

LONDON METAL EXCHANGE

FINANCIAL STATEMENTS

31 DECEMBER 1998



THE LONDON METAL EXCHANGE LIMITED

A COMPANY LIMITED BY GUARANTEE

56 LEADENHALL STREET LONDON EC3A 2DX

REGISTERED IN ENGLAND No 212866



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DIRECTORS AND ADVISERS

| | | |
|------------------|---|-------------------------------|
| DIRECTORS | The Lord Bagri CBE | (Chairman) |
| | CJ Farrow * | (Vice Chairman) |
| | DE King | (Chief Executive) |
| | PCF Crowson * | |
| | KC Davies | |
| | VJ Davies | |
| | NK Dentoom | (Resigned 12 August 1998) |
| | The Rt. Hon. The Lord Fraser of Carmyllie QC * | |
| | KH Gaunt | (Appointed 8 July 1998) |
| | AW Gooch | (Appointed 30 September 1998) |
| | B Jones | |
| | Sir Timothy Lankester KCB * | |
| | MJG Linington | (Resigned 23 June 1998) |
| | AR Miele * | |
| | B Östgren | |
| | GJ Pizzey * | |
| | DE Ratcliffe | (Appointed 29 July 1998) |
| | RA Reinert | (Resigned 15 February 1999) |
| | PG Sellars | |
| | MA Slade | (Appointed 10 March 1999) |
| | GR Slater | (Resigned 6 May 1998) |
| | SB Underhill | |

* Invited (non-executive) director

AUDITORS PricewaterhouseCoopers, Chartered Accountants,
1 Embankment Place,
London WC2N 6NN

SOLICITORS Linklaters & Paines,
One Silk Street,
London EC2Y 8HQ

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

CHAIRMAN'S STATEMENT

1998 was a difficult year for the global metals trade and industry.

Since activity on the Exchange primarily reflects the business of its members and users, our volumes dropped by about 7½%. Notwithstanding this modest decline, 1998's volume of activity was the second highest in more than 100 years of the Exchange's existence. The number of lots traded has risen tenfold over the previous decade.

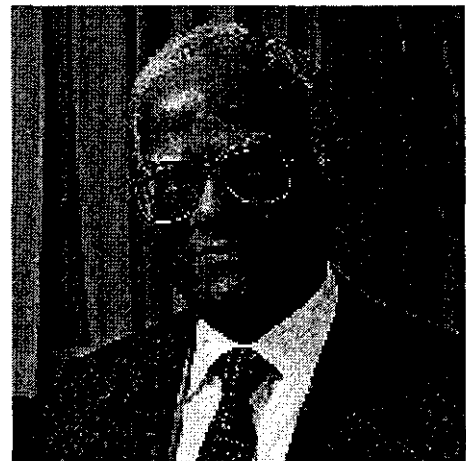
The London Metal Exchange remains the world's largest non-ferrous metals exchange. The constant challenge is for us to continue to provide the best available facilities in a cost-effective manner, and contracts that are relevant to the needs of our users.

REGULATION AND COMPLIANCE

A constantly changing market environment presents new challenges for regulators and exchanges. We have an obligation to ensure effective regulation while doing our best not to impose unreasonable burdens on business. In March 1998 the Exchange issued a landmark consultation document 'Solutions to Market Aberrations'.

The Exchange was helped by the very constructive response from members and market users. The result was the policy adopted by the board and set out in 'Market Aberrations: The Way Forward', issued in October 1998.

We believe strongly in a free market, but not in licence. The policy should be seen as a comprehensive approach to maintaining and reinforcing the integrity of our market. It gives considerable certainty and clarity on those actions that are, or are not, in conformity with the LME's rules on market abuse. The policy and guidance will be particularly helpful to members and market users when the proposed new legislation on financial services comes into effect and market abuse is extended to non-authorised as well as authorised persons. No artificial or automatic restrictions are imposed on the holding of either warrants or trading positions.



The Lord Bagri CBE

CHAIRMAN'S STATEMENT

The new guidelines emphasise clearly that we favour neither the 'shorts' nor the 'longs'. Contrary impressions from the past, no matter how ill founded, have arisen from heavy reliance on regulatory intervention through general limits on backwardations. The sanction of penal margining will in future be available to deal with those holding abusive short positions.

As part of the work on market aberrations the board emphasised its belief in the vital importance of market transparency. A number of steps in this direction have already been taken, and others will follow. The more information that is available regularly to the market, the more those involved can appreciate its underlying dynamics.

We propose to review the appropriateness and effectiveness of these measures in the light of experience.

NEW CONTRACTS

A modern exchange must constantly look at all parts of its operation to ensure that it is meeting the needs of practitioners and users.

I was delighted to announce at the 1998 annual LME dinner that we were developing two new contracts and that in-depth consultation would take place.

The new silver contract is scheduled for launch on 10 May 1999. We regard silver as an industrial metal and a natural candidate to join the existing LME contracts. We have listened very carefully to industry and other potential users in examining the contract, and have been much encouraged by their response. They value our transparency, regulation and compliance, and our network of global delivery points.

There are two other established contracts for silver, and we would not develop a look-alike contract simply for the sake of it. Our view is that we have developed a contract geared to an emerging and large sector of the market yet still capable of servicing the traditional market of bars. It has a tighter tolerance and uniquely provides for grains to be deliverable with delivery points to meet the needs of industry in North America, Europe, the Middle East and Far East. We look forward to it gaining ground in the months and years ahead.

CHAIRMAN'S STATEMENT

The index contract, LMEX, will be the first such contract developed for non-ferrous metals by an exchange. This development recognises the desire of the financial interests to participate in our market, and offers them a vehicle to do so. As can be expected, the board has been mindful throughout of the need to ensure that this contract does not adversely affect our underlying metal contracts. We remain committed to providing credible and reliable reference prices for the trade and industry. We shall closely monitor the progress of the new contract accordingly.

