

GRAINFARMERS PLC AND SUBSIDIARIES

Report and Financial Statements

For the year ended 31 July 2007

WEDNESDAY



AWCKWXKF

A19

27/02/2008

222

COMPANIES HOUSE

GRAINFARMERS plc

Annual report and financial statements for the year ended 31 July 2007

Directors

A W M Christie-Miller
A S Barnard
S M Browne
A P Conway
T J Davies
D A Dowty
R J Matthews
E C Phillips
A Stone

Secretary and registered office

R M Ellison
Larkwhistle Farm Road
Micheldever Station
Winchester
Hampshire
SO21 3BG

Company number

3548572

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol

Bankers

HSBC Bank plc
Penman Way
Grove Park
Enderby
Leicester
LE19 1SY

Solicitors

Roythornes
10 Pinchbeck Road
Spalding
Lincolnshire
PE11 1PZ

Field Fisher Waterhouse
35 Vine Street
London
EC3N 2AA

Godwins
12 St Thomas Street
Winchester
Hampshire
SO23 9HF

GRAINFARMERS plc

Annual report and financial statements for the year ended 31 July 2007

Contents

Page:

| | |
|----|---|
| 1 | Chairman's statement |
| 3 | Report of the directors |
| 6 | Statement of directors' responsibilities |
| 7 | Independent auditors' report |
| 9 | Consolidated profit and loss account |
| 9 | Consolidated statement of total recognised gains and losses |
| 10 | Consolidated balance sheet |
| 11 | Company balance sheet |
| 12 | Notes to the financial statements |

Dear Shareholder

I ended my last Chairman's Statement on an optimistic note, stating that tighter demand and supply on a world scale, backed by the emergence of new Biofuels Industry in the UK and Europe, was leading to higher grain prices for our farmer shareholders

The optimism has proved right. The USA's biofuel industry has had a greater impact on UK and world prices than the UK biofuel industry, but this, along with increased consumption in Asia, and poor yields in our main competitors' markets, drove up grain prices significantly. As I write, the phenomenon is continuing and grain prices are at all time highs. In the short term this is excellent news for our members and other arable farmers, however, longer term, sustainable and stable prices are needed.

This significant improvement for arable farmers coincides with a turnaround in Grainfarmers' performance. All the tough decisions and hard choices that the management team took in 2005/2006 have borne fruit. Grainfarmers is now a leaner, more efficient organisation, able to compete in a rapidly changing market. All the plans were implemented on or ahead of schedule, which has now put us in a much better position.

In total the Group has achieved cost savings of £1.7m. The savings have been achieved mainly in the following areas:

- Improved logistics management
- Leaner, more efficient organisation with back office functions centralised at our Honey Pot Lane site. Over the last two years headcount has been reduced by 55 (22%). We were very sorry to see all those dedicated and loyal staff leave, however it was essential for the viability of the Group. I am pleased to report that almost all have been able to find alternative employment.
- Significant savings in purchasing have been made across the business.

The one time costs associated with the redundancies were recognised in the 05/06 accounts and so we have a clean year in 06/07, although there will be a carry-over of savings into 07/08.

In addition to the cost savings the positive grain market developments and greater volatility have allowed us to further improve the result.

I am delighted to report that the Group made a profit of £1.1m on a turnover of £367m, compared to a loss of £2.0m on a turnover of £330m in the prior year. I will now report on each area of the business individually.

Grain Marketing

The 05/06 financial year was characterised by flat markets, which severely limited the margin opportunities. 06/07's rising grain markets and volatility have helped to improve our margins. (The marketing agreement with Camgrain came into force this year, which has helped grow our central storage business). Our strategic focus on Central Stores has seen significant organic growth across the network in addition to the benefit of the first year of the Camgrain agreement.

Significant savings have been made in Distribution and Administrative expenses as a result of the strategic review performed last year.

Overall Grainfarmers plc reported a profit of £1.1m an improvement of £3.1m versus 05/06 loss of £2.0m.

Seed

Following a number of difficult years with the seed market declining as farmers made cost savings through using farm saved seed, the market appears to have stabilised. Volumes were virtually flat versus prior year.

Increased seed input prices were offset by savings generated by the rationalisation of the seed plants. Our seed production is now concentrated at our state of the art Honey Pot Lane site, whose performance was further improved in its second season.

At the time of writing, there are grounds for greater optimism as seed volumes are significantly up in the 07/08 season. The reasons for this are a combination of

- Farmers investing in better seed and new varieties as returns have improved
- Germination problems on farm saved seed
- Better performance of our Honey Pot Lane seed plant

Fertiliser

Fertiliser has been and remains our biggest challenge. The nitrogen market contracted approximately 12% during the year due to high prices, caused by high gas prices. There was a significant switch from ammonium nitrate to urea as farmers sought to reduce costs.

Demand for fertiliser on a global scale is up, particularly in the US so there has been a switch back to UK produced ammonium nitrate this season.

In addition, the high grain prices and removal of set-aside restrictions will drive increased plantings. We are already seeing a significant recovery in fertiliser volumes this year.

Against this optimism there is uncertainty created by the Terra/Kemira merger, which we continue to monitor.

