

CARGILL FINANCIAL MARKETS PLC

FINANCIAL STATEMENTS
YEAR ENDED 31 MAY 1997



CARGILL FINANCIAL MARKETS PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 May 1997

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DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 May 1997.

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 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 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.

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 \$ 23,522,000 (1996: profit \$20,717,000).

The retained profit for the year carried forward to reserves is \$ 23,522,000 (1996: \$15,991,000).

DIVIDENDS

No interim dividend (1996: \$4,726,000) was paid during the year.

BRANCH OFFICES

The Company operates a branch office in Tokyo, Japan.

AUDITORS

On 20 February 1997 KPMG resigned as auditors of the Company. KPMG Audit Plc was appointed auditor of the Company to fill the casual vacancy.

DIRECTORS' REPORT

continued

DONATIONS

The contributions made by the Company during the year for charitable donations were \$ 92,000 (1996: \$63,000).

SUPPLIERS

The Company recognises the importance of maintaining good business relationships with its suppliers and is committed to paying all invoices within 30 days of invoice date or otherwise within agreed terms.

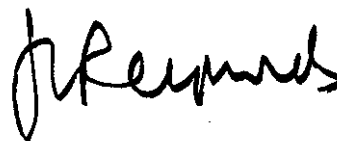
DIRECTORS AND DIRECTORS' INTERESTS

The Directors during the year were as follows:

| | <u>Appointed</u> |
|----------------|-------------------|
| J C Reynold | 26 April 1990 |
| D P L Corridan | 30 April 1990 |
| D W Rogers | 23 September 1993 |
| P J Tiller | 1 July 1993 |
| D W MacLennan | 2 January 1996 |
| J E Osborn | 23 February 1996 |

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 C Reynolds

Director

29 August 1997

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 4 to 13.

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 1997 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

29 August 1997

PROFIT AND LOSS ACCOUNT

for the year ended 31 May 1997

| | | 1997 | 1996 |
|--|--------------|--------------------------|--------------------------|
| | <u>Notes</u> | <u>\$000</u> | <u>\$000</u> |
| Net trading income | 2 | 81,676 | 57,413 |
| Administrative expenses | | (42,861) | (24,476) |
| Profit on ordinary activities before taxation | 5 | 38,815 | 32,937 |
| Taxation on profit on ordinary activities | 8 | (15,293) | (12,220) |
| Profit on ordinary activities after taxation | | 23,522 | 20,717 |
| Dividends | 9 | 0 | (4,726) |
| Retained profit for the financial year | 14 | <u>23,522</u> | <u>15,991</u> |

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.

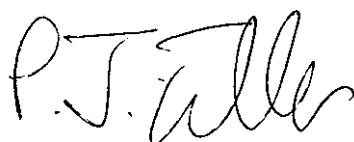
The notes on pages 6 to 13 form an integral part of these financial statements

BALANCE SHEET

at 31 May 1997

| | | 1997 | 1996 |
|---|--------------|------------------------|------------------------|
| | <u>Notes</u> | <u>\$000</u> | <u>\$000</u> |
| Current assets | | | |
| Debtors | 10 | 4,212,790 | 3,700,391 |
| Securities | 11 | 3,443,852 | 2,799,456 |
| Cash at bank and in hand | | 1,962 | 14,328 |
| | | 7,658,604 | 6,514,175 |
| Creditors: amounts falling due within one year | 12 | (7,565,892) | (6,444,985) |
| Net current assets | | 92,712 | 69,190 |
| Total assets less current liabilities | | 92,712 | 69,190 |
| Capital and reserves | | | |
| Called up share capital | 13 | 36,020 | 36,020 |
| Profit and loss account | 14 | 56,692 | 33,170 |
| Equity shareholders' funds | 15 | 92,712 | 69,190 |

Approved by the Board of Directors on 29 August 1997.



P J Tiller (Director)

The notes on pages 6 to 13 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.

2. NET TRADING INCOME

| | 1997 | 1996 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Trading gains | 81,600 | 89,269 |
| Interest receivable and similar income | 477,983 | 337,632 |
| Interest payable and similar charges | (477,907) | (369,488) |
| Net trading income | <u>81,676</u> | <u>57,413</u> |

Interest income includes interest receivable from group undertakings of \$8,007,000 (1996: \$2,410,000).

