

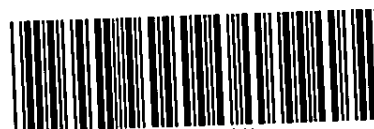
Citadel Securities (Europe) Limited

(Formerly known as Citadel Derivatives Group (Europe) Limited)

Annual report and Financial Statements
for the year ended 31 December 2009

Registered number 5462867

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CITADEL SECURITIES (EUROPE) LIMITED

Directors and advisors

Directors

S Atkinson

P Edsparr

C Masters

Company Secretary

H Kubba

Independent Auditors

PricewaterhouseCoopers LLP

Hay's Galleria

1 Hays Lane

London SE1 2RD

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

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120 London Wall

London EC2Y 5ET

CITADEL SECURITIES (EUROPE) LIMITED

Registered number 5462867

Directors report for the year ended 31 December 2009

The directors present their report and audited financial statements for the year ended 31 December 2009

Change of name

The Company changed its name from Citadel Derivatives Group (Europe) Limited to Citadel Securities (Europe) Limited on 13 August 2009

Principal activity

The principal activity for the Company is to conduct the business of trading in equities and futures. The Company has membership of the following exchanges – London Stock Exchange, Euronext LIFFE (Amsterdam, Paris, Brussels, London), Euronext (Paris, Amsterdam, Brussels), Xetra, Eurex, Borsa Italiana, Chi-X and Virt-X. The Company trades equities and futures on a high frequency algorithmic basis on these exchanges. The Company is developing a retail execution business which aims to generate trading income using algorithms.

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 employed.

Strategy

The Company's strategy for 2010 is to continue to expand the third party retail execution business, generating trading income using algorithms.

Results and dividends

During the year under review, the Company earned net income from trading of \$33,431,000 (2008 - \$46,235,000) and made a profit before taxation of \$7,945,000 (2008 - \$27,814,000). The directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008 - \$nil).

Key Performance Indicators ("KPIs")

	2009	2008
	\$000	\$000
Net income from trading, before swap expense	136,964	342,678
Collateral posted by swap counterparty	16,000	40,000

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, and the calculation of the collateral due from the swap counterparty. All of these reports are produced and reviewed on a daily basis.

CITADEL SECURITIES (EUROPE) LIMITED
Directors report for the year ended 31 December 2009

Review of business

In 2009 lower volatility and trading volumes in European markets resulted in reduced trading revenue and profitability compared with 2008. The balance sheet on page 7 shows a strong net asset position, and the reduction in total current assets compared to 2008 was due to the closure of the Europeans Options book in January 2009.

Future developments

The Company aims to expand its equities execution services for external clients in 2010. The Directors foresee similar levels of net trading revenue and profitability in 2010 compared to 2009, in anticipation of similar volatility and trading volumes in European markets in 2010.

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. The majority of market risks, including interest rate risk and foreign exchange risk, are transferred to a related entity, Citadel Global Trading Sarl ("CGTS"), via total return swaps.

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.

Directors

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

S Atkinson (appointed 6 April 2009)

P Edsparr

C Masters

M Taylor (resigned 9 February 2009)

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 2009

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.

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


H Kubba
Company Secretary
23 April 2010

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 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement 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 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 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 2009 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, 23 April 2010

CITADEL SECURITIES (EUROPE) LIMITED**Profit and loss account****For the year ended 31 December 2009**

	Note	2009 \$000	2008 \$000
Income from trading		205,907	461,470
Fees and commissions expense		(68,943)	(118,792)
Swap expense	2	<u>(103,533)</u>	<u>(296,443)</u>
Net income from trading		33,431	46,235
Fees and commissions income		284	3,754
Administrative expenses	3	<u>(25,912)</u>	<u>(24,353)</u>
Operating profit		7,803	25,636
Interest receivable and similar income	4	142	2,377
Interest payable and similar charges		-	(199)
Profit on ordinary activities before taxation		7,945	27,814
Tax on profit on ordinary activities	5	<u>(2,358)</u>	<u>(7,960)</u>
Profit on ordinary activities after taxation		5,587	19,854

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 20.

