

LONDON METAL EXCHANGE

FINANCIAL STATEMENTS

31 DECEMBER 1999



The London Metal Exchange Limited 56 Leadenhall Street London EC3A 2DX

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A company limited by guarantee. Registered in England no 2128666. Registered office as above.

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LONDON METAL EXCHANGE

DIRECTORS AND ADVISERS

DIRECTORS	The Lord Bagri CBE (<i>Chairman</i>)
	CJ Farrow (<i>Vice Chairman</i>)* (Retired 16 September 1999)
	DE King (<i>Chief Executive</i>)
	PCF Crowson * (Retired 31 May 2000)
	KC Davies
	VJ Davies (Resigned 30 March 2000)
	The Lord Fraser of Carmyllie QC *
	KH Gaunt
	AW Gooch
	B Jones
	Sir Timothy Lankester KCB *
	AR Miele *
	B Östgren
	DG Over (Appointed 12 July 2000)
	M Overlander (Appointed 20 April 2000)
	GJ Pizzey *
	DE Ratcliffe (Resigned 28 March 2000)
	RA Reinert (Resigned 15 February 1999)
	PG Sellars (Resigned 22 March 2000)
	LJ Scott (Appointed 20 April 2000)
	MA Slade (Appointed 10 March 1999)
	MF Tyler (Appointed 20 April 2000, Resigned 3 July 2000)
	SB Underhill

* Invited (non-executive) Directors

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

SOLICITORS Linklaters,
One Silk Street,
London EC2Y 8HQ

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

CHAIRMAN'S STATEMENT

The world economy demonstrated great resilience during 1999 and this was reflected in the performance of the London Metal Exchange. The Exchange achieved a record year with more than 61.5 million lots traded. This represents an increase of more than 16% on 1998 and an increase of 7.5% on the previous record year of 1997.

This performance is a matter of quiet satisfaction because it emphasises the liquidity of our market, and reinforces our position as the world's outstanding market place for non-ferrous metal futures and traded options. The growth is further welcomed as it continues the upward trend that has been achieved throughout almost all of the 1990s, during which time volumes have increased tenfold.

Of course, for the member firms of the LME the continual pressure on them to remain competitive is intense. Generating profits in such an environment is not easy and they are constantly assessing their cost base to keep it as low as possible. Similarly the Exchange continues to do all it can to keep costs under rigorous control.

REGULATION AND COMPLIANCE

The Exchange has done a tremendous amount of work in the last two years to take account of the new regulatory environment and revise the way the market is regulated. The policies that the board adopted were set out in a landmark document "Market Aberrations: The Way Forward", published in October 1998.

These policies were implemented during the course of 1999. In the early part of the year the Exchange began publishing a range of new data sets on the incidence of large positions on the markets as part of the policy, adding to an already impressive array of transparency measures. With the guidance on the use of dominant positions in place, together with the enhanced monitoring and transparency provisions, the Exchange removed all backwardation limits from the beginning of March 1999. The new policy imposed its own discipline within a free market structure.

The Lord Bagri CBE

CHAIRMAN'S STATEMENT

The board has placed great emphasis on clarity in designing the new approaches to regulation. We have been eager to seek the views and participation of all members and users of the markets. While the burden of the many consultation documents and papers has been heavy, active participation in developing the new policies has been invaluable.

Moreover, the Exchange has been careful to appraise the market in advance of the issues that would be forthcoming and the likely dates for action. These were set out in the LME Regulatory Plan that was published early in the year.

During the course of the year the Exchange announced the conclusion of a disciplinary case resulting from the unauthorised copper trading of Mr Hamanaka of Sumitomo Corporation in 1995. The Exchange has always made clear that if it found that its rules had been broken by any of its members, then firm action would be taken.

THE FUTURE

The board has kept a careful watch on a number of market developments over the last few years, while engaging in a significant process of change to meet the challenges of the future.

Most obviously the tremendous advances in technology in the financial services sector have been a matter of very great interest. The LME has always been proactive in taking advantage of new technology where it can assist the efficiency of the market, without upsetting the delicate balance of factors that gives the Exchange its unique character and success. Clearly the continuance of open outcry trading in the ring is one vital factor, particularly as it is such a highly effective and efficient forum for price discovery. The liquidity and transparency that comes from ring trading is also of paramount importance to users of the market. The Exchange does not take this aspect of the LME lightly and has made it clear that open outcry trading will remain while market users wish to retain it.

