

**CITIGROUP GLOBAL MARKETS EUROPE LIMITED  
AND SUBSIDIARY UNDERTAKINGS  
(formerly Salomon Brothers Europe Limited)**

**(Registered Number: 1548967)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**for the year ended 31 December 2003**



**DIRECTORS' REPORT**

for the year ended 31 December 2003

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The Directors present their report and the financial statements for the year ended 31 December 2003.

**Principal activities and business review**

The Company is a holding company. During the year the Company and its subsidiaries (the "Group") conducted business principally in two separate areas: securities and asset management.

The Group's securities activities are conducted through Citigroup Global Markets Limited ("CGML") (formerly Salomon Brothers International Limited) in the UK and its branches outside the UK and through Citigroup Global Markets U.K. Equity Limited (formerly Salomon Brothers U.K. Equity Limited) ("CGMUKE"). CGML is a broker and dealer in fixed income and equity securities and related products in the international capital markets and an underwriter and provider of corporate finance services, operating in the UK and through European branches outside the UK. CGMUKE is a broker and dealer in UK listed equity securities only. The Group markets securities owned by other group undertakings on a commission basis.

The Group's asset management activities have been conducted through Salomon Brothers Asset Management Limited ("SBAM"). SBAM has provided specialised investment and portfolio management services to institutional investors, for which it receives management and performance fees. Since the year end SBAM's asset management business has ceased.

The Group's securities and asset management activities are regulated under the Financial Services and Market Act 2000.

**Results and dividends**

For the year ended 31 December 2003, the profit on ordinary activities after taxation of the Group was \$24 million (2002: loss of \$205 million).

No dividends were paid by the Company during the year (2002: \$nil) and the Directors do not recommend the payment of a final dividend in respect of the year.

**Change of Company Name**

The Company changed its name from "Salomon Brothers Europe Limited" to "Citigroup Global Markets Europe Limited" on 7 April 2003.

**Subsidiary undertakings – capital subscriptions**

On 30 December 2003, the Company undertook a capital restructuring to improve its capital position and reduce its gearing by replacing subordinated debt with equity share capital with the consent of the Financial Services Authority. The capital restructuring comprised the following steps:

- The Company increased its authorised share capital by US\$2,000,000 by the creation of 2,000,000 Dollar Non-Cumulative Redeemable Preference Shares of US\$1 each. This resulted in the Company's authorised share capital comprising £5,709,468,374 and US\$2,000,000;
- The Company allotted to a direct shareholder, Citigroup Global Markets Europe Finance Limited, 2,000,000 Dollar Non-Cumulative Redeemable Preference Shares of US\$1 each fully paid in cash at a premium of US\$999 per share;

**DIRECTORS' REPORT**

for the year ended 31 December 2003

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**Subsidiary undertakings – capital subscriptions - continued**

- The Company allotted to its immediate parent company, Citigroup Financial Products Inc., 353,057,478 A Ordinary shares of £1 each fully paid in cash at a premium of £2.1986 per share; and
- The Company then repaid a subordinated debt of US\$1,982,417,946 owing to Citigroup Financial Products Inc.

**Directors and their interests**

The names of the Directors who held office at 31 December 2003 were as follows:

S.H. Dean  
W.J. Mills

On 31 July 2003 W.M. Samuel resigned as a Director and Chief Executive W.J. Mills was appointed a Director of the Company with effect from 21 August 2003.

Neither of the Directors or their immediate families had, at any time during the year, any interest in the shares of or contracts with the Company or any other group undertaking which is required to be disclosed by the Companies Act 1985.

**Directors' responsibilities for financial statements**

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 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 Company 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 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Employment of disabled people**

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within the Group. Opportunities for training, career development and promotion of disabled persons are, as far as possible, identical to those for other employees who are not disabled.

**DIRECTORS' REPORT**

for the year ended 31 December 2003

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**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.

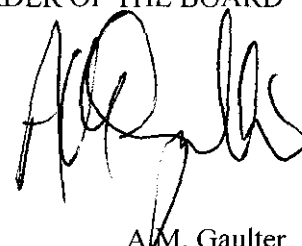
**Auditors**

An elective resolution to dispense with the annual appointment of the auditors pursuant to Section 385 of the Companies Act 1985 is in force.

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

28 October 2004

BY ORDER OF THE BOARD



A.M. Gaulter  
Company Secretary

**INDEPENDENT AUDITORS' REPORT**

for the year ended 31 December 2003

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**Independent Auditors' Report to the Shareholders of  
CITIGROUP GLOBAL MARKETS EUROPE LIMITED  
(formerly Salomon Brothers Europe Limited):**

We have audited the financial statements on pages 5 to 27.

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 auditor's 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 are responsible for preparing the Directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Group is not disclosed.

