31 December 2021	139,006	-	139,006
Net book values			
At 31 December 2022	16,067	98,177	114,244
At 31 December 2021	21,482	67,382	88,864

Amortisation of intangibles is recognised in operating expenses in the Statement of profit or loss and other comprehensive income. In the prior year, an impairment charge was recorded in connection with software development projects for which completion and deployment will no longer occur.

The London Metal Exchange

Notes to the financial statements (continued)

9 Property, plant and equipment

For the year ended 31 December 2022	Computer hardware	Leasehold improvement, furniture and equipment	Total
	\$ 000's	\$ 000's	\$ 000's
Costs			
At 1 January 2022	42,576	9,125	51,701
Additions	3,645	213	3,858
At 31 December 2022	46,221	9,338	55,559
Accumulated depreciation			
At 1 January 2022	32,510	5,562	38,072
Charge for the year	1,254	912	2,166
At 31 December 2022	33,764	6,474	40,238
For the year ended 31 December 2021			
Costs			
At 1 January 2021	40,762	8,872	49,634
Additions	1,814	253	2,067
At 31 December 2021	42,576	9,125	51,701
Accumulated depreciation			
At 1 January 2021	29,549	4,694	34,243
Charge for the year	2,961	868	3,829
At 31 December 2021	32,510	5,562	38,072
Net book values			
At 31 December 2022	12,457	2,864	15,321
At 31 December 2021	10,066	3,563	13,629

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 2022

	2022 \$ 000's	2021 \$ 000's
Costs and net book value		
At 1 January	16,220	18,927
Additions	-	209
Depreciation	(2,373)	(2,916)
At 31 December	13,847	16,220

11 Deferred tax asset and liability

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

	Fixed and intangible assets \$ 000's	Cash flow hedge \$ 000's	Employee benefits \$ 000's	Share options \$ 000's	IFRS 16 adoption \$ 000's	Total \$ 000's
At 1 January 2021	1,335	-	-	1,166	116	2,617
Adjustments in respect of prior years credited						
- to profit or loss	28	-	3	63	-	94
- to equity	-	-	-	1	-	1
Effects of changes in tax rates credited						
- to profit or loss	274	-	-	35	29	338
- to other comprehensive income	-	7	-	-	-	7
- to equity	-	-	-	1	-	1
Other credits /(charges)						
- to profit or loss	(403)	-	(3)	(48)	(12)	(466)
- to other comprehensive income	-	21	-	-	-	21
- to equity	-	-	-	(243)	-	(243)
At 31 December 2021	1,234	28	-	975	133	2,370
Adjustments in respect of prior years credited						
- to profit or loss	8	-	7	41	-	56
- to equity	-	-	-	-	-	-
Effects of changes in tax rates credited / (charged)						
- to profit or loss	(263)	-	-	93	-	(170)
- to other comprehensive income	-	(89)	-	-	-	(89)
- to equity	-	-	-	(1)	-	(1)
Other charges						
- to profit or loss	(939)	-	(7)	(189)	(11)	(1,146)
- to other comprehensive income	-	(283)	-	-	-	(283)
- to equity	-	-	-	(247)	-	(247)
At 31 December 2022	40	(344)	-	672	122	490

The London Metal Exchange

Notes to the financial statements (continued)

11 Deferred tax asset and liability (continued)

The deferred tax asset has arisen as a consequence of movements in fixed assets, short lease premium, adoption of IFRS 16 and share options. \$403,000 of the deferred tax asset will be realised in less than 12 months (2021: \$907,000) with the remaining balance realised in more than 12 months. The deferred tax liability has arisen as a consequence of movements in the cash flow hedge reserve. All of the \$344,000 deferred tax liability will be realised in less than 12 months (2021: nil).

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 Act 2021 received Royal Assent on 10 June 2021; as a result the UK corporation tax rate applicable to the Company will increase from 19% to 25% effective 1 April 2023.

