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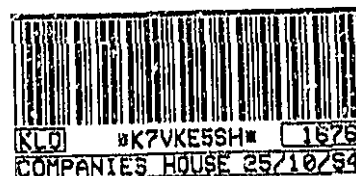
ARTHUR ANDERSEN & Co SC

SALOMON BROTHERS EUROPE LIMITED
AND SUBSIDIARY UNDERTAKINGS

(Registered Number: 1548967)

FINANCIAL STATEMENTS TOGETHER WITH
DIRECTORS' & AUDITORS' REPORTS

FOR THE YEAR ENDED 31 DECEMBER 1993



Salomon Brothers Europe Limited and Subsidiary Undertakings

DIRECTORS' REPORT

for the year ended 31 December 1993

The directors present their annual report on the affairs of the Company and the Group together with the financial statements and auditors' report for the year ended 31 December 1993.

Principal Activities and Business Review

The Company is a holding company. During the year, the Group conducted business in three separate areas; securities, mortgages and asset management. The Group does not anticipate any significant future changes in business activities.

The Group's securities activities are principally conducted through Salomon Brothers International Limited (SBIL), Salomon Brothers UK Limited (SBUK) and Salomon Brothers UK Equity Limited (SBUKE). These companies act as dealers and market makers in fixed income securities, equity securities and related products in the domestic and international capital markets. SBIL acts as an underwriter, provider of corporate finance services and also markets securities owned by its affiliates on a commission basis to European customers.

The Group's mortgage activities are primarily conducted through various companies owned by The Mortgage Corporation Group Limited. The principal activities of these companies are to provide mortgage loans secured on residential properties within England, Wales and Scotland and issue Mortgage Backed Floating Rate Notes. The Group also provides mortgage related administrative services. During the year the Company increased its shareholding in The Mortgage Corporation Group Limited from 83.6% to 86.9% by the acquisition of 15,000,000 newly issued £1 shares at par.

The Group's asset management activities are conducted through Salomon Brothers Asset Management Limited (SBAM) which was incorporated on 14 December 1992 and commenced asset management activity on 1 May 1993. SBAM provides specialised investment and portfolio management services to institutional investors, for which it receives management and performance fees.

During the year the Company acquired the remaining 50% of the shares in The Residential Mortgage Corporation Plc for £1. Previously the investment was accounted for under the equity method as an associated undertaking. Provisions have been made against expected future losses; as a result, the fair value of the assets acquired has been estimated at £1.

The Group's investment business activities are regulated either under the Financial Services Act 1986 by the appropriate Self Regulatory Organisation or by the Bank of England. In addition, companies within the Group are members of both the International Stock Exchange of the United Kingdom and the Republic of Ireland and the London International Financial Futures Exchange. SBAM is also registered as an Investment Adviser under the US Investment Advisers Act 1940.

Results and Dividends

For the year ended 31 December 1993, the profit on ordinary activities after tax and minority interests for the Group was £454.3 million (1992: Profit £365.9 million).

A dividend of £nil (1992: £41.2 million) was paid on the preference shares of the Company.

The directors do not propose to pay a dividend on the ordinary shares of the Company (1992: £nil).

Salomon Brothers Europe Limited and Subsidiary Undertakings

DIRECTORS' REPORT - (continued) for the year ended 31 December 1993

Directors and their Interests

The directors of the Company who served during the year ended 31 December 1993 are listed below.

C.S. McVeigh III
S.M. Rosen (Appointed 3 December 1993)
D.S. Howard (Resigned 4 December 1993)

None of the directors or their immediate families had at any time during the year any interest in the shares or contracts of the Company or Group which is required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those 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, subject to any material departures disclosed and explained in the financial statements; 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 Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Tangible Fixed Assets

Information relating to changes in tangible fixed assets is given in Note 9 to the financial statements.

Charitable and Political Contributions

Charitable contributions amounted to £119,578 (1992: £98,451). No political contributions were made during the year.

Acquisition of the Company's Own Shares

On 5 April 1993, in accordance with Section 164 of the Companies Act 1985, the Company acquired 3.9 million of its own shares with a nominal value of £3.9 million, representing 15.6% of the Company's called-up ordinary share capital, for a total consideration of £76.5 million. This was financed out of the proceeds of an allotment of 76,530,662 new redeemable preference shares of £1 each.

Salomon Brothers Europe Limited and Subsidiary Undertakings

DIRECTORS' REPORT - (continued) for the year ended 31 December 1993

Employment of Disabled People

In line with its general policy of equal opportunity in employment practice, the Group supports the employment of disabled people wherever possible, by recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion.

Employee Consultation

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed by formal and informal meetings on matters affecting them as employees and on the various factors affecting the Group.

Subsequent Events

On 28 January 1994, the Company was allotted and paid for 5,000,000 ordinary £1 shares in SBUKE.

On 23 March 1994, SBIL entered into a 364 day \$1 billion committed revolving credit facility with a syndicate of banks. This enables SBIL to finance a variety of fixed income and equity securities on a secured basis.

On 25 May 1994, the Company was allotted and paid for 5,000,000 ordinary £1 shares in SBUKE.

On 30 June 1994, the Company declared an interim dividend of £38.7 million on its new redeemable preference shares and a dividend of \$190.1 million on its ordinary shares payable on 1 July 1994.

On 30 September 1994, the outstanding authorised but unissued 338,824,788 £1 new redeemable preference shares were reclassified as 2nd tranche new redeemable preference shares and 126,742,712 such shares were issued at par. The Company also declared a second interim dividend of \$200.0 million on its ordinary shares payable on 3 October 1994.

Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.


Liability Insurance for Company Officers

As permitted by the Companies Act 1985, the Group maintains insurance cover for the directors against liabilities in relation to the Group.

Victoria Plaza
111 Buckingham Palace Road
LONDON SW1W 0SB

21 October 1994

BY ORDER OF THE BOARD


I.A. Fellow
Company Secretary

ARTHUR ANDERSEN

London

Auditors' Report to the Shareholders of SALOMON BROTHERS EUROPE LIMITED:

We have audited the financial statements on page 5 to 38 which have been prepared under the historical cost convention (as modified by the revaluation of current asset investments) and the accounting policies set out on pages 10 to 13.

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1993 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS

21 October 1994

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Salomon Brothers Europe Limited and Subsidiary Undertakings

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 1993

	Notes	1993 £ Millions	1992 (As restated see note 1(j)) £ Millions
Net revenue	1(c)	840.3	643.0
Commission income and fees	1(c)	144.4	107.6
Interest income	3	1,389.3	1,070.3
Interest expense	3	(1,214.5)	(1,031.2)
GROSS PROFIT		1,159.5	789.7
Operating expenses	4	(439.8)	(258.3)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		719.7	531.4
Tax on profit on ordinary activities	7	(264.8)	(171.4)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		454.9	360.0
Minority interests	18	(0.6)	5.9
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		454.3	365.9
Dividends paid on preference shares		-	(41.2)
RETAINED PROFIT FOR THE YEAR	17	454.3	324.7
RETAINED AS FOLLOWS			
Parent company		124.1	169.9
Subsidiary undertakings		330.2	154.8
		454.3	324.7

All items are derived from the continuing operations of the Group.
The accompanying notes are an integral part of this consolidated profit and loss account. A statement of movements on reserves is given in Note 17.

