

# **BACHE COMMODITIES LIMITED**

## **REPORT AND FINANCIAL STATEMENTS**

**31 December 2010**

**SATURDAY**



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23/04/2011  
COMPANIES HOUSE

**Registered number 512397**

# **BACHE COMMODITIES LIMITED**

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**BACHE COMMODITIES LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**

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*Executive Directors*

M R Bailey  
M J Coomber  
A T Dawson  
R J Ivans  
A H Ladouceur

*Non-Executive Director*

A B Gibbins

*Secretary*

B Dawreeawoo

*Registered office*

9 Devonshire Square,  
London, EC2M 4HP

*Independent Auditors*

PricewaterhouseCoopers LLP

*Solicitors*

Simmons & Simmons

# BACHE COMMODITIES LIMITED

## REPORT OF THE DIRECTORS

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The directors present their annual report and the audited financial statements of Bache Commodities Limited (the "Company") for the year ended 31 December 2010

### 1 PRINCIPAL ACTIVITIES

The principal activities of the Company are those of a global commodities and financial futures broker dealer, offering clients sales, trading opportunities and global access to all major commodity markets, as well as asset managers in the commodities sector. The Company offers a broad range of commodity, financial futures, and options capabilities, market making on a spot and forward basis in precious and base metals, and foreign exchange.

The Company is authorised and regulated by the Financial Services Authority.

The Company operates a branch office in Hamburg, Germany.

Bache Commodities Limited also has affiliated companies that act as introducing brokers in various territories around the world. These include Prudential Bache Commodities LLC in the United States and Bache Commodities (Hong Kong) Limited in Hong Kong.

### 2 REVIEW OF BUSINESS

#### *Financial Performance*

The Company has been able to take advantage of the continued volatility in global commodity prices and produce a very satisfactory set of results for 2010, with an improvement on the 2009 results.

Revenue increased by \$24.3million from \$52.6million to \$76.9million. The fair value gain on financial instruments at fair value through profit or loss account has decreased to \$0.7million from \$15.8million in 2009 as more of the gains were realised during the year. The fair value gain represents forward profits on open positions marked to market at the year end and therefore recognised within the financial period, as detailed in Note 11. The administrative expenses have increased marginally compared to last year to \$53.9million (2009 - \$53.2million). This has resulted in an overall increase in operating profit to \$23.7million in 2010 from \$15.2million in 2009, reflecting the improved trading profitability of key commodity sectors.

Global interest rates remained low during 2010, despite this trend the Company managed to increase net interest income by \$1.8million to \$7.2million in 2010 compared with \$5.4million in 2009. This increase was achieved by sound management and control of its cash flows, its own resources, intercompany borrowings and not drawing on external banking lines.

Overall a profit before tax of \$30.9million was achieved for 2010 compared to \$20.6million for 2009. These results reflect the core strength of our underlying ongoing business and the Company's ability to adjust to the economic conditions through effective and robust risk management in periods of extreme volatility.

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

# BACHE COMMODITIES LIMITED

## REPORT OF THE DIRECTORS

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### 2 REVIEW OF BUSINESS (continued)

#### *Financial Performance (continued)*

The previous year's actuarial loss on the defined benefit scheme has this year been converted to an actuarial gain of \$4.9million principally due to improved market values of investments held within the pension scheme, the payment of a lump sum of \$15.6million (£10million) and the change of inflation assumption from Retail Price Index ("RPI") to Consumer Price Index ("CPI"). The Company has further committed to pay an additional £2million per annum into the defined benefit scheme (the "Plan") for the next 10 years and at the same time discontinued the defined benefit accrual for active members of the Plan.

The profit and loss account the Company for the year is set out on page 9 of this report and financial statements.

#### *Dividends*

The directors decided not to pay a dividend in 2010 (2009 - \$nil).

#### *Future developments and prospects*

The Company continued to promote the Bache Commodity Index ("BCI<sup>SM</sup>"), which consists of 19 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 BCI<sup>SM</sup> because of their importance to the sector, as well as to the overall market. The BCI<sup>SM</sup> 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.

Bache Commodities Limited is the promoter of a UCITS III Luxembourg registered fund, Bache Global Series ("BGS"), as well as sub-investment manager for the BGS. The BGS provides investment access to the commodity sector for both retail and institutional investors. The fund has daily liquidity and tracks the actual return of the BCI<sup>SM</sup> on a Total Return basis.

As at 31 December 2010 the asset management division of the Company had \$123.0million of assets under management (2009 - \$363.8million), representing a gross return during the year of 10.34% (2009 - 11.63%). Of this total, assets invested in the BGS at the end of the year were \$65.3million (2009 - \$76.0million).

Immediately after end of the year the Company received an additional \$125.0million to invest in commodity assets under management and as such the Company expects the above product areas to continue to grow over the coming year.

The directors anticipate continuing volatility in global commodity markets as a result of uncertainty of the economic recovery. However the directors believe the Company is well positioned to deal with any future downturn in the commodity markets due to its underlying strength within its core business aligned with a strong balance sheet.

# BACHE COMMODITIES LIMITED

## REPORT OF THE DIRECTORS

### 3 DIRECTORS

The current directors are listed on page 1. The following changes have occurred during the year

	<u>Date of appointment</u>	<u>Date of resignation</u>
A B Gibbins ( <i>non-executive director</i> )	1 June 2010	
B J Gershon ( <i>executive director</i> )		17 May 2010
V G Dattani ( <i>executive director</i> )		17 May 2010

The directors have no interest in the Company's shares. The directors participate in the ultimate parent Company 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 2006.

### 4 STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the directors are required to -

- (a) select suitable accounting policies and then apply them consistently,
- (b) make judgements and accounting estimates that are reasonable and prudent,
- (c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- (d) 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

# **BACHE COMMODITIES LIMITED**

## **REPORT OF THE DIRECTORS**

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### **5 STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS**

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he has taken all the steps that he 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

### **6 GOING CONCERN**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of Business on pages 2 and 3. In addition, the notes to the financial statements include the policies and processes for managing its business. The directors have reasonable expectation that the Company has adequate resources to continue to trade profitably and has access to sufficient undrawn committed cash facilities to remain in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the report and financial statements.

### **7 DONATIONS**

The Company made charitable donations during the year amounting to \$5,000 (2009 - \$3,321). Of this amount £2,500 (\$3,364) was donated to Villa Joep. No donations were made for political purposes.

### **8 PRINCIPAL RISKS AND UNCERTAINTIES – FINANCIAL RISK MANAGEMENT**

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

### **9 CORPORATE GOVERNANCE**

The board supports the highest standards of corporate governance appropriate for a Company of its size. Whilst not subject to the Corporate Governance Code, the directors seek to observe the guidelines set in that code issued by the Financial Reporting Council and, in addition, the Company adheres to the ultimate holding company, Prudential Financial, Inc.'s charter on "Making the Right Choices" and "Doing Business the Right Way".

#### **The Board**

The board comprises of five executive directors and one non-executive director. The board meets at least quarterly and has adopted a schedule of matters specifically reserved for its approval or review, including strategic operating plans, credit review, operational issues, compliance review and financial performance as well as regulatory issues.

Management reports are produced quarterly and distributed in advance of the board meetings. In addition to the quarterly scheduled meetings the board will meet when required to review in depth specific areas of importance to the Company.

**REPORT OF THE DIRECTORS**

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**9 CORPORATE GOVERNENCE (continued)**

**Committees of the Board**

The board has established three committees for the purposes of assisting the board in the discharge of its duties and responsibilities. Each committee has its own charter/terms of reference. Details of the committees are set out below.

