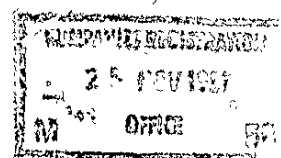


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SHEARSON LEHMAN
BROTHERS LIMITED

FINANCIAL STATEMENTS
for the year ended
31 DECEMBER 1986



SHEARSON LEHMAN BROTHERS LIMITED

**Report of the directors
for the year ended 31 December 1986**

1 The directors present herewith their report together with the audited financial statements for the year ended 31 December 1986.

Change in holding company

2 During the year the company became a wholly owned subsidiary of Shearson Lehman Brothers Holdings Plc. The shares had previously been owned by Shearson Lehman Brothers International Inc a company incorporated outside the United Kingdom. As a consequence consolidated accounts are no longer required.

Principal activities

3 The principal activities of the company are to provide market information to Shearson Lehman Brothers Inc, to act as its agent on certain commodity exchanges in the United Kingdom, to act as agent on behalf of Shearson Lehman Brothers Inc for UK customers on principal United States stock and commodity exchanges and to act as service company to the other United Kingdom subsidiaries of Shearson Lehman Brothers. The company has a wholly owned subsidiary Shearson Lehman Metals Limited which is engaged in metal trading and is a ring-dealing member of the London Metal Exchange.

Review of business and future developments

4 The profit and loss account for the year is set out on page 4. Both the level of business and the financial position at the end of the year were satisfactory. No major changes in activity are planned in the immediate future although the coming into force of the Financial Services Act in 1988 may involve some restructuring of, and redistribution of activities among, the United Kingdom subsidiaries of Shearson Lehman Brothers in late 1987 or early 1988.

Dividends and reserves

5 The directors do not recommend the payment of a dividend.

Changes in fixed assets

6 The movements in fixed assets are set out in notes 9 to 11 to the financial statements.

Directors

7 The directors of the company at 31 December 1986, all of whom were directors for the whole of the year ended on that date, were:-

E Gill (USA) (resigned 6 April 1987)
 P Govett
 I Shalam
 J Wall
 A Meyer
 E Kaufman
 P F Lynch (USA)
 C A Black
 W J Coupland
 K L Day

Directors' interests in shares

8 According to the register required to be kept by Section 325 of the Companies Act 1985, no director had a beneficial interest in the shares of the company or any other group company during the year ended 31 December 1986. The directors are exempt from notifying the company of interests in the shares of its ultimate holding company as this is a body corporate incorporated outside Great Britain.

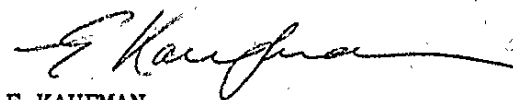
Close company provisions

9 As far as the directors are aware the close company provisions of the Income and Corporation Taxes Act 1970, as amended, do not apply to the company. There has been no change in this respect since 31 December 1986.

Auditors

10 A resolution to reappoint the auditors Coopers & Lybrand, will be proposed at the annual general meeting.

BY ORDER OF THE BOARD


 E KAUFMAN

Secretary ^{12th November}
 LONDON, ~~October~~ 1987

Report of the auditors to the members of
SHEARSON LEHMAN BROTHERS LIMITED

We have audited the financial statements on pages 4 to 17 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1986 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Coopers & Lybrand
COOPERS & LYBRAND

Chartered Accountants
LONDON, ~~October~~ 1987
12 November

SNEARSON LEHMAN BROTHERS LIMITED

Profit and loss account
for the year ended 31 December 1986

	<u>Notes</u>	<u>1986</u> £	<u>1985</u> £
Turnover	2	£12,785,357	£7,796,481
Operating profit	3	870,278	912,945
Amount written off investment	4	(320,610)	(623,086)
Profit on ordinary activities before taxation		549,668	289,859
Tax on profit on ordinary activities	8	(113,580)	81,794
Profit for the financial year		£663,248	£208,065

STATEMENT OF RETAINED PROFITS

Retained profits at 1 January 1986	804,773	596,708
Profit for the financial year	663,248	208,065
Retained profits at 31 December 1986	£1,468,021	£804,773

Notes to the financial statements - pages 7 to 17.

Auditors' report page 3.

