LONDON METAL EXCHANGE

LME Holdings Limited

Consolidated Financial Statements 2011

(Incorporating The London Metal Exchange Limited)

LME Holdings Limited

(Registered Number: 4081219)

Annual Report and Financial Statements

31 December 2011

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LME Holdings Limited

Directors And Advisers

Directors

Sir B G Bender KCB (Chairman) †
M Abbott (Chief Executive)
S Branton-Speak □
W J Coupland
Ms G Grillo (Appointed 20 May 2011)
Mrs E N Harwerth † (Appointed 19 September 2011)
H-G Hoffman (Resigned 20 May 2011)
J W Land □
M Overlander
G H Prentice
F J D Somerville-Cotton
R H W Robson (Resigned 7 March 2011)
D Rough *
N B le Roux † □

* Current Invited Director
† Current Independent Director
□ Current member of the Audit & Risk Committee

Registered Office

LME Holdings Limited
56 Leadenhall Street, London EC3A 2DX.

Auditors

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

Solicitors

Freshfields Bruckhaus Deringer
65 Fleet Street, London EC4Y 1HS.

Mayer Brown Rowe & Maw
11 Pilgrim Street, London EC4V 6RW.

Bankers

Lloyds TSB Bank plc, Fenchurch Street Branch
72 Fenchurch Street, London EC3P 3EH.

Close Brothers Limited
10 Crown Place, London EC3A 4FT.

Clydesdale Bank Plc
88 Wood Street, London EC2V 7QQ.

National Westminster Bank Plc
116 Fenchurch Street, London EC3M 5AN.

Advisors

Moelis & Company
10 St Paul's Churchyard, London EC4M 8AL

LME Holdings Limited

Chairman's Statement

Last year I commented in my statement about 2010 that there is never a dull time to be Chairman of the LME. Nevertheless, 2011 has proven to be a year of much excitement even by the LME's standards.

One of the major events of the year was the initiation of a process to manage a number of parties seeking to acquire the LME. The Exchange had already retained the services of Moelis & Company as advisors before the first expression of interest was received, and consequently we were able to react quickly in preparing our response. The Board took the view that it was impossible to ignore the initial approach, incomplete though it was, and decided a proper valuation of the company could only be discovered in a competitive environment. Consequently, the Exchange let it be known that it was willing to consider bids from properly qualified parties and set in motion a process that has continued into 2012. Throughout the process the LME has made clear its view that the Exchange does not need to be sold, and that bidders will have to show compelling reason for a transaction if they are to convince shareholders that a sale is a good idea.

Setting aside the bid process, 2011 saw several key decisions that will drive the future of the LME. After a long and comprehensive feasibility study the Board approved phase one of the building of a clearing house. This stage will last until the middle of 2012 and will see the project fully scoped from both risk management and technology perspectives. The LME has not served notice on LCH.Clearnet, its current clearing provider, and will not do so until and unless the LME Board has given final approval for the clearing project. In total the building of a clearing house is seen as approximately a two year project from the beginning of phase one.

The decision to launch the clearing project was taken primarily for strategic reasons. The Board believes the LME needs to have control over all of its key functions in order to be more responsive to market developments and to its members. An integrated clearing house will also have a positive impact on the Exchange's financial performance, but the decision would not have been taken on that basis alone.

Meanwhile the LCH.Clearnet was itself the subject of takeover talks as 2011 came to a close. The successful conclusion of those talks early in 2012 means the LME will make a significant return on its investment in LCH.Clearnet, with the LME owning just over 8% of LCH.Clearnet.

The change in regulatory environment continues to demand a great deal of attention from the Exchange and we have maintained our policy of being constructively engaged with all regulatory stakeholders. It will be some time before the reorganised UK regulatory structure takes effect, and the work being done in both USA and the EU around financial markets regulation is complex and likely to continue throughout 2012.

The Exchange has continued to invest in its systems, providing both a robust trading environment and capacity for expansion. I am please to report that trading volume in the LME's contracts rose by 22% in 2011, with the LME's share of the global market for exchange-traded base metals rising, despite strong competition from other venues.

EBITDA rose by 11% and, when costs associated with the clearing project and the bid process are removed, EBITDA on a like-for-like basis rose by 22%. That is a good performance, but further investment will be necessary if the LME is to keep pace with the market. It was for that reason the Exchange approved the introduction of a new Exchange User Fee, set at $0.79 per lot, with effect from July 2012. The introduction of this fee will ensure the company is properly resourced, while remaining one of the lowest cost commodity trading venues in the world. The value of the Company rose ten-fold during 2011 to more than £540m with a transaction for 4.65% of the LME's ordinary shares taking place at £41.92 per share.

Bearing in mind the current uncertainty over the future ownership of the LME, and the potential for extraordinary revenues and costs, the Board deems it prudent to defer the payment of a dividend in respect of 2011. However, the Board will review the dividend situation later in 2012 when there is clarity around the timing of the receipt of any funds due from the sale of LCH.Clearnet shares, and when a decision has been made about the ownership of the LME.

Chairman's Statement (Continued)

Unfortunately, 2011 saw the default of MF Global. MFG was a Ring dealing member of the LME, though its default was not caused by its trading in metals. The default of any company is always unpleasant, and the complexity around MFG, with allegations of the misuse of client funds in the US, made the administration of the default even more complex than usual.

We had the pleasure of welcoming three new Directors in 2011, Noel Harwerth and Richard Laing were appointed to the Boards of LME Holdings and Limited respectively, and Gabriella Grillo was elected, taking the position that was vacated as a consequence of the retirement of Gerd Hoffman. I would like to thank Gerd for his many years of services to the LME, both as a director and also for a long time as chairman of the Copper committee. Brian Smith resigned from the Board during 2011 and I would like to thank him for his contribution to the Board and committees.

Chief Executive's Statement

2011 was an unusually complicated year for the London Metal Exchange, but I am pleased to report that from the perspective of business as usual it was also another year of record performances.

Trading volumes in our contracts set new highs, rising by 22% from 2010, which was itself a record year. The LME's share of global exchange traded contracts in base metals rose, as did the LME's share of global open interest. The Exchange also registered a record financial performance expressed in EBITDA with a 22% increase, before accounting for the costs of the clearing project and the bid process referred to both below and in the chairman's statement.

One of the key issues addressed during the year was the debate about the existence at some LME approved warehouses of queues to remove cancelled warrants. The Exchange commissioned an independent study into the matter and, having taken into account the comprehensive industry consultation that underpinned that study, decided it would be appropriate to increase minimum load out rates under certain circumstances. The changes to load out rates were made effective from April 2012, to coincide with the annual contract renewals between the LME and its approved warehouse companies.

While there is no doubt that it is appropriate to raise the load out rates to reflect the fact that greater volumes of metal are now being stored in LME warehouses than at any time in the past, it must also be noted that the increased load out rates are not expected to do away with queues for metal. The large amount of surplus metal, in particular aluminium, that has built up as a result of the global financial crisis, and the easy availability of low interest rate cash for financing purposes has created a situation in which a large part of the LME stock is subject to financing deals. The impact of this conjunction of cheap cash and surplus metal is made visible by the LME system; it is not, however, caused by the LME. It is the role of the LME to bring transparency to the market and the existence of warehouse queues is an example of transparency at work.

The LME also had another study running during 2011, being the detailed work on the feasibility of building a clearing house (work which began in 2010). By the end of 2011 the LME Board had approved the first phase of the building of an LME owned and operated clearing house. This will be a two year project, managed by a separate team of clearing experts working with the LME Executive. We believe a vertical clearing model will bring important strategic and financial benefits to the LME's shareholders, members and their customers. A project such as this cannot be undertaken lightly and we have already started a process of member briefing and involvement, with a significant proportion of members having signed themselves up to the Clearing Advisory Group.

At the end of 2011 the LME's current clearing partner, LCH.Clearnet, was in advance negotiations to be 60% acquired by the LSE. Since that time, and before the publication of this annual report, the LCH/LSE deal has been approved by both parties' shareholders, though the deal may not be concluded until late in 2012. The LME is a shareholder in LCH.Clearnet and consequently there has been a fair value calculation made in respect to the LME's holding in LCH.Clearnet. The LME anticipates receiving a significant payment in respect of the shares it will sell to the LSE, (though at this stage we do not know precisely how many shares the LME will be able to sell) but it is less easy to value the balance of the shareholding that will not form part of the LSE transaction. We expect greater clarity on this matter during 2012.

