tullett prebon

Tullett Prebon's Global Presence

Americas
- New York
- Jersey City
- Houston
- Toronto
- São Paulo

EMEA
- London
- Paris
- Frankfurt
- Madrid
- Zurich
- Luxembourg
- Warsaw
- Manama
- Geneva
- Dubai

Asia Pacific
- Hong Kong
- Singapore
- Tokyo
- Shanghai
- Seoul
- Mumbai
- Jakarta
- Bangkok
- Manila
- Sydney

Tullett Prebon Electronic Platforms

Hybrid platforms
tpCADDEAL – Canadian Bonds
tpCREDITDEAL – Credit
tpENERGYTRADE – Energy
tpSPOTDEAL – Spot FX
tpSWAPDEAL – Rates
tpTRADEBLADE – FXO

Post trade and risk management services
tpMATCH – Rates
tpMATCH ED – Volatility
tpMATCH FXO – Volatility
tpMATCH NDF – Treasury

Indices
tpGLOBALVOL

Pure electronic platforms
tpQUICKDEAL – Auctions
tpREPO – Rates

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Tullett Prebon is one of the world's largest interdealer brokers, and acts as an intermediary in the wholesale financial markets, facilitating the trading activities of its clients, in particular commercial and investment banks.

The business covers the following major product groups: Fixed Income Securities and their derivatives, Interest Rate Derivatives, Treasury Products, Equities and Energy. The business brokers the products on either a Name Passing basis (where all counterparties to a transaction settle directly with each other) or a Matched Principal basis. Tullett Prebon does not take any proprietary positions.

Tullett Prebon's business is conducted through voice broking, where brokers, supported by proprietary screens displaying historical data, analytics and real-time prices, discover price and liquidity for their clients; and through electronic platforms, which complement and support the voice broking capability.

Tullett Prebon also has an established data sales business, Tullett Prebon Information, which collects, cleanses, collates and distributes real-time information to data providers, and a Risk Management Services business, which provides clients with post-trade, multi-product matching services, associated market data and independent valuation services.

Financial highlights

Revenue

£850.8m

2011: £910.2m

Underlying Operating profit

£126.0m

2011: £148.4m

Underlying Operating margin

14.8%

2011: 16.3%

Underlying Profit before tax

£114.7m

2011: £136.1m

Basic Underlying EPS

40.5p

2011: 46.1p

Dividend

16.85p

2011: 16.5p

For more information visit our corporate website:
www.tullettprebon.com

Underlying figures are stated before the net charge in each year related to the major legal actions between the Company and BGC, restructuring costs, goodwill impairment in 2012 and tax credits related to those items. A table showing Underlying and Reported figures for each year is included in the Financial Review.

Chairman's Statement

This is my seventh and final statement as Non-executive Chairman of Tullett Prebon plc since its separate listing in December 2006. Throughout this time the Company has maintained its focus on its objective of maximising returns to shareholders over the medium to long term, at an acceptable level of risk. Its strategy has remained consistent, focusing on providing valuable services as an intermediary in wholesale over-the-counter ('OTC') markets. The business has invested and developed in areas where it can achieve good returns, and has been quick to take action to reduce costs when necessary. It has maintained its focus on cash generation and return on investment. It is well run and conservatively financed.

Rupert Robson, who has served as a Non-executive Director of the Company since January 2007, will take over as Chairman of the Board on 6 March 2013, when I will retire as a director. The Company is facing a period of significant and ongoing change in its regulatory and commercial environments. Rupert Robson has a strong knowledge and understanding of the business and these issues, and is well placed to provide leadership to the Board, and to provide support, advice and feedback to Terry Smith, the Chief Executive.

Results

The results are explained in detail in the Business Review.

Market conditions remained challenging throughout 2012 as the overall level of activity in the financial markets remained subdued, and revenue for the year of £850.8m was 7% lower than reported for 2011.

Underlying operating profit of £126.0m was 15% lower than reported for 2011, with the underlying operating margin at 14.8% compared to 16.3% for 2011. There is some operational leverage in the business, and operating margins are generally lower at lower levels of revenue. The effect of this has been mitigated by the actions taken at the end of 2011 and during the first half of 2012 to reduce fixed costs and to maintain flexibility in the cost base. Broker compensation expressed as a percentage of broking revenue, was unchanged in 2012 compared with the previous year.

Financing costs were slightly lower in 2012 than in 2011, and the underlying profit before tax of £114.7m compares with £136.1m in 2011. With a reduction in the effective tax rate on underlying profit before tax to 24.0%, underlying basic earnings per share for 2012 of 40.5p were 12% lower than for 2011.

As a result of the reduction in underlying operating profit and the increase in the year end capital employed reflecting a significant unwind of the working capital net payable due to the fall in broking revenue, the return on capital employed for 2012 has reduced to 29% (2011: 37%). This remains considerably higher than any estimate of the Company's cost of capital.

Exceptional items

In order to give clarity to the operating performance of the business, the results are presented showing charges relating to exceptional items separately from the underlying results. There are three areas in which the Company has incurred exceptional items during the year.

The majority of the £11.6m charge relating to major legal actions relates to the costs incurred in bringing legal action related to the raid on the business in North America by BGC in the second half of 2009. The Company will continue to seek to enforce its contractual rights, and although legal action can be protracted and expensive it is appropriate to take action in order to do so.

The £14.8m charge relating to restructuring costs reflects the costs of the action during the first half of 2012 to reduce fixed costs and to maintain flexibility in the cost base. Through the restructuring programme, which started towards the end of 2011, headcount has been reduced by 220, over two-thirds of which are from the front office, with an annual reduction in fixed costs of £30m. The Company has a good record on cost management, and on addressing the cost base to support future profitability when circumstances require it.

The third exceptional item relates to the £123.0m non-cash charge for the impairment of the carrying value of goodwill relating to the business in North America. Despite the actions that have been taken to rebuild the scale of the North American business since the raid in the summer of 2009, and to reduce costs, its performance weakened further during 2012. The testing of goodwill for impairment is based on the current performance of the business without taking into account further investment for growth or further action to reduce costs. On that basis we have determined that the goodwill related to the business should be written down.

Shareholder returns and dividends

Total shareholder return for 2012 was disappointing, at negative 2%. The Board recognises that the earnings multiple currently applied to the Company remains relatively low, but the focus of the Board will continue to be on the fundamentals of the business rather than the short term share price.

The Board recognises that dividends are an important element of shareholder return. Underlying earnings per share for 2012 are 12% lower than for 2011, and it is prudent to expect that financial market activity will continue to be subdued. The Board is recommending an unchanged final dividend of 11.25p per share, making the total dividend for the year 16.85p per share, an increase of 2% on the 16.5p per share paid for 2011. The final dividend will be payable on 16 May 2013 to shareholders on the register on 26 April 2013.

Business model and risk

The Company's business model is based on generating a return from providing a facilitation service to clients, enabling them to trade efficiently and effectively. This service can be provided, and good returns can be generated, without actively taking credit and market risk. The business acts only as an intermediary in the financial markets, which means that the risk inherent in its activities is low. We are willing to accept an unavoidable limited amount of risk as a consequence of our broking activities, but the business does not take any trading risk and does not hold principal trading positions.

The Board and the Audit Committee continue to be engaged in thoroughly analysing the risks faced by the business and the controls in place to mitigate and manage them. This work is supported by a programme of Internal Audit activities. Our risk management governance structure, risk management framework, and risk profile, are discussed in detail in the Business Review.

Progress continues to be made in the process of agreeing and implementing reforms designed to strengthen the financial system and to improve the operation of financial markets. We believe that we are well positioned to respond to and benefit from changes in the way in which OTC product markets operate as a result of the regulatory reforms of these markets, which reinforce the role of the intermediary.

Financing

The Company is conservatively financed. The Company's gross debt at the end of 2012 was £260m and following the scheduled repayment under the bank term loan in February 2013, currently stands at £250m. Total gross cash balances at the end of the year were £312m.

The Company issued bonds to retail investors in December 2012 raising £80m. These bonds pay a coupon of 5.25% and mature in June 2019. The Company's other borrowings are through a £141m bond that matures in 2016, through a £8.5m bond that matures in August 2014, and through the current £20m balance on the bank term loan which matures in February 2014. The Company has an attractive debt maturity profile and significant financial flexibility.

Remuneration

The Remuneration Committee has been chaired by my colleague, Rupert Robson, for the last four years. When Rupert takes over as Chairman of the Board, he will stand down as a member and Chairman of the Remuneration Committee and Stephen Pull will become Chairman of the Remuneration Committee.

As set out in the Report on Directors' Remuneration on pages 35 to 42, the focus of the Remuneration Committee over the last four years has been to ensure that the structure of executive remuneration continues to align management's interests with those of shareholders. It is fundamental to the Company's executive remuneration policies that a high proportion of remuneration is variable with business performance. This approach has given the Remuneration Committee significant flexibility to ensure that total executive remuneration has reflected the challenging market conditions.

Board composition and governance

The Company benefits from having a strong and experienced Board of Directors who work well together. As part of the succession plan for the Board, Roger Perkin was appointed as an independent Non-executive Director of the Company with effect from 1 July 2012, and he became chairman of the Audit Committee at the end of July.

David Clark, who has served as a Non-executive Director of the Company and its predecessor since the acquisition of Tullett plc in March 2003, will be retiring from the Board after the AGM in May. Michael Fallon, who had served as a Non-executive Director of the Company and its predecessor since September 2004, resigned in September 2012 due to his appointment as a Minister of State. On behalf of the Board, I would like to thank David and Michael for their significant contributions to the Company.

In line with the provisions of the UK Corporate Governance Code, and the Articles of Association of the Company, all the Directors who wish to continue in office will stand for election or re-election at the AGM this year.

When Rupert Robson has taken over as Non-executive Chairman of the Board and David Clark has retired, the Company will have three independent Non-executive Directors. A process to identify a new Non-executive Director is underway.

Outlook

Market conditions are expected to continue to be challenging. The level of activity in financial markets was subdued throughout 2012, particularly during the second half, reflecting persistently low volatility despite the underlying fragility of the world economy. Our customers are operating in a more onerous regulatory environment and there is considerable uncertainty over the impact of new regulations covering the OTC markets. It is therefore prudent to expect that financial market activity will continue to be subdued.

We have taken action to reduce fixed costs and to maintain flexibility in the cost base. The benefits of these actions will continue to be realised in 2013, but are likely to be more than offset by the increased costs that will be incurred related to the regulatory readiness project. In 2012 we delivered a higher underlying operating margin than any of our sector peers from comparable activities.

The business has made a reasonable start to the year. Revenue in the first two months of 2013 is 5% lower than in the same period last year at constant exchange rates.

The business provides a valuable service to clients through its ability to create liquidity through price and volume discovery to facilitate trading in a wide range of financial instruments. We consider that the implementation of the reforms to the OTC markets will be positive for our business as the proposals formalise the role of the intermediary in these markets. We believe that we are well positioned to continue to provide a valuable service to clients.

Keith Hamill
Chairman
5 March 2013

Business Review

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OBJECTIVES, STRATEGY, BUSINESS MODEL AND RISK PROFILE

Objectives

The Company's objective is to maximise returns to shareholders over the medium to long term with an acceptable level of risk.

Strategy

The strategy to achieve the Company's objective is to continue to build a business, operating as an intermediary in the wholesale OTC financial markets internationally, with the scale and breadth to deliver superior performance and returns, whilst maintaining strong financial management disciplines.

The key actions to deliver this strategy are:

- develop and maintain strong pools of liquidity in all major financial products and all major financial centres;
- attract and retain key revenue producers;
- development of electronic broking capabilities to support our voice broking expertise and ensure compliance with anticipated regulatory reforms;
- development of the Company's information sales business;
- development of value added post-trade services;
- focus on maintaining contribution rates; and
- focus on maintaining an appropriately sized support cost base.

Business model and risk profile

The Company's business model is based on generating a return from providing a facilitation service to clients, enabling them to trade efficiently and effectively. This service can be provided, and good returns can be generated, without actively taking credit and market risk.

In accordance with the risk appetite set by the Board the Group does not actively seek risk in order to generate a return but is willing to accept a limited amount of risk as a consequence of its broking activities, principally counterparty credit risk and operational risk. This is reflected in the business model adopted by the Group whereby it acts only as an intermediary in the financial markets. The Board has explicitly prohibited any active taking of trading risk and the business does not trade for its own account. However, whilst the Company does not actively seek to assume risk as part of its business model, the Company is exposed to certain risks as a consequence of its broking activity, primarily to operational risk but also to a limited amount of credit and market risk.

The business of the Group is conducted through three distinct broking models: the Name Passing model (also known as the Name Give-Up model); the Matched Principal model; and the Executing Broker model.

Around three-quarters of the revenue is derived from Name Passing activities, where the business is not a counterparty to the trade, and where its exposure to a client is limited to outstanding invoices for commission. The level of invoiced receivables is monitored closely, by individual client and in aggregate, and there have been very few instances in the past few years when invoiced receivables have not been collected.

The balance of the revenue is mainly derived from Matched Principal activities, where the Group is the counterparty to both sides of a matching trade and consequently bears counterparty credit risk during the period between execution and settlement of the trade. Once a Matched Principal transaction has settled (usually 1-3 days after trade date), there is no ongoing risk for the business. To mitigate settlement risk the business undertakes transactions on a strict Delivery versus Payment basis. In the event that a client defaults prior to settlement in a Matched Principal trade, our exposure is not to the principal amount but to the movement in the market value of the underlying instrument, and so the Group's exposure becomes a market risk. This risk is mitigated by the use of central counterparty services and other default risk transfer agreements, where appropriate, and by taking swift action to close out any position that arises as a result of a client default. In addition to credit risk, the Group's Matched Principal activity also gives rise to limited market risk as a result of the infrequent residual balances which result from the Group's inability to match client orders precisely.

The Group also brokers certain transactions as an Executing Broker, under an International Uniform Brokerage Execution Give-up agreement (or equivalent), whereby the Group executes transactions on certain regulated exchanges as per client orders, and then 'gives-up' the trade to the relevant client (or its clearing member). The Group is exposed to short term pre-settlement risk during the period between the execution of the trade and the client claiming the trade. This exposure is minimal, as under the terms of the 'give-up' agreements the Group has in place with its clients, trades must be claimed by the end of trade day. Once the trade has been claimed, the Group's only exposure to the client is for the invoiced receivables.

The Group's broking activity gives rise to various operational risks. These include the risk of business disruption, employee error and the failure of a business process or IT system, as well as the risk of litigation being brought against the Group.

Discussion of the Group's risk management governance structure, risk management framework, and risk profile is included on pages 16 to 21.

Business Review
continued

OVERVIEW

Market conditions remained challenging throughout 2012 as the overall level of activity in the financial markets remained subdued, particularly during the second half of the year. The financial results for 2012 demonstrate the benefit of the actions that have been taken to reduce costs and to maintain flexibility in the cost base, to strengthen the broking business in all three regions, and to continue to develop the Information Sales and Risk Management Services businesses.

Little action has been taken to address the very serious fundamental issues facing the world's major economies. However, the concerted efforts of governments and supranational bodies to kick the metaphorical can down the road through quantitative easing, further flattening of yield curves and continuing to increase both government borrowing and government commitments to private sector borrowing, have served to reduce volatility in the financial markets. Volatility is one of the key drivers of activity in the financial markets, and reflecting the low levels of volatility throughout most of 2012, market activity in most of the asset classes in which the business operates was lower than in the prior year.

Market volumes during 2012 were also adversely affected by the more onerous regulatory environment applicable to many of our customers, in particular commercial and investment banks, and by the uncertainty over the impact of the impending new regulations covering the trade, settlement and reporting of OTC derivative contracts. Both factors have reduced our customers' ability and willingness to trade.

Revenue in 2012 was 7% lower than reported for 2011. At constant exchange rates, and excluding the acquisitions of Convenção and Chapdelaine, revenue was 10% lower. The effect on revenue of lower levels of activity in the financial markets was more marked during the second half of the year than during the first half. At constant exchange rates, and excluding the acquisitions of Convenção and Chapdelaine, revenue in the second half of the year was 15% lower than in the same period in the prior year.

In anticipation of the challenging market conditions and in light of the increased costs faced by the business relating to electronic platform development and other costs related to impending regulatory changes, action was taken at the end of 2011 and during the first half of 2012 to reduce fixed costs and to maintain flexibility in the cost base. These actions, which were designed to ensure that the business was well positioned to respond to less favourable market conditions by preserving the variable nature of broker compensation costs in relation to broking revenue, have been effective. Through this restructuring programme headcount was reduced by 220, over two-thirds from the front office, with an annual reduction in fixed costs of £30m. The costs associated with achieving these reductions are included as an exceptional item in the results.

We believe that we are well positioned to respond to and benefit from changes in the way in which OTC product markets operate as a result of the regulatory reforms of these markets in both the USA and Europe. Our view of the current status of the regulatory developments is set out below. These reforms reinforce the role of the intermediary in the OTC markets, and we believe that the introduction of electronic platforms reflects an evolution of the facilitation service that the business provides, rather than fundamentally changing the way in which OTC markets operate. Significant expenditure is being incurred on the regulatory readiness project, which covers the development, launch and ongoing running costs of new electronic platforms and associated technology infrastructure, and additional compliance resources. In 2012 the charge in the income statement for these costs was less than 1% of total revenue, but for 2013 the costs related to the project are expected to represent around 2.5% of current annual revenue.

The Company has again been ranked as the overall number one interdealer broker in Risk magazine's 2012 annual interdealer rankings which were published in September. Dealers across the global wholesale banking market voted Tullett Prebon first place in 36 product categories, more than any other broker. This is the second time in three years that the Company has been ranked as the overall number one in the industry. In November the Company was named Best Broker for Forward FX (for the twelfth year running) and for Currency Options (for the second consecutive year) in the annual FX Week Best Bank Awards, and in December was named the inaugural Interdealer Broker of the Year at the Futures and Options World International Awards 2012. These awards reflect the business's delivery of flexible and innovative products, as well as best in class service.

We continued to take actions during the year to strengthen the broking business in all three regions. In Europe we opened an office in Madrid broking Fixed Income and Energy products and an office in Geneva broking Fixed Income products. We took full management control of our joint venture in Bahrain in the middle of the year, and we have recently further expanded our presence in the Middle East through the opening of an office in Dubai. The new senior management in the Americas have established a firm foundation for the business in the region. We completed the acquisition of the New York based Chapdelaine & Co., a leading municipal bond broking business in January 2012. Convenção, the interdealer broker business based in São Paulo, Brazil, which was acquired in August 2011, has continued to perform well and we have successfully expanded its activities to cover Equities and have increased headcount in other products. In Asia, we have invested in the development of the equity derivatives business in Hong Kong and in our activities in the offshore Renminbi market.

We have continued to expand our electronic broking offering through the development and launch of platforms which provide clients with the flexibility to transact either entirely electronically or via the business's comprehensive voice execution broker network. This hybrid model is consistent with the nature and operation of the majority of the OTC product markets which are not characterised by continuous trading, and which therefore depend upon the intervention and support of voice brokers for their liquidity and effective operation.

Our hybrid interest rate swap platform, tpSWAPDEAL, was launched at the end of 2011 in London supporting Euro denominated interest rate swaps. The interdealer market for interest rate swaps continues to be executed predominantly through voice brokers, but the platform shows streaming prices from our main liquidity providing banks and the brokers are increasingly using the platform for order entry and trade capture.

The product coverage of tpCREDITDEAL was successfully increased during the year to include emerging market and sovereign bonds. The tpQUICKDEAL service, which offers clients focused liquidity ('auction') sessions with real time electronic trade matching, has been broadened during the year to cover more products that are not otherwise supported by a hybrid platform. tpSPOTDEAL, a specialist electronic trading venue for spot FX in G10 currency pairs in wholesale sizes, has started well following its launch during the second half of 2012, and has enhanced our existing spot FX voice model. tpCADDEAL, a hybrid platform supporting the broking of Canadian government bonds which was launched during the year, has become an integral part of the service provided by our Toronto office.

The pace of future platform launches in the USA will reflect the timing of regulatory requirements as well as market demand. We intend to launch platforms in the USA for those products which are within the scope of the swap and security-based swap execution facility rules after those rules have been published in final form.

The Information Sales business has continued to perform strongly. The business retained the title of Best Data Provider (Broker) at the Inside Market Data Awards in May. The award is determined by an independent poll of end-users in financial businesses and is a clear endorsement of the business's ability to deliver the highest quality independent price data from the global OTC markets. The business has continued to expand its geographic reach, its customer base and the breadth of data it offers to customers. During the year the business entered into a partnership agreement with an information services provider in India, and has become the first interdealer broker information provider to obtain a licence to distribute data in China. New data sets were introduced in the year covering the global OTC oil markets, equity derivatives, and a Solvency II benchmark curves service in co-operation with IDS GmbH, an Allianz company, aimed at the insurance and asset management sectors.

In the post trade Risk Management Services business, the tpMATCH platform, which assists clients in the management of interest rate risk, has continued to increase revenue through the expansion of the number of currencies supported and through further gains in market share. The tpMATCH NDF platform, which enables traders to reduce date mismatch risk on non-deliverable forwards, has delivered significant revenue in its first full year.

Revenue from products supported by electronic platforms, together with Information Sales and Risk Management Services revenue, has increased by 15% in 2012 compared with 2011, and accounts for 23% of total revenue for the year. As more electronic platforms are launched, and more products and services are added to existing platforms, the proportion of total revenue accounted for by products supported by electronic platforms is expected to continue to increase.

Our key financial and performance indicators for 2012 compared with those for 2011 are summarised in the table below. In order to give a more meaningful analysis of performance compared with the prior period, certain KPIs below are shown excluding Convenção and Chapdelaine.

Underlying operating profit in 2012 was £126.0m, 15% lower than reported for 2011, with the underlying operating margin at 14.8%, 1.5% points lower than the 16.3% reported for 2011. Given that there is some operational leverage in the business, operating margins are adversely affected by lower levels of revenue, and the reduction in the underlying operating margin is primarily driven by the reduction in broking revenue.

The reduction in broking revenue primarily reflects the lower level of market activity. This is evidenced by the reduction in average revenue per broker which, at £479k for 2012, is 9% lower than for 2011. The reduction in average revenue per broker is similar in all three regions. Average headcount is 2% lower. Almost all of the reduction in average broker headcount is in North America.

Broker compensation costs as a percentage of broking revenue are unchanged reflecting the benefit of the actions taken to preserve the variable nature of broker compensation costs in relation to broking revenue. Other broking front office costs have increased but this has been offset by lower broking support costs, driven by a 4% reduction in headcount, and by the growth of the higher margin Information Sales and Risk Management Services businesses. The reduction in broking support headcount has been achieved despite an increase in the headcount in technology reflecting the investment being made in the development, launch and ongoing support of new electronic platforms and associated infrastructure.

The year end broker headcount of 1,720 includes the 85 brokers who joined the business through the acquisition of Chapdelaine, in addition to the brokers who have joined through the opening of new offices and other new hiring. This has more than offset the headcount that exited in the year through the restructuring programme.

	2012	2011	Change
Revenue	**£850.8m**	£910.2m	-7%
Underlying Operating profit	**£126.0m**	£148.4m	-15%
Underlying Operating margin	**14.8%**	16.3%	-1.5% points
Average broker headcount*	**1,615**	1,652	-2%
Average revenue per broker* (£000)	**479**	524	-9%
Broker employment costs: broking revenue*	**59.6%**	59.6%	no change
Broker headcount (year end)	**1,720**	1,667	+3%
Broking support headcount (year end)	**719**	750	-4%

* Excluding the acquisitions of Convenção and Chapdelaine

Business Review
continued

OPERATING REVIEW

The tables below and overleaf analyse revenue by region and by product group, and underlying operating profit by region, for 2012 compared with 2011.

Revenue

In order to give a more meaningful analysis of revenue performance, the tables show the revenue from Convenção, which was acquired in August 2011, and from Chapdelaine, which was acquired in January 2012, separately. A significant proportion of the Group's activity is conducted outside the UK and the reported revenue is therefore impacted by the movement in the foreign exchange rates used to translate the revenue from non-UK operations. The tables therefore show revenue for 2011 translated at the same exchange rates as those used for 2012, with growth rates calculated on the same basis. The revenue figures as reported are shown in note 4 to the Consolidated Financial Statements.

The commentary below reflects the presentation in the tables.

At constant exchange rates, and excluding the revenue from Convenção and Chapdelaine, revenue was 10% lower in 2012 than in 2011.

Revenue from Treasury Products was 11% lower, reflecting lower activity in the FX and cash markets in North America, and the effect of lower levels of risk appetite in Asia which has reduced the volumes in non-deliverable forwards and FX options.

Revenue from Interest Rate Derivatives was 14% lower reflecting flatter yield curves and generally lower levels of market activity in emerging market products and in interest rate options.

The 12% decline in revenue in Fixed Income reflects lower levels of activity in the government and corporate bond markets in both Europe and North America.

Revenue in Equities is derived primarily from the broking of equity derivatives, and the 14% decline in revenue reflects the lower level of market activity in those products in both Europe and North America.

Revenue from Energy products was in line with the previous year, with growth in commodities, particularly base metals, offsetting the lower level of market activity in power and gas products. The oil desks in all three regions performed in line with the previous year.

The growth in revenue from Information Sales reflects the continued expansion of the customer base and increased demand from existing customers for additional data. In Risk Management Services the tpMATCH platform has continued to gain market share and the tpMATCH NDF platform has established significant revenue since its launch at the end of last year.

Revenue by product group	2012 £m	2011 £m	Change
Treasury Products	**226.8**	255.2	-11%
Interest Rate Derivatives	**174.7**	202.4	-14%
Fixed Income	**224.2**	256.2	-12%
Equities	**41.7**	48.7	-14%
Energy	**106.3**	106.2	+0%
Information Sales and Risk Management Services	**45.8**	39.1	+17%
	819.5	907.8	-10%
Convenção and Chapdelaine	**31.3**	4.5	
At constant exchange rates	**850.8**	912.3	-7%
Exchange translation		(2.1)	
Reported	**850.8**	910.2	-7%

Revenue by region	2012 £m	2011 £m	Change
Europe and the Middle East	**501.2**	545.6	-8%
Americas	**205.6**	240.9	-15%
Asia Pacific	**112.7**	121.3	-7%
	819.5	907.8	-10%
Convenção and Chapdelaine	**31.3**	4.5	
At constant exchange rates	**850.8**	912.3	-7%
Exchange translation		(2.1)	
Reported	**850.8**	910.2	-7%

Europe and the Middle East

Revenue in 2012 in Europe and the Middle East was 8% lower than in 2011. Average broker headcount was little changed but average revenue per broker was 9% lower than in the prior year reflecting the lower level of market activity, particularly in the second half of the year. The region benefited from revenue generated from the opening of new offices in Continental Europe and the growth in the Information Sales business.

Revenue from Treasury Products was slightly lower than last year, with generally lower activity in forward FX offset by stronger volumes in cash deposits. Revenue from Interest Rate Derivatives was lower than in the previous year reflecting reduced market activity in emerging market products and in interest rate options. In Fixed Income, revenue from government bonds, repos and corporate bonds was lower than in the prior year, driven particularly by much more subdued market activity in the second half of the year. Revenue from exchange traded bond futures and options has continued to increase.

Revenue from Equities, the smallest product group in the region, was lower reflecting lower activity in equity derivatives. In Energy, the oil desks continued to perform well. The lower level of activity in power and gas was offset by growth in commodities, particularly base metals.

Americas

Revenue in the Americas in 2012, excluding the revenue from Convenção and Chapdelaine, was 15% lower than in 2011. Average broker headcount in the region (excluding those acquisitions) was 7% lower than in 2011, with average revenue per broker on the same basis down 9%.

Revenue in the traditional interdealer broker product markets of Treasury Products (FX and cash deposits), Interest Rate Derivatives, and Fixed Income (government and agency bonds including mortgage backed securities, and corporate bonds), was lower in 2012 than in 2011 reflecting the lower level of market activity. Average broker headcount in those areas was 12% lower in 2012 than in 2011.

Revenue in both Equities and Energy, which together represent around 15% of revenue in the region, was slightly higher in 2012 than in 2011, reflecting the continued development of these areas.

Convenção has performed well, benefiting from the active markets in Brazil and from the expansion of the business to cover Equities. Chapdelaine, a leading municipal bond broker in New York, has also performed well since the completion of the acquisition at the beginning of 2012.

Asia Pacific

Revenue in Asia Pacific was 7% lower than in 2011, with an 11% fall in broking revenue partly offset by the growth of the Risk Management Services business which is operated from the region. The fall in broking revenue reflects lower market activity in Singapore and Tokyo, two of the three major centres in the region. Average broker headcount was little changed but average revenue per broker was 11% lower than in the previous year.