SHEARSON LEHMAN BROTHERS LIMITED

Balance sheet - 31 December 1986

	Notes	1986	1985
		£	£
FIXED ASSETS			
Tangible assets	9	31,136,995	2,056,814
Investments	10 - 11	1,121,388	1,441,998
		<u>32,258,383</u>	<u>3,498,812</u>
CURRENT ASSETS			
Debtors	12	14,230,098	1,295,941
Cash at bank and in hand		3,513	2,912
		<u>14,233,611</u>	<u>1,298,853</u>
CREDITORS: amounts falling due within one year	13	15,666,964	1,531,542
NET CURRENT LIABILITIES		<u>(1,433,353)</u>	<u>(232,689)</u>
Total assets less current liabilities		30,825,030	3,266,123
CREDITORS: amounts falling due after more than one year	14	27,000,000	
PROVISIONS FOR LIABILITIES AND CHARGES	15	230,784	335,125
		<u>(27,230,784)</u>	<u>(335,125)</u>
		<u>£3,594,246</u>	<u>£2,930,998</u>
CAPITAL AND RESERVES			
Called up share capital	16	125,000	125,000
Capital reserve	17	2,000,000	2,000,000
Other reserves	18	1,225	1,225
Profit and loss account		1,468,021	804,773
		<u>£3,594,246</u>	<u>£2,930,998</u>

The financial statements were approved by the board on ^{12th November} October 1987.

[Signature]
[Signature]
 Directors

Notes to the financial statements - pages 7 to 17.

Auditors' report page 3.

SHEARSON LEHMAN BROTHERS LIMITED

Statement of source and application of funds
for the year ended 31 December 1986

	1986 £	1985 £
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	349,668	289,859
Adjustment for items not involving the movement of funds:		
Depreciation	638,755	475,060
Profit on sale of fixed assets	(44,079)	(29,892)
Amount written off fixed asset investment	320,610	623,086
Total generated from operations	1,464,954	1,358,113
FUNDS FROM OTHER SOURCES		
Tax repayment	-	272,853
Sale proceeds of tangible fixed assets	53,450	82,170
Capital contribution	-	2,000,000
Long term finance received from a fellow subsidiary to fund the purchase of tangible fixed assets	27,000,000	-
	27,053,450	2,355,023
Total sources of funds	28,518,404	3,713,136
APPLICATION OF FUNDS		
Purchase of fixed asset investment	-	(2,000,000)
Tax paid	(177,803)	(43,000)
Purchase of tangible fixed assets	(29,728,307)	(814,771)
	(29,906,110)	(2,857,771)
	£(1,387,706)	£855,365
(DECREASE)/INCREASE IN WORKING CAPITAL		
Increase in debtors	12,934,157	788,360
(Increase)/decrease in creditors amounts falling due within one year	(12,713,174)	314,599
	220,983	1,102,959
Movement in net liquid funds:		
(Increase) in overdrafts	(1,609,292)	(223,796)
Increase/(decrease) in cash at bank and in hand	603	(23,798)
	(1,608,689)	(247,594)
	£(1,387,706)	£855,365

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986

Principal accounting policies

1. The principal accounting policies observed by the company are set out below:-

(a) Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention.

(b) Tangible fixed assets

Depreciation is calculated to write off the cost of tangible fixed assets on a straight line basis over the expected useful lives. The principal annual rates used for this purpose are:-

Leasehold improvements	10%
Furniture, fittings and equipment	10%
Telecommunications equipment	20%
Motor vehicles	33 1/3%

(c) Memberships of exchanges

Memberships of the various commodity exchanges are included in the accounts at the lower of the overall cost or directors' valuation. Any deficit arising on valuation is charged in the profit and loss account.

(d) Fixed asset investments

Fixed asset investments are stated at lower of cost and directors' valuation.

(e) Deferred taxation

Deferred taxation is provided in respect of all material timing differences, to the extent that it is considered probable that a liability or asset will crystallise. Provision is made at the rate applicable when the liability or asset is expected to crystallise.

(f) Foreign currencies

Foreign currency assets and liabilities are translated to sterling at rates of exchange ruling at the balance sheet date. Transactions during the period expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Any differences arising from translation and conversion are dealt with in the profit and loss account.

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

(g) Capital profits and losses

Profits and losses after tax arising on the disposal of investments and memberships in exchanges are treated as extraordinary items in the profit and loss account, if material, and then transferred to realised capital reserve.