**Basis of audit 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 Group's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants and Registered Auditors  
London

28 October 2004

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**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2003

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	Notes	2003 \$ Million	2002 \$ Million
Commission income and fees		1,524	1,511
Net dealing income		946	384
Interest receivable and similar income	3	2,269	2,328
Interest payable	3	(2,294)	(2,273)
GROSS PROFIT		2,445	1,950
Operating expenses	4	(2,392)	(2,145)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		53	(195)
Tax on profit / (loss) on ordinary activities	6(a)	(29)	(10)
PROFIT / (LOSS) FOR THE FINANCIAL YEAR	16	24	(205)
RETAINED AS FOLLOWS:			
Parent company		(15)	(3)
Subsidiary undertakings		39	(202)
		24	(205)

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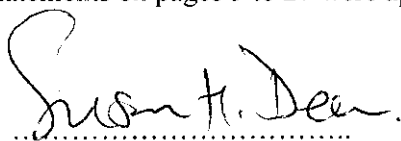
There are no recognised gains or losses other than the profit for the year and all items are derived from continuing operations.

**CONSOLIDATED BALANCE SHEET**

as at 31 December 2003

	Notes	2003 \$ Million	2003 \$ Million	2002 \$ Million	2002 \$ Million
<b>FIXED ASSETS</b>					
Tangible fixed assets	7		34		48
Investments	8		4		-
			38		48
<b>CURRENT ASSETS</b>					
Debtors	9	102,990		92,737	
Investments	10	42,954		30,348	
Cash at bank and in hand	11	1,934		779	
		147,878		123,864	
<b>CREDITORS: amounts falling due within one year</b>					
Creditors	13	142,404		121,549	
Subordinated loans	15	-		1,480	
		142,404		123,029	
<b>NET CURRENT ASSETS</b>			5,474		835
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			5,512		883
<b>CREDITORS: amounts falling due after more than one year</b>					
Creditors	14	605		530	
Subordinated loans	15	1,080		550	
			1,685		1,080
<b>NET ASSETS / (LIABILITIES)</b>			3,827		(197)
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16		1,965		1,337
Share premium	17		3,372		-
Capital reserve	17		45		45
Profit and loss account	17		(1,555)		(1,579)
<b>SHAREHOLDERS' FUNDS</b>			3,827		(197)
Equity interests			785		(1,239)
Non-equity interests			3,042		1,042
<b>TOTAL CAPITAL EMPLOYED</b>			3,827		(197)

The financial statements on pages 5 to 27 were approved by the Directors on 28 October 2004 and were signed by:

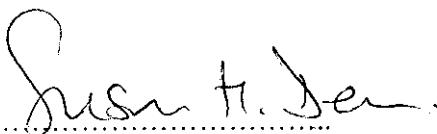
  
 S.H. Dean  
 Director

**PARENT COMPANY BALANCE SHEET**

as at 31 December 2003

	Notes	2003 \$ Million	2003 \$ Million	2002 \$ Million	2002 \$ Million
<b>FIXED ASSETS</b>					
Tangible fixed assets	7		2		2
Investments	8		4,519		2,519
			4,521		2,521
<b>CURRENT ASSETS</b>					
Debtors	9	282		231	
Cash at bank and in hand		1		1	
		283		232	
<b>CREDITORS: Amounts falling due within one year</b>	13	141		2,075	
<b>NET CURRENT ASSETS / (LIABILITIES)</b>			142		(1,843)
<b>NET ASSETS</b>			4,663		678
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16		1,965		1,337
Share premium	17		3,372		-
Capital reserve	17		45		45
Profit and loss account	17		(719)		(704)
<b>SHAREHOLDERS' FUNDS</b>			4,663		678
Equity interests			1,621		(365)
Non-equity interests			3,042		1,043
			4,663		678

The financial statements on pages 5 to 27 were approved by the Directors on 28 October 2004 and were signed by:

  
 S.H. Dean  
 Director



## **NOTES TO THE FINANCIAL STATEMENTS**

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### **1. Principal accounting policies**

The accounting policies have been applied consistently throughout the current year and the preceding year:

#### **(a) Basis of presentation**

The financial statements have been prepared under the historical cost convention, except for current asset investments, contractual commitments and foreign exchange transactions which are stated at fair value (as defined in Note 1(d) below) at the balance sheet date, and in accordance with accounting standards applicable in the United Kingdom. The financial statements have been prepared in US Dollars, which is the functional currency of the Company and any reference to \$ in these financial statements refers to US Dollars.

In accordance with the revised FRS 1, the Group has not prepared a cash flow statement. The Group's results are consolidated in the financial statements of its ultimate parent company, Citigroup Inc., which are made available to the public annually.

Under the subsidiary undertakings exemption of FRS 8, the Group is not required to disclose all transactions with other group companies and investees of the group qualifying as related parties.

