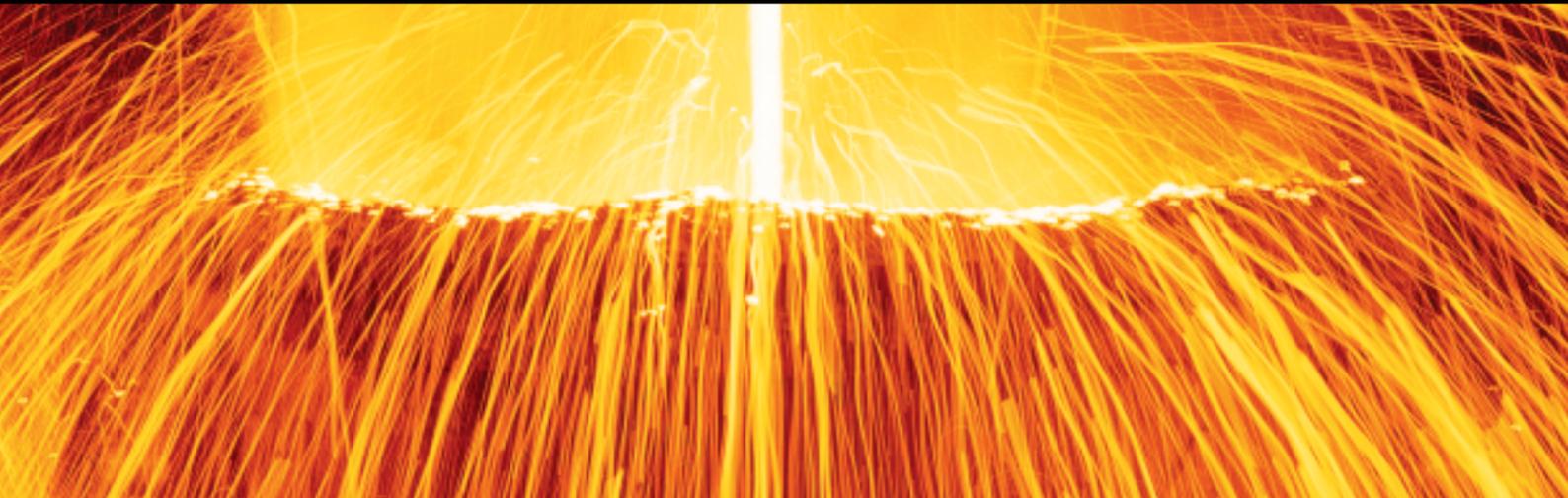


METALS COMPLEX



GOLD
SILVER
PLATINUM
PALLADIUM
COPPER
ALUMINUM



VISION IS OUR GREATEST COMMODITY™



NEW YORK MERCANTILE EXCHANGE METALS COMPLEX



The New York Mercantile Exchange, Inc. is the largest physical commodity futures exchange in the world. Its suite of metals futures and options contracts are cleared financial instruments that allow market participants to mitigate price risk in a transparent, liquid, financially secure marketplace.

Metals trading on the Exchange is conducted through the COMEX Division on which futures and options contracts for gold, silver, copper, and aluminum are listed; and through the NYMEX Division, which lists platinum futures and options and palladium futures. The NYMEX Division also lists an extensive slate of energy futures and options contracts.

The metals represented on the Exchange include the oldest metals known to mankind. Gold, silver, and copper were first used approximately 10,000 years ago. Some of the most sophisticated early metallurgical techniques evolved around the use of copper, the first industrial metal.

Platinum was discovered in South America in the early 18th century during the search for gold and silver, although it had been used even before the voyages of Christopher Columbus. Originally known as “little silver,” silver that hadn’t “grown up,” or “unripened gold,” platinum was thrown back into the streams that held the alluvial deposits. For many years it was used for counterfeiting gold coins in the New World and Spain.

ALL TRANSACTIONS ARE CLEARED

All transactions on the Exchange are processed through its clearinghouse, which mitigates counterparty credit risk by ultimately acting in effect as the buyer to every seller and the seller to every buyer. Transactions are backed by an extensive financial safety net including a guarantee fund of approximately \$135 million and a \$100 million default insurance policy. For the last several years, NYMEX Holdings, Inc., the parent company of the Exchange, has received and maintained an AA+ long-term counterparty credit rating from Standard & Poor’s. A list of the Exchange’s clearing members can be found on its website, www.nymex.com.