(h) Finance and operating leases

Costs in respect of operating leases are charged to the profit and loss account as they fall due. There are no assets held under finance leases.

(i) Pension scheme arrangements

The group operates a defined benefit pension scheme which is externally funded, contracted out of the State Earnings related pension scheme, and to which members are not required to contribute. Payments made to the fund and charged in the accounts as part of employment costs comprise current service contributions and back service contributions. The initial costing of the scheme following a rationalisation of the groups pension arrangements was carried out as at 1 October 1986 and the contributions currently being paid to the scheme are in accordance with recommendations of the actuary. The assets of the scheme comprise various insurance policies in addition to direct investments.

Turnover

2 Turnover represents fees receivable from Shearson Lehman Brothers Inc.

Operating profit

	<u>1986</u>	<u>1985</u>
3	£	£
Turnover (see note 2)	12,785,357	7,796,481
Profit on sale of fixed assets	44,079	29,892
Other operating income:		
Metal Research subscriptions	60,070	80,461
Other income - including expenses recharged of £10,179,948 (1985 £1,676,557)	10,179,948	1,738,024
	23,069,454	9,644,858
Administrative expenses	(22,090,603)	(8,731,913)
Interest payable and similar charges (see note 5)	(108,573)	-
Operating profit	<u>£870,278</u>	<u>£912,945</u>

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the accounts - 31 December 1986 continued

	<u>1986</u>	<u>1985</u>
	£	£
Operating profit is stated after charging:-		
Auditors' remuneration	26,000	6,500
Hire of office machinery on operating leases	349,725	196,891
Depreciation of tangible fixed assets	638,755	475,050
Directors' emoluments for management including pension contributions (see note 6)	1,042,629	942,929

Amount written off investment

4 This relates to a provision for losses sustained during the year by the company's subsidiary, Shearson Lehman Metals Limited.

Interest payable and similar charges

	<u>1986</u>	<u>1985</u>
	£	£
5		
On bank loans, overdrafts and other loans repayable within five years	108,573	-
	<u>£108,573</u>	<u>£ -</u>

Directors' emoluments

6 Particulars of directors' emoluments (excluding pension contributions) are as follows:

	<u>1986</u>	<u>1985</u>
	£	£
Emoluments of the highest paid director	<u>£394,792</u>	<u>£359,656</u>

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

Number of directors (including the above) whose emoluments were within the ranges:-

	<u>1986</u>	<u>1985</u>
£ 30,001 to £ 35,000	-	1
£ 35,001 to £ 40,000	1	1
£ 50,001 to £ 55,000	1	-
£ 80,001 to £ 85,000	-	1
£ 90,001 to £ 95,000	-	1
£100,001 to £105,000	1	-
£110,001 to £115,000	-	1
£120,001 to £125,000	1	-
£140,001 to £145,000	1	-
£145,001 to £150,000	1	-
£180,001 to £185,000	-	1
£355,001 to £360,000	-	1
£390,001 to £395,000	1	-

The emoluments of 3 (1985 - 3) directors, including the chairman, are not disclosable as either their duties are carried out wholly or mainly outside the United Kingdom or they are remunerated by a parent company in the United States, no part of which is deemed to have been received in respect of services to the company.

Employee information

7(a) As part of its activities as a service company Shearson Lehman Brothers Limited employs a number of staff the costs of whom are recharged to other group companies. In addition, in its role as paying agent, the company incurs the employment costs of persons employed by other group companies for which it is reimbursed.

(b) The average number of persons employed by the company including executive directors during the year was as follows:

<u>1986</u>	<u>1985</u>
<u>176</u>	<u>169</u>

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

- (c) The employment costs of the employees of Shearson Lehman Brothers charged in these accounts comprise:-

	<u>1986</u> £	<u>1985</u> £
Wages and salaries	11,763,231	3,405,151
Social security costs	975,855	184,465
Other pension costs	587,864	189,662
	<u>£13,326,950</u>	<u>£3,779,278</u>

- (d) The number of employees (excluding directors) whose emoluments were within the ranges:-