#### **(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings to 31 December 2003 unless otherwise stated. The acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

#### **(c) Commission income and fees**

Commission income and fees are derived from sales activities, underwriting activities, marketing securities owned by other group undertakings, trading services provided to other group undertakings, and corporate finance fees associated with mergers and acquisitions and other corporate finance advisory activities.

Commission revenues and expenses, are accounted for on the trade date of the related transaction. Corporate finance fees are recognised when earned.

NOTES TO THE FINANCIAL STATEMENTS – continued

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1. Principal accounting policies – continued

(d) Net dealing income

Net dealing income includes movements in the fair value of financial instruments and trading profits and losses, including dividends, earned from dealing, market making and principal trading in marketable investments, contractual commitments and foreign exchange, the majority of which have liquid markets.

Financial instruments are recorded at fair value, which represents market value or, when market prices are not readily available, instruments are priced on a comparable basis, for example by using models. Fair value includes related accrued interest or dividends. The determination of 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 contractual commitments, the Group considers future maintenance costs.

Movements in the fair value of financial instruments are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to a revaluation reserve. The Directors consider that these requirements would fail to give a true and fair view of the profit or loss for the year of a trading enterprise that holds readily marketable investments as current assets since their marketability enables decisions to be taken continually about whether to hold or sell those assets and hence the economic measure of performance in any period is properly made by reference to fair values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost, being of no continuing relevance to the business, is not readily available and therefore a note of the historical cost profit or loss, as required by paragraph 26 of FRS 3, has not been presented.

(e) Financial instruments

Financial instruments are accounted for on a trade date basis. Long positions are described as current asset investments as outlined in Note 10. Short positions are included within creditors due within one year in Note 13 and comprise both securities sold, but not yet purchased, and options and other contractual commitments. Contractual commitments include obligations with counterparties that may extend for more than one year.

(f) Repurchase and resale agreements

Repurchase and resale agreements are treated as collateralised financing transactions. Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds are recorded as a collateralised financing transaction. Securities acquired in purchase and resale transactions are not recognised in the balance sheet and the purchase price is recorded as a collateralised financing transaction. The difference between the sale price and the repurchase price is accrued evenly over the life of the transaction and is charged or credited to the profit and loss account as interest payable or receivable.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

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**1. Principal accounting policies – continued**

**(g) Tangible fixed assets**

Tangible fixed assets are stated at cost, less accumulated depreciation. The cost of developed software includes directly attributable internal costs and the cost of external consultants. Depreciation is provided at rates calculated to write-off the cost, less the estimated residual value of each asset, on a straight-line basis over its expected economic useful life, as follows:

Premises improvements	-	lesser of the life of the lease or 10 years
Equipment and cars	-	3 to 5 years
Capitalised software	-	3 years

**(h) Fixed asset investments**

Fixed asset investments are stated at cost, less any write down for diminution in value regarded as permanent.

**(i) Taxation**

Corporate tax is provided on taxable profits/losses at the current rate. Full provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their treatment for tax purposes on an undiscounted basis. Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**(j) Pension costs and other post retirement benefit costs**

The Group accounts for pension costs in accordance with Statement of Standard Accounting Practice 24 ("SSAP 24"). The Group has made additional disclosures in accordance with FRS 17. For defined contribution benefits, the charge against profit is the amount of contributions payable in respect of the year. For defined benefit obligations, the pension cost is calculated using actuarial valuation methods which give rise to a regular pension cost that is a substantially 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.

Contributions to the Post Retirement Benefits Scheme in respect of certain employees are assessed in accordance with the advice of an independent qualified actuary and provision is being made on a similar basis to the defined benefit scheme outlined above.

**(k) Foreign currencies**

Monetary assets and liabilities denominated in currencies other than US dollars have been translated into US dollars using the year end spot exchange rates. Non-monetary assets and liabilities, denominated in currencies other than US dollars, have been translated at the relevant historical exchange rates. Transactions in foreign currencies are translated into US dollars at rates of exchange approximating those at the transaction date.

NOTES TO THE FINANCIAL STATEMENTS – continued

1. Principal accounting policies – continued

(I) Operating leases

Where the Group leases out equipment for less than its expected useful life or does not transfer substantially all the risks and rewards of ownership, the lease is accounted for as an operating lease.

Rentals payable under operating leases are charged to the profit and loss account when incurred and are included within “operating expenses”.

2. Turnover and results

As permitted by paragraph 3(3) of Schedule 4 to the Companies Act 1985, the format of the profit and loss account has been adapted to the circumstances of the Group. Instead of turnover, the Directors have reported revenue, which comprises commission income and fees, net dealing income and interest income less interest expense in determining the gross profit of the Group. No segmental analysis of revenue, profit before taxation or net assets has been presented because the Directors are of the opinion that operations are global and the Group’s principal activities comprise one segment. Therefore no meaningful segmental analysis can be made.

