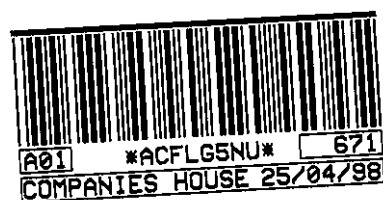




Ford Credit Europe plc  
Annual report  
for the year ended 31 December 1997

Registered no: 772784



# FORD CREDIT EUROPE PLC

## Annual report for the year ended 31 December 1997

### Directors & Advisors

<i>Chairman</i>	M E Bannister
<i>Managing Director, Britain and Ireland</i>	C A Michalik
<i>Director, Finance and Planning</i>	T S Green
<i>Director, Central Europe and New Markets</i>	R C Brady
<i>Executive Director, ESO</i>	P de Rousset Hall
<i>Managing Director, Ford Bank Germany</i>	R Foertsch
<i>Executive Director, Operations Services and WTF</i>	G Halloran
<i>Director</i>	D C Flanigan
<i>Director</i>	M Lowe
<i>Director</i>	I M Sviggum
<i>Non-executive Director</i>	H Taylor, CBE
<i>Non-executive Director</i>	S Thomson, CBE

### Secretary

K M Kjolhede

### Registered office

Jubilee House  
The Drive  
Brentwood  
Essex CM13 3AR  
United Kingdom

### Auditors

Coopers & Lybrand  
Chartered Accountants  
and Registered Auditors  
1 Embankment Place  
London WC2 6NN  
United Kingdom

## **THE CHAIRMAN'S STATEMENT**

Since I took over the Chairmanship of Ford Credit Europe plc (FCE) from David Flanigan, who has returned to the USA to manage Ford Credit International Operations, I have been astonished at the rate of change taking place in our industry.

The growth of the Internet as a car sales medium; the new entrants to the auto-finance arena like supermarket chains and direct banks are all potential threats we need to address as the new millennium approaches.

Like every computer-based company across the world we are investing heavily in upgrading and testing our systems to ensure Year 2000 compliance. I'm pleased to report we have this under control and will have tested every system by the end of 1998. Although a UK bank, we have branches and subsidiaries in 18 other countries. Therefore, we also are investing heavily to become Euro capable as soon as possible to provide our customers the flexibility they demand.

In 1997, FCE recorded a profit before taxes of £226 million, up slightly from 1996, despite the unfavourable impact of Sterling appreciation (approximately £30 million) on the profits of our foreign branches and substantial costs incurred on projects like the Year 2000 and the introduction of the Euro.

FCE continues to support Ford's growth in new markets in Central Europe and is now operational in Poland, Hungary, the Czech Republic and Greece. New wholesale, leasing and retail plans are being put in place to support dealer expansion. As Ford's and FCE's market shares grow in these markets, we will begin to see our efforts flow through to the bottom-line. As Ford expands into other new markets, we will work closely with them to evaluate the potential for FCE to enter these markets profitably.

Last year we reported significant losses in the UK due to organised fraud. New procedures and added vigilance have reduced these figures in 1997 but we - like the entire finance industry - still face a stiff burden as the criminal element finds new ways to beat the safeguards.

Competition is increasing all of the time, putting pressure on our margins. We believe, however, that our growth plans and cost efficiencies will keep us ahead of the game and give us sustained growth in profits.

The prospects in the year ahead are for another similar year and, with a strong team and a deep-seated intent to cut costs, to grow the business in a controlled manner and the continued strong support from our colleagues in the Motor Company I'm convinced we will return even better figures in 1998.

**Michael E. Bannister**  
**Chairman**

# **FORD CREDIT EUROPE PLC**

## **34th Annual Report of the Directors**

### **REVIEW OF BUSINESS AND OPERATIONS**

The Company is an authorised institution pursuant to the Banking Act 1987 and is supervised by the Bank of England. It also holds a standard licence pursuant to the Consumer Credit Act 1974.

The Company's primary business is to support the sale of Ford vehicles in Europe through the Ford dealer network. A variety of retail, leasing and wholesale finance plans are provided in all countries in which the Company and its subsidiaries operate. Retail financing is provided by means of a number of title retention plans, including conditional sale and hire purchase, and personal loans. Operating and finance leases are provided to individual, corporate and other institutional customers, covering individual vehicles and large and small fleets. In addition, the Company provides loans to dealers for working capital and property acquisitions and for a variety of wholesale finance plans.

On 31 December 1997 Ford Bank AG, a German banking subsidiary was converted into a partnership, Ford Bank KG. On 1 January 1998 the partnership was dissolved and business commenced as a branch of Ford Credit Europe plc.

As a consequence of the above conversion and a major re-structuring project that was completed in 1995, the Company now operates on a branch network basis in all Member States of the EU. The Company also has branch operations in Norway and Switzerland.

The Company has two subsidiaries in Poland. Ford Bank Polska S.A. received approval from the National Bank of Poland on 1 September 1997 to provide retail vehicle financing to Ford dealers and customers throughout Poland. This supplements the provision of wholesale financing (launched in January 1996) and leasing (launched in July 1997) which are offered through Ford Credit Poland S.A.

A Hungarian subsidiary, Ford Credit Hungaria Rt. (previously Ford Bank Hungaria Rt.), was granted a banking licence in April 1997. Changes in banking legislation enabled the company to subsequently apply for a revised licence resulting in the change to its current name. Wholesale financing started during August 1997 and retail vehicle financing commenced during December 1997.

In August 1997 the Company established a subsidiary in the Czech Republic, Ford Credit Ceska Republica s.r.o., to provide dealer and customer financing. Wholesale financing started in January 1998 and leasing is expected to start in the early summer of 1998.

### **Share Capital**

On 28 November 1997 Ford Motor Company (US) became a direct shareholder of just over 10% of the issued Ordinary shares of the Company after exercising its conversion rights in respect of 180 million non-cumulative convertible preference shares of £1 each. In accordance with the Articles of Association, such non-cumulative convertible preference shares were converted, consolidated and sub divided into Ordinary Shares (for details see Note 20 of the Notes to the Accounts). Ford Credit International Inc., an indirectly wholly owned subsidiary of Ford Motor Company, remains the majority shareholder of the Company.

# FORD CREDIT EUROPE PLC

## ACTIVITY IN 1997 AND POST-BALANCE SHEET EVENTS

As mentioned in the review of the business and operations on 31 December 1997 Ford Bank AG, a German banking subsidiary was converted into a partnership, Ford Bank KG. On 1 January 1998 the partnership was dissolved and business commenced as a Branch of Ford Credit Europe plc (see note 28).

### Results and dividends

The directors have declared and paid the following dividends during 1997:

	£'000
Preference Share Dividend paid 3 February 1997	10,800
Ordinary Share Dividend paid 17 December 1997	167,000
	<hr/>
	177,800

No further preference dividend was paid relating to 1997 as on 28 November 1997 all issued preference shares were converted to Ordinary Shares (see Note 20).

The payment of the Ordinary Share dividend reflected the distribution of substantially all of the Company's retained earnings at 31 December 1996.

The retained loss for 1997 of £84 million will be transferred to the Group's reserves.

## CASH FLOW REPORTING

The Group has taken advantage, under FRS 1, of the exemption for 90% owned subsidiaries to not present a cashflow. The cash flows of the Company are included in the financial statements of the ultimate parent company, Ford Motor Company (US).

## EUROPEAN MONETARY UNION AND MILLENNIUM

An issue affecting the Group and most other companies is the impact of European Monetary Union (EMU) and the Millennium both for information systems and other aspects of operations. The Group is advanced in its identification, evaluation and implementation of changes to systems and applications to achieve compliance with EMU and the year 2000 date change. Ford Credit Europe is in the process of assessing and implementing the necessary changes for all areas of the Group's business which could be impacted; these include such areas as business computer systems, technical infrastructure, dealership systems, building infrastructure, end-user computing and suppliers.