Nonetheless, technology, properly applied, can make significant differences to the efficiency of an organisation. That should improve the service to the customer, something the LME has always put at the forefront of its planning.

CHAIRMAN'S STATEMENT

To take account of all these factors, I announced in October 1999 that the Exchange would develop the capacity to introduce automated trading during non-ring trading times.

As a result the board set up a working group to look at a number of potential automated trading systems. Their work and subsequent progress is covered in the chief executive's report, but we are on line to have an automated trading system by the end of the year 2000.

The pressures to adapt to fast moving changes in the world of business are not confined to the advent of e-commerce. The LME needs to be able to respond swiftly to changing circumstances and so the board has also been looking at the structure of the company.

On 12 June 2000 the LME issued a consultation document setting out details of a proposed restructuring and transfer of ownership of the LME to a new holding company, LME Holdings Limited. As a result of this consultation a proposal of change has now been put to the membership for adoption at an EGM. One facet of these proposals is that shares in LME Holdings Limited will be offered to existing member firms. Companies not wishing to take up these shares will be offered a cash payment as an alternative. The number of shares and the values of the cash alternatives will vary according to the current membership status. Full details are given in the proposal.

It is proposed that LME Holdings Limited will become the sole member of The London Metal Exchange Limited. It is hoped that these changes and the delegation of greater authority to the executive in managing day to day operations, will greatly improve the efficiency of the Exchange and lead to more rapid and effective decision making.

The London Metal Exchange closes the twentieth century in an immensely strong position. Having achieved a record year it must do all it can to facilitate the work of its members in maintaining, and hopefully exceeding, that level of business. It must do so in the face of unprecedented change in the way business is conducted, mainly because of technological change. The scene is set for the Exchange to negotiate successfully this process and emerge even better able to serve the market and its users.

The board and executive of the Exchange look forward to the challenges inherent in preparing for the future, and ensuring that the LME remains unrivalled globally.

CHIEF EXECUTIVE'S STATEMENT

The Exchange saw the end of 1999 in a very healthy condition. While anticipating an overall upturn in business, the Exchange budgeted very cautiously and maintained rigorous control on costs. This is a matter of good management of resources that is applied year by year, and it is rewarding to note that the year saw the completion of a number of significant projects.

TECHNOLOGY

The landmark event of the year for the Exchange was the introduction of SWORD, our electronic warrant depository system. The system is the most complex and expensive Information Technology project yet introduced by the Exchange. Throughout its development and implementation the project has benefited greatly from the active involvement of all those with an interest. SWORD became a live system on time and with remarkably few of the teething problems that are almost invariably associated with such technically advanced systems. The take up of SWORD in terms of warrants stored and electronically recorded significantly exceeded our projections. By September - as planned - all warrants were electronically recorded on SWORD and at the end of the year more than 75% of all warrants were immobilised in the depository, with the number increasing steadily. Further enhancements of the system will be introduced during year 2000.

The potential for computer problems associated with the change to year 2000 absorbed a considerable amount of management and technical time over the past four months. The Exchange worked closely with its members, the London Clearing House and the regulators to test its systems. This effort was fully rewarded with a smooth and trouble-free transition.

The rapid pace of technological change throughout the whole of the financial services sector continues to challenge the environment in which the Exchange operates. In-depth study and prudent preparatory work continues to be undertaken by the LME executive, together with specialist consultants, to

David E King

CHIEF EXECUTIVE'S STATEMENT

ensure that we are able to act swiftly and with the full support of our members once decisions are taken on our future technological direction.

CONTRACT SPECIFICATIONS AND BRANDS

Ensuring that contract specifications and brands of metal certified, as good for delivery remain absolutely relevant to the requirements of industry, involves much time for the LME's metals committees and executive staff.

Introduction of the new silver contract was challenging in that the Exchange had to deal with the contract not only in terms of traditional bars, but also deliverable silver grains. To provide for an efficient launch of the contract some 32 brands of silver were given fast track approval, which is a tribute to the personnel involved and the producers of the brands. Although the contract has been quiet in its first months of operation we believe that it has a valuable part to play in the industrial silver market. The Exchange will continue to support it, and seek to widen appreciation of the benefits it offers beyond contracts available elsewhere.

The development of the LMEX index, drawn from our six primary metals, and the futures and traded options contracts that are based on it, took much time and attention during the course of 1999. The contracts began trading on 10 April 2000 and have enjoyed an encouraging start in terms of liquidity.

