



**Annual Report 2006**



# Group Overview

Tullett Prebon is the world's second largest interdealer broker, and acts as an intermediary in the wholesale financial markets, facilitating the trading activities of its clients, in particular commercial and investment banks, hedge funds and buy-side institutions.

The business covers five major product groups: Fixed Income Securities and their derivatives, Interest Rate Derivatives, Treasury Products, Equities and Energy. The business brokes the products on either a 'name give up' basis (where all counterparties to a transaction settle directly with each other) or a 'matched principal' basis (where Tullett Prebon is the counterparty to each leg of a transaction).

Traditionally liquidity pools are managed by voice brokers supported by proprietary screens which display historical data, analytics and real time prices. In early 2006 the business launched its new electronic trading platform, TradeBlade™, which gives clients access to electronic execution coupled with straight-through processing for electronic transactions.

In addition, Tullett Prebon has an established data sales business which collects, cleanses, collates and distributes real-time information to data providers.

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[www.tullettprebon.com](http://www.tullettprebon.com)

- Demerger of Collins Stewart effective 19 December 2006
- Acquisition of Chapdelaine completed 11 January 2007
- Return of £301.5m of capital to shareholders expected to be made on 20 March 2007
- Proposed final dividend of 6.0p per share

£654.1m

Revenue – underlying growth of 5%  
(2005: £649.4m)

£114.8m

Operating profit – growth of 27%  
(2005: £90.7m before exceptional items)

£125.0m

Profit before tax – growth of 139%  
(2005: £52.3m)

33.0p

Adjusted\* EPS – growth of 47%  
(2005: 22.4p)

\* excluding exceptional items and non cash gains and losses in net finance income/(expense)

# “The current outlook for Tullett Prebon is positive and the Board is confident of creating future value for shareholders”

On 19 December 2006 Collins Stewart Tullett plc was split into two independent businesses: Tullett Prebon plc, the world's second largest inter-dealer broker, and Collins Stewart plc, which is the leading UK independent stockbroker – and which has recently acquired Hawkpoint, the highly regarded UK corporate advisory business. The demerger was effected because it was considered that at this stage of their development the two companies would be able to grow more strongly if separated. The change also allows a substantial return of capital to be made to the shareholders. Both companies now have separate listings on the London Stock Exchange.

Total shareholder return for 2006 was 55 per cent (calculated using the Collins Stewart Tullett plc share price at the start of 2006 and the combined Tullett Prebon plc and Collins Stewart plc share prices at the end of that year). This was 19 percentage points above the FTSE 250 Index for 2006 and 9.5 percentage points above the General Financials Sector Index for the same year.

On 26 February 2007 our shareholders approved a cash return of capital of £301.5m. Subject to final Court approval, the effective date of the reduction of capital is expected to be 15 March 2007 and shareholders are expected to receive 142p per ordinary share in cash on or around 20 March 2007.

The Board is proposing a final dividend of 6.0p per share, which, if approved will be payable on 14 June 2007 to shareholders on the register on 25 May 2007. The level of the dividend has been set taking account of the capital structure of the Company after the return of capital. Collins Stewart plc has also announced a proposed final dividend of 5.0p per share.

Tullett Prebon achieved strong results for 2006. Revenue amounted to £654m (2005: £649m) and underlying revenues were up 5 per cent. Operating profits before exceptional items were £115m

(2005: £91m). The results reflected the completion of the integration of Prebon which was acquired in 2004 and benefited from the elimination of double running costs. Operating margins rose to 17.6 per cent of revenue from 14 per cent of revenue. The average return on capital employed was 28 per cent. The adjusted earnings per share for the continuing businesses 47 per cent.

The acquisition of Chapdelaine was completed in January 2007 for a consideration of £48m (£29m of which was paid on completion). This is a long established New York business which provides broking services in corporate bonds, credit derivatives, mortgage backed securities and equities. The acquisition will strengthen our North American business, particularly in credit products.

The accounts also include the results of the Collins Stewart stockbroking business prior to the demerger, shown as discontinued operations. Earnings per share including the results of both businesses were up 107 per cent at 60.6p per share.

Now that the demerger has been completed, we have a focused business which is in a position to undertake the work needed to make further progress, particularly in growing revenues in what will be a period of continuing change in its markets. The current outlook for Tullett Prebon is positive and the Board is confident of creating future value for shareholders.

### Board matters

Following the demerger, Terry Smith became Chief Executive of Tullett Prebon. Lou Scotto, who led the integration of Tullett and Prebon, stepped down from the Board in February 2007 to concentrate on his role as Chief Executive of the Americas and in particular on the core initiatives of developing our electronic platform and the integration of Chapdelaine. Paul Mainwaring joined the Board as

Finance Director in October 2006 and we are already benefiting from his previous experience in that role in two other businesses. His predecessor, Stephen Jack retired from the Board in November 2006 and we wish him well for the future.

Rupert Robson joined the non-executive team in January 2007. He has held a number of senior roles in financial services, most recently as Global Head, Financial Institutions Group, Corporate Investment Banking and Markets at HSBC. He has already made a strong contribution to the Board and we are proposing his election at the Annual General Meeting. Alistair Peel has also joined us from Candover Investments plc as our Company Secretary and will be supporting us in maintaining and developing the effectiveness of the Board.

John Spencer, who has been a Non-executive since the Collins Stewart IPO in 2000, and Bernard Leaver, who joined the Board in 2003, have both indicated that they will not be available to stand for re-election at the Annual General Meeting in June. The successful development of Collins Stewart into what has now become the two independent businesses has not been without challenges, requiring the Board to be robust in supporting the best interests of the Company and the shareholders, even when that might not have been the easiest course. We would like to thank our retired and retiring colleagues for their contribution. John Spencer has held the role of Senior Independent Director and we will make an announcement about succession in that role at the Annual General Meeting.



**Keith Hamill**  
Chairman  
13 March 2007

The Directors, in preparing this Operating and Financial Review, have sought to comply with the reporting Standard 1: Operating and Financial Review issued by the Accounting Standards Board in 2006.

## Objectives, strategy and key performance indicators

The Board's principal objective for the Group is to maximise returns to shareholders over the medium to long term with an acceptable level of risk. This focuses on both the fundamental returns generated by the business and the returns delivered through share price appreciation and dividends.

The Group's strategy is to continue to act as a consolidator in the inter-dealer broker sector, seeking to build a business with scale and breadth which will deliver superior performance and returns whilst maintaining strong financial management disciplines and an efficient balance sheet.

The Group's strategy for delivering superior performance and returns is based on:

- Building strong pools of liquidity in all the major financial products and centres;
- Retaining key revenue producers;
- Improving contribution rates and maintaining the underlying fixed cost base of the existing business;
- Rolling out a credible electronic platform capable, in the medium term, of generating returns in the relevant product areas in excess of voice broking returns; and
- Proactively managing new business initiatives.

The Board has established a framework which is designed to facilitate the delivery of its strategy and to monitor performance against targets. The Board utilises key performance indicators

such as return on average capital employed to assess performance and assist in decision taking. In addition, the Board monitors total shareholder return, both in an absolute sense and relative to various stockmarket indices.

At an operational level, detailed planning and the production of a comprehensive annual budget, regular reforecasts and monthly financial information enable performance and the Group's regulatory capital to be monitored by executive management and by the Board. Daily performance information is also produced to assist executive management at different levels.

Financial information tabled to the Board compares actual performance against budgets, forecasts, the prior year and the performance of competitors, and contains both trend analysis and key performance indicators to facilitate interpretation of results. Turnover, contribution and operating margin analyses are the most important high level performance indicators. At an operational level more detailed indicators such as employee costs as a percentage of revenues, revenues per broker and broker to support staff ratios are utilised. Cash flow forecasts are also a key control both at a local and group level.

## Overview of 2006

2006 was another successful year for the Company. A year ago we announced our intention to effect the demerger of the Collins Stewart stockbroking business and then subsequently to return at least £300m of capital to shareholders.

The demerger became effective in December last year, and has resulted in two separate listed companies, Collins Stewart plc owning the stockbroking business, and Tullett Prebon plc owning the inter-dealer broking business, each of which is better placed to focus fully on the development opportunities available to them.

The demerger of the stockbroking business also allows Tullett Prebon plc to operate with a more efficient capital

structure. The inter-dealer broking business does not take principal risk, and is a 'limited licence'/'limited activity' group under the Capital Requirements Directive ('CRD') which came into effect on 1 January 2007. During the year the Company applied for and received a waiver from the consolidated capital adequacy tests under the regulatory requirements established by the CRD. The granting of this waiver by the Financial Services Authority ('FSA') facilitates the return of £301.5m of capital to shareholders, which will be effective before the end of March this year.

We continued to strengthen the inter-dealer broking business. Contribution rates in the business have been improved further as we realise the full benefits of the integration of the Prebon business acquired in October 2004 and the elimination of the double running costs incurred during 2005.

Our electronic trading platform, TradeBlade™, has established a significant market share in the products launched in the early part of 2006, and we expect to achieve similar success with the products launched in the middle of last year.

Our European business has continued to perform very strongly. The performance in North America has been held back by our position in the challenging fixed income market, but the business has been significantly strengthened by the recent acquisition of Chapdelaine, which addresses our weaknesses in this particular sector, and which has been quickly integrated into our existing operations. Our Asian business has recovered strongly from the disruption during 2005 as a result of competitor activity.

We continue to review new markets and geographies for opportunities to develop the business, and a new head of product development will join the team in April this year to spearhead this initiative.



# Operating and Financial Review continued

## Continuing operations

	2006 £m	2005 £m
Revenue	654.1	649.4
Operating profit before exceptional items	114.8	90.7
Exceptional items – Reorganisation costs	–	(38.3)
Operating profit	114.8	52.4
Net finance income/(expense)	10.2	(0.1)
Profit before tax	125.0	52.3
Taxation	(41.0)	(25.0)
Share of results of associates	–	0.7
Profit for the year from continuing operations	84.0	28.0
Discontinued operations	44.3	33.7
Profit for the year	128.3	61.7
Earnings per share:		
From continuing operations		
– Adjusted basic	33.0p	22.4p
– Basic	39.7p	13.2p
From continuing and discontinued operations		
– Basic	60.6p	29.3p

The table above shows the results for the continuing operations for 2006 compared with those for 2005. In 2006 management responsibility for most of the domestic and international equities activities based in New York was transferred from the inter-dealer broking business to the stockbroking business. The results for 2005 have been restated accordingly. The stockbroking business was demerged on 19 December 2006, and its results are therefore shown as discontinued operations in both years. The following narrative focuses on the continuing operations.

### Revenue and operating profit

Reported revenue increased by 1%. However, the underlying revenue growth was 5%, adjusting for revenues lost during 2005 as a result of staff losses in Asia (Hong Kong and Singapore), disposals (Sydney), and the closure of the London cash equities business that never regained momentum following the fire at Cable House ('discontinued activities'). Over the year, the impact on reported revenue of changes in translation exchange rates was minimal, but was much more significant in comparing the reported revenue for the half years, with the average US dollar exchange rate for the second half of 2006 being 6% weaker than for the corresponding period in 2005.

Market conditions were generally favourable, with continuing strong growth and volatility in a number of our markets notably foreign exchange, interest rate derivatives and energy. Conditions in the fixed income markets were more challenging, however, particularly in the Americas.

Operating profit before exceptional items increased by 27%, with the operating margin before exceptional items increasing to 17.6% compared with 14.0% for 2005. The improvement reflects the benefits of the completion during 2005 of the integration of the inter-dealer broking business following the acquisition of Prebon in October 2004, and the elimination of double running costs. Year end broker headcount was 1,512 (2005: 1,588) and average support staff headcount fell by over 10%. As a result the key indicators of our operational performance continued to show improvement. Average revenue per broker increased to £413,000 (2005: £377,000) with the ratio of brokers to support staff also marginally increasing. Broker compensation to revenue at 57.9% is slightly higher than 2005 (57.7%).

# +27%

Operating profit before exceptional items increased by 27%

The following tables analyse revenue by region and by product group, and operating profit by region.

	2006 £m	2005 £m	Change
<b>Revenue</b>			
Europe	335.1	307.3	+9%
North America	252.8	259.8	-3%
Asia Pacific	66.2	56.7	+17%
	<b>654.1</b>	<b>623.8</b>	<b>+5%</b>
Discontinued activities	—	25.6	—
Reported	<b>654.1</b>	<b>649.4</b>	<b>+1%</b>

	2006 £m	2005 £m	Change
<b>Revenue</b>			
Treasury Products	191.0	176.6	+8%
Interest Rate Derivatives	166.5	153.1	+9%
Fixed Income	181.8	197.0	-8%
Equities	41.3	31.8	+30%
Energy	60.0	51.9	+16%
Information Sales	13.5	13.4	—
	<b>654.1</b>	<b>623.8</b>	<b>+5%</b>
Discontinued activities	—	25.6	—
	<b>654.1</b>	<b>649.4</b>	<b>+1%</b>

	2006 £m	2005 £m	Change
<b>Operating profit*</b>			
Europe	65.9	41.6	+58%
North America	44.3	40.4	+10%
Asia Pacific	4.6	8.7	-47%
	<b>114.8</b>	<b>90.7</b>	<b>+27%</b>

\*before exceptional items

Our performance in Treasury Products benefited from exchange rate volatility and our strong position in the non-bank cash markets. Changes in interest rates and shifts in the yield curve in both Europe and the Americas assisted our Interest Rate Derivatives business. Our Fixed Income business suffered in a less buoyant market and although we maintained our revenues in Europe, we experienced a significant decline in the Americas. Our Equities business performed strongly, driven by equity derivatives. Our Energy business has benefited from ongoing volatility in an increasingly liquid market, with growing participation of investment banks and other financial institutions. Information Sales revenue was maintained, with new business wins offsetting the negative impact of the consolidation of previously separate Tullett and Prebon contracts and the loss of a contract due to customer combination.

Europe delivered a good revenue performance in 2006 with growth of 9%, benefiting from the London operations working from a single

broking floor for the entire year, and helpful market conditions in a number of product areas. We maintain a leading position in Treasury Products, evidenced by our top ranking in currencies in the 'Risk' magazine annual awards. Our NDF and spot FX businesses benefited from expansion into emerging currencies, and market volumes generally continued to be strong. In Interest Rate Derivatives we continued to grow revenues in both sterling and Euro inflation products in which we were ranked top in the 'Risk' magazine awards, and we also benefited from our investment in interest rate options, and from strong growth in Eastern European and emerging market swaps. In Fixed Income both the corporate bond and Euro government bond markets were relatively subdued, but we extended our presence in gilts, and developed the business into stronger growth areas such as emerging market bonds and high yield bonds. We maintained our leading position in repo products, and we have diversified our credit derivatives activities from traditional single names with expansion into structured products and emerging

market products. Following the decision to close the London cash equities activities following the fire in the summer of 2005, we have focused on equity derivatives and GDRs, with the latter performing strongly as confidence increased in Eastern Europe, particularly in Russia, and the former benefiting from our investment in index options. During 2006 we also withdrew from equity finance. In Energy products we achieved strong growth in power, natural gas and oil options products and have continued to invest in the wet freight area. We extended our product coverage in early 2007 with the addition of a coal broking team.

Operating profit in Europe increased by 58% to £65.9m (2005: £41.6m) as a result of the underlying growth in revenue, and the improvement in operating margin to 19.7% (2005: 13.1%). The improvement in margin reflects the significant reduction in support costs from 2005 as the completion of the integration led to average support staff headcount falling by 12%, with the double running costs incurred in 2005 also eliminated.

# Operating and Financial Review continued

Revenue growth in North America was strong across all products except Fixed Income. In Treasury Products we benefited from the development of trading in emerging markets currencies driven by growth and increased stability in those economies, and the ongoing development of the derivatives markets. Our activities in the traditional currencies benefited from interest rate movements during the first half of the year. In Interest Rate Derivatives we maintained our leading position and increased revenues in many of the products where desks were integrated during 2005. Our Equities business was refocused following the transfer of the bulk of the equities activities to Collins Stewart at the beginning of the year, and continued to deliver good growth. Our Energy operations were strengthened during the year and as a result of our increased product coverage and acquisitions made in previous years we were well positioned to benefit from growth in the market. The Fixed Income market was challenging, and revenues in 2006 were lower than 2005 in both government and corporate bonds. Trading activity in these products has been subdued, and some government bond trading has migrated onto electronic platforms, and whilst we continued to grow in some specific niches of the market this was not sufficient to offset the impact. The acquisition of Chapdelaine gives us significantly increased liquidity in high grade and high yield corporate bonds and credit derivatives, with leadership in a number of specific areas. Our emerging markets fixed income activities also experienced a more difficult market, with bond issuance moving from international US dollar bonds back onshore.

Operating profit in North America increased by 10% to £44.3m (2005: £40.4m) despite the reduction in revenues, with operating margin improving to 17.5% (2005: 15.5%). Direct costs are predominantly variable and reduced in line with revenues, with the improvement in margin driven by a reduction in average support staff headcount and the non-recurrence of double running costs following the completion of the integration of Prebon in 2005.

The Asia Pacific region has recovered strongly from the disruption to the business caused by staff losses and business disposals in 2005. The focus in

2006 has been on stabilising the broking teams across the region and progressively improving the quality of the teams through hiring without increasing headcount. We have remained focused on building our activities in the product areas in which we have been traditionally strong, and have benefited from both increasing volumes for many of these products and improvements in market share, leading to us regaining leadership positions in a number of products. We have strong franchises in Treasury Products and Interest Rate Derivatives across the region and have seen good growth in the latter area in our joint venture in Tokyo and in our wholly owned business in Korea where we commenced trading onshore in May 2005.

Reported operating profit in Asia Pacific fell by 47% to £4.6m (2005: £8.7m) with operating margin of 6.9% (2005: 12.1%). The 2005 operating profit is flattered by the inclusion of a number of one-off payments from competitors associated with the staff and business changes during that year, and the 2006 operating profit includes costs associated with the litigation relating to our claim for damages against BGC following the poaching of some 50 brokers from our Singapore operation in February 2005. The region has delivered an improvement in underlying margin, with an improvement in the broker employment costs to revenue ratio and a 12% reduction in average support staff headcount.

In the first week of 2006 we launched TradeBlade™, our electronic trading platform, with US dollar Repo trading, and we have established a significant market share in this product. In June 2006, we launched trading in US treasuries and, in November, US Federal Agency Securities. The TradeBlade™ project was initiated at the request of our clients and the ongoing development of a credible electronic platform capable, in the medium term, of generating returns in excess of voice broking returns in the relevant product areas, is a key part of our strategy. The results of TradeBlade™ are included in Americas, with the revenue included in Fixed Income.

## Exceptional items

There were no exceptional items in 2006. The exceptional items charge of £38.3m in 2005 related to the

costs associated with the integration of Prebon.

## Litigation

The only significant outstanding litigation is the Company's claim for damages against BGC, following the unlawful poaching of staff in Singapore. A settlement agreement with BGC was reached following the trial in November, but BGC have breached their obligations under the settlement agreement by not paying the amounts due. We have brought an action in the Singapore High Court against BGC. This trial is expected to take place in April.

## Net finance income/(expense)

The continuing operations had net finance income of £10.2m (2005: net expense of £0.1m). This includes non-cash gains on the mark to market of derivative financial instruments (the equity swap and the Eurobond fair value hedge) of £13.9m (2005: £8.6m) and non-cash net income on pension assets and liabilities of £0.3m (2005: net charge of £1.2m). These items, net of related tax, have been excluded in the calculation of adjusted EPS.

Excluding these items, the net finance charge in 2006 was £4.0m (2005: £7.5m). This comprises interest payable on the £150m Eurobond at 8.25%, interest payable on finance leases and short-term borrowings, and the amortisation of debt issuance costs, partly offset by interest income earned on cash balances.

## Taxation

The underlying effective rate of tax for the continuing operations, excluding exceptional items and after adjusting for the non-cash items within finance income/(expense) and for prior year tax items, is 40% (2005: 44%).

The effective rate is higher than the standard UK rate of 30% reflecting the profits earned in the US, where the statutory rate is 46%, and the extent of disallowable items. The reduction in the effective rate compared with 2005 results mainly from the increased proportion of profit earned in the UK relative to the US.

## Earnings per share

Adjusted earnings per share from the continuing operations, calculated before exceptional items and



non-cash gains and losses in finance income/(expense) increased 47% to 33.0p. Including discontinued operations and taking into account exceptional items, basic earnings per share increased by 107% to 60.6p.

#### Acquisitions

There were no acquisitions during the year. On 11 January 2007 the acquisition of Chapdelaine Corporate Securities & Co. was completed. The consideration for the acquisition is \$95m (£48m) payable in cash, \$57m (£29m) of which was paid on completion, with the balance payable over the next three years, part of which is dependent on Chapdelaine's performance.

#### Cash flow

The net cash flow from continuing operations is summarised in the table to the right.

Operating cash flow from the continuing operations was £136.9m (2005: £58.0m). The increase reflects the higher operating profit, the absence in 2006 of reorganisation costs, and a working capital inflow mainly driven by the reduction in 'name give up' receivables. The increased taxation payments reflect the higher profits. During the year the Group purchased its own shares to satisfy the vesting of awards under share option schemes and also cash settled some exercises. The dividends paid in 2006 reflect the 2005 final and 2006 interim dividends totalling 16p per share.

The movement in the Group's net funds is summarised in the table to the right.

