

**CARGILL FINANCIAL MARKETS PLC**

**FINANCIAL STATEMENTS**

**YEAR ENDED 31 MAY 1998**



**CARGILL FINANCIAL MARKETS PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**31 May 1998**

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## **DIRECTORS' REPORT**

The directors submit their annual report and the audited financial statements for the year ended 31 May 1998.

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### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The directors confirm that appropriate accounting policies have been agreed 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 May 1998. 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 which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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### **BUSINESS REVIEW**

The company's principal activity continues to be the proprietary trading of fixed income and equity securities and related financial instruments. The company has had a successful year and has earned a profit for the financial year of \$20,149,000 (1997: profit \$23,522,000).

The retained loss for the year carried forward to reserves, after paid and proposed dividends, is \$9,851,000 (1997: profit \$23,522,000).

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### **POST BALANCE SHEET EVENT**

Since the year end the company has incurred losses, primarily due to the recent significant fall in Russian markets. In order to strengthen the company's capital base \$75,000,000 of new share capital was issued fully paid in August 1998.

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### **YEAR 2000**

Information technology and systems are one of the key performance factors of our business. It is therefore critical that the challenges presented by the year 2000 change are properly planned and managed. Cargill Financial Markets PLC has established a year 2000 project, which is a partnership between IT and the business arena. In addition, the Cargill, Incorporated group has created global and regional work teams to ensure the year 2000 compliance of all computer systems and work processes and to minimise the impact of the failure of business partners. We have not quantified the costs associated with these plans, which will be written off as they arise, but consider that they will be immaterial.

## DIRECTORS' REPORT

continued

### EURO

As an international company with many counterparties in financial markets throughout Europe, the introduction of the single currency on 1 January 1999 is of great importance to Cargill Financial Markets PLC. In ensuring our readiness for this, we will incur some costs in areas such as system and process changes; these are unlikely to be significant and will be written off as they arise. In order to meet this challenge, we have established a project team with an overall co-ordinator. We are positioning ourselves to handle the introduction of the Euro at the appropriate time.

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### DIVIDENDS

An interim dividend of \$10,000,000 ( 1997:\$Nil ) was paid during the year. A further dividend of \$20,000,000 (1997:\$Nil) was proposed at 31 May 1998 and paid on 11 June 1998.

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### BRANCH OFFICES

The company operates a branch office in Tokyo, Japan.

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### AUDITORS

KPMG Audit Plc have expressed their willingness to continue in office as auditors. In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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### DONATIONS

The contributions made by the company during the year for charitable donations were \$160,000 (1997: \$92,000).

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### SUPPLIERS

It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them. The number of days purchases outstanding at 31 May 1998 was 35.

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### DIRECTORS AND DIRECTORS' INTERESTS

The directors during the year were as follows:

	<u>Appointed</u>	<u>Resigned</u>
J C Reynolds	26 April 1990	
D P L Corridan	30 April 1990	
D W Rogers	23 September 1993	1 June 1998
P J Tiller	1 July 1993	
D W MacLennan	2 January 1996	1 June 1998
J E Osborn	23 February 1996	
J G M de Jong	4 December 1997	

J Llewelyn was appointed a director on 1 June 1998.

## DIRECTORS' REPORT

continued

According to the register of directors' interests, no director had a beneficial interest in the shares of the company nor of any group companies during the year.

By Order of the Board



J E Osborn

Director

27 August 1998

Knowle Hill Park  
Fairmile Lane  
Cobham  
Surrey KT11 2PD

**REPORT OF THE AUDITORS KPMG AUDIT PLC**

**TO THE MEMBERS OF CARGILL FINANCIAL MARKETS PLC**

We have audited the financial statements on pages 5 to 16.

