

The London Metal Exchange Limited
(Registered Number: 2128666)

Annual Report and Financial Statements

31 December 2001



The London Metal Exchange Limited

Directors And Advisers

Directors

The Lord Bagri CBE (Chairman) ♦	
DE King (Chief Executive) ♦	(Resigned 30 June 2001)
SJN Heale (Chief Executive)	(Appointed 2 July 2001)
N Brodersen	(Appointed 8 February 2002)
JL Browning	(Appointed 1 February 2002)
The Lord Fraser of Carmyllie QC * ♦ ∇	
M Frawley ∇	(Appointed 1 January 2001)
AW Gooch ♦	
Sir Timothy Lankester KCB *	
AR Miele *	
B Östgren ♦	(Retired 17 January 2002)
DG Over ♦ ∇	
GJ Pizzey *	
MA Slade ♦	
CTA Stocker	(Appointed 1 February 2002)
SB Underhill ♦	(Resigned 14 December 2001)
TR Wilson	(Appointed 1 January 2001, Resigned 31 December 2001)

* Invited (non-executive) Directors

♦ These Directors resigned on 31 December 2000 and were subsequently re-appointed on 1 January 2001, as a consequence of their appointment to the board of LME Holdings Limited.

∇ Current members of the Audit Committee.

Auditors

PricewaterhouseCoopers, Chartered Accountants,
Southwark Towers, 32 London Bridge Street, London SE1 9SY.

Solicitors

Linklaters & Alliance,
One Silk Street, London EC2Y 8HQ

Bankers

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

The London Metal Exchange Limited

Chairman's statement

The London Metal Exchange began 2001 as two distinct but related legal entities – The London Metal Exchange Limited and LME Holdings Limited.

This was a direct result of the vote in September 2000 where the members of the Exchange unanimously agreed to adopt proposals to turn the LME into a shareholder owned entity.

During the course of 2001 a significant amount of work was undertaken to ensure that the Exchange started to take advantage of the benefits of the new structure. Simon Heale, the chief executive, has made significant progress in empowering the executive to become the driving force in operational matters. This is freeing the board to devote more time to strategic, higher level issues.

Taken together these two developments are essential. While the view of some might be that 2001 was the year in which significant competition to the LME failed again to emerge, the view of the board is that the potential for competition is just as high. The dispelling of the myth of the super-efficient, low cost, and all-powerful Internet exchange does not mean that entrepreneurs with vision and technology have gone away entirely.

In such circumstances, it is imperative for the Exchange to challenge itself constantly on the strength of its products and service. Only the best and most cost-effective will succeed in the long-term. So far that has been the record of the LME, as demonstrated by the celebration this year of our 125th anniversary in a recognisable form.

The main concern of the board and the executive is to reinforce the LME's position day by day.

In part that means keeping a careful watch on the resources employed to maintain a low cost base. It is also essential to ensure that our trading mechanisms are appropriate to market needs. Open outcry in the ring continues to be one of the fundamentals of the LME success story. It is not static, as our adoption of extended kerb trading in the middle of the day has shown. We continue to debate possible enhancements to the ring, but while there is no immediate clamour for change, we shall always consider any constructive proposals with an open mind.

A different aspect of meeting market needs is shown by the introduction of our screen based trading system – LME Select. Release 2 became operational on 10 September 2001. This is the LME's most ambitious IT project to date. It was absolutely essential that we provided an electronic trading platform to ensure that we are in a position to meet any changing requirements of our members and their customers.

LME Select is certainly one of the most advanced electronic trading platforms in the world, able to provide every possible combination of contract that the LME has to offer. I have no doubt that it will be a very important aspect of our service provision in the years ahead.

Reflecting the economic downturn, trading conditions in 2001 were difficult and we saw a modest

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decline in turnover after a number of record breaking years. Having budgeted accordingly, we were able to operate well within the limits we set for the financial year. I am pleased that we are able to rebate some £3.8 million of surplus revenue to members of the Exchange.