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Solomon Brothers Europe Limited and Subsidiary Undertakings

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 1993

	1993 £ Millions	1992 £ Millions
Profit attributable to members of the parent company	454.3	365.9
Exchange difference on retranslation of net assets of subsidiary undertaking	0.9	7.9
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	<u>455.2</u>	<u>373.8</u>

RECONCILIATION OF SHAREHOLDERS' FUNDS

	1993 £ Millions.	1992 £ Millions.
Total recognised gains and losses	455.2	373.8
Dividends	-	(41.2)
Other movements:		
New redeemable preference shares issued	76.5	-
Redemption of ordinary shares	(76.5)	-
Goodwill written off	(1.4)	(3.7)
	<hr/>	<hr/>
Total movements during the year	453.8	328.9
Shareholders' funds at 1 January	1,009.4	680.5
	<hr/>	<hr/>
Shareholders' funds at 31 December	<u>1,463.2</u>	<u>1,009.4</u>

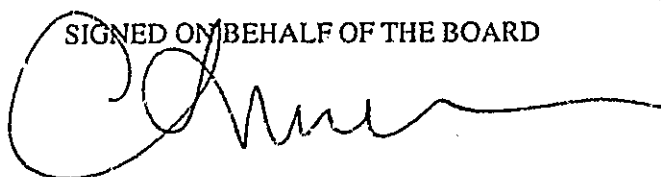
The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Salomon Brothers Europe Limited and Subsidiary Undertakings

CONSOLIDATED BALANCE SHEET for the year ended 31 December 1993

	Notes	1993 £ Millions	1993 £ Millions	1992 £ Millions	1992 £ Millions
FIXED ASSETS					
Intangible assets	8		8.0		10.4
Tangible fixed assets	9		19.9		24.1
Investments	10		13.7		11.4
			<u>41.6</u>		<u>45.9</u>
MORTGAGE ADVANCES	11		1,954.5		2,469.2
CURRENT ASSETS					
Debtors	12	18,391.7		11,725.9	
Investments	13	29,873.2		20,069.4	
Cash at bank and in hand		290.4		318.3	
		<u>48,555.3</u>		<u>32,113.6</u>	
CREDITORS: Amounts falling due within one year	14	45,430.2		30,358.9	
NET CURRENT ASSETS			3,125.1		1,754.7
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>5,121.2</u>		<u>4,269.8</u>
CREDITORS: Amounts falling due after more than one year	14		3,192.1		3,097.1
PROVISION FOR LIABILITIES AND CHARGES	15		453.4		152.8
NET ASSETS			<u>1,475.7</u>		<u>1,019.9</u>
CAPITAL AND RESERVES					
Called-up share capital	16		582.2		509.6
Capital reserve	17		5.6		5.6
Profit and loss account	17		875.4		494.2
SHAREHOLDERS' FUNDS			<u>1,463.2</u>		<u>1,009.4</u>
MINORITY INTERESTS	18		12.5		10.5
			<u>1,475.7</u>		<u>1,019.9</u>

SIGNED ON BEHALF OF THE BOARD



C.S. McVeigh III - Director
21 October 1994

The accompanying notes form an integral part of this balance sheet.

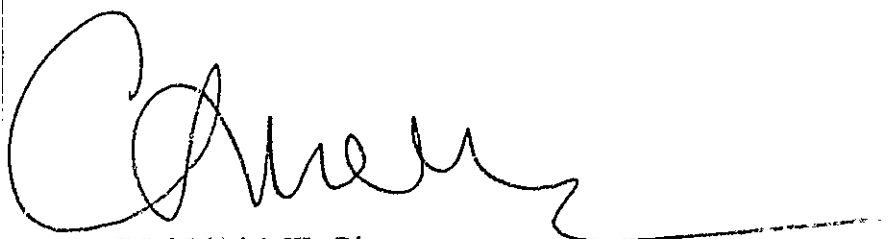
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Salomon Brothers Europe Limited and Subsidiary Undertakings

PARENT COMPANY BALANCE SHEET for the year ended 31 December 1993

	Notes	1993 £ Millions	1993 £ Millions	1992 £ Millions	1992 £ Millions
FIXED ASSETS					
Tangible fixed assets	9		7.3		8.0
Investments	10		663.3		577.7
			<u>670.6</u>		<u>585.7</u>
CURRENT ASSETS					
Debtors	12	906.2		772.5	
Cash at bank and in hand		0.6		12.2	
		<u>906.8</u>		<u>784.7</u>	
CREDITORS: Amounts falling due within one year	14	508.6		233.4	
		<u></u>		<u></u>	
NET CURRENT ASSETS			398.2		551.3
TOTAL ASSETS LESS CURRENT LIABILITIES			1,068.8		1,137.0
CREDITORS: Amounts falling due after more than one year	14		361.9		553.5
PROVISION FOR LIABILITIES AND CHARGES	15		-		0.7
			<u></u>		<u></u>
NET ASSETS			706.9		582.8
CAPITAL AND RESERVES			<u></u>		<u></u>
Called-up share capital	16		582.2		509.6
Capital reserve	17		5.6		5.6
Profit and loss account	17		119.1		67.6
TOTAL SHAREHOLDERS' FUNDS			<u>706.9</u>		<u>582.8</u>

SIGNED ON BEHALF OF THE BOARD



C.S. McVeigh III - Director
21 October 1994

The accompanying notes form an integral part of this balance sheet.

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Salomon Brothers Europe Limited and Subsidiary Undertakings

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 1993

	Notes	1993 £ Millions	1992 £ Millions
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	19	(625.1)	(565.9)
SERVICING OF FINANCE			
Dividend paid		-	(41.2)
TAXATION			
Corporation tax paid		(53.5)	(6.1)
ACT paid		(29.4)	-
TAXATION PAID		<u>(82.9)</u>	<u>(6.1)</u>
INVESTING ACTIVITIES			
Mortgages advanced		(0.8)	(22.7)
Mortgages acquired		(42.6)	-
Mortgages redeemed		556.8	513.0
Purchase of tangible fixed assets		(7.9)	(4.7)
Sales of tangible fixed assets		5.9	2.1
Purchase of investment		(2.4)	(11.4)
NET CASH INFLOW FROM INVESTING ACTIVITIES		<u>509.0</u>	<u>476.3</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(199.0)</u>	<u>(136.9)</u>
FINANCING			
Purchase of own ordinary shares		76.5	-
Issue of new preference shares		(76.5)	-
Increase in group loans and subordinated debt	21	(496.0)	(473.2)
Expenses paid in connection with note issue		-	0.6
Repayment of floating rate notes	21	549.2	493.7
Issue of floating rate notes	21	-	(167.4)
Decrease/(increase) in short term loans	21	38.4	(66.5)
NET CASH OUTFLOW/(INFLOW) FROM FINANCING (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	20	<u>91.6</u> <u>(290.6)</u> <u>(199.0)</u>	<u>(212.8)</u> <u>75.9</u> <u>(136.9)</u>

The accompanying notes form an integral part of this consolidated cash flow statement.