**Respective responsibilities of directors and auditors**

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 May 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

27 August 1998

## PROFIT AND LOSS ACCOUNT

for the year ended 31 May 1998

		1998	1997
	Notes	\$000	\$000
Net trading income	2	85,091	81,676
Administrative expenses		(52,365)	(42,861)
Profit on ordinary activities before taxation	5	32,726	38,815
Taxation on profit on ordinary activities	8	(12,577)	(15,293)
Profit on ordinary activities after taxation for the financial year		20,149	23,522
Dividends	9	(30,000)	-
Retained (loss)/ profit for the financial year	15	(9,851)	23,522

The above income and expenditure has been derived from continuing activities.

There were no recognised gains and losses other than the profit for the financial year. Consequently no statement of recognised gains and losses has been prepared.

There were no acquisitions or disposals and no operations were discontinued during the year.

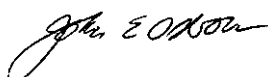
The notes on pages 7 to 16 form an integral part of these financial statements

# BALANCE SHEET

at 31 May 1998

	Notes	1998 \$000	1997 \$000
<b>Current assets</b>			
Debtors			
Amounts falling due within one year	10	3,588,797	4,212,790
Amounts falling due in more than one year	10	4,915	-
Securities	11	4,444,890	3,443,852
Cash at bank and in hand		24,323	1,962
		<u>8,062,925</u>	<u>7,658,604</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(7,965,009)</u>	<u>(7,565,892)</u>
<b>Net current assets</b>		<u>97,916</u>	<u>92,712</u>
<b>Creditors: amounts falling due after more</b>			
than one year	13	(5,055)	-
<b>Net assets</b>		<u><u>92,861</u></u>	<u><u>92,712</u></u>
 <b>Capital and reserves</b>			
Called up share capital	14	36,020	36,020
Profit and loss account	15	46,841	56,692
Other reserves	16	10,000	-
<b>Equity shareholders' funds</b>	17	<u><u>92,861</u></u>	<u><u>92,712</u></u>

Approved by the Board of Directors and signed on its behalf on 27 August 1998.



J E Osborn (Director)

The notes on pages 7 to 16 form an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the preparation of these accounts.

**(a) Basis of accounting:**

- (i) The accounts have been prepared under the historical cost convention, except as noted in (b) below, and in accordance with applicable accounting standards.
- (ii) Turnover, cost of sales and gross profit (as prescribed in the Companies Act 1985) do not have any meaningful equivalents in a financial markets business and are therefore not included.
- (iii) Trading income comprises the net profit arising from positions held in securities, net interest and net dividends earned by those securities after charging funding costs.
- (iv) The directors consider that the functional currency of the company is the US dollar. The financial statements have therefore been prepared in that currency.

**(b) Valuation of securities and derivative instruments:**

Securities are accounted for on a trade date basis. Trading securities and derivative instruments are valued at the market price ruling at the balance sheet date; resultant profits or losses are taken to the profit and loss account. This policy for recognising profits and losses is at variance with the requirements of the Companies Act for all amounts to be stated in the balance sheet at the lower of cost and net realisable value. However, the directors consider that this policy is necessary to satisfy the overriding requirement that the accounts show a true and fair view of the results of the company, since the performance of the company in any period is only properly measured by reference to market values. It is not practicable to quantify the effect on the accounts of these departures, since information on original cost, being of no continuing relevance to the business, is not readily available.

**(c) Interest income and expense:**

Interest income and expense are recognised on an accruals basis.

**(d) Repurchase and reverse repurchase agreements:**

Securities purchased with agreement to resell and securities sold with agreement to repurchase are collateralised financing transactions and are recorded on the balance sheet at the amount financed plus accrued interest.