The pressure on our member firms remains unrelenting. This is a highly competitive business, and there has been some consolidation. That is an inevitable factor, affecting not just ourselves, but financial services more generally. In that context, therefore, it is a pleasant duty to report that interest in the Exchange remains high, and that new members have been welcomed during the course of 2001. There is every possibility that there will be further interest in 2002.

One significant matter for the year was the demise of Enron, the US energy trading firm, and the owner of Enron Metals Ltd, an LME member firm and shareholder. The Exchange had a keen interest in this part of their business. Our view is that the strength of the LME and the regulatory environment was amply demonstrated by the fact that Enron Metals continued to trade. Its regulatory capital was ring fenced and Exchange contracts, cleared through the London Clearing House, were traded up to the point of a change of ownership.

This is a very clear demonstration of the value of an independent, well-regulated and fully cleared exchange.

I am certain more than ever that the concept of independence will become even more valued as time goes by. The forces of globalisation and competition need to be counter-balanced by an independent, transparent forum for price discovery.

As we continue to provide that vital price discovery service, as well as contracts for hedging and being the delivery point of last resort, we remain close to industry. That was a key factor in developing our new contract, the North American special aluminium alloy contract.

Alloy is slightly outside the main product run of the Exchange, and we have been able to adopt a bold approach by offering a regional delivery contract for the first time. This is an outstanding example of our listening to the needs of industry and responding rapidly. The contract has, I am sure, good potential.

Going forward the Exchange has much to do. Maintaining a low cost base is as important as ever, and we look to the Executive to be imaginative and commercially minded in their approach to new opportunities. The board looks to them to do so while continuing to provide our member and market users with the best possible service at all times.

The search for new products is also important, as well as examining ways, as it settles down, of harnessing the power of LME Select. Finding new products is not easy, but the continual advance in financial services and the need to provide imaginative solutions to issues that are not headline news today, have been hallmarks of our success over the last 125 years. We are all determined that they will remain so for the future.

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Chief Executive's statement

My primary concerns since taking over as chief executive have been fourfold. These are: to build my knowledge of the business; to establish good, open relationships with our members and users of the market; to continue to support the strong ethos of financial efficiency and prudence within the Exchange; and to give form to the changes within the management of the LME resulting from the demutualisation.

The Exchange is in robust good health, despite the poor and uncertain conditions in the global economy. The challenge for the Exchange in 2002 is to maintain absolute focus on our core business, while seeking to develop potential new areas of activity.

In building my knowledge of the industry I have been able to meet many of the end users of our services, and fully appreciate just what an important part the LME plays in their business. The independent price discovery mechanism is enormously respected and the Exchange is committed to safeguarding it. I, and other members of the LME executive, will take every opportunity to improve our reach and visibility to ensure that the closeness to industry that we have and value is maintained and enhanced.

That also applies to our shareholders and members. I made it a priority in my first months to see as many of our members as possible. This process will continue as a regular part of life for me, and my executive colleagues are also determined to develop a more customer-oriented approach for the future.

In doing so we shall be building on the very positive work that took place during the implementation phase of LME Select release 2. This was an outstanding piece of project management and with LME Select fully in place we need to move beyond our current position in the market. Now that it has been fully bedded down, we must make LME Select the system of choice for our members. Volumes have been respectable, indeed reaching a record of more than 10,000 lots traded on a single day in October 2001, but they need to be more consistent and we shall pursue this goal vigorously.

While there is clearly a certain volume of business that seems to be appropriate for screen trading at present, there is no doubting the vibrancy of the ring. We shall do nothing to undermine it, and, as the chairman points out, we keep under review possible enhancements. The ability of the ring to absorb increases in volatility and volumes in the immediate aftermath of the appalling events of 11 September in the United States showed clearly that the ring is a natural forum for conducting high levels of business in fast moving markets. Despite the tragic circumstances it was important to continue to trade and the ring played an important role. It is also the case that later in the year, in November, a great deal of the record day's trading on the Exchange – 561,262 lots – took place on the ring.

