

BACHE COMMODITIES LIMITED
(formerly Bache Financial Limited)

REPORT AND FINANCIAL STATEMENTS

31 December 2007

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Registered number 512397

BACHE COMMODITIES LIMITED

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BACHE COMMODITIES LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

Directors

M R Bailey
T P Cherrett
M J Coomber
V G Dattani
B J Gershon
S P Harrison
R J Ivans
A H Ladouceur

Secretary

B Dawreeawoo

Registered office

9 Devonshire Square,
London, EC2M 4HP

Auditors

PricewaterhouseCoopers LLP

Solicitors

Simmons & Simmons

BACHE COMMODITIES LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

On 8th January 2007, the company changed its name from Bache Financial Limited to Bache Commodities Limited pursuant to the establishment of the Bache Commodities brand

1 PRINCIPAL ACTIVITIES

The principal activity of the company is that of a global commodities and financial derivatives broker offering clients advice, sales, trading opportunities and global access to all major commodity markets. The company offers a broad range of commodity, financial futures, and options capabilities, market making in a spot and forward basis in precious and base metals, and foreign exchange. The company is regulated by the Financial Services Authority.

2 REVIEW OF BUSINESS

Financial Performance

The company has been able to take advantage of the volatility in global commodity prices and produce a satisfactory set of results for 2007.

Revenue from continuing operations is \$55.9million (2006: \$78.3million). The fair value gain on financial instruments at fair value through profit or loss account has increased to \$23.4million from \$15.2million in 2006. The administrative expenses for continuing operations have increased to \$55.2million (2006: \$38.2million). The 2006 number included gains from inter company debt forgiven. This has led to a decrease in continuing operations operating profit before exceptional items to \$24.2 million in 2007 from \$55.3million in 2006.

As part of the restructure of the group the company has written off its investment in subsidiaries by \$0.4million (2006: \$7.4million). These amounts have been treated as an exceptional item in the profit and loss account.

A profit before tax of \$60.8million was achieved for 2007 compared to \$73.3million for 2006. These results reflect the core strength of our ongoing business. The tax expense has increased to \$12.6m from a tax credit of \$0.9m in 2006. The 2006 charge was unusually low as it contained a favourable prior year adjustment and a credit to reflect the deferred tax benefit of lump sum pension contributions made in prior periods.

The company uses profit from operations as the main indicator of its performance, which is reviewed by management on a daily basis. In addition the company reviews position against approved limits on a regular basis during the day and at the end of the day by a dedicated risk team.

Dividends

The directors decided to pay a dividend of \$4million in 2007 (2006: \$52million).

BACHE COMMODITIES LIMITED

REPORT OF THE DIRECTORS

2 REVIEW OF BUSINESS (continued)

Future developments and prospects

During 2007 the company started the Bache Commodity Index (BCISM), which consists of 18 commodities traded on seven major futures exchanges in the United States of America and the United Kingdom, providing broad, long-term diversified exposure to individual commodities within each sector. Commodities are selected for the BCISM because of their importance to the sector, as well as to the overall market. The BCISM employs both a momentum-based systematic asset allocation strategy and a daily roll methodology. This innovative mix of disciplines, which provides greater flexibility for monitoring and reacting to the performance of individual commodities, further protects investors by potentially generating greater risk-adjusted returns and enhanced safety during downturns.

In addition, the London based structured products group was established in 2006 to provide single or multiple product transactions, often combining trade exposure, financing, foreign exchange and capital protected markets, with asset and risk management elements where applicable.

The company expects the above product areas to continue to grow over the coming year.

3 DIRECTORS

The current directors are listed on page 1. There have been no new appointments or resignations in 2007.

The directors have no interest in the company's shares. The directors participate in the ultimate parent Prudential Financial Inc's ("PFI") share-based incentive schemes. Details of the interests of the directors in PFI's share option schemes are shown in Note 4 of the financial statements. No other interests are required to be disclosed under the Companies Act 1985.

4 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 as at the end of the financial year and, if applicable, of the profit and loss of the company for that period. In preparing those financial statements, the directors are required to -

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

BACHE COMMODITIES LIMITED

REPORT OF THE DIRECTORS

4 DIRECTORS' RESPONSIBILITIES (continued)

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that all steps that the directors ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

5 DONATIONS

The company made charitable donations during the year amounting to \$4,649 (2006 - \$3,217). No donations were made for political purposes.

6 FINANCIAL RISK MANAGEMENT

The company's financial risk management policies have been described in Note 2 to the financial statements.

7 EMPLOYEE INVOLVEMENT

The London based business units of Prudential Securities Group Inc. have employee policy committees that comprise management representatives for all areas of that particular business. The committees serve as a forum for discussing and setting policy, which involves all aspects of employment within the business unit. The committee representatives are responsible for canvassing opinions from employees within their respective business units and for communicating the deliberations and decisions of the committee by way of management briefings.

Memoranda and newsletters concerning matters of interest to employees are distributed on a regular basis.

All employees are eligible to participate in the group's discretionary award programmes on an annual basis, which is dependent upon the performance of the group, the business unit and the individual employee.

BACHE COMMODITIES LIMITED

REPORT OF THE DIRECTORS

8 EMPLOYMENT OF DISABLED PERSONS

The company recognises its responsibilities under the Disability Discrimination Act. It is committed to providing equality of opportunity to disabled persons, both in terms of their employment and in the opportunities offered to them. The company endeavours to make reasonable adjustments that may be necessary to facilitate the employment of disabled persons.

9 ELECTIVE RESOLUTIONS

In accordance with Section 37A of the Companies Act 1985, the company has passed elective resolutions to dispense with the requirements to lay accounts and reports before General Meetings and to hold Annual General Meetings.

10 AUDITORS

Pursuant to Section 386 of the Companies Act 1985, the company has passed an elective resolution to dispense with the obligation to appoint auditors annually.

PricewaterhouseCoopers LLP has expressed its willingness to continue in office as auditors.

Approved by the board of directors
and signed on behalf of the board



MR BAILEY
Director

11 April

2008

INDEPENDENT REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the financial statements of Bache Commodities Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Price Waterhouse Coopers LLP

Chartered Accountants and Registered Auditors
London

11 April 2008

BACHE COMMODITIES LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2007

| | Note | Continuing Operations | | Discontinued Operations | | Total | Total |
|---|------|-----------------------|-----------------|-------------------------|----------------|-----------------|-----------------|
| | | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | 3 | 55,936 | 78,322 | - | 7,933 | 55,936 | 86,255 |
| Fair value gain on financial instruments at fair value through profit or loss | 3 | 23,424 | 15,224 | - | - | 23,424 | 15,224 |
| Administrative expenses | | <u>(55,187)</u> | <u>(38,199)</u> | <u>1,036</u> | <u>(4,563)</u> | <u>(54,151)</u> | <u>(42,762)</u> |
| Operating profit before exceptional items | | 24,173 | 55,347 | 1,036 | 3,370 | 25,209 | 58,717 |
| Permanent diminution in asset values upon sale of subsidiary | 10 | (351) | (7,443) | - | - | (351) | (7,443) |
| Fundamental restructuring cost | 17 | <u>-</u> | <u>-</u> | <u>-</u> | <u>(86)</u> | <u>-</u> | <u>(86)</u> |
| Profit after exceptional items, interest and taxation | | 23,822 | 47,904 | 1,036 | 3,284 | 24,858 | 51,188 |
| Interest income | 5 | | | | | 80,879 | 69,667 |
| Interest expense and similar charges | 6 | | | | | <u>(44,921)</u> | <u>(47,561)</u> |
| Profit on ordinary activities before taxation | 7 | | | | | 60,816 | 73,294 |
| Tax (expense)/credit | 8 | | | | | <u>(12,632)</u> | <u>863</u> |
| Profit for the financial year | 20 | | | | | <u>48,184</u> | <u>74,157</u> |

Continuing operations comprises broking and trading in the international commodity futures markets

Discontinued operations include the US stockbroking activities previously conducted in Germany, Luxembourg and, for retail clients only, in London. The operations of the former Dryden Wealth Management Group have also been included.