# £10.2m

Continuing operations net  
finance income

# +47%

Adjusted earnings per share  
from the continuing operations

	2006 £m	2005 £m
Operating profit before exceptional items	114.8	90.7
Reorganisation costs	—	(38.3)
Share option plan charges	5.0	4.6
Depreciation and amortisation	8.0	9.3
<b>EBITDA</b>	<b>127.8</b>	<b>66.3</b>
Capital expenditure (net of NBV of disposals)	(3.7)	(6.3)
Working capital	12.8	(2.0)
<b>Operating cash flow</b>	<b>136.9</b>	<b>58.0</b>
Interest	(3.6)	(6.8)
Taxation	(27.7)	(20.1)
Contributions to defined benefit pension schemes	(2.1)	(2.1)
Purchase of own shares/options cash settled	(14.6)	—
Demerger transaction costs	(2.2)	—
Equity dividends paid	(33.8)	(18.3)
Dividends paid to minorities	(0.2)	—
Acquisitions/investment in associates	—	(5.0)
Issue of ordinary shares	—	1.3
<b>Net cash flow</b>	<b>52.7</b>	<b>7.0</b>

Opening net funds	121.5
Less Collins Stewart opening net funds	(61.1)
Tullett Prebon opening net funds	60.4
Net cash flow	52.7
Intercompany settlements with Collins Stewart	11.2
Effect of movements in exchange rates	(14.6)
Movements in fair value/amortisation of costs	1.5
<b>Closing net funds</b>	<b>111.2</b>

# Operating and Financial Review continued

## 28%

Return on capital employed in 2006

## £263.4m

The Group held cash and cash equivalents at 31 December 2006

### Financing and treasury

At 31 December 2006 the Group held cash and cash equivalents of £263.4m (2005: £276.4m) and borrowings of £152.2m (2005: £154.9m), giving net funds of £111.2m (2005: £121.5m). The Group has a £150m Eurobond paying 8.25% which accounts for the vast majority of the borrowings. The fair value of the bond is part hedged by a cross currency interest rate swap under which the Group receives fixed rate sterling interest and pays floating rate US dollar interest. The net cash inflow under the swap during 2006 was £0.3m (2005: £1.4m). The movement in the mark to market value of the interest rate swap element of the cross currency interest rate swap and the hedged portion of the bond, is included in net finance income/(expense). The Group's cash balances earn interest at floating rates.

Subsequent to the year end the Group has entered into a £350m credit facility agreement. £300m will be drawn down for the purposes of financing the return of capital under a five year amortising loan. A further £50m may be drawn down for general purposes under a five year revolving credit facility. The facilities carry interest at floating rates.

Revenue and profits from the Group's overseas subsidiaries are translated at average exchange rates. The most significant exchange rates for the Group are the US dollar and the Euro. There are currently no contracts in place hedging profit exposure.

The balance sheets of the Group's overseas subsidiaries are translated at year end exchange rates. The major balance sheet translation exposure is to the US dollar. The gross exposure at 31 December 2006 amounted to US\$178m, represented by US and Hong Kong net tangible assets, with the net exposure, taking into account the cross currency swap, of US\$61m.

Average and year end exchange rates for the US dollar and the Euro are shown below:

### Pensions

The deficit of the Group's defined benefit pension schemes at 31 December 2006 under IAS19 is £26.2m (2005: £36.6m). The reduction in the deficit mainly reflects the increase in the value of scheme assets over the year.

The Group has undertaken to ensure that the deficits of the schemes, on an accounting basis, will be eliminated by 31 December 2010, and in addition, has granted the trustees of the schemes a first ranking charge over £50m of gross assets of the Group's principal operating subsidiaries.

The triennial actuarial valuation of the main scheme will be undertaken as at 30 April 2007.

### Regulatory capital

The Group maintained regulatory capital comfortably in excess of its requirements under the terms of the Capital Adequacy Directive throughout the year.

The Capital Requirements Directive ('CRD') came into effect in the UK from 1 January 2007. The Group has received a waiver from the consolidated capital adequacy requirements of the CRD effective from the start of 2007. The Group is subject to a financial holding company test, whereby the aggregate financial resources of the Group are calculated by reference to the capital and reserves of the parent company, Tullett Prebon plc, with the Group's aggregate financial resources requirement calculated as the sum of the requirements of all the Group's subsidiaries. The Group maintains adequate excess financial resources under this test.

### Return on capital employed

The return on capital employed of 28% has been calculated as operating profit divided by average shareholders' funds adjusted to reflect the demerger of the stockbroking business and to add back cumulative amortised/impaired goodwill, the post tax impact of reorganisation costs, and average debt less cash and cash equivalents.

	Average		Year end	
	2006	2005	2006	2005
US dollar	\$1.83	\$1.81	\$1.96	\$1.72
Euro	€1.46	€1.46	€1.48	€1.46

### Key risks affecting the business

The key risks which the Group faces in its day-to-day operations can broadly be categorised as credit, market, operational and reputational risk. The governance structure in place to manage risks is described in the Corporate Governance Report. Further information on interest rate risk which affects the financial assets and liabilities of the Group is also provided in note 22.

**Credit risk** is the risk of financial loss to the Group in the event that a client or counterparty fails to settle its contractual obligations to the Group. As the Group's business is contracted on an agency or intermediary basis, the main credit risk is actually more akin to a market risk, as the exposure in such cases is to movements in stock prices and foreign currency.

The Board has approved the general parameters within which credit risk is taken through a credit exposure framework. Within this overall framework specific limits are granted by the relevant Credit or Executive Committees or a number of executive directors acting in accordance with their delegated authority. All counterparties are subject to regular review and assessment.

Cash management policies are also in place to ensure that funds not committed to supporting the Group's activities are only placed with approved institutions.

**Market risk** is the vulnerability of the Group to movements in the value of financial instruments. Market risk can arise in those instances where one or both counterparties in a matched principal transaction fail to fulfil their obligations (i.e. an initially unsettled transaction) or through trade mismatches or other errors. The risk in these situations is restricted to short-term price movements in the underlying stock held or to be delivered by the Group and movements in foreign exchange rates. Policies and procedures exist to reduce the likelihood of such trade mismatches and, in the event that they arise, the Group's policy is to close out such balances immediately, or to carry them with an appropriate hedge in place. All market risks arising across the Group are identified and monitored on a daily basis.

**Operational risk** is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The overall objective of the Group's operational risk management approach is not to attempt to avoid all potential risks, but proactively to identify and assess risks and risk situations in order to manage them in an efficient and informed manner, always recognising the cost relative to the benefits. This approach enables the Group to exploit existing opportunities, increase business success, and protect and enhance shareholder value.

The Group's operational risk management framework is designed to:

- improve operational risk awareness and risk transparency in general;
- identify, measure and monitor key operational risks which affect the Group from both internal and external environments;
- identify and manage risks effectively so as to derive commercial benefit by minimising regulatory (and consequently economic) capital requirements as a result of a lower risk profile;
- provide operational risk information to executive management and the Group Risk Committee on the status of operational risk within the Group, and to act as an early warning on risks that could prejudice the future value or viability of the Group; and
- protect the Group's shareholders.

Line managers in front office and support functions have the day-to-day responsibility for ensuring that the Group operates in accordance with its operational risk management framework.

**Reputational risk** is the risk that the Group's ability to do business might be damaged as a result of its reputation being tarnished. Clients rely on the Group's integrity and probity. The Group has policies and procedures in place to manage this risk to the extent possible which include, inter alia, procedures for employee hiring and the taking on of new business, and conduct of business rules.

### Future developments and outlook

The business in the Americas has been strengthened by the acquisition of Chapdelaine, and some significant organisational changes have been made. In the Americas, in addition to overseeing the further growth of the business in the region, Lou Scotto has taken specific responsibility for TradeBlade™ and for the integration of Chapdelaine. A new head of product development has been recruited to lead the initiatives to extend and deepen our product and geographic coverage. These changes are part of a focus on delivering value through accelerated revenue growth.

The acquisition of Chapdelaine for cash and the return of £301.5m of capital to shareholders results in the Group being in a net debt position which imposes a financial discipline on all our activities.

The Board is confident of creating future value for shareholders.



**Terry Smith**  
Chief Executive  
13 March 2007

# Board of Directors

**Keith Hamill (aged 54) – Chairman**  
Keith Hamill joined the Board of Collins Stewart Tullett plc as Chairman (which is a Non-executive role) in September 2000, and remains Chairman of Tullett Prebon plc. He also serves as Deputy Chairman of Collins Stewart plc. He is currently Chairman of Travelodge and Heath Lambert, a Non-executive Director of Electrocomponents plc and Pro-Chancellor of Nottingham University. He is a chartered accountant and worked for Price Waterhouse from 1975 to 1988, becoming partner in 1987. Subsequently he was Director of Financial Control at Guinness, Finance Director of United Distillers, Forte plc and WH Smith. He was also previously a member of the Urgent Issues Task Force of the Accounting Standards Board and Chairman of the CBI Financial Reporting Panel. He is Chairman of the Nominations Committee and a member of the Remuneration Committee.

**Terry Smith (aged 53) – Chief Executive**

Terry Smith started his career with Barclays Bank and became a stockbroker in 1984 with W Greenwell & Co. He was top rated bank analyst in London from 1984 to 1989, during which period he also worked at BZW and James Capel. In 1990 he became head of UK Company Research at UBS Phillips & Drew, a position he left in 1992 following the publication of his best selling book, 'Accounting for Growth'. He joined Collins Stewart shortly after and became a Director in 1996. Terry Smith is an Associate of the Chartered Institute of Bankers, has an MBA from The Management College, Henley and is qualified as a Series 7 Registered Representative and a Series 24 General Securities Principal with the NASD. In addition to acting as Chief Executive of Tullett Prebon plc, Terry Smith is Chairman of Collins Stewart plc.

**Paul Mainwaring (aged 43) – Finance Director**

Paul Mainwaring trained as a chartered accountant with Price Waterhouse, qualifying in 1987, and obtained an MBA from Cranfield School of Management in 1991. From 1993 to 2000, he worked for Caradon plc in a number of financial roles, including three years as Finance Director of MK Electric. In 2000, he was appointed as Group Finance Director of TDG plc. He was appointed as Group Finance

Director of Mowlem plc in 2005. He was appointed to the Collins Stewart Tullett plc Board of directors on 10 October 2006 and became Finance Director on 13 November 2006.

**John Spencer (aged 63) – Senior Independent Non-executive Director**

John Spencer was appointed a Director in September 2000 and is the Senior Independent Non-executive Director, and a member of the Audit, Remuneration and Nominations Committees. He qualified as a chartered accountant with KPMG and in 1969 he joined Barclays Bank where he held a variety of posts including head of group finance and planning, president of Barclays Bank of New York, chief executive of the USA Banking division and deputy chief executive of BZW. He was Non-executive Chairman of Regent Inns plc from 1995 to 1998 and was previously Non-executive Chairman of Softtechnet.com plc, a Director of Numerica Group PLC and Chief Executive of Snell & Wilcox Limited.

**David Clark (aged 59) – Independent Non-executive Director**

David Clark worked for Bankers Trust, Commerzbank and Midland Bank before being appointed Treasurer, Europe of HSBC Holdings in 1992. In 1995 he joined Bankgesellschaft Berlin AG becoming Managing Director of Bankgesellschaft Berlin (UK) plc until June 1999. He was Senior Adviser to the Major Financial Groups Division of the Financial Services Authority until March 2003. He is Non-executive Chairman of Charity Bank and a Non-executive Director of Caf Bank and Westpac Europe Limited. He was appointed as a Non-executive Director of Tullett Liberty in September 2000 and to the Collins Stewart Tullett Board on 10 March 2003. He is a member of the Audit Committee and the Nominations Committee.

**Bernard Leaver (aged 60) – Independent Non-executive Director**

Bernard Leaver was appointed a Director in August 2003 and is a member of the Remuneration Committee and the Nominations Committee. He was formerly a Managing Director of Lehman Europe from 1988 to 2002 and a member of the Lehman European Board. Prior to that he was the senior partner of C T Pulley and a main board director at Hoare Govett.

**Michael Fallon MP (aged 54) – Independent Non-executive Director**

Michael Fallon joined the Board in September 2004 and is Chairman of the Remuneration Committee and a member of the Audit Committee and the Nominations Committee. He is a Director of Just Learning, a company which builds and operates nurseries, and the Conservative MP for Sevenoaks. He is also a member of the Treasury Select Committee of the House of Commons, and chairs the Treasury sub-committee, responsible for overseeing HM Revenue and Customs. He was Opposition spokesman on Trade and City matters from 1997-1998. He was previously a Director of Quality Care Homes PLC.

**Richard Kilsby (aged 54) – Independent Non-executive Director**

Richard Kilsby joined the Board on 3 June 2005 and is Chairman of the Audit Committee and a member of the Remuneration and the Nominations Committees. He is also a Non-executive Director of Collins Stewart plc and Non-executive Chairman of 888 Holdings plc. He has formerly held many positions in finance and the City including: Vice Chairman of the virt-x stock exchange (created by the merger of the Swiss Exchange with Tradepoint), Chief Executive of Tradepoint (an AIM quoted electronic exchange), and an Executive Director of the London Stock Exchange responsible for listing, secondary regulation and the introduction of the SETS trading system. He was previously an audit partner at Price Waterhouse.

**Rupert Robson (aged 46) – Independent Non-executive Director**

Rupert Robson was appointed to the Board in January 2007. He is a member of the Audit, Remuneration and Nominations Committees. He has held a number of senior roles in City institutions, most recently Global Head, Financial Institutions Group, Corporate Investment Banking and Markets at HSBC between 2003 and 2006 and, prior to that, Head of European Insurance, Investment Banking at Citigroup Global Markets.

The directors present their report, together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2006.

## Principal activities

Tullett Prebon plc operates as an intermediary in wholesale financial markets facilitating the trading activities of its clients, in particular commercial and investment banks. In certain product areas the customer base also includes financial institutions and other professional investors. The main subsidiary undertakings through which the Group conducts its business are set out in note 39 to the consolidated financial statements.

## Demerger

On 19 December 2006, pursuant to a scheme of arrangement under s425 of the Companies Act 1985, a new parent company for the Collins Stewart Tullett plc group was introduced which is now called Tullett Prebon plc.

On the same date, under the scheme of arrangement, the Collins Stewart stockbroking business was demerged from the Group. Results for the Collins Stewart stockbroking business for 2005 and 2006 have been included in the consolidated income statement as discontinued operations.

Full details of the process by which the demerger was given effect are shown in notes 27 and 30 to the consolidated financial statements.

## Results and dividends

The results of the year are set out in the consolidated income statement on page 24.

The directors recommend a final dividend for the year of 6.0p per ordinary share. The final dividend, if approved, will be paid on 14 June 2007 to ordinary shareholders whose names are on the register on 25 May 2007.

Collins Stewart Tullett plc paid a final dividend for 2005 of 11.0p per ordinary share and an interim dividend for 2006 of 5.0p per ordinary share.

## Business review

An analysis of the development and performance of the Group during the year, and the position of the Group at the end of the year, including financial and non-financial performance

indicators and a description of the principal risks and uncertainties facing the Group, is included in the Operating and Financial Review on pages 3 to 9.

This Annual Report has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and such responsibility is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

## Directors

The directors who served throughout the year, except as noted, were as follows:

Keith Hamill (Non-executive Chairman)  
 Terry Smith (Chief Executive)  
 Paul Mainwaring (Finance Director) – appointed 10 October 2006  
 John Spencer (Senior Independent Non-executive Director)  
 David Clark (Independent Non-executive Director)  
 Michael Fallon (Independent Non-executive Director)  
 Richard Kilsby (Independent Non-executive Director)  
 Bernard Leaver (Independent Non-executive Director)  
 Stephen Jack (Finance Director) – resigned 13 November 2006  
 Louis Scotto – resigned 2 February 2007

Paul Mainwaring and Rupert Robson (Independent Non-executive Director – appointed 4 January 2007) were appointed since the last Annual General Meeting and accordingly offer themselves for election at the forthcoming Annual General Meeting. Biographical details of the directors who are in office at the date of this annual report are set out on page 10.

## Directors' interests

The interests (all beneficial) of those persons who were directors at the end of the year in the ordinary share capital of the Company, together with comparatives for the previous year or the date of appointment, were as follows:

	2006 No	2005 No
Keith Hamill	58,299	58,299
Terry Smith	8,805,779	8,800,000
Paul Mainwaring <sup>1</sup>	–	–
John Spencer	32,897	32,897
David Clark	–	–
Michael Fallon	2,000	2,000
Richard Kilsby	–	–
Bernard Leaver	–	–
Louis Scotto <sup>2</sup>	106,273	68,112

Notes:

<sup>1</sup> Appointed 10 October 2006

<sup>2</sup> Resigned 2 February 2007

<sup>3</sup> The Tullett Prebon plc Employee Share Ownership Trust (previously the Collins Stewart Tullett plc Employee Share Ownership Trust) recognised 2,495,322 shares at 31 December 2006 (2005: 367,758). The beneficiaries of the trust are the employees of the Group, including the executive directors. Under Schedule 13 of the Companies Act 1985 the executive directors are deemed to be interested in these shares.

On 12 January 2007, Louis Scotto acquired 49,767 ordinary shares following the exercise of an option granted under the Tullett Liberty Equity Incentive Plan. Since the year end there have been no other changes to the directors' shareholdings.

Directors' share options are set out in the Report on Directors' Remuneration.

## Substantial interests

At the date of this document, the following (not being directors, their families or persons connected, within section 346 of the Companies Act 1985) had notified the Company that they were interested in 3% or more of the voting rights of issued ordinary share capital of the Company:

	%
Aviva plc	8.3
Legal & General Group plc	8.0
Deutsche Bank AG	7.4
UBS AG London Branch	5.1
Lazard Asset Management LLC	4.1
College Retirement Equities Fund	3.9



# Report of the Directors continued

## Social, environmental and ethical matters

The Board has adopted policies with regard to the social, environmental and ethical matters which affect the business. These govern, inter alia, the type of business which is transacted, the way in which business is conducted and the approach to training and incentivising staff. In particular:

- The Board takes regular account of social and ethical matters affecting the business; environmental issues are not considered on a regular basis as these are not regarded as a high risk;
- The Board periodically carries out formal assessments of the significant risks to its business which take account of social and ethical matters affecting both short and long-term value. The opportunities to create value arising from certain social and ethical stances are taken into account when formulating policies;
- The Board considers that it receives adequate information to make assessments of the social, environmental and ethical matters which affect its business; and
- There are systems of risk management in place to manage the significant risks which could affect the business.

The Group's risk management process is described in the Corporate Governance Report and a brief overview of the significant risks which could affect the business is included in the Operating and Financial Review.

The nature of the Group's activities is such that it has a minimal direct effect on the environment. However, the Board has agreed that it will seek to adopt policies to safeguard the environment to meet statutory requirements or where such policies are commercially sensible. Where practical, waste paper is recycled and some energy saving practices are employed.

## Staff

It is the Group's policy to give appropriate consideration to applications for employment from all persons, having regard to their particular aptitudes. For the purposes of training, career development and promotion, the Group is committed to

fairness and its policy is not to discriminate against any persons with regard to, inter alia, gender, age, disability, sexual orientation, religious or political beliefs but to develop and promote based on individual ability and the needs of the business.

The Group has a policy of keeping employees informed about major developments in the business. In particular, announcements are made available to employees when released to the public. The ownership of shares in the Company is encouraged by the Board, who consider share ownership as an important aspect of incentivising employees and aligning their interests with other shareholders.

## Health and safety policy

The Board has a policy of adopting procedures appropriate to its activities, to monitor, maintain and, where relevant, improve health and safety standards to safeguard the Group's staff.

## Policy of payment to suppliers

It is the Group's policy that all transactions are settled in accordance with relevant terms and conditions of business agreed with the supplier, provided all such terms and conditions have been complied with. The Company does not have any trade creditors.

## Special business at the Annual General Meeting

At the Annual General Meeting to be held on 7 June 2007 resolutions 7 to 9 will be proposed under special business.

Under resolution 7 it is proposed to grant the directors authority to allot unissued shares in the capital of the Company up to a nominal amount of £17,694,844 representing approximately 33% of the issued share capital of the Company as at the date of this document.

Resolution 8 seeks to renew, in accordance with section 89 of the Companies Act 1985, the directors' authority to allot further shares for cash, without first offering them to existing shareholders under the statutory pre-emption procedure. It is also proposed that any shares which are purchased by the Company, held in treasury and subsequently resold for cash will be covered by this authority. This authority is limited to the issue of equity securities in connection with

rights issues, open offers or similar issues and otherwise up to a nominal amount of £2,654,226 representing approximately 5% of the Company's issued share capital as at the date of this document.

Resolution 9 seeks to obtain authority for the directors to purchase up to 21,233,813 ordinary shares, being 10% of the share capital in issue at the date of this document. The maximum price that may be paid under the authority will be limited to the higher of 105% of the average middle market quotations of the Company's shares as derived from the Daily Official List of the London Stock Exchange for the five business days prior to any purchase and that stipulated by Article 5(1) of the Buyback and Stipulation Regulation 2003 (exclusive of expenses payable by the Company in connection with the purchase). The minimum price which may be paid for an ordinary share will be 25p (exclusive of expenses payable by the Company in connection with the purchase). The directors will exercise this authority only if they are satisfied that any purchase will be in the interests of shareholders.

It is not the directors' present intention to allot any ordinary shares or to purchase any ordinary shares in the market except to satisfy share options that may be exercised under the Company's share option schemes. The authorities contained in resolutions 7 to 9 will expire at the conclusion of the Annual General Meeting to be held in 2008 or 15 months after the passing of such resolutions (whichever is the earlier).