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 1993

1. Principal Accounting Policies

The principal accounting policies, which have been applied consistently throughout the current year and the preceding year, are set out below:

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, except for marketable investments, contractual commitments and foreign exchange transactions and positions which are stated at market or fair value at the balance sheet date. The financial statements have been prepared in accordance with applicable accounting standards.

Certain prior period amounts have been reclassified to conform with the current presentation.

(b) Basis of consolidation

The consolidated financial statements include the audited financial statements of the parent company and all its subsidiary undertakings drawn up to 31 December each year. Associated undertakings are dealt with by the equity method of accounting. Goodwill arising on consolidation is written off against reserves on acquisition.

No profit and loss account is presented for the Company, as provided by Section 230 of the Companies Act 1985.

(c) Net revenue and commission income

Net revenue includes trading profit earned from dealing, market making and arbitrage activities in marketable investments, contractual commitments and foreign exchange.

In the opinion of the directors, to present a true and fair view, movements in the market or fair value of investments, contractual commitments and foreign exchange contracts are included within the profit and loss account rather than a revaluation reserve. This represents a departure from statutory accounting principles. The net movement included in the profit and loss account is a profit of £75.1 million (1992: £106.9 million).

Commission income is derived from underwriting activities, marketing securities for foreign affiliates, corporate finance fees associated with mergers and acquisitions and other corporate finance advisory activities.

Gains and losses, including commission revenues and expenses, are credited on the trade date of the related transaction.

(d) Intangible fixed assets

Intangible fixed assets comprise capitalised costs relating to the issue of Mortgage Backed Floating Rate Notes. These are amortised in line with redemptions of the underlying mortgage pool, to write off the costs over their expected useful life.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

(e) Trading inventory

Trading inventory is recorded in the balance sheet on a trade date basis. Long positions are described as current asset investments as outlined in Note 13. Short positions are included within Creditors due within one year and comprise both securities sold, but not yet purchased and options and other contractual commitments. Contractual commitments include obligations with counterparties which may extend for more than one year.

Trading inventory is recorded at either market or fair value. The determination of market or fair value considers various factors, including: closing exchange or over-the-counter market price quotations; time and volatility factors underlying options, warrants and contractual commitments; price activity for equivalent or synthetic instruments in markets located in different time zones, counterparty credit quality, and the potential impact on market prices of liquidating the Group's positions in an orderly manner over a reasonable period of time under prevailing market conditions. Further, in determining the fair value of its long term contractual commitments, the Group considers future maintenance costs.

(f) Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation. Depreciation is provided at rates calculated to write-off the cost of each asset, less estimated residual value, on a straight-line basis over its expected useful economic life, as follows:

Leasehold improvements	- 5 to 15 years
Equipment and cars	- 3 to 5 years

(g) Fixed asset investments

Fixed asset investments are stated at cost or directors' valuation.

Fixed asset investments include the market value of properties which have been sold to unrelated companies organised under a business expansion scheme ("BES"). As more fully described in Note 14, the Group has granted an option which may require the Group to repurchase these properties at a future date. Therefore, the Group has not accounted for these transactions as sales and has included the corresponding liability in creditors.

The liability is adjusted at each year end based on management's estimate of the future liability that may arise.

Investments in subsidiary undertakings and associates are stated in the Company's balance sheet at cost less any write down for reductions in value.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

(h) Taxation

Corporation tax is recognised on taxable profits at the current rate.

The tax benefits arising from group relief are recognised in the financial statements of the surrendering and recipient companies. Deferred taxation, calculated on the liability method at the rate at which the liability is likely to be paid, is provided to take account of timing differences arising from the different treatment of certain items for taxation purposes and for financial statement purposes. No deferred taxation is provided on those differences where, in the opinion of the directors, it is probable that they will not reverse.

Advance corporation tax payable on dividends paid or provided for in the year is written off except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

(i) Pension costs

Group companies account for pension costs in accordance with Statement of Standard Accounting Practice 24. For defined contribution schemes, the charge against profit is the amount of contributions payable in respect of the year. For defined benefit schemes, the pension cost is calculated using actuarial valuation methods which give rise to a regular pension cost that is substantially a level percentage of the current and expected future pensionable payroll. Variations from the regular cost are allocated over the average remaining service lives of current employees in the scheme.

(j) Foreign currency

Monetary assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange prevailing at the year-end. Non-monetary assets and liabilities denominated in currencies other than sterling have been translated at the relevant historical exchange rate.

Transactions in foreign currencies in the individual companies are translated into sterling at rates of exchange approximating to those at the transaction date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included under operating expenses in the profit and loss account.

For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement in reserves. Prior year comparatives have been restated to reflect current year presentation.

(k) Leases

The Group enters into operating leases which are charged to the profit and loss account on a straight line basis over the term of the lease. See Note 22 (d).

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

(1) Mortgage advances

Mortgage advances comprise loans which are secured by way of a mortgage over freehold and leasehold residential properties located in England, Wales and Scotland.

Mortgage advances include properties in possession and are stated after deducting a provision for loan losses. The provision is maintained at a level that is considered adequate by management to absorb losses inherent in the loan portfolio of the Group. A judgement as to the adequacy of the provision is made at year end and includes anticipated recoveries under mortgage indemnity guarantee and other insurance policies. Should the provision be judged inadequate either because of reductions due to write-offs or because of changes to the size and characteristics of the portfolio, the provision is increased and charged to other operating expenses in the current year.

2. Turnover

Turnover required to be disclosed by Schedule 4 of the Companies Act 1985 and relating to the sale of international securities and bonds, commission income on underwriting business and service fees received, and commission income and interest income on mortgage advances, amounted to £1,339 billion (1992: £576 billion). In the opinion of the directors, turnover and particulars of turnover as required by Schedule 4, Paragraph 55 of the Companies Act 1985, are not valid measures of activity in view of the nature of the business.