	2022 \$ 000's	2021 \$ 000's
Deferred tax asset	834	2,370
Deferred tax liability	(344)	-
Net deferred tax asset	490	2,370

12 Trade and other receivables

	2022 \$ 000's	2021 \$ 000's
Accrued income – trading fees	9,446	11,031
Accrued income – other	6,045	8,794
Trade receivables	3,196	1,079
Other receivables	297	146
Prepayments	9,643	10,515
	28,627	31,565

The carrying amounts of the Company's trade and other receivables are denominated in US dollars, apart from \$1,767,000 which is denominated in UK pounds sterling (2021: \$1,433,000) and \$1,000 which is denominated in Singapore dollars (2021: \$1,000).

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 2022 and 31 December 2021 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 2022 and 31 December 2021 was determined as follows for trade receivables:

	At 31 December 2022				Total
	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	
Expected loss rate	0.04%	0.79%	1.59%	1.74%	
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Gross carrying amount – accrued income and trade receivables	17,539	444	544	237	18,764
Loss allowance	7	4	9	4	24

	At 31 December 2021				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%	0.40%	1.52%	0.70%	
	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Gross carrying amount – accrued income and trade receivables	19,945	593	271	67	20,876
Loss allowance	4	2	4	-	10

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

13 Cash and cash equivalents

	2022 \$ 000's	2021 \$ 000's
Cash at bank	37,643	26,148
Short-term deposits	91,848	110,651
	129,491	136,799
Average maturity of short term deposits	2 months	1 month
Weighted average interest rate	4.04%	0.13%

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 must maintain liquid financial resources and net capital in excess of its financial resources requirement (FRR). The FRR comprises the cost of orderly closure plus a risk based capital charge. Liquid financial resources are represented by the Company's cash and cash equivalents.

Included within cash is \$5,063,000 of monies received in respect of enforcement actions (2021: \$6,285,000). These funds will be applied in accordance with the Financial Conduct Authority's REC requirements.

Included within cash at bank is an amount of £nil (2021: £23,500,000), equivalent to \$nil (2021: \$31,939,000) designated as hedging instruments. Further details are set out in note 14.

14 Financial instruments and hedge accounting

Fair value measurements

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

The levels are defined as follows:

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

At 31 December 2022 the Company held derivative financial assets (forward foreign exchange contracts) with a fair value of \$1,378,000 (2021: \$nil) that were classified under Level 2. During 2022 and 2021, no financial assets or financial liabilities were classified under Level 1 or Level 3 and there were no transfers between levels.

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

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

Hedge accounting

A proportion of the Company's sterling cash and forward foreign exchange contracts have been 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 costs and related expenses, technology costs, legal expenses and intangible assets.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of future purchases in sterling, the Company enters into hedge relationships where the critical terms of the hedging instrument (amount, currency and maturity dates) match exactly with the terms of the hedged item. The Company therefore performs a qualitative assessment of effectiveness.

The London Metal Exchange

Notes to the financial statements (continued)

14 Financial instruments and hedge accounting (continued)

If changes in circumstances affect the terms of the hedged item, such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group uses the hypothetical derivative method to assess effectiveness. In hedges of future purchases in sterling, ineffectiveness might arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the UK or the derivative counterparty.

Further details of the hedging instruments and that have been designated as cash flow hedge of the Company's highly probable forecast transactions and the hedged items at the end of the reporting period are as follows:

	2022 \$ 000's	2021 \$ 000's
Cash balances		
Carrying amount	-	31,829
Notional amount	-	31,939
Maturity date	-	0 – 12 months
Hedge ratio	-	1:1
Change in fair value of outstanding hedging instruments since inception of the hedge	-	(110)
Change in value of hedged item used to determine hedge ineffectiveness	-	(110)
Weighted average hedged rate for outstanding hedging instruments (including forward points)	-	1.35911
Forward foreign exchange contracts		
Carrying amount	1,378	-
Notional amount	96,475	-
Maturity date	0 – 12 months	-
Hedge ratio	1:1	-
Change in fair value of outstanding hedging instruments since inception of the hedge	1,378	-
Change in value of hedged item used to determine hedge ineffectiveness	1,378	-
Weighted average hedged rate for outstanding hedging instruments (including forward points) USD:GBP	1.19311	-

The hedging instruments are denominated in the same currency as the hedged items so the hedge ratio is 1:1.