BACHE COMMODITIES LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
for the year ended 31 December 2007

| | Note | 2007 \$'000 | 2006 \$'000 |
|--|-------------|-------------------------|-------------------------|
| Profit for the financial year | 20 | 48,184 | 74,157 |
| Actuarial gain recognised in pension scheme | 4 | 11,175 | 5,273 |
| Currency translation reserve gain | 20 | 2,245 | 1,022 |
| FRS 20 equity movement | 20 | 356 | - |
| Share based payments | 20 | (572) | 44 |
| Fair value gains on available for sale financial instruments | 20 | 5,026 | 37 |
| Pension liability restatement | 20 | 15,759 | - |
| Pension commutation (loss) / gain | 20 | <u>(2,794)</u> | <u>5,704</u> |
| Total recognised gains and losses | | \$ <u>79,379</u> | \$ <u>86,237</u> |

BACHE COMMODITIES LIMITED

BALANCE SHEET as at 31 December 2007

| | | 2007 | Restated 2006 |
|---|------|--------------------------|--------------------------|
| | Note | \$'000 | \$'000 |
| Fixed assets | | | |
| Tangible assets | 9 | 7,154 | 11,163 |
| Investment in subsidiaries | 10 | - | 351 |
| Financial asset – available for sale | 11 | <u>26,806</u> | <u>18,806</u> |
| | | 33,960 | 30,320 |
| Current assets | | | |
| Financial assets | | | |
| – stock available for sale | 11 | 18,543 | 12,607 |
| – at fair value through profit or loss | 12 | 132,738 | 145,933 |
| Trade and other debtors | 13 | 1,141,800 | 963,812 |
| Cash at bank and in hand | 14 | <u>472,017</u> | <u>879,185</u> |
| | | 1,765,098 | 2,001,537 |
| Current liabilities | | | |
| Financial liabilities | | | |
| – at fair value through profit or loss | 12 | (109,314) | (134,373) |
| Short term loans | 15 | (86,941) | (441,038) |
| Creditors amounts falling due within one year | 16 | <u>(1,331,644)</u> | <u>(1,226,586)</u> |
| | | (1,527,899) | (1,801,997) |
| Total assets less current liabilities | | 271,159 | 229,860 |
| Provisions for liabilities and charges | 17 | (7,607) | (14,856) |
| Pension liability | 18 | <u>(14,556)</u> | <u>(41,387)</u> |
| Total net assets | | \$ <u>248,996</u> | \$ <u>173,617</u> |
| Shareholders' funds | | | |
| Called up share capital | 19 | 68,457 | 68,457 |
| Share premium account | 20 | 4,369 | 4,369 |
| Capital contribution | 20 | 60,504 | 60,504 |
| Other reserves | 20 | 3,590 | (3,465) |
| Retained earnings | 20 | <u>112,076</u> | <u>43,752</u> |
| | | \$ <u>248,996</u> | \$ <u>173,617</u> |

These financial statements were approved by the directors on

11 April

2008

Signed on behalf of the board of directors

MR BAILEY
Director



BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

I ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are described below

(a) *Accounting convention*

The financial statements are prepared on the going concern basis

The financial statements are prepared under the historical cost convention, as modified by the revaluation of physical commodity stocks, open positions and readily marketable exchange memberships at market prices, and have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice. A summary of the more important accounting policies are set out below, together with an explanation of where changes have been made to previous policies and the adoption of new accounting standards in the year

(b) *Changes in accounting policies*

The company has adopted FRS 29 'Financial Instruments Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly, except where the exemption to restate comparatives has been taken. There is no prior year adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosures

(c) *Consolidation*

Consolidated financial statements are not prepared as the company is a wholly-owned subsidiary of PBI Group Holdings Limited, a company registered in England and Wales, the consolidated financial statements of which are available from Companies House, Crown Way, Cardiff CF4 3UZ

(d) *Cash flow statement*

The company is exempt from the requirement to prepare a cash flow statement under FRS 1 (Revised 1996), 'Cash Flow Statements', as a consolidated cash flow statement is included in the financial statements of the ultimate US parent company

(e) *Related party transactions*

In accordance with the exemption afforded by FRS 8 'Related Party Disclosures', certain details of transactions with parent and fellow subsidiary companies are not disclosed as the company is a wholly-owned subsidiary of an entity whose consolidated financial statements are publicly available

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1 ACCOUNTING POLICIES (continued)

(f) *Foreign exchange*

The company uses the United States Dollar ('USD') as both its functional and presentation currency

Monetary assets and liabilities denominated in foreign currencies and outstanding at the balance sheet date are translated at the rates ruling at that date. All foreign currency transactions are translated into USD at the rates ruling at the date of the transactions.

The financial statements of foreign branches are translated into USD using the relevant closing exchange rates as at 31 December 2007. Differences arising from the retranslation of opening net investments in branches to closing rates of exchange are taken direct to reserves.

(g) *Fixed Asset Investments*

Fixed asset investments are stated at the lower of cost less provision for any permanent diminution in value and net realisable value.

(h) *Revenue from continuing and discontinued operations*

Revenue is generated from the following categories of business:

- **Own account trading** revenue from own account trading includes unrealised profits and losses resulting from marking to market trading positions held at the year end. The net result of these values is classified as revenue. Unrealised profits are therefore recognised on a daily basis upon valuation of positions.
- **Commission** commission is charged to customers on business conducted through specific market exchanges and is generated from both own customer and introduced business. Commissions are recognised on an accruals basis from the date of trade.
- **Agreement fees** fees are generated under operating agreements with group companies. Fees are recognised on an accruals basis.

(i) *Financial instruments*

The company has adopted FRS 29 'Financial Instruments: Disclosures'. The adoption of this standard has not had any significant impact on the Company's profit or net assets as the company had already been recognising the relevant instruments at fair value in accordance with the exemption provided by Companies Act 1985. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly.

Financial instruments include forward contracts, futures and options. Transactions undertaken as part of trading activities are initially recognised and maintained at their fair value. Gains and losses arising from subsequent revaluations are taken to the profit and loss account. Thereby settlement date accounting is applied.

Financial assets

The company classifies its financial assets in the following categories: financial instruments designated at fair value through profit or loss, loans and receivables, and available for sale financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

(1) Financial instruments (continued)

Financial assets (continued)

At fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Instruments are classified as held for trading if they are

- acquired principally for the purposes of selling or repurchasing in the near term,
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the Profit and Loss account. Gains and losses arising from changes in fair value are included directly in the Profit and Loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs.

Amounts receivable and payable in respect of futures business are stated after the netting of debtor and creditor balances with the same counterparty, where the company has the legal right to a net settlement. Specific provisions are made against net debtor balances, which are not deemed to be recoverable in part or in full.

Available for sale

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs and subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until the asset is realised at which point the cumulative gain or loss is transferred to the Profit and Loss Account.

Financial liabilities

Financial liabilities are measured at amortised costs, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss.

Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset, the company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions, option pricing models and other valuation techniques commonly used by market participants.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1 ACCOUNTING POLICIES (continued)

(i) *Financial instruments (continued)*

Determining fair value (continued)

The value of seats held in commodity exchanges are determined based on the appropriate share of net asset values in the latest published accounts of these exchanges prior to the balance sheet date or last traded share price

Impairment

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Where this evidence exists the assets are re-measured to reflect the present value of expected future cash flows. The difference between the carrying amount and the present value of expected future cash flows is recognised in profit and loss for the period.

Hedging

The company has not identified any formal hedging relationships for recognition using hedge accounting. The company seeks to manage its financial risk by economically hedging significant exposures. Financial instruments used in these economic hedges are initially and subsequently measured in accordance with the requirements of their relevant classification.

(j) *Depreciation*

Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

| | |
|--|----------------------------|
| Leasehold improvements | Over the term of the lease |
| Office equipment, furniture and fittings | 10%-50% per annum |

(k) *Pension costs*

The company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

The cost of a defined contribution scheme is equal to the contributions paid into the scheme for the period.