The notes on pages 9 to 23 are an integral part of these financial statements.

CITADEL SECURITIES (EUROPE) LIMITED**Balance sheet****As at 31 December 2009**

	Note	2009 \$000	2008 \$000
Current assets			
Debtors due within one year	9	32,415	406,321
Deferred taxation	10	849	825
Financial assets at fair value through profit and loss	11	4,429	552,029
Cash at bank and in hand	26	53,530	78,339
		<u>91,223</u>	<u>1,037,514</u>
Current liabilities			
Financial liabilities at fair value through profit and loss	12	5,329	370,169
Other creditors	13	44,267	631,305
		<u>49,596</u>	<u>1,001,474</u>
Net current assets		41,627	36,040
Net assets		<u>41,627</u>	<u>36,040</u>
Capital and reserves			
Share capital	18	8,000	8,000
Profit and loss account	19	33,627	28,040
Total shareholder's funds	20	<u>41,627</u>	<u>36,040</u>

The financial statements on pages 6 to 23 were approved by the board of directors on 23 April 2010 and were signed on its behalf by



S Atkinson
Director

23 April 2010

The notes on pages 9 to 23 form an integral part of these financial statements

CITADEL SECURITIES (EUROPE) LIMITED
Cash flow statement
For the year ended 31 December 2009

	Note	2009 \$000	2008 \$000
Net cash inflow from operating activities	22	3,616	145,188
Returns on investments and servicing of finance	23	152	2,250
Tax paid	24	(4,577)	(6,340)
Financing	25	(24,000)	(111,000)
(Decrease) / Increase in cash	26	<u>(24,809)</u>	<u>30,098</u>

The notes on pages 9 to 23 form an integral part of these financial statements

CITADEL SECURITIES (EUROPE) LIMITED
Notes to the financial statements
For the year ended 31 December 2009

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 2009 are as follows:

USD / GBP 1.61725

USD / EUR 1.4327

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 all 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.

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 debtors, cash and creditors balances.

CITADEL SECURITIES (EUROPE) LIMITED
Notes to the financial statements
For the year ended 31 December 2009

Principal accounting policies (continued)

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 Financial Reporting Standard 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.

h) Fees and commission income

Fees and commission income comprises commission from equities trades executed on behalf of related parties, and are recognised in the profit and loss account on trade date of the transaction.

i) Cash and cash equivalents

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

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2009

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 Investment Group, L L C , ("CIG"), for direct and allocable administrative expenses paid by CIGE. Administrative expenses totalling \$10,675,000 were charged under this agreement and are included in the profit and loss account for the year ended 31 December 2009 (2008 - \$11,038,000). A balance of \$3,247,000 was payable to CIGE at 31 December 2009 (2008 - \$5,962,000).

Secondment of employees

During the year, the Company utilised the services of an average of 24 employees (2008 - average 20 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.

Fees and commission income

Fees and commission income of \$284,000 (2008 - \$3,754,000) is derived from equities trades executed on behalf of Citadel Equity Fund Limited, Citadel Horizon Sarl, and Citadel Global Equities Fund Sarl, all related entities. The amounts due from Citadel Equity Fund Limited, Citadel Horizon Sarl, and Citadel Global Equities Fund Sarl at 31 December 2009 were \$nil (2008 - \$nil).

Total return swaps

Pursuant to master swap agreements entered into by the Company and Citadel Global Trading Sarl ("CGTS"), a related party, CGTS receives (pays) 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%. For the year ended 31 December 2009, the net settlement resulted in an expense of \$103,533,000 (2008 - \$296,443,000) which is included on the face of the profit and loss account. The amount receivable from CGTS under the swap agreement at 31 December 2009 was \$6,855,000 (2008 - payable \$18,074,000) and is included in debtors (note 9). The terms of the swap agreement prescribe that CGTS deposits collateral with the Company to cover 100% of the Company's exchange margin requirements with counterparties. The value of collateral deposited by CGTS at 31 December 2009 was \$16,000,000 (2008 - \$40,000,000), and is included in other creditors (note 13).