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

	2022 \$ 000's	2021 \$ 000's
At 1 January	(110)	-
Gain on hedging instruments recognised in other comprehensive income / (expense)	(3,407)	(817)
Reclassified to profit or loss:		
– wages and salaries	2,945	396
– technology costs	-	-
Reclassified to Statement of financial position		
– Intangible assets	1,951	311
Deferred tax charged to other comprehensive income / (expense)	(344)	-
At 31 December	1,033	(110)

No ineffectiveness was recognised during 2022 (2021: \$nil).

The London Metal Exchange

Notes to the financial statements (continued)

15 Trade and other payables

	2022 \$ 000's	2021 \$ 000's
Social security and other taxes	8,895	13,107
Other payables	16,616	17,374
Accruals and deferred income	12,285	8,689
	37,796	39,170

Trade and other payables totalling \$12,001,000 have contractual payment terms of less than three months (2021: \$8,162,000).

16 Lease liabilities

	2022 \$ 000's	2021 \$ 000's
At 1 January	23,112	26,427
Finance cost	640	799
Lease payments	(3,501)	(4,157)
Additions	-	209
Effects of foreign currency movements	(2,456)	(166)
At 31 December	17,795	23,112
Analysed		
- Current	1,841	2,322
- Non-current	15,954	20,790
At 31 December	17,795	23,112

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current reporting period.

	2022		2021	
	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	1,060	1,107	1,567	1,246
After 5 years	16,735	18,746	21,545	24,876
	17,795	19,853	23,112	26,122
Present value of lease liabilities	17,795		23,112	
Less: total future interest expenses		(2,058)		(3,010)
Present value of lease liabilities		17,795		23,112

The London Metal Exchange

Notes to the financial statements (continued)

16 Lease liabilities (continued)

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 2022, no potential future cash flows relating to the exercising of extension options have been included in the lease liabilities (2021: \$nil).

17 Provisions and contingent liabilities

	2022 \$ 000's	2021 \$ 000's
At 1 January	1,347	1,360
Effects of foreign currency movements	(150)	(13)
At 31 December	1,197	1,347

The provision is in respect of the estimated reinstatement and dilapidation costs arising from the Company's leasehold premises with agreements expiring on 31 October 2025 and 31 March 2030.

Contingent liabilities

At 31 December 2022, the Company's contingent liabilities arose from ongoing litigation in which the Company is a defendant.

On 8 March 2022, the LME, in consultation with LME Clear, suspended trading in all nickel contracts with effect from 08:15 UK time, and took steps to ensure that no trading activity that had taken place on the LME's nickel market on or after 00:00 UK time on 8 March 2022 should result in a binding contract under the LME's rules.

The LME and LME Clear have been named as defendants in two judicial review claims filed in the English High Court amounting to \$471m. The claims are material to the Company. The claims seek to challenge the LME's decision to ensure that no trading activity that had taken place on the LME's nickel market after 00:00 UK time on 8 March should result in a binding contract under the LME's rules. The claimants alleged that this decision was unlawful on public law grounds and/or constituted a violation of their human rights. The Company's management is of the view that the claims are without merit and the LME and LME Clear are contesting them vigorously.

Based on the progress of the judicial review process, the Company does not currently have sufficient information to estimate the financial effect (if any) of the claims, the timing of the ultimate resolution of the proceedings, or what the eventual outcomes might be. Accordingly no provision has been made in these financial statements.