The advent of LMEX contracts marks a real enhancement of the facilities of the Exchange. It has long been understood that fund managers play a part in our market, as they do in all markets across the globe. LMEX contracts provide a means to access the market without adversely affecting our underlying metal contracts. The underlying market is absolutely vital to the well being of our market and to our core customers. They rightly expect the LME to be the forum that provides a reliable reference price. The progress of the new contract will be monitored carefully but we have high hopes that it will establish itself as a very liquid contract and a valuable addition to the LME stable.

CHIEF EXECUTIVE'S STATEMENT

During the course of the year the requirements for placing full plate cathode primary nickel on warrant were finalised. It was also decided that the specification for zinc would be brought into line with the relevant BS EN standard. This is a clear demonstration of our wish to ensure that the quality of the metal put on to LME warrant meets the appropriate criteria.

WAREHOUSING

Aside from the introduction of SWORD as a technology project, a significant amount of work was required on the contractual front. LME's warehouse contract was subject to change to provide for the introduction of the new system. This was aside from the more fundamental changes to the contract that were taken forward in 1999. These changes sought to modernise and streamline the warehouse agreement. It also was aimed at introducing greater certainty for the warehouse companies themselves in respect of their rights and obligations. The process was subject to wide consultation, and the LME was particularly grateful to the base metals industry and warehouse companies for the constructive role they played in developing the new agreement.

Further work remains to be completed during 2000 on the matter of disciplinary procedures. For the time being the provisions of the old contract are in force. The Exchange is though, currently working on a completely new disciplinary system that will cover its members as well as warehouse companies.

The Exchange issued a discussion document on various issues of warehousing policy in the latter part of 1999, which are not purely matters of the contractual arrangements between the LME and the approved warehouse companies. The responses were considered and the findings of this very comprehensive survey were issued early in 2000.

One further change decided upon for introduction in 2000, was that LME's warehouse levies should be based on a percentage of the face value of the rent on LME warranted stocks.

CHIEF EXECUTIVE'S STATEMENT

COMMUNICATIONS

With the launch of one new contract, the preparation for another, and a heavy schedule of educational seminars and presentations to major industry conferences, much has been achieved on the communications front in 1999.

LME's educational seminars have continued to be very well attended during the course of the year and LME board and executive staff have remained as active as ever in delivering speeches and attending panel sessions around the world.

The Exchange was also actively involved in planning the design of 'The Money Zone' to ensure that the LME was properly represented within the Millennium Dome. In addition a full programme of redesign and rewriting of explanatory LME literature was begun, and this is expected to be complete in 2000.

THE FUTURE

The opportunities to develop the business of the Exchange in a dynamic and rapidly changing environment has challenged us all during 2000 and continues to do so. The board set up a working group to look at a number of potential automated trading systems. Executive staff and the LME's technical advisers have examined approximately 25 possible technology proposals in choosing a technology partner to take forward the Exchange's initiative.

An IT group comprising practitioners drawn from member firms has been established to work with the executive, the board and our professional advisers to assist in the selection process.

From amongst a number of very strong candidates, the board has asked two world-class IT solutions providers, to carry out a detailed requirements supply study over a four week period in order for the board to make its final decision as to its chosen partner for the project. The project remains on course for delivery of a system in the second half of 2000 which is able to meet the Exchange's evolving needs as they unfold with the passage of time in response to the demands of LME's members and their customers.

As described in the chairman's statement, work has also been undertaken in the restructuring of the Exchange.

DIRECTORS' REPORT

The directors submit their annual report to the members together with the audited financial statements for the year ended 31 December 1999.

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 as regards to business conducted on the Exchange.

RESULTS

The profit for the year ended 31 December 1999 before taxation was £5,094,942 (1998: £1,238,067) and after accounting for taxation was £3,218,362 (1998: £531,691).

The directors do not recommend the payment of a dividend (1998: £Nil). Other information concerning the events of the year is contained in the Chairman's and the Chief Executive's Statements.

DIRECTORS

The directors of the company who served during the year are listed on page 4.

The members of the board retiring by rotation in accordance with the Articles of Association are Messrs K.C Davies, K.H Gaunt and S.B Underhill.

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 9 to the financial statements.

CHARITABLE DONATIONS

The company made charitable donations during the year totalling £35,047 (1998: £9,540).

FUTURE DEVELOPMENTS

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

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

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

By order of the board.



