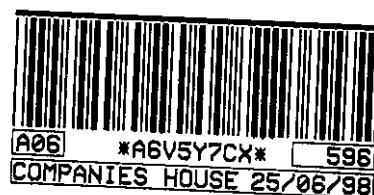


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LONDON METAL EXCHANGE
FINANCIAL STATEMENTS

31ST DECEMBER 1997



THE LONDON METAL EXCHANGE LIMITED
A COMPANY LIMITED BY GUARANTEE

56 LEADENHALL STREET LONDON EC3A 2BJ

REGISTERED IN ENGLAND NO 2128666

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31ST DECEMBER 1997

DIRECTORS AND ADVISERS

DIRECTORS	The Lord Bagri CBE	<i>(Chairman)</i>
	CJ Farrow	<i>(Appointed Vice Chairman effective 9th July 1997)</i>
	R Kestenbaum	<i>(Vice Chairman - retired by rotation 11th June 1997)</i>
	DE King	<i>(Chief Executive)</i>
	GD Cohn	<i>(Resigned 11th June 1997)</i>
	PCF Crowson	
	KC Davies	
	VJ Davies	<i>(Appointed 11th June 1997)</i>
	NK Dentoom	
	The Rt. Hon. The Lord Fraser of Carmyllie QC	<i>(Appointed 19th September 1997)</i>
	D Jackman	<i>(Retired by rotation 11th June 1997)</i>
	B Jones	
	Sir Timothy Lankester KCB	<i>(Appointed 1st November 1997)</i>
	MJG Linington	
	AR Miele	<i>(Appointed 9th April 1997)</i>
	D Normark	<i>(Resigned 11th June 1997)</i>
	B Östgren	
	GJ Pizzey	<i>(Appointed 16th September 1997)</i>
	RA Reinert	<i>(Appointed 7th February 1997)</i>
	JC Richards	<i>(Resigned 17th March 1997)</i>
	PG Sellars	<i>(Appointed 11th June 1997)</i>
	GR Slater	<i>(Resigned 6th May 1998)</i>
	SB Underhill	<i>(Appointed 11th June 1997)</i>

AUDITORS Price Waterhouse
Chartered Accountants
Southwark Towers
32 London Bridge Street
London SE1 9SY

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

Another year of solid success is marked in this 1997 Annual Report of the London Metal Exchange (LME). It was a year in which an increase in turnover of 21 per cent was recorded, amounting to more than 57 million lots of non-ferrous metal traded and making this Exchange the unrivalled world leader in its field.

It was also a year which saw an immense amount of highly focused work by the Board and the Executive in implementing a process of change.

The Board had determined that change was essential to ensure that the evolving requirements of LME users were met, and set the programme in hand. The strategy was to some extent reinforced as a result of the Financial Services Authority (FSA)* Review of the LME which was undertaken at the LME's request following the Sumitomo copper fraud.

The Review highlighted two important factors which formed the bedrock of our approach. First, Market users continued to be satisfied with our trading practices and sought no change. Second, the regulatory authorities did not identify any significant systemic risk from the way the Exchange operates.

IMPLEMENTING CHANGE

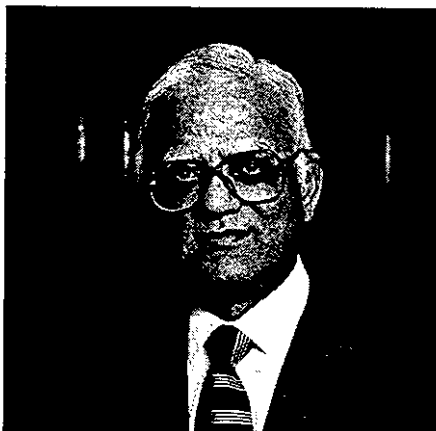
The Board established a clear mechanism to address three broad areas of activity, appointing a Board Member in each case to direct the process.

Governance issues were addressed by an Implementation Task Force under my chairmanship in order to reinforce the world leading position that the Exchange holds.

BOARD STRUCTURE

The Board structure was reconfigured providing for, among other things, two additional members wholly independent of the world of metals.

As a result of these changes the LME Board is better balanced in its composition. It has been broadened by the addition of Lord Fraser of Carmyllie QC, a former Advocate General for



The Lord Bagri CBE

* Formerly the Securities and Investment Board (SIB)

CHAIRMAN'S STATEMENT

Scotland, and Sir Timothy Lankester, formerly with the IMF, World Bank, HM Treasury and currently Director of the School of Oriental and African Studies. Other Board changes included the arrival of Mr Art Miele, President of Phelps Dodge Sales Company Inc, and Mr John Pizzey, Vice-President of Alcoa and President of Alcoa World Alumina.

Their experience has added significantly to the collective expertise available to help guide the LME as it moves into the 21st Century.

One of the main aspirations of the Board, consequent upon the Exchange having a better resourced Executive staff, has been to devote more of its attention to the broad strategic issues facing the Exchange.

COMMITTEES

As part of the process to assist the Board in its aspiration to delegate detailed work, our Committees have been reinforced. Their membership has become better balanced with client representation being strengthened. In many cases customers of the Market now comprise 50 per cent of the membership of the Committees. All appointments to Committees are now approved by the full Board. New terms of reference were set for each Committee, with the aim of increasing delegated authority.

The LME is grateful to all Committee members for the expertise they bring to help the smooth running of the Exchange, and for their personal commitment.

THE LME EXECUTIVE

The third strand of this infrastructural governance work concerned the Executive itself. The Exchange has always taken pride in running a lean organisation and is one of the most cost effective Exchanges in the world. Nonetheless, the very success of the Exchange with growth of more than 1000 per cent over the last 10 years has added to the workload.