The company participates in defined benefit schemes in the UK, Germany and Switzerland. The assets of these schemes are measured at their market value at the balance sheet date. The liabilities are measured using the projected unit method with a discount rate equal to the rate of return on a AA corporate bond of equivalent term and currency. The extent to which the scheme's assets exceed its liabilities is shown as a surplus in the balance sheet to the extent that a surplus is recoverable by the company. The extent to which the scheme's assets fall short of its liabilities is shown as a deficit in the balance sheet, net of the related deferred tax asset, to the extent that a deficit represents an obligation of the company.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

(k) *Pension costs (continued)*

The following amounts are charged to operating profit in the period

- (i) The increase in the present value of scheme liabilities arising from employee service in the period, and
- (ii) Gains and losses arising on settlements/curtailments in the period
- (iii) A credit representing the expected return on the scheme's assets and a charge relating to the increase in the present value of the scheme's liabilities are included in other finance income

In addition, any increase in the present value of scheme liabilities resulting from benefit improvements is recognised over the period during which such improvements vest

Actuarial gains and losses have been recognised in the statement of total recognised gains and losses

Additional details of the company's pension arrangements has been provided in Note 4

(l) *Operating leases*

Rental costs under operating leases are charged to the profit and loss account evenly over the lives of the leases

(m) *Deferred taxation*

Deferred taxation is recognised in respect of timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the company's taxable profits and its results stated in the financial statements and reflect a right or obligation to pay less or more tax in the future. Deferred tax asset is recognised where based on the available evidence, it is regarded as more likely than not that there will be suitable tax profits from which the future reversal of the underlying timing differences can be deducted.

(n) *Share-based incentives*

The company participates in the ultimate parent Prudential Financial Inc's ("PFI") share-based incentive schemes, for Stock Options and Restricted Stock Units. In accordance with the requirements of FRS 20 'Share-based Payment', the company recognises an expense based on the fair value of the options granted. This cost is spread over the three-year vesting period for each grant. These amounts have been included in employee costs for the period with corresponding amounts included in equity.

Upon demutualization in 2001, the parent issued stock options to each of the qualifying employees in two issues, an initial issue of 240 shares to all non executives, followed by an executive grant, of a varied number of shares to each qualifying executive.

In subsequent years, PFI has issued stock options and restricted stock awards to qualifying executives each year, as part of incentives to remain in employment. In 2006, PFI issued a broad based grant to all non-executive employees after the firm reached its target of Return on Equity of 12%.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

(n) *Share-based incentives (continued)*

All but the initial pre November 2002 grants are held on the balance sheet as an adjustment to equity, the initial grants are held in the accounts as a liability

All but the initial pre November 2002 grant of stock options are valued at grant date, at a binomial valuation calculated by PFI. The initial grant and all restricted stock units are valued at period end closing price. All schemes are equity settled. Further details are set out in Note 4.

2. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Board has assigned its responsibilities to a risk management committee whose members include several directors, the head of market risk management and operations managers. This committee monitors and reviews on a monthly basis the operational risks within the business and adopts new policies and procedures in line with the change in nature of the business.

Market Risk

(i) Currency Risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Sterling and Euro. This risk is generated largely through transactions with customers, foreign exchanges and intercompany balances. The company utilises forward foreign exchange contracts and swaps to minimise its exposure to adverse foreign exchange movements. As part of the risk management policy, foreign exchange exposures are monitored on a daily basis.

The management has set up a policy to economically hedge their foreign exchange risk exposure against its functional currency, USD. This is undertaken as soon as a foreign exchange transaction is undertaken.

(ii) Price Risk

The company actively trades commodity futures and options to benefit from short-term price fluctuations. Under the company's risk management policy, these positions are monitored on a daily basis via trade position limits which are strictly maintained independent of the trading desks. The risk limits are reviewed on a regular basis and reported to the board of directors through the risk management committee. This price risk is mitigated by various strategies undertaken by the company.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

2. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(iii) Credit Risk

The company has implemented policies and procedures that require appropriate credit checks on potential customers before credit is granted. These policies and procedures are implemented by a credit department headed by a Board director. An evaluation is made of the credit worthiness of a customer or counterparty at the outset and at least annually.

The amount of exposure to any individual counterparty, clearing houses, depositories and custodians are subject to limits, which are reassessed regularly by an independent credit department. Such review may include analysis of financial statements, market intelligence and customer visits.

Significant credit decisions are approved by a committee of the Board and also brought before the monthly risk committee.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and with limits set by the Board. The utilisations of credit limits are regularly monitored.

The below table shows the utilisation of the credit facilities of the six major counterparties at the balance sheet date.

| Counterparty | S&P Rating (Long/Short) | 31 December 2007 | | 31 December 2006 | |
|--------------|-------------------------------|---------------------------|--------------------|------------------------------|--------------------|
| | | Credit Facility \$'000 | Utilised \$'000 | Credit Facility \$'000 | Utilised \$'000 |
| Entity A | A-/N/A-2 | 97,750 | 30,144 | 79,900 | 32,979 |
| Entity B | Not rated | 59,750 | - | 45,481 | 25,214 |
| Entity C | BBB/NW/A-3 | 59,665 | 7,664 | 28,766 | 16,983 |
| Entity D | BBB-/S/A-2 | 52,678 | 28,790 | 57,677 | 1,859 |
| Entity E | Not rated | 52,500 | 33,592 | 48,550 | - |
| Entity F | BBB-/N/A-3 | 37,950 | 28,086 | 45,121 | - |

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. The names of the above counterparties have not been disclosed as this would breach specific non-disclosure rules with them. Customer credit and trading limits are monitored on a daily basis and margin calls are made where necessary. Customer and counterparty limits include monetary as well as position limits.

There were no impairment provisions on the available for sale investments in 2006 and 2007. The maximum exposure to credit risk at the reporting date is debtors (\$1,141.8 million) and the fair value of the derivative assets (\$132.7 million) in the balance sheet. None of the financial assets are either past due or impaired.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

2. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(iv) Interest Rate Risk

The company maintains debt at the minimum level required to support business needs and therefore all borrowings are on a short term basis with committed lines from group companies or banks

The structure of forward commodity prices are only marginally affected by movements in interest rates and as a result, the company's results are not materially sensitive to movements in interest rates

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, company treasury maintains flexibility in funding by maintaining availability under committed banking lines

Management also monitors the rolling forecasts of the company's liquidity reserve on the basis of expected cash flows

The table below analyses the company's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant

| At 31 December 2007 | Less than 1 month \$'000 | Between 1 and 3 months \$'000 | Between 3 and 12 months \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 |
|-------------------------------------|-----------------------------------|--|---|---------------------------------------|---------------------------------------|---------------------------|
| Assets | | | | | | |
| Forward financial futures contracts | 41,396 | 54,907 | 19,352 | 5,450 | 2,955 | - |
| Financial options contracts | 173 | 3,336 | 4,066 | 376 | 727 | - |
| Liabilities | | | | | | |
| Forward financial futures contracts | (43,773) | (46,525) | (9,138) | (4,507) | (1,127) | - |
| Financial options contracts | (946) | (610) | (743) | (69) | (133) | - |
| Cross currency swaps | (1,743) | - | - | - | - | - |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

2. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

| At 31 December 2006 | Less than 1 month \$'000 | Between 1 and 3 months \$'000 | Between 3 and 12 months \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 |
|-------------------------------------|-----------------------------------|--|---|---------------------------------------|---------------------------------------|---------------------------|
| Assets | | | | | | |
| Forward financial futures contracts | 86,242 | 34,236 | 22,426 | 2,369 | 439 | - |
| Financial options contracts | 3,213 | 3,707 | 5,151 | 440 | 32 | - |
| | 221 | - | - | - | - | - |
| Liabilities | | | | | | |
| Forward financial futures contracts | | | | | | |
| Financial options contracts | (92,278) | (27,481) | (12,903) | (1,249) | (357) | - |
| Cross currency swaps | (2,325) | (5,124) | (7,119) | (608) | (44) | - |
| | (105) | - | - | - | - | - |

3 REVENUE FROM CONTINUING AND DISCONTINUED OPERATIONS

| | 2007 \$'000 | 2006 \$'000 |
|---|------------------|-------------------|
| Commissions on business | | |
| - with own customers | 35,727 | 27,737 |
| - with parent and fellow subsidiaries | <u>1,211</u> | <u>284</u> |
| Total commissions | 36,938 | 28,021 |
| Profit on own account trading | 30,479 | 52,126 |
| Fees received from parent and fellow subsidiaries | 6,851 | 16,967 |
| Fees paid to parent and fellow subsidiaries | (19,042) | (13,373) |
| Other | <u>710</u> | <u>2,514</u> |
| | 55,936 | 86,255 |
| Fair value gain on financial instruments at fair value through profit or loss | <u>23,424</u> | <u>15,224</u> |
| | <u>\$ 79,360</u> | <u>\$ 101,479</u> |

Revenue from continuing and discontinued operations has been disclosed instead of turnover and cost of sales as this reflects more appropriately the nature of the company's activities

Following the application of FRS 26, certain assets and liabilities have been recognised and measured at fair value. Under these standards, the company is required to disclose the fair value movements on these items separately in the income statement. The net gain on financial instruments designated at fair value during the year was \$23.4million (2006 - \$15.2million). See Note 12 for details.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

3. REVENUE FROM CONTINUING AND DISCONTINUED OPERATIONS (continued)

Segmental information

In the opinion of the directors, the disclosure of segmental information relating to the business categories and the geographical origin would be seriously prejudicial to the interests of the company. The directors have therefore applied the exemption in SSAP 25.