Based on assessments completed to date and compliance plans in process, the directors do not expect that EMU and year 2000 date changes, including the cost of making its critical systems and applications compliant, will have a material affect on its business operations, consolidated financial condition, cash flows, or results of operations. The costs associated with this exercise are charged to the profit and loss account as incurred.

# FORD CREDIT EUROPE PLC

## TREASURY ACTIVITIES

With regard to the Group's public debt funding, the Group has a series of debt programmes as listed below. Once again, under these programmes the Group has issued commercial paper, certificates of deposit, medium-term notes, publicly underwritten bonds and debentures.

Launch date/last update	Programme	Outstandings at 31 December 1997 £'000
October 1993	Unlimited US Commercial Paper	845,834
November 1993/June 1994	\$5,000,000,000 Euro Commercial Paper	1,596,452
November 1993/June 1996	\$8,000,000,000 Euro Medium Term Note	2,771,622
December 1993/June 1994	FF6,000,000,000 French Franc Certificate of Deposit	483,167
January 1996	BFR 5,000,000,000 Belgium Franc Euro Commercial Paper	46,128
	Total Company	5,743,203
	OTHER:	
	Eurobonds, Debentures and Participative Certificates	699,976
	Total Group	6,443,179

Financial derivative activity for the Company and Group is geared towards reducing exposure in volatile financial markets. These activities relate to hedging and are therefore classified as non-trading activities. The instruments used in the Group's hedging activity are divided into two categories; derivatives used to hedge debt issuance and derivatives used to manage the repricing gap between assets and liabilities. Derivatives are only used if existing instruments on the balance sheet do not provide sufficient offset to risks.

Funding primarily consists of longer-term debt instruments and commercial paper. The repricing and cash flow characteristics of the debt portfolio tend to be different from the asset portfolio. As interest rates change, the repricing mismatch can expose the Group to earnings volatility. Interest rate swaps are used to reduce the repricing mismatch between assets and liabilities by synthetically shortening the repricing term of longer term debt, and lengthening the repricing of floating rate short term debt, until a balance is reached between the repricing characteristics of the debt and asset portfolios. For short term debt, the control of risk is applied to portfolios in total.

Two primary objectives of the Group are to ensure funding availability over the business cycle and to minimise borrowing costs. Often, longer term debt with embedded options or debt denominated in a different currency is the cheapest source of term funding, but the risks inherent in these structures are seldom desirable.

In these instances, derivatives designed to offset the risks inherent in the underlying debt are used. This activity results in a creation of term funding with desirable interest rate

# FORD CREDIT EUROPE PLC

## Treasury Activities (continued)

characteristics denominated in local currency at a cheaper cost than is readily available with non-derivative linked alternatives.

The Group reviews its derivatives portfolio, counterparty exposures, and derivatives policy issues on a regular basis in the Corporate Management Council and with the Ford Motor Credit Company Risk Management Group, based in the USA. These reviews include staff responsible for tactical execution up to senior management.

It is considered that the use of derivatives, as an integral part of the Group's risk management programme, is beneficial and provides substantial flexibility at an acceptable cost. However, it is recognised that the use of derivatives entails risks. Therefore the Group's resources have been focused to ensure that effective controls are in place to manage these risks. These controls and procedures are periodically audited by the General Auditor's Office and the Company's Internal Control Office, both being internal functions, and also by external auditors. The Group will continue to manage and, where appropriate, improve the controls and procedures.

### Key derivative policies:

- a) Prohibit use for speculative purposes
- b) Prohibit use of leveraged instruments
- c) Require regular in-depth exposure analysis
- d) State accounting treatment at onset of trade
- e) Establish exposure limits with counterparties
- f) Prevent the compensation system being tied to traders' profits and losses

### Key derivative controls:

- a) Periodic review of policies, positions and planned actions with management
- b) Transactional controls including authorities, segregation of duties, approvals, competitive quotes and confirmations
- c) Regular portfolio valuation and mark-to-market review by management
- d) Periodic monitoring of counterparty exposure and credit worthiness including a semi-annual analysis of peak potential counterparty exposure
- e) Periodic internal and external audits to evaluate controls and adherence to policies

Exposure to counterparty risk is managed by diversifying derivative activity amongst highly rated counterparties. The Group does not currently transact new swaps with entities rated below single A -. However, the Group does also transact with certain Ford Affiliates, which are non-rated entities. Substantially all of the Group's activities are transacted with financial institutions.

Wherever legally enforceable, the Group nets payments for all derivative transactions.

# **FORD CREDIT EUROPE PLC**

## **DIRECTORS**

The full list of present directors is shown on page 2. Messrs P de Rousset Hall, M Lowe and G Halloran were appointed on 4 June 1997, 21 July 1997 and 14 October 1997 respectively. Messrs G C Smith and W E Bleakley resigned as directors on 1 June 1997 and 21 July 1997 respectively.

With the exception of the non-executive directors, Mr S Thomson and Mr H Taylor, all directors are Ford employees. Mr Thomson, a former Director of Finance of Ford Motor Company Limited, is a former President of the Chartered Association of Certified Accountants, former Member of the Industrial Development Advisory Board and former member of the Financial Reporting Council. Mr Taylor, former President of the Manufacturers Hanover Corporation, is a member of the Bank of England's Board of Banking Supervision.

All directors will seek re-appointment at the Annual General Meeting. Mr H Taylor and Mr S Thomson were seventy one years of age on 18 February 1998 and 23 June 1997 respectively. Further to section 293(5) of the Companies Act 1985 special notice has been given to shareholders of their intention to stand for re-appointment.

## **CHANGES IN FIXED ASSETS**

Movements in fixed assets are as disclosed in Note 13 to the financial statements.

## **PAYMENTS TO SUPPLIERS**

The Company sets its terms of payment in accordance with its conditions of order. The Company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The number of creditor days in relation to suppliers balances of the Company outstanding at 31 December 1997 is 38 days.

## **EMPLOYEE INVOLVEMENT**

The Company has a recognised employee involvement programme, and all staff are kept informed of Company activities on both a national and pan-European level by means of in-house publications and the annual publication of its reports and financial statements. These documents are provided to all employees and are available in translation for the benefit of the Company's employees in branches and subsidiaries whose language is other than English.



# **Ford Credit Europe plc**

## **Employment policies**

The Company complies fully with all relevant legislation enacted by both European and national parliaments regarding the employment of persons with special requirements. The Company is an Equal Opportunities employer, and seeks to give full and fair consideration to applications from disabled persons having regard to their individual aptitudes and capabilities. All staff are given the same opportunities for training and advancement.

## **Statement of directors' responsibilities**

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group of which it forms a part as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and the Group, and to prevent and detect fraud and other irregularities.

## **Auditors**

In accordance with Section 384 of the Companies Act 1985 and relevant European legislation, a resolution proposing the re-appointment of Coopers & Lybrand as auditors will be submitted to the Annual General Meeting.

## **BY ORDER OF THE BOARD**



**Katherine Marie Kjolhede**  
**Company Secretary**  
**2 April 1998**

# **Ford Credit Europe plc**

## **Report of the auditors to the members of Ford Credit Europe plc**

We have audited the financial statements on pages 10 to 33.