The lower revenue in Singapore reflects a generally lower level of market activity across all products in regional currencies. The market in Tokyo showed little recovery from the post earthquake level, although the rate of decline did slow in the second half of the year compared to the first half. Revenue in Hong Kong, the third major centre in the region, has continued to increase throughout the year, benefiting from the development of the markets for Renminbi products and from the investments we have made in the equity derivatives business in that centre.

Business Review
continued

Underlying Operating profit

The revenue, underlying operating profit and operating margin by region shown below are as reported.

	Revenue			Underlying Operating profit		
	2012 £m	2011 £m	Change	2012 £m	2011 £m	Change
Europe and the Middle East	**501.2**	548.3	-9%	**111.7**	124.6	-10%
Americas	**236.9**	242.5	-2%	**2.4**	9.1	-74%
Asia Pacific	**112.7**	119.4	-6%	**11.9**	14.7	-19%
Reported	**850.8**	910.2	-7%	**126.0**	148.4	-15%

Underlying Operating margin by region	2012	2011
Europe and the Middle East	**22.3%**	22.7%
Americas	**1.0%**	3.8%
Asia Pacific	**10.6%**	12.3%
	14.8%	16.3%

Underlying operating profit in Europe and the Middle East of £111.7m in 2012 is 10% lower than the prior year, and with revenue down 9% the underlying operating margin has reduced slightly, to 22.3%. Broker employment costs as a percentage of broking revenue are unchanged, and management and support costs in the region have been reduced. The underlying operating profit and margin reported for the region has benefited from the continued growth in the higher margin Information Sales business.

In the Americas underlying operating profit has reduced to £2.4m and the underlying operating margin has reduced to 1.0%. Broker employment costs as a percentage of revenue, excluding the acquisitions of Convenção and Chapdelaine, are unchanged compared with the prior year. The contribution to operating profit from Chapdelaine has been limited by the amortisation of the investment made in the brokers' contracts, and management and support costs in the region were higher than in 2011 as a result of the costs of regulatory readiness. Convenção in Brazil has achieved an underlying operating profit margin of 13% for the year.

Underlying operating profit in Asia Pacific has reduced by 19% to £11.9m, and the underlying operating margin in the region has reduced to 10.6% from 12.3%. The reduction in underlying operating profit and margin primarily reflects the lower level of broking revenue. Broker employment costs as a percentage of broking revenue were slightly lower in 2012 than in 2011, and broking management and support costs in the region have been reduced but not to the same extent as the reduction in revenue. The underlying operating margin in the region has benefited from the growth in the Risk Management Services business.

LITIGATION

Legal action continues to be pursued against BGC and former employees in the USA in response to the raid on the business by BGC in the second half of 2009. The FINRA arbitration on the claim brought by the subsidiary companies in the United States directly affected by the raid is expected to continue through the first half of this year. The outcome of the arbitration is expected to be determined before the end of the year. A separate action is being pursued by the Company and the directly affected subsidiaries in the New Jersey Superior Court, alleging, among other causes of action, violations under the NJ RICO Act. Depositions are being taken with respect to this action and the trial is expected to start before the end of the year.

The claim by BGC and certain of its affiliates, alleging that the Company misappropriated data supplied to its information sales subsidiary in violation of a redistribution agreement, was heard in arbitration under the rules of the American Arbitration Association. The arbitrator's award was that the Company should pay BGC $0.8m plus interest at the statutory rate from 1 January 2010. BGC's application for reasonable attorney's fees and costs was denied. In November 2012 the New York Court granted the Company's motion to confirm the award and denied BGC's motion to vacate the award. BGC have appealed those rulings to the New York State Appellate Division of the First Department.

The £11.6m charge relating to major legal actions which is included as an exceptional item in the 2012 results reflects the costs incurred in bringing and defending these actions net of the adjustment to the provision established in 2011 for the estimated cost of the resolution of the claim against the Company.

GOODWILL IMPAIRMENT

The carrying value of the goodwill attributed to each region is tested for impairment annually. The estimated value for each region is compared with the balance sheet carrying value of the region, including goodwill, and any shortfall is recognised as an impairment of goodwill. The value for each region is estimated based on value in use calculations reflecting projections of future cash flows and assumptions on growth rates and discount rates. Critically, the projections of future cash flows reflect the current performance and position of each business without taking into account further investment for growth or further action to reduce costs.

Despite the action that has been taken to rebuild the scale of the North American business since the raid in the second half of 2009, and to reduce costs, its performance weakened further during 2012. The estimated value for the North America region based on its current performance and position is £123.0m less than the balance sheet carrying value, and this has been recognised as an impairment of the goodwill attributed to the region.

This non-cash charge has no impact on the regulatory capital position of the Company or on any of its financing arrangements.

OTC MARKET REGULATION

Progress continues to be made in the process of agreeing and implementing reforms designed to strengthen the financial system and to improve the operation of financial markets.

With respect to the operation of the OTC markets there are four broad themes to the reforms:

– the requirement that certain derivatives contracts be cleared through central counterparties (with exemptions for some non-financial market participants);

– the requirement for trades to be reported to trade repositories;

– enhanced pre and post trade transparency; and

– the requirement that trades in derivatives contracts which are required to be cleared be executed through regulated execution venues (Swap Execution Facility ('SEF') in the USA, and Organised Trading Facility ('OTF') in Europe).

In the USA, the mandatory clearing of certain interest rate swaps and credit default index swaps is being phased in from March 2013. With respect to trade execution and reporting, although some key areas remain under discussion, the final rules relating to SEFs are expected to be issued imminently, and these rules are expected to come into force during this year. We are well prepared for the implementation of these rules. We are confident that we will qualify as a SEF and that we will be ready to offer trade execution services that are compliant with the rules as they take effect.

In Europe, the technical standards for the implementation of EMIR, which contains provisions governing mandatory clearing requirements and trade reporting requirements for derivatives, are expected to be published in March 2013 and to come into effect in 2014. The proposals to revise the Markets in Financial Instruments Directive ('MiFID'), through the introduction of a new directive (MiFID II) and a new regulation (MiFIR), continue to be negotiated. MiFID II and MiFIR will contain provisions governing permissible trade execution venues, governance and conduct of business requirements for trading venues, with implementation expected to be in 2015.

As we have previously commented, we agree with the objectives and support the direction of these reforms. We believe that their introduction will be positive for our business as the proposals formalise the role of the intermediary in the OTC markets.

Business Review
continued

FINANCIAL REVIEW

The results for 2012 compared with those for 2011 are shown in the tables below.

2012

Profit and Loss £m	Underlying	Exceptional Items	Reported
Revenue	**850.8**		**850.8**
Operating profit	**126.0**		**126.0**
Charge relating to major legal actions		**(11.6)**	**(11.6)**
Restructuring costs		**(14.8)**	**(14.8)**
Goodwill impairment		**(123.0)**	**(123.0)**
Operating profit/(loss)	**126.0**	**(149.4)**	**(23.4)**
Finance income/(expense)	**(11.3)**		**(11.3)**
Profit before tax	**114.7**	**(149.4)**	**(34.7)**
Tax	**(27.5)**	**2.3**	**(25.2)**
Associates	**1.2**		**1.2**
Minorities	**(0.3)**		**(0.3)**
Earnings	**88.1**	**(147.1)**	**(59.0)**
Average number of shares	**217.6m**		**217.6m**
Basic EPS/(LPS)	**40.5p**		**(27.1p)**

2011

Profit and Loss £m	Underlying	Exceptional Items	Reported
Revenue	910.2		910.2
Operating profit	148.4		148.4
Charge relating to major legal actions		(6.6)	(6.6)
Restructuring costs		(11.5)	(11.5)
Operating profit	148.4	(18.1)	130.3
Finance income/(expense)	(12.3)		(12.3)
Other gains and losses		1.2	1.2
Profit before tax	136.1	(16.9)	119.2
Tax	(36.9)	6.6	(30.3)
Associates	1.2		1.2
Minorities	(0.7)		(0.7)
Earnings	99.7	(10.3)	89.4
Average number of shares	216.5m		216.5m
Basic EPS	46.1p		41.3p

Finance income/(expense)

An analysis of the net finance expense is shown in the table below.

£m	2012	2011
Receivable on cash balances	**1.8**	2.3
Payable on Sterling Notes August 2014	**(0.6)**	(0.6)
Payable on Sterling Notes July 2016	**(9.9)**	(9.9)
Payable on Sterling Notes June 2019	**(0.2)**	–
Payable on bank facilities, including commitment fee	**(4.5)**	(5.1)
Amortisation of debt issue costs	**(1.5)**	(1.4)
Other interest	**(0.2)**	(0.3)
Net non-cash finance income	**3.8**	2.7
	(11.3)	(12.3)

The net cash finance expense of £15.1m is little changed from the previous year. Lower interest and commitment fees payable on the bank facilities due to the lower average balance outstanding was offset by a decrease in the interest income on cash deposits. The interest on the £80m Sterling Notes June 2019 of £0.2m reflects the accrual for the period from 11 December 2012, the date of issue, to the year end. The Notes carry interest at 5.25% paid semi-annually in arrears.

The decrease in the net finance expense primarily reflects the higher net non-cash finance income. This comprises the net of the expected return and interest on pension scheme assets and liabilities of £4.6m (2011: £2.9m) partly offset by the amortisation of the discount on deferred consideration of £0.8m (2011: £0.2m).

The amended IAS 19 which sets out the accounting treatment for defined benefit pension schemes becomes effective for the Group for 2013. The amended standard requires the expected return on scheme assets to be calculated using the discount rate applied to the liabilities. The 2012 figures will be restated to reflect the change. The restated net non-cash finance income for 2012 will be £0.9m compared with the £3.8m reported above, and the underlying operating profit will be reduced by £0.5m reflecting the administration costs of the scheme borne by the Group.

Tax

The effective rate of tax on underlying PBT is 24.0% (2011: 27.1%). The 3.1% point reduction in the effective rate reflects the benefit of the reduction in the UK statutory rate of corporation tax to 24.5% for 2012, 2% points lower than for 2011, and the recovery of an amount of tax charged in the prior year in the USA.

The tax credit on exceptional items reflects the net tax relief recognised on those items at the relevant rate for the jurisdiction in which the charges are borne. The effective rate of tax relief on the exceptional items is low as there is no tax effect relating to the non-cash charge for the impairment of goodwill, and because no tax relief has been recognised on the exceptional charges arising in the USA due to the current low level of taxable profit in that jurisdiction.

Basic EPS

The average number of shares used for the basic EPS calculation is 217.6m. This reflects the 215.3m shares in issue at the beginning of the year, the 2.3m shares that were issued to the vendors of Primex as part of the final deferred consideration payment on 5 January 2012, plus 0.2m for the weighted average of shares that are issuable when vested options are exercised, less the 0.2m shares held during the year by the Employee Benefit Trust which has waived its rights to dividends.

Exchange and hedging

The income statements of the Group's non-UK operations are translated into sterling at average exchange rates. The most significant exchange rates for the Group are the US dollar, the Euro, the Singapore dollar and the Japanese Yen. The Group's current policy is not to hedge income statement translation exposure.

The balance sheets of the Group's non-UK operations are translated into sterling using year end exchange rates. The major balance sheet translation exposure is to the US dollar. The Group's current policy is not to hedge balance sheet translation exposure.

Average and year end exchange rates used in the preparation of the financial statements are shown below.

	Average		Year End	
	2012	2011	2012	2011
US dollar	**$1.59**	$1.61	**$1.63**	$1.55
Euro	**€1.23**	€1.15	**€1.23**	€1.20
Singapore dollar	**S$1.98**	S$2.02	**S$1.99**	S$2.02
Japanese Yen	**¥126**	¥129	**¥141**	¥120

Business Review
continued

Cash flow

	2012 £m	2011 £m
Underlying Operating profit	**126.0**	148.4
Share-based compensation	**1.4**	1.4
Depreciation and amortisation	**11.8**	8.8
EBITDA	**139.2**	158.6
Capital expenditure (net of disposals)	**(17.6)**	(12.4)
Increase in initial contract prepayment	**(10.3)**	(14.1)
Other working capital	**(38.0)**	4.7
Operating cash flow	**73.3**	136.8
Exceptional items – restructuring cash payments	**(14.5)**	(2.9)
Exceptional items – major legal actions net cash flow	**(16.8)**	(0.5)
Interest	**(13.6)**	(13.4)
Taxation	**(27.3)**	(34.2)
Dividends received from associates/(paid) to minorities	**0.1**	0.5
Defined benefit pension scheme administration expenses	**(0.5)**	(0.8)
Acquisitions/Investments	**(10.9)**	(16.1)
Cash flow	**(10.2)**	69.4

In 2012 the Group has delivered an operating cash flow of £73.3m representing 58% (2011: 92%) of underlying operating profit.

The vast majority of the capital expenditure of £17.6m relates to investment in the development of electronic platforms and associated infrastructure as part of the regulatory readiness project.

The initial contract prepayment balance has increased as payments in the year, which includes amounts paid to brokers with the Chapdelaine business acquired in January 2012, were higher than the amortisation charge for the year.

The other working capital outflow in 2012 reflects the reduction in bonus creditors and other payroll related creditors at the end of 2012 compared with the balances at the end of 2011. The lower level of bonus accruals is due to the lower level of broking revenue throughout the second half of the year compared with the previous year, and the reduction in management and support staff bonuses which are paid annually.

The restructuring cash payments of £14.5m in 2012 includes payments relating to the profit and loss charges for restructuring costs in 2011 and in 2012. The remaining £4.9m of restructuring costs which have not yet been paid in cash are expected to be paid during 2013. The major legal actions net cash flow of £16.8m reflects the cash payments for legal costs made during the year.

Interest payments in 2012 reflect the profit and loss charge for net cash finance expenses excluding the charge for the amortisation of debt issue costs.

Tax payments in 2012 were lower than in 2011 reflecting the recovery of tax paid in previous years in the USA and lower payments in the UK and Asia due to the lower level of taxable profits.

Expenditure on acquisitions and investments in 2012 includes the payment for the acquisition of Chapdelaine and deferred consideration payments relating to the acquisitions of Convenção in Brazil, and Aspen.

The movement in cash and debt is summarised below.

	Cash £m	Debt Cash £m	Net Cash £m
At 31 December 2011	**372.8**	**(265.7)**	**107.1**
Cash flow	**(10.2)**	**–**	**(10.2)**
Dividends	**(36.6)**	**–**	**(36.6)**
Debt repayments	**(90.1)**	**90.1**	**–**
Issue of Sterling Notes June 2019	**80.0**	**(80.0)**	**–**
Debt issue costs	**(1.3)**	**1.3**	**–**
Amortisation of debt issue costs	**–**	**(1.5)**	**(1.5)**
Cash acquired with subsidiaries	**2.5**	**–**	**2.5**
Effect of movement in exchange rates	**(5.3)**	**–**	**(5.3)**
At 31 December 2012	**311.8**	**(255.8)**	**56.0**

At 31 December 2012 the Group held cash, cash equivalents and other financial assets of £311.8m which exceeded the debt outstanding by £56.0m.

Debt finance

The composition of the Group's outstanding debt is summarised below.

	At 31 Dec 2012 £m	At 31 Dec 2011 £m
Bank amortising term loan	**30.0**	120.0
6.52% Sterling Notes August 2014	**8.5**	8.5
7.04% Sterling Notes July 2016	**141.1**	141.1
5.25% Sterling Notes June 2019	**80.0**	–
Finance leases	**–**	0.1
Unamortised debt issue costs	**(3.8)**	(4.0)
	255.8	265.7

The Company issued £80m of Sterling Notes with a coupon of 5.25% under its Euro Medium Term Note Programme into the retail market in December 2012. These Notes mature in June 2019.

The bank amortising term loan is subject to a repayment of £10m in February 2013 with the remaining £20m due in February 2014, when the Group's existing bank facilities, including a committed £115m revolving credit facility, mature. The Group is currently negotiating with its existing lenders the terms of a new revolving credit facility to replace the existing bank facilities before they mature.

The revolving credit facility remained undrawn throughout the year.

Pensions

The Group has one defined benefit pension scheme in the UK following the merger during the year of the two schemes which were acquired with Tullett plc and Prebon Marshall Yamane. The scheme is closed to new members and future accrual.

During 2012 the market value of the scheme's assets has increased from £183.9m to £204.3m reflecting strong investment returns. Under IAS 19 the value of the scheme's liabilities has increased from £148.4m to £162.9m, reflecting the unwinding of the discount in the year and the impact of a reduction in the discount rate. Under IAS 19 the scheme shows a net surplus at 31 December 2012 of £41.4m (2011: £35.5m).

Return on capital employed

The return on capital employed ('ROCE') in 2012 was 29% (2011: 37%). ROCE is calculated as underlying operating profit divided by the average capital employed in the business. Capital employed is defined as shareholders' funds less net funds and the net pension surplus, adding back cumulative amortised and impaired goodwill, and post tax reorganisation costs related to the integration of the Tullett and Prebon businesses.

Regulatory capital

The Group's lead regulator is the Financial Services Authority ('FSA'). The Group has an investment firm consolidation waiver from consolidated capital resources requirements which was approved by the FSA on 8 June 2011 and which will expire on 6 June 2016. Under the terms of the waiver each investment firm within the Group must be either a limited activity or limited licence firm and must comply with its individual regulatory capital resources requirements.

The Group is subject to the '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, and the Group's aggregated financial resources requirements is calculated as the sum of the solo notional capital resources requirements for each relevant firm within the Group.

The Group's regulatory capital headroom under the financial holding company test calculated in accordance with Pillar 1 at 31 December 2012 was £644m (2011: £625m).

Many of the Group's broking entities are regulated on a 'solo' basis, and are obliged to meet the regulatory capital requirements imposed by the local regulator of the jurisdiction in which they operate. The Group maintains an appropriate excess of financial resources in such entities.

Information disclosure under Pillar 3 is available on the Group's website, www.tullettprebon.com.

The Group's Internal Capital Adequacy Assessment Process ('ICAAP') policy is discussed in the Risk Management section below.

Business Review
continued

RISK MANAGEMENT

This section sets out a summary of how risk is managed by the Group, covering the risk management governance structure, the risk management framework, and a description and analysis of the Group's risk profile.

Risk management governance structure

Introduction

The Group's risk management governance structure is based on the three lines of defence principle which segregates risk management (first line of defence) from risk oversight (second line of defence) and risk assurance (third line of defence).

Risk management is embedded throughout the business, with the overall risk appetite and risk management strategy being approved by the Board, and then propagated down throughout the business as appropriate. The principal elements of the Group's risk management governance structure are set out below.

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

The Board

The Board is responsible for setting the Group's risk appetite, defining the type and level of risk that the Group is willing to accept in pursuit of its business objectives. The Board sets down in the Enterprise Risk Management Framework how the Group's risk exposure must be managed in line with the Group's overall business objectives and within its stated risk appetite. This includes the governance of the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Group.

The Board is responsible for approving the Risk Assessment Framework, which is used to ensure that the Group has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the Group, and to enable it to assess the adequacy of its risk management policies in the context of the Group's risk appetite. The Risk Assessment Framework process includes an assessment of the controls in place to manage each risk identified, and the identification of any changes required to the control environment.

The Board is responsible for ensuring that the Group maintains sufficient capital and liquidity resources, both to meet its regulatory capital and liquidity requirements and to support its growth and strategic objectives.

The Board is responsible for approving the Group's ICAAP in which the Group documents its assessment of the adequacy of its capital and liquidity resources, in accordance with FSA requirements.

First line of defence – risk management

Business management

The first line of defence is the regional senior management who have primary responsibility for ensuring that risks are clearly owned and managed on a day to day basis, that systems of control operate effectively and that the Group's risk exposure remains within the prescribed risk tolerances set out in the Group's Risk Management Policies.

The regional senior management are reliant on various support and control functions in the discharge of their risk management responsibilities, most notably the regional Credit, Operations, Compliance, Legal and Finance departments.

Compliance

The Group's Compliance departments monitor compliance with the various regulatory requirements to which the Group is subject, including those imposed by the UK regulatory regime and those imposed by the regulatory framework of the other jurisdictions in which the Group operates. The compliance officers are in regular contact with the regional management and compliance reports are made to the Board on a regular basis.

Credit risk management

The Group's Credit departments are responsible for monitoring the creditworthiness of the Group's counterparties and for the proactive monitoring of counterparty credit exposure against pre-determined reporting thresholds set by the relevant regional credit committee, as well as for providing senior management and the other control functions with timely and accurate reporting of the Group's credit exposure.

Operations/Settlements

The Operations departments play a key role in establishing procedures and monitoring the exposure to risks arising in Matched Principal activities. Controls include the reconciliation of cash, client money and securities positions; the monitoring and resolution of late-settling trades and resultant cash positions; and the identification and control of 'non-standard' transactions.

Finance

The Group's regional Finance departments are responsible for implementing and monitoring the relevant financial controls, and for providing management with timely and accurate reporting of financial performance against budget and other measures.

Second line of defence – risk oversight

The second line of defence consists of the Group's risk oversight functions, principally the Group Risk Control function and the Group Treasury and Risk Committee ('GTRC') as well as certain business support functions which undertake a risk oversight activity in addition to their primary roles, most notably the Compliance and Finance departments.

Group Risk Control

Group Risk Control is independent of the business and is responsible for monitoring the Group's risk exposure and developing risk management policies to ensure that the Group operates in accordance with the Group's risk appetite. In fulfilling this duty, it provides daily and monthly risk reports to senior management which are reviewed by the GTRC. The Group Treasurer and Head of Risk Control reports to the Group Finance Director.

Group Treasury and Risk Committee

The members of the GTRC are the Chief Executive, who acts as chairman, the Group Finance Director and the Group Treasurer and Head of Group Risk Control. The minutes of the GTRC are circulated to the Board.

The responsibilities of the GTRC are:

– to review the risks arising in the Group's businesses and the adequacy of controls, including limits and minimum control standards established to mitigate and monitor such risks;

– to monitor the implementation and effectiveness of the Group's risk management framework;

– to make recommendations on risk appetite to the Board;

– to set the Group's risk tolerance for the various risks faced by the Group;

– to monitor the Group's risk profile against its Risk Appetite Statements and tolerances; and

– to make recommendations for improvements to the control infrastructure or risk management processes.

Business support functions exercising oversight
Certain business support functions undertake specific risk oversight activities in addition to their first line of defence risk management activities.

Operations departments – key oversight activities include the monitoring of residual balances and failed settlements, as well as the review of 'cancels and corrects' trade amendments.

Compliance departments – the regional Compliance departments are responsible for investigating any suspicious broker or market activity, with the Head of Compliance acting as the Group's Money Laundering Reporting Officer.

Finance departments – Finance departments review financial results and balance sheets and investigate any unusual or unexpected results.

Third line of defence – independent assurance
The third line of defence consists of the Group's risk assurance functions, principally the Internal Audit function which reports to the Audit Committee of the Board.

Internal Audit
PricewaterhouseCoopers were appointed to act as the Group's internal auditor in December 2007, following an extensive review of internal audit arrangements by the Audit Committee.

The objectives of Internal Audit are to assess the effectiveness of the Group's risk management, internal controls and governance process; whether operational and financial controls are appropriate and consistently applied; the effectiveness of internal controls for the safeguarding of assets; the reliability and integrity of management information; and the adequacy of processes to ensure compliance with applicable laws and regulations.

Internal audit work during 2012 covered the full 'audit universe' within the Group at different levels of intensity based upon the internal audit plan agreed with the Audit Committee in December 2011. The plan was developed reflecting the results of a risk assessment exercise.

The findings of all internal audits undertaken are reported to the Audit Committee, and actions taken by management in response to the findings are tracked and reported to the Audit Committee. The Audit Committee approved the internal audit plan for 2013 at its December 2012 meeting.

Internal Audit also provides an independent reporting facility under the Group's whistle-blowing arrangements.

Risk Management Framework
Enterprise Risk Management Framework
The Group recognises that a strong culture of risk management is essential for the financial strength and resilience of the Group, and for the achievement of its business objectives. The Board acknowledges its responsibility for ensuring that the Group has an appropriately robust framework of risk governance and controls in place at all times and across all risk categories, which both complies with all applicable regulatory requirements and is in line with industry good practice. The Group's risk management framework is set out in the Enterprise Risk Management Framework. The Enterprise Risk Management Framework documents the core principles, key components and key responsibilities of the risk management framework adopted by the Board to manage the Group's risk exposure in line with the Group's overall business objectives and within its stated risk appetite.

Risk Appetite Statements
The Group's Risk Appetite Statements define the type and level of risk that the Group is willing to accept in pursuit of its business objectives. The Group's Risk Appetite Statements are approved by the Board in the context of the Group's strategy. The Risk Appetite Statements are articulated at the levels of general risk types that could impact on the business objectives set by the Board. Each Risk Appetite Statement is translated into high level measures and tolerances.

In accordance with the Risk Appetite Statements set by the Board, the Group does not actively seek risk in order to generate a return but is willing to accept a limited amount of risk as a consequence of its broking activities, principally counterparty credit risk and operational risk. This is reflected in the business model adopted by the Group whereby it acts only as an intermediary in the financial markets and does not trade for its own account.

Risk Assessment Framework
The Risk Assessment Framework process ensures that the Group has a comprehensive understanding of its risk profile, including both existing and emerging risks faced by the Group, and to enable it to assess the adequacy of its risk management policies in the context of the Group's Risk Appetite Statements.

The Risk Assessment Framework identifies risks within nine risk categories. The risks within each category are analysed, mitigating factors assessed, and relevant controls identified. The risks are then graded for their expected severity and probability, and assigned a risk rating. The Risk Assessment Framework process includes an assessment of the controls in place to manage each risk identified, and the identification of any changes required to the control environment.

Business Review
continued

The Risk Assessment Framework is regularly updated and is reviewed at least twice each year by the Board, with particular focus on high priority risks. The Risk Assessment Framework is used in the Group's ICAAP process and to inform the scope of the internal audit plan, as well as determining the frequency and content of the ongoing risk reporting provided by the Group Risk Control function.

Risk Management Policies
For each risk identified in the Risk Assessment Framework the Group adopts a Risk Management Policy. These Risk Management Policies prescribe the control framework to be implemented and also set out the risk tolerances adopted by the Group, to manage each risk.

Each risk management policy includes:

– a detailed description of the risk;

– the risk tolerance(s) adopted to manage the risk;

– the control framework (i.e. the key controls) adopted to manage the risk, specifying the member of senior management responsible for its implementation;

– any sub-policies adopted to manage the risk; and

– the allocation of responsibility for monitoring the Group's exposure to individual risks, and for risk reporting and escalation.

Stress testing
The stress test regime operated by the Group is a core component of the Group's risk management framework. There are three principal objectives in undertaking these stress tests:

– to inform the Group's assessment of its risk profile, both in respect of its existing business and also as regards any potential changes to its business activities (including potential acquisitions);

– to test the ability of the Group to withstand the materialisation of the various risks identified in the Risk Assessment Framework, in both 'normal' and 'stressed' conditions. This entails an assessment of the adequacy of the Group's financial resources (both capital and liquidity) and the potential management actions available to the Group to mitigate the effect of any such adverse events; and

– to identify any gaps in the Group's risk and control assessment process or deficiencies in the Group's Risk Management Policies, such as a potential weaknesses in the controls operated by the Group.

The Group's stress test regime seeks to incorporate the various requirements imposed by the Group's regulators, including those specified by the FSA.

ICAAP
The FSA requires the Group's two active UK regulated firms to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') to assess the capital adequacy of each firm. Through this process the entities confirm that they hold sufficient capital and liquidity resources in the context of their business objectives, business model and risk profile, and the Group's risk management framework. These ICAAP submissions are approved by the board of the relevant firm.

The Group has been granted an Investment Firm Consolidation Waiver, in accordance with which the Group is not subject to consolidated capital adequacy requirements and so is not required to prepare an ICAAP submission for the Group as a whole. However, the Group still undertakes an assessment of the Group's capital adequacy for internal risk management purposes based on the ICAAP requirements.

Risk reporting
The GTRC, Executive Directors and senior management receive appropriate information and exception reports to comply with the Group's Risk Management Policies, and to identify any new risks or exposures that may arise. These include reports detailing the current status of existing controls, audits, loss events, and any required action plans to remedy any identified shortcomings in the control environment.

Risk profile
The Group's Risk Assessment Framework categorises the risks faced by the Group into nine risk categories: Market Risk, Credit Risk, Operational Risk, Strategic and Business Risk, Governance Risk, Regulatory, Legal and Human Resources Risk, Reputational Risk, Liquidity Risk and Other Financial Risks.

Market Risk
Market Risk is the vulnerability of the Group to movements in the value of financial instruments. The Group does not take trading risk and does not hold proprietary trading positions. Consequently, the Group is exposed to Market Risk only in relation to incidental positions in financial instruments arising as a result of the Group's failure to match clients' orders precisely. Such positions are valued and measured from trade date on a daily mark-to-market basis.