The Company had no contingent liabilities as at 31 December 2021.

The London Metal Exchange

Notes to the financial statements (continued)

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	2022 \$ 000's	2021 \$ 000's
Defined contribution scheme	5	2,814	2,865

19 Share capital

Allotted, called-up and fully paid	2022 \$	2021 \$
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.

20 Cash inflow from operating activities

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

	2022 \$ 000's	2021 \$ 000's
Continuing operations		
Profit before tax	69,901	94,156
Adjustment for:		
Depreciation of property, plant and equipment	2,166	3,829
Depreciation of right-of-use assets	2,373	2,916
Amortisation of intangible assets	15,065	17,008
Interest on lease liabilities	640	799
Impairment of intangible assets	-	924
Cloud adjustment	-	1,516
Interest income	(1,683)	(100)
Decrease in amounts due to group undertakings	(1,648)	(4,247)
Decrease in amounts due from group undertakings	38	1
Provision for bad debt	102	(6)
Other non-cash movements	(2,348)	(282)
Effects of foreign exchange movements	2,209	211
Decrease / (increase) in trade and other receivables	2,938	(898)
Decrease in trade and other payables	(1,374)	(4,853)
Cash inflow from operating activities	88,379	110,974

21 Dividends paid to shareholder

A dividend of \$35,000,000 (\$350,000 per share) was paid in 2022 (2021: \$35,000,000, equivalent to \$350,000 per share).

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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, 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. Its risk management policy is to forecast the amount of GBP expenditures for each forthcoming year and to enter into forward currency contracts to cover a high proportion of its forecast costs. The Company also forecasts its GBP payments and ensures it holds sufficient GBP bank deposits to cover future payments or converts from USD to GBP as soon as deemed appropriate.

At 31 December 2022 a 10% weakening/strengthening of GBP against USD, with all other variables held constant, would have resulted in a foreign exchange gain/loss of \$4,357,000 (2021: \$8,162,000), all as a result of translation of GBP denominated trade receivables and bank balances amounting to \$43,565,000 (2021: \$81,618,000).

(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 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.

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Notes to the financial statements (continued)

22 Financial risk management (continued)

(a) Market risk (continued)

(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 150 basis-point shift in interest rates would be a maximum increase or decrease of \$1,378,000 (2021: \$1,557,000).

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 \$91,848,000 (2021: \$110,651,000).

(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 Aa2. 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 Company is a participating employer in the London Metal Exchange 1989 Pension Scheme, a trust-based defined contribution pension scheme. The principal funds are those managed in the UK.

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

Parent and group subsidiaries

During the years ended 31 December 2022 and 31 December 2021 the Company undertook the following transactions with other related parties.

LME Clear Limited	2022	2021
	\$ 000's	\$ 000's
Intra group licensing fee	10,000	10,000
Payroll costs for LME Clear Limited employees paid by LME	14,570	11,190
Shared services – staff-related	7,665	8,656
IT related services	3,455	3,111
Facilities costs	561	665
Other costs	1,573	350
	37,824	33,972

Hong Kong Exchanges and Clearing Limited	2022	2021
	\$ 000's	\$ 000's
Expenses in relation to share based payments	(4,345)	(4,002)
Data license fee	600	600
Insurance charges	(200)	(294)
IT related costs	1,340	1,688
Marketing services	12	15
Other costs	84	(957)
	(2,509)	(2,950)

Ganghui Financial Information Systems (Shanghai) Limited	2022	2021
	\$ 000's	\$ 000's
Marketing services	-	(15)

The Stock Exchange of Hong Kong Limited	2022	2021
	\$ 000's	\$ 000's
Other costs	21	8

The Hong Kong Futures Exchange Limited	2022	2021
	\$ 000's	\$ 000's
Other costs	21	8

The London Metal Exchange

Notes to the financial statements (continued)

23 Transactions with related parties (continued)

Gangsheng Technology Services (Shenzhen) Limited	2022	2021
	\$ 000's	\$ 000's
IT related staff costs	(837)	(399)
HKEX Investment (UK) Limited	2022	2021
	\$ 000's	\$ 000's
Other costs	3	-

Total monies collected by LME Clear Limited as agent and paid to the Company in 2022 were \$167,322,000 (2021: \$184,657,000).