### **Respective responsibilities of directors and auditors**

As described on page 8, 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 affairs of the Company and the Group at 31 December 1997 and of the profit and total recognised gains of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**

Chartered Accountants and Registered Auditors

London,

2 April 1998

# FORD CREDIT EUROPE PLC

## Profit and loss account for the year ended 31 December 1997

		Group	
	Notes	1997	1996
		£m	£m
Interest receivable and similar income		1,092	1,199
Interest payable		(510)	(588)
<b>NET INTEREST INCOME</b>		<b>582</b>	<b>611</b>
Depreciation recovered on operating leases		129	123
Fees and commissions payable		(84)	(104)
<b>OPERATING INCOME</b>		<b>627</b>	<b>630</b>
Administrative expenses	2	(196)	(206)
Depreciation and amortisation	13	(153)	(134)
Provisions for bad and doubtful debts	3	(52)	(68)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	4	<b>226</b>	<b>222</b>
Tax on profit on ordinary activities	6	(143)	(101)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAX</b>		<b>83</b>	<b>121</b>
Dividends	7	(167)	(11)
<b>RETAINED (LOSS)/PROFIT FOR THE YEAR</b>	21	<b>(84)</b>	<b>110</b>

There is no difference between the profit on ordinary activities before taxation and the retained (loss)/profit for the year stated above, and their historical cost equivalents.

There were no discontinued activities in either of the two accounting periods.

## Statement of total recognised gains and losses

	Group	
	1997	1996
	£m	£m
Profit for the financial year	83	121
Currency translation differences on foreign currency net investments	(40)	(97)
Tax credit relating to cumulative foreign currency translation differences	-	7
<b>Total recognised gains and losses relating to the year</b>	<b>43</b>	<b>31</b>

# Ford Credit Europe plc

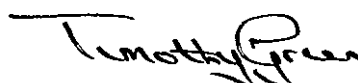
## Balance sheet at 31 December 1997

	Notes	Company		Group	
		1997 £m	1996 £m	1997 £m	1996 £m
<b>Assets</b>					
Cash and balances at central banks		1	1	2	6
Loans and advances to banks	10	907	1,062	188	151
Loans and advances to customers	11	6,674	6,950	9,771	10,275
Shares in group undertakings	12	373	381	-	-
Tangible fixed assets	13	223	293	614	570
Other assets		267	250	318	269
Prepayments and accrued income		45	41	46	43
<b>Total assets</b>		<b>8,490</b>	<b>8,978</b>	<b>10,939</b>	<b>11,314</b>
<b>Liabilities</b>					
Deposits by banks	14	561	728	1,132	1,213
Customer accounts	15	448	158	1,516	1,243
Debt securities in issue	16	5,743	6,523	6,443	7,178
Other liabilities		97	40	135	73
Accruals and deferred income		178	172	267	263
Provisions for liabilities and charges	18	11	-	42	-
Subordinated liabilities	19	319	208	444	264
<b>Capital and Reserves</b>					
Called up share capital	20	663	777	663	777
Share premium	21	265	136	265	136
Reserves	21	58	58	-	-
Profit and loss account	21	147	167	32	156
Accrued dividends not declared	7	-	11	-	11
<b>Equity shareholders' funds</b>		<b>1,133</b>	<b>958</b>	<b>960</b>	<b>889</b>
<b>Non-equity shareholders' funds</b>		<b>-</b>	<b>191</b>	<b>-</b>	<b>191</b>
<b>Total shareholders' funds</b>	<b>22</b>	<b>1,133</b>	<b>1,149</b>	<b>960</b>	<b>1,080</b>
<b>Total liabilities and shareholders' funds</b>		<b>8,490</b>	<b>8,978</b>	<b>10,939</b>	<b>11,314</b>
<b>Memorandum items</b>					
Contingent liabilities	23	35	-	2	2

The financial statements on pages 10 to 33 were approved by the board of directors on 2 April 1998 and were signed on its behalf by:



**M E Bannister**  
Chairman



**T S Green**  
Director, Finance and Planning

# FORD CREDIT EUROPE PLC

## Notes to the financial statements 31 December 1997

### 1 ACCOUNTING POLICIES

#### (a) Basis of preparation of the financial statements

The Group financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and banking companies, respectively. As permitted by Section 230(3) of the Companies Act 1985, the Company's profit and loss account has not been presented. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

For the purpose of this report, the term 'Company' refers to Ford Credit Europe and its branches. The term 'Group' refers to Ford Credit Europe, its branches and subsidiaries. The term Ford Bank or Ford Bank Germany refers to Ford Bank AG, a wholly owned German Banking subsidiary which was converted into a branch of Ford Credit Europe plc on 1 January 1998. Other Group undertakings relate to other companies in the Ford Motor Company (US) Group.

#### (b) Basis of accounting

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

#### (c) Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings up to the end of the financial year. For commercial reasons, the accounting reference dates of Jaguar Financial Services Limited (31 March), Automotive Finance Limited (30 June), Ford Automotive Leasing Limited (30 September) are not coterminous with that of Ford Credit Europe plc. Accordingly the management accounts of those companies for the year ended 31 December are included in these accounts.

Intra-group revenue and profits are eliminated on consolidation and all revenue and profit figures relate to external transactions only.

#### (d) Goodwill

Goodwill arising on consolidation of subsidiaries or acquisition of branch operations represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries and branches is written off immediately against reserves. The excess of the value of net assets of subsidiaries at the date of acquisition over their purchase price is included as a capital reserve arising on consolidation in the consolidated balance sheet.

# FORD CREDIT EUROPE PLC

## 1 ACCOUNTING POLICIES (CONTINUED)

### (e) Interest receivable and similar income

Interest receivable and similar income comprises interest receivable on finance leases, commercial loans, personal loans and conditional sale transactions, as well as the interest portion of rentals receivable under operating leases. Interest on commercial and personal loans is accrued on a day-by-day basis. Interest on conditional sale transactions and finance leases is earned over the life of the agreements and is credited to income on a descending scale to reflect a near constant rate of return on the net investment outstanding over each period. Rental income on operating leases is credited to income as received. However of the total rental receivable under operating leases, disclosed in note 4 to the financial statements the interest portion is included in interest receivable and similar income, while the depreciation recovered in the operating lease charges is disclosed separately in order to show a true and fair view of net interest income.

### (f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation on fixed assets is calculated so as to write off the cost of fixed assets over the expected useful lives of the assets concerned. The depreciation rates used are as follows:

	Method	Annual depreciation rate
Freehold buildings	Reducing balance	6.0%
Computer equipment	Straight line	16.67%
Other office equipment	Straight line	8.0%
Company motor vehicles	Straight line	36.0%

Depreciation is charged on operating lease assets so as to write off the cost of the asset over the period of the lease to its estimated residual value on a straight line basis. The period of leases range from six months to five years.

### (g) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are based on the year-end appraisal of loans and advances. Specific provisions have been made in respect of all identified impaired advances. General provision has been made in respect of losses, which although not yet specifically identified, are known from experience to be present.

Loans and advances are written down to estimated realisable values when there is no realistic prospect of recovery. Interest of doubtful collectibility is held in suspense and is not reflected in income until recovered.

Provisions with respect to operating leases are used to write down the net book value of operating lease assets included within tangible fixed assets.

# FORD CREDIT EUROPE PLC

## 1 ACCOUNTING POLICIES (*CONTINUED*)

### (h) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. The results of overseas operations undertakings are translated at average rates of exchange for the year.

Translation differences arising from the application of year end rates of exchange to opening net assets of overseas subsidiary and associated undertakings and to related foreign currency borrowings are dealt with through profit and loss account reserves.

Other translation differences are recognised in the profit and loss account.

### (i) Forward foreign exchange contracts and other off-balance-sheet instruments

Off-balance-sheet instruments are valued at market prices and the resultant profits and losses are included in income, except for transactions designated hedges which are treated in accordance with the accounting treatment of the items being hedged.

### (j) Finance and operating leases

Assets purchased by customers under conditional sale agreements and leased under finance leases are included in advances to customers at the gross amount receivable, less unearned finance charges. Assets leased to customers under operating leases are included in fixed assets.

### (k) Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

### (l) Pension costs

The pension costs in respect of employees who are members of the Ford Motor Company Limited group's pension arrangements are recognised in the profit and loss account on a systematic basis, with the aim of spreading the cost of pensions over members' working lives.

### (m) Fees and commissions payable

Fees and commissions payable include commissions and other bonuses payable to dealers. Dealer commission is spread systematically over the life of the contract to which it relates. Other bonus payments are recognised in the profit and loss account as they are incurred.