**Risk and Audit Committee ("RAC")**

The RAC is chaired by the non-executive director, the other members being the Head of Market Risk in London and the Vice President of Financial Management in New York. It meets at least three times a year and more frequently if necessary. The responsibility of the RAC is, amongst others, to review and assess

- the integrity of the financial statements,
- the adequacy and effectiveness of the internal controls and risk management processes,
- the review the annual compliance plan and key compliance findings,
- the review of the work performed by internal and external auditors, and to make,
- recommendations to the board on their findings

**Compliance Committee**

The Head of Compliance chairs the Compliance Committee with the other members being the Chief Executive Officer, the Chief Operating Officer and the Head of Client Services. The Compliance Committee meets on a monthly basis and ensures that the business has met all compliance requested controls, and that it has transacted its business in accordance with relevant regulatory/exchange rules and that the business maintains rigorous standards.

**Investment Management Oversight Committee ("IMOC")**

The Chief Operating Officer chairs the IMOC which meets on a monthly basis. Its other members are the Finance Director, the London Head of Credit and the Company's Senior International Counsel. Its primary function is to perform oversight of the Investment Management business and that the investment management business activities are properly managed in accordance with both Company and regulatory requirements.

**Risk Management and Internal Control**

In addition to the committees' review of the proper function of the Company, the directors are responsible for its system of internal control. The key elements of the Company's system of internal control are as follows:

- the board has a clearly stated enterprise wide risk assessment framework. This risk management framework is used to focus available resources on the Company's most significant areas of risk and key control objectives,
- the Company has in place an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements,
- three of the executive directors are closely involved in the management of the business at a detailed level. This is supported by reviews of daily, weekly and monthly detailed analysis of the performance of the business and key performance indicators associated with the trading facing the Company. Major commercial, technological, credit and financial risks are assessed as part of this process, and
- the Company maintains a risk register with input from all business areas to identify the risks in specific areas of the business and highlight key controls in these areas. These are then used dynamically to mitigate risk within the relevant business area.



# **BACHE COMMODITIES LIMITED**

## **REPORT OF THE DIRECTORS**

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### **10 EMPLOYEE INVOLVEMENT**

The London based business units of Prudential Securities Group LLC 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.

Employees are consulted on major issues affecting their employment.

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.

### **11 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.

### **12 POLICY AND PRACTICE OF PAYMENT OF CREDITORS**

The Company pays its suppliers on contractually agreed terms, on a timely basis and within 30 days of receipt of invoice.

### **13 POST BALANCE SHEET EVENTS**


On 7 April 2011, Prudential Financial, Inc., the ultimate parent company, entered into an agreement to sell its global commodities business to Jefferies Group, Inc., which includes Bache Commodities Limited. The transaction is expected to close in June 2011, following regulatory approval.

### **14 INDEPENDENT AUDITORS**

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

14 April 2011 

MR BAILEY  
Director

# **BACHE COMMODITIES LIMITED**

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BACHE COMMODITIES LIMITED**

We have audited the financial statements of Bache Commodities Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Michael P Newman (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

19 April 2011

**BACHE COMMODITIES LIMITED****PROFIT AND LOSS ACCOUNT**  
**for the year ended 31 December 2010**

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	Note	2010 \$'000	2009 \$'000
Revenue	3	76,918	52,603
Fair value gain on financial instruments at fair value through profit or loss	3	684	15,776
Administrative expenses		<u>(53,891)</u>	<u>(53,181)</u>
Operating profit		23,711	15,198
Profit on ordinary activities before interest and taxation		23,711	15,198
Interest income	5	8,251	8,596
Interest expense and similar charges	6	<u>(1,083)</u>	<u>(3,202)</u>
Profit on ordinary activities before taxation	7	30,879	20,592
Tax expense	8	<u>(8,812)</u>	<u>(4,739)</u>
Profit for the financial year	19	<u>22,067</u>	<u>15,853</u>

The notes on pages 12 to 48 are an integral part to these financial statements

**BACHE COMMODITIES LIMITED****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**for the year ended 31 December 2010**

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	Note	2010 \$'000	2009 \$'000
Profit for the financial year	19	22,067	15,853
Actuarial gain / (loss) recognised in pension scheme	4	4,928	(46,457)
Currency translation reserve movement	19	-	265
Fair value movement on available for sale financial instruments	19	-	2,657
Other movement in pension reserve	19	819	728
Movement in deferred tax relating to pension liability	19	(1,836)	12,842
<b>Total recognised gains / (losses) since last annual report</b>		<b><u>25,978</u></b>	<b><u>(14,112)</u></b>

The notes on pages 12 to 48 are an integral part to these financial statements

# BACHE COMMODITIES LIMITED

## BALANCE SHEET as at 31 December 2010

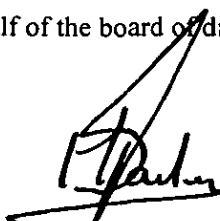
	Note	2010 \$'000	2009 \$'000
<b>Fixed assets</b>			
Tangible assets	9	4,927	5,952
Financial assets – available for sale	10	<u>21,697</u>	<u>22,794</u>
		<u>26,624</u>	<u>28,746</u>
<b>Current assets</b>			
Financial assets			
– stock available for sale	10	10,163	35,837
– at fair value through profit or loss	11	182,727	193,764
Trade and other debtors	12	1,423,537	1,320,637
Cash at bank and in hand	13	<u>721,559</u>	<u>481,068</u>
		<u>2,337,986</u>	<u>2,031,306</u>
<b>Current liabilities</b>			
Financial liabilities			
– at fair value through profit or loss	11	(182,043)	(177,988)
Creditors amounts falling due within one year	15	<u>(1,853,259)</u>	<u>(1,561,209)</u>
		<u>(2,035,302)</u>	<u>(1,739,197)</u>
<b>Net current assets</b>		<u>302,684</u>	<u>292,109</u>
<b>Total assets less current liabilities</b>		<b>329,308</b>	<b>320,855</b>
<b>Provisions for liabilities and charges</b>	16	(2,369)	(2,455)
<b>Pension liability</b>	17	<u>(20,592)</u>	<u>(40,399)</u>
<b>Net assets</b>		<u><b>306,347</b></u>	<u><b>278,001</b></u>
<b>Capital and reserves</b>			
Called up share capital	18	68,457	68,457
Share premium account	19	4,369	4,369
Capital contribution	19	60,504	60,504
Other reserves	19	4,934	2,566
Retained earnings	19	<u>168,083</u>	<u>142,105</u>
<b>Shareholders' funds</b>		<u><b>306,347</b></u>	<u><b>278,001</b></u>

The notes on pages 12 to 48 are an integral part to these financial statements

These financial statements were approved by the directors on 14 April 2011.

Signed on behalf of the board of directors

M R BAILEY  
Director



# **BACHE COMMODITIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

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### **1. 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 and 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 ("UK GAAP") A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies The Company has not adopted any new accounting standards this year

#### **(b) *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

#### **(c) *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

#### **(d) *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 exchange rate used to translate monetary assets and liabilities denominated in GBP to USD as at 31 December 2010 was 1.55894 Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognised in the profit and loss account

In 2009 the functional and presentational currency of the German branch was changed from Euros to USD In accordance with FRS 23 'Foreign Exchange Rates', this was to correctly reflect that the underlying transactions have changed to be predominately in USD The translation adjustments for prior periods were not removed from equity and the translated amounts for non monetary assets at the end of the 2008 become the accounting basis for those assets in the period of the change and subsequent periods As such the Currency Translation Reserve is unchanged in 2010

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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### 1. ACCOUNTING POLICIES (continued)

#### (e) *Revenue*

Revenue is generated from the following categories of business

- **Dealers as principal and forward profits** Dealing as principal comprises revenue generated from acting as broker dealers or clearing members in principal to principal markets where trading positions are undertaken to satisfy customer trade demands and market making activities. Forward profits comprise unrealised forward 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 forward 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. Revenue received on trades booked on behalf of other group companies is paid on to those companies, in return for which the Company receives a fee based on its costs incurred. Fees received and paid are recognised on an accruals basis.
- **Management services fees** Fees are charged to clients for the management of assets and are recognised on an accruals basis.