Following two difficult years, it is very pleasing that Grainfarmers has returned to profit and most importantly now has a cost structure which makes this sustainable. Our management will continue to identify and implement opportunities to further improve efficiency. We will also continue to seek out opportunities to increase our top line by entering into collaborative partnerships with consumers. These partnerships will provide opportunities for our farmer suppliers and members to enhance value and lock in volume, providing security.

I must pay tribute particularly to Tim Davies and Rod Matthews as well as all our executive team for the hard work and dedication that has made all this achievable. Furthermore a very large number of our staff have been actively involved in the project to reduce costs and increase efficiencies and this has been a critical element in its successful implementation. We are very fortunate to have such an excellent workforce and I thank them most sincerely for their support and commitment.

I must also thank my fellow non-executive directors for all their help and support during what has been a difficult period. We now have a smaller tight knit board with a good balance of executive and non-executives, which is working very well. Andrew Stone joined the Board during the year and with his great knowledge and experience in commodity trading has overhauled and overseen our Risk Management procedures. Simon Browne has worked tirelessly to help develop and expand our Central Storage and Committed Grain sector. Philip Conway's wise counsel based on his wealth of business experience outside agriculture has been quite invaluable.

Finally I would like to remember three dedicated members of staff who have sadly passed away during the year, Peter Denning at West Country Grain, Tony Mitchell on our Oilseeds Desk and Edwin Stearman in Bressingham. We miss them and wish their families well.



Andrew Christie-Miller
Chairman
18 December 2007

GRAINFARMERS plc

Report of the directors for the year ended 31 July 2007

The directors present their annual report together with the audited financial statements for the year ended 31 July 2007

Results and dividends

The results of the group for the year are set out on page 10 and show a profit before taxation for the year of £962,000 (2006 loss £2,080,000)

No dividend was paid during the year (2006 £nil)

Principal activities, review of business and future developments

The principal activity of the company is agricultural supply All activities remain within the UK

Grainfarmers plc continues to pursue a strategy of growing market share by extending its geographic coverage to achieve increased volumes and profitability

Market value of land and buildings

Land and buildings are included in the balance sheet at their market value adjusted for the fair value of additions, disposals and depreciation

Changes in fixed assets

These are detailed in notes 13 to 15 to the financial statements

Charitable and political contributions

During the current year and prior year the company made no political or charitable donations

Employment

The number of staff on the group's payroll over the year averaged 204 (2006 221)

The group seeks to employ staff who are competent to carry out their required duties irrespective of race, sex, creed or physical disability Training is provided for staff as required and it is the company's policy to promote from within wherever possible

Policy on the payment of creditors

The group pays its suppliers on contractually agreed terms, or on a fair basis

At the year end trade creditor days were 29 (2006 28 days)

Risk Management Statement

The management and board have reviewed the activities of Grainfarmers plc and the controls that are in place to manage the exposure to risk. Certain areas of risk have been identified and controls have been implemented in order to manage these risks. These controls are reviewed by the board from time to time and are reviewed by the Risk Management Committee in order to consider that the controls are appropriate and are being applied in a consistent manner. Risk management controls and grain marketing functions are independently supervised by senior executives with segregated responsibilities.

The areas that have been identified are: Commodity price and position risks, Foreign exchange exposure, Credit risk and Interest rate risk. The company uses derivative instruments only for risk management purposes and these are transacted only by personnel specifically authorised by the board. The control environment is regularly reviewed by management and board.

Commodity Price and Position The nature of the company's grain trading business necessitates that positions are taken in order to meet customers' supply requirements in the ordinary course of business. The board recognises this but requires that positions are operated within duly authorised limits that are appropriate for each commodity and that are appropriate for current trading conditions. Management reviews the way in which the trading limits are applied. Exposure to fluctuations in grain prices is managed by the operation of the position limits and by using approved futures markets for both position and margin hedging.

Foreign Exchange The company's activities include the export of grain to countries within the Euro zone and elsewhere. As a result it is subject to movements in foreign exchange rates, principally in the Euro. The company's policy is to cover its commitments to foreign exchange rates by entering into foreign exchange contracts within a short period of time of export contracts being concluded.

Credit The company operates a Credit Insurance policy for its grain trading activities to afford protection from the risk of the inability of customers to pay their debts because of insolvency. Under the terms of the policy, the company is indemnified for 90% of outstanding balances in the event of insolvency, subject to prior approval of credit limits by Insurers.

Interest Rate The company is exposed to movements in the level of interest rates. The treasury team review the availability of hedging instruments. Historically these risks have been partially covered through fixed interest term loans. Other hedging instruments have not been used.

Shareholders

At 31 July 2007 the total number of shareholders was 4,996 (2006: 5,013).

GRAINFARMERS plc

Report of the directors for the year ended 31 July 2007 (continued)

Compliance

The Enhanced Business Review has been prepared in accordance with the Companies Act. The Directors have not included any discussion of key performance indicators as it is considered inappropriate for competitive reasons.

The directors who held office throughout the year were as follows:

A W M Christie-Miller
A S Barnard
S M Browne
A P Conway
T J Davies
D A Dowty
R J Matthews
E C Phillips
A Stone

The director retiring by rotation is Mr A P Conway, who, being eligible, offers himself for re-election. All the executive directors have service contracts, which are terminable by the company on between six months' and one year's notice.