P. Needham
Secretary

12 April 2000

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 has studied the recommendations of the Turnbull Committee published on 27 September 1999. Given the restructuring review that is currently taking place and the likely consequence for the Exchange's management and operational procedures arising from enactment of the Financial Services and Markets Bill, the board has decided to defer consideration of implementation of the Turnbull Committee guidance for a year.

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 6 to the financial statements.

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

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

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

We have audited the financial statements on pages 17 to 27.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 13, this includes the responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 United Kingdom 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 AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 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

16 August 2000

PRICEWATERHOUSECOOPERS 

LONDON METAL EXCHANGE

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1999**

	1999 £	1998 £
INCOME (Notes 1(b), 2)	10,097,302	12,311,523
Exceptional Item (Note 3)	6,500,000	-
Administrative expenses (Note 4)	<u>(12,148,609)</u>	<u>(11,667,048)</u>
OPERATING PROFIT	4,448,693	644,475
Interest receivable	646,301	594,421
Interest payable	<u>(52)</u>	<u>(829)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5,094,942	1,238,067
Tax on profit on ordinary activities (Note 7)	<u>(1,876,580)</u>	<u>(706,376)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	3,218,362	531,691
Prior year adjustment (Note 8)	<u>-</u>	<u>(750,000)</u>
AS RESTATED	3,218,362	(218,309)
Retained profit brought forward	<u>7,657,733</u>	<u>7,876,042</u>
RETAINED PROFIT CARRIED FORWARD	<u>10,876,095</u>	<u>7,657,733</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 20 to 27 form part of these financial statements.

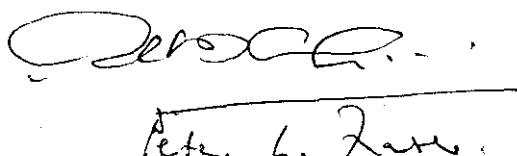
LONDON METAL EXCHANGE

BALANCE SHEET AS AT 31 DECEMBER 1999

	1999		1998	
	£	£	£	£
FIXED ASSETS				
Tangible assets (Note 9)		3,356,369		4,131,508
Investments (Note 10)		2,725,000		2,725,000
CURRENT ASSETS				
Debtors (Note 11)	2,550,236		2,004,882	
Cash at bank and in hand	16,750,004		7,349,148	
	<u>19,300,240</u>		<u>9,354,030</u>	
CREDITORS -				
Amounts falling due within one year (Note 12)	<u>(11,795,538)</u>		<u>(5,790,335)</u>	
NET CURRENT ASSETS		<u>7,504,702</u>		<u>3,563,695</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		13,586,071		10,420,203
CREDITORS -				
Amounts falling due after one year (Note 13)	(209,976)		(262,470)	
Provisions for liabilities (Note 14)	<u>(2,500,000)</u>		<u>(2,500,000)</u>	
		(2,709,976)		(2,762,470)
TOTAL NET ASSETS		<u>10,876,095</u>		<u>7,657,733</u>
RESERVES				
Profit and loss account		<u>10,876,095</u>		<u>7,657,733</u>

These financial statements were approved by the board of directors on 12 April 2000.

The Lord Bagri CBE
The Lord Fraser of Carmyllie QC } Directors


Peter L. Zare

The notes on pages 20 to 27 form part of these financial statements.

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1999

	1999	1998
	£	£
NET CASH INFLOW		
FROM OPERATING ACTIVITIES (Note 17a)	9,866,676	1,096,259
RETURNS ON INVESTMENT AND		
SERVICING OF FINANCE		
Interest received	597,838	581,873
Interest paid	(52)	(829)
TAXATION		
Corporation tax paid	(879,396)	(1,092,819)
CAPITAL EXPENDITURE		
Purchase of tangible fixed assets	(184,295)	(395,585)
Receipts from sales of tangible fixed assets	<u>85</u>	<u>1,063</u>
INCREASE IN CASH (Note 17b)	<u><u>9,400,856</u></u>	<u><u>189,962</u></u>

The notes on pages 20 to 27 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 1999

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, in the United Kingdom.

(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

Deferred taxation is provided in respect of all differences in timing between the accounting and tax treatments of income and expenses, to the extent that liability is expected to crystallise in the foreseeable future. Such taxation is provided at the rate of taxation expected to be ruling when the differences reverse.