	<u>1986</u>	<u>1985</u>
£ 30,001 to £ 35,000	17	3
£ 35,001 to £ 40,000	10	3
£ 40,001 to £ 45,000	14	3
£ 45,001 to £ 50,000	4	-
£ 50,001 to £ 55,000	6	1
£ 55,001 to £ 60,000	4	1
£ 60,001 to £ 65,000	5	1
£ 65,001 to £ 70,000	3	1
£ 70,001 to £ 75,000	1	-
£ 75,001 to £ 80,000	1	-
£ 80,001 to £ 85,000	2	-
£ 85,001 to £ 90,000	-	2
£ 90,001 to £ 95,000	1	-
£ 95,001 to £ 100,000	1	-
£ 100,001 to £ 110,000	1	-
£ 110,001 to £ 115,000	1	1
£ 115,001 to £ 125,000	1	-
£ 125,001 to £ 130,000	2	-
£ 130,001 to £ 140,000	1	-
£ 140,001 to £ 150,000	1	-
£ 150,001 to £ 160,000	1	-
£ 160,001 to £ 170,000	1	-
£ 170,001 to £ 180,000	1	-
£ 180,001 to £ 190,000	1	-
£ 190,001 to £ 200,000	1	-
£ 200,001 to £ 210,000	1	-
£ 210,001 to £ 220,000	1	-
£ 220,001 to £ 230,000	1	-
£ 230,001 to £ 240,000	1	-
£ 240,001 to £ 250,000	1	-
£ 250,001 to £ 260,000	1	-
£ 260,001 to £ 270,000	1	-
£ 270,001 to £ 280,000	1	-
£ 280,001 to £ 290,000	1	-
£ 290,001 to £ 295,000	1	-

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continuedTax on profits on ordinary activities

8	<u>1986</u> £	<u>1985</u> £
United Kingdom corporation tax charged at 36.25% (1985 41.25%)		179,363
Deferred tax	(115,240)	(24,703)
	<u>(115,240)</u>	<u>154,660</u>
 Prior years:		
United Kingdom corporation tax overprovided	(9,239)	(56,694)
Deferred tax	10,899	(16,172)
	<u>1,660</u>	<u>(72,866)</u>
	<u>£(113,580)</u>	<u>£81,794</u>

The corporation tax charge for the year is based on 10% of expenses of Shearson Lehman Brothers Limited. There is no liability to United Kingdom Corporation tax for the year to 31 December 1986 due to the surrender of Group relief without charge sufficient to cover the taxable profit.

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

Tangible fixed assets

9	Leasehold improvements (note (a)) £	Furniture fittings & equipment £	Telecommunications equipment £	Motor vehicles £	Total £
Cost					
At 1 January 1986	985,875	976,089	225,802	721,924	2,909,690
Expenditure	27,786,346	230,904	1,124,497	586,560	29,728,307
Disposals	-	-	-	(100,587)	(100,587)
At 31 December 1986	28,772,221	1,206,993	1,350,299	1,207,897	32,537,410
Depreciation					
At 1 January 1986	204,813	191,325	91,126	365,612	852,876
Charge for the year	138,617	113,123	95,065	291,950	638,755
Disposals	-	-	-	(91,216)	(91,216)
At 31 December 1986	343,430	304,448	186,191	566,346	1,400,415
Net book value at 31 December 1986	£28,428,791	£902,545	£1,164,108	£641,551	£31,136,995
Net book value at 31 December 1985	£78,062	£784,764	£134,676	£356,312	£2,056,814

(a) As explained in note 14 below, the company has received a long term loan from a fellow subsidiary to fund the purchase of tangible fixed assets. The cost of leasehold improvements includes interest payable by the company of £748,785 (1985 £Nil) which is attributable to this loan.

Fixed asset investments

10	1986 £	1985 £
Investments in subsidiary at cost	1,056,304	1,376,914
less amounts written off (note 11)	64,726	64,726
Memberships of exchanges at cost	358	358
Investments other than loans	£1,121,388	£1,441,998

SHEARSON LEHMAN BROTHERS LIMITEDNotes to the financial statements - 31 December 1986 continuedInvestment in subsidiary

11 The company has a wholly owned subsidiary Shearson Lehman Metals Limited, a company incorporated in the United Kingdom. The subsidiary is a ring dealing member of the London Metal Exchange. Consolidated accounts have not been prepared this year as the company is now a wholly owned subsidiary of another United Kingdom company. Since incorporation the subsidiary has suffered losses.

The movements on the investment and the losses of the subsidiary company are set out below. The net assets of the subsidiary company equal its book value.