The Group's Risk Management Policies 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. All Market Risk arising across the Group is identified and monitored on a daily basis.

Credit Risk

The Credit Risk faced by the Group consists of counterparty credit risk (as opposed to issuer risk), and principally arises from the following:

– pre-settlement risk arising from Matched Principal broking;

– settlement risk arising from Matched Principal broking;

– cash deposits held at banks and money market instruments; and

– Name Passing brokerage receivables.

In addition to each individual element of counterparty risk identified above, the Group is also exposed to concentration risk. This is where the Group becomes overly exposed to these credit exposures in the aggregate either to an individual counterparty or to a group of linked counterparties.

Pre-settlement risk

Pre-settlement risk arises in the Matched Principal broking business in which Group subsidiaries interpose themselves as principal to two (or more) contracting parties to a Matched Principal transaction and as a result the Group is at risk of loss should one of the parties to a transaction default on its obligations prior to settlement date. In the event of default, the Group would have to replace the defaulted contract in the market. This is a contingent risk in that the Group will only suffer loss if the market price of the securities has moved adversely to the original trade price.

Counterparty exposures are kept under constant review and the Group takes steps to reduce counterparty risk where market conditions require. Particular attention is paid to more illiquid markets where the price movement is more volatile, such as broking in GDR, ADR and emerging markets instruments.

The Group is also exposed to short term pre-settlement risk where it acts as an executing broker on an exchange, during the period between the execution of the trade and the client claiming the trade. This exposure is minimal as under the terms of the 'give-up' agreements the Group has in place with its clients, trades must be claimed by the end of trade day. Once the trade has been claimed, the Group's only exposure to the client is for the invoiced receivables.

Settlement risk

Settlement risk is the risk that on settlement date a counterparty defaults on its contractual obligation to make payment for a securities transaction after the corresponding value has been paid away by the Group. Unlike pre-settlement risk, the exposure is to the full principal value of the transaction.

In practice the Group is not exposed to this risk as settlement is almost invariably effected on a Delivery versus Payment basis. Free of payment deliveries (where an immediate exposure arises due to the Group's settling its side of the transaction without simultaneous receipt of the countervalue) occur very infrequently and only under the application of stringent controls.

Cash deposits

The Group is exposed to counterparty Credit Risk in respect of cash deposits held with financial institutions. The vast majority of the Group's cash deposits are held with highly rated clearing banks and settlement organisations (as set out in the Credit Risk analysis in Note 27 to the Accounts).

As with trading counterparties, cash deposit counterparty exposures and limits are kept under review and steps are taken to reduce counterparty risk where market conditions require.

Name Passing brokerage receivables

The majority of transactions brokered by the Group are on a Name Passing basis, where the Group acts as agent in arranging the trade and is not a counterparty to the transaction. Whilst the Group does not suffer any exposure in relation to the underlying instrument brokered (given that the Group is not a principal to the trade), it is exposed to the risk that the client fails to pay the brokerage it is charged. Receivables arising from Name Passing brokerage are closely monitored by senior management.

Concentration risk

The possibility of concentration risk exists in the level of exposure to counterparties. The Group controls its credit exposure to counterparties and groups of linked counterparties through the application of a system of counterparty credit limits based on the mark-to-market exposure for Matched Principal trades, outstanding brokerage receivables for Name Passing trades, and the amount on deposit for cash deposit exposure. Credit departments also monitor exposures across country groupings and credit rating and sector categories.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people activities, systems or external events. Operational Risk covers a wide and diverse range of risk types, and the overall objective of the Group's approach to operational risk management is not to attempt to avoid all potential risks, but to proactively identify and assess risks and risk situations in order to manage them in an efficient and informed manner. Examples of Operational Risk include:

– IT systems failures, breakdown in security or loss of data integrity;

– failure or disruption of a critical business process, through internal or external error or event;

– failure or withdrawal of settlement and clearing systems, or errors in instructions;

– events preventing access to premises, telecommunications failures or loss of power supply which interrupt business activities; and

– broker errors.

Operational Risk is managed through a combination of effective, relevant and proportionate controls. The policy of devolved responsibility within the Group places the emphasis for the management of Operational Risk on the senior management of each business unit.

Business Review
continued

Strategic and Business Risk
The Group operates in an environment characterised by intense competition, rapid technological change and a continually evolving regulatory framework. Failure to adapt to changing market dynamics, customer requirements or the way OTC markets and their participants are regulated constitutes a significant long term risk. The Group has identified four principal categories of Strategic and Business Risk:

- direct regulatory risk;
- indirect regulatory risk;
- lower market activity risk; and
- commercial risk.

Direct regulatory risk
The risk of new regulations imposing a fundamental change to the structure or activity of financial markets, resulting in a reduced role for interdealer brokers. Specific issues could include an inability of the business to provide electronic platforms or market facilities which are compliant with new regulations or the obligation to hold punitive levels of regulatory capital.

Indirect regulatory risk
The risk of a fundamental change to the commercial environment due to the impact on clients of changes to their regulatory environment causing significantly reduced trade volumes. This could include increased execution and clearing costs, onerous collateral requirements or increases in regulatory capital requirements, or a prohibition on certain types of trading activity.

Lower market activity risk
The risk that the Group experiences a sustained period of low market activity leading to reduced revenues. This could arise as a result of adverse macro-economic conditions, reduced levels of general banking activity, market uncertainty or lack of volatility.

Commercial risk
The risk of a fundamental change to the commercial environment, whether due to client requirements or competitor activity. The Group seeks to manage and mitigate its commercial risk by following a clearly defined business development strategy, geographic and product diversification and strong client relationship management.

Commercial risk also includes the risk that the Group is unable to respond to market demand for electronic broking solutions and loses market share as a result. The Group seeks to address this risk through continued development and enhancement of its electronic broking capability, to ensure that it can offer a competitive solution for all major asset classes.

Governance Risk
Governance Risk is the risk of loss or damage to the business arising as a result of a failure of management structures or processes. This includes failure to adhere to applicable corporate governance requirements (such as those recommended by the UK Corporate Governance Code), a failure to ensure adequate succession to key management positions, or the inappropriate use of authority and influence by current or former senior members of staff.

The risk of accounting error or fraud is mitigated by the strong control environment which exists within the Group, in particular the involvement of the Audit Committee, the Internal Audit function and the GTRC. Succession planning within the Group is overseen by the Board.

Regulatory, Legal and Human Resource Risk
This risk concerns the potential loss of value due to regulatory enforcement action (such as for breaches of conduct of business requirements or market abuse provisions); the possible costs and penalties associated with litigation; and the possibility of a failure to retain and motivate key members of staff. The Group also faces the risk that changes in applicable laws and regulations could have a serious adverse impact on the business.

The Group's lead regulator is the FSA, but the Group is also subject to the requirements imposed by the regulatory framework of the other jurisdictions in which the Group operates. The Group's compliance officers monitor compliance with applicable regulations and report regularly to the Board. The Group's Legal department oversees contracts entered into by Group companies, and manages litigation which arises from time to time. Salaries, bonuses and other benefits are designed to be competitive and the Group's HR function monitors staff turnover on an ongoing basis.

Reputational Risk
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 conduct of business rules, procedures for employee hiring and the taking on of new business.

Liquidity Risk
The Group seeks to ensure that it has access to an appropriate level of cash, other forms of marketable securities and facilities to enable it to finance its ongoing operations on cost effective terms. Cash and cash equivalent balances are held with the primary objective of capital security and availability, with a secondary objective of generating returns. Funding requirements are monitored by the GTRC.

As a normal part of its operations, the Group faces Liquidity Risk through the risk of being required to fund transactions that fail to settle on the due date. From a risk perspective, the most problematic scenario concerns 'fail to deliver' transactions, where the business has received a security from the selling counterparty (and has paid cash in settlement of the same) but is unable to effect onward delivery of the security to the buying counterparty. Such settlement 'fails' give rise to a funding requirement, namely the cost of funding the security which we have 'failed to deliver' until such time as the delivery leg is finally settled and we have received the associated cash.

The Group has addressed this funding risk by arranging overdraft facilities to cover any 'failed to deliver' trades, either with the relevant settlement agent/depository or with a clearing bank. Under such arrangements, the facility provider will fund the value of any 'failed to deliver' trades until delivery of the security is effected. Certain facility providers require collateral (such as a cash deposit or parent company guarantee) to protect them from any adverse mark-to-market movement, and some also charge a funding fee for providing the facility.

The Group is also exposed to potential margin calls from clearing houses and correspondent clearers, both in the UK and US.

In the event of a liquidity issue arising, the firm has recourse to existing global cash resources, in addition to which it could draw down on a £115m committed revolving credit line as additional contingency funding. This facility remained undrawn throughout 2012.

Further details of the Group's borrowings and cash are provided in Notes 23, 27 and 33.

Other Financial Risks

The nature and scope of the Group's operations mean that it is exposed to a number of other financial risks including interest rate risk, currency risk, taxation risk, and pension obligation risk.

Interest rate risk

The Group is exposed to interest rate risk on its cash deposits and on its borrowings under bank facilities. The Eurobond debt pays fixed sterling interest. Cash deposits are typically held at maturities of less than three months, and the sterling interest rate exposure is partially hedged by rolling sterling term loans under the bank facility for similar short term periods.

The GTRC periodically considers the Group's exposure to interest rate volatility.

Analysis of the Group's sensitivity to movements in interest rates is set out in Note 27.

Currency risk

The Group trades in a number of currencies around the world, but reports its results in sterling. The Group therefore has translation exposure to foreign currency exchange rate movements in these currencies, principally the US dollar and the Euro, and transaction exposure within individual operations which undertake transactions in one currency and report in another.

Analysis of the Group's sensitivity to movements in foreign currency exchange rates is set out in Note 27.

Taxation risk

The risk of financial loss or misstatement as a result of non-compliance with regulations relating to direct, indirect or employee taxation. The Group employs experienced qualified staff in key jurisdictions to manage this risk and in addition uses professional advisers, as appropriate.

Pension obligation risk

The risk that the Group is required, in the short and medium term, to fund a deficit in the Group's defined benefit pension scheme.

CORPORATE SOCIAL RESPONSIBILITY

Introduction

Throughout the reporting period the Company continued to provide support for the efficient operation of the global capital markets, which helped to ensure that its clients were able to continue to achieve their own business objectives, and to meet expectations of their own shareholders and their other stakeholders.

The role of interdealer brokers, such as Tullett Prebon, in successfully ensuring liquidity in the capital markets, especially at times of market stress, has been increasingly recognised by organisations involved in the public policy response to the financial crisis. This has provided the opportunity for the Company, both through its professional bodies in the United Kingdom and the USA, and where appropriate directly, to engage with law makers and official bodies to seek to ensure new regulations will not harm the efficient functioning of the capital markets which are in some measure dependent on intermediation provided by companies such as Tullett Prebon.

By successfully remaining a critical part of the global capital markets infrastructure, Tullett Prebon is best able to maximise returns to shareholders over the medium to long term. As a publicly listed company Tullett Prebon continues to enjoy a positive record in creating value for both institutional and individual investors.

In turn this allows the Company to continue making a significant contribution to society through social transfer payments in the form of tax remittances.

The Company intends that its high standards of governance and business ethics contribute to the wider social good through the example it sets and the high standards it maintains, both in the United Kingdom and in all other geographies where the Company is present, complying with all laws and regulations, trading fairly, and only participating in legitimate trading activities permitted by its various licences.

Governance

Responsibility for social, ethical and environmental matters rests with the Board, and is included in its Terms of Reference. The Chief Executive is the Board member responsible for Corporate and Social Responsibility ('CSR').

The Company's CSR Governance Committee, which was established in 2009 in recognition of the increasing importance of the CSR agenda and which comprises all members of the Company's Executive Committee, oversaw and helped refine further the CSR activities of the Company in 2012. This Committee and its members in their executive roles will continue to oversee and guide the CSR activities of the Company, reflecting the continued importance the Company places on this broad and visible area of responsibility.

Business Review
continued

Policies and ethical issues

The Board expects the Company to maintain high standards of governance and of ethical behaviour throughout the business, and policies and procedures exist to ensure employees at all levels maintain the standards that are set and which are expected of them.

Equal opportunities

Tullett Prebon is committed to attracting, retaining, developing and advancing the most qualified persons without regard to their race, ethnicity, religion or belief, gender, age, sexual orientation or disability. This commitment is underpinned by policies on equal opportunities, harassment and discrimination, to which all employees are required to adhere.

Ethical issues

The Company's approach to ethical behaviour and corporate governance is specifically written into policy and Tullett Prebon documents, for observance by all members of staff, and provides for:

- maintaining high standards of compliance and risk management – ultimately the responsibility of the Chief Executive, and monitored by the Board and Audit Committee;
- fully complying with legal and regulatory requirements in each of the jurisdictions in which it operates, including the FSA's Conduct of Business Sourcebook and the Bank of England's Non-Investment Products Code;
- prohibiting corrupt practices such as inappropriate payments to any third party, directly or indirectly;
- fully complying with tax laws in each of the jurisdictions in which it operates relating to its affairs and the deduction of taxes from staff remuneration;
- trading fairly, knowing its clients and properly understanding its trades with its clients. The Company has a policy of not participating in trading activities which it suspects may not be for legitimate trading purposes, or whose sole purpose appears to be tax reduction by the counterparty;
- guiding employees involved in procurement activities, including a requirement to adhere to the highest ethical and social standards; and
- maintaining appropriate guidelines on gifts, hospitality, entertainment and conflicts of interest.

Employees

Attracting and retaining the best brokers, professional and other support staff, and management, remains crucial to the Company's ongoing success. Management recognises that the Company's ability to maximise returns to shareholders is dependent on employing and retaining the best staff in all the geographies in which it operates. The Company is committed to developing and motivating its staff and offers training where appropriate and measures performance to achieve this objective.

The management training programme launched in 2009 as part of the succession planning process continued to operate in 2012. This programme continues to strengthen management capability across the Company's European business and has assisted in the continued process of succession planning.

A similar programme has been launched in the Americas for the region's senior management and also for all desk heads and directors. This process ensures the Company's key managers in its two principal regions receive consistent and professional training appropriate for the management positions that they occupy.

The productivity and welfare of employees in a business so dependent on people, such as Tullett Prebon, continued to attract considerable senior management attention throughout the reporting period, and management at all levels undertook active engagement programmes with employees, a process monitored by regional chief executive officers.

To assist with employee engagement, the Company maintains effective internal communications channels at both Group and regional levels to ensure staff are informed in a timely way about major developments in the business, such as the launch of new products, organisational changes, key hires, and financial and regulatory announcements. Information is provided to employees regularly through integrated and complementary channels such as internal emails, the Company's intranet site, print collateral and town hall meetings, as appropriate. Posters are used for internal communications across all the Company's offices and the quarterly-produced Company-wide staff e-newsletter provides an enhanced communications channel.

Staff welfare remains a serious matter for the Company, especially given the demanding nature of the broking environment. Day to day responsibility for staff welfare and the management of stress rests with business line management assisted by the Human Resources department. This is supplemented by an Employee Assistance Programme which provides counselling and advice to staff and their families, and the use of occupational health specialists if required. The Company's policies on health and safety provide a formal framework and inform line management in the discharge of their responsibilities in this area.

Records on employment and pastoral care matters are maintained as required in each legal and regulatory jurisdiction. These help to provide senior management with metrics to measure both the performance and welfare of staff:

- in 2012 the average revenue generated by each broker was £479,000 (2011: £524,000);

- the Company employed 2,645 full time equivalent employees and directors worldwide in 2012 (46% in Europe, 32% in the Americas and 22% in Asia Pacific) compared with 2,550 staff in 2011 (48% in Europe, 30% in North America and 22% in Asia Pacific). Total remuneration for all staff in 2012 was £530m (2011: £570m);

- claims for compensation for work-related accidents and illnesses remained minimal in 2012 with two claims for Worker's Compensation in the US, three claims in Asia Pacific (two of these occurred whilst commuting to and from work) and no claims in the UK;

- in 2012 there was an increase in absence due to short term employee sickness in the UK, in terms of both total days taken and average time off work. In the UK the Company lost 1,767 sick days (2011: 1,452 sick days) and the average time off work due to short term sickness was 1.75 days per employee (2011: 1.41 days). In Asia Pacific 1,930 days were lost due to short term sickness (2011: 1,213 days), an average of 2.56 days per employee (2011: 1.60 days). The US does not report short term sickness in the same way as in Asia Pacific or the UK, but in terms of longer term 'disability' sickness the average rate was 0.50 workdays per employee compared with 0.45 days per employee in 2011; and

- 2012 saw one minor reported staff accident in the UK compared with none the year before. Again, no visitors suffered injury on Company premises during 2012.

As the Company is highly dependent on its employees, retention of key personnel remains one of management's core tasks. 2012 has continued to present challenges in this regard, but management believes that, in the ordinary course of its business, retention policies in general have proved successful in retaining staff at all levels.

To better track the health of the Company in respect of staff retention beyond the simple end-of-year headcount numbers, which whilst useful as a general guide does not help with developing an understanding of retention in a qualitative way, the Company continues to monitor length of service of all staff. This provides a more qualitative measure as it implicitly reflects staff attitudes to employment with the Company, as a dissatisfied workforce would be expected to be highly fluid with few long-serving members of staff.

Accordingly, the Company records by region percentages of staff that have five and 10 years' or more service. The table below sets out the high retention levels across the Group:

To help alleviate the high-stress work environment, the Company's pastoral care programme has continued to respond to staff requests for an improved work/life balance and specifically for support with access to improved physical exercise and active outdoor pursuits. The Company recognises the importance of redressing some of the associated negative effects of the relatively physically inactive desk-based business on its employees. To this end the Company continued to offer its workforce a range of exercise and general sporting activities. In addition to the personal benefits that accrue to the individual, the business benefits of this policy are clear and are evidenced in the dictum 'mens sana in corpore sano'. Accordingly, the Company has been keen to support the provision of a broad physical fitness programme, especially as the demand for this continues to come from employees themselves.

Throughout the reporting period the Company provided British Military Fitness circuit training for staff in London and, as in each year since its implementation in 2009, classes remained at full capacity. Again in response to staff demand, in 2012 the Company maintained its programme of recreational and competitive bike rides over spring and summer weekends which were open to employees, their families and clients, and these rides provided for all ages and abilities.

In addition to circuit training and bike events the Company continued to support participation in a range of externally organised sporting activities including the Bloomberg Square Mile Relay, the Standard Chartered Great City Race, Vertical Rush (racing up the stairwell in one of the City's tallest buildings), and the JPMorgan Chase Corporate Challenge (in London, New York and Singapore), which have become annual fixtures in the Company's sporting calendar. This year's Company sporting activities also included the Tullett Prebon Challenge – an internal competition run in London to coincide with the London 2012 Olympics. As well as building on the hype and excitement of the London 2012 Olympics, this internal team competition offered departments the chance to compete across divisions and departments as well as facilitating improved wellbeing and improved motivation for exercise.

Throughout 2012, the Company continued the scheme, first introduced in 2009, to provide team clothing to staff taking part in other team and sporting activities. Events included the London to Paris Cycle Tour, the Try Tag Rugby Corporate Challenge and The Tullett Prebon Americas Softball League.

The continued enthusiasm for the UK Government's Cycle to Work scheme further evidences the interest in sport and general fitness across the UK workforce. A further 91 staff purchased cycles under this scheme in the reporting period, on top of the 296 who had previously taken advantage of this scheme in 2009 to 2011.

Across Tullett Prebon over 400 staff were actively engaged in Company assisted sporting and fitness activities in 2012 (2011: 340) and management hopes that the Company's support in this area will continue to improve staff welfare and general health, and thereby contribute to an improved work/life balance, and in turn contribute to the success of the Company.

	US		UK		Asia Pacific	
	2012	2011	2012	2011	2012	2011
5 years' + service (%)	**52.8**	58.9	**57.8**	54.3	**40.0**	34.8
10 years' + service (%)	**34.5**	39.4	**34.8**	32.2	**15.8**	13.1

Business Review
continued

The pastoral care programme has also provided support to employees in the UK with access to childcare provision and in charitable giving, by the Company running schemes under the UK Government's salary sacrifice programme. In 2012, an increase was seen in the number of employees (80) opting for Company Childcare Vouchers (compared with 67 in 2011). Following internal promotion of the Give as You Earn scheme donations by staff saw some increase in 2012 although the Company believes that there remains unrealised support for this scheme and it intends to allocate further resources to its promotion in the subsequent reporting period.

Community investment

Tullett Prebon's approach to community investment is informed by the Company's limited impact on the communities in which it operates and by the resources and expertise at its disposal. There are several strands to the Company's community investment programme:

- the Company's direct engagement in the public policy response to the financial crisis and its aftermath has sought to make a balanced and factual contribution to a process hitherto often ill informed and not unconstrained by political dogma;

- London is where the Company is headquartered and where it has its biggest concentration of personnel and therefore where it has its biggest impact on a local community. The Company has accordingly become actively involved with the Corporation of London which provides the local authority services for London's financial district, and which has an extensive community and charitable programme;

- the Corporation of London has an effective public policy programme in connection with its husbandry of London's financial services industry. The Company continues to support the Corporation's efforts in this regard, in particular in coordination with the Company's professional body, the Wholesale Markets Brokers Association ('WMBA');

- in place of any formal regular survey of staff opinion the Company's senior management team, led by the Chief Executive, has an active programme of engagement with employees. The Chief Executive, together with his senior managers, participates in many of the staff-led sports and exercise opportunities provided by the Company – this, it is felt, provides for very direct and qualitative opinion sharing which is all the more effective because of the nature of honest debate found in a company where people are not slow in coming forward with their views; and

- continued support for the wider UK economy has been evidenced by the Company's involvement with the British Marine Industry and specifically by the support it has provided to the British Marine Federation's ('BMF') annual London Boat Show. The show at ExCel in Docklands, an area of London where Tullett Prebon's clients and associated businesses are heavily concentrated, has allowed the Company to assist the BMF to showcase the successful leisure marine sector of the UK economy responsible for employing 31,000 people and exporting goods and services in 2011/2012 in excess of £1 billion. The sponsorship of this large national event is part of a wider public policy agenda. As well as promoting client and staff engagement, it promotes an industry important to the wider UK economy outside the narrow confines of financial services.

  All clients and employees with their families are invited to attend the event, which is also to encourage greater participation in Company's staff sport and fitness programme as the Boat Show is co-located with the Outdoors Show and the London Bike Show. 2012 was the final year of the Company's four year commitment to support the Boat Show.

Social and community issues

Service in the Volunteer Reserve Forces

The Company recognises that members of the Volunteer Reserve Forces in the UK and the US (the two countries that account for around 80% of Tullett Prebon's revenues) continue to provide a critical component of the Armed Forces of both countries.

In line with its commitment to support members of the Volunteer Reserve Forces, which forms part of the terms of employment in the Staff Handbook, the Company continued to be a member of the UK Ministry of Defence's employers organisation, SaBRE, which seeks to foster a good relationship between employers, employees and the Armed Forces. During 2012 the Company explored with the Ministry of Defence ways in which it could assist further with post-service employment opportunities.

Tax and other social payments

The Company continues to maintain a Low Risk rating from HMRC. The Company has earned this Low Risk rating in each of the last six years since HMRC started to publish the names of those companies achieving this important status.

Tullett Prebon is registered, regulated and publicly listed in the UK and will continue to pay the right amount of tax at the right time.

Tullett Prebon made payments to tax authorities (principally in the UK and US, the main jurisdictions in which it operates) for 2012 of £275m (2011: £290m, 2010: £267m, and 2009 of just under £280m), comprising corporation tax, employer's social security payments and income taxes and social security paid on behalf of employees.

In addition, the Company makes further income tax and employee social security payments to the tax authorities in other tax jurisdictions in which it operates.

Donations

The Company has maintained the policy of making no donations to political parties. Similarly, charitable donations are not normally allowed. These two policies reflect the Board's view that shareholders' funds should be retained for use within the business and that it is for shareholders to determine what non-business use should be made of their resources.

Public policy engagement

Tullett Prebon continued its engagement in the public policy debate surrounding the future of the financial services sector. Notwithstanding being a relatively small UK listed entity, the Company, using its position at the very heart of the capital markets which gives it an informed view available to very few others, was consistently able to punch above its weight.

Continuing the pattern established in recent years, the Company concentrated on three strands of public policy activity during 2012:

- deepening involvement with the various trade and other professional bodies of which the Company is a member.

In particular the Company provided continuing financial support to the WMBA in the UK and to the Wholesale Markets Brokers Association of the Americas ('WMBAA') in North America, who are the interdealer brokers' trade bodies. Both of these organisations now have active and well resourced lobby programmes seeking to engage with lawmakers, officials and regulators in their respective jurisdictions. In addition, the Company has continued to develop its involvement with other key professional and industry specific bodies in all geographies in which it operates. The Company's representation on these key trade bodies by one member of the Company's Executive Committee has continued to ensure coordinated, focused and effective advocacy throughout the reporting period;

- the Company's Chief Executive continued his engagement in public debate on issues relevant to the financial services sector, continuing dialogue with mainstream political parties in the UK regarding policy development around economic and financial services issues; and
- the Company's Global Head of Research, one of whose roles is to increase the Company's visibility in the public policy arena, was again active in 2012, publishing papers addressing the principal economic themes. Two research products continued to be published during the reporting period as appropriate: Strategy Insights (in-depth papers) and Strategy Notes (shorter, quicker to write and designed to respond to 'issues of the moment'). In addition, a new channel was launched in 2012 – a Blog. The Company's Global Head of Research's Blog has emerged as the preferred channel to publish new and time sensitive research and considerable traction has been achieved with this new product.

The Company's public policy engagement programme will continue as required by the debate surrounding the reform and regulation of the financial services sector, to ensure that the Company is able to continue to develop and to grow shareholder value.

Environment

Tullett Prebon, as an office-based business, is not engaged in activities that are generally regarded as having a high environmental impact. 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.

The emission of greenhouse gases ('GHG'), as a result of office-based business activities and from business travel, is the Company's main impact on the environment.

The Group has both Group-wide and UK environmental policies and the Company's procurement policy supports these policies by making clear that the Company's procurement choices will favour products showing clear environmental advantages unless there are significant reasons for not doing so.

The Company has taken advice from professional specialist consultants in respect of its forthcoming carbon reporting requirements. With these reporting obligations in mind, the Company completed a further GHG audit covering its key geographies in 2012.

The 2012 audit by Sustain Limited, an independent carbon reduction company, indicated that the 2012 carbon footprint is comparable to previous years with UK and US operations responsible for approximately 11,000 tonnes of carbon dioxide equivalent. In the UK and US operations, energy consumption in offices accounted for 85% of emissions and air travel accounted for 15%. Collaborations with landlords to improve energy efficiency and reduce waste continued to be the main focus for reducing the Company's carbon footprint. As a result of one such initiative, the Company received a Platinum Award in the Clean City Awards 2012 for best practice in waste management in the City of London. A stringent cost control regime continues to be in force and this minimises business travel in favour of video and telephone conferencing.

In the UK during 2012 the Company, with the assistance of a specialist contractor, recycled 82,000kg of paper (2011: 67,000kg) which gave rise to an estimated saving of 65,000kg of CO_2 emissions (2011: 53,000kg). During 2012 5,455kg (2011: 4,887kg) of Waste Electronic Electrical Equipment ('WEEE') was recycled. A reduction of 4% in electricity consumption in the UK was also achieved in 2012.

Contractual or other arrangements essential to the business of the Group

The success of the Company relies on maintaining certain contractual and other arrangements within individual entities and across the Group relating to revenue generation, operational performance and financing.

The successful generation of revenue relies on the Group's ability to hire and retain highly qualified employees. Employment costs made up 77% of the Group's administration expenses in 2012 (2011: 78%). The Company seeks to put in place contractual arrangements with its personnel, including in certain circumstances fixed term contracts, non-compete arrangements and performance related remuneration which is used to enhance the Group's ability to attract and retain key personnel.

The Group facilitates a finite number of customer relationships. These relationships are serviced over a wide range of products and across a geographically diverse business.

The efficiency of the Group's operations depends on certain key supplier relationships. The Group is reliant upon a number of financial institutions for the clearing and settlement of its transactions, most notably the DTCC, Euroclear, Clearstream, and certain key banking relationships.

The Group is dependent upon certain information, communication and IT system providers and operates from a limited number of properties. The Group seeks to ensure its systems are robust and are capable of operation from tested business continuity sites.

The Group relies on a number of international banks to provide banking services and credit facilities. At 31 December 2012 the committed facilities were provided by five banks, The Royal Bank of Scotland, Lloyds Banking Group, HSBC, Bank of America and the Australia and New Zealand Banking Group. Further analysis of the Group's debt structure can be found in Note 23 to the consolidated financial statements.