(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 they are spread over the estimated life 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 FINANCIAL STATEMENTS AS AT 31 DECEMBER 1999

2 INCOME

Income comprises the following items:

	1999	1998
	£	£
Contract levy	6,220,326	8,538,593
Joining fees and subscriptions	1,614,367	1,559,858
Listing fees	234,800	303,250
Registration fees and Exchange fees receivable re vendor feed service	1,300,149	1,225,915
Warehouse stock levy	374,031	276,203
Other receipts	353,629	407,704
	<u>10,097,302</u>	<u>12,311,523</u>

Contract levy is shown after deducting a rebate for the year of £6,000,000 (1998 : £1,000,000).

Registration and Exchange fees receivable in respect of the vendor feed system are shown after deduction of £1,550,084 in respect of the allocation of the vendor feed surplus to contributing members (1998 : £1,410,819).

Other receipts include income from the LME dinner of £157,790 (1998 : £151,790).

3 EXCEPTIONAL ITEM

The exceptional item of £6,500,000 arises from a fine received by the LME during the year ended 31 December 1999.

4 ADMINISTRATIVE EXPENSES

Operating profit is stated after charging administrative expenses as follows:

	1999	1998
	£	£
Accommodation - (including operating lease charge of £596,000 (1998: £331,580))	2,459,962	2,389,378
Staff costs (Note 5)	4,401,250	3,765,188
Travel and entertaining	384,751	306,426
FSA levy	341,250	382,250
Legal and professional (after deduction of £250,000 FSA refund - 1998 nil)	1,265,025	1,636,494
Publicity	644,512	406,855
Cost of LME dinner	155,605	148,992
Depreciation (Note 9)	959,378	937,820
(Profit) on disposal of fixed assets	(29)	(1,004)
Auditors' remuneration - audit fee	22,500	21,850
- non audit fees	464,076	558,821
Software consultancy and development costs	559,823	738,265
Other expenses	490,506	375,713
	<u>12,148,609</u>	<u>11,667,048</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

The LME dinner is run on the basis that it is substantially self-financing. In the year to 31 December 1999, income exceeded costs by £1,585 (1998: by £2,798).

5 STAFF NUMBERS AND COSTS

The average number of persons employed by the company during the year, in administration, was 67 (1998: 64).

The aggregate payroll cost of these persons was as follows:

	1999	1998
	£	£
Wages and salaries	3,670,131	3,138,172
Social security costs	349,213	290,548
Other pension costs	381,906	336,468
	<u>4,401,250</u>	<u>3,765,188</u>

6 DIRECTORS' EMOLUMENTS

Directors' emoluments for 1999 included in staff costs are as follows :

	1999	1998
	£	£
Aggregate emoluments	457,466	407,822
Company contributions paid to money purchase pension scheme	38,802	34,729
	<u>496,268</u>	<u>442,551</u>

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

Remuneration of highest paid director

	1999	1998
	£	£
Aggregate emoluments	276,498	255,322
Company contributions paid to money purchase pension scheme	38,802	34,729

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 1999

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	1999 £	1998 £
UK corporation tax at 30.25% (1998: 31%)	1,876,580	702,729
Prior year under provision	-	3,647
	<u>1,876,580</u>	<u>706,376</u>

8 PRIOR YEAR ADJUSTMENT

The prior year adjustment has arisen due to the requirement to comply with Financial Reporting Standard 12 (FRS12) and its impact on the treatment of the reinstatement obligations in respect of short leasehold and leasehold improvements.

9 TANGIBLE FIXED ASSETS

	Short leaseholds and leasehold improvements £	Equipment £	Furniture, fixtures and fittings £	Total £
Cost				
At 1 January 1999	6,116,786	2,494,495	774,075	9,385,356
Additions	-	160,041	24,254	184,295
Disposals	-	(70,504)	(11,314)	(81,818)
	<u>6,116,786</u>	<u>2,584,032</u>	<u>787,015</u>	<u>9,487,833</u>
At 31 December 1999	<u>6,116,786</u>	<u>2,584,032</u>	<u>787,015</u>	<u>9,487,833</u>
Depreciation				
At 1 January 1999	2,494,439	2,157,233	602,176	5,253,848
Charge for year	611,671	239,956	107,751	959,378
Eliminated on disposal	-	(70,448)	(11,314)	(81,762)
	<u>3,106,110</u>	<u>2,326,741</u>	<u>698,613</u>	<u>6,131,464</u>
At 31 December 1999	<u>3,106,110</u>	<u>2,326,741</u>	<u>698,613</u>	<u>6,131,464</u>
Net book amount				
At 31 December 1999	<u>3,010,676</u>	<u>257,291</u>	<u>88,402</u>	<u>3,356,369</u>
At 31 December 1998	<u>3,622,347</u>	<u>337,262</u>	<u>171,899</u>	<u>4,131,508</u>

The comparatives for the prior year have been restated to reflect the impact of FRS 12 as described in Note 8.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

10 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.