4. EMPLOYMENT COSTS

(a) Employment costs, including directors' emoluments, are as follows -

| | 2007 \$'000 | 2006 \$'000 |
|-------------------------|-------------------------|-------------------------|
| Wages and salaries | 34,533 | 40,290 |
| Social security costs | 7,276 | 5,033 |
| Pension costs | | |
| UK plan | | |
| - defined benefit | 1,401 | 1,581 |
| - defined contributions | 935 | 532 |
| Overseas plans | | |
| - defined benefit | 51 | 219 |
| - defined contributions | 73 | 44 |
| Share incentive costs | <u>504</u> | <u>2,439</u> |
| | \$ <u>44,773</u> | \$ <u>50,138</u> |

(b) Directors' emoluments

| | 2007 \$'000 | 2006 \$'000 |
|---------------------------------|------------------------|-------------------------|
| Wages and salaries | 5,649 | 8,460 |
| Social security costs | 755 | 1,083 |
| Pension costs | 189 | 229 |
| Compensation for loss of office | - | 561 |
| | \$ <u>6,593</u> | \$ <u>10,333</u> |

The directors were granted 9,729 share options and exercised 700 share options during the year.

Of the current directors, 2 (2006 - 4) are members of the group defined benefit pension plan operated for all eligible employees of subsidiaries of Prudential Financial, Inc. operating in the UK.

(c) Remuneration of the highest paid director

| | 2007 \$'000 | 2006 \$'000 |
|-----------------------|------------------------|------------------------|
| Wages and salaries | 3,639 | 3,858 |
| Social security costs | 465 | 546 |
| Pension costs | <u>46</u> | <u>35</u> |
| | \$ <u>4,150</u> | \$ <u>4,439</u> |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4 EMPLOYMENT COSTS (continued)

The highest paid director was granted 4,794 share options and exercised 233 share options during the year

(d) The average number of persons, including directors, employed by the company is analysed below

| | 2007 No. | 2006 No |
|-------------------|-------------|------------|
| Sales and dealing | 73 | 76 |
| Administration | <u>76</u> | <u>90</u> |
| | <u>149</u> | <u>166</u> |

(e) Share based payments

The company's equity settled share-based payment plan consists entirely of PFI's long-term incentive programme ('LTIP') The number of shares held and the subsequent adjustment to equity is disclosed below

Under the LTIP, the company may award eligible employees, a combination of restricted stock units and stock options All plans vest over a 3-year period and are exercisable over a 10-year period The options are valued using a binomial valuation, using the details in the table below Components of the table take into consideration the worldwide workforce of PFI

Long-term incentive plans

| Grant Date | Share price at grant date | Exercise price | Options life in years (maximum 10) | Risk free rate | Expected volatility | Expected dividend yield | Value per option USD |
|------------|---------------------------|----------------|------------------------------------|----------------|---------------------|-------------------------|----------------------|
| 11/02/2003 | \$29.90 | \$29.90 | 5.5 | 3.038% | 26.27% | 1.20% | \$7.46 |
| 11/03/2003 | \$27.99 | \$27.99 | 5.5 | 2.920% | 26.27% | 1.20% | \$6.93 |
| 09/03/2004 | \$46.42 | \$46.42 | 5.5 | 3.400% | 25.84% | 1.20% | \$12.21 |
| 08/02/2005 | \$55.75 | \$55.75 | 5.19 | 3.730% | 23.77% | 1.20% | \$12.88 |
| 08/03/2005 | \$57.91 | \$57.91 | 5.19 | 3.790% | 23.77% | 1.20% | \$14.23 |
| 14/02/2006 | \$76.15 | \$76.15 | 5.14 | 4.570% | 20.65% | 1.20% | \$17.83 |
| 14/03/2006 | \$76.42 | \$76.42 | 5.14 | 4.720% | 20.65% | 1.20% | \$18.14 |
| 17/04/2006 | \$74.43 | \$74.43 | 5.14 | 4.900% | 20.65% | 1.20% | \$17.96 |
| 15/05/2006 | \$78.54 | \$78.54 | 5.14 | 5.000% | 20.65% | 1.20% | \$19.12 |
| 15/11/2006 | \$81.00 | \$81.00 | 5.14 | 4.580% | 20.65% | 1.20% | \$19.37 |
| 13/02/2007 | \$91.73 | \$91.73 | 4.87 | 4.750% | 18.21% | 1.10% | \$20.55 |
| 13/03/2007 | \$87.91 | \$87.91 | 4.87 | 4.710% | 18.21% | 1.10% | \$19.61 |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(e) Share based payments (continued)

The equity settled employee stock plan awards are as follows

Long-term Incentive Plan - Options

| Date of Grant | As at 1st January 2007 | | Exercised /Vested | Forfeits | As at 31 st December 2007 | | Exercise/Share Price | Weighted average exercise price of options | Exercise/Vesting dates | |
|---------------|------------------------|-------|-------------------|----------|--------------------------------------|---------|----------------------|--|------------------------|----------|
| | Granted | | | | | | | | To | From |
| 11/02/03 | 8 072 | - | (1,692) | - | 6,380 | \$29 90 | \$7 46 | | 11/02/06 | 11/02/13 |
| 11/03/03 | 630 | - | - | - | 630 | \$29 14 | \$6 93 | | 11/03/06 | 11/03/13 |
| 11/03/03 | 628 | - | - | - | 628 | \$27 99 | \$6 93 | | 11/03/06 | 11/03/13 |
| 11/02/04 | 11 436 | - | (3,736) | - | 7,700 | \$45 18 | \$11 43 | | 11/02/07 | 11/02/14 |
| 09/03/04 | 5 070 | - | (2,131) | - | 2,939 | \$46 42 | \$12 21 | | 09/03/07 | 09/03/14 |
| 08/02/05 | 11 790 | - | (2,888) | - | 8,902 | \$55 75 | \$12 88 | | 08/02/08 | 08/02/15 |
| 08/03/05 | 3,644 | - | - | - | 3 644 | \$57 91 | \$14 23 | | 08/03/08 | 08/03/15 |
| 14/02/06 | 8,164 | - | (271) | (498) | 7,395 | \$76 15 | \$17 83 | | 14/02/09 | 14/02/16 |
| 14/03/06 | 2,401 | - | - | - | 2,401 | \$76 42 | \$18 14 | | 14/03/09 | 14/03/16 |
| 17/04/06 | 2 657 | - | - | - | 2,657 | \$74 43 | \$17 96 | | 17/04/09 | 17/04/16 |
| 15/05/06 | 591 | - | - | - | 591 | \$78 54 | \$19 12 | | 15/05/09 | 15/05/16 |
| 15/11/06 | 387 | - | - | - | 387 | \$81 00 | \$19 37 | | 15/11/09 | 15/11/16 |
| 13/02/07 | - | 3,138 | - | (462) | 2,676 | \$91 73 | \$20 55 | | 13/02/10 | 13/02/17 |
| 13/03/07 | - | 2,256 | - | - | 2,256 | \$87 91 | \$19 61 | | 13/03/10 | 13/03/17 |