3. Interest Income and Expense

	1993 £ Millions	1992 £ Millions
Interest income comprises:		
Interest income on current asset investments, interest bearing debtors and cash assets	1,090.7	603.6
Interest income from mortgage advances	228.4	354.7
Interest income on loans to group undertakings	70.2	112.0
	<u>1,389.3</u>	<u>1,070.3</u>

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

3. Interest Income and Expense - continued

	1993 £ Millions	1992 £ Millions
Interest expense comprises:		
Interest on floating rate notes	138.2	270.4
Interest on third party borrowings	900.1	580.8
Interest on borrowings from group undertakings	176.2	180.0
	<u>1,214.5</u>	<u>1,031.2</u>

4. Operating Expenses

Operating expenses comprise:

	1993 £ Millions	1992 £ Millions
Employee remuneration	203.6	115.6
Social security costs	13.9	6.2
Other pension costs (Note 5)	9.6	5.4
	<u>227.1</u>	<u>127.2</u>
Directors' emoluments (Note 6)	0.8	0.6
Depreciation on tangible fixed assets (Note 9)	5.2	7.5
Hire of computers and other equipment	1.8	2.9
Amortisation of intangible fixed assets (Note 8)	2.4	2.4
Loss from interests in associated undertaking	-	0.6
Exchange gains	(32.3)	(112.4)
Auditors' remuneration		
- Audit fees	0.7	0.7
- Other non-audit related fees	1.8	1.5
Other operating expenses	232.3	227.3
	<u>439.8</u>	<u>258.3</u>

NOTES TO THE FINANCIAL STATEMENTS - (continued)
for the year ended 31 December 1993

4. Operating Expenses - continued

The Company has no employees. Services are provided by employees of subsidiary undertakings.

The Group employed an average of 1,024 (1992: 1,082) employees during the year. In addition, foreign affiliate staff are seconded on a temporary basis to the Group. All costs relating to such personnel are borne by the Group.

5. Pension Arrangements

The substantial majority of employees in the Group's securities activities are employed by Salomon Brothers International Limited (SBIL). The SBIL Pension and Life Assurance Scheme ("the Scheme") is a funded pension scheme providing benefits primarily based on final pensionable salary. There is also a defined contribution section in the Scheme which applies to earnings which are not pensionable under the defined benefit provisions. The assets of the Scheme are held separately from those of the Group, in a trustee administered fund. Employees are not required to contribute to the Scheme, which is contracted-out of the State Earnings Related Pension Scheme.

The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified actuary using the projected unit method. The most recent actuarial valuation of the pension cost for the Scheme was as at 1 January 1994. The assumptions which have the most significant effect on the results of the valuation are those relating to the return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8.5% per annum, that salary increases would be 7% per annum, that statutorily required increases would apply to present and future guaranteed minimum pensions in payment and that increases of 5% per annum would apply to the remainder of pensions in payment.

At the date of the last actuarial valuation the market value of the assets, excluding those held in respect of defined contribution benefits, was £30.2 million and the actuarial value of those assets represented 96.3% of the value of benefits that had accrued to members, including allowance for future salary increases. The deficiency is being removed through an increase in the employer's pension cost. The current deficit is being allocated over the average remaining service lives of current employees in the Scheme, which is 19 years.

Costs of the Scheme in respect of defined benefit obligations are charged to the profit and loss account so as to spread the cost of pensions over the remaining service lives of current employees in the Scheme. The pension charge for the year comprises £4.8 million (1992: £3.8 million) in respect of the defined benefit obligations. The pension cost in respect of defined contribution benefits represents contributions paid and payable in respect of the year, namely £4.5 million (1992: £1.1 million).

The Group's mortgage activities have their own pension scheme. The Mortgage Corporation Pension Plan ("the Plan") is a funded scheme providing defined contribution benefits and insured death benefits. The assets of the Plan are held separately from those of the Group and are administered by a trustee. Total costs for the year relating to the Plan were £0.3 million (1992: £0.5 million).

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

6 Directors' Emoluments

Directors' emoluments shown in Note 4 (excluding pensions and pension contributions) include the following:

	1993 £ Millions	1992 £ Millions
Chairman	-	-
Highest paid director	0.8	0.6

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1993	1992
Nil to £5,000	2	1
£595,001 - £600,000	-	1
£750,001 - £755,000	1	-

7. Tax on Profit on Ordinary Activities

The taxation charge comprises:

	1993 £ Millions	1992 £ Millions
Corporation tax at 33% (1992: 33%)	(93.2)	93.3
Adjustment in respect of corporation tax for earlier years	17.8	9.8
Deferred tax at 33% (1992: 33%)	352.8	78.6
Adjustment in respect of deferred tax for earlier years	(16.6)	(10.5)
Advance Corporation tax on franked investment income	4.0	0.4
Tax attributable to associated undertaking	-	(0.2)
	264.8	171.4

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

8. Intangible Assets

GROUP

The movement in the year was as follows:

	Capitalised Issue Costs £ Millions
COST -	
Balance at 1 January 1993	23.1
-additions	-
-disposals	-
	<hr/>
Balance at 31 December 1993	23.1
	<hr/>
AMORTISATION -	
Balance at 1 January 1993	12.7
-charges	2.4
-disposals	-
	<hr/>
Balance at 31 December 1993	15.1
	<hr/>
Net Book Value at 1 January 1993	10.4
	<hr/>
Net Book Value at 31 December 1993	8.0
	<hr/>

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

9. Tangible Fixed Assets

GROUP

The movement in the year was as follows:

	Investment Properties £ Millions	Leasehold Improvements, Plant, Equipment & Cars £ Millions	Total £ Millions
COST -			
Balance at 1 January 1993	5.6	52.4	58.0
-additions	-	7.9	7.9
-disposals	(5.6)	(1.3)	(6.9)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1993	-	59.0	59.0
	<hr/>	<hr/>	<hr/>
DEPRECIATION -			
Balance at 1 January 1993	-	33.9	33.9
-charges	-	5.7	5.7
-disposals	-	(0.5)	(0.5)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1993	-	39.1	39.1
	<hr/>	<hr/>	<hr/>
Net Book Value at 1 January 1993	<u>5.6</u>	<u>18.5</u>	<u>24.1</u>
Net Book Value at 31 December 1993	<u>-</u>	<u>19.9</u>	<u>19.9</u>

During the year the Group sold its investment properties at a loss of £0.5 million which was charged to the profit and loss account.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

9. Tangible Fixed Assets - continued

COMPANY

The movement in the year was as follows:

	Leasehold Improvements, Plant, Equipment & Cars £ Millions
COST -	
Balance at 1 January 1993	15.3
-additions	0.7
-disposals	(0.3)
	<hr/>
Balance at 31 December 1993	15.7
	<hr/>
DEPRECIATION -	
Balance at 1 January 1993	7.3
-charges	1.2
-disposals	(0.1)
	<hr/>
Balance at 31 December 1993	8.4
	<hr/>
Net Book Value at 1 January 1993	8.0
	<hr/>
Net Book Value at 31 December 1993	7.3
	<hr/>

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

10. Fixed Asset Investments

Investments comprise:

	Group	Company
	1993 £ Millions	1992 £ Millions
Associated undertakings	-	0.4
Subsidiary undertakings	-	577.3
Unlisted investments	13.7	-
	<u>13.7</u>	<u>577.7</u>

The movement in the Group's fixed asset investments comprises:

	Associated Undertakings £ Millions	Unlisted Investments £ Millions	Total £ Millions
COST AND NET BOOK VALUE			
At 1 January 1993	0.1	11.3	11.4
Additions	-	2.4	2.4
Disposals	(0.1)	-	(0.1)
	<u>-</u>	<u>13.7</u>	<u>13.7</u>
At 31 December 1993	<u>-</u>	<u>13.7</u>	<u>13.7</u>

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

10. Fixed Asset Investments - continued

Unlisted investments represent the market value of properties which have been sold to unrelated companies organised under a business expansion scheme ("BES"). As more fully described in Note 14, the Group has granted an option which may require the Group to repurchase these properties at a future date. Therefore, the Group has not accounted for these transactions as a sale, rather it has accounted for them as repurchase agreements. The corresponding liability to the above asset is reported in creditors.