**(e) Foreign exchange:**

Transactions denominated in foreign currencies are translated into US dollars and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in foreign currencies are translated into US dollars at the exchange rates ruling at the balance sheet date. Forward foreign exchange contracts, other than those which relate to loans and deposits, are valued at market rates applicable to their respective maturities at the balance sheet date. Profits and losses on forward foreign exchange contracts which relate to loans and deposits are accrued evenly over the life of the transaction. Unrealised exchange gains and losses are taken to the profit and loss account for the reasons set out in (b) above. Exchange gains and losses are not separately identified since they are an intrinsic component of net trading income and such disclosure would be meaningless.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 1. PRINCIPAL ACCOUNTING POLICIES *continued*

**(f) 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.

**(g) Pensions:**

The company participates in one of the Cargill Group pension schemes which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

**(h) Cash flow statement:**

The company has not prepared a cash flow statement as it is included in the consolidated accounts of Cargill Holdings, a company registered in England and Wales and which publishes a consolidated cash flow statement in its own financial statements.

**(i) Operating leases:**

Rentals paid under operating leases are charged to the profit and loss account as they fall due.

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### 2. NET TRADING INCOME

	1998	1997
	\$000	\$000
Trading gains	103,913	81,600
Interest receivable and similar income	524,772	477,983
Interest payable and similar charges	(543,594)	(477,907)
Net trading income	<u>85,091</u>	<u>81,676</u>

Interest income includes interest receivable from group undertakings of \$3,008,000 (1997: \$8,007,000).

Interest expense includes interest payable to group undertakings of \$18,256,000 (1997: \$14,046,000).

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### 3. STAFF NUMBERS AND COSTS

The average number of persons employed by the company during the year was 166 (1997: 113), all of whom worked within the financial markets trading business.

The aggregate payroll costs of these persons were as follows:

	1998	1997
	\$000	\$000
Wages and salaries	28,088	27,365
Social security costs	690	564
Other pension costs	482	241
	<u>29,260</u>	<u>28,170</u>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 4. DIRECTORS' EMOLUMENTS

The aggregate of emoluments and amounts receivable under the long term incentive scheme of the highest paid director was \$968,000 (1997: \$221,000). He is a member of a defined benefit scheme, under which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end, was \$9,000.

	Number of Directors	
	1998	1997
Retirement benefits are accruing to the following number of Directors under:		
Defined benefit schemes	5	3
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was:	1	2

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is after charging:

	1998	1997
	\$000	\$000
Auditors' remuneration:		
Audit work	107	71
Non-audit work	13	5
Rentals under operating leases:		
Motor vehicles	336	196
Other	72	-
	408	196
Directors' emoluments	2,119	406
Amounts receivable under long term incentive schemes	25	123
	2,144	529
Excess retirement benefits over original entitlement	-	45
Company contributions to pension scheme invested on a money purchase basis	31	-

### 6. SEGMENTAL ANALYSIS

No segmental analysis is provided as the company has only one distinguishable class of business and operates in a market which is not limited by geographical bounds.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 7. OPERATING LEASES

Annual commitments under non-cancellable operating leases for motor vehicles and computer equipment are as follows:

	1998 \$000	1997 \$000
Operating leases which expire:		
Within one year	42	29
In the second to fifth years inclusive	297	151
	<u>339</u>	<u>180</u>

### 8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1998 \$000	1997 \$000
United Kingdom corporation tax at 31% (1997: 32.67%)		
Current year	11,831	14,383
Adjustments to previous year	947	(173)
	<u>12,778</u>	<u>14,210</u>
Overseas taxation		
Current year	294	752
Adjustments to previous year	(338)	207
	<u>12,734</u>	<u>15,169</u>
Tax attributable to franked investment income	-	147
Deferred taxation		
Current year	(104)	(23)
Adjustments to previous year	(53)	-
	<u>12,577</u>	<u>15,293</u>

### 9. DIVIDENDS

	1998 \$000	1997 \$000
Interim dividend paid	10,000	-
Final dividend proposed	20,000	-
	<u>30,000</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 10. DEBTORS