### (n) Cash Flow

The Group has taken advantage, under FRS 1, of the exemption for 90% owned subsidiaries to not present a cashflow. The cash flows of the company are included in the financial statements of the ultimate parent company, Ford Motor Company (US).

# FORD CREDIT EUROPE PLC

## 2 ADMINISTRATIVE EXPENSES

	Group	
	1997	1996
	£'000	£'000
Staff costs (including directors)		
- wages and salaries	82,149	87,579
- social security costs	12,402	13,357
- other pension costs (note 26)	3,063	3,149
Other administrative expenses	98,976	101,935
<b>Total administrative expenses</b>	<b>196,590</b>	<b>206,020</b>
Average monthly number of employees	2,583	2,515

## 3 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Group	
	1997	1996
	£'000	£'000
Specific provisions	19,675	19,709
General provisions	32,024	48,765
<b>Total provisions for bad debts net of recoveries</b>	<b>51,699</b>	<b>68,474</b>

## 4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Is stated after:

	Group	
	1997	1996
	£'000	£'000
<b>Crediting:</b>		
Interest on amounts owed by other group undertakings	149,043	151,576
<b>Charging:</b>		
Interest charges with respect to subordinated liabilities	20,628	19,345
Rentals payable under operating leases		
- plant & equipment	162	190
- office leasehold premises	5,685	5,479
Auditors' remuneration (including all branches and overseas subsidiaries)		
- for audit services	996	935
- for non audit work	447	541
<b>Note</b>		
Aggregate rentals receivable		
- finance leases	1,166,128	1,278,626
- operating leases (including depreciation recovered)	183,610	174,850



# FORD CREDIT EUROPE PLC

## 5 DIRECTORS' EMOLUMENTS

	1997	1996
	£'000	£'000
Aggregate emoluments	1,377	1,353
Gains made on exercise of share options	-	-
Amounts receivable under long-term incentive schemes	-	-
Company pension contributions to money purchase schemes	-	-
Compensation for loss of office	-	-
Sums paid to third parties for directors' services	-	-
Excess retirement benefit of past director	-	-

Aggregate emoluments include salaries, fees, bonuses, expense allowances and other benefits in kind.

Retirement benefits are accruing to 4 current directors (1996: 4 directors) under the Ford Motor Company (U.S.) General Retirement Plan defined benefit scheme. In addition retirement benefits are accruing to 3 other current directors (1996: 2 directors) under the Ford Motor Company Limited Salaried Contributory Pension Fund. In addition Mr S Thomson receives a pension from the latter Fund. Furthermore, 1 director has retirement benefits accruing under the Ford of Germany Pension Scheme ( 1996: 1 director).

Messrs Bleakley, Lowe, Smith and Sviggum received no remuneration from the Company or the Group in respect of their services to the Company during 1997.

Three US based directors have opted to join and contribute monthly to a Savings and Stock Investment Plan sponsored by Ford Motor Company ( 1996: 4 directors). The contributions are matched by Ford Motor Company and charged to the Company at a rate of US\$ 0.60 for every \$1 that the employee contributes up to 10% of the employee's annual base salary. The Company's matching contributions are initially invested in the Ford Motor Company Common Stock Fund which is comprised primarily of Ford Motor Company Stock. The US government limits the dollar amount that an employee can contribute to these plans each year. Withdrawals and distributions from the Savings and Stock Investment Plan are governed by the Savings and Stock Plan and the U.S. Internal Revenue Code.

**Emoluments payable to the highest paid director are as follows:**

	1997	1996
	£'000	£'000
Aggregate emoluments, gains on share options exercised and benefits under long-term incentive schemes	371	282
Company pension contributions to defined benefit pension scheme (see below)	-	-

The highest paid director is a member of the Ford Motor Company (U.S.) General Retirement Plan (GRP) which has been fully funded for many years and, as such, no Company contributions are made to it at present. The GRP provides a non-contributory benefit for each year of credited service. It also provides a contributory benefit for years when employee contributions equal to 1.5% of base salary are made. If the employee leaves the Company before meeting the minimum eligibility requirements for a monthly benefit, the employee contributions, plus interest, are returned. The accrued pension benefit for the highest paid director at 31 December 1997 was US\$ 5,533 (£ 3,363) a month. Interest credited on GRP past contributions in 1997 amounted to US \$3,301 (£2,009). The pension plan does not allow for an accrued lump sum.

# FORD CREDIT EUROPE PLC

## 6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation on the profit for the year is made up as follows:

	1997 £'000	1996 £'000
United Kingdom Corporation tax @ 31.5%	39,456	22,180
Deferred taxation	2,500	-
	41,956	22,180
Payment for group relief claimed during 1991 to 1993	-	42,000
Adjustment to prior year tax charge	2,599	(16,445)
Prior year deferred tax not provided previously	39,078	-
Overseas taxation	69,996	58,337
Relief of overseas taxation	(10,601)	(5,512)
	143,028	100,560

At the end of 1996 the Group had not provided for deferred tax liabilities relating to UK operations, as in the opinion of the directors these were not likely to crystallise in the foreseeable future. In view of changes in tax legislation relating to finance leases, coupled with future projections of business mix, all deferred tax liabilities relating to the UK operations have now been provided for in full.

## 7 DIVIDENDS

	Group	
	1997 £'000	1996 £'000
Equity dividends of 25.2p per ordinary share in issue	167,000	-
Preference dividend relating to 1995 of 0.2p per preference share in issue	-	355
Accrued preference dividend relating to 1996 of 6.0p per preference share in issue	-	10,800
	167,000	11,155

The preference dividend relating to 1996 was paid on 3 February 1997 and the equity dividend was paid on 17 December 1997. No further preference dividend was paid relating to 1997 as on 28 November 1997 all issued preference shares were converted to Ordinary Shares (refer to note 20).

The Ordinary Share dividend reflected the distribution of substantially all of the Company's retained earnings at 31 December 1996.

# FORD CREDIT EUROPE PLC

## 8 SEGMENTAL INFORMATION

	EU Countries		Non EU Countries		Total Group	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Interest receivable	1,058	1,167	34	32	1,092	1,199
Depreciation recovered on operating leases	129	123	-	-	129	123
Profit on ordinary activities before taxation	204	199	22	23	226	222
Total assets	10,584	10,974	355	340	10,939	11,314
Net assets	912	1,048	48	32	960	1,080
Average net assets	980	1,032	40	31	1,020	1,063

In the opinion of the directors, the Group has only one material business segment namely the provision of finance. The geographical segments analysed above relate to the location of operations.

# FORD CREDIT EUROPE PLC

## 9 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A loan arrangement exists for directors of the Company, whereby the director purchases vehicles from Ford Motor Company Limited, and the Company provides the individual with a loan to finance the purchase. The individual pays the Company only the interest on the loan. When the loans mature, the vehicles are returned to Ford Motor Company Limited for resale, and the Company is repaid the loan value by Ford Motor Company Limited from the proceeds of the sale. The value of such loans provided to directors (including connected persons) during 1997 amounted to £452,500.

Amounts outstanding at 1 January 1997 and 31 December 1997 under such transactions from those who were directors at those dates (including connected persons) of Ford Credit Europe plc were as follows:

	Aggregate amount outstanding as at 1 January 1997 £	Maximum outstanding during the year £	Aggregate amount outstanding as at 31 December 1997 £
<b>Director</b>			
M E Bannister	27,400	27,400	18,700
W E Bleakley	13,500	13,500	-
M J Brackley	18,900	18,900	-
R C Brady	21,800	26,700	26,700
P de Rousset Hall	-	33,600	33,600
M E Ferriss	14,000	14,000	-
D C Flanigan	15,900	15,900	-
R Foertsch	-	-	-
T S Green	19,900	24,500	24,200
C H R Gronen	6,076	6,076	-
G Halloran	-	26,700	26,700
M Lowe	-	26,300	26,300
C A Michalik	15,700	19,900	19,900
S Thomson, CBE	14,000	14,100	13,800

As detailed in the preceding year report and accounts the Company entered into a contract to sell its leasehold interest in a property for £121,000 to two officers within the Ford Group. This transaction was completed on 11 April 1997.