In developing the new contract we have been assisted by industry practitioners and academic researchers, among many others and have been encouraged by the response of our members and potential users. *We look forward with confidence to its launch in the third quarter of 1999.*

FUTURE CHALLENGES

The reconfiguration of the board has allowed its members to spend more time on strategic issues. During the course of the year we reviewed the rights and obligations of various categories of membership. In the event a wide consultation exercise helped the board reach the view that no fundamental reform was necessary. One consequence, however, was a decision to rebalance the fee structure of the Exchange to promote liquidity in the ring. The health of the ring is central to the board's deliberations. It is the jewel in the LME's crown in that it provides for a concentration of liquidity and unrivalled transparency, as well as being a very low cost and efficient method of trading.

We see no reason to replace the ring as the centre of our operation. That means that our discussions about new technology take place in the context of improving the overall efficiency of our way of trading rather than fundamental and radical reform. We are not, however, complacent and recognise that our market must evolve. We continue therefore to invest extensively in information technology in order to prepare the Exchange for the future.

This work will be carried forward during 1999.

CHAIRMAN'S STATEMENT

CONCLUSION

I, the board, and the executive, all recognise that our performance is measured day by day, and that our members and customers expect our performance to be sustained. We look forward to proving that we are well able to achieve that task.

CHIEF EXECUTIVE'S STATEMENT

The business environment in 1998 served to concentrate our minds even more than usual on the need to maintain our efficiency and low costs, and to progress a number of priority projects.

TECHNOLOGY

During the course of the year substantial progress was made in implementing our new electronic warrant depository system, SWORD. This joint venture between the LME and the London Clearing House will enable warrants to be issued with electronic data centrally stored for ease of transference of title. The project is on course for completion during the third quarter of 1999.

Work started on replacing the LME vendor feed system, through which the market is made aware of the mass of LME data, with an updated and improved market data system. The Exchange anticipates a smooth transfer from the old to the new system during the summer of 1999.

A significant amount of work was undertaken to avoid any possibility of computer failures associated with the year 2000. The Exchange has worked closely with its members, the London Clearing House, the regulatory authorities and others to test the effectiveness of its systems in being year 2000 compliant. In September the Exchange took part in a 'beta' test organised through the Futures and Options Association. This involved a number of London exchanges and member firms simulating trading in year 2000 to identify any system faults. The LME and its members emerged from this rigorous test with a clean bill of health. The work does not, however, come to a halt and the Exchange will continue to work with its members through 1999 and into 2000 to ensure that trading will be unimpeded by technology problems, so far as they are within the LME's control. The overall cost to the Exchange will be insignificant.



David E King

CHIEF EXECUTIVE'S STATEMENT

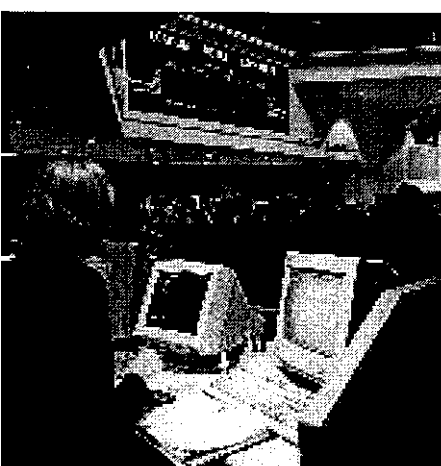
In my 1997 report I noted that the Exchange had retained a firm of consultants to examine other aspects of new technology. This work took place within the context of an exchange which is already highly efficient and which regards the ring as the centre of our operations. During the course of the year and going in to 1999, PricewaterhouseCoopers helped identify five projects which are being taken forward. These are:

- a review of how technological advances should be utilised to reduce costs and improve the efficiency of ring trading; greater use of technology to reduce the Exchange's administrative and operational costs and to improve efficiency;
- a review of the LME's network infrastructure to ensure continued secure and efficient communications and data transmission;
- a review of LME's trade matching system requirements; and,
- for use at times other than during ring trading sessions, the development of an out of hours automated trading system, after full and appropriate consultation

These projects are all highly complex and have involved considerable research and analysis. The need for this work is undeniable and the Exchange executive have a great deal of work to take forward during 1999 and into 2000. Successfully completing the projects is necessary to ensure that the LME retains and builds upon its present competitive advantage.

THE EURO

The euro came into being on 1 January 1999. During the course of 1998 the Exchange worked diligently to ensure that its members and customers would be able to clear their business in euros, should they so wish. The Exchange remains, of course, US dollar denominated.



CHIEF EXECUTIVE'S STATEMENT

CONTRACT SPECIFICATIONS AND BRANDS

The LME's metals committees and members of the executive constantly keep contract specifications and brands under review.

In November the board agreed to a recommendation from the nickel committee that, with effect from 4 January 2000, full plate nickel cathodes should be deliverable against the LME primary nickel contract.

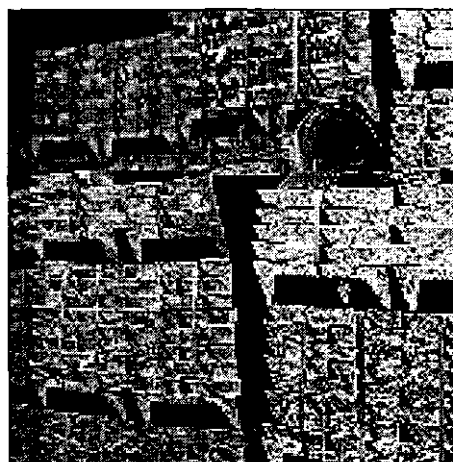
During 1998 the board also agreed that copper wirebars should no longer be accepted as deliverable under the LME copper contract.