The introduction of the latest version of our electronic trading system, LMEselect 7, was the most obvious example of the continuous investment that the Exchange is making in its IT systems and infrastructure. The rapid growth in trading volume, and more significantly from a systems perspective, the even faster growth in the number of messages to the systems, has required substantial investments. Those investments have paid dividends in the increased volumes that the Exchange can handle, but it is clear that the need to invest in the business will not diminish.

Chief Executive's Statement (Continued)

The LME has always been a very low cost Exchange, but the investment requirements of being a global exchange have changed the economics of the business, and the Board approved in December the introduction of a new User Fee to be charged on client contracts. After some debate within the membership the fee was refined to exclude Tom-Next and carries in the Cash to Two week period, and was set at $0.79 per lot. The new fee will come into effect in July 2012, allowing time for necessary systems adjustments to handle the administration of the fee. The new fee will allow the Exchange to maintain an appropriate investment programme, to maintain its regulatory capital requirements and to continue to grow in an increasingly competitive market. Even with the introduction of the User Fee the LME remains the lowest cost trading venue in the commodity markets.

The Chairman has written about events leading up to the creation of a bid management process and there is little that can be said in addition to his remarks. However, one point I would like to emphasise is that the LME is the subject of takeover attention because it is good at what it does, and the bid process is an endorsement of the validity and strength of the business. I have often said that the LME is not for sale; but we cannot stop people from trying to buy it and it will be interesting to see whether bidders can show a good reason for shareholders to sell. In the meantime the bid management process is professional and intensive, and many of my colleagues have devoted a large amount of extra time to ensuring it runs smoothly.

This has been a very busy year, and I would like to thank members of the operational committees of the LME for their continued hard work and invaluable contribution to the LME.

I am proud to say that the management and employees of the LME Executive have handled a busy year, made more complicated by the launching of the bid process, and have delivered another record result. 2012 promises to be every bit as exciting.

LME Holdings Limited

Business Review

The Business Review should be read in conjunction with the Directors' Report on pages 9 to 11.

Business review and principal activities

The London Metal Exchange is the world's leading market for trading non-ferrous metals. The principal activity of LME Holdings Limited (Holdings) is to act as the holding company for The London Metal Exchange Limited (LME). LME's main activity is the provision of administrative and other services to the Members of the London Metal Exchange (the Exchange) and the maintenance of proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards to business conducted on the Exchange.

The consolidated result shows a pre-tax profit of £11.4m (2010: £12.5m) for the year, and after accounting for taxation was £7.7m (2010: £9.4m).

The directors do not propose the payment of a final dividend (2010: £4.5m).

2011 saw volumes traded on the Exchange exceed 146 million lots (2010: 120m), which represents an increase of 22% in volumes traded compared to 2010.

The high level of inventories stored in LME approved warehouses continued in 2011.

Business environment

More detailed comment on the business environment in which the Exchange operates is provided in the Chief Executive's and Chairman's Statements included in the Annual Report. The Exchange operates in an ever increasing competitive and dynamic environment. Against this background, the Exchange continues to be the premier non-ferrous futures and options exchange in the world.

Strategy

The Exchange's strategy continues to focus on it sustaining its premier status in price discovery for base metals futures and options and leveraging from this strength to new areas of opportunity in ferrous and off-exchange trading. The key shareholder priorities identified which create the key objectives for the Exchange are the successful launch of more products, more robust delivery of Exchange services, the maintenance of a relatively low cost exchange, the preservation of the existing business model, the continuation of a dividend policy and the recognition of the value of the Exchange to its owners. During the year the Exchange undertook detailed work on the feasibility of building a clearing house and by the end of 2011 the Board had approved the first phase of the building of an LME owned and operated clearing house.

Principal risks and uncertainties

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

Downturn in market activity

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

Business Review (Continued)

The Exchange has revenues that derive from the use of its approved warehouses, which are situated across the globe, and this revenue stream provides a counter-cyclical offset in the event of an economic downturn in metals markets.

Competition

The global exchange landscape continues to evolve and become more competitive with a risk that new market entrants will seek to attract liquidity away from the Exchange. To mitigate this risk the Exchange will continue to be receptive to the views and needs of the market users and provide its products and services in a cost effective manner. It will also seek to apply technology in generating further efficiencies. There has been continued significant investment in intangible assets during the year. The Chief Executive's Statement contains more information on these assets and the benefits that the Exchange is expected to derive from these systems going forward.

Regulation and compliance

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

Operational and system resilience

With the ever increasing reliance placed on technology, the Exchange is very aware of the need to maintain operational and system resilience at the highest possible levels. To this end the Exchange continues to make significant investments in improving these areas, working closely with its technology outsourcing provider, Xchanging Global Insurance Solutions Limited, and other external partners. To assist it in maintaining high levels of operational and systems resilience, the Exchange has adopted a dual data centre approach and also retains a permanent remote trading floor facility.

Key performance indicators

In terms of trading volumes the Exchange has performed well in the light of the current economic environment. The business model in place during 2011 was that of a commercial constrained for profit model. Member satisfaction and the delivery of cost effective services remain important measures of performance for the Exchange. Management applies additional commercial key performance indicators (KPIs) including transaction volume, new brands and warehouse listings, breadth of member participation in newly launched contracts and the size of open interest in the contracts traded. The Exchange performed well in 2011 when measured by these KPIs.

LME Holdings Limited

Directors' Report

The Directors submit their annual report to the shareholders together with the audited financial statements for the year ended 31 December 2011.

Incorporation

The Company was incorporated in England and Wales on 26 September 2000 and became the sole member of The London Metal Exchange Limited (LME), a company limited by guarantee. It is domiciled in the United Kingdom and registered in England and Wales, as is The London Metal Exchange Limited. The LME's main activity is the provision of the administrative and other services to the Members of The London Metal Exchange and the maintenance of proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards to business conducted on the Exchange.

Activities

The principal activity of LME Holdings Limited is to act as the holding company of The London Metal Exchange Limited.

Results

The profit before taxation for the Group for the year ended 31 December 2011, including the results of The London Metal Exchange Limited (LME) was £11.4m (2010 £12.5m) and after accounting for taxation was £7.7m (2010: £9.4m).

The Directors do not propose the payment of a final dividend (2010: £4.5m). Other information concerning the events of the year is contained in the Chairman's Statement, the Chief Executive's Statement, and the Business Review.

Fixed Assets

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

Charitable Donations

The Group made charitable donations during the period totalling £121,059 (2010: £74,500).
Donations were made in the year to the Camborne School of Mines, the University of the Witwatersrand in South Africa and Tower Hamlets Education Business Partnership under the LME's Scholarship Programme. Other donations made were to UK based charities.

Directors

The Directors of the Company who served during the period are listed on page 3.

The Directors retiring at the Annual General Meeting in accordance with the Articles of Association are Messrs S Branton-Speak and J W Land.

The Company maintains directors' and officers' liability insurance which provides insurance cover for Directors of the Company.

Future Developments

Future developments are outlined in the Chairman's Statement and the Chief Executive's Statement.

Financial Risk Management

Information in respect of the Group's objectives, approach and exposure in respect of foreign exchange risk, price risk, cash flow and fair value interest rate risk, credit risk, liquidity risk and capital risk management is provided in Note 24 to the financial statements.

Statement of Directors' Responsibilities for the Financial Statements

The following statement, which should be read in conjunction with the independent auditors' report on pages 16 and 17, is made with the view to distinguishing for shareholders the responsibilities of the directors from those of the auditors in relation to the financial statements.

Annual Report and Accounts

The directors are required by the Companies Act 2006 to prepare an Annual Report and Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

Accounting Policies

The directors consider that in preparing the financial statements, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

Accounting Records

The directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Safeguarding Assets

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities. The maintenance and integrity of the Group's website is the responsibility of the directors. Information published on the internet is accessible in many countries; the legal requirements relating to the preparation and dissemination of the financial statements in those countries are different from those applying in the United Kingdom.

Audit Information

As required under the Companies Act 2006 section 418, the directors confirm that to their knowledge, there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all the steps that ought to have been taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report (Continued)

Auditors

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

Going Concern

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

By Order of the Board.

P. Needham
Company Secretary 26 April 2012

LME Holdings Limited, registration number 4081219

LME Holdings Limited

Corporate Governance Statement

Introduction

The Board continues to confirm its commitment to the Group adopting high standards of corporate governance. The current activities of the Exchange are conducted through The London Metal Exchange Limited which, as a Recognised Investment Exchange under the terms of the Financial Services and Markets Act 2000, is required to meet statutory recognition requirements.