#### (f) *Financial instruments*

The Company under the guidance of FRS 29 'Financial Instruments: Disclosures' recognises financial instruments according to fair value rather than book cost.

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

#### **Financial assets**

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

#### *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.

# **BACHE COMMODITIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended 31 December 2010**

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### **1. ACCOUNTING POLICIES (continued)**

#### **(f) *Financial instruments (continued)***

##### **Financial assets (continued)**

###### *Trade debtors and loans and receivables*

Trade debtors and 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

Trade debtors and loans and receivables are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost using the effective interest method

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**

###### *Trade creditors and payables*

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, 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 arm's-length transactions, option pricing models and other valuation techniques commonly used by market participants

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



# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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### 1. ACCOUNTING POLICIES (continued)

#### (f) *Financial instruments (continued)*

##### **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.

#### (g) *Tangible Fixed Assets and Depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets as shown below:

Leasehold improvements	Over the term of the lease
Office equipment, furniture and fittings	3 – 5 years

#### (h) *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 and Germany. 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 2010**

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### **1. ACCOUNTING POLICIES (continued)**

#### **(h) *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,
- (ii) Gains and losses arising on settlements/curtailments in the period, and
- (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 administrative expenses

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

#### **(i) *Operating leases***

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

#### **(j) *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.

#### **(k) *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.

# **BACHE COMMODITIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

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### **1. ACCOUNTING POLICIES (continued)**

#### **(k) *Share-based incentives (continued)***

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%.

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 as quoted on the New York Stock Exchange. All schemes are equity settled. Further details are set out in Note 4.

In November 2010 the Company implemented a HMRC approved UK SAYE Share Plan. Eligible employees were allowed to enrol (after an invitation period) and contribute to the SAYE via payroll deductions over a 36-month period (SAYE Savings Cycle). At the end of the SAYE Savings Cycle, participants have the option to purchase shares of PFI common stock at the discounted option price set on grant date. In accordance with FRS 20 'Share-based Payment' the Company places a fair value on the award using a binomial valuation and charging the profit and loss account over the vesting period.

### **2. FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, credit risk and interest rate 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.

As contained within its Corporate Governance Charter and as outlined in the Report of the Directors', the directors establish and adhere to a framework for overall risk management. This is encapsulated within the Company's ICAAP document as submitted to the FSA, whereby the Board provides written principles for overall risk management, as well as written policies.

The Board has assigned its responsibilities to 3 formal risk management committees, the Risk and Audit Committee, the Compliance Committee and the Investment Management Oversight Committee. Additionally senior management, including directors meet for a Weekly Operating Forum. This committee monitors and reviews on a weekly basis the operational risks within the business and assures that the policies and procedures are carried out in line with the guidelines specified.

# **BACHE COMMODITIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

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### **2. FINANCIAL RISK MANAGEMENT (continued)**

#### **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 and Yen. This risk is generated largely through transactions with customers, foreign exchanges and intercompany balances. The Company utilises forward foreign exchange contracts 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.

The carrying of assets and liabilities denominated in foreign currencies has been disclosed in Notes 12 and 15.

##### *(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 independently of the trading desks. The risk limits are reviewed on a regular basis and reported to senior management on an exception basis. This price risk is mitigated by various strategies undertaken by the Company.

##### *(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 an Executive 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 is subject to limits, which are reassessed regularly by the Company's credit department, whose reporting lines are independent to the Business. Such review may include analysis of financial statements, market intelligence and customer visits.

Account is taken of ratings assigned by major ratings agencies, however in all cases the credit department assesses the credit quality of the customer taking into account its financial position, and past experience. The utilisations of credit limits are regularly monitored.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 2. FINANCIAL RISK MANAGEMENT (continued)

#### Market Risk (continued)

##### (iii) Credit Risk (continued)

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

#### 31 December 2010

Counterparty	Rating	Trading Facility \$'000	Utilisation \$'000
Entity A	BB+	25,000	15,095
Entity B	BB	10,000	6,391
Entity C	BB	9,000	5,523
Entity D	A+	30,000	5,436
Entity E	BBB	27,000	5,270
Entity F	BB	15,000	5,063

#### 31 December 2009

Counterparty	Rating	Trading Facility \$'000	Utilisation \$'000
Entity A	BB	15,000	7,841
Entity B	BB+	15,000	7,612
Entity C	BBB	17,500	6,818
Entity D	A-	11,000	6,233
Entity E	BB+	25,000	4,750
Entity F	BBB-	6,300	3,413

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 agreements 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.

On a day to day basis credit risk is managed through margin calls on clients by the operations team. Where a margin call is not fulfilled this is then escalated to the credit department and senior management. The Company has robust procedures in place to mitigate default risk.

The maximum exposure to credit risk at the reporting date is trade and segregated debtors \$1,380.8million (2009 - \$1,284.4million) and the fair value of the derivative assets \$182.7million (2009 - \$193.8million) in the balance sheet. None of the financial assets is either past due or impaired.

There were no impairment provisions on the available for sale investments in 2009 and 2010.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2010**

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**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 commodity trading results are not materially sensitive to movements in interest rates

Interest rate risk arises from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets. The scenarios are only run for treasury assets that represent the main identifiable interest-bearing positions. Based on the simulations performed, the Company estimates that the impact on post-tax profit of a 0.25% shift in interest rates would not have a material effect on the Company's profitability

*(v) Value-At-Risk and Stress testing*

Value-At-Risk ("VaR") analysis is performed using the historical simulation technique. The main use of VaR is with respect to the Company trading book, where four years of price and implied volatility data are used to generate a 95% confidence interval VaR.

Stress testing is performed on a daily basis to examine the impact on the Company trading book of extreme market moves, for both underlying price and implied volatility. The stress test is self-calibrating, in that it calculates the stress on a range of standard deviation moves, which are calculated with reference to the prevailing historic volatility observed in the market. In addition to this, a secondary stress is used to determine the effect of a change in the structure of the forward curves for each portfolio within this book. The results of the stress test are also used as part of the Company's Capital Adequacy calculations under the BASEL-II rules.

**Liquidity Risk**

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions when deemed necessary. Due to the dynamic nature of the underlying business, the Company treasury department maintains adequate funding by maintaining availability of banking lines and group borrowing facilities. Please see Note 14.

From November 2010, the Company is compliant with the new liquidity standards as required by the FSA. A new Liquidity Policy was adopted and a liquidity risk management framework was established in compliance with the new standards. In addition a contingency funding plan was revised to comply with the new standards.

Daily reports are produced on the usage of funds, liquidity position and circulated to senior management. Liquidity is dynamically managed within the treasury department.

The forward cash flows based on the Company's contracted positions and requirements for the overall funding of the Company's business are prepared and reviewed to assess sufficient liquidity is maintained to ensure the Company's survival under normal and stressed conditions.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 2. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity Risk (continued)

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 date to the contractual maturity date. The balance sheet amounts of derivative financial assets and liabilities in the below analysis are not materially different to the contractual amounts due on maturity.