3. Interest receivable and similar income and interest payable

	2003 \$ Million	2002 \$ Million
Interest receivable and similar income comprises:		
Interest on current asset investments,		
Interest bearing debtors and cash assets	2,040	2,023
Interest on loans to other group undertakings	214	275
Interest on loans to associated undertakings	15	30
	2,269	2,328

Interest payable comprises:

Interest on bank loans and overdrafts	12	14
Interest on other third party borrowings	1,898	1,765
Interest on borrowing from other group undertakings	378	490
Interest on borrowing from associated undertakings	6	4
	2,294	2,273

NOTES TO THE FINANCIAL STATEMENTS – continued

4. Operating expenses

	2003 \$ Million	2002 \$ Million
Operating expenses include:		
Rentals payable on leasehold property	13	11
Employee remuneration	1,300	1,037
Social security costs	131	103
Pension costs (Note 5)	44	43
Auditors' remuneration:		
- Audit fees	1	1

The Company has no employees. All employees of the Group are employed by Citigroup Global Markets Limited.

The Group employed an average of 3,616 (2002: 3,591) employees during the year. Employee remuneration includes an expense in relation to the award of shares of Citigroup Inc. common stock to participating employees of the Group. The stock generally vests over a three year period. If the participant's employment ceases during that period the stock is subject to total or partial cancellation. The amount of the expense included in the profit and loss account reflects the anticipated cost of the award, adjusted to reflect the estimated impact of future cancellations.

5. Pension costs

The Citigroup Global Markets Limited Pension and Life Assurance Scheme ("the Scheme") is a funded pension scheme providing benefits on both a defined benefit and defined contribution basis. The Scheme is now closed to new entrants. 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 Citigroup (UK) Pension Plan was established in September 2000 and provides defined contribution benefits to all new hires. The pension cost for this Plan is equal to the contributions made by the Group.

The pension cost in respect of defined benefit obligations is assessed in accordance with the advice of a qualified actuary using a defined accrued benefit method with a three year control period. The most recent full actuarial valuation on behalf of the trustees of the pension cost for the Scheme was at 5 April 2002. 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 7% pre-retirement, 6% post-retirement per annum, that salary increases would be 4% per annum subject to the application of limits on pensionable salary in line with statute and Group practice, that statutory required increases would apply to guaranteed minimum pensions in deferment and payment and that increases of 3% per annum would apply to the remainder of pensions in deferment (where increases are required by statute) and in payment.

Costs of the Scheme in respect of the defined benefit obligations which include both a regular pension cost and variations from the regular cost, are charged to the profit and loss account. The cost of variations are spread over 10 years, which is the average remaining service life of current employees in the Scheme. The pension charge for the year comprises \$7 million (2002: \$15 million) in respect of the

NOTES TO THE FINANCIAL STATEMENTS – continued

5. Pension costs - continued

defined benefit obligations and \$37 million (2002: \$28 million) in respect of the various defined contribution arrangements which represents contributions paid and payable in respect of the year.

Pension cost for 2003

	\$ Million
Regular cost	12
Variation	1
Interest cost	(7)
Pension cost	7

Prepayment at 31 December 2003

	\$ Million
Prepayment at 31 December 2002	95
Employer contributions	49
Provision	(7)

Prepayment at 31 December 2003 137

Additional disclosures required under FRS 17

The Company has no employees. All employees of the Group are employed by CGML. Whilst the Group continues to account for pension costs in accordance with SSAP 24, under FRS 17 the following transitional disclosures are required for the Group's defined benefit scheme operated in the UK.

For this scheme, the current service costs will increase as the members of the scheme approach retirement under the Projected Unit Method.

The main financial assumptions used in calculating the defined benefit scheme liabilities as at 31 December 2003 are as follows:

	2003	2002	2001
Inflation	2.5%	2.0%	2.0%
Rate of general long-term increase in salaries	4.0%	3.5%	4.0%
Rate of increase to pensions in payment	2.5%	2.0%	2.0%
Discount rate for scheme liabilities	5.5%	5.5%	5.8%

Expected return on assets:

	Long-term rate of return expected			Value \$ Million		
	2003	2002	2001	2003	2002	2001
Equities	7.8%	7.5%	8.0%	303	180	212
Government bonds	4.6%	4.5%	5.0%	102	-	-
Other	4.0%	4.0%	4.5%	3	100	3
Total market value of assets				408	280	215

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**5. Pension costs – continued**

Additional disclosures required under FRS 17 - continued

The amount that would be charged to operating expenses under FRS 17, consisting entirely of current service cost, is \$15 million (2002: \$17 million).