Auditors

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as the company's auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



R M Ellison
Secretary
18 December 2007

GRAINFARMERS plc

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Grainfarmers plc

We have audited the group and individual company financial statements (the "financial statements") of Grainfarmers plc for the ended 31 July 2007 which comprise the consolidated profit and loss account, the consolidated and individual company balance sheets and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group and 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.

Independent auditors' report to the members of Grainfarmers plc (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and the parent company's affairs as at 31 July 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Bristol, United Kingdom

18 December 2007

GRAINFARMERS plc**Consolidated profit and loss account for the year ended 31 July 2007**

| | Note | 2007 £'000 | 2006 £'000 |
|--|-------------|-----------------------|-----------------------|
| Turnover | 2 | 366,817 | 329,791 |
| Cost of sales | | (341,623) | (307,303) |
| Gross profit | | 25,194 | 22,488 |
| Distribution costs | | (13,678) | (14,163) |
| Administrative expenses - normal | | (9,070) | (8,898) |
| - exceptional | 5 | - | (630) |
| Total administrative expenses | | (9,070) | (9,528) |
| Other operating income | | 117 | 86 |
| Operating profit (loss) | 3 | 2,563 | (1,117) |
| Profit on disposal of fixed assets | | - | 55 |
| Profit (loss) on ordinary activities before interest and taxation | | 2,563 | (1,062) |
| Interest receivable and similar income | | 76 | 76 |
| Interest payable and similar charges | 9 | (1,677) | (1,094) |
| Profit (loss) on ordinary activities before taxation | | 962 | (2,080) |
| Taxation on profit (loss) on ordinary activities | 10 | 163 | 20 |
| Retained profit (loss) for the year | 21 | 1,125 | (2,060) |

All activities derive from continuing operations

There are no recognised gains or losses in either year other than the profit (loss) for that year

GRAINFARMERS plc
Consolidated balance sheet at 31 July 2007

| | Note | 2007 £'000 | 2007 £'000 | 2006 £'000 | 2006 £'000 |
|---|------|---------------|---------------|---------------|---------------|
| Fixed assets | | | | | |
| Intangible assets | | | | | |
| - positive goodwill | 13 | 281 | | 428 | |
| - negative goodwill | 13 | (434) | | (583) | |
| | | | (153) | | (155) |
| Tangible assets | 14 | | 10,185 | | 10,366 |
| Investments | 15 | | 84 | | 84 |
| | | | 10,116 | | 10,295 |
| Current assets | | | | | |
| Stocks | 16 | 11,176 | | 14,002 | |
| Debtors | 17 | 42,026 | | 25,151 | |
| | | 53,202 | | 39,153 | |
| Creditors: amounts falling due within one year | 18 | (52,126) | | (44,911) | |
| Net current assets (liabilities) | | | 1,076 | | (5,758) |
| Total assets less current liabilities | | | 11,192 | | 4,537 |
| Creditors: amounts falling due after more than one year | 19 | | (5,734) | | (204) |
| Net assets | | | 5,458 | | 4,333 |
| Capital and reserves | | | | | |
| Called up share capital | 20 | | 10,104 | | 10,104 |
| Revaluation reserve | 22 | | 4 | | 4 |
| Profit and loss account deficit | 21 | | (4,650) | | (5,775) |
| Shareholders' funds | 23 | | 5,458 | | 4,333 |

These financial statements were approved by the Board on 18 December 2007



A W Christie-Miller
Director




TJ Davies
Director

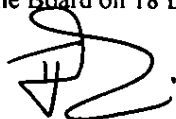
GRAINFARMERS plc
Company balance sheet at 31 July 2007

| | Note | 2007 £'000 | 2007 £'000 | 2006 £'000 | 2006 £'000 |
|---|------|---------------|---------------|---------------|---------------|
| Fixed assets | | | | | |
| Intangible assets | | | | | |
| - positive goodwill | 13 | 216 | | 363 | |
| - negative goodwill | 13 | (291) | | (440) | |
| | | | (75) | | (77) |
| Tangible assets | 14 | | 10,050 | | 10,165 |
| Investments | 15 | | 425 | | 425 |
| | | | 10,400 | | 10,513 |
| Current assets | | | | | |
| Stocks | 16 | 9,091 | | 12,632 | |
| Debtors | 17 | 33,452 | | 17,500 | |
| Cash at bank and in hand | | 19 | | 678 | |
| | | 42,562 | | 30,810 | |
| Creditors: amounts falling due within one year | 18 | (41,408) | | (36,522) | |
| Net current assets (liabilities) | | | 1,154 | | (5,712) |
| Total assets less current liabilities | | | 11,554 | | 4,801 |
| Creditors: amounts falling due after more than one year | 19 | | (5,734) | | (204) |
| Net assets | | | 5,820 | | 4,597 |
| Capital and reserves | | | | | |
| Called up share capital | 20 | | 10,104 | | 10,104 |
| Revaluation reserve | 22 | | 4 | | 4 |
| Profit and loss account deficit | 21 | | (4,288) | | (5,511) |
| Shareholders' funds | 23 | | 5,820 | | 4,597 |

These financial statements were approved by the Board on 18 December 2007



A W Christie-Miller
Director



T J Davies
Director

1 Accounting policies

The financial statements have been prepared under the historical cost convention, except for freehold land and buildings, which are stated at valuation, and in accordance with applicable United Kingdom accounting standards

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

The principal accounting policies are

Basis of consolidation

The consolidated financial statements incorporate the results of the company and all its subsidiary undertakings as at 31 July 2007 using the acquisition method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition. The joint venture is consolidated using the gross equity method up until the date of acquisition.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax and trade discounts. It is recognised at the point at which the company's contractual duties to the customer have been fulfilled, which is usually on delivery.