Service agreements

The Company has an agreement with Omnium LLC ("Omnium") under which Omnium provides clearing and settlement services together with the reconciliation and control of trades to broker statements. The cost of this service was \$154,000 for the year (2008 - \$108,000) and is included in the profit and loss account. A balance of \$nil was payable to Omnium at 31 December 2009 (2008 - \$nil). Omnium LLC was formerly named Citadel Solutions LLC.

The Company also has an Administrative Services Agreement with CIG for direct and allocable administrative, general and operating expenses. Expenses of \$1,228,000 (2008 - \$924,000) charged under this agreement are included in the profit and loss account. A balance of \$243,000 was payable to CIG at 31 December 2009 (2008 - \$112,000).

CITADEL SECURITIES (EUROPE) LIMITED
Notes to the financial statements
For the year ended 31 December 2009

3 Administrative expenses

	2009	2008
	\$000	\$000
Staff costs for seconded employees (note 6)	13,855	12,283
Auditors' remuneration		
- audit services	317	188
- regulatory assurance services	11	24
Irrecoverable VAT	1,323	1,057
Administrative expenses charged by CIG (note 2)	1,228	924
Administrative expenses charged by Omnium (note 2)	154	108
Other administrative expenses charged or paid by CIGE	9,024	9,769
	<u>25,912</u>	<u>24,353</u>

4 Interest receivable and similar income

	2009	2008
	\$000	\$000
Interest earned on bank accounts	<u>142</u>	<u>2,377</u>

5 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises	2009	2008
	\$000	\$000
Current tax		
UK corporation tax on profit for the year	1,770	8,400
Adjustments in respect of prior periods	<u>612</u>	<u>25</u>
Total current tax	2,382	8,425
Deferred tax		
Timing and other differences	511	(489)
Change in tax rate	-	24
Adjustments in respect of prior periods	<u>(535)</u>	<u>-</u>
Total deferred tax	(24)	(465)
Tax on profit on ordinary activities	<u>2,358</u>	<u>7,960</u>

The total deferred tax asset of \$849,000 as disclosed in note 10 (2008 - \$825,000), arises due to the timing differences relating to the payment of deferred bonuses

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2009****5 Tax on profit on ordinary activities (continued)**

The tax assessed for the period is higher than the average rate of corporation tax in the UK (28%) The differences are explained below

	2009 \$000	2008 \$000
Profit on ordinary activities before tax	7,945	27,814
Profit on ordinary activities before tax multiplied by the average rate of corporation tax in the UK of 28% (2008 – 28.5%)	2,224	7,927
Expenses not deductible for tax purposes	23	-
Timing differences	(511)	489
Foreign exchange differences	34	(16)
Adjustments in respect of prior periods	612	25
Current tax charge for the year	2,382	8,425

6 Staff costs

	2009 \$000	2008 \$000
Staff costs are made up as follows		
Wages, salaries and bonus payments	12,356	10,801
Social security costs	1,178	1,195
Pension costs	218	148
Other staff costs	103	139
	13,855	12,283

The monthly average number of employees during the year was 25 (2008 – 21) including one director with a service contract. All employees were seconded to Citadel Securities (Europe) Limited by Citadel Investment Group (Europe) Limited ("CIGE"). CIGE operates a defined contribution group pension plan, the cost of contributions for employees seconded to CSEL was \$218,000 (2008 - \$148,000). The amount payable in contributions to the scheme as at 31 December 2009 was \$nil (2008 – \$nil).

7 Directors remuneration

	2009 \$000	2008 \$000
Total Directors remuneration		
Emoluments	122	1,371
Compensation for loss of office	107	-
Pension benefits	9	17
	238	1,388

CITADEL SECURITIES (EUROPE) LIMITED
Notes to the financial statements
For the year ended 31 December 2009

7 Directors remuneration (continued)

Remuneration in respect of the highest paid director

Emoluments	79	1,366
Compensation for loss of office	107	-
Pension benefits	6	17
	<u>192</u>	<u>1,383</u>

These costs are included in staff costs (note 6). The emoluments of Mr Edsparr are paid by a related entity which makes no recharge to the Company. Mr Edsparr provides services to a number of fellow subsidiaries and it is not possible to make an accurate apportionment of his emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of Mr Edsparr.