Long-term Incentive Plan – Restricted Stock Units ('RSU')

| Date of Grant | As at 1st January 2007 | | Exercised /Vested | Forfeits | As at 31 st December 2007 | | Exercise/Share Price | Weighted average exercise price of options | Exercise/Vesting dates | |
|---------------|------------------------|--------|-------------------|----------|--------------------------------------|----------|----------------------|--|------------------------|----------|
| | Granted | | | | | | | | To | From |
| 10/02/04 | 4 493 | - | (4,027) | (466) | - | \$45 00 | - | | 10/02/07 | 10/02/14 |
| 08/02/05 | 4 354 | - | - | (201) | 4,153 | \$55 75 | - | | 08/02/08 | 08/02/15 |
| 14/02/06 | 2,727 | - | - | (167) | 2,560 | \$76 15 | - | | 14/02/09 | 14/02/16 |
| 14/03/06 | 66 | - | - | - | 66 | \$76 42 | - | | 14/03/09 | 14/03/16 |
| 17/04/06 | 901 | - | - | - | 901 | \$74 43 | - | | 17/04/09 | 17/04/16 |
| 15/05/06 | 197 | - | - | - | 197 | \$78 54 | - | | 15/05/09 | 15/05/16 |
| 15/06/06 | 131 | - | - | - | 131 | \$76 22 | - | | 15/06/09 | 15/06/16 |
| 15/11/06 | 129 | - | - | - | 129 | \$81 00 | - | | 15/11/09 | 15/11/16 |
| 13/02/07 | - | 19,924 | - | (129) | 19,795 | \$91 73 | - | | 13/02/10 | 13/02/17 |
| 16/04/07 | - | 101 | - | - | 101 | \$93 00 | - | | 16/04/10 | 16/04/17 |
| 15/06/07 | - | 114 | - | - | 114 | \$101 69 | - | | 15/06/10 | 15/06/17 |
| 16/07/07 | - | 302 | - | - | 302 | \$97 12 | - | | 16/07/10 | 16/07/17 |

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(f) Pension schemes

The company operates pension schemes in the United Kingdom and Germany for the benefit of its employees in those territories. Details of these schemes are provided below.

UK pension schemes – Defined benefit plan

A group defined benefit pension plan is operated for all eligible employees of subsidiaries of Prudential Financial, Inc. operating in the United Kingdom, who entered service prior to 1 April 2002.

The UK defined benefit plan was closed to new members from 31 March 2002. The current service cost will increase as the current members approach retirement age.

The plan is funded by contributions from the employer and from employees determined in accordance with the advice of a professionally qualified and independent actuary.

The directors of the company have consulted with the actuaries and concluded that the underlying assets and liabilities of the UK defined benefit plan, cannot be allocated to individual, participating companies on a consistent and reasonable basis. As a result, the disclosures below are made for the plan as a whole and include amounts attributable to employees outside of the company. As the majority of plan participants are employees of the company, FRS 17 disclosures regarding the plan are most appropriately made within these financial statements. The plan's assets are legally separated from the company's assets and form no part of these financial statements.

The actuarial valuation at 31 December 2007 for the United Kingdom plan showed a decrease in the deficit from \$5.6 million to a surplus of \$6.8 million. Member contributions increased to 5% as from 1 April 2007. Contributions have been reviewed after the formal valuation at 6 April 2006, and it has been agreed that the company's future contribution rate is 24.7%. The accounting valuations for the UK and German pension schemes have been performed by Mercer, an independent actuary.

UK pension Schemes – Defined contribution plan

The defined contribution plan is operated for all eligible employees of subsidiaries of Prudential Financial, Inc. operating in the United Kingdom, who entered service on or after 1 April 2002. Company contributions to this section are based on the age of the member on joining or on renewal at 1 April each year.

Overseas pension schemes

Germany: A defined benefit plan is operated for all eligible employees. The plan is reinsured by individual insurance contracts held in the name of the group with a multi-national insurer. The net investment in these contracts have been recognised as a separate financial asset on the balance sheet. All costs relating to the plan (including insurance premiums and other costs as computed by the insurer) are met in full by the company.

The plan provides for a pension of 1% of accrued earnings up to EUR 102,258 plus 0.5% of pensionable earnings above the state social security ceiling. Pensions in payment are reviewed triennially in accordance with German law. The last formal valuation was performed as at 31 December 2007.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(f) Pension schemes (continued)

Overseas pension schemes (continued)

Germany (continued)

In addition, a defined benefit plan exists which is valued on an actuarial basis with contributions from the employer and employees

Switzerland: The employees and the scheme were transferred from Bache Financial Limited Zurich branch to Bache Equities Limited, along with the business on 1 August 2006. The notes below disclosed the proportion of the profit & loss elements of the scheme until the time of the split.

The following actuarial assumptions were made in the valuation performed as at 31 December 2007

| | Germany % | United Kingdom % |
|--|---------------------|----------------------------|
| Rates of increase in Salaries | 2.75 | 4.80 |
| Rate of increase of pensions in payment | 2.00 | 3.20 |
| Discount rate | 5.30 | 5.60 |
| Inflation assumption | 2.00 | 3.20 |

The following actuarial assumptions were made in the valuation performed as at 31 December 2006

| | Germany % | United Kingdom % |
|---|---------------------|----------------------------|
| Rate of increase in salaries | 2.75 | 4.40 |
| Rate of increase of pensions in payment | 1.90 | 2.80 |
| Discount rate | 4.60 | 5.00 |
| Inflation assumption | 1.90 | 2.80 |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(f) Pension schemes (continued)

The fair value of the plan's assets and expected rates of return as at 31 December 2007 are

| | Germany | | United Kingdom | | Total |
|----------------------------------|--|---|--|---|---|
| | Expected rate of return at year end 2007 % | Fair value at year end 2007 \$'000 | Expected rate of return at year end 2007 % | Fair value at year end 2007 \$'000 | Fair value at year end 2007 \$'000 |
| Equities | - | - | 7.00 | 92,921 | 92,921 |
| Bonds | - | - | 5.60 | 38,268 | 38,268 |
| Gilts | - | - | 4.50 | <u>79,847</u> | <u>79,847</u> |
| Total fair value of assets | | <u>-</u> | | <u>211,036</u> | <u>211,036</u> |

The fair value of the plan's assets and expected rates of return as at 31 December 2006 are

| | Germany | | United Kingdom | | Total |
|----------------------------------|--|---|--|---|---|
| | Expected rate of return at year end 2006 % | Fair value at year end 2006 \$'000 | Expected rate of return at year end 2006 % | Fair value at year end 2006 \$'000 | Fair value at year end 2006 \$'000 |
| Equities | - | - | 7.00 | 86,427 | 86,427 |
| Bonds | - | - | 5.00 | 78,687 | 78,687 |
| Gilts | - | - | 4.50 | <u>39,213</u> | <u>39,213</u> |
| Total fair value of assets | | <u>-</u> | | <u>204,327</u> | <u>204,327</u> |

The fair value of the plan's assets, present value of the plan's liabilities and resulting deficit as at 31 December 2007 are

| | Germany \$'000 | United Kingdom \$'000 | Total \$'000 |
|--------------------------------------|-------------------|--------------------------|-----------------|
| Fair value of plan assets | - | 211,036 | 211,036 |
| Present value of plan liabilities | <u>(21,357)</u> | <u>(204,235)</u> | (225,592) |
| Surplus/(deficit) in the plan | <u>(21,357)</u> | <u>6,801</u> | <u>(14,556)</u> |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(f) Pension schemes (continued)

The fair value of the plan's assets, present value of the plan's liabilities and resulting deficit as at 31 December 2006 are

| | Germany \$'000 | United Kingdom \$'000 | Total \$'000 |
|-----------------------------------|-------------------|--------------------------|-----------------|
| Fair value of plan assets | - | 204,327 | 204,327 |
| Present value of plan liabilities | (20,054) | (209,901) | (229,955) |
| (Deficit)/surplus in the plan | (20,054) | (5,574) | (25,628) |

Analysis of amounts charged to operating profit in respect of defined benefit schemes

| | Germany | | Switzerland | | United Kingdom | | Total | |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Current service cost | 51 | 83 | - | 180 | 1,781 | 2,113 | 1,832 | 2,376 |
| Curtailment gain | - | - | - | - | (1,070) | - | (1,070) | - |
| Total operating charge | <u>51</u> | <u>83</u> | <u>-</u> | <u>180</u> | <u>711</u> | <u>2,113</u> | <u>762</u> | <u>2,376</u> |

Analysis of financing costs

| | Germany | | Switzerland | | United Kingdom | | Total | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Expected return on pension scheme assets | - | - | - | (50) | (11,732) | (11,146) | (11,732) | (11,196) |
| Interest on pension scheme liabilities | <u>1,009</u> | <u>836</u> | <u>-</u> | <u>52</u> | <u>10,479</u> | <u>9,683</u> | <u>1,488</u> | <u>10,571</u> |
| Net financing charge/(gain) | <u>1,009</u> | <u>836</u> | <u>-</u> | <u>2</u> | <u>(1,253)</u> | <u>(1,463)</u> | <u>(244)</u> | <u>(625)</u> |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(f) Pension schemes (continued)