For this forthcoming Annual General Meeting shareholders will be able to utilise the CREST proxy voting service to lodge their proxy votes. Details of how this will operate are included in the notes to the Notice of Annual General Meeting at the back of this report and accounts and on the proxy form.

## Events after the balance sheet date

Events after the balance sheet date are summarised in note 37 to the consolidated financial statements.

## Political and charitable donations

During 2006 no political donations were made by the Group (2005: nil). Charitable donations amounting to £27,000 (2005: £146,000) were made to various charities globally.

#### Auditors

A resolution to re-appoint Deloitte & Touche LLP as the auditors will be proposed at the forthcoming Annual General Meeting.

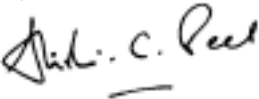
#### Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

By order of the Board



Alistair Peel  
Company Secretary  
13 March 2007

# Corporate Governance Report

The directors are responsible for the corporate governance of the Group. They support the principles of good corporate governance and code of best practice laid down by the Revised Combined Code issued in 2003 and adopted by the Financial Services Authority following the Higgs and Smith reviews.

Throughout the year ended 31 December 2006 the Board believes it has complied with the principles and provisions recommended by the Revised Combined Code.

The manner in which the Company has applied the principles of good governance set out in the Revised Combined Code during 2006 is outlined below.

## Directors

The Board currently comprises two executive directors, six non-executive directors and the Chairman, whose biographies are set out on page 10. All of the non-executive directors are considered to be independent under any of the relevant codes and regulations.

The Chairman's role under the Company's arrangements is as a non-executive and the current Chairman, Keith Hamill was, at appointment, independent of the Company and the management. The Chairman is responsible for the conduct of the Board and its oversight of the Company's affairs and strategy and the administration of the Board. The Chief Executive, Terry Smith, is responsible for the management of the business, the co-ordination of its activities and the

development of strategy. John Spencer has been nominated by the Board as Senior Independent Non-executive Director. The Senior Independent Non-executive Director has responsibility for dealing with any shareholders who have concerns, which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve, or for which such contact is inappropriate. The Board believes that these arrangements facilitate the effective management of the business and provide a strong control environment.

The directors' biographies, shown on page 10, demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A Statement of the Directors' Responsibilities in respect of the accounts is set out on page 22, and a statement on going concern is set out below.

The Board has established Audit, Remuneration and Nominations Committees to which it has delegated some of its responsibilities. Each of the Committees has detailed terms of reference and a schedule of business to be transacted during the year. The responsibilities of each of the Committees together with an overview of their meetings during the year are described below.

The Board and Committee attendance record during 2006 of the directors who held office at the end of the year is as follows:

	Board*	Audit Committee	Remuneration Committee	Nominations Committee
<b>Executive Directors</b>				
Terry Smith	11/11	–	–	–
Paul Mainwaring	2/2	–	–	–
Louis Scotto	11/11	–	–	–
<b>Non-executive Directors</b>				
Keith Hamill	11/11	–	–	1/1
David Clark	11/11	5/5	–	1/1
Michael Fallon	11/11	5/5	4/4	1/1
Richard Kilsby	10/11	5/5	3/4	1/1
Bernard Leaver	10/11	–	3/4	0/1
John Spencer	8/11	4/5	2/4	0/1

\*excludes meetings of Committees of the Board appointed to complete business approved by the Board or routine business.

In addition to the above the Chairman met with the non-executive directors without the executive directors being present and the senior independent non-executive director met with the other non-executive directors without the Chairman being present to evaluate the Chairman's performance. Appropriate feedback was provided following these meetings. The Chairman has also provided appropriate feedback to the non-executive directors.

#### Board administration

The Board has a schedule of eight meetings per annum to discuss the Group's ordinary course of business. Every effort is made to arrange these meetings so that all directors can attend; additional meetings are arranged as required. During the year additional meetings were required to deal with specific projects such as the demerger of Collins Stewart plc.

The Board and its Committees are provided with appropriate information on a timely basis to enable them to discharge their duties. The Board has a formal schedule of matters reserved to it for decision, including, inter alia, developing the future direction of the Group's business, agreeing policies and procedures, approving material transactions, budgets and borrowings and monitoring the Group's progress. All directors receive written reports prior to each Board meeting which enable them to make an informed decision on corporate and business issues under review. All Board meetings are minuted and any unresolved concerns are recorded in such minutes. Beneath the Board there is a structure of delegated authority which sets out the authority levels allocated to the individual directors and senior management.

The terms of the directors' service agreements and letters of appointment are summarised in the Report on Directors' Remuneration. All directors are subject to election by shareholders at the first Annual General Meeting of shareholders after their appointment. Thereafter, any director who has held office for three years or more is required to retire by rotation at the Annual General Meeting but is entitled to seek re-election. At the forthcoming Annual General Meeting in June, Paul Mainwaring and Rupert Robson will be subject to election as they have been appointed since the last Annual

General Meeting. The Board considers that Rupert Robson's extensive knowledge of the City and the financial services industry will be of value to the Board and accordingly proposes that he should be elected. Paul Mainwaring is a chartered accountant and experienced finance director and the Board also proposes that he be elected.

Reviews of the performance of the Board, its Committees and individual directors in respect of the previous financial year have been undertaken. In this process, consideration was given to whether the Board or Committee fulfilled its terms of reference satisfactorily, whether the terms of reference needed to be revised, whether the administration operated effectively and whether individual directors performed their roles effectively. The non-executive directors are responsible for assessing the effectiveness of the Chairman (in his absence).

In the event that any of the executive directors wished to take up a non-executive appointment with another company, the Board would be amenable to such a proposal, provided that the time commitment involved would not be too onerous. Following the demerger of Collins Stewart plc on 19 December 2006, Terry Smith became Chairman of Collins Stewart plc. In that capacity, Mr Smith's annual fee will be £200,000, which he will retain.

The terms and conditions of appointment of the non-executive directors will be available for inspection during normal business hours on any weekday (other than public holidays) at the Company's offices from the date the notice of Annual General Meeting is posted until the conclusion of the Annual General Meeting.

All directors have access to the services of the Company Secretary and there are procedures in place for taking independent professional advice at the Company's expense if required. The Company arranges insurance cover in respect of legal action against the directors. The Company Secretary is responsible for ensuring that the Board keeps up to date with key changes in legislation which affect the Company. The appointment or removal of the Company Secretary is a matter reserved for the Board.

#### Audit Committee

The Audit Committee is chaired by Richard Kilsby, who has recent and relevant financial experience. The other members of the Audit Committee are John Spencer, David Clark, Michael Fallon and Rupert Robson, all of whom are Independent Non-executive Directors. Keith Hamill attends Audit Committee meetings by invitation.

The Company's external auditors, the executive directors and the heads of Risk Control and Internal Audit may attend Committee meetings by invitation. The Committee has a discussion with the external auditors at least once a year without executive directors being present, to ensure that there are no unresolved issues of concern.

Throughout 2006 the Committee's terms of reference included monitoring the integrity of the financial statements, reviewing the scope and findings of the external audit, assessing the independence and objectivity of the external auditors and making recommendations for the re-appointment or removal of the external auditors, monitoring the internal audit function, reviewing the effectiveness of the Company's internal control procedures, overseeing and assessing the risk control system and reviewing arrangements by which staff may, in confidence, raise concerns about improprieties.

During the year the Audit Committee reviewed the cost effectiveness, objectivity and independence of the external auditors and the level of fees received in respect of the various services provided by them in addition to the audit during 2006. The auditors confirmed to the Audit Committee that they did not believe that the level of non-audit fees had affected their independence. The Audit Committee additionally considered the professional and regulatory guidance on auditor independence and was satisfied with the auditors' representations. The Audit Committee's policy is to use the most appropriate advisers for non-audit work, taking account of the need to maintain independence. In considering and approving the engagement of the auditors to advise in connection with the demerger and return of capital, the Audit Committee took into account the fact that other professional advisers were also engaged to assist with the project.

# Corporate Governance Report continued

The Audit Committee is responsible for reviewing the interim and preliminary announcements of results and the statutory accounts prior to their approval by the Board. When conducting the review, the Committee considers the continuing appropriateness of the accounting policies, judgements made in the production of the numbers and the adequacy and appropriateness of disclosures.

The Committee has reviewed arrangements by which staff may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters. In conducting the review, the Committee also took into account whether the policies were in line with the recommendations set out in CP101 published by the Financial Services Authority.

The Audit Committee received reports from the internal audit function during the year and reviewed the schedule of work proposed by the internal audit department, the resources available to carry out the schedule and key findings. A system of reporting to follow up on all matters raised by both internal and external audit was taken into account in assessing the effectiveness of the internal audit function.

The terms of reference of the Audit Committee will be available for inspection during normal business hours on any weekday (other than public holidays) at the Company's offices from the date the notice of Annual General Meeting is posted until the conclusion of the Annual General Meeting, and are also available on the Company's website.

The Audit Committee met five times during 2006.

## Remuneration Committee

The Remuneration Committee comprises Michael Fallon, who is the Committee's Chairman, Bernard Leaver, John Spencer and Richard Kilsby and, since the year end, Keith Hamill and Rupert Robson. The Board has delegated the following responsibilities to the Remuneration Committee: agreeing the remuneration of the executive directors and the Chairman, recommending and monitoring the level and structure of remuneration of senior management and granting share options under the Company's share option schemes.

The Chief Executive attends certain parts of meetings of the Remuneration Committee by invitation. The Chairman does not attend meetings where his own remuneration is being discussed. Further details of the Company's policies on remuneration, service contracts and share options are given in the Report on Directors' Remuneration.

The terms of reference of the Remuneration Committee will be available for inspection during normal business hours on any week day (other than public holidays) at the Company's offices from the date the notice of Annual General Meeting is posted until the conclusion of the Annual General Meeting, and are also available on the Company's website.

The Remuneration Committee met four times during 2006.

## Nominations Committee

The Nominations Committee is chaired by the Chairman and all of the non-executive directors are members. The terms of reference of the Nominations Committee provide that the Chairman of the Board would not be permitted to chair the Committee if it were dealing with the issue of his replacement.

The Nominations Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance of skills, knowledge and experience of the Board. The Nominations Committee also has responsibility for agreeing and implementing procedures for the selection of new Board appointments, for reviewing candidate specifications and making recommendations to the Board on all proposed new appointments and on any proposed re-election of an existing director.

For non-executive appointments, the Committee also considers the time commitment involved in the appointment in arriving at its decision, and this is now included in all new letters of appointment.

The appointment of Rupert Robson as a Non-executive Director was the result of a formal search process led by the Chairman and using search consultants. The appointment of Paul Mainwaring as Finance Director was the result of a formal search process led by the Chief Executive. Both appointments were subject to Nominations Committee approval,

following meetings with the recommended candidates.

The terms of reference of the Nominations Committee will be available for inspection during normal business hours on any week day (other than public holidays) at the Company's offices from the date the notice of Annual General Meeting is posted until the conclusion of the Annual General Meeting and are also available on the Company's website.

The Nominations Committee met once during 2006.

## Risk management and internal control

The Board is responsible for setting the Group's risk appetite and ensuring that it has an appropriate and effective risk management framework and monitors the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Group. The Board is also responsible for the Group's system of internal control and for reviewing its effectiveness. In discharging its responsibilities in this respect, the Board has appointed the Audit Committee to carry out the annual review of the effectiveness of the internal control and risk management systems and to report to the Board thereon. This process has been in place for the year under review and up to the date of approval of the annual report, is reviewed regularly by the Board and accords with the Turnbull guidance appended to the Revised Combined Code.

The key risks facing the business are described in the Operating and Financial Review. These risks are assessed before any new business is established and monitored on a day to day basis as part of the normal management process. The Group has adopted a single set of policies for the management of risk to be applied across all activities.

Risk management and the operation of the internal control systems within the Group are primarily the responsibility of the executive directors and the senior management. These individuals are allowed commercial independence and flexibility within parameters agreed by the Board to ensure that risks are clearly owned and managed on a day to day basis and that systems of control operate effectively.



Under the overall supervision of the Board and the Chief Executive, the management team continue to implement their business development plans and monitor operational projects. The executive directors monitor activities on a daily basis and ensure that appropriate controls are exercised over the Group's operations. The Board considers the monthly management accounts, budgets and plans and discusses any issues arising therefrom.

The Risk Committee is a management committee which is responsible for developing policies and monitoring mechanisms which ensure that the Group operates in accordance with the Board's risk appetite. The Head of Group Risk Control reports to the Finance Director. The members of the Risk Committee are the Chief Executive, who acts as chairman, the Finance Director and the Head of Group Risk Control. The minutes of the Risk Committee are circulated to the Board.

The systems of internal control operated by the Group are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

A Group Risk Control team, which forms part of the embedded risk management process, is responsible for ensuring that the Risk Committee, executive directors and senior management receive appropriate information and exception reports to comply with the Group's risk management principles and policies for maintaining the Group's risk assessment system. The reports provided cover, inter alia, the current status of existing controls, audits, loss events, and any required action plans to remedy any identified shortcomings in the control environment.

The Group has investments in a number of joint ventures and associated companies. Where the Group is not directly involved in the management of the investment, it can influence, through Board representation, but not control, the internal control systems present in those entities. The Board's review of the effectiveness of the system of internal controls in those entities is consequently less comprehensive than in its directly owned subsidiaries.

The Audit Committee conducted a formal review of the effectiveness of the Group's internal control systems for 2006, considering reports from management and the work of the Risk and Internal Audit functions. The review covered all key controls, including financial, operational and compliance controls, as well as the Group's risk management systems. The findings of the review were reported to and considered by the Board.

#### Compliance

The Group has a compliance function which ensures that all the Group's entities meet the rules of the regulators in each of the jurisdictions in which the Group operates. The compliance officers are in regular contact with the executive directors and report to the Risk Committee, the Audit Committee and the Board as appropriate.

The Group is regulated on a consolidated basis by the Financial Services Authority. During the year the Company ensured that its controls were consistent with the Integrated Prudential Source Book. The Financial Services Authority has changed the methodology for the calculation of regulatory capital with the introduction of the Capital Requirements Directive in 2007. The Group continues to maintain excesses of regulatory capital in all its regulated entities and also at the Group level and does not envisage any difficulties arising from any changes to be introduced to the regulation of its businesses.

#### Internal audit

The Group has an internal audit function which undertakes reviews and provides objective analysis, appraisals, advice and recommendations concerning the activities reviewed. Internal Audit uses a risk-based, disciplined approach to both selection of areas for review and assessment thereof. The proposed schedule of activities of the internal audit department is approved by the Audit Committee, and all internal audit reports are copied to the members of the Audit Committee. The Head of Internal Audit has a reporting line to the Audit Committee and has access at any time to the Chairman of the Audit Committee.

#### Going concern

The directors have satisfied themselves, at the time of approving the financial statements, that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements are prepared on a going concern basis.

#### Relations with shareholders

The Board recognises the importance of communication with shareholders. The Company's website, [www.tullettprebon.com](http://www.tullettprebon.com), provides information for shareholders on the Group's activities, announcements, products and recent developments.

There is regular dialogue with institutional investors, fund managers and analysts, including presentations around the time of the results announcements and also on request. Following formal presentations to shareholders, the Company's brokers additionally provide feedback to the Board from shareholders. The Chairman maintains informal relations with shareholders when necessary and is available to those shareholders who have a policy of regular contact or who wish to discuss specific matters. The Senior Independent Non-executive Director and the other non-executive directors are available to meet with shareholders, should such meetings be requested.

The Operating and Financial Review on pages 3 to 9 includes a detailed review of the business and future developments.

The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. Notice of the Annual General Meeting, and related papers, are sent to shareholders at least 20 working days before the meeting. The Chairman aims to ensure that all of the directors, including Chairmen of the Committees of the Board, are available at Annual General Meetings to answer questions and meet shareholders. The proxy votes cast on each resolution proposed at general meetings are disclosed at those meetings. To encourage shareholder participation, those shareholders whose shares are held via the CREST system are offered the facility to submit their proxy votes via CREST.

# Report on Directors' Remuneration

The Report on Directors' Remuneration sets out Tullett Prebon plc's remuneration policy, the composition and role of its Remuneration Committee and details of directors' remuneration for the year ended 31 December 2006. It has been prepared in accordance with Schedule 7A of the Companies Act 1985 and the Revised Combined Code, and will be put to shareholders for approval at the Annual General Meeting on 7 June 2007.

The Companies Act 1985 requires the auditors to report to the Company's members on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

## Remuneration Committee

(unaudited)

During 2006, the Remuneration Committee comprised Michael Fallon (Chairman), Richard Kilsby, Bernard Leaver and John Spencer, all of whom are independent Non-executive Directors. Rupert Robson, who is also an independent Non-executive Director, joined the Committee on 1 February 2007. Following changes in the Revised Combined Code, Keith Hamill, who was independent at appointment, became a member of the Committee in November 2006. Terry Smith attends meetings by invitation, but neither he nor Keith Hamill are present when their own remuneration is being discussed.

The Remuneration Committee is responsible, on behalf of the Board, for developing policy on executive remuneration and the framework on which that policy is applied. The remuneration of the Chairman of the Company is also determined by the Remuneration Committee.

The Committee meets at least three times a year, and more often if necessary. Four meetings were held during 2006.

The Committee's terms of reference are available on the Company's website or, on request, from the Company Secretary, who acts as Secretary to the Committee. The Chairman of the Remuneration Committee attends Annual General Meetings of the Company and is available to answer questions raised by shareholders.

## Professional advice

(unaudited)

During the year the Remuneration Committee received advice from Halliwell Consulting and Allen & Overy LLP in relation to executive share incentive arrangements. Both were appointed by the Committee for this purpose. Allen & Overy LLP also provide other forms of legal advice to the Group.

## Remuneration policy

(unaudited)

The Company's remuneration policy is to provide packages which are designed to attract, motivate and retain executive directors who have the necessary skills and experience to achieve high levels of profit and returns. The policy takes account of general practice in the financial services sector and it is considered that failure to do so would not be in the interests of shareholders. As a general principle, the Remuneration Committee favours highly variable remuneration that is dependent on performance.

The remuneration policy set out below is that which applied during the year ended 31 December 2006 and is intended to remain the same for the next and subsequent financial years, although it will be subject to review by the Committee.

Executive directors' remuneration packages comprise fixed and variable elements, as shown below.

## Base salary

(unaudited)

Base salary is a fixed component of executive directors' remuneration. Executive directors' base salaries are reviewed annually by the Remuneration Committee.

Terry Smith's basic annual salary for 2006 was £650,000. Louis Scotto's basic annual salary for 2006 was £447,000. Paul Mainwaring's basic annual salary for 2006 was £275,000.

Following the demerger of Collins Stewart plc on 19 December 2006, Terry Smith will also receive fees in respect of his chairmanship of Collins Stewart plc.

## Discretionary performance bonus

(unaudited)

No director has a contractual entitlement to a bonus.

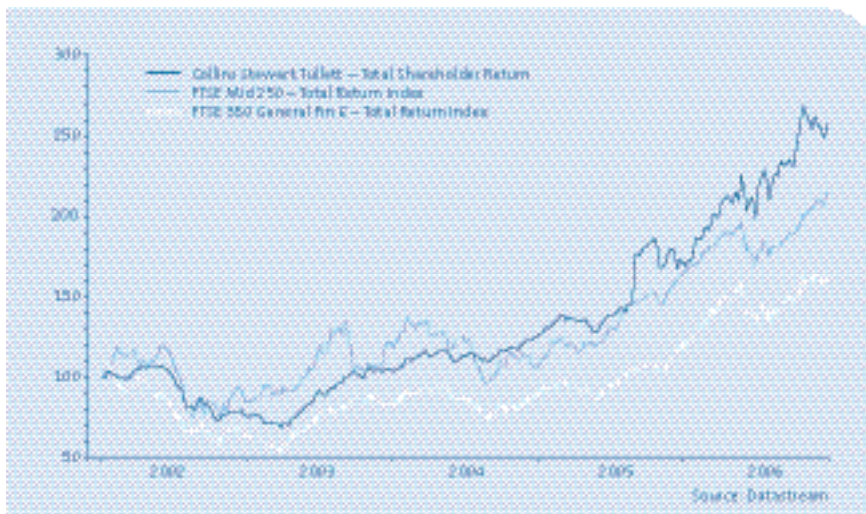
The Company's policy is to pay high variable remuneration reflecting superior corporate and individual performance and to minimise the proportion of remuneration which is fixed. Performance bonuses, therefore, represent a core component of the Company's approach to remuneration.

The policy takes account of general practices within the Company's sector. Bonuses are discretionary and are not formally capped and it is considered that both of these features are in the best interests of shareholders.

The Remuneration Committee has normally followed certain guidelines in determining the amounts available for bonuses to be paid to executive directors. This involves the application of a formula based on the extent to which the performance in a period has generated returns in excess of the cost of capital, relative shareholder returns and absolute share price performance. The total amount available is then allocated to executive directors, depending on the Remuneration Committee's view of their contribution to the performance achieved, the achievement of objectives, sector comparables and other factors it considers appropriate.

The Committee may increase or reduce the total amount available for distribution as discretionary bonuses depending upon its views on performance compared with market circumstances, previous periods, achievement of objectives, competitive levels of bonuses and other factors which it considers appropriate to take into account.