Another proud claim of the Exchange is that of professionalism. With the intention of boosting further that reputation and coping with additional demands, the Board agreed to an increase in Executive resources.

CHAIRMAN'S STATEMENT

One of the most crucial appointments was that of Alan Whiting to become Executive Director: Regulation and Compliance. Mr Whiting was formerly a senior Treasury official, where he had responsibility for regulatory matters. He brings a wealth of experience to the Exchange.

Among Mr Whiting's tasks is that of providing a better resourced Regulation and Compliance Department at the Exchange during the course of 1998.

The Exchange has also taken the opportunity to create a new post, that of Director of Corporate Affairs. Recruited to this position in late 1997 was Jonathan Haslam CBE. Formerly the Chief Press Secretary to the then Prime Minister, John Major, and having been the Director of Communications at the Department for Education and Employment under the Labour Government elected in 1997, Mr Haslam's role is to develop and implement a strategic approach to all aspects of LME communications. In doing so he is placing a high premium on the importance of education about the nature of our Market.

The implementation of these and other changes - which are set out in detail in the Chief Executive's report - has been undertaken most professionally and diligently. I would like to thank my fellow Board Members and the Executive staff for their application to this work.

POLICY ISSUES

As demonstrated by the appointment of Mr Whiting, an additional emphasis on regulation and compliance has been central to our development of the Exchange. Work begun in 1997 led to the issue in March 1998 of a comprehensive consultation document 'Solutions to Market Aberrations'. The results of this process will become clear during the second half of 1998. It is an extremely complex issue. Bearing in mind the many different constituents with an interest in the LME it will be impossible to satisfy all aspirations. That will not deter us, however, from taking carefully considered action.

Like other Exchanges we need to keep abreast of information technology developments. There are two aspects to this. First, the Executive needs to be served properly by technology to ensure that our low cost base and high efficiency are maintained. Second, while

CHAIRMAN'S STATEMENT

there is no pressure for change from our open outcry system of trading, we cannot and do not ignore the developments in other Markets. We have all seen how rapidly technology can transform trading fora. Our responsibility to our membership and to our users demands that we examine future possibilities, and have at our command the ability to respond - and respond quickly - should changing Market requirements make this necessary. A process of study is underway to ensure that we are positioned appropriately.

There is a further challenge that will always be with us. We continue to review our existing range of Contracts and ask whether they remain appropriate for our users and whether new Contracts should be introduced. In doing so we are able to call upon a vast array of practical experience from our Board, Committees, the Executive and our membership.

This approach is the hallmark of the London Metal Exchange. We seek a careful balance between holding fast to what makes our unique Exchange so valuable to its users, while keeping a watchful eye to the future to anticipate and provide for the developing needs of the Market. Our approach is open and will remain so. Our performance demonstrates that it has been successful in the past - and it is continued success we seek in the future.

CHIEF EXECUTIVE'S REPORT

In reviewing the year's activity it is rewarding to note just how much change was possible while maintaining our outstanding growth record. The achievement of 21 per cent growth in business over 1996 is, of course, primarily a tribute to the membership's hard work, but it is also right to acknowledge the work of the LME Board and Executive in providing the right environment to allow for such high levels of activity. This review highlights the great variety of issues which the Exchange dealt with in 1997. It also demonstrates the highly diverse and global nature of our Market.

FSA REVIEW

As the Chairman's statement notes, the Exchange invited the FSA to review its activities. That review was completed in 1996.

The LME accepted all of the recommendations without reserve and by the end of 1997 action had been taken on all of them, implementing the majority.

The Board established three separate working groups to oversee their implementation. These were:

- The Implementation Task Force, chaired by The Lord Bagri CBE;
- The Regulatory Issues Implementation Working Group, chaired by Mr C J Farrow; and
- The Warehousing Issues Implementation Group, chaired by Mr P C F Crowson.

The Chairman's statement covers governance issues addressed by the Implementation Task Force.

The two other strands of work have been equally important in taking the Exchange forward.

REGULATORY ISSUES

A broad operational issue is worthy of note from the outset. The arrival of Alan Whiting as Executive Director: Regulation and Compliance has allowed me to shed responsibility for regulatory matters, and to concentrate more on commercial and strategic opportunities and challenges.

TRANSPARENCY

One of the main areas where the Exchange can assist the Market in determining fair prices is through the rapid publication of Market data.



David E King

CHIEF EXECUTIVE'S REPORT

The LME set out in 1997 to enhance the information available via vendors to the Market, publishing a total of 13 new data sets.

This included, for example:

- real time indicative Option volatilities, deltas and Call and Put premiums;
- highest bid and lowest offer prices for the 3-month Futures Contract, input by contributing Members;
- Futures open interest by prompt date; and
- Futures evening evaluations by prompt date.

Altogether some 47 Quote Vendors across the globe carry LME data each day, 24 hours a day, through about 20,000 screens to users throughout the world.

We intend to improve our service to the Market and have announced plans to develop a new system for the dissemination of this data. The successor to the existing Vendor Feed System, to be known as the Market Data System, will become operational in summer 1999. Its capacity and flexibility will be far greater than that of the current system.

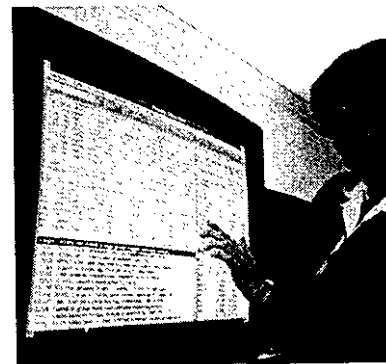
Recently Reuters, the international news agency, stated that the LME's data was probably the most comprehensive provided by any commodity exchange.