WAREHOUSING

I have already referred to the SWORD project, one of the most far reaching changes in the world of warehousing for many years. A number of rules and essential contractual changes have been necessary to provide for SWORD.

Additionally, we have taken great care in choosing the company to operate the SWORD depository. In September we announced that The First Chicago Clearing Centre, a division of The First National Bank of Chicago, would be responsible. Its extensive experience in the provision of depository services makes it ideally suited to serving our market.

The institution of a policy of 'Chinese Walls' was completed in October following extensive consultation with the membership. This policy comprises a set of administrative procedures to manage potential conflicts of interest where an LME broker member might have a direct interest in a warehousing company.

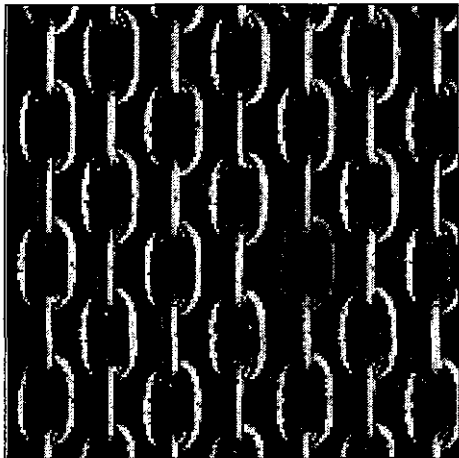


CHIEF EXECUTIVE'S STATEMENT

As always the LME's network of approved warehouses continues to develop and change in response to market needs. During the year New Orleans became a good delivery point for LME approved metals.

COMMUNICATIONS

The LME is often the focus of press comment and subject to questioning across the whole range of our activities. Within our marketing department significant efforts have been made to develop the media's understanding of the Exchange. As the Exchange has been more extensively resourced, more formal and regular communications routes have been established which have been to the benefit of both the Exchange and the media.



The education efforts of the department also continue unabated, with demand for its seminars still running strongly. These seminars cover the essential background to the LME and address the basic principles of risk management and the way in which LME futures and options contracts can help negate risk. In 1998 the Exchange conducted ten two-day seminars, two of which were in North America, and two one-day seminars. The Exchange continues to be supported at these seminars by representatives of member firms who bring practitioner expertise to new entrants to the industry. We are extremely grateful to them.

I remarked last year that The Ringsider had been fundamentally redesigned and that three editions in the new format were planned for 1998. The magazine, which is distributed to over 100 countries around the world, has gone from strength to strength, and it is firmly established as an industry journal.

The LME is also in the process of producing its own educational book on using LME contracts to help in the risk management of metals. Much of the preparation was undertaken in 1998, including the recruitment of an academic from the Open University to act as general editor. The book should be published in 1999.

CHIEF EXECUTIVE'S STATEMENT

NEW CONTRACTS

The chairman's statement records the decisions taken in 1998 to launch a new silver contract and also a new index contract, LMEX.

The processes involved have required much dedicated work behind the scenes by board directors, executive staff, practitioners from member firms and others. I should like to thank them for their contribution.

THE FUTURE

This report shows the level and complexity of work that the Exchange has undertaken in 1998. The prospects for 1999 look equally challenging. The Exchange will sustain the drive to ensure that it remains as efficient and cost effective as possible.

As would be expected, the key tasks for the executive represent a continuum of some of 1998's work. Clearly the successful implementation of both the new contracts will be paramount.

Warehousing will feature significantly during 1999 as we issue a consultation document on changes to the LME's warehouse contract in April with the aim of completing the process in September.

We remain vigilant to every aspect of the potential for disruption from the year 2000 computer problem that will run for many weeks around the turn of the millennium. And of course the theme of technology runs through significant tranches of all of our work, as our Exchange seeks to move from strength to strength in the new millennium.



DIRECTORS' REPORT

The directors submit their annual report to the members together with the audited financial statements for the year ended 31 December 1998.

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 Schedule IV to the Financial Services Act 1986 in business conducted on the Exchange.

RESULTS

The profit for the year ended 31 December 1998 before taxation was £1,488,067 (1997: £2,494,544) and after accounting for taxation was £781,691 (1997: £1,425,451).

The directors do not recommend the payment of a dividend (1997: £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 5.

The members of the board retiring by rotation in accordance with the Articles of Association are Messrs P.G. Sellars and B. Jones.

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 Note 7 to the accounts.

CHARITABLE DONATIONS

The company made charitable donations during the year totalling £9,540 (1997: £8,368).

FUTURE DEVELOPMENTS

Future developments are outlined in the chairman's statement and the chief executive's statement.

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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

Following the merger of Price Waterhouse with Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned as auditors in favour of the new merged firm PricewaterhouseCoopers, the latter have expressed their willingness to continue in office and a resolution proposing their re-appointment will be presented at the Annual General Meeting.

By order of the board.



P. Needham
Secretary

17 May 1999

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The board of directors have reviewed the company's compliance with the Combined Code published in June 1998. Although The London Metal Exchange Limited is not required to comply with the Code, it wishes to demonstrate high standards of corporate governance through voluntary compliance and disclosure. The board believes that The London Metal Exchange Limited complies with the Code, in so far as it is relevant to its constitution and structure.

The Code is principally aimed at companies listed on the London Stock Exchange and, therefore, not all of its provisions are directly applicable to the constitution and structure of The London Metal Exchange Limited. In the context of the Code, the principal differences between The London Metal Exchange Limited and listed companies relate to the composition of the board and the absence of shareholders.

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. In practice the chief executive is the only member of the board who is a member of the management of the Exchange, eleven directors are elected by the members of the Exchange and the remaining six invited directors are appointed by the board.

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 and vice 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 5 to the accounts.

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 audit committee comprises four directors, two of whom are invited directors. The non-executive chairman of the board attends meetings of this committee in his capacity as ex-officio member of all LME committees. The chief executive also attends these meetings by invitation. The chairman of the audit committee is one of the two invited directors. 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.