Terry Smith
Chief Executive
5 March 2013

Governance

Board of Directors
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Board of Directors

KEITH HAMILL (60)

Chairman

Keith Hamill became Non-executive Chairman of Tullett Prebon plc in December 2006 and is also Chairman of the Nominations Committee. He served as Chairman of Collins Stewart Holdings plc and subsequently Collins Stewart Tullett plc from 2000 to 2006. He is a Non-executive Director of easyJet plc and Samsonite International SA. He is a chartered accountant and was previously Chairman of Travelodge and Heath Lambert, Finance Director of WH Smith, Forte and United Distillers and a partner in Price Waterhouse. He was also a member of the Urgent Issues Task Force of the Accounting Standards Board and Chairman of the CBI Financial Reporting Panel.

TERRY SMITH MNZM (59)

Chief Executive

Terry Smith started his career with Barclays Bank, became a stockbroker in 1984 with W Greenwell & Co. and subsequently worked at BZW and James Capel. In 1990 he became the head of UK Company Research at UBS Philips & Drew. In 1992 he joined Collins Stewart (subsequently Collins Stewart plc), becoming a Director in 1996 and Chief Executive in 2000. When Collins Stewart and Tullett Prebon demerged in December 2006, he became Chief Executive of Tullett Prebon plc. He also became Executive Chairman of Collins Stewart plc, a position which he held until 2009 when he became Deputy Chairman, finally resigning from the Board of Collins Stewart plc in October 2010. He is an Associate of the Chartered Institute of Bankers, has an MBA from The Management College, Henley and is a qualified Series 7 Registered Representative and Series 24 General Securities Principal with FINRA. In November 2010, Terry Smith launched Fundsmith, a fund management company, of which he is Chief Executive and Chief Investment Officer. In the New Zealand 2012 New Year's Honours list, Terry Smith was appointed a Member of the New Zealand Order of Merit for services to New Zealand-United Kingdom relations.

PAUL MAINWARING (49)

Finance Director

Paul Mainwaring qualified as a chartered accountant with Price Waterhouse 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 in October 2006, and has been Finance Director of Tullett Prebon plc since December 2006.

ANGELA KNIGHT (62)

Senior Independent Non-executive Director

Angela Knight was appointed as a Non-executive Director of Tullett Prebon plc in September 2011. She is a member of the Audit, Remuneration and Nominations Committees. Angela Knight is currently the Chief Executive of Energy UK and a Non-executive Director of Brewin Dolphin Holdings plc and Transport for London. She was formerly the Chief Executive of the British Bankers' Association from 2007 to 2012 and the Chief Executive of the Association of Private Client Investment Managers and Stockbrokers from 1997 to 2006. She was also formerly the Member of Parliament for Erewash from 1992 to 1997, serving as a Treasury Minister from 1995 to 1997. Her previous non-executive director appointments include the Financial Skills Partnership, Lloyds TSB plc, Scottish Widows and LogicaCMG plc.

DAVID CLARK (65)

Independent Non-executive Director

David Clark is a member of the Audit, Remuneration and Nominations Committees. He was appointed as a Non-executive Director of Tullett Liberty in September 2000, to the Collins Stewart Tullett plc Board in March 2003, and subsequently became a Director of Tullett Prebon plc in December 2006. 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 a Non-executive Director of Westpac Europe Limited, a member of the Associate Parliamentary Group for Wholesale Financial Markets, Chairman of the Wholesale Markets Brokers Association and also of the London Energy Brokers Association.

ROGER PERKIN (64)

Independent Non-executive Director

Roger Perkin joined the Board on 1 July 2012 and became Chairman of the Audit Committee at the end of July 2012. He is also a member of the Remuneration and Nominations Committees. He is a former partner at Ernst & Young LLP and spent 40 years in the accounting profession before retiring from the firm in 2009. He is a Non-executive Director and Chairman of the Audit Committee for both Nationwide Building Society and Electra Private Equity plc and was formerly a Non-executive Director at The Evolution Group plc until its acquisition in December 2011. He is a trustee of two charities, Chiddingstone Castle and Crime Reduction Initiatives.

STEPHEN PULL (56)

Independent Non-executive Director

Stephen Pull was appointed as a Non-executive Director of Tullett Prebon plc in September 2011. He is a member of the Audit, Remuneration and Nominations Committees. Stephen Pull was Chairman of Corporate Broking at Nomura between 2008 and 2011 following their acquisition of Lehman Brothers Europe for whom Stephen worked from 2002 as Head of Corporate Broking, and then as Chairman of Corporate Broking. He has also held a number of other senior roles in the City, including Managing Director of Corporate Broking at Merrill Lynch and Head of UK Equity Sales at Barclays de Zoete Wedd.

RUPERT ROBSON (52)

Independent Non-executive Director

Rupert Robson was appointed to the Board in January 2007. He is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He has held a number of senior roles in financial institutions, most recently Non-executive Director of London Metal Exchange Holdings Ltd and Non-executive Director of OJSC Nomos Bank, Global Head, Financial Institutions Group, Corporate Investment Banking and Markets at HSBC and Head of European Insurance, Investment Banking at Citigroup Global Markets. He is Chairman of Charles Taylor plc and EMF Capital Partners.

Directors' Report

The Directors present their report, together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

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. The main subsidiary undertakings through which the Group conducts its business are set out in Note 39 to the consolidated financial statements.

Results and dividends
The results for the year are set out in the Consolidated Income Statement on page 46.

The Directors recommend a final dividend for the year of 11.25p per ordinary share. The final dividend, if approved, will be paid on 16 May 2013 to ordinary shareholders whose names are on the register at the close of business on 26 April 2013.

During 2012 Tullett Prebon plc paid a final dividend for 2011 of 11.25p per ordinary share and an interim dividend for 2012 of 5.6p per ordinary share.

Business review
The information that fulfils the requirements of the Business Review can be found on pages 05 to 25. The Business Review is incorporated into this Directors' Report by reference. It includes an analysis of the development and performance of the Group during the year, the position of the Group at the end of the year, financial and non-financial performance indicators, and information on the main trends and factors likely to affect the development, performance, and position of the business. A description of the principal risks and uncertainties facing the Group is included in the Risk Management section of the Business Review.

Information on environmental, employee, social and community issues and policies and information about persons with whom the Group has contractual or other arrangements which are essential to the business, is included in the Corporate Social Responsibility section of the Business Review.

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.

A separate Corporate Governance Report is included within this Annual Report on pages 30 to 34 and which is, where relevant, incorporated into this Directors' Report by reference. The Corporate Governance Report includes the information that fulfils the requirements of section 7.2 of The Disclosure and Transparency Rules ('DTR') with the exception of the information referred to in DTR 7.2.6 which is included in this Directors' Report.

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)

David Clark
(Independent Non-executive Director;
Senior Independent Non-executive Director until 6 February 2012)

Michael Fallon
(Independent Non-executive Director – resigned 4 September 2012)

Angela Knight
(Independent Non-executive Director – Senior Independent Non-executive Director from 6 February 2012)

Roger Perkin
(Independent Non-executive Director – appointed 1 July 2012)

Stephen Pull
(Independent Non-executive Director)

Rupert Robson
(Independent Non-executive Director)

Biographical details of the Directors are set out on page 27.

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in place at the date of this report. The principal employer of the Tullett Prebon Pension Scheme has given indemnities to trustees of that scheme, including the Executive Directors and Chairman. The Company maintains liability insurance for its Directors and officers.

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:

	2012 Number	2011 Number
Keith Hamill	**80,299**	80,299
Terry Smith	**9,645,510**	9,645,510
Paul Mainwaring	**221,339**	221,339
David Clark	**–**	–
Angela Knight	**–**	–
Roger Perkin	**–**	–
Stephen Pull	**7,000**	–
Rupert Robson	**7,000**	7,000

There were no changes in the interests of the Directors in the ordinary share capital of the Company from the end of the year to the date of this report.

The Tullett Prebon plc Employee Benefit Trust 2007 held 202,029 shares (2011: 202,029). The beneficiaries of the trust are the employees of the Group, including the Executive Directors. Under Schedule 1 of the Companies Act 2006 the Executive Directors are deemed to be interested in these shares.

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

Share capital and control

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 28 to the consolidated financial statements which is incorporated into this Directors' Report by reference.

The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The voting rights of the ordinary shares held by the Tullett Prebon plc Employee Benefit Trust 2007 are exercisable by the trustees in accordance with their fiduciary duties. The right to receive dividends on these shares has been waived. Details of employee share schemes are set out in Note 30 to the consolidated financial statements which is incorporated into this Directors' Report by reference.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the provisions of the Articles of Association (the 'Articles') and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights, nor are there any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of those securities.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders and were last amended at the Company's Annual General Meeting ('AGM') in May 2012. As a consequence of this amendment to the Articles, at each AGM all of the Directors who held office on the date seven days before the Notice of that AGM must retire from office and each Director wishing to serve again must submit themselves for election or re-election by shareholders.

The powers of the Directors include the authorities to allot shares and to buy the Company's shares in the market as granted by shareholders at the AGM. At the last AGM resolutions were passed to authorise the Directors to allot up to a nominal amount of £36,268,645 ordinary shares (subject to certain restrictions) and to purchase up to 21,761,187 ordinary shares. Details of the shares issued during the year and up to the date of this Annual Report are set out in Note 28 to the consolidated financial statements. At the date of this Annual Report, no shares had been purchased in the market under the authority granted at the 2012 AGM. The allotment and buy-back authorities will expire at the conclusion of the next AGM or, if earlier, on 1 July 2013, unless renewed before that time.

Further powers of the Directors are described in the Schedule of Matters Reserved for the Board, which is available on the Company's website, and in the Corporate Governance Report on pages 30 to 34.

Substantial interests

As at the year end, and at 4 March 2013, being the latest practicable date before signing of this document, the following (not being Directors, their families or persons connected, within section 252 of the Companies Act 2006) had notified the Company in accordance with DTR 5 that they were interested in the following voting rights of the issued ordinary share capital of the Company:

	31 December 2012 %	4 March 2013 %
Lloyds Banking Group plc	12.9	10.9
Jupiter Asset Management Limited	10.1	11.0
OppenheimerFunds, Inc	5.0	5.0
Henderson Global Investors	5.0	5.0
Invesco Limited	5.1	5.0
Norges Bank	–	3.0

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.

Political and charitable donations

During 2012 no political or charitable donations were made by the Group (2011: £nil).

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming AGM.

Disclosure of information to the auditor

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Annual General Meeting

The AGM of the Company will be held at 2.30pm on 9 May 2013. Details of the resolutions to be proposed at the AGM are set out in a separate Notice of Meeting which will be sent to all shareholders entitled to receive such Notice. Only members in the register of members of the Company as at 6.00pm on 7 May 2013 (or two days before any adjourned meeting) will be entitled to attend and vote at the AGM. Any proxy must be lodged with the Company's registrars or submitted to CREST at least 48 hours before the AGM or any adjourned meeting.

By order of the Board

Justin Hoskins
Company Secretary
5 March 2013

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 in the UK Corporate Governance Code (the 'Code').

Throughout the year ended 31 December 2012 the Board believes it has complied with the principles and provisions recommended by the Code. The manner in which the Company has applied the principles of good governance set out in the Code is outlined below. The UK Corporate Governance Code is publicly available at www.frc.org.uk.

DIRECTORS

Composition of the Board

The Board currently comprises two Executive Directors, five independent Non-executive Directors and a Non-executive Chairman.

There were a number of Board changes during 2012: Angela Knight took over from David Clark as Senior Independent Non-executive Director with effect from 6 February 2012; Roger Perkin was appointed as a Non-executive Director on 1 July 2012; and Michael Fallon resigned as a Non-executive Director on 4 September 2012.

The Directors' biographies on page 27 demonstrate the Board's depth of experience and skill. The Non-executive Directors have the range of experience and the calibre to exercise independent judgement and contribute to Board discussions. Five of the Directors (and four of the Non-executive Directors) have extensive previous experience at a senior level in the financial services sector and three of the Directors are chartered accountants (two of whom were audit partners in major firms of accountants); the Finance Director was previously Finance Director of a number of other companies.

The Chairman, Keith Hamill, was, at appointment, independent of the Company and the management, but, as Chairman, is not classified as independent under the Code. His other significant commitments are noted in his biography on page 27.

There is a clearly defined and documented division of responsibilities between the Chairman and the Chief Executive. The primary responsibility of the Chairman is the leadership of the Board. The primary responsibility of the Chief Executive is the running of the Company's operations, maintaining effective management and the development and implementation of strategy in order to maximise shareholder value.

The Board allows the Executive Directors to take up appointments with other companies on the proviso that the time commitment involved is not too onerous and would not conflict with their duties to the Company.

The terms of the Directors' service agreements and letters of appointment are summarised in the Report on Directors' Remuneration set out on pages 35 to 42. 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, and at the AGM from fifteen minutes prior to the meeting until its conclusion.

Independence of Directors

The Board has determined that all five of the Non-executive Directors are independent.

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 Senior Independent Non-executive Director provides a sounding board for the Chairman and is available to act as an intermediary for other Directors when necessary.

Induction, professional development and corporate awareness

All Directors receive an induction to the Company on joining the Board and relevant training is available to Directors to assist them in the performance of their duties. The Chairman is responsible for ensuring that Directors continually update their skills and knowledge and familiarity with the Company required to fulfil their role on the Board and its committees. The Audit and Remuneration Committees receive briefings on current developments. The Non-executive Directors take advantage of sector and general conferences and seminars and training events organised by professional firms and receive circulars and training materials from the Company and other professional advisers. Regular presentations are made to the Board by members of the Company's Executive Committee, arrangements are made for Non-executive Directors to meet members of the management teams and they attend the Company's management conferences. Non-executive Directors periodically visit the Company's international offices, usually in connection with other activities. The Board is kept informed of any material shareholder correspondence, brokers' reports on the Company and sector, institutional voting agency recommendations and documents reflecting current shareholder thinking.

Conflicts of interest

The Company's Articles of Association (the 'Articles') permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company (a 'Relevant Situation'). The Board has a formal system in place for Directors to declare Relevant Situations to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a Relevant Situation, the non-conflicted Directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company, and they may impose limits or conditions when giving the authorisation or subsequently if they think this is appropriate. The Board has followed the prescribed procedures in deciding whether, and on what terms, to authorise Relevant Situations and believes that the systems it has in place for reporting and considering Relevant Situations, including an annual review of authorisations, continue to operate effectively. During the year the independent Non-executive Directors, led by the Senior Independent Non-executive Director, reviewed the external business commitments of members of the Board and concluded that none of these gave rise to conflicts of interest or other factors which might affect the effective operation of the Company or the Board.

Performance evaluation
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 had the right balance of skills, experience, independence, diversity and knowledge, 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 the Board worked together effectively as a unit.

Performance evaluations of individual Directors were also undertaken which considered the effectiveness and commitment of the individual Directors and the need for any training or development. In March 2012 and February 2013, the Chairman formally met the Non-executive Directors without the Executive Directors being present to evaluate the performance of the individual Executive Directors. The Senior Independent Non-executive Director and the other Non-executive Directors met without the Chairman being present to evaluate the Chairman's performance, having first obtained feedback from the Executive Directors. Appropriate feedback was provided following these meetings. The Chairman has also provided feedback on performance to the Non-executive Directors.

All performance assessments were completed internally. It is the intention of the Board to undertake an external evaluation of its performance in 2013.

Election or re-election at the AGM
At the AGM held in 2012 all of the Directors offered themselves for election or re-election. At the same AGM, amendments to the Company's Articles were approved in order to align them with the recommendations set out in the Code. Consequently, the Articles now require that, at each AGM of the Company, all Directors must retire from office and each Director wishing to serve again must submit themselves for election or re-election by shareholders. Details of those Directors who are submitting themselves for election or re-election at this year's AGM are set out in the separate Notice of Meeting.

Roger Perkin was appointed since the last AGM and accordingly is subject to election at the forthcoming AGM. Roger Perkin brings recent and relevant experience that will be of significant benefit to the Company and the Board recommends his election.

The Board is satisfied that, following formal performance evaluation, the performance of each of the Directors offering themselves for re-election continues to be effective, and that each demonstrates commitment to the role.

Biographies of all Directors are set out on page 27.

Board administration
The Board has a formal Schedule of Matters reserved to it for decision, which can be viewed on the Company's website (www.tullettprebon.com). The Schedule includes, among other things:

– approval of the Group's strategy;

– changes to the Group's capital or corporate structure;

– oversight of the Group's management, governance and control structure;

– approval of any material borrowing or commitment;

– Board appointments and removals;

– the approval of the prosecution or settlement of all litigation which is material to the interests of the Group;

– reporting to shareholders; and

– environmental, social and governance policies, including corporate social responsibility policy.

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 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, which can be viewed on the Company's website 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 its Committees are provided with appropriate information on a timely basis to enable them to discharge their duties. All Directors receive written reports prior to each 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.

The Board has a schedule of eight meetings each year 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. The following table sets out the Board and Committee attendance record during the year:

	Board*	Audit Committee	Remuneration Committee	Nominations Committee
Executive Directors				
Terry Smith	8/8	–	–	–
Paul Mainwaring	8/8	–	–	–
Non-executive Directors				
Keith Hamill	8/8	–	–	1/1
David Clark	8/8	5/5	2/2	1/1
Michael Fallon**	5/5	4/4	1/2	1/1
Angela Knight	8/8	5/5	2/2	1/1
Roger Perkin***	4/4	2/2	2/2	–
Stephen Pull	8/8	5/5	2/2	1/1
Rupert Robson	8/8	5/5	2/2	1/1

* Excludes meetings of committees of the Board appointed to complete routine business or business previously approved by the Board.
** Resigned 4 September 2012
*** Appointed 1 July 2012

Corporate Governance Report
continued

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 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

Composition
Until July 2012 the Audit Committee was chaired by David Clark. David Clark has recent and relevant financial experience, and has been a Senior Adviser to the FSA. In July 2012, Roger Perkin assumed the role of chairman of the Audit Committee. Roger Perkin is a former partner at Ernst & Young LLP and has recent and relevant financial experience. The other members of the Committee throughout the year were Angela Knight, Stephen Pull and Rupert Robson. Michael Fallon was a member until his resignation as a Director in September 2012. All members of the Audit Committee are independent Non-executive Directors.

The Chairman, the Executive Directors, the Company's external and internal auditors, the Group Treasurer and Head of Risk Control, and other senior finance personnel may attend Committee meetings by invitation. The Committee has a discussion with the external auditor at least once a year without the Executive Directors being present, to ensure that there are no unresolved issues of concern.

Terms of reference
Throughout 2012 the Audit Committee's terms of reference included:

- recommendation on appointment and terms of engagement of the external auditor;
- review of independence and objectivity of the external auditor;
- approval of the annual audit plan, scope of engagement and review of effectiveness of the audit process;
- monitoring the integrity of the financial statements;
- review of the results of the audit;
- review of the effectiveness of the Company's internal control procedures;
- approval of the annual internal audit plan, review of the effectiveness of the internal audit function, and consideration of internal audit reports; and
- review of the arrangements by which staff may, in confidence, raise concerns about improprieties in financial reporting and other matters.

The Terms of Reference of the Audit Committee are available on the Company's website (www.tullettprebon.com) or on request from the Company Secretary.

Work of the Audit Committee during 2012
The Audit Committee reviewed the cost effectiveness, objectivity and independence of the external auditor. The Audit Committee considered the professional and regulatory guidance on auditor independence and was satisfied with the auditor's representations. The Audit Committee reviewed the level of fees paid to the auditor in respect of the various non-audit services provided during 2012 (which are disclosed in Note 6 to the consolidated financial statements). The auditor confirmed to the Audit Committee that they did not believe that the level of non-audit fees had affected their independence. The Company's policy is to use the most appropriate advisers for non-audit work, taking account of the need to maintain independence. The Audit Committee reviewed its policy governing the engagement of the external auditor for non-audit services during the year to ensure that it continues to follow best practice.

The Audit Committee reviewed the integrity of the financial statements included in the half-year and preliminary announcements of results and the statutory accounts, prior to their approval by the Board. When conducting the review, the Audit Committee considered the continuing appropriateness of the accounting policies, key financial reporting judgements and the adequacy and appropriateness of disclosures. The Audit Committee also reviewed whether the respective financial statements, taken as a whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's performance, business model and strategy, and advised the Board accordingly.

The Audit Committee 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 Audit Committee took into account whether the policies were in line with guidance published by the FSA.

The Audit Committee reviewed the work and reports of Internal Audit and monitored progress against the internal audit plan for 2012. The Audit Committee reviewed and approved the internal audit plan for 2013.

The Audit Committee reviewed and approved the Risk Assessment Framework maintained by the Group Risk Control function.

REMUNERATION COMMITTEE

The Remuneration Committee was chaired by Rupert Robson throughout 2012. The other members of the Remuneration Committee throughout the year were David Clark, Angela Knight and Stephen Pull. Michael Fallon was a member until his resignation as a Director in September 2012 and Roger Perkin became a member in July 2012. All members of the Remuneration Committee are independent Non-executive Directors.

The Remuneration Committee is responsible on behalf of the Board for developing and maintaining formal and transparent policies on remuneration for the Company's employees, the framework in which that policy is applied, and its cost. In addition, the Remuneration Committee regularly reviews remuneration policies to ensure that they continue to be compliant with the relevant corporate governance and regulatory requirements, including the Remuneration Code.

Amongst its other duties, the Remuneration Committee is responsible, on behalf of the Board, for:

– reviewing and approving the general principles of the Company's remuneration policies;

– considering the relationship between incentives and risk;

– determining the application of the Company's remuneration policies to the Executive Directors;

– reviewing the application of the Company's remuneration policies to Senior Management, Brokers and Control Functions;

– determining the remuneration of Executive Directors and the Chairman;

– approving the remuneration of Senior Management after consultation with the Chief Executive;

– approving all share and long term incentive schemes and their application; and

– reviewing and approving the Report on Directors' Remuneration.

The Terms of Reference of the Remuneration Committee are available on the Company's website (www.tullettprebon.com) or on request from the Company Secretary.

The Chairman and the Executive Directors attend the Remuneration Committee by invitation. The Chairman and the Executive Directors are not permitted to be in attendance when any matter relating to their own remuneration is being discussed.

During 2012 and subsequently, the Remuneration Committee has been advised by PricewaterhouseCoopers executive compensation consultants.

Further details of the work done by the Remuneration Committee in 2012, the Company's policies on remuneration, service contracts and share options are given in the Report on Directors' Remuneration set out on pages 35 to 42.

NOMINATIONS COMMITTEE

The Nominations Committee was chaired by Keith Hamill throughout 2012. The other members throughout the year were David Clark, Angela Knight, Stephen Pull and Rupert Robson. Michael Fallon was a member until his resignation as a Director in September 2012 and Roger Perkin became a member of the Committee in July 2012. All members of the Committee, other than the Chairman, are independent Non-executive Directors.

The Terms of Reference of the Nominations Committee provide that the Chairman of the Board is not permitted to chair the Committee if it is dealing with the issue of his replacement.

The Board has delegated responsibility to the Nominations Committee for:

– reviewing the balance and skill, knowledge and experience of the Board;

– agreeing and implementing procedures for the selection of new Board appointments; and

– making recommendations to the Board on all proposed new appointments, elections and re-elections of Directors at annual general meetings.

The Nominations Committee is authorised to obtain all necessary information from within the Company and to access professional advice inside and outside the Company, as it considers necessary. The Terms of Reference of the Nominations Committee are available on the Company's website (www.tullettprebon.com) or on request from the Company Secretary.

The Company has plans in place for orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure the progressive refreshing of the Board. The search for Board candidates is conducted with due regard to the benefits of diversity on the Board, including gender. The Board makes appointments on merit against objective criteria.

Work of the Nominations Committee

During 2012, the Nominations Committee recommended to the Board the appointment of Roger Perkin as an independent Non-executive Director of the Company. The services of an external search consultant were retained to assist in identifying a candidate with significant and recent relevant financial experience who could take on the role of chairing the Audit Committee in succession to David Clark. In recommending the appointment of Roger Perkin to the Board, the Nominations Committee noted Roger Perkin's considerable experience and financial expertise as a result of him having been a partner of Ernst & Young LLP.

During 2012, the Nominations Committee also noted Keith Hamill's intention to retire as a Director of the Company and Non-executive Chairman of the Board and considered the likely background, skills and qualities that would be required for his successor. For discussion of this matter, Keith Hamill was not present.

For the purposes of managing the process to identify a new Non-executive Chairman, the Nominations Committee convened a working group chaired by Angela Knight, the Senior Independent Non-executive Director, and including Michael Fallon (until his resignation), Roger Perkin and Stephen Pull. The working group agreed a detailed candidate specification. The working group oversaw the appointment of an external search consultancy, in partnership with which they conducted a rigorous search process which included assessing candidates from a range of backgrounds, including a number of female candidates. All short-listed candidates were met by members of the working group.

The Nominations Committee met in February 2013, chaired by Angela Knight and without Keith Hamill or Rupert Robson being present, to determine a recommendation for the appointment of a new Non-executive Chairman. In making its recommendation for this appointment, the Committee concluded that Rupert Robson best met the pre-agreed criteria. The Nominations Committee also noted that he would meet the independence criteria on appointment set out in the Code.

Corporate Governance Report
continued

In recommending to the Board the appointments of Roger Perkin and Rupert Robson, the Nominations Committee concluded that their other commitments would not prevent them from being able to devote the necessary time to their respective roles.

The external search consultancy retained by the Board in respect of the appointments of both Roger Perkin and Rupert Robson was Korn/Ferry Whitehead Mann. The Company does not have any other connection with Korn/Ferry Whitehead Mann.

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 for monitoring the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Group. The Group's risk management governance structure, risk management framework and risk profile are described in the Risk Management section of the Business Review.

The Board is also responsible for the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against misstatement or loss. 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. The Audit Committee conducted a formal review of the effectiveness of the Group's internal control systems for 2012, considering reports from management, external audit and the work of the Group risk control and internal audit functions.

The Group has a comprehensive system for financial reporting which is subject to review by both internal and external audit. Budgets, regular re-forecasts and monthly management accounts including KPIs, income statements, balance sheets and cash flows are prepared at all levels of the business and consolidated reports are reviewed by the Board. These reports include comparisons of performance and position against prior year, budgets and forecasts.

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 subsidiary undertakings.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of communication with shareholders. The Company's website, www.tullettprebon.com, provides information for shareholders and prospective investors on the Group's activities, results, 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. The Chairman maintains ongoing relations with shareholders when necessary or appropriate 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.

Annual General Meeting

The Board uses the AGM to communicate with investors and welcomes their participation. Notice of the AGM 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 AGMs 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.

ACCOUNTABILITY AND AUDIT

The Directors' statement regarding their responsibility for preparing the Annual Report is set out on page 43 and the independent auditor's report regarding their reporting responsibility is on page 45.

GOING CONCERN

The Group's business activities and performance, and the financial position of the Group, its cash flows, liquidity position, borrowing facilities and hedging strategy, together with the factors likely to affect its future development, performance and position, are explained in the Business Review on pages 05 to 25. Analysis of the Group's key risks and approach to risk management is also set out in the Business Review on pages 16 to 21. Details of the Group's interest bearing loans and borrowings, obligations under finance leases, derivative financial instruments, long term provisions, other long term payables and financial instruments are set out in Notes 23 to 27 to the consolidated financial statements.

The Group has considerable financial resources both in the regions and at the corporate centre comfortably to meet the Group's ongoing obligations.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Annual Report and financial statements continue to be prepared on the going concern basis.

Report on Directors' Remuneration

This report explains the role of the Remuneration Committee, the Company's remuneration policies, how they are applied to Directors and sets out the Directors' remuneration for the year ended 31 December 2012. The report has been prepared in accordance with Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules and the UK Corporate Governance Code, and will be put to shareholders for approval at the AGM on 9 May 2013. The Companies Act 2006 requires the auditor to report to the Company's members on certain parts of the Report on Directors' Remuneration and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. Except where indicated, all sections of this report are unaudited.

CHAIRMAN'S OVERVIEW

This is my fourth and last report as Chairman of the Remuneration Committee. Following my appointment as Chairman of the Board I will be stepping down from the Remuneration Committee and Stephen Pull will take over as Chairman of the Remuneration Committee.

As Chairman of the Remuneration Committee, my focus over the past four years has been to ensure that the structure of executive remuneration continues to align management's interests with those of shareholders. The high proportion of Executive Director remuneration that is variable, which is fundamental to the Company's remuneration policy and which is explained below, has given the Remuneration Committee significant flexibility to ensure that total remuneration adapts to the more challenging market conditions in which the Company has operated since the financial crisis. Executive Director remuneration for 2012 is 32% lower than in 2009 compared with a decline in underlying operating profit of 26%.