Interest expense includes interest payable to group undertakings of \$14,046,000 (1996: \$8,657,000).

3. STAFF NUMBERS AND COSTS

The average number of persons employed by the Company during the year was 113 (1996: 73), all of whom worked within the financial markets trading business.

The aggregate payroll costs of these persons were as follows:

| | 1997 | 1996 |
|-----------------------|---------------|---------------|
| | \$000 | \$000 |
| Wages and salaries | 27,365 | 14,070 |
| Social security costs | 564 | 480 |
| Other pension costs | 241 | 196 |
| | <u>28,170</u> | <u>14,746</u> |

NOTES TO THE FINANCIAL STATEMENTS

continued

4. DIRECTORS' EMOLUMENTS

The aggregate of emoluments and amounts receivable under the long term incentive schemes of the highest paid Director was \$221,103 (1996: \$285,161). 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 \$3,862.

| | Number of Directors 1997 | 1996 |
|--|-----------------------------|------|
| Retirement benefits are accruing to the following number of Directors under: | | |
| - Defined benefit schemes | 3 | 4 |
| The number of Directors in respect of whose services shares were received or receivable under long term incentive schemes was: | 2 | 0 |

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is after charging:

| | 1997 \$000 | 1996 \$000 |
|--|---------------|---------------|
| Auditors' remuneration: | | |
| Audit work | 71 | 76 |
| Non-audit work | 5 | 10 |
| Rentals under operating leases: | | |
| Motor vehicles | 196 | 178 |
| Directors' emoluments | 406 | 362 |
| Amounts receivable under long term incentive schemes was | 123 | 0 |
| | 529 | 362 |
| Excess retirement benefits over original entitlement | 45 | 0 |

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.

7. OPERATING LEASES

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

| | 1997 \$000 | 1996 \$000 |
|--|---------------|---------------|
| Operating leases which expire: | | |
| Within one year | 116 | 113 |
| In the second to fifth years inclusive | 130 | 132 |
| | 246 | 245 |

NOTES TO THE FINANCIAL STATEMENTS

continued

8. TAXATION OF PROFIT ON ORDINARY ACTIVITIES

| | 1997 | 1996 |
|---|----------|----------|
| | \$000 | \$000 |
| Corporation tax at 32.67 % (1996: 33 %) | | |
| Current year | (15,135) | (11,682) |
| Adjustments to previous year | (34) | (8) |
| | (15,169) | (11,690) |
| Tax attributable to franked investment income | (147) | (123) |
| Deferred tax: | | |
| Current year | 23 | (407) |
| | (15,293) | (12,220) |

9. DIVIDENDS

| | 1997 | 1996 |
|------------------------|-------|---------|
| | \$000 | \$000 |
| Interim dividends paid | 0 | (4,726) |

10. DEBTORS

| | 1997 | 1996 |
|---|-----------|-----------|
| | \$000 | \$000 |
| Counterparty debtors | 365,504 | 362,481 |
| Securities purchased with agreement to resell | 3,720,201 | 3,246,343 |
| Amounts owed by group undertakings | 56,020 | 45,472 |
| Other debtors | 7,333 | 9,667 |
| Prepayment and accrued income | 63,709 | 36,428 |
| Deferred tax | 23 | 0 |
| | 4,212,790 | 3,700,391 |
| Deferred tax | | |
| Balance brought forward | 0 | 365 |
| Translation of brought forward balance | 0 | 42 |
| Credited/(charged) to profit and loss account | 23 | (407) |
| Balance carried forward | 23 | 0 |

NOTES TO THE FINANCIAL STATEMENTS

continued

11. SECURITIES

| | 1997 | 1996 |
|---------------------------------------|------------------|------------------|
| | \$000 | \$000 |
| Government bonds | 2,812,706 | 2,133,832 |
| Convertible bonds | 167,568 | 117,093 |
| Warrants and options | 36,798 | 4,578 |
| Shares listed on recognised exchanges | 426,780 | 543,953 |
| | <u>3,443,852</u> | <u>2,799,456</u> |
| Included in the above: | | |
| Listed on the London Stock Exchange | 47,242 | 19,909 |
| Listed elsewhere | 379,538 | 524,044 |
| Unlisted | <u>3,017,072</u> | <u>2,255,503</u> |
| | <u>3,443,852</u> | <u>2,799,456</u> |