The audit committee has reviewed the operation and effectiveness of this framework, which operated during the period covered by the directors' report and financial statements.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation 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 accounts.

AUDITORS' REPORT TO THE MEMBERS OF THE LONDON METAL EXCHANGE LIMITED

We have audited the financial statements on pages 20 to 30 which have been prepared under the historical cost convention, and the accounting policies set out on page 23.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 16, the directors are responsible for preparing the financial statements. Our responsibilities, as independent auditors, are as established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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.

BASIS OF 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 affairs of the company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
London

PRICEWATERHOUSECOOPERS 

17 May 1999

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998**

| | 1998 £ | 1997 £ |
|--|-------------------------|-------------------------|
| INCOME (Notes 1(b),2) | 12,311,523 | 12,063,253 |
| Administrative expenses (Note 3) | <u>(11,417,048)</u> | <u>(10,006,574)</u> |
| OPERATING PROFIT | 894,475 | 2,056,679 |
| Interest receivable | 594,421 | 438,781 |
| Interest payable | <u>(829)</u> | <u>(916)</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 1,488,067 | 2,494,544 |
| Tax on profit on ordinary activities (Note 6) | <u>(706,376)</u> | <u>(1,069,093)</u> |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | 781,691 | 1,425,451 |
| Retained profit brought forward | <u>7,876,042</u> | <u>6,450,591</u> |
| RETAINED PROFIT CARRIED FORWARD | <u><u>8,657,733</u></u> | <u><u>7,876,042</u></u> |

The company 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.

The notes on pages 23 to 30 form part of these accounts.

BALANCE SHEET AT 31 DECEMBER 1998

| | 1998 £ | 1997 £ |
|--|--------------------|--------------------|
| FIXED ASSETS | | |
| Tangible assets (Note 7) | 2,631,508 | 2,923,802 |
| Investments (Note 8) | 2,725,000 | 2,725,000 |
| CURRENT ASSETS | | |
| Debtors (Note 9) | 2,004,882 | 1,938,715 |
| Cash at bank and in hand | <u>7,349,148</u> | <u>7,159,186</u> |
| | 9,354,030 | 9,097,901 |
| CREDITORS - | | |
| Amounts falling due within one year (Note 10) | <u>(5,790,335)</u> | <u>(6,555,697)</u> |
| NET CURRENT ASSETS | <u>3,563,695</u> | <u>2,542,204</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 8,920,203 | 8,191,006 |
| CREDITORS - | | |
| Amounts falling due after one year (Note 11) | <u>(262,470)</u> | <u>(314,964)</u> |
| TOTAL NET ASSETS | <u>8,657,733</u> | <u>7,876,042</u> |
| RESERVES | | |
| Profit and loss account | <u>8,657,733</u> | <u>7,876,042</u> |

These accounts were approved by the board of directors on 17 May 1999.

The Lord Bagri CBE }
C J Farrow } Directors



The notes on pages 23 to 30 form part of these accounts.

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1998

| | 1998 | 1997 |
|--|-----------------------|-------------------------|
| | £ | £ |
| NET CASH INFLOW | | |
| FROM OPERATING ACTIVITIES (Note 14a) | 1,096,259 | 4,753,339 |
| RETURNS ON INVESTMENT AND | | |
| SERVICING OF FINANCE | | |
| Interest received | 581,873 | 428,750 |
| Interest paid | (829) | (916) |
| TAXATION | | |
| Corporation tax paid | (1,092,819) | (320,217) |
| CAPITAL EXPENDITURE | | |
| Purchase of tangible fixed assets | (395,585) | (564,890) |
| Receipts from sales of tangible fixed assets | <u>1,063</u> | <u>170</u> |
| INCREASE IN CASH (Note 14b) | <u><u>189,962</u></u> | <u><u>4,296,236</u></u> |

The notes on page 23 to 30 form part of these accounts.

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1998

1 PRINCIPAL ACCOUNTING POLICIES

(a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Income

Income represents fees, subscriptions and sundry receipts which have been shown in the profit and loss account exclusive of value added tax.

(c) Depreciation

Depreciation of tangible fixed assets is calculated to write off the cost of each asset over the term of its estimated useful life at the following annual straight line rates:

| | | |
|---|---|--|
| Short leaseholds and leasehold improvements | - | over ten years |
| Furniture, fixtures and equipment | - | 20% on assets acquired prior to 31 October 1994 |
| | - | 33 $\frac{1}{3}$ % on assets acquired on or after 31 October 1994 |
| Vendor feed equipment | - | over the term of the hire purchase agreement. This equipment was fully written down by 31 December 1991. |

(d) Deferred taxation

Provision is made for deferred taxation at the statutory tax rate in respect of timing differences which are expected to reverse within the foreseeable future.

(e) 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 the same annual lease cost will be charged to the profit and loss account in the first ten years of the lease.

(f) 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.

(g) 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.

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1998

2 INCOME

Income comprises the following items:

| | 1998 | 1997 |
|-------------------------------------|-------------------|-------------------|
| | £ | £ |
| Contract levy | 8,538,593 | 8,932,910 |
| Joining fees and subscriptions | 1,559,858 | 1,509,585 |
| Listing fees | 303,250 | 235,650 |
| Registration fees and exchange fees | | |
| receivable re vendor feed service | 1,225,915 | 874,909 |
| Warehouse stock levy | 276,203 | 293,969 |
| Other receipts | 407,704 | 216,230 |
| | <u>12,311,523</u> | <u>12,063,253</u> |

Contract levy is shown after deducting a rebate for the year of £1,000,000 (1997 : £1,000,000).

Registration and exchange fees receivable in respect of the vendor feed system are shown after deduction of £1,410,819 in respect of the allocation of the vendor feed surplus to contributing members (1997 : £1,589,630).

