

Citadel Securities (Europe) Limited

Annual report and Financial Statements for
the year ended 31 December 2011

Registered number 5462867

WEDNESDAY



A1I9YTNU

A32

26/09/2012

#6

COMPANIES HOUSE

Directors

S Atkinson

R Fuller

J Graham

M Wheeler

Company Secretary

E Sanchez

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside

London SE1 2RT

Bankers

Bank of New York

1 Wall Street

New York

NY 10286

United States of America

JP Morgan Chase Bank N A

1 Chaseside

Bournemouth BH7 7DA

Solicitors

Linklaters

One Silk Street

London EC2Y 8HQ

Registered Office

Moor House

120 London Wall

London EC2Y 5ET

CITADEL SECURITIES (EUROPE) LIMITED**Registered number 5462867****Directors' report for the year ended 31 December 2011**

The directors present their report and audited financial statements for the year ended 31 December 2011

Principal activity

The principal activity of Citadel Securities (Europe) Limited ("CSEL" or "the Company") is proprietary trading in equities and futures on a high frequency algorithmic basis across various European exchanges. The Company also operates a third party execution business which charges zero commission for executing client equities orders. CSEL acts as market maker, and aims to generate profits using algorithmic trading strategies.

Business environment and competition

The principal markets in which the Company operates, are highly competitive with competition from both incumbent players and new market entrants. In order to mitigate this risk there is continuous focus on the range of products traded and the trading strategies and technology employed.

Results and dividends

During the year under review, the Company earned net income from trading of \$35,679,000 (2010 - \$33,950,000) and made a profit before taxation of \$10,306,000 (2010 - \$8,364,000). During the year the Company made an interim dividend payment of \$10,000,000 (2010 - \$nil). The Directors recommend the payment of a final dividend of \$7,500,000 for the year ended 31 December 2011 (2010 - \$nil).

Key Performance Indicators ("KPIs")

	2011 \$000	2010 \$000
Net income from trading, before swap expense	114,047	127,914
Collateral posted by swap counterparty	30,250	36,000

The key performance indicators used by the directors for an understanding of the development and performance of the business include the trading profit and loss account, margin requirement reports from counterparties, the calculation of the collateral posted by the swap counterparty, and liquidity reports. All of these reports are produced and reviewed on a daily basis.

Review of business

In 2011 trading volumes across European markets were reduced compared to 2010, the effects of this were partially offset by the increased volatility in the second half of 2011. As a result the Company recorded lower gross trading revenues relative to 2010. The balance sheet on page 8 shows a strong net asset position.

CITADEL SECURITIES (EUROPE) LIMITED

Directors' report for the year ended 31 December 2011

Strategy and future developments

The Company's strategy for 2012 is to implement improved technology integration across trading strategies, to optimise internal and external costs, and to expand the third party execution business. The Directors foresee comparable levels of net trading revenue and profitability in 2012 compared to 2011.

Principal risks and uncertainties

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's risk management structure seeks to minimise the potential, adverse effects of these risks on financial performance. Market risk, including interest rate risk and foreign exchange risk, is hedged with a related entity, Citadel Global Trading Sarl ("CGTS"), via a total return swap. The risk limits agreed within this swap are closely monitored on a daily basis to ensure compliance. Credit risk, including settlement risk, is monitored on a daily basis against limits agreed by the Board of Directors. Liquidity risk is monitored daily in accordance with the liquidity risk tolerances set by the Board of Directors as part of the liquidity policy.

Further information is provided in the Company's Pillar 3 disclosure document that should be read in conjunction with these financial statements and is available via the group website www.citadelgroup.com.

The Company is exposed to risks of retaining key employees. This risk is addressed by human resource policies to ensure that the Company recruits and retains staff with the appropriate skills, by offering an attractive work place environment and competitive remuneration packages.