The Remuneration Committee determined that total bonus levels for directors for 2006 should take into account, in particular, the return on capital employed achieved by Collins Stewart Tullett plc in excess of its cost of capital and total shareholder returns compared to other companies in the sector. In 2006 Collins Stewart Tullett plc's total shareholder return of 54.6% (calculated using the Collins Stewart Tullett plc share price at the start of 2006 and the combined Tullett Prebon plc and Collins Stewart plc share prices at the end of that year) exceeded the return generated by the FTSE mid 250 index by 18.7% and the FTSE General Financials index by 9.5%.



A graph depicting Collins Stewart Tullett plc's total shareholder return in comparison to other companies in the FTSE mid 250 index and the FTSE General Financials index in the five years prior to the demerger is shown above.

The Board believes that the above indices are most relevant to the Company as they comprise either businesses of similar size or engaged in the financial services industry.

### Long term incentives

(unaudited)

Equity incentivisation of staff, including executive directors, continues to be an important part of the Company's remuneration strategy. The Company adopted a new discretionary Long Term Incentive Plan at the time of the demerger, which provides for performance-related options to be granted at an exercise price (if any) determined by the Remuneration Committee. Future grants will take account of the prevailing market practice and the views of institutional shareholders.

Awards granted under the Tullett Liberty Equity Incentive Plan ('EIP'), which were outstanding before the demerger, are subject to turnover and operating margin targets, which were considered to continue to provide an appropriate incentive and so were exchanged at the time of the demerger for equivalent awards over ordinary shares in the Company. The turnover target was adjusted to reflect the transfer of part of the US equities business of the Company to Collins Stewart plc on the demerger. The operating margin target continued to apply. Details of the performance conditions, as applicable to the awards granted under the EIP to Louis Scotto, are shown on page 20.

No share based incentives have been granted to Terry Smith (other than those under the Company's Sharesave Scheme 2000, which he exercised in the course of the year). This is because he has the benefit of substantial equity holdings in the Company acquired pursuant to the management buy-out of Collins Stewart Limited in May 2000. No share options have yet been granted to Paul Mainwaring. This policy may change in the future.

Details of the number of shares over which share options were held by directors who held office at the end of the year are set out below:

### Directors' share options

(audited)

Name of director	Type of option	Shares under option at 1 January 2006	Shares under option at 31 December 2006	Granted during period	Exercised during period	Lapsed unexercised during period	Exercise price per share	Date from which first exercisable	Date of expiry of option
Terry Smith	Sharesave Scheme 2000	5,779	Nil	—	5,779 <sup>(i)</sup>	—	292p	1.1.06	30.6.06
Louis Scotto <sup>(iii)</sup>	2003 Share Option Scheme	120,000	Nil	—	120,000 <sup>(iii)</sup>	—	349p	29.4.06	28.4.13
Louis Scotto <sup>(iii)</sup>	Tullett Liberty Equity Incentive Plan	47,720 (Tranche 1)	64,704 <sup>(iv)</sup>	—	—	—	Nil	8.1.07	12.1.14
Louis Scotto <sup>(iii)</sup>	Tullett Liberty Equity Incentive Plan	10,106 (Tranche 2)	13,703 <sup>(iv)</sup>	—	—	—	Nil	8.1.07	21.4.14
Louis Scotto <sup>(iii)</sup>	Tullett Liberty Equity Incentive Plan	366,263 (Tranche 3)	496,623 <sup>(iv)</sup>	—	—	—	£1 in total	1.1.08	12.10.14

Notes:

(i) The market price at the date of exercise was 605.5p.

(ii) The market price at the date of exercise of 18,018 shares was 806p. The market price at the date of exercise of 101,982 shares was 700p.

(iii) Resigned from the Board of the Company 2 February 2007. Louis Scotto was appointed Chief Executive, Americas on 2 February 2007.

(iv) Following the demerger of Collins Stewart Tullett plc on 19 December 2006, Louis Scotto's options over 424,089 Collins Stewart Tullett plc shares, held under the Tullett Liberty Equity Incentive Plan, were converted into options over 575,030 Tullett Prebon plc shares. Since the year end Louis Scotto has exercised his option under the Tullett Liberty Equity Incentive Plan over 78,407 shares. The market price on the date the options became exercisable was 630p.

## Report on Directors' Remuneration continued

No consideration was paid by any of the directors for the grant of any of the above share options. Vesting of the share options granted to Louis Scotto under the EIP as at the year end was subject to the performance conditions summarised below:

### Vesting conditions

An option will only vest if the Operating Margin Target is satisfied. The maximum number of shares in respect of which the option may vest is calculated based on the highest Operating Margin Target achieved in any financial year during the performance period, with full vesting only taking place at an Operating Margin of 18%. An option will only vest if Turnover is at least equal to £650m during the financial year (the 'Turnover Target'), other than in the event that an Acquisition is made. Assuming all the performance conditions are satisfied, the option shall vest and be capable of exercise twenty-four months after the end of the financial year in which the Operating Margin Target has been met, subject to the earliest exercise date being 1 January 2008.

After the year end, the vesting conditions were amended such that the Operating Margin Target for Tranche 3 was brought into line with that of Tranches 1 and 2, and the Turnover Target was reduced to £625m to reflect the transfer of part of the US equities business to Collins Stewart plc.

The market price of Collins Stewart Tullett plc's ordinary shares ranged from a low of 593p to a high of 910.5p during the year. As a result of the

demerger on 19 December 2006, shareholders received one share in Tullett Prebon plc and one share in Collins Stewart plc for each Collins Stewart Tullett plc share previously held. Between 19 December and the year end, the lowest price of Tullett Prebon plc ordinary shares was 642p and the highest price was 660p. At 31 December 2006 it was 650p.

### Pensions

(audited)

No pension benefits were paid to either Terry Smith or Paul Mainwaring during 2006, although Paul Mainwaring is eligible to join the Tullett Prebon Group Personal Pension Plan, a defined contribution scheme. Pensions contributions of £6,600 were paid in respect of Stephen Jack in 2006 (2005: £6,000). No other pension benefits were paid to directors during 2006.

### Other benefits

(audited)

In 2006, Terry Smith and Stephen Jack received private medical cover to the value of £991 and £587 respectively. This is shown under 'Benefits' in the Total Emoluments table.

None of the executive directors has the exclusive benefit of a car financed by the Company.

### Directors' service contracts

(unaudited)

In compliance with the Revised Combined Code, no director's notice period exceeds twelve months.

Details of directors' contracts are set out below:

Director	Date of contract	Notice period
Terry Smith	29 January 2007	Twelve months
Paul Mainwaring	25 September 2006	Twelve months
Keith Hamill	22 September 2000	Twelve months
David Clark	10 March 2003	Twelve months
Michael Fallon	24 August 2004	Twelve months
Richard Kilsby	3 June 2005	Twelve months
Bernard Leaver	9 July 2003	Twelve months
John Spencer	22 September 2000	Twelve months
Rupert Robson	4 January 2007	Twelve months

The Executive Directors' contracts provide for automatic retirement at age 65.

### Non-executive directors' fees

(unaudited)

Terms and conditions of non-executive directors are determined by the Board. In reviewing levels of fees paid to the non-executive directors, the Board considers both the committee and other responsibilities of the relevant directors and the fees paid to non-executive directors of other similar organisations. The Board's policy is to set a higher level of fees for those non-executive directors who act as Chairmen of Board committees.

With effect from 19 December 2006, the Chairman's fee was increased from £130,000 pa to £150,000 pa. Committee Chairmen's fees were increased from £36,000 pa to £45,000 pa with effect from 1 November 2006. Other non-executive directors' fees were increased from £32,000 pa to £40,000 pa with effect from 1 November 2006.

### Termination payments and payments to third parties

(audited)

Stephen Jack resigned as a Director on 13 November 2006 and received £280,000 compensation for loss of office.

No other termination payments or payments to third parties were made.

### Total emoluments

(audited)


Total emoluments received by directors during the year ended 31 December 2006 were as follows:

	Salaries and fees		Benefits		Bonuses		Compensation for loss of office		Total	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
<b>Executive Directors</b>										
Terry Smith	650	650	1	1	3,850 <sup>(i)</sup>	2,925	–	–	4,501	3,576
Louis Scotto	447	482	–	3	1,474	1,455	–	–	1,921	1,940
Stephen Jack <sup>(ii)</sup>	300	300	1	3	200	400	280	–	781	703
Paul Mainwaring	69	–	–	–	100	–	–	–	169	–
Former directors <sup>(iii)</sup>	–	13	–	–	–	–	–	–	–	13
<b>Non-executive Directors</b>										
Keith Hamill	130	115	–	–	–	–	–	–	130	115
David Clark	33	32	–	–	–	–	–	–	33	32
Michael Fallon	38	32	–	–	–	–	–	–	38	32
Richard Kilsby	38	19	–	–	–	–	–	–	38	19
Bernard Leaver	33	32	–	–	–	–	–	–	33	32
John Spencer	38	36	–	–	–	–	–	–	38	36
	<b>1,776</b>	<b>1,711</b>	<b>2</b>	<b>7</b>	<b>5,624</b>	<b>4,780</b>	<b>280</b>	<b>–</b>	<b>7,682</b>	<b>6,498</b>

Notes:

- (i) The Remuneration Committee resolved to award Terry Smith a discretionary bonus of £3.85m in respect of 2006. As this is based upon the performance of the former Collins Stewart Tullett plc, Collins Stewart plc will contribute £1m, and Tullett Prebon plc £2.85m.
- (ii) Stephen Jack resigned from Collins Stewart Tullett plc's board on 13 November 2006. The above table does not include pension contributions in respect of Stephen Jack of £6,600 (2005: £6,000).
- (iii) Payment relates to Terry Hitchcock who resigned from Collins Stewart Tullett plc's board on 31 March 2005.

On behalf of the Board



**Michael Fallon**  
Chairman of the Remuneration Committee  
13 March 2007



# Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have chosen to prepare financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standard Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- select and apply accounting policies properly;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which 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 estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

# Independent Auditors' Report to the Members of Tullett Prebon plc

We have audited the Group financial statements of Tullett Prebon plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 39. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Tullett Prebon plc for the year ended 31 December 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration Report described as having been

audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Revised Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered

necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.



**Deloitte & Touche LLP**  
Chartered Accountants and  
Registered Auditors  
13 March 2007

# Consolidated Income Statement

for the year ended 31 December 2006

	Notes	2006 £m	2005 £m
<b>Continuing operations</b>			
Revenue	3	654.1	649.4
Other operating income	4	17.5	23.9
<b>Administrative expenses</b>			
Exceptional items: reorganisation costs	5	–	(38.3)
Other administrative expenses		(556.8)	(582.6)
Total administrative expenses		(556.8)	(620.9)
<b>Operating profit</b>		<b>114.8</b>	52.4
Finance income	8	30.4	21.5
Finance costs	9	(20.2)	(21.6)
<b>Profit before tax</b>		<b>125.0</b>	52.3
Taxation	10	(41.0)	(25.0)
<b>Profit of consolidated companies</b>		<b>84.0</b>	27.3
Share of results of associates		–	0.7
<b>Profit for the year from continuing operations</b>		<b>84.0</b>	28.0
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	3	44.3	33.7
<b>Profit for the year</b>	6	<b>128.3</b>	61.7
<b>Attributable to:</b>			
Equity holders of the parent		127.6	61.0
Minority interests		0.7	0.7
		<b>128.3</b>	61.7
<b>Earnings per share</b>			
From continuing operations			
Basic	11	39.7p	13.2p
Diluted	11	38.9p	13.1p
From total operations – continuing and discontinued			
Basic	11	60.6p	29.3p
Diluted	11	59.4p	28.9p
<b>Adjusted earnings per share is disclosed in note 11</b>			

# Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2006



	Notes	2006 £m	2005 £m
Gain/(loss) on net investment hedge	23	8.4	(7.2)
Effect of changes in exchange rates on translation of foreign operations		(14.3)	7.9
Actuarial gains on defined benefit pension schemes	36	8.0	0.9
Taxation on items taken directly to equity – continuing operations	10	4.7	(0.2)
Taxation on items taken directly to equity – discontinued operations	10	4.5	0.6
<b>Net income recognised directly in equity</b>		<b>11.3</b>	<b>2.0</b>
Profit for the year from continuing operations		84.0	28.0
Profit for the year from discontinued operations		44.3	33.7
<b>Total recognised income and expense for the year</b>		<b>139.6</b>	<b>63.7</b>
<b>Attributable to:</b>			
Equity holders of the parent		138.9	63.0
Minority interest		0.7	0.7
		<b>139.6</b>	<b>63.7</b>

# Consolidated Balance Sheet

as at 31 December 2006

	Notes	2006 £m	2005 £m (as restated)
<b>Non-current assets</b>			
Goodwill	13	311.7	428.0
Other intangible assets	14	1.5	2.8
Property, plant and equipment	15	18.8	24.3
Interest in associates	16	2.6	2.8
Other financial assets	17	2.7	5.7
Deferred tax assets	18	28.2	31.0
Derivative financial instruments	23	5.8	–
		371.3	494.6
<b>Current assets</b>			
Trade and other receivables	19	12,627.0	11,998.7
Other financial assets	17	27.0	90.6
Cash and cash equivalents	31(c)	236.4	235.3
Derivative financial instruments	23	9.8	5.4
		12,900.2	12,330.0
<b>Total assets</b>		<b>13,271.5</b>	<b>12,824.6</b>
<b>Current liabilities</b>			
Trade and other payables	20	(12,667.2)	(12,026.2)
Other financial liabilities	21	–	(15.2)
Interest bearing loans and borrowings	22	(0.9)	(1.8)
Current tax liabilities		(31.4)	(32.6)
Derivative financial instruments	23	–	(1.9)
		(12,699.5)	(12,077.7)
<b>Net current assets</b>		<b>200.7</b>	<b>252.3</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	22	(151.3)	(153.1)
Retirement benefit obligations	36	(26.2)	(36.6)
Deferred tax liabilities	18	(1.3)	(1.0)
Long-term provisions	25	(7.8)	(7.2)
Other long-term payables	26	(3.1)	(3.3)
Derivative financial instruments	23	–	(1.2)
		(189.7)	(202.4)
<b>Total liabilities</b>		<b>(12,889.2)</b>	<b>(12,280.1)</b>
<b>Net assets</b>		<b>382.3</b>	<b>544.5</b>
<b>Equity</b>			
Share capital	27	690.1	53.1
Share premium account	28(a)	–	250.9
Reverse acquisition reserve	28(a)	(1,182.3)	–
Other reserves	28(b)	100.7	121.8
Retained earnings	28(c)	772.1	116.3
<b>Equity attributable to equity holders of the parent</b>	28(c)	<b>380.6</b>	<b>542.1</b>
Minority interest		1.7	2.4
<b>Total equity</b>		<b>382.3</b>	<b>544.5</b>

The financial statements were approved by the Board of directors and authorised for issue on 13 March 2007 and are signed on its behalf by:



Terry Smith  
Chief Executive



# Consolidated Cash Flow Statement

for the year ended 31 December 2006



	Notes	2006 £m	2005 £m
<b>Net cash from operating activities</b>	31(a)	<b>163.6</b>	<b>88.8</b>
<b>Investing activities</b>			
Sale of other financial assets		12.9	(1.9)
Interest received		15.5	10.7
Proceeds on disposal of property, plant and equipment		2.0	–
Proceeds on disposal of available-for-sale investments		7.2	1.2
Purchase of intangible fixed assets		(0.6)	(1.6)
Purchase of property, plant and equipment		(5.0)	(13.0)
Acquisition of subsidiaries/investment in associates		(4.4)	(8.0)
Derecognised on demerger of Collins Stewart	32	(122.3)	–
<b>Net cash used in investment activities</b>		<b>(94.7)</b>	<b>(12.6)</b>
<b>Financing activities</b>			
Dividends paid	12	(33.8)	(18.3)
Dividends paid to minority interests		(0.2)	–
Issue of ordinary share capital		–	1.3
Purchase of own shares/cash settlement of share options		(15.6)	–
Taxation credit on share option exercises		1.5	–
Repayment of borrowings		–	(1.2)
Demerger transactions costs		(4.5)	–
Repayment of obligations under finance leases		(0.5)	(0.5)
<b>Net cash used in financing activities</b>		<b>(53.1)</b>	<b>(18.7)</b>
<b>Net increase in cash and cash equivalents</b>		<b>15.8</b>	<b>57.5</b>
<b>Net cash and cash equivalents at the beginning of the year</b>		<b>234.2</b>	<b>169.1</b>
Effect of foreign exchange rate changes		(13.8)	7.6
<b>Net cash and cash equivalents at the end of the year</b>	31(c)	<b>236.2</b>	<b>234.2</b>
Cash and cash equivalents		236.4	235.3
Overdrafts		(0.2)	(1.1)
<b>Net cash and cash equivalents</b>	31(c)	<b>236.2</b>	<b>234.2</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

## 1. General information

Tullett Prebon plc is a company incorporated on 5 May 2006 in the United Kingdom under the Companies Act 1985. The address of the registered office is Cable House, 54-62 New Broad Street, London EC2M 1ST. The nature of the Group's operations and its principal activities are set out in the Operating and Financial Review on pages 3 to 9.

On 15 December 2006, Tullett Prebon plc became the holding company of Collins Stewart Tullett plc in accordance with a court approved scheme of arrangement under S425 of the Companies Act 1985. The acquisition of Collins Stewart Tullett plc by Tullett Prebon plc constitutes a group reconstruction and has been accounted for using reverse acquisition accounting principles as set out in IFRS 3: Business Combinations. The Group results for the year ended 31 December 2006 as well as the 2005 comparatives are prepared on the basis of the reverse acquisition principles.

On 19 December 2006, under the scheme of arrangement the Collins Stewart stockbroking business was demerged from the Group. Results for Collins Stewart for 2005 and 2006 have been included in the consolidated income statement as discontinued operations. The consolidated balance sheet for 2005 contains both inter-dealer broking and stockbroking activities, whilst 2006 contains inter-dealer broking only. The impact of the demerger is reflected throughout the financial statements.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7: Financial Instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures;  
IFRIC 7: Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economics;  
IFRIC 8: Scope of IFRS 2;  
IFRIC 9: Reassessment of embedded derivatives; and  
IFRIC 10: Interim reporting and impairments.

IFRS7 came into effect for periods commencing on or after 1 January 2007. The directors anticipate that the adoption of the Standard and the Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on financial instruments.

The Group has opted for early adoption of IFRIC 11: IFRS2 – Group and Treasury Share Transactions, the effective date being for annual periods beginning on or after 1 March 2007. There is no net impact on the results, however adoption has impacted the geographic segments in note 3.

## 2.(a) Summary of significant accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are rounded to the nearest hundred thousand (expressed as millions to one decimal place – £m), except where otherwise indicated. The principal accounting policies adopted are set out below.

The demerger has resulted in some minor reclassifications in the comparatives of the consolidated balance sheet, the consolidated cash flow statement and in the notes to the consolidated financial statements.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant inter-company transactions and balances between Group entities are eliminated on consolidation.

#### Revenue recognition

Revenue from total operations, which excludes value added tax, includes the profit on buying and selling securities, the profit or loss arising on positions held in securities, gross commissions, brokerage, fees earned and subscriptions for information sales. Dividends and interest arising on long and short positions in securities form part of revenue, and as they are also reflected in movements in market prices, are not identified separately. Fee income is recognised when the related services are completed and the income is considered receivable. Revenue also includes interest receivable on segregated client money accounts. Other interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the Group's right to receive the payment is established.

Revenue of the continuing inter-dealer broking business comprises:

- (i) 'Name give up' brokerage, where counterparties to a transaction settle directly with each other. Invoices are raised monthly for the provision of the service of matching buyers and sellers of financial instruments. Revenue is stated net of sales taxes, rebates and discounts and is recognised in full on trade date;
- (ii) 'Matched principal' brokerage, revenue being the net of the buy and sell proceeds from counterparties who have simultaneously committed to buy and sell the financial instrument. Revenue is recognised on trade date; and
- (iii) Fees earned from the sales of real-time price information from financial and commodity markets to third party information vendors. Revenue is recognised on an accruals basis.

#### Investment in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but does not control or jointly control, through participation in the financial and operating policies decisions of the investee. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over these policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair value of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited to the profit and loss in the year of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of impairment of the asset transferred in which case appropriate provision is made for impairment.

#### Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Joint venture arrangements, which involve the establishment of a separate entity in which each venture has an interest, are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation – the Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. Goodwill is initially recognised at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the goodwill allocated to that unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of any goodwill allocated to the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2006

## 2.(a) Summary of significant accounting policies continued

Goodwill arising on the acquisition of an associate is included within the carrying value of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

### Intangible assets

Software and software development costs

An internally-generated intangible asset arising from the Group's software development is recognised at cost only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

Where the above conditions are not met costs are expensed as incurred.

Acquired separately or from a business combination

Intangible assets acquired separately are capitalised at cost and intangible assets acquired in a business acquisition are capitalised at fair value at the date of acquisition. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on finite assets, this expense is taken to the income statement through 'other administrative expenses'.

Other than software development costs, intangible assets created within the business are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred.