Other receipts include income from the LME dinner of £151,790 (1997 : £147,784).

3 ADMINISTRATIVE EXPENSES

Operating profit is stated after charging administrative expenses as follows:

| | 1998 | 1997 |
|--|-------------------|-------------------|
| | £ | £ |
| Accommodation - including operating lease charge of £331,580 | | |
| (1997: £331,580) | 2,389,378 | 2,186,359 |
| Staff costs (Note 4) | 3,765,188 | 2,470,646 |
| Travel and entertaining | 306,426 | 247,790 |
| FSA levy | 382,250 | 421,750 |
| Legal and professional | 1,636,494 | 2,202,659 |
| Publicity | 406,855 | 431,627 |
| Cost of LME dinner | 148,992 | 149,633 |
| Depreciation (Note 7) | 687,821 | 1,106,728 |
| (Profit) on disposal of fixed assets | (1,004) | (170) |
| Auditors' remuneration - audit fee | 21,850 | 17,350 |
| - non audit fees | 558,821 | 172,624 |
| Software consultancy and development costs | 738,265 | 298,114 |
| Other expenses - including operating lease charge of £nil | | |
| (1997: £5,313) | <u>375,712</u> | <u>301,464</u> |
| | <u>11,417,048</u> | <u>10,006,574</u> |

The LME dinner is run on the basis that it is substantially self-financing. In the year to 31 December 1998, income exceeded costs (as disclosed in note 2 above) by £2,798 (1997: costs exceeded income by £1,849).

NOTES TO THE ACCOUNTS AT 31 DECEMBER 1998

4 STAFF NUMBERS AND COSTS

The average number of persons employed by the company during the year, largely in administration, was 64 (1997: 45).

The aggregate payroll cost of these persons was as follows:

| | 1998 | 1997 |
|-----------------------|-------------------------|-------------------------|
| | £ | £ |
| Wages and salaries | 3,138,172 | 2,102,548 |
| Social security costs | 290,548 | 176,226 |
| Other pension costs | <u>336,468</u> | <u>191,872</u> |
| | <u><u>3,765,188</u></u> | <u><u>2,470,646</u></u> |

5 DIRECTORS' EMOLUMENTS

Directors' emoluments for 1998 included in staff costs are as follows :

| | 1998 | 1997 |
|---|-----------------------|-----------------------|
| | £ | £ |
| Aggregate emoluments | 407,822 | 339,676 |
| Company contributions paid to money purchase pension scheme | <u>34,729</u> | <u>24,360</u> |
| | <u><u>442,551</u></u> | <u><u>364,036</u></u> |

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

Remuneration of highest paid director

| | 1998 | 1997 |
|---|---------|---------|
| | £ | £ |
| Aggregate emoluments | 255,322 | 239,331 |
| Company contributions paid to money purchase pension scheme | 34,729 | 24,360 |

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1998

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

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

| | 1998 £ | 1997 £ |
|---------------------------------------|----------------|------------------|
| UK corporation tax at 31% (1997: 33%) | 702,729 | 1,091,072 |
| Deferred taxation | - | (23,148) |
| Prior year under provision | 3,647 | 1,169 |
| | <u>706,376</u> | <u>1,069,093</u> |

7 TANGIBLE FIXED ASSETS

| | Short leaseholds and leasehold improvements £ | Equipment £ | Furniture, fixtures and fittings £ | Total £ |
|------------------------|---|------------------|---|------------------|
| Cost | | | | |
| At 1 January 1998 | 3,616,786 | 2,297,665 | 642,511 | 6,556,962 |
| Additions | - | 262,722 | 132,864 | 395,586 |
| Disposals | - | (65,892) | (1,300) | (67,192) |
| At 31 December 1998 | <u>3,616,786</u> | <u>2,494,495</u> | <u>774,075</u> | <u>6,885,356</u> |
| Depreciation | | | | |
| At 1 January 1998 | 1,130,040 | 1,995,112 | 508,008 | 3,633,160 |
| Charge for year | 364,399 | 227,954 | 95,468 | 687,821 |
| Eliminated on disposal | - | (65,833) | (1,300) | (67,133) |
| At 31 December 1998 | <u>1,494,439</u> | <u>2,157,233</u> | <u>602,176</u> | <u>4,253,848</u> |
| Net book amount | | | | |
| At 31 December 1998 | <u>2,122,347</u> | <u>337,262</u> | <u>171,899</u> | <u>2,631,508</u> |
| At 31 December 1997 | <u>2,486,746</u> | <u>302,553</u> | <u>134,503</u> | <u>2,923,802</u> |

Equipment includes items acquired under a finance lease at a cost of £292,593 (1997 : £292,593).
This equipment was fully written down as at 31 December 1991.

NOTES TO THE ACCOUNTS AT 31 DECEMBER 1998

8 FIXED ASSET INVESTMENT

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 its 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.

| 9 DEBTORS | 1998 | 1997 |
|--------------------------------|------------------|------------------|
| | £ | £ |
| Contract levy receivable | 840,442 | 805,028 |
| Other debtors | 455,971 | 320,678 |
| Prepayments and accrued income | 708,469 | 813,009 |
| | <u>2,004,882</u> | <u>1,938,715</u> |

10 CREDITORS-AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1998 | 1997 |
|------------------------------|------------------|------------------|
| | £ | £ |
| Other creditors | 2,321,832 | 1,811,033 |
| Taxation and social security | 211,734 | 192,782 |
| Accruals | 2,463,482 | 2,600,028 |
| Bank overdraft | - | 770,187 |
| Corporation tax | 740,793 | 1,129,173 |
| Deferred income | 52,494 | 52,494 |
| | <u>5,790,335</u> | <u>6,555,697</u> |

11 CREDITORS-AMOUNTS FALLING DUE AFTER ONE YEAR

| | 1998 | 1997 |
|-----------------|----------------|----------------|
| | £ | £ |
| Deferred income | <u>262,470</u> | <u>314,964</u> |