The Company is exposed to a range of Operational risks including risks associated with the high volume of trading that is undertaken, these risks are tracked on a monthly basis to ensure they are within agreed risk tolerances with any breaches being escalated ultimately to the Board of Directors to ensure appropriate controls are implemented.

The financial markets in which the Company operates and the activities of the Company are currently subject to a number of potential regulatory changes including MiFiD. The Company is closely monitoring the proposed changes and actively engaging in the consultation processes to ensure the Company is positioned to respond to the changes that are ultimately agreed.

Creditors' payment policy

The Company's policy is to comply with the terms of payment agreed with suppliers. Where terms are not negotiated, the Company endeavours to adhere to the suppliers' standard terms.

Statutory accounts

The directors are of the opinion that the functional currency of the Company is US dollars and the financial statements of the Company have been presented in US Dollars.

CITADEL SECURITIES (EUROPE) LIMITED

Directors' report for the year ended 31 December 2011

Directors

The following directors who held office during the year and to the date of this report were

S Atkinson

R Fuller

J Graham (appointed 12 April 2012)

M Wheeler (appointed 15 August 2011)

C Masters (resigned 15 August 2011)

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 or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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.

Directors' statement on disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the Company's auditors are not aware and the directors confirm that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

CITADEL SECURITIES (EUROPE) LIMITED

Directors' report for the year ended 31 December 2011

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

By order of the Board



S Atkinson

Director

19 April 2012

CITADEL SECURITIES (EUROPE) LIMITED

Independent Auditors' report to the members of Citadel Securities (Europe) Limited

We have audited the financial statements of Citadel Securities (Europe) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies 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 2011 and of its profit and cash flows 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.



Carl Sizer (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, 19 April 2012

CITADEL SECURITIES (EUROPE) LIMITED
Profit and loss account
For the year ended 31 December 2011

	Note	2011 \$000	2010 \$000
Income from trading		189,161	202,028
Fees and commissions expense		(75,114)	(74,114)
Swap expense	2	(78,368)	(93,964)
Net income from trading		35,679	33,950
Fees and commissions income		21	155
Administrative expenses	3	(25,436)	(25,794)
Operating profit		10,264	8,311
Interest receivable and similar income	4	42	53
Profit on ordinary activities before taxation		10,306	8,364
Tax on profit on ordinary activities	5	(2,738)	(2,400)
Profit on ordinary activities after taxation		7,568	5,964

All the results of the Company are derived from continuing operations

There are no recognised gains or losses for the year other than the profit disclosed above. Accordingly, no statement of total recognised gains or losses is presented.

There are no material differences between the profit on ordinary activities before taxation for the years stated above and their historical cost equivalent, except as explained in note 1.

The reconciliation of movements in shareholder's funds during the year is detailed in note 22.

The notes on pages 10 to 24 are an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED**Balance sheet****As at 31 December 2011**

	Note	2011 \$000	2010 \$000
Current assets			
Debtors due within one year	10	5,703	23,692
Deferred taxation	11	404	340
Financial assets at fair value through profit and loss	12	27,041	27,650
Reverse repurchase agreements	13	21,077	21,012
Cash at bank and in hand	27	64,095	58,417
		<u>118,320</u>	<u>131,111</u>
Current liabilities			
Financial liabilities at fair value through profit and loss	14	20,591	28,294
Other creditors	15	52,570	55,226
		<u>73,161</u>	<u>83,520</u>
Net current assets		45,159	47,591
Net assets		<u>45,159</u>	<u>47,591</u>
Capital and reserves			
Share capital	20	8,000	8,000
Profit and loss account	21	37,159	39,591
Total shareholder's funds	22	<u>45,159</u>	<u>47,591</u>

The financial statements on pages 7 to 24 were approved by the board of directors on 19 April 2012 and were signed on its behalf by