Acquisitions and disposals

On the acquisition of a trading operation fair values are attributed to the purchased net assets. Where the cost of acquisitions exceeds the fair values attributable to such assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

Goodwill

Positive goodwill arising on an acquisition of a trading operation is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is amortised through the profit and loss account on a straight line basis over the directors' estimate of its useful economic life, being not more than 20 years or the life of the asset to which it relates. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit, which is in the opinion of the directors 40 years.

Tangible fixed assets

Land and buildings are shown at fair value based on triennial valuations by external independent valuers, less subsequent depreciation of buildings.

All other plant and equipment is stated at historical cost less depreciation and provision for any impairment.

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, (except for freehold land) evenly over their expected useful lives. The rates and periods applicable are

| | |
|-------------------------------|----------------|
| Freehold buildings | - 40 years |
| Grain storage facilities | - 20 years |
| Plant, machinery and vehicles | - 3 - 10 years |

1 Accounting policies (continued)

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value

Stocks

Stocks are stated in aggregate at the lower of cost and net realisable value. Cost is calculated as follows

Grain stocks - cost of purchase on a weighted average basis, together with attributable overheads

Raw materials - cost of purchase on first in first out basis

Net realisable value is based on estimated selling price less further costs to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate

Financial instruments and foreign exchange translation

Derivative instruments utilised by the company are foreign exchange contracts and forward commodity contracts

Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the company in line with the risk management policies

Transactions denominated in foreign currencies are recorded at the rate ruling on the date of the transaction, unless matching forward foreign exchange contracts have been entered into, in which case the rate specified in the relevant contract is used. At the balance sheet date unhedged monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date

The company's policy is to cover its commitments to foreign exchange rates by entering into foreign exchange contracts within a short period of time of export contracts being concluded. Any differences arising on completion of foreign exchange contracts are released to the profit and loss account at this time. Gains and losses on settled forward commodity contracts are recognised within cost of sales

Current taxation

Current tax is provided at the amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease

Pension costs

Contributions are made by the company to the parent undertaking's defined benefit pension scheme. These are charged to the profit and loss account, so as to spread the cost of pensions over employees' expected working lives with the company. Contributions are also made by the company to the parent undertaking's defined contribution pension scheme. These are charged to the profit and loss account when incurred

The company adopted FRS 17, 'Retirement Benefits', in full this year. Further disclosure is given in note 7

2 Turnover

Turnover is derived from the group's principal activity, which was carried out wholly within the UK

3 Operating profit (loss)

| | | 2007 £'000 | 2006 £'000 |
|--|---|-----------------------------|-----------------------------|
| This is arrived at after charging/(crediting) | | | |
| Amortisation | - positive goodwill | 147 | 146 |
| | - negative goodwill | (8) | (13) |
| Depreciation | - owned | 713 | 755 |
| Operating lease rentals | - plant, machinery and vehicles | 1,049 | 1,139 |
| | - land and buildings | - | - |
| Management charge | - to parent undertaking | 267 | 168 |
| Rent receivable | | (147) | (224) |
| The analysis of auditors' remuneration is as follows | | | |
| | Fees payable to the company's auditors for the audit of the company's annual accounts | 92 | 72 |
| | Other services relating to tax | 11 | 53 |

4 Employees

The average monthly number of employees of the Group and company during the year, including executive directors, was as follows

| | Group 2007 Number | Group 2006 Number | Company 2006 Number | Company 2006 Number |
|--|--|--|--|--|
| Direct | 56 | 58 | 56 | 51 |
| Sales & administration | 148 | 163 | 148 | 127 |
| | <u>204</u> | <u>221</u> | <u>204</u> | <u>178</u> |
| Staff costs for all employees, including executive directors, consist of | | | | |
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Wages and salaries | 6,446 | 7,069 | 6,446 | 5,395 |
| Social security costs | 672 | 595 | 672 | 437 |
| Pension contributions – defined contribution scheme | 308 | 375 | 308 | 292 |
| | <u>7,426</u> | <u>8,039</u> | <u>7,426</u> | <u>6,124</u> |

GRAINFARMERS plc

Notes to the financial statements for the year ended 31 July 2007 (continued)

5 Administrative costs - exceptional

| | 2007 £'000 | 2006 £'000 |
|----------------------|---------------|---------------|
| Reorganisation costs | - | 630 |

6 Foreign exchange gains / (losses)

There were no foreign exchange gains or losses in the year (2006 £nil)

7 Pensions

Final Salary Pension Scheme

The company participates in the Grainfarmers Group Pension and Life Assurance Scheme, which is a defined benefit pension scheme. On 31 October 2004 the scheme was closed to future accruals, and members were offered membership of the group defined contribution scheme.