8 Segmental analysis

Income from trading is derived solely from exchange traded equities, futures and options. The Company trades solely in established European markets. Fees and commission income is derived solely from the execution of equities trades on behalf of a related party. The Company therefore considers the business to consist solely of one segment.

9 Debtors

	2009	2008
	\$000	\$000
Amounts owed by brokers	24,779	405,578
Amounts owed by related swap counterparty	6,855	-
Other debtors	781	743
	<u>32,415</u>	<u>406,321</u>

Broker balances principally represent margin accounts with the Company's prime brokers, Merrill Lynch & Co Inc ("Merrill") and Barclays Bank plc ("Barclays"). At 31 December 2009 the balance owed by Merrill was \$20,888,000 (2008- \$383,100,000), Merrill is A1 rated by Moody's. The balance owed by Barclays was \$3,891,000 (2008 - \$22,478,000), Barclays is A1 rated by Moody's.

CITADEL SECURITIES (EUROPE) LIMITED
Notes to the financial statements
For the year ended 31 December 2009

10 Deferred taxation

	2009 \$000	2008 \$000
Deferred taxation	<u>849</u>	<u>825</u>
Movement in deferred tax asset		
At 1 January	825	360
(Credit) / charge to profit and loss account – timing differences	(511)	489
Credit to profit and loss account – change in tax rate	-	(24)
Adjustments in respect of prior periods	<u>535</u>	<u>-</u>
At 31 December	<u>849</u>	<u>825</u>

The deferred tax asset arises due to timing differences relating to deferred bonuses

11 Financial assets at fair value through profit and loss

	2009 \$000	2008 \$000
Equity positions at clearing broker	4,429	240,849
Derivative positions at clearing broker	<u>-</u>	<u>311,180</u>
	<u>4,429</u>	<u>552,029</u>

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

12 Financial liabilities at fair value through profit and loss

	2009 \$000	2008 \$000
Equity positions sold but not yet purchased at clearing broker	5,329	78,345
Derivative positions at clearing broker	<u>-</u>	<u>291,824</u>
	<u>5,329</u>	<u>370,169</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 2009

13 Other creditors

	2009	2008
	\$000	\$000
Amounts owed to brokers	17,687	558,270
Collateral owed to swap counterparty	16,000	40,000
Amounts owed to related parties	4,011	6,073
Other amounts owed to swap counterparty	-	18,074
Corporation tax payable	676	2,796
Accruals and deferred income	5,893	6,092
	<u>44,267</u>	<u>631,305</u>

14 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.

15 Derivative financial instruments

The Company transacted in derivative financial instruments during the year including exchange-traded options and 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 and certain options contracts.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2009

15 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.

Options are contracts that grant the holder, in return for payment of the purchase price (the "premium") of the option, the right to either purchase or sell a financial instrument at a specified price within a specified period of time or on a specified date, from or to the writer of the option. The writer of options receives premiums and bears the risk of unfavourable changes in the market price of the financial instruments underlying the options as well as changes in interest rates and market volatility. Options written by the Company do not give rise to counterparty credit risk as they obligate the Company, not its counterparty, to perform.

Futures contracts are commitments to either purchase or sell a financial instrument or commodity 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 16.

16 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.

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Notes to the financial statements
For the year ended 31 December 2009

16 Financial risk management (continued)

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. Interest rate is one of the components used to determine the price of an option therefore the value of the options in the portfolio is subject to interest rate risk.

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.

The Company has Total Return Swap agreements with Citadel Global Trading Sarl, ("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 2009 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 and options, 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.

The Company clears its options 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.