The liability is adjusted at each year end based on management's estimate of the future liability that may arise.

The movement in the Company's fixed asset investments comprises:

	Subsidiary Undertakings £ Millions	Associated Undertakings £ Millions	Total £ Millions
COST AND NET BOOK VALUE			
At 1 January 1993			
Additions	577.3	0.4	577.7
Disposals	86.0	-	86.0
	-	(0.4)	(0.4)
At 31 December 1993	<u>663.3</u>	<u>-</u>	<u>663.3</u>

The Company's principal subsidiary undertakings, all of which are registered in England and Wales, are set out below. A schedule of all interests in subsidiary undertakings will be attached to the Company's Annual Return to the Registrar of Companies.

Company	Class of Shares	Proportion of Shares Held by the Company	Principal Activity
Salomon Brothers International Limited	Ordinary	100 %	Financial services company
Salomon Brothers UK Limited	Ordinary	100 %	Gilt edged market maker
Salomon Brothers UK Equity Limited	Ordinary	100 %	Equity market maker
The Mortgage Corporation Group Limited	Ordinary	86.9 %	Intermediate holding company

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

10. Fixed Asset Investments - continued

On 9 December 1993 the Group acquired 2,905,000 ordinary shares of £1 each in The Residential Mortgage Corporation Plc (RMC), increasing the Group's shareholding from 50% to 100%, for a consideration of £1 paid in cash.

Analysis of the acquisition of RMC

Net Assets at date of acquisition:-

	Book Value £ Millions	Provisions £ Millions	Fair Value to the Group £ Millions
Mortgage advances	41.4	(0.7) (a)	40.7
Debtors	0.7	-	0.7
Cash	0.8	-	0.8
	<hr/>	<hr/>	<hr/>
Total assets	42.9	(0.7)	42.2
	<hr/>	<hr/>	<hr/>
Creditors due within one year	(40.5)	(1.7) (b)	(42.2)
	<hr/>	<hr/>	<hr/>
Net assets	2.4	(2.4)	-
	<hr/>	<hr/>	<hr/>

Adjustments

(a) Additional provision for mortgage advances made.

(b) Provision for potential losses on interest rate swap agreements entered into by The Residential Mortgage Corporation Plc.

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

11. Mortgage Advances

Mortgage advances comprise:

	1993 £ Millions	1992 £ Millions
Completed advances	1,977.9	2,491.3
Provision for loan losses	(23.4)	(22.1)
	<u>1,954.5</u>	<u>2,469.2</u>

Mortgage advances are all due to be repaid after more than one year.

The movement in mortgage advances in the year was as follows:

	1993 £ Millions	1992 £ Millions
Balance at 1 January	2,469.2	2,963.4
Advances made	0.8	22.7
Advances acquired	42.6	-
Advances redeemed	(556.8)	(513.0)
Net changes in provision for loan losses	(1.3)	(3.9)
	<u>1,954.5</u>	<u>2,469.2</u>

Advances acquired relates to the mortgages over residential properties of The Residential Mortgage Corporation Plc at the time of its acquisition by the Company.

The mortgages over the properties and the related endowment life assurance policies are subject to a fixed charge.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

12. Debtors

The following are included in debtors:

	Group		Company	
	1993	1992	1993	1992
	£ Millions	£ Millions	£ Millions	£ Millions
Amounts falling due within one year:				
Due from ultimate parent company	24.1	0.1	-	-
Due from subsidiary undertakings	-	-	267.6	133.7
Trade debtors	15,053.5	8,642.1	-	-
Due from other group undertakings	2,717.4	2,524.5	1.4	101.4
Other debtors	433.5	468.5	-	-
Prepayments and accrued income	11.2	11.2	-	-
Taxes recoverable	130.4	53.9	-	-
VAT recoverable	0.9	0.5	-	0.1
ACT recoverable	1.4	15.2	-	13.7
	<u>18,372.4</u>	<u>11,716.0</u>	<u>269.0</u>	<u>248.9</u>
Amounts falling due after more than one year:				
Due from subsidiary undertakings	-	-	627.0	513.7
Due from other group undertakings	9.3	9.9	10.2	9.9
Other debtors	10.0	-	-	-
	<u>19.3</u>	<u>9.9</u>	<u>637.2</u>	<u>523.6</u>
	<u>18,391.7</u>	<u>11,725.9</u>	<u>906.2</u>	<u>772.5</u>

Trade debtors include collateralised short-term financing agreements with counterparties of £9,373.1 million (1992: £2,868.3 million). These positions are entered into to cover short trading positions and to facilitate customer financing activity. The substantial majority of the collateral securing these positions is comprised of government bonds.

Included within due from other group undertakings are secured financing arrangements, collateralised by current asset investments, of £723.9 million (1992: £1,327.1 million).

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

13. Current Asset Investments

The investments comprise marketable securities and related instruments taken into inventory as part of the Group's principal trading activities.

The Group's accounting policy for such investments is explained in Note 1(c). Included within current asset investments are:

	1993 £ Millions	1992 £ Millions
UK and foreign government securities	22,863.4	16,524.0
Eurobonds and other corporate bonds	2,647.1	1,352.4
Equities	2,082.1	446.2
Options and other contractual commitments (Note 22(a))	2,280.6	1,695.9
Money market securities	-	50.9
	<u>29,873.2</u>	<u>20,069.4</u>

Salomon Brothers International Limited has granted certain charges over its assets in favour of Clearing Houses employed in its business operations and in connection with secured borrowing transactions in the ordinary course of its business.

The bankers of Salomon Brothers UK Limited have been granted a fixed and floating charge over certain assets due to the nature of the Central Gilts Office of the Bank of England's assured payments settlement system.

Salomon Brothers UK Equity Limited has granted a floating charge in favour of the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited over its holdings of UK equities held in its Talisman Settlements System account.