The movement in the plan deficit during the year ended 31 December 2007 is analysed below

| | Germany | | Switzerland | | United Kingdom | | Total | |
|---|-----------------|-----------------|-------------|----------|----------------|----------------|-----------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Opening deficit in the plan | (20,054) | (18,951) | - | 156 | (5,574) | (9,078) | (25,628) | (27,873) |
| Transfer to group companies | - | - | - | 26 | - | - | - | 26 |
| Current service cost | (51) | (83) | - | (180) | (1,781) | (2,113) | (1,832) | (2,376) |
| Employer Contributions | 733 | 547 | - | - | 1,942 | 1,569 | 2,675 | 2,116 |
| Curtailment gains | - | - | - | - | 1,070 | - | 1,070 | - |
| Other financing costs | (1,009) | (836) | - | (2) | 1,253 | 1,463 | 244 | 625 |
| Actuarial Gain | 1,222 | 1,415 | - | - | 9,953 | 3,858 | 11,175 | 5,273 |
| Exchange rate loss | <u>(2,198)</u> | <u>(2,146)</u> | <u>-</u> | <u>-</u> | <u>(62)</u> | <u>(1,273)</u> | <u>(2,260)</u> | <u>(3,419)</u> |
| Closing (deficit) / surplus in the plan | <u>(21,357)</u> | <u>(20,054)</u> | <u>-</u> | <u>-</u> | <u>6,801</u> | <u>(5,574)</u> | <u>(14,556)</u> | <u>(25,628)</u> |

Analysis of amounts recognised in Statement of total recognised gains and losses

| | Germany | | Switzerland | | United Kingdom | | Total | |
|---|--------------|--------------|-------------|----------|----------------|----------------|---------------|----------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Actual return less expected return on assets | - | - | - | - | (2,172) | 359 | (2,172) | 359 |
| Experience gains and losses on liabilities | (690) | (407) | - | - | (1,400) | 7,793 | (2,090) | 7,386 |
| Changes in assumptions | <u>1,912</u> | <u>1,822</u> | <u>-</u> | <u>-</u> | <u>13,525</u> | <u>(4,294)</u> | <u>15,437</u> | <u>(2,472)</u> |
| Total gain/(loss) recognised in STRGL before adjustment for tax | 1,222 | 1,415 | - | - | 9,953 | 3,858 | 11,175 | 5,273 |
| Exchange rate loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net gain/(loss) recognised in STRGL before adjustment for tax | <u>1,222</u> | <u>1,415</u> | <u>-</u> | <u>-</u> | <u>9,953</u> | <u>3,858</u> | <u>11,175</u> | <u>5,273</u> |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

4. EMPLOYMENT COSTS (continued)

(f) Pension schemes (continued)

History of experience gains and losses

| | Germany | | United Kingdom | |
|---|----------------|-------------|-----------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Difference between expected and actual return on scheme assets | | | | |
| Amount (\$'000) | - | - | (2,172) | 359 |
| Percentage of scheme assets | - | - | -1% | - |
| Experience gains and losses on scheme liabilities | | | | |
| Amount (\$'000) | (690) | (407) | (1,400) | 7,793 |
| Percentage of scheme liabilities | -3% | -2% | -1% | 4% |
| Total amount recognised in statement of total recognised gains and losses | | | | |
| Amount (\$'000) | 1,222 | 1,415 | 9,953 | 3,858 |
| Percentage of scheme assets/liabilities | 6% | 7% | 5% | 2% |
| | | | | |
| | Germany | | United Kingdom | |
| | 2005 | 2004 | 2005 | 2004 |
| Difference between expected and actual return on scheme assets | | | | |
| Amount (\$'000) | - | - | 15,265 | 640 |
| Percentage of scheme assets | - | - | 8% | 1% |
| Experience gains and losses on scheme liabilities | | | | |
| Amount (\$'000) | (128) | (193) | 1,624 | (1,480) |
| Percentage of scheme liabilities | -1% | -2% | 3% | -2% |
| Total amount recognised in statement of total recognised gains and losses | | | | |
| Amount (\$'000) | (1,477) | (946) | (2,723) | (4,591) |
| Percentage of scheme assets/liabilities | -13% | -10% | -3% | -5% |

5. INTEREST INCOME

Interest income includes \$29.8million (2006 – \$16.9million) receivable from parent and fellow subsidiary companies

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

6. INTEREST EXPENSE AND SIMILAR CHARGES

| | 2007 \$'000 | 2006 \$'000 |
|--|-------------------------|-------------------------|
| Bank loans and overdrafts repayable within 5 years | 38,278 | 40,202 |
| Loans to parent and fellow subsidiary companies | <u>6,643</u> | <u>7,359</u> |
| | \$ <u>44,921</u> | \$ <u>47,561</u> |

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is arrived at after charging the following

| | 2007 \$'000 | 2006 \$'000 |
|--|----------------|----------------|
| Depreciation | 1,122 | 858 |
| Operating lease rentals | | |
| - land and buildings | 1,773 | 1,590 |
| Auditor's remuneration | | |
| - audit of the company's annual accounts | 599 | 527 |
| - audit of associated companies | 46 | 20 |
| Non audit services | | |
| - tax services | 7 | 79 |
| Foreign exchange loss/(gain) | 946 | (5,529) |

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2007 \$'000 | 2006 \$'000 |
|---|-------------------------|------------------------|
| <u>Analysis of charge in period</u> | | |
| Current tax | | |
| UK corporation tax on profits for the year | 12,543 | 12,157 |
| Adjustment in respect of previous years | <u>(1,183)</u> | <u>(6,843)</u> |
| | 11,360 | 5,314 |
| Foreign tax | <u>15</u> | <u>715</u> |
| Total current tax | 11,375 | 6,029 |
| Deferred tax | <u>1,257</u> | <u>(6,892)</u> |
| Total tax expense/(credit) on profit on ordinary activities | \$ <u>12,632</u> | \$ <u>(863)</u> |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

| | 2007 \$'000 | 2006 \$'000 |
|---|------------------|-----------------|
| <u>Factors affecting the tax charge for the Period</u> | | |
| Profit on ordinary activities before tax | <u>60,816</u> | <u>73,294</u> |
| Profit on ordinary activities at standard rate of UK tax of 30% | 18,245 | 21,988 |
| Effects of | | |
| Diminution in value of investment not deductible for tax purposes | 105 | 2,589 |
| Amounts disallowed for tax purposes | 845 | (6,919) |
| Capital allowances for period in excess of depreciation | (1,440) | (1,532) |
| Higher tax rates on overseas earnings | 15 | 193 |
| Adjustment in respect of previous years | (1,182) | (6,844) |
| Adjustment for pension costs | (3,446) | (3,446) |
| Group relief utilised | <u>(1,767)</u> | <u>-</u> |
| | <u>\$ 11,375</u> | <u>\$ 6,029</u> |

The company has recognised deferred tax assets in respect of lump sum contributions made in prior periods and which it assesses are more likely than not to be deducted from future taxable profits (see Note 13)

Factors that may affect future tax charges

Deferred taxation relating to capital allowances and other timing differences is provided only in so far as a liability or asset is expected to crystallise in the foreseeable future. Total taxation deferred and unprovided in respect of all capital allowances and timing differences amounts to an asset of \$nil (2006 – \$10million) based on a corporation tax rate of 30%

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

9. TANGIBLE FIXED ASSETS

| | <u>Leasehold Improvements</u> \$'000 | <u>Office equipment, furniture and fittings</u> \$'000 | <u>Capital work in progress</u> \$'000 | <u>Total</u> \$'000 |
|--|---|---|---|------------------------|
| <u>Cost</u> | | | | |
| 1 January 2007 | - | 233 | 11,155 | 11,388 |
| Additions | - | - | - | - |
| Transfers | 6,121 | 2,147 | (8,268) | - |
| Adjustment to capital work in progress | - | - | (2,887) | (2,887) |
| 31 December 2007 | 6,121 | 2,380 | - | 8,501 |
| <u>Depreciation</u> | | | | |
| 1 January 2007 | - | 225 | - | 225 |
| Charge for the year | 592 | 530 | - | 1,122 |
| 31 December 2007 | 592 | 755 | - | 1,347 |
| <u>Net book value</u> | | | | |
| 31 December 2007 | <u>5,529</u> | <u>1,625</u> | <u>-</u> | <u>7,154</u> |
| 31 December 2006 | <u>-</u> | <u>8</u> | <u>11,155</u> | <u>11,163</u> |

Capital work in progress

Capital work in progress represents the expenditure incurred in the period to 31 December 2006 on the refurbishment of office premises. These premises were occupied with effect from January 2007.