At 31 December 2010	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
<b>Assets</b>					
Forward financial futures contracts	37,463	84,393	32,894	9,838	583
Financial options contracts	1,168	8,074	1,506	5,836	533
Cross currency swaps	439	-	-	-	-
<b>Liabilities</b>					
Forward financial futures contracts	(30,560)	(81,471)	(33,263)	(17,706)	(507)
Financial options contracts	(559)	(3,580)	(11,252)	(2,798)	-
Cross currency swaps	(347)	-	-	-	-
<b>At 31 December 2009</b>					
	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
<b>Assets</b>					
Forward financial futures contracts	41,189	84,106	36,424	7,234	3,061
Financial options contracts	7,077	10,529	1,918	229	1,962
Cross currency swaps	35	-	-	-	-
<b>Liabilities</b>					
Forward financial futures contracts	(30,123)	(81,693)	(35,601)	(5,709)	(3,030)
Financial options contracts	(8,696)	(8,866)	(2,121)	(1,761)	-
Cross currency swaps	(388)	-	-	-	-

With respect to client balances, the Company holds matched positions so liquidity risk is mitigated since the liability positions unwind at the same time as the asset positions. Therefore, the Company's exposure to liquidity risk is limited.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 2. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity Risk (continued)

The table below analyses the Company's remaining contractual financial liabilities into the relevant maturity groupings

At 31 December 2010	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
Trade creditors	1,705,809	-	-	-	-
Amounts owed to parents and fellow subsidiaries	121,933	3,873	933	-	-
Other creditors	324	1,167	3,949	1,527	-
Accruals and deferred income	3,048	10,263	433	-	-
Provisions	-	-	-	2,369	-
At 31 December 2009	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
Trade creditors	1,409,289	-	-	-	-
Amounts owed to parents and fellow subsidiaries	134,358	3	930	-	-
Other creditors	420	696	2,611	492	1,073
Accruals and deferred income	2,836	7,926	416	-	159
Provisions	-	-	-	2,455	-

#### Liquidity Reserves

The financial liquidity position of the Company has significantly improved during the year. Cash at bank, excluding segregated cash, increased from \$445.2million at 31 December 2009 to \$600.8million at 31 December 2010. There continued to be no third party bank borrowings as the Company had sufficient own funds. This was largely facilitated by the working capital improvements achieved by the implementation of changes to customer credit limits. As at 31 December 2010 the Company also had access to total undrawn facilities from third party banks of \$275.0million compared to \$237.0million at 31 December 2009.



# **BACHE COMMODITIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

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### **2. FINANCIAL RISK MANAGEMENT (continued)**

#### **Liquidity Risk (continued)**

##### *Sub-participation Agreements*

The Company has in place two sub-participation agreements which are non recourse with PB Financial Services Inc and Bache Overseas Funding Limited Under these agreements the Company can receive cash in exchange for its debtor balances when required This facility enables the Company to manage its cash flow Due to the excess cash within the Company during 2009 and 2010 there has been no requirement to utilise these facilities

#### **Regulatory Capital**

The Company's activities are regulated and authorised by the Financial Services Authority ("FSA") in the United Kingdom This imposes extensive reporting requirements and continuing self-assessment and appraisal The Company is subject to capital adequacy supervision requirements of the FSA and has maintained adequate levels of capital resources Capital requirements are calculated from market risk, counterparty risk and operational risk assessments Capital adequacy is monitored on a regular basis by the management team

The Capital Resources as at 31 December 2010 were \$324 9million (2009 - \$309 6million) This compares favourably to the Regulatory Capital Requirement of \$157 1million at 31 December 2010 (2009 - \$138 7million)

This level of capital in excess of requirement highlights the Company's conservative approach to risk management

**BACHE COMMODITIES LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2010****3 REVENUE**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Commissions on business	<b>39,722</b>	<b>32,503</b>
Dealers as Principals	<b>35,437</b>	<b>17,497</b>
Other	<b><u>1,759</u></b>	<b><u>2,603</u></b>
	<b>76,918</b>	<b>52,603</b>
 Fair value gain on financial instruments at fair value through profit or loss	 <b><u>684</u></b>	 <b><u>15,776</u></b>
	<b><u>77,602</u></b>	<b><u>68,379</u></b>

Revenue has been disclosed instead of turnover and cost of sales as this reflects more appropriately the nature of the Company's activities

In accordance with FRS 26 'Financial Instruments Recognition and Measurement', certain assets and liabilities have been recognised and measured at fair value. Under the standard, 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 \$0.7million (2009 - \$15.8million). The fair value gain represents forward profits on open positions marked to market at the year end and so recognised within the financial period as detailed in Note 11.

Included within Dealers as Principals contain Agreement fees received from parent and fellow subsidiaries of \$17.9million (2009 - \$16.9million) netted against Agreement fees paid to parent and fellow subsidiaries of \$28.9million (2009 - \$14.8million).

Included within Other revenue are receipts of asset management service fees of \$1.6million (2009 - \$1.6million).

***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 available under SSAP 25 'Segmental Reporting'.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 4 EMPLOYMENT COSTS

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

	2010 \$'000	2009 \$'000
Wages and salaries	26,484	27,526
Social security costs	3,931	2,235
Pension costs		
UK plan		
Defined benefit service cost	792	879
Defined contributions	1,476	1,172
Overseas plans		
Defined benefit service cost	50	44
Other pension costs	152	8
Share incentive costs	<u>3,464</u>	<u>2,796</u>
	<u>36,349</u>	<u>34,660</u>

The share incentive costs include a mark to market valuation of Restricted Stock Units against the Prudential Financial Inc share price as listed on the New York Stock Exchange, as permitted under FRS 20 'Share Based Payment'

(b) Directors' emoluments

	2010 \$'000	2009 \$'000
Emoluments	3,042	5,935
Pension costs – Defined contribution scheme	87	87
Compensation for loss of office	<u>-</u>	<u>192</u>
	<u>3,129</u>	<u>6,214</u>

The directors were granted 13,044 share awards and exercised 7,877 share awards during the year

Of the current directors, none (2009 - 1) are members of the group defined benefit pension plan and 3 (2009 - 4) are members of the group defined contribution plan, operated for all eligible employees of subsidiaries of Prudential Financial, Inc operating in the UK

(c) Remuneration of the highest paid director

	2010 \$'000	2009 \$'000
Emoluments	<u>1,252</u>	<u>3,238</u>

The highest paid director was granted an additional 5,205 share awards and exercised 4,794 share awards from his total holdings during the year

The highest paid director had accrued benefits in the defined benefit scheme at the end of the year of \$0.1 million and a total accrued pension amount at 31 December 2010 of \$1.5 million

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 4. EMPLOYMENT COSTS (continued)

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

	2010 No.	2009 No
Sales and dealing	53	59
Administration	<u>101</u>	<u>97</u>
	<u>154</u>	<u>156</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 50	3 038%	26 27%	1 20%	\$7 46
11/03/2003	\$27 99	\$27 99	5 50	2 920%	26 27%	1 20%	\$6 93
09/03/2004	\$46 42	\$46 42	5 50	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
15/06/2006	\$76 22	\$76 22	5 14	5 020%	20 65%	1 20%	\$18 59
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
16/04/2007	\$93 00	\$93 00	4 87	4 480%	18 21%	1 10%	\$20 27
15/06/2007	\$101 69	\$101 69	4 87	4 670%	18 21%	1 10%	\$22 59
12/06/2007	\$98 36	\$98 36	4 87	4 670%	18 21%	1 10%	\$21 85
16/07/2007	\$97 12	\$97 12	4 87	5 030%	18 21%	1 10%	\$22 36
12/02/2008	\$69 03	\$69 03	4 69	2 910%	20 59%	1 10%	\$13 65
11/03/2008	\$72 74	\$72 74	4 69	2 910%	20 59%	1 10%	\$14 39
10/02/2009	\$25 30	\$25 30	4 85	1 510%	48 96%	1 10%	\$8 80
15/07/2009	\$39 45	\$39 45	4 85	1 990%	48 96%	1 10%	\$13 93
09/02/2010	\$48 36	\$48 36	5 10	2 360%	44 41%	1 10%	\$17 94