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

14. Creditors

The following amounts are included in creditors:

	1993 £ Millions	Group 1992 £ Millions	1993 £ Millions	Company 1992 £ Millions
Amounts falling due within one year:				
Bank loans and overdrafts	431.2	219.4	-	-
Due to ultimate parent company	35.6	144.1	-	-
Due to subsidiary undertakings	-	-	-	-
Due to other group undertakings	5,985.2	4,837.7	208.2	187.5
Securities sold not yet purchased (Note 1(e))	4,313.9	4,446.2	300.1	36.5
Options and other contractual commitments (Notes 1(e), 22(a))	3,354.3	1,527.0	-	-
Trade creditors	25,275.8	17,904.9	-	-
Other creditors and accruals	6,017.4	1,175.3	-	-
Taxation payable	-	88.6	0.1	0.1
Social security and PAYE	16.6	6.4	-	-
ACT payable	-	9.3	-	-
VAT payable	0.2	-	-	9.3
			0.2	-
	<u>45,430.2</u>	<u>30,358.9</u>	<u>508.6</u>	<u>233.4</u>
Amounts falling due after more than one year:				
Bank loans and overdrafts	132.6	171.0	-	-
Mortgage Backed Floating Rate Notes	1,810.6	2,359.8	-	-
Due to other group undertakings	1,193.8	522.8	316.0	507.8
Due to subsidiary undertakings	-	-	45.9	45.7
Other creditors	55.1	43.5	-	-
	<u>3,192.1</u>	<u>3,097.1</u>	<u>361.9</u>	<u>553.5</u>
	<u>48,622.3</u>	<u>33,456.0</u>	<u>870.5</u>	<u>786.9</u>

Bank loans due after more than one year are secured on the assets of the subsidiary undertakings which borrowed the funds, and are repayable within four years.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

14. Creditors - continued

Included within amounts due to other Group undertakings falling due after more than one year are sterling and dollar subordinated loans on which interest is payable annually at a rate which is reset quarterly. The loans are repayable within five years.

Trade creditors primarily represent amounts payable under repurchase and stock lending agreements, amounts due to counterparties including other financial institutions, and short-term borrowings from banks and other institutions.

Trade creditors include both unsecured and secured financing arrangements. Security for financing transactions is provided in the form of current asset investments and securities obtained from trade debtor financing. The value of secured financing arrangements at the balance sheet date was £24,622.3 million (1992: £14,073.5 million). Borrowings from banks at 31 December 1993 on an unsecured basis amounted to £36.6 million (1992: £218.8 million).

Included within due to other group undertakings are secured financing arrangements, collateralised by current asset investments, of £3,566.2 million (1992: £2,012.7 million).

Included in other creditors and accruals is £15.2 million (1992: £11.6 million) which represents amounts provided through a business expansion scheme ("BES"). Under the terms of the transaction, the Group has sold repossessed properties to three BES companies, who in turn will market them as rental properties. In connection with the sale, the Group has granted an option to each of the BES companies. The option, if exercised, would require the Group to repurchase the properties at such a price that will enable the BES companies to make a distribution of £1.37 for each £1 invested by their shareholders. The option may be exercised at any time between 1 June 1997 and 10 July 1997.

Due to the number of economic factors affecting the future operating performance of the BES companies, it is uncertain as to whether or not the option will be exercised and, therefore, the Group has not accounted for the transaction as a sale.

The Mortgage Corporation Group Limited through its subsidiary undertakings has issued floating rate notes. The notes so issued are repayable out of the proceeds from the redemptions of the underlying mortgage pools on a periodic basis and are wholly redeemed no later than the dates shown below.

Interest payable on these notes is based on the London Interbank Offer Rate ("LIBOR").

NOTES TO THE FINANCIAL STATEMENTS - (continued)
for the year ended 31 December 1993

14. Creditors - continued

Mortgage Backed Floating Rate Notes fall due as follows:

Year of latest redemption		Amount of notes outstanding	
		1993 £ Millions	1992 £ Millions
2013	TMC Private Placements No. 1 Limited	19.9	25.3
2014	TMC Mortgage Securities No. 1 Plc	31.7	39.1
2014	TMC Mortgage Securities No. 2 Plc	18.8	23.0
2015	TMC Mortgage Securities No. 3 Plc	19.3	23.8
2015	TMC Mortgage Securities No. 4 Plc	18.8	23.0
2015	TMC Mortgage Securities No. 5 Plc	23.9	30.8
2015	TMC Mortgage Securities No. 6 Plc	18.4	22.0
2015	TMC Mortgage Securities No. 7 Plc	20.7	25.8
2018	TMC Mortgage Securities No. 8 Plc	33.5	42.1
2019	TMC Mortgage Securities No. 9 Plc	54.3	67.6
2019	TMC Mortgage Securities No. 10 Plc	65.6	83.2
2020	TMC Mortgage Securities No. 11 Plc	296.4	374.9
2028	TMC P.I.M.B.S. Fifth Financing Plc	130.9	178.7
2028	Holmes Placement No. 1 Limited	84.5	107.0
2029	TMC P.I.M.B.S. Third Financing Plc	85.4	110.8
2029	TMC P.I.M.B.S. First Financing Plc	143.9	198.1
2029	TMC P.I.M.B.S. Fourth Financing Plc	116.3	150.9
2029	TMC P.I.M.B.S. Sixth Financing Plc	120.8	158.3
2030	TMC P.I.M.B.S. Second Financing Plc	23.8	28.0
2030	TMC P.I.M.B.S. Plc	142.7	183.4
2030	Holmes Placement No. 2 Limited	90.1	145.8
2031	TMC P.I.M.B.S. Seventh Financing Plc	250.9	318.2
		<hr/>	<hr/>
		1,810.6	2,359.8
		<hr/>	<hr/>

The terms of the various funding arrangements, under which the companies listed above issue floating rate notes, include:

- The assets of the individual companies are subject to a floating charge in favour of the trustees of the noteholders.
- The mortgages over the properties and the related endowment life assurance policies are subject to a fixed charge in favour of the trustees for the noteholders.
- The individual companies have given their undertakings to the trustees for the noteholders which limit the companies' operations including their ability to raise finance.

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

14. Creditors - continued

The movement in floating rate notes was as follows:

	1993 £ Millions	1992 £ Millions
Balance at 1 January	2,359.8	2,686.1
Issued in year	-	167.4
Redeemed in year	(549.2)	(493.7)
	<u>1,810.6</u>	<u>2,359.8</u>
Balance at 31 December		

15. Provision for Liabilities and Charges

The provision for liabilities and charges comprises:

	Group		Company	
	1993 £ Millions	1992 £ Millions	1993 £ Millions	1992 £ Millions
Lease costs	2.9	3.2	-	-
Deferred taxation (see below)	450.5	149.6	-	0.7
	<u>453.4</u>	<u>152.8</u>	<u>-</u>	<u>0.7</u>
Balance at 31 December				

	Group		Company	
	1993 £ Millions	1992 £ Millions	1993 £ Millions	1992 £ Millions
Balance at 1 January	149.6	69.2	0.7	0.2
Credited/(charged) to profit and loss in respect of accelerated capital allowances and other timing differences	336.2	68.2	(0.7)	0.5
Transfer (from)/to taxation recoverable/payable	(5.9)	12.2	-	-
Advance corporation tax paid	(29.4)	-	-	-
	<u>450.5</u>	<u>149.6</u>	<u>0.0</u>	<u>0.7</u>
Balance at 31 December				

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

16. Called-Up Share Capital

The Company's share capital comprises:

	1993 £ Millions	1992 £ Millions
Authorised:		
930,000,000 ordinary shares of £1 each	930.0	930.0
900,000,000 redeemable preference shares of £1 each	-	900.0
900,000,000 new redeemable preference shares of £1 each	900.0	-
	<u>1,830.0</u>	<u>1,830.0</u>
Allotted, called-up and fully paid:		
21,065,000 (1992: 25,000,000) ordinary shares of £1 each	21.1	25.0
484,644,550 redeemable preference shares of £1 each	-	484.6
561,175,212 new redeemable preference shares of £1 each	561.1	-
	<u>582.2</u>	<u>509.6</u>

On 5 April 1993, in accordance with Section 381A of the Companies Act 1985, the 415,355,450 unissued redeemable preference shares of £1 each in the Company were reclassified and designated new redeemable preference shares of £1 each. In addition, the Company purchased 3,935,000 of its £1 ordinary shares in accordance with Section 164 of the Companies Act 1985 from Salomon (International) Finance AG out of the proceeds of an allotment of 76,530,662 new redeemable preference shares of £1 each.