For the years ended 31 December 2022 and 31 December 2021 the balances with other related parties were as follows

	2022		2021	
	\$ 000's	\$ 000's	\$ 000's	\$ 000's
	Owed by:	Owed to:	Owed by:	Owed to:
LME Clear Limited	7,034	-	5,527	-
LME Holdings Limited	47	-	60	-
Hong Kong Exchanges and Clearing Limited	837	-	677	-
The Stock Exchange of Hong Kong Limited	5	-	8	-
Hong Kong Futures Exchange Limited	5	-	8	-
Gangsheng Technology Services (Shenzhen) Limited	-	86	-	48
HKEX Investment (UK) Limited	-	-	-	-
	7,928	86	6,280	48

During the year the Company paid dividends of \$35,000,000 to its parent, LME Holdings Limited (2021: \$35,000,000).

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 (2021: less than three months).

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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:

	2022 \$ 000's	2021 \$ 000's
Salaries and other short-term benefits	5,587	5,817
Share-based payments	1,990	1,972
Pensions	51	40
Remuneration for loss of office	321	-
	7,949	7,829

25 Directors' emoluments

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

	2022 \$ 000's	2021 \$ 000's
Aggregate emoluments	3,271	3,194
Company contributions paid to defined contribution pension scheme	5	5
	3,276	3,199

There are no retirement benefits accruing to directors under the defined contribution scheme (2021: \$nil).

Remuneration of highest paid director

	2022 \$ 000's	2021 \$ 000's
Aggregate emoluments	2,349	2,243
Company contributions paid to defined contribution pension scheme	5	5
	2,354	2,248

There are no retirement benefits accruing under the defined contribution scheme (2021: \$nil).

The London Metal Exchange

Notes to the financial statements (continued)

26 Long term incentive plan

Employees of the Company are eligible to receive share awards under the HKEX Share Award Scheme (the 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 the date of purchase. Any reimbursement by the Company to HKEX is offset against the capital contribution.

During 2022, Awarded Sums amounting to \$3,165,000 were granted to selected employees (2021: \$5,346,000). At 31 December 2022, the allocation of shares had not yet been completed.

Details of the awarded shares vesting in part or in full in 2022:

Date of Award	Number of shares awarded	Average fair value per share \$	Reference sum award \$ 000's	Vesting period
31-Dec-19	157,767	32.59	-	9 Dec-2020 – 9 Dec-2023
31-Dec-20	79,170	56.57	-	9 Dec-2020 – 9 Dec-2023
31-Dec-21	91,366	58.48	-	7 Dec 2021 - 7 Dec-2024
31-Dec-22	-	-	3,165	8 Dec 2022 - 8 Dec-2025

Movement in the number of awarded shares:

	2022	2021
Outstanding at 1 January	147,964	207,063
Awarded	91,366	79,170
Vested	(100,295)	(136,826)
Forfeited	(17,731)	(1,443)
Outstanding at 31 December	121,304	147,964

The London Metal Exchange

Notes to the financial statements (continued)

27 Exchange Members

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

	Number of Members at 31 December	
	2022	2021
Category 1	8	8
Category 2	29	32
Category 3	5	5
Category 4	4	4
Category 5	46	48
Category 6	4	3
Category 7	25	25
LMEprecious members		
General Clearing Member	-	5
Individual Clearing Member	-	1
Non-Clearing Member	-	2
Registered Intermediating Brokers		
Tier 1	-	-
Tier 2	7	7

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.