The Corporate Governance structure adopted by the Company and the Exchange (together the "Group") is summarised below.

The Board and Board Composition

The Articles of Association of LME Holdings Limited prescribe the composition of the Board and the procedures for appointment to it.

The Board consists of up to thirteen directors. Six shareholder representative directors are elected by the Ring Dealing Members and Associate Broker Clearing Members, together with the Associate Broker Members holding ordinary shares. One director is elected by the Trade Members of the Exchange. Up to five additional directors can be appointed by the Board. Two of these should have substantial experience in a relevant trade or business (Invited Directors); and three of these should have no current connection with the business or businesses of the Company (Independent Directors). There is currently one Invited Director and three Independent Directors. The Chairman, who is one of the Independent Directors, is elected by the directors from amongst their number.

The Board meets regularly and is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its responsibilities.

Committees

The Board is the main decision making body for the Company. To assist the Board to effectively discharge its roles and responsibilities, a series of Corporate Governance Committees have been established. A list of the Corporate Governance Committees together with a brief description is provided below.

Corporate Governance Statement (Continued)

Audit & Risk Committee

The Committee's Terms of Reference include the detailed review of the Financial Statements prior to their consideration by the Board, review of scope and cost effectiveness of the work performed by external auditors and satisfying itself that the Exchange is meeting its requirements as a Recognised Investment Exchange. Independent Directors on the Boards of both companies are persons appointed by each of the Boards who have no current connection with the metals trade and industry. Further detail can be obtained from the Terms of Reference which is available on the Company's website www.lme.com.

The composition of the Audit & Risk Committee as at the date of this report is as follows;

N B le Roux	Chairman of the Committee and Independent Director of LME Holdings Limited
S Branton-Speak	Shareholder Representative Director
R G Laing	Independent Director of The London Metal Exchange Limited
J W Land	Shareholder Representative Director
E N Harwerth	Independent Director of LME Holdings Limited

Nomination Committee

The main responsibility of the Nomination Committee is to ensure that Directors who are appointed by the Board have the requisite calibre and time commitment to discharge their obligations. Further detail can be obtained from the Terms of Reference which is available on the Company's website www.lme.com.

The Composition of the Nomination Committee as at the date of this report is as follows;

Sir B G Bender KCB	Chairman of the Committee and Chairman of the Group
M C Claydon	Independent Director of The London Metal Exchange Limited
W J Coupland	Shareholder Representative Director
M Overlander	Shareholder Representative Director

Remuneration Committee

The pay of the Chief Executive and the Chairman is determined by the Remuneration Committee. The Remuneration Committee also recommends to the Board the remuneration of the Independent and Invited Directors. Further details can be obtained from the Terms of Reference which is available on the Company's website www.lme.com.

The Shareholder Representative Directors are also entitled to receive fees, on the basis of Board meetings attended. In addition, members of the Audit & Risk, Nomination and Remuneration Committees are entitled to additional fees on the basis of meetings attended. Further information concerning Directors' remuneration is set out in Note 27 to the financial statements.

The composition of the Remuneration Committee as at the date of this report is as follows;

D Rough	Chairman of the Committee and Invited Director of LME Holdings Limited
Sir B G Bender KCB	Chairman of the Group
M C Claydon	Independent Director of The London Metal Exchange Limited
F J D Somerville-Cotton	Shareholder Representative Director

Internal Financial Control

The Directors are responsible for the Group's system of internal financial control which aims to safeguard the Group's assets, ensure proper accounting records are maintained and that the financial information used within the business for publication is reliable. However, any system of internal financial control can only provide reasonable, but not absolute, assurance against material misstatement and loss.

Key features of the system of internal financial control are currently as follows:

- Organisation and culture – the Board seeks to emphasise a culture of integrity, competence, fairness and responsibility. It meets regularly, focusing on strategic and operational issues and financial performance. The Board determines how the Group operates within a framework of delegated authorities and reserved powers.

- Financial Reporting – there is a comprehensive planning system with an annual budget approved by the Board. Results are reported monthly and compared to the budget.

- Business Controls – the Group operates within a control framework, which is communicated throughout the Group by means of a Policy and Procedures Manual. The manual lays down the accounting policies and financial control procedures, in addition to controls of a more operational nature.

Internal Audit Function

As part of the Audit & Risk Committee's Terms of Reference, it must consider annually whether there should be an internal audit function and make a recommendation to the Board accordingly. At present the Company does not have an internal audit function and during the period the Audit & Risk Committee recommended to the Board that it was not currently appropriate to establish an internal audit function and, instead, those areas of the business that could be independently audited should be identified and arrangements put in place for this work to be performed. This recommendation was accepted by the Board.

The Group's Risk Management Framework

The Group, assisted by an external consultant, has established and maintains an Enterprise Risk Management framework. This comprises of:

- A risk management policy and strategy, which includes parameters for assessing risk.
- Risk profiles for all departments and one for cross functional risks, setting out the risks, risk assessments, controls, actions to further mitigate risks and responsibilities.
- A Corporate Risk Profile (CRP), which includes the key risks from the underlying risk profiles.

As part of the responsibilities delegated by the Board to the Audit & Risk Committee, the Committee approves the policy and strategy and regularly reviews the CRP, which is maintained by the Executive Committee. Additionally, it reviews the underlying departmental risk profiles on a cyclical basis.

In accordance with best practice in corporate governance, and in line with FSA requirements, the Board reviews on an annual basis all the risks that the Exchange identifies.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LME HOLDINGS LIMITED

We have audited the group and parent company financial statements (the ''financial statements'') of LME Holdings Limited for the year ended 31 December 2011 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Statement of Cash Flow, the Group and Parent Company Statement of Changes in Equity and the related notes on pages 23 to 49. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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

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

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit and group's and parent company's cash flows for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LME HOLDINGS LIMITED (continued)

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Fleur Meijs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 April 2012

(a) The maintenance and integrity of The London Metal Exchange Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income
For the Year ended 31 December

	Notes	2011 £ 000's	2010 £ 000's
Continuing operations			
Revenue	1 (a)	61,179	50,763
Expenses	4	(49,940)	(38,619)
Operating Profit		11,239	12,144
Finance income	3	144	325
Profit before tax		11,383	12,469
Taxation	6	(3,701)	(3,013)
Profit for the financial year		**7,682**	**9,456**
Change in value of available-for-sale assets	9	28,340	-
Total comprehensive income for the financial year		**36,022**	**9,456**
Profits attributable to the owners		**7,682**	**9,456**
Total comprehensive income attributable to the owners		**36,022**	**9,456**

Dividends proposed in respect of 2011 are £nil (2010: £4.5m), being £nil per share (2010: £0.35).

The notes on pages 23 to 49 are an integral part of these financial statements.

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

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company profit and loss account. The profit for the parent Company for the year was £4,530m, of which £4,515m was intra group (2010: £4,53m of which £4,515m was intra group).

LME Holdings Limited

Statement of Financial Position
As at Year ended 31 December

	Notes	Group		Company	
		2011	2010	2011	2010
		£ 000's	£ 000's	£ 000's	£ 000's
Assets					
Non-current assets					
Intangible assets	7	25,707	24,116	-	-
Property, plant and equipment	8	1,515	2,673	-	-
Available for sale investment	9	13,047	2,725	-	-
Investment in subsidiary undertaking	10	-	-	17,179	15,460
		40,269	**29,514**	**17,179**	**15,460**
Current assets					
Trade and other receivables	13	11,841	9,879	-	-
Available for sale investment	9	18,018	-	-	-
Cash and cash equivalents	14	34,026	25,968	7,008	4,953
		63,885	**35,847**	**7,008**	**4,953**
Liabilities					
Current Liabilities					
Trade and other payables	15	15,476	11,089	3,080	1,272
Current tax liabilities	16	4,606	2,451	-	-
		20,082	**13,540**	**3,080**	**1,272**
Net current assets		**43,803**	**22,307**	**3,928**	**3,681**
Non-current liabilities					
Operating lease incentives	17	1,769	1,923	-	-
Deferred tax liability	12	5,873	220	-	-
		7,642	**2,143**	**-**	**-**
Net assets		**76,430**	**49,678**	**21,107**	**19,141**
Shareholders' equity					
Called-up and fully paid share capital	19	1,304	1,303	1,304	1,303
Share premium		19,560	17,610	19,560	17,610
Retained earnings		33,932	30,765	243	228
Available for sale reserve		21,634	-	-	-
Total equity		**76,430**	**49,678**	**21,107**	**19,141**