Transactions with Ford Motor Company, USA and its subsidiary undertakings are not disclosed in the financial statements in accordance with the exemption permitted by Financial Reporting Standard No.8.

# FORD CREDIT EUROPE PLC

## 10 LOANS AND ADVANCES TO BANKS

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
<b>Remaining maturity:</b>				
Over 5 Years	176,634	371,700	12,833	37,193
5 years or less but over 1 year	440,392	559,751	-	-
1 year or less but over 3 months	65,247	4,051	-	-
3 months or less	81,736	24,825	15,727	-
Repayable on demand	143,081	101,879	159,589	113,383
<b>Total loans and advances to banks</b>	<b>907,090</b>	<b>1,062,206</b>	<b>188,149</b>	<b>150,576</b>
<b>Amounts include:</b>				
Due from subsidiary undertakings	735,594	923,388	-	-
Due from other group undertakings	280	-	280	-

Amounts due from subsidiary undertakings include subordinated loans of £nil (1996: £97,090,000).

## 11 LOANS AND ADVANCES TO CUSTOMERS

The loans and advances shown below are stated after deduction of specific and general provisions for bad and doubtful debts (see note 17).

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
<b>Remaining maturity:</b>				
Over 5 years	21,491	26,429	41,426	43,881
5 years or less but over 1 year	1,690,999	1,778,312	3,041,389	3,222,236
1 year or less but over 3 months	1,427,050	1,715,922	2,320,152	2,560,941
3 months or less	3,534,525	3,429,154	4,368,431	4,447,763
<b>Total loans and advances to customers</b>	<b>6,674,065</b>	<b>6,949,817</b>	<b>9,771,398</b>	<b>10,274,821</b>
<b>Of which repayable on demand</b>	<b>194,725</b>	<b>280,302</b>	<b>200,758</b>	<b>468,496</b>
<b>Amounts include:</b>				
Due from subsidiary undertakings	315,339	220,951	-	-
Due from other group undertakings	1,364,529	1,497,867	1,371,219	1,501,213
Due from undertakings in which the Group has a participating interest	-	-	-	486

The cost of assets acquired for letting under finance leases amounted to £1,139,924,835 (1996: £1,243,289,000) for the Group and £338,975,593 (1996: £406,982,000) for the Company.

Amounts owed by subsidiary undertakings bear interest at rates varying throughout the year based on prevailing market interest rates.

The Company has an arrangement whereby it provides finance to Ford Motor Company Limited for vehicles supplied to dealers on a sale or return basis. Under this arrangement, vehicles are consigned by Ford Motor Company Limited to the Company on sale or return, the Company in turn consigns the vehicles to dealers, also on sale or return. At 31 December 1997, the total receivable due from Ford Motor Company Limited under the sale or return vehicle financing arrangement was £1,191,023,000 (1996: £1,364,531,000) and is included in advances to customers as part of the amounts due from other Group undertakings. The receivable balance will be repaid from monies received by the Company from dealers on purchase of the vehicles.

# FORD CREDIT EUROPE PLC

## 12 SHARES IN GROUP UNDERTAKINGS

	Company	
	1997	1996
	£'000	£'000
<b>Cost at 1 January</b>	<b>398,530</b>	<b>360,412</b>
Additions at cost	3,733	2,063
Additional investment in existing subsidiaries	-	36,055
Liquidations	(12,348)	-
<b>Cost at 31 December</b>	<b>389,915</b>	<b>398,530</b>
<b>Amounts written down</b>		
At 1 January and 31 December	(17,170)	(17,170)
<b>Net Cost at 31 December</b>	<b>372,745</b>	<b>381,360</b>

During 1997 the Company established a banking subsidiary undertaking in Poland and a finance subsidiary undertaking in the Czech Republic. The additions at cost represents the initial investment in the share capital of £3,670,118 and £62,940 in Ford Bank Polska S.A. and Ford Credit Ceska Republica s.r.o. respectively.

Due to changes in banking legislation, Ford Bank Hungaria Rt. applied for a revised licence to become a finance company. This was granted in September 1997 and its name was changed to Ford Credit Hungaria Rt.

The liquidations of £12,348,000 relate to Ford Credit S.A., a subsidiary undertaking incorporated in Switzerland, Ford Credit NV, a subsidiary undertaking incorporated in Belgium and US Rentals Limited, a subsidiary incorporated in the UK which were dissolved during 1997.

On 31 December 1997 Ford Bank AG, a German banking subsidiary was converted into a partnership, Ford Bank KG. On 1 January 1998 the partnership was dissolved and business commenced as a Branch of Ford Credit Europe plc (see note 28).

### Subsidiary undertakings

	Beneficial interest	Reference date	Country of incorporation	Principal activity
Jaguar Financial Services Limited	100%	31 March	UK	Finance company
Automotive Finance Limited	100%	30 June	UK	Finance company
Ford Automotive Leasing Limited	100%	30 September	UK	Finance company
Primus Automotive Financial Services Limited	100%	31 December	UK	Finance company
Ford Credit Funding plc	33.3%	31 December	UK	Dormant
USL Holdings Limited	100%	31 December	UK	Dormant
US Leasing Limited	100%	31 December	UK	Dormant
Ford Bank KG	100%	31 December	Germany	Bank
Ford Leasing SpA	100%	31 December	Italy	Finance company
Ford Credit Poland S.A.	100%	31 December	Poland	Finance company
Ford Bank Polska S.A.	100%	31 December	Poland	Bank
Ford Credit Ceska Republica s.r.o.	100%	31 December	Czech Republic	Finance Company
Ford Credit Hungaria Rt.	100%	31 December	Hungary	Finance Company

The shares held in subsidiary undertakings are all ordinary shares, except for Ford Credit Funding plc where the Company holds 100% of the issued 'A' class shares and 100% of the issued 'C' class shares. These represent 98% of the issued share capital and 33 1/3% of the voting rights of that company.

All the above companies operated principally in their country of incorporation.

# FORD CREDIT EUROPE PLC

## 13 TANGIBLE FIXED ASSETS

	Company					Group				
	Freehold land and buildings £'000	Leasehold improvements £'000	Office equipment £'000	Motor vehicles £'000	Total £'000	Freehold land and buildings £'000	Leasehold improvements £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost:</b>										
At 1 January 1997	6,272	6,160	26,912	330,978	370,322	6,272	7,625	38,284	716,708	768,889
Additions	28	162	1,265	181,636	183,091	28	315	1,729	519,433	521,505
Disposals	-	-	(843)	(225,545)	(226,388)	-	(24)	(1,630)	(418,698)	(420,352)
Translation adjustment	-	(154)	(1,038)	(9,842)	(11,034)	-	(326)	(2,249)	(23,770)	(26,345)
<b>At 31 December 1997</b>	<b>6,300</b>	<b>6,168</b>	<b>26,296</b>	<b>277,227</b>	<b>315,991</b>	<b>6,300</b>	<b>7,590</b>	<b>36,134</b>	<b>793,673</b>	<b>843,697</b>
<b>Depreciation:</b>										
At 1 January 1997	1,959	3,093	13,391	58,617	77,060	1,959	3,817	20,576	172,551	198,903
Charge for year	180	1,642	3,409	62,570	67,801	180	1,789	4,707	146,811	153,487
Disposals	-	-	(575)	(47,648)	(48,223)	-	(17)	(950)	(115,009)	(115,976)
Translation adjustment	-	(66)	(628)	(2,466)	(3,160)	-	(154)	(1,805)	(4,518)	(6,477)
<b>At 31 December 1997</b>	<b>2,139</b>	<b>4,669</b>	<b>15,597</b>	<b>71,073</b>	<b>93,478</b>	<b>2,139</b>	<b>5,435</b>	<b>22,528</b>	<b>199,835</b>	<b>229,937</b>
<b>Net book value at 31 December 1997</b>	<b>4,161</b>	<b>1,499</b>	<b>10,699</b>	<b>206,154</b>	<b>222,513</b>	<b>4,161</b>	<b>2,155</b>	<b>13,606</b>	<b>593,838</b>	<b>613,760</b>
<b>Net book value at 31 December 1996</b>	<b>4,313</b>	<b>3,067</b>	<b>13,521</b>	<b>272,361</b>	<b>293,262</b>	<b>4,313</b>	<b>3,808</b>	<b>17,708</b>	<b>544,157</b>	<b>569,986</b>