Analysis of amount that would be included in interest receivable and similar income under FRS 17:

	<b>2003</b>	<b>2002</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Expected return on pension scheme assets	20	19
Interest on pension scheme liabilities	(20)	(14)
Net return	-	5

Analysis of amount that would be recognised in Statement of Total Recognised Gains and Losses ("STRGL") under FRS 17:

	<b>2003</b>	<b>2002</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Actual return less expected return on pension scheme assets	27	(78)
Experience gains and losses arising on the scheme liabilities	(2)	(17)
Changes in assumptions underlying the present value of the scheme liabilities	(46)	(32)
Actuarial loss that would be recognised in STRGL	(21)	(127)

Reconciliation to balance sheet:

	<b>2003</b>	<b>2002</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Total market value of assets	408	280
Present value of scheme liabilities	(430)	(314)
Net pension deficit	(22)	(34)

	<b>2003</b>	<b>2002</b>
	<b>\$ Million</b>	<b>\$ Million</b>
Deficit in scheme at beginning of the year	(34)	(1)
Current service cost	(15)	(17)
Contributions	48	106
Other finance income	-	5
Actuarial loss	(21)	(127)
Deficit in scheme at end of year under FRS 17	(22)	(34)

NOTES TO THE FINANCIAL STATEMENTS – continued

5. Pension costs - continued

History of experience gains and losses:

	2003	2002
Difference between expected and actual return on scheme assets		
• Amount (\$ Million)	27	(78)
• Percentage of scheme assets	6.6%	27.8%
Experience gains and losses on scheme liabilities:		
• Amount (\$ Million)	(2)	(17)
• Percentage of the present value of the scheme liabilities	0.5%	5.5%
Total amount that would be recognised in STRGL:		
• Amount (\$ Million)	(21)	(127)
• Percentage of the present value of the scheme liabilities	4.9%	40.6%

6. Tax on profit / (loss) on ordinary activities

(a) Analysis of tax charge in the year:

	2003 \$ Million	2002 \$ Million
Current tax:		
UK corporation tax	9	13
Overseas current taxation	(45)	(39)
Adjustment in respect of corporation tax for earlier years	-	(8)
Adjustment in respect of overseas tax for earlier years	(2)	-
Total current tax (note 6(b))	(38)	(34)
Deferred tax:		
Origination and reversal of overseas timing differences	10	-
Adjustment in respect of UK deferred tax for earlier years	-	15
Adjustment in respect of overseas deferred tax for earlier years	(1)	9
Total deferred tax	9	24
Tax on profit / (loss) on ordinary activities	(29)	(10)



**NOTES TO THE FINANCIAL STATEMENTS** – continued

**6. Tax on profit / (loss) on ordinary activities - continued**

(b) Factors affecting tax charge for the year:

	<b>2003</b> <b>\$ Million</b>	<b>2002</b> <b>\$ Million</b>
Profit / (loss) on ordinary activities before tax	53	(195)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(16)	58
Effects of:		
Foreign tax deductions	13	-
Profit on sale of investments	-	3
Expenses not deductible for tax purposes	(2)	(41)
Depreciation expense in excess of capital allowances	(10)	(11)
Unpaid interest	-	(15)
Other timing differences	(93)	(20)
Utilisation of tax losses	122	39
Overseas tax in respect of European branch operations and dividends received	(45)	(39)
Tax losses carried forward	(5)	-
Adjustments to tax charge in relation to previous years	(2)	(8)
Current tax charge for year	(38)	(34)

(c) Factors that may affect future tax charges:

The Group has substantial tax losses carried forward for which no deferred tax asset has been recognised.

NOTES TO THE FINANCIAL STATEMENTS – continued

7. Tangible fixed assets

The movement in tangible fixed assets for the year was as follows:

	Group	Company
	Premises improvements fixtures & fittings equipment and cars \$ Million	Premises improvements \$ Million
Cost		
At 1 January 2003	152	2
Additions	14	2
Disposals	(3)	(2)
At 31 December 2003	163	2
Depreciation		
At 1 January 2003	104	-
Charge for the year	26	-
Disposals	(1)	-
At 31 December 2003	129	-
Net book value at 31 December 2003	34	2
Net book value at 31 December 2002	48	2

NOTES TO THE FINANCIAL STATEMENTS – continued

8. Fixed asset investments

Group	Unlisted investments \$ Million
Cost	
At 1 January 2003	7
Additions	2
Disposals	(5)
At 31 December 2003	4
Provisions	
At 1 January 2003	2
Release	(2)
At 31 December 2003	-
Net book value at 31 December 2003	4
Net book value at 31 December 2002	5

The following amounts for subsidiary undertakings are included in fixed asset investments:

Company	2003 \$ Million	2002 \$ Million
Cost At 1 January	2,519	1,830
Additions	2,000	700
Disposals	-	(11)
Net book value at 31 December	4,519	2,519

The Company's principal subsidiary undertakings, all of which are registered in England and Wales, are set out below.