S Atkinson
Director

19 April 2012

The notes on pages 10 to 24 form an integral part of these financial statements

CITADEL SECURITIES (EUROPE) LIMITED

Cash flow statement

For the year ended 31 December 2011

	Note	2011 \$000	2010 \$000
Net cash inflow / (outflow) from operating activities	23	24,165	(14,275)
Returns on investments and servicing of finance	24	42	57
Tax paid	25	(2,779)	(895)
Financing	26	(15,750)	20,000
Increase in cash	27	<u>5,678</u>	<u>4,887</u>

The notes on pages 10 to 24 form an integral part of these financial statements

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2011

1 Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention except as explained below, in accordance with applicable accounting standards in the United Kingdom and the requirements of the Companies Act 2006 ("the Act"). The Company continues to review and update its accounting policies, in accordance with the requirements of FRS 18 "Accounting Policies". The principal accounting policies which have been consistently applied throughout the year are set out below.

The format of the profit and loss account has been amended from that prescribed in the Act as, in the opinion of the directors, the presentation adopted better reflects the nature and activities of the business of the Company.

Principal accounting policies

a) Foreign currencies

Transactions in foreign currencies are translated into US Dollars at the exchange rate ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the rate of exchange ruling at the balance sheet date. All exchange rate differences are taken to the profit and loss account. The financial statements have been presented in US Dollars as the directors are of the opinion that this is the functional currency of the Company. The applicable exchange rates at 31 December 2011 are as follows:

USD / GBP 1.55095

USD / EUR 1.29395

b) Recognition and derecognition of financial assets and liabilities

The Company recognises a financial asset or liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. Derecognition of financial assets will occur when the contractual rights to the cash flows from the assets expire. Derecognition of financial liabilities occurs when the contractual obligations to make payments have been extinguished. Measurement of financial assets and liabilities is based on the fair value of the instruments.

c) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through profit and loss include securities owned and securities sold, but not yet purchased, and derivative positions. In accordance with FRS 26, "Financial instruments: recognition and measurement", the initial measurement is made at fair value on the trade date, based on available market information. Any subsequent adjustments to fair values are taken to the profit and loss account. Mid prices are used, rather than the "bid" price for assets and the "offer" price for liabilities, to mirror the pricing set out in the total return swap (note 2) which negates the majority of the market risk in the trading book. Financial assets and liabilities at fair value through profit and loss are valued at mid prices using third party pricing sources, including one or more exchanges, organised dealer markets, electronic trading facilities and broker-dealers.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2011

Principal accounting policies (continued)

c) Financial assets and liabilities at fair value through profit and loss (continued)

Valuation of the total return swap is determined by the return on the total portfolio, a recharge of operating costs, and a return on the share capital, with an adjustment for any cashflows that have occurred under the swap agreement. The amount shown as a receivable or payable to the swap counterparty is stated at fair value. Other financial instruments are short term and thus their carrying value is a reasonable approximation of their fair value. This includes debtor, cash and creditor balances.

d) Deferred taxation

In accordance with FRS 19, "Deferred Tax", deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or the right to pay less, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

e) Pension costs and other post retirement benefits for seconded employees

The Company makes payments into a group personal pension plan, operating as a defined contribution pension scheme, for its employees. The amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

f) Income from trading

Income from trading comprises net trading interest income which is recognised as earned, exchange fees and rebates arising through trading activity, foreign exchange gains or losses arising from revaluation of assets and liabilities held for trading purposes, and gains or losses on trading activity. Dividends received and paid on equity securities are recognised as income on the ex-dividend date.

Substantially all the Company's securities owned and carried at fair value, are held at a major financial institution which is permitted by contract or custom to sell or repledge these securities. Revenue may be earned from trading activities in the form of interest and dividends, and is included in income from trading in the profit and loss account.