MARKET MONITORING

Alongside transparency, monitoring of activity in the Market is vital for the Exchange to fulfil one of its main statutory duties, which is to ensure a fair and orderly Market. This function is carried out on a completely confidential basis by the Regulation and Compliance Department of the Executive.

A key initiative to assist this process has been the development of a computerised Compliance Support System. Among other things this system provides the department with details from LME Members of large positions. We have also introduced a rule that LME Members are required to provide each day details of all holdings of Warrants by them of a proprietary nature, or which are pledged to a third party or are held on behalf of a client.

In addition to this extra monitoring the LME has enhanced its formal information sharing procedures with regulatory authorities, in particular with the Securities and Futures Authority (SFA) and FSA.



CHIEF EXECUTIVE'S REPORT

Further, the LME has introduced and published a formal complaints procedure.

The sum effect of these measures is to leave the LME much better placed to detect undesirable Market activities and to provide for appropriate corrective action.

WAREHOUSING ISSUES

The working group undertook a thorough investigation of warehousing issues, noting the complexities involved in dealing with more than 400 warehouses in 12 countries across the world.



Further transparency has been added to the warehousing position through the daily publication of all stocks on warrant by location, together with details of stocks on cancelled warrant but not yet delivered.

Another significant policy issue developed during the course of 1997 addressed concerns from some Market participants over a situation where a LME Broker Member might have a direct interest in a warehousing company. It has been decided that in such circumstances a strict policy of "Chinese Walls" will be introduced. This is in accordance with what is standard practice within other parts of the financial community. This policy has been discussed with the FSA, which has indicated that it is fully content with the procedures to be adopted.

Put simply "Chinese Walls" comprise a set of administrative procedures to manage potential conflicts of interest relating to commercial information not available to the Market as a whole. Where instituted "Chinese Walls" will be policed by the Regulation and Compliance Department of the LME Executive with, where appropriate, other independent monitoring.

A further important development during the year was formal Board approval to develop an electronic warrant depository system, known as 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. It is envisaged that warrants will mainly be located in a central depository.

SWORD will bring with it greater security, as there will be less need to physically move warrants as ownership changes; greater administrative efficiency; and a better audit trail for regulatory purposes.

CHIEF EXECUTIVE'S REPORT

It is intended that the system will be introduced in stages beginning later this year, and become fully operational in 1999.

Total investment in SWORD is approximately £2.5 million.

SWORD

FSA REVIEW - CONCLUSION

The LME has achieved a great deal throughout 1997 in responding to the FSA Review. All of the 38 recommendations were acted upon, and where implementation was not possible in the year that was due solely to the time necessary to bring projects to fruition, for example SWORD.

LME governance, regulation and warehousing matters have all been addressed positively. New Executive posts have been created, including that of Head of Information Technology (IT). This appointment reinforces the Exchange's determination to be positive in the application of IT to enhance efficiency. Other appointments have added to the strength of the Executive across all its main areas of activity.

At the end of 1998 the size of the LME Executive will remain, nonetheless, the smallest of any of the world's major Exchanges, and this is reflected in our low costs.

The effect of this action has been to enhance confidence in the Market. The increase in turnover is reflective of that confidence, but it does not lead to any sense of complacency within the Board or Executive. As a demonstration of our intention to advance to continue to meet Market needs I now turn to other areas of work during the year.

OTHER REGULATORY ISSUES

Master Netting Agreements

During the year the LME worked closely with the Futures and Options Association (FOA) on the development of Master Netting Agreements (MNAs). MNAs address the issue of netting of assets and liabilities on liquidation.

One vital issue was whether MNAs would be recognised in jurisdictions other than the UK. With the global nature of our industry this was clearly a fundamental matter.

To help the industry the LME, with others, worked with the FOA to seek legal opinions in more than 50 countries as to the legal acceptability of MNAs. We are most grateful to the FOA for their lead role in this activity. It proved highly cost effective for LME Members, which otherwise would have had to seek independent opinions, company by company.

CHIEF EXECUTIVE'S REPORT

NEW ARBITRATION RULES

The Exchange is rightly proud of the work of its Arbitration Panel. The Panel is highly regarded for its expertise. It provides a most efficient mechanism for the resolution of disputes as an alternative to expensive court hearings.

As a result of the 1996 Arbitration Act the LME made a series of technical changes to its rules governing arbitration to ensure consistency with the new legislation.

COUNTRY OF MEMBERS' INCORPORATION

From October 1997 a rule change that widened the membership opportunities of the Exchange came into effect.

Under rules dating from 1987, membership had been restricted to organisations incorporated in the UK. In view of the global nature of the metals industry, it was decided that LME's membership criteria should be more flexible, allowing LME Members to be incorporated outside of the United Kingdom, as long as other criteria are met.

CONTRACT SPECIFICATIONS

The LME's Committees constantly monitor LME Contracts to ensure that their specifications are appropriate to industry needs.

DELIVERY POINT, WAREHOUSE AND BRAND LISTINGS AND DE-LISTINGS

Similarly, a great deal of detailed work is undertaken by the Committees and Executive staff in examining potential new warehouse locations. In 1997 three locations were de-listed, namely Bridgeport (USA), New York/New Jersey (USA) and Felixstowe (UK).

LME approved brands of metals are subject to regular revision. The listing process is meticulous, requiring independent testing and analysis, among other tests, to ensure suitability for the LME seal of approval. Some 14 new brands were approved in 1997.

MARKETING

The LME's Educational Seminar programme continued to be highly successful, with demand outstripping our capacity to respond. These seminars cover the essential background to the LME and introduce participants to the basic principles of risk management in the non-ferrous base metals industry.