11	DEBTORS	1999 £	1998 £
	Contract levy receivable	1,052,982	840,442
	Other debtors	259,828	455,971
	Prepayments and accrued income	1,237,426	708,469
		<u>2,550,236</u>	<u>2,004,882</u>

12 CREDITORS-AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Corporation tax	1,736,111	740,793
Taxation and social security	271,510	211,734
Other creditors	1,826,251	2,321,832
Accruals	7,909,172	2,463,482
Deferred income	52,494	52,494
	<u>11,795,538</u>	<u>5,790,335</u>

13 CREDITORS-AMOUNTS FALLING DUE AFTER ONE YEAR

	1999 £	1998 £
Reverse Premium	<u>209,976</u>	<u>262,470</u>

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 1999

14 PROVISION FOR LIABILITIES

	1999 £	1998 £
Provision for leasehold reinstatement	<u>2,500,000</u>	<u>2,500,000</u>

In accordance with the requirements of Financial Reporting Standard 12, as discussed in Note 8, a provision has been made for the estimated reinstatement obligations in respect of the leasehold premises.

15 OPERATING LEASES

The company's premises were subject to an upwards-only rent review, with effect from 24 June 1999. The rent review negotiations are ongoing and will not be completed until after the financial statements have been signed.

16 DEFERRED TAXATION

No recognition has been made in the financial statements of a deferred tax asset calculated at 30.25% as follows:

	1999 £	1998 £
Accelerated capital allowances	<u>324,289</u>	<u>333,837</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

17 CASHFLOW

(a) Net Cash Inflow From Operating Activities

	1999	1998
	£	£
Profit before interest and tax	4,448,693	644,475
Depreciation	959,378	937,820
Profit on sale of tangible fixed assets	(29)	(1,004)
(Increase) in debtors	(496,892)	(53,618)
Increase/(Decrease) in creditors	4,955,526	(431,414)
	<u>9,866,676</u>	<u>1,096,259</u>

(b) Reconciliation of net cashflow movement in net debt (Note 17c)

	1999	1998
	£	£
Increase in cash in period	9,400,856	189,962
Net funds at 1 January 1999	<u>7,349,148</u>	<u>7,159,186</u>
Net funds at 31 December 1999	<u>16,750,004</u>	<u>7,349,148</u>

(c) Analysis of Changes in Net Debt

	At 1 January 1999	Cash Flows	At 31 December 1999
	£	£	£
Cash at bank and in hand	<u>7,349,148</u>	<u>9,400,856</u>	<u>16,750,004</u>
Total	<u>7,349,148</u>	<u>9,400,856</u>	<u>16,750,004</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 1999

18 MEMBERS

At 31 December 1999 the number of members of the company by category was as follows:

Category	Number of Members at 31 December	
	1999	1998
(a) Ring Dealing	14	14
(b) Associate Broker Clearing	29	27
(c) Associate Trade Clearing	4	4
(d) Associate Broker	6	6
(e) Associate Trade	49	51
(f) Individual	18	19

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

LONDON METAL EXCHANGE

OFFICIAL TURNOVER, FUTURES AND OPTIONS, 1990 - 1999

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	Alloy	Silver
1990	4,356	5,994	612	582	361	1,448	-	-
1991	5,732	7,385	707	732	360	2,022	-	-
1992	9,257	7,945	986	1,485	534	4,528	7	-
1993	10,984	16,012	1,038	2,189	625	4,331	111	-
1994	15,836	19,392	1,988	3,547	1,219	5,557	149	-
1995	15,302	19,743	1,781	3,403	1,291	5,419	211	-
1996	15,584	20,108	2,234	3,159	1,131	4,979	293	-
1997	24,191	16,906	2,387	4,689	1,133	7,676	390	-
1998	21,117	16,767	2,458	4,796	1,490	5,947	500	-
1999	24,013	17,988	3,425	5,647	1,918	7,863	742	2

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. Silver is in lots of 5,000 troy ounces. 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.

Silver commenced trading 3-months on 10 May 1999, with cash trading commencing on 6 August 1999.