	1998	1997
	\$000	\$000
<b>Amounts falling due within one year</b>		
Counterparty debtors	467,723	365,504
Securities purchased with agreement to resell	2,969,727	3,720,201
Amounts owed by group undertakings	60,797	56,020
Other debtors	1,897	7,333
Prepayments and accrued income	88,473	63,709
Deferred tax	180	23
	<u>3,588,797</u>	<u>4,212,790</u>
 <b>Amounts falling due after more than one year</b>		
Amounts owed by group undertakings	<u>4,915</u>	<u>-</u>
 <b>Deferred tax</b>		
Balance brought forward	23	-
Credited to profit and loss account	157	23
<b>Balance carried forward</b>	<u>180</u>	<u>23</u>

## 11. SECURITIES

	1998	1997
	\$000	\$000
Government bonds	3,726,169	2,812,706
Convertible bonds	46,739	167,568
Warrants and options	38,243	36,798
Shares listed on recognised exchanges	285,934	426,780
Corporate bonds	337,548	-
Other securities	10,257	-
	<u>4,444,890</u>	<u>3,443,852</u>
 <b>Included in the above:</b>		
Listed on the London Stock Exchange	84,529	47,242
Listed elsewhere	201,406	379,538
Unlisted	4,158,955	3,017,072
	<u>4,444,890</u>	<u>3,443,852</u>

# **NOTES TO THE FINANCIAL STATEMENTS**

continued

## **12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1998	1997
	<u>\$000</u>	<u>\$000</u>
Bank loans	-	89,229
Commercial paper issued	29,127	180,530
Trading securities sold short	1,568,816	2,224,120
Securities sold under agreement to repurchase	5,040,974	4,354,491
Counterparty creditors	841,691	368,664
Amounts owed to group undertakings	391,661	217,061
Corporation tax payable	11,931	14,196
Other creditors	10,328	24,367
Accruals and deferred income	50,481	93,234
Dividends payable	20,000	-
	<u><u>7,965,009</u></u>	<u><u>7,565,892</u></u>

Amounts owed to group undertakings include \$215,998,000 (1997: \$205,559,000) drawdowns on a subordinated loan facility with Cargill Global Funding PLC.

The only event of default in relation to the subordinated debt is non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the company. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

## **13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	1998	1997
	<u>\$000</u>	<u>\$000</u>
Bank loan	<u><u>5,055</u></u>	<u><u>-</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 14. CALLED UP SHARE CAPITAL

	1998	1997
	\$000	\$000
<b>Authorised:</b>		
50,000 ordinary shares of £1 each (1997: 50,000)	76	76
50,000,000 ordinary shares of US\$1 each (1997: 50,000,000)	50,000	50,000
	<u>50,076</u>	<u>50,076</u>

On 19 August 1998 the company increased its authorised share capital to 150,000,000 ordinary US\$1 shares.

	1998	1997
	\$000	\$000
<b>Allotted:</b>		
50,000 ordinary shares of £1 each (1997: 50,000)	76	76
36,000,000 ordinary shares of US\$1 each (1997: 36,000,000)	36,000	36,000
	<u>36,076</u>	<u>36,076</u>

<b>Called up and paid:</b>		
50,000 partially paid up ordinary shares of £1 each (1997: 50,000)	20	20
36,000,000 fully paid up ordinary shares of US\$1 each (1997: 36,000,000)	36,000	36,000
	<u>36,020</u>	<u>36,020</u>

On 19 August 1998 and 21 August 1998 respectively the company issued a further 25 million and 50 million ordinary shares of US\$1 each at par in order to strengthen its capital base.