Motor vehicles include vehicles held for use under operating leases as follows:

	Company		Group	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Cost	271,597	326,453	792,246	712,183
Accumulated depreciation	(69,730)	(57,110)	(200,986)	(171,045)
<b>Net book value</b>	<b>201,867</b>	<b>269,343</b>	<b>591,260</b>	<b>541,138</b>

All assets are valued on the historical cost basis. All freehold land and buildings detailed above are used by the Company for its own activities.

## 14 DEPOSITS BY BANKS

	Company		Group	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>With agreed maturity dates or periods of notice, by remaining maturity:</b>				
Over 5 years	46,320	-	46,320	-
5 years or less but over 2 years	144,318	336,761	144,318	337,672
2 years or less but over 1 year	45,416	59,938	46,228	61,609
1 year or less but over 3 months	162,638	154,590	197,941	241,705
3 months or less but not repayable upon demand	111,425	139,729	316,335	217,660
	510,117	691,018	751,142	858,646
Repayable upon demand	50,399	36,989	380,736	354,555
<b>Total deposits by banks</b>	<b>560,516</b>	<b>728,007</b>	<b>1,131,878</b>	<b>1,213,201</b>
<b>Amounts include:</b>				
Due to subsidiary undertakings	3,839	1,366	-	-
Due to other group undertakings	-	-	163	-

# FORD CREDIT EUROPE PLC

## 15 CUSTOMER ACCOUNTS

	Company		Group	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>With agreed maturity dates or periods of notice, by remaining maturity:</b>				
5 years or less but over 2 years	21	-	189,677	213,078
2 years or less but over 1 year	121,792	287	424,300	359,552
1 year or less but over 3 months	121,729	28,962	566,529	377,769
3 months or less but not repayable upon demand	200,175	124,803	331,264	286,989
	<b>443,717</b>	<b>154,052</b>	<b>1,511,770</b>	<b>1,237,388</b>
Repayable upon demand	4,680	3,904	4,680	5,140
<b>Total customer accounts</b>	<b>448,397</b>	<b>157,956</b>	<b>1,516,450</b>	<b>1,242,528</b>
<b>Amounts include:</b>				
Due to subsidiary undertakings	3,327	30,450	-	-
Due to other group undertakings	398,074	99,986	1,470,169	1,085,096

## 16 DEBT SECURITIES IN ISSUE

	Company		Group	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>With agreed maturity dates or periods of notice, by remaining maturity:</b>				
<b>Bonds and medium term notes:</b>				
Over 5 years	354,795	620,277	354,795	620,277
5 years or less but over 2 years	2,026,214	1,775,614	2,026,214	1,775,614
2 years or less but over 1 year	151,623	267,816	151,623	267,816
1 year or less but over 3 months	237,527	765,602	237,527	765,602
3 months or less	35,808	38,928	35,808	38,928
<b>Total</b>	<b>2,805,967</b>	<b>3,468,237</b>	<b>2,805,967</b>	<b>3,468,237</b>
<b>Other debt securities in issue:</b>				
Over 5 years	-	-	25,361	157,596
5 years or less but over 2 years	-	-	495,393	457,598
2 years or less but over 1 year	-	-	179,221	37,975
1 year or less but over 3 months	218,353	23,843	218,353	25,742
3 months or less	2,718,884	3,030,757	2,718,884	3,030,757
<b>Total</b>	<b>2,937,237</b>	<b>3,054,600</b>	<b>3,637,212</b>	<b>3,709,668</b>
<b>Total debt securities in issue</b>	<b>5,743,204</b>	<b>6,522,837</b>	<b>6,443,179</b>	<b>7,177,905</b>

Debt securities for the Group include debentures issued by Ford Bank AG, a wholly owned German banking subsidiary, during 1997 as part of its financing strategy. The nominal amount issued was Deutsch Marks (DM) 450,000,000 (£155,153,000) for which consideration of DM 449,871,000 (£155,109,000) was received by Ford Bank AG. All of the debentures issued are of the same class and are redeemable in December 2002. On 1 January 1998, Ford Bank was converted into a branch of Ford Credit Europe plc and the liabilities transferred to the Company (see note 28).



# FORD CREDIT EUROPE PLC

## 17 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Specific £'000	1997 General £'000	Total £'000	Specific £'000	1996 General £'000	Total £'000
<b>Company</b>						
Balance at 1 January	6,923	62,032	68,955	4,845	47,875	52,720
Exchange adjustments	(301)	(2,532)	(2,833)	(337)	(4,245)	(4,582)
Charge against profits net of recoveries	9,694	21,763	31,457	8,582	49,897	58,479
Transfer of provisions from group undertakings acquired	-	-	-	-	5,112	5,112
Amounts written off provision	(4,654)	(53,500)	(58,154)	(7,901)	(59,836)	(67,737)
Recoveries written back to provision	2,134	30,783	32,917	1,734	23,229	24,963
Balance at 31 December	13,796	58,546	72,342	6,923	62,032	68,955

	Specific £'000	1997 General £'000	Total £'000	Specific £'000	1996 General £'000	Total £'000
<b>Group</b>						
Balance at 1 January	17,498	68,890	86,388	19,078	66,160	85,238
Exchange adjustments	(1,554)	(3,224)	(4,778)	(2,208)	(5,046)	(7,254)
Charge against profits net of recoveries	19,675	32,024	51,699	19,709	48,765	68,474
Amounts written off provision	(13,779)	(65,776)	(79,555)	(22,426)	(65,346)	(87,772)
Recoveries written back to provision	3,642	35,021	38,663	3,345	24,357	27,702
Balance at 31 December	25,482	66,935	92,417	17,498	68,890	86,388

## 18 PROVISIONS FOR LIABILITIES AND CHARGES

### DEFERRED TAXATION

Analysis of provision and full potential liability for the Company and the Group is as follows:

<b>Company</b>	Provision		Full Potential	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Accelerated UK capital allowances	10,660	-	10,660	835
Other timing differences	-	-	(4,409)	3,119
Full potential liability	10,660	-	6,251	3,954
<b>Group</b>				
Accelerated UK capital allowances	41,578	-	41,578	28,497
Other timing differences	-	-	19,657	43,123
Full potential liability	41,578	-	61,235	71,620

# FORD CREDIT EUROPE PLC

## 18 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

### Deferred taxation (continued)

Movements on the provision for deferred taxation are as follows:

	Company		Group	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Balance at 1 January 1997	-	-	-	-
Profit and loss account	10,660	-	41,578	-
Balance at 31 December 1997	10,660	-	41,578	-

## 19 SUBORDINATED LIABILITIES

Type	Maturity Date	Currency Amount	Company	Group
		Millions	1997 £'000	1997 £'000
Loan	Perpetual	US\$ 75	45,587	45,587
Loan	30 June 2005	US\$ 250	151,957	151,957
Loan	17 Dec 2007	US\$ 200	121,566	121,566
Loan	Perpetual	DM 90	-	30,434
Loan	Perpetual	DM 70	-	23,670
Loan	Perpetual	DM 25	-	8,454
Participating Certificate	31 Dec 2001	DM 100	-	33,815
Participating Certificate	31 Dec 2001	DM 24	-	8,116
Participating Certificate	31 Dec 2005	DM 60	-	20,289
Total			319,110	443,888

### Company

The subordinated loans of the Company are due to Ford Credit International, Inc. The termination rights and interest rate applicable to each loan are as follows:

- The US \$75 million loan bears interest calculated on the basis of LIBOR. There is no set date for repayment. Either party may terminate the agreement with five years and one day's notice. In addition, the Company may, with the prior consent of the Bank of England, terminate the agreement by giving one month's written notice.
- The US \$250 million loan bears interest calculated on the basis of LIBOR. The term of the loan is ten years with repayment due on 30 June 2005. The Company may, at any time after 1 July 2000, and with the prior consent of the Bank of England, terminate the agreement by giving one month's written notice.
- The US \$200 million loan bears interest calculated on the basis of LIBOR. The term of the loan is ten years with repayment due on 17 December 2007. The Company may, at any time after 18 December 2002, and with the prior consent of the Bank of England, terminate the agreement by giving one month's written notice.