In accordance with FRS 26, those financial instruments held for trading purposes are marked to market and any unrealised gains and losses are taken to the profit and loss account in the period in which they arise.

g) Fees and commission expense

Fees and commission expense principally comprise brokerage and exchange fees associated with trading activity, and are recognised in the profit and loss account on an accruals basis as the service is provided.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2011

Principal accounting policies (continued)

h) Fees and commission income

Fees and commission income comprises advisory fees received from a third party, and is recognised in the profit and loss account on an accruals basis

i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises cash on hand and demand deposits

j) Netting arrangements

Financial assets and liabilities are offset and the net amount reported in the balance sheet if and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously

2 Transactions with related parties

Cost sharing agreement

The Company has a cost sharing agreement with Citadel Investment Group (Europe) Ltd ("CIGE"), a wholly owned subsidiary of Citadel LLC, for direct and allocable administrative expenses paid by CIGE. Administrative expenses totalling \$9,354,000 were charged under this agreement and are included in the profit and loss account for the year ended 31 December 2011 (2010 - \$10,778,000). A balance of \$1,725,000 was payable to CIGE at 31 December 2011 (2010 - \$2,406,000).

Secondment of employees

During the year, the Company utilised the services of an average of 24 employees (2010 – average 27 employees) seconded to the Company by CIGE. The full costs of the secondees are included in the administrative expenses in the profit and loss account, and are set out in note 6. All staff costs are settled by CIGE as paying agent for the Company.

Total return swaps

Pursuant to a master swap agreement entered into by the Company and Citadel Global Trading Sarl ("CGTS"), a related party, CGTS receives (pays) a sum equal to 85% (100%) of all net gains (losses) on investment transactions, interest and dividend income and expense of the Company in return for a payment based on the Company's issued share capital multiplied by the USD one month Libor rate, plus the total of the Company's operating expenses as defined in the swap agreement.

In 2010, pursuant to a previous master swap agreement entered into by the Company and CGTS, CGTS received a sum equal to 90.65% (100%) of all net gains (losses) on investment transactions, interest and dividend income and expense of the Company in return for a payment based on the Company's issued share capital multiplied by the USD one month Libor rate, plus the total of the Company's operating expenses marked up by 15%.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****2 Transactions with related parties (continued)****Total return swaps (continued)**

For the year ended 31 December 2011, the net settlement resulted in an expense of \$78,368,000 (2010 – \$93,964,000) which is included on the face of the profit and loss account. The amount payable to CGTS under the swap agreement at 31 December 2011 was \$4,827,000 (2010 – \$179,000) and is included in other creditors (note 15). The terms of the swap agreement prescribe that CGTS deposits collateral with the Company to cover the greater of (a) the aggregate of the Company's exchange margin requirements with counterparties, (b) the Company's intra-day stress test risk limit, and (c) 12% of the Company's gross total portfolio of investment assets including margin accounts. The value of collateral deposited by CGTS at 31 December 2011 was \$30,250,000 (2010 – \$36,000,000), and is included in other creditors (note 15).

Service agreements

Up to July 2011, the Company had an agreement with Omnium LLC ("Omnium") under which Omnium provided clearing and settlement services together with the reconciliation and control of trades to broker statements. In July 2011 Omnium was sold to Northern Trust, and changed its name to Northern Trust Hedge Fund Services. The cost of the service provided by Omnium was \$109,000 for the period up to the date of sale (year ended 31 December 2010 – \$171,000) and is included in the profit and loss account. A balance of \$nil was payable to Omnium at 31 December 2011 (2010 – \$nil).

The Company also has an Administrative Services Agreement with Citadel LLC for direct and allocable administrative, general and operating expenses. Expenses of \$1,277,000 (2010 – \$1,330,000) charged under this agreement are included in the profit and loss account. A balance of \$160,000 was payable to Citadel LLC at 31 December 2011 (2010 – \$80,000).