	Software purchased or developed	Software licences
Useful life	Finite	Finite
Method used	3 years straight-line	Amortised over life of licences
Internally generated or acquired	Internally generated and acquired	Acquired only
Impairment testing/recoverable amount testing	Method reviewed at each financial year-end	Method reviewed at each financial year-end

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Property, plant and equipment

Freehold land is stated at cost. Buildings, furniture, fixtures, equipment and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight line basis over its expected useful life as follows:

Furniture, fixtures, equipment and motor vehicles	10% – 33% pa
Short and long leasehold land and buildings	over the period of the lease
Freehold land	nil
Freehold buildings	1% pa

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

#### Investments in securities

Investments in securities, which do not relate to inter-dealer broker settlement balances (see below), are recognised and derecognised on a trade-date basis where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value, including transaction costs.

After initial recognition, investments which are classified as held for trading or available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Pending regular way purchases and sales with customers are included in trade and other receivables and trade and other payables (see settlement balances below).

#### Settlement balances

Certain Group companies are involved as principal in the purchase of and simultaneous commitment to sell securities between third parties. Such trades are complete only when both sides of the deal are settled, and the Group is exposed to risk in the event that one side of the transaction remains unmatched. The amounts due to and payable by counterparties in respect of matched principal business expected to settle in the normal course of trading are shown gross within trade debtors or trade creditors as appropriate. Outstanding transactions which have gone beyond settlement date where neither side of the transaction has settled and transactions where one side has settled, but the other remains outstanding continue to be shown gross within trade and other receivables and trade and other payables until the transaction is completed.

#### Securities borrowing

Securities are borrowed in the ordinary course of business. All borrowing is collateralised and such collateral is included in trade debtors.

#### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated taking into account any issue costs and any discounts or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

#### Trade and other receivables

Trade and other receivables are settled within normal market cycles. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### Other financial assets

Available-for-sale assets, other investments and money market instruments are held at cost which approximates to fair value.

#### Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

# Notes to the Consolidated Financial Statements continued

## 2.(a) Summary of significant accounting policies continued

### Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are recorded on the balance sheet at fair value. The Group does not use derivative financial instruments for speculative purposes.

The fair value of forward exchange contracts and interest rate swaps is calculated on a discounted cash flow basis using relevant market data on foreign exchange and interest rates.

For the purpose of hedge accounting, hedges are classified as fair value hedges when they hedge an exposure to changes in the fair value of a recognised asset or liability; cash flow hedges where they hedge an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecast transaction; or net investment hedges when they hedge an exposure to changes in the reported value of foreign currency denominated net assets.

In relation to fair value hedges that meet the IAS 39 requirements for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

In relation to net investment hedges and cash flow hedges that meet the IAS 39 requirements for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When hedged forecast transactions result in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged transaction affects the income statement; for example, when the future sale actually occurs.

For derivatives that do not qualify for cash flow hedge accounting, any gains or losses arising from the changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, for a cash flow hedge, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is immediately recognised in the income statement.

### Client money

The Group holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority and other regulatory bodies. Such money and the corresponding liabilities to clients are not shown on the face of the balance sheet where they relate to segregated deposits, as the Group is not beneficially entitled thereto. Client money held to settle outstanding bargains is held on the balance sheet. The net return received on managing client money is included within revenue.

### Cash and cash equivalents

Cash comprises cash in hand and demand deposits, which may be accessed without penalty. Cash equivalents comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Equity instruments

Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### Derecognition of financial instruments

The derecognition of financial instruments takes place when all the derecognition criteria of IAS 39 are met and the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all of the cash flows attributable to the instrument are passed through to an independent third party.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event where it is probable that this will result in an outflow of economic benefits that can be reasonably estimated.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring, which has been notified to affected parties.



### Foreign currencies

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Gains and losses arising from the settlement of these transactions, and from the retranslation of monetary assets and liabilities denominated in currencies other than the functional currency at rates prevailing at the balance sheet date, are recognised in the income statement. Non monetary assets and liabilities denominated in currencies other than the functional currency that are measured at historical cost or fair value, are translated at the exchange rate at the date of the transaction or at the date the fair value was determined.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of. Income and expense items are translated at average exchange rates for the year.

### Taxation

The tax expense represents the sum of tax currently payable and movements in deferred tax.

The tax currently payable is based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised. Temporary differences are not recognised if they arise from goodwill or from initial recognition of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### Leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

### Retirement benefit costs

Defined contributions made to employees' personal pension plans are charged to the income statement as and when incurred.

For defined benefit retirement benefit plans, the cost of providing the benefits is determined using the projected unit credit method. Actuarial gains and losses are recognised in full in the year in which they occur. They are recognised outside the income statement and are presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits have already vested, and is otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

# Notes to the Consolidated Financial Statements continued

## 2.(a) Summary of significant accounting policies continued

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value of share options issued is determined using a Black Scholes valuation model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## 2.(b) Accounting estimations

In the process of applying the Group's accounting policies, the Group makes certain accounting judgements and estimations that have a significant effect on the carrying amounts of certain assets and liabilities recognised in the financial statements. These are discussed below.

### Impairment of goodwill

Judgements are made as to the necessity for impairment of the carrying value of goodwill based on estimations of future cash flows.

### Taxation

Judgements are made as to the carrying value of tax provisions where the outcome remains uncertain.

## 3. Segmental analysis

The Group's primary reporting format is geographical: Europe, North America and Asia Pacific, and its secondary reporting format is product group. The change in primary and secondary segments from 2005 is due to the demerger of the Collins Stewart stockbroking business.

### Continuing operations – geographical

	Europe		North America		Asia Pacific		Continuing	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Revenue</b>	<b>335.1</b>	317.2	<b>252.8</b>	260.5	<b>66.2</b>	71.7	<b>654.1</b>	649.4
Operating profit before exceptional items	<b>65.9</b>	41.6	<b>44.3</b>	40.4	<b>4.6</b>	8.7	<b>114.8</b>	90.7
Exceptional items	–	(19.4)	–	(12.0)	–	(6.9)	–	(38.3)
<b>Operating profit</b>	<b>65.9</b>	22.2	<b>44.3</b>	28.4	<b>4.6</b>	1.8	<b>114.8</b>	52.4
Finance income							<b>30.4</b>	21.5
Finance costs							<b>(20.2)</b>	(21.6)
<b>Profit before tax</b>							<b>125.0</b>	52.3
Taxation							<b>(41.0)</b>	(25.0)
<b>Profit of consolidated companies</b>							<b>84.0</b>	27.3
Share of results of associates							–	0.7
<b>Profit for the year from continuing operations</b>							<b>84.0</b>	28.0

There are no inter-segment sales included in segment revenue. All segment revenue is derived from sales to external customers.

### 3. Segmental analysis continued

	Europe		North America		Asia Pacific		Continuing	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Other information</b>								
Capital additions	3.8	9.8	0.6	3.9	0.5	1.2	4.9	14.9
Depreciation and amortisation	4.9	6.0	2.1	2.2	1.0	1.0	8.0	9.2
Impairment losses recognised in income statement	–	1.8	–	2.0	–	1.6	–	5.4
Share option plan expense	1.5	4.6	3.4	–	0.1	–	5.0	4.6
<b>Segment assets</b>	<b>1,580.3</b>	<b>2,739.6</b>	<b>11,644.8</b>	<b>9,499.2</b>	<b>46.4</b>	<b>52.5</b>	<b>13,271.5</b>	<b>12,291.3</b>
<b>Segment liabilities</b>	<b>1,371.1</b>	<b>2,527.4</b>	<b>11,495.4</b>	<b>9,373.3</b>	<b>22.7</b>	<b>25.9</b>	<b>12,889.2</b>	<b>11,926.6</b>

Segment assets and liabilities exclude all inter-segment balances.

#### Continuing operations – product group

	2006 £m	2005 £m
<b>Revenue</b>		
Treasury products	191.0	176.6
Interest rate derivatives	166.5	153.1
Fixed income	181.8	197.0
Equities	41.3	31.8
Energy	60.0	51.9
Information sales	13.5	13.4
Total revenue	654.1	623.8
Sold and closed activities	–	25.6
	654.1	649.4

#### Discontinued operations

Revenue and operating profit from the Group's discontinued operations was derived entirely from stockbroking.

	Europe		North America		Discontinued	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Revenue</b>	<b>146.9</b>	<b>115.1</b>	<b>37.9</b>	<b>33.6</b>	<b>184.8</b>	<b>148.7</b>
<b>Operating profit</b>	<b>55.0</b>	<b>39.2</b>	<b>5.4</b>	<b>1.5</b>	<b>60.4</b>	<b>40.7</b>
Finance income					5.7	4.9
Finance costs					(0.5)	(0.3)
<b>Profit before tax</b>					<b>65.6</b>	<b>45.3</b>
Taxation					(21.3)	(11.6)
<b>Profit for the year from discontinued operations</b>					<b>44.3</b>	<b>33.7</b>

	Europe		North America		Asia Pacific		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Total operations</b>								
Revenue	482.0	432.3	290.7	294.1	66.2	71.7	838.9	798.1
Operating profit	120.9	61.4	49.7	29.9	4.6	1.8	175.2	93.1

### 4. Other operating income

Other operating income represents receipts other than those earned through broking activities, such as rental income, royalties, insurance proceeds, gains on currency hedges, settlements from competitors and asset disposal proceeds. Costs associated with such items are included in administrative expenses.

### 5. Exceptional items

There were no exceptional items in 2006. The exceptional items charge of £38.3m in 2005 related to the costs associated with the integration of Prebon.

# Notes to the Consolidated Financial Statements continued

## 6. Administrative expenses

Profit for the year has been arrived at after charging:

	Continuing operations		Discontinued operations		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Other information</b>						
Net foreign exchange loss	2.8	2.4	–	0.1	2.8	2.5
Depreciation of property, plant and equipment (note 15)	6.9	8.1	1.1	1.5	8.0	9.6
Amortisation of intangible assets (note 14)	1.1	1.2	–	0.2	1.1	1.4
Staff costs (note 7)	439.5	463.4	89.6	71.0	529.1	534.4
Auditors' remuneration for audit services (see below)	1.7	1.6	0.4	0.2	2.1	1.8

The analysis of auditors' remuneration is as follows:

	2006 £000	2005 £000
Audit of the Group's annual accounts	270	320
Audit of the Company's subsidiaries pursuant to legislation	1,782	1,492
<b>Total audit fees</b>	<b>2,052</b>	<b>1,812</b>
Other services pursuant to legislation	138	88
Tax services	38	–
Corporate finance services	2,893	1,800
<b>Total non-audit fees</b>	<b>3,069</b>	<b>1,888</b>
Audit fees payable to the Company's auditors and their associates in respect of associated pension schemes	8	8

## 7. Staff costs

The average monthly number of employees and directors of the Group, all of whom were employed in inter-dealer broking was:

	2006 No.	2005 No.
<b>Continuing operations</b>		
Europe	1,076	1,143
North America	809	856
Asia Pacific	446	512
	<b>2,331</b>	<b>2,511</b>

The average employee headcount of discontinued operations totalled 511 (2005: 517).

The aggregate employment costs of staff and directors were:

	2006 £m	2005 £m
<b>Continuing operations</b>		
Wages, salaries, bonuses and incentive payments	400.2	425.8
Social security costs	30.6	28.8
Pension costs (see note 36)	3.7	4.2
Expense of share-based payments	5.0	4.6
	<b>439.5</b>	<b>463.4</b>

The aggregate employment costs of staff and directors of discontinued operations totalled £89.6m (2005: £71.0m)

## 8. Finance income

	2006 £m	2005 £m
<b>Continuing operations</b>		
Interest receivable and similar income	10.0	7.4
Gain on fair value hedge accounting	0.5	–
Mark-to-market gain on equity swap	13.4	9.3
Expected return on pension schemes' assets	6.5	4.8
	<b>30.4</b>	<b>21.5</b>
	2006 £m	2005 £m
<b>Discontinued operations</b>		
Interest receivable and similar income	5.7	4.9

## 9. Finance costs

	2006 £m	2005 £m
<b>Continuing operations</b>		
Interest payable on other loans	13.0	13.4
Finance charges payable under finance leases	0.2	0.4
Amortisation of debt issue costs	0.4	0.4
Other interest payable	0.4	0.7
Total borrowing costs	14.0	14.9
Loss on fair value hedge accounting	–	0.7
Interest cost on pension schemes' liabilities	6.2	6.0
	<b>20.2</b>	<b>21.6</b>
	2006 £m	2005 £m
<b>Discontinued operations</b>		
Interest payable on bank loans and overdrafts	0.4	0.3
Interest payable on other loans	0.1	–
	<b>0.5</b>	<b>0.3</b>

## 10. Taxation

	Continuing operations		Discontinued operations		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Current tax:</b>						
UK corporation tax	21.5	(0.7)	18.0	9.1	39.5	8.4
Double tax relief	(0.6)	(0.4)	(2.6)	(0.3)	(3.2)	(0.7)
	20.9	(1.1)	15.4	8.8	36.3	7.7
<b>Overseas tax</b>	23.0	12.3	5.7	2.5	28.7	14.8
Prior year under/(over) provision of UK corporation tax	0.3	(0.9)	–	0.3	0.3	(0.6)
Prior year (over)/under provision of overseas tax	(2.6)	2.8	0.1	–	(2.5)	2.8
	41.6	13.1	21.2	11.6	62.8	24.7
<b>Deferred tax (note 18)</b>						
Current year	0.1	13.9	0.1	–	0.2	13.9
Prior year deferred tax assets understated	(0.7)	(2.0)	–	–	(0.7)	(2.0)
	41.0	25.0	21.3	11.6	62.3	36.6

# Notes to the Consolidated Financial Statements continued

## 10. Taxation continued

The charge for the year can be reconciled to the profit per the income statement as follows:

	2006		2005	
	£m	%	£m	%
<b>Profit before tax:</b>				
Continuing operations	125.0		52.3	
Discontinued operations	65.7		45.3	
	<b>190.7</b>		<b>97.6</b>	
Tax based on the UK corporation tax rate of 30% (2005: 30%)	57.2	30.0	29.3	30.0
Tax effect of expenses that are not deductible	6.9	3.6	10.6	10.9
Less: Tax effect of non-taxable gains	(4.8)	(2.5)	(3.1)	(3.2)
Less: Tax effect of stock options	(0.3)	(0.2)	(2.5)	(2.6)
Effect of non-UK tax rates	6.1	3.2	1.5	1.6
Unrelieved losses	0.1	0.1	0.6	0.6
Adjustment in respect of prior years	(2.9)	(1.5)	0.2	0.2
Tax expense and effective tax rate for the year	<b>62.3</b>	<b>32.7</b>	<b>36.6</b>	<b>37.5</b>

Of the charge to current tax, £21.3m (2005: £11.6m) related to profits arising in Collins Stewart plc, which was demerged during the year.

In addition to the income statement, the following current and deferred tax items have been taken directly to equity:

Current tax in respect of stock options exercised amounting to £3.1m credit, of which £2.4m related to discontinued operations (2005: £nil); current tax in respect of exchange differences on translation of foreign operations amounting to £3.7m credit (2005: £3.2m debit), which related entirely to continuing operations; and current tax in respect of the gain on the net investment hedge amounting to £0.7m debit (2005: £nil), which related entirely to continuing operations.

Deferred tax relating to the actuarial movement on defined benefit pension schemes amounting to £2.4m debit (2005: £0.3m debit), which related entirely to continuing operations; and deferred tax relating to stock options amounting to £5.5m credit, of which £2.2m related to discontinued operations (2005: £3.9m credit of which £0.6m related to discontinued operations) – see consolidated statement of recognised income and expense.

## 11. Earnings per share

	2006	2005
<b>Continuing operations</b>		
Adjusted basic	33.0p	22.4p
Basic	39.7p	13.2p
Diluted	38.9p	13.1p

The calculation of basic and diluted earnings per share from continuing operations and total operations is based on the following number of shares in issue:

	2006	2005
	No. (m)	No. (m)
Weighted average shares in issue	210.7	208.5
Issuable on exercise of options	4.3	2.7
Diluted weighted average shares in issue	215.0	211.2



### 11. Earnings per share continued

The earnings used in the calculation of adjusted, basic and diluted earnings per share, are as described below:

	2006 £m	2005 £m
<b>Continuing operations</b>		
Earnings	84.0	28.0
Minority interest	(0.4)	(0.4)
Earnings for the purposes of the basic and diluted earnings per share	83.6	27.6
Exceptional items	–	38.3
Mark to market gain on equity swap	(13.4)	(9.3)
(Gain)/loss on fair value hedge accounting	(0.5)	0.7
Expected return on pension schemes' assets	(6.5)	(4.8)
Interest cost on pension schemes' liabilities	6.2	6.0
Taxation on above items	0.1	(11.7)
Adjusted earnings	69.5	46.8

Basic and diluted earnings per share from discontinued operations are shown in note 30.

### 12. Dividends

	2006 £m	2005 £m
<b>Amounts recognised as distributions to equity holders in the year:</b>		
Interim dividend for the year ended 31 December 2006 of 5.00p per share	10.6	–
Final dividend for the year ended 31 December 2005 of 11.00p per share	23.2	–
Interim dividend for the year ended 31 December 2005 of 3.00p per share	–	6.3
Final dividend for the year ended 31 December 2004 of 5.75p per share	–	12.0
	33.8	18.3

In respect of the current year, the directors propose that the final dividend of 6.00p per share amounting to £12.7m will be paid to shareholders on 14 June 2007. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 25 May 2007.

The trustees of the Tullett Prebon plc Employee Share Ownership Trust have waived their rights to dividends.

### 13. Goodwill

	2006 £m	2005 £m
<b>Cost</b>		
At 1 January	457.7	451.0
Additions	0.4	–
Revision to existing goodwill (Derecognised)/recognised on (demerger)/acquisition	– (139.2)	(0.8) 7.5
At 31 December	318.9	457.7
<b>Accumulated impairment losses</b>		
At 1 January	29.7	29.7
Eliminated on demerger	(22.5)	–
At 31 December	7.2	29.7
<b>Carrying amount at 31 December</b>	<b>311.7</b>	<b>428.0</b>

Goodwill additions during the year arose on the acquisition of the minority interest in Collins Stewart Property Fund Management Limited. This was derecognised on demerger.

# Notes to the Consolidated Financial Statements continued

## 13. Goodwill continued

Goodwill acquired through business combinations has been allocated to individual cash-generating units for impairment testing as follows:

		2006 £m	2005 £m
Inter-dealer broking:	Europe	170.6	170.6
	North America	121.8	121.8
	Asia Pacific	19.3	19.3
		311.7	311.7
Discontinued operations		–	116.3
		311.7	428.0

The recoverable amount of goodwill allocated to each of the cash-generating units is based on value in use calculations, using cash flow projections discounted at a pre-tax discount rate of 10.9% (2005: 10.2%).

## 14. Other intangible assets

	Purchased software £m	Developed software £m	Total £m
<b>Cost</b>			
At 1 January 2005	2.0	10.0	12.0
Reclassifications	(0.4)	0.4	–
Additions	1.5	0.1	1.6
Impairment loss	–	(5.1)	(5.1)
Effect of movements in exchange rates	0.3	0.6	0.9
Disposals	(1.9)	(1.8)	(3.7)
At 31 December 2005	1.5	4.2	5.7
Reclassifications	2.0	(1.4)	0.6
Additions	0.6	–	0.6
Effect of movements in exchange rates	(0.3)	(0.7)	(1.0)
Derecognised on demerger	–	(0.9)	(0.9)
Disposals	(0.1)	(0.1)	(0.2)
At 31 December 2006	3.7	1.1	4.8
<b>Amortisation</b>			
At 1 January 2005	0.7	2.0	2.7
Charge for the year	0.5	0.9	1.4
Impairment loss	–	(0.5)	(0.5)
Effect of movements in exchange rates	0.2	0.4	0.6
Disposals	(1.1)	(0.2)	(1.3)
At 31 December 2005	0.3	2.6	2.9
Reclassifications	1.8	(1.2)	0.6
Charge for the year	1.1	–	1.1
Effect of movements in exchange rates	(0.3)	(0.5)	(0.8)
Eliminated on demerger	–	(0.5)	(0.5)
At 31 December 2006	2.9	0.4	3.3
<b>Carrying amount</b>			
At 31 December 2006	0.8	0.7	1.5
At 31 December 2005	1.2	1.6	2.8

The impairment loss in 2005 on developed software arose in connection with the write down of Prebon information technology systems.

## 15. Property, plant and equipment

	Land and buildings £m	Furniture fixtures, equipment and motor vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2005	8.7	16.8	25.5
Reclassification	0.6	(0.6)	–
Additions	7.1	6.9	14.0
Impairment loss	(0.8)	–	(0.8)
Effect of movements in exchange rates	0.3	0.8	1.1
Disposals	(2.6)	(0.8)	(3.4)
At 31 December 2005	13.3	23.1	36.4
Reclassification	2.1	(2.1)	–
Additions	1.7	4.2	5.9
Effect of movements in exchange rates	(0.6)	(5.3)	(5.9)
Derecognised on demerger	(3.0)	(9.6)	(12.6)
Disposals	(1.1)	(0.2)	(1.3)
At 31 December 2006	12.4	10.1	22.5
<b>Accumulated depreciation</b>			
At 1 January 2005	2.0	1.5	3.5
Charge for the year	1.4	8.2	9.6
Effect of movements in exchange rates	0.2	0.2	0.4
Disposals	(0.9)	(0.5)	(1.4)
At 31 December 2005	2.7	9.4	12.1
Reclassification	1.4	(1.4)	–
Charge for the year	1.8	6.2	8.0
Effect of movements in exchange rates	(0.5)	(4.5)	(5.0)
Eliminated on demerger	(2.0)	(8.8)	(10.8)
Disposals	(0.4)	(0.2)	(0.6)
At 31 December 2006	3.0	0.7	3.7
<b>Carrying amount</b>			
At 31 December 2006	9.4	9.4	18.8
At 31 December 2005	10.6	13.7	24.3

The carrying amount of the Group's property, plant and equipment and motor vehicles includes an amount of £2.9m (2005: £3.9m) in respect of assets held under finance leases.