The notes on pages 23 to 49 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 April 2012, and signed on its behalf by:

M Abbott
Director

LME Holdings Limited

Statement of Cash Flow
For The Year ended 31 December

	Notes	Group		Company	
		2011	**2010**	**2011**	**2010**
		£ 000's	**£ 000's**	**£ 000's**	**£ 000's**
Cash flows from operating activities					
Cash generated from operations	20	22,636	18,597	89	212
Interest received		150	380	15	15
Tax paid		(2,599)	(2,771)	-	-
Net cash from operating activities		**20,187**	**16,206**	**104**	**227**
Cash flows from investing activities					
Purchase of plant and equipment	8	(554)	(1,005)	-	-
Purchase of intangible assets	7	(9,011)	(10,069)	-	-
Dividend received		-	-	4,515	4,515
Net cash used in investing activities		**(9,565)**	**(11,074)**	**4,515**	**4,515**
Cash flows from financing activity					
Issue of B share capital	19	1,951	1,755	1,951	1,755
Dividends paid	22	(4,515)	(4,515)	(4,515)	(4,515)
Net cash used in financing activities		**(2,564)**	**(2,760)**	**(2,564)**	**(2,760)**
Net increase in cash and cash equivalents		8,058	2,372	2,055	1,982
Cash and cash equivalents at 1 January		25,968	23,596	4,953	2,971
Cash and cash equivalents at 31 December	14	**34,026**	**25,968**	**7,008**	**4,953**

The notes on pages 23 to 49 are an integral part of these financial statements.

LME Holdings Limited

Statement of Changes in Equity
For The Year ended 31 December

	Notes	Attributable to Equity Holders of the Group					
		Ordinary Share Capital	B Share Capital	Share Premium	Retained Earnings	Available for sale reserve	Total Equity
		£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
1 January 2011		1,290	13	17,610	30,765	-	49,678
Total comprehensive income for the financial year		-	-	-	7,682	28,340	36,022
Deferred tax on change in fair value of available-for-sale assets	12	-	-	-	-	(6,706)	(6,706)
Transactions with owners							
Issue of B Share capital	19	-	1	1,950	-	-	1,951
Final dividend relating to year ended 31 December 2010	22	-	-	-	(4,515)	-	(4,515)
Total transactions with owners		**-**	**-**	**1,950**	**(4,515)**	**-**	**(2,565)**
31 December 2011		**1,290**	**14**	**19,560**	**33,932**	**21,634**	**76,430**

	Notes	Attributable to Equity Holders of the Company				
		Ordinary Share Capital	B Share Capital	Share Premium	Retained Earnings	Total Equity
		£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
1 January 2011		1,290	13	17,610	228	19,141
Total comprehensive income for the financial year		-	-	-	4,530	4,530
Transactions with owners						
Issue of B Share capital	19	-	1	1,950	-	1,951
Final dividend relating to year ended 31 December 2010	22	-	-	-	(4,515)	(4,515)
Total transactions with owners		**-**	**-**	**1,950**	**(4,515)**	**(2,565)**
31 December 2011		**1,290**	**14**	**19,560**	**243**	**21,107**

The notes on pages 23 to 49 are an integral part of these financial statements.

LME Holdings Limited

Prior Year Statements of Changes in Equity

	Notes	Attributable to Equity Holders of the Group				
		Ordinary Share Capital £ 000's	B Share Capital £ 000's	Share Premium £ 000's	Retained Earnings £ 000's	Total Equity £ 000's
1 January 2010		1,290	13	15,855	25,824	42,982
Total comprehensive income for the financial year		-	-	-	9,456	9,456
Transactions with owners						
Issue of B Share capital		-	-	1,755	-	1,755
Interim dividend relating to year ended 31 December 2009		-	-	-	(4,515)	(4,515)
Total transactions with owners		**-**	**-**	**1,755**	**(4,515)**	**(2,760)**
31 December 2010		**1,290**	**13**	**17,610**	**30,765**	**49,678**

	Notes	Attributable to Equity Holders of the Company				
		Ordinary Share Capital £ 000's	B Share Capital £ 000's	Share Premium £ 000's	Retained Earnings £ 000's	Total Equity £ 000's
1 January 2010		1,290	13	15,855	213	17,371
Total comprehensive income for the financial year		-	-	-	4,530	4,530
Transactions with owners						
Issue of B Share capital		-	-	1,755	-	1,755
Interim dividend relating to year ended 31 December 2009		-	-	-	(4,515)	(4,515)
Total transactions with owners		**-**	**-**	**1,755**	**(4,515)**	**(2,760)**
31 December 2010		**1,290**	**13**	**17,610**	**228**	**19,141**

The notes on pages 23 to 49 are an integral part of these financial statements.

LME Holdings Limited

Notes to the Financial Statements

1 Basis of Preparation and Accounting Policies

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

The Company's and Group's financial statements are prepared under the historical cost convention, as modified by the measurement of derivative instruments at fair value through the income statement and on the basis of the principal accounting policies set out below.

New and Amended Standards Adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- IAS 32 – 'Financial instruments: Presentation – Classification of rights issues'.
- IFRIC 19 – 'Extinguishing financial liabilities with equity instruments'.
- IFRS 1 amendment – 'First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters'.
- IAS 24 – 'Related party disclosures' (revised 2009).
- IFRIC 14 amendment – 'IAS 19 – The limit on defined benefit assets, minimum funding requirements and their interaction'.

There is no material impact to the Group or Company from these new standards and interpretations.

New Standards, Amendments and Interpretations issued but not effective for the financial year beginning 1 January 2011 and not adopted early.

The groups' and parent entity's assessment of the impact of these new standards and interpretations will be stated in the financial statements when they become effective and, if relevant, are adopted by the group.

- IAS 19 – 'Employee benefits' amended June 2011.
- IFRS 9 – 'Financial instruments'
- IFRS 10 – 'Consolidated financial statements'.
- IFRS 12 – 'Disclosures of interests in other entities'.
- IFRS 13 – 'Fair value measurement'.

Accounting Policies

(a) Revenue

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

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

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

(b) Foreign Currencies

The consolidated financial statements are presented in sterling, which is the Group's presentational currency. The functional currency of the Company and its subsidiary is sterling.

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

(c) Intangible Assets

Costs associated with maintaining computer systems are recognised as an expense incurred. Development costs that are directly attributable to the design and testing of identifiable and unique systems controlled by the group are recognised as intangible assets when the following criteria are met:

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

System development costs recognised as assets are amortised over the estimated usefull lives, which does not exceed five years.

The Group 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 Group'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.

(d) Property, Plant and Equipment

Leasehold properties and improvements are included at cost and depreciated to residual value over the shorter of the period of the lease or the economic life of the asset.

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

The Group selects its depreciation rates based on expected economic lives, taking into account the expected rate of technological developments, market requirements, obsolescence and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Group'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.

(e) Investment in Subsidiary

The investment in the subsidiary is accounted for in the Company's financial statements at cost less impairment plus directly attributable costs of investment.

(f) Trade and Other Receivables

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

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection is expected in one year or less, they are classified as current assets, if not, they are presented as non current assets. These are classified as 'trade and other receivables' in the balance sheet (also see note 13). Receivables are initially recognised at fair value and subsequently measured at amortised cost.

(g) Cash and Cash Equivalents

Cash and cash equivalents comprise of cash in hand, bank accounts and deposits held on call and fixed term placement with banks.

(h) Financial Assets

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

(i) Available-for-Sale Investment

The available-for-sale financial asset is a non-derivative that is designated in this category. The part of the investment that management considers will not be disposed of within 12 months of the balance sheet date is included in non-current assets. The remainder is included under current assets as management does intend to dispose of this part within 12 months of the balance sheet date.

The investment was initially recognised at fair value on acquisition and was subsequently measured at cost since the Directors considered that it was not possible to estimate a reliable fair value. The shares are now recorded at fair value and more information is available in note 2.

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

(j) Provisions

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

(k) Operating Lease Incentives

An obligation deemed to be a lease incentive is amortised over the remainder of the lease term through the income statement. If the lease was to be terminated at an earlier date, any unamortised element of the operating lease incentive would be recognised in the income statement for that year.