NOTES TO THE FINANCIAL STATEMENTS – continued

8. Fixed asset investments - continued

Company	Class of shares	Proportion of shares held by the Company	Principal activity
Citigroup Global Markets Limited	Ordinary	100%	Investment Banking
Citigroup Global Markets U.K. Equity Limited	Ordinary	100%	Broker and dealer in UK Equity Securities
Salomon Brothers Asset Management Limited	Ordinary	100%	Asset management
Citigroup Global Markets Eastern Europe Limited (formerly Salomon Brothers Eastern Europe Limited)	Ordinary	100%	In liquidation

On 30 December 2003 CGML issued 2,000,000,000 ordinary shares of \$1 each for cash at par, in order to strengthen its capital position.

9. Debtors

The following amounts are included in debtors:

	Group		Company	
	2003	2002	2003	2002
	\$ Million	\$ Million	\$ Million	\$ Million
Amounts falling due within one year:				
Trade debtors	80,961	71,195	-	-
Amounts due from other group undertakings	19,370	20,815	282	230
Amounts due from associated undertakings	2,404	537	-	-
Other debtors	84	74	-	-
Prepayments and accrued income	152	104	-	-
Corporation tax recoverable	-	2	-	-
Deferred tax asset (Note 12)	19	10	-	1
	102,990	92,737	282	231

Trade debtors include collateralised financing transactions with counterparties of \$67 billion (2002: \$60 billion). These positions are entered into to cover short trading positions and to facilitate customer financing activity. The market value of collateral securing these positions was \$66 billion (2002: \$60 billion), the majority of which are government bonds.

Due from other group undertakings include collateralised financing transactions of \$13 billion (2002: \$18 billion).

Due from other affiliate undertakings include collateralised financing transactions of \$2 billion (2002: \$1 billion). The market value of collateral securing these positions was \$3 billion (2002: \$1 billion), the majority of which are government bonds.

NOTES TO THE FINANCIAL STATEMENTS – continued

10. Current asset investments

The current asset 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(e). Included within current asset investments are:

	2003 \$ Million	2002 \$ Million
Government bonds	14,083	13,034
Eurobonds and other corporate bonds	14,667	7,168
Equities - listed on a recognised UK exchange	2,203	787
- listed elsewhere	5,158	1,638
Certificates of deposit	-	1,704
Options and other contractual commitments (Note 19(b))	6,843	6,017
	42,954	30,348

11. Cash at bank and in hand

	Group		Company	
	2003 \$ Million	2002 \$ Million	2003 \$ Million	2002 \$ Million
Cash held by third parties	1,324	617	1	1
Cash held by other group undertakings	610	162	-	-
	1,934	779	1	1

Included within cash held by third parties is \$688 million (2002: \$298 million) that is held on behalf of clients in segregated accounts and \$2 million (2002: \$20 million) which is subject to an appropriation in favour of a trust for certain employees of the Company and other group undertakings.

12. Deferred tax

The following amounts are included within deferred tax:

	2003 \$ Million	2002 \$ Million
Short term timing differences	19	10
At 1 January	10	(15)
Prior year adjustment	(1)	15
Arising during the year	10	9
Foreign exchange	-	1
As at 31 December	19	10

NOTES TO THE FINANCIAL STATEMENTS – continued

**13. Creditors**

The following amounts are included in creditors:

	Group		Company	
	2003 \$ Million	2002 \$ Million	2003 \$ Million	2002 \$ Million
Amounts falling due within one year:				
Bank loans and overdrafts due to third parties	198	139	-	-
Bank loans and overdrafts due to other group undertakings	44	54	-	-
Trade creditors	91,169	75,352	-	-
Securities sold not yet purchased (Note 1(e))	18,159	13,321	-	-
Options and other contractual commitments (Notes 1(e), 19(b))	16,949	11,199	-	-
Due to other group undertakings	14,529	19,219	140	2,074
Due to associated undertakings	390	1,106	-	-
Other creditors and accruals	862	1,059	1	1
Social security and PAYE	104	100	-	-
	142,404	121,549	141	2,075

Trade creditors include collateralised financing transactions with counterparties of \$78 billion (2002: \$66 billion). These positions are entered into to cover long trading positions and to facilitate customer financing activity. The market value of collateral securing these positions was \$78 billion (2002: \$64 billion), the majority of which are government bonds.

Due to other group undertakings include collateralised financing transactions of \$6 billion (2002: \$10 billion).

Due to other affiliate undertakings include collateralised financing transactions of \$nil billion (2002: \$1 billion). The market value of collateral securing these positions was \$nil billion (2002: \$1 billion), the majority of which are government bonds.

**14. Creditors: amounts falling due after more than one year**

	Group	
	2003 \$ Million	2002 \$ Million
The following amounts were included within creditors:		
Amounts due to other group undertakings	533	470
Social security and PAYE	72	60
	605	530

NOTES TO THE FINANCIAL STATEMENTS – continued

**15. Subordinated loans**

The subordinated loans form part of the Group's Financial Resources to comply with the capital adequacy requirements of the Financial Services Authority and can only be repaid with their consent.