During 2012 we continued dialogue with shareholders, including the small number of shareholders who voted against the 2011 Report on Directors' Remuneration. At the AGM in 2012, proxy forms indicated that the Report on Directors' Remuneration was approved by a majority of 89.97% of shareholders voting (up from 85.23% in 2011).

The Remuneration Committee also undertook the regular tasks of reviewing and determining the remuneration of the Chairman and of the Executive Directors; reviewing and approving the remuneration of Senior Management; and making awards under the LTIP and determining the performance conditions attached to those awards.

In September 2012, the FSA reduced the number of proportionality tiers in its Remuneration Code from four to three. The Company and its FSA regulated subsidiaries remain in the lowest category (now classified as Proportionality Tier Three) and the requirements to which the Company and its FSA regulated subsidiaries are subject have not changed significantly. As required by the Remuneration Code, the first annual central and independent review of compliance with policies and procedures for remuneration adopted by the Company was undertaken during the first half of 2012. This work, conducted by PricewaterhouseCoopers LLP, the Company's internal auditors, provided the Remuneration Committee with an independent assessment of the level of compliance with the Remuneration Code and supported the conclusions of the Remuneration Committee regarding the Company's continuing compliance with the Remuneration Code. In the light of this, the Remuneration Policy Statement, including the list of Code Staff, was reviewed again in December 2012, and the disclosures required to be made under the Remuneration Code were approved. These disclosures are available on the Company's website.

The Remuneration Committee monitors remuneration policies and their outcomes every year but it has not altered the structure of Executive Director remuneration since the beginning of 2010. The Remuneration Committee has determined that it is appropriate to undertake a formal review of all aspects of Executive Director remuneration to apply for 2013 onwards. This process will be led by Stephen Pull with the support of PricewaterhouseCoopers LLP executive compensation consultants ('PwC'). During the review major shareholders will be consulted.

The Remuneration Committee notes the new reporting requirements being formulated by the UK Government's Department for Business Innovation and Skills on the Remuneration Reporting Regulations and anticipates reporting under the new disclosure requirements for 2013. In this report we have included a policy table summarising the policies for Directors' remuneration on page 37 and a table of single total remuneration for the Executive Directors on page 39, as proposed by the draft regulations.

Definitions used in this report

'Executive Director' means any executive member of the Board;

'Senior Management' means those members of the Company's Executive Committee (other than the Executive Directors) and the first level of management below that level;

'Broker' means front office revenue generators;

'Control Functions' means those employees engaged in functions such as Compliance, Legal, HR, Finance, Operations and Risk Control; and

'Remuneration Code' means the Remuneration Code of the FSA.

REMUNERATION COMMITTEE

Composition and responsibility

The Remuneration Committee was chaired by Rupert Robson throughout 2012. The other members of the Remuneration Committee throughout the year were David Clark, Angela Knight and Stephen Pull. Michael Fallon was a member until his resignation as a Director in September 2012 and Roger Perkin became a member in July 2012. All members of the Remuneration Committee are independent Non-executive Directors.

The Remuneration Committee is responsible on behalf of the Board for developing and maintaining formal and transparent policies on remuneration for the Company's employees, the framework in which that policy is applied, and its cost. In addition, the Remuneration Committee regularly reviews remuneration policies to ensure that they continue to be compliant with the relevant corporate governance and regulatory requirements, including the Remuneration Code.

Report on Directors' Remuneration
continued

Amongst its other duties, the Remuneration Committee is responsible, on behalf of the Board, for:

– reviewing and approving the general principles of the Company's remuneration policies;
– considering the relationship between incentives and risk;
– determining the application of the Company's remuneration policies to the Executive Directors;
– reviewing the application of the Company's remuneration policies to Senior Management, Brokers and Control Functions;
– determining the remuneration of Executive Directors and the Chairman;
– approving the remuneration of Senior Management after consultation with the Chief Executive;
– approving all share and long term incentive schemes and their application; and
– reviewing and approving the Report on Directors' Remuneration.

The Terms of Reference of the Remuneration Committee are available on the Company's website (www.tullettprebon.com) or on request from the Company Secretary.

The Chairman and the Executive Directors attend the Remuneration Committee by invitation. The Chairman and the Executive Directors are not permitted to be in attendance when any matter relating to their own remuneration is being discussed.

The Chairman of the Remuneration Committee attends Annual General Meetings of the Company and is available to answer questions raised by shareholders.

Professional advice
During 2012 and subsequently the Remuneration Committee received advice from PwC on regulatory developments affecting remuneration and aspects of the remuneration of the Executive Directors. PwC were appointed by the Remuneration Committee.

During 2012 and subsequently PricewaterhouseCoopers LLP have also provided outsourced internal audit services, tax advice, and other associated services.

REMUNERATION POLICIES

Background
In reviewing and approving the general principles of the Company's remuneration policies, the Remuneration Committee takes account of the Company's objective to maximise returns to shareholders over the medium to long term, at an acceptable level of risk. The Remuneration Committee is mindful that the Company's strategy to achieve that objective is to build a business, operating as an intermediary in the wholesale OTC financial markets internationally with the scale and breadth to deliver superior performance and returns, whilst maintaining strong financial management disciplines.

The Remuneration Committee takes into account general practices in the parts of the financial services sector in which the Company operates, and the fact that the majority of the Company's competitors are not UK listed companies. These practices are characterised by high levels of variable remuneration. The Remuneration Committee has concluded that it is in the best interests of the Company and shareholders to pay remuneration in line with market practice in the sectors in which the Company operates.

The Company's remuneration policies, which are set out below, are designed to attract, motivate and retain staff with the necessary skills and experience to deliver the strategy, in order to achieve the Company's objective.

Risk
The Remuneration Committee has carefully considered the relationship between incentives and risk.

Details of the Company's key risks and risk management are set out on pages 16 to 21 in the Business Review in this Annual Report. The majority of transactions are brokered on a Name Passing basis where the business acts as agent in arranging the trade. Commissions earned on these activities are received monthly in cash. The business does not take any trading risk and does not hold principal trading positions. The business only holds financial instruments for identified buyers and sellers in matching trades which are generally settled within 1-3 days. The business does not retain any contingent risks. The business does not have valuation issues in measuring its profits.

The Remuneration Committee has concluded that the Company's remuneration policies reflect the low risk profile of the Company, are consistent with and promote sound and effective risk management, and do not encourage risk taking.

The Remuneration Committee considers that the Company's remuneration policies are consistent with the measures set out in the business's compliance manuals relating to conflicts of interest.

Policy table

The policies which have been applied in respect of Executive Director and Non-executive Director remuneration are summarised in the table below. This is a high level summary which has been included for the convenience of the reader and should be read in conjunction with other parts of this Report on Directors' Remuneration. The policies set out in this table are those which are currently in practice. As explained in the Chairman's overview above, the Remuneration Committee is undertaking a wholesale review of policies on Executive Director remuneration during the course of 2013.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Executive Directors				
Basic pay	Provides a reasonable level of fixed remuneration	Reviewed periodically to ensure not significantly out of line with the market	Market driven and not subject to amendment every year	None
Benefits and pension	To provide basic benefits but otherwise to avoid provision of benefits	Medical cover and membership of a defined contribution pension scheme	None. Neither of the Executive Directors is currently a member of the pension scheme	None
Variable remuneration	Linked to Group profitability, aligning Directors' interests with shareholders The deferred element encourages long-term shareholding also aligning Directors' interests with shareholders	Allocation of pool takes account of individual contribution and relative responsibilities Directors must hold 50% of variable remuneration in shares for two years	The maximum aggregate bonus is 4.5% of operating profit over the minimum threshold operating profit	Pool based on 4-4.5% of operating profit in excess of minimum threshold operating profit calculated using 11.5% weighted average cost of capital on average capital employed
LTIP	Aligns Directors' interests with shareholders by focusing on longer term shareholder returns	Relative and absolute total shareholder value targets underpinned by a minimum return on capital employed hurdle over a 3 year performance period	Annual grants equivalent to 50% of the prior year variable remuneration	50% of award based on TSR relative to FTSE 250 companies. 25% vests at 50th ranking percentile and 100% at 25th ranking percentile 50% of award based on absolute TSR. 25% vests at RPI+ 4.5% and 100% at RPI+9.5% In the last year of the performance period, ROCE must be at least 25%
Chairman and Non-executive Directors				
Fees	To attract high calibre, experienced Non-executives	Benchmarked against other UK listed companies of comparable size and activities	None	None

The implementation of the remuneration policies set out below is subject to annual independent internal review as required by the Remuneration Code.

Remuneration policies for Executive Directors and Senior Management

1. Fixed remuneration

Salaries are paid monthly and are set at a level to provide a reasonable level of fixed remuneration which would be appropriate in circumstances where variable remuneration is not paid owing to weak performance. Salaries are reviewed periodically and are only increased if they are found to be significantly out of line with the market.

2. Variable remuneration

A high proportion of total remuneration is variable and is dependent on performance. The aim is to motivate and retain staff, consistent with the risk appetite determined by the Board and thereby to achieve superior returns for shareholders.

Variable remuneration for an individual, and in aggregate for the Executive Directors and Senior Management, is determined taking into account the overall performance of the business and its regulatory capital requirements. As the business does not take any trading risk and does not hold principal trading positions, does not have valuation issues in measuring its profits, and does not retain any contingent risks, it is not necessary for an adjustment for risk to be considered in reviewing financial performance in the determination of variable remuneration.

Report on Directors' Remuneration
continued

While the decision to pay variable remuneration will reflect, to a degree, short term financial outcomes against budget, other factors are taken into account. Consequently, it is possible that, in some market circumstances, individual superior performance may not be reflected in the achievement of budgets but may merit a significant payment. This approach is balanced by the Company's principle that the cost of staff should be sensitive to returns to shareholders, and the Remuneration Committee reviews the remuneration of the Executive Directors and Senior Management in the context of the operating profit for the year. It is the policy of the Remuneration Committee not to pay variable remuneration to any Executive Director or Senior Management if it is not satisfied with personal performance.

Payment of variable remuneration is discretionary and not contractual, with the level determined on the basis of judgements on performance relative to the trading conditions and other circumstances, as well as the achievement of objectives.

Variable remuneration is paid to the Executive Directors and Senior Management at least two months after the end of the financial year. The business realises its revenues in cash within a short time frame, and all of the reported revenues will have been realised in cash before these payments are made.

The Company's policy is to ensure that variable remuneration is not paid through vehicles or methods that facilitate avoidance of the Remuneration Code.

3. Caps on remuneration
The variable remuneration for Executive Directors is effectively capped through the application of a formula that establishes the maximum amount of variable remuneration that will be paid.

The Remuneration Committee does not believe that the formal capping of variable remuneration for Senior Management and Brokers is consistent with the delivery of enhanced returns to shareholders. In addition, it is not appropriate to apply percentages or multiples of salary to the determination of variable remuneration given the policy of paying fixed remuneration of a relatively low proportion of overall remuneration.

4. Deferral and claw-backs
Payments of variable remuneration to the Executive Directors are subject to deferral through the requirement for an element of the payments to be invested in the Company's shares which are to be held for a minimum period before they can be sold.

Given the Company's low risk profile and the sector in which the Company competes, it is not considered necessary for the variable remuneration paid to Senior Management to be subject to deferral, or to attach claw-back conditions to variable remuneration paid either to Executive Directors or to Senior Management.

5. Long Term Incentive Plans
Long term equity-based incentive plans are used, where appropriate, to motivate the Company's Executive Directors and Senior Management. Recent awards, which have only been made to Executive Directors, have been structured to reward growth in relative and absolute shareholder value.

The Remuneration Committee recognises the importance of aligning the interests of Executive Directors with those of shareholders and equity incentive awards will continue to form part of their remuneration packages.

The Remuneration Committee has concluded that the provision of long term equity based incentives to Senior Management, except in specific individual circumstances, is not consistent with market practice in the Company's key competitor organisations and consequently no further awards will be made routinely to Senior Management under the Long Term Incentive Plan for the foreseeable future.

6. Pensions
The Company provides defined contribution pension arrangements only and does not pay discretionary pension benefits.

7. Medical insurance and benefits in kind
The Company makes available medical insurance to employees but otherwise seeks to avoid the provision of benefits in kind.

Remuneration policies for Brokers
The Company's remuneration policy for Brokers is based on the principle that remuneration is directly based on financial performance, generally at a desk team level, and is calculated in accordance with formulae set out in contracts of employment. These formulae take into account the fixed costs of the Brokers, and variable remuneration payments are therefore based on the profits that the Brokers generate for the business. Initial contract payments are only paid upfront when a claw-back provision is included in the contract of employment. Typically, Brokers receive a fixed salary paid regularly throughout the year, with a significant proportion of variable remuneration dependent on revenue, which is paid after the revenue has been fully received in cash. Once cash has been received, revenue is not subject to any residual risk.

Remuneration policies for Control Functions
The Company's remuneration policy for Control Functions is that remuneration is adequate to attract qualified and experienced staff, is in accordance with the achievement of objectives linked to their functions, and is independent of the performance of the business areas they support. Employees in such functions report through an organisation structure that is separate to and independent from the business units. The heads of such functions report to members of the Executive Committee and as Senior Management, their remuneration is reviewed and approved by the Remuneration Committee.

DETAILS OF DIRECTORS' REMUNERATION (AUDITED EXCEPT WHERE STATED)

Total emoluments received by Directors during the year ended 31 December 2012 were as follows:

	Salaries and fees		Benefits		Variable remuneration: Cash		Variable remuneration: Subject to investment requirement		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Executive Directors										
Terry Smith	**650**	650	**3**	2	**1,250**	1,690	**1,250**	1,690	**3,153**	4,032
Paul Mainwaring	**275**	275	**1**	1	**313**	423	**312**	422	**901**	1,121
Non-executive Directors										
Keith Hamill	**175**	158	**–**	–	**–**	–	**–**	–	**175**	158
Angela Knight*	**58**	19	**–**	–	**–**	–	**–**	–	**58**	19
David Clark	**54**	51	**–**	–	**–**	–	**–**	–	**54**	51
Michael Fallon**	**36**	51	**–**	–	**–**	–	**–**	–	**36**	51
Roger Perkin ***	**27**	–	**–**	–	**–**	–	**–**	–	**27**	–
Stephen Pull*	**54**	18	**–**	–	**–**	–	**–**	–	**54**	18
Rupert Robson	**54**	51	**–**	–	**–**	–	**–**	–	**54**	51
	1,383	1,273	**4**	3	**1,563**	2,113	**1,562**	2,112	**4,512**	5,501

* Appointed 1 September 2011
** Resigned 4 September 2012
*** Appointed 1 July 2012

The single total remuneration figures for the Executive Directors, calculated in accordance with the UK Government's Department of Business Innovation and Skills' proposed revised remuneration reporting regulations were as follows:

	Fixed and variable*		Pension		LTIP		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Terry Smith	**3,153**	4,032	**–**	–	**–**	897	**3,153**	4,929
Paul Mainwaring	**901**	1,121	**2**	6	**–**	380	**903**	1,507

* Taken from the total emoluments table above

The value attributed to the LTIP is based on the awards which vested during the reporting period (included as remuneration in the financial year in which the performance conditions were satisfied) at the market value on the date the options first became exercisable.

The single total remuneration figure for the Non-executive Directors is as set out in the total emoluments table above.

Application of remuneration policies to Executive Directors
The balance of fixed and variable remuneration for the Executive Directors was carefully considered by the Remuneration Committee. Apart from fixed salaries and benefits-in-kind, all other elements of remuneration relate to performance. Including the value of the LTIP awards as at the date of grant in total remuneration, the proportion of remuneration that is related to performance for Terry Smith was 87% (2011: 89%) and for Paul Mainwaring was 79% (2011: 83%).

The Remuneration Committee took into account the pay and employment conditions of other employees in the Company in determining Executive Directors' remuneration.

The total remuneration of the Executive Directors was as follows:

1. Fixed remuneration
The fixed remuneration of the Chief Executive, Terry Smith, is £650,000 and has not been changed since 2005. The fixed remuneration of the Finance Director, Paul Mainwaring, is £275,000 and has not changed since his appointment in 2006.

2. Variable remuneration
As in previous years, the Remuneration Committee establishes the total amount of variable remuneration to be paid to the Executive Directors using the pre-agreed formula and then allocates it between them taking into consideration their personal contribution and relative responsibilities.

Report on Directors' Remuneration
continued

As set out in the Report on Directors' Remuneration in last year's Annual Report, in order to determine the total variable remuneration for the Executive Directors, the formula used to calculate the variable remuneration continues to be 4.0% – 4.5% of the surplus of operating profit over the threshold operating profit which is calculated as the weighted average cost of capital ('WACC') multiplied by the capital employed. The determination of the total variable remuneration within the range takes account of additional factors, such as the achievement of the Company's and individuals' objectives and corporate performance relative to market circumstances. As set out in the 2011 Report on Directors' Remuneration, in exceptional circumstances, the Remuneration Committee may decrease or increase the amounts resulting from the formula to take account of, for example, the impact of strategic investments that depress short term results, if it concludes that doing so would be in the interests of shareholders.

For 2012 the Remuneration Committee determined that the operating profit to be used in the formula should be before the charge for restructuring costs, as was the case for 2011, and before the charge for the impairment of goodwill. The Remuneration Committee also concluded that it was appropriate to take account of certain costs of strategic technology investment in the year. The amount of variable remuneration available for 2012 for the Executive Directors, using the formula above and a WACC of 11.5%, was determined to be £3.125m (2011: £4.225m). The allocation of the total variable remuneration to each of the Executive Directors is shown in the table on page 39.

Consistent with the approach taken in recent years, half of the 2012 variable remuneration for each of the Executive Directors was awarded on condition that the net of tax amount would be invested in the Company's shares, to be held for a minimum of two years.

2012 is the fifth successive year for which the Remuneration Committee has determined that 50% of the variable remuneration awarded to each of the Executive Directors is on condition that it is invested in the Company's shares, to be held for a minimum of two years. The investments made in the Company's shares by the Executive Directors with 50% of the variable remuneration awarded for 2010 can now be divested, and the Remuneration Committee has determined that the investment condition for the 50% of the variable remuneration awarded for 2012 will be met by the Executive Directors being required to hold the requisite number of shares purchased with the 2010 payment of variable remuneration for a further period of two years. The interests of the Directors in the Company's shares are set out in the Directors' Report on page 28.

3. Awards under the Company's Long Term Incentive Plan
The outstanding share options awarded to each of the Executive Directors are set out in the table below:

Director	Date of Grant	Shares under option at 1 Jan 2012	Granted	Lapsed	Shares under option at 31 Dec 2012	Exercise price	Earliest exercise date	Expiry date
Terry Smith	22 June 2009	302,148	–	–	302,148	£1 in total	22 June 2012	21 June 2019
	21 May 2010	634,559	–	634,559	–	£1 in total	21 May 2013	20 May 2020
	18 April 2011	446,001	–	–	446,001	£1 in total	18 April 2014	17 April 2021
	21 June 2012	–	571,719	–	571,719	£1 in total	21 June 2015	20 Jun 2022
Paul Mainwaring	22 June 2009	127,832	–	–	127,832	£1 in total	22 June 2012	21 June 2019
	21 May 2010	162,707	–	162,707	–	£1 in total	21 May 2013	20 May 2020
	18 April 2011	111,500	–	–	111,500	£1 in total	18 April 2014	17 April 2021
	21 June 2012	–	142,930	–	142,930	£1 in total	21 June 2015	20 June 2022

No share options were exercised during the year.

Performance conditions
The vesting of all awards is subject to the achievement of performance conditions, based on relative and absolute total shareholder return ('TSR'), subject to the achievement of return on capital employed ('ROCE') of not less than 25% in the final year of each performance period ('the ROCE Hurdle'). The determination of the extent of vesting with respect to TSR is made by PwC on behalf of the Remuneration Committee and the determination of ROCE is made by the Board.

The Remuneration Committee considers that the use of relative and absolute TSR meets investors' expectations of outperformance, and the ROCE measure provides an appropriate financial performance hurdle.

2009 awards
As reported last year, 45% of the awards made in 2009 vested and became exercisable from 22 June 2012.

2010 awards
The vesting of two thirds of the awards was subject to relative TSR performance over the three years to 31 December 2012, with minimum vesting of 25% of the awards if the ranking percentile of the Company's TSR over that period relative to all other companies comprising, at the start of the period, the FTSE 250 (excluding investment trusts) is 50th and with maximum vesting of 100% if it is 25th or better. The Company's actual TSR ranking percentile over that period has been calculated by PwC as being the 83rd percentile and accordingly, none of the shares subject to the relative TSR condition have vested.

The vesting of one third of the awards was subject to absolute TSR over the three years to 31 December 2012, with minimum vesting of 25% of the awards if the Company's annualised TSR over that period was equal to RPI + 4.5% and with maximum vesting of 100% if annualised TSR was equal to RPI + 9.5% or above. The Company's annualised TSR over the period has been calculated by PwC as equal to RPI +4.2%. Accordingly, none of the shares subject to the absolute TSR + RPI condition have vested.

2011 awards
The vesting of half of the awards is subject to relative TSR over the three years to 31 December 2013, with minimum vesting of 25% of the awards if the percentile ranking of the Company's TSR over the respective period relative to the TSR of all other companies comprising, at the start of the relevant performance period, the FTSE 250 (excluding investment trusts) is 50th and with maximum vesting of 100% if it is 25th or better.

The vesting of half of the awards is subject to absolute TSR over the three years to 31 December 2013, with minimum vesting of 25% of the awards if the Company's annualised TSR over that period is equal to RPI + 4.5% and with maximum vesting of 100% if annualised TSR is equal to RPI + 9.5% or above.

2012 awards
The value of the share options granted during 2012 to Terry Smith was £1,690,000 and to Paul Mainwaring was £422,500. These awards represented ratios to basic pay of 2.6x for Terry Smith and 1.5x for Paul Mainwaring. Total LTIP awards made to Executive Directors in 2012 represented 0.3% of the issued share capital.

The vesting of half of the awards is subject to relative TSR over the three years to 31 December 2014, with minimum vesting of 25% of the awards if the percentile ranking of the Company's TSR over the respective period relative to the TSR of all other companies comprising, at the start of the relevant performance period, the FTSE 250 (excluding investment trusts) is 50th and with maximum vesting of 100% if it is 25th or better.

The vesting of half of the awards is subject to absolute TSR over the three years to 31 December 2014, with minimum vesting of 25% of the awards if the Company's annualised TSR over that period is equal to RPI + 4.5% and with maximum vesting of 100% if annualised TSR is equal to RPI + 9.5% or above.

Share price during the year
The lowest closing price of Tullett Prebon plc ordinary shares during the year to 31 December 2012 was 219p and the highest closing price was 356p. At 31 December 2012 the closing share price was 252p.

4. Benefits
No pension contributions were made in respect of Terry Smith during 2012 (2011: £nil). Paul Mainwaring received pension contributions during 2012 of £1,584 (2011: £6,336). These contributions were made to the Tullett Prebon Group Personal Pension Plan.

Terry Smith and Paul Mainwaring received private medical cover at a cost of £2,782 and £916 respectively during 2012 (2011: £2,370 and £878 respectively).

5. Outside directorships (unaudited)
Neither Terry Smith nor Paul Mainwaring has any outside directorships from which they received any remuneration.

6. Service contracts (unaudited)
The Executive Directors serve under contracts terminable on 12 months' notice with entitlement to salary and contractual benefits subject to mitigation, and with restrictive covenants. The contracts do not provide for termination payments in excess of salary and contractual benefits. It is the Remuneration Committee's policy that termination payments will not exceed 100% of base salary plus annual variable remuneration. The contracts provide for retirement at the age of 65 in both cases.

The Executive Directors' service contracts were entered into on the following dates:

Director	Date of contract
Terry Smith	29 January 2007
Paul Mainwaring	25 September 2006

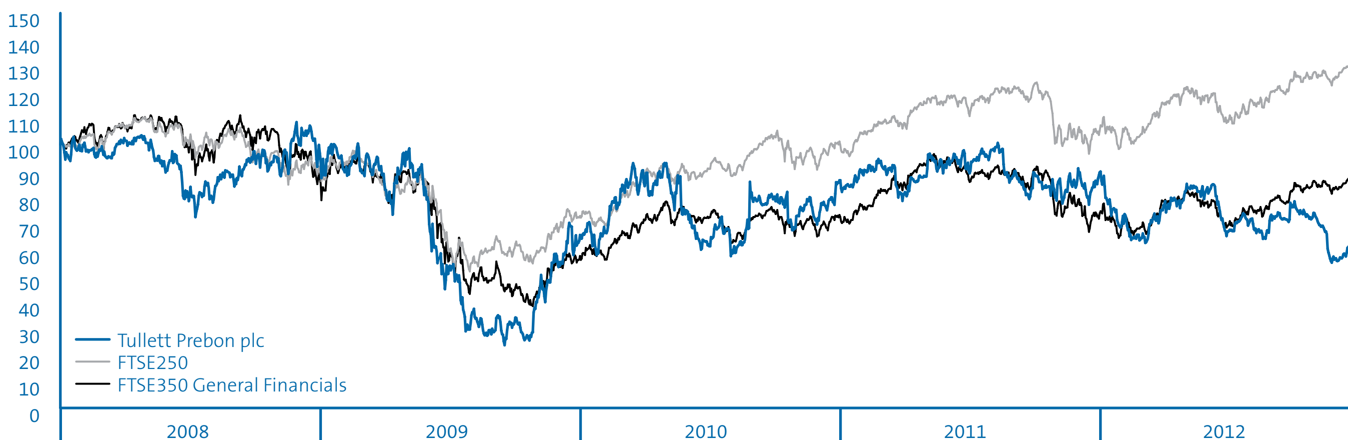
Chairman and Non-executive Directors
1. Fees
The fees paid to the Non-executive Directors are determined by the Board and the fees paid to the Chairman are determined by the Remuneration Committee. These are benchmarked against published information on the fees paid to the non-executive directors of UK listed companies of comparable size and activities. The fees for the Chairman are £175,000 per annum, £58,000 per annum for the Senior Independent Non-executive Director and £54,000 per annum for all other Non-executive Directors. None of the Non-executive Directors nor the Chairman are eligible to participate in short or long term incentive plans or to receive any pension from the Company.

Report on Directors' Remuneration
continued

2. Appointment letters (unaudited)
The Non-executive Directors serve under letters of appointment which are terminable on the earliest of the Director not being re-elected at an AGM, removed as a director or required to vacate office under the Articles of Association, on resignation or at the request of the Board or subject to 12 months' notice. The dates of the letters of appointment are set out below:

Director	Date of letter of appointment
Keith Hamill	22 September 2000
David Clark	10 March 2003
Michael Fallon	28 September 2010
Angela Knight	1 September 2011
Roger Perkin	1 July 2012
Stephen Pull	1 September 2011
Rupert Robson	4 January 2007

Total shareholder returns
A graph depicting the Company's total shareholder return in comparison to other companies in the FTSE 250 index and the FTSE 350 Financial Services index in the five years to 31 December 2012 is shown below:



Source: Datastream

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

On behalf of the Board

Rupert Robson
Chairman of the Remuneration Committee
5 March 2013

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In the case of Group financial statements, International Accounting Standard 1 requires that directors:

– select and apply accounting policies properly;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– 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; and

– make an assessment of the Company's ability to continue as a going concern.

In the case of the parent company 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;

– state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement
The Directors confirm that to the best of their knowledge:

– the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

– the Business Review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Terry Smith
Chief Executive
5 March 2013

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Independent Auditor's 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 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related Notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Corporate Governance Report, in relation to going concern;
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company Financial Statements of Tullett Prebon plc for the year ended 31 December 2012 and on the information in the Report on Directors' Remuneration that is described as having been audited.