3 Administrative expenses

	2011 \$000	2010 \$000
Staff costs for seconded employees (note 6)	14,613	13,515
Auditors' remuneration		
- audit services	257	267
- regulatory assurance services	-	77
Irrecoverable VAT	1,802	1,705
Administrative expenses charged by Citadel LLC (note 2)	1,277	1,330
Hedge fund administration services		
- Omnium (note 2)	109	171
- Northern Trust Hedge fund services	83	-
Other administrative expenses charged or paid by CIGE	7,295	8,729
	<u>25,436</u>	<u>25,794</u>

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2011

4 Interest receivable and similar income

	2011 \$000	2010 \$000
Interest earned on bank accounts	42	53

5 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises

	2011 \$000	2010 \$000
Current tax		
UK corporation tax on profit for the year	2,830	1,892
Adjustments in respect of prior periods	(28)	(1)
Total current tax	2,802	1,891
Deferred tax		
Timing and other differences	(83)	509
Change in deferred tax rate	25	-
Adjustments in respect of prior periods	(6)	-
Total deferred tax	(64)	509
Tax on profit on ordinary activities	2,738	2,400

The total deferred tax asset of \$404,000 as disclosed in note 11 (2010 - \$340,000), arises due to the timing differences relating to the payment of deferred bonuses

The tax assessed for the period is higher than the average rate of corporation tax in the UK. The differences are explained below

	2011 \$000	2010 \$000
Profit on ordinary activities before tax	10,306	8,364
Profit on ordinary activities before tax multiplied by the average rate of corporation tax in the UK of 26.5% (2010 – 28%)	2,731	2,342
Expenses not deductible for tax purposes	26	19
Timing differences	83	(509)
Foreign exchange differences	(10)	40
Adjustments in respect of prior periods	(28)	(1)
Current tax charge for the year	2,802	1,891

Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed to 24% with effect from 1 April 2012. The Company's tax return for the year ended 31 December 2009 is currently under review by HM Inspector of taxes.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****6 Staff costs**

	2011	2010
	\$000	\$000
Staff costs are made up as follows		
Wages, salaries and bonus payments	12,863	12,016
Social security costs	1,371	1,140
Pension costs	318	312
Other staff costs	61	47
	<u>14,613</u>	<u>13,515</u>

The monthly average number of employees during the year was 25 (2010 – 28) including one director with a service contract. With the exception of one director, all employees were seconded to CSEL by CIGE. CIGE acts as paying agent for CSEL staff costs.

CIGE operates a defined contribution group personal pension plan, the cost of contributions for employees seconded to CSEL was \$318,000 (2010 - \$312,000). The amount payable in contributions to the scheme as at 31 December 2011 was \$457,000 (2010 – \$9,000) arising from bonus amounts waived in favour of pension plans.

7 Directors' remuneration

	2011	2010
	\$000	\$000
Total Directors' remuneration		
Emoluments	109	135
Pension benefits	9	11
	<u>118</u>	<u>146</u>

	2011	2010
	\$000	\$000
Remuneration in respect of the highest paid director		
Emoluments	54	75
Pension benefits	5	7
	<u>59</u>	<u>82</u>

These costs are included in staff costs (note 6)

8 Segmental analysis

Income from trading is derived solely from exchange traded equities and futures. The Company trades solely in established European markets. Fees and commission income is derived solely from the advisory fees received from a third party. The Company therefore considers the business to consist solely of one segment.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****9 Dividends**

	2011	2010
	\$000	\$000
Interim dividend paid \$1.25 per share (2010 \$nil)	10,000	-

The interim dividend was paid in May 2011 in respect of the current financial year. A final dividend of \$7,500,000 is proposed.

10 Debtors

	2011	2010
	\$000	\$000
Amounts owed by brokers and clearers	5,258	23,379
Other debtors	445	313
	<u>5,703</u>	<u>23,692</u>

Amounts owed by brokers and clearers principally represent amounts placed with the Company's prime brokers and clearers, Merrill Lynch & Co Inc ("Merrill"), Barclays Bank plc ("Barclays") and Citibank N.A. ("Citibank"). At 31 December 2011 the balance owed by Merrill was \$2,444,000 (2010: \$3,828,000), Merrill is Baa1 rated by Moody's. The balance owed by Barclays was \$2,699,000 (2010: \$3,111,000), Barclays is Aa3 rated by Moody's. The balance owed by Citibank was \$115,000 (2010: \$16,440,000), Citibank is A1 rated by Moody's.