One of the most significant aspects of the demutualisation was the determination to make the LME Executive more accountable for day to day running of the Exchange. This has been taken forward through an executive committee – EXCOM – under my chairmanship. This is charged with examining operational issues, working with committees and being answerable for the day-to-day

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operation of the LME. Action reports are made to the board, which is able to focus more on strategic matters. I am satisfied that EXCOM is making adequate progress and I am determined that it will be seen to operate at optimum level in the year ahead.

One of the most important tasks has been to reorganise the committee structure. This is essential to maintain our links with industry and ensure that we gain the best market intelligence about the metals business as it impacts on market users and our members. I should like to take this opportunity to thank those from industry and elsewhere that sit on our committees and help us through their expertise. Their contribution to the success of the LME is much appreciated.

The importance of a well structured committee was admirably demonstrated by the expert input from the aluminium committee in the development of the new North American special aluminium alloy contract, NASAAC.

This is a highly innovative contract in that it is the first regional delivery contract the Exchange has designed. We pride ourselves on being a global market and have no intention of changing our core contracts. Alloy, being a product as opposed to a primary metal, is different and we were able to demonstrate a speedy response to industry demands to provide a pricing tool and risk management facility in this important and growing market. We anticipate that the contract will start quite slowly and develop over time, as we are realistic enough to know that liquidity will take time to emerge. We and our members need to be assiduous and patient in our marketing of the benefits of the contract.

"Closeness to industry" is more than a phrase at the Exchange, it is an attitude that reinforces our daily activities and is essential to our continuing success. We work hard at our key interface with physical industry – warehousing. In the last two years we have been managing the network much more actively to ensure that locations are economically relevant. We look to provide speedy and efficient listing when new locations that meet our criteria are put forward. For example in 2001 we were delighted to approve Pusan and Kwangyang in Korea as good delivery points. We were also delighted to welcome a delegation from the Korean government and both ports to mark this groundbreaking occasion. During 2001 we also approved Dubai, our first Middle Eastern delivery point, for all metals apart from aluminium, and I was delighted to see the port myself during a visit in November.

Looking forward we intend to continue to work with all involved in the warehouse community, as well as producers and consumers, to make sure that all needs are met. This is a complex task, as we have to address so many different legal jurisdictions. This work will evolve continually, but is vital and rightly demands a lot of management time and effort.

It is important that we manage the macro activities of the Exchange as efficiently as we do the micro-level. Our aim is to provide the most cost-effective service we can to members and shareholders. We have a programme of work to make sure that where we charge for services such as data provision we earn the maximum revenue. We continue to look for new data provision opportunities.

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The most obvious area to look for expansion is in other contracts, as I noted last year. This is far from straightforward but there are possibilities and if they can attract liquidity I shall ensure that we take them. I am confident that the Exchange has the managerial and market knowledge to make new contracts work if we can identify them.

The LME will be seen in 2002 as an Exchange that has started to reap the benefits of demutualisation in a significant way. EXCOM will have established itself as the natural forum for management oversight and development of our core business. Working closely with the revitalised committee structure we shall retain and enhance our relationship with key users of the market. The Board will be freed by EXCOM to focus on strategic issues.

I am confident that the LME will see another good performance in 2002.

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Directors' Report

The Directors submit their annual report to the Members together with the audited financial statements for the year ended 31 December 2001.

Activities

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

Results

The profit for the year ended 31 December 2001 before taxation was £1,000,001 (2000: £6,072,693) and after accounting for taxation was £542,581 (2000: £4,526,561 (restated)).

The Directors do not recommend the payment of a dividend (2000: £Nil). Other information concerning the events of the year is contained in the Chairman's statement and the Chief Executive's Statement.

Directors

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

The Member of the board retiring by rotation in accordance with the Articles of Association is Mr A.W Gooch.

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

Fixed Assets

Movements in fixed assets are shown in Notes 8 & 9 to the financial statements.

Charitable Donations

The Company made charitable donations during the year totalling £4,610 (2000: £6,453).

Future Developments

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

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Directors' Report (Continued)

Statement Of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2001, and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors will be put to the members at the Annual General Meeting.