As part of the seminars the LME invites Member firms to participate in the educational process by providing speakers on such aspects as the role of the broker, "the Greeks", and



CHIEF EXECUTIVE'S REPORT

options trading. The LME is grateful to all who undertake these activities as their expertise adds immensely to the value for participants.

During 1997 nine two-day seminars and five one-day seminars were conducted. One seminar on LME Arbitration was held. The locations included London, Amsterdam, Chicago and Bahrain.

LME Board Directors and Executive staff continue to remain close to Market participants through attendance at industry and regulatory conferences. In many cases the LME, as the focal point for much of the metals industry, was invited to speak at such events, ensuring that developments at the LME were reported at first hand. With a global business and an economical staffing policy, it is not always possible to participate as actively as might be appropriate bearing in mind the dominant position we hold in the non-ferrous base metals industry. The arrival of new senior staff makes that more possible. Such events also provide valuable opportunities for the LME itself to hear directly the concerns of industry. This two-way communication is vital to our future development.

The LME's flagship publication - The Ringsider - was subject to a fundamental redesign in 1997.

The results were first seen in October, coinciding with LME Dinner Week. Our intention was to provide a much higher quality product, with the capacity for more detailed articles of interest to the industry. The response we had to that issue was overwhelmingly positive and we have decided to adopt this format for the future. We intend to produce three editions a year.

THE FUTURE

The workload of the LME in 1998 is no less daunting than in 1997. In the autumn of 1997 the Board and Executive addressed three specific areas of interest during an "away-day".

These were: the rights and obligations of various categories of LME membership; Market aberrations; and the opportunities and challenges presented by information technology.

Work on each of these topics has been taken forward in 1998.

The first, relating to the rights and obligations of various LME membership categories, may result in some modest changes during the latter part of 1998 although the current view is that no substantial changes are necessary.



CHIEF EXECUTIVE'S REPORT

Issues relating to Market aberrations are taken forward by Alan Whiting, who oversaw the issue of a detailed consultative document on the subject in recent weeks. Results of this consultation process are currently under consideration.

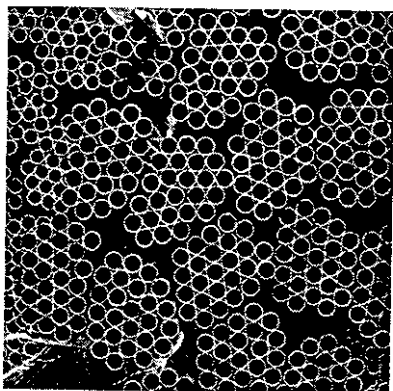
As to the threats and opportunities presented to the Exchange by information technology, the LME has retained a firm of technology advisers to assist it in evaluating every facet of IT as it touches LME's business life. This includes how information is delivered to the Exchange Floor, how Floor trading takes place, how information is delivered from the Floor, the LME's inter-office trading mechanisms and many other issues. While the LME is not driven by competitive pressure, or the need to drive down costs, it is important that we recognise the way in which IT is affecting other Exchanges around the world and the financial services industry generally, so we are able to embrace commercially sensible technological opportunities while facing up to challenges.

Other activities are also vital to the efficient running of the Exchange. We are preparing, for example, for the introduction of the euro in 1999. Our Contracts will continue to be dollar denominated, but we shall be fully prepared for one of the most significant economic changes of the century. Similarly we are prepared for the impact of any technological difficulties presented by the 'Year 2000' computer problem. The Executive has charted a careful strategy to anticipate all conceivable problems and deal with them. In doing so it is working closely with its membership, other exchanges in London, and the UK authorities as well as being a participant in many fora where detailed planning is taking place.

As we undertake this work we are mindful also of the need to consider new products which are likely to address Market needs, either now or in the future.

Now that the Exchange is better resourced it is able to move forward at a faster rate than before. That is vital in an ever more competitive world.

The overriding aim of the LME can be summed up quite simply. Our business is helping you to conduct your business as efficiently as possible. That is the standard by which we wish to be judged.



DIRECTORS' REPORT

The Directors submit their annual report to the Members together with the audited financial statements for the year ended 31st December 1997.

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 31st December 1997 before taxation was £2,494,544 (1996 : £561,388) and after accounting for taxation was £1,425,451 (1996 : £331,512).

The Directors do not recommend the payment of a dividend (1996 : £Nil).

Other information concerning the events of the year is contained in the Chairman's Statement and the Chief Executive's Report.

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 The Lord Bagri CBE, Messrs KC Davies and B Östgren.

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 £8,368 (1996 : £7,025).

FUTURE DEVELOPMENTS

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

DIRECTORS' REPORT

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

Price Waterhouse have expressed their willingness to continue in office and a resolution will be proposed at the Annual General Meeting for their reappointment as Auditors.

By Order of the Board.
P Needham
Secretary 10th June 1998



DIRECTORS' STATEMENT OF COMPLIANCE WITH THE CADBURY CODE OF BEST PRACTICE

The Board of Directors has reviewed the Company's compliance with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance. 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. The Board believes that The London Metal Exchange Limited complies with the Code, in as 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 requirements 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 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.

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.

INTERNAL 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 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 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 aforementioned Invited Directors. Its terms of reference include the detailed review of the Financial Statements prior to their consideration by the Board.

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 21 to 29 which have been prepared under the historical cost convention and the accounting policies set out on page 24.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 18 the Company's Directors are responsible for the preparation of Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 the Company's affairs as at 31st December 1997 and of its profit and cashflows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse.