11 Deferred taxation

	2011	2010
	\$000	\$000
Deferred taxation	<u>404</u>	<u>340</u>
Movement in deferred tax asset		
At 1 January	340	849
Charge / (credit) to profit and loss account – timing differences	83	(509)
Credit to profit and loss account – change in tax rate	(25)	-
Adjustments in respect of prior periods	6	-
At 31 December	<u>404</u>	<u>340</u>

The deferred tax asset arises due to timing differences relating to deferred bonuses and payments to pension plans.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****12 Financial assets at fair value through profit and loss**

	2011	2010
	\$000	\$000
Equity positions at clearing broker	27,041	27,650
	<u>27,041</u>	<u>27,650</u>

All equities and derivatives positions are stated at mid market value and are classified as held for trading

13 Reverse repurchase agreements

	2011	2010
	\$000	\$000
Amounts advanced under reverse repurchase agreements	21,077	21,012
	<u>21,077</u>	<u>21,012</u>

The related debt securities purchased subject to an agreement with the counterparty to repurchase them are not recognised on-balance sheet where the risks and rewards of ownership remain with the counterparty. The fair value of securities held as collateral at 31 December 2011 was \$21,042,000 (2010 - \$21,095,000). The Company is allowed to repledge or resell the securities held as collateral.

14 Financial liabilities at fair value through profit and loss

	2011	2010
	\$000	\$000
Equity positions sold but not yet purchased at clearing broker	20,591	28,294
	<u>20,591</u>	<u>28,294</u>

All equities and derivatives positions are stated at mid market value and are classified as held for trading

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****15 Other creditors**

	2011	2010
	\$000	\$000
Amounts owed to brokers	3,337	2,509
Collateral owed to swap counterparty	30,250	36,000
Amounts owed to related parties	1,905	2,502
Other amounts owed to swap counterparty	4,827	179
Corporation tax payable	1,726	1,679
Accruals and deferred income	10,525	12,357
	<u>52,570</u>	<u>55,226</u>

16 Collateral and netting

The Company enters into master netting agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Financial assets and liabilities are offset and the net amount reported in the balance sheet if and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise an asset and settle the liability simultaneously.

The Company holds 100% cash collateral from the swap counterparty to mitigate credit risk. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. No interest is payable on the collateral, and any outstanding balance is repayable on termination of the total return swap. Interest earned on collateral placed with the clearing broker is paid back to the provider of the collateral by way of the swap agreements in place with that entity.

17 Derivative financial instruments

The Company transacted in derivative financial instruments during the year including exchange-traded futures. These are instruments whose values are based, in part, upon underlying assets, indices, or reference rates or a combination of these factors, and generally represent future commitments to exchange cash flows, or to purchase or sell other financial instruments at specified future dates. Exchange-traded derivatives are standardised and include futures contracts.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2011

17 Derivative financial instruments (continued)

Derivative financial instruments are subject to various risks similar to those related to the underlying financial instruments including market and credit risk. Derivatives are typically also subject to certain additional risks, such as those resulting from leverage and significantly less liquidity, to which the underlying financial instruments may not be exposed. The Company may use derivative financial instruments in the normal course of its business to take speculative investment positions as well as for risk management purposes. The Company's derivative financial instrument risks should not be viewed in isolation, as they should be considered on an aggregate basis along with the Company's other investing activities. The Company manages the risks associated with its derivative financial instruments along with its speculative investing activities in cash instruments as part of its overall risk management.