Manbhinder Rana F.C.A. (Senior Statutory Auditor)
for and on behalf of

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
5 March 2013

Consolidated Income Statement
for the year ended 31 December 2012

	Notes	2012 Underlying £m	2012 Exceptional items £m	2012 Total £m
Revenue	4	**850.8**	**–**	**850.8**
Administrative expenses	6	**(731.8)**	**(149.4)**	**(881.2)**
Other operating income	5	**7.0**	**–**	**7.0**
Operating profit/(loss)		**126.0**	**(149.4)**	**(23.4)**
Finance income	8	**13.4**	**–**	**13.4**
Finance costs	9	**(24.7)**	**–**	**(24.7)**
Profit/(loss) before tax		**114.7**	**(149.4)**	**(34.7)**
Taxation	11	**(27.5)**	**2.3**	**(25.2)**
Profit/(loss) of consolidated companies		**87.2**	**(147.1)**	**(59.9)**
Share of results of associates		**1.2**	**–**	**1.2**
Profit/(loss) for the year	6	**88.4**	**(147.1)**	**(58.7)**
Attributable to:				
Equity holders of the parent		**88.1**	**(147.1)**	**(59.0)**
Minority interests		**0.3**	**–**	**0.3**
		88.4	**(147.1)**	**(58.7)**
Earnings/(loss) per share				
Basic	12	**40.5p**		**(27.1p)**
Diluted	12	**40.4p**		**(27.1p)**

	Notes	2011 Total £m
Revenue	4	910.2
Administrative expenses		(803.5)
Other operating income	5	23.6
Operating profit		130.3
Finance income	8	12.8
Finance costs	9	(25.1)
Other gains and losses	10	1.2
Profit before tax		119.2
Taxation	11	(30.3)
Profit of consolidated companies		88.9
Share of results of associates		1.2
Profit for the year	6	90.1
Attributable to:		
Equity holders of the parent		89.4
Minority interests		0.7
		90.1
Earnings per share		
Basic	12	41.3p
Diluted	12	41.1p

Underlying earnings per share is disclosed in Note 12

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
(Loss)/profit for the year		**(58.7)**	90.1
Other comprehensive income:			
Revaluation of investments		**0.5**	(0.7)
Effect of changes in exchange rates on translation of foreign operations		**(9.5)**	0.2
Actuarial gains on defined benefit pension schemes	36	**0.8**	8.2
Taxation charge on components of other comprehensive income	11	**(0.8)**	(3.2)
Other comprehensive income for the year		**(9.0)**	4.5
Total comprehensive income for the year		**(67.7)**	94.6
Attributable to:			
Equity holders of the parent		**(67.8)**	93.8
Minority interests		**0.1**	0.8
		(67.7)	94.6

Consolidated Balance Sheet
as at 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Goodwill	14	**278.5**	396.6
Other intangible assets	15	**21.6**	18.3
Property, plant and equipment	16	**25.7**	22.1
Interest in associates	17	**3.8**	3.4
Investments	18	**6.2**	7.4
Deferred tax assets	20	**3.1**	4.9
Retirement benefit assets	36	**41.4**	35.5
		380.3	488.2
Current assets			
Trade and other receivables	21	**5,873.5**	5,255.9
Financial assets	19	**30.3**	30.8
Cash and cash equivalents	33	**281.5**	342.0
		6,185.3	5,628.7
Total assets		**6,565.6**	6,116.9
Current liabilities			
Trade and other payables	22	**(5,875.3)**	(5,298.3)
Interest bearing loans and borrowings	23	**(10.0)**	(30.1)
Current tax liabilities		**(27.8)**	(36.7)
Short term provisions	25	**(5.7)**	(12.4)
		(5,918.8)	(5,377.5)
Net current assets		**266.5**	251.2
Non-current liabilities			
Interest bearing loans and borrowings	23	**(245.8)**	(235.6)
Deferred tax liabilities	20	**(14.5)**	(14.1)
Long term provisions	25	**(5.6)**	(6.4)
Other long term payables	26	**(8.9)**	(7.8)
		(274.8)	(263.9)
Total liabilities		**(6,193.6)**	(5,641.4)
Net assets		**372.0**	475.5
Equity			
Share capital	28	**54.4**	53.8
Share premium	29(a)	**17.1**	9.9
Reverse acquisition reserve	29(a)	**(1,182.3)**	(1,182.3)
Other reserves	29(b)	**131.5**	148.4
Retained earnings	29(c)	**1,348.8**	1,442.6
Equity attributable to equity holders of the parent	29(c)	**369.5**	472.4
Minority interests	29(c)	**2.5**	3.1
Total equity		**372.0**	475.5

The consolidated financial statements of Tullett Prebon plc (registered number 5807599) were approved by the Board of Directors and authorised for issue on 5 March 2013 and are signed on its behalf by:

Terry Smith
Chief Executive

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Equity attributable to equity holders of the parent											
	Share capital £m	Share premium account £m	Reverse acquisition reserve £m	Equity reserve £m	Re-valuation reserve £m	Merger reserve £m	Hedging and translation £m	Own shares £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
Balance at 1 January 2012	**53.8**	**9.9**	**(1,182.3)**	**7.7**	**1.9**	**121.5**	**17.4**	**(0.1)**	**1,442.6**	**472.4**	**3.1**	**475.5**
(Loss)/profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(59.0)**	**(59.0)**	**0.3**	**(58.7)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**0.5**	**–**	**(9.7)**	**–**	**0.4**	**(8.8)**	**(0.2)**	**(9.0)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**0.5**	**–**	**(9.7)**	**–**	**(58.6)**	**(67.8)**	**0.1**	**(67.7)**
Issue of ordinary shares	**0.6**	**7.2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7.8**	**–**	**7.8**
Equity component of deferred consideration	**–**	**–**	**–**	**(7.7)**	**–**	**–**	**–**	**–**	**–**	**(7.7)**	**–**	**(7.7)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(36.6)**	**(36.6)**	**(0.6)**	**(37.2)**
Decrease in minority equity interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Credit arising on share-based payment awards	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**	**–**	**1.4**
Balance at 31 December 2012	**54.4**	**17.1**	**(1,182.3)**	**–**	**2.4**	**121.5**	**7.7**	**(0.1)**	**1,348.8**	**369.5**	**2.5**	**372.0**
Balance at 1 January 2011	53.8	9.9	(1,182.3)	5.3	2.6	121.5	17.4	(0.1)	1,380.9	409.0	2.8	411.8
Profit for the year	–	–	–	–	–	–	–	–	89.4	89.4	0.7	90.1
Other comprehensive income for the year	–	–	–	–	(0.7)	–	–	–	5.1	4.4	0.1	4.5
Total comprehensive income for the year	–	–	–	–	(0.7)	–	–	–	94.5	93.8	0.8	94.6
Equity component of deferred consideration	–	–	–	2.4	–	–	–	–	–	2.4	–	2.4
Dividends paid	–	–	–	–	–	–	–	–	(33.9)	(33.9)	(0.7)	(34.6)
Increase in minority equity interests	–	–	–	–	–	–	–	–	–	–	0.2	0.2
Credit arising on share-based payment awards	–	–	–	–	–	–	–	–	1.4	1.4	–	1.4
Taxation arising on share-based payment awards	–	–	–	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Balance at 31 December 2011	53.8	9.9	(1,182.3)	7.7	1.9	121.5	17.4	(0.1)	1,442.6	472.4	3.1	475.5

Consolidated Cash Flow Statement
for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Net cash from operating activities	32	**16.6**	95.2
Investing activities			
(Purchase)/sale of financial assets		**(0.2)**	7.8
Interest received		**1.6**	2.2
Dividends from associates		**0.7**	1.2
Sale/(purchase) of investments		**1.7**	(3.5)
Expenditure on intangible fixed assets		**(8.6)**	(9.4)
Purchase of property, plant and equipment		**(9.1)**	(3.0)
Proceeds on disposal of property, plant and equipment		**0.1**	–
Investment in subsidiaries		**(10.1)**	(11.0)
Net cash used in investment activities		**(23.9)**	(15.7)
Financing activities			
Dividends paid	13	**(36.6)**	(33.9)
Dividends paid to minority interests		**(0.6)**	(0.7)
Repayment of debt		**(90.0)**	(210.0)
Funds received from debt issue		**80.0**	120.0
Debt issue costs		**(1.3)**	(3.4)
Repayment of obligations under finance leases		**(0.1)**	(0.2)
Net cash used in financing activities		**(48.6)**	(128.2)
Net decrease in cash and cash equivalents		**(55.9)**	(48.7)
Cash and cash equivalents at the beginning of the year		**342.0**	390.1
Effect of foreign exchange rate changes		**(4.6)**	0.6
Cash and cash equivalents at the end of the year	33	**281.5**	342.0

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

1. General information
Tullett Prebon plc is a company incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 96. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 28 to 29 and in the Business Review on pages 05 to 25.

2. Basis of preparation
(a) Basis of accounting
The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union and 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. As discussed on page 34 of the Corporate Governance Report the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis continues to be used in preparing these 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 and are rounded to the nearest hundred thousand (expressed as millions to one decimal place – £m), except where otherwise indicated. The significant accounting policies are set out in Note 3.

(b) Basis of consolidation
The Group 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.

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 the Group. All inter-company transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests, also referred to as minority interests, in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Other non-controlling interests are initially measured at fair value. The choice of measurement is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, including goodwill, less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control was lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(c) Adoption of new and revised Standards
The following revised Standard has been adopted in the current year although its adoption has not had any significant impact on the financial statements:

– Amendments to IFRS 7 'Financial Instruments: Disclosures' relating to transfers of financial assets.

At the date of authorisation of these financial statements, the following EU endorsed Standards and Interpretations were in issue but not yet effective. The Group has not applied these Standards or Interpretations in the preparation of these financial statements:

– IFRS 10 'Consolidated Financial Statements';

– IFRS 11 'Joint Arrangements';

– IFRS 12 'Disclosures of Interests in Other Entities';

– IFRS 13 'Fair Value Measurement';

– IAS 27 'Separate Financial Statements';

– IAS 28 'Investments in Associates and Joint Ventures';

– Amendments to IAS 1 'Presentation of Financial Statements' regarding the presentation of items of other comprehensive income;

– Amendments to IAS 19 'Employee Benefits';

– Amendments to IFRS 7 'Financial Instruments: Disclosures' regarding disclosures relating to offsetting financial assets and financial liabilities;

– Amendments to IAS 32 'Financial Instruments: Presentation' regarding offsetting financial assets and financial liabilities; and

– Amendments to IAS 12 'Income Taxes' relating to deferred tax: recovery of underlying assets.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012
continued

2. Basis of preparation continued
The following Standards and Interpretations have not been endorsed by the EU and have not been applied in the preparation of these financial statements:

- IFRS 9 'Financial Instruments' and subsequent amendments to IFRS 9 and IFRS 7;
- Improvements to IFRSs 2009-2011; and
- Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27).

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments;
- IFRS 12 will impact the disclosure of interests Tullett Prebon plc has in other entities;
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures; and
- The amendments to IAS 19 'Employee Benefits', endorsed by the EU, are effective from 1 January 2013 and are to be applied retrospectively when adopted. These amendments, which will be applied by the Group in 2013, change the measurement of various components within the defined benefit pension asset, but do not change the Group's total asset. Applying the replacement of expected returns on plan assets and interest cost on plan liabilities with a single net finance income amount based on the discount rate would result in the profit for the year being reduced in the income statement by £2.2m with a corresponding increase, through actuarial and tax movements, in other comprehensive income.

It is not practicable to provide a complete estimate of the effect of these standards until a detailed review has been completed prior to implementation.

3. Summary of significant accounting policies
(a) Income recognition
Revenue, which excludes sales taxes, includes gross commissions, brokerage, fees earned and subscriptions for information sales. Fee income is recognised when the related services are completed and the income is considered receivable.

Revenue comprises:
(i) Name Passing 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, is recognised on trade date; and

(iii) Fees earned from the sales of price information from financial and commodity markets to third parties is recognised on an accruals basis.

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.

(b) Business combinations
Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of the acquisition where they qualify as measurement period adjustments. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about the facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year. All subsequent changes in the fair value of contingent consideration classified as an asset or a liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income Taxes';
- Liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 'Employee Benefits';
- Acquiree share-based payment awards replaced by Group awards are measured in accordance with IFRS 2 'Share-based Payments'; and
- Assets or disposal groups that are classified for sale are measured in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations'.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, provisional amounts are reported. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities recognised, to reflect the facts and circumstances that existed as at the acquisition date.

(c) Investment in associates

An associate is an entity over which the Group is in a position to exercise significant influence. 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 recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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 discount in 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 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.

(d) 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 party 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.

(e) 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 arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts at that date.

Goodwill recognised as an asset is reviewed for impairment at least annually. Any impairment loss is recognised as an expense immediately 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 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.

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 acquired entity is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(f) 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. Amortisation charged on assets with a finite useful life 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.

Intangible assets are amortised over their finite useful lives generally on a straight-line basis, as follows:

Software – purchased or developed	– up to 5 years
Software licences	– over the period of the licence

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012
continued

3. Summary of significant accounting policies continued
Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

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.

(g) 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	3 to 10 years
Short and long leasehold land and buildings	period of the lease
Freehold land	infinite
Freehold buildings	50 years

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.

(h) 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.

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.

(i) Broker contract payments
Payments made to brokers under employment contracts which are in advance of the expected economic benefit due to the Group are accounted for as prepayments and included within trade and other receivables. Payments made in advance are subject to repayment conditions during the contract period and the prepayment is amortised over the shorter of the contract term and the period the payment remains recoverable. Amounts that are irrecoverable, or become irrecoverable, are written off immediately. These prepayments are subject to annual review.

Payments made in arrears are accrued and are included within trade and other payables.

(j) Financial assets and financial liabilities
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.

Financial instruments are derecognised when all derecognition criteria of IAS 39 are met and the Group no longer controls the contractual rights that comprise the financial instrument. This 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.

Financial assets are classified on initial recognition as 'available-for-sale', 'loans and receivables' or 'at fair value through the income statement'. Financial liabilities are classified on initial recognition as either 'at fair value through the income statement' or as 'other financial liabilities'.

Available-for-sale
The Group's investment in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. For equity financial assets, where the fair value cannot be reliably measured, the assets are held at cost less any provision for impairment. These assets are generally expected to be held for the long term and are included in non-current assets. Assets such as holdings in exchanges, cash related instruments and long term equity investments that do not qualify as associates or joint ventures are classified as available-for-sale. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial instruments that have fixed or determinable payments that are not listed in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised using the effective interest rate, except for short term receivables when the recognition of interest would be immaterial. Settlement balances, trade receivables, loans and other receivables are classified as 'loans and receivables'.

Fair value through the income statement
Financial assets and liabilities can be designated at fair value through the income statement where they meet specific criteria set out in IAS 39 'Financial Instruments: Recognition and Measurement' or where assets or liabilities are held for trading. Subsequent changes in fair value are recognised directly in the income statement.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial assets, other than those at fair value through the income statement, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Impairment is recognised in the income statement.

(k) Derivative financial instruments
From time to time, the Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to manage its risks associated with interest rate and foreign currency fluctuations. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of net investments in foreign operations. The Group has not designated any derivatives as hedges of probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

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.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(l) Hedge accounting
The Group designates certain derivatives as either 'fair value hedges' or 'hedges of net investments in foreign operations'.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the changes in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Net investment hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges is recognised in the hedging and translation reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in financial income or financial expense respectively.

Gains and losses deferred in the hedging and translation reserve are recognised in profit or loss on disposal of the foreign operation.

(m) Settlement balances
Certain Group companies engage in Matched Principal brokerage whereby securities are bought from one counterparty and simultaneously sold to another counterparty. Settlement of such transactions typically takes place within a few business days of the transaction date according to the relevant market rules and conventions. The amounts due from and payable to counterparties in respect of as yet unsettled Matched Principal transactions are shown gross, except where a netting agreement, which is legally enforceable at all times, exists and the asset and liability are either settled net or simultaneously.

(n) 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.

(o) Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value, being 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, as well as through the amortisation process.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012 continued

3. Summary of significant accounting policies continued

(p) Client money
Client money to settle transaction bargains is held separately and included in the Group's balance sheet. The net return received on managing client money is included within interest.

(q) 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.

(r) 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 other comprehensive income 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.

(s) 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 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 other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

(t) 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.

(u) 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 other comprehensive income.

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.

The amount recognised in the balance sheet represents the net of the present value of the defined benefit obligation as adjusted for actuarial gains and losses and past service cost, and 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.

(v) Share-based payments
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 appropriate valuation models. The expected life used in the models has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The estimated fair value of shares granted is based on the share price at grant date, reduced where shares do not qualify for dividends during the vesting period. Market based performance conditions for equity-settled payments are reflected in the initial fair value of the award.

(w) Equity instruments
Equity instruments issued by the Company are recorded at the value of 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.

(x) Treasury shares
Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. When treasury shares are sold or re-issued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

(y) Accounting estimates and judgements
In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period an estimate is revised. Significant judgement and estimates are necessary in the application of the following accounting policies:

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires estimation of future cash flows expected to arise for the cash-generating unit, the selection of suitable discount rates and the estimation of future growth rates.

Taxation
In arriving at the current and deferred tax liability the Group has taken account of tax issues that are subject to ongoing discussions with the relevant tax authorities. Liabilities have been calculated based on management's assessment of relevant information and advice. Where outcomes differ from the amounts initially recorded, such differences impact current and deferred tax amounts in the period the outcome is determined.

Provisions
Provisions are established by the Group based on management's assessment of relevant information and advice available at the time of preparing the Financial Statements. Outcomes are uncertain and dependent on future events. Where outcomes differ from management's expectations, differences from the amount initially provided will impact profit or loss in the period the outcome is determined.

Contingent consideration payable on acquisitions
Acquisition consideration that is contingent on future events is recorded at its acquisition date fair value, based on management's assessment of achieving the required targets. Subsequent changes in the fair value of contingent consideration are reflected in profit or loss in the period in which the re-measurement occurs.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012
continued

4. Segmental analysis
Products and services from which reportable segments derive their revenues
The Group is organised by geographic reporting segments which are used for the purposes of resource allocation and assessment of segmental performance by Group management. These are the Group's reportable segments under IFRS 8 'Operating Segments'.

Each geographic reportable segment derives revenue from Treasury Products, Interest Rate Derivatives, Fixed Income, Equities, Energy and Information Sales and Risk Management Services.

Information regarding the Group's operating segments is reported below:

Analysis by geographical segment

	2012 £m	2011 £m
Revenue:		
Europe and the Middle East	**501.2**	548.3
Americas	**236.9**	242.5
Asia Pacific	**112.7**	119.4
	850.8	910.2
Operating profit:		
Europe and the Middle East	**111.7**	124.6
Americas	**2.4**	9.1
Asia Pacific	**11.9**	14.7
Underlying operating profit	**126.0**	148.4
Charge relating to major legal actions(1)	**(11.6)**	(6.6)
Restructuring costs(2)	**(14.8)**	(11.5)
Goodwill impairment(2)	**(123.0)**	–
Reported operating (loss)/profit	**(23.4)**	130.3
Finance income	**13.4**	12.8
Finance costs	**(24.7)**	(25.1)
Other gains and losses	**–**	1.2
(Loss)/profit before tax	**(34.7)**	119.2
Taxation	**(25.2)**	(30.3)
(Loss)/profit of consolidated companies	**(59.9)**	88.9
Share of results of associates	**1.2**	1.2
(Loss)/profit for the year	**(58.7)**	90.1

(1) Costs are included in administrative expenses. The charge in 2011 is net of amounts included in other income.
(2) Costs are included in administrative expenses.

There are no inter-segment sales included in segment revenue.

Tullett Prebon plc is domiciled in the UK. Revenue attributable to the UK amounted to £449.6m (2011: £498.8m) and the total revenue from other countries was £401.2m (2011: £411.4m).

Other segmental information

	2012 £m	2011 £m
Capital additions		
Europe and the Middle East – UK	**10.2**	9.2
Europe and the Middle East – Other	**1.0**	0.1
Americas	**5.7**	2.1
Asia Pacific	**0.8**	1.0
	17.7	12.4

	2012 £m	2011 £m
Depreciation and amortisation		
Europe and the Middle East – UK	**6.0**	4.5
Europe and the Middle East – Other	**0.5**	0.1
Americas	**3.8**	3.0
Asia Pacific	**1.5**	1.2
	11.8	8.8

	2012 £m	2011 £m
Goodwill impairment		
Europe and the Middle East – UK	**–**	–
Europe and the Middle East – Other	**–**	–
Americas (Note 14)	**123.0**	–
Asia Pacific	**–**	–
	123.0	–

	2012 £m	2011 £m
Share-based compensation		
Europe and the Middle East – UK	**1.4**	1.4
Europe and the Middle East – Other	**–**	–
Americas	**–**	–
Asia Pacific	**–**	–
	1.4	1.4

	2012 £m	2011 £m
Segment assets		
Europe and the Middle East – UK	**2,741.6**	2,909.0
Europe and the Middle East – Other	**32.2**	26.8
Americas	**3,728.0**	3,107.8
Asia Pacific	**63.8**	73.3
	6,565.6	6,116.9

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012
continued

4. Segmental analysis continued

	2012 £m	2011 £m
Segment liabilities		
Europe and the Middle East – UK	**2,488.9**	2,668.4
Europe and the Middle East – Other	**27.3**	23.3
Americas	**3,640.0**	2,902.0
Asia Pacific	**37.4**	47.7
	6,193.6	5,641.4

Segment assets and liabilities exclude all inter-segment balances.

Analysis by product group

	2012 £m	2011 £m
Revenue		
Treasury Products	**229.8**	255.7
Interest Rate Derivatives	**185.2**	204.1
Fixed Income	**241.0**	257.0
Equities	**42.6**	48.4
Energy	**106.4**	106.0
Information Sales and Risk Management Services	**45.8**	39.0
	850.8	910.2

5. Other operating income
Other operating income represents receipts such as rental income, royalties, insurance proceeds, settlements from competitors and business relocation grants. Costs associated with such items are included in administrative expenses.

6. Profit/(loss) for the year
The profit/(loss) for the year has been arrived at after charging:

	2012 £m	2011 £m
Depreciation of property, plant and equipment (Note 16)	**5.5**	5.5
Amortisation of intangible assets (Note 15)	**6.3**	3.3
Staff costs (Note 7)	**584.2**	626.4
Auditor's remuneration for audit services (see below)	**2.0**	2.0
Exceptional items (see below)	**149.4**	–

The exceptional items comprise restructuring costs of £14.8m relating to actions taken to reduce fixed costs, the charge relating to major legal actions of £11.6m, and the charge related to goodwill impairment of £123.0m (Note 14). Taxation on exceptional items amounted to a credit of £2.3m.

The analysis of auditor's remuneration is as follows:

	2012 £000	2011 £000
Audit of the Group's annual accounts	**426**	426
Audit of the Company's subsidiaries and associates pursuant to legislation	**1,548**	1,535
Total audit fees	**1,974**	1,961
Audit-related assurance services	**48**	34
Taxation compliance services	**72**	130
Other taxation advisory services	**86**	20
Other assurance services	**57**	7
Corporate finance services	**33**	–
Other services	**54**	20
Total non-audit fees	**350**	211
Audit fees payable to the Company's auditor and its associates in respect of associated pension schemes	**12**	9

7. Staff costs

The average monthly number of full time equivalent employees and directors of the Group was:

	2012 No.	2011 No.
Europe and the Middle East	**1,224**	1,224
Americas	**847**	754
Asia Pacific	**574**	572
	2,645	2,550

The aggregate employment costs of staff and directors were:

	2012 £m	2011 £m
Wages, salaries, bonuses and incentive payments	**530.3**	569.7
Social security costs	**45.7**	49.0
Defined contribution pension costs (Note 36(b))	**6.8**	6.3
Share-based compensation expense	**1.4**	1.4
	584.2	626.4

8. Finance income

	2012 £m	2011 £m
Interest receivable and similar income	**1.8**	2.3
Expected return on pension schemes' assets	**11.6**	10.5
	13.4	12.8

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012 continued

9. Finance costs

	2012 £m	2011 £m
Interest and fees payable on bank facilities	**4.5**	5.1
Interest payable on Sterling Notes August 2014	**0.6**	0.6
Interest payable on Sterling Notes July 2016	**9.9**	9.9
Interest payable on Sterling Notes June 2019	**0.2**	–
Other interest payable	**0.2**	0.3
Amortisation of debt issue costs	**1.5**	1.4
Total borrowing costs	**16.9**	17.3
Amortisation of discount on deferred consideration	**0.8**	0.2
Interest cost on pension schemes' liabilities	**7.0**	7.6
	24.7	25.1

10. Other gains and losses

	2012 £m	2011 £m
Fair value gain on the acquisition of controlling interests (Note 31)	**–**	0.3
Credit arising on adjustments to deferred consideration (Note 31)	**–**	0.9
	–	1.2

11. Taxation

	2012 £m	2011 £m
Current tax:		
UK corporation tax	**22.7**	30.7
Overseas tax	**5.4**	1.2
Prior year UK corporation tax	**(0.5)**	(0.9)
Prior year overseas tax	**(5.3)**	(0.2)
	22.3	30.8
Deferred tax: (Note 20)		
Current year	**2.8**	0.7
Prior year	**0.1**	(1.2)
	2.9	(0.5)
Tax charge for the year	**25.2**	30.3

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

	2012		2011	
	£m	%	£m	%
(Loss)/profit before tax	**(34.7)**		119.2	
Tax based on the UK corporation tax rate of 24.5% (2011: 26.5%)	**(8.5)**	**24.5**	31.6	26.5
Tax effect of non deductible goodwill impairment	**30.1**	**(86.7)**	–	–
Tax effect of expenses that are not deductible	**5.6**	**(16.1)**	5.9	4.9
Tax effect of non-taxable income	**(0.5)**	**1.4**	(3.1)	(2.6)
Unrecognised timing differences	**5.8**	**(16.7)**	0.1	–
Prior year adjustments	**(5.7)**	**16.4**	(2.3)	(1.8)
Other	**(1.6)**	**4.6**	(1.9)	(1.6)
Tax charge and effective tax rate for the year	**25.2**	**(72.6)**	30.3	25.4

In addition to the income statement, the following current and deferred tax items have been included in other comprehensive income and equity:

	Recognised in other comprehensive income 2012 £m	Recognised in equity 2012 £m	Total 2012 £m
Current tax charge relating to:			
Exchange movement on net investment loans	**0.4**	**–**	**0.4**
Deferred tax charge relating to:			
Defined benefit pension schemes	**0.4**	**–**	**0.4**
Tax charge on items taken directly to other comprehensive income and equity	**0.8**	**–**	**0.8**

	2011 £m	2011 £m	2011 £m
Current tax charge relating to:			
Exchange movement on net investment loans	0.1	–	0.1
Deferred tax charge relating to:			
Defined benefit pension schemes	3.1	–	3.1
Share-based payment awards	–	0.3	0.3
	3.1	0.3	3.4
Tax charge on items taken directly to other comprehensive income and equity	3.2	0.3	3.5

12. Earnings/(loss) per share

	2012	2011
Basic – underlying	**40.5p**	46.1p
Diluted – underlying	**40.4p**	45.8p
Basic (loss)/earnings per share	**(27.1p)**	41.3p
Diluted (loss)/earnings per share	**(27.1p)**	41.1p

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12. Earnings/(loss) per share continued
The calculation of basic and diluted earnings/(loss) per share is based on the following number of shares:

	2012 No.(m)	2011 No.(m)
Basic weighted average shares	**217.6**	216.5
Contingently issuable shares	**–**	0.9
Issuable on exercise of options	**0.2**	0.3
Diluted weighted average shares	**217.8**	217.7

The earnings/(loss) in the calculation of underlying, basic and diluted earnings/(loss) per share, are set out below:

	2012 £m	2011 £m
(Loss)/earnings for the year	**(58.7)**	90.1
Minority interests	**(0.3)**	(0.7)
(Loss)/earnings	**(59.0)**	89.4
Net charge relating to major legal actions	**11.6**	6.6
Restructuring costs	**14.8**	11.5
Goodwill impairment	**123.0**	–
Other gains and losses	**–**	(1.2)
Tax on above items	**(2.3)**	(6.6)
Underlying Earnings	**88.1**	99.7

13. Dividends

	2012 £m	2011 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2012 of 5.6p per share	**12.1**	–
Final dividend for the year ended 31 December 2011 of 11.25p per share	**24.5**	–
Interim dividend for the year ended 31 December 2011 of 5.25p per share	**–**	11.3
Final dividend for the year ended 31 December 2010 of 10.5p per share	**–**	22.6
	36.6	33.9

In respect of the current year, the Directors propose that the final dividend of 11.25p per share amounting to £24.5m will be paid on 16 May 2013 to all shareholders on the Register of Members on 26 April 2013. This dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

The trustees of the Tullett Prebon plc Employee Benefit Trust 2007 have waived their rights to dividends.