LONDON METAL EXCHANGE

AVERAGE OFFICIAL AND SETTLEMENT PRICES US\$/TONNE (US Cents/fine troy ounce Silver)

FOR THE YEAR 1999

	Primary Aluminium	Aluminium Alloy	Copper Grade A	Standard Lead	Primary Nickel	Tin	Special High Grade Zinc	Silver
Cash buyer	1,361.38	1,190.47	1,572.88	501.51	6,019.88	5,394.62	1,076.51	518.25
Cash seller & settlement	1,362.09	1,192.93	1,573.66	502.24	6,026.51	5,400.87	1,077.32	523.47
Cash mean	1,361.74	1,191.70	1,573.27	501.88	6,023.19	5,397.75	1,076.91	520.86
3-months buyer	1,387.97	1,220.81	1,604.01	508.52	6,078.33	5,409.54	1,092.37	521.42
3-months seller	1,388.62	1,222.88	1,604.85	509.25	6,084.70	5,415.63	1,093.14	525.92
3-months mean	1,388.30	1,221.85	1,604.43	508.89	6,081.52	5,412.59	1,092.76	523.67
15-months buyer	1,431.96	1,286.27	1,670.04	522.03	5,898.99	5,407.06	1,087.29	519.14
15-months seller	1,436.96	1,301.51	1,680.04	527.03	5,928.63	5,417.10	1,092.29	524.20
15-months mean	1,434.46	1,293.89	1,675.04	524.53	5,913.81	5,412.08	1,089.79	521.67
27-months buyer	1,457.72		1,707.80		5,787.48		1,089.37	519.09
27-months seller	1,462.72		1,717.80		5,817.12		1,094.37	524.15
27-months mean	1,460.22		1,712.80		5,802.30		1,091.87	521.62

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

Copper Cash seller & settlement	£972.77
Copper 3-month seller	£992.07
Lead Cash seller & settlement	£310.49
Lead 3-month seller	£314.86

LONDON METAL EXCHANGE

HIGHEST OFFICIAL AND SETTLEMENT PRICES US\$/TONNE (US Cents/fine troy ounce Silver)

FOR THE YEAR 1999

	Primary Aluminium	Aluminium Alloy	Copper Grade A	Standard Lead	Primary Nickel	Tin	Special High Grade Zinc	Silver
Cash buyer	30 Dec 1,630.00	30 Dec 1,355.00	30 Dec 1,845.00	20 May 559.00	30 Dec 8,440.00	30 Dec 6,100.00	30 Dec 1,238.00	5 Oct 571.00
Cash seller & settlement	30 Dec 1,630.50	30 Dec 1,358.00	30 Dec 1,846.00	20 May 559.50	30 Dec 8,450.00	30 Dec 6,105.00	30 Dec 1,239.00	5 Oct 576.00
Cash mean	30 Dec 1,630.25	30 Dec 1,356.50	30 Dec 1,845.50	20 May 559.25	30 Dec 8,445.00	30 Dec 6,102.50	30 Dec 1,238.50	5 Oct 573.50
3-months buyer	30 Dec 1,649.00	29 Dec 1,392.00	30 Dec 1,880.00	20 May 556.50	30 Dec 8,490.00	30 Dec 6,095.00	30 Dec 1,244.50	29 Sep 572.00
3-months seller	30 Dec 1,650.00	29 Dec 1,395.00	30 Dec 1,880.50	20 May 557.00	30 Dec 8,500.00	30 Dec 6,100.00	30 Dec 1,245.00	29 Sep 577.00
3-months mean	30 Dec 1,649.50	29 Dec 1,393.50	30 Dec 1,880.25	20 May 556.75	30 Dec 8,495.00	30 Dec 6,097.50	30 Dec 1,244.75	29 Sep 574.50
15-months buyer	30 Dec 1,633.00	29 Dec 1,480.00	30 Dec 1,935.00	18 May 555.00	30 Dec 7,740.00	30 Dec 5,875.00	30 Dec 1,173.00	29 Sep 570.00
15-months seller	30 Dec 1,638.00	29 Dec 1,490.00	30 Dec 1,945.00	18 May 560.00	30 Dec 7,790.00	30 Dec 5,885.00	30 Dec 1,178.00	29 Sep 575.00
15-months mean	30 Dec 1,635.50	29 Dec 1,485.00	30 Dec 1,940.00	18 May 557.50	30 Dec 7,765.00	30 Dec 5,880.00	30 Dec 1,175.50	29 Sep 572.50
27-months buyer	30 Dec 1,613.00		30 Dec 1,955.00		30 Dec 7,035.00		30 Dec 1,145.00	29 Sep 570.00
27-months seller	30 Dec 1,618.00		30 Dec 1,965.00		30 Dec 7,085.00		30 Dec 1,150.00	29 Sep 575.00
27-months mean	30 Dec 1,615.50		30 Dec 1,960.00		30 Dec 7,060.00		30 Dec 1,147.50	29 Sep 572.50