Disclosures given relate to the parent undertaking's defined benefit pension scheme as the pension assets and liabilities of Grainfarmers plc cannot be separately identified and the contributions to the scheme are accounted for as if the scheme were a defined contribution scheme.

During the current year no contributions have been paid and there are no contributions outstanding as at 31 July 2007 (2006 £nil). This contribution rate is to continue until reviewed following the triennial valuation of the scheme due as at 1 August 2008.

Full disclosures in relation to the scheme under accounting standard FRS17 are included in the accounts of the parent company, Grainfarmers Group Limited.

Group Personal Pension Scheme

In June 2002 the defined benefit scheme was closed to new entrants. All new employees are now being offered membership of the Grainfarmers Group parent undertaking's defined contribution scheme to which the company will contribute.

8 Directors

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| Emoluments | | |
| Salaries and taxable benefits | 544 | 459 |
| Pension contributions - defined contribution scheme | 46 | 33 |
| | <u>590</u> | <u>492</u> |

8 Directors (continued)

Included above

| | 2007 Number | 2006 Number |
|---|----------------|----------------|
| The average number of remunerated executive directors | <u>5</u> | <u>4</u> |
| | £'000 | £'000 |
| In respect of the highest paid director | | |
| Salary and taxable benefits | 129 | 149 |
| Pension contributions - defined contribution scheme | <u>11</u> | <u>11</u> |

The highest paid director had an accrued pension of £6,517 as at 31 July 2007 (£6,000 p a at 31 July 2006) as a member of the defined benefit pension scheme to which both he and the company have contributed

Retirement benefits are accruing to 3 of the directors (2006 4 directors) under the parent undertaking's defined benefit pension scheme. This is a closed scheme with no contributions paid into the scheme in the current year

9 Interest payable and similar charges

| | 2007 £'000 | 2006 £'000 |
|-------------------------------------|---------------|---------------|
| Interest on bank overdraft and loan | <u>1,677</u> | <u>1,094</u> |

10 Taxation

| | 2007 £'000 | 2006 £'000 |
|--|---------------|---------------|
| Analysis of tax (charge)/credit on ordinary activities | | |
| Prior year adjustment | - | (5) |
| UK corporation tax at 30% (2006 30%) | <u>-</u> | <u>-</u> |
| Total current taxation | - | (5) |
| Deferred tax charge | | |
| Timing differences | <u>163</u> | <u>25</u> |
| Taxation on profit on ordinary activities | <u>163</u> | <u>20</u> |

GRAINFARMERS plc

Notes to the financial statements for the year ended 31 July 2006 (continued)

10 Taxation (continued)

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

| | 2007 % | 2006 % |
|---|-----------|-----------|
| Standard tax rate as a percentage of profits (losses) | 30 | (30) |
| <i>Effects of</i> | | |
| Expenses not deductible for tax purposes | 4 | 1 |
| Capital allowances in deficit of depreciation | 19 | 1 |
| Utilisation of tax losses | (51) | 30 |
| Other timing differences | (2) | (2) |
| | <u>-</u> | <u>-</u> |
| Current tax rate for the year as a percentage of profits (losses) | - | - |

11 Dividend

No dividend is proposed in respect of the year ended 31 July 2007 (2006 £nil)

12 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985 Grainfarmers plc has not presented its own profit and loss account in these financial statements. The company made a profit after tax and before dividends of £1,049,000 (loss 2006 £2,000,000) which is dealt with in these consolidated financial statements

13 Intangible assets - group

| | Positive goodwill £'000 | Negative goodwill £'000 | Total goodwill £'000 |
|--------------------------|-------------------------------|-------------------------------|----------------------------|
| <i>Cost</i> | | | |
| At 1 August 2006 | 972 | (678) | 294 |
| Additions | - | 141 | 141 |
| At 31 July 2007 | 972 | (537) | 435 |
| <i>Amortisation</i> | | | |
| At 1 August 2006 | 544 | (95) | 449 |
| Charge/(credit) for year | 147 | (8) | 139 |
| At 31 July 2007 | 691 | (103) | 588 |
| <i>Net book value</i> | | | |
| At 31 July 2007 | 281 | (434) | (153) |
| At 31 July 2006 | 428 | (583) | (155) |

13 Intangible assets - company

| | Positive goodwill £'000 | Negative goodwill £'000 | Total goodwill £'000 |
|--------------------------|-------------------------------|-------------------------------|----------------------------|
| <i>Cost</i> | | | |
| At 1 August 2006 | 899 | (535) | 364 |
| Disposal | - | 141 | 141 |
| At 31 July 2007 | <u>899</u> | <u>(394)</u> | <u>505</u> |
| <i>Amortisation</i> | | | |
| At 1 August 2006 | 536 | (95) | 441 |
| Charge/(credit) for year | 147 | (8) | 139 |
| At 31 July 2007 | <u>683</u> | <u>(103)</u> | <u>580</u> |
| <i>Net book value</i> | | | |
| At 31 July 2007 | <u>216</u> | <u>(291)</u> | <u>(75)</u> |
| At 31 July 2006 | <u>363</u> | <u>(440)</u> | <u>(77)</u> |