Costs to market participants are reduced because margin requirements are netted against cleared positions of economically related contracts on the Exchange. In the metals markets for example, this could involve a purchase of gold futures contracts and the simultaneous sale of platinum futures representing the same quantity of the underlying physical product.

Customer funds are segregated from those of brokers, clearing members, and the Exchange itself.

Futures contracts cleared on U.S. exchanges have a level of legal protection that is not available to participants in over-the-counter swaps transactions in the event of a bankruptcy by one of the parties to the trade.

The Exchange owns its clearinghouse, which gives it great flexibility and leeway in introducing new contracts, as well as close control over margin levels and market and financial compliance. All transactions are subject to the regulations of the Exchange, which operates as a self-regulatory organization serving as an additional layer of regulatory protection beyond the direct regulation of markets by the Commodity Futures Trading Commission, a U.S. government agency, which also maintains regulatory oversight of exchange markets.

MARKET TRANSPARENCY AIDS PRICE DISCOVERY

Market transparency is one of the hallmarks of trading on the Exchange. Prices are continuously reported during the trading day and trading volume, open interest, inventories of metal held in Exchange-licensed depositories or warehouses, and physical deliveries under the futures contracts are reported daily.

The prices quoted are used as global benchmarks for the underlying markets for precious metals and, in North America, copper and aluminum. This is an indication of the confidence that the market places in the integrity of these transactions. The Exchange maintains a vigorous regimen of trade, market, and financial surveillance to assure that business is conducted fairly and competitively among creditworthy market participants.

Given these resources, a decision not to manage price risk is made as deliberately as a decision to manage it.

WHAT ARE FUTURES CONTRACTS?

Futures contracts trade in standardized units in a highly visible, extremely competitive, continuous open auction. For a futures contract to be an effective financial instrument, the underlying market must meet three broad criteria: The prices of the underlying commodities must be volatile; the physical or financially settled contracts must be fungible; and there must be a diverse, reasonably large universe of buyers and sellers.

All market participants understand that the prices are quoted for products with precise specifications for grade and quantity, and for delivery to specified locations during a specified period of time.

Allowing for physical delivery ensures that market participants will be able to transfer physical supply and that the futures prices will be truly representative of cash market values. Most market participants, however, choose to buy or sell the physical commodities through their normal channels, while simultaneously liquidating their futures positions.

The futures markets help businesses manage their price risk by providing a means of hedging: matching buyers and sellers of a commodity with parties who are able and willing to bear market risk, or who have inverse risk profiles. A copper producer, for example, might sell a copper futures contract to protect sales prices while a wire manufacturer might buy copper futures to protect the cost of raw materials.

Because futures are traded on exchanges that are open public auctions with prices displayed for all to see, the markets perform the important function of price discovery. The prices displayed on the floor of the Exchange and on its electronic platform are disseminated to information vendors and news services worldwide. They reflect the marketplace's collective valuation of how much buyers are willing to pay and how much sellers are willing to accept. The diverse views of many market participants are distilled into a single price.

CASH VS. FUTURES PRICES — THE MARKETS CONVERGE

In general, futures markets compensate an individual for the cost of purchasing a commodity today, storing it, and delivering it in the future. As a result, one would ordinarily expect to see an upward trend in the prices of distant contract months. Such a market condition is known as *contango* and is typical of many futures markets. In most markets, the crucial determinant of the price differential between two contract months is the cost of storing the commodity over that particular length of time. As a result, markets which compensate an individual fully for carry charges—interest rates, insurance, and storage—are known as full contango markets, or full carrying charge markets.

Under normal market conditions, in situations of adequate supply, the price of a commodity for future delivery should be equal to the present spot prices plus contango. The contango structure of the futures market is kept

intact by the ability of metals dealers and financial institutions to bring carrying charges back into line through arbitrage.

If carrying charges are greater than prevailing interest rates, dealers will buy physical metal and sell futures. Conversely, if carrying charges are below prevailing interest rates, dealers will sell the physical and buy futures. The net effect of these transactions is to keep carrying charges in the futures market in line with interest rates.