Price Waterhouse

Chartered Accountants
and Registered Auditors

London
10th June 1998

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 1997**

	1997	1996
	£	£
INCOME (Notes 1(b),2)	12,063,253	8,026,171
Administrative expenses (Note 3)	(10,006,574)	(7,790,215)
OPERATING PROFIT	2,056,679	235,956
Interest receivable	438,781	325,432
Interest payable	(916)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,494,544	561,388
Tax on profit on ordinary activities (Note 6)	(1,069,093)	(229,876)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	1,425,451	331,512
Retained profit brought forward	6,450,591	6,119,079
RETAINED PROFIT CARRIED FORWARD	7,876,042	6,450,591

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.

BALANCE SHEET AS AT 31ST DECEMBER 1997

	1997 £	1996 £
FIXED ASSETS		
Tangible assets (Note 7)	2,923,802	3,465,640
Investment (Note 8)	2,725,000	2,725,000
CURRENT ASSETS		
Debtors (Note 9)	1,938,715	1,289,892
Cash at bank and in hand	<u>7,159,186</u>	<u>2,862,950</u>
	9,097,901	4,152,842
CREDITORS -amounts falling due within one year (Note 10)	<u>(6,555,697)</u>	<u>(3,502,285)</u>
NET CURRENT ASSETS	<u>2,542,204</u>	<u>650,557</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	8,191,006	6,841,197
CREDITORS -amounts falling due after one year (Note 11)	<u>(314,964)</u>	<u>(390,606)</u>
TOTAL NET ASSETS	<u>7,876,042</u>	<u>6,450,591</u>
RESERVES		
Profit and loss account	<u>7,876,042</u>	<u>6,450,591</u>

These accounts were approved by the Board of Directors on 10th June 1998.

The Lord Bagri CBE }
CJ Farrow } Directors

Bagri
CJ Farrow

The notes on pages 24 to 29 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 1997

	<u>1997</u> £	<u>1996</u> £
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 14a)	4,753,339	1,802,592
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received	428,750	328,118
Interest paid	(916)	-
TAXATION		
Corporation tax paid	(320,217)	(326,574)
CAPITAL EXPENDITURE		
Purchase of fixed asset investment	-	(2,725,000)
Purchase of tangible fixed assets	(564,890)	(301,235)
Receipts from sales of tangible fixed assets	170	81
INCREASE/(DECREASE) IN CASH (Note 14b)	<u>4,296,236</u>	<u>(1,222,018)</u>

The notes on pages 24 to 29 form part of these accounts.

NOTES TO THE ACCOUNTS AS AT 31ST DECEMBER 1997

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 31st October 1994 33 $\frac{1}{3}$ % on assets acquired after 31st October 1994
Vendor feed equipment	over the term of the hire purchase agreement. This equipment was fully written down by 31st 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.

NOTES TO THE ACCOUNTS AS AT 31ST DECEMBER 1997

2: INCOME

Income comprises the following items:

	1997	1996
	£	£
Contract levy	8,932,910	5,246,131
Joining fees and subscriptions	1,509,585	1,221,768
Listing fees	235,650	264,548
Registration fees and Exchange fees receivable in respect of the vendor feed service	874,909	775,350
Warehouse stock levy	293,969	285,942
Other receipts	216,230	232,432
	<u>12,063,253</u>	<u>8,026,171</u>

Contract levy is shown after deducting a rebate for the year of £1,000,000 (1996 – £Nil).

Registration and Exchange fees receivable in respect of the vendor feed system are shown after deduction of £1,589,630 in respect of the allocation of the vendor feed surplus to contributing members (1996 – £1,493,535).

Other receipts include income from the LME Dinner of £147,784 (1996 – £139,861).

3: ADMINISTRATIVE EXPENSES

Operating profit is stated after charging administrative expenses as follows:

	1997	1996
	£	£
Accommodation – including operating lease charges of £331,580 (1996 – £331,580)	2,186,359	1,701,236
Staff costs (Note 4)	2,470,646	1,739,268
Travel and entertaining	247,790	236,221
FSA (formerly SIB) levy	421,750	259,250
Legal and professional	2,500,773	1,518,995
Publicity	431,627	412,390
Cost of LME Dinner	149,633	139,735
Depreciation (Note 7)	1,106,728	1,005,488
(Profit) on disposal of fixed assets	(170)	(81)
Auditors' remuneration – audit fee	17,350	15,600
– non audit fees	172,624	486,038
Other expenses – including operating lease charges of £5,313 (1996 – £9,666)	301,464	276,075
	<u>10,006,574</u>	<u>7,790,215</u>

The LME Dinner is run on the basis that it is substantially self-financing. In the year to 31st December 1997, costs exceeded income (as disclosed in Note 2 above) by £1,849 (1996 : income exceeded costs by £126).

NOTES TO THE ACCOUNTS AS AT 31ST DECEMBER 1997

4: STAFF NUMBERS AND COSTS

The average number of persons employed by the Company during the year was as follows:

	1997	1996
Administration	45	43

The aggregate payroll cost of these persons was as follows:

	1997	1996
	£	£
Wages and salaries	2,102,548	1,494,687
Social security costs	176,226	139,702
Other pension costs	191,872	104,879
	<u>2,470,646</u>	<u>1,739,268</u>

5: DIRECTORS' EMOLUMENTS

Directors' emoluments including pension contributions, which have been included in staff costs were as follows:

	1997	1996
	£	£
Aggregate emoluments	339,676	247,167
Company contributions paid to money purchase pension scheme	24,360	20,889
	<u>364,036</u>	<u>268,056</u>

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

REMUNERATION OF HIGHEST PAID DIRECTOR

	1997	1996
	£	£
Aggregate emoluments	239,331	209,667
Company contributions paid to money purchase pension scheme	24,360	20,889