(l) Operating Leases

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

(m) Trade Payables

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

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

(n) Income Tax

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

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

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

(o) Pension Costs

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

(p) Share-based Compensation

A Shadow Equity Long-Term Incentive Plan ("the Plan") was set up in 2008. The plan is cash settled. The fair value of the employee services received in exchange for the grant of options under the plan (see note 28) is recognised as an expense. Payments made on behalf of the parent company in respect of employees of the subsidiary are recognised as an investment/capital contribution in the single company financial statements of the parent and subsidiary. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options and the fair value of options granted that are expected to become exercisable. It recognises the impact, if any, in the income statement.

(q) Share Capital

Ordinary shares and 'B' shares are classified as equity.

(r) Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Dividends received from the Company's subsidiary are recognised when approved and paid.

(s) Derivative Financial Instruments

Initially recognised at fair value on the date a derivative is entered into and subsequently re-measured at fair value. Changes in the fair value of derivatives are recognised in the income statement. Derivative contracts maturing within 12 months of the balance sheet date are classified as current assets/liabilities and those maturing after 12 months of the balance sheet date are classified as non-current assets/liabilities.

(t) Joint Venture

As further explained in note 11, The London Metal Exchange Limited has entered in to a joint venture agreement with Singapore Exchange Derivatives Trading Limited (SGX). Assets, liabilities, income and expenditure in connection with the agreement are to be apportioned in accordance with the terms of the agreement.

(u) Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains/losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

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 International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC Interpretations.

LCH Investment

Critical accounting estimates and judgements are those that have a significant risk of causing material adjustment. The Directors consider that the fair value estimate relating to the available-for-sale (AFS) investment in LCH.Clearnet Group Limited (LCH) represents a critical accounting estimate (note 9).

In previous accounting periods the Directors determined that it was not possible to reliably measure the fair value of the LCH investment and therefore the asset was carried at cost less impairment in the consolidated balance sheet in accordance with IAS 39. As at the balance sheet date the Directors consider that there exists sufficient publicly available information that it is possible to estimate a fair value for this asset subject to the levels of uncertainty inherent in a critical accounting estimate as explained below.

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

The Directors have considered the facts and information available at the balance sheet date in forming the estimate of fair value in the financial statements. Primarily this information relates to the publicly announced offer by the London Stock Exchange (LSE) of €19 a share plus a deferred dividend of €1 a share for 51 per cent of the shares of LCH and an assessment of the value of the business which would be attributable to the minority shareholders of the business on a continuing basis. In forming the estimate, consideration is given to the following factors: the possibility that the LSE bid may not be accepted by LCH shareholders; the amount of any final offer which may be accepted by LCH shareholders; the fact that the bid is for a controlling stake in LCH and hence may not represent the value of each share (i.e a minority shareholding) on a standalone basis; and an assessment of the value of the business which would be attributable to the minority shareholders of the business taking into account the future uncertainty over the future direction and earnings of the LCH business.

Taking the above factors into consideration the Directors have estimated a fair value for the LCH shares as at the balance sheet date of €11.50 (approx £9.50) per share. This results in an asset of £31,065,000, an impact on other comprehensive income of £28,340,000 in the year and related AFS reserve of £21,634,000 in the consolidated balance sheet.

The estimate is highly sensitive to the factors detailed above. A change to any of these factors to other reasonably possible assumptions has a material impact on the fair value of the LCH shares. Due to the number and nature of the assumptions involved the directors consider that it is impracticable to disclose the extent of the possible effects of these assumptions. However, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material downward adjustment to the carrying amount of the asset.

The AFS investment in LCH is considered to be a 'Level 3' asset under the IFRS 7 hierarchy. This is because the inputs to the fair value estimate are not based on observable market data. Further details are set out in note 24.

Leasehold Reinstatement

As stated in note 17, the provision for leasehold reinstatement has been reclassified as an operating lease incentive. The reclassified amount was originally based upon the advice from independent property advisors based on the estimated liability that would arise in respect of reinstatement and dilapidation liabilities. The lease incentive is being amortised over the remaining life of the lease.

Software Development

As described in notes 1(c) and 7, the Company incurs significant expenditure on the development of software and implementation of systems. The judgements regarding capitalisation, impairment and the estimation of the useful life of the assets has a material impact on these financial statements. The company follows the accounting policy described in note 1(c).

Shadow Equity Long-Term Incentive Plan

A number of estimates are used in determining the fair value of options granted that are expected to become exercisable (see note 28). Such estimates include expected option life, volatility, risk free rate of interest and expected forfeitures. The estimates used follow the rules of the scheme and are based wherever possible on observable market or company information. The estimate also incorporates an element relating to the possibility of a change in control of the company. A change to a number of these assumptions to other reasonably possible assumptions has a material impact on the fair value of the LTIP liability. Given the complexity and number of the assumptions, the directors consider that it is impracticable to disclose the extent of the possible effects of these assumptions. However, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amount of the liability.

3 Finance Income

	Group 2011 £000's	2010 £000's
Finance income – interest income on bank accounts and short-term bank deposits	144	325

The group has not incurred any interest expense in the year (2010: £nil).

4 Expenses

Expenses comprise the following:

	Note	Group 2011 £ 000's	2010 £ 000's
Employee costs	5	13,165	9,091
Depreciation and amortisation		9,132	6,183
Loss / (gain) on exchange		37	(19)
Operating lease costs		878	937
Technology costs		15,270	13,463
Other costs		9,037	9,036
(Gain) on derivative financial instruments		(39)	(72)
Bad debt written off		228	-
Clearing project		1,347	-
Bid process		885	-
		49,940	**38,619**

Notes to the Financial Statements (continued)

Services provided by the Group's auditors and network firms

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

	Group 2011 £ 000's	2010 £ 000's
Audit services		
Statutory audit		
- Fees for Parent Company	15	15
Audit of accounts of associates of the Company		
- Subsidiary	84	85
- Pension fund	3	16
Tax services		
- Compliance services	12	10
- Advisory services	28	38
Other		
- Other services not covered above	65	85
Warehouse audit fees	656	600
	863	**849**

5 Employee Costs

Employee costs (including directors) comprise the following:

	Note	Group 2011 £ 000's	2010 £ 000's
Salaries and other short term benefits		9,508	7,534
Social security costs		1,290	748
Pension costs	18	648	616
Share options granted to directors and employees		1,719	193
Total		**13,165**	**9,091**

The number of employees (excluding directors) was:

	2011	2010
At the year end	95	90
Average for the year	92	83

6 Taxation

Taxation charged to the income statement	Note	Group 2011 £ 000's	Group 2010 £ 000's
Income tax			
Current year		4,618	3,588
Adjustment in respect of prior years		136	(97)
Total current tax		**4,754**	**3,491**
Deferred tax	12		
Deferred tax for the current year		(1,348)	(470)
Change in tax rate		31	
Adjustment in respect of prior years		264	(8)
Total deferred tax		**(1,053)**	**(478)**
Taxation charge		**3,701**	**3,013**

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

Factors affecting the tax charge for the year

The reconciling items between the standard rate of corporation tax in the UK of 26% (2010: 28%) and the income statement tax charge for the year are explained below:

	Group 2011 £ 000's	Group 2010 £ 000's
Profit before taxation	**11,368**	**12,469**
Profits multiplied by the standard rate of corporation tax in the UK of 26% (2010: 28%)	2,955	3,491
Expenses not deductible/(income not taxable)	315	(373)
Net adjustments in respect of previous years	400	(105)
Change in tax rate	31	-
Taxation charge	**3,701**	**3,013**

7 Intangible Assets

Group	Capitalised software in use £ 000's	Capitalised software under development £ 000's	Total £ 000's
Costs			
At 1 January 2011	31,021	4,166	35,187
Additions	-	9,011	9,011
Transfers	11,269	(11,269)	-
Disposals	(5,965)	-	(5,965)
At 31 December 2011	**36,325**	**1,908**	**38,233**
Accumulated amortisation			
At 1 January 2011	11,071	-	11,071
Charge for the year	7,228	-	7,228
Impairment charge	192	-	192
Disposals	(5,965)		(5,965)
At 31 December 2011	**12,526**	**-**	**12,526**
Prior Year			
Costs			
At 1 January 2010	18,292	6,826	25,118
Additions	-	10,069	10,069
Transfers	12,729	(12,729)	-
At 31 December 2010	**31,021**	**4,166**	**35,187**
Accumulated amortisation			
At 1 January 2010	6,427	-	6,427
Charge for the year	4,644	-	4,644
At 31 December 2010	**11,071**	**-**	**11,071**
Net book values			
At 31 December 2011	**23,799**	**1,908**	**25,707**
At 31 December 2010	19,950	4,166	24,116

All amortisation charges in the year have been charged through expenses. Amortisation starts once the asset is ready for use.