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1997 | 1996 |
|---|------------------|------------------|
| | \$000 | \$000 |
| Bank loans | 89,229 | 36,302 |
| Commercial paper issued | 180,530 | 439,198 |
| Trading securities sold short | 2,224,120 | 2,013,229 |
| Securities sold under agreement to repurchase | 4,354,491 | 3,499,211 |
| Counterparty creditors | 368,664 | 268,711 |
| Amounts owed to group undertakings | 217,061 | 101,549 |
| Corporation tax payable | 14,196 | 11,384 |
| Other creditors | 24,367 | 5,342 |
| Accruals and deferred income | 93,234 | 70,059 |
| | <u>7,565,892</u> | <u>6,444,985</u> |

Amounts owed to group undertakings include \$ 205,559,000 (1996: \$100,780,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

continued

13. CALLED UP SHARE CAPITAL

| | 1997 | 1996 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Authorised: | | |
| 50,000 ordinary shares of £1 each (1996: 50,000) | 76 | 76 |
| 50,000,000 ordinary shares of US\$1 each (1996: 50,000,000) | 50,000 | 50,000 |
| | <u>50,076</u> | <u>50,076</u> |
| Allotted: | | |
| 50,000 ordinary shares of £1 each (1996: 50,000) | 76 | 76 |
| 36,000,000 ordinary shares of US\$1 each (1996: 36,000,000) | 36,000 | 36,000 |
| | <u>36,076</u> | <u>36,076</u> |
| Called up and paid: | | |
| 50,000 partially paid up ordinary shares of £1 each (1996: 50,000) | 20 | 20 |
| 36,000,000 fully paid up ordinary shares of US\$1 each (1996: 36,000,000) | 36,000 | 36,000 |
| | <u>36,020</u> | <u>36,020</u> |

14. PROFIT AND LOSS ACCOUNT

| | 1997 | 1996 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Retained profit for the financial year | 23,522 | 15,991 |
| Retained profit brought forward | 33,170 | 17,179 |
| Retained profit carried forward | <u>56,692</u> | <u>33,170</u> |

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 1997 | 1996 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Retained profit for the financial year | 23,522 | 15,991 |
| Opening shareholders' funds | 69,190 | 53,199 |
| Closing shareholders' funds | <u>92,712</u> | <u>69,190</u> |

NOTES TO THE FINANCIAL STATEMENTS

continued

16. 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 6 April 1994. The pension costs charged to the profit and loss account amount to \$291,000 (1996: \$196,000). Particulars of the actuarial valuation of the Group schemes are contained in the financial statements of Cargill Holdings. Contributions amounting to \$199,000 (1996: \$70,000) were prepaid to the fund and are included in debtors

17. CONTINGENT LIABILITIES

At 31 May 1997, 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 1997, assets with a market value including interest of \$4,558,335,000 (1996: \$3,233,895,000) were pledged as collateral under securities sold with agreement to repurchase. Assets with a market value of \$Nil (1996: \$14,500,000) had been deposited with affiliated companies as margin for futures and options trading. Assets with a market value including interest of \$106,515,000 (1996: \$96,084,000) had been deposited with third parties as collateral for securities borrowed.

18. RELATED PARTY TRANSACTIONS

Financial Reporting Standard No. 8: Related Party Disclosures (FRS 8) has been applied to these financial statements for the first time.

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.

NOTES TO THE FINANCIAL STATEMENTS

continued

18. RELATED PARTY TRANSACTIONS continued

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

| | 1997 | 1996 |
|---|----------------|--------------|
| | <u>\$000</u> | <u>\$000</u> |
| Expenses paid in respect of technical and management services received from related parties comprise: | | |
| Cargill Financial Services Corporation Inc. | (2,345) | (531) |
| Other | (368) | (448) |
| | <u>(2,713)</u> | <u>(979)</u> |
| Recoveries recharged in respect of management services provided to related parties comprise: | | |
| Cargill Investments Group | 5,204 | 4,203 |
| Other | 241 | 692 |
| | <u>5,445</u> | <u>4,895</u> |

Trades with a nominal value of \$6.5 billion were transacted at market value, which are normal commercial terms, with related parties in the year. \$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 1997 and 31 May 1996 are disclosed separately in Notes 10 and 12.

Cargill Financial Services Corporation Inc and the Cargill Investments Group are wholly owned subsidiaries of Cargill, Incorporated.

19. 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.