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Notes to the financial statements
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16 Financial risk management (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2009 was as follows:

	2009 \$000	2008 \$000
Amounts owed by clearing brokers	24,779	957,607
Amounts owed to clearing brokers	(17,687)	(928,439)
Net amounts receivable from clearing brokers	7,092	29,168
Cash at bank and in hand	53,530	78,339
	<u>60,622</u>	<u>107,507</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 and The Bank of New York, JP Morgan Chase is rated Aa3 by Moody's, and The Bank of New York is rated Aa2 by Moody's.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has access to liquid resources in the form of an unsecured facility from a related party, in the unlikely event that the Company's own liquid resources are insufficient to meet its liabilities. The facility from a related party would attract interest at a rate of 150 basis points over 1-month USD LIBOR. No such facility was used in 2009 or 2008.

Liquidity risk on financial assets and liabilities is not managed on the basis of contractual maturity as they are frequently settled on demand at fair value.

There are no derivative positions at clearing brokers at 31 December 2009.

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 daily 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 2009, Tier 1 capital was \$36,040,000. The Company's individual capital guidance was \$22,530,000 and the Company's surplus total capital over individual capital guidance was \$13,510,000.

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2009

17 Fair value of financial instruments

With effect from 1 January 2009, the Company 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 2009

	Level 1	Total
Assets	\$000	\$000
Financial assets at fair value through profit and loss		
Equity positions at clearing broker	4,429	4,429
	<u>4,429</u>	<u>4,429</u>
Liabilities	Level 1	Total
	\$000	\$000
Financial liabilities at fair value through profit and loss		
Equity positions sold but not yet purchased at clearing broker	5,329	5,329
	<u>5,329</u>	<u>5,329</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.

18 Share capital

	2009	2008
	\$000	\$000
Authorised		
10,000,000 ordinary shares of \$1 each (2008 – 10,000,000)	<u>10,000</u>	<u>10,000</u>
Called, allotted and fully paid		
8,000,000 ordinary shares of \$1 each (2008 - 8,000,000)	<u>8,000</u>	<u>8,000</u>

CITADEL SECURITIES (EUROPE) LIMITED**Notes to the financial statements****For the year ended 31 December 2009****19 Reconciliation of movement in profit and loss account**

	2009	2008
	\$000	\$000
At 1 January	28,040	8,186
Profit for the financial year	5,587	19,854
At 31 December	<u>33,627</u>	<u>28,040</u>

20 Reconciliation of movement in shareholder's funds

	2009	2008
	\$000	\$000
Opening shareholder's funds	36,040	16,186
Profit for the financial year	5,587	19,854
Closing shareholder's funds	<u>41,627</u>	<u>36,040</u>

21 Other financial commitments

The Company is committed to contingent payments for future services totaling \$nil (2008 - \$1,620,000) in accordance with employment contracts

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

	2009	2008
	\$000	\$000
Operating profit	7,803	25,636
Decrease / (increase) in debtors	373,896	(304,121)
Decrease in current asset investments	547,600	345,340
(Decrease) / increase in creditors	(925,683)	78,333
Net cash inflow from operating activities	<u>3,616</u>	<u>145,188</u>

23 Returns on investments and servicing of finance

	2009	2008
	\$000	\$000
Interest received	152	2,449
Interest paid	-	(199)
Net cash inflow from returns on investments and servicing of finance	<u>152</u>	<u>2,250</u>

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Notes to the financial statements
For the year ended 31 December 2009

24 Tax paid

	2009	2008
	\$000	\$000
UK corporation tax paid	(4,577)	(6,340)
Net cash outflow from taxation	(4,577)	(6,340)

25 Financing

	2009	2008
	\$000	\$000
Decrease in collateral	(24,000)	(111,000)
Net cash (outflow) / inflow from financing	(24,000)	(111,000)

26 Analysis and reconciliation of net funds

	At 1 January 2009 \$000	Cashflow \$000	At 31 December 2009 \$000
Cash and cash equivalents	78,339	(24,809)	53,530

27 Reconciliation of net cash flow to movement in net funds

	2009 \$000
Decrease in cash	(24,809)
Decrease in net funds in the year	(24,809)
Net funds at 1 January 2009	78,339
Net funds at 31 December 2009	53,530

CITADEL SECURITIES (EUROPE) LIMITED

Notes to the financial statements

For the year ended 31 December 2009

28 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 Gnffin by virtue of majority shareholdings in parent entities of Citadel Securities (Europe) Limited.