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 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 2010	Granted	Exercised/ Vested	Forfeits	As at 31 <sup>st</sup> December 2010	Exercise/ Share Price	Weighted average exercise price of options	Exercise/Vesting dates	
								From	To
11/02/03	3,213	-	-	-	3,213	\$29 90	\$7 46	11/02/06	11/02/13
11/02/04	4,845	-	(874)	-	3,971	\$45 18	\$11 43	11/02/07	11/02/14
09/03/04	2,294	-	-	-	2,294	\$46 42	\$12 21	09/03/07	09/03/14
08/02/05	6,546	-	(1,118)	-	5,428	\$55 75	\$12 88	08/02/08	08/02/15
08/03/05	1,840	-	-	-	1,840	\$57 91	\$14 23	08/03/08	08/03/15
14/02/06	6,466	-	-	-	6,466	\$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	1,346	-	-	-	1,346	\$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
15/06/06	391	-	-	-	391	\$76 22	\$18 59	15/06/09	15/06/16
13/02/07	1,385	-	-	-	1,385	\$91 73	\$20 55	13/02/10	13/02/17
13/03/07	1,974	-	-	-	1,974	\$87 91	\$19 61	13/03/10	13/03/17
16/04/07	308	-	-	-	308	\$93 00	\$20 27	16/04/10	16/04/17
12/02/08	2,565	-	-	-	2,565	\$69 03	\$13 65	12/02/11	12/02/18
11/03/08	5,239	-	-	-	5,239	\$72 74	\$14 35	11/03/11	11/03/18

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

Date of Grant	As at 1st January 2010	Granted	Exercised/ Vested	Forfeits	As at 31 <sup>st</sup> December 2010	Exercise/ Share Price	Weighted average exercise price of options	Exercise/ Vesting dates
13/02/07	19,068	-	(19,061)	(7)	-	\$91 73	-	13/02/10
16/04/07	101	-	(101)	-	-	\$93 00	-	16/04/10
15/06/07	114	-	(114)	-	-	\$101 69	-	15/06/10
16/07/07	302	-	(302)	-	-	\$97 12	-	16/07/10
12/02/08	17,170	-	(373)	(210)	16,587	\$69 03	-	12/02/11
11/03/08	203	-	-	-	203	\$72 74	-	11/03/11
10/02/09	74,406	-	(624)	(4,777)	69,005	\$23 30	-	10/02/12
15/07/09	714	-	-	-	714	\$39 45	-	15/07/12
09/02/10	-	34,378	(14)	(1,079)	33,285	\$48 36	-	09/02/13

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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### 4. EMPLOYMENT COSTS (continued)

#### (e) Share based payments (continued)

In November 2010 the Company implemented an HM Revenue & Customs approved UK Save As You Earn ("SAYE") Share Plan. Eligible employees were allowed to enrol, after an invitation period and contribute up to £250 per month to the SAYE via payroll deductions over a 36-month period (SAYE Savings Cycle). At the end of the SAYE Savings Cycle, participants have the option to purchase shares of PFI common stock at a discounted option price of \$46.05, which represents a 15% discount to the PFI grant date closing price of \$54.18. In accordance with FRS 20 'Share-based Payment' the Company places a fair value on the award using a binomial valuation of \$21.50 and charges the profit and loss account over the vesting period.

#### (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. With effect from 1 October 2010 after the conclusion of a formal consultation period with participating employees and the Plan Trustees, agreement was reached and the Company closed the defined benefit section of the pension plan to future accrual. As part of the closure agreement, the Company made a one-off contribution of £10.0million (\$15.6million) in 2010 with further annual contributions of £2.0million (\$3.1million) to be paid each year for the next 10 years to address the current deficit. Active members were invited to join the defined contribution section of the plan.

A curtailment was assumed to have occurred at 30 September 2010 which was material enough to lead to a remeasurement of the obligation and related plan assets at 30 September 2010 and resulted in the recognition of a curtailment gain in the pension cost.

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 2010 for the United Kingdom plan showed a movement from a deficit of \$26.9million in 2009 to a deficit of \$0.6million in 2010.

The accounting valuations for the UK and German pension schemes have been performed by Mercer, an independent actuary.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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### 4. EMPLOYMENT COSTS (continued)

#### (f) Pension schemes (continued)

##### *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.

##### *Germany pension schemes*

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 has 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 2010.

**BACHE COMMODITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended 31 December 2010**

**4. EMPLOYMENT COSTS (continued)**

**(f) Pension schemes (continued)**

**Bache & Associates Retirement Plan – UK Defined Benefit Plan Disclosures under FRS 17**

**Change in benefit obligation**

	2010 \$'000	2009 \$'000
<b>Benefit obligation at beginning of year</b>	<b>(184,552)</b>	<b>(134,513)</b>
Service cost	(825)	(973)
Interest cost	(10,261)	(8,798)
Plan members contributions	(136)	(199)
Actuarial loss	(5,548)	(30,741)
Benefits paid	3,877	5,224
Plan curtailment	4,189	-
Settlements	-	1,502
Exchange rate changes	<u>6,654</u>	<u>(16,054)</u>
<b>Benefit obligation at end of year</b>	<b><u>(186,602)</u></b>	<b><u>(184,552)</u></b>

**Change in plan assets**

	2010 \$'000	2009 \$'000
<b>Fair value of plan assets at beginning of year</b>	<b>157,661</b>	<b>151,150</b>
Expected return on plan assets	9,001	10,190
Actuarial gain/(loss)	11,086	(16,299)
Employer contributions	17,728	1,305
Member contributions	136	199
Benefits paid from plan	(3,877)	(5,224)
Settlements	-	(1,502)
Exchange rate changes	<u>(5,685)</u>	<u>17,842</u>
<b>Fair value of plan assets at end of year</b>	<b><u>186,050</u></b>	<b><u>157,661</u></b>



**BACHE COMMODITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2010

**4. EMPLOYMENT COSTS (continued)**

**(f) Pension schemes (continued)**

**Amounts recognised in the Balance Sheet**

	2010 \$'000	2009 \$'000
Present value of funded obligations	(186,602)	(184,552)
Fair value of plan assets	<u>186,050</u>	<u>157,661</u>
Deficit for funded plans	(552)	(26,891)
Related deferred tax asset	<u>149</u>	<u>7,530</u>
<b>Net liability</b>	<b>(403)</b>	<b>(19,361)</b>

**Amounts in the Balance Sheet**

Liabilities	<b>(403)</b>	<b>(19,361)</b>
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**Components of pension expense**

	2010 \$'000	2009 \$'000
Current service cost	825	973
Interest cost	10,261	8,798
Expected return on plan assets	<u>(9,001)</u>	<u>(10,190)</u>
<b>Total pension expense/(income) recognised in the Profit and Loss Account</b>	<b><u>2,085</u></b>	<b><u>(419)</u></b>

**Statement of Total Recognised Gains and Losses**

	2010 \$'000	2009 \$'000
Actuarial gain/(loss) immediately recognised	5,538	(47,040)
Restricted surplus	<u>-</u>	<u>1,066</u>
<b>Total pension gain/(loss) recognised in the STRGL</b>	<b><u>5,538</u></b>	<b>(45,974)</b>
<b>Cumulative amount of actuarial (loss) immediately recognised</b>	<b>(74,506)</b>	<b>(80,044)</b>

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

### 4. EMPLOYMENT COSTS (continued)

#### (f) Pension schemes (continued)

<u>Plan assets</u>	2010	2009
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The asset allocation at the year end was as follows

Equities	41%	39%
Bonds	59%	61%

There were no amounts invested in property or in the Company's own financial instruments

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio which resulted in the selection of a rate of return assumption of 5.92%.