## 15. PROFIT AND LOSS ACCOUNT

	\$000
Brought forward at 1 June 1997	56,692
Retained loss for the financial year	(9,851)
Carried forward at 31 May 1998	<u>46,841</u>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 16. OTHER RESERVES

	\$000
Brought forward at 1 June 1997	-
Ex gratia gift from Cargill, Incorporated	10,000
Carried forward at 31 May 1998	<u>10,000</u>

### 17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1998	1997
	\$000	\$000
Retained (loss)/profit for the financial year	(9,851)	23,522
Ex gratia gift from Cargill, Incorporated	10,000	-
Opening shareholders' funds	<u>92,712</u>	69,190
Closing shareholders' funds	<u>92,861</u>	<u>92,712</u>

### 18. PENSIONS

Cargill Financial Markets PLC is a member of the Cargill Group pension scheme. The group operates a defined benefit pension scheme, the assets of which are held in separate trustee administered funds. Contributions are based on pension costs across the group as a whole. The level of contributions is determined by independent actuarial valuation. The last actuarial valuation was at 5 April 1997. The pension costs charged to the profit and loss account amount to \$482,000 (1997: \$241,000). Particulars of the actuarial valuation of the group schemes are contained in the financial statements of Cargill Holdings. Contributions amounting to \$284,000 (1997: \$199,000) were prepaid to the fund and are included in debtors.

### 19. CONTINGENT LIABILITIES

At 31 May 1998, the company had entered in the normal course of its business into interest rate swaps, financial futures and option contracts and forward contracts for the purchase and sale of foreign currencies and securities. At 31 May 1998, assets with a market value including interest of \$3,924,149,000 (1997: \$4,558,335,000) were pledged as collateral under securities sold with agreement to repurchase. Assets with a market value including interest of \$83,407,000 (1997: \$106,515,000) had been deposited with third parties as collateral for securities borrowed.

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 20. RELATED PARTY TRANSACTIONS

FRS 8 grants a partial exemption to subsidiary undertakings from its requirements, provided that 90% or more of the voting rights of the company are controlled within the group, and the subsidiary is included in publicly available consolidated financial statements.

The directors of the company have taken advantage of this exemption which permits non-disclosure of transactions with entities that are part of the Cargill Holdings Group, of which Cargill Financial Markets PLC is a subsidiary.

This exemption does not apply to the following transactions with related parties which were conducted on normal commercial terms.

	1998 \$000	1997 \$000
Expenses paid in respect of technical and management services received from related parties comprise:		
Cargill Financial Services Corporation, Inc.	(1,528)	(2,345)
Cargill Enterprises, Inc.	(3,287)	-
Other	(753)	(368)
	<u>(5,568)</u>	<u>(2,713)</u>
Recoveries recharged in respect of management services provided to related parties comprise:		
Cargill Investments Group	5,461	5,204
Cargill Financial Services, Inc.	1,023	-
Other	526	241
	<u>7,010</u>	<u>5,445</u>
Interest income received from related parties comprises:		
Cargill South Africa Pty Ltd	1,181	-
Other	72	-
	<u>1,253</u>	<u>-</u>

Trades with a nominal value of \$12.1 billion ( 1997: \$6.5 billion ) were transacted at market value, which are normal commercial terms, with related parties in the year. \$10.3 billion ( 1997: \$5.3 billion ) of these trades were transacted with Cargill Financial Services Corporation, Inc.

Outstanding balances in relation to all of the related parties including balances with the Cargill Holdings Group as at 31 May 1998 and 31 May 1997 are disclosed separately in Notes 10 and 12.

## **NOTES TO THE FINANCIAL STATEMENTS**

continued

### **21. POST BALANCE SHEET EVENTS**

Since the year end the company has incurred losses, primarily due to the recent significant fall in Russian markets. In order to strengthen the company's capital base \$75,000,000 of new share capital was issued fully paid in August 1998.

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### **22. ULTIMATE HOLDING COMPANY AND PARENT UNDERTAKING**

The company is a subsidiary of Cargill, Incorporated, a company incorporated in the USA. The largest group in which the results of the company are consolidated is that headed by Cargill, Incorporated whose consolidated financial statements are not available to the public. The smallest group in which the results of the company are consolidated is that headed by Cargill Holdings registered in England and Wales, whose consolidated financial statements are available to the public and may be obtained from the Registrar of Companies, Crown Way, Cardiff.