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1998

12 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:

| | 1998 | 1997 |
|--------------------------------|---------|---------|
| | £ | £ |
| Operating leases which expire: | | |
| - within one year | - | - |
| - within two to five years | 507,531 | 507,531 |

13 DEFERRED TAXATION

No recognition has been made in the financial statements of a deferred tax asset calculated at 31% as follows:

| | 1998 | 1997 |
|--------------------------------|----------------|----------------|
| | £ | £ |
| Interest receivable | - | - |
| Accelerated capital allowances | 333,837 | 169,586 |
| | <u>333,837</u> | <u>169,586</u> |

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1998

14 CASHFLOW

(a) Net cash inflow from operating activities

| | 1998 | 1997 |
|---|------------------|------------------|
| | £ | £ |
| Profit before interest and tax | 894,475 | 2,056,679 |
| Depreciation | 687,820 | 1,106,728 |
| (Profit) on sale of tangible fixed assets | (1,004) | (170) |
| (Increase) in debtors | (53,618) | (638,792) |
| (Decrease) / increase in creditors | (431,414) | 2,228,894 |
| | <u>1,096,259</u> | <u>4,753,339</u> |

(b) Reconciliation of net cashflow movement in net debt (note 14c)

| | 1998 | 1997 |
|-------------------------------|------------------|------------------|
| | £ | £ |
| Increase in cash in period | <u>189,962</u> | <u>4,296,236</u> |
| Change in net funds | 189,962 | 4,296,236 |
| Net funds at 1 January 1998 | <u>7,159,186</u> | <u>2,862,950</u> |
| Net funds at 31 December 1998 | <u>7,349,148</u> | <u>7,159,186</u> |

(c) Analysis of changes in net debt

| | At 1 January 1998 | Cash flows | At 31 December 1998 |
|--------------------------|----------------------|----------------|------------------------|
| | £ | £ | £ |
| Cash at bank and in hand | 7,159,186 | 189,962 | 7,349,148 |
| Overdrafts | <u>(770,187)</u> | <u>770,187</u> | <u>-</u> |
| Total | <u>6,388,999</u> | <u>960,149</u> | <u>7,349,148</u> |

15 CAPITAL COMMITMENTS

At 31 December 1998, the company had capital commitments outstanding as follows:

| | 1998 | 1997 |
|-------------------------------|------|---------|
| | £ | £ |
| Authorised but not contracted | - | 508,000 |
| Authorised and contracted | - | - |

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 1998

16 CONTINGENT LIABILITIES

The company has provided a rental guarantee up to a maximum of £nil (1997: £620,000) to the lessor of 56 Leadenhall Street.

17 MEMBERS

At 31 December 1998 the number of members of the company by category was as follows:

| Category | Number of members at 31 December | |
|-------------------------------|----------------------------------|------|
| | 1998 | 1997 |
| i. Ring dealing | 14 | 15 |
| ii. Associate broker clearing | 27 | 25 |
| iii. Associate trade clearing | 4 | 4 |
| iv. Associate broker | 6 | 7 |
| v. Associate trade | 51 | 52 |
| vi. Individual | 19 | 19 |

The extent of the guarantee by each member amounts to £100.

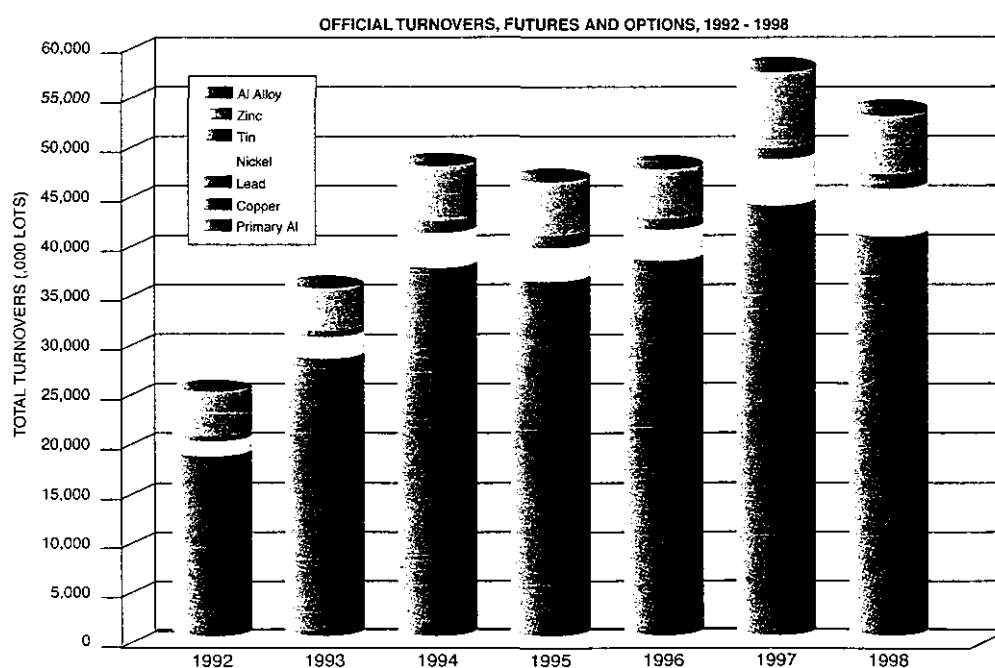
LONDON METAL EXCHANGE

OFFICIAL TURNOVER, FUTURES AND OPTIONS, 1992 - 1998

| | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> | <u>1998</u> |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Primary Aluminium | 9,257 | 10,984 | 15,836 | 15,302 | 15,583 | 24,192 | 21,117 |
| Copper | 7,945 | 16,012 | 19,392 | 19,743 | 20,108 | 16,906 | 16,767 |
| Lead | 986 | 1,038 | 1,988 | 1,781 | 2,234 | 2,387 | 2,458 |
| Nickel | 1,485 | 2,189 | 3,547 | 3,403 | 3,159 | 4,689 | 4,796 |
| Tin | 534 | 625 | 1,219 | 1,291 | 1,131 | 1,133 | 1,490 |
| Zinc | 4,528 | 4,331 | 5,557 | 5,419 | 4,979 | 7,676 | 5,947 |
| <u>Aluminium Alloy</u> | <u>7</u> | <u>111</u> | <u>149</u> | <u>211</u> | <u>293</u> | <u>390</u> | <u>500</u> |
| <u>GRAND TOTAL</u> | <u>24,742</u> | <u>35,290</u> | <u>47,688</u> | <u>47,150</u> | <u>47,487</u> | <u>57,373</u> | <u>53,075</u> |