<u>Actual return on plan assets</u>	2010 \$'000	2009 \$'000
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The actual return on plan assets during the year	<u>20,087</u>	<u>(6,109)</u>
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<u>Weighted average assumptions to determine benefit obligations:</u>	2010	2009
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Discount rate	5.60%	5.80%
Rate of compensation increase	N/A	5.10%
Rate of increase in Retail Price Index	3.50%	3.50%
Rate of increase in Consumer Price Index	3.00%	N/A
Rate of pension increases	3.50%	3.50%

<u>Weighted average assumptions to determine net pension cost:</u>	2010	2009
--	------	------

Discount rate	5.80%	5.90%
Expected long-term return on plan assets	5.92%	6.10%
Rate of price inflation	3.50%	2.80%
Rate of pension increases	3.50%	2.80%

The UK Government announced on 8 July 2010 that statutory pension increases or revaluations would be based on the Consumer Prices Index ("CPI") measure of price inflation from 2011, rather than the Retail Prices Index ("RPI") measure of price inflation. The Company has decided from December 2010 that future pension increases in deferment will be based on CPI as opposed to RPI to reflect the changes in statutory pension increases. This has been accounted for as an actuarial gain, since it leads to a change in the assumption for future statutory revaluations.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 4. EMPLOYMENT COSTS (continued)

#### (f) Pension schemes (continued)

<b><u>Weighted average life expectancy for mortality tables used to determine benefit obligations:</u></b>	<b>2010</b>	<b>2009</b>
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Member age 65 (current life expectancy)	<b>22.6 yrs</b>	<b>21 3 yrs</b>
Member age 45 (life expectancy at age 65)	<b>24.4 yrs</b>	<b>23 1 yrs</b>

#### **History of defined benefit obligations, assets and experience gains and losses**

	<b>2010 \$'000</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>	<b>2006 \$'000</b>
Defined benefit obligation	<b>(186,602)</b>	<b>(184,552)</b>	<b>(134,513)</b>	<b>(204,235)</b>	<b>(209,901)</b>
Fair value of plan assets	<b><u>186,050</u></b>	<b><u>157,661</u></b>	<b><u>151,150</u></b>	<b><u>210,929</u></b>	<b><u>204,227</u></b>
<b>(Deficit)/Surplus</b>	<b><u>(552)</u></b>	<b><u>(26,891)</u></b>	<b><u>16,637</u></b>	<b><u>6,694</u></b>	<b><u>(5,674)</u></b>
<b><u>Difference between expected and actual return on assets</u></b>					
Amount	<b>11,086</b>	<b>(16,299)</b>	<b>(11,927)</b>	<b>(2,178)</b>	<b>334</b>
Percentage of plan assets	<b>6%</b>	<b>(10%)</b>	<b>(8%)</b>	<b>(1%)</b>	<b>0%</b>
<b><u>Experience gains/(losses) on plan liabilities</u></b>					
Amount	<b>1,529</b>	<b>2,119</b>	<b>2,326</b>	<b>1,400</b>	<b>(7,793)</b>
Percentage of plan liabilities	<b>1%</b>	<b>(1%)</b>	<b>(2%)</b>	<b>(1%)</b>	<b>4%</b>

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 4. EMPLOYMENT COSTS (continued)

#### (f) Pension schemes (continued)

#### **Bache & Associates Retirement Plan – Germany Defined Benefit Plan Disclosures under FRS 17**

#### **Change in benefit obligation**

	2010 \$'000	2009 \$'000
<b>Benefit obligation at beginning of year</b>	<b>(21,503)</b>	<b>(20,235)</b>
Service cost	(50)	(44)
Interest cost	(1,028)	(1,171)
Actuarial loss	(610)	(483)
Benefits paid	1,069	1,048
Exchange rate changes	<u>1,438</u>	<u>(618)</u>
<b>Benefit obligation at end of year</b>	<b><u>(20,684)</u></b>	<b><u>(21,503)</u></b>

#### **Amounts recognised in the Balance Sheet**

	2010 \$'000	2009 \$'000
Present value of funded obligations	(20,684)	(21,503)
Fair value of plan assets	-	-
Deficit for funded plans	(20,684)	(21,503)
Related deferred tax asset	<u>495</u>	<u>465</u>
<b>Net liability</b>	<b><u>(20,189)</u></b>	<b><u>(21,038)</u></b>

#### **Amounts in the Balance Sheet**

Liabilities	(20,189)	(21,038)
Assets used for PBO held outside of DB plan	<u>18,852</u>	<u>19,842</u>
<b>Net liabilities</b>	<b><u>(1,337)</u></b>	<b><u>(1,196)</u></b>

#### **Components of pension expense**

	2010 \$'000	2009 \$'000
Current service cost	50	44
Interest cost	<u>1,028</u>	<u>1,171</u>
<b>Total pension expense recognised in the Profit and Loss Account</b>	<b><u>1,078</u></b>	<b><u>1,215</u></b>

**BACHE COMMODITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2010

**4. EMPLOYMENT COSTS (continued)**

(f) Pension schemes (continued)

<b><u>Statement of Total Recognised Gains and Losses</u></b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Actuarial loss immediately recognised	(610)	(483)
<b>Total pension loss recognised in the STRGL</b>	<b>(610)</b>	<b>(483)</b>
<b>Cumulative amount of actuarial loss immediately recognised</b>	<b>(610)</b>	<b>(614)</b>
 <b><u>Weighted average assumptions to determine benefit obligations</u></b>	 <b>2010</b>	 <b>2009</b>
Discount rate	<b>5.10%</b>	5.25%
Rate of compensation increase	<b>3.00%</b>	3.00%
Rate of price inflation	<b>2.00%</b>	2.00%
Rate of pension increases	<b>2.00%</b>	2.00%
 <b><u>Weighted average assumptions to determine net pension cost for year ended:</u></b>	 <b>2010</b>	 <b>2009</b>
Discount rate	<b>5.25%</b>	5.75%
Expected long-term return on plan assets	<b>-</b>	-
Rate of price inflation	<b>2.00%</b>	2.25%
Rate of pension increases	<b>2.00%</b>	2.25%
 <b><u>Weighted average life expectancy for mortality tables used to determine benefit obligations:</u></b>	 <b>2010</b>	 <b>2009</b>
Member age 65 (current life expectancy)	<b>20.34 yrs</b>	18.29 yrs
Member age 40 (life expectancy at age 65)	<b>23.61 yrs</b>	21.64 yrs

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 4. EMPLOYMENT COSTS (continued)

#### (f) Pension schemes (continued)

#### History of defined benefit obligations, assets and experience gains and losses

	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Defined benefit obligation	(20,684)	(21,503)	(20,235)	(21,357)	(20,054)
Fair value of plan assets	—	—	—	—	—
<b>Deficit</b>	<b>(20,684)</b>	<b>(21,503)</b>	<b>(20,235)</b>	<b>(21,357)</b>	<b>(20,054)</b>
<u>Experience gains/(losses) on plan liabilities</u>					
Amount	318	341	420	690	407
Percentage of plan liabilities	2%	2%	2%	3%	2%

### 5. INTEREST INCOME

Interest income includes \$0.6million (2009 - \$2.8million) receivable from parent and fellow subsidiary companies

### 6. INTEREST EXPENSE AND SIMILAR CHARGES

	2010 \$'000	2009 \$'000
Loans to parent and fellow subsidiary companies	456	1,611
Interest paid on customer deposits and other loans	627	1,591
	<b>1,083</b>	<b>3,202</b>