Futures contracts are commitments to either purchase or sell a financial instrument at a future date for a specified price. These contracts may, in general, be settled in cash or through delivery of the underlying instrument. Futures contracts can be closed out at the discretion of the Company. However, illiquidity in the market could prevent the timely close-out of any unfavourable positions or require the Company to hold those positions until the delivery date, regardless of the changes in their value or the Company's investment strategy.

Exposure to market risk is managed in accordance with risk limits set by the Company's buying or selling instruments or entering into offsetting positions. Market risk is mitigated by the use of a total return swap, as described in note 18.

18 Financial risk management

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. This note presents information about the Company's exposure to each of these risks, its policies and processes for measuring and managing risk, the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Market risk

Market risk is the potential for changes in the value of investment positions due to market changes, including interest and currency rate movements as well as fluctuations in the prices of investment positions. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. Interest rate risk is the risk of loss due to the fluctuation of interest rates.

Foreign exchange risk is the risk of loss due to the fluctuation of exchange rates. The valuation of the portfolio is subject to foreign exchange risk arising from non-US Dollar positions.

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****18 Financial risk management (continued)**

The Company has Total Return Swap agreements with CGTS whereby the majority of the market risks in the trading book, including interest rate risk and foreign exchange risk, are transferred to CGTS in exchange for payments as prescribed by these agreements

In respect of non-trading assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates on a daily basis

Sensitivity analysis – market risk

All of the Company's investments are listed on a recognised exchange. As a result of the Total Return Swap agreements with CGTS, whereby the market risks in the trading book are transferred to CGTS, fluctuations in market prices at 31 December 2011 would not have a material impact on the operating profit of the Company

Credit risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform according to the terms of a contract. The credit risk associated with exchange-traded investment positions, such as exchange-traded futures, is mitigated by the margin held at the relevant exchange. The credit risk associated with the swap to CGTS is mitigated by the holding of 100% cash collateral from the swap counterparty, CGTS. The collateral is calculated daily and is based on the margin requirements of the individual exchanges on which the underlying instruments are traded, plus the intra-day stress test risk limit.

The Company clears its futures and equity securities transactions through a highly rated clearing broker, which also maintains the Company's positions. These positions are recorded at fair value under securities owned. In addition the clearing broker provides the majority of the financing for these securities. This can result in a concentration of credit risk with the clearing broker.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2011 was as follows:

	2011 \$000	2010 \$000
Amounts owed by brokers and clearers	5,258	23,379
Amounts owed to brokers	(3,337)	(2,509)
Net amounts receivable from brokers and clearers	1,921	20,870
Cash at bank and in hand	64,095	58,417
	<u>66,016</u>	<u>79,287</u>

The Company has no financial assets which are past due or impaired. Cash at bank and in hand is held at JP Morgan Chase, The Bank of New York and Citibank, JP Morgan Chase is rated Aa1 by Moody's, The Bank of New York is rated Aaa by Moody's, and Citibank is rated A1 by Moody's.

CITADEL SECURITIES (EUROPE) LIMITED
Notes to the financial statements
For the year ended 31 December 2011

18 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company is subject to Individual Liquidity Adequacy Standards under BIPRU 12 and therefore assesses the adequacy of its liquid resources by reference to its Individual Liquidity Adequacy Assessment ("ILAA"). The ILAA includes an assessment of the Company's compliance with the systems and controls requirements and detailed stress testing of the liquidity position. The Company maintains a high quality liquidity buffer of at least \$20m as part of its liquid resources. The policy for managing liquidity is to ensure that the Company will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

Substantially all of the Company's financial liabilities are payable on demand or in accordance with normal trade settlement cycles, therefore no separate disclosure of contractual maturities is made in these financial statements.

Capital Management

The Company is regulated by the Financial Services Authority ("FSA"), and hence is subject to externally imposed capital requirements. The Company monitors Tier 1 capital (share capital and audited reserves) against FSA regulations on a regular basis. The Company has the full support of its parent entity in ensuring that a regulatory capital surplus is maintained at all times. At 31 December 2011, Tier 1 capital was \$37,591,000. The Company's individual capital guidance was \$21,190,000 and the Company's surplus total capital over individual capital guidance was \$16,401,000.