14. Goodwill

	2012 £m	2011 £m
Carrying amount		
At 1 January	**396.6**	376.5
Recognised on acquisitions	**9.2**	20.3
Adjustments relating to deferred consideration	**–**	1.4
Impairment	**(123.0)**	–
Effect of movements in exchange rates	**(4.3)**	(1.6)
At 31 December	**278.5**	396.6

Goodwill arising through business combinations has been allocated to individual cash-generating units ('CGUs') for impairment testing as follows:

	2012 £m	2011 £m
CGU		
Europe and the Middle East	**195.1**	195.1
North America	**51.5**	168.0
Brazil	**12.6**	14.2
Asia Pacific	**19.3**	19.3
	278.5	396.6

Determining whether goodwill is impaired requires an estimation of the recoverable amount of each CGU. As at 31 December 2012 the recoverable amount of each of the CGUs has been based on value in use calculations. The key assumptions for the value in use calculations are those regarding expected cash flows arising in future periods, regional growth rates and the discount rates. Future cash flow projections are based on the most recent Board approved financial budgets for 2013 which are used to project cash flows for the next five years. After this period a steady state cash flow is used to derive a terminal value for the CGU. Goodwill has an indefinite life and this is reflected in the calculation of the CGU's terminal value. Estimated average growth rates, based on each region's constituent country growth rates as published by the World Bank, are used to estimate cash flows after the budgeted period. The growth rates used were 2% for Europe and the Middle East, and 3% for North America, Brazil and Asia. Resultant cash flows for Europe and the Middle East, Asia and Brazil have been discounted at a pre-tax discount rate of 11.5% (2011: 11.5%), and for North America have been discounted at 13.5% (2011: 11.5%) reflecting the higher level of uncertainty in the forecasts of that CGU's future cash flows.

The calculations of value in use for Europe and the Middle East, Asia Pacific and Brazil have been subject to stress tests demonstrating that the impairment test results are tolerant to reasonably possible changes in assumptions as to discount rate and future cash flows.

Despite the action that has been taken to rebuild the scale of the North American business since the raid in the second half of 2009, and to reduce costs, its performance weakened further during 2012. The estimated recoverable amount for the North America CGU is £123.0m less than the balance sheet carrying value, and this has been recognised as an impairment of the goodwill attributed to that CGU. The recoverable amount attributable to the North America CGU remains sensitive to future changes in the key valuation assumptions. A 1% increase in the discount rate would result in an additional impairment of around £8m.

15. Other intangible assets

Intangible assets arising from software development expenditure:

	At 1 January £m	Additions £m	Recognised with acquisitions £m	Amounts written down £m	Charge for the year £m	Effect of exchange movements £m	At 31 December £m
2012							
Cost	**33.2**	**8.6**	**1.3**	**–**	**–**	**(0.8)**	**42.3**
Amortisation	**(14.9)**	**–**	**–**	**–**	**(6.3)**	**0.5**	**(20.7)**
Carrying amount	**18.3**	**8.6**	**1.3**	**–**	**(6.3)**	**(0.3)**	**21.6**
2011							
Cost	23.8	9.4	0.2	(0.1)	–	(0.1)	33.2
Amortisation	(11.7)	–	–	0.1	(3.3)	–	(14.9)
Carrying amount	12.1	9.4	0.2	–	(3.3)	(0.1)	18.3

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continued

16. Property, plant and equipment

	Land, buildings and leasehold improvements £m	Furniture, fixtures, equipment and motor vehicles £m	Total £m
Cost			
At 1 January 2012	**28.9**	**40.3**	**69.2**
Additions	**1.5**	**7.6**	**9.1**
Recognised with acquisitions	**–**	**0.6**	**0.6**
Disposals	**–**	**(0.1)**	**(0.1)**
Effect of movements in exchange rates	**(0.7)**	**(1.4)**	**(2.1)**
At 31 December 2012	**29.7**	**47.0**	**76.7**
Accumulated depreciation			
At 1 January 2012	**(14.8)**	**(32.3)**	**(47.1)**
Charge for the year	**(1.7)**	**(3.8)**	**(5.5)**
Effect of movements in exchange rates	**0.4**	**1.2**	**1.6**
At 31 December 2012	**(16.1)**	**(34.9)**	**(51.0)**
Carrying amount			
At 31 December 2012	**13.6**	**12.1**	**25.7**
Cost			
At 1 January 2011	27.9	38.0	65.9
Additions	1.0	2.0	3.0
Recognised with acquisitions	–	0.3	0.3
Effect of movements in exchange rates	–	–	–
At 31 December 2011	28.9	40.3	69.2
Accumulated depreciation			
At 1 January 2011	(12.7)	(28.9)	(41.6)
Charge for the year	(2.1)	(3.4)	(5.5)
Effect of movements in exchange rates	–	–	–
At 31 December 2011	(14.8)	(32.3)	(47.1)
Carrying amount			
At 31 December 2011	14.1	8.0	22.1

The carrying amount of the Group's property, plant and equipment includes an amount of £nil (2011: £0.1m) in respect of assets held under finance leases.

17. Interest in associates

	2012 £m	2011 £m
Carrying amount of investment in associates	**3.8**	3.4
Aggregated amounts relating to associates:		
Total assets	**16.6**	15.0
Total liabilities	**(6.0)**	(5.5)
Net assets	**10.6**	9.5
Revenue	**16.3**	16.0
Profit for the year	**3.5**	2.9

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

18. Investments

	2012 £m	2011 £m
Available-for-sale assets carried at fair value:		
Unlisted	**4.5**	6.0
Listed	**1.7**	1.4
	6.2	7.4

The fair values of unlisted available-for-sale assets are based on derived valuations as disclosed in Note 27(g).

Listed investments comprise equity securities that present the Group with opportunity for return through dividend income and capital gains. They have no fixed maturity or coupon rate. Fair values are derived from quoted market prices.

19. Financial assets

	2012 £m	2011 £m
Short term government securities	**7.9**	7.6
Term deposits	**22.4**	23.2
	30.3	30.8

Financial assets are liquid funds held on deposit with banks and clearing organisations.

20. Deferred tax

	2012 £m	2011 £m
Deferred tax assets	**3.1**	4.9
Deferred tax liabilities	**(14.5)**	(14.1)
	(11.4)	(9.2)

Notes to the Consolidated Financial Statements
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20. Deferred tax continued

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

	2012 £m	2011 £m
At 1 January	**(9.2)**	(6.5)
(Charge)/credit to income for the year	**(2.9)**	0.5
Charge to other comprehensive income for the year	**(0.4)**	(3.1)
Charge to equity in the year	**–**	(0.3)
Recognised with acquisitions	**1.0**	–
Effect of movements in exchange rates	**0.1**	0.2
At 31 December	**(11.4)**	(9.2)

Deferred tax balances and movements thereon are analysed as:

	At 1 January 2012 £m	Recognised in profit or loss £m	Recognised in other comprehensive income £m	Recognised with acquisitions £m	Effect of movements in exchange rates £m	At 31 December 2012 £m
Share-based payment awards	**0.3**	**–**	**–**	**–**	**–**	**0.3**
Defined benefit retirement schemes	**(12.0)**	**(2.1)**	**(0.4)**	**–**	**–**	**(14.5)**
Tax losses	**8.5**	**(7.5)**	**–**	**–**	**(0.8)**	**0.2**
Other timing differences	**(6.0)**	**6.7**	**–**	**1.0**	**0.9**	**2.6**
	(9.2)	**(2.9)**	**(0.4)**	**1.0**	**0.1**	**(11.4)**

	At 1 January 2011 £m	Recognised in profit or loss £m	Recognised in other comprehensive income £m	Recognised in equity £m	Effect of movements in exchange rates £m	At 31 December 2011 £m
Share-based payment awards	0.7	(0.1)	–	(0.3)	–	0.3
Defined benefit retirement schemes	(7.3)	(1.6)	(3.1)	–	–	(12.0)
Tax losses	1.3	6.7	–	–	0.5	8.5
Other timing differences	(1.2)	(4.5)	–	–	(0.3)	(6.0)
	(6.5)	0.5	(3.1)	(0.3)	0.2	(9.2)

At the balance sheet date, the Group has a net unrecognised deferred tax asset from timing differences of £14.0m (2011: £6.0m). Unrecognised deferred tax in respect of tax losses was £18.6m (2011: £5.5m) which are available for offset against future profits. A deferred tax asset of £0.2m in respect of tax losses has been recognised in 2012 (2011: £8.5m).

The 31 December 2012 deferred tax liability relates to the surplus on the Group's UK scheme.

No deferred tax has been recognised on temporary differences associated with unremitted earnings of subsidiaries as the Group is able to control the timing of distributions. Additionally, changes to UK tax regulation largely exempt overseas dividends received after 1 July 2009 from UK tax. As at the balance sheet date, the Group had unrecognised deferred tax liabilities of £0.7m (2011: £0.5m) in respect of withholding tax on unremitted earnings.

21. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**69.4**	76.0
Settlement balances	**5,721.9**	5,102.1
Financial assets	**5,791.3**	5,178.1
Other debtors	**9.7**	8.8
Prepayments and accrued income	**70.9**	63.5
Corporation tax	**1.2**	5.4
Owed by associates and related parties	**0.4**	0.1
	5,873.5	5,255.9

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

The table below shows the ageing of trade receivables:

	2012 £m	2011 £m
Less than 30 days (not yet due)	**52.7**	55.0
Between 30 and 60 days	**9.0**	10.9
Between 60 and 90 days	**4.2**	4.2
Greater than 90 days	**3.5**	5.9
Total past due	**16.7**	21.0
Trade receivables	**69.4**	76.0

Trade receivables are shown net of a provision of £0.9m (2011: £1.4m) against certain trade receivables due after 90 days.

The table below shows the ageing of settlement balances:

	2012 £m	2011 £m
Amounts not yet due	**5,576.8**	4,964.5
Less than 30 days	**140.0**	97.8
Between 30 and 60 days	**4.9**	12.5
Between 60 and 90 days	**0.2**	15.8
Greater than 90 days	**–**	11.5
Total past due	**145.1**	137.6
Settlement balances	**5,721.9**	5,102.1

Settlement balances arise on Matched Principal brokerage whereby securities are bought from one counterparty and simultaneously sold to another counterparty. The above analysis reflects only the receivable side of such transactions. Corresponding payable amounts are shown in Note 22 'Trade and other payables'.

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22. Trade and other payables

	2012 £m	2011 £m
Settlement balances	**5,721.3**	5,101.7
Trade payables	**7.4**	5.5
Financial liabilities	**5,728.7**	5,107.2
Tax and social security	**22.6**	33.0
Other creditors	**1.2**	2.9
Accruals and deferred income	**122.8**	155.2
	5,875.3	5,298.3

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

23. Interest bearing loans and borrowings

	Less than one year £m	Greater than one year £m	Total £m
2012			
Sterling Notes August 2014	**–**	**8.5**	**8.5**
Sterling Notes July 2016	**–**	**139.9**	**139.9**
Sterling Notes June 2019	**–**	**78.7**	**78.7**
Bank loan	**10.0**	**18.7**	**28.7**
	10.0	**245.8**	**255.8**
2011			
Obligations under finance leases	0.1	–	0.1
Sterling Notes August 2014	–	8.5	8.5
Sterling Notes July 2016	–	139.5	139.5
Bank loan	30.0	87.6	117.6
	30.1	235.6	265.7

All amounts are denominated in sterling with the exception of the obligations under finance leases in 2011 which were denominated in Euros. An analysis of borrowings by maturity has been disclosed in Note 27.

Sterling Notes: Due 12 August 2014
As at 31 December 2012, £8,470,000 (2011: £8,470,000) of the 8.25% Step-up Coupon Subordinated Notes due 12 August 2014 remain outstanding. These notes are callable by Tullett Prebon Group Holdings plc at any time. The coupon was reset to 6.52% in August 2009.

At 31 December 2012, the carrying value of the Sterling Notes due 2014, together with unamortised transaction costs and fair value adjustments, amounted to £8.5m and their fair value was £8.5m (2011: £8.4m).

Sterling Notes: Due 6 July 2016
In July 2009 £141,144,000 of 7.04% Guaranteed Notes due 6 July 2016 were issued.

At 31 December 2012, the carrying value of the Sterling Notes due 2016, together with unamortised transaction costs, amounted to £139.9m and their fair value was £144.8m (2011: £140.8m).

Sterling Notes: Due June 2019
On 11 December 2012, the Group issued its first series of Sterling Notes, amounting to £80,000,000, under its Euro Medium Term Note Programme. The notes have a coupon of 5.25% and are due in June 2019.

At 31 December 2012, the carrying value of Sterling Notes due 2019, together with unamortised transaction costs, amounted to £78.7m and their fair value was £79.6m.

Bank loan and credit facility

During the year the Group repaid £90.0m of its amortising term loan, comprising a £30.0m scheduled repayment in February and a repayment of £60.0m in December. The remaining balance on the term loan is subject to repayments of £10m in February 2013 and £20m on maturity in February 2014.

As at 31 December 2012 the carrying value of the loan approximated to the fair value. The average effective interest rate on the bank loan was 4.8% (2011: 3.9%).

The Group's £115m committed revolving credit facility, which has not been drawn during the year, will also mature in February 2014.

Finance leases

The Group leased certain items of property, plant and equipment under finance leases. Interest rates were fixed at the contract date with fixed repayments. No arrangements were entered into for contingent rental payments. In 2012 the average effective borrowing rate was 7.5% (2011: 7.5%).

The fair value of the Group's lease obligations in 2011 approximated to the carrying amount. Group obligations under finance leases were secured by a lessor's charge over the leased assets.

24. Derivative financial instruments

As at 31 December 2012 and 2011 the Group held no derivative financial instruments.

25. Provisions

	Property £m	Restructuring £m	Legal and Other £m	Total £m
At 1 January 2012	**2.9**	**6.3**	**9.6**	**18.8**
(Released)/charged to income statement	**(1.7)**	**13.2**	**(6.5)**	**5.0**
Recognised on acquisitions	**3.4**	**–**	**–**	**3.4**
Utilisation of provision	**(0.7)**	**(14.5)**	**–**	**(15.2)**
Effect of movements in exchange rates	**(0.1)**	**(0.1)**	**(0.5)**	**(0.7)**
At 31 December 2012	**3.8**	**4.9**	**2.6**	**11.3**
At 1 January 2011	3.0	–	1.4	4.4
Charged to income statement	0.1	7.9	6.0	14.0
Recognised on acquisitions	–	–	2.7	2.7
Utilisation of provision	(0.2)	(1.6)	(0.2)	(2.0)
Effect of movements in exchange rates	–	–	(0.3)	(0.3)
At 31 December 2011	2.9	6.3	9.6	18.8

	2012 £m	2011 £m
Included in current liabilities	**5.7**	12.4
Included in non-current liabilities	**5.6**	6.4
	11.3	18.8

Property provisions outstanding as at 31 December 2012 relate to provisions in respect of onerous leases and building dilapidations. The onerous lease provision represents the net present value of the future rental cost net of expected sub-lease income. These leases expire in one to fourteen years (2011: 1-2 years). The building dilapidations provision represents the estimated cost of making good dilapidations and disrepair on various leasehold buildings. The leases expire in one to seven years.

Restructuring provisions outstanding as at 31 December 2012 relate to termination and other employee related costs, the majority of which are expected to be discharged during 2013.

Notes to the Consolidated Financial Statements
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25. Provisions continued
Legal and other provisions include provisions for legal claims brought against subsidiaries of the Group together with provisions against obligations for certain employee related costs and non property related onerous contracts. At present the timing of any payments are uncertain and provisions are subject to regular review. It is expected that the obligations will be discharged over the next three years.

The provision established in 2011 for the estimated cost of the resolution of the claim by BGC alleging that the Company misappropriated data supplied to its information sales subsidiary in violation of a redistribution agreement has been adjusted in line with the arbitrator's award. The ultimate outcome remains uncertain.

26. Other long term payables

	2012 £m	2011 £m
Accruals and deferred income	**5.5**	3.0
Deferred consideration	**3.4**	4.8
	8.9	7.8

Deferred consideration as at 31 December 2012 is held at the discounted value of estimated future obligations.

27. Financial instruments
The following analysis should be read in conjunction with the information on risk management, capital employed and regulatory capital included in the Business Review on pages 15 to 21.

(a) Capital management
The Group's policy is to maintain a capital base and funding structure that maintains creditor, regulator and market confidence and provides flexibility for business development whilst also optimising returns to shareholders. The capital structure of the Group consists of debt, as set out in Note 23, cash and cash equivalents, other current financial assets and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 28 and 29.

The Group has an investment firm consolidation waiver under which it is required to monitor its compliance with a financial holding company test which takes into account the Company's shareholders' funds and the aggregated credit risk, market risk and fixed overhead requirements of the Company's subsidiaries. A number of the Company's subsidiaries are individually regulated and are required to maintain capital that is appropriate to the risks entailed in their businesses according to definitions that vary according to each jurisdiction.

(b) Categorisation of financial assets and liabilities

Financial assets

	Available- for-sale assets £m	Loans and receivables £m	Total £m
2012			
Investments	**6.2**	**–**	**6.2**
Financial assets	**7.9**	**22.4**	**30.3**
Cash and cash equivalents	**–**	**281.5**	**281.5**
Trade receivables	**–**	**69.4**	**69.4**
Settlement balances	**–**	**5,721.9**	**5,721.9**
	14.1	**6,095.2**	**6,109.3**
2011			
Investments	7.4	–	7.4
Financial assets	7.6	23.2	30.8
Cash and cash equivalents	–	342.0	342.0
Trade receivables	–	76.0	76.0
Settlement balances	–	5,102.1	5,102.1
	15.0	5,543.3	5,558.3

Financial liabilities

	Financial liabilities at amortised cost £m
2012	
Sterling Notes August 2014	**8.5**
Sterling Notes July 2016	**139.9**
Sterling Notes June 2019	**78.7**
Bank loan	**28.7**
Trade payables	**7.4**
Settlement balances	**5,721.3**
	5,984.5
2011	
Sterling Notes August 2014	8.5
Sterling Notes July 2016	139.5
Bank loan	117.6
Finance leases	0.1
Trade payables	5.5
Settlement balances	5,101.7
	5,372.9

(c) Credit risk analysis

The following table presents an analysis by rating agency designation of cash and cash equivalents, financial assets, trade receivables and settlement balances based on Standard & Poor's ratings or their equivalent.

	Cash and cash equivalents and financial assets		Trade receivables		Settlement balances	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
AAA to AA+	**7.0**	28.5	**0.4**	1.5	**3.5**	191.3
AA to A-	**296.7**	338.7	**52.2**	54.2	**4,508.4**	2,745.5
BBB+ to BBB-	**7.6**	4.7	**5.4**	5.1	**750.3**	809.7
BB+ to B-	**–**	–	**0.2**	0.7	**66.9**	915.0
Unrated	**0.5**	0.9	**12.1**	15.9	**392.8**	440.6
Total	**311.8**	372.8	**70.3**	77.4	**5,721.9**	5,102.1
Provision for doubtful debts	**–**	–	**(0.9)**	(1.4)	**–**	–
	311.8	372.8	**69.4**	76.0	**5,721.9**	5,102.1

In addition to the above, £1.6m (2011: £1.4m) of investments are rated AAA to AA+, £1.7m are rated BBB+ (2011: £1.4m) and £2.9m (2011: £4.6m) are unrated.

The carrying value of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade receivables, the Group is not exposed to significant credit risk to a single counterparty or any group of counterparties.

Matched Principal brokerage transactions, whereby securities are bought from one counterparty and sold to another counterparty, are settled on a delivery versus payment basis. The above analysis reflects only the receivable side of such transactions, the other side being shown in trade and other payables. Settlement of such transactions typically takes place within a few business days according to the relevant market rules and conventions and the credit risk is considered to be minimal.

Notes to the Consolidated Financial Statements
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27. Financial instruments continued

(d) Maturity profile of financial liabilities

The table below reflects the contractual maturities, including future interest obligations, of the Group's financial liabilities as at 31 December:

	Due within 3 months £m	Due between 3 months and 12 months £m	Due between 1 year and 5 years £m	Due after 5 years £m	Total £m
2012					
Settlement balances	**5,721.3**	**–**	**–**	**–**	**5,721.3**
Trade payables	**7.4**	**–**	**–**	**–**	**7.4**
Sterling Notes August 2014	**–**	**0.6**	**9.0**	**–**	**9.6**
Sterling Notes July 2016	**–**	**9.9**	**171.0**	**–**	**180.9**
Sterling Notes June 2019	**–**	**4.2**	**16.8**	**88.4**	**109.4**
Bank loan	**10.2**	**0.5**	**20.1**	**–**	**30.8**
	5,738.9	**15.2**	**216.9**	**88.4**	**6,059.4**
2011					
Settlement balances	5,101.7	–	–	–	5,101.7
Trade payables	5.5	–	–	–	5.5
Obligations under finance leases	0.1	–	–	–	0.1
Sterling Notes August 2014	–	0.6	9.6	–	10.2
Sterling Notes July 2016	–	9.9	180.9	–	190.8
Bank loan	31.0	3.1	92.8	–	126.9
	5,138.3	13.6	283.3	–	5,435.2

(e) Foreign currency sensitivity analysis

The table below illustrates the sensitivity of the profit for the year with regard to currency movements on financial assets and liabilities denominated in foreign currencies as at the year end.

Based on a 5% weakening in the US dollar and Euro exchange rates against sterling, the effect on profit for the year would be as follows:

	2012		2011	
	USD £m	EUR £m	USD £m	EUR £m
Change in profit for the year	**(1.2)**	**(0.8)**	(1.5)	(1.4)

The Group would experience an equal and opposite foreign exchange gain should the US dollar and Euro exchange rates strengthen against sterling.

(f) Interest rate sensitivity analysis

Interest on floating rate financial instruments is reset at intervals of less than one year. The Group's exposure to interest rates arises on cash and cash equivalents, money market instruments, bank overdrafts and the bank loan. The Sterling Notes are fixed rate financial instruments. The obligations under finance leases in 2011 were also at fixed rates.

A 100 basis point change in interest rates, applied to average floating rate financial instrument assets and liabilities during the year, would result in the following impact on profit or loss:

	2012		2011	
	+100pts £m	-100pts £m	+100pts £m	-100pts £m
Income/(expense) arising on:				
– floating rate assets	**2.8**	**(1.8)**	3.2	(2.3)
– floating rate liabilities	**(0.9)**	**0.7**	(1.3)	0.9
Net income/(expense) for the year	**1.9**	**(1.1)**	1.9	(1.4)

(g) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2012				
Investments				
– unlisted	**–**	**–**	**4.5**	**4.5**
– listed	**1.7**	**–**	**–**	**1.7**
Financial assets				
– short term government securities	**7.9**	**–**	**–**	**7.9**
	9.6	**–**	**4.5**	**14.1**
2011				
Investments				
– unlisted	–	–	6.0	6.0
– listed	1.4	–	–	1.4
Financial assets				
– short term government securities	7.6	–	–	7.6
	9.0	–	6.0	15.0

There were no transfers between Level 1 and 2 during the year.

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27. Financial instruments continued
Reconciliation of Level 3 fair value measurements of financial assets:

	Available- for-sale Investments – Unlisted £m
Balance as at 1 January 2012	**6.0**
Disposal proceeds	**(1.7)**
Unrealised gain in other comprehensive income	**0.2**
Balance as at 31 December 2012	**4.5**
Balance as at 1 January 2011	2.0
Additions	3.5
Acquired on acquisitions	0.5
Balance as at 31 December 2011	6.0

There were no financial liabilities subsequently remeasured at fair value on a Level 3 fair value measurement basis.

The disposal proceeds received in 2012 were received in cash.

The revaluation gain of £0.2m relating to the revaluation of unlisted available-for-sale investments held at the balance sheet date is included within the 'Revaluation reserve'. There were no revaluation gains or losses in 2011.

28. Share capital

	2012 No.	2011 No.
Allotted, issued and fully paid		
Ordinary shares of 25p	**217,611,872**	215,313,584

	2012 £m	2011 £m
Allotted, issued and fully paid		
Ordinary shares of 25p	**54.4**	53.8

2,298,288 ordinary shares were issued on the 5 January 2012 to the former owners of Primex Energy Brokers Limited following the completion of acquisition related performance conditions (Note 29(b)).

29. Reconciliation of shareholders' funds
(a) Share capital, Share premium account, Reverse acquisition reserve

	Share capital £m	Share premium account £m	Reverse acquisition reserve £m	Total £m
As at 1 January 2012	**53.8**	**9.9**	**(1,182.3)**	**(1,118.6)**
Issue of ordinary shares	0.6	7.2	–	7.8
As at 31 December 2012	**54.4**	**17.1**	**(1,182.3)**	**(1,110.8)**
As at 1 January 2011 and 31 December 2011	53.8	9.9	(1,182.3)	(1,118.6)

Reverse acquisition reserve
The acquisition of Collins Stewart Tullett plc by Tullett Prebon plc in 2006 was accounted for as a reverse acquisition. Under IFRS the consolidated accounts of Tullett Prebon plc were prepared as if they were a continuation of the consolidated accounts of Collins Stewart Tullett plc. The reverse acquisition reserve represents the difference between the reserves of the two companies at the time of the acquisition. This resulted in the consolidated net assets before and after the acquisition remaining unchanged.

(b) Other reserves

	Equity reserve £m	Revaluation reserve £m	Merger reserve £m	Hedging and translation £m	Own shares £m	Other reserves £m
As at 1 January 2012	**7.7**	**1.9**	**121.5**	**17.4**	**(0.1)**	**148.4**
Revaluation of available-for-sale assets	**–**	**0.5**	**–**	**–**	**–**	**0.5**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(9.3)**	**–**	**(9.3)**
Taxation charge on components of other comprehensive income	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Total comprehensive income	**–**	**0.5**	**–**	**(9.7)**	**–**	**(9.2)**
Equity component of deferred consideration	**(7.7)**	**–**	**–**	**–**	**–**	**(7.7)**
As at 31 December 2012	**–**	**2.4**	**121.5**	**7.7**	**(0.1)**	**131.5**
As at 1 January 2011	5.3	2.6	121.5	17.4	(0.1)	146.7
Revaluation of available-for-sale assets	–	(0.7)	–	–	–	(0.7)
Exchange differences on translation of foreign operations	–	–	–	0.1	–	0.1
Taxation charge on components of other comprehensive income	–	–	–	(0.1)	–	(0.1)
Total comprehensive income	–	(0.7)	–	–	–	(0.7)
Equity component of deferred consideration	2.4	–	–	–	–	2.4
As at 31 December 2011	7.7	1.9	121.5	17.4	(0.1)	148.4

Equity reserve
The reserve of £7.7m as at 1 January 2012 represented the aggregate fair value of 2,298,288 ordinary shares issuable to the former owners of Primex Energy Brokers Limited following the completion of acquisition related performance conditions. The shares were issued on 5 January 2012.

Revaluation reserve
The revaluation reserve represents the remeasurement of assets in accordance with IFRS that have been recorded in other comprehensive income.

Merger reserve
The merger reserve arose in Collins Stewart Tullett plc prior to the reverse acquisition by Tullett Prebon plc in 2006. The reserve related to prior share based acquisitions and represented the difference between the value of those acquisitions and the amount required to be recorded in share premium. On the acquisition by Tullett Prebon plc, this reserve was retained as the consolidated accounts of Tullett Prebon plc were prepared as if they were a continuation of the consolidated accounts of Collins Stewart Tullett plc.

Hedging and translation
The hedging and translation reserve records revaluation gains and losses arising on net investment hedges and the effect of changes in exchange rates on translation of foreign operations recorded in other comprehensive income.

Own shares
As at 31 December 2012, the Tullett Prebon plc Employee Benefit Trust 2007 held 202,029 ordinary shares (2011: 202,029 ordinary shares).

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29. Reconciliation of shareholders' funds continued
(c) Total equity

	Equity attributable to equity holders of the parent					
	Total from Note 29(a) £m	Total from Note 29(b) £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
As at 1 January 2012	**(1,118.6)**	**148.4**	**1,442.6**	**472.4**	**3.1**	**475.5**
(Loss)/profit for the year	**–**	**–**	**(59.0)**	**(59.0)**	**0.3**	**(58.7)**
Revaluation of available-for-sale assets	**–**	**0.5**	**–**	**0.5**	**–**	**0.5**
Exchange differences on translation of foreign operations	**–**	**(9.3)**	**–**	**(9.3)**	**(0.2)**	**(9.5)**
Actuarial gains on defined benefit pension schemes	**–**	**–**	**0.8**	**0.8**	**–**	**0.8**
Taxation charge on components of other comprehensive income	**–**	**(0.4)**	**(0.4)**	**(0.8)**	**–**	**(0.8)**
Total comprehensive income	**–**	**(9.2)**	**(58.6)**	**(67.8)**	**0.1**	**(67.7)**
Issue of ordinary shares	**7.8**	**–**	**–**	**7.8**	**–**	**7.8**
Equity component of deferred consideration	**–**	**(7.7)**	**–**	**(7.7)**	**–**	**(7.7)**
Dividends paid	**–**	**–**	**(36.6)**	**(36.6)**	**(0.6)**	**(37.2)**
Decrease in minority equity interests	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Credit arising on share-based payment awards	**–**	**–**	**1.4**	**1.4**	**–**	**1.4**
As at 31 December 2012	**(1,110.8)**	**131.5**	**1,348.8**	**369.5**	**2.5**	**372.0**
As at 1 January 2011	(1,118.6)	146.7	1,380.9	409.0	2.8	411.8
Profit for the year	–	–	89.4	89.4	0.7	90.1
Revaluation of available-for-sale assets	–	(0.7)	–	(0.7)	–	(0.7)
Exchange differences on translation of foreign operations	–	0.1	–	0.1	0.1	0.2
Actuarial gains on defined benefit pension schemes	–	–	8.2	8.2	–	8.2
Taxation charge on components of other comprehensive income	–	(0.1)	(3.1)	(3.2)	–	(3.2)
Total comprehensive income	–	(0.7)	94.5	93.8	0.8	94.6
Equity component of deferred consideration	–	2.4	–	2.4	–	2.4
Dividends paid	–	–	(33.9)	(33.9)	(0.7)	(34.6)
Increase in minority equity interests	–	–	–	–	0.2	0.2
Credit arising on share-based payment awards	–	–	1.4	1.4	–	1.4
Taxation arising on share-based payment awards	–	–	(0.3)	(0.3)	–	(0.3)
As at 31 December 2011	(1,118.6)	148.4	1,442.6	472.4	3.1	475.5

30. Share-based payments

As at 31 December 2012 the Group had one active equity-based long term incentive plan, the Tullett Prebon Long Term Incentive Plan, for the granting of non-transferable awards to certain employees and executives.