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2010 \$'000	2009 \$'000
Depreciation	1,170	1,368
Operating lease rentals		
- land and buildings	523	479
Auditor's remuneration		
- audit of the Company's annual accounts	345	382
- audit of associated companies	66	68
- non audit services	-	-
Foreign exchange loss	53	1,529

In 2010 additional discontinued operations expenses were incurred which had not previously been provided and charged within administrative expenses in the profit and loss account of \$0.7million (2009 - \$0.1million)

Staff costs have been disclosed in Note 4

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2010 \$'000	2009 \$'000
<u>Analysis of charge in period</u>		
Current tax		
UK corporation tax on profits for the year	6,839	5,306
Adjustment in respect of previous years	<u>128</u>	<u>(1,332)</u>
Total current tax	6,967	3,974
Deferred tax	<u>1,845</u>	<u>765</u>
Total tax expense on profit on ordinary activities	<u>8,812</u>	<u>4,739</u>

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2010 \$'000	2009 \$'000
<u>Factors affecting the tax charge for the Period</u>		
Profit on ordinary activities before tax	<u>30,879</u>	<u>20,592</u>
Profit on ordinary activities at the standard rate of UK tax of 28% (2009 - 28%)	8,646	5,765
Effects of		
Amounts disallowed for tax purposes	562	389
Capital allowances for period in excess of depreciation	(377)	(459)
Adjustment in respect of previous years	128	(1,332)
Adjustment for pension costs	(1,992)	(112)
Group relief utilised	<u>-</u>	<u>(277)</u>
	<u>6,967</u>	<u>3,974</u>

#### 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 losses amounts to an asset of \$1.1million (2009 - \$1.2million) based on a corporation tax rate of 27%.

The main rate of corporation tax changed to 26% from 1 April 2011, rather than the previously announced 27% as enacted by the Resolution under Provision of Taxes Act 1968, which was passed on 29 March 2011. Had the change in main rate of tax been known at the end of the year it would have resulted in an immaterial change to the deferred tax P&L charge of \$0.1million and a reduction in the unprovided deferred tax asset to \$1.0million.



# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 9. TANGIBLE FIXED ASSETS

	<u>Leasehold Improvements</u> \$'000	<u>Office equipment, furniture and fittings</u> \$'000	<u>Total</u> \$'000
<b><u>Cost</u></b>			
1 January 2010	6,490	3,497	9,987
Additions	-	145	145
31 December 2010	6,490	3,642	10,132
<b><u>Depreciation</u></b>			
1 January 2010	1,872	2,163	4,035
Charge for the year	649	521	1,170
31 December 2010	2,521	2,684	5,205
<b><u>Net book value</u></b>			
31 December 2010	<u>3,969</u>	<u>958</u>	<u>4,927</u>
31 December 2009	<u>4,618</u>	<u>1,334</u>	<u>5,952</u>

All Tangible Fixed Assets are held at book cost. There have been no impairments of assets during the year.

The Company does not hold any capitalised assets under finance lease arrangements.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 10. AVAILABLE FOR SALE INVESTMENTS

Available for sale financial assets include the following

		2010 \$'000		2009 \$'000	
		Cost	Fair value	Cost	Fair value
<b>Current Assets</b>					
Metal warrants stock	(a)	<u>10,163</u>	<u>10,163</u>	<u>35,837</u>	<u>35,837</u>
<b>Fixed Assets</b>					
Exchange and market membership	(b)	33	2,845	33	2,952
German pension insurance policies	(c)	<u>18,852</u>	<u>18,852</u>	<u>19,842</u>	<u>19,842</u>
		<u>18,885</u>	<u>21,697</u>	<u>19,875</u>	<u>22,794</u>

- (a) These amounts represent metal warrants held as short term investments by the Company
- (b) These amounts represent the fair value of exchange market memberships held by the Company on the London Metal Exchange. Ownership of the London Metal Exchange 'B' shares is a condition of membership
- (c) These amounts represent insurance policies held by the Company's German branch 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 2010

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

As at 31 December 2010, the net marked to market value of open positions resulted in a financial gain on assets at fair value through profit or loss of \$0.7million (2009 - \$15.8million)

	Assets \$'000	Liabilities \$'000	Total \$'000
<b>2010</b>			
Exchange traded derivatives assets/(liabilities)	165,171	(163,507)	1,664
Non exchange traded derivatives assets/(liabilities)	17,117	(18,189)	(1,072)
Cross currency swaps assets/(liabilities)	<u>439</u>	<u>(347)</u>	<u>92</u>
	<u>182,727</u>	<u>(182,043)</u>	<u>684</u>
<b>2009</b>			
Exchange traded derivatives assets/(liabilities)	172,014	(156,156)	15,858
Non exchange traded derivatives assets/(liabilities)	21,715	(21,444)	271
Cross currency swaps assets/(liabilities)	<u>35</u>	<u>(388)</u>	<u>(353)</u>
	<u>193,764</u>	<u>(177,988)</u>	<u>15,776</u>

### 12. TRADE AND OTHER DEBTORS

	2010 \$'000	2009 \$'000
Trade debtors	1,152,207	1,035,206
Segregated debtors	228,578	249,176
Amounts owed by parent and fellow subsidiary companies	29,372	24,588
Other debtors	770	3,924
Prepayments and accrued income	6,010	4,398
Deferred tax assets	<u>6,600</u>	<u>3,345</u>
	<u>1,423,537</u>	<u>1,320,637</u>

## BACHE COMMODITIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

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#### 12. TRADE AND OTHER DEBTORS (continued)

- (a) Trade debtors include amounts receivable from segregated brokers of \$582.6million (2009 - \$501.2million). Of this \$541.6million is due from an affiliated broker Prudential-Bache Commodities LLC (2009 - \$481.9million)
- (b) Trade debtors include balances owed from customers within the approved credit limits of \$226.2million (2009 - \$165.5million)
- (c) Segregated debtors represent amounts held by clearing houses in separate accounts, on behalf of clients, as required by the rules of the Financial Services Authority

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 credit risk provision required.

As of 31 December 2010, there were no outstanding trade debtors for which impairment is borne by the company (2009 - \$nil)

Included within trade and segregated debtors are amounts held in currencies other than USD due from non-affiliated accounts of \$141.8million (2009 - \$126.6million). The principal carrying amounts were in GBP and Euros of \$35.4million and \$72.1million respectively as at 31 December 2010 and \$20.1million and \$60.7million at 31 December 2009.

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 held collateral on behalf of customers at the fair value of \$49.2million at the end of the year as an alternative to cash deposits (2009 - \$14.9million). All margin requirements against collateral are taken as outright transfer. As a result, the Company when returning any margin back to customers can return margin other than the original margin or the original type of margin.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

### 12. TRADE AND OTHER DEBTORS (continued)

#### Deferred tax

The table below includes deferred tax on the pension liability (Note 4) which has been offset against the defined benefit liability in accordance with FRS 17 'Post Retirement Benefits'

	2010 \$'000	2009 \$'000
Deferred tax (liability)/asset at 1 January 2010	11,340	(653)
Charged to the profit and loss account	(1,845)	(764)
Amount taken to STRGL	(1,836)	12,842
Foreign exchange movements	<u>(415)</u>	<u>(85)</u>
At 31 December 2010	<u>7,244</u>	<u>11,340</u>

The Deferred tax asset is recognised on the following

	2010 \$'000	2009 \$'000
Special pension payments	3,299	-
Excess capital allowance over net book value of assets	1,387	1,700
Deferred tax deductions	<u>1,914</u>	<u>1,645</u>
Deferred tax asset	<u>6,600</u>	<u>3,345</u>

Deferred tax asset offset against the Pension defined benefit liability

	<u>644</u>	<u>7,995</u>
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The main rate of corporation tax changed to 26% from 1 April 2011 rather than the previously announced 27%, as enacted by the Resolution under Provision of Taxes Act 1968, which was passed on 29 March 2011. Had the change in main rate of tax been known at the end of the year it would have resulted in a revised calculation of deferred tax asset of \$6.9million

### 13. CASH AT BANK AND IN HAND

Cash at bank and in hand includes \$120.8million (2009 - \$35.9million) 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 2010****14. SHORT TERM LOANS**

The Company has undrawn loan facilities with several banks to meet short-term business funding needs. At the year end the Company had no external borrowings (2009 - \$nil). Loans held during the year were predominantly in USD and where these were not held in USD economic hedging is used by the Company to mitigate foreign currency risk.