The \$2.9m adjustment to Capital work in progress reflects the discounts negotiated on the cost of leasehold improvements completed in the period.

10. FIXED ASSET INVESTMENTS

Cost and net book value

| | 2007 \$'000 | 2006 \$'000 |
|--|----------------|----------------|
| Investment in shares of unlisted subsidiaries | | |
| At 1 January | 351 | 8,982 |
| Additions in year | - | - |
| Foreign currency translation adjustment | - | (1,188) |
| Diminution in value | <u>(351)</u> | <u>(7,443)</u> |
| At 31 December | \$ - | \$ 351 |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

10. FIXED ASSET INVESTMENTS (continued)

The company owns 100% of the allotted share capital of Dryden Holdings Limited a company registered in England and Wales. The diminution in value of fixed asset investments resulted from the write off of the intercompany debt with Dryden Holdings Limited.

11. AVAILABLE FOR SALE INVESTMENTS

Available for sale financial assets include the following

| | | 2007 \$'000 | | 2006 \$'000 | |
|-----------------------------------|-----|----------------|---------------|----------------|---------------|
| | | Cost | Fair value | Cost | Fair value |
| Current Assets | | | | | |
| Metal warrants stock | (a) | <u>18,543</u> | <u>18,543</u> | <u>12,607</u> | <u>12,607</u> |
| Fixed Assets | | | | | |
| Exchange and market membership | (b) | 1,087 | 6,581 | 1,075 | 1,075 |
| German pension insurance policies | (c) | <u>20,225</u> | <u>20,225</u> | <u>17,731</u> | <u>17,731</u> |
| | | <u>21,312</u> | <u>26,806</u> | <u>18,806</u> | <u>18,806</u> |

- (a) These amounts represent metal warrants held as short term investments by the entity
- (b) These amounts represent the fair value of exchange market memberships held by the company on several futures exchanges. Fair value has been used to determine the latest share transaction price for the LCH Clearnet shareholding and for the London Metal Exchange membership
- (c) These amounts represent insurance policies held by the company's German branches to meet pension obligations to employees. These amounts are held at their fair value which has been deemed to be their cash surrender value

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

12. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2007, the net marked to market value of open positions resulted in a financial asset at fair value through profit and loss of \$23.4million (2006 - \$11.6million)

| | Notional Amount \$'000 | Assets \$'000 | Liabilities \$'000 | Total \$'000 |
|---|------------------------------|------------------|-----------------------|----------------------|
| 2007 | | | | |
| Exchange traded futures assets/(liabilities) | (122,453) | 124,060 | (105,070) | 18,990 |
| Non exchange traded futures assets/(liabilities) | - | 8,678 | (2,501) | 6,177 |
| Cross currency swaps assets/(liabilities) | - | - | (1,743) | (1,743) |
| | | <u>132,738</u> | <u>(109,314)</u> | <u>23,424</u> |
| 2006 | | | | |
| Exchange traded futures assets/(liabilities) - Restated | 15,577 | 133,169 | (119,048) | 14,121 |
| Non exchange traded futures assets/(liabilities) | - | 12,543 | (15,220) | (2,677) |
| Cross currency swaps assets/(liabilities) | - | 221 | (105) | 116 |
| | | <u>145,933</u> | <u>(134,373)</u> | <u>11,560</u> |

The 2006 Exchange traded futures assets/(liabilities) have been restated to reflect the adjustment in Balance Sheet disclosure with no impact on net results through the profit and loss as previously reported

13. TRADE AND OTHER DEBTORS

| | 2007 \$'000 | Restated 2006 \$'000 |
|--|---------------------|----------------------------|
| Trade debtors | 1,029,163 | 879,585 |
| Segregated debtors | 85,527 | 57,421 |
| Amounts owed by parent and fellow subsidiary companies | 14,598 | 12,067 |
| Other debtors | 1,070 | 2,492 |
| Prepayments and accrued income | 5,808 | 5,355 |
| Deferred tax assets | <u>5,634</u> | <u>6,892</u> |
| | \$ 1,141,800 | \$ 963,812 |

(a) Trade debtors include \$140.6million (2006 - \$46.7million) owed by parent and fellow subsidiary companies. These amounts are the result of transactions undertaken on behalf of fellow subsidiaries and have been incurred in the ordinary course of business.

(b) Trade debtors also include \$85.5million (2006 - \$57.4million) in respect of segregated debtors, representing amounts held by clearing houses in separate accounts, on behalf of clients, as required by the rules of the Financial Services Authority.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

13. TRADE AND OTHER DEBTORS (continued)

- (c) 2006 trade and segregated debtors have been grossed up by \$10.5m as part of our classification from trade and segregated creditors see Note 16

The carrying amount of debtors is a reasonable approximation to the fair value. Concentration of credit risk with respect to trade receivables is limited due to the company's customer base being large and unrelated. Due to this, management believe there is no further credit risk provision required in excess of normal provision for doubtful receivables.

As of 31 December 2007, trade debtors with a carrying value of \$0.2million (2006 - \$nil) were impaired and provided for.

The debtors determined as individually impaired were mainly wholesalers, which are in unexpected difficult economic situations and it was assessed that not all of the debtor balance may be recovered.

The carrying amounts of the company's trade and segregated debtors are denominated in the following currencies:

| | 2007 \$'000 | 2006 \$'000 |
|------------------|---------------------|-------------------|
| US Dollars | 1,031,564 | 546,217 |
| Pounds Sterling | 17,370 | 10,629 |
| Euros | 14,534 | 132,328 |
| Other currencies | <u>51,222</u> | <u>247,832</u> |
| | \$ 1,114,690 | \$ 937,006 |

The other classes within debtors do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The company does not hold any collateral as security.

The Deferred tax asset is recognised on the following:

| | 2007 \$'000 | 2006 \$'000 |
|--|-----------------|-----------------|
| Special pension payments | 3,216 | 6,892 |
| Excess capital allowance over net book value of assets | 2,973 | - |
| Chargeable gain on exchange seat ownership | (292) | - |
| Deferred tax deductions | 1,324 | - |
| Pension asset | <u>(1,587)</u> | <u>-</u> |
| | \$ 5,634 | \$ 6,892 |

14. CASH AT BANK AND IN HAND

Cash at bank and in hand includes \$409.6million (2006 - \$817.8million) of segregated cash held on behalf of clients, in separate accounts. The company has restricted access to these funds, as required by the rules of the Financial Services Authority.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

15. SHORT TERM LOANS

| | 2007 \$'000 | 2006 \$'000 |
|-----------------------------|------------------|-------------------|
| Bank loans | 86,941 | 431,037 |
| Sub participation agreement | - | 10,001 |
| | <u>\$ 86,941</u> | <u>\$ 441,038</u> |

Bank loans are held on a short-term basis to meet the business funding needs with several banks. The loans are held predominantly in USD and where not held in USD economic hedging is used to mitigate foreign currency risk.