On 28 May 1993, in accordance with Section 381A of the Companies Act 1985, the 484,644,550 issued redeemable preference shares of £1 each in the Company were also reclassified and designated new redeemable preference shares of £1 each.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

17. Reserves

GROUP

	Capital Reserve £ Millions	Profit & Loss Account £ Millions	Total £ Millions
Balance at 1 January 1993	5.6	494.2	499.8
Premium on redemption of shares (nominal value £3.9 million)	-	(72.6)	(72.6)
Goodwill written off	-	(1.4)	(1.4)
Exchange difference on retranslation of net assets and results of subsidiary undertakings	-	0.9	0.9
Retained profit for the year	-	454.3	454.3
	<u>5.6</u>	<u>875.4</u>	<u>881.0</u>
Balance at 31 December 1993	<u>5.6</u>	<u>875.4</u>	<u>881.0</u>

COMPANY

	Capital Reserve £ Millions	Profit & Loss Account £ Millions	Total £ Millions
Balance at 1 January 1993	5.6	67.6	73.2
Premium on redemption of shares (nominal value £3.9 million)	-	(72.6)	(72.6)
Retained profit for the year	-	124.1	124.1
	<u>5.6</u>	<u>119.1</u>	<u>124.7</u>
Balance at 31 December 1993	<u>5.6</u>	<u>119.1</u>	<u>124.7</u>

During 1981, the shareholders made a capital contribution in cash to the Company of £5.6 million. This contribution forms part of the shareholders' funds.

18. Minority Interests

	1993 £ Millions	1992 £ Millions
Balance at 1 January	10.5	12.8
Share of profit/(loss) for the year	0.6	(5.9)
Movement resulting from capital injection	1.4	3.6
	<u>12.5</u>	<u>10.5</u>
Balance at 31 December	<u>12.5</u>	<u>10.5</u>

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

19. Reconciliation of Profit Before Taxation to Net Cash Outflow from Operating Activities

	1993 £ Millions	1992 £ Millions
Profit before taxation	719.7	531.4
Amortisation of intangible fixed assets	2.4	2.4
Decrease/(increase) in interest receivable and prepaid expenses	62.9	(33.6)
Increase in interest payable and accrued expenses	24.6	70.5
Depreciation	5.2	7.5
Loss on write off of intangible fixed assets and investments	-	0.1
Loss on the sale of tangible fixed assets	0.5	0.2
Share of loss in associated undertaking	-	0.6
Lease costs	(0.3)	3.2
Net charge for provision for mortgage losses	1.3	3.9
Net charge for provision for swap losses	1.7	-
	<hr/>	<hr/>
Net cash inflow from trading	818.0	586.2
Increase in securities held (excluding certificates of deposit)	(9,854.7)	(11,635.3)
Increase in other debtors	(6,697.6)	(5,370.1)
Increase in other creditors	15,109.2	15,853.3
	<hr/>	<hr/>
Net cash outflow from operating activities	(625.1)	(565.9)
	<hr/>	<hr/>

20. Analysis of the Balances of Cash and Cash Equivalents

	1993 £ Millions	1992 £ Millions	Change in 1993 £ Millions
Coins, bank notes and balances with central banks	290.4	318.3	(27.9)
Certificates of deposit	-	50.9	(50.9)
Bank overdrafts	(431.2)	(219.4)	(211.8)
	<hr/>	<hr/>	<hr/>
	(140.8)	149.8	(290.6)
	<hr/>	<hr/>	<hr/>

The Group increased its cash and cash equivalents by £0.8 million in respect of the purchase of subsidiary undertakings.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

21. Analysis of Changes in Financing During the Year

	Floating Rate Notes £ Millions	Group Loans £ Millions	Bank Loans £ Millions
Balance at 1 January 1992	2,686.1	626.0	104.5
Cash (outflow)/inflow from financing	(326.3)	473.2	66.5
	<hr/>	<hr/>	<hr/>
Balance at 1 January 1993	2,359.8	1,099.2	171.0
Cash inflow/(outflow) from financing	(549.2)	496.0	(38.4)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1993	<u>1,810.6</u>	<u>1,595.2</u>	<u>132.6</u>

22. Contractual Commitments and Contingencies

(a) Notional Commitments and Market Values of Contractual Commitments

In the normal course of its operations, certain companies within the Group enter into various contractual commitments involving forward settlement. These include futures contracts; commitments to buy and sell securities and foreign currencies; interest rate swap, cap and floor agreements; warrants and option contracts.

As discussed in Note 1(e), the Group records all contractual commitments involving future settlement at market or fair value. Consequently, changes in market prices are included in the profit and loss account.

Commitments involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular instrument. The Group's exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates and foreign currency exchange rates and market volatility. For instruments such as options and warrants, the time period during which the options or warrants may be exercised and the relationship between the current market price of the underlying instrument and the options or warrants strike or exercise price also affects the level of market risk. The most significant factor influencing the overall level of market risk to which the Group is exposed is its use of hedging techniques to manage such risk.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

22. Contractual Commitments and Contingencies - continued

The notional amounts of financial instruments that give rise to off-balance-sheet risk are disclosed below. The determination of notional amounts does not consider any of the factors discussed above. Notional amounts are indicative only of the volume of activity; they are not a measure of market risk. Market risk is influenced by the nature of the items that comprise a particular category of financial instrument. For example, forward contracts presented below include both purchase and sale commitments. Futures contracts include contracts purchased as well as contracts sold. Swap agreements include several combinations, such as those in which the Group pays a fixed rate of interest and receives a variable rate, as well as those in which the Group pays a variable rate of interest and receives a fixed rate. Options and similar contractals sold or written include both calls and puts. Market risk is also influenced by the relationship among the various off-balance-sheet categories as well as the relationship between off-balance sheet items and items recorded in the Group's balance sheet. For all of the reasons noted above, the interpretation of the following notional amounts as a measure of market risk could be materially misleading.