## 16. Interest in associates

	2006 £m	2005 £m
Carrying amount of investment	2.6	2.8
Aggregated amounts relating to associates:		
Total assets	5.7	7.2
Total liabilities	(1.1)	(1.4)
Net assets	4.6	5.8
Revenues	4.0	7.3
(Loss)/profit for the year	(0.8)	0.6

A list of the significant investments in associates, including the name, country of incorporation and proportion of ownership interest is given in note 39.

# Notes to the Consolidated Financial Statements continued

## 17. Other financial assets

	2006 £m	2005 £m
<b>Non-current</b>		
Available-for-sale assets	0.8	3.2
Other investments	1.9	2.5
	<b>2.7</b>	<b>5.7</b>

Other investments included above comprise principally unlisted equity securities that present the Group with opportunity for return through dividend income and capital gains. They have no fixed maturity or coupon rate.

	2006 £m	2005 £m
<b>Current</b>		
Long trading positions	–	49.5
Money market instruments	27.0	41.1
	<b>27.0</b>	<b>90.6</b>

## 18. Deferred tax

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 £m	2005 £m
Deferred tax liabilities	(1.3)	(1.0)
Deferred tax assets	28.2	31.0
Net position	<b>26.9</b>	<b>30.0</b>

The movement for the year in the Group's net deferred tax position was as follows:

	2006 £m	2005 £m
At 1 January	30.0	37.8
Charge to income for the year	0.5	(11.9)
Charge to equity for the year	3.1	3.6
Transfer to corporation tax	(1.5)	(0.3)
Derecognised on demerger	(4.8)	–
Effect of movements in exchange rates	(0.4)	0.8
At 31 December	<b>26.9</b>	<b>30.0</b>

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	Balance sheet		Income statement	
	2006 £m	2005 £m	2006 £m	2005 £m
Accelerated depreciation for tax purposes	3.8	3.6	(0.5)	(4.0)
Stock options	10.5	7.8	1.3	2.7
Other timing differences	3.0	5.8	(1.3)	(7.5)
Losses available for offset against future taxable income	1.7	1.8	1.7	(2.9)
Pensions	7.9	11.0	(0.7)	(0.2)
	<b>26.9</b>	<b>30.0</b>	<b>0.5</b>	<b>(11.9)</b>

At the balance sheet date, the Group has a potential tax benefit from unused tax losses of £8.1m (2005: £6.3m) available for offset against future profits. A deferred tax asset has been recognised in respect of £1.7m (2005: £1.8m) of such losses. No deferred tax assets had been recognised in respect of the remaining £6.4m (2005: £4.5m) due to the unpredictability of the necessary future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which a deferred tax liability has not been recognised was £2.5m (2005: £3.1m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

## 19. Trade and other receivables

	2006 £m (as restated)	2005 £m
Trade debtors	63.3	116.7
Settlement balances	12,528.4	11,820.4
Other debtors	14.5	28.3
Prepayments	15.6	22.2
Corporation tax	2.3	8.8
Owed by joint ventures, associates and related parties	2.9	2.3
	<b>12,627.0</b>	<b>11,998.7</b>

The Group has reviewed its clearing and settlement arrangements on 'matched principal' transactions settled through American clearing corporations and it has been determined that certain transactions are not required to be recognised on the balance sheet. The comparative amounts have been restated accordingly. The impact is a reduction in 2005 settlement balances receivable and payables of £52,409.6m each (see note 20).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## 20. Trade and other payables

	2006 £m (as restated)	2005 £m
Settlement balances	12,525.6	11,817.3
Trade creditors	4.6	11.1
Tax and social security	15.7	23.3
Other creditors	1.5	6.6
Accruals and deferred income	118.9	167.9
Owed to related parties	0.9	–
	<b>12,667.2</b>	<b>12,026.2</b>

In addition to the reduction of 2005 settlement balances by £52,409.6m, for amounts not required to be recognised on the balance sheet (see note 19), settlement balances past settlement date of £160.3m were reclassified from trade creditors to settlement balances at 31 December 2005.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 21. Other financial liabilities

Short trading positions at 31 December 2006 were £nil (2005: £15.2m). The balance at 31 December 2005 related entirely to Collins Stewart plc.

## 22. Interest bearing loans and borrowings

	2006 £m	2005 £m
Obligations under finance leases (see note 24)	3.2	3.5
Loan notes	0.1	0.1
Bank overdrafts	0.2	1.1
Eurobond	148.7	150.2
	<b>152.2</b>	<b>154.9</b>

The borrowings are repayable as follows:

	2006 £m	2005 £m
On demand or within one year	0.9	1.8
In the second year	0.2	0.3
In the third to fifth year	0.4	0.2
After five years	2.0	2.4
Eurobond (see narrative below)	148.7	150.2
	<b>152.2</b>	<b>154.9</b>

# Notes to the Consolidated Financial Statements continued

## 22. Interest bearing loans and borrowings continued

Analysis of borrowings by currency:

	Sterling £m	Euros £m	Total £m
<b>2006</b>			
Obligations under finance leases	–	3.2	3.2
Bank overdrafts	0.2	–	0.2
Loan notes	0.1	–	0.1
Eurobond	148.7	–	148.7
	149.0	3.2	152.2
<b>2005</b>			
Obligations under finance leases	0.1	3.4	3.5
Bank overdrafts	1.1	–	1.1
Loan notes	0.1	–	0.1
Eurobond	150.2	–	150.2
	151.5	3.4	154.9

### Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

#### Year ended 31 December 2006

	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
<b>Fixed rate</b>							
Obligations under finance leases	(0.6)	(0.2)	(0.2)	(0.1)	(0.1)	(2.0)	(3.2)
Eurobond (see narrative below)	–	–	–	–	–	–	(148.7)
	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
<b>Floating rate</b>							
Cash and cash equivalents	236.4	–	–	–	–	–	236.4
Financial assets	27.0	–	–	–	–	–	27.0
Bank overdrafts	(0.2)	–	–	–	–	–	(0.2)
Loan notes	(0.1)	–	–	–	–	–	(0.1)

#### Year ended 31 December 2005

	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
<b>Fixed rate</b>							
Obligations under finance leases	(0.3)	(0.4)	(0.2)	(0.1)	(0.1)	(2.4)	(3.5)
Eurobond (see narrative below)	–	–	–	–	–	–	(150.2)
	<1 year £m	>1<2 years £m	>2<3 years £m	>3<4 years £m	>4<5 years £m	>5 years £m	Total £m
<b>Floating rate</b>							
Cash and cash equivalents	235.3	–	–	–	–	–	235.3
Financial assets	41.1	–	–	–	–	–	41.1
Bank overdrafts	(1.1)	–	–	–	–	–	(1.1)
Loan notes	(0.1)	–	–	–	–	–	(0.1)

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are short term and non-interest bearing and are deemed not to be subject to material interest rate risk.



## 22. Interest bearing loans and borrowings continued

The average effective interest rates paid were as follows:

	2006	2005
	%	%
Bank overdrafts	5.2	4.1
Loan notes	3.8	4.1
Eurobond	8.6	8.6

### Current borrowings – loan notes

Guaranteed unsecured loan notes were issued by Collins Stewart Tullett plc in March 2003, of which £0.1m were outstanding at the year end (2005: £0.1m). The loan notes are redeemable in 2008 or earlier at the holder's request. Interest is payable half yearly in arrears at a rate of 1% below LIBOR.

### Non-current borrowings – £150m Eurobond

In August 2004, £150m 8.25% Step-Up Coupon Subordinated Notes due 12 August 2014 were issued. The notes, which are unsecured, are callable by Collins Stewart Tullett plc (subsequently renamed Tullett Prebon Group Holdings plc) at any time after 12 August 2009 ('the Call Date'). After the Call Date the notes will bear interest calculated at 3.5% over the gross redemption yield of a gilt with a comparable maturity date.

The fair value of £64.2m of the £150m Eurobond is hedged by the cross currency interest rate swap of £64.2m (2005: £64.2m). At 31 December 2006, the hedge reduced the liability by £0.3m (2005: £1.6m increase) and together with the unamortised transaction costs resulted in a fair value of the debt of £148.7m (2005: £150.2m).

The fair value of the entire Eurobond is £151.4m (2005: £154.5m).

## 23. Derivative financial instruments

### Cross currency interest rate swap

In August 2004, the Group entered into a cross currency interest rate swap whereby it receives a fixed rate of interest of 8.25% and pays a variable interest rate equal to US LIBOR +2.69%. The notional amount of the swap is £64.2m with an exchange of principal of US\$117m. The maturity date of the swap is August 2009.

The swap has been designated and is effective as a fair value hedge of £64.2m of the £150m Eurobond and as a net investment hedge of US\$117m of dollar denominated assets and liabilities.

Fair value gains or losses on the effective portion of the net investment hedge are included in equity. The gain recognised in 2006 was £8.4m (2005: loss of £7.2m).

At 31 December 2006 the fair value of the swap was £5.8m (2005: liability of £1.2m).

### Currency derivatives

The Group has utilised currency derivatives to hedge significant future foreign currency transactions and cash flows, but at 31 December 2006 the Group did not hold any such instruments. At 31 December 2005 the fair value of outstanding forward foreign exchange contracts was a liability of £1.9m.

### Equity swap

In 2004 the Trustees of the Group's Employee Share Ownership Trust entered into an equity swap to hedge market risk on the future purchase of own shares to satisfy the vesting of awards under share option schemes. At inception the swap was over 4.581m Collins Stewart Tullett plc shares with an initial nominal value of £21.6m and with a maturity date of January 2007. In December 2006, the equity swap was part terminated and 2.312m shares were purchased at the contract price of 471.5p per share. Subsequent to the year end, the balance of the equity swap has been replaced with a new equity swap over 3.228m Tullett Prebon plc shares with an initial nominal value of £11.3m and with a maturity date of January 2008. The swap continues to hedge market risk on the future purchases of own shares to satisfy outstanding awards under share option schemes.

At 31 December 2006, the fair value of the equity swap was £9.8m (2005: £5.4m) and collateral held in respect of the equity swap (included in other debtors) was £3.5m (2005: £7.0m).

# Notes to the Consolidated Financial Statements continued

## 24. Obligations under finance leases

	Minimum lease payments		Present value lease payments	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Amounts payable under finance leases:</b>				
Within one year	0.6	0.5	0.6	0.3
In the second to fifth years inclusive	1.2	1.6	0.6	0.8
After five years	2.6	2.8	2.0	2.4
	4.4	4.9	3.2	3.5
Less: future finance charges	1.2	1.4		
Present value of lease payments	3.2	3.5		
Less: Amount due for settlement within 12 months (shown under current liabilities)			0.6	0.3
Amount due for settlement after 12 months			2.6	3.2

The Group leases certain items of property, plant and equipment under finance leases. The average lease term is 3-4 years (2005: 3-4 years). For 2006, the average effective borrowing rate was 8.70% (2005: 8.50%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to the carrying amount.

The Group's obligations under finance leases are secured by a lessor's charge over the leased assets.

## 25. Long-term provisions

	Onerous leases £m	Building dilapidations £m	Other £m	Total £m
At 1 January 2005	3.0	2.7	3.8	9.5
Additional provision in the year	3.5	–	0.3	3.8
Utilisation of provision	(2.1)	(1.6)	(2.4)	(6.1)
At 1 January 2006	4.4	1.1	1.7	7.2
Additional provision in the year	0.2	1.9	0.9	3.0
Utilisation of provision	(1.2)	–	(1.2)	(2.4)
Reclassification	0.8	(0.8)	–	–
At 31 December 2006	4.2	2.2	1.4	7.8

### Onerous leases

The onerous lease provision represents the net present value of the future rental cost for the period until it is reasonably likely that the leasehold interest will be sold or sublet. The leases expire in 2 to 4 years.

### Building dilapidations

The building dilapidations provision represents the estimated cost of making good the dilapidations and disrepair on various leasehold buildings. The leases expire in 1 to 13 years.

## 26. Other long-term payables

	2006 £m	2005 £m
Other creditors	3.1	2.5
Accruals and deferred income	–	0.8
	3.1	3.3

Other long-term payables are held at cost which approximates to fair value. Other creditors consist of the USA SERP 'C' scheme liability and deferred rent.

## 27. Share capital

	2006 No. (m)	2005 No. (m)
<b>Authorised</b>		
Ordinary shares of 325p/25p	284.7	284.7
Redeemable deferred shares of £1	0.1	–
<b>Allotted, issued and fully paid</b>		
Ordinary shares of 325p/25p	212.3	212.3
Redeemable deferred shares of £1	0.1	–
	2006 £m	2005 £m
<b>Authorised</b>		
Ordinary shares of 325p/25p	925.3	71.2
Redeemable deferred shares of £1	0.1	–
	925.4	71.2
<b>Allotted, issued and fully paid</b>		
Ordinary shares of 325p/25p	690.0	53.1
Redeemable deferred shares of £1	0.1	–
	690.1	53.1

### Movements during the year

(i) On 15 December 2006 under a scheme of arrangement between Collins Stewart Tullett plc and its shareholders under Section 425 of the Companies Act 1985, and as sanctioned by the High Court, all the issued ordinary shares in that company were cancelled and the same number of new ordinary shares were issued to Tullett Prebon plc in consideration for the allotment to shareholders of one ordinary share in Tullett Prebon plc for each ordinary share held in Collins Stewart Tullett plc on the record date, 14 December 2006.

(ii) Tullett Prebon plc was incorporated on 5 May 2006 under the name New CST plc, with an authorised share capital of £50,000.02 divided into two ordinary shares of one penny each and 50,000 redeemable deferred shares of £1 each. The issued share capital on incorporation was two pence comprised of two ordinary shares of one penny each issued fully paid. On 23 June 2006, the authorised share capital of New CST plc was increased to £50,002.02 by the creation of two additional redeemable deferred shares of £1 each and on the same date 50,002 redeemable deferred shares of £1 each were issued fully paid.

(iii) On 13 December 2006 the authorised share capital of Tullett Prebon plc was increased to £1,992,946,152 divided into 199,289,615,000 ordinary shares of one penny each and 50,002 redeemable deferred shares of £1 each. On that date Tullett Prebon plc issued 1,398 ordinary shares and every 700 ordinary shares of one penny each were consolidated into one ordinary share of 700 pence each.

(iv) On 15 December 2006 as part of the scheme of arrangement noted above, a further 212,338,139 ordinary shares of 700 pence each were issued, whereby Tullett Prebon plc was interposed as the new holding company of Collins Stewart Tullett plc. As required by Section 131 of the Companies Act 1985 (Merger Relief), no share premium was recognised. Subsequently, the two ordinary shares resulting from the consolidation of the 1,400 ordinary shares issued before the scheme became effective were gifted back to Tullett Prebon plc.

(v) On 19 December 2006 the share capital of Tullett Prebon plc was reduced by reducing the nominal value of the ordinary shares from 700 pence to 325 pence as sanctioned by the High Court in order to effect the demerger of the stockbroking business to Collins Stewart plc and create distributable reserves for the Company.

# Notes to the Consolidated Financial Statements continued

## 28. Reconciliation of shareholders' funds

### (a) Share capital, Share premium account, Reverse acquisition reserve

The following table shows an analysis of the changes in share capital, share premium and reverse acquisition reserves attributable to equity shareholders of Tullett Prebon plc.

	Share capital £m	Share premium account £m	Reverse acquisition reserve £m	Total £m
Balance at 1 January 2005	53.0	249.7	–	302.7
Issue of ordinary shares	0.1	1.2	–	1.3
Balance at 1 January 2006	53.1	250.9	–	304.0
Issue of redeemable shares – note 27 (ii)	0.1	–	–	0.1
Cancellation of existing shares – note 27 (i)	(53.1)	(250.9)	304.0	–
Issue of ordinary shares – note 27 (iv)	1,486.3	–	(1,486.3)	–
Reduction of nominal value – note 27 (v)	(796.3)	–	–	(796.3)
Balance at 31 December 2006	690.1	–	(1,182.3)	(492.2)

### (b) Other reserves

	Revaluation reserve £m	Merger reserve £m	Hedging and translation £m	Own shares £m	Other reserves £m
Balance at 1 January 2005	–	121.5	(0.4)	–	121.1
Loss on net investment hedge	–	–	(7.2)	–	(7.2)
Foreign currency translation	–	–	7.9	–	7.9
Balance at 1 January 2006	–	121.5	0.3	–	121.8
Purchase of own shares (i)	–	–	–	(20.0)	(20.0)
Own shares derecognised on demerger	–	–	–	4.0	4.0
Transfer of revaluation of available-for-sale assets	0.8	–	–	–	0.8
Gain on net investment hedge	–	–	8.4	–	8.4
Foreign currency translation	–	–	(14.3)	–	(14.3)
Balance at 31 December 2006	0.8	121.5	(5.6)	(16.0)	100.7

(i) On 12 December the Employee Share Ownership Trust purchased 2.312m Collins Stewart Tullett plc ordinary shares when the equity swap was part terminated. The shares are held at the market price prevailing on the date of purchase.

### (c) Equity attributable to equity holders of the parent

	Total from note 28(a) £m	Total from note 28(b) £m	Retained earnings £m	Total £m
Balance at 1 January 2005	302.7	121.1	66.1	489.9
Profit for the year	–	–	61.0	61.0
Dividends paid in the year	–	–	(18.3)	(18.3)
Issue of ordinary shares	1.3	–	–	1.3
Credit arising on share options	–	–	6.5	6.5
Cash cancellation of share options	–	–	(0.3)	(0.3)
Actuarial gain on defined benefit pension schemes	–	–	0.9	0.9
Loss on net investment hedge	–	(7.2)	–	(7.2)
Foreign currency translation	–	7.9	–	7.9
Taxation on items taken directly to equity	–	–	0.4	0.4
<b>Balance at 1 January 2006</b>	<b>304.0</b>	<b>121.8</b>	<b>116.3</b>	<b>542.1</b>
Profit for the year – continuing operations	–	–	83.6	83.6
Profit for the year – discontinued operations	–	–	44.0	44.0
Dividends paid in the year	–	–	(33.8)	(33.8)
Issue of redeemable shares	0.1	–	–	0.1
Reduction of nominal value	(796.3)	–	796.3	–
Transaction costs	–	–	(3.1)	(3.1)
Credit arising on share options	–	–	5.0	5.0
Purchase of own shares	–	(20.0)	–	(20.0)
Own shares derecognised on demerger	–	4.0	(4.0)	–
Exercise of share options	–	–	(3.7)	(3.7)
Transfer of revaluation of available for sale assets	–	0.8	(0.8)	–
Gain on net investment hedge	–	8.4	–	8.4
Foreign currency translation	–	(14.3)	–	(14.3)
Actuarial gain on defined benefit pension schemes	–	–	8.0	8.0
Taxation on items taken directly to equity	–	–	9.2	9.2
Net assets derecognised on demerger	–	–	(244.9)	(244.9)
<b>Balance at 31 December 2006</b>	<b>(492.2)</b>	<b>100.7</b>	<b>772.1</b>	<b>380.6</b>

### 29. Share-based payments

The Group has a number of equity based long term incentive plans for the granting of non-transferable options to certain employees and executives. Options granted under the plans vest on the first day on which they become exercisable, which is typically 3 years after grant date. The exercise of options within some of the option schemes is also dependent on option holders meeting performance criteria, all of which are non-market conditions. The maximum life of the options is ten years. These options are settled in equity once exercised and, dependent on the option scheme, will be settled either with new shares issued or shares purchased in the market.

Following the introduction of Tullett Prebon plc as the holding company of Collins Stewart Tullett plc on 15 December 2006, awards outstanding under the Tullett Liberty Equity Incentive Plan (the 'EIP') were exchanged for equivalent awards over shares in Tullett Prebon plc under the terms of the rules of the EIP. Awards outstanding under the approved and unapproved share option schemes were also exchanged for equivalent awards over shares in Tullett Prebon plc. Participants' rights were preserved and the performance target applicable to the awards was adjusted to reflect the demerger of the stockbroking business to Collins Stewart plc. In order to preserve the economic value of the options, the number of shares over which options were held was increased by a factor equivalent to the average Collins Stewart Tullett plc share price for the four trading days immediately prior to the demerger divided by the average Tullett Prebon plc share price for the four trading days immediately following the demerger (a ratio of 1.356:1).

The following table summarises the share option schemes that existed during the 12 months to 31 December 2006 and the estimated fair values of options granted:

Share option scheme	Number of options outstanding 2006	Estimated fair value
Tullett Liberty Equity Incentive Plan (1,2)	4,915,529	253p-328p
Unapproved Share Option Scheme (2)	108,536	77p-287p
Approved Share Option Scheme	27,054	77p
	5,051,119	

# Notes to the Consolidated Financial Statements continued

## 29. Share-based payments continued

The following table shows the number and weighted average exercise price for all share options outstanding:

	Notes	2006 Number of options	2006 Weighted average exercise price (p)	2005 Number of options	2005 Weighted average exercise price (p)
Outstanding at start of the year	(3)	11,127,760	158	13,154,138	141
Granted during the year	(3)	–		690,000	225
Forfeited during the year	(3)	(965,599)	99	(1,062,186)	104
Exercised during the year	(3)	(3,708,524)	220	(1,654,192)	85
Total prior to demerger	(3)	6,453,637		11,127,760	
Transferred to Collins Stewart on demerger		(2,728,395)	291	–	
Conversion		3,725,242		11,127,760	
		1,325,877		–	
Options outstanding at end of the year		5,051,119	8	11,127,760	158
Exercisable at end of the year		–		913,352	147

Notes:

- 1 Subject to revenue and margin performance conditions.
- 2 Grants of above options occurred on two or more dates.
- 3 Options over Collins Stewart Tullett plc shares.