19 Fair value of financial instruments

The Company has adopted the amendment to FRS 29 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2011:

	Level 1	Total
Assets	\$000	\$000
Financial assets at fair value through profit and loss		
Equity positions at clearing broker	27,041	27,650
	<u>27,041</u>	<u>27,650</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****19 Fair value of financial instruments (continued)**

	Level 1	Total
Liabilities	\$000	\$000
Financial liabilities at fair value through profit and loss		
Equity positions sold but not yet purchased at clearing broker	20,591	28,294
	<u>20,591</u>	<u>28,294</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current mid price. These instruments are included in level 1. Instruments included in level 1 comprise long or short equity positions classified as financial assets or liabilities at fair value through profit and loss.

20 Share capital

	2011	2010
	\$000	\$000
Authorised		
10,000,000 ordinary shares of \$1 each (2010 – 10,000,000)	<u>10,000</u>	<u>10,000</u>
Called, allotted and fully paid		
8,000,000 ordinary shares of \$1 each (2010 – 8,000,000)	<u>8,000</u>	<u>8,000</u>

21 Reconciliation of movement in profit and loss account

	2011	2010
	\$000	\$000
At 1 January	39,591	33,627
Profit for the financial year	7,568	5,964
Dividends paid (note 9)	<u>(10,000)</u>	<u>-</u>
At 31 December	<u>37,159</u>	<u>39,591</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****22 Reconciliation of movement in shareholder's funds**

	2011	2010
	\$000	\$000
Opening shareholder's funds	47,591	41,627
Profit for the financial year	7,568	5,964
Dividends paid (note 9)	(10,000)	-
Closing shareholder's funds	<u>45,159</u>	<u>47,591</u>

23 Reconciliation of operating profit to net cash inflow from operating activities

	2011	2010
	\$000	\$000
Operating profit	10,264	8,311
Decrease / (increase) in debtors	17,989	(8,359)
Decrease / (increase) in financial assets at fair value through profit and loss	609	(23,221)
Increase in reverse repurchase agreements	(65)	(21,012)
(Decrease) / increase in financial liabilities at fair value through profit and loss	(7,703)	22,965
Increase in other creditors	3,071	7,041
Net cash (outflow) / inflow from operating activities	<u>24,165</u>	<u>(14,275)</u>

24 Returns on investments and servicing of finance

	2011	2010
	\$000	\$000
Interest received	42	57
Net cash inflow from returns on investments and servicing of finance	<u>42</u>	<u>57</u>

25 Tax paid

	2011	2010
	\$000	\$000
UK corporation tax paid	(2,779)	(895)
Net cash outflow from taxation	<u>(2,779)</u>	<u>(895)</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2011****26 Financing**

	2011	2010
	\$000	\$000
(Decrease) / increase in collateral	(5,750)	20,000
Dividends paid	(10,000)	-
Net cash (outflow) / inflow from financing	(15,750)	20,000

27 Analysis and reconciliation of net funds

	At 1 January 2011 \$000	Cashflow \$000	At 31 December 2011 \$000
Cash and cash equivalents	58,417	5,678	64,095

28 Reconciliation of net cash flow to movement in net funds

	2011 \$000
Increase in cash	5,678
Increase in net funds in the year	5,678
Net funds at 1 January 2011	58,417
Net funds at 31 December 2011	64,095

29 Parent undertaking and ultimate controlling party

The Company's immediate parent is Tactical Trading UK Holdings Ltd, a company incorporated in the Cayman Islands

The registered address for Tactical Trading UK Holdings Ltd is as follows

c/o Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman
KY1-1104
Cayman Islands

The parent company does not prepare consolidated financial statements. The ultimate controlling party is Kenneth Griffin by virtue of majority shareholdings in parent entities of CSEL.