	1993 £ Billions	1992 £ Billions
Financial futures contracts	67.0	41.7
Swap agreements	63.7	26.5
Options and similar contractals sold or written	17.9	6.0
Forward rate agreements	3.2	4.1
Forward currency contracts	0.7	1.8
Interest rate cap and floor agreements written	11.3	3.1

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

22. Contractual Commitments and Contingencies - continued

As discussed in Note 1 (e), the balance sheet includes the market or fair value of financial instrument options and contractual commitments involving future settlement. At 31 December 1993 and 1992, the market or fair value of options and contractual commitments recorded as assets and liabilities was as follows:

	Assets		Liabilities	
	1993 £ Millions	1992 £ Millions	1993 £ Millions	1992 £ Millions
Swap agreements, swap options and interest rate cap and floor agreements	651.8	90.7	1,699.0	44.5
Index and equity options and similar contractals	1,282.2	1,233.3	1,495.3	1,251.2
Currency options	19.4	13.7	2.4	2.2
Other options and contractals	327.2	358.2	157.6	229.1
	<u>2,280.6</u>	<u>1,695.9</u>	<u>3,354.3</u>	<u>1,527.0</u>

(b) Capital Commitments

There were capital commitments of £1.3 million as at 31 December 1993 (1992: £nil).

(c) Letters of Credit

The Group had £664.6 million (1992: £547.1 million) of outstanding letters of credit from banks to satisfy collateral requirements under securities borrowing agreements and margin requirements.

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Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

22. Contractual Commitments and Contingencies - Continued

(d) Lease Commitments

At 31 December 1993, the Company and certain other companies within the Group had entered into lease agreements for office accommodation, the last of which expires in 2012. During the year lease rental payments of £8.2 million (1992: £8.2 million) were made.

In addition, the Group leases certain land and buildings on short and long term leases. The annual rental on these leases for 1993 was £1.5 million (1992: £1.5 million). The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	1993		1992	
	Property £ Millions	Equipment £ Millions	Property £ Millions	Equipment £ Millions
Operating leases which expire:-				
within 1 year	-	0.2	-	-
within 2-5 years	-	0.1	-	0.4
after 5 years	1.5	-	1.5	-
	<u>1.5</u>	<u>0.3</u>	<u>1.5</u>	<u>0.4</u>

The Group has also entered into non-cancellable operating leases in respect of equipment, the payments for which extend over a period of up to 3 years. The total annual rental for 1993 was £0.5 million (1992: £0.4 million).

(e) Other Commitments

Commitments to buy and sell current asset investments arose in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS - (continued)
for the year ended 31 December 1993

23. Risk Management

(a) Market Risk

Any activity in which the Group takes positions in financial instruments or contractual commitments exposes the Group to market risk. Market risk represents the potential loss the Group may incur as a result of absolute and relative price movements in financial instruments, price volatility, changes in yield curves, currency fluctuations and changes in market liquidity. Trading activities represent the principal source of such risk and can generally be grouped into two separate activities: (1) those in which the Group plays a role of market intermediary on behalf of its customers and (2) those in which the Group implements proprietary trading strategies.

In its role as a market intermediary, the Group often acts as a principal in a financial transaction. This exposes the Group to market risk, which is generally hedged by entering into positions that have market risk profiles inversely related to the positions the Group has acquired through transactions with its customers. Hedging generally reduces market risk, however, not all market risks associated with market intermediation can be effectively hedged.

By their nature, proprietary trading strategies represent the assumption and management of risk in order to generate returns expected to be justified by the level of risk assumed. Hedging strategies are also used in the execution of proprietary trading strategies to reduce the market risk that the Group chooses not to assume. The purpose of such hedging is not to eliminate risk, but to focus on particular risks that the strategy is designed to assume.

The Risk Management Group of Salomon Brothers (which comprises the global operations of Salomon Brothers Holding Company Inc and its subsidiaries, including the Group) is composed of heads of major trading desks and a number of members of senior management. Their primary functions are to identify and report major risks undertaken by Salomon Brothers' worldwide trading businesses, including those of the Group; to enhance, through peer review, the analysis and management of major risks by the heads of the trading desks; and, when appropriate, to adjust the levels of risk assumed. The Group establishes risk guidelines for each business unit, which are reviewed monthly and revised as business conditions change. The Group has also developed and implemented, for internal uses, a model under which its business units are assessed for risk capital usage. The imposition of this assessment encourages business units to consider the risk capital implications of trading and business strategies, which further strengthens risk management at the operational level.

(b) Credit Risk

Credit risk is the potential loss the Group could incur if an issuer or counterparty is unable to perform on its commitments, including the timely payment of principal and interest or settlement of swap and foreign exchange transactions, repurchase agreements, securities purchases and sales, and other contractual obligations. The credit risk management process considers the many factors that influence the probability of potential loss, including, but not limited to, the issuer's or counterparty's financial profile, prospects and business reputation; the specific terms and duration of the transactions; and the exposure of the transactions to market risk, macroeconomic developments and sovereign risk.

Salomon Brothers Europe Limited and Subsidiary Undertakings

NOTES TO THE FINANCIAL STATEMENTS - (continued) for the year ended 31 December 1993

23. Risk Management - continued

(b) Credit Risk - continued

Salomon Brothers' Credit Review Department is independent of any revenue-generating function and is responsible for the assessment, approval, monitoring and coordination of the extension of credit on a global basis. In considering such credit risk, the Department evaluates the risk/return trade-offs of transactions that involve, or may potentially involve, the extension of credit, as well as current and potential credit exposures to a counterparty or to groups of counterparties that are related because of similar industry, geographic, or economic characteristics. The Credit Review Department has established various control procedures, used singularly or in combination, including: initial credit approval, credit limits, collateral requirements, cross-default agreements, rights of setoff, guarantees, two-way mark to market and periodic assessment of sovereign risk through analysis of economic and political developments.

24. Subsequent Events

On 28 January 1994, the Company was allotted and paid for 5,000,000 ordinary £1 shares in SBUKE.

On 23 March 1994, SBIL entered into a 364 day \$1 billion committed revolving credit facility with a syndicate of banks. This enables SBIL to finance a variety of fixed income and equity securities on a secured basis.

On 25 May 1994, the Company was allotted and paid for 5,000,000 ordinary £1 shares in SBUKE.

On 30 June 1994, the Company declared an interim dividend of £38.7 million on its new redeemable preference shares and a dividend of \$190.1 million on its ordinary shares payable on 1 July 1994.

On 30 September 1994, the outstanding authorised but unissued 338,824,788 £1 new redeemable preference shares were reclassified as 2nd tranche new redeemable preference shares and 126,742,712 such shares were issued at par. The Company also declared a second interim dividend of \$200.0 million on its ordinary shares payable on 3 October 1994.

25. Group Structure

At the year end the Company's immediate and ultimate parent companies are Salomon International Limited and Salomon Inc, both of which are incorporated in the State of Delaware, United States of America. The consolidated accounts of the ultimate parent are available from Corporate Communications, Salomon Inc, at 7 World Trade Centre, New York, New York 10048.