All US\$ denominated loans are hedged against foreign currency exposure.

# FORD CREDIT EUROPE PLC

## 19 SUBORDINATED LIABILITIES (CONTINUED)

### Group

The subordinated loans of the Group relate to Ford Bank, a German banking subsidiary:

The subordinated loans of the Group are due to Ford Motor Credit Company. The termination rights and interest rate applicable to each of the loans are as follows:

- The DM 90 million loan bears interest on the basis of DM LIBOR+150 bps per annum. There is no set date for repayment. Either party may terminate the agreement with five years' notice. On or after 16 June 1998, Ford Bank may terminate the agreement with two years' notice.
- The DM 70 million loan bears interest on the basis of DM LIBOR+95 bps per annum. There is no set date for repayment. Either party may terminate the agreement with five years' notice. On or after 6 December 1999, Ford Bank may terminate the agreement with two years' notice.
- The DM 25 million loan bears interest on the basis of DM LIBOR+95 bps per annum. There is no set date for repayment. Either party may terminate the agreement with five years' notice. On or after 6 July 2001, Ford Bank may terminate the agreement with two years' notice.

The termination rights and interest rate applicable to each of the Participative Certificates are as follows:

- The DM 100 million of the Certificates bear interest at 10% per annum and mature on 31 December 2001. Ford Bank may, with the prior consent from the Bank of England repay the Certificates.
- The DM 24 million of the Certificates bear interest at 10.5% per annum and mature on 31 December 2001. Ford Bank may, with the prior consent from the Bank of England repay the Certificates.
- The DM 60 million of the Certificates bear interest on the basis of DM LIBOR+130 bps per annum and mature on 31 December 2005. Ford Bank may repay the Certificates at the end of any financial year by giving two years' notice. Notice may only be given from 31 December 1999 onwards.

The rights of Ford Credit International, Inc. and Ford Motor Credit Company to payment and interest in respect of all loans will, in the event of winding up of Ford Credit Europe plc, be subordinated to the rights of all unsubordinated creditors of the Company with respect to their senior claims.

The right of the holders of the Participative Certificates to repayment will, in the event of winding up of Ford Bank be subordinated to the rights of all unsubordinated creditors of that Company with respect to their senior claims. On 1 January 1998, Ford Bank, a German banking subsidiary, was converted into a branch of Ford Credit Europe plc. Following the conversion, the subordinated liabilities have been reassigned to Ford Credit Europe plc (see note 28).

# FORD CREDIT EUROPE PLC

## 20 SHARE CAPITAL

The share capital consists of:

	1997 £'000	1996 £'000
<b>Authorised:</b>		
769,926,202 Ordinary shares of £1 each (1996: 769,926,202)	769,926	769,926
230,073,798 Non-cumulative convertible preference shares of £1 each (1996: 230,073,798)	230,074	230,074
<b>Total authorised</b>	<b>1,000,000</b>	<b>1,000,000</b>
<b>Allotted, called up and fully paid:</b>		
663,218,625 Ordinary shares of £1 each (1996: 596,895,625)	663,219	596,896
Nil Non-cumulative convertible preference shares of £1 each (1996: 180,000,000)	-	180,000
<b>Total allotted, called up and fully paid</b>	<b>663,219</b>	<b>776,896</b>

On 28 November 1997 Ford Motor Company converted 180 million non-cumulative convertible Preference Shares of £1 each into 60,606,000 Ordinary Shares of £1 each as permitted by the Articles of Association.

Also on 28 November 1997 Ford Motor Company were allotted a further 5,717,000 Ordinary Shares paying a subscription price of £2.70 per share for such shares. Combined with their shareholding of Ordinary Shares converted from Preference Shares (above) Ford Motor Company directly own just over 10% of the issued share capital of the Company.

As a result of the above conversion and further allotment the percentage shareholdings held in the Company by Ford Credit International, Inc. and Ford Werke AG were diluted to 70.412% and 19.587% respectively. In the opinion of the directors, there is no impact on its operation on a day-to-day basis as a result of these changes in shareholdings.

# FORD CREDIT EUROPE PLC

## 21 SHARE PREMIUM ACCOUNT AND RESERVES

	Company £'000	Group £'000
<b>Share premium:</b>		
At 1 January 1997	136,013	136,013
Shares Issued:		-
for consideration other than cash (preference share conversion)	119,394	119,394
for cash consideration (issuance of new shares)	9,719	9,719
At 31 December 1997	265,126	265,126
<b>Merger reserve:</b>		
At 1 January 1997 and 31 December 1997	57,881	-
<b>Profit and loss account:</b>		
At 1 January 1997	167,408	155,686
Retained (loss) for the year	(1,864)	(83,867)
Translation adjustments	(18,927)	(39,676)
At 31 December 1997	146,617	32,143

The Share Premium for consideration other than cash of £119,394,000 relates to the conversion by Ford Motor Company of 180 million convertible Preference Shares of £1 each into Ordinary Shares of £1 each on the basis of 33.67 Ordinary Shares for each £100 nominal amount of consolidated shares.

The Share Premium for cash consideration of £9,719,000 relates to the issuance to Ford Motor Company of a further 5,717,000 Ordinary Shares at a subscription price of £2.70 per share.

The total value of goodwill arising on consolidation and acquisition written off to reserves amounts to £218,511,000 (1996: £218,511,000) in respect of Group and £25,681,000 (1996: £ 25,681,000) in respect of the Company.

# FORD CREDIT EUROPE PLC

## 22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Company		Group	
	1997	1996	1997	1996
	£m	£m	£m	£m
Profit for the financial year	151	94	83	121
Dividends paid	(167)	(11)	(167)	(11)
Transfer of retained profits on liquidation of subsidiary undertaking	14	-	-	-
Retained profits for equity shareholders	(2)	83	(84)	110
Preference shares Redemption	(180)	-	(180)	-
Share Premium on share capital issued	129	-	129	-
New share capital issued	66	-	66	-
Other recognised gains and losses relating to the year	(18)	(35)	(40)	(90)
Non equity dividends relating to 1996	(11)	-	(11)	-
Goodwill on transfer of subsidiary undertaking to branch	-	(1)	-	-
Adjustments made to goodwill previously written off	-	2	-	2
Accrued dividends attributable to non-equity shareholders	-	11	-	11
Net addition to shareholders' funds	(16)	60	(120)	33
Opening shareholders' funds	1,149	1,089	1,080	1,047
Closing shareholders' funds	1,133	1,149	960	1,080

## 23 MEMORANDUM ITEMS

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
<b>Contingent liabilities</b>				
Guarantee	35,348	-	1,724	2,039
Total contingent liabilities	35,348	-	1,724	2,039

The contingent liability of £35,348,000 relates to a guarantee given by the Company for financing Ford Bank Polska S.A., which is a wholly owned subsidiary of the Company.