Option awards granted under the plan typically become exercisable three years after grant date. The exercise of certain options is dependent on option holders meeting performance criteria. The maximum life of the options is 10 years after grant date. Options are settled in equity once exercised.

Outstanding awards at 31 December 2012 and their estimated fair values when granted are set out below:

	Awards outstanding 2012	Estimated fair value at grant date
Long term incentive award (2009)(1)	**429,980**	199p
Long term incentive award (2011)(1)	**557,501**	246p
Long term incentive award (2011)(2)	**44,761**	309p
Long term incentive award (2012)(1)	**714,649**	139p
	1,746,891	

Notes:
(1) Subject to total shareholder return and return on capital conditions.
(2) Subject to revenue performance conditions.

The following table shows the number of share awards outstanding during 2012 and 2011:

	Share options No.
2012	
Outstanding at start of the year	**1,829,508**
Granted during the year	**714,649**
Lapsed during the year	**(797,266)**
Outstanding at end of year	**1,746,891**
Exercisable at end of year	**429,980**
2011	
Outstanding at start of the year	1,752,778
Granted during the year	602,262
Lapsed during the year	(525,532)
Outstanding at end of year	1,829,508
Exercisable at end of year	–

The weighted average exercise price for all awards is £nil (2011: £nil).

No share options were exercised in 2012 or 2011. The share options under the long term incentive award (2010) lapsed during the year.

The estimated fair value of each option granted under the long term incentive awards (2009), (2011) and (2012) which are subject to market conditions, were calculated by applying a Monte Carlo simulation model. The model inputs were the share price at grant date, exercise price, expected volatility, expected dividends based on historical dividend payment, the expected life of the option until exercise, a risk-free interest rate based on government securities with a similar maturity profile and the volatility and correlation of Total Shareholder Return (TSR) with a comparator group of companies. The 2011 and 2012 awards are also subject to TSR comparison relative to the UK Retail Price Index.

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30. Share-based payments continued
The estimated fair value of each option granted under the long term incentive award (2011) which are subject to revenue performance conditions, 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 share option awards that existed as at 31 December 2012 are set out below:

	Long term incentive award[1] (2012)	Long term incentive award[1] (2011)	Long term incentive award[2] (2011)	Long term incentive award[1] (2009)
Share price at date of grant (p)	**298**	410	354	284
Exercise price (p)	**nil**	nil	nil	nil
Expected volatility	**36%**	59%	59%	58%
Expected life (years)	**3**	3	3	3
Risk-free rate	**0.3%**	1.5%	1.5%	2.2%
Expected dividend yield	**5.5%**	3.8%	4.3%	4.5%
Expected volatility of comparator group	**34%**	47%	n/a	49%
Correlation with comparator group	**29%**	24%	n/a	27%
Retail Price Index	**2.1%**	3.0%	n/a	n/a
Proportion meeting service criteria	**100%**	100%	100%	100%

Notes:
(1) Subject to total shareholder return and return on capital conditions.
(2) Subject to revenue performance conditions.

The weighted average contractual life for the share-based awards outstanding as at 31 December 2012 is 8.3 years (2011: 8.5 years).

	2012 £m	2011 £m
Charge arising from share-based awards	**1.4**	1.4

31. Acquisitions
(a) Subsidiaries acquired during the year
Chapdelaine & Co.
On 3 January 2012 the Group acquired 100% of the membership interests of Chapdelaine & Co, subsequently renamed Chapdelaine Tullett Prebon, LLC. The final consideration paid, including for assets acquired, was US$11.2m (£7.2m) in cash. Net liabilities with a fair value of US$0.7m (£0.4m) were acquired, comprising US$3.7m (£2.4m) cash, US$2.1m (£1.3m) intangible assets, US$0.8m (£0.6m) fixed assets, US$2.7m (£1.7m) trade and other receivables, US$4.7m (£3.0m) trade and other payables and US$5.3m (£3.4m) provisions. Goodwill arising on the acquisition was US$11.9m (£7.6m), attributable to the acquired workforce and the business's reputation. At 31 December 2012 goodwill was £7.3m as a result of changes in exchange rates. The Chapdelaine business has been fully integrated into the Group's operations, and it is therefore considered impractical to show the earnings for the period after the date of acquisition. Attributable revenue in the period since acquisition was £16.9m. Costs relating to the acquisition have been recognised in administrative expenses as incurred. Costs incurred in 2012 amounted to £0.1m with £0.3m having been expensed in 2011.

Other acquisitions
During 2012 the Group spent £0.4m in cash acquiring other interests on which a further estimated £1.0m in cash consideration, subject to performance conditions, is payable over the next four years. Net assets acquired were negligible resulting in goodwill of £1.4m. Cash acquired amounted to £0.1m.

(b) Analysis of deferred and contingent consideration in respect of acquisitions

Certain acquisitions made by the Group are satisfied in part by deferred or contingent deferred consideration. The Group has re-estimated the amounts due where necessary, with any corresponding adjustments being made to goodwill for acquisitions prior to 1 January 2010, and to profit or loss for acquisitions after that date.

	2012 £m	2011 £m
At 1 January	**10.0**	4.2
Acquisitions during the year	**1.0**	9.3
Increase to goodwill during the year	**–**	1.4
Unwind of discount	**0.6**	0.2
Cash paid	**(4.9)**	(0.6)
Equity component transferred to reserves	**–**	(2.4)
Credit taken to the income statement	**–**	(0.9)
Effect of movements in exchange rates	**(0.9)**	(1.2)
At 31 December	**5.8**	10.0
Amounts falling due within one year	**2.4**	5.2
Amounts falling due after one year	**3.4**	4.8
At 31 December	**5.8**	10.0

32. Reconciliation of operating result to net cash from operating activities

	2012 £m	2011 £m
Operating (loss)/profit	**(23.4)**	130.3
Adjustments for:		
Share-based compensation expense	**1.4**	1.4
Depreciation of property, plant and equipment	**5.5**	5.5
Amortisation of intangible assets	**6.3**	3.3
Goodwill impairment	**123.0**	–
(Decrease)/increase in provisions for liabilities and charges	**(10.4)**	12.0
Outflow from retirement benefit obligations	**(0.5)**	(0.8)
Increase/(decrease) in non-current liabilities	**2.8**	(0.7)
Operating cash flows before movement in working capital	**104.7**	151.0
Increase in trade and other receivables	**(4.9)**	(4.7)
Increase in net settlement balances	**(0.4)**	–
Decrease in trade and other payables	**(40.3)**	(1.3)
Cash generated from operations	**59.1**	145.0
Income taxes paid	**(27.3)**	(34.2)
Interest paid	**(15.2)**	(15.6)
Net cash from operating activities	**16.6**	95.2

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33. Analysis of net funds

	At 1 January 2012 £m	Cash flow £m	Non cash items £m	Exchange differences £m	At 31 December 2012 £m
2012					
Cash	**240.2**	**(34.2)**	**–**	**(4.1)**	**201.9**
Cash equivalents	**100.0**	**(21.5)**	**–**	**(0.5)**	**78.0**
Client settlement money	**1.8**	**(0.2)**	**–**	**–**	**1.6**
Cash and cash equivalents	**342.0**	**(55.9)**	**–**	**(4.6)**	**281.5**
Financial assets	**30.8**	**0.2**	**–**	**(0.7)**	**30.3**
Total funds	**372.8**	**(55.7)**	**–**	**(5.3)**	**311.8**
Bank loans within one year	**(30.0)**	**20.0**	**–**	**–**	**(10.0)**
Bank loans after one year	**(87.6)**	**70.0**	**(1.1)**	**–**	**(18.7)**
Notes due after one year	**(148.0)**	**(78.7)**	**(0.4)**	**–**	**(227.1)**
Finance leases	**(0.1)**	**0.1**	**–**	**–**	**–**
	(265.7)	**11.4**	**(1.5)**	**–**	**(255.8)**
Total net funds	**107.1**	**(44.3)**	**(1.5)**	**(5.3)**	**56.0**

	At 1 January 2011 £m	Cash flow £m	Acquired with subsidiaries £m	Non cash items £m	Exchange differences £m	At 31 December 2011 £m
2011						
Cash	242.4	(2.9)	–	–	0.7	240.2
Cash equivalents	145.3	(45.2)	–	–	(0.1)	100.0
Client settlement money	2.4	(0.6)	–	–	–	1.8
Cash and cash equivalents	390.1	(48.7)	–	–	0.6	342.0
Financial assets	35.6	(7.8)	3.4	–	(0.4)	30.8
Total funds	425.7	(56.5)	3.4	–	0.2	372.8
Bank loans within one year	(30.0)	–	–	–	–	(30.0)
Bank loans after one year	(180.0)	93.4	–	(1.0)	–	(87.6)
Notes due after one year	(147.6)	–	–	(0.4)	–	(148.0)
Finance leases	(0.3)	0.2	–	–	–	(0.1)
	(357.9)	93.6	–	(1.4)	–	(265.7)
Total net funds	67.8	37.1	3.4	(1.4)	0.2	107.1

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments with an original maturity of three months or less. As at 31 December 2012 cash and cash equivalents amounted to £281.5m (2011: £342.0m). 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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

Financial assets comprise short term government securities and term deposits held with banks and clearing organisations.

34. Contingent liabilities

In respect of legal matters or disputes for which a provision has not been made, notwithstanding the uncertainties that are inherent in the outcome of such matters, there are no issues which are considered to pose a significant risk of material adverse financial impact on the Group's results or net assets.

In the normal course of business, certain Group companies enter into guarantees and indemnities to cover trading arrangements and/or the use of third party services or software.

35. Operating lease commitments

	2012 £m	2011 £m
Minimum operating lease payments recognised in the income statement	**15.8**	14.9

At 31 December 2012 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2012		2011	
	Buildings £m	Other £m	Buildings £m	Other £m
Within one year	**11.9**	**1.7**	10.7	2.0
Within two to five years	**37.3**	**0.7**	30.1	0.6
Over five years	**60.3**	**–**	27.6	–
	109.5	**2.4**	68.4	2.6

The increase in the future minimum lease payments for buildings reflects the renewal of the Group's two main UK leases together with additional lease commitments acquired as part of the acquisition of Chapdelaine & Co.

36. Retirement benefit obligations

(a) Defined benefit schemes

As at 31 December 2012 the Group operates one defined benefit pension scheme in the UK, the Tullett Prebon Pension Scheme, formerly the Tullett Liberty Pension Scheme which was renamed in 2012 following the merger with the Prebon Yamane (Ex K-W) Pension Scheme. A small number of schemes are operated in other countries which collectively are not significant in the context of the Group.

The Tullett Prebon Pension Scheme (Defined Benefit Section) is a defined benefit (final salary) funded pension scheme. The Principal Employer is Tullett Prebon Group Limited.

(i) The defined benefit section of the former Tullett Liberty Pension 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 former Prebon Yamane (Ex K-W) Pension 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.

The assets of the Tullett Prebon Pension Scheme are held separately from those of the Group, either in separate trustee administered funds or in contract-based policies of insurance.

The estimated amounts of contributions expected to be paid into the UK defined benefit schemes during 2013 is £0.5m. The latest funding actuarial valuations of the former Tullett Liberty Pension Scheme and of the former Prebon Yamane (Ex K-W) Pension Scheme were carried out as at 30 April 2010 and 1 January 2010 respectively by independent qualified actuaries.

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

	2012 %	2011 %
Discount rate	**4.40**	4.70
Expected future return on scheme assets	**6.72**	6.77
Expected rate of salary increases	**4.45**	4.55
Rate of increase in LPI pensions in payment[(1)]	**2.50**	2.40
Inflation assumption[(2)]	**2.50**	2.40

(1) 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%.
(2) In 2011 the basis for the inflation assumption changed to CPI from RPI.

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36. Retirement benefit obligations continued

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements and are the same as those adopted for the 2010 funding valuations. For the Tullett Prebon Pension Scheme the assumptions are that a member who retires in 15 years at age 60 will live on average for a further 28.5 years (2011: 28 years) after retirement if they are male and for a further 30.8 years (2011: 31 years) after retirement if they are female. Current pensioners are assumed to have a consistent but generally shorter life expectancy based on their current age.

	Expected return in 2013 on 31 December 2012 scheme assets %	2012 Assets £m	Expected return in 2012 on 31 December 2011 scheme assets %	2011 Assets £m	Expected return in 2011 on 31 December 2010 scheme assets %	2010 Assets £m
Equities	**7.00**	**188.5**	7.00	170.9	7.01	151.8
Insurance contracts(1)	**4.40**	**10.8**	4.70	9.8	5.30	10.5
Cash and other	**1.00**	**5.0**	1.00	3.2	0.80	7.2
Total fair value of schemes' assets	**6.72(2)**	**204.3**	6.77(2)	183.9	6.64(2)	169.5

(1) The expected return on insurance contracts is set at the expected return on corporate bonds, equivalent to the discount rate applied to the associated liabilities.
(2) 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 gain on schemes' assets in 2012 was £24.0m (2011: gain on schemes' assets £16.5m).

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

	2012 £m	2011 £m
Present value of funded defined benefit obligations	**(162.9)**	(148.4)
Fair value of schemes' assets	**204.3**	183.9
Surplus in schemes	**41.4**	35.5

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

	2012 £m	2011 £m
Interest cost on schemes' liabilities	**(7.0)**	(7.6)
Expected return on schemes' assets	**11.6**	10.5
Recognised in profit and loss	**4.6**	2.9

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

	2012 £m	2011 £m
At 1 January	**(148.4)**	(145.9)
Interest cost on schemes' liabilities	**(7.0)**	(7.6)
Actuarial gains/(losses)	**(11.6)**	2.2
Benefits paid/transfers out	**4.1**	2.9
At 31 December	**(162.9)**	(148.4)

Movements in the fair value of schemes' assets were as follows:

	2012 £m	2011 £m
At 1 January	**183.9**	169.5
Gross expected return on schemes' assets	**11.6**	10.5
Actuarial gains	**12.4**	6.0
Employer contributions	**0.5**	0.8
Benefits paid/transfers out	**(4.1)**	(2.9)
At 31 December	**204.3**	183.9

Historical information:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded defined benefit obligations	**(162.9)**	(148.4)	(145.9)	(139.0)	(115.4)
Fair value of schemes' assets	**204.3**	183.9	169.5	137.7	106.9
Schemes' surplus/(deficits)	**41.4**	35.5	23.6	(1.3)	(8.5)
Experience (losses)/gains on schemes' liabilities	**(1.9)**	0.9	5.1	(0.6)	(2.1)
Percentage of schemes' liabilities	**(1.2)%**	0.6%	3.5%	(0.4)%	(1.8)%
Experience gains/(losses) on schemes' assets	**12.4**	6.0	18.3	19.8	(21.2)
Percentage of schemes' assets	**6.1%**	3.3%	10.8%	14.4%	(19.8)%

(b) Defined contribution pensions
The Group operates a number of defined contribution schemes for qualifying employees. The assets of these schemes are held separately from those of the Group.

The defined contribution pension cost for the Group charged to administrative expenses was £6.8m (2011: £6.3m), of which £2.0m (2011: £1.9m) related to overseas schemes.

As at 31 December 2012, there were no contributions outstanding in respect of the current reporting period that had not been paid over to the schemes. In 2011, £0.1m of contributions were due in respect of the overseas schemes.

37. Client money
Client money held was £1.6m (2011: £1.8m). This represents balances held by the Group received as a result of corporate actions relating to securities transactions.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012
continued

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 2012 was £0.4m (2011: £0.1m). The total amount owed by the Group to related parties and associates at 31 December 2012 was £nil (2011: £nil).

	Amounts owed by related parties		Amounts owed to related parties	
	2012 £m	2011 £m	2012 £m	2011 £m
Associates	**0.4**	0.1	**–**	–

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.

Directors
Costs in respect of the Directors who were 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 part of the Report on Directors' Remuneration on pages 39 to 42.

	2012 £m	2011 £m
Short term benefits	**4.5**	5.6
Share-based payment expense	**1.4**	1.4
Social security costs	**0.6**	0.8
	6.5	7.8

39. Principal subsidiaries and undertakings

At 31 December 2012, the following companies were the Group's principal trading subsidiary undertakings, principal intermediate holding companies and associates.

Subsidiary undertakings	Country of incorporation	Principal Activities	Issued ordinary shares, all voting
Tullett Prebon (Australia) Pty. Limited	Australia	Broking	100%
Marshalls (Bahrain) W.L.L.[1]	Bahrain	Broking	70%
Tullett Liberty (Bahrain) Company W.L.L.	Bahrain	Broking	85%
Tullett Prebon Holdings do Brasil Ltda.	Brazil	Holding company	100%
Tullett Prebon do Brasil S/A Corretora de Valores e Câmbio (formerly Convenção S/A Corretora de Valores e Câmbio)	Brazil	Broking	100%
Tullett Prebon Canada Limited	Canada	Broking	100%
Tullett Prebon Group Holdings plc	England	Holding company	100%
TP Holdings Limited	England	Holding company	100%
Tullett Prebon Group Limited	England	Service company	100%
Tullett Prebon Investment Holdings Limited	England	Holding company	100%
Tullett Prebon (Europe) Limited	England	Broking	100%
Tullett Prebon (Securities) Limited	England	Broking	100%
Tullett Prebon (Equities) Limited	England	Broking	100%
Tullett Prebon Information Limited	Guernsey	Information sales	100%
Tullett Prebon (Hong Kong) Limited	Hong Kong	Broking	100%
PT. Inti Tullett Prebon Indonesia	Indonesia	Broking	57.52%
Tullett Prebon (Japan) Limited	Japan	Broking	100%
Yamane Tullett Prebon (Japan) Limited[2]	Japan	Broking	50%
Tullett Prebon Money Brokerage (Korea) Limited	Korea	Broking	100%
Tullett Prebon (Philippines) Inc.	Philippines	Broking	51%
Tullett Prebon (Polska) SA	Poland	Broking	100%
Tullett Prebon Energy (Singapore) Pte. Ltd.	Singapore	Broking	100%
Tullett Prebon (Singapore) Limited	Singapore	Broking	100%
Prebon Technology Services (Singapore) Pte. Ltd.	Singapore	IT support services	100%
Cosmorex A.G.	Switzerland	Broking	100%
Tullett Prebon (Americas) Holdings Inc.	USA	Holding company	100%
Tullett Prebon Americas Corp	USA	Holding company	100%
Tullett Prebon Financial Services LLC	USA	Broking	100%
Tullett Prebon Information Inc.	USA	Information sales	100%

(1) The Group's interest in the trading results is 90%.
(2) The Group's interest in the trading results is 60%. The company is consolidated as the Group, under a shareholder agreement, governs the financial and operating policies of the company.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012 continued

39. Principal subsidiaries and undertakings continued
All the above subsidiary undertakings are owned indirectly, with the exception of Tullett Prebon Group Holdings plc, which is owned directly. They all have a 31 December year end with the exception of Yamane Tullett Prebon (Japan) Limited, which has a 31 March year end.

Associates	Country of incorporation	Principal Activities	Issued ordinary shares, all voting
Tullett Prebon SITICO (China) Limited	China	Broking	33%
Parekh (Forex) Private Limited	India	Broking	26%
Prebon Yamane (India) Limited	India	Broking	48%
Wall Street Tullett Prebon Limited	Thailand	Broking	49%
Wall Street Tullett Prebon Securities Limited	Thailand	Broking	49%

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.

The companies listed above include all those which materially affect the amount of profit and assets of the Group. A full list of subsidiary undertakings and associates will be annexed to the next annual return of Tullett Prebon plc to be filed with the Registrar of Companies.

Independent Auditor's Report to the Members of Tullett Prebon plc

We have audited the Parent Company Financial Statements of Tullett Prebon plc for the year ended 31 December 2012 which comprise the Parent Company Balance Sheet and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the Parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Parent Company Financial Statements are prepared is consistent with the Parent Company Financial Statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group Financial Statements of Tullett Prebon plc for the year ended 31 December 2012.

Manbhinder Rana F.C.A. (Senior Statutory Auditor)
for and on behalf of

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom
5 March 2013

Company Balance Sheet
as at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Investment in subsidiary undertakings	4	**905.7**	831.2
Current assets			
Receivables due within one year	5	**–**	2.2
Cash and cash equivalents		**34.4**	26.7
		34.4	28.9
Creditors: amounts falling due within one year	6	**(2.6)**	–
Net current assets		**31.8**	28.9
Total assets less current liabilities		**937.5**	860.1
Creditors: amounts falling due after one year	6	**(78.7)**	–
Net assets		**858.8**	860.1
Capital and reserves			
Called-up share capital	7	**54.4**	53.8
Share premium account	8	**17.1**	9.9
Equity reserve	8	**–**	7.7
Own shares	8	**(0.1)**	(0.1)
Profit and loss account	8	**787.4**	788.8
Shareholders' funds		**858.8**	860.1

The financial statements of Tullett Prebon plc (registered number 5807599) were approved by the Board of Directors and authorised for issue on 5 March 2013 and are signed on its behalf by:

Terry Smith
Chief Executive

Notes to the Financial Statements
for the year ended 31 December 2012

1. Basis of preparation
(a) Basis of accounting
The separate financial statements of the Company are presented as required by the Companies Act. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice. As discussed on page 34 of the Corporate Governance Report the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis continues to be used in preparing these financial statements.

(b) 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 FRS 1 (revised) 'Cash flow statements'.

(c) Financial instruments
As disclosures equivalent to that required under FRS 29 'Financial Instruments: Disclosures' are given in the publicly available consolidated financial statements of Tullett Prebon plc, the Company is exempt from the disclosures required by FRS 29 in its own accounts.

2. Significant accounting policies
The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

(a) Investments
Fixed asset investments in subsidiary undertakings are shown at cost less provision for impairment.

At acquisition, the cost of investment in a subsidiary is measured at the fair value of the consideration payable, except for subsidiaries acquired through the issue of shares qualifying for merger relief where cost is measured by reference to the nominal value of the shares issued.

(b) 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 inclusion 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.

Notes to the Financial Statements
for the year ended 31 December 2012 continued

2. Significant accounting policies continued

(c) Share-based payments

The Company has applied the requirements of FRS 20 (IFRS 2) 'Share-based payment' and UITF Abstract 44 (IFRIC Interpretation 11) 'FRS 20 (IFRS 2) - Group and Treasury Share Transactions'.

The Company has share-based payment arrangements involving employees of its subsidiaries. The cost of these arrangements is measured by reference to the fair value of equity instruments on the date they are granted. Cost is recognised in 'investment in subsidiary undertakings' and credited to the 'profit and loss account' reserves on a straight-line basis over the vesting period. Where the cost is subsequently recharged to the subsidiary, it is recognised as a reduction in 'investment in subsidiary undertakings'.

(d) Financial assets and financial liabilities

The Company has adopted FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement'.

Financial assets are classified on initial recognition as 'loans and receivables'. Financial liabilities are classified on initial recognition as 'other financial liabilities'.

Loans and receivables

Loans and receivables are non-derivative financial instruments that have fixed or determinable payments that are not listed in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised using the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Impairment is recognised in the income statement.

(e) Employee Share Ownership Plans

The assets, liabilities and results of the Tullett Prebon plc Employee Benefit Trust 2007 are included in accordance with UITF Abstract 38 'Accounting for ESOP trusts'.

3. Profit for the year

As permitted in section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. Tullett Prebon plc reported a profit for the financial year ended 31 December 2012 of £33.8m (2011: profit £169.0m).

The auditor's remuneration for audit services to the Company was £0.4m (2011: £0.4m).

4. Investment in subsidiary undertakings

	2012 £m	2011 £m
Cost		
At 1 January	**831.2**	697.7
Capital contribution arising on share-based awards	**1.4**	1.4
Increase in investment in subsidiary undertaking	**73.1**	130.5
Increase in deferred consideration payable	**–**	1.6
At 31 December	**905.7**	831.2

5. Receivables

	2012 £m	2011 £m
Amounts falling due within one year:		
Amounts due from Group undertakings	**–**	2.2

6. Creditors

	2012 £m	2011 £m
Amounts falling due within one year:		
Accruals and deferred income	**1.5**	–
Amounts due to Group undertakings	**1.1**	–
	2.6	–
Amounts falling due after one year:		
Sterling Notes June 2019	**78.7**	–
	78.7	–

Sterling Notes: Due June 2019
On 11 December 2012, the Company issued its first series of Sterling Notes, amounting to £80,000,000, under its Euro Medium Term Note Programme. The notes have a coupon of 5.25% and are due in June 2019. The notes are guaranteed by a fellow Group undertaking, TP Holdings Limited, for the period that the Group's Sterling Notes due July 2016, remain outstanding.

At 31 December 2012, the carrying value of the Sterling Notes due 2019, together with unamortised transaction costs, amounted to £78.7m and their fair value was £79.6m.

The Company had no borrowings as at 31 December 2011.

Notes to the Financial Statements
for the year ended 31 December 2012
continued

7. Called-up share capital

	2012 No.	2011 No.
Allotted, issued and fully paid		
Ordinary shares of 25p	**217,611,872**	215,313,584

	2012 £m	2011 £m
Allotted, issued and fully paid		
Ordinary shares of 25p	**54.4**	53.8

2,298,288 ordinary shares were issued on 5 January 2012 to the former owners of Primex Energy Brokers Limited following the completion of acquisition related performance conditions.

8. Reconciliation of shareholders' funds

	Called- up share capital £m	Share premium account £m	Equity reserve £m	Own shares £m	Profit and loss account £m	Shareholders' funds £m
Balance at 1 January 2012	**53.8**	**9.9**	**7.7**	**(0.1)**	**788.8**	**860.1**
Profit for the year	**–**	**–**	**–**	**–**	**33.8**	**33.8**
Dividends paid	**–**	**–**	**–**	**–**	**(36.6)**	**(36.6)**
Credit arising on share-based awards	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Issue of ordinary shares	**0.6**	**7.2**	**–**	**–**	**–**	**7.8**
Equity component of deferred consideration	**–**	**–**	**(7.7)**	**–**	**–**	**(7.7)**
Balance at 31 December 2012	**54.4**	**17.1**	**–**	**(0.1)**	**787.4**	**858.8**
Balance at 1 January 2011	53.8	9.9	5.3	(0.1)	652.3	721.2
Profit for the year	–	–	–	–	169.0	169.0
Dividends paid	–	–	–	–	(33.9)	(33.9)
Credit arising on share-based awards	–	–	–	–	1.4	1.4
Equity component of deferred consideration	–	–	2.4	–	–	2.4
Balance at 31 December 2011	53.8	9.9	7.7	(0.1)	788.8	860.1

At 31 December 2012 the Company's distributable reserves amounted to £787.4m (2011: £788.8m).

Equity reserve
The reserve of £7.7m as at 1 January 2012 represented the aggregate fair value of 2,298,288 ordinary shares issuable to the former owners of Primex Energy Brokers Limited following the completion of acquisition related performance conditions. The shares were issued on 5 January 2012.

Shareholder Information

Shareholder Information

Financial calendar for 2013
24 April
Ex-dividend Date

26 April
Dividend Record Date

9 May (2.30pm)
Annual General Meeting

16 May
Dividend payment date

Dividend mandate
Shareholders who wish their dividends to be paid directly into a bank or building society account should contact Capita Registrars for a dividend mandate form. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures that shareholders' accounts are credited on the dividend payment date.

Shareholder information on the internet
The Company maintains an investor relations page on its website (www.tullettprebon.com) which allows access to share price information, Directors' biographies, copies of Company reports, selected press releases and other useful investor information.

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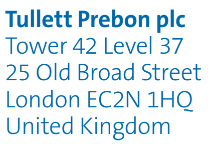

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