The estimated fair value of each option granted was calculated by applying a Black Scholes option pricing model. The model inputs were the share price at grant date, exercise price, expected volatility, expected dividends based on historical dividend payment, expected life of the option until exercise and a risk-free interest rate based on government securities with a similar maturity profile.

The model inputs for each option scheme are set out below:

	Approved Share Option Scheme	Unapproved Share Option Scheme	Tullett Liberty Equity Incentive Plan
Share price at date of grant (p)	322	311-322	274-403
Exercise price (p)	333	1-331	nil
Expected volatility	30%	18%-30%	30%
Expected life (years)	3	3	3-4.2
Risk free rate	4.5%	4.5%	4.5%
Expected dividend yield	2.0%	2.0%	2.0%
Likelihood of ceasing employment before vesting	0%	0%	0%-5%
Proportion meeting performance criteria	100%	100%	100%

The weighted average contractual life for the share options outstanding as at 31 December 2006 is 7.7 years (2005: 7.6 years).

The weighted average Collins Stewart Tullett plc share price at the date of exercise for share options exercised during the year was 742p (2005: 507p). All share exercises during the year were made prior to demerger.

	2006 £m	2005 £m
<b>Expense arising from share option plans:</b>		
Continuing operations	5.0	4.6
Discontinued operations	1.9	1.9
	<b>6.9</b>	<b>6.5</b>



### 30. Discontinued operations

On 19 December 2006, the Group demerged the Collins Stewart stockbroking business.

The results of the discontinued operations which have been included in the consolidated income statement and the effect of the discontinued operations on segment results are disclosed in note 3.

Basic earnings per share from discontinued operations was 20.9p (2005: 16.1p) and diluted earnings per share from discontinued operations was 20.5p (2005: 15.8p).

No profit or loss arose on the demerger of Collins Stewart, which was carried out under a scheme of arrangement described in note 27.

	2006 £m	2005 £m
<b>Cash flows from discontinued operations:</b>		
Net cash from discontinued operating activities	74.6	51.9
Net cash used in discontinued investment activities	(127.8)	(49.9)
Net cash used in discontinued financing activities	(2.1)	(0.1)

The net assets of Collins Stewart plc derecognised at the date of demerger and included in the consolidated balance sheet at 31 December 2005 were as follows:

	19 Dec 2006 £m	2005 £m
Goodwill	116.7	116.3
Property, plant and equipment	2.2	2.3
Deferred tax	4.8	0.2
Other non-current assets	2.6	0.8
Trade and other receivables	349.2	312.4
Other financial assets	21.1	43.4
Cash and cash equivalents	124.4	56.7
Trade and other payables	(356.3)	(317.8)
Bank overdraft	(2.1)	(1.1)
Current tax liability	(8.5)	(9.6)
Other financial liabilities	(9.2)	(25.0)
	244.9	178.6

### 31. Notes to the cash flow statement

#### (a) Reconciliation of operating profit to net cash from operating activities

	2006 £m	2005 £m
<b>Operating profit</b>	175.2	93.1
Adjustments for:		
(Profit)/loss on derivatives	(1.9)	1.7
Expense arising from share option plans	6.9	6.5
Profit on sale of other financial assets	(6.1)	(0.5)
Profit on sale of property, plant and equipment	(1.8)	–
Depreciation of property, plant and equipment	8.0	9.2
Amortisation of intangible assets	1.1	1.4
Assets written off	–	7.8
Increase/(decrease) in provisions for liabilities and charges	1.1	(4.1)
Outflow from retirement benefit obligations	(2.1)	(2.1)
Increase in non-current liabilities	1.1	2.2
<b>Operating cash flows before movement in working capital</b>	181.5	115.2
Decrease/(increase) in trade and other receivables	39.1	(45.4)
(Increase)/decrease in net settlement balances	(13.9)	38.3
Decrease/(increase) in net long and short positions	22.0	(6.8)
(Decrease)/increase in trade and other payables	(9.9)	24.3
<b>Cash generated from operations</b>	218.8	125.6
Income taxes paid	(41.1)	(23.7)
Interest paid	(14.1)	(13.1)
<b>Net cash from operating activities</b>	163.6	88.8

# Notes to the Consolidated Financial Statements continued

## 31. Notes to the cash flow statement continued

### (b) (i) Cash flow from continuing operations

In addition to the statutory consolidated cash flow statement, an adjusted continuing cash flow statement which includes the cash flows between the Tullett Prebon and Collins Stewart businesses prior to demerger, is shown below:

	Notes	2006 £m	2005 £m
<b>Net cash from continuing operating activities</b>	31(b)(ii)	<b>89.0</b>	<b>37.0</b>
<b>Investing activities – continuing operations</b>			
Sale of other financial assets		7.4	3.4
Interest received		10.0	5.6
Proceeds on disposal of property, plant and equipment		2.0	–
Proceeds on disposal of available-for-sale investments		7.2	1.2
Purchase of intangible fixed assets		(0.6)	(1.5)
Purchase of property, plant and equipment		(4.1)	(12.4)
Acquisition of subsidiary and associate		–	(5.0)
Net receipts from Collins Stewart plc		11.2	46.0
<b>Net cash from continuing investment activities</b>		<b>33.1</b>	<b>37.3</b>
<b>Financing activities – continuing operations</b>			
Dividends paid		(33.8)	(18.3)
Dividends paid to minority interests		(0.2)	–
Issue of ordinary share capital		–	1.3
Purchase of own shares/cash settlement of share options		(14.6)	–
Taxation credit on share option exercises		0.3	–
Repayment of borrowings		–	(1.1)
Demerger transaction costs		(2.2)	–
Repayment of obligations under finance leases		(0.5)	(0.5)
<b>Net cash used in continuing financing activities</b>		<b>(51.0)</b>	<b>(18.6)</b>
<b>Net increase in cash and cash equivalents from continuing operations</b>		<b>71.1</b>	<b>55.7</b>
<b>Net cash and cash equivalents at the beginning of the year from continuing operations</b>		<b>178.6</b>	<b>115.3</b>
Effect of foreign exchange rate changes from continuing operations		(13.5)	7.6
<b>Net cash and cash equivalents at the end of the year</b>		<b>236.2</b>	<b>178.6</b>

### (b)(ii) Reconciliation of continuing operating profit to net cash from continuing operating activities

	2006 £m	2005 £m
<b>Continuing operations:</b>		
<b>Operating profit</b>	<b>114.8</b>	<b>52.4</b>
Adjustments for:		
(Profit)/loss on currency derivatives	(1.9)	1.7
Expense arising from share option plans	5.0	4.6
Profit on sale of other financial assets	(6.1)	(0.5)
Profit on sale of property, plant and equipment	(1.8)	–
Depreciation of property, plant and equipment	6.9	8.1
Amortisation of intangible assets	1.1	1.2
Assets written off	–	7.8
Increase/(decrease) in provisions for liabilities and charges	0.6	(3.4)
Outflow from retirement benefit obligations	(2.1)	(2.1)
Increase in non-current liabilities	1.1	2.2
<b>Operating cash flows before movement in working capital</b>	<b>117.6</b>	<b>72.0</b>
Decrease/(increase) in trade and other receivables	29.6	(29.7)
(Increase)/decrease in net settlement balances	(8.0)	17.0
Decrease/(increase) in net long and short positions	7.7	(7.8)
(Decrease)/increase in trade and other payables	(16.3)	18.0
<b>Cash generated from operations</b>	<b>130.6</b>	<b>69.5</b>
Income taxes paid	(28.0)	(20.1)
Interest paid	(13.6)	(12.4)
<b>Net cash from operating activities</b>	<b>89.0</b>	<b>37.0</b>

### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with maturity of three months or less. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one week depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 31 December 2005, the Group had available £15.0m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. This facility was cancelled on 8 December 2006. The Group had no committed borrowing facilities at 31 December 2006.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2006 £m	2005 £m
Cash and cash equivalents	236.4	235.3
Bank overdrafts	(0.2)	(1.1)
	236.2	234.2

### 32. Analysis of net funds

	At 1 January 2005 £m	Cash flow £m	Non-cash items £m	Exchange differences £m	31 December 2005 £m
<b>Total operations 2005</b>					
Cash in hand and at bank	132.9	76.8	–	6.0	215.7
Cash equivalents	43.2	(37.9)	–	1.6	6.9
Client settlement money	7.0	5.7	–	–	12.7
Overdraft	(14.0)	12.9	–	–	(1.1)
	169.1	57.5	–	7.6	234.2
Loans due within one year	(1.3)	1.2	–	–	(0.1)
Loans due after one year	(149.5)	–	(0.7)	–	(150.2)
Finance leases	(3.1)	0.5	(0.9)	–	(3.5)
	(153.9)	1.7	(1.6)	–	(153.8)
Other financial assets	38.4	1.9	–	0.8	41.1
<b>Total net funds</b>	<b>53.6</b>	<b>61.1</b>	<b>(1.6)</b>	<b>8.4</b>	<b>121.5</b>

	At 1 January 2006 £m	Cash flow £m	Non-cash items £m	Exchange differences £m	31 December 2006 £m
<b>Continuing operations 2006</b>					
Cash in hand and at bank	169.4	4.4	–	(13.1)	160.7
Cash equivalents	6.9	66.9	–	(0.4)	73.4
Client settlement money	2.3	–	–	–	2.3
Overdraft	–	(0.2)	–	–	(0.2)
	178.6	71.1	–	(13.5)	236.2
Loans due within one year	(0.1)	–	–	–	(0.1)
Loans due after one year	(150.2)	–	1.5	–	(148.7)
Finance leases	(3.5)	0.5	(0.3)	0.1	(3.2)
	(153.8)	0.5	1.2	0.1	(152.0)
Other financial assets	35.6	(7.4)	–	(1.2)	27.0
<b>Total net funds</b>	<b>60.4</b>	<b>64.2</b>	<b>1.2</b>	<b>(14.6)</b>	<b>111.2</b>

	At 1 January 2006 £m	Cash flow £m	Exchange differences £m	Demerger £m	31 December 2006 £m
<b>Discontinued operations 2006</b>					
Cash in hand and at bank	46.3	72.7	(0.3)	(118.7)	–
Client settlement money	10.4	(4.7)	–	(5.7)	–
Overdraft	(1.1)	(1.0)	–	2.1	–
	55.6	67.0	(0.3)	(122.3)	–
Other financial assets	5.5	(5.5)	–	–	–
<b>Total net funds</b>	<b>61.1</b>	<b>61.5</b>	<b>(0.3)</b>	<b>(122.3)</b>	<b>–</b>

# Notes to the Consolidated Financial Statements continued

## 33. Contingent liabilities

The Group has guaranteed the Collins Stewart Tullett plc Employee Share Ownership Trust (ESOT) (subsequently renamed the Tullett Prebon plc Employee Share Ownership Trust) in the performance of its obligations under the ESOT agreement.

## 34. Operating lease commitments

	Continuing Operations		Discontinued Operations	
	2006 £m	2005 £m	2006 £m	2005 £m
Minimum lease payments under operating leases recognised as an expense during the year	11.2	14.5	3.0	2.9

At 31 December 2006 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Buildings	Other	Buildings	Other
	2006 £m	2006 £m	2005 £m	2005 £m
Within one year	9.4	0.2	10.4	0.3
Within two to five years	26.8	0.3	33.2	0.2
Over five years	18.4	0.1	25.4	–
	54.6	0.6	69.0	0.5

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 10 years and rentals are reviewed annually based on movements in market rents.

## 35. Client money

Client money held was £2.4m (2005: £368.4m). This comprised £2.4m (2005: £12.7m) of balances held by the Group on behalf of clients to settle outstanding bargains and £nil (2005: £355.7m) of segregated deposits, held on behalf of clients, which are not reflected on the balance sheet. Movements in settlement balances are reflected in operating cash flows.

## 36. Retirement benefit obligations

The Group operates a number of pension schemes throughout the world, all of which, with the three exceptions identified below, are defined contribution schemes. The assets of all schemes are held separately from those of the Group, either in separate trustee administered funds or in contract-based policies of insurance, except for those held in the US to match the liabilities of a supplemental executive retirement plan (SERP 'C').

The Group operates defined benefit schemes in the UK and in North America:

(i) The Tullett Liberty Pension Scheme (Defined Benefit Section) is a defined benefit (final salary) funded pension scheme. The Principal Employer of the scheme is Tullett Prebon Group Limited. The defined benefit section of the scheme was closed to new members in 1991 and since May 2003 future accrual on a defined benefit basis has ceased. Members in service in 1991 receive benefits on the better of a money purchase underpin and defined benefit basis. For defined benefit section members in service in May 2003 there is a continuing link between benefits and pensionable pay.

(ii) The Prebon Yamane (Ex K-W) Pension Scheme is a defined benefit (final salary) funded pension scheme. The Principal Employer of the scheme is Tullett Prebon (UK) Limited. The scheme was closed to new members in 1989 and since April 2006 future accrual on a defined benefit basis has ceased. Members receive benefits on the better of a money purchase underpin and defined benefit basis. For members in service in April 2006 there is a continuing link between benefits and pensionable pay.

(iii) The Prebon Yamane US SERP 'C' plan provides participants in the US and Canada with retirement benefits for 10 or 15 years at a specified dollar amount. The entitlement of the participants to the plan benefits vests over time in accordance with length of service, up to a maximum period of 10 years. SERP 'C' was introduced in 1992 and the last participant was admitted in 1999. The previous plan, SERP 'B', provided participants with a target retirement benefit, but all investment gains and losses are borne by the participant and plan 'B' is therefore treated as a defined contribution scheme.

The estimated amounts of contributions expected to be paid into the UK defined benefit schemes during 2007 is £2.3m (2006: £2.1m).

### 36. Retirement benefit obligations continued

The latest actuarial valuations of the Tullett Liberty Pension Scheme and of the Prebon Yamane (Ex K-W) Pension Scheme (together, the 'UK defined benefit schemes') were carried out as at 30 April 2004 and 1 January 2004 respectively by independent qualified actuaries. In both cases the present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

The present value of the vested liabilities under the Prebon Yamane US SERP 'C' are recalculated monthly using an appropriate discount rate and the necessary additional accrual (or release of accrual) is made in the accounts of the relevant subsidiary undertaking as a pension cost. As at 31 December 2006 the SERP 'C' liability included in the balance sheet was £1.3m (2005: £1.6m). In order to cover this liability the Group holds policies of insurance with a cash surrender value as at 31 December 2006 of £1.9m (2005: £1.5m).

The main financial assumptions used by the independent qualified actuaries of the UK defined benefit schemes to calculate the liabilities under IAS 19 were:

	2006 %	2005 %
<b>Key assumptions used:</b>		
Discount rate	5.10	4.70
Expected return on schemes' assets	7.05	6.70
Expected rate of salary increases	4.35	4.15
Rate of increase in LPI pensions in payment*	3.10	2.80
Inflation assumption	3.10	2.90

\* This applies to pensions accrued from 6 April 1997. The majority of current and future pensions receive fixed increases in payment of either 0% or 2.5%.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements and are the same as those adopted for the 2004 funding valuations. For the Tullett Liberty Pension Scheme the assumptions are that a member who retires in future at age 60 will live on average for a further 28 years after retirement if they are male and for a further 31 years after retirement if they are female. For the Prebon Yamane (Ex K-W) Pension Scheme the equivalent assumptions are 24 years for males and 27 years for females. Current pensioners are assumed to have a consistent but generally shorter life expectancy based on their current age. These assumptions will be reviewed as part of the 2007 triennial actuarial valuations.

The assets in the UK defined benefit schemes and the expected rates of return were:

	2006 Expected return %	2006 Assets £m	2005 Expected return %	2005 Assets £m
Equities	7.25	97.7	7.00	86.2
Corporate bonds	5.10	8.4	4.70	0.2
Government bonds	—	—	4.25	8.8
Cash and other	5.25	1.5	4.35	1.6
Weighted average return*	7.05		6.70	
Total fair value of schemes' assets		107.6		96.8

\* The overall expected rate of return on the schemes' assets is a weighted average of the individual expected rates of return on each asset class. The actual return on schemes' assets was £11.4m (2005: £22.5m).

As at 31 December 2006, neither of the schemes held any Tullett Prebon plc securities (2005: the schemes held £0.7m of the fair value of schemes' assets in Collins Stewart Tullett plc securities).

The amount included in the balance sheet arising from the Group's obligations in respect of the UK defined benefit schemes was as follows:

	2006 £m	2005 £m
Present value of funded defined benefit obligations	(133.8)	(133.4)
Fair value of schemes' assets	107.6	96.8
Deficit in schemes	(26.2)	(36.6)

# Notes to the Consolidated Financial Statements continued

## 36. Retirement benefit obligations continued

The amounts recognised in profit and loss in respect of the UK defined benefit schemes were as follows:

	2006 £m	2005 £m
Interest cost on schemes' liabilities	(6.2)	(6.0)
Expected return on schemes' assets	6.5	4.8
Recognised in profit and loss	0.3	(1.2)

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2006 £m	2005 £m
At 1 January	(133.4)	(113.8)
Interest cost on schemes' liabilities	(6.2)	(6.0)
Actuarial gains/(losses)	3.1	(16.8)
Benefits paid	2.7	3.2
At 31 December	(133.8)	(133.4)

Movements in the fair value of scheme assets in the current period were as follows:

	2006 £m	2005 £m
At 1 January	96.8	75.4
Expected return on schemes' assets	6.5	4.8
Actuarial gains	4.9	17.7
Contributions from the sponsoring companies	2.1	2.1
Benefits paid	(2.7)	(3.2)
At 31 December	107.6	96.8

The history of experience adjustments is as follows:

	2006 £m	2005 £m	2004 £m	2003 £m
At 31 December				
Present value of funded defined benefit obligations	(133.8)	(133.4)	(113.8)	(90.7)
Fair value of schemes' assets	107.6	96.8	75.4	60.2
Schemes' deficits	(26.2)	(36.6)	(38.4)	(30.5)
	2006	2005	2004	
Experience gains on schemes' liabilities				
Amount	£0.2m	£0.1m	£3.5m	
Percentage of schemes' liabilities	0.1%	0.1%	3.1%	
Experience gains/(losses) on schemes' assets				
Amount	£4.9m	£17.7m	£(0.1)m	
Percentage of schemes' assets	4.6%	18.3%	(0.1)%	

### Defined contribution pensions

The defined contribution pension cost for the Group charged to administrative expenses was £4.5m, of which £3.7m related to continuing operations and £0.8m related to discontinued operations (2005: £4.9m, of which £4.2m related to continuing operations and £0.7m related to discontinued operations). The amount related to overseas schemes was £1.3m (2005: £1.3m) all of which related to continuing operations.

As at 31 December 2006, contributions of £0.6m (2005: £0.4m) due in respect of the current reporting period, had not been paid over to the schemes, of which £0.1m (2005: £0.2m) related to the overseas schemes. All contributions due related to continuing operations.

### 37. Events after the balance sheet date

#### Chapdelaine

On 11 January 2007 the Company acquired 100% of the stock of Chapdelaine Corporate Brokers Inc. and 100% of the membership interests of C&W Corporate Securities LLC, these two entities being the owners of Chapdelaine Corporate Securities & Co. ('CCS'). The consideration was \$95m (£48.5m) payable in cash, \$57m (£29.1m) of which was paid on completion, the balance being payable over the next three years, part of which is dependent on CCS' performance. The provisional goodwill and intangible assets arising on the acquisition was £50.5m. The Group has not yet completed its review to determine the allocation between goodwill and intangible assets.

This transaction has been accounted for by the acquisition method of accounting.

	Book value £m	Fair value adjustments* £m	Fair value* £m
<b>Net assets acquired</b>			
Property, plant and equipment	0.3	—	0.3
Trade and other receivables	3.3	(0.5)	2.8
Cash and cash equivalents	2.5	—	2.5
Trade and other payables	(2.4)	(4.6)	(7.0)
Goodwill and intangibles arising on acquisition	—	—	50.5
<b>Total consideration</b>	<b>3.7</b>	<b>(5.1)</b>	<b>49.1</b>
*Provisional amounts			
<b>Satisfied by</b>			
Cash			29.1
Deferred consideration			19.4
Costs of acquisition			0.6
			<b>49.1</b>
<b>Net cash outflow arising on acquisition</b>			
Cash consideration and costs of acquisition			49.1
Cash and cash equivalents acquired			(2.5)
			<b>46.6</b>

#### Return of capital

Following approval by the shareholders at the Extraordinary General Meeting which took place on 26 February 2007, and subject to the confirmation of the Court, the Company will reduce the nominal value of each ordinary share from 325 pence to 25 pence. Part of the sum arising from such reduction in nominal value will be repaid to shareholders and the remainder will be credited to the Company's reserves. The Return of Capital will involve the repayment of 142 pence per issued ordinary share. Based on 212.3m ordinary shares in issue, £301.5m of the sum arising from the reduction in such nominal value will be repaid to the shareholders on the Register at 6.00pm on the Record Date (which is expected to be 14 March 2007) pro rata to their shareholdings.