LONDON METAL EXCHANGE

LOWEST OFFICIAL AND SETTLEMENT PRICES US\$/TONNE (US Cents/fine troy ounce Silver)

FOR THE YEAR 1999

	Primary Aluminium	Aluminium Alloy	Copper Grade A	Standard Lead	Primary Nickel	Tin	Special High Grade Zinc	Silver
Cash buyer	8 Mar 1,139.50	23 Feb 996.00	16 Mar 1,353.50	15 Nov 462.50	6 Jan 3,880.00	6 Jan 4,995.00	5 Jan 899.00	8 Nov 493.00
Cash seller & settlement	8 Mar 1,140.00	23 Feb 997.00	16 Mar 1,354.00	15 Nov 463.00	6 Jan 3,885.00	6 Jan 5,000.00	5 Jan 900.00	8 Nov 498.00
Cash mean	8 Mar 1,139.75	23 Feb 996.50	16 Mar 1,353.75	15 Nov 462.75	6 Jan 3,882.50	6 Jan 4,997.50	5 Jan 899.50	8 Nov 495.50
3-months buyer	4 Mar 1,162.50	23 Feb/2 Mar 1,025.00	2 Mar/16 Mar 1,381.00	6 Jan 462.50	6 Jan 3,950.00	6 Jan 4,985.00	5 Jan 916.50	1 Jun/4 Jun 490.00
3-months seller	4 Mar 1,163.00	23 Feb 1,026.00	2 Mar 1,381.50	6 Jan 463.00	6 Jan 3,960.00	6 Jan 4,990.00	5 Jan 917.00	1 Jun/4 Jun 495.00
3-months mean	4 Mar 1,162.75	23 Feb 1,025.50	2 Mar 1,381.25	6 Jan 462.75	6 Jan 3,955.00	6 Jan 4,987.50	5 Jan 916.75	1 Jun/4 Jun 492.50
15-months buyer	16 Mar 1,238.00	23 Feb 1,100.00	2 Mar/16 Mar 1,455.00	6 Jan 493.00	6 Jan 4,190.00	6 Jan 4,965.00	5 Jan 980.00	4 Jun 487.00
15-months seller	16 Mar 1,243.00	23 Feb 1,120.00	2 Mar/16 Mar 1,465.00	6 Jan 498.00	6 Jan 4,210.00	6 Jan 4,975.00	5 Jan 985.00	4 Jun 492.00
15-months mean	16 Mar 1,240.50	23 Feb 1,110.00	2 Mar/16 Mar 1,460.00	6 Jan 495.50	6 Jan 4,200.00	6 Jan 4,970.00	5 Jan 982.50	4 Jun 489.50
27-months buyer	16 Mar 1,290.00		16 Mar 1,495.00		6 Jan 4,400.00		5 Jan 1,023.00	4 Jun 487.00
27-months seller	16 Mar 1,295.00		16 Mar 1,505.00		6 Jan 4,420.00		5 Jan 1,028.00	4 Jun 492.00
27-months mean	16 Mar 1,292.50		16 Mar 1,500.00		6 Jan 4,410.00		5 Jan 1,025.50	4 Jun 489.50

LONDON METAL EXCHANGE

WAREHOUSE STOCK MOVEMENT FOR THE YEAR 1999

	Copper Grade A	Tin	Standard Lead	Special High Grade Zinc
4 January 1999	592,425	8,180	108,350	317,050
In	550,775	27,550	118,575	138,575
Out	<u>(352,975)</u>	<u>(26,575)</u>	<u>(50,500)</u>	<u>(176,775)</u>
30 December 1999	<u>790,225</u>	<u>9,155</u>	<u>176,425</u>	<u>278,850</u>

	Primary Aluminium	Aluminium Alloy	Primary Nickel	Silver
4 January 1999	635,525	96,020	65,964	0
In	509,025	35,800	32,436	345,000
Out	<u>(370,050)</u>	<u>(53,860)</u>	<u>(51,438)</u>	<u>(200,000)</u>
30 December 1999	<u>774,500</u>	<u>77,960</u>	<u>46,962</u>	<u>145,000</u>

All metal stocks are expressed in tonnes except silver, which is in fine troy ounces.