The opposite of contango is *backwardation*, a market condition where the nearby month trades at a higher price relative to the outer months. Such a price relationship usually indicates a tightness of supply. The copper market, for instance, has been in backwardation more often than not since the 1950s, but has gone into contango for significant periods of time.

Regardless of a contango or backwardation market, over time, as a futures contract approaches its last day of trading, the futures and cash prices will get closer and closer, a process known as *convergence*.

OPTIONS CONTRACTS: A VERSATILE COMPLEMENT TO FUTURES

Options on futures offer additional flexibility in managing price risk as a form of insurance. They give the holder of an options contract the right, but not the obligation, to buy or sell the underlying futures contract at a specific price and time, allowing participation in favorable price

moves. If the market moves against the options position, the holder can let it expire worthless, with the only cost being the premium paid.

Options can be used alone or in combination with futures contracts resulting in strategies to fit any risk profile, time horizon, or cost consideration.

OPTIONS CONTRACTS CONVEY RIGHTS, INCUR OBLIGATIONS

There are two types of options contracts, *calls* and *puts*. A call options contract gives the holder of the option the right, but not the obligation to *buy* the underlying futures contract at the agreed upon *strike price*. Conversely, a put options contract gives the holder the right, but not the obligation to *sell* the underlying futures contract. Puts are usually bought when the expectation is for neutral or falling prices; calls are usually purchased when the expectation is for rising prices. The price at which an option is bought or sold is the *premium*.

Any market participant who believes that prices will rise sharply over the next few months might purchase a call. If prices rise, the options contract can be exercised or resold at a profit.

Similarly, puts can be bought in anticipation of a decline in prices.

On the opposite side of an options transaction, a seller, or *writer*, of an option *incurs an obligation* to perform should the option be exercised by the purchaser. The writer of a call incurs an obligation to sell a futures contract while the writer of a put has an obligation to buy a futures contract. In return for this risk, the writer receives the premium.

WHY TRADE NEW YORK MERCANTILE EXCHANGE METALS FUTURES AND OPTIONS?

The importance of the six metals in world markets, and the responsiveness of their prices to world events, make the metals futures and options contracts important risk management tools for commercial interests. They also present an exciting, potentially rewarding opportunity for individuals who seek to profit by correctly anticipating price changes.

- The contracts are standardized, liquid financial instruments.
- The Exchange offers cost-efficient trading and risk management opportunities.
- Contracts are traded competitively on the Exchange in an anonymous auction, representing a confluence of opinions on future values.
- Futures prices are widely and instantaneously disseminated, serving as benchmark prices.

- The contracts can be easily liquidated prior to the required receipt or delivery of the underlying commodity.
- A contract's financial performance is supported by a strong financial system backed by the Exchange clearing members, which include the strongest names in the financial services industry. The system of guarantees provided through the Exchange clearinghouse mitigates counterparty credit risk.
- The Exchange offers safe, fair, and orderly markets protected by its rigorous financial standards and surveillance procedures.
- The Exchange provides buyers and sellers with opportunities for price insurance and arbitrage that can be integrated into the cash market operations of commercial market participants.
- Trading Exchange contracts can reduce the working capital requirements and the physical storage costs associated with physical market operations.
- Trading Exchange contracts can improve the credit worthiness and add to the borrowing capacity of commercial market participants.

DEEP MARKET LIQUIDITY

Efficient and effective futures and options markets typically require a mix of hedgers and speculators. The NYMEX metals futures complex has attracted private and institutional investors who seek to profit by assuming the

risks that commercial market participants seek to avoid. These participants, in combination with hedgers, bring a balance of participants and liquidity to the metals futures markets.

AFTER-HOURS ELECTRONIC TRADING

Trading in the metals futures and gold options contracts continues electronically after the close of the open outcry session. The electronic trading session commences within approximately an hour of the close of floor trading Monday through Friday. Through Thursdays, the electronic trading session concludes within approximately a half-hour prior to the resumption of floor trading the following morning. On Fridays, the session closes late in the afternoon. Trading resumes electronically in the early evening on Sundays.

PREMIUMS FOR PHYSICALS OR DISCOUNTS FOR SCRAP

Differences in supply and demand conditions between market centers can cause a premium in the price of the delivered physical commodity to the price of the futures. Scrap items may be priced at a discount to the COMEX Division copper futures contract.