#### Financing

On 30 January 2007, TP Holdings Limited, a wholly-owned subsidiary of the Company, entered into a £350m credit facility agreement with The Royal Bank of Scotland plc and The Governor and company of the Bank of Scotland as Arrangers (the Credit Agreement). Under the terms of the Credit Agreement, TP Holdings Limited may draw down up to £300m for the purposes of financing the Return of Capital under a five year amortising term loan. A further £50m may be drawn down for general corporate purposes, including acquisitions, under a five year revolving credit facility that is repayable at the end of year five.

### 38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The total amount owed to the Group by related parties and associates at 31 December 2006 was £2.9m (2005: £0.1m).

The total amount owed by the Group to related parties at 31 December 2006 was £0.9m (2005: £nil).

	Amounts owed by related parties		Amounts owed to related parties	
	2006 £m	2005 £m	2006 £m	2005 £m
Collins Stewart (Europe) Limited	0.8	—	—	—
Collins Stewart Inc.	1.9	—	0.3	—
Collins Stewart Employee Share Ownership Trust	—	—	0.6	—
Associates	0.2	0.1	—	—
	<b>2.9</b>	<b>0.1</b>	<b>0.9</b>	<b>—</b>



# Notes to the Consolidated Financial Statements continued

## 38. Related party transactions continued

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Collins Stewart plc is a related party of the Group because Terry Smith is Chairman of Collins Stewart plc. Keith Hamill is Deputy Chairman and Richard Kilsby is a Non-executive Director of Collins Stewart plc. Collins Stewart plc is the ultimate controlling entity of Collins Stewart (Europe) Limited, Collins Stewart Inc. and Collins Stewart Employee Share Ownership Trust.

## Non-executive directors' and executives' remuneration

Remuneration of the directors who are the key management personnel of the Group during the year is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the individual directors is provided in the audited parts of the Report on Directors' Remuneration on pages 18 to 21.

	2006 £m	2005 £m
Short-term benefits	6.4	6.5
Termination benefits	0.3	–
Share-based payments	0.3	0.5
	<b>7.0</b>	<b>7.0</b>

## 39. Principal subsidiary undertakings and associates

At 31 December 2006, the following companies were the Group's principal trading subsidiary undertakings, principal intermediate holding companies and associates.

	Country of incorporation	Principal activities	Issued ordinary shares, all voting
<b>Subsidiary undertakings</b>			
Prebon Yamane (Australia) Pty. Limited	Australia	Derivatives and money broking	100%
Tullett Prebon (Australia) Pty. Limited	Australia	Derivatives and money broking	100%
Marshalls (Bahrain) WLL*	Bahrain	Derivatives and money broking	70%
Tullett Prebon Data Services Ltd.	Bermuda	Information sales	100%
Tullett Prebon Technology Services Ltd.	Bermuda	Information sales	100%
Prebon Canada Limited	Canada	Derivatives and money broking	100%
Collins Stewart Tullett plc (subsequently renamed Tullett Prebon Group Holdings plc)	England	Holding company	100%
Fulton Prebon Group Limited	England	Holding company	100%
FPG Holdings Limited (subsequently renamed TP Holdings Limited)	England	Holding company	100%
M.W. Marshall (Overseas) Limited	England	Holding company	100%
Prebon Group Limited	England	Holding company	100%
Prebon Limited (Japan branch)	England	Derivatives	100%
Prebon Technology Holdings Limited	England	Holding company	100%
Prebon Technology Limited	England	IT support services	100%
Prebon Yamane International Limited	England	Holding company	100%
Tullett Liberty (European Holdings) Limited	England	Holding company	100%
Tullett Liberty (Number 2) Limited	England	Holding company	100%
Tullett Liberty (Oil & Energy) Holdings Limited	England	Energy broking	100%
Tullett Liberty (Oil & Energy) Limited	England	Energy broking	100%
Tullett Liberty (Overseas Holdings) Limited	England	Holding company	100%
Tullett Prebon Administration Limited (formerly Prebon Administration Limited)	England	Holding company	100%
Tullett Prebon (Equities) Limited	England	Securities broking	100%
Tullett Prebon Group Limited (formerly Tullett Prebon Limited)	England	Holding company	100%
Tullett Prebon (Securities) Limited	England	Securities broking	100%
Tullett Prebon (Treasury & Derivatives) Limited	England	Derivatives and money broking	100%
Tullett Prebon (UK) Limited	England	Derivatives and money broking	100%
Tullett Prebon Information Limited	Guernsey	Information sales	100%
Tullett Prebon Capital Markets France S.A.S.	France	Derivatives and money broking	100%
Tullett Prebon France S.A.S.	France	Securities broking	100%
Tullett Prebon (Hong Kong) Limited	Hong Kong	Derivatives and money broking	100%
PT. Inti Tullett Prebon Indonesia	Indonesia	Derivatives and money broking	57.52%

	Country of incorporation	Principal activities	Issued ordinary shares, all voting
<b>Subsidiary undertakings</b>			
Tullett Prebon Japan Limited (formerly Tullett Liberty Japan Limited)	Japan	Derivatives and money broking	100%
Tullett Prebon Money Brokerage (Korea) Limited	Korea	Derivatives and money broking	100%
Tullett Prebon (Luxembourg) S.A.	Luxembourg	Derivatives and money broking	100%
Tullett Liberty B.V.	Netherlands	Holding company	100%
Prebon Holdings B.V.	Netherlands	Holding company	100%
Tullett Prebon (Philippines) Inc.	Philippines	Derivatives and money broking	51%
Prebon Yamane (Polska) SA	Poland	Derivatives and money broking	100%
Tullett Liberty (Energy) Holdings Pte. Ltd.	Singapore	Holding company	100%
Tullett Liberty (Oil & Energy) Pte. Ltd.	Singapore	Energy broking	100%
Tullett Liberty Pte. Ltd.	Singapore	Derivatives and money broking	100%
Tullett Prebon Energy (Singapore) Pte. Ltd.	Singapore	Derivatives and money broking	100%
Tullett Prebon (Singapore) Limited	Singapore	Energy broking	100%
Prebon Yamane Financial Services (Singapore) Pte Limited	Singapore	Derivatives and money broking	100%
Cosmorex A.G.	Switzerland	Money broking	100%
Cosmorex Holdings A.G.	Switzerland	Holding company	100%
Fulton Prebon Administration Services LLC	USA	Holding company	100%
Prebon Energy Inc	USA	Energy broking	100%
Prebon Financial Products Inc.	USA	Securities broking	100%
Prebon Futures Inc.	USA	Derivatives	100%
Prebon Securities Inc.	USA	Securities broking	100%
Prebon Yamane (USA) Inc.	USA	Derivatives and money broking	100%
Tullett Liberty Brokerage Inc.	USA	Securities broking	100%
Tullett Liberty Inc.	USA	Derivatives and money broking	100%
Tullett Liberty Securities LLC (formerly Tullett Liberty Securities Inc.)	USA	Securities broking	100%
Tullett Prebon Holdings Corp.	USA	Holding company	100%

\* The Group's interest in the trading results is 90%.

All the above subsidiary undertakings are owned indirectly, with the exception of Collins Stewart Tullett plc (subsequently renamed Tullett Prebon Group Holdings plc), which is owned directly. They all have a 31 December year end with the exception of Prebon Limited (Japan branch), which has a 31 March year end.

	Country of incorporation	Principal activities	Issued ordinary shares, all voting
<b>Associates</b>			
Tullett Liberty (Bahrain) Company W.L.L.**	Bahrain	Derivatives and money broking	49%
Tullett Prebon SITICO (China) Limited	China	Derivatives and money broking	33%
Parekh (Forex) Private Limited	India	Derivatives and money broking	26%
Prebon Yamane (India) Limited	India	Derivatives and money broking	48%
Fulton Prebon (Malaysia) Sdn Bhd	Malaysia	Derivatives and money broking	25%
Wall Street Tullett Prebon Limited (formerly Wall Street Tullett Liberty Limited)	Thailand	Derivatives and money broking	49%
Wall Street Tullett Prebon Securities Limited (formerly Wall Street Tullett Liberty Securities Limited)	Thailand	Derivatives and money broking	49%

\*\* The Group's interest in the trading results is 85%. The company is not consolidated as the Group does not have sufficient voting control to govern the financial and operating policies of the company.

All associates are held indirectly. They all have a 31 December year end with the exception of Parekh (Forex) Private Limited, which has a 31 March year end.

# Independent Auditors' Report on the UK GAAP Company Financial Statements

We have audited the parent company financial statements of Tullett Prebon plc for the period ended 31 December 2006 which comprise the balance sheet and the related notes 1 to 8. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Tullett Prebon plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

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

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.



Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
13 March 2007

# Company Balance Sheet

as at 31 December 2006



	Notes	2006 £m
<b>Fixed assets</b>		
Investment in subsidiary undertakings	3	1,184.0
<b>Current assets</b>		
Debtors due within one year	4	0.2
<b>Creditors: amounts falling due within one year</b>	5	(3.6)
<b>Net current liabilities</b>		(3.4)
<b>Total assets less current liabilities</b>		1,180.6
<b>Creditors: amounts falling due after more than one year</b>	5	(161.6)
<b>Net assets</b>		1,019.0
<b>Capital and reserves</b>		
Called-up share capital	6	690.1
Profit and loss account	7	328.9
<b>Shareholders' funds</b>		1,019.0

The financial statements were approved by the board of directors and authorised for issue on 13 March 2007 and are signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Terry Smith', written over a light blue horizontal line.

Terry Smith  
Chief Executive

# Notes to the Financial Statements

for the period ended 31 December 2006

## 1. Significant accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

The principal accounting policies are summarised below. They have all been applied consistently throughout the period from 5 May 2006, the date of incorporation, to 31 December 2006.

### Investments

Fixed asset investments in subsidiary undertakings are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

### Taxation

Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusions of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

### Cash flow statement

The results, assets and liabilities of the Company are included in the consolidated financial statements of Tullett Prebon plc. Consequently, the Company has taken advantage of the exemption available from preparing a cash flow statement under the terms of FRS1 (revised): Cash flow statements.

### Share-based payments

The Company has adopted FRS 20 (IFRS 2) Share-based payment and early adopted UITF abstract 44 (IFRIC Interpretation 11) FRS 20 (IFRS 2) – Group and Treasury Share Transactions. The early adoption had no material impact on the Company for the period ended 31 December 2006.

### Financial instruments

For the period ended 31 December 2006 the Company has adopted FRS 25: Financial instruments Disclosure and Presentation and FRS 26: Financial instruments: Measurement.

## 2. Loss for the period

As permitted in section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the period. Tullett Prebon plc reported a loss for the financial period ended 31 December 2006 of £0.3m.

The auditors' remuneration for audit services to the Company was £0.3m.

The auditors' remuneration for non-audit services to the Company was nil.

### 3. Investments in subsidiary undertakings

	Shares in subsidiary undertakings £m
<b>Cost</b>	
Additions	1,648.0
Demerger	(464.0)
At 31 December 2006	1,184.0

The Company demerged its investment in Collins Stewart plc.

A detailed list of investments in subsidiaries can be found in note 39 of the Group financial statements.

### 4. Debtors

	2006 £m
<b>Amounts falling due within one year:</b>	
Amounts owed by Group undertakings	0.2

### 5. Creditors

	2006 £m
<b>Amounts falling due within one year:</b>	
Amounts owed to Group undertakings	(3.6)
<b>Amounts falling due after one year:</b>	
Amounts owed to Group undertakings	(161.6)

On 15 December 2006, the Company borrowed £161.6m from its subsidiary, Tullett Prebon Group Holdings plc (formerly Collins Stewart Tullett plc). The loan has a maturity date of 15 December 2011. Interest is payable monthly at LIBOR plus 2.125%, reset annually. The effective interest rate applicable in 2006 on the loan was 7.7%. The carrying value of the loan approximates to fair value.

### 6. Called-up share capital

	2006 No. (m)
<b>Authorised</b>	
Ordinary shares of 325p	284.7
Redeemable deferred shares of £1	0.1
<b>Allotted, issued and fully paid</b>	
Ordinary shares of 325p	212.3
Redeemable deferred shares of £1	0.1

	2006 £m
<b>Authorised</b>	
Ordinary shares of 325p	925.3
Redeemable deferred shares of £1	0.1
	925.4
<b>Allotted, issued and fully paid</b>	
Ordinary shares of 325p	690.0
Redeemable deferred shares of £1	0.1
	690.1

# Notes to the Financial Statements continued

for the period ended 31 December 2006

## 7. Reconciliation of shareholders' funds

	Called up share capital £m	Profit and loss account £m	Total shareholders' funds £m
Issue of redeemable shares	0.1	–	0.1
Ordinary shares issued under the scheme of arrangement	1,486.3	–	1,486.3
Loss for the period	–	(0.3)	(0.3)
Capital reduction to 325p per ordinary share	(796.3)	332.3	(464.0)
Transaction costs	–	(3.1)	(3.1)
<b>Balance at 31 December 2006</b>	<b>690.1</b>	<b>328.9</b>	<b>1,019.0</b>

At 31 December 2006 the Company's distributable reserves amounted to £328.9m. Further details of the Company's movements in share capital and the scheme of arrangement are shown in notes 27 and 28 of the Group financial statements.

## 8. Contingent liabilities

The Company has guaranteed the Collins Stewart Tullett plc Employee Share Ownership Trust (ESOT) (subsequently renamed the Tullett Prebon plc Employee Share Ownership Trust) in the performance of its obligations under the ESOT agreement. At 31 December 2006 the Company had a contingent liability of £3.8m in respect of the excess of the initial notional value of the equity swap above cash and collateral held in the ESOT.



# Notice of Annual General Meeting



Tullett Prebon plc  
Registered in England no 5807599

Notice is hereby given that the Annual General Meeting of Tullett Prebon plc (the 'Company') will be held at Cable House, 54-62 New Broad Street, London EC2M 1ST on 7 June 2007 at 2.30pm. The business of the meeting will be:

## Ordinary Business (all proposed as Ordinary Resolutions)

To consider and, if thought fit, pass the following resolutions:

1. To receive the audited accounts for the year ended 31 December 2006 together with the reports of the directors and the auditors thereon.
2. To approve the report on directors' remuneration.
3. To elect as a director Paul Mainwaring (Finance Director)
4. To elect as a director Rupert Robson (Independent Non-Executive)
5. To reappoint Deloitte & Touche LLP as auditors of the Company (to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid) and to authorise the Board to fix their remuneration.
6. That a final dividend in respect of the year ended 31 December 2006 be declared payable at the rate of 6.0p per share on 14 June 2007 to shareholders registered at the close of business on 25 May 2007.

## Special Business

To consider and, if thought fit, pass the following resolutions, of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 and 9 as special resolutions:

### Ordinary Resolution

7. That:
  - (a) in accordance with article 6 of the Company's articles of association, the directors be authorised to allot relevant securities up to a maximum nominal amount of £17,694,844;
  - (b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, or, if earlier, on 6 September 2008; and
  - (c) all previous unutilised authorities under section 80 of the Companies Act 1985 shall cease to have effect.

### Special Resolutions

8. That:
  - (a) in accordance with article 7 of the Company's articles of association, the directors be given power to allot equity securities for cash;
  - (b) the power under paragraph (a) above (other than in connection with article 7(a)(i) of the Company's articles of association) shall be limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £2,654,226;
  - (c) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, on 6 September 2008; and
  - (d) all previous authorities under section 95 of the Companies Act shall cease to have effect.
9. That, in accordance with article 11 of the Company's articles of association, the Company be generally and unconditionally authorised to make market purchases (as defined by section 163 of the Companies Act 1985) of its ordinary shares of 25p each in the capital of the Company ('ordinary shares') on such terms and in such manner as the directors of the Company determine, provided that:
  - (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 21,233,813;
  - (b) the minimum price which may be paid for an ordinary share shall be 25p (exclusive of expenses payable by the Company in connection with the purchase);

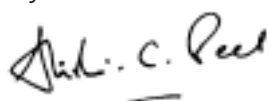
# Notice of Annual General Meeting continued

Tullett Prebon plc  
Registered in England no 5807599

## Special Resolutions continued

- (c) the maximum price which may be paid for an ordinary share shall not be more than the higher of 105% of the average of the middle market quotations for an ordinary share derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased and the amount stipulated by Article 5(1) of the Buyback and Stabilisation Regulations 2003 (exclusive of expenses payable by the Company in connection with the purchase);
- (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 6 September 2008 unless renewed before that time; and
- (e) the Company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board



Alistair Peel  
Company Secretary  
13 March 2007

Registered office:  
Cable House  
54 - 62 New Broad Street  
London EC2M 1ST

## Notes:

1. Every member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. A proxy need not be a member of the Company. Appointment of proxies does not preclude members from attending and voting at the meeting should they wish to do so. A form of proxy is enclosed; alternatively if you hold shares in uncertificated form (ie in CREST) you may vote using the CREST system (please see the notes below).
2. To be valid, an instrument appointing a proxy in hard copy form (together with a power of attorney or other authority (if any) under which it is signed or a certified copy thereof) must be deposited at the office of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the meeting. Alternatively if you submit your proxy electronically through CREST, to be valid, the appropriate CREST message (regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by the Company's registrars, Capita Registrars (ID RA10) by no later than 48 hours before the time of the meeting. The time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Registrars are able to retrieve the message by enquiry to CREST.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 changes to entries in the register of members after 6.00pm on Tuesday, 5 June 2007 or on the date two days before any adjourned meeting (as the case may be) shall be disregarded in determining the rights of any member to attend and vote at the meeting or adjourned meeting (as the case may be). Accordingly, only a member registered in the register of members of the Company as at 6.00pm on Tuesday, 5 June 2007 or on the date two days before the meeting or any adjourned meeting (as the case may be) shall be entitled to attend and vote at the meeting or any adjourned meeting (as the case may be) in respect of the number of shares registered in his name at that time.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual.
6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. The reasons for the special business are explained in the Directors' Report.
9. Brief biographical notes about the directors proposed to be elected or re-elected are shown on page 10 of the annual report. The Corporate Governance Report set out in the annual report provides additional information recommended by the Revised Combined Code.

# Proxy Form

Tullett Prebon plc (the "Company")

For use by Shareholders at the Annual General Meeting to be held at 2.30 pm on 7th June 2007. To be held at: Cable House, 54-62 New Broad Street, London EC2M 1ST.

If you wish to vote at the Annual General Meeting but are unable to attend in person you may appoint a proxy or proxies to act on your behalf either by completing this form or, in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the Notice of Annual General Meeting.

I/We (NAME IN FULL – BLOCK CAPITALS) \_\_\_\_\_  
of \_\_\_\_\_

being a member of Company, hereby appoint the Chairman of the Meeting or failing him (insert full name and address of proxy in BLOCK CAPITALS) \_\_\_\_\_ as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 7 June 2007 and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions as set out in the notice convening the Meeting as indicated with an 'X' in the appropriate space below.

		For	Against	Vote withheld
<b>ORDINARY BUSINESS – Ordinary Resolutions</b>				
Resolution 1	To receive the report and accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	To approve the report on directors' remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	To elect Paul Mainwaring as director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	To elect Rupert Robson as director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	To reappoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	To declare a final dividend of 6p per share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL BUSINESS – Ordinary Resolution</b>				
Resolution 7	To authorise the directors to allot relevant securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL RESOLUTIONS</b>				
Resolution 8	To disapply pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	To authorise the Company to buy back shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Date \_\_\_\_\_ Signature \_\_\_\_\_ (see notes 5 & 6)

## Notes

1. If no name is inserted, this proxy will be deemed to have been given in favour of the Chairman of the Meeting.
2. Where no indication is given, the proxy will vote or abstain at his discretion.
3. Shareholders may appoint one or more persons to attend and, on a poll, vote in their stead.
4. A proxy need not be a member of the Company.
5. In the case of an individual, this form must be signed by the individual or on his behalf by his attorney. In the case of a corporation the form must be completed under the corporation's official seal or by an officer or agent duly authorised in writing.
6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
7. The appointment of a proxy will not prevent you from attending in person and voting at the Meeting should you subsequently decide to do so.

This form, to be valid, must be returned by post, by courier or by hand to the Company's registrars at the Proxy Processing Centre, Telford Road, Bicester OX26 4LD (or by hand during normal business hours to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU) not less than 48 hours before the time of the Annual General Meeting.

Only those shareholders registered in the register of members of the Company 48 hours prior to the stated commencement of the Annual General Meeting shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their names at that time (Regulation 41 of the Uncertificated Securities Regulations 2001). Changes to entries on the register after 2.30pm on 5th June 2007 shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

Second fold

**BUSINESS REPLY**  
Licence No. RRHB-RSXJ-GKCY



**Proxy Processing Centre**  
**Telford Road**  
**BICESTER**  
**OX26 4LD**

First fold

Third fold and tuck inside

## SHAREHOLDER INFORMATION

### Financial calendar

13 March Preliminary Announcement  
23 May Ex-dividend Date  
25 May Dividend Record Date  
7 June Annual General Meeting  
14 June Dividend Payment Date

### Company address:

Cable House,  
54-62 New Broad Street,  
London EC2M 1ST  
United Kingdom

Telephone number: 020 7200 7000

Company number: 5807599

Website address: [www.tullettprebon.com](http://www.tullettprebon.com)

### Registrar's address:

Capita Registrars,  
34 Beckenham Road,  
Beckenham,  
Kent BR3 4TU



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