Intangible assets consist of software related projects capitalised when the development stage of the project is reached. This is deemed to commence when the technical feasibility of completing the intangible asset, the intention to complete it, and the ability to use it and the future benefits expected to be derived from it are demonstrated. Adequate technical, financial and other resources are available to complete the development and the expenditure attributable to the intangible asset during its development can be measured reliably.

With the introduction of Release 7 of LMEselect in November 2011, the underlying platform of the LME's electronic trading system was replaced. This has resulted in an impairment charge of £192,000 in respect of the costs that had been capitalised in respect of Release 6, together with the disposal of the fully depreciated assets previously capitalised in respect of the electronic trading system, now rendered redundant by Release 7.

The useful life of intangible assets is determined on a case by case basis, but is no more than five years. An impairment review is undertaken on at least an annual basis for all intangible assets.

8 Property, Plant and Equipment

Group	Short leasehold and leasehold improvements £ 000's	Equipment £ 000's	Furniture, fixture and fittings £ 000's	Total £ 000's
Costs				
At 1 January 2011	6,117	7,903	1,113	15,133
Additions	-	513	41	554
At 31 December 2011	**6,117**	**8,416**	**1,154**	**15,687**
Accumulated depreciation				
At 1 January 2011	6,117	5,359	984	12,460
Charge for the year	-	1,643	69	1,712
At 31 December 2011	**6,117**	**7,002**	**1,053**	**14,172**
Prior Year				
Costs				
At 1 January 2010	6,117	7,016	995	14,128
Additions	-	887	118	1,005
At 31 December 2010	**6,117**	**7,903**	**1,113**	**15,133**
Accumulated depreciation				
At 1 January 2010	6,117	3,894	910	10,921
Charge for the year	-	1,465	74	1,539
At 31 December 2010	**6,117**	**5,359**	**984**	**12,460**
Net book values				
At 31 December 2011	**-**	**1,414**	**101**	**1,515**
At 31 December 2010	-	2,544	129	2,673

9 Available-for-Sale Investment

Group	2011 £ 000's	2010 £ 000's
Beginning of year	2,725	2,725
Transfer to Available for sale reserve	28,340	-
End of year	**31,065**	**2,725**
Analysed as		
amount falling due within 1 year	18,018	-
amount falling due after 1 year	13,047	2,725
	31,065	**2,725**

The London Metal Exchange Limited holds 3,270,000 ordinary shares of €1, fully paid in LCH.Clearnet Group Limited. There were no disposals or impairment provisions on the available-for-sale financial asset in 2011 or 2010. The company expects to dispose of a portion of the shares in 2012 and this is therefore classified as a current asset.

During the year no dividend (2010: £nil) was received in respect of the available-for-sale financial asset.

The available-for-sale financial asset is an unlisted security, denominated in euros and stated at fair value. Further information in respect of this asset is provided in notes 1(h & i),2 and 24.

10 Investment in Subsidiary Undertaking

	Note	Company £ 000's
1 January 2011		15,460
Movement in respect of Shadow Equity Long Term Incentive Plan	28	1,719
31 December 2011		**17,179**

	Note	Company £ 000's
1 January 2010		15,267
Movement in respect of Shadow Equity Long Term Incentive Plan	28	193
31 December 2010		**15,460**

The investment is wholly comprised of a holding in The London Metal Exchange Limited (a company limited by guarantee incorporated in Great Britain but registered in England and Wales) whose principal activity is the provision of administrative and other services to the Members of The London Metal Exchange and the maintenance of proper standards in accordance with its Rules and Regulations and with regulations made under the Financial Services and Markets Act 2000 as regards to business conducted on the Exchange.

11 Joint Venture

During 2010, The London Metal Exchange Limited entered into a joint venture agreement with Singapore Exchange Derivatives Trading Limited (SGX) with the objective of trading, clearing and settling LME mini contracts on systems provided by SGX in Singapore. Assets, liabilities, income and expenditure are apportioned in accordance with the agreement and will be reported in each organisation's respective financial statements. Net costs to the Exchange of £160k were incurred in 2011 (2010: £nil). LME-SGX copper, aluminium and zinc futures were launched on 15 February 2011.

12 Deferred Tax Liability

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

		Group	
		2011	2010
	Note	£ 000's	£ 000's
1 January		220	698
Transfer to the income statement during the year	6	(1,053)	(478)
Transfer from available for sale reserve		6,706	-
31 December		**5,873**	**220**

The deferred tax liability has arisen as a consequence of recognising the unrealised gain on the fair value of available-for-sale assets (note 9), the charge for the Shadow Equity Long-term Incentive Plan (note 28) and the net book value of intangible assets, property, plant and equipment exceeding the tax written down value at the year end.

Factors that may affect future tax charges

Based on current capital investment plans, the group expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year. The anticipated disposal of available-for-sale assets will result in current taxes becoming payable.

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

Current and Deferred Tax

A number of changes to the UK Corporation Tax system were announced in the March 2012 Budget Statements. This includes legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate to 23% from 1 April 2013 and to 22% from 1 April 2014. The changes to reduce the rate to 24% or lower had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

13 Trade and Other Receivables

	Group		Company	
	2011	2010	2011	2010
	£ 000's	£ 000's	£ 000's	£ 000's
Contract levy receivable	3,020	2,321	-	-
Other receivables	3,659	3,048	-	-
Prepayments and accrued income	5,162	4,510	-	-
	11,841	**9,879**	**-**	**-**

As of 31 December 2011, trade receivables of £777k (2010: £1,133k) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Directors expect the amounts past due but not impaired to be recovered in full. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2011	2010	2011	2010
	£000's	£000's	£000's	£000's
0-3 months	302	817	-	-
3-6 months	85	165	-	-
Over 6 months	390	151	-	-
	777	**1,133**	**-**	**-**

The carrying amounts of the Group's trade and other receivables are denominated in sterling, apart from £3,490k which is dominated in US dollars (2010: £3,039k).

Trade and other receivables do not contain any impaired assets (2010: £nil).

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

Notes to the Financial Statements (continued)

14 Cash and Cash Equivalents

	Group		Company	
	2011	2010	2011	2010
	£ 000's	£ 000's	£ 000's	£ 000's
Cash at bank	13,122	8,080	5,105	3,065
Short term deposits	20,904	17,888	1,904	1,888
	34,026	**25,968**	**7,009**	**4,953**
Average maturity of short term deposits	1 month	1 month	1 month	1 month
Weighted average interest rate	0.73%	2%	0.73%	2%

As a Recognised Investment Exchange, The London Metal Exchange Limited is required to keep liquid financial assets amounting to at least six months operating costs, and net capital of at least this amount.

15 Trade and Other Payables

	Notes	Group		Company	
		2011	2010	2011	2010
		£ 000's	£ 000's	£ 000's	£ 000's
Social security and other taxes		2,232	651	-	-
Other payables		5,721	6,351	564	475
Accruals and deferred income		4,823	3,124	-	-
Operating lease incentives	17	154	154	-	-
Long Term Incentive Plan	28	2,516	797	2,516	797
Derivative financial instruments		30	12	-	-
		15,476	**11,089**	**3,080**	**1,272**

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

	Group		Company	
	2011	2010	2011	2010
	£000's	£000's	£000's	£000's
0-3 months	12,388	9,814	565	475
3-6 months	448	382	-	-
Over 6 months	2,640	893	2,515	797
	15,476	**11,089**	**3,080**	**1,272**

16 Current Tax Liabilities

	Group		Company	
	2011	2010	2011	2010
	£ 000's	£ 000's	£ 000's	£ 000's
Current tax liabilities	**4,606**	**2,451**	**-**	**-**

17 Operating Lease Incentives

	Group 2011 £ 000's	2010 £ 000's
Balance at 1 January 2011	2,077	2,231
Amount amortised in the year	(154)	(154)
Balance at 31 December	**1,923**	**2,077**

	2011 £ 000's	2010 £ 000's
Analysed		
- Current	154	154
- Non-current	1,769	1,923
Balance at 31 December	**1,923**	**2,077**

During 2008 the LME restructured the obligation in respect of its main leasehold property and associated estimated reinstatement and dilapidation liabilities. In accordance with the Standards Interpretation Committee (SIC) paper, 'Operating Leases – Incentives' (SIC 15) the provision of £2.5 million for estimated reinstatement and dilapidation liabilities has been reclassified as a lease incentive. The amount is being amortised over the remainder of the lease term i.e. to 23 June 2024. If the lease is terminated earlier than this date, any unamortised element of the operating lease incentive will be recognised in the Income Statement for that year.