6: TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	1997	1996
	£	£
UK corporation tax at 31.5% (1996 - 33%)	1,091,072	319,179
Deferred taxation	(23,148)	(82,022)
Prior year under/(over) provision	1,169	(7,281)
	<u>1,069,093</u>	<u>229,876</u>

NOTES TO THE ACCOUNTS AS AT 31ST DECEMBER 1997

7: TANGIBLE FIXED ASSETS

	Short leaseholds and leasehold improvements	Equipment	Furniture, fixtures and fittings	Total
Cost	£	£	£	£
At 1st January 1997	3,614,386	1,917,923	464,747	5,997,056
Additions	2,400	384,726	177,764	564,890
Disposals	-	(4,984)	-	(4,984)
At 31st December 1997	<u>3,616,786</u>	<u>2,297,665</u>	<u>642,511</u>	<u>6,556,962</u>
Depreciation				
At 1st January 1997	766,529	1,446,165	318,722	2,531,416
Charge for year	363,511	553,931	189,286	1,106,728
Eliminated on disposal	-	(4,984)	-	(4,984)
At 31st December 1997	<u>1,130,040</u>	<u>1,995,112</u>	<u>508,008</u>	<u>3,633,160</u>
Net Book Amount				
At 31st December 1997	<u>2,486,746</u>	<u>302,553</u>	<u>134,503</u>	<u>2,923,802</u>
At 31st December 1996	<u>2,847,857</u>	<u>471,758</u>	<u>146,025</u>	<u>3,465,640</u>

8: FIXED ASSET INVESTMENT

On 10th October 1996, 5.45% of the share capital of The London Clearing House Limited was acquired for a cash consideration of £2,725,000 as an investment.

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

9: DEBTORS

	1997	1996
	£	£
Contract levy receivable	805,028	399,616
Other debtors	320,678	312,660
Prepayments and accrued income	813,009	577,616
	<u>1,938,715</u>	<u>1,289,892</u>

NOTES TO THE ACCOUNTS AS AT 31ST DECEMBER 1997

10: CREDITORS - Amounts falling due within one year

	1997	1996
	£	£
Other creditors	1,811,033	929,166
Taxation and social security	192,782	91,506
Accruals	2,600,028	2,071,970
Bank overdraft	770,187	-
Corporation tax	1,129,173	357,149
Deferred income	52,494	52,494
	<u>6,555,697</u>	<u>3,502,285</u>

11: CREDITORS - Amounts falling due after one year

	1997	1996
	£	£
Provision for deferred tax (Note 13)	-	23,148
Deferred income	314,964	367,458
	<u>314,964</u>	<u>390,606</u>

12: OPERATING LEASES

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

	1997	1996
	£	£
Operating leases which expire:		
- within one year	-	4,715
- 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 31.5% as follows (1996 - 33%):

	1997	1996
	£	£
Interest receivable	-	-
Accelerated capital allowances	169,586	(23,148)
	<u>169,586</u>	<u>(23,148)</u>

Movements in deferred tax are noted as follows:

	£
Balance at 1st January 1997	(23,148)
Profit and loss	23,148
Balance at 31st December 1997 (Note 11)	<u>-</u>

NOTES TO THE ACCOUNTS AS AT 31ST DECEMBER 1997

14: CASH FLOW**(a) Net cash inflow from operations**

	1997	1996
	£	£
Profit before interest and tax	2,056,679	235,956
Depreciation	1,106,728	1,005,488
(Profit) on sale of tangible fixed assets	(170)	(81)
(Increase) in debtors	(638,792)	(137,396)
Increase in creditors	2,228,894	698,625
	<u>4,753,339</u>	<u>1,802,592</u>

(b) Increase/(Decrease) in cash

	1997	1996
	£	£
Cash at 1st January 1997	2,862,950	4,084,968
Increase/(Decrease) in cash	4,296,236	(1,222,018)
Cash at 31st December 1997	<u>7,159,186</u>	<u>2,862,950</u>

15: CAPITAL COMMITMENTS

At 31st December 1997, the Company had capital commitments outstanding as follows:

	1997	1996
	£	£
Authorised but not contracted	508,000	-
Authorised and contracted	-	-

16: CONTINGENT LIABILITIES

The Company has provided a rental guarantee up to a maximum of £620,000 (1996 – £620,000) to the lessor of 56 Leadenhall Street.

17: MEMBERS

At 31st December 1997 the number of Members of the Company by category was as follows:

	Number of Members at 31st December	
Category	1997	1996
i Ring Dealing	15	17
ii Associate Broker Clearing	25	21
iii Associate Trade Clearing	4	6
iv Associate Broker	7	6
v Associate Trade	52	53
vi Individual	19	20