The contingent liability of £1,724,000 relates to a guarantee given by Ford Credit Poland to Ford Distribution, which is a wholly owned Polish subsidiary of Ford Motor Company U.S.

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
<b>Commitments</b>				
To make equity investments	-	-	126	141
Total commitments	-	-	126	141

# FORD CREDIT EUROPE PLC

## 24 FOREIGN CURRENCY ASSETS, LIABILITIES AND SHAREHOLDERS' FUNDS

	Company		Group	
	1997	1996	1997	1996
	£m	£m	£m	£m
<b>Assets:</b>				
Denominated in sterling	4,119	4,362	4,209	4,417
Denominated in currencies other than sterling	4,371	4,616	6,730	6,897
<b>Total assets</b>	<b>8,490</b>	<b>8,978</b>	<b>10,939</b>	<b>11,314</b>
<b>Liabilities and shareholders' funds:</b>				
Denominated in sterling	4,063	4,484	3,752	4,192
Denominated in currencies other than sterling	4,427	4,494	7,187	7,122
<b>Total liabilities and shareholders' funds</b>	<b>8,490</b>	<b>8,978</b>	<b>10,939</b>	<b>11,314</b>

## 25 FUTURE LEASE COMMITMENTS

Annual rentals under non-cancellable operating leases for buildings which expire:

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Within one year	154	257	249	1,060
In the second to fifth years inclusive	1,875	2,144	2,595	3,030
After five years	127	317	848	317
<b>Total</b>	<b>2,156</b>	<b>2,718</b>	<b>3,692</b>	<b>4,407</b>

Annual rentals under non-cancellable operating leases for plant and equipment which expire:

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Within one year	39	48	39	68
In the second to fifth years inclusive	-	10	18	10
<b>Total</b>	<b>39</b>	<b>58</b>	<b>57</b>	<b>78</b>

# FORD CREDIT EUROPE PLC

## 26 PENSION COSTS

The total pension cost for the Group was £3,063,000 (1996 £3,149,000) of which £1,145,000 (1996 £1,817,000) relates to overseas schemes.

### United Kingdom

Employees of the United Kingdom operations of the Company are members of the Ford Motor Company Limited Salaried Contributory Pension Fund. Members of this Fund are contracted out of the State Earnings Related Pension Scheme.

The pension arrangements provide employees with benefits related to pay and service at the rates defined in the Rules of the Fund. Contributions to the Fund by the Group are at the rates recommended by the Fund's consulting actuaries. These rates are based on the actuaries' regular assessments of the financial position of the Fund, which are carried out in accordance with the Trust Deed and Rules. The assets of the Fund are invested and are held separately from those of group companies. The Fund holds no investment in the Company, its ultimate holding company, or any subsidiary.

The latest actuarial valuation of the Fund as at 31 March 1996, was based on a market value of the assets of £1,587 million and that the actuarial value of those assets of £1,514 million represented 129% of the benefits that had accrued to members based on past service, allowing for expected future increases in earnings. Credit is taken for this excess of assets over liabilities over the remaining working lives of the members of the Fund.

### Other Locations

Employees in Ireland, Netherlands, Belgium, Switzerland and Portugal are members of their local Ford Motor Company pension schemes, which operate in a similar fashion to the United Kingdom scheme.

In Austria, Denmark, Norway, and Finland, employees are members of insured schemes, where contributions are made to an insurance company and an annuity is purchased on retirement. In Norway and Finland, the scheme is open to all employees; in Austria it is open to all employees earning in excess of Austrian Schillings 571,200 per annum; in Denmark it is open to all employees hired before May 1995.

In Germany, an insured scheme operates for employees below supervisor grade and for all employees recruited on or after 1 January 1993. For more senior employees, the pensions are provided by Ford Werke AG.

In Spain and France, a reserve is made in the accounts for employees at management level and above. There is no scheme for employees in non-management positions.

Greece, Italy, Sweden, Poland, Hungary and Czech Republic have no company pension schemes.



# FORD CREDIT EUROPE PLC

## 27 DERIVATIVE FINANCIAL INSTRUMENTS

Financial derivative activities for the Group relate to hedging and are therefore classified as non-trading activities.

The following table analyses the Group's non-trading treasury activities by type of contract, giving the underlying principal amount, the risk weighted amount as calculated according to Bank of England supervisory principles and the replacement cost obtained by marking to market contracts and aggregating those with a positive value where counterparty failure would result in a loss.

	1997			1996		
	Credit Risk Weighted Amount	Notional Principal Amount	Replacement Cost	Credit Risk Weighted Amount	Notional Principal Amount	Replacement Cost
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Exchange Rate Contracts</b>						
Forward foreign exchange	14,662	2,444,955	48,859	6,023	2,440,479	5,711
	14,662	2,444,955	48,859	6,023	2,440,479	5,711
<b>Interest Rate Contracts</b>						
Interest rate swaps	27,179	5,253,214	116,549	30,520	5,385,408	126,862
Gross currency interest rate swaps	18,733	1,549,200	23,433	14,718	1,576,768	14,338
	45,912	6,802,414	139,982	45,238	6,962,176	141,200
Total	60,574	9,247,369	188,841	51,261	9,402,655	146,911

The above financial derivatives are all 'over the counter' contracts. The following table analyses these derivatives by residual maturity.

	1997		1996	
	Notional Principal Amount	Replacement Cost	Notional Principal Amount	Replacement Cost
	£'000	£'000	£'000	£'000
<b>Residual maturities</b>				
One year or less	4,714,123	65,395	5,060,462	13,005
Five years or less, but over one year	4,174,721	84,727	3,549,247	80,673
Over five years	358,525	38,719	792,946	53,233
Total	9,247,369	188,841	9,402,655	146,911

# FORD CREDIT EUROPE PLC

## 28 POST BALANCE SHEET EVENT

On 31 December 1997 Ford Bank AG, a German banking subsidiary was converted into a partnership, Ford Bank KG of which the Company owned a share of 99.99%. On 1 January 1998 the partnership was dissolved and business commenced as a branch of Ford Credit Europe plc. On dissolution of the partnership all assets were transferred to, and all liabilities assumed by the Company.

The profit and loss account and the balance sheet of Ford Bank have accordingly been consolidated into the financial statements as at 31 December 1997 as a subsidiary undertaking. In subsequent years, Ford Bank will be accounted for as a branch rather than a subsidiary undertaking.

A summary of Ford Bank's financial position as at 31 December 1997 is as follows:

	Notes	1997 £'000
<b>Assets</b>		
Cash and balances at central banks		13,497
Loans and advances to customers	11	3,320,808
Tangible fixed assets	13	117,848
Other assets		45,327
<b>Total assets</b>		<b>3,497,480</b>
<b>Liabilities</b>		
Deposits by banks	14	683,802
Customer accounts	15	1,073,753
Debt securities in issue	16	1,311,828
Other liabilities		135,660
Subordinated liabilities	19	124,778
Total shareholders' funds	22	167,659
<b>Total liabilities and shareholders' funds</b>		<b>3,497,480</b>

## 29 IMMEDIATE AND ULTIMATE PARENT COMPANIES

The immediate parent undertaking is Ford Credit International, Inc. Ordinary shares in the Company are also held by Ford Werke AG and Ford Motor Company (US). The parent company and ultimate controlling party that heads the largest group of undertakings for which consolidated financial statements are prepared is Ford Motor Company (US). Ford Motor Company (US) and Ford Credit International, Inc. are incorporated in the United States of America, and Ford Werke AG is incorporated in Germany.

Copies of the consolidated accounts for Ford Motor Company may be obtained from Ford Motor Company, The American Road, Dearborn, Michigan 48121, United States of America. Copies of the accounts of Ford Werke AG may be obtained from 50275, Henry Ford Strasse, Cologne, Germany.