18 Pension Costs

The Group has one pension scheme covering many of its employees. The principal funds are those in the UK. The London Metal Exchange Limited 1989 pension scheme is a defined contribution scheme.

Pension costs for the scheme are as follows:

	Note	Group 2011 £ 000's	2010 £ 000's
Defined contribution scheme	5	**648**	**616**

19 Called Up Share Capital

Authorised	**Group and Company**	
	2011	**2010**
	£ 000's	**000's**
14,851,000 ordinary shares of 10p each	1,485	1,485
2,490,000 'B' shares of 1p each	25	25
Total	**1,510**	**1,510**

	Group and Company	
Allotted, called up and fully paid	**2011**	**2010**
	£ 000's	**£ 000's**
Ordinary shares of 10p each		
At 1 January and 31 December 2011 – 12,900,000	1,290	1,290
'B' shares of 1p each		
At 1 January 2010 – 1,317,500		13
Issued in 2010 – 22,500		-
At 31 December 2010 – 1,340,000		
At 1 January 2011 – 1,340,000	13	
Issued in 2011 – 25,000	1	
At 31 December 2011 – 1,365,000	14	13
Total share capital	**1,304**	**1,303**

The share capital of the company is made up of two classes of shares, ordinary shares and 'B' shares, which are subject to significantly different rights and restrictions under the Company's articles of association. Ordinary shareholders have full rights to receive dividends, to attend and vote at general meetings, as well as full participation rights on the winding-up of the company.

Trading rights are attached to the 'B' shares. 'B' shares do not carry any voting rights, nor any rights to participate in any dividends. On a winding up, 'B' shareholders would only be entitled to receive, in priority to the ordinary shareholders, the nominal value of the capital paid up on each 'B' share they held.

During the year, 25,000 'B' shares were issued, nominal value of 1p each, at a price of £78 per share, resulting in a purchase consideration of £1,950,000, of which an amount of £1,949,750 was credited to the share premium account.

20 Cash Flow From Operating Activities

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

Cash generated from operations	Group 2011 £ 000's	Group 2010 £ 000's	Company 2011 £ 000's	Company 2010 £ 000's
Continuing operations				
Profit before tax	11,383	12,469	4,530	4,530
Adjustments:				
Depreciation of property, plant and equipment	1,712	1,539	-	-
Amortisation of intangible assets	7,420	4,644	-	-
Amortisation of operating lease incentive	(154)	(154)	-	-
Interest income	(144)	(325)	(15)	(15)
Dividend income	-	-	(4,515)	(4,515)
Impairment of intangible asset	-	-	-	-
Investment in subsidiary undertaking	-	-	(1,719)	(193)
Changes in working capital				
(Increase) in trade and other receivables	(1,968)	(1,141)	-	-
Increase in payables	4,387	1,565	1,808	405
Cash generated from continuing operations	**22,636**	**18,597**	**89**	**212**

21 Operating lease commitments – minimum lease payments

	Group 2011 £ 000's	Group 2010 £ 000's
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	1,182	1,000
Later than one year and less than five years	3,775	4,000
	4,957	**5,000**

The Company has no operating lease commitments (2010: nil).

During 2011, the Group entered into an agreement with the landlord of its existing premises to acquire additional office accommodation in premises adjacent to the existing premises, to run to 23 June 2024. Either party can break this new lease with effect from 24 December 2016, with 12 months prior written notice by either party. Under the other leases, either party can break with effect from 25 December 2015, with 12 months prior written notice by either party, these leases to run to 23 June 2024.

22 Dividends Per Share

A dividend was paid in 2011 of £4,515m. A dividend was paid in 2010 of £4,515m. A dividend in respect of the year ended 31 December 2011 will not be proposed at the annual general meeting on 8 June 2012.

23 Financial Commitments

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

	Group	
	2011	2010
	£ 000's	£ 000's
Within one year or less	14,989	15,317
Between two and five years	28,979	5,759
	43,968	**21,076**

The Company has no expenditure contracted for but not yet incurred.

The above commitments are in respect of The London Metal Exchange Limited's contract with Xchanging in respect of an outsourcing agreement in relation to the Exchange's IT operations, other technology contracts and IBM in respect of business continuity arrangements.

24 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Financial risk management is carried out by the Finance department under policies approved by the Board of Directors.

(a) Market Risk

(i) Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange rate risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risk arises from revenues denominated in a foreign currency (principally US Dollars).

The Group's treasury's risk management policy in the normal course of events is to convert non-sterling currencies into sterling (the functional currency) as soon as deemed reasonably appropriate to do so in order to reduce exposure to exchange rate fluctuation. Given the higher level of currency exposure arising from increased stock levy revenue, however, a policy has been approved by the Group's Board which permits the economic hedging of foreign currency exposure. Details of the forward rate transactions entered into in the year under the policy are as follows:

	Currency	Amount	Deal Date	Rate	Maturity Date	Fair Value at Year End
Forward rate hedge	USD	1,500,000	02/09/10	1.54	22/02/2011	-
Forward rate hedge	USD	2,880,000	11/03/11	1.5985	31/08/2011	-
Forward rate hedge	USD	1,920,000	11/03/11	1.5925	29/02/2012	(£30k)

At 31 December 2011, a 10% weakening/strengthening of the US dollar against the UK pound, with all other variables held constant, would have resulted in a foreign exchange gain/loss of £533k (2010: £330k), all as a result of translation of US dollar-denominated trade receivables and bank balances.

At 31 December 2011, a 10% weakening/strengthening of the euro against the UK pound, with all other variables held constant, would have resulted in a foreign exchange loss/gain of £59k (2010: £60k),as a result of translation of euro-denominated trade payables.

(ii) Price Risk

The Group is theoretically exposed to price risk on the investment held by the LME and classified on the consolidated balance sheet as available-for-sale, as referred to in note 2 and 9. The Group's ability to sell this investment is restricted. The investment is stated at fair value. The Group is not directly exposed to commodity price risk.

(iii) Cash Flow and Fair Value Interest Rate Risk

The Group has significant interest-bearing assets comprising of deposits on call and short-term. The Group's income and operating cash flows however are not materially subject to change in market interest rates.

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

Sensitivity analysis of movements in interest rates

Based on cash deposits held at the year end, the group calculated the impact on profit or loss of a 100 basis-point shift would be a maximum increase or decrease of £209k (2010: £180k).

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

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	£000's	**£000's**	**£000's**	**£000's**
Call Account	100	100	-	-
Short-term deposits				
- < 3 months	20,904	17,888	1,904	1,888
- > 3 months, < 12 months	-	-	-	-
- > 12 Months	-	-	-	-

(b) Credit Risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, deposits with banks and trade and other receivables. Cash and deposit balances are held only with banks with a minimum rating of F1 (Fitch). As at the end of 2011 the cash was placed with Lloyds TSB Bank PLC, Close Brothers Limited, Clydesdale Bank and National Westminster Bank Plc. The Group's only significant concentration of credit risk is with these four banks. Trade and other receivables are primarily settled in cash within 3 months of the balance sheet date.

(c) Liquidity Risk

Prudent liquidity risk management involves maintaining sufficient cash to meet ongoing operational commitments and adhere to the requirements of the FSMA 2000 to maintain liquid financial assets amounting to at least six months operating costs. Management monitors rolling forecasts of the group's liquidity reserve on the basis of expected cash flow.

The Group's operating lease commitments are shown in note 21 and its expenditure contracted for at the balance sheet date is shown in note 23.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and meet its regulatory capital obligation. The London Metal Exchange Limited is a Recognised Investment Exchange under the terms of The Financial Services and Markets Act 2000. The Financial Services Authority (FSA) requires that a UK recognised body has at any time liquid financial assets amounting to at least six months operating costs, and net capital of at least this amount. This capital requirement is monitored on an on going basis and its status is reported on a monthly basis to the board and the FSA. The LME has exceeded the requirement over the whole of the year.

Fair Value Estimation

The available-for-sale financial asset is not traded in an active market and is an investment in ordinary shares in LCH.Clearnet Group Limited, a private company. This investment is stated at fair value. The investment is considered to be a level 3 asset in the IFRS 7 hierarchy and is the only financial asset of this category held by the Group.

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

Derivative financial instruments are valued using a discounted cash flow model.