All figures above are in 000s of lots. Aluminium alloy lots are of 20 tonnes, nickel lots of 6 tonnes and tin lots of 5 tonnes. For all other metals, lots are of 25 tonnes.

Aluminium alloy commenced trading 3-months on 6 October 1992, with cash trading commencing on 4 January 1993.



LONDON METAL EXCHANGE

AVERAGE OFFICIAL LME PRICES FOR THE YEAR 1998 IN US DOLLARS PER TONNE

| | Primary Aluminium | Aluminium Alloy | Copper Grade A | Standard Lead | Primary Nickel | Tin | Special High Grade Zinc |
|--------------------------|----------------------|--------------------|-------------------|------------------|-------------------|----------|----------------------------|
| Cash buyer | 1,355.52 | 1,200.82 | 1,652.07 | 527.62 | 4,610.95 | 5,533.35 | 1,022.49 |
| Cash seller & settlement | 1,356.24 | 1,204.03 | 1,652.88 | 528.42 | 4,617.16 | 5,540.60 | 1,023.26 |
| Cash mean | 1,355.88 | 1,202.42 | 1,652.48 | 528.02 | 4,614.06 | 5,536.97 | 1,022.87 |
| 3-months buyer | 1,378.29 | 1,218.99 | 1,673.20 | 532.90 | 4,688.65 | 5,479.84 | 1,045.41 |
| 3-months seller | 1,378.95 | 1,221.46 | 1,674.11 | 533.68 | 4,694.48 | 5,486.11 | 1,046.16 |
| 3-months mean | 1,378.62 | 1,220.23 | 1,673.65 | 533.29 | 4,691.57 | 5,482.98 | 1,045.78 |
| 15-months buyer | 1,447.33 | 1,287.24 | 1,709.05 | 548.34 | 4,902.68 | 5,439.96 | 1,098.09 |
| 15-months seller | 1,452.33 | 1,307.24 | 1,719.05 | 553.34 | 4,922.68 | 5,449.96 | 1,103.09 |
| 15-months mean | 1,449.83 | 1,297.24 | 1,714.05 | 550.84 | 4,912.68 | 5,444.96 | 1,100.59 |
| 27-months buyer | 1,490.38 | | 1,736.19 | | 5,053.23 | | 1,129.64 |
| 27-months seller | 1,495.38 | | 1,746.19 | | 5,073.23 | | 1,134.64 |
| 27-months mean | 1,492.88 | | 1,741.19 | | 5,063.23 | | 1,132.14 |

The following sterling equivalents have been calculated, on the basis of daily calculations

| | |
|---------------------------------|-----------|
| Copper Cash seller & settlement | £997.75 |
| Copper 3-month seller | £1,014.90 |
| Lead Cash seller & settlement | £319.00 |
| Lead 3-month seller | £323.57 |

LONDON METAL EXCHANGE

HIGHEST OFFICIAL AND SETTLEMENT PRICES FOR THE YEAR 1998 IN US DOLLARS PER TONNE

| | Primary Aluminium | Aluminium Alloy | Copper Grade A | Standard Lead | Primary Nickel | Tin | Special High Grade Zinc |
|--------------------------|-------------------------|--------------------|--------------------|------------------|-------------------|--------------------|----------------------------|
| Cash buyer | 1,518.00 26/28 Jan | 1,365.50 5 Jan | 1,879.00 22 Apr | 614.00 6 Apr | 5,970.00 5 Jan | 6,250.00 12 Jun | 1,142.00 26 Jan |
| Cash seller & settlement | 1,518.50 26 / 28 Jan | 1,366.00 5 Jan | 1,880.00 22 Apr | 615.00 6 Apr | 5,975.00 5 Jan | 6,260.00 12 Jun | 1,143.00 26 Jan |
| Cash mean | 1,518.25 26 / 28 Jan | 1,365.75 5 Jan | 1,879.50 22 Apr | 614.50 6 Apr | 5,972.50 5 Jan | 6,255.00 12 Jun | 1,142.50 26 Jan |
| 3-months buyer | 1,538.00 28 Jan | 1,385.00 5 Jan | 1,889.00 22 Apr | 598.00 6 Apr | 6,065.00 5 Jan | 6,145.00 12 Jun | 1,166.00 23 Jan |
| 3-months seller | 1,539.00 28 Jan | 1,390.00 5 Jan | 1,890.00 22 Apr | 599.00 6 Apr | 6,070.00 5 Jan | 6,150.00 12 Jun | 1,167.00 23 Jan |
| 3-months mean | 1,538.50 28 Jan | 1,387.50 5 Jan | 1,889.50 22 Apr | 598.50 6 Apr | 6,067.50 5 Jan | 6,147.50 12 Jun | 1,166.50 23 Jan |
| 15-months buyer | 1,575.00 5 Jan | 1,460.00 5 Jan | 1,855.00 13 Mar | 598.00 9 Jan | 6,280.00 5 Jan | 5,945.00 12 Jun | 1,195.00 23 Jan |
| 15-months seller | 1,580.00 5 Jan | 1,480.00 5 Jan | 1,865.00 13 Mar | 603.00 9 Jan | 6,300.00 5 Jan | 5,955.00 12 Jun | 1,200.00 23 Jan |
| 15-months mean | 1,577.50 5 Jan | 1,470.00 5 Jan | 1,860.00 13 Mar | 600.50 9 Jan | 6,290.00 5 Jan | 5,950.00 12 Jun | 1,197.50 23 Jan |
| 27-months buyer | 1,592.00 23 Jan | | 1,880.00 13 Mar | | 6,365.00 5 Jan | | 1,222.00 14 Jan |
| 27-months seller | 1,597.00 23 Jan | | 1,890.00 13 Mar | | 6,385.00 5 Jan | | 1,227.00 14 Jan |
| 27-months mean | 1,594.50 23 Jan | | 1,885.00 13 Mar | | 6,375.00 5 Jan | | 1,224.50 14 Jan |