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>\$ Million</b>	<b>\$ Million</b>
The following amounts were included within subordinated loans:		
Amounts falling due within one year	-	1,480
Amounts falling due after one year and within five years	530	-
Amounts falling due after five years	550	550
	<b>1,080</b>	<b>2,030</b>

The subordinated loans, on which interest is payable at a market rate, are due to other group undertakings.

During November 2003, the Group drew down an additional \$1 billion from its immediate parent undertaking Citigroup Financial Products Inc. ("CFPI") under its existing short term subordinated loan facility.

On 30 December 2003, with the consent of the FSA, the Group repaid \$2 billion of its short term subordinated loan from CFPI, as part of a capital restructuring to strengthen the Company's capital position.

Subsequent to the year end the Group drew down further subordinated loans from CFPI for \$2,250 million.

At 31 December 2003 the Group had in place the following subordinated loan facilities:

Facilities falling due after one year and within five years:

	<b>Total facilities available \$ Million</b>	<b>Drawn down \$ Million</b>
Due to other group undertakings	4,000	530

Facilities falling due after five years:

	<b>Total facilities available \$ Million</b>	<b>Drawn down \$ Million</b>
Due to other group undertakings	800	550

NOTES TO THE FINANCIAL STATEMENTS – continued

16. Called up share capital

The Company's share capital comprises:

	2003 £ Million	2002 £ Million
Authorised:		
908,935,000 ordinary shares of £1 each	909	909
1,515,800,000 'A' ordinary shares of £1 each	1,516	1,516
1,505,265,000 'B' ordinary shares of £1 each	1,505	1,505
126,742,712 2nd Tranche new redeemable preference shares of £1 each	127	127
212,082,076 3rd Tranche new redeemable preference shares of £1 each	212	212
30,000,000 4th tranche new redeemable preference shares of £10 each	300	300
579,468,384 5th tranche new redeemable preference shares of £1 each	579	579
561,175,212 new redeemable preference shares of £1 each	561	561
2,000,000 non-cumulative redeemable preference shares of \$1 each	1	-
	5,710	5,709
Allotted, called-up and fully paid:		
545,328,067 'A' ordinary shares of £1 each	545	192
5,265,000 'B' ordinary shares of £1 each	5	5
11,884,954 4th tranche new redeemable preference shares of £10 each	119	119
579,468,384 5th tranche new redeemable preference shares of £1 each	579	579
2,000,000 non-cumulative redeemable preference shares of \$1 each	1	-
	1,249	896

Each tranche of new redeemable preference shares carries an entitlement to receive a fixed non-cumulative preferential dividend and may be redeemed at part at any time at the option of the Company and, in any event, will be redeemed at par on a fixed redemption date.

	Net entitlement per share	Redemption date
4th tranche new redeemable preference shares	86.6p	30 December 2006
5th tranche new redeemable preference shares	6.855p	24 September 2004
Dollar non-cumulative redeemable preference shares	\$77.5	31 December 2004

Holders of the new redeemable preference shares and dollar non-cumulative redeemable preference shares are entitled to receive notice and attend at any general meeting, but not to vote upon any resolution proposed at any such meeting unless the Company:

- shall not have paid the preferential dividend on a due date for payment, or
- shall have failed to make lawful payment of the redemption monies due on a redemption of the preference shares or shall have failed to make lawful redemption of the preference shares on the redemption date



NOTES TO THE FINANCIAL STATEMENTS – continued

16. Called up share capital – continued

In such an event the holders of preference shares shall be entitled until payment or redemption to vote at any general meeting of the Company. On a show of hands every preference shareholder who is present in person or by proxy shall have one vote for every new preference share of which he is the holder.

The preference shareholders have no right of participation in the assets of the Company on liquidation.

The share capital value in the balance sheet has been converted at the 31 December 2000 exchange rate, or date of issue thereafter.

On 30 December 2003, the Company undertook a capital restructuring to improve its capital position and reduce its gearing by replacing subordinated debt with equity share capital with the consent of the Financial Services Authority. The capital restructuring comprised the following steps:

- The Company increased its authorised share capital by US\$2,000,000 by the creation of 2,000,000 Dollar Non-Cumulative Redeemable Preference Shares of US\$1 each. This resulted in the Company's authorised share capital comprising of £5,709,468,374 and US\$2,000,000;
- The Company allotted to its immediate parent company, Citigroup Financial Products Inc., 353,057,478 A Ordinary shares of £1 each fully paid in cash at a premium of £2.1986 per share.