25 Transactions with Related Parties

Directors
During the financial year, no contracts of significance were entered into by the Company or its subsidiary in which the directors had a material interest. (see note 27 for directors' emoluments).

Pension Fund
The contributions in respect of The London Metal Exchange 1989 Pension Scheme are disclosed in note 18.

Parent and Subsidiary
There were no material transactions or intercompany balances between the parent company and the subsidiary during the year or at the balance sheet date.

Transactions with Shareholders
The Group conducts transactions with shareholders on an arms-length basis in its normal course of business. These transactions are recorded as revenue and are not considered to represent related party transactions since they occur on arms-length commercial terms.

26 Key Management Compensation

Compensation for directors of the Group and the members of the executive committee, regarded as the key personnel who have authority for planning, directing and controlling the Group:

	Group	
	2011	2010
	£ 000's	£ 000's
Salaries and other short term benefits	3,299	2,423
Share based payments	1,207	183
Pensions	197	178
	4,703	**2,784**

27 Directors' Emoluments

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

	Group	
	2011	2010
	£ 000's	£ 000's
Aggregate emoluments	1,411	1,235
Company contributions paid to defined contribution pension scheme	50	54
	1,461	**1,289**

Retirement benefits are accruing to one director under a defined contribution scheme (2010: one).

Benefits accrued under the LTIP scheme 2011: £587k (2010: £96k).

Remuneration of Highest Paid Director

	Group	
	2011	2010
	£ 000's	£ 000's
Aggregate emoluments	794	843
Company contributions paid to defined contribution pension scheme	50	54
	844	**897**

There were no accrued amounts under the defined contribution scheme at the year end (2010: £nil).

Benefits accrued under the LTIP scheme 2011: £587k (2010: £96k).

28 Shadow Equity Long-Term Incentive Plan

The Shadow Equity Long-Term Incentive Plan ("the Plan") was set up in order to provide the Chief Executive and other selected members of staff with an entitlement, in the form of an option, to a receipt of cash at the date the option is exercised, calculated by reference to the unit value of notional shares over the base unit value (exercise price) of such shares. The unit value price is determined by the Remuneration Committee on an annual basis following the approval of the Group's audited accounts in accordance with the rules of the Plan. For these purposes the unit value price shall be the sum of an amount equal to 20% of the weighted (by volume traded) average price at which trades in Ordinary shares in the Company have taken place during the financial year immediately prior to the date on which the determination is made, and an amount equal to 80% of the profit after tax for the financial year immediately prior to the date on which the determination is made divided by the number of shares in issue, with a profit multiple determined on the grant date of the award. This arrangement was designed to approximate to the share price of the LME subject to the discretion of the Remuneration Committee. The scheme also allowed, at the limited discretion of the Remuneration Committee, that in the event of a change in control of the LME the unit price value could be determined with reference to the transaction price achieved.

Options vest in tranches of 25% over four years. Vesting is based on continuing employment. The fair value of the employee services received in exchange for the grant of the options in respect of the Plan is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date the Company revises its estimate of the number of options expected to become exercisable and also the fair value of the options granted.

Movements for the year	**Notional shares**
1 January 2011	274,126
Exercised in the year	(4,031)
Forfeited	-
Issued in the year	32,252
At 31 December 2011	**302,347**

Movements for the prior year	**Notional shares**
1 January 2010	290,250
Exercised in the year	(20,155)
Forfeited	(12,094)
Issued in the year	16,125
At 31 December 2010	**274,126**

The expense recognised in the income statement is £1,719,000 (2010: £193,000). The liability as at 31 December 2011 is £2,516,000 (2010: £797,000).

There is one director who participates in the Group's long-term incentive scheme. He did not exercise any options in the year (2010: nil).

The fair value of options in existence in the year was determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

Inputs and Assumptions for 2011

Input	Assumptions		
Date of grant	29 Sept 2008	1 April 2010	23 September 2011
Contractual option life (dependent on tranche)	7 Years	7 Years	7 Years
LME Holdings Limited Ordinary share price (12-month weighted average, period ending 31/12/11)	£29.588	£29.588	£29.588
Profit multiple	15	15	15
Base unit value price	£14.74	£14.74	£14.74
Net dividend yield	0%	0%	0%
Expected forfeiture (low employee turnover)	0% p.a.	0% p.a.	0% p.a.

The awards made in 2008 represent tranches 1-4 below. The awards made in 2011 are included in tranches 3-4 below.

Inputs as at 31 December 2011	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Basis for assumption
Expected remaining option life	1.25 years	2.25 years	3.25 years	4.25 years	Period from 31 December 2011 to the mid-point of the exercise window
Volatility	8%	8%	11%	11%	The median historical volatility for a number of exchanges measured over a period ending 31 December 2011, adjusted to reflect LME's unlisted status and constrained profit model; period of measurement commensurate with expected option life.
Risk-free rate of interest	0.34%	0.35%	0.54%	0.80%	Zero coupon UK government bond yield at valuation date for maturity commensurate with expected option life from valuation date: Bank of England
Options outstanding	60,467	64,498	88,684	88,698	

			31 December 2011			
Grant – Vesting date	Expiry date	Exercise price	Base unit value	Weighted average option fair value	Exercisable options	Unvested options
2008 - 2012	2015 - 2019	£6.83	£14.74	£8.03	240,363	13,607
2010 - 2012	2015 - 2019	£6.83	£14.74	£8.03	15,369	756
2011 - 2012	2018 - 2019	£9.38	£14.74	£5.60	25,340	6,912
					281,072	**21,275**

Inputs and Assumptions for 2010

Input	Assumptions	
Date of grant	29 Sept 2008	1 April 2010
Contractual option life (dependent on tranche)	7 Years	7 Years
LME Holdings Limited Ordinary share price (12-month weighted average, period ending 31/12/10)	£4.925	£4.925
Profit multiple	15	15
Base unit value price	£9.76	£9.76
Net dividend yield	0%	0%
Expected forfeiture (low employee turnover)	0% p.a.	0% p.a.

The awards made in 2008 represent tranches 1-4 below.

Input as at 31 December 2010	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Basis for assumption
Expected remaining option life	1.75 years	2.25 years	2.75 years	3.25 years	Period from 31 December 2010 to the mid-point of the exercise window
Volatility	8%	12%	12%	12%	The median historical volatility for a number of exchanges measured over a period ending 31 December 2010, adjusted to reflect LME's unlisted status and constrained profit model; period of measurement commensurate with expected option life.
Risk-free rate of interest	0.97%	1.2%	1.43%	1.66%	Zero coupon UK government bond yield at valuation date for maturity commensurate with expected option life from valuation date: Bank of England
Options outstanding	64,498	64,498	72,560	72,570	

			31 December 2010			
Grant – Vesting date	**Expiry date**	**Exercise price**	**Base unit value**	**Weighted average option fair value**	**Exercisable options**	**Unvested options**
2008 - 2012	2015 - 2019	£6.83	£9.76	£3.17	210,713	47,289
2010 - 2012	2015 - 2019	£6.83	£9.76	£3.17	13,342	2,782
					224,055	**50,071**

The option fair value at the year-end date is calculated based on the rules of the scheme and incorporates the possibility of a change in control of the LME as referred to above. As described further in note 2 to the financial statements the assumptions made in calculating the option fair value is a critical accounting estimate. It is reasonably possible that outcomes within the next financial year that are different from the assumptions made could require a material upward adjustment to the option fair value and the liability of the Company under the LTIP scheme in the event of a transaction that results in a change of control of the LME.

29 Post Balance Sheet Events

In January 2012 the Company entered into a contract with its financial advisor, in respect of the possibility of an offer being received to acquire control of the Company from one or more third parties. Under the terms of the engagement letter, the Company is contracted to pay a ‘Price Discovery Process Fee’ of £3,500,000, payable on completion of the ‘Price Discovery Process’, which is the presentation to the Company at the conclusion of the process to identify the value of the Company to strategic acquirers. The Company is also obligated to pay, if such an event were to occur, a ‘Sale of Control Fee’, payable at the closing of a transaction whereby all or a controlling interest in any or all classes of equity securities of the Company has been sold. The amount of any such ‘Sale of Control Fee’ is dependent on the transaction value and scale of between 0.5% and 0.7%.

In April 2012 the Company entered into a contract with other advisors also in relation to the possibility of an offer being received to acquire control of the Company from one or more third parties. Under the terms of this engagement the Company is contracted to pay a fee of £500,000 if certain conditions relating to the possible sale of control of the Company are met.