GRAINFARMERS plc
Notes to the financial statements for the year ended 31 July 2007 (continued)
14 Tangible fixed assets - group

| | Freehold land and buildings £'000 | Grain storage facilities £'000 | Plant, machinery and vehicles £'000 | Office equipment and fixtures £'000 | Total £'000 |
|--------------------------|--|---|--|--|------------------------|
| Cost or valuation | | | | | |
| At 1 August 2006 | 8,502 | 1,724 | 4,124 | 1,814 | 16,164 |
| Additions | 65 | 210 | 54 | 240 | 569 |
| Disposals | - | - | (90) | (16) | (106) |
| At 31 July 2007 | <u>8,567</u> | <u>1,934</u> | <u>4,088</u> | <u>2,038</u> | <u>16,627</u> |
| Depreciation | | | | | |
| At 1 August 2006 | 1,730 | 637 | 2,111 | 1,320 | 5,798 |
| Charge for the year | 188 | 97 | 213 | 215 | 713 |
| Disposals | - | - | (58) | (11) | (69) |
| At 31 July 2007 | <u>1,918</u> | <u>734</u> | <u>2,266</u> | <u>1,524</u> | <u>6,442</u> |
| Net book value | | | | | |
| At 31 July 2007 | <u>6,649</u> | <u>1,200</u> | <u>1,822</u> | <u>514</u> | <u>10,185</u> |
| At 31 July 2006 | <u>6,772</u> | <u>1,087</u> | <u>2,013</u> | <u>494</u> | <u>10,366</u> |

The value of non-depreciated land included above is £300,000 (2006 £300,000)

Freehold land and buildings were given a full valuation in May 2005 on the basis of existing use value by Cluttons Chartered Surveyors. This resulted in an uplift in the carrying value of land and buildings in the year ended 31 July 2005.

The directors are not aware of any material change in value and therefore valuations have not been updated.

14 Tangible fixed assets - company

| | Freehold land and buildings £'000 | Grain storage facilities £'000 | Plant, machinery and vehicles £'000 | Office equipment and fixtures £'000 | Total £'000 |
|--------------------------|--|---|---|---|----------------|
| Cost or valuation | | | | | |
| At 1 August 2006 | 7,244 | 1,724 | 3,021 | 1,498 | 13,487 |
| Additions | 65 | 210 | 54 | 240 | 569 |
| Disposals | - | - | (86) | (16) | (102) |
| At 31 July 2007 | <u>7,309</u> | <u>1,934</u> | <u>2,989</u> | <u>1,722</u> | <u>13,954</u> |
| Depreciation | | | | | |
| At 1 August 2006 | 472 | 637 | 1,100 | 1,113 | 3,322 |
| Charge for the year | 188 | 97 | 188 | 174 | 647 |
| Disposals | - | - | (54) | (11) | (65) |
| At 31 July 2007 | <u>660</u> | <u>734</u> | <u>1,234</u> | <u>1,276</u> | <u>3,904</u> |
| Net book value | | | | | |
| At 31 July 2007 | <u>6,649</u> | <u>1,200</u> | <u>1,755</u> | <u>446</u> | <u>10,050</u> |
| At 31 July 2006 | <u>6,772</u> | <u>1,087</u> | <u>1,921</u> | <u>385</u> | <u>10,165</u> |

The value of non-depreciated land included above is £300,000 (2006 £300,000)

Freehold land and buildings were given a full valuation in May 2005 on the basis of existing use value by Cluttons Chartered Surveyors. This resulted in an uplift in the carrying value of land and buildings in the period ended 31 July 2005.

The directors are not aware of any material change in value and therefore valuations have not been updated.

GRAINFARMERS plc

Notes to the financial statements for the year ended 31 July 2007 (Continued)

15 Fixed asset investments – group

| | Storage facilities £'000 | Farmer controlled grain groups £'000 | Total £'000 |
|-----------------------------------|-----------------------------|---|----------------|
| Cost | | | |
| At 1 August 2006 and 31 July 2007 | 74 | 10 | 84 |

Fixed asset investments – company

| | Storage facilities £'000 | Group undertaking £'000 | Farmer controlled grain groups £'000 | Total £'000 |
|-----------------------------------|-----------------------------|----------------------------|---|----------------|
| Cost | | | | |
| At 1 August 2006 and 31 July 2007 | 74 | 341 | 10 | 425 |

The participating interest is as below

| | Organic Arable Marketing Co Ltd |
|---|---------------------------------|
| Financial year end | 31 August 2006 |
| Share capital | £17,010 |
| Reserves | £1,676 |
| (Loss)/profit for the year | £6,858 |
| Country of incorporation | UK |
| Proportion of voting rights | 50% |
| Proportion of ordinary share capital held | 50% |
| Nature of business | Organic cereals marketing |

The provisions of the shareholders' agreement of Organic Arable Marketing Company Limited vests the control of the company equally between its shareholders. Organic Arable Marketing Company Limited is not consolidated in these accounts as the results are immaterial in the context of the group accounts.