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

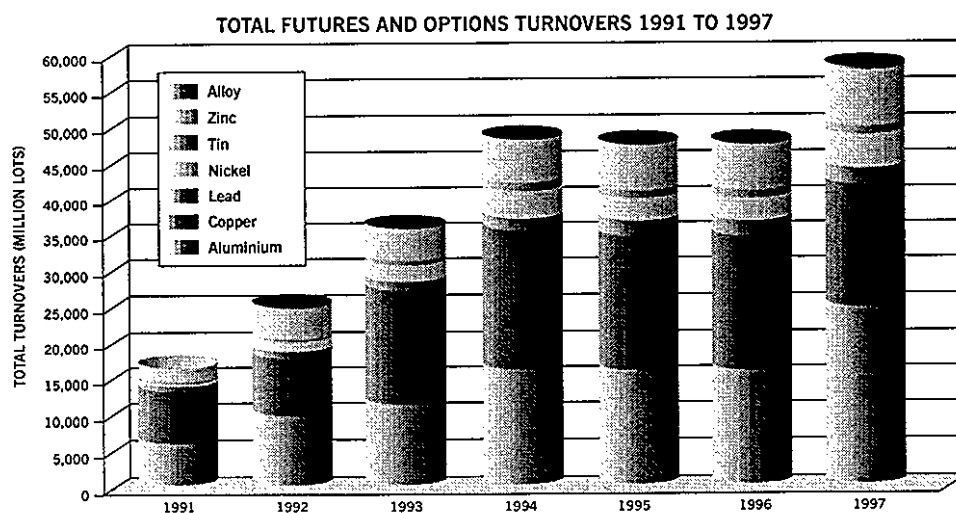
METAL TRADING STATISTICS

OFFICIAL TURNOVERS, FUTURES AND OPTIONS, 1991-1997

	1991	1992	1993	1994	1995	1996	1997
Primary Aluminium	5,732	9,257	10,984	15,836	15,302	15,583	24,191
Copper	7,385	7,945	16,012	19,392	19,743	20,108	16,906
Lead	707	986	1,038	1,988	1,781	2,234	2,387
Nickel	732	1,485	2,189	3,547	3,403	3,159	4,689
Tin	360	534	625	1,219	1,291	1,131	1,133
Zinc	2,022	4,528	4,331	5,557	5,419	4,979	7,676
Aluminium Alloy	—	7	111	149	211	293	390
GRAND TOTAL	16,938	24,742	35,290	47,688	47,150	47,487	57,373

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 6th October 1992, with cash trading commencing on 4th January 1993.



LONDON METAL EXCHANGE

METAL TRADING STATISTICS

AVERAGE OFFICIAL LME PRICES FOR THE YEAR 1997 IN US DOLLARS PER TONNE

	Primary Aluminium	Aluminium Alloy	Copper Grade A	Standard Lead	Primary Nickel	Tin	Special High Grade Zinc
Cash Buyer	1,598.01	1,457.37	2,274.48	623.21	6,910.89	5,636.64	1,317.23
Cash Seller & Settlement	1,598.83	1,462.07	2,275.70	624.08	6,916.09	5,642.96	1,318.27
Cash Mean	1,598.42	1,459.72	2,275.09	623.64	6,913.49	5,639.80	1,317.75
3-months Buyer	1,618.16	1,480.31	2,220.03	632.61	7,013.47	5,665.06	1,302.38
3-months Seller	1,618.88	1,483.44	2,221.08	633.41	7,018.49	5,670.04	1,303.25
3-months Mean	1,618.52	1,481.88	2,220.55	633.01	7,015.98	5,667.55	1,302.81
15-months Buyer	1,630.68	1,540.61	2,060.49	641.06	7,257.13	5,771.84	1,264.66
15-months Seller	1,635.68	1,560.57	2,070.49	646.05	7,277.13	5,781.84	1,270.45
15-months Mean	1,633.18	1,469.94	2,065.49	643.55	7,267.13	5,776.84	1,267.55
27-months Buyer	1,623.53		2,003.08		7,389.19		1,233.13
27-months Seller	1,628.53		2,013.08		7,409.19		1,238.92
27-months Mean	1,626.03		2,008.08		7,399.19		1,236.03

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

Copper Cash Seller & Settlement:	£1,390.23
Copper 3-months Seller:	£1,360.58
Lead Cash Seller & Settlement:	£381.26
Lead 3-months Seller:	£387.97

METAL TRADING STATISTICS

HIGHEST AND LOWEST OFFICIAL LME PRICES
DURING THE YEAR 1997 IN US DOLLARS PER TONNE

	Primary Aluminium		Aluminium Alloy		Copper Grade A	
	High	Low	High	Low	High	Low
Cash Buyer	1,775.00 (7 Aug)	1,487.50 (29 Dec)	1,540.00 (24 Jan)	1,350.00 (29 Dec)	2,718.00 (20 Jun)	1,698.50 (30 Dec)
Cash Seller & Settlement	1,776.00 (7 Aug)	1,488.00 (29 Dec)	1,545.00 (24 Jan)	1,360.00 (29 Dec)	2,720.00 (20 Jun)	1,699.00 (30 Dec)
Cash Mean	1,775.50 (7 Aug)	1,487.75 (29 Dec)	1,542.50 (24 Jan)	1,355.00 (29 Dec)	2,719.00 (20 Jun)	1,698.75 (30 Dec)
3-months Buyer	1,755.00 (7 Aug)	1,517.50 (29 Dec)	1,561.00 (7 Mar)	1,375.00 (29 Dec)	2,596.00 (19 Jun)	1,728.00 (30 Dec)
3-months Seller	1,755.50 (7 Aug)	1,517.25 (29 Dec)	1,565.00 (24 Feb)	1,380.00 (29 Dec)	2,598.00 (19 Jun)	1,729.00 (30 Dec)
3-months Mean	1,755.25 (7 Aug)	1,517.00 (29 Dec)	1,562.50 (24 Feb)	1,377.50 (29 Dec)	2,597.00 (19 Jun)	1,728.50 (30 Dec)
15-months Buyer	1,670.00 (7 Aug)	1,567.00 (19 Dec)	1,615.00 (24 Feb)	1,450.00 (29 Dec)	2,220.00 (19 Jun)	1,805.00 (30 Dec)
15-months Seller	1,675.00 (7 Aug)	1,572.00 (19 Dec)	1,635.00 (22 Jun)	1,470.00 (29 Dec)	2,230.00 (19 Jun)	1,815.00 (30 Dec)
15-months Mean	1,672.50 (7 Aug)	1,569.50 (19 Dec)	1,625.00 (24 Feb)	1,460.00 (29 Dec)	2,225.00 (19 Jun)	1,810.00 (30 Dec)
27-months Buyer	1,665.00 (21 May)	1,580.00 (19 Dec)			2,110.00 (4 Jun)	1,840.00 (29 Dec)
27-months Seller	1,670.00 (21 May)	1,585.00 (28 Feb)			2,120.00 (4 Jun)	1,850.00 (29 Dec)
27-months Mean	1,667.50 (21 May)	1,582.50 (28 Feb)			2,115.00 (4 Jun)	1,845.00 (29 Dec)