**15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade creditors	<b>1,705,809</b>	<b>1,409,289</b>
Amounts owed to parent and fellow subsidiary companies	<b>126,739</b>	<b>135,291</b>
Other creditors	<b>6,967</b>	<b>5,292</b>
Accruals and deferred income	<b><u>13,744</u></b>	<b><u>11,337</u></b>
	<b><u>1,853,259</u></b>	<b><u>1,561,209</u></b>

- (a) Trade creditors include \$533.3million (2009 - \$235.9million) owed to parent and fellow subsidiary companies in the ordinary course of business, which are settled monthly. These amounts are non interest bearing.
- (b) Trade creditors include \$966.4million (2009 - \$787.2million) 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.
- (c) Included in trade creditors are amounts due in currencies other than USD which amount to \$394.0million (2009 - \$188.8million).
- (d) Amounts owed to parent and fellow subsidiary companies are unsecured and interest bearing.
- (e) Other creditors include tax and social security of \$3.2million. In 2009 tax and social security was a net debtor balance of \$3.2million and was included within Other debtors.

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 16. PROVISIONS FOR LIABILITIES AND CHARGES

	2010 \$'000
At 1 January 2010	2,455
Charged to the profit and loss account	166
Utilised during the year	(252)
<b>At 31 December 2010</b>	<b><u>2,369</u></b>
	2009 \$'000
At 1 January 2009	3,533
Charged to the profit and loss account	551
Utilised during the year	(1,629)
<b>At 31 December 2009</b>	<b><u>2,455</u></b>

The restructuring provision remaining as at 31 December 2010 includes amounts for severance of \$0.2million (2009 - \$0.4million) and legal provisions of \$1.8million (2009 - \$1.6million). The Company provision for outstanding PAYE payments arising from redundancies made in previous years is \$0.3million (2009 - \$0.3million). The occupancy provision for lease exit costs has reduced from \$0.2million in 2009 to \$0.1million in 2010. It is expected that all reserves will be used in full during the next two financial years.

### 17. PENSION LIABILITY

Other pensions and similar obligations are recognised on the following,

	2010 \$'000	2009 \$'000
UK Defined Benefit Plan – Note 4	403	19,361
Germany Defined Benefit Plan – Note 4	<u>20,189</u>	<u>21,038</u>
	<b><u>20,592</u></b>	<b><u>40,399</u></b>

Under the requirements of FRS 17 'Post Retirement Benefits', actuarial valuations of the pension liabilities of the Company were undertaken at 31 December 2010 and 31 December 2009. These quantified the past service pension liabilities of the Company, which have been recognised in the accounts. Included within this amount are obligations relating to the German pension scheme of \$20.7million (2009 - \$21.5million).

# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 18. CALLED UP SHARE CAPITAL

	2010 '000	2009 '000
Ordinary shares of £1 each		
Authorised number of shares	<u>100,000</u>	<u>100,000</u>
Issued number of shares	<u>39,754</u>	<u>39,754</u>
Allotted and fully paid	\$ <u>68,457</u>	\$ <u>68,457</u>

### 19. 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
<b>At 1 January 2010</b>	<b>4,369</b>	<b>60,504</b>	<b>(3,077)</b>	<b>2,689</b>	<b>2,954</b>	<b>142,105</b>	<b>209,544</b>
Profit for the financial year	-	-	-	-	-	22,067	22,067
Actuarial gain on pension	-	-	-	-	-	4,928	4,928
Other movements in pension reserve	-	-	-	-	-	819	819
FRS 20 equity movements	-	-	-	1,481	-	-	1,481
Share based payments	-	-	-	887	-	-	887
Movement on deferred tax relating to pension liability	-	-	-	-	-	(1,836)	(1,836)
Revaluation to fair value	-	-	-	-	-	-	-
<b>At 31 December 2010</b>	<b><u>4,369</u></b>	<b><u>60,504</u></b>	<b><u>(3,077)</u></b>	<b><u>5,057</u></b>	<b><u>2,954</u></b>	<b><u>168,083</u></b>	<b><u>237,890</u></b>
	Share premium \$'000	Capital contribution \$'000	Currency translation reserve \$'000	Stock option reserve \$'000	Available for sale reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>At 1 January 2009</b>	<b>4,369</b>	<b>60,504</b>	<b>(3,342)</b>	<b>410</b>	<b>297</b>	<b>159,139</b>	<b>221,377</b>
Profit for the financial year	-	-	-	-	-	15,853	15,853
Actuarial (loss) on pension	-	-	-	-	-	(46,457)	(46,457)
Other movements in pension reserve	-	-	-	-	-	728	728
FRS 20 equity movements	-	-	-	1,912	-	-	1,912
Share based payments	-	-	-	367	-	-	367
Foreign exchange translation on foreign operations	-	-	265	-	-	-	265
Movement on deferred tax relating to pension liability	-	-	-	-	-	12,842	12,842
Revaluation to fair value	-	-	-	-	2,657	-	2,657
<b>At 31 December 2009</b>	<b><u>4,369</u></b>	<b><u>60,504</u></b>	<b><u>(3,077)</u></b>	<b><u>2,689</u></b>	<b><u>2,954</u></b>	<b><u>142,105</u></b>	<b><u>209,544</u></b>



# BACHE COMMODITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

### 20. OPERATING LEASE COMMITMENTS

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

	2010
	Land and buildings \$'000
Leases which expire:	
Over five years	<u>528</u>

### 21. SEGREGATION OF CLIENT MONEY

	2010 \$'000	2009 \$'000
Segregated cash	120,751	35,865
Segregated debtors	228,578	249,176
Segregated brokers	582,616	501,272
Segregated liabilities	<u>(966,357)</u>	<u>(787,236)</u>
Total Under Cover	<u>34,412</u>	<u>923</u>

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.

The segregated client money requirements are reconciled daily with a corresponding increase or reduction in the segregated bank accounts made the following business day.

### 22. POST BALANCE SHEET EVENTS

On 7 April 2011, Prudential Financial, Inc., the ultimate parent company, entered into an agreement to sell its global commodities business to Jefferies Group, Inc., which includes Bache Commodities Limited. The transaction is expected to close in June 2011, following regulatory approval.

In January 2011 a liquidity buffer of \$10million in US Treasury Bills was established for the purpose of prudent liquidity management. This will be monitored on an ongoing basis.

From 1 April 2011 the main rate of corporation tax was changed to 26% rather than the previously expected 27%. As this was an announcement after the balance sheet date, these financial statements have not been adjusted for this change but the relevant deferred tax disclosures in Notes 8 and 12 have been updated to reflect this change.

## **BACHE COMMODITIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010**

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#### **23. CAPITAL MANAGEMENT**

The Company's objectives when managing capital (share capital and reserves) 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. Details of capital adequacy are disclosed within Note 2.

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.

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 which include Board members. All exposures are monitored daily against risk limits and relationships reviewed at least annually.

#### **24. 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, CF14 3UZ. Copies of the financial statements of Prudential Financial, Inc. are available on request from 751 Broad Street, Newark NJ07102, United States of America.