The exposure of the company's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet are as follows:

| | 2007 \$'000 | 2006 \$'000 |
|------------------|------------------|-------------------|
| 6 months or less | <u>\$ 86,941</u> | <u>\$ 441,038</u> |

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the company's borrowings are denominated in the following currencies:

| | 2007 \$'000 | 2006 \$'000 |
|-------------------|------------------|-------------------|
| US Dollars | 61,126 | 421,696 |
| Australia Dollars | 11,082 | 4,523 |
| Norway Kroner | 8,962 | 6,863 |
| Other currencies | <u>5,771</u> | <u>7,956</u> |
| | <u>\$ 86,941</u> | <u>\$ 441,038</u> |

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2007 \$'000 | Restated 2006 \$'000 |
|--|---------------------|----------------------------|
| Trade creditors | 1,040,248 | 1,068,755 |
| Amounts owed to parent and fellow subsidiary companies | 266,195 | 121,262 |
| Other creditors | 4,704 | 14,461 |
| Accruals and deferred income | <u>20,497</u> | <u>22,108</u> |
| | <u>\$ 1,331,644</u> | <u>\$ 1,226,586</u> |

- (a) Trade creditors include \$141.8 million (2006 – \$86.1 million) owed to parent and fellow subsidiary companies in the ordinary course of business, which are settled monthly.
- (b) Trade creditors include \$495.1 million (2006 – \$936.6 million) of segregated creditors representing client margins held on deposit, in separate accounts, with restricted access, as required by the rules of the Financial Services Authority.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)

- (c) Included in trade creditors are amounts due in currencies other than USD which amount to \$181.6million (2006 - \$265.3million)
- (d) Other creditors include taxation and social security of \$1.9million (2006 - \$6.8million)
- (e) Prior year trade creditors have been grossed up by \$10.5million (see Note 13)

17. PROVISIONS FOR LIABILITIES AND CHARGES

| | 2007 \$'000 | 2006 \$'000 |
|--|-----------------|------------------|
| Provisions | | |
| At 1 January | 14,856 | 25,168 |
| Charged to the profit and loss account | - | 86 |
| Utilised during the year | <u>(7,249)</u> | <u>(10,398)</u> |
| At 31 December | \$ <u>7,607</u> | \$ <u>14,856</u> |

The provision remaining as at 31 December 2007, includes amounts for severance of \$0.7million (2006 - \$3.2million), lease exit costs of \$2.9million (2006 - \$5.5million) and legal provision of \$4.0m (2006 - \$6.2million). With the exception of lease exit costs that are to be utilised over the remaining terms of the leases, it is expected that all other reserves will be fully utilised during the next two financial years.

18. PENSION LIABILITY

| | 2007 \$'000 | 2006 \$'000 |
|--|------------------|------------------|
| Other pensions and similar obligations | \$ <u>14,556</u> | \$ <u>41,387</u> |

Under the requirements of FRS 17 'Post Retirement Benefits', actuarial valuations of the pension liabilities of the company were undertaken at 31 December 2007 and 31 December 2006. These quantified the past service pension liabilities of the company, which have been recognised in the accounts.

During the year, the company identified an overstatement of the German pension liability reported in previous periods. This occurred when the company first adopted FRS17 in 2005 and has been adjusted in the current year financial statements. The effect of the restatement was to decrease the 2007 pension liability by \$15.8million and increase the 2007 retained earnings by \$15.8million.

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

19. CALLED UP SHARE CAPITAL

| | 2007 '000 | 2006 '000 |
|-----------------------------|------------------|------------------|
| Ordinary shares of £1 each | | |
| Authorised number of shares | <u>100,000</u> | <u>100,000</u> |
| Allotted and fully paid | \$ <u>68,457</u> | \$ <u>68,457</u> |
| Number of shares | <u>39,754</u> | <u>39,754</u> |

20. RECONCILIATION FOR MOVEMENT IN SHAREHOLDERS' FUNDS EXCLUDING SHARE CAPITAL

| | Share premium \$'000 | Capital contribution \$'000 | Currency translation reserve \$'000 | Stock option reserve \$'000 | Available for sale reserve \$'000 | Retained Earnings \$'000 | Total \$'000 |
|--|----------------------------|-----------------------------------|--|--------------------------------------|--|--------------------------------|-----------------|
| At 1 January 2007 | 4,369 | 60,504 | (5,242) | 1,309 | 468 | 43,752 | 105,160 |
| Profit for the financial year | - | - | - | - | - | 48,184 | 48,184 |
| Dividends paid | - | - | - | - | - | (4,000) | (4,000) |
| Actuarial gain on pension | - | - | - | - | - | 11,175 | 11,175 |
| FRS 20 equity movements | - | - | - | 356 | - | - | 356 |
| Share based payments | - | - | - | (572) | - | - | (572) |
| Foreign exchange translation on foreign operations | - | - | 2,245 | - | - | - | 2,245 |
| Pension restatement | - | - | - | - | - | 15,759 | 15,759 |
| Pension commutation loss | - | - | - | - | - | (2,794) | (2,794) |
| Revaluation to fair value | - | - | - | - | 5,026 | - | 5,026 |
| At 31 December 2007 | <u>4,369</u> | <u>60,504</u> | <u>(2,997)</u> | <u>1,093</u> | <u>5,494</u> | <u>112,076</u> | <u>180,539</u> |

| | Share premium \$'000 | Capital contribution \$'000 | Currency translation reserve \$'000 | Stock option reserve \$'000 | Available for sale reserve \$'000 | Retained Earnings \$'000 | Total \$'000 |
|--|----------------------------|-----------------------------------|--|--------------------------------------|--|--------------------------------|-----------------|
| At 1 January 2006 | 4,369 | 10,504 | (6,264) | 1,265 | 431 | 10,618 | 20,923 |
| Profit for the financial year | - | - | - | - | - | 74,157 | 74,157 |
| Dividends paid | - | - | - | - | - | (52,000) | (52,000) |
| Capital contribution | - | 50,000 | - | - | - | - | 50,000 |
| Actuarial gain on pension | - | - | - | - | - | 5,273 | 5,273 |
| Share based payments | - | - | - | 44 | - | - | 44 |
| Foreign exchange translation on foreign operations | - | - | 1,022 | - | - | - | 1,022 |
| Revaluation to fair value | - | - | - | - | 37 | - | 37 |
| Pension commutation gain | - | - | - | - | - | 5,704 | 5,704 |
| At 31 December 2006 | <u>4,369</u> | <u>60,504</u> | <u>(5,242)</u> | <u>1,309</u> | <u>468</u> | <u>43,752</u> | <u>105,160</u> |

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

20. RECONCILIATION FOR MOVEMENT IN SHAREHOLDERS' FUNDS EXCLUDING SHARE CAPITAL (continued)

Dividend was paid to PBI (UK) Limited, the company's immediate parent entity Dividend was paid at \$0 1006 per share (2006 - \$1 308 per share)

21. OPERATING LEASE COMMITMENTS

Commitments under operating leases for the next financial year are as follows

| | 2007 |
|--|---------------------------------|
| | Land and buildings \$'000 |
| <i>Cancellable</i> | |
| Leases which expire within one year | 1,843 |
| within two to five years | 8,612 |

22. SEGREGATION OF CLIENT MONEY

| | 2007 \$'000 | Restated 2006 \$'000 |
|------------------------|----------------|----------------------------|
| Segregated cash | 409,574 | 879,184 |
| Segregated debtors | 85,527 | 57,421 |
| Segregated liabilities | (495,101) | (936,605) |
| | \$ _____ | \$ _____ |

The company generates segregated funds through its futures and options brokerage business Clients can choose to have their client funds segregated in accordance with client money rules set down by the Financial Services Authority which is responsible for the supervision of investment firms in the UK

As required by the Financial Services Authority the company has separate bank and broker accounts set up for those clients that have opted to be under the client money rules The cash and assets within these accounts is maintained separate from that in the non-segregated bank accounts which are included in the balance sheet

23. CONTINGENT LIABILITIES

The company has given counter indemnities in respect of bank guarantees of €5 million and €3 million provided by Eurex Clearing AG and by Clearstream Banking AG, respectively, to cover margin requirements

BACHE COMMODITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

24. POST BALANCE SHEET EVENTS

The company recognised a credit loss of \$855,000 in January 2008. This was due to one of the company's clients being unable to meet its margin call. The loss has not been recognised in the current financial statements.

The continued volatility in commodities markets has increased the company's credit exposure against clients and counterparties. The company manages credit exposure by way of credit and risk management committees staffed at Board level. All exposures are monitored daily against risk limits and relationships reviewed at least annually.

25. CAPITAL MANAGEMENT

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company has adequate capital in accordance with the Financial Services Authority requirements.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

26. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Prudential Financial, Inc., a company established in the United States of America. It is also the parent undertaking of the largest group, which includes the company, and for which group financial statements are prepared.

The parent undertaking of the smallest group which includes the company and for which group financial statements are prepared is PBI Group Holdings Limited, a company registered in England and Wales.

Copies of the latter group's financial statements are available from Companies House, Crown Way, Cardiff, CF4 3UZ. Copies of the financial statements of Prudential Financial, Inc. are available on request from 751 Broad Street, Newark NJ07102, United States of America.