LONDON METAL EXCHANGE

METAL TRADING STATISTICS

Standard Lead		Primary Nickel		Tin		Special High Grade Zinc	
High	Low	High	Low	High	Low	High	Low
722.00 (28 Feb)	509.00 (8 Dec)	8,125.00 (4 Mar)	5,840.00 (29 Dec)	6,050.00 (14 Mar)	5,260.00 (23 Dec)	1,755.00 (28 Jul)	1,035.00 (2 Jan)
725.00 (28 Feb)	510.00 (8 Dec)	8,130.00 (4 Mar)	5,845.00 (29 Dec)	6,055.00 (14 Mar)	5,265.00 (23 Dec)	1,760.00 (28 Jul)	1,035.50 (2 Jan)
723.50 (28 Feb)	509.50 (8 Dec)	8,127.50 (4 Mar)	5,842.50 (29 Dec)	6,052.50 (14 Mar)	5,262.50 (23 Dec)	1,757.50 (28 Jul)	1,035.25 (2 Jan)
722.50 (21 Jan)	526.00 (8 Dec)	8,210.00 (4 Mar)	5,940.00 (29 Dec)	6,060.00 (14 Mar)	5,265.00 (16 Dec)	1,658.00 (28 Jul)	1,055.50 (2 Jan)
723.50 (21 Jan)	527.00 (8 Dec)	8,215.00 (4 Mar)	5,950.00 (29 Dec)	6,070.00 (14 Jan)	5,270.00 (16 Dec)	1,658.50 (28 Jul)	1,056.00 (2 Jan)
723.00 (21 Jan)	526.50 (8 Dec)	8,212.50 (4 Mar)	5,945.00 (29 Dec)	6,065.00 (14 Jan)	5,267.50 (16 Dec)	1,658.25 (28 Jul)	1,055.75 (2 Jan)
700.00 (17 Mar)	555.00 (29 Dec)	8,350.00 (3 Mar)	6,150.00 (29 Dec)	6,240.00 (14 Jan)	5,395.00 (23 Dec)	1,410.00 (15Aug)	1,092.00 (2 Jan)
705.00 (17 Mar)	560.00 (29 Dec)	8,370.00 (3 Mar)	6,170.00 (29 Dec)	6,250.00 (14 Jan)	5,405.00 (23 Dec)	1,420.00 (15Aug)	1,097.00 (2 Jan)
702.50 (17 Mar)	557.50 (29 Dec)	8,360.00 (3 Mar)	6,160.00 (29 Dec)	6,245.00 (14 Jan)	5,400.00 (23 Dec)	1,415.00 (15Aug)	1,094.50 (2 Jan)
		8,495.00 (3 Mar)	6,235.00 (29 Dec)			1,365.00 (15Aug)	1,108.00 (2 Jan)
		8,515.00 (3 Mar)	6,255.00 (29 Dec)			1,375.00 (15Aug)	1,113.00 (2 Jan)
		8,505.00 (3 Mar)	6,245.00 (29 Dec)			1,370.00 (15Aug)	1,110.50 (2 Jan)

METAL TRADING STATISTICS

WAREHOUSE STOCK MOVEMENT, IN TONNES, FOR THE YEAR 1997

	Primary Aluminium	Copper Grade A	Special High Grade Zinc
* 2nd January 1997	951,275	125,350	506,825
Delivered in	479,200	573,850	349,575
Delivered out	(808,450)	(361,650)	(364,825)
* 31st December 1997	622,025	337,550	491,575

	Standard Lead	Primary Nickel	Tin
* 2nd January 1997	118,600	48,900	10,610
Delivered in	43,450	78,150	26,785
Delivered out	(50,750)	(60,528)	(24,355)
* 31st December 1997	111,300	66,522	13,040

	Aluminium Alloy
* 2nd January 1997	74,440
Delivered in	22,640
Delivered out	(54,440)
* 31st December 1997	42,640

* First and last stock reporting days in the calendar year

STATEMENT OF REGULATORY OBJECTIVES

The Exchange is required by the FSA, its regulatory overseer in the UK, to agree a statement of LME's Regulatory Objectives and role as a recognised body and that this should then be published.

In accordance with this requirement we print here the LME Regulatory Objectives which are:

- The maintenance of a proper and orderly Market in each of the Contracts traded on the Exchange, in accordance with the Rules and Regulations of the Exchange.
- The promotion and maintenance of high standards of integrity and fair dealing with respect to its Members and in respect of Contracts traded on the Exchange.
- The provision of appropriate monitoring and enforcement procedures and arrangements to investigate complaints in respect of its Members and business.
- Co-operation with appropriate statutory and regulatory bodies both within and outside the United Kingdom.
- The maintenance of adequate financial resources for the proper performance of its functions.
- Ensuring the performance of transactions effected on the Exchange, through agreement, by the London Clearing House.
- Fully complying with relevant sections of Schedule IV of the Financial Services Act 1986, other relevant rules and guidance issued by the FSA, and other relevant UK, EU, US and other authorities, where appropriate.