By Order of the Board.



P. Needham
Secretary

4 March 2002

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Corporate Governance Statement

Introduction

Following the restructuring review of the Exchange and the subsequent appointment of a new Board of Directors, the Board has confirmed its commitment to the Company adopting high standards of corporate governance.

As a Recognised Investment Exchange under the terms of the Financial Services and Markets Act 2000 the Company is required to meet statutory recognition requirements. Consequently, the Board has decided it is no longer necessary for the Company to seek to comply on a voluntary basis with the requirements of the Combined Code and the recommendations of the Turnbull committee which are aimed principally at companies listed on the London Stock Exchange.

The Corporate Governance structure adopted by the Company is summarised below.

The Board and Board Composition

The Articles of Association of The London Metal Exchange Limited prescribe the composition of the Board and the procedures for appointment to it

The Board consists of up to fourteen directors. Six shareholder representative directors are automatically members of the Board by virtue of having been elected to the board of LME Holdings Limited. One director is elected by the Trade Members of the Exchange. Up to five invited directors can be appointed by the Board. Two of these should have substantial experience in the metals trade and industry; and three of these should have no current connection with a metals business. There are currently four invited directors. The Chief Executive is an ex-officio member of the Board. Under the Articles of Association, The Lord Bagri CBE is Chairman and a member of the Board until 31 December 2002. After that date, the number of directors will drop to thirteen and the Chairman will be elected by the directors from amongst their number.

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

Directors' Remuneration

Remuneration is paid only to the Chief Executive and to Invited Directors. The pay of the Chief Executive is determined by the Chairman of the Board. The authority for determining the remuneration of Invited Directors is delegated by the Board to the Chairman of the Board. Further information concerning Directors' remuneration is set out in Note 6 to the financial statements.

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Corporate Governance Statement (Continued)

Internal Financial Control

The Directors are responsible for the Company's system of internal financial control which aims to safeguard the Company's assets, ensure proper accounting records are maintained and that the financial information used within the business for publication is reliable.

Any system of internal financial control can, however, 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 Company 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 Company operates within a control framework, which is communicated throughout the Company by means of a Policy and Procedures manual. The manual, reviewed by the auditors and approved by the Board, lays down the accounting policies and financial control procedures, in addition to controls of a more operational nature.

The composition of the Audit Committee currently comprises of three Directors, one of whom is an Invited Director. The Chief Executive attends these meetings by invitation. The Chairman of the Audit Committee is the Invited Director. Its terms of reference include the detailed review of the financial statements prior to their consideration by the Board and review of the scope and cost effectiveness of the work performed by external auditors.

Going Concern

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

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Independent Auditors' report to the members of the London Metal Exchange Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Statement and the Corporate Governance Statement.

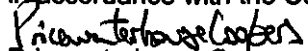
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2001 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
4 March 2002

 PRICEWATERHOUSECOOPERS

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Independent Auditors' report to the members of the London Metal Exchange Limited (Continued)

Notes:

- (a) The maintenance and integrity of The London Metal Exchange 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.

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Profit And Loss Account For The Year Ended 31 December 2001

	2001 £ 000's	As Restated (Note 1a) 2000 £ 000's
Income (Note 1(b))	16,216	15,195
Other Operating income (Note 3)	-	3,650
Administrative expenses	(15,899)	(13,788)
Operating Profit (Note 4)	317	5,057
Interest receivable	683	1,018
Interest payable	-	(2)
Profit On Ordinary Activities Before Taxation	1,000	6,073
Tax on profit on ordinary activities (Note 7)	(458)	(1,546)
Profit On Ordinary Activities After Taxation	542	4,527
Retained profit brought forward	15,088	10,876
Capital payments	-	(315) *
Retained Profit Carried Forward	15,630	15,088

Statement of Total Recognised Gains and Losses

The Group has no recognised gains or losses other than those shown in the profit and loss account above. All gains and losses recognised are based on historical cost and arise from continuing operations. As a result of the restatement for implementing FRS 19, as described in Note 1a, there was recognition of a £64,810 gain since the last annual report.