	<u>1986</u> £	<u>1985</u> £
Book value at 1 January 1986 (1985 Acquisition cost)	1,376,914	2,000,000
Loss for the year (1985 period)	(320,610)	(623,086)
Book value at 31 December 1986	<u>£1,056,304</u>	<u>£1,376,914</u>

The acquisition cost of the investment represents 2,000,000 ordinary shares of £1 each issued at par. In the opinion of the directors the value of the investment is not less than its book value.

Debtors

12 Debtors comprise:-

	<u>1986</u> £	<u>1985</u> £
Amounts due from group companies:		
Subsidiary	297,782	-
Fellow subsidiaries	10,709,261	1,021,866
Other debtors	2,114,134	-
Prepayments and accrued income	1,108,921	274,075
	<u>£14,230,098</u>	<u>£1,295,941</u>

All the above amounts are due within one year of the balance sheet date.

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

Creditors: amounts falling due within one year

13 Creditors comprise:-

	<u>1986</u> £	<u>1985</u> £
Bank loans and overdrafts (see (a) below)	1,833,088	223,796
Amounts due to group companies:		
Fellow subsidiaries	8,818,740	644,856
Other creditors including taxation and social security (see (b) below)	1,576,915	187,044
Accruals and deferred income	3,438,221	475,846
	<u>£15,666,964</u>	<u>£1,531,542</u>

(a) The bank loans and overdrafts are unsecured.

(b) 'Other creditors including taxation and social security' includes £Nil (1985 £187,044) in respect of corporation tax.

Creditors: amounts falling due after more than one year

14 The amount due represents long term finance received from a fellow subsidiary to fund the purchase of tangible fixed assets. It bears interest at average daily money market rates and is repayable at not less than 12 months notice.

Provisions for liabilities and charges

	<u>1986</u> £	<u>1985</u> £
Deferred tax	<u>£230,784</u>	<u>£335,125</u>

The balance comprises:-

	<u>1986</u>		<u>1985</u>
	Provision made £	Full potential liability £	Provision made £
Accelerated capital allowances	<u>£230,784</u>	<u>£230,784</u>	<u>£335,125</u>
			<u>£335,125</u>

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

Deferred tax has been provided at a rate of 35%. Movements on the provision for deferred taxation were:-

	<u>1986</u> £	<u>1985</u> £
At 1 January 1986	335,125	376,000
Adjustments in respect of prior period:		
Accelerated capital allowances	10,899	(147,172)
Losses carried forward	-	131,000
Movements in respect of current period:		
Accelerated capital allowances	(115,240)	(24,703)
At 31 December 1986	<u>£230,784</u>	<u>£335,125</u>

Called up share capital

	<u>1986</u>	<u>1985</u>
16		
Authorised, allotted, called up and fully paid:		
125,000 ordinary shares of £1 each	<u>£125,000</u>	<u>£125,000</u>

Capital reserve

17 The capital reserve of £2,000,000 represents a capital contribution permanently advanced by a fellow group company. The amount is not repayable and in the opinion of the directors does not constitute a distributable reserve.

Other reserves

18 Other reserves wholly comprises a capital reserve from capital profits less losses as explained in note 1(g).

SHEARSON LEHMAN BROTHERS LIMITED

Notes to the financial statements - 31 December 1986 continued

Commitments and contingent liabilities19(a) Capital expenditure

As at 31 December 1986, capital commitments were as follows:-

Authorised and contracted for: £20 million (1985: £Nil)

Authorised but not contracted for: £29 million (1985: £Nil)

(b) Lease commitments

As at 31 December 1986 the company had the following annual commitments under operating leases:-

	<u>Land and buildings</u>		<u>Other</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
	£	£	£	£
Operating leases which expire:-				
- within one year	480,000	-	9,000	8,400
- in the second to fifth years inclusive	800,000	600,000	777,000	93,000
- over five years	770,000	209,500	-	-
	<u>£2,050,000</u>	<u>£809,500</u>	<u>£786,000</u>	<u>£101,400</u>

(c) Contingent liabilities

In the opinion of the directors there are no contingent liabilities at 31 December 1986 which require disclosure in these accounts.

Ultimate Holding Company

20 The ultimate holding company of Shearson Lehman Brothers Limited is the American Express Company, which is incorporated in the State of Delaware in the United States of America.

Auditors' report page 3.