LONDON METAL EXCHANGE

LOWEST OFFICIAL AND SETTLEMENT PRICES FOR THE YEAR 1998 IN US DOLLARS PER TONNE

| | Primary Aluminium | Aluminium Alloy | Copper Grade A | Standard Lead | Primary Nickel | Tin | Special High Grade Zinc |
|--------------------------|----------------------|--------------------------|-----------------------|------------------------|--------------------|-----------------------|----------------------------|
| Cash buyer | 1,215.00 15 Dec | 1,023.00 23 Dec | 1,437.00 24 Dec | 477.00 28 Oct/3 Nov | 3,720.00 15 Dec | 5,085.00 19 Jan | 915.00 31 Dec |
| Cash seller & settlement | 1,216.00 15 Dec | 1,026.00 23 Dec | 1,438.00 24 Dec | 477.50 3 Nov | 3,725.00 15 Dec | 5,090.00 19 Jan | 916.00 31 Dec |
| Cash mean | 1,215.50 15 Dec | 1,024.50 23 Dec | 1,437.50 24 Dec | 477.25 3 Nov | 3,722.50 15 Dec | 5,087.50 19 Jan | 915.50 31 Dec |
| 3-months buyer | 1,238.00 15 Dec | 1,055.00 23 Dec | 1,468.00 14 Dec | 467.00 21 Dec | 3,800.00 15 Dec | 5,115.00 15 Jan | 933.00 31 Dec |
| 3-months seller | 1,238.50 15 Dec | 1,056.00 23 Dec | 1,469.00 14 Dec | 468.00 21 Dec | 3,805.00 15 Dec | 5,120.00 15 Jan | 934.00 31 Dec |
| 3-months mean | 1,238.25 15 Dec | 1,055.50 23 Dec | 1,468.50 14 Dec | 467.50 21 Dec | 3,802.50 15 Dec | 5,117.50 15 Jan | 933.50 31 Dec |
| 15-months buyer | 1,323.00 15 Dec | 1,130.00 23/24/31 Dec | 1,545.00 14/15 Dec | 497.00 21 Dec | 4,025.00 15 Dec | 5,085.00 22/23 Dec | 990.00 31 Dec |
| 15-months seller | 1,328.00 15 Dec | 1,150.00 23/24/31 Dec | 1,555.00 14/15 Dec | 502.00 21/24 Dec | 4,045.00 15 Dec | 5,095.00 22/23 Dec | 995.00 31 Dec |
| 15 month mean | 1,325.50 15 Dec | 1,140.00 23/24/31 Dec | 1,550.00 14/15 Dec | 499.50 21/24 Dec | 4,035.00 15 Dec | 5,090.00 22/23 Dec | 992.50 31 Dec |
| 27-months buyer | 1,392.00 22 Dec | | 1,580.00 14 Dec | | 4,230.00 15 Dec | | 1,035.00 31 Dec |
| 27-months seller | 1,397.00 22 Dec | | 1,590.00 14 Dec | | 4,250.00 15 Dec | | 1,040.00 31 Dec |
| 27-months mean | 1,394.50 22 Dec | | 1,585.00 14 Dec | | 4,240.00 15 Dec | | 1,037.50 31 Dec |

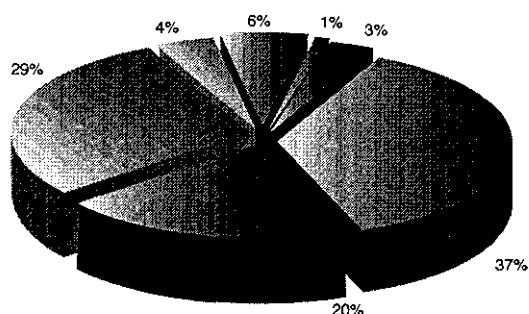
LONDON METAL EXCHANGE

WAREHOUSE STOCK MOVEMENT, IN TONNES, FOR THE YEAR 1998

| | Primary Aluminium | Copper Grade A | Special High Grade Zinc |
|------------------|----------------------|-------------------|----------------------------|
| 5 January 1998 | 622,025 | 337,550 | 491,575 |
| In | 481,250 | 609,275 | 187,150 |
| Out | 467,750 | 354,400 | 361,675 |
| 31 December 1998 | 635,525 | 592,425 | 317,050 |

| | Primary Nickel | Standard Lead | Tin | Aluminium Alloy |
|------------------|-------------------|------------------|--------|--------------------|
| 5 January 1998 | 66,522 | 111,300 | 13,040 | 42,640 |
| In | 54,048 | 71,575 | 22,945 | 77,120 |
| Out | 54,606 | 74,525 | 27,805 | 23,740 |
| 31 December 1998 | 65,964 | 108,350 | 8,180 | 96,020 |

1998 total opening stocks
for all metals 1,684,652 tonnes



1998 total closing stocks
for all metals 1,823,514 tonnes