16 Stocks

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Grain stocks | 11,176 | 14,002 | 9,091 | 12,632 |
| Stock includes an interest element of £63,000 (2006 £43,000) | | | | |

17 Debtors

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 30,901 | 21,772 | 22,641 | 14,201 |
| Amounts due from fellow group undertakings | 6,036 | 91 | 6,036 | 171 |
| Amounts due from related parties | 236 | 93 | 236 | 93 |
| Other debtors | 3,963 | 2,363 | 3,702 | 2,301 |
| Deferred tax asset | 532 | 369 | 500 | 326 |
| Prepayments and accrued income | 358 | 463 | 337 | 408 |
| | <u>42,026</u> | <u>25,151</u> | <u>33,452</u> | <u>17,500</u> |

All amounts are due within one year

| | Group | | Company | |
|-----------------------------------|------------|------------|------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Deferred tax | | | | |
| Opening balance | 369 | 344 | 326 | 326 |
| Credit to profit and loss account | 163 | 25 | 174 | - |
| Closing balance | <u>532</u> | <u>369</u> | <u>500</u> | <u>326</u> |

The deferred taxation amounts recognised are as follows

| | 2007 | 2006 | 2007 | 2006 |
|--------------------------------|------------|------------|------------|------------|
| | £'000 | £'000 | £'000 | £'000 |
| Accelerated capital allowances | 292 | 458 | 269 | 425 |
| Short term timing differences | 9 | 16 | - | 6 |
| Unutilised losses | 231 | (105) | 231 | (105) |
| Deferred tax asset | <u>532</u> | <u>369</u> | <u>500</u> | <u>326</u> |

GRAINFARMERS plc

Notes to the financial statements for the year ended 31 July 2007 (continued)

18 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank loan (secured) | 2,010 | 2,701 | - | 592 |
| Bank overdraft (secured) | 7,919 | 10,900 | 7,706 | 11,577 |
| Amounts prepaid under invoice discounting | 10,462 | 4,517 | 8,377 | - |
| Trade creditors | 18,244 | 15,246 | 12,845 | 13,924 |
| Other creditors | 2,294 | 1,161 | 513 | 174 |
| Amounts owing to group companies | - | 351 | 810 | 337 |
| Amounts owing to related parties | 1,609 | 1,412 | 1,609 | 1,412 |
| Other taxation and social security | 215 | 217 | 215 | 154 |
| Accruals and deferred income | 8,973 | 8,406 | 8,933 | 8,352 |
| Loan from parent company | 400 | - | 400 | - |
| | <u>52,126</u> | <u>44,911</u> | <u>41,408</u> | <u>36,522</u> |

The bank overdraft is secured by a fixed and floating charge over the assets of the group, and the assets of the parent undertaking, Grainfarmers Group Limited

19 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|---------------------------|--------------|------------|--------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| Loan from parent company | 5,600 | - | 5,600 | - |
| Grain storage liabilities | 134 | 204 | 134 | 204 |
| | <u>5,734</u> | <u>204</u> | <u>5,734</u> | <u>204</u> |

The parent company loan is due as follows

| | | | | |
|----------------------|--------------|----------|--------------|----------|
| In one to two years | 400 | - | 400 | - |
| In two to five years | 1,200 | - | 1,200 | - |
| After five years | 4,000 | - | 4,000 | - |
| | <u>5,600</u> | <u>-</u> | <u>5,600</u> | <u>-</u> |

The parent company loan is unsecured, bears interest at 1 3% over base and is repayable by equal instalments over fifteen years

Other long-term creditors are due as follows

| | Group | | Company | |
|----------------------|------------|------------|------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| | £'000 | £'000 | £'000 | £'000 |
| In one to two years | 66 | 81 | 66 | 81 |
| In two to five years | 68 | 123 | 68 | 123 |
| | <u>134</u> | <u>204</u> | <u>134</u> | <u>204</u> |

GRAINFARMERS plc

Notes to the financial statements for the year ended 31 July 2007 (continued)

20 Share capital

| | 2007 £'000 | 2006 £'000 |
|--|---------------|---------------|
| Authorised | | |
| 12,000,000 (2006 - 9,000,000) ordinary shares of £1 each | 12,000 | 9,000 |
| nil (2006 - 3,000,000) redeemable ordinary shares of £1 each | - | 3,000 |
| 1,000,000 participating ordinary shares of £1 each | 1,000 | 1,000 |
| | <u>12,000</u> | <u>13,000</u> |
| Allotted, called up and fully paid | | |
| 10,000,000 (2006 - 7,000,000) ordinary shares of £1 each | 10,000 | 7,000 |
| nil (2006 - 3,000,000) redeemable ordinary shares of £1 each | - | 3,000 |
| 104,000 participating ordinary shares of £1 each | 104 | 104 |
| | <u>10,104</u> | <u>10,104</u> |

The ordinary shares and participating ordinary shares rank pari-passu in all respects

3,000,000 £1 redeemable ordinary shares were converted into £1 ordinary shares on 21 March 2007

21 Profit and loss account

| | Group | | Company | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| At 1 August 2006 | (5,775) | (3,905) | (5,511) | (3,701) |
| Retained profit (loss) for the year | 1,125 | (2,060) | 1,223 | (2,000) |
| Transfer from revaluation reserve | - | 190 | - | 190 |
| | <u>(4,650)</u> | <u>(5,775)</u> | <u>(4,288)</u> | <u>(5,511)</u> |