17. Reserves

Group	Share premium \$ Million	Capital reserve \$ Million	Profit and loss account \$ Million	Total \$ Million
At 1 January 2003	-	45	(1,579)	(1,534)
Profit for the year	-	-	24	24
Issued during year	3,372	-	-	3,372
At 31 December 2003	3,372	45	(1,555)	1,862

Company	Share premium \$ Million	Capital reserve \$ Million	Profit and loss account \$ Million	Total \$ Million
At 1 January 2003	-	45	(704)	(659)
Loss for the year	-	-	(15)	(15)
Issued during year	3,372	-	-	3,372
At 31 December 2003	3,372	45	(719)	2,698

NOTES TO THE FINANCIAL STATEMENTS – continued

**18. Reconciliation of movements in shareholder's funds**

The movement in shareholder's funds for the year was as follows:

<b>Group</b>	<b>2003 \$ Million</b>	<b>2002 \$ Million</b>
At 1 January	(197)	8
Profit / (loss) on ordinary activities after tax	24	(205)
Issue of ordinary share capital	2,000	-
Issue of preference share capital	2,000	-
At 31 December	3,827	(197)

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<b>Company</b>	<b>2003 \$ Million</b>	<b>2002 \$ Million</b>
At 1 January	678	681
Loss on ordinary activities after tax	(15)	(3)
Issue of ordinary share capital	2,000	-
Issue of preference share capital	2,000	-
At 31 December	4,663	678

**19. Contractual commitments and contingencies**

(a) Risk management

The Group derives revenues from trading activities that expose it to market, credit and operational risks. These risks are principally managed on a global basis. Global procedures in place to manage such risks are disclosed in the Managing Global Risk section of the consolidated accounts of Citigroup Inc. The Group undertakes local risk management procedures that are integral and consistent with those for Citigroup Inc.

(b) Fair values of contractual commitments

In the normal course of its operations, the Group enters into various contractual commitments involving forward settlement. These include futures contracts, commitments to buy and sell foreign currencies, interest rate swap, cap and floor agreements, and options or similar contractuals. As discussed in Note 1(d), the Group records all contractual commitments involving future settlement at fair value. Consequently, changes in fair values 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 as well as market volatility and liquidity. 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

NOTES TO THE FINANCIAL STATEMENTS – continued

19. Contractual commitments and contingencies - continued

price of the underlying instrument and the options' or warrants' strike or exercise price also affects the level of market risk. As discussed in Note 1(d), the balance sheet includes the fair value of options and other contractual commitments involving forward settlement.

The following amounts refer to the fair value of contractual commitments.

	Assets 2003 \$ Million	Liabilities 2003 \$ Million	Assets 2002 \$ Million	Liabilities 2002 \$ Million
Swap agreements, swap options, and interest rate cap and floor agreements	3,290	11,480	3,434	7,802
Index and equity options and similar contractual commitments	2,143	4,359	1,408	2,039
Other options and contractual commitments	1,410	1,110	1,175	1,358
	6,843	16,949	6,017	11,199

(c) Letters of credit

The Group had \$225 million (2002: \$352 million) of unsecured letters of credit outstanding from banks to satisfy collateral requirements under securities borrowing agreements and margin requirements.

(d) Capital commitments

As at 31 December 2003 the Group had no capital commitments (2002: \$nil).

20. Operating lease commitments

At the year-end, the annual rental commitments under non-cancellable operating leases were as follows:

Group	Land and buildings 2003 \$ Million	2002 \$ Million
Expiring		
- between one and five years	0.9	0.8
- in five years or more	11.7	10.5
	12.6	11.3

Company

	Land and buildings 2003 \$ Million	2002 \$ Million
Expiring		
- in five years or more	8.8	7.9

NOTES TO THE FINANCIAL STATEMENTS – continued

**21. Registered charges**

Certain companies within the group have granted to various bankers and other entities a number of fixed and floating charges over certain holdings in securities, properties, collateral and monies held by or on behalf of such banks or other entities, including charges relating to the Group's European Settlements Office agreement with the Bank of England and the Group's participation in other clearance/settlement operations.

**22. Group structure**

The Company's immediate parent undertaking is Citigroup Financial Products Inc., incorporated in the State of Delaware, United States of America. The Company's ultimate parent company and ultimate controlling party is Citigroup Inc., incorporated in the State of Delaware, United States of America.

The audited consolidated financial statements of Citigroup Inc. are made available to the public annually in accordance with Securities and Exchange Commission regulations and may be obtained from Citigroup Document Services, 140 58th Street, Suite 51, Brooklyn, New York, NY 11220.

**23. Directors' emoluments**

The Company's directors remuneration in respect of services to the Group was as follows:

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Salaries and benefits in kind	981	6,031
Contributions to money purchase pension scheme	2	10
	<b>983</b>	<b>6,041</b>

The contributions to the money purchase pension schemes are accruing to 1 of the Directors (2002: 1). The Directors of the Company participate in a parent company share plan. The Directors of the Company also participate in a parent company share option plan and during the year 2 Directors exercised options (2002 : 1).

	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
Highest paid Director:		
Salaries and benefits in kind	494	4,110