* These represent one-off amounts paid to members of the Exchange who did not wish to participate in the restructuring proposals that were approved at an extraordinary general meeting of the Company on 14th September 2000.

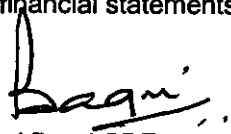
The notes on pages 16 to 23 form part of these financial statements.

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Balance Sheet As At 31 December 2001

	£ 000's	2001 £ 000's	As Restated (Note 1a) 2000 £ 000's
Fixed Assets			
Intangible assets (Note 8)		825	1,238
Tangible assets (Note 9)		3,231	4,152
Investments (Note 10)		2,725	2,725
Current Assets			
Debtors (Note 11)	4,262		3,865
Cash at bank and in hand	13,633		14,567
	<u>17,895</u>		<u>18,432</u>
Creditors – Amounts falling due within one year (Note 12)	(6,441)		(8,802)
Net Current Assets		<u>11,454</u>	<u>9,630</u>
Total Assets Less Current Liabilities		18,235	17,745
Creditors – Amounts falling due after one year (Note 13)	(105)		(157)
Provisions for liabilities (Note 14)	<u>(2,500)</u>		<u>(2,500)</u>
		(2,605)	(2,657)
Total Net Assets		15,630	15,088
Reserves			
Profit and loss account		15,630	15,088

These financial statements were approved by the Board of Directors on 4 March 2002



The Lord Bagri CBE
Director



The Lord Fraser of Carmyllie QC
Director

The notes on pages 16 to 23 form part of these financial statements.

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Notes To The Financial Statements As At 31 December 2001

1 Principal Accounting Policies

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards and, in compliance with the requirement of the UK Companies Act 1985.

The financial statements are in compliance with the following Financial Reporting Standards (FRS) issued by the Accounting Standards Board which have come into force since the previous period:

FRS 17 - Retirement benefits

This standard addresses the measurement and valuation of retirement benefit pension schemes. Compliance with this standard has not given rise to any change in accounting policies or any restatement of figures reported for prior periods since the Company operates a money purchase scheme.

FRS 18 - Accounting policies

This standard addresses the adoption of appropriate accounting policies, judged against the objectives of relevance, reliability, comparability and understandability. Compliance with this standard has not given rise to any change in accounting policies or any restatement of figures reported for prior periods.

FRS 19 - Deferred tax

This standard addresses the recognition, on a full provision basis, of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. The effect of the change in accounting policy to adopt FRS 19 was to decrease tax on ordinary activities by £154,648 (2000: £64,810) and to increase profit for the financial year by £154,648 (2000: £64,810).

(b) Income

Income represents fees, subscriptions, registration and exchange fees receivable in respect of the Market Data System and sundry receipts which have been shown in the profit and loss account exclusive of value added tax. Subscription and registration fee income is recognised over the course of the year. All other fees are recognised as and when the transaction occurs.

Other operating income represents fine income received and is recognised on completion of the investigation process.

Included in income are contract levies which are shown after deducting a rebate for the year of £3,726,366 (2000 : £3,368,927).

The Company no longer allocates any surplus arising from its Market Data System to the contributing members. The amount allocated in respect of 2000 was £1,000,881.

(c) Intangible assets

Amortisation of intangible fixed assets is calculated to write off the cost of each asset over the term of its estimated useful life as follows:

LME Select licence fee

- over three years

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Notes To The Financial Statements As At 31 December 2001

(d) Depreciation

Depreciation of tangible fixed assets is calculated to write off the cost of each asset over the term of its estimated useful life as follows:

Short leaseholds and leasehold improvements	- over ten years
Furniture, fixtures and equipment	- over three years
Equipment attributed to LME Select	- over three years

(e) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

On adoption of FRS 19, the Company has changed its accounting policy in respect of deferred taxation, and restated prior year results accordingly.

(f) Leasing and rental agreements

Payments under non-property leasing agreements are charged against profit in the period in which they become due. The inducement payment and rent free periods arising on the lease of 56 Leadenhall Street have been accounted for such that they are spread over the estimated life of the lease, which was deemed on commencement to be ten years, of which three years are left to run.

(g) Pensions

The Company operates a money purchase scheme. Contribution rates are set in accordance with the Scheme rules and the contributions payable are charged against profit in the period in which they become due.

(h) Software consultancy and development costs

Payments in respect of software consultancy and development costs are charged against profit in the period in which they are incurred, except in certain circumstances when it is considered more appropriate to capitalise these costs and depreciate them over the estimated useful life of the hardware with which they are associated.

(i) Foreign currency translations

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction except where covered by a foreign exchange contract in which case the rate specified in the contract is used. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

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Notes To The Financial Statements As At 31 December 2001

2 Segmental Analysis

In the opinion of the directors, the Exchange has one class of business, provision of services for the members of the London Metal Exchange. In addition, during the year it had no significant activities outside the United Kingdom. Accordingly no segmental analysis by class of business or geographical location is provided.

3 Other Operating Income

Other Operating income for 2000 of £3,650,000 arose from fines received during that year.

4 Operating Profit

Operating profit is stated after charging:

	2001 £ 000's	2000 £ 000's
Staff costs (Note 5)	5,171	5,217
Amortisation of intangible fixed assets	413	-
Depreciation on tangible fixed assets	1,455	864
Other operating charges:		
Operating lease charges	490	500
Auditors' remuneration - audit fee *	39	23
- non audit fees	94	667
FSA levy	365	421
Other costs	7,872	6,096
	15,899	13,788

5 Staff Numbers And Costs

The average number of persons employed by the Company during the year, in administration, was 71 (2000: 71).

The aggregate payroll cost of these persons was as follows:

	2001 £ 000's	2000 £ 000's
Wages and salaries	4,319	4,414
Social security costs	415	394
Other pension costs	437	409
	5,171	5,217

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Notes To The Financial Statements As At 31 December 2001

6 Directors' Emoluments

Directors' emoluments for 2001 included in staff costs are as follows :

	2001 £ 000's	2000 £ 000's
Aggregate emoluments	413	424
Compensation for loss of office	-	515
Company contributions paid to money purchase pension scheme	43	40
	456	979

Retirement benefits are accruing to one director under a money purchase scheme.

Remuneration of Highest Paid Director

	2001 £ 000's	2000 £ 000's
Aggregate emoluments	169	294
Compensation for loss of office	-	515
Company contributions paid to money purchase pension scheme	23	40

7 Tax On Profit On Ordinary Activities

The charge is based on the profit for the year and comprises:

	2001 £ 000's	2000 £ 000's
UK corporation tax at 30% (2000 - 30%)	676	1,767
Deferred taxation	(155)	(65)
Prior year over provision	(63)	(156)
	458	1,546

The effective rate of taxation of 45.57% is higher than the UK corporation tax rate of 30%, principally due to the level of disallowable expenses.

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Notes To The Financial Statements As At 31 December 2001

8 Intangible Fixed Assets

	2001 £ 000's	2000 £ 000's
Net Book Value at 1 January 2001	1,238	-
Additions	-	1,238
Amortisation	413	-
Net Book Value at 31 December 2001	825	1,238

9 Tangible Fixed Assets

	LME Select £ 000's	Short leaseholds and leasehold improvements £ 000's	Equipment £ 000's	Furniture, fixtures and fittings £ 000's	Total £ 000's
Cost					
At 1 January 2001	1,411	6,117	2,711	812	11,051
Additions	301	-	207	27	535
Disposals	-	-	(426)	(36)	(462)
At 31 December 2001	1,712	6,117	2,492	803	11,124
Depreciation					
At 1 January 2001	-	3,751	2,395	753	6,899
Charge for year	568	644	199	44	1,455
Eliminated on disposal	-	-	(425)	(36)	(461)
At 31 December 2001	568	4,395	2,169	761	7,893
Net book amount					
At 31 December 2001	1,145	1,722	323	42	3,231
At 31 December 2000	1,411	2,366	316	59	4,152

10 Fixed Asset Investments

On 10 October 1996, 5.45% of the share capital of the London Clearing House Limited (LCH) was acquired for £2,725,000 as an investment.

The London Metal Exchange Limited has rights to require LCH shares to be redeemed at the original subscription price if it terminates its clearing agreement with the LCH.

This investment is stated at cost in the balance sheet at the year end.

The London Metal Exchange Limited

Notes To The Financial Statements As At 31 December 2001

11 Debtors

	2001 £ 000's	2000 £ 000's
Contract Levy receivable	954	1,034
Other debtors	759	405
Deferred taxation (Note 1a & 18)	219	65
Prepayments and accrued income under 1 year	1,872	1,445
Prepayments and accrued income over 1 year	458	916
	4,262	3,865

Prepayments and accrued income over one year is an advance payment relating to the contract with OM Technology for implementation of the LME Select system

12 Creditors - Amounts Falling Due Within One Year

	2001 £ 000's	2000 £ 000's
Corporation tax	124	1,603
Taxation and social security	328	293
Other creditors	1,772	2,198
Accruals	4,165	4,656
Deferred income	52	52
	6,441	8,802

13 Creditors - Amounts falling due after one year

	2001 £ 000's	2000 £ 000's
Reverse Premium	<u>105</u>	<u>157</u>

14 Provision for liabilities - Amounts falling due after one year

	2001 £ 000's	2000 £ 000's
Provision for leasehold reinstatement	<u>2,500</u>	<u>2,500</u>

The London Metal Exchange Limited

Notes To The Financial Statements As At 31 December 2001

15 Financial Commitments

Commitments under OM contract	2001 £ 000's	2000 £ 000's
- within one year or less	1,949	1,696
- between two and five years	1,982	3,931
	<u>3,931</u>	<u>5,627</u>

The London Metal Exchange is committed to paying these quarterly payments for provision, maintenance and support of an electronic trading system, as part of the contract with OM Technology for implementation and operation of the LME Select system. These are hedged by forward foreign exchange contracts.

16 Contingent Liabilities

	2001 £ 000's	2000 £ 000's
OM deferred consideration	<u>2,424</u>	<u>2,424</u>

As part of the contract with OM Technology there is a deferred consideration element of SEK 33,750,000 which becomes payable if the contract is renewed after 3 years. Such deferred consideration is hedged by a forward foreign exchange contract.

The last date to give notice of termination without being committed to pay the renewal fee is 3rd January 2003.

17 Operating Leases

The company had the following annual commitments under non-cancellable operating leases in respect of leasehold premises analysed by date of termination of the lease as follows:

Operating leases which expire:	2001 £ 000's	2000 £ 000's
- within one year	-	-
- within two to five years	<u>825</u>	<u>825</u>

18 Deferred Taxation

	2001 £ 000's	2000 £ 000's
Accelerated capital allowances	<u>219</u>	<u>65</u>

The London Metal Exchange Limited

Notes To The Financial Statements As At 31 December 2001

19 Ultimate Holding Company

In the opinion of the directors' the ultimate holding company and ultimate controlling party is LME Holdings Limited, which is incorporated in the United Kingdom. Copies of LME Holdings Limited consolidated financial statements can be obtained from Company Secretary at 56 Leadenhall Street, London, EC3A 2DX.

20 Cash flow

The Company is a wholly owned subsidiary and the cash flows of the Company are included in a consolidated group cash flow statement. Consequently the Company is exempt under the terms of the Financial Reporting Standard No.1 (Revised) from the requirements to publish a cash flow statement.

21 Members

At 31 December 2001 the number of Members of the Company by category was as follows:

		Number of Members at 31 December	
Category		2001	2000
(a)	Ring Dealing	11	12
(b)	Associate Broker Clearing	27	25
(c)	Associate Trade Clearing	3	3
(d)	Associate Broker	11	6
(e)	Associate Trade	43	44
(f)	Individual	19	16