22 Revaluation reserve

| | Group | | Company | |
|-------------------------------------|---------------|---------------|----------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| At 1 August 2006 | 4 | 194 | 4 | 194 |
| Transfer to profit and loss reserve | - | (190) | - | (190) |
| | <u>4</u> | <u>4</u> | <u>4</u> | <u>4</u> |

23 Reconciliation of movements in shareholders' funds

| | Consolidated | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Profit (loss) for the year | 1,125 | (2,060) | 1,223 | (2,000) |
| Net increase (decrease) in shareholders' funds | 1,125 | (2,060) | 1,223 | (2,000) |
| Opening shareholders' funds | 4,333 | 6,393 | 4,597 | 6,597 |
| Closing shareholders' funds | 5,458 | 4,333 | 5,820 | 4,597 |

24 Commitments under operating leases

At 31 July 2007 the group had annual commitments under non-cancellable operating leases as set out below

| | Plant, machinery and vehicles | |
|---|----------------------------------|---------------|
| | 2007 £'000 | 2006 £'000 |
| Operating leases which expire After five years | 267 | 36 |

25 Financial commitments

The company had the following commitments in respect of grain contracts not provided for in these financial statements

| | 2007 £'000 | 2006 £'000 |
|-------------------|---------------|---------------|
| Forward Contracts | 107,781 | 80,294 |

26 Contingent liabilities

The company has guaranteed the bank borrowings of its fellow Group undertakings. At the year end the contingent liability in respect of these guarantees totalled £4,246,000 (2006 £6,463,000)

Bank guarantees have been given in relation to the following

| | 2007 £'000 | 2006 £'000 |
|-----------------------|---------------|---------------|
| Rural Payments Agency | 5,621 | 3,200 |

27 Derivatives

The Directors' report provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

Foreign Exchange Forward Contracts

The group enters into forward foreign currency contracts to reduce the currency exposure that arises on sales denominated in foreign currencies. These contracts are entered into immediately these sales are transacted.

Derivative financial instruments held to manage the currency profile

| Instrument | Currency | Net Contracted Amount Euros 000 | Fair value At 31 July 2007 £000 |
|-------------------|----------|------------------------------------|---------------------------------------|
| Forward Contracts | Euros | 6,978 | 7 |

Commodity Futures

The group trades in commodity futures to reduce the trading exposure that arises on sales and purchases of agricultural commodities.

Derivative financial instruments held to manage the currency profile

| Instrument | Net Contracted Amount Tonnes Long/ (Short) | Fair value At 31 July 2007 £000 |
|-------------------|---|---------------------------------------|
| Commodity Futures | (138) | 873 |

28 Related party transactions

The company has taken advantage of the exemption contained within paragraph 3(c) of FRS 8 not to present details of transactions with other group entities as it is 99% owned by Grainfarmers Group Limited, and as such transactions are eliminated on consolidation.

The following are related parties to Grainfarmers plc and are transacted under normal trading conditions.

| Name | Relationship with Grainfarmers plc |
|--|------------------------------------|
| Organic Arable Marketing Company Limited | 50% owned |
| Aberdeen Grain Storage Limited | Administered and marketed |
| Camgram Stores Ltd | Administered and marketed |
| Crop Marketing (Groups) Limited | Administered and marketed |
| Hampshire Grain Limited | Administered and marketed |
| Weald Granary Limited | Administered and marketed |
| West Country Grain Limited | Administered and marketed |
| Wiltshire Grain Limited | Administered and marketed |

28 Related party transactions (continued)

The value of these transactions in aggregate was -

| | 2007 £'000 | 2006 £'000 |
|--------------------------------|---------------|---------------|
| Sales to related parties | 1,006 | 812 |
| Purchases from related parties | 25,742 | 22,282 |

Trading balances with related parties at year end

| Company | Debtors | | Creditors | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Aberdeen Grain Storage Limited | 6 | 32 | - | 195 |
| Crop Marketing (Groups) Limited | 84 | - | 369 | 312 |
| Hampshire Grain Limited | - | - | 301 | 254 |
| Weald Granary Limited | 15 | 32 | 453 | 490 |
| West Country Grain Limited | 29 | 28 | 250 | 11 |
| Wiltshire Grain Limited | 43 | 1 | 236 | 150 |

Non-executive farmer directors enter into transactions with the company in the normal course of business, which are at arm's length and on the same terms as are available to other members of the parent undertaking with a similar size of enterprise

The value of these transactions in aggregate was -

| | 2007 £'000 | 2006 £'000 |
|----------------------------|---------------|---------------|
| Sales to the company | 587 | 499 |
| Purchases from the company | 161 | 183 |

29 Ultimate parent company and controlling party

The company's immediate and ultimate parent undertaking and controlling party is Grainfarmers Group Limited, which is registered in England and Wales and with the Registrar of Friendly Societies. Copies of the Group's consolidated financial statements can be obtained from its registered office at Larkwhistle Farm Road, Micheldever Station, Winchester, Hampshire SO21 3BG. The consolidated accounts of Grainfarmers Group Limited are those of the largest and smallest group of which